

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

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

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

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

**VALLEY ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY
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CONSOLIDATED FINANCIAL STATEMENTS

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VALLEY ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

Exhibit A

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2018 AND 2017

ASSETS

	December 31,	
	2018	2017
UTILITY PLANT AT COST		
Electric Plant in Service	\$ 287,784,209	\$ 275,981,667
Construction Work in Progress	3,994,107	5,981,166
Electric Plant Acquisition Adjustment - Net	2,130,457	2,211,617
	<u>\$ 293,908,773</u>	<u>\$ 284,154,450</u>
Less: Accumulated Provision for Depreciation	75,121,030	69,700,085
	<u>\$ 218,787,743</u>	<u>\$ 214,454,365</u>
OTHER PROPERTY AND EQUIPMENT		
Broadband Plant and Equipment - In Service	\$ 39,653,240	\$ 26,503,557
Construction Work in Progress	5,379,103	15,588,717
	<u>\$ 45,032,343</u>	<u>\$ 42,092,274</u>
Less: Accumulated Provision for Depreciation	8,735,419	4,246,160
	<u>\$ 36,296,924</u>	<u>\$ 37,846,114</u>
OTHER PROPERTY AND INVESTMENTS - AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 6,779,386	\$ 6,428,841
Notes Receivable - Long-Term Portion	1,302,564	1,599,138
Other Special Funds		30,012,493
	<u>\$ 8,081,950</u>	<u>\$ 38,040,472</u>
CURRENT ASSETS		
Cash and Temporary Cash Investments	\$ 13,988,562	\$ 64,056,919
Special Deposits	1,537,677	4,072,286
Accounts and Notes Receivable (Less allowance for uncollectibles of \$632,411 in 2018 and \$579,297 in 2017)	3,985,558	3,931,611
Accrued Unbilled Revenue	2,537,725	2,635,604
Notes Receivable - Current Portion	206,121	219,250
Materials and Supplies	5,351,312	4,132,622
Other Current and Accrued Assets	1,233,018	1,083,082
	<u>\$ 28,819,973</u>	<u>\$ 80,131,374</u>
DEFERRED DEBITS	<u>\$ 63,519,673</u>	<u>\$ 30,424,661</u>
TOTAL ASSETS	<u>\$ 355,506,263</u>	<u>\$ 400,896,986</u>

EQUITIES AND LIABILITIES

EQUITIES		
Memberships	\$ 187,140	\$ 180,800
Patronage Capital	131,761,342	99,230,828
Accumulated Other Comprehensive Loss	(1,277,205)	(1,685,200)
Other Equities (Deficits)	(47,867,582)	(1,107,385)
	<u>\$ 82,803,695</u>	<u>\$ 96,619,043</u>
LONG-TERM DEBT		
CFC Mortgage Notes	\$ 153,811,895	\$ 160,269,661
CoBank Mortgage Notes	36,926,595	38,124,083
Capital Leases	6,674,924	9,871,430
Long-Term Debt	16,373,820	17,020,152
	<u>\$ 213,787,234</u>	<u>\$ 225,285,326</u>
ACCUMULATED PROVISION FOR PENSIONS AND BENEFITS		
Post-Retirement Benefits	\$ 2,072,883	\$ 2,365,307
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 11,498,124	\$ 10,647,820
Current Portion of APBO	226,200	278,100
CFC Line of Credit	18,500,000	10,500,000
CoBank Line of Credit	12,000,000	8,500,000
Accounts Payable	703,689	1,835,431
Accounts Payable - Purchased Power	5,623,025	5,722,059
Consumers' Deposits	872,005	752,887
Accrued Compensated Absences	1,807,760	1,838,657
Other Current and Accrued Liabilities	2,560,532	3,175,840
	<u>\$ 53,791,335</u>	<u>\$ 43,248,794</u>
DEFERRED CREDITS	<u>\$ 3,051,116</u>	<u>\$ 33,378,516</u>
TOTAL EQUITIES AND LIABILITIES	<u>\$ 355,506,263</u>	<u>\$ 400,896,986</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, 2018 AND 2017**

	Years Ended December 31,				Increase (Decrease)
	2018		2017		
	Amount	%	Amount	%	
OPERATING REVENUES					
Residential	\$ 35,597,394	44.2	\$ 33,985,908	44.7	\$ 1,611,486
Irrigation	3,363,561	4.2	3,220,637	4.2	142,924
Commercial and Industrial	22,114,751	27.4	21,441,661	28.2	673,090
Public Street and Highway Lighting	40,694	0.1	40,567	0.1	127
Other Operating Revenues	19,447,650	24.1	17,365,969	22.8	2,081,681
Total Operating Revenues	\$ 80,564,050	100.0	\$ 76,054,742	100.0	\$ 4,509,308
OPERATING EXPENSES					
Cost of Purchased Power	\$ 61,694,639	76.6	\$ 21,856,144	28.7	\$ 39,838,495
Transmission Expense	11,164,082	13.9	9,168,478	12.1	1,995,604
Distribution - Operation	8,762,883	10.9	10,047,988	13.2	(1,285,105)
Distribution - Maintenance	3,751,867	4.7	3,275,140	4.3	476,727
Consumer Accounts Expense	3,057,454	3.8	3,176,180	4.2	(118,726)
Customer Service and Information	916,089	1.1	685,676	0.9	230,413
Sales Expense	1,435,793	1.8	1,842,016	2.4	(406,223)
Administrative and General	13,043,174	16.2	12,340,879	16.2	702,295
Depreciation and Amortization	12,104,482	15.0	10,855,190	14.3	1,249,292
Other Interest	10,998	0.0	4,040	0.0	6,958
Other Deductions	170,210	0.2	216,607	0.3	(46,397)
Total Operating Expenses	\$ 116,111,671	144.2	\$ 73,468,338	96.6	\$ 42,643,333
OPERATING MARGINS - BEFORE FIXED CHARGES	\$ (35,547,621)	(44.2)	\$ 2,586,404	3.4	\$ (38,134,025)
FIXED CHARGES					
Interest on Long-Term Debt	10,020,522	12.4	12,748,053	16.8	(2,727,531)
OPERATING MARGINS (LOSS) - AFTER FIXED CHARGES	\$ (45,568,143)	(56.6)	\$ (10,161,649)	(13.4)	\$ (35,406,494)
Capital Credits	1,419,487	1.8	1,284,726	1.7	134,761
NET OPERATING MARGINS	\$ (44,148,656)	(54.8)	\$ (8,876,923)	(11.7)	\$ (35,271,733)
NONOPERATING MARGINS (EXPENSES)					
Interest Income	\$ 499,765	0.6	\$ 321,287	0.4	\$ 178,478
Donations	(750)	0.0	(50,000)	(0.1)	49,250
Other Income	29,467,126	36.6	69,088,523	90.8	(39,621,397)
	\$ 29,966,141	37.2	\$ 69,359,810	91.1	\$ (39,393,669)
NET MARGINS	\$ (14,182,515)	(17.6)	\$ 60,482,887	79.4	\$ (74,665,402)
OTHER COMPREHENSIVE INCOME					
Post-Retirement Benefits					
Actuarial Gain	\$ 320,624		\$ 270,600		
Amortization of Loss	87,371		88,300		
	\$ 407,995		\$ 358,900		
COMPREHENSIVE INCOME	\$ (13,774,520)		\$ 60,841,787		
Adjustment for Post-Retirement Benefits	(407,995)		(358,900)		
PATRONAGE CAPITAL - BEGINNING OF YEAR	99,230,828		55,078,008		
TRANSFER NON-REFUNDABLE AMOUNTS TO DONATED CAPITAL			(8,043,857)		
OFFSET PRIOR YEAR LOSSES FROM ELECTRIC OPERATIONS			(12,771,060)		
TRANSFER LOSS TO OTHER EQUITIES	40,556,919				
TRANSFER BROADBAND LOSSES TO OTHER EQUITIES	6,284,605		12,555,971		
PATRONAGE CAPITAL - RETIRED	(128,495)		(8,071,121)		
PATRONAGE CAPITAL - END OF YEAR	\$ 131,761,342		\$ 99,230,828		

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, 2018 AND 2017**

	December 31,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ (14,182,515)	\$ 60,482,887
Adjustments to Reconcile Net Margins to Net Cash From Operating Activities		
Depreciation	12,945,511	11,614,671
Gain on Disposition of Plant		(115,570,875)
Capital Credits	(556,182)	(581,069)
Deferred Debits	(33,095,012)	1,381,918
Deferred Credits	(30,327,400)	30,458,346
Accounts and Notes Receivable	63,932	1,523,880
Inventories and Other Current Assets	(1,368,626)	(568,046)
Payables and Accrued Expenses	(1,755,862)	3,165,965
Post-Retirement Benefit Obligation	63,671	67,007
Net Cash From Operating Activities	\$ (68,212,483)	\$ (8,025,316)
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Utility Plant and Other Property and Equipment	\$ (15,124,846)	\$ (22,410,285)
Plant Removal More than Salvage and Other Credits	(604,853)	(1,157,683)
Proceeds from Sale of Assets		198,134,938
Special Deposit	2,534,609	(31,061,469)
Other Property and Investments	30,527,832	397,970
Net Cash From Investing Activities	\$ 17,332,742	\$ 143,903,471
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Long-Term Debt to CFC	\$ (6,221,765)	\$ (87,089,007)
Payments on Long-Term Debt to CoBank	(795,332)	(476,488)
Advances on ██████████		1,172,642
Payments on ██████████	(646,332)	(635,895)
Payments on Capital Leases	(2,984,359)	(2,610,189)
Net Advances on CFC Line of Credit	8,000,000	15,734,514
Net Advances on CoBank Line of Credit	3,500,000	8,500,000
Retirement of Patronage Capital	(128,495)	(8,071,121)
Memberships and Other Equities - Net	87,667	59,927
Net Cash From Financing Activities	\$ 811,384	\$ (73,415,617)
CHANGE IN CASH AND CASH EQUIVALENTS	\$ (50,068,357)	\$ 62,462,538
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	64,056,919	1,594,381
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 13,988,562	\$ 64,056,919
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Year for:		
Interest on Long-Term Debt	\$ 9,552,384	\$ 12,631,236
Income Taxes	\$ 0	\$ 0
NONCASH INVESTING AND FINANCING ACTIVITIES		

During the year ended December 31, 2018 and 2017, the Association converted \$0 and \$11,484,514, 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. The leases increased the capital lease obligation by \$8,517,048, and increased nonutility plant and equipment in service by the same amount.

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, 2018 and 2017, the net interchange balance due to the utility company has been calculated at \$3,384,714 and \$2,987,037, 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. The total amount of interest capitalized for the years ending December 31, 2018 and 2017 was \$27,827 and \$36,172, 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, 2018 and 2017 to be \$2,537,725 and \$2,635,604, 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, 2018 and 2017, deposits on hand totaled \$872,005 and \$752,887, 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 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, 2018, the Association qualified for exemption and operated as an exempt cooperative. To the extent the Association engages in an unrelated trade or business, it is subject to the unrelated business income tax imposed by Section 511 of the Internal Revenue Code. The primary source of unrelated business income activities is the provision of Internet services on a non-patronage basis.

For the year ended December 31, 2017, the Association did not qualify for exemption and operated as a non-exempt or taxable cooperative, and as such, filed applicable corporate income tax returns. 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 capital allocated to its patrons and therefore, is generally only taxed on the net earnings (loss) from non-patronage sources.

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) were generally allowed to be carried back for a period of up to two years for offsetting prior years' taxable income or carried forward for a period not to exceed 20 years for offsetting future taxable income. For losses arising in tax years beginning after December 31, 2017, the carry forward period is indefinite and the amount utilized for any year is limited to 80% of taxable income for such year. At December 31, 2018, the total NOL carryover available to the Association for both its unrelated business and non-patronage activities is \$19,506,527. Of that total, \$13,651,385 is the result of NOLs arising before January 1, 2018 and begin expiring in 2026, and \$5,855,142 is the result of NOLs arising for the calendar year ended December 31, 2018 which has an indefinite carryover.

The Association follows the asset and liability method for recording 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

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 for 2018 and 2017 is estimated at \$4,096,371 and \$2,533,588, respectively. 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 in full, resulting in a net deferred tax asset of \$0 at December 31, 2018 and 2017. Accordingly, the overall provision for income taxes is \$0 for both years then ended.

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 its 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 2015. The Association recognizes interest expense and penalties in operating expenses. There were no penalties or interest recognized during the years ended December 31, 2018 and 2017.

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,	
	2018	2017
VEA		
Intangible Plant	\$ 18,593	\$ 8,993
Distribution Plant	186,335,677	178,157,725
General Plant	56,538,558	54,785,274
Electric Plant Acquisition Adjustment	2,130,457	2,211,617
Construction Work in Progress	1,640,837	1,460,240
Total Electric Plant in Service - VEA	\$ 246,664,122	\$ 236,623,849
VETA		
Transmission Plant	\$ 44,862,417	\$ 43,000,711
General Plant	28,964	28,964
Construction Work in Progress	2,353,270	4,500,926
Total Electric Plant in Service - VETA	\$ 47,244,651	\$ 47,530,601
Total Plant	\$ 293,908,773	\$ 284,154,450

During the years ended December 31, 2013, 2014, and 2017, the Association purchased plant assets [REDACTED]. In consideration for each purchase, the Association assumed a long-term note to purchase the assets. The excess consideration over the net book value is reflected as an Electric Plant Acquisition Adjustment and is being amortized over the remaining useful life of the assets.

The remaining Electric Plant Acquisition Adjustment is as follows:

	December 31,	
	2018	2017
Total Consideration	\$ 20,381,781	\$ 20,381,781
Less: Net Book Value of Assets	17,767,489	17,767,489
Total Electric Plant Acquisition Adjustment	\$ 2,614,292	\$ 2,614,292
Less: Amortization	483,835	402,675
Remaining Electric Plant Acquisition Adjustment	\$ 2,130,457	\$ 2,211,617

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, 2018 and 2017, was \$8,536,659 and \$8,037,222 respectively, of which \$7,614,469 and \$7,196,908 was charged to depreciation expense, and \$922,190 and \$840,314 allocated to other accounts. Amortization acquisition adjustment for the years ended December 31, 2018 and 2017 were \$81,160 and \$80,833, respectively.

4. Other Property and Equipment

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

	December 31,	
	2018	2017
Broadband Vehicles and Equipment	\$ 39,653,240	\$ 26,503,557
Construction Work in Progress	5,379,103	15,588,717
Total Other Property and Equipment	\$ 45,032,343	\$ 42,092,274

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 %
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Depreciation for the years ended December 31, 2018 and 2017, was \$4,408,852 and \$3,577,449, respectively.

VALLEY ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Investments in Associated Organizations

Investments in associated organizations consisted of the following at December 31, 2018 and 2017:

	December 31,	
	<u>2018</u>	<u>2017</u>
VEA		
CFC		
Capital Term Certificates	\$ 1,031,003	\$ 1,036,497
Patronage Capital	2,767,439	2,554,696
Federated Rural Insurance	380,163	341,689
Other	567,353	381,381
	<u>\$ 4,745,958</u>	<u>\$ 4,314,263</u>
VETA		
CFC		
Capital Term Certificates	\$ 423,674	\$ 662,292
Patronage Capital	1,608,754	1,451,286
Membership	1,000	1,000
	<u>\$ 2,033,428</u>	<u>\$ 2,114,578</u>
Total Investments in Associated Organizations	<u>\$ 6,779,386</u>	<u>\$ 6,428,841</u>

6. 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, 2018 and 2017 was \$1,508,685 and \$1,818,388, respectively. The current portion of these loans at December 31, 2018 and 2017 was \$206,121 and \$219,250, respectively, and is included in current assets on the balance sheet.

7. Other Special Funds

Other Special Funds consisted of the following:

	December 31,	
	<u>2018</u>	<u>2017</u>
CFC Daily Fund	\$ 0	\$ 30,012,493

During the year ended December 31, 2017, the Association deferred revenue of \$30,000,000 and deposited the funds at CFC. This revenue was recognized during the year ending December 31, 2018.

VALLEY ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Materials and Supplies

Materials and supplies consisted of the following:

	December 31,	
	2018	2017
Construction Materials and Supplies	\$ 3,049,427	\$ 2,966,644
Transportation and Other Materials	233,714	198,548
Solar Water Heaters	224,110	243,077
Communications Materials and Supplies	1,844,061	724,353
	<u>\$ 5,351,312</u>	<u>\$ 4,132,622</u>

9. Deferred Debits

Deferred debits included the following:

	December 31,	
	2018	2017
VEA		
BP Energy Contract	\$ 58,271,050	\$
J.P. Morgan Termination Charge		24,201,305
Skylar Energy Contract		4,326,667
██████████ Contract Costs	294,067	305,234
Community Solar Project	1,584,421	1,418,917
Other Charges	64,055	172,538
	<u>\$ 60,213,593</u>	<u>\$ 30,424,661</u>
VETA		
Other Charges	\$ 220	\$
VCA		
Work Orders on Hold	\$ 3,305,860	\$
Total Deferred Debits	<u>\$ 63,519,673</u>	<u>\$ 30,424,661</u>

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

On December 26, 2013, VEA signed a termination agreement with J.P. Morgan Ventures Energy Corporation to terminate its power contract effective January 1, 2014. In consideration for this termination VEA was required to pay \$33,000,000 to J.P. Morgan. This amount was written off during the year ending December 31, 2018.

On January 7, 2014, VEA entered into a Master Power and Sale Agreement with Skylar Energy, L.P. (Skylar). The contract commenced on February 1, 2014 and will expire on January 31, 2029. In order to obtain discounted pricing, VEA was required to pay \$5,900,000 into an escrow account. This amount was written off during the year ending December 31, 2018.

VALLEY ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

During the year ending December 31, 2018, VEA entered into a contract with BP Energy for \$59,485,030. This amount is being amortized over the term of the short-term contract and the anticipated 25 year long-term power supply contract.

The [REDACTED] contract costs represent cost to obtain the contract to purchase the assets [REDACTED]. This amount will be amortized over the life of the [REDACTED] contract of 32 years.

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.

10. 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 \$128,495 and \$8,071,121 was retired during the years ended December 31, 2018 and 2017, respectively.

11. Patronage Capital

	December 31,	
	2018	2017
Assigned - Net of Retirements	\$ 131,671,559	\$ 50,865,085
Assignable	89,783	78,365,743
Assignable - Deferred Revenue		(30,000,000)
	<u>\$ 131,761,342</u>	<u>\$ 99,230,828</u>

12. Other Equities (Deficits)

	December 31,	
	2018	2017
Donated Capital	\$ 11,536,220	\$ 11,448,586
Operating Deficits - Broadband	(18,846,883)	(12,555,971)
Operating Deficits - Electric	(40,556,919)	
	<u>\$ (47,867,582)</u>	<u>\$ (1,107,385)</u>

As of December 31, 2018, the operating deficits are related to the accumulated losses from the broadband division and electric operations. Future net margins from the broadband division and electric operations will be used to offset the accumulated losses.

VALLEY ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. 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,	
	2018	2017
VEA		
3.75% - 4.90% Fixed Rate Notes	\$ 67,896,164	\$ 71,086,699
Variable Rate Notes (3.75%)	37,403,674	38,506,961
Variable Rate Loans Under Management (3.649%)	6,610,787	7,655,040
	<u>\$ 111,910,625</u>	<u>\$ 117,248,700</u>
Less: Current Maturities	5,537,671	5,338,075
	<u>\$ 106,372,954</u>	<u>\$ 111,910,625</u>
VETA		
4.35% - 5.55% Fixed Rate Notes	\$ 31,211,822	\$ 33,500,221
Variable Rate Notes (3.75%)	17,147,214	15,742,504
	<u>\$ 48,359,036</u>	<u>\$ 49,242,725</u>
Less: Current Maturities	920,095	883,689
	<u>\$ 47,438,941</u>	<u>\$ 48,359,036</u>
	<u>\$ 153,811,895</u>	<u>\$ 160,269,661</u>

Principal and interest installments on the notes are due quarterly. As of December 31, 2018, scheduled annual maturities of principal amounts due CFC for the next five years is as follows:

	VEA	VETA	Total
2019	\$ 5,537,671	\$ 920,095	\$ 6,457,766
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
2023	6,396,304	1,082,623	7,478,927

Interest for the years ended December 31, 2018 and 2017 was \$7,010,897 and \$10,079,104, respectively, of which \$6,983,070 and \$10,042,932 was charged to interest and \$27,827 and \$36,172 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 \$0.

VALLEY ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Long-Term Debt – CoBank

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

	December 31,	
	2018	2017
VEA		
4.66% Fixed Rate Notes	\$ 38,124,084	\$ 38,919,416
Less: Current Maturities	1,197,489	795,333
	<u>\$ 36,926,595</u>	<u>\$ 38,124,083</u>

Principal and interest installments on the notes are due monthly. As of December 31, 2018, scheduled annual maturities of principal amounts due CoBank for the next five years is as follows:

2019	\$ 1,197,489
2020	1,228,112
2021	1,269,124
2022	1,308,269
2023	1,348,622

15. Long-Term Debt [REDACTED]

Following is a summary of long-term debt that is being financed [REDACTED]

	December 31,	
	2018	2017
Variable Rate Note (2.58%)	\$ 17,020,152	\$ 17,666,484
Less: Current Maturities	646,332	646,332
	<u>\$ 16,373,820</u>	<u>\$ 17,020,152</u>

Principal and interest installments on the notes are due monthly. As of December 31, 2018, scheduled annual maturities of principal amounts due for the next five years is as follows:

2019	\$ 646,332
2020	646,332
2021	646,332
2022	646,332
2023	646,332

VALLEY ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. Short-Term Borrowing

VEA has a \$20,000,000 perpetual line of credit with CFC. At December 31, 2018 and 2017, \$18,500,000 and \$10,500,000 was outstanding on the perpetual line of credit, respectively.

VEA has a \$15,000,000 perpetual line of credit with CoBank with a 5.11% interest rate and maturity date of January 30, 2019. At December 31, 2018 and 2017, \$12,000,000 and \$8,500,000 was outstanding on this line of credit, respectively.

17. 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, 2018 and 2017, totaled \$795,630 and \$921,150, respectively.

The following is an analysis of the book value of the leased assets included in non-utility plant at December 31, 2018 and 2017:

	December 31,	
	2018	2017
Cost	\$ 15,945,715	\$ 15,945,715
Accumulated Depreciation	(5,987,046)	(3,093,655)
	<u>\$ 9,958,669</u>	<u>\$ 12,852,060</u>

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

	December 31,	
	2018	2017
Crestmark Equipment Finance	\$ 9,871,461	\$ 12,855,820
Less: Current Maturities	(3,196,537)	(2,984,390)
	<u>\$ 6,674,924</u>	<u>\$ 9,871,430</u>

VALLEY ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The entire lease obligation to Crestmark Equipment Finance calls for payments totaling \$10,943,307 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, 2018:

	<u>Crestmark</u>
2019	\$ 3,779,819
2020	3,779,819
2021	3,131,868
2022	251,801
2023	
Total Minimum Lease Payments	<u>\$ 10,943,307</u>
Amount Representing Interest	<u>1,071,846</u>
	<u>\$ 9,871,461</u>

18. Deferred Credits

Deferred credits included the following:

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
VEA		
Customer Advances for Construction	\$ 6,869	\$ 102,864
Deferred Reimbursements	1,118,090	802,980
Deferred Revenue		30,000,000
Other		112,902
Valley Communications Association		791,367
	<u>\$ 1,124,959</u>	<u>\$ 31,810,113</u>
VETA		
Congestion Rights Revenue	\$ 1,926,157	\$ 1,568,403
	<u>\$ 3,051,116</u>	<u>\$ 33,378,516</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 recognized this revenue during the year ended December 31, 2018.

Deferred Reimbursements represents the amount billed per the contract [REDACTED] for renewals and replacements, and construction work in progress. These amounts will be recognized as qualifying renewals and replacements and construction work in progress costs are incurred.

VALLEY ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

19. 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 2018 and in 2017 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 \$6,229,702 in 2018 and \$5,323,490 in 2017.

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, 2018 and 2017 based on the PPA funding target and PPA actuarial value of assets on those dates.

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

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, 2018 and 2017, were \$377,620 and \$349,339, respectively.

20. 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, 2018 were \$279,707.

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

The measurement date used for the current valuation is December 31, 2018.

VALLEY ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The weighted-average discount rate used to develop the accumulated post-retirement benefit obligation was 4.35%. The assumed health care cost trend rate for 2018 is 6.6% declining to an ultimate level of 5.0% in 2025.

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

	December 31,	
	2018	2017
I) Net Post-Retirement Benefit Cost		
Service Cost	\$ 112,945	\$ 125,907
Interest Cost	148,700	147,300
Expected Return on Plan Assets	(5,638)	(12,700)
Amortization	87,371	88,300
	<u>\$ 343,378</u>	<u>\$ 348,807</u>
II) Accumulated Post-Retirement Benefit Obligation (APBO) Reconciliation:		
APBO Balance at Beginning of Year	\$ (3,751,445)	\$ (4,041,323)
Expected Return	(6,363)	10,685
Actuarial Gain	320,624	270,600
Interest Cost / Service Cost	(261,645)	(273,207)
Benefits Paid	279,707	281,800
Net Post-Retirement Benefit Liability at Year End	<u>\$ (3,419,122)</u>	<u>\$ (3,751,445)</u>
III) Reconciliation of Funded Status		
APBO	\$ (3,419,122)	\$ (3,751,445)
Assets Funded	1,120,039	1,108,038
Accrued Post-Retirement Benefit Cost	<u>\$ (2,299,083)</u>	<u>\$ (2,643,407)</u>
IV) Amounts Recognized in the Balance Sheet		
Current Liability	\$ (226,200)	\$ (278,100)
Noncurrent Liability	(2,072,883)	(2,365,307)
	<u>\$ (2,299,083)</u>	<u>\$ (2,643,407)</u>
V) Accumulated Other Comprehensive Loss		
Actuarial Loss - Beginning of Year	\$ 1,685,200	\$ 2,044,100
Amortization of Loss	(87,371)	(88,300)
Actuarial Gain (Loss)	(320,624)	(270,600)
Other Comprehensive Loss	<u>\$ 1,277,205</u>	<u>\$ 1,685,200</u>
VI) Plan Assets		
Change in Plan Assets		
Fair Value of Plans Assets at Beginning of Year	\$ 1,108,038	\$ 1,106,023
Return on Plan Assets	12,001	2,015
	<u>\$ 1,120,039</u>	<u>\$ 1,108,038</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,	
	2018	2017
NRECA Homestead Funds		
Money Market Fund	\$ 1,120,039	\$ 1,108,038

The asset rate of return was 2.46%.

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 \$62,912.

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

2019	\$	226,200
2020		268,494
2021		283,189
2022		255,794
2023		238,465
2024-2028		1,142,061

21. Litigation, Commitments, and Subsequent Events

As of April 4, 2019, there is threatened litigation against VEA which is currently in negotiations. Management and legal counsel do not believe the outcome would materially affect its financial position.

The Association approved an overall rate increase of 9% for all classes, which is estimated to increase margins by \$5.65 million in 2019. The new rates will be effective March 1, 2019.

The Association has evaluated subsequent events through April 5, 2019, the date which the financial statements were available to be issued.

22. 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, 2018, the Association has \$61,161,675 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.

	<u>Carrying Value</u>	<u>Fair Value</u>
As of December 31, 2018	\$ <u>137,232,070</u>	\$ <u>113,217,362</u>

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.

23. 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 2018 or 2017.

CONSOLIDATING AND ACCOMPANYING INFORMATION

**CONSOLIDATING INFORMATION
BALANCE SHEET
DECEMBER 31, 2018**

ASSETS

	Valley Electric Association, Inc.	VETA	VCA	Eliminating Entries	Consolidated Totals
UTILITY PLANT AT COST					
Electric Plant in Service	\$ 242,892,828	\$ 44,891,381	\$	\$	\$ 287,784,209
Construction Work in Progress	1,640,837	2,353,270			3,994,107
Electric Plant Acquisition Adjustment	2,130,457				2,130,457
	\$ 246,664,122	\$ 47,244,651	\$ 0	\$ 0	\$ 293,908,773
Less: Accumulated Provision for Depreciation	66,136,846	8,984,184			75,121,030
	\$ 180,527,276	\$ 38,260,467	\$ 0	\$ 0	\$ 218,787,743
OTHER PROPERTY AND EQUIPMENT					
Nonutility Plant and Equipment - In Service	\$ 625,396		\$ 39,027,844	\$	\$ 39,653,240
Construction Work in Progress	137,045		5,242,058		5,379,103
Less: Accumulated Provision for Depreciation	223,083		8,512,336		8,735,419
	\$ 539,358	\$ 0	\$ 35,757,566	\$ 0	\$ 36,296,924
OTHER PROPERTY AND INVESTMENTS - AT COST OR STATED VALUE					
Investments in Associated Organizations	\$ 4,745,958	\$ 2,033,428			\$ 6,779,386
Investment in Subsidiary	31,387,989			(31,387,989)	
Notes Receivable	1,302,564				1,302,564
	\$ 37,436,511	\$ 2,033,428	\$ 0	\$ (31,387,989)	\$ 8,081,950
CURRENT ASSETS					
Cash and Temporary Cash Investments	\$ 13,050,510	\$ 722,842	\$ 215,210	\$	\$ 13,988,562
Special Deposits	1,537,677				1,537,677
Accounts and Notes Receivable (Less allowance for uncollectibles of \$632,411 in 2018)	3,209,012	369,865	388,681		3,965,558
Accrued Unbilled Revenue	2,537,725				2,537,725
Accounts Receivable - Associated Organizations		11,241,546		(11,241,546)	0
Notes Receivable - Current Portion	206,121				206,121
Materials and Supplies	3,507,251		1,844,061		5,351,312
Other Current and Accrued Assets	1,145,367	234	87,417		1,233,018
	\$ 25,193,663	\$ 12,334,467	\$ 2,533,369	\$ (11,241,546)	\$ 28,819,973
DEFERRED DEBITS	\$ 60,213,593	\$ 220	\$ 3,305,860	\$ 0	\$ 63,519,673
TOTAL ASSETS	\$ 303,910,401	\$ 52,628,602	\$ 41,596,795	\$ (42,629,535)	\$ 355,506,263

EQUITIES AND LIABILITIES

EQUITIES					
Memberships	\$ 187,140				\$ 187,140
Patronage Capital	131,761,342	1,637,621	(15,949,632)	14,312,011	131,761,342
Donated Capital		700,000	45,000,000	(45,700,000)	
Other Comprehensive Loss	(1,277,205)				(1,277,205)
Other Equities	(47,867,582)				(47,867,582)
	\$ 82,803,695	\$ 2,337,621	\$ 29,050,368	\$ (31,387,989)	\$ 82,803,695
LONG-TERM DEBT					
CFC Mortgage Notes	\$ 106,372,954	\$ 47,438,941			\$ 153,811,895
CoBank Mortgage Notes	36,926,595				36,926,595
Capital Leases			6,674,924		6,674,924
Long-Term Debt	16,373,820				16,373,820
	\$ 159,673,369	\$ 47,438,941	\$ 6,674,924	\$ 0	\$ 213,787,234
ACCUMULATED PROVISION FOR PENSIONS AND BENEFITS					
Post-Retirement Benefits	\$ 2,072,883	\$ 0	\$ 0	\$ 0	\$ 2,072,883
CURRENT LIABILITIES					
Current Maturities of Long-Term Debt	\$ 7,381,492	\$ 920,095	\$ 3,196,537	\$	\$ 11,498,124
Current Portion of APBO	226,200				226,200
CFC Line of Credit	18,500,000				18,500,000
CoBank Line of Credit	12,000,000				12,000,000
Accounts Payable	690,818		12,871		703,689
Accounts Payable - Purchased Power	5,623,025				5,623,025
Accounts Payable - Associated Organizations	8,579,451		2,662,095	(11,241,546)	
Consumers' Deposits	872,005				872,005
Accrued Compensated Absences	1,807,760				1,807,760
Other Current and Accrued Liabilities	2,554,744	5,788			2,560,532
	\$ 58,235,495	\$ 925,883	\$ 5,871,503	\$ (11,241,546)	\$ 53,791,335
DEFERRED CREDITS	\$ 1,124,959	\$ 1,926,157	\$ 0	\$ 0	\$ 3,051,116
TOTAL EQUITIES AND LIABILITIES	\$ 303,910,401	\$ 52,628,602	\$ 41,596,795	\$ (42,629,535)	\$ 355,506,263

VALLEY ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

Schedule 2

CONSOLIDATING INFORMATION
STATEMENT OF INCOME, COMPREHENSIVE INCOME AND PATRONAGE CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2018

	Valley Electric Association, Inc.	VETA	VCA	Eliminating Entries	Consolidated Totals
OPERATING REVENUES					
Residential	\$ 35,597,394	\$	\$	\$	\$ 35,597,394
Irrigation	3,363,561				3,363,561
Commercial and Industrial	22,114,751				22,114,751
Public Street and Highway Lighting	40,694				40,694
Other Operating Revenues	10,465,942	17,107,423	5,353,020	(13,479,735)	19,447,650
Total Operating Revenues	<u>\$ 71,583,342</u>	<u>\$ 17,107,423</u>	<u>\$ 5,353,020</u>	<u>\$ (13,479,735)</u>	<u>\$ 80,564,050</u>
OPERATING EXPENSES					
Cost of Purchased Power	\$ 61,694,639	\$	\$	\$	\$ 61,694,639
Transmission Expense	6,004,902	11,141,579		(5,982,399)	11,164,082
Distribution - Operation	11,968,624		4,291,595	(7,497,336)	8,762,883
Distribution - Maintenance	3,751,867				3,751,867
Consumer Accounts Expense	2,910,959	15	146,480		3,057,454
Customer Service and Information	916,089				916,089
Sales Expense	1,435,793				1,435,793
Administrative and General	9,188,313	2,390,838	1,464,023		13,043,174
Depreciation and Amortization	6,351,953	1,343,676	4,408,853		12,104,482
Other Interest	10,998				10,998
Other Deductions	170,210				170,210
Total Operating Expenses	<u>\$ 104,404,347</u>	<u>\$ 14,876,108</u>	<u>\$ 10,310,951</u>	<u>\$ (13,479,735)</u>	<u>\$ 116,111,671</u>
OPERATING MARGINS (LOSSES) - BEFORE FIXED CHARGES	<u>\$ (32,821,005)</u>	<u>\$ 2,231,315</u>	<u>\$ (4,957,931)</u>	<u>\$ 0</u>	<u>\$ (35,547,621)</u>
FIXED CHARGES					
Interest on Long-Term Debt	7,180,692	2,044,210	795,620		10,020,522
OPERATING MARGINS (LOSSES) - AFTER FIXED CHARGES	<u>\$ (40,001,697)</u>	<u>\$ 187,105</u>	<u>\$ (5,753,551)</u>	<u>\$ 0</u>	<u>\$ (45,568,143)</u>
Capital Credits	1,104,551	314,936			1,419,487
NET OPERATING MARGINS (LOSSES)	<u>\$ (38,897,146)</u>	<u>\$ 502,041</u>	<u>\$ (5,753,551)</u>	<u>\$ 0</u>	<u>\$ (44,148,656)</u>
NONOPERATING MARGINS (LOSSES)					
Interest Income	\$ 498,835	\$ 930	\$	\$	\$ 499,765
Donations			(750)		(750)
Other Income (Loss)	24,215,796	(412,836)	484	5,663,682	29,467,126
	<u>\$ 24,714,631</u>	<u>\$ (411,906)</u>	<u>\$ (266)</u>	<u>\$ 5,663,682</u>	<u>\$ 29,966,141</u>
NET MARGINS	<u>\$ (14,182,515)</u>	<u>\$ 90,135</u>	<u>\$ (5,753,817)</u>	<u>\$ 5,663,682</u>	<u>\$ (14,182,515)</u>
OTHER COMPREHENSIVE INCOME (LOSS)					
Post-Retirement Benefits					
Actuarial Gain	\$ 320,624	\$	\$	\$	\$ 320,624
Amortization of Loss	87,371				87,371
	<u>\$ 407,995</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 407,995</u>
COMPREHENSIVE INCOME (LOSS)	<u>\$ (13,774,520)</u>	<u>\$ 90,135</u>	<u>\$ (5,753,817)</u>	<u>\$ 5,663,682</u>	<u>\$ (13,774,520)</u>
Adjustment for Post-Retirement Benefits	(407,995)				(407,995)
PATRONAGE CAPITAL - BEGINNING OF YEAR	99,230,828	1,547,486	(10,195,815)	8,648,329	99,230,828
Transfer Losses to Other Equities	40,556,919				40,556,919
Transfer Prior Year Broadband Loss to Other Equities	2,659,009				2,659,009
Transfer Current Year Broadband Loss to Other Equities	3,625,596				3,625,596
PATRONAGE CAPITAL - RETIRED	<u>(128,495)</u>				<u>(128,495)</u>
PATRONAGE CAPITAL - END OF YEAR	<u>\$ 131,761,342</u>	<u>\$ 1,637,621</u>	<u>\$ (15,949,632)</u>	<u>\$ 14,312,011</u>	<u>\$ 131,761,342</u>

VALLEY ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

Schedule 3

CONSOLIDATING INFORMATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

	Valley Electric Association, Inc.	VETA	VCA	Eliminating Entries	Consolidated Totals
CASH FLOWS FROM OPERATING ACTIVITIES					
Net Margins	\$ (14,182,515)	\$ 90,135	\$ (5,753,817)	\$ 5,663,682	\$ (14,182,515)
Adjustments to Reconcile Net Margins to Net Cash From Operating Activities					
Depreciation	7,498,319	932,106	4,515,086		12,945,511
Capital Credits	(398,714)	(157,468)			(556,182)
Deferred Debits	(29,788,932)	(220)	(3,305,860)		(33,095,012)
Deferred Credits	(29,893,787)	357,754	(791,367)		(30,327,400)
Accounts and Notes Receivable	276,456	1,091,839	10,818,871	(12,123,234)	63,932
Inventories and Other Current Assets	(203,603)		(1,165,023)		(1,368,626)
Payables and Accrued Expenses	(15,031,336)	(1,494,575)	2,646,815	12,123,234	(1,755,862)
Post-Retirement Benefit Obligation	63,671				63,671
Net Cash From Operating Activities	\$ (81,660,441)	\$ 819,571	\$ 6,964,705	\$ 5,663,682	\$ (68,212,483)
CASH FLOWS FROM INVESTING ACTIVITIES					
Additions to Utility Plant and Other Property and Equipment	\$ (11,175,700)	\$ 31,127	\$ (3,980,273)	\$	\$ (15,124,846)
Plant Removal (More) Less than Salvage and Other Credits	(556,765)	(48,173)	85		(604,853)
Special Deposit	2,534,609				2,534,609
Other Property and Investments	35,952,896	238,618		(5,663,682)	30,527,832
Net Cash From Investing Activities	\$ 26,755,040	\$ 221,572	\$ (3,980,188)	\$ (5,663,682)	\$ 17,332,742
CASH FLOWS FROM FINANCING ACTIVITIES					
Payments on Long-Term Debt to CFC - Including Subscriptions	\$ (5,338,076)	\$ (883,689)	\$	\$	\$ (6,221,765)
Payments on Long-Term Debt to CoBank	(795,332)				(795,332)
Payments on ██████████	(646,332)				(646,332)
Payments on Capital Leases			(2,984,359)		(2,984,359)
Net Advances on CFC Line of Credit	8,000,000				8,000,000
Net Advances on CoBank Line of Credit	3,500,000				3,500,000
Retirement of Patronage Capital	(128,495)				(128,495)
Memberships and Other Equities - Net	87,667				87,667
Net Cash From Financing Activities	\$ 4,679,432	\$ (883,689)	\$ (2,984,359)	\$ 0	\$ 811,384
CHANGE IN CASH AND CASH EQUIVALENTS	\$ (50,225,969)	\$ 157,454	\$ 158	\$ 0	\$ (50,068,357)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	63,276,479	565,388	215,052	0	64,056,919
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 13,050,510	\$ 722,842	\$ 215,210	\$ 0	\$ 13,988,562
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION					
Cash Paid During the Year for:					
Interest on Long-Term Debt	\$ 6,685,069	\$ 2,071,685	\$ 795,630	\$ 0	\$ 9,552,384
Income Taxes	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

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VALLEY ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

Schedule 4

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

ASSETS

	Valley Electric Association, Inc.	VETA	VCA	Eliminating Entries	Consolidated Totals
UTILITY PLANT AT COST					
Electric Plant in Service	\$ 232,951,992	\$ 43,029,875	\$	\$	\$ 275,981,667
Construction Work in Progress	1,460,240	4,500,926			5,961,166
Electric Plant Acquisition Adjustment	2,211,617				2,211,617
	<u>\$ 236,623,849</u>	<u>\$ 47,530,601</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 284,154,450</u>
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>\$ 0</u>	<u>\$ 214,454,365</u>
OTHER PROPERTY AND EQUIPMENT					
Nonutility Plant and Equipment - In Service	\$ 662,934		\$ 25,840,623		\$ 26,503,557
Construction Work in Progress	1,066,666		14,522,051		15,588,717
Less: Accumulated Provision for Depreciation	175,950		4,070,210		4,246,160
	<u>\$ 1,553,650</u>	<u>\$ 0</u>	<u>\$ 36,292,464</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	37,051,670			(37,051,670)	
Notes Receivable	1,599,138				1,599,138
Other Special Funds	30,012,493				30,012,493
	<u>\$ 72,977,564</u>	<u>\$ 2,114,578</u>	<u>\$ 0</u>	<u>\$ (37,051,670)</u>	<u>\$ 38,040,472</u>
CURRENT ASSETS					
Cash and Temporary Cash Investments	\$ 63,276,479	\$ 565,388	\$ 215,052		\$ 64,056,919
Special Deposits	4,072,286				4,072,286
Accounts and Notes Receivable (Less allowance for uncollectibles of \$579,297 in 2017)	3,387,589	489,714	54,308		3,931,611
Accrued Unbilled Revenue	2,635,604				2,635,604
Accounts Receivable - Associated Organizations		12,213,536	11,151,244	(23,364,780)	
Notes Receivable - Current Portion	219,250				219,250
Materials and Supplies	3,408,269		724,353		4,132,622
Other Current and Accrued Assets	1,040,746	234	42,102		1,083,082
	<u>\$ 78,040,223</u>	<u>\$ 13,268,872</u>	<u>\$ 12,167,059</u>	<u>\$ (23,364,780)</u>	<u>\$ 80,131,374</u>
DEFERRED DEBITS	\$ 30,424,661	\$ 0	\$ 0	\$ 0	\$ 30,424,661
TOTAL ASSETS	<u>\$ 358,274,936</u>	<u>\$ 54,558,977</u>	<u>\$ 48,479,523</u>	<u>\$ (60,416,450)</u>	<u>\$ 400,896,986</u>

EQUITIES AND LIABILITIES

EQUITIES					
Memberships	\$ 180,800				\$ 180,800
Patronage Capital	99,230,828	1,547,486	(10,185,815)	8,648,329	99,230,828
Donated Capital		700,000	45,000,000	(45,700,000)	
Other Comprehensive Loss	(1,685,200)				(1,685,200)
Other Equities	(1,107,385)				(1,107,385)
	<u>\$ 96,619,043</u>	<u>\$ 2,247,486</u>	<u>\$ 34,804,185</u>	<u>\$ (37,051,671)</u>	<u>\$ 96,619,043</u>
LONG-TERM DEBT					
CFC Mortgage Notes	\$ 111,910,825	\$ 48,359,036			\$ 160,269,861
CoBank Mortgage Notes	38,124,083				38,124,083
Capital Leases			9,871,430		9,871,430
Long-Term Debt	17,020,152				17,020,152
	<u>\$ 167,054,860</u>	<u>\$ 48,359,036</u>	<u>\$ 9,871,430</u>	<u>\$ 0</u>	<u>\$ 225,285,326</u>
ACCUMULATED PROVISION FOR PENSIONS AND BENEFITS					
Post-Retirement Benefits	\$ 2,385,307	\$ 0	\$ 0	\$ 0	\$ 2,385,307
CURRENT LIABILITIES					
Current Maturities of Long-Term Debt	\$ 8,779,741	\$ 883,689	\$ 2,984,390		\$ 10,647,820
Current Portion of APBO	278,100				278,100
CFC Line of Credit	10,500,000				10,500,000
CoBank Line of Credit	8,500,000				8,500,000
Accounts Payable	1,807,280		28,151		1,835,431
Accounts Payable - Purchased Power	5,722,059				5,722,059
Accounts Payable - Associated Organizations	23,364,779			(23,364,779)	
Consumers' Deposits	752,887				752,887
Accrued Compensated Absences	1,836,657				1,836,657
Other Current and Accrued Liabilities	1,875,477	1,500,363			3,175,840
	<u>\$ 61,216,980</u>	<u>\$ 2,384,052</u>	<u>\$ 3,012,541</u>	<u>\$ (23,364,779)</u>	<u>\$ 43,248,794</u>
DEFERRED CREDITS	\$ 31,018,746	\$ 1,568,403	\$ 791,367	\$ 0	\$ 33,378,516
TOTAL EQUITIES AND LIABILITIES	<u>\$ 358,274,936</u>	<u>\$ 54,558,977</u>	<u>\$ 48,479,523</u>	<u>\$ (60,416,450)</u>	<u>\$ 400,896,986</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, 2017

	Valley Electric Association, Inc.	VETA	VCA	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	11,822,236	16,806,097	3,957,950	(15,320,314)	17,365,969
Total Operating Revenues	<u>\$ 70,511,009</u>	<u>\$ 16,806,097</u>	<u>\$ 3,957,950</u>	<u>\$ (15,320,314)</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	12,021,874		8,146,079	(10,119,965)	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	9,422,912	2,201,512	716,455		12,340,879
Depreciation and Amortization	6,072,692	1,304,748	3,477,750		10,855,190
Other Interest	4,040				4,040
Other Deductions	216,607				216,607
Total Operating Expenses	<u>\$ 63,790,062</u>	<u>\$ 12,658,306</u>	<u>\$ 12,340,284</u>	<u>\$ (15,320,314)</u>	<u>\$ 73,468,338</u>
OPERATING MARGINS (LOSSES) - BEFORE FIXED CHARGES					
	\$ 6,720,947	\$ 4,247,791	\$ (8,382,334)	\$ 0	\$ 2,586,404
FIXED CHARGES					
Interest on Long-Term Debt	6,405,056	5,425,167	917,830		12,748,053
OPERATING MARGINS (LOSSES) - AFTER FIXED CHARGES					
	\$ 315,891	\$ (1,177,376)	\$ (9,300,164)	\$ 0	\$ (10,161,649)
Capital Credits	675,223	609,503			1,284,726
NET OPERATING MARGINS					
	<u>\$ 991,114</u>	<u>\$ (567,873)</u>	<u>\$ (9,300,164)</u>	<u>\$ 0</u>	<u>\$ (8,876,923)</u>
NON OPERATING MARGINS (EXPENSES)					
Interest Income	\$ 320,357	\$ 930	\$	\$	\$ 321,287
Donations		(50,000)			(50,000)
Other Income	59,171,416	99,310,307		(89,393,200)	69,088,523
	<u>\$ 59,491,773</u>	<u>\$ 99,261,237</u>	<u>\$ 0</u>	<u>\$ (89,393,200)</u>	<u>\$ 69,359,810</u>
NET MARGINS					
	<u>\$ 60,482,887</u>	<u>\$ 98,693,364</u>	<u>\$ (9,300,164)</u>	<u>\$ (89,393,200)</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>\$ 0</u>	<u>\$ 358,900</u>
COMPREHENSIVE INCOME (LOSSES)					
	\$ 60,841,787	\$ 98,693,364	\$ (9,300,164)	\$ (89,393,200)	\$ 60,841,787
Adjustment for Post-Retirement Benefits	(358,900)				(358,900)
PATRONAGE CAPITAL - BEGINNING OF YEAR					
	55,078,008	1,854,122	(895,651)	(958,471)	55,078,008
Transfer Non-Refundable Amounts 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		(99,000,000)		99,000,000	
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>\$ (10,195,815)</u>	<u>\$ 8,648,329</u>	<u>\$ 99,230,828</u>

VALLEY ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

Schedule 6

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

	Valley Electric Association, Inc.	VETA	VCA	Eliminating Entries	Consolidated Totals
CASH FLOWS FROM OPERATING ACTIVITIES					
Net Margins	\$ 60,482,887	\$ 98,693,364	\$ (9,300,164)	\$ (89,393,200)	\$ 60,482,887
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities					
Depreciation	6,735,029	1,302,193	3,577,449		11,614,671
Gain on Disposition of Plant		(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	30,251,199	323,084	(115,937)		30,458,346
Accounts and Notes Receivable	3,021,954	(11,151,586)	(10,438,279)	20,091,791	1,523,880
Inventories and Other Current Assets	(325,782)	55,416	(297,680)		(568,046)
Payables and Accrued Expenses	21,744,360	1,485,245	28,151	(20,091,791)	3,165,965
Post-Retirement Benefit Obligation	67,007				67,007
Net Cash From Operating Activities	\$ 122,972,253	\$ (25,057,909)	\$ (16,546,460)	\$ (89,393,200)	\$ (8,025,316)
CASH FLOWS FROM INVESTING ACTIVITIES					
Additions to Utility Plant and Other Property and Equipment	\$ (15,596,290)	\$ 4,796,822	\$ (11,610,817)	\$	\$ (22,410,285)
Plant Removal (More) Less than Salvage and Other Credits	(1,068,488)	(88,009)	(1,186)		(1,157,683)
Proceeds from Sale of Assets		198,134,938			198,134,938
Special Deposit	(31,112,790)	51,321			(31,061,469)
Other Property and Investments	(20,003,129)	7,899	30,000,000	(9,606,800)	397,970
Net Cash From Investing Activities	\$ (67,780,697)	\$ 202,902,971	\$ 18,387,997	\$ (9,606,800)	\$ 143,903,471
CASH FLOWS FROM FINANCING ACTIVITIES					
Payments on Long-Term Debt to CFC - Including Subscriptions	\$ (5,315,413)	\$ (81,773,594)	\$	\$	\$ (87,089,007)
Payments on Long-Term Debt to CoBank	(476,488)				(476,488)
Advances	1,172,642				1,172,642
Payments	(635,895)				(635,895)
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		(99,000,000)		99,000,000	
Memberships and Other Equities - Net	59,927				59,927
Net Cash From Financing Activities	\$ 7,733,652	\$ (177,539,080)	\$ (2,610,189)	\$ 99,000,000	\$ (73,415,617)
CHANGE IN CASH AND CASH EQUIVALENTS	\$ 62,925,208	\$ 305,982	\$ (768,652)	\$ 0	\$ 62,462,538
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	351,271	259,406	983,704	0	1,594,381
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 63,276,479	\$ 565,388	\$ 215,052	\$ 0	\$ 64,056,919
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION					
Cash Paid During the Year for:					
Interest on Long-Term Debt	\$ 6,279,159	\$ 5,430,927	\$ 921,150	\$ 0	\$ 12,631,236
Income Taxes	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

NONCASH INVESTING AND FINANCING ACTIVITIES

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 7

ELECTRIC PLANT AND OTHER PROPERTY AND EQUIPMENT
FOR THE YEAR ENDED DECEMBER 31, 2018

	Balance 1/1/2018	Additions and Transfers	Retirements	Balance 12/31/2018
CLASSIFIED ELECTRIC PLANT IN SERVICE				
VALLEY ELECTRIC ASSOCIATION, INC.				
Intangible Plant and Generation Plant	\$ 8,993	\$ 9,600	\$ 0	\$ 18,593
Distribution Plant				
Land and Land Rights	\$ 1,890,645	\$ (3,550)	\$	\$ 1,887,095
Station Equipment	26,979,696	565,715	131,065	27,414,346
Poles, Towers, and Fixtures	32,426,458	2,117,774	363,981	34,180,251
Overhead Conductors and Devices	36,024,410	3,225,447	1,013,382	38,236,475
Underground Conductors and Devices and Conduit	13,135,313	784,840	107,683	13,812,470
Line Transformers	18,680,753	1,588,453	231,208	20,037,998
Services	21,798,142	1,123,794	46,618	22,875,318
Meters	6,307,263	681,845		6,989,108
Installations on Consumers' Premises	1,496,214	11,999	23,836	1,484,377
Street Lighting	148,845	6,953	7,545	148,253
	19,269,986			19,269,986
Total	\$ 178,157,725	\$ 10,103,270	\$ 1,925,318	\$ 186,335,677
General Plant				
Land and Land Rights	\$ 3,020,833	\$ 1,630	\$	\$ 3,022,463
Structures and Improvements	25,617,005	39,932	4,686	25,652,251
Office Furniture and Equipment	7,860,385	93,653	7,757	7,946,281
Transportation Equipment	11,724,894	1,817,024	190,971	13,350,947
Stores Equipment	397,859			397,859
Tools, Shop, and Garage Equipment	1,086,331	27,330		1,113,661
Laboratory Equipment	1,968,133	(18,056)	20,987	1,929,090
Power Operated Equipment	328,178			328,178
Communications Equipment	2,334,447	16,172		2,350,619
Miscellaneous Equipment	359,065			359,065
	88,144			88,144
Total	\$ 54,785,274	\$ 1,977,685	\$ 224,401	\$ 56,538,558
Electric Plant Acquisition Adjustment	\$ 2,211,617	\$ (81,160)	\$ 0	\$ 2,130,457
Total Classified Electric Plant in Service	\$ 235,163,609	\$ 12,009,395	\$ 2,149,719	\$ 245,023,285
Construction Work in Progress	1,460,240	180,597		1,640,837
Total Utility Plant - VEA	\$ 236,623,849	\$ 12,189,992	\$ 2,149,719	\$ 246,664,122
VETA				
Transmission Plant				
Land and Land Rights	\$ 2,155,308	\$	\$	\$ 2,155,308
Station Equipment	10,323,326	1,168,386	59,959	11,431,753
Poles, Towers, and Fixtures	15,476,982	631,816	67,456	16,041,342
Overhead Conductors and Devices	15,045,095	316,327	127,408	15,234,014
Total	\$ 43,000,711	\$ 2,116,529	\$ 254,823	\$ 44,862,417
General Plant				
Office Furniture and Equipment	\$ 28,964	\$ 0	\$ 0	\$ 28,964
Total Classified Electric Plant in Service	\$ 43,029,675	\$ 2,116,529	\$ 254,823	\$ 44,891,381
Construction Work in Progress	4,500,926	(2,147,656)		2,353,270
Total Utility Plant - VETA	\$ 47,530,601	\$ (31,127)	\$ 254,823	\$ 47,244,651
Total Utility Plant In Service	\$ 284,154,450	\$ 12,158,865	\$ 2,404,542	\$ 293,908,773
OTHER PROPERTY AND EQUIPMENT				
Nonutility Plant and Equipment	\$ 26,503,557	\$ 13,175,595	\$ 25,912	\$ 39,653,240
Construction Work in Progress	15,588,717	(10,209,614)		5,379,103
Total Nonutility Plant	\$ 42,092,274	\$ 2,965,981	\$ 25,912	\$ 45,032,343
Total Consolidated Plant	\$ 326,246,724	\$ 15,124,846	\$ 2,430,454	\$ 338,941,116

VALLEY ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

Schedule 8

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

	Balance 1/1/2018	Depreciation Accruals and Transfers	Retirements	Balance 12/31/2018
VALLEY ELECTRIC ASSOCIATION, INC.				
Distribution Plant				
VEA Distribution Plant	\$ 38,886,522	\$ 4,243,562	\$ 2,783,918	\$ 40,346,166
	<u>3,774,208</u>	<u>550,582</u>		<u>4,324,790</u>
	<u>\$ 42,660,730</u>	<u>\$ 4,794,144</u>	<u>\$ 2,783,918</u>	<u>\$ 44,670,956</u>
General Plant				
Structures and Improvements	\$ 4,493,367	\$ 1,125,934	\$ 4,686	\$ 5,614,615
Office Furniture and Fixtures	3,478,382	528,880	7,757	3,999,505
Transportation Equipment	7,283,297	609,582	132,617	7,760,262
Stores Equipment	281,332	15,379		296,711
Tools, Shop, and Garage Equipment	1,016,613	74,738		1,091,351
Laboratory Equipment	1,175,000	130,865	20,987	1,284,878
Communications Equipment	1,020,276	165,457		1,185,733
Miscellaneous Equipment	165,596	44,411		210,007
	<u>39,159</u>	<u>8,929</u>		<u>48,088</u>
Total General Plant	<u>\$ 18,953,022</u>	<u>\$ 2,704,175</u>	<u>\$ 166,047</u>	<u>\$ 21,491,150</u>
Total Classified Electric Plant in Service - VEA	\$ 61,613,752	\$ 7,498,319	\$ 2,949,965	\$ 66,162,106
Retirement Work in Progress	<u>(268,741)</u>		<u>(243,481)</u>	<u>(25,260)</u>
	<u>\$ 61,345,011</u>	<u>\$ 7,498,319</u>	<u>\$ 2,706,484</u>	<u>\$ 66,136,846</u>
VETA				
Transmission Plant	\$ 8,329,563	\$ 932,106	\$ 306,448	\$ 8,955,221
General Plant				
Office Furniture and Fixtures	28,963			28,963
Retirement Work in Progress	<u>(3,452)</u>		<u>(3,452)</u>	<u>0</u>
Total Classified Electric Plant in Service - VETA	<u>\$ 8,355,074</u>	<u>\$ 932,106</u>	<u>\$ 302,996</u>	<u>\$ 8,984,184</u>
Total Utility Plant in Service	<u>\$ 69,700,085</u>	<u>\$ 8,430,425</u>	<u>\$ 3,009,480</u>	<u>\$ 75,121,030</u>
OTHER PROPERTY AND EQUIPMENT				
Nonutility Plant and Equipment	\$ 4,247,346	\$ 4,515,086	\$ 27,013	\$ 8,735,419
Retirement Work in Progress	<u>(1,186)</u>		<u>(1,186)</u>	<u>0</u>
Total Nonutility Plant and Equipment	<u>\$ 4,246,160</u>	<u>\$ 4,515,086</u>	<u>\$ 25,827</u>	<u>\$ 8,735,419</u>
Total Consolidated Plant	<u>\$ 73,946,245</u>	<u>\$ 12,945,511</u>	<u>\$ 3,035,307</u>	<u>\$ 83,856,449</u>
		(1)	(2)	
(1) Charged to Depreciation Expense - VEA		\$ 6,270,793		
Charged to Depreciation Expense - VETA		1,343,676		
Charged to Depreciation Expense - VCA		4,408,852		
Charged to Clearing Accounts		<u>922,190</u>		
		<u>\$ 12,945,511</u>		
(2) Cost of Units Retired			\$ 2,430,454	
Removal Costs Less than Salvage and Other Credits			<u>604,853</u>	
Loss Due to Retirement			<u>\$ 3,035,307</u>	

VALLEY ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

Schedule 9

OTHER PROPERTY AND INVESTMENTS
DECEMBER 31, 2018 AND 2017

	December 31,	
	<u>2018</u>	<u>2017</u>
INVESTMENTS IN ASSOCIATED ORGANIZATIONS		
VALLEY ELECTRIC ASSOCIATION, INC.		
Patronage Capital		
CFC	\$ 2,767,439	\$ 2,554,696
Federated Rural Insurance	380,163	341,689
NRTC	154,945	151,285
Capital Term Certificates		
CFC	1,031,003	1,036,497
Other Investments	<u>412,408</u>	<u>230,096</u>
Total Other Property and Investments	<u>\$ 4,745,958</u>	<u>\$ 4,314,263</u>
VETA		
Patronage Capital		
CFC	\$ 1,608,754	\$ 1,451,286
Capital Term Certificates		
CFC	423,674	662,292
Memberships		
CFC	<u>1,000</u>	<u>1,000</u>
Total Investments in Associated Organizations	<u>\$ 2,033,428</u>	<u>\$ 2,114,578</u>
Total Investments in Associated Organizations	<u>\$ 6,779,386</u>	<u>\$ 6,428,841</u>
OTHER INVESTMENTS		
Notes Receivable	\$ 1,508,685	\$ 1,818,388
Less: Current Portion of Notes Receivable	<u>(206,121)</u>	<u>(219,250)</u>
Total Other Investments	<u>\$ 1,302,564</u>	<u>\$ 1,599,138</u>
OTHER SPECIAL FUNDS	<u>\$ 0</u>	<u>\$ 30,012,493</u>

VALLEY ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

Schedule 10

PATRONAGE CAPITAL
DECEMBER 31, 2018

Year	Assignable	Assigned	Retired and Discounted	Balance
1990	\$	\$ 1,074,965	\$ 1,074,965	\$
1991		2,226,340	1,823,729	402,611
1992		1,261,128	90,032	1,171,096
1993		3,036,798	185,225	2,851,573
1994		3,458,445	194,018	3,264,427
1995		1,081,638	56,072	1,025,566
1996		3,012,425	233,860	2,778,565
1997		3,595,236	278,523	3,316,713
1998		3,333,942	281,680	3,052,262
1999		3,084,246	265,026	2,819,220
2000		4,525,659	349,054	4,176,605
2001		4,701,607	359,099	4,342,508
2002		8,135,054	542,206	7,592,848
2003		6,156,471	468,463	5,688,008
2004		6,606,721	463,217	6,143,504
2005				
2006		9,571,121	581,179	8,989,942
2007		9,348,490	599,531	8,748,959
2008		6,392,438	488,393	5,904,045
2009				
2010		8,447,999	1,063,173	7,384,826
2011		10,498,517	1,112,925	9,385,592
2012				
2013		6,253,267	794,480	5,458,787
2014		12,459,141	756,210	11,702,931
2015		10,710,427	788,551	9,921,876
2016		14,043,957	879,969	13,163,988
2017	89,783	2,386,010	903	2,474,890
2018				
	\$ <u>89,783</u>	\$ <u>145,402,042</u>	\$ <u>13,730,483</u>	\$ <u>131,761,342</u>

Year 2005, 2009, 2012 and 2018 reflected a nonassignable loss.

VALLEY ELECTRIC ASSOCIATION, INC.

Schedule 11

FIVE YEAR COMPARATIVE DATA

Financial Data	Years Ended				
	2018	2017	2016	2015	2014
OPERATING REVENUES					
Residential	\$ 35,597,394	\$ 33,985,908	\$ 35,028,923	\$ 32,447,943	\$ 31,450,539
Irrigation	3,363,561	3,220,637	3,343,623	2,959,235	3,352,232
Commercial and Industrial	22,114,751	21,441,661	21,709,589	19,884,962	19,647,669
Public Street and Highway Lighting	40,694	40,567	42,368	41,307	39,275
Other Operating Revenues	10,466,942	5,660,221	2,559,814	2,540,163	1,943,973
Total Operating Revenues	<u>\$ 71,583,342</u>	<u>\$ 64,348,994</u>	<u>\$ 62,684,317</u>	<u>\$ 57,873,610</u>	<u>\$ 56,433,688</u>
OPERATING EXPENSES					
Cost of Purchased Power	\$ 61,694,639	\$ 21,856,144	\$ 22,422,801	\$ 24,240,153	\$ 23,543,262
Transmission Expense	6,004,902	5,217,579	6,623,254	6,111,283	5,108,513
Distribution - Operation	11,968,624	10,047,988	6,373,184	5,049,099	5,140,132
Distribution - Maintenance	3,751,867	3,275,140	2,827,811	2,978,232	2,633,801
Customer Accounts Expense	2,910,959	3,176,120	2,487,240	2,054,473	2,077,963
Customer Service and Information	916,089	685,676	477,456	499,642	389,361
Sales Expense	1,435,793	1,841,278	1,719,343	1,063,837	1,166,590
Administrative and General Expense	9,188,313	10,139,367	7,546,547	4,154,179	3,513,112
Depreciation and Amortization	6,351,953	9,550,442	6,107,980	4,718,702	4,315,787
Other Interest	10,998	4,040	2,650	451	741
Other Deductions	170,210	216,607	335,111	159,738	266,440
Total Operating Expenses	<u>\$ 104,404,347</u>	<u>\$ 66,010,381</u>	<u>\$ 56,923,377</u>	<u>\$ 51,029,789</u>	<u>\$ 48,155,702</u>
OPERATING MARGINS (LOSS) - Before Fixed Charges					
	\$ (32,821,005)	\$ (1,661,387)	\$ 5,760,940	\$ 6,843,821	\$ 8,277,986
FIXED CHARGES					
Interest on Long-Term Debt	<u>7,180,692</u>	<u>7,322,886</u>	<u>5,857,340</u>	<u>5,238,467</u>	<u>4,447,160</u>
OPERATING MARGINS (LOSS) - After Fixed Charges					
	\$ (40,001,697)	\$ (8,984,273)	\$ (96,400)	\$ 1,605,354	\$ 3,830,826
Capital Credits	<u>1,104,551</u>	<u>675,223</u>	<u>523,824</u>	<u>504,361</u>	<u>386,086</u>
NET OPERATING MARGINS (LOSS)	<u>\$ (38,897,146)</u>	<u>\$ (8,309,050)</u>	<u>\$ 427,424</u>	<u>\$ 2,109,715</u>	<u>\$ 4,216,912</u>
NONOPERATING MARGINS					
Interest Income and Other Income (Loss)	<u>\$ 24,714,631</u>	<u>\$ 68,791,937</u>	<u>\$ 217,072</u>	<u>\$ (49,299)</u>	<u>\$ 355,560</u>
NET MARGINS (LOSS) - EXCLUDING COMPREHENSIVE INCOME (LOSS)	<u>\$ (14,182,515)</u>	<u>\$ 60,482,887</u>	<u>\$ 644,496</u>	<u>\$ 2,060,416</u>	<u>\$ 4,572,472</u>
Miscellaneous Statistics					
Consumers at End of Year	22,241	21,900	21,531	21,290	20,906
MWH Sales	559,649	536,051	528,834	507,788	499,721
MWH Purchases	579,514	560,111	557,466	540,187	533,278
Cost in cents per KWH Purchased	10.60	4.80	5.20	5.60	5.40
Times Interest Earned Ratio	(0.98)	9.26	1.11	1.40	2.03
Modified Debt Service Coverage	2.13	6.67	1.35	1.34	1.64
Equity to Total Assets	27.25	26.78	18.04	19.47	20.26
Line Loss %	3.43	4.30	5.14	6.00	6.30

COMPLIANCE SECTION