

(This copy includes redactions based on contractual obligations.)

**VALLEY ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY
PAHRUMP, NEVADA**

**CONSOLIDATED FINANCIAL STATEMENTS WITH
CONSOLIDATING AND ACCOMPANYING INFORMATION**

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS
LUBBOCK, TEXAS

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CONSOLIDATED FINANCIAL STATEMENTS

VALLEY ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

Exhibit A

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2017 AND 2016

ASSETS

	December 31,	
	<u>2017</u>	<u>2016</u>
UTILITY PLANT AT COST		
Electric Plant in Service	\$ 275,981,667	\$ 258,284,063
Construction Work in Progress	5,961,166	15,462,866
Electric Plant Acquisition Adjustment	<u>2,211,617</u>	<u>2,264,656</u>
	\$ 284,154,450	\$ 276,011,585
Less: Accumulated Provision for Depreciation	<u>69,700,085</u>	<u>65,475,963</u>
	\$ <u>214,454,365</u>	\$ <u>210,535,622</u>
OTHER PROPERTY AND EQUIPMENT		
Nonutility Plant and Equipment - In Service	\$ 26,503,557	\$ 9,762,134
Construction Work in Progress	<u>15,588,717</u>	<u>12,202,275</u>
	\$ 42,092,274	\$ 21,964,409
Less: Accumulated Provision for Depreciation	<u>4,246,160</u>	<u>669,897</u>
	\$ <u>37,846,114</u>	\$ <u>21,294,512</u>
OTHER PROPERTY AND INVESTMENTS - AT COST OR STATED VALUE		
Assets Held for Sale	\$	\$ 82,564,063
Investments in Associated Organizations	6,428,841	5,834,225
Notes Receivable - Long-Term Portion	1,599,138	1,985,612
Other Special Funds	<u>30,012,493</u>	
	\$ <u>38,040,472</u>	\$ <u>90,383,900</u>
CURRENT ASSETS		
Cash and Temporary Cash Investments	\$ 64,056,919	\$ 1,594,381
Special Deposits	4,072,286	3,023,310
Accounts and Notes Receivable (Less allowance for uncollectibles of \$579,297 in 2017 and \$274,610 in 2016)	3,931,611	5,285,325
Accrued Unbilled Revenue	2,635,604	2,805,770
Notes Receivable - Current Portion	219,250	244,292
Materials and Supplies	4,132,622	3,491,894
Other Current and Accrued Assets	<u>1,083,082</u>	<u>1,155,764</u>
	\$ <u>80,131,374</u>	\$ <u>17,600,736</u>
DEFERRED DEBITS	\$ 30,424,661	\$ 31,806,579
TOTAL ASSETS	\$ <u>400,896,986</u>	\$ <u>371,621,349</u>

EQUITIES AND LIABILITIES

EQUITIES		
Memberships	\$ 180,800	\$ 178,290
Patronage Capital	99,230,828	55,078,008
Accumulated Other Comprehensive Loss	(1,685,200)	(2,044,100)
Other Equities (Deficits)	<u>(1,107,385)</u>	<u>(9,423,749)</u>
	\$ <u>96,619,043</u>	\$ <u>43,788,449</u>
LONG-TERM DEBT		
CFC Mortgage Notes	\$ 160,269,661	\$ 234,316,779
CFC Line of Credit - To Be Refinanced With Long-Term Debt	10,500,000	6,250,000
CoBank Mortgage Notes	38,124,083	38,918,078
Capital Leases	<u>9,871,430</u>	<u>5,608,595</u>
	\$ <u>235,785,326</u>	\$ <u>301,618,189</u>
ACCUMULATED PROVISION FOR PENSIONS AND BENEFITS		
Post-Retirement Benefits	\$ 2,365,307	\$ 2,595,000
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 10,647,820	\$ 10,243,698
Current Portion of APBO	278,100	340,300
CoBank Line of Credit	8,500,000	
Accounts Payable	1,835,431	2,428,115
Accounts Payable - Purchased Power	5,722,059	4,344,456
Consumers' Deposits	752,887	643,813
Accrued Compensated Absences	1,836,657	1,684,928
Other Current and Accrued Liabilities	<u>3,175,840</u>	<u>1,014,231</u>
	\$ <u>32,748,794</u>	\$ <u>20,699,541</u>
DEFERRED CREDITS	\$ 33,378,516	\$ 2,920,170
TOTAL EQUITIES AND LIABILITIES	\$ <u>400,896,986</u>	\$ <u>371,621,349</u>

See accompanying notes to consolidated financial statements.

VALLEY ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

Exhibit B

**CONSOLIDATED STATEMENTS OF INCOME, COMPREHENSIVE INCOME AND PATRONAGE CAPITAL
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	Years Ended December 31,				Increase (Decrease)
	2017		2016		
	Amount	%	Amount	%	
OPERATING REVENUES					
Residential	\$ 33,985,908	44.7	\$ 35,028,923	46.0	\$ (1,043,015)
Irrigation	3,220,637	4.2	3,343,623	4.4	(122,986)
Commercial and Industrial	21,441,661	28.2	21,709,589	28.5	(267,928)
Public Street and Highway Lighting	40,567	0.1	42,368	0.1	(1,801)
Other Operating Revenues	17,365,969	22.8	16,019,780	21.0	1,346,189
Total Operating Revenues	<u>\$ 76,054,742</u>	<u>100.0</u>	<u>\$ 76,144,283</u>	<u>100.0</u>	<u>\$ (89,541)</u>
OPERATING EXPENSES					
Cost of Purchased Power	\$ 21,856,144	28.7	\$ 22,422,801	29.4	\$ (566,657)
Transmission Expense	9,168,478	12.1	9,221,041	12.1	(52,563)
Distribution - Operation	10,047,988	13.2	6,373,184	8.4	3,674,804
Distribution - Maintenance	3,275,140	4.3	2,827,811	3.7	447,329
Consumer Accounts Expense	3,176,180	4.2	2,487,255	3.3	688,925
Customer Service and Information	685,676	0.9	477,456	0.6	208,220
Sales Expense	1,842,016	2.4	1,720,711	2.3	121,305
Administrative and General	12,340,879	16.2	9,410,879	12.4	2,930,000
Depreciation and Amortization	10,855,190	14.3	9,038,233	11.9	1,816,957
Other Interest	4,040	0.0	2,650	0.0	1,390
Other Deductions	216,607	0.3	335,111	0.4	(118,504)
Total Operating Expenses	<u>\$ 73,468,338</u>	<u>96.6</u>	<u>\$ 64,317,132</u>	<u>84.5</u>	<u>\$ 9,151,206</u>
OPERATING MARGINS - BEFORE FIXED CHARGES	\$ 2,586,404	3.4	\$ 11,827,151	15.5	\$ (9,240,747)
FIXED CHARGES					
Interest on Long-Term Debt	<u>12,748,053</u>	<u>16.8</u>	<u>12,211,650</u>	<u>16.0</u>	<u>536,403</u>
OPERATING MARGINS (LOSS) - AFTER FIXED CHARGES	\$ (10,161,649)	(13.4)	\$ (384,499)	(0.5)	\$ (9,777,150)
Capital Credits	<u>1,284,726</u>	<u>1.7</u>	<u>1,094,923</u>	<u>1.4</u>	<u>189,803</u>
NET OPERATING MARGINS	<u>\$ (8,876,923)</u>	<u>(11.7)</u>	<u>\$ 710,424</u>	<u>0.9</u>	<u>\$ (9,587,347)</u>
NONOPERATING MARGINS (LOSSES)					
Interest Income	\$ 321,287	0.4	\$ 26,460	0.0	\$ 294,827
Donations	(50,000)	(0.1)		0.0	(50,000)
Other Income (Losses)	69,088,523	90.8	(92,388)	(0.1)	69,180,911
	<u>\$ 69,359,810</u>	<u>91.1</u>	<u>\$ (65,928)</u>	<u>(0.1)</u>	<u>\$ 69,425,738</u>
NET MARGINS	<u>\$ 60,482,887</u>	<u>79.4</u>	<u>\$ 644,496</u>	<u>0.8</u>	<u>\$ 59,838,391</u>
OTHER COMPREHENSIVE INCOME (LOSS)					
Post-Retirement Benefits					
Actuarial Gain (Loss)	\$ 270,600		\$ (175,100)		
Amortization of Loss	88,300		133,900		
	<u>\$ 358,900</u>		<u>\$ (41,200)</u>		
COMPREHENSIVE INCOME	\$ 60,841,787		\$ 603,296		
Adjustment for Post-Retirement Benefits	(358,900)		41,200		
PATRONAGE CAPITAL - BEGINNING OF YEAR	55,078,008		54,475,528		
TRANSFER NONOPERATING LOSS TO OTHER EQUITIES			65,928		
TRANSFER TO DONATED CAPITAL	(8,043,857)				
OFFSET PRIOR YEAR LOSSES FROM ELECTRIC OPERATIONS	(12,771,060)				
TRANSFER BROADBAND LOSSES TO OTHER EQUITIES	12,555,971				
PATRONAGE CAPITAL - RETIRED	<u>(8,071,121)</u>		<u>(107,944)</u>		
PATRONAGE CAPITAL - END OF YEAR	<u>\$ 99,230,828</u>		<u>\$ 55,078,008</u>		

See accompanying notes to consolidated financial statements.

VALLEY ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

Exhibit C

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	December 31,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 60,482,887	\$ 644,496
Adjustments to Reconcile Net Margins to Net Cash Provided by (Used in) Operating Activities		
Depreciation	11,614,671	9,649,385
Gain on Disposition of Plant	(115,570,875)	
Capital Credits	(581,069)	(517,194)
Deferred Debits	1,381,918	3,824,035
Deferred Credits	30,458,346	1,348,844
Accounts and Notes Receivable	1,523,880	249,303
Inventories and Other Current Assets	(568,046)	(32,006)
Payables and Accrued Expenses	3,165,965	348,862
Post-Retirement Benefit Obligation	67,007	2,500
Net Cash Provided by (Used in) Operating Activities	<u>\$ (8,025,316)</u>	<u>\$ 15,518,225</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Utility Plant and Other Property and Equipment	\$ (22,410,285)	\$ (28,504,786)
Plant Removal More than Salvage and Other Credits	(1,157,683)	(287,987)
Proceeds from Sale of Assets	198,134,938	
Special Deposit	(31,061,469)	(1,468,906)
Other Property and Investments	397,970	270,751
Net Cash Provided by (Used in) Investing Activities	<u>\$ 143,903,471</u>	<u>\$ (29,990,928)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances from CFC - Long-Term Debt	\$	\$ 5,000,000
Payments on Long-Term Debt to CFC	(87,089,007)	(7,714,985)
Advances from CoBank - Long-Term Debt		15,124,375
Payments on Long-Term Debt to CoBank	(476,488)	(209,284)
████████████████████	██████████	██████████
Payments on Capital Leases	(2,610,189)	(479,706)
Net Advances on CFC Line of Credit	15,734,514	3,400,000
Net Advances on CoBank Line of Credit	8,500,000	
Retirement of Patronage Capital	(8,071,121)	(107,944)
Memberships and Other Equities - Net	59,927	71,888
Net Cash Provided by (Used in) Financing Activities	<u>\$ (73,415,617)</u>	<u>\$ 14,479,760</u>
CHANGE IN CASH AND CASH EQUIVALENTS	\$ 62,462,538	\$ 7,057
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,594,381</u>	<u>1,587,324</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 64,056,919</u></u>	<u><u>\$ 1,594,381</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Year for:		
Interest on Long-Term Debt	\$ 12,631,236	\$ 12,286,472
Income Taxes	<u>\$ 0</u>	<u>\$ 0</u>

NONCASH INVESTING AND FINANCING ACTIVITIES

The adjustment for post-retirement benefit obligation increased (decreased) the accrued post-retirement benefit liability by (\$358,900) and \$41,200 and conversely equities by the same amount for the years ended December 31, 2017 and 2016, respectively.

In 2016, the Association refinanced \$24,522,179 of CFC debt with new debt issued from CoBank.

During the year ended December 31, 2017 and 2016, the Association converted \$11,484,514 and \$13,549,000, respectively, of CFC line of credit to CFC long-term debt.

The Association entered into capital lease agreements for the year ended December 31, 2017 and 2016. The leases increased the capital lease obligation by \$8,517,048 and \$7,428,667, respectively, and increased nonutility plant and equipment in service by the same amount.

During the year ending December 31, 2016, the Association reclassified \$92,147,728 of electric plant, \$12,027,096 of accumulated depreciation, \$1,233,280 of work in progress, and \$1,210,351 of deferred debits as assets held for sale. Total net book value of assets held for sale is \$82,564,063.

See accompanying notes to consolidated financial statements.

VALLEY ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Valley Electric Association, Inc. (VEA) is a non-profit company organized to provide electric service at the retail level to primarily residential, irrigation, and commercial accounts in a designated service area located in southwestern Nevada and portions of eastern California. Power delivered at retail is purchased wholesale from Macquarie Energy LLC and other suppliers. Any operating revenues earned in excess of costs incurred are allocated to members of VEA and are reflected as patronage capital equity on the balance sheets.

VEA has been involved in power interchange activity with a California utility company for several years. At December 31, 2017 and 2016, the net interchange balance due to the utility company has been calculated at \$2,987,037 and \$2,700,242, respectively, and is included in Accounts Payable - Purchased Power on the balance sheets.

Valley Electric Transmission Association, L.L.C. (VETA), is a wholly owned subsidiary of VEA and is located in Pahrump, Nevada. VETA was formed in 2011 to construct, maintain and operate the transmission facilities previously included in VEA's records. VEA transferred all transmission plant and work in progress on transmission plant to VETA in 2011 along with long-term debt in the same amount. VETA is currently constructing transmission lines in various areas of Nevada.

Valley Communications Association, L.L.C. (VCA), is a wholly owned subsidiary of VEA and is located in Pahrump, Nevada. VCA was formed in 2016 to provide broadband services to both members and non-members of VEA. VCA is reported as a division of VEA for reporting purposes.

System of Accounts

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

Principles of Consolidation

The consolidated financial statements include the accounts of VEA and its wholly owned subsidiaries, VETA and VCA. For purposes of this report, VCA and VEA's activity have been combined in the consolidating schedules. All material inter-company transactions have been eliminated.

Electric Plant, Maintenance, and Depreciation

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

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

VALLEY ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The Association capitalizes interest on its transmission line projects. During 2014, the Association also began capitalizing interest on the construction of a new administration building. The total amount of interest capitalized for the years ending December 31, 2017 and 2016 was \$36,172 and \$167,475, respectively.

Inventories

Materials and supplies inventories are valued at average cost.

Electric Revenues

VEA records electric revenues as billed to customers on a monthly basis. In addition, VEA has estimated that its unbilled revenue for delivered power usage which has not been billed to consumers at December 31, 2017 and 2016 to be \$2,635,604 and \$2,805,770, respectively. These amounts have been included in current assets on the balance sheets.

Allowance for Uncollectible Accounts

The Association uses the aging method to allow for uncollectible accounts. During the year management makes an evaluation of past due accounts to determine collectability. The accounts deemed uncollectible are written off upon approval by the Board of Directors.

Group Concentration of Credit Risk

The Association's headquarters facility is located in Pahrump, Nevada. The service area includes members located in an area located in southwestern Nevada and eastern California. VEA will require a deposit from members without a good credit history and who do not elect prepaid metering options. Any deposit will be applied to unpaid bills and fees in the event of default. The deposit accrues interest and is returned periodically. As of December 31, 2017 and 2016, deposits on hand totaled \$752,887 and \$643,813, respectively.

The cash balances maintained by the Association are on deposit with institutions insured by the Federal Deposit Insurance Corporation. Balances at times exceeded insured amounts.

Patronage Capital Certificates

The Association operates under a patronage capital system. Under this system, operating margins are allocated to members annually based on billings and usage of electricity. Distributions to members are made at the discretion of the Board of Directors in accordance with the bylaws, subject to the restrictions contained in long-term debt agreements.

Patronage capital from associated companies is recorded at the stated amount of the certificate.

VALLEY ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Income Tax Status

The Association is exempt from federal income taxes under Section 501(c)(12) of the Internal Revenue Code provided that at least 85% of its revenue and income is derived from members for the sole purpose of meeting losses and expenses. For the year ended December 31, 2016, the Association qualified for exemption and operated as an exempt cooperative. For the year ended December 31, 2017, the Association did not qualify for exemption and operated as a non-exempt or taxable cooperative.

As an exempt cooperative for the 2016 calendar tax year, the Association filed federal Form 990 "Return of Organization Exempt from Income Tax." The Association also engaged in unrelated business income activities, the net income of which is subject to the unrelated business income tax imposed by Section 511 of the Internal Revenue Code. With respect to these unrelated business income activities, which was primarily the provision of Internet services on a non-patronage basis, the Association also filed federal Form 990-T "Exempt Organization Business Income Tax Return."

As a non-exempt cooperative, the Association files Form 1120 "U.S. Corporation Income Tax Return." However, because the Association operates on a patronage basis with respect to its patrons, it is allowed an exclusion from taxable income for the amount of patronage allocated to its patron; provided however, the allocation is made pursuant to a pre-existing obligation, made on a fair and equitable basis, and is from or directly related to the provision of electric service to the patrons. Therefore, the Association is generally only taxed on the net earnings (loss) from non-patronage sources, which is primarily from the provision of Internet Service to both members and non-members on a non-patronage basis. For the year ended December 31, 2017, the Association recognized an overall net loss from non-patronage sources. Therefore, a provision for federal income taxes has not been made.

VETA and VCA are classified as disregarded entities of the Association for federal income tax reporting purposes. Therefore, the operations of these two companies are included in the tax returns filed by the Association and are included in determining whether the Association is taxed as an exempt or non-exempt cooperative. The taxability of VETA and VCA is determined based on how each contributes to the patronage and non-patronage activities of the Association. Current and deferred income taxes, if any, are allocated solely to the Association.

For losses arising in tax years beginning before January 1, 2018, net operating losses (NOLs) may generally be carried back for a period of up to two years to offset prior years' taxable income or carried over to offset future taxable income for a period not to exceed 20 years. At December 31, 2017, the total NOL carryover available to the Association for both its unrelated business and non-patronage activities is \$12,064,703 which begins expiring in 2026.

The Association uses the asset and liability method for recoding income taxes. The objective of the asset and liability method is to establish deferred tax assets and liabilities for the temporary differences between the financial reporting basis and the tax basis of the Association's assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized and settled. As changes in the tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

VALLEY ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Income taxes are provided for tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes. Deferred income taxes result from transactions which enter into the determination of taxable income in different periods than recorded for financial reporting purposes. These differences represent future tax return consequences (increases and decreases in taxable income) when deferred tax assets and liabilities are recovered, realized, or settled. The principal source of deferred federal income taxes is the NOL carryover. The federal deferred tax asset associated with the NOL carryovers is estimated at \$2,533,588. However, until there is sufficient history of net earnings to show that the NOL carryovers will be fully utilized, a valuation allowance has been recorded, resulting in a net deferred tax asset recorded on the books of \$0 at December 31, 2017 and 2016.

The Association follows the “uncertain tax positions” provisions of accounting principles generally accepted in the United States of America. The primary tax position of the Association is its filing status as a tax-exempt cooperative in the years it qualifies for exemption. In the years it does not qualify for exemption, the primary tax position of the Association is the exclusion from taxable income for the amount of patronage capital allocated to the patrons. The Association has determined that it is more likely than not that their tax positions will be sustained upon examination by the Internal Revenue Service and that all tax benefits are likely to be realized upon settlement with federal taxing authorities.

The Association, including the operations of VETA and VCA, files its income tax return in the U.S. federal jurisdiction. It is no longer subject to income tax examinations by the applicable federal taxing authority for years before 2014.

The Association recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. There were no amounts of penalties or interest recognized during the years ended December 31, 2017 and 2016.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and temporary cash investments.

Use of Estimates in the Preparation of Consolidated Financial Statements

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Assets Pledged

Substantially all assets are pledged as security for the long-term debt due to and under management of the National Rural Utilities Cooperative Finance Corporation (CFC) and CoBank.

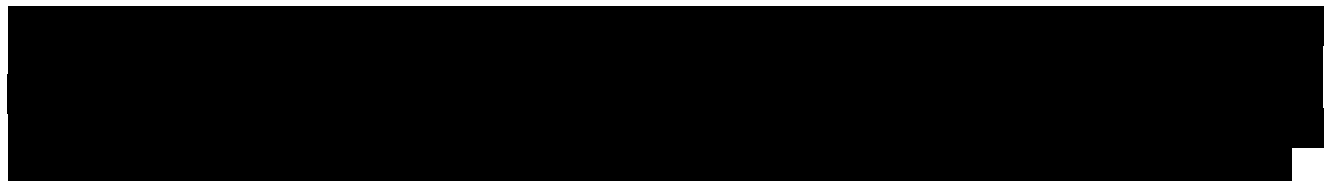
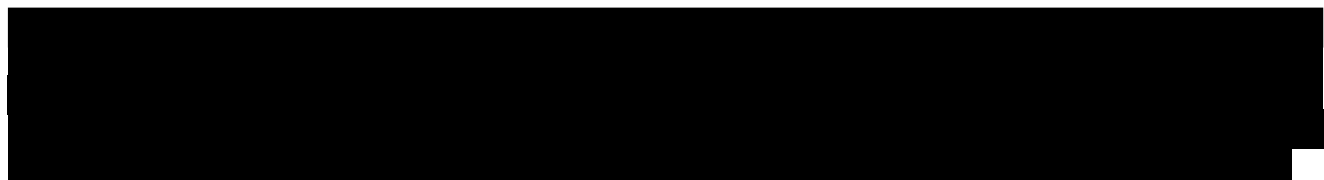
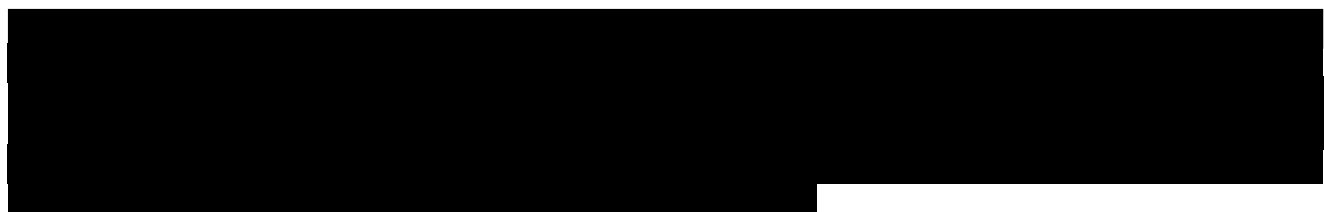
VALLEY ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Electric Plant

The major classes of electric plant are as follows:

	December 31,	
	2017	2016
VEA		
Intangible Plant	\$ 8,993	\$ 8,993
Distribution Plant	178,157,725	165,221,000
General Plant	54,785,274	50,568,689
Electric Plant Acquisition Adjustment	2,211,617	2,264,656
Construction Work in Progress	1,460,240	5,436,616
Total Electric Plant in Service - VEA	\$ 236,623,849	\$ 223,499,954
VETA		
Transmission Plant	\$ 43,000,711	\$ 42,456,417
General Plant	28,964	28,964
Construction Work in Progress	4,500,926	10,026,250
Total Electric Plant in Service - VETA	\$ 47,530,601	\$ 52,511,631
Total Plant	\$ 284,154,450	\$ 276,011,585



VALLEY ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Transmission Plant	2.00% - 2.75%
Distribution Plant	2.73%
Structures and Improvements	2.50%
Office Furniture and Fixtures	5.00% - 33.30%
Transportation Equipment	16.60%
Tools, Shop, and Garage Equipment	4.73%
Stores Equipment	4.73%
Communication Equipment	4.36%
Miscellaneous Equipment	2.72%

Depreciation for the years ended December 31, 2017 and 2016, was \$8,037,222 and \$8,979,488 respectively, of which \$7,196,908 and \$8,288,407 was charged to depreciation expense, and \$840,314 and \$691,081 allocated to other accounts.

4. Other Property and Equipment

The major classes of other property and equipment are as follows:

	December 31,	
	2017	2016
Broadband Vehicles and Equipment	\$ 26,503,557	\$ 9,762,134
Construction Work in Progress	15,588,717	12,202,275
Total Other Property and Equipment	<u>\$ 42,092,274</u>	<u>\$ 21,964,409</u>

Provision for depreciation of nonutility plant and equipment is computed using straight-line rates, group composite method, as follows:

Broadband Vehicles and Equipment	5.00% - 20.00 %
----------------------------------	-----------------

Depreciation for the years ended December 31, 2017 and 2016, was \$3,577,449 and \$669,897 respectively.

VALLEY ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Assets Held for Sale

During the year ending December 31, 2016, the Association contracted to sell its 230kV transmission assets. The sale was completed in 2017. The following summary represents the net book value of the assets held for sale as of December 31, 2017 and 2016.

	December 31,	
	2017	2016
Transmission	\$	\$ 92,147,728
Construction Work in Progress		1,233,280
Preliminary Survey		189,194
Right of Way		946,010
Other Deferred		75,147
	\$ 0	\$ 94,591,359
Less Accumulated Depreciation		12,027,296
Total Assets Held for Sale	\$ 0	\$ 82,564,063

6. Investments in Associated Organizations

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

	December 31,	
	2017	2016
VEA		
CFC		
Capital Term Certificates	\$ 1,036,497	\$ 1,044,168
Patronage Capital	2,554,696	2,351,033
Federated Rural Insurance	341,689	304,513
Other	381,381	316,786
	\$ 4,314,263	\$ 4,016,500
VETA		
CFC		
Capital Term Certificates	\$ 662,292	\$ 670,190
Patronage Capital	1,451,286	1,146,535
Membership	1,000	1,000
	\$ 2,114,578	\$ 1,817,725
Total Investments in Associated Organizations	\$ 6,428,841	\$ 5,834,225

7. Notes Receivable

The Association provides loans to its members for the purchase of solar water heaters. The loans may be granted for up to fifteen year periods with zero percent interest. The balance of these loans at December 31, 2017 and 2016 was \$1,818,388 and \$2,229,904, respectively. The current portion of these loans at December 31, 2017 and 2016 was \$219,250 and \$244,292, respectively, and is included in current assets on the balance sheet.

VALLEY ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Other Special Funds

Other Special Funds consisted of the following:

	December 31,	
	2017	2016
CFC Daily Fund	\$ 30,012,493	\$

During the year ended December 31, 2017, the Association deferred revenue of \$30,000,000 and deposited the funds at CFC.




9. Materials and Supplies

Materials and supplies consisted of the following:

	December 31,	
	2017	2016
Construction Materials and Supplies	\$ 2,966,644	\$ 2,529,115
Transportation and Other Materials	198,548	228,787
Solar Water Heaters	243,077	265,217
Valley Communications Association	724,353	468,775
	<u>\$ 4,132,622</u>	<u>\$ 3,491,894</u>

10. Deferred Debits

Deferred debits included the following:

	December 31,	
	2017	2016
VEA		
		
Community Solar Project	1,418,917	
Other Charges	172,538	258,752
	<u>\$ 30,424,661</u>	<u>\$ 31,696,577</u>
VETA		
Work Plan and Engineering Charges	\$	\$ 78,015
Other Charges		31,987
	<u>\$ 0</u>	<u>\$ 110,002</u>
Total Deferred Debits	<u>\$ 30,424,661</u>	<u>\$ 31,806,579</u>

VALLEY ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The work plan and engineering charges are cleared based on the life of the construction work plan.

[REDACTED]

[REDACTED]

[REDACTED]

The community solar project deferred debit is related to environmental impact study costs that will be amortized over the power purchase agreement for solar energy.

11. Return of Capital

The mortgage with CFC contains provisions that must be met for VEA to make patronage capital retirements. These provisions include minimum equity and debt service ratios. Net patronage capital totaling \$8,071,121 and \$107,944 was retired during the years ended December 31, 2017 and 2016, respectively.

12. Patronage Capital

	December 31,	
	2017	2016
Assigned	\$ 76,560,936	\$ 71,942,160
Assignable	78,365,743	712,534
Assignable - Deferred Revenue	(30,000,000)	
	\$ 124,926,679	\$ 72,654,694
Less: Retired	25,695,851	17,576,686
	\$ 99,230,828	\$ 55,078,008

VALLEY ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Other Equities (Deficits)

	December 31,	
	2017	2016
Donated Capital	\$ 11,448,586	\$ 3,347,310
Operating Deficits	<u>(12,555,971)</u>	<u>(12,771,059)</u>
	<u>\$ (1,107,385)</u>	<u>\$ (9,423,749)</u>

As of December 31, 2017, the operating deficits are related to the accumulated losses from the broadband division. Future net margins from the broadband division will be used to offset the accumulated losses. Prior year operating deficits in the amount of \$12,771,059 from electric operations were offset by the gain on the transmission sale that occurred in 2017.

14. Long-Term Debt – CFC

Following is a summary of long-term mortgage notes due CFC and those under CFC Management but owned by Farmer Mac, with scheduled maturities at various times through 2052:

	December 31,	
	2017	2016
VEA		
3.75% - 4.90% Fixed Rate Notes	\$ 71,086,699	\$ 81,981,319
Variable Rate Notes (2.75%)	38,506,961	26,899,284
Variable Rate Loans Under Management (2.661%)	<u>7,655,040</u>	<u>8,683,511</u>
	\$ 117,248,700	\$ 117,564,114
Less: Current Maturities	<u>5,338,075</u>	<u>5,244,384</u>
	<u>\$ 111,910,625</u>	<u>\$ 112,319,730</u>
VETA		
3.20% - 5.55% Fixed Rate Notes	\$ 33,500,221	\$ 115,003,063
Variable Rate Notes (2.75%)	<u>15,742,504</u>	<u>9,528,742</u>
	\$ 49,242,725	\$ 124,531,805
Less: Current Maturities	<u>883,689</u>	<u>2,534,756</u>
	<u>\$ 48,359,036</u>	<u>\$ 121,997,049</u>
	<u>\$ 160,269,661</u>	<u>\$ 234,316,779</u>

VALLEY ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Principal and interest installments on the notes are due quarterly. As of December 31, 2017, scheduled annual maturities of amounts due CFC for the next five years is as follows:

	<u>VEA</u>	<u>VETA</u>	<u>Total</u>
2018	\$ 5,338,075	\$ 883,689	\$ 6,221,764
2019	5,537,672	920,095	6,457,767
2020	5,745,832	958,114	6,703,946
2021	5,962,950	997,822	6,960,772
2022	6,175,204	1,039,297	7,214,501

Interest for the years ended December 31, 2017 and 2016, was \$10,079,104 and \$11,351,515, respectively, of which \$10,042,932 and \$11,184,040 was charged to interest and \$36,172 and \$167,475 was capitalized.

VEA had unadvanced funds available from CFC in the amount of \$5,070,000. VETA had unadvanced funds available from CFC in the amount of \$23,802,486.

15. Long-Term Debt – CoBank

Following is a summary of long-term mortgage notes due CoBank, with scheduled maturities at various times through 2046:

	<u>December 31,</u>	
	<u>2017</u>	<u>2016</u>
VEA		
3.06% Fixed Rate Notes	\$ 38,919,416	\$ 39,437,270
Less: Current Maturities	795,333	519,192
	<u>\$ 38,124,083</u>	<u>\$ 38,918,078</u>

Principal and interest installments on the notes are due monthly. As of December 31, 2017, scheduled annual maturities of amounts due CoBank for the next five years is as follows:

2018	\$ 795,333
2019	1,194,403
2020	1,228,112
2021	1,269,124
2022	1,308,269

VALLEY ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. [REDACTED]

[REDACTED]

[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]

Principal and interest installments on the notes are due monthly. As of December 31, 2017, scheduled annual maturities for the next five years is as follows:

2018	\$	646,332
2019		646,332
2020		646,332
2021		646,332
2022		646,332

17. Short-Term Borrowing

VEA has a \$20,000,000 perpetual line of credit with CFC. At December 31, 2017 and 2016, \$10,500,000 and \$3,000,000 was outstanding on the perpetual line of credit, respectively. This line of credit is expected to be refinanced by advancing long-term debt funds available from CFC, therefore they have been included as long-term debt on the balance sheet.

VETA has a \$5,000,000 perpetual line of credit with CFC. At December 31, 2017 and 2016, \$0 and \$3,250,000 was outstanding on this line of credit, respectively. This line of credit is expected to be refinanced by advancing long-term debt funds available from CFC, therefore they have been included as long-term debt on the balance sheet.

During 2017, VEA opened a \$15,000,000 perpetual line of credit with CoBank with a 3.72% interest rate and maturity date of September 30, 2018. At December 31, 2017 \$8,500,000 was outstanding on this line of credit.

18. Capital Lease Obligation

In 2016 and 2017, Valley Communications Association entered into five year leases with Crestmark Equipment Finance for the purchase of broadband equipment. These leases expire at various times in 2021 and 2022. The economic substance of the capital leases is that the Association is financing the acquisition of the assets through the leases over their terms, and accordingly, they are reflected in the Association's non-utility plant assets and long-term liabilities. Interest expense for the years ended December 31, 2017 and 2016, totaled \$921,150 and \$174,925, respectively.

VALLEY ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following is an analysis of the book value of the leased assets included in non-utility plant at December 31, 2017 and 2016:

	December 31,	
	<u>2017</u>	<u>2016</u>
Cost	\$ 15,945,715	\$ 7,428,667
Accumulated Depreciation	<u>(3,093,655)</u>	<u>(500,097)</u>
	<u>\$ 12,852,060</u>	<u>\$ 6,928,570</u>

Following is a summary of the capital lease obligation due to Crestmark Equipment Finance with scheduled maturities:

	December 31,	
	<u>2017</u>	<u>2016</u>
Crestmark Equipment Finance	\$ 12,855,820	\$ 6,948,961
Less: Current Maturities	<u>(2,984,390)</u>	<u>(1,340,366)</u>
	<u>\$ 9,871,430</u>	<u>\$ 5,608,595</u>

The entire lease obligation to Crestmark Equipment Finance calls for payments totaling \$14,723,120 over the remaining term of the leases. Below is a schedule by years of the future minimum payments required under the leases, with their present value at December 31, 2017:

	<u>Crestmark</u>
2018	\$ 3,779,819
2019	3,779,819
2020	3,779,819
2021	3,131,868
2022	<u>251,795</u>
Total Minimum Lease Payments	\$ 14,723,120
Amount Representing Interest	<u>1,867,300</u>
	<u>\$ 12,855,820</u>

VALLEY ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

19. Deferred Credits

Deferred credits included the following:

	December 31,	
	2017	2016
VEA		
Customer Advances for Construction	\$ 102,864	\$ 98,563
██████████	██████████	██████████
Deferred Revenue	30,000,000	
Other	112,902	112,902
Valley Communications Association	791,367	907,304
	<u>\$ 31,810,113</u>	<u>\$ 1,674,851</u>
VETA		
Congestion Rights Revenue	\$ 1,568,403	\$ 1,245,319
	<u>\$ 33,378,516</u>	<u>\$ 2,920,170</u>

The congestion rights revenue represents the rights for the following year. This amount will be recorded as revenue in the following year as the rights expire.

During the year ended December 31, 2017, the Association adopted a resolution to defer \$30,000,000 from the transmission sale and deposit the funds at CFC. The Association plans to use these funds, over the next three to five years, (1) to maintain the current electric rates and lessen the need for a rate increase and (2) to meet equity and debt covenants with CFC.

20. Pension Benefits

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

A unique characteristic of a multi-employer 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 Association contributions to the RS Plan in 2017 and in 2016 represented less than five percent of the total contributions made to the RS Plan by all participating employers. The Association made contributions to the RS Plan of \$5,323,490 in 2017 and \$3,927,550 in 2016.

VALLEY ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 Retirement Security Plan was over 80% funded on January 1, 2017 and 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 RS Plan and may change as a result of plan experience.

The employees also participate in a 401(k) plan, a defined contribution plan provided through National Rural Electric Cooperative Association. The Association makes monthly contributions to the plan. The cost to the Association under this plan for the years ended December 31, 2017 and 2016, were \$349,339 and \$262,120, respectively.

21. Post-Retirement Benefits and Deferred Compensation

The Association provides post-retirement medical and life benefits for eligible employees. For purposes of this statement, the written plan in effect is the substantive plan and is considered a defined benefit plan. The Association contributes varying amounts dependent on retirement date, age, and years of service based on a plan amendment adopted in 2007 and revised in 2009.

Accounting principles generally accepted in the United States of America requires an employer that sponsors a defined benefit post-retirement plan to report the current economic status (the overfunded or underfunded status) of the plan in its balance sheet, to measure the plan assets and plan obligations as of the consolidated balance sheet date, and to include enhanced disclosures about the plan.

Benefits paid for the year ended December 31, 2017 were \$281,800.

The Association’s policy for contributions is to contribute annually as deemed necessary.

The measurement date used for the current valuation is December 31, 2017.

The weighted-average discount rate used to develop the accumulated post-retirement benefit obligation was 4.28%. The assumed health care cost trend rate for 2017 is 7.0% declining to an ultimate level of 5.0% in 2025.

VALLEY ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Amounts recognized in the Association's consolidated financial statements and funded status of the plan is as follows:

	December 31,	
	2017	2016
I) Net Post-Retirement Benefit Cost		
Service Cost	\$ 125,907	\$ 63,100
Interest Cost	147,300	168,700
Expected Return on Plan Assets	(12,700)	(12,700)
Amortization	88,300	133,900
	<u>\$ 348,807</u>	<u>\$ 353,000</u>
II) Accumulated Post-Retirement Benefit Obligation (APBO) Reconciliation:		
APBO Balance at Beginning of Year	\$ (4,041,323)	\$ (3,997,503)
Expected Return	10,685	12,580
Actuarial Gain (Loss)	270,600	(175,100)
Interest Cost / Service Cost	(273,207)	(231,800)
Benefits Paid	281,800	350,500
Net Post-Retirement Benefit Liability at Year End	<u>\$ (3,751,445)</u>	<u>\$ (4,041,323)</u>
III) Reconciliation of Funded Status		
APBO	\$ (3,751,445)	\$ (4,041,323)
Assets Funded	1,108,038	1,106,023
Accrued Post-Retirement Benefit Cost	<u>\$ (2,643,407)</u>	<u>\$ (2,935,300)</u>
IV) Amounts Recognized in the Balance Sheet		
Current Liability	\$ (278,100)	\$ (340,300)
Noncurrent Liability	(2,365,307)	(2,595,000)
	<u>\$ (2,643,407)</u>	<u>\$ (2,935,300)</u>
V) Accumulated Other Comprehensive Loss		
Actuarial Loss - Beginning of Year	\$ 2,044,100	\$ 2,002,900
Amortization of Loss	(88,300)	(133,900)
Actuarial Gain (Loss)	(270,600)	175,100
Other Comprehensive Loss	<u>\$ 1,685,200</u>	<u>\$ 2,044,100</u>
VI) Plan Assets		
Change in Plan Assets		
Fair Value of Plans Assets at Beginning of Year	\$ 1,106,023	\$ 1,105,903
Return on Plan Assets	2,015	120
	<u>\$ 1,108,038</u>	<u>\$ 1,106,023</u>

VALLEY ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Association’s post-retirement benefit plans asset allocations are as follows:

	December 31,	
	2017	2016
NRECA Homestead Funds		
Money Market Fund	\$ 1,108,038	\$ 1,106,023

The asset rate of return was 1.15%.

The estimated actuarial loss for the post-retirement medical benefit plan that will be amortized from accumulated other comprehensive income into net post-retirement benefit cost over the next fiscal year is expected to be \$87,300.

Estimated future benefit payments for the next five years and the total payments for the sixth through tenth years are as follows:

2018	\$ 278,100
2019	255,900
2020	299,700
2021	311,200
2022	281,400
2023-2027	1,242,100

22. Litigation, Commitments, and Subsequent Events

There is no pending or threatened litigation against VEA, VETA or VCA, which would materially affect its financial position.

The Association has evaluated subsequent events through April 9, 2018, the date which the financial statements were available to be issued.

23. Disclosures about Fair Value of Financial Instruments

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

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

VALLEY ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fair value for amounts carried on the consolidated financial statements has not been reflected for the following reasons:

Patronage Capital from Associated Organizations – The right to receive cash is an inherent component of a financial instrument. The Association holds no right to receive cash since any payments are at the discretion of the governing body for the associated organizations. As such, patronage capital from associated organizations is not considered financial instruments.

CFC Variable Interest Notes – As of December 31, 2017, the Association has \$61,904,505 of CFC variable interest rate notes outstanding. The carrying amount is not materially different from the fair value.

CFC and CoBank Fixed Long-Term Debt – The fair value of VEA’s and VETA’s CFC and CoBank fixed long-term debt is calculated by computing the present value of the individual notes to maturity. The discount rate used is the currently available CFC fixed interest rate available for long-term debt re-pricing every seven years. These debt valuations are considered Level 2 as described below.

	Carrying Value	Fair Value
As of December 31, 2017	\$ 143,506,337	\$ 135,040,619

Fair Value Hierarchy

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

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

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

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

24. Related Party Transactions

VEA and VETA have executed an operating agreement for VEA to manage the operations of VETA. No management fees were charged to VETA from VEA during 2017 or 2016.

CONSOLIDATING AND ACCOMPANYING INFORMATION

VALLEY ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

Schedule 1

**CONSOLIDATING INFORMATION
BALANCE SHEET
DECEMBER 31, 2017**

ASSETS

	Valley Electric Association, Inc.	VETA	Eliminating Entries	Consolidated Totals
UTILITY PLANT AT COST				
Electric Plant in Service	\$ 232,951,992	\$ 43,029,675	\$	\$ 275,981,667
Construction Work in Progress	1,460,240	4,500,926		5,961,166
Electric Plant Acquisition Adjustment	<u>2,211,617</u>			<u>2,211,617</u>
	\$ 236,623,849	\$ 47,530,601	\$	\$ 284,154,450
Less: Accumulated Provision for Depreciation	61,345,011	8,355,074		69,700,085
	<u>\$ 175,278,838</u>	<u>\$ 39,175,527</u>	<u>\$ 0</u>	<u>\$ 214,454,365</u>
OTHER PROPERTY AND EQUIPMENT				
Nonutility Plant and Equipment - In Service	\$ 26,503,557		\$	\$ 26,503,557
Construction Work in Progress	15,588,717			15,588,717
Less: Accumulated Provision for Depreciation	<u>4,246,160</u>			<u>4,246,160</u>
	<u>\$ 37,846,114</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 37,846,114</u>
OTHER PROPERTY AND INVESTMENTS - AT COST OR STATED VALUE				
Investments in Associated Organizations	\$ 4,314,263	\$ 2,114,578	\$	\$ 6,428,841
Investment in Subsidiary	2,247,486		(2,247,486)	
Notes Receivable	1,599,138			1,599,138
Other Special Funds	<u>30,012,493</u>			<u>30,012,493</u>
	<u>\$ 38,173,380</u>	<u>\$ 2,114,578</u>	<u>\$ (2,247,486)</u>	<u>\$ 38,040,472</u>
CURRENT ASSETS				
Cash and Temporary Cash Investments	\$ 63,491,531	\$ 565,388	\$	\$ 64,056,919
Special Deposits	4,072,286			4,072,286
Accounts and Notes Receivable (Less allowance for uncollectibles of \$579,297 in 2017)	0	489,714		3,931,611
Accrued Unbilled Revenue	2,635,604			2,635,604
Accounts Receivable - Associated Organizations	0	12,213,536	(12,213,536)	0
Notes Receivable - Current Portion	219,250			219,250
Materials and Supplies	4,132,622			4,132,622
Other Current and Accrued Assets	<u>1,082,848</u>	<u>234</u>		<u>1,083,082</u>
	<u>\$ 79,076,038</u>	<u>\$ 13,268,872</u>	<u>\$ (12,213,536)</u>	<u>\$ 80,131,374</u>
DEFERRED DEBITS	\$ 30,424,661	\$	\$ 0	\$ 30,424,661
TOTAL ASSETS	<u>\$ 360,799,031</u>	<u>\$ 54,558,977</u>	<u>\$ (14,461,022)</u>	<u>\$ 400,896,986</u>

EQUITIES AND LIABILITIES

EQUITIES				
Memberships	\$ 180,800	\$	\$	\$ 180,800
Patronage Capital	99,230,828	1,547,486	(1,547,486)	99,230,828
Donated Capital	0	700,000	(700,000)	
Other Comprehensive Loss	(1,685,200)			(1,685,200)
Other Equities	<u>(1,107,385)</u>			<u>(1,107,385)</u>
	<u>\$ 96,619,043</u>	<u>\$ 2,247,486</u>	<u>\$ (2,247,486)</u>	<u>\$ 96,619,043</u>
LONG-TERM DEBT				
CFC Mortgage Notes	\$ 111,910,625	\$ 48,359,036	\$	\$ 160,269,661
CFC Line of Credit - To Be Refinanced With Long-Term Debt	10,500,000			10,500,000
CoBank Mortgage Notes	38,124,083			38,124,083
Capital Leases	9,871,430			9,871,430
	<u>\$ 187,426,290</u>	<u>\$ 48,359,036</u>	<u>\$ 0</u>	<u>\$ 235,785,326</u>
ACCUMULATED PROVISION FOR PENSIONS AND BENEFITS				
Post-Retirement Benefits	\$ 2,365,307	\$ 0	\$ 0	\$ 2,365,307
CURRENT LIABILITIES				
Current Maturities of Long-Term Debt	\$ 9,764,131	\$ 883,689	\$	\$ 10,647,820
Current Portion of APBO	278,100			278,100
CoBank Line of Credit	8,500,000			8,500,000
Accounts Payable	1,835,431			1,835,431
Accounts Payable - Purchased Power	5,722,059			5,722,059
Accounts Payable - Associated Organizations	12,213,536		(12,213,536)	
Consumers' Deposits	752,887			752,887
Accrued Compensated Absences	1,836,657			1,836,657
Other Current and Accrued Liabilities	<u>1,675,477</u>	<u>1,500,363</u>		<u>3,175,840</u>
	<u>\$ 42,578,278</u>	<u>\$ 2,384,052</u>	<u>\$ (12,213,536)</u>	<u>\$ 32,748,794</u>
DEFERRED CREDITS	\$ 31,810,113	\$ 1,568,403	\$ 0	\$ 33,378,516
TOTAL EQUITIES AND LIABILITIES	<u>\$ 360,799,031</u>	<u>\$ 54,558,977</u>	<u>\$ (14,461,022)</u>	<u>\$ 400,896,986</u>

VALLEY ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

Schedule 2

CONSOLIDATING INFORMATION
STATEMENT OF INCOME, COMPREHENSIVE INCOME AND PATRONAGE CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2017

	Valley Electric Association, Inc.	VETA	Eliminating Entries	Consolidated Totals
OPERATING REVENUES				
Residential	\$ 33,985,908	\$	\$	\$ 33,985,908
Irrigation	3,220,637			3,220,637
Commercial and Industrial	21,441,661			21,441,661
Public Street and Highway Lighting	40,567			40,567
Other Operating Revenues	5,660,221	16,906,097	(5,200,349)	17,365,969
Total Operating Revenues	<u>\$ 64,348,994</u>	<u>\$ 16,906,097</u>	<u>\$ (5,200,349)</u>	<u>\$ 76,054,742</u>
OPERATING EXPENSES				
Cost of Purchased Power	\$ 21,856,144	\$	\$	\$ 21,856,144
Transmission Expense	5,217,579	9,151,248	(5,200,349)	9,168,478
Distribution - Operation	10,047,988			10,047,988
Distribution - Maintenance	3,275,140			3,275,140
Consumer Accounts Expense	3,176,120	60		3,176,180
Customer Service and Information	685,676			685,676
Sales Expense	1,841,278	738		1,842,016
Administrative and General	10,139,367	2,201,512		12,340,879
Depreciation and Amortization	9,550,442	1,304,748		10,855,190
Other Interest	4,040			4,040
Other Deductions	216,607			216,607
Total Operating Expenses	<u>\$ 66,010,381</u>	<u>\$ 12,658,306</u>	<u>\$ (5,200,349)</u>	<u>\$ 73,468,338</u>
OPERATING MARGINS - BEFORE FIXED CHARGES				
	\$ (1,661,387)	\$ 4,247,791	\$ 0	\$ 2,586,404
FIXED CHARGES				
Interest on Long-Term Debt	<u>7,322,886</u>	<u>5,425,167</u>		<u>12,748,053</u>
OPERATING MARGINS - AFTER FIXED CHARGES				
	\$ (8,984,273)	\$ (1,177,376)	\$ 0	\$ (10,161,649)
Capital Credits	<u>675,223</u>	<u>609,503</u>		<u>1,284,726</u>
NET OPERATING MARGINS				
	<u>\$ (8,309,050)</u>	<u>\$ (567,873)</u>	<u>\$ 0</u>	<u>\$ (8,876,923)</u>
NON OPERATING MARGINS (LOSSES)				
Interest Income	\$ 320,357	\$ 930	\$	\$ 321,287
Donations	0	(50,000)		(50,000)
Other Income (Loss)	68,471,580	99,310,307	(98,693,364)	69,088,523
	<u>\$ 68,791,937</u>	<u>\$ 99,261,237</u>	<u>\$ (98,693,364)</u>	<u>\$ 69,359,810</u>
NET MARGINS				
	<u>\$ 60,482,887</u>	<u>\$ 98,693,364</u>	<u>\$ (98,693,364)</u>	<u>\$ 60,482,887</u>
OTHER COMPREHENSIVE INCOME (LOSS)				
Post-Retirement Benefits				
Actuarial Gain	\$ 270,600	\$	\$	\$ 270,600
Amortization of Loss	88,300			88,300
	<u>\$ 358,900</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 358,900</u>
COMPREHENSIVE INCOME				
	\$ 60,841,787	\$ 98,693,364	\$ (98,693,364)	\$ 60,841,787
Adjustment for Post-Retirement Benefits	(358,900)			(358,900)
PATRONAGE CAPITAL - BEGINNING OF YEAR				
	55,078,008	1,854,122	(1,854,122)	55,078,008
Transfer Nonoperating Loss to Other Equities	0			0
Transfer to Donated Capital	(8,043,857)			(8,043,857)
Offset Prior Year Losses From Electric Operations	(12,771,060)			(12,771,060)
Transfer Broadband Losses to Other Equities	12,555,971			12,555,971
Distribution from VETA to VEA	0	(99,000,000)	99,000,000	0
PATRONAGE CAPITAL - RETIRED				
	<u>(8,071,121)</u>			<u>(8,071,121)</u>
PATRONAGE CAPITAL - END OF YEAR				
	<u>\$ 99,230,828</u>	<u>\$ 1,547,486</u>	<u>\$ (1,547,486)</u>	<u>\$ 99,230,828</u>

VALLEY ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

Schedule 3

CONSOLIDATING INFORMATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017

	Valley Electric Association, Inc.	VETA	Eliminating Entries	Consolidated Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Net Margins	\$ 60,482,887	\$ 98,693,364	\$ (98,693,364)	\$ 60,482,887
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities				
Depreciation	10,312,478	1,302,193		11,614,671
Gain on Disposition of Plant	0	(115,570,875)		(115,570,875)
Capital Credits	(276,317)	(304,752)		(581,069)
Deferred Debits	1,271,916	110,002		1,381,918
Deferred Credits	30,135,262	323,084		30,458,346
Accounts and Notes Receivable	413,162	(11,151,586)	12,262,304	1,523,880
Inventories and Other Current Assets	(623,462)	55,416		(568,046)
Payables and Accrued Expenses	13,943,024	1,485,245	(12,262,304)	3,165,965
Post-Retirement Benefit Obligation	67,007			67,007
Net Cash Provided by (Used in) Operating Activities	\$ 115,725,957	\$ (25,057,909)	\$ (98,693,364)	\$ (8,025,316)
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to Utility Plant and Other Property and Equipment	\$ (27,207,107)	\$ 4,796,822	\$	\$ (22,410,285)
Plant Removal (More) Less than Salvage and Other Credits	(1,069,674)	(88,009)		(1,157,683)
Proceeds from Sale of Assets	0	198,134,938		198,134,938
Special Deposit	(31,112,790)	51,321		(31,061,469)
Other Property and Investments	696,707	7,899	(306,636)	397,970
Net Cash Provided by (Used in) Investing Activities	\$ (58,692,864)	\$ 202,902,971	\$ (306,636)	\$ 143,903,471
CASH FLOWS FROM FINANCING ACTIVITIES				
Advances from CFC - Long-Term Debt - Including Subscriptions	\$ 0	\$	\$	\$ 0
Payments on Long-Term Debt to CFC - Including Subscriptions	(5,315,413)	(81,773,594)		(87,089,007)
Advances from CoBank - Long-Term Debt	0			0
Payments on Long-Term Debt to CoBank	(476,488)			(476,488)
██████████	██████████			██████████
Payments on Capital Leases	(2,610,189)			(2,610,189)
Net Advances on CFC Line of Credit	12,500,000	3,234,514		15,734,514
Net Advances on CoBank Line of Credit	8,500,000			8,500,000
Retirement of Patronage Capital	(8,071,121)			(8,071,121)
Distribution to VEA	0	(99,000,000)	99,000,000	0
Memberships and Other Equities - Net	59,927			59,927
Net Cash Provided by (Used in) Financing Activities	\$ 5,123,463	\$ (177,539,080)	\$ 99,000,000	\$ (73,415,617)
CHANGE IN CASH AND CASH EQUIVALENTS	\$ 62,156,556	\$ 305,982	\$ 0	\$ 62,462,538
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	1,334,975	259,406	0	1,594,381
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 63,491,531	\$ 565,388	\$ 0	\$ 64,056,919
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Cash Paid During the Year for:				
Interest on Long-Term Debt	\$ 7,200,309	\$ 5,430,927	\$ 0	\$ 12,631,236
Income Taxes	\$ 0	\$ 0	\$ 0	\$ 0

NONCASH INVESTING AND FINANCING ACTIVITIES

The adjustment for post-retirement benefit obligation decreased the accrued post-retirement benefit liability by \$358,900 and conversely equities by the same amount for the year ended December 31, 2017.

During the year ended December 31, 2017, the Association converted \$11,484,514 of CFC line of credit to CFC long-term debt.

The Association entered into capital lease agreements for the year ended December 31, 2017. The leases increased the capital lease obligation by \$8,517,048 and increased nonutility plant and equipment in service by the same amount.

VALLEY ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

Schedule 4

**CONSOLIDATING INFORMATION
BALANCE SHEET
DECEMBER 31, 2016**

ASSETS

	Valley Electric Association, Inc.	VETA	Eliminating Entries	Consolidated Totals
UTILITY PLANT AT COST				
Electric Plant in Service	\$ 215,798,682	\$ 42,485,381	\$	\$ 258,284,063
Construction Work in Progress	5,436,616	10,026,250		15,462,866
Electric Plant Acquisition Adjustment	2,264,656			2,264,656
	<u>\$ 223,499,954</u>	<u>\$ 52,511,631</u>	<u>\$</u>	<u>\$ 276,011,585</u>
Less: Accumulated Provision for Depreciation	58,150,865	7,325,098		65,475,963
	<u>\$ 165,349,089</u>	<u>\$ 45,186,533</u>	<u>\$ 0</u>	<u>\$ 210,535,622</u>
OTHER PROPERTY AND EQUIPMENT				
Nonutility Plant and Equipment - In Service	\$ 9,762,134	\$	\$	\$ 9,762,134
Construction Work in Progress	12,202,275			12,202,275
Less: Accumulated Provision for Depreciation	669,897			669,897
	<u>\$ 21,294,512</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 21,294,512</u>
OTHER PROPERTY AND INVESTMENTS - AT COST OR STATED VALUE				
Investments in Associated Organizations	\$ 4,016,500	\$ 1,817,725	\$	\$ 5,834,225
Investment in Subsidiary	2,554,122		(2,554,122)	
Notes Receivable	1,985,612			1,985,612
Assets Held for Sale	0	82,564,063		82,564,063
	<u>\$ 8,556,234</u>	<u>\$ 84,381,788</u>	<u>\$ (2,554,122)</u>	<u>\$ 90,383,900</u>
CURRENT ASSETS				
Cash	\$ 1,334,975	\$ 259,406	\$	\$ 1,594,381
Special Deposits	2,971,989	51,321		3,023,310
Accounts and Notes Receivable (Less allowance for uncollectibles of \$274,610 in 2016)	0	1,335,270		5,285,325
Accrued Unbilled Revenue	2,805,770			2,805,770
Accounts Receivable - Associated Organizations	0	216,394	(216,394)	0
Notes Receivable - Current Portion	244,292			244,292
Materials and Supplies	3,491,894			3,491,894
Other Current and Accrued Assets	1,100,114	55,650		1,155,764
	<u>\$ 15,899,089</u>	<u>\$ 1,918,041</u>	<u>\$ (216,394)</u>	<u>\$ 17,600,736</u>
DEFERRED DEBITS	<u>\$ 31,696,577</u>	<u>\$ 110,002</u>	<u>\$ 0</u>	<u>\$ 31,806,579</u>
TOTAL ASSETS	<u>\$ 242,795,501</u>	<u>\$ 131,596,364</u>	<u>\$ (2,770,516)</u>	<u>\$ 371,621,349</u>

EQUITIES AND LIABILITIES

EQUITIES				
Memberships	\$ 178,290	\$	\$	\$ 178,290
Patronage Capital	55,078,008	1,854,122	(1,854,122)	55,078,008
Donated Capital	0	700,000	(700,000)	
Other Comprehensive Loss	(2,044,100)			(2,044,100)
Other Equities	(9,423,749)			(9,423,749)
	<u>\$ 43,788,449</u>	<u>\$ 2,554,122</u>	<u>\$ (2,554,122)</u>	<u>\$ 43,788,449</u>
LONG-TERM DEBT				
CFC Mortgage Notes	\$ 112,319,730	\$ 121,997,049	\$	\$ 234,316,779
CFC Line of Credit - To Be Refinanced With Long-Term Debt	3,000,000	3,250,000		6,250,000
CoBank Mortgage Notes	38,918,078			38,918,078
Capital Leases	5,608,595			5,608,595
	<u>\$ 176,371,140</u>	<u>\$ 125,247,049</u>	<u>\$ 0</u>	<u>\$ 301,618,189</u>
ACCUMULATED PROVISION FOR PENSIONS AND BENEFITS				
Post-Retirement Benefits	\$ 2,595,000	\$ 0	\$ 0	\$ 2,595,000
CURRENT LIABILITIES				
Current Maturities of Long-Term Debt	\$ 7,708,942	\$ 2,534,756	\$	\$ 10,243,698
Current Portion of APBO	340,300			340,300
Accounts Payable	2,428,115			2,428,115
Accounts Payable - Purchased Power	4,344,456			4,344,456
Accounts Payable - Associated Organizations	216,394		(216,394)	
Consumers' Deposits	643,813			643,813
Accrued Compensated Absences	1,684,928			1,684,928
Other Current and Accrued Liabilities	999,113	15,118		1,014,231
	<u>\$ 18,366,061</u>	<u>\$ 2,549,874</u>	<u>\$ (216,394)</u>	<u>\$ 20,699,541</u>
DEFERRED CREDITS	<u>\$ 1,674,851</u>	<u>\$ 1,245,319</u>	<u>\$ 0</u>	<u>\$ 2,920,170</u>
TOTAL EQUITIES AND LIABILITIES	<u>\$ 242,795,501</u>	<u>\$ 131,596,364</u>	<u>\$ (2,770,516)</u>	<u>\$ 371,621,349</u>

VALLEY ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

Schedule 5

CONSOLIDATING INFORMATION
STATEMENT OF INCOME, COMPREHENSIVE INCOME AND PATRONAGE CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2016

	Valley Electric Association, Inc.	VETA	Eliminating Entries	Consolidated Totals
OPERATING REVENUES				
Residential	\$ 35,028,923	\$	\$	\$ 35,028,923
Irrigation	3,343,623			3,343,623
Commercial and Industrial	21,709,589			21,709,589
Public Street and Highway Lighting	42,368			42,368
Other Operating Revenues	2,559,814	20,082,889	(6,622,923)	16,019,780
Total Operating Revenues	\$ 62,684,317	\$ 20,082,889	\$ (6,622,923)	\$ 76,144,283
OPERATING EXPENSES				
Cost of Purchased Power	\$ 22,422,801	\$	\$	\$ 22,422,801
Transmission Expense	6,623,254	9,220,710	(6,622,923)	9,221,041
Distribution - Operation	6,373,184			6,373,184
Distribution - Maintenance	2,827,811			2,827,811
Consumer Accounts Expense	2,487,240	15		2,487,255
Customer Service and Information	477,456			477,456
Sales Expense	1,719,343	1,368		1,720,711
Administrative and General	7,546,547	1,864,332		9,410,879
Depreciation and Amortization	6,107,980	2,930,253		9,038,233
Other Interest	2,650			2,650
Other Deductions	335,111			335,111
Total Operating Expenses	\$ 56,923,377	\$ 14,016,678	\$ (6,622,923)	\$ 64,317,132
OPERATING MARGINS - BEFORE FIXED CHARGES	\$ 5,760,940	\$ 6,066,211	\$ 0	\$ 11,827,151
FIXED CHARGES				
Interest on Long-Term Debt	5,857,340	6,354,310		12,211,650
OPERATING MARGINS - AFTER FIXED CHARGES	\$ (96,400)	\$ (288,099)	\$ 0	\$ (384,499)
Capital Credits	523,824	571,099		1,094,923
NET OPERATING MARGINS	\$ 427,424	\$ 283,000	\$ 0	\$ 710,424
NON OPERATING MARGINS (LOSSES)				
Interest Income	\$ 25,530	\$ 930	\$	\$ 26,460
Other Income (Loss)	191,542		(283,930)	(92,388)
	\$ 217,072	\$ 930	\$ (283,930)	\$ (65,928)
NET MARGINS	\$ 644,496	\$ 283,930	\$ (283,930)	\$ 644,496
OTHER COMPREHENSIVE INCOME (LOSS)				
Post-Retirement Benefits				
Actuarial Gain (Loss)	\$ (175,100)	\$	\$	\$ (175,100)
Amortization of (Gain) Loss	133,900			133,900
	\$ (41,200)	\$ 0	\$ 0	\$ (41,200)
COMPREHENSIVE INCOME	\$ 603,296	\$ 283,930	\$ (283,930)	\$ 603,296
Adjustment for Post-Retirement Benefits	41,200			41,200
PATRONAGE CAPITAL - BEGINNING OF YEAR	54,475,528	1,570,192	(1,570,192)	54,475,528
Transfer Nonoperating Loss to Other Equities	65,928			65,928
PATRONAGE CAPITAL - RETIRED	(107,944)			(107,944)
PATRONAGE CAPITAL - END OF YEAR	\$ 55,078,008	\$ 1,854,122	\$ (1,854,122)	\$ 55,078,008

VALLEY ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

Schedule 6

**CONSOLIDATING INFORMATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Valley Electric Association, Inc.	VETA	Eliminating Entries	Consolidated Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Net Margins	\$ 644,496	\$ 283,930	\$ (283,930)	\$ 644,496
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities				
Depreciation	7,043,676	2,605,709		9,649,385
Capital Credits	(231,645)	(285,549)		(517,194)
Deferred Debits	3,282,484	541,551		3,824,035
Deferred Credits	1,180,259	168,585		1,348,844
Accounts and Notes Receivable	864,348	(190,096)	(424,949)	249,303
Inventories and Other Current Assets	(501,590)	469,584		(32,006)
Payables and Accrued Expenses	1,195,900	(1,271,987)	424,949	348,862
Post-Retirement Benefit Obligation	2,500			2,500
Net Cash Provided by Operating Activities	<u>\$ 13,480,428</u>	<u>\$ 2,321,727</u>	<u>\$ (283,930)</u>	<u>\$ 15,518,225</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to Utility Plant and Other Property and Equipment	\$ (22,502,962)	\$ (6,001,824)		\$ (28,504,786)
Plant Removal (More) Less than Salvage and Other Credits	(271,951)	(16,036)		(287,987)
Special Deposit	(1,468,906)			(1,468,906)
Other Property and Investments	(20,557)	7,378	283,930	270,751
Net Cash Used in Investing Activities	<u>\$ (24,264,376)</u>	<u>\$ (6,010,482)</u>	<u>\$ 283,930</u>	<u>\$ (29,990,928)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Advances from CFC - Long-Term Debt - Including Subscriptions	\$ 0	\$ 5,000,000		\$ 5,000,000
Payments on Long-Term Debt to CFC - Including Subscriptions	(5,354,274)	(2,360,711)		(7,714,985)
Advances from CoBank - Long-Term Debt	15,124,375			15,124,375
Payments on Long-Term Debt to CoBank	(209,284)			(209,284)
Payments on Capital Leases	(479,706)			(479,706)
Net Advances on CFC Line of Credit	2,500,000	900,000		3,400,000
Retirement of Patronage Capital	(107,944)			(107,944)
Memberships and Other Equities - Net	71,888			71,888
Net Cash Provided by Financing Activities	<u>\$ 10,940,471</u>	<u>\$ 3,539,289</u>	<u>\$ 0</u>	<u>\$ 14,479,760</u>
CHANGE IN CASH AND CASH EQUIVALENTS	\$ 156,523	\$ (149,466)	\$ 0	\$ 7,057
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	1,178,452	408,872	0	1,587,324
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,334,975</u>	<u>\$ 259,406</u>	<u>\$ 0</u>	<u>\$ 1,594,381</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Cash Paid During the Year for:				
Interest on Long-Term Debt	\$ 5,816,249	\$ 6,470,223	\$ 0	\$ 12,286,472
Income Taxes	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

NONCASH INVESTING AND FINANCING ACTIVITIES

The adjustment for post-retirement benefit obligation increased the accrued post-retirement benefit liability by \$41,200 and conversely equities by the same amount for the year ended December 31, 2016.

In 2016, the Association refinanced \$24,522,179 of CFC debt with new debt issued from CoBank. Also, \$13,549,000 of CFC line of credit was converted to CFC long-term debt during the year.

The Association entered into capital lease agreements for the year ended December 31, 2016. The leases increased the capital lease obligation by 7,428,667, and increased nonutility plant and equipment in service by the same amount.

During the year ending December 31, 2016, the Association reclassified \$92,147,728 of electric plant, \$12,027,096 of accumulated depreciation, \$1,233,280 of work in progress, and \$1,210,351 of deferred debits as assets held for sale. Total net book value of assets held for sale is \$82,564,063.

VALLEY ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

Schedule 7

ELECTRIC PLANT AND OTHER PROPERTY AND EQUIPMENT
FOR THE YEAR ENDED DECEMBER 31, 2017

	Balance 1/1/2017	Additions and Transfers	Retirements	Balance 12/31/2017
CLASSIFIED ELECTRIC PLANT IN SERVICE				
VALLEY ELECTRIC ASSOCIATION, INC.				
Intangible Plant and Generation Plant	\$ 8,993	\$ 0	\$ 0	\$ 8,993
Distribution Plant				
Land and Land Rights	\$ 1,790,635	\$ 100,010	\$	\$ 1,890,645
Station Equipment	23,813,794	3,186,426	20,524	26,979,696
Poles, Towers, and Fixtures	29,496,723	3,429,235	499,500	32,426,458
Overhead Conductors and Devices	33,628,478	2,782,497	386,565	36,024,410
Underground Conductors and Devices and Conduit	12,141,776	1,104,356	110,819	13,135,313
Line Transformers	17,630,580	1,677,514	627,341	18,680,753
Services	20,772,833	1,067,440	42,131	21,798,142
Meters	6,159,096	335,078	186,911	6,307,263
Installations on Consumers' Premises	1,518,491	18,765	41,042	1,496,214
Street Lighting	143,457	11,080	5,692	148,845
Total	\$ 165,221,000	\$ 14,857,250	\$ 1,920,525	\$ 178,157,725
General Plant				
Land and Land Rights	\$ 3,020,713	\$ 120	\$	\$ 3,020,833
Structures and Improvements	22,778,989	2,838,016		25,617,005
Office Furniture and Equipment	7,010,650	849,735		7,860,385
Transportation Equipment	11,363,471	908,881	547,458	11,724,894
Stores Equipment	383,763	14,096		397,859
Tools, Shop, and Garage Equipment	1,062,056	24,275		1,086,331
Laboratory Equipment	1,860,282	107,851		1,968,133
Power Operated Equipment	332,590		4,412	328,178
Communications Equipment	2,332,295	2,152		2,334,447
Miscellaneous Equipment	335,736	23,329		359,065
Total	\$ 50,568,689	\$ 4,768,455	\$ 551,870	\$ 54,785,274
Electric Plant Acquisition Adjustment	\$ 2,264,656	\$ (53,039)	\$	\$ 2,211,617
Total Classified Electric Plant in Service	\$ 218,063,338	\$ 19,572,666	\$ 2,472,395	\$ 235,163,609
Construction Work in Progress	5,436,616	(3,976,376)		1,460,240
Total Utility Plant - VEA	\$ 223,499,954	\$ 15,596,290	\$ 2,472,395	\$ 236,623,849
VETA				
Transmission Plant				
Land and Land Rights	\$ 2,155,308	\$	\$	\$ 2,155,308
Station Equipment	10,661,245	(337,919)		10,323,326
Poles, Towers, and Fixtures	14,949,932	630,573	103,523	15,476,982
Overhead Conductors and Devices	14,689,932	435,848	80,685	15,045,095
Total	\$ 42,456,417	\$ 728,502	\$ 184,208	\$ 43,000,711
General Plant				
Office Furniture and Equipment	\$ 28,964	\$ 0	\$ 0	\$ 28,964
Total Classified Electric Plant in Service	\$ 42,485,381	\$ 728,502	\$ 184,208	\$ 43,029,675
Construction Work in Progress	10,026,250	(5,525,324)		4,500,926
Total Utility Plant - VETA	\$ 52,511,631	\$ (4,796,822)	\$ 184,208	\$ 47,530,601
Total Utility Plant In Service	\$ 276,011,585	\$ 10,799,468	\$ 2,656,603	\$ 284,154,450
OTHER PROPERTY AND EQUIPMENT				
Nonutility Plant and Equipment	\$ 9,762,134	\$ 16,741,423	\$	\$ 26,503,557
Construction Work in Progress	12,202,275	3,386,442		15,588,717
Total Nonutility Plant	\$ 21,964,409	\$ 20,127,865	\$ 0	\$ 42,092,274
Total Consolidated Plant	\$ 297,975,994	\$ 30,927,333	\$ 2,656,603	\$ 326,246,724

VALLEY ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

Schedule 8

ACCUMULATED PROVISION FOR DEPRECIATION
FOR THE YEAR ENDED DECEMBER 31, 2017

	Balance 1/1/2017	Depreciation Accruals and Transfers	Retirements	Balance 12/31/2017
VALLEY ELECTRIC ASSOCIATION, INC.				
Distribution Plant				
VEA Distribution Plant	\$ 38,124,776	\$ 3,597,820	\$ 2,836,074	\$ 38,886,522
██████████	██████████	██████████		██████████
	<u>\$ 41,356,580</u>	<u>\$ 4,140,224</u>	<u>\$ 2,836,074</u>	<u>\$ 42,660,730</u>
General Plant				
Structures and Improvements	\$ 3,438,421	\$ 1,054,946		\$ 4,493,367
Office Furniture and Fixtures	2,936,159	542,223		3,478,382
Transportation Equipment	7,249,255	539,086	505,044	7,283,297
Stores Equipment	264,070	17,262		281,332
Tools, Shop, and Garage Equipment	947,468	73,557	4,412	1,016,613
Laboratory Equipment	1,035,860	139,140		1,175,000
Communications Equipment	854,084	166,192		1,020,276
Miscellaneous Equipment	112,457	53,139		165,596
██████████	██████████	██████████		██████████
Total General Plant	<u>\$ 16,867,673</u>	<u>\$ 2,594,805</u>	<u>\$ 509,456</u>	<u>\$ 18,953,022</u>
Total Classified Electric Plant in Service - VEA	\$ 58,224,253	\$ 6,735,029	\$ 3,345,530	\$ 61,613,752
Retirement Work in Progress	<u>(73,388)</u>		<u>195,353</u>	<u>(268,741)</u>
	<u>\$ 58,150,865</u>	<u>\$ 6,735,029</u>	<u>\$ 3,540,883</u>	<u>\$ 61,345,011</u>
VETA				
Transmission Plant	\$ 7,298,760	\$ 1,299,754	\$ 268,951	\$ 8,329,563
General Plant				
Office Furniture and Fixtures	26,524	2,439		28,963
Retirement Work in Progress	<u>(186)</u>		<u>3,266</u>	<u>(3,452)</u>
Total Classified Electric Plant in Service - VETA	<u>\$ 7,325,098</u>	<u>\$ 1,302,193</u>	<u>\$ 272,217</u>	<u>\$ 8,355,074</u>
Total Utility Plant in Service	<u>\$ 65,475,963</u>	<u>\$ 8,037,222</u>	<u>\$ 3,813,100</u>	<u>\$ 69,700,085</u>
OTHER PROPERTY AND EQUIPMENT				
Nonutility Plant and Equipment	\$ 669,897	\$ 3,577,449		\$ 4,247,346
Retirement Work in Progress			<u>1,186</u>	<u>(1,186)</u>
Total Nonutility Plant and Equipment	<u>\$ 669,897</u>	<u>\$ 3,577,449</u>	<u>\$ 1,186</u>	<u>\$ 4,246,160</u>
Total Consolidated Plant	<u>\$ 66,145,860</u>	<u>\$ 11,614,671</u>	<u>\$ 3,814,286</u>	<u>\$ 73,946,245</u>
		(1)	(2)	
(1) Charged to Depreciation Expense - VEA		\$ 9,469,609		
Charged to Depreciation Expense - VETA		1,304,748		
Charged to Clearing Accounts		<u>840,314</u>		
		<u>\$ 11,614,671</u>		
(2) Cost of Units Retired			\$ 2,656,603	
Removal Costs Less than Salvage and Other Credits			<u>1,157,683</u>	
Loss Due to Retirement			<u>\$ 3,814,286</u>	

VALLEY ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

Schedule 9

OTHER PROPERTY AND INVESTMENTS
DECEMBER 31, 2017 AND 2016

	December 31,	
	<u>2017</u>	<u>2016</u>
INVESTMENTS IN ASSOCIATED ORGANIZATIONS		
VALLEY ELECTRIC ASSOCIATION, INC.		
Patronage Capital		
CFC	\$ 2,554,696	\$ 2,351,033
Federated Rural Insurance	341,689	304,513
NRTC	151,285	155,037
Capital Term Certificates		
CFC	1,036,497	1,044,168
Other Investments	<u>230,096</u>	<u>161,749</u>
Total Other Property and Investments	\$ <u>4,314,263</u>	\$ <u>4,016,500</u>
VETA		
Patronage Capital		
CFC	\$ 1,451,286	\$ 1,146,535
Capital Term Certificates		
CFC	662,292	670,190
Memberships		
CFC	<u>1,000</u>	<u>1,000</u>
Total Investments in Associated Organizations	\$ <u>2,114,578</u>	\$ <u>1,817,725</u>
Total Investments in Associated Organizations	\$ <u>6,428,841</u>	\$ <u>5,834,225</u>
OTHER INVESTMENTS		
Notes Receivable	\$ 1,818,388	\$ 2,229,904
Less: Current Portion of Notes Receivable	<u>(219,250)</u>	<u>(244,292)</u>
Total Other Investments	\$ <u>1,599,138</u>	\$ <u>1,985,612</u>
ASSETS HELD FOR SALE	\$ <u>0</u>	\$ <u>82,564,063</u>
OTHER SPECIAL FUNDS	\$ <u>30,012,493</u>	\$ <u>0</u>

VALLEY ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

Schedule 10

PATRONAGE CAPITAL
DECEMBER 31, 2017

Year	Assignable	Assigned	Retired and Discounted	Balance
1983	\$	\$ 1,599,133	\$ 1,599,133	\$
1984		1,996,127	1,996,127	
1985		1,111,427	1,111,427	
1986		484,701	484,701	
1987		228,595	228,595	
1988		99,884	99,884	
1989		2,113,086	2,113,086	
1990		3,423,910	3,423,910	
1991		3,218,467	2,814,929	403,538
1992		1,918,263	744,376	1,173,887
1993		4,341,610	1,482,948	2,858,662
1994		5,103,959	1,830,660	3,273,299
1995		2,592,802	1,564,176	1,028,626
1996		1,940,501	926,216	1,014,285
1997		2,323,051	1,170,925	1,152,126
1998		1,644,451	1,111,843	532,608
1999		1,059,356	753,070	306,286
2000		1,321,772	71,542	1,250,230
2001		1,463,383	78,019	1,385,364
2002		4,030,289	205,295	3,824,994
2003		1,878,030	89,181	1,788,849
2004		2,685,920	117,250	2,568,670
2005				
2006		4,813,324	147,494	4,665,830
2007		4,190,173	112,591	4,077,582
2008		1,519,710	34,252	1,485,458
2009				
2010		2,891,555	543,839	2,347,716
2011		4,751,626	571,327	4,180,299
2012				
2013		238,106	238,106	
2014		4,687,044	27,494	4,659,550
2015		2,271,905	3,455	2,268,450
2016		4,618,776		4,618,776
2017	78,363,542			78,363,542
Deferred Revenue	(30,000,000)			(30,000,000)
Under allocated	2,201			2,201
	<u>\$ 48,365,743</u>	<u>\$ 76,560,936</u>	<u>\$ 25,695,851</u>	<u>\$ 99,230,828</u>

Year 2005, 2009 and 2012 reflected a nonassignable loss.

Net Margins	\$ 60,482,887
Broadband Loss to Other Equities	8,647,615
Offset Prior Year Losses From Electric Operations	(12,771,060)
Deferred Revenue	30,000,000
Less: Special Capital Credit Retirement	<u>(7,995,900)</u>
2017 Assignable	<u>\$ 78,363,542</u>

VALLEY ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

Schedule 11
(continued)

MORTGAGE NOTES
DECEMBER 31, 2017

VALLEY ELECTRIC ASSOCIATION

<u>Note Number</u>		<u>Interest Rate</u>	<u>Amount Unadvanced</u>	<u>Net Obligation</u>
CFC Mortgage Notes				
9016001	Fixed	4.80%	\$	\$ 324,786
9017001	Fixed	4.80%		324,786
9039001	Fixed	4.40%		114,983
9040001	Variable	2.75%		426,306
9040002	Fixed	4.80%		192,261
9042001	Variable	2.75%		60,375
9044001	Variable	2.75%		630,225
9044002	Variable	2.75%		630,225
9044003	Variable	2.75%		630,225
9044004	Variable	2.75%		176,942
9044005	Variable	2.75%		454,628
9044006	Variable	2.75%		327,199
9044009	Fixed	4.80%		123,051
9044011	Fixed	3.75%		1,338,686
9044012	Variable	2.75%		331,794
9044013	Variable	2.75%		331,794
9044014	Variable	2.75%		668,757
9044015	Fixed	4.80%		702,160
9044025	Variable	2.75%		3,881,959
9044026	Variable	2.75%		3,908,095
9044027	Fixed	4.55%		2,410,502
9045	Fixed	4.45-4.60%		11,088,783
9048005	Variable	2.75%		3,501,901
9048006	Variable	2.75%		3,506,595
9048007	Variable	2.75%		3,522,163
9048008	Fixed	4.35%		3,601,943
9048009	Fixed	4.50%		3,629,288
9054	Variable	2.75%		10,586,263
9056002	Fixed	4.90%		3,817,780
9057001	Fixed	4.90%		14,316,675
9058	Fixed	4.50-4.90%		14,492,570
9059	Fixed	4.50-4.60%		14,608,445
9060	Variable	2.75%	<u>5,070,000</u>	<u>4,931,515</u>
Total CFC			\$ <u>5,070,000</u>	\$ <u>109,593,660</u>
Loans Under Management by CFC				
NV0183000001	Variable	2.661%	\$ <u>0</u>	\$ <u>7,655,040</u>
			<u>\$ 5,070,000</u>	<u>\$ 117,248,700</u>

Net obligation includes the following estimates due within one year and classified as current liabilities on the balance sheet: CFC - \$5,338,075.

VALLEY ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

Schedule 11
(concluded)

MORTGAGE NOTES
DECEMBER 31, 2017

VETA

<u>Note Number</u>		<u>Interest Rate</u>	<u>Amount Unadvanced</u>	<u>Net Obligation</u>
CFC Mortgage Notes				
9003001	Fixed	4.40%	\$	\$ 4,462,092
9003002	Fixed	4.50%		4,511,016
9003003	Variable	2.75%		4,493,512
9005	Fixed	3.20%		1,781,462
9007	Fixed	5.55%		4,703,099
9008001	Fixed	5.10%		17,043,141
9008002	Fixed	4.35%		999,411
9008003	Variable	2.75%		917,460
9009	Variable	2.75%	9,465,486	10,331,532
9010			14,337,000	
			<u>\$ 23,802,486</u>	<u>\$ 49,242,725</u>

Net obligation includes the following estimates due within one year and classified as current liabilities on the balance sheet: CFC - \$883,689.

VALLEY ELECTRIC ASSOCIATION

<u>Note Number</u>		<u>Interest Rate</u>	<u>Amount Unadvanced</u>	<u>Net Obligation</u>
CoBank Mortgage Notes				
3012728	Fixed	3.06%	\$	\$ 10,770,147
3012741	Fixed	3.06%		13,149,269
2988001	Fixed	3.06%		15,000,000
			<u>\$ 0</u>	<u>\$ 38,919,416</u>

Net obligation includes the following estimates due within one year and classified as current liabilities on the balance sheet: CoBank - \$795,333.

VALLEY ELECTRIC ASSOCIATION, INC.

Schedule 12

FIVE YEAR COMPARATIVE DATA

Financial Data	Years Ended				
	2017	2016	2015	2014	2013
OPERATING REVENUES					
Residential	\$ 33,985,908	\$ 35,028,923	\$ 32,447,943	\$ 31,450,539	\$ 33,326,780
Irrigation	3,220,637	3,343,623	2,959,235	3,352,232	3,111,689
Commercial and Industrial	21,441,661	21,709,589	19,884,962	19,647,669	19,790,528
Public Street and Highway Lighting	40,567	42,368	41,307	39,275	39,275
Other Operating Revenues	5,660,221	2,559,814	2,540,163	1,943,973	1,531,938
Total Operating Revenues	<u>\$ 64,348,994</u>	<u>\$ 62,684,317</u>	<u>\$ 57,873,610</u>	<u>\$ 56,433,688</u>	<u>\$ 57,800,210</u>
OPERATING EXPENSES					
Cost of Purchased Power	\$ 21,856,144	\$ 22,422,801	\$ 24,240,153	\$ 23,543,262	\$ 33,335,316
Transmission Expense	5,217,579	6,623,254	6,111,283	5,108,513	4,081,175
Distribution - Operation	10,047,988	6,373,184	5,049,099	5,140,132	4,709,091
Distribution - Maintenance	3,275,140	2,827,811	2,978,232	2,633,801	2,319,589
Customer Accounts Expense	3,176,120	2,487,240	2,054,473	2,077,963	2,000,904
Customer Service and Information	685,676	477,456	499,642	389,361	418,527
Sales Expense	1,841,278	1,719,343	1,063,837	1,166,590	946,137
Administrative and General Expense	10,139,367	7,546,547	4,154,179	3,513,112	3,239,572
Depreciation and Amortization	9,550,442	6,107,980	4,718,702	4,315,787	3,877,214
Other Interest	4,040	2,650	451	741	750
Other Deductions	216,607	335,111	159,738	266,440	125,486
Total Operating Expenses	<u>\$ 66,010,381</u>	<u>\$ 56,923,377</u>	<u>\$ 51,029,789</u>	<u>\$ 48,155,702</u>	<u>\$ 55,053,761</u>
OPERATING MARGINS (LOSS) - Before Fixed Charges					
Fixed Charges	\$ (1,661,387)	\$ 5,760,940	\$ 6,843,821	\$ 8,277,986	\$ 2,746,449
FIXED CHARGES					
Interest on Long-Term Debt	<u>7,322,886</u>	<u>5,857,340</u>	<u>5,238,467</u>	<u>4,447,160</u>	<u>2,820,092</u>
OPERATING MARGINS (LOSS) - After Fixed Charges					
Fixed Charges	\$ (8,984,273)	\$ (96,400)	\$ 1,605,354	\$ 3,830,826	\$ (73,643)
Capital Credits	<u>675,223</u>	<u>523,824</u>	<u>504,361</u>	<u>386,086</u>	<u>286,862</u>
NET OPERATING MARGINS (LOSS)	<u>\$ (8,309,050)</u>	<u>\$ 427,424</u>	<u>\$ 2,109,715</u>	<u>\$ 4,216,912</u>	<u>\$ 213,219</u>
NONOPERATING MARGINS					
Interest Income and Other Income (Loss)	<u>\$ 68,791,937</u>	<u>\$ 217,072</u>	<u>\$ (49,299)</u>	<u>\$ 355,560</u>	<u>\$ (75,744)</u>
NET MARGINS (LOSS)-EXCLUDING COMPREHENSIVE INCOME (LOSS)	<u>\$ 60,482,887</u>	<u>\$ 644,496</u>	<u>\$ 2,060,416</u>	<u>\$ 4,572,472</u>	<u>\$ 137,475</u>
Miscellaneous Statistics					
Consumers at End of Year	21,900	21,531	21,290	20,906	20,739
MWH Sales	536,051	528,834	507,788	499,721	517,484
MWH Purchases	560,111	557,466	540,187	533,278	548,331
Cost in cents per KWH Purchased	4.80	5.20	5.60	5.40	6.80
Times Interest Earned Ratio	9.26	1.11	1.40	2.03	1.05
Modified Debt Service Coverage	6.67	1.35	1.34	1.64	1.23
Equity to Total Assets	26.78	18.04	19.47	20.26	18.52
Line Loss %	4.30	5.14	6.00	6.30	5.60

COMPLIANCE SECTION

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

CERTIFIED PUBLIC ACCOUNTANTS

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8215 NASHVILLE AVENUE

LUBBOCK, TEXAS 79423-1954

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

Board of Directors
Valley Electric Association, Inc. and Subsidiary
Pahrump, Nevada

We have audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of Valley Electric Association, Inc. and Subsidiary as of December 31, 2017, and the related consolidated statements of income, comprehensive income and patronage capital and cash flows for the year then ended, and have issued our report thereon dated April 9, 2018.

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

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

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

April 9, 2018