



# POWER ON

**PEDERNALES ELECTRIC  
COOPERATIVE  
2021 ANNUAL REPORT**



## A MESSAGE FROM EMILY PATAKI PRESIDENT, PEC BOARD OF DIRECTORS

Years from now, I believe we will look back on 2021 as a transformational year for our cooperative. In ways both similar and vastly dissimilar to years before, PEC faced great challenges to our mission. The demands of explosive growth and the disruption caused by Winter Storm Uri were both examples of extraordinary events that required enhanced adaptability, and we responded to both with the strength and resiliency you have come to expect from us these past 84 years.

Unsurprisingly, the record-breaking growth in Central Texas continued in 2021. We added more meters and welcomed more new members into the cooperative than ever before. This growth fueled our building and planning efforts, which were focused on equipping our systems to handle the needs of our current and future members. We finished the year with over 367,000 active meters and are on track to hit half a million meters by the end of the decade.

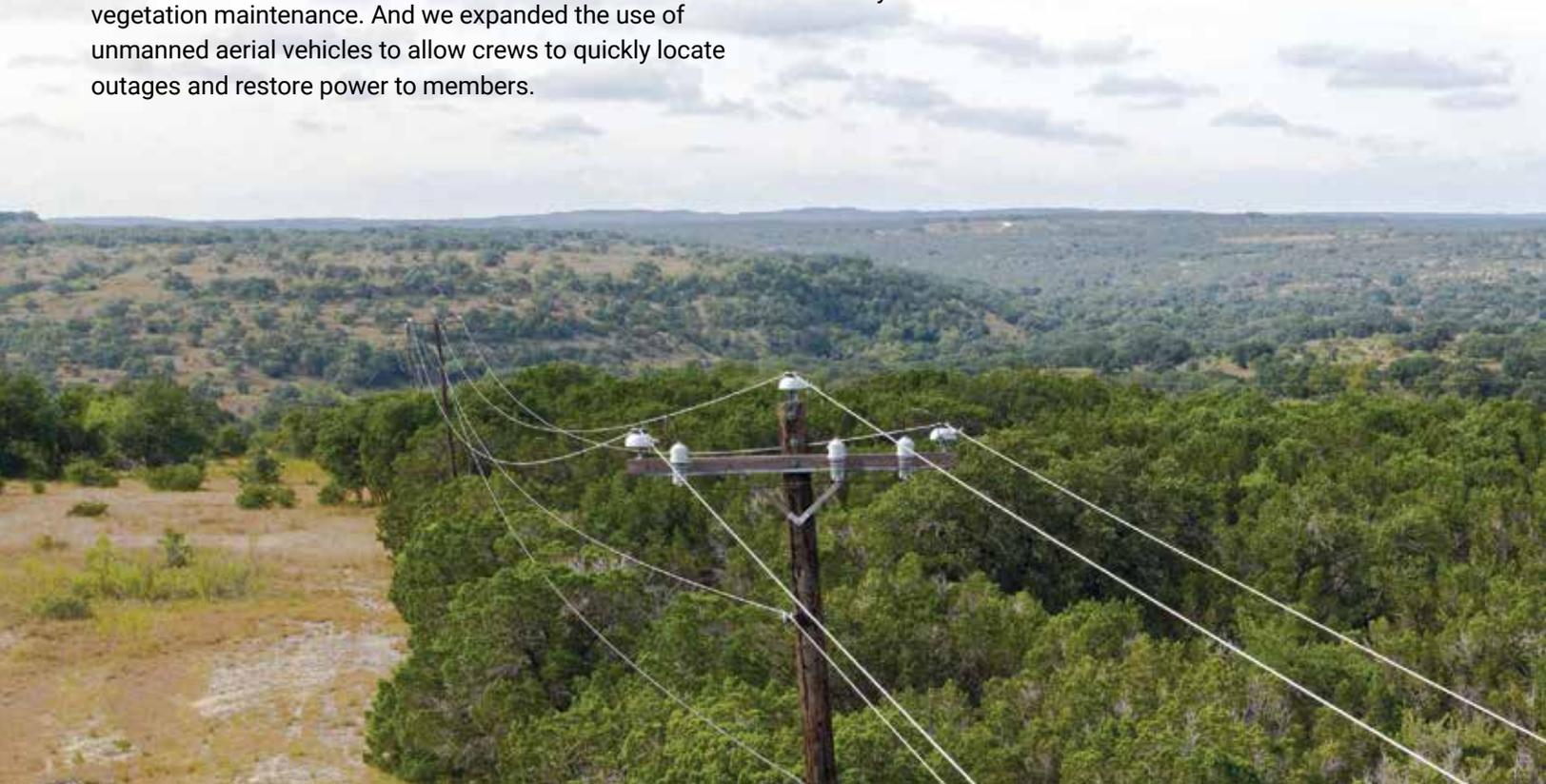
Growing faster necessitates growing smarter. To that end, the PEC Board adopted a new strategic plan in early 2021 that focuses on adaptability, increased efficiencies throughout the cooperative, and the incorporation of new technologies. In keeping with these themes, we began deploying advanced metering infrastructure that automatically detects outages and reduces maintenance costs. We implemented new software that uses satellite and enhanced laser technology to support targeted vegetation maintenance. And we expanded the use of unmanned aerial vehicles to allow crews to quickly locate outages and restore power to members.

Funding monumental growth for an electric distribution system can be costly. Fortunately for members, the board approved a bond offering in early 2021 of \$150 million that locked in interest rates at 2.99% for 30 years. This well-timed and well-prepared offering, put together by PEC's exceptional finance team, has already saved our members over \$4 million and protected the cooperative from significant negative financial impacts resulting from Uri. Most importantly, we maintained our crucial credit rating of AA-, which will allow us to achieve some of the most competitive financing available in the years ahead.

During the historic winter storm and throughout 2021, PEC employees demonstrated once again their absolute commitment to the membership. In October, our lineworkers delivered an incredible performance at the International Lineman's Rodeo competition. In the cooperative divisions, PEC journeyworker teams won first and second, and individual apprentices won the top three places. At PEC we aim to hire, train, and retain the best talent in Texas, and our corps of lineworkers represent that mission well.

As we continue into 2022, it is my distinct privilege to report to the membership that your cooperative is healthier than ever. PEC is financially strong. Our reliability is industry-leading. And our dynamic executive leadership, supported by some of the hardest working men and women in Texas, is charting a course of excellence for the future.

Thank you!



## A MESSAGE FROM JULIE C. PARSLEY, PEC CEO

Each year I like to take the opportunity to reflect on the work we have done so we can approach the future with a renewed focus. This year, maybe more than any since I've been with the cooperative, I believe we have turned a corner and are moving into a new era. As we've learned safe ways to work around COVID-19, we've welcomed members and employees back to the offices and reestablished a sense of community I know we all have missed.

With Winter Storm Uri in our rearview mirror, I know our members can feel confident that PEC has prepared for potential future emergencies. With new state-of-the-art software, crews can see exactly how far away trees are from our power lines, which means we can trim where it's needed. And by adding more unmanned aerial vehicles in 2021, our crews have a bird's eye view of our system. These important new tools and technology will help us better serve our growing membership, improve reliability, and save money for members. We really are stronger than ever.

In 2021, the PEC Board of Directors took a sustainable approach to maintaining our finances in a way that is equitable to all members. These decisions are not always

easy, but the equitable application of rates will continue to ensure the most fair and stable rates possible for our members into the future.

Serving and supporting our communities is the foundation of our values as a cooperative. In May, PEC launched our free, online summer camp for kids K-3, Camp Save-a-Watt. This program provides an exciting way for our youngest members to learn about energy conservation. As part of our Cooperative Lighting Program, we've also begun upgrading street and area lights across our service territory to make them more energy efficient and dark-sky friendly. It's an honor to work alongside so many who are passionate about caring for our communities.

More than four years ago, I came to PEC with two goals in mind: to create stability as a business for our members and to continue building on our strong culture among employees. Like you, I had no way of knowing we would be facing some of the biggest challenges in the cooperative's history together. I'm proud of how far we've come, and more excited than ever about the promise of the future.

Important initiatives underway are emblematic of PEC's trajectory, as we move onward and upward into a bright new future.

Thank you!



Board President  
Emily Pataki (left) and  
CEO Julie C. Parsley ▶

# WINTER STORM URI

**FEB. 11**

Approximately 18,000 weather-related outages hit PEC members with the arrival of ice, snow, and freezing temperatures. Soon, temperatures fall to single digits, colder than Anchorage, Alaska.

Lineworkers work around the clock in extended shifts, facing treacherous conditions.

**FEB. 15**

Shortly after 1 a.m., ERCOT orders electric companies like PEC across the state to begin controlled outages to homes and businesses to prevent the Texas electric grid from being overwhelmed, which would cause a complete failure of the energy grid.

## PEC PREPARES



An after-action review of the cooperative's operations during the emergency was performed to identify areas of success and opportunities of improvement.

Most system outages were due to falling trees and limbs. PEC has utilized new software that has made the identification of areas in need of maintenance much more efficient, reducing the potential impact in future storms.



We always do our best to keep the lights on for PEC members, but when severe weather strikes, power outages may be inevitable. We want to ensure members are prepared as best as possible.

PEC launched a one-way text alert service, which means we can message members during an emergency, including prolonged power interruptions and controlled outages. More important outage information is available at [pec.coop/outages](http://pec.coop/outages).



We launched an updated outage map, which allows members to search in real-time for their address to see if their outage is registered, the status, and the estimated time of restoration if one is available.

The intuitive design makes it easier for members to see if their location is included in a registered outage. Areas experiencing a service interruption are shown inside of a polygon on the map.



PEC created new emergency operations protocols that strengthen communications across the cooperative during controlled outages and help to better identify individual outages.

We've also implemented new technology to simulate events and practice these scenarios to be as prepared as possible for future events.



**FEB. 16**

Temperatures fall to 40 degrees below normal. Outages peak in the morning with over 170,000 meters offline, 90% from ERCOT-mandated controlled outages.

**FEB. 17**

ERCOT stops controlled outages at the very end of the day, allowing PEC crews to respond to weather-related outages more effectively. Within hours, PEC crews have outages restored to normal levels, with 98% of members online.

**FEB. 23**

The Texas State Senate adopts Senate Resolution 85 to honor the frontline workers who responded admirably to the winter storm that caused millions of Texans to lose power.

The catastrophic winter storm of February 2021 brought unprecedented challenges for PEC, our members, and the statewide electric grid, but we're proud of the work we've done to prepare, and we're ready to power on into the future. Thank you to our members for weathering the storm with us!

PEC was fortunate to have built a strong financial position before the storm and to have strong leadership to see us through the aftermath. We were able to address the crisis while minimizing the impact to our members, and to preserve the financial stability of the cooperative into the future.

We also know that despite all the challenges, PEC employees acted heroically in service of our members. Lineworker crews left their families to brave terrible conditions. Member Relations agents came into offices so every troubled phone call would find a friendly voice on the other end. And Control Center operators were often unable to return home to their families at the end of a long shift due to road conditions.

"The hardship caused by the storm was not taken lightly, because we serve our friends, our families, and our communities," CEO Julie C. Parsley said. "We're grateful to our members for sticking with us."



PEC lineworkers Brandon Grudle and Jose Urbina ▶



## YOUR CO-OP, OUR COMMUNITY

As a cooperative, concern for community is woven into the fabric of our work.



In 2021, community and member support totaled nearly half a million dollars!

With the help of generous members who round their bills to the nearest dollar, we provided more than \$58,000 to 15 nonprofits in PEC Community Grants in 2021 through our Power of Change Program — the most ever! These funds strengthen our communities by helping area nonprofits fulfill their important missions. From volunteer fire departments to food banks, to animal rescues and care for children with special needs, these organizations represent the best in giving back.

PEC invested in the future of our communities by awarding 35 scholarships to local high school seniors. And for the first time, we awarded four scholarships to adults seeking to further their educations. These 39 scholarships totaled \$100,000 and were funded by unclaimed property funds.

Our culture of giving also thrives among employees, who together with PEC donated more than \$288,000 to 244 charities. Most of the recipients are in Central Texas and include children's hospitals, scholarship funds, food banks, and other nonprofits.

Employees donated more than 5,000 school supplies for area classrooms and more than 360 toys for holiday toy drives. Plus, the cooperative used additional unclaimed property funds to give \$24,000 to education foundations across our service territory, creating a brighter future for Central Texas' youth. And in May, PEC launched our free, online summer camp for kids K-3. Camp Save-a-Watt is an exciting way for the cooperative's youngest members to learn about energy conservation.

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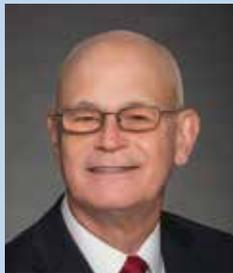
Thank you to our members and employees, without whom we would not have been able to accomplish so much for our communities in 2021!

## PEC BOARD OF DIRECTORS

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**Emily Pataki**  
President &  
District 2 Director



**Milton Rister**  
Vice President &  
District 1 Director



**Mark Ekrut**  
Secretary-Treasurer &  
District 3 Director



**Travis Cox**  
District 4 Director



**James Oakley**  
District 5 Director



**Paul Graf**  
District 6 Director

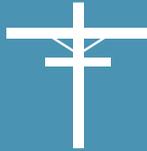


**Amy Lea SJ Akers**  
District 7 Director

## 2021 PEC AT A GLANCE



Member accounts grew to over 367,000, adding an average of 1,550 meters per month — a new record.



We built 586 miles of new line, enough to reach from Austin to El Paso.



\$5.3 million in capital credits returned to members.



Seven International Lineman's Rodeo trophies.



Four National Rural Electric Cooperative Association (NRECA) Spotlight on Excellence awards.



One successful year operating the PEC Safety and Technical Training Center, where PEC is building and training the next generation of lineworkers.

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For over 80 years, we have been proud to serve our members, power the Texas Hill Country, and empower our communities.

As a PEC member, you are an owner of this organization, its history, and its future.

**PEDERNALES ELECTRIC COOPERATIVE, INC.**

**FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

**AND**

**REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

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

**CERTIFIED PUBLIC ACCOUNTANTS**

**LUBBOCK, TEXAS**

**PEDERNALES ELECTRIC COOPERATIVE, INC.**

**FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

**AND**

**REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

**PEDERNALES ELECTRIC COOPERATIVE, INC.**  
**FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

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

**CERTIFIED PUBLIC ACCOUNTANTS**

**PHONE: (806) 747-3806**

**FAX: (806) 747-3815**

**8215 NASHVILLE AVENUE**

**LUBBOCK, TEXAS 79423-1954**

**Independent Auditor's Report**

Board of Directors  
Pedernales Electric Cooperative, Inc.  
Johnson City, Texas

**Opinion**

We have audited the financial statements of Pedernales Electric Cooperative, Inc., which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of income and patronage capital, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Pedernales Electric Cooperative, Inc. as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Pedernales Electric Cooperative, Inc. (the Cooperative) and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Cooperative's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

In performing an audit in accordance with GAAS we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Cooperative's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

## **State Financial Assistance Section**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Cooperative's basic financial statements. The accompanying schedule of expenditures of state awards, as required by the Uniform Grant Management Standards as issued by the State of Texas (UGMS), is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements.

The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the state financial assistance section information is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Bolinger, Segars, Gilbert & Moss LLP*

Certified Public Accountants

Lubbock, Texas

March 31, 2022

## PEDERNALES ELECTRIC COOPERATIVE, INC.

BALANCE SHEETS  
DECEMBER 31, 2021 AND 2020

## ASSETS

	2021	2020
UTILITY PLANT AT COST		
Utility Plant in Service	\$ 2,060,478,279	\$ 1,964,123,047
Construction Work in Progress	120,732,900	113,548,694
	<u>\$ 2,181,211,179</u>	<u>\$ 2,077,671,741</u>
Less: Accumulated Provision for Depreciation	354,965,981	344,116,472
	<u>\$ 1,826,245,198</u>	<u>\$ 1,733,555,269</u>
OTHER PROPERTY AND INVESTMENTS - AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 16,879,801	\$ 16,002,062
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 9,038,687	\$ 11,458,857
Accounts Receivable - Energy (Less allowance for uncollectibles of \$430,143 in 2021 and \$1,007,841 in 2020)	23,023,437	22,601,860
Accounts Receivable - Other (Less allowance for uncollectibles of \$400,514 in 2021 and \$308,000 in 2020)	2,393,231	2,382,669
Power Cost Adjustment Under-Recovered	55,531,970	
Accrued Unbilled Revenue	19,481,723	22,235,356
Materials and Supplies Inventory	29,608,981	21,235,224
Other Current and Accrued Assets	3,494,668	4,692,519
Total Current Assets	<u>\$ 142,572,697</u>	<u>\$ 84,606,485</u>
DEFERRED CHARGES AND OTHER ASSETS	\$ 44,172,488	\$ 69,713,560
TOTAL ASSETS	<u>\$ 2,029,870,184</u>	<u>\$ 1,903,877,376</u>

## EQUITIES AND LIABILITIES

EQUITIES		
Memberships	\$ 15,184,321	\$ 14,287,737
Patronage Capital	433,310,509	440,222,950
Other Equities	342,505,338	308,320,339
Total Equities	<u>\$ 791,000,168</u>	<u>\$ 762,831,026</u>
LONG-TERM DEBT		
Mortgage Bonds Less Current Maturities and Issuance Costs	\$ 350,895,520	\$ 253,017,989
CFC Mortgage Notes Less Current Maturities	437,328,890	449,346,592
Chase Notes Less Current Maturities		1,950,000
CoBank Notes Less Current Maturities	23,346,006	24,017,347
NYL Note Less Current Maturities	70,000,000	72,500,000
Capital Lease Obligations Less Current Maturities	3,140,889	849,643
Commercial Paper	101,996,940	
Line of Credit to be Refinanced	5,544,667	2,737,564
Total Long-Term Debt	<u>\$ 992,252,912</u>	<u>\$ 804,419,135</u>
ACCUMULATED PROVISION FOR PENSIONS AND BENEFITS	\$ 60,688,933	\$ 88,942,271
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 35,592,389	\$ 34,357,932
Current Maturities of Capital Lease Obligations	1,031,522	315,198
Current Portion of Accumulated Provision for Pensions and Benefits	1,623,793	1,764,010
Purchased Power - Payable and Accrued	30,209,602	32,751,586
Accounts Payable - Other	33,717,914	21,970,552
Power Cost Adjustments - Over-Recovered		76,455,353
Tax Payable	12,106,081	10,295,591
Interest Payable	4,696,891	3,748,757
Member Deposits	5,401,795	4,194,751
Other Current and Accrued Liabilities	17,507,389	15,136,997
Total Current Liabilities	<u>\$ 141,887,376</u>	<u>\$ 200,990,727</u>
DEFERRED CREDITS	\$ 44,040,795	\$ 46,694,217
TOTAL EQUITIES AND LIABILITIES	<u>\$ 2,029,870,184</u>	<u>\$ 1,903,877,376</u>

See accompanying notes to financial statements.

**PEDERNALES ELECTRIC COOPERATIVE, INC.**

**STATEMENTS OF INCOME AND PATRONAGE CAPITAL  
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
<b>OPERATING REVENUES</b>		
Residential	\$ 496,932,821	\$ 476,274,796
Small and Large Power	165,092,379	157,705,711
Power Cost Adjustment	131,043,454	(19,711,870)
Other Revenues	34,285,115	28,790,711
Total Operating Revenues	<u>\$ 827,353,769</u>	<u>\$ 643,059,348</u>
<b>OPERATING EXPENSES</b>		
Purchased Power	\$ 518,792,868	\$ 356,869,021
Transmission - Operation	3,006,720	2,592,190
Transmission - Maintenance	1,880,838	3,180,963
Distribution - Operation	53,849,443	46,398,901
Distribution - Maintenance	32,639,173	31,701,120
Consumer Accounts	30,335,812	29,386,320
Customer Service and Information	4,262,401	4,143,029
Administrative and General	30,668,617	28,838,902
Depreciation	82,171,010	69,664,300
Taxes	1,354,268	1,034,014
Other Interest	1,199,006	1,122,354
Other Deductions	26,553	123,891
Total Operating Expenses	<u>\$ 760,186,709</u>	<u>\$ 575,055,005</u>
<b>OPERATING MARGINS - Before Fixed Charges</b>	<u>\$ 67,167,060</u>	<u>\$ 68,004,343</u>
<b>FIXED CHARGES</b>		
Interest and Amortization on Long-Term Debt	<u>\$ 37,240,069</u>	<u>\$ 37,268,985</u>
<b>OPERATING MARGINS - After Fixed Charges</b>	<u>\$ 29,926,991</u>	<u>\$ 30,735,358</u>
Capital Credits	<u>2,443,736</u>	<u>2,220,243</u>
<b>NET OPERATING MARGINS</b>	<u>\$ 32,370,727</u>	<u>\$ 32,955,601</u>
<b>NON-OPERATING MARGINS</b>		
Interest and Dividend Income	\$ 155,844	\$ 157,575
Utility Non-Operating Income		279,862
Miscellaneous Non-Operating Income	204,150	256,268
Disposal of Assets	258,191	151,286
	<u>\$ 618,185</u>	<u>\$ 844,991</u>
<b>NET MARGINS</b>	<u>\$ 32,988,912</u>	<u>\$ 33,800,592</u>
<b>PATRONAGE CAPITAL - BEGINNING OF YEAR</b>	440,222,950	466,276,144
Patronage Capital Retired	(5,716,354)	(6,281,179)
Transfers to Other Equities	<u>(34,184,999)</u>	<u>(53,572,607)</u>
<b>PATRONAGE CAPITAL - END OF YEAR</b>	<u><u>\$ 433,310,509</u></u>	<u><u>\$ 440,222,950</u></u>

See accompanying notes to financial statements.

**PEDERNALES ELECTRIC COOPERATIVE, INC.**

**STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Margins	\$ 32,988,912	\$ 33,800,592
Adjustments to Reconcile Net Margins to Net Cash From Non-Cash Operating Activities		
Depreciation and Amortization Charged to Expense	91,326,779	69,929,440
Capital Credits	(2,443,736)	(2,220,243)
Non-Cash Pension Expense	3,522,790	4,529,929
Payments on Pension Plans	(7,666,467)	(8,059,163)
Changes in Assets and Liabilities:		
Accounts Receivable - Net	2,321,494	1,119,826
Accounts Payable	9,152,248	(7,878,078)
Power Cost Adjustments	(131,987,323)	36,445,568
Materials & Supplies	(8,373,757)	(3,313,513)
Other Assets and Liabilities	2,206,015	(1,140,569)
Net Cash From Operating Activities	<u>\$ (8,953,045)</u>	<u>\$ 123,213,789</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net Additions to Property, Plant & Equipment	\$ (167,131,491)	\$ (152,532,468)
Capital Credit Retirements from Associated Organizations	1,565,997	1,071,526
Net Cash From Investing Activities	<u>\$ (165,565,494)</u>	<u>\$ (151,460,942)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on Long-Term Debt	\$ (27,031,426)	\$ (49,132,234)
Advances on Long-Term Debt	99,145,522	98,981,541
Net Activity on Commercial Paper	101,996,940	
Net Activity on Line of Credit	2,807,103	(5,462,436)
Retirement of Patronage Capital	(5,716,354)	(6,281,179)
Increase in Memberships - Net	896,584	831,550
Net Cash From Financing Activities	<u>\$ 172,098,369</u>	<u>\$ 38,937,242</u>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	\$ (2,420,170)	\$ 10,690,089
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>11,458,857</u>	<u>768,768</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 9,038,687</u>	<u>\$ 11,458,857</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash Paid During the Year for:		
Interest on Long-Term Debt	\$ 27,112,200	\$ 36,295,461
Patronage Capital Retired by Non-Cash Discounting	\$ 33,566,814	\$ 53,263,746
Assets Obtained through Capital Leases	\$ 3,710,650	\$ 1,221,091
Bond Defeasance and Bond Issuance	\$ 302,411,141	\$ 0

See accompanying notes to financial statements.

**PEDERNALES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**1. Nature of Operations and Summary of Significant Accounting Policies**

Nature of Operations

Pedernales Electric Cooperative, Inc. (the Cooperative) is a non-profit corporation organized to provide electric service at the retail level to primarily residential and commercial accounts in a designated service area. As of December 31, 2021, the Cooperative served 367,289 meters.

Power delivered at retail is purchased wholesale from the Lower Colorado River Authority (LCRA) and other third-party wholesale power suppliers. Any revenues earned in excess of costs incurred are allocated to members of the Cooperative and are reflected as patronage capital on the balance sheet.

Regulatory Accounting

The Cooperative utilizes the Uniform System of Accounts established by the Rural Utilities Service (RUS). In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 980, Regulated Operations, the Cooperative records certain assets and liabilities in accordance with the economic effects of the rate making process. See Notes 6 and 10 for a description of the most significant amounts accounted for under this standard.

Utility Plant

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.

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.

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash and short term investments are considered cash and cash equivalents.

Accounts Receivable

In the normal course of business, the Cooperative recognizes accounts receivable for energy delivered and billed. The Cooperative provides a statement with a due date that will not be less than 16 days after the statement date. Payments not received by the due date are considered delinquent.

**PEDERNALES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

The Cooperative provides an allowance for uncollectible accounts to recognize the portion of receivables considered uncollectible. The allowance is estimated based on historical trends, aging of receivables, and a review of potential bad debts. Accounts remaining unpaid 120 days after the due date of the final bill are written off.

Materials and Supplies Inventory

Materials and supplies inventories are valued at average unit cost.

Electric Revenues from Contracts with Customers

Substantially all operating revenues and customer accounts receivables are derived from contracts with customers. Performance obligations related to the sale of energy are satisfied as energy is delivered to customers. The Cooperative recognizes electric revenue that corresponds to the price of the energy delivered to the customer. The measurement of energy sales to customers is generally based on the reading of their meters, which occurs on a systematic basis throughout the month. At the end of each month, amounts of energy delivered to customers since the date of the last meter reading are estimated, and the corresponding unbilled revenue is recognized. The Cooperative has calculated that its unbilled revenue for delivered power usage which has not been billed to customers at December 31, 2021 and 2020 amounted to \$19,481,723 and \$22,235,536, respectively.

The Cooperative does not recognize a separate financing component of its collections from customers as contract terms are short-term in nature. The Cooperative presents its revenues net of any excise taxes, sales taxes or fees.

The Cooperative's tariffs for electric service include adjustment clauses under which billings to customers are adjusted to reflect changes in the cost of purchased power. In order to match power cost and related revenues, over collected power cost to be credited to consumers in subsequent periods is recognized as a current liability and as a reduction of operating revenues on the statement of income and patronage capital. The Cooperative had under collected power costs of \$55,531,970 as of December 31, 2021 and over collected power costs of \$76,455,353 as of December 31, 2020.

Federal Income Taxes

The Cooperative is exempt from federal income taxes under Section 501(c)(12) of the Internal Revenue Code. More than 85% of the gross income is collected from members.

The Cooperative follows the "uncertain tax positions" provisions of accounting principles generally accepted in the United States of America. The primary tax position of the Cooperative is its filing status as a tax exempt entity. The Cooperative determined that it is more likely than not that its tax positions will be sustained upon examination by the Internal Revenue Service (IRS) and that all tax benefits are likely to be realized upon settlement with taxing authorities.

The Cooperative files income tax returns in the U.S. federal jurisdiction. The Cooperative is no longer subject to examinations by federal taxing authorities for years before 2018. In 2021 and 2020, the Cooperative did not incur tax related interest or penalties.

**PEDERNALES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

Group Concentration of Credit Risk

The headquarters of the Cooperative is located in Johnson City, Texas. The service area extends into 24 counties in the Central Texas region. The Cooperative records a receivable for electric revenues as billed on a monthly basis. The Cooperative may require a deposit from new members upon connection, which is applied to unpaid bills and fees in the event of default. The deposit accrues interest annually and is returned to residential accounts along with accrued interest after one year of prompt payments. As of December 31, 2021 and 2020, deposits on hand totaled \$5,401,795 and \$4,194,751, respectively.

The Cooperative maintains its cash balances in institutions insured by the Federal Deposit Insurance Corporation (FDIC). The cash balances exceeded applicable insurance coverage at times during 2021 and 2020.

Patronage Capital Certificates

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

Pension Benefit Plans and Other Post-Retirement Benefits

The Cooperative has a defined benefit pension plan for employees meeting eligibility requirements. This plan was amended to close entry to new participants after January 1, 2006. The benefit is based on years of service and the average of the employee's highest 36 months of compensation. The Cooperative also has a defined contribution 401(k) plan for employees eligible to participate.

The Cooperative sponsors a health care plan for retirees who satisfy eligibility requirements. This plan was amended to close entry to new participants after July 1, 2005 and was amended in 2018 to close entry to new retired participants not currently receiving benefits under the plan. The cost of the Cooperative's obligation is actuarially determined based on certain weighted-average assumptions.

Use of Estimates in the Preparation of Financial Statements

The preparation of 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Comparative Financial Information

Certain amounts in the prior period financial statements have been reclassified in order to conform with the current period presentation.

**2. Assets Pledged**

Substantially all assets are pledged as security for the long-term debt due through the various lenders.

**PEDERNALES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**3. Utility Plant**

The major classes of utility plant are as follows:

	<u>2021</u>	<u>2020</u>
Transmission Plant	\$ 171,319,539	\$ 145,226,037
Distribution Plant	1,662,917,595	1,601,795,587
General Plant	<u>226,241,145</u>	<u>217,101,423</u>
Total Utility Plant in Service	\$ 2,060,478,279	\$ 1,964,123,047
Construction Work in Progress	<u>120,732,900</u>	<u>113,548,694</u>
Total Utility Plant	<u><u>\$ 2,181,211,179</u></u>	<u><u>\$ 2,077,671,741</u></u>

Provision for depreciation of utility plant is computed using straight-line rates as follows:

	<u>2021</u>	<u>2020</u>
Transmission Plant	1.57% - 10.00%	1.57% - 10.00%
Distribution Plant	1.75% - 20.00%	1.75% - 20.00%
General Plant	1.75% - 20.00%	2.00% - 20.00%

Depreciation for the years ended December 31, 2021 and 2020 was \$82,171,010 and \$69,664,300, respectively. During 2021, the Cooperative started replacing the majority of their meters with newer advanced metering infrastructure (AMI) meters. The Cooperative accelerated depreciation on these older meters during the year, which added \$7,856,968 to depreciation expense for the year ended December 31, 2021. The Cooperative is also in the process of transferring all of their lighting structures to a third party that is going to replace with newer lighting and lease back to the Cooperative at the end of 2022. The Cooperative accelerated depreciation on these lighting fixtures during the year, which added \$4,040,495 to depreciation expense for the year ended December 31, 2021.

**4. Investments in Associated Organizations**

Investments in associated organizations consisted of:

	<u>2021</u>	<u>2020</u>
CFC		
Capital Term Certificates	\$ 4,813,296	\$ 4,813,296
Patronage Capital	7,408,748	6,800,675
Texas Electric Cooperative		
Patronage Capital	3,664,978	3,618,728
Other	<u>992,779</u>	<u>769,363</u>
	<u><u>\$ 16,879,801</u></u>	<u><u>\$ 16,002,062</u></u>

**PEDERNALES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**5. Materials and Supplies Inventory**

Materials and supplies inventories consist of construction materials and supplies. The ending balances for materials and supplies at December 31, 2021 and 2020 were \$29,608,981 and \$21,235,224, respectively.

**6. Deferred Charges and Other Assets**

Deferred charges and other assets included the following:

	<u>2021</u>	<u>2020</u>
Defined Benefit Plan (See Note 12)	\$ 44,172,488	\$ 69,713,560
	<u>\$ 44,172,488</u>	<u>\$ 69,713,560</u>

The Cooperative recognizes a deferred charge for the portion of its pension and other post-retirement benefit plans that has not been recognized as a component of net periodic pension and other post-retirement benefit costs. Accordingly, no amounts have been recorded in other comprehensive income. The unrecognized portion is being amortized into pension and other post-retirement benefit costs over the average future service of current active plan participants expected to receive benefits.

**7. Patronage Capital and Other Equities**

Patronage capital represents the Cooperative's accumulated retained net margins that have been allocated annually to its members. Distributions to members are made at the discretion of the Board of Directors in accordance with the bylaws, subject to the covenants contained in the long-term debt agreements.

The loan agreements contain provisions that must be met for the Cooperative to make patronage capital retirements. These provisions include maintaining debt service coverage ratios with the various lenders. The Cooperative is in compliance with these provisions at December 31, 2021 and 2020.

Under certain circumstances, the Board of Directors may choose to retire patronage capital earlier than the Cooperative's current approximate 30 year retirement schedule. In these instances, the Cooperative retires and pays the net present value of patronage capital to a member or former member before the time the Cooperative anticipates normally retiring and paying patronage capital.

Patronage capital totaling \$5,716,354 and \$6,281,179 was distributed to members during 2021 and 2020, respectively.

**PEDERNALES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

Patronage capital assigned and assignable at December 31, 2021 and 2020, is as follows:

	<u>2021</u>	<u>2020</u>
Assigned to Date	\$ 860,950,054	\$ 823,699,642
Assignable	<u>54,605,833</u>	<u>59,485,519</u>
	\$ 915,555,887	\$ 883,185,161
Less: Retirements to Date	141,822,123	136,105,769
Less: Discounted Patronage Capital to Permanent Equity	<u>340,423,255</u>	<u>306,856,442</u>
	<u>\$ 433,310,509</u>	<u>\$ 440,222,950</u>

The Cooperative's bylaws provide that amounts received by the Cooperative in excess of costs and expenses shall, insofar as permitted by law, (a) be used to offset any losses incurred during the current or any prior fiscal year and, (b) to the extent not needed for that purpose, be allocated to its members on a patronage basis.

Other equities at December 31, 2021 and 2020, are as follows:

	<u>2021</u>	<u>2020</u>
Non-operating Margins	\$ 2,082,082	\$ 1,463,897
Discounted Capital Credits	<u>340,423,256</u>	<u>306,856,442</u>
	<u>\$ 342,505,338</u>	<u>\$ 308,320,339</u>

The Cooperative may utilize non-operating margins retained to offset any future operating deficits. This consists of miscellaneous non-operating income and/or expenses which are not related to providing electricity to the membership and therefore, not part of the capital credit allocation.

**PEDERNALES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**8. Long-Term Debt**

Bonds and Mortgage Notes

At December 31, 2021 and 2020, bonds and mortgage notes consisted of the following:

	<u>2021</u>	<u>2020</u>
First Mortgage Bonds, 2002 Series A - 5.95% to 6.20%; due 2022 to 2032 Interest Payable Semi-Annually	\$ 44,921,000	\$ 271,500,000
CFC Loan - 3.40% - 4.15%; due 2043 to 2049 Interest and Principal Payable Quarterly	449,346,596	460,917,422
Chase Loan - 3.80%; due 2022 Interest and Principal Payable Quarterly	1,950,000	6,050,000
CoBank Loan - 2.44%; due 2047 Interest and Principal Payable Quarterly	24,013,356	24,664,449
NYL Loan - 2.18%; due 2050 Interest and Principal Payable Quarterly	72,500,000	75,000,000
First Mortgage Bonds, 2021 Series A and B - 2.34% to 2.44%; due 2051 Interest Payable Semi-Annually	400,000,000	
Less: Bond Premiums	(71,905,811)	
Less: Bond Issue Costs	<u>(3,662,336)</u>	<u>(2,942,011)</u>
	\$ 917,162,805	\$ 835,189,860
Less: Current Maturities	<u>35,592,389</u>	<u>34,357,932</u>
Total Bonds and Mortgage Notes	<u>\$ 881,570,416</u>	<u>\$ 800,831,928</u>

The Cooperative has \$59,000,000 available on uncommitted term loans from New York Life (NYL).

Annual maturities of long-term debt for the next five years and thereafter are as follows:

2022	\$ 35,592,389
2023	31,997,249
2024	32,678,950
2025	33,393,856
2026	34,141,091
Thereafter	824,927,417

**PEDERNALES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

Bond Defeasance

The Cooperative issued notes during 2021 to refinance 82% of the 2002 Series A mortgage bonds which had an interest rate ranging from 5.95% to 6.20%. The note offering included two tranches, a \$310 million tranche which funded in February 2021 bearing interest at 2.34% and a \$90 million tranche which funded in August 2021 bearing interest at 2.44%. \$301 million of the \$310 million tranche was used to purchase treasury securities for defeasance of the 2002 Series A mortgage bonds. The remainder of the proceeds from the note offering will be used to fund capital expenditures and for general corporate purposes.

Capital Lease Obligations

The Cooperative has entered into lease agreements with First American Equipment Finance (FAEF) for the purchase of bucket trucks and information technology hardware not to exceed \$10,000,000. These lease schedules expire through 2026. The economic substance of the capital leases is that the Cooperative is financing the acquisition of the assets through the leases over their terms, and accordingly, they are reflected in the Cooperative's plant assets and long-term liabilities. Lease expense for the years ended December 31, 2021 and 2020 totaled \$56,073 and \$872, respectively.

The following is an analysis of the book value of the leased assets included in electric plant at December 31, 2021 and 2020, which is being depreciated on a straight-line basis over the life of the lease:

	<u>2021</u>	<u>2020</u>
Bucket Trucks	\$ 4,286,650	\$ 576,000
Information Technology Hardware	645,091	645,091
Accumulated Depreciation	<u>(701,296)</u>	<u>(46,719)</u>
	<u>\$ 4,230,445</u>	<u>\$ 1,174,372</u>

Following is a summary of the capital lease obligation due to FAEF with schedule maturities:

	<u>2021</u>	<u>2020</u>
First American Equipment Finance	\$ 4,172,411	\$ 1,164,841
Less: Current Maturities	<u>(1,031,522)</u>	<u>(315,198)</u>
	<u>\$ 3,140,889</u>	<u>\$ 849,643</u>

**PEDERNALES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

The entire lease obligation to FAEF calls for monthly payments totaling \$92,976 over the remaining term of the leases. The average interest rate is 2.10%. Below is a schedule by years of the future minimum payments required under the leases, with their present value at December 31, 2021:

2022	\$	1,115,716
2023		1,097,530
2024		897,491
2025		877,571
2026		388,989
Total Minimum Lease Payments	\$	4,377,297
Amount Representing Interest		(204,886)
Present Value of Lease Payments	\$	<u>4,172,411</u>

**9. Lines of Credit**

The Cooperative has the following lines of credit as of December 31, 2021 and 2020:

	2021		2020	
	Total Line	Maturity	Total Line	Maturity
CFC	\$ 100,000,000	Perpetual	\$ 100,000,000	Perpetual
CoBank	100,000,000	08/22/22	80,000,000	03/26/21
Bank of America	105,000,000	12/04/22	50,000,000	12/04/21
Bank of America	200,000,000	12/04/23	200,000,000	12/04/23
JPMorgan Chase	15,000,000	12/30/22	15,000,000	06/30/21
Total Lines of Credit	\$ <u>520,000,000</u>		\$ <u>445,000,000</u>	

National Rural Utilities Cooperative Finance Corporation (CFC)

The CFC line of credit agreement requires the Cooperative to pay down the balance to zero annually and automatically renews unless either party gives a 90 day notice. Interest is charged on balances outstanding based on the CFC short-term rate in effect upon the date funds were initially borrowed. No balances were outstanding as of December 31, 2021 and 2020.

CoBank

Interest charged on balances outstanding under the CoBank line of credit are based on the CoBank short-term rate in effect upon the date funds were initially borrowed. No balances were outstanding as of December 31, 2021 and 2020.

**PEDERNALES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

Bank of America

The Cooperative has two syndicated revolving credit lines in which Bank of America is the lead bank in a syndicate of lenders including JPMorgan Chase and CoBank. There is a 364-day term credit line which bear interest at SOFR plus 1.10% or a base rate plus 0.85% as selected by the Cooperative. If the base rate is selected, the interest rate is the highest of the Federal Funds rate plus 0.50%, the Prime rate, or SOFR plus 1.00%. Funds under this credit line are committed with a fee charged of 0.15% on the undrawn balance. The second credit line has a three-year term which bear interest at LIBOR plus 1.25% or a base rate plus 0.85% as selected by the Cooperative. If the base rate is selected, the interest rate is the highest of the Federal Funds rate plus 0.50%, the Prime rate, or LIBOR plus 1.00%. Funds under this credit line are committed with a fee charged of 0.30% on the undrawn balance. Both credit lines provide capacity to pay the principal of any Commercial Paper outstanding in the event the Commercial Paper market ceases to be a viable financing method. No balances were outstanding on either line as of December 31, 2021 and 2020.

JPMorgan Chase Equipment Purchase Line

The Cooperative has a line of credit to purchase equipment with JPMorgan Chase. At December 31, 2021 and 2020, the Cooperative had \$5,544,667 and \$2,737,564, respectively, outstanding on this line of credit. Balances outstanding at December 31, 2021 bear interest at LIBOR plus 1.00%.

Pursuant to the Cooperative's utilization of long-term funds to repay these amounts \$5,544,667 and \$2,737,564 are classified as long-term debt on the balance sheet at December 31, 2021 and 2020, respectively.

Commercial Paper Program

The Board of Directors of the Cooperative approved the issuance of Pedernales Electric Cooperative Commercial Paper Notes (Commercial Paper) during 2021, in an aggregate principal amount not to exceed \$200 million for the purpose of funding capital projects and general corporate purposes. As of December 31, 2021, the Cooperative has an outstanding balance of \$101,996,940 million of Commercial Paper with an interest rate of 0.18% with maturities on January 6, 2022. The Cooperative has two syndicated revolving credit lines in which Bank of America is the lead bank as referenced above, which would provide for available borrowing capacity sufficient to pay the principal of the Commercial Paper in the event the Commercial Paper market ceases to be a viable financing method.

Pursuant to the Cooperative's utilization of long-term funds to repay these amounts \$101,996,940 is classified as long-term debt on the balance sheet at December 31, 2021 and 2020.

**PEDERNALES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**10. Deferred Credits**

Deferred credits included the following:

	<u>2021</u>	<u>2020</u>
Patronage Capital - Unclaimed Property	\$ 4,131,692	\$ 5,495,072
Post-Retirement Medical Benefits (See Note 13)	39,906,583	41,197,777
Other	<u>2,520</u>	<u>1,368</u>
	<u>\$ 44,040,795</u>	<u>\$ 46,694,217</u>

The patronage capital unclaimed property balance represents unclaimed patronage capital where requirements to remit funds to the various states have not been met. The liability is recorded as unclaimed patronage capital as the checks are voided. As the funds are claimed or remitted to the state, the liability is reduced.

During 2021 and 2020, the Cooperative realized a gain for post-retirement medical benefits. The Cooperative recognized a deferred credit for the net amount of the unrecognized gain. Accordingly, no amounts have been recorded in other comprehensive income.

**11. Commitments and Contingencies**

Power Supply Contracts

The Cooperative entered into contracts for the purchase and delivery of electric energy to satisfy its electric energy requirements. In 2021 and 2020, the Cooperative purchased energy from various third party wholesale power suppliers. All of the electric energy purchased by the Cooperative is procured through term contracts of varying durations. As these terms expire, they may or may not be replaced with new agreements.

Transmission Lease Contracts

LCRA leases and operates certain transmission facilities and equipment owned by the Cooperative. Payments for the leased facilities vary from year to year and are based on the original cost of the facilities, adjusted for depreciation, and are updated annually to reflect additions, retirements and depreciation. The terms of the lease are perpetual, but may be terminated by LCRA or the Cooperative upon five years written notice. In 2019, the lease was terminated by both parties. The lease will end at the latest June 2024. The Cooperative's transmission lease revenues totaled \$4,783,618 and \$4,783,618 in 2021 and 2020, respectively.

**PEDERNALES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

2021 Winter Storm

In mid-February 2021, a severe winter storm impacted all of Texas, including the Cooperative's service territory. This winter storm created power disruptions at several major power production facilities throughout the state resulting in a severe shortage of electric power. At the same time, demand for energy was at an all-time high causing the cost of power to increase significantly. These unusually high power costs incurred during the storm event are recoverable from the Cooperative's members. The Cooperative plans to recover the power costs reflected in the power cost under-recovered on the balance sheet from its members through the winter storm surcharge on members' bills expiring September 2023.

Construction Contracts

The Cooperative has construction contracts outstanding for the construction of the new control and data center. The total contract amount is \$26,417,142. Total remaining at December 31, 2021 on these contracts is \$20,637,268.

Litigation

The Cooperative may be involved in various claims and litigation arising in the normal course of business. Although management is unable to predict the outcome of such proceedings, management and the Cooperative's legal counsel do not believe that the resolution of any claims or litigation involving the Cooperative will have a material adverse effect on the Cooperative's results of operations and financial condition.

**12. Pension Benefits**

The Cooperative has a defined benefit plan covering eligible employees. The cost of the plan is determined by an independent actuary and is funded in amounts sufficient to meet the minimum funding requirements under applicable regulations.

Contributions paid to the defined benefit plan for the years ended December 31, 2021 and 2020, were \$6,480,217 and \$6,376,367, respectively.

The measurement date used for the current valuation is December 31, 2021.

The following weighted-average assumptions were used to develop the accumulated post-retirement benefit obligation for 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Discount Rate	2.84%	2.52%
Rate of Compensation Increase	4.00%	4.00%

**PEDERNALES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

The following weighted-average assumptions were used to determine the net benefit cost for 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Discount Rate	2.52%	3.25%
Rate of Compensation Increase	4.00%	4.00%
Expected Long-Term Return on Plan Assets	5.80%	6.25%

Amounts recognized in the Cooperative's financial statements and funded status of the plan are as follows:

	<u>2021</u>	<u>2020</u>
I) Net Periodic Benefit Cost		
Service Cost	\$ 6,183,573	\$ 5,705,463
Interest Cost	7,990,695	9,089,089
Amortization	6,159,391	5,692,668
Return on Assets	<u>(14,585,756)</u>	<u>(13,765,863)</u>
	<u>\$ 5,747,903</u>	<u>\$ 6,721,357</u>
II) Projected Benefit Obligation (PBO) Reconciliation:		
PBO Balance at Beginning of Year	\$ 319,806,648	\$ 276,800,668
Actuarial (Gain)/Loss	(11,279,407)	38,013,413
Interest Cost/Service Cost	14,174,268	14,794,552
Benefits Paid	<u>(10,464,248)</u>	<u>(9,801,985)</u>
Projected Benefit Obligation at Year End	<u>\$ 312,237,261</u>	<u>\$ 319,806,648</u>
III) Reconciliation of Funded Status		
Projected Benefit Obligation	\$ 312,237,261	\$ 319,806,648
Fair Value of Assets	<u>273,603,760</u>	<u>254,899,761</u>
Funded Status at Year End	<u>\$ (38,633,501)</u>	<u>\$ (64,906,887)</u>
IV) Deferred Charge		
Actuarial Loss - Beginning of Year	\$ 69,713,560	\$ 58,880,411
Amortization of Loss/Remeasurement	(6,159,391)	(5,692,668)
Actuarial Loss	<u>(19,381,681)</u>	<u>16,525,817</u>
Deferred Charge at Year End	<u>\$ 44,172,488</u>	<u>\$ 69,713,560</u>

The accumulated benefit obligation for the plan was \$282,902,663 and \$286,102,549 at December 31, 2021 and 2020, respectively.

Plan Asset Information

Information related to fair value hierarchy measurements are disclosed in Note 15. The defined benefit plan asset fair value measurements are substantially Level 1.

**PEDERNALES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

Fair value of plan assets at December 31, 2021 and 2020 and asset allocation is as follows:

	<u>2021</u>	<u>2020</u>
Cash and Cash Equivalents	\$ 1,108,438	\$ 1,808,287
Government Agencies, Bonds and Notes	146,769,488	116,525,886
Mutual Funds	106,866,414	117,044,192
Other	<u>18,859,420</u>	<u>19,521,396</u>
Total	<u>\$ 273,603,760</u>	<u>\$ 254,899,761</u>

	<u>2021</u>	<u>2020</u>
Mutual Funds and Equity Securities	39%	46%
Debt Securities	54%	46%
Other	<u>7%</u>	<u>8%</u>
Total	<u>100%</u>	<u>100%</u>

Benefit payments for the next ten years are estimated as follows:

2022	\$ 10,942,469
2023	11,461,812
2024	12,029,615
2025	12,626,537
2026	13,385,376
2027-2031	75,104,502

The estimated 2022 plan year minimum required contribution is \$6,500,000.

The Cooperative has a defined contribution plan (401(k) plan) for employees that are eligible to participate. For employees that are also eligible to participate in the defined benefit plan, the maximum contribution is six percent of the employee's base annual salary. For employees not eligible for the defined benefit plan, the 401(k) plan contribution cost is a maximum of ten percent of the employee's base annual salary. These costs are funded each pay period as accrued. The Cooperative's contributions to the 401(k) plan (net of forfeitures) were \$6,205,072 and \$5,761,792 in 2021 and 2020, respectively.

**13. Post-Retirement Benefits Other than Pensions**

The Cooperative provides post-retirement medical benefits for eligible employees through a plan with a third-party insurance provider. For purposes of this statement, the written plan in effect is the substantive plan and is considered a defined benefit plan. The Cooperative contributes varying amounts dependent on retirement date, age, and years of service. As of August 2018, the plan is closed to new retired participants not currently receiving benefits under the plan.

**PEDERNALES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

Benefits are paid on behalf of retirees and are a function of medical insurance costs and number of retirees. Benefits paid (excluding reimbursements) for the years ended December 31, 2021 and 2020, were \$1,331,731 and \$1,828,211, respectively. The Cooperative's policy for contributions is to contribute the amount of the current benefits in that year.

The measurement date used for the current valuation is December 31, 2021.

The weighted-average discount rate used to develop the accumulated post-retirement benefit obligation for the years ended December 31, 2021 and 2020, were 2.69% and 2.31%, respectively.

Amounts recognized in the Cooperative's financial statements and funded status of the plan are as follows:

	<u>2021</u>	<u>2020</u>
I) Net Post-Retirement Benefit Cost		
Interest Cost	\$ 573,636	\$ 756,763
Amortization	<u>(2,798,749)</u>	<u>(2,948,191)</u>
	<u>\$ (2,225,113)</u>	<u>\$ (2,191,428)</u>
II) Accumulated Post-Retirement Benefit Obligation (APBO) Reconciliation:		
APBO Balance at Beginning of Year	\$ 25,799,394	\$ 34,331,574
Actuarial (Gain)/Loss	(1,507,555)	(7,606,147)
Interest Cost / Service Cost	573,636	756,763
Employer Contributions Net of Participant Amounts	<u>(1,186,250)</u>	<u>(1,682,796)</u>
Net Post-Retirement Benefit Liability at Year End	<u>\$ 23,679,225</u>	<u>\$ 25,799,394</u>
III) Reconciliation of Funded Status		
APBO	<u>\$ 23,679,225</u>	<u>\$ 25,799,394</u>
Accrued Post-Retirement Benefit Cost	<u>\$ 23,679,225</u>	<u>\$ 25,799,394</u>
IV) Deferred Credit		
Actuarial Gain - Beginning of Year	\$ (41,197,777)	\$ (36,539,821)
Amortization	2,798,749	2,948,191
Current Year Net (Gain)/Loss	<u>(1,507,555)</u>	<u>(7,606,147)</u>
Deferred Credit at Year End	<u>\$ (39,906,583)</u>	<u>\$ (41,197,777)</u>

The estimated actuarial amount for the post-retirement medical benefit plan that will be amortized into net post-retirement benefit cost over the next fiscal year is expected to be a gain of \$2,858,756. The Cooperative has not funded any plan assets as of December 31, 2021 or 2020.

**PEDERNALES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

Estimated future benefit payments for the next ten years are as follows:

2022	\$	1,623,793
2023		1,615,333
2024		1,536,074
2025		1,484,320
2026		1,359,628
2027-2031		6,475,561

**14. Recently Issued Accounting Pronouncements**

In February 2016, the FASB issued Accounting Standards Update 2016-02, *Leases*. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The new standard is effective for nonpublic entities for fiscal years beginning after December 15, 2021. The Cooperative will implement the standard beginning in 2022, and does not anticipate any material effect on the financial statements.

**15. Disclosures About Fair Value of Financial Instruments**

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 Cooperative 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.

**16. Subsequent Events**

The Cooperative has evaluated subsequent events through March 31, 2022, the date which the financial statements were available to be issued.

Subsequent to year end, the Cooperative issued a bond offering of \$150 million in February of 2022 bearing interest of 2.99%. The funding will be delayed until January 2023 in which the proceeds will be used to fund capital expenditures and for general corporate purposes.

**COMPLIANCE AND INTERNAL CONTROL SECTION**

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

**CERTIFIED PUBLIC ACCOUNTANTS**

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**8215 NASHVILLE AVENUE**

**LUBBOCK, TEXAS 79423-1954**

**REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON  
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE STATE OF TEXAS  
UNIFORM GRANTS MANAGEMENT STANDARDS**

**Independent Auditor's Report**

Board of Directors  
Pedernales Electric Cooperative, Inc.  
Johnson City, Texas

**Report on Compliance for Each Major State Program**

***Opinion on Each Major State Program***

We have audited Pedernales Electric Cooperative, Inc.'s compliance with the types of compliance requirements described in the State of Texas Uniform Grants Management Standards (UGMS) that could have a direct and material effect on each of Pedernales Electric Cooperative, Inc. major state programs for the year ended December 31, 2021. Pedernales Electric Cooperative, Inc. major state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Pedernales Electric Cooperative, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended December 31, 2021.

***Basis for Opinion on Each Major State Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in UGMS. Our responsibilities under those standards and UGMS are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Pedernales Electric Cooperative, Inc. and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major state program. Our audit does not provide a legal determination of Pedernales Electric Cooperative Inc.'s compliance with the compliance requirements referred to above.

### ***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Pedernales Electric Cooperative Inc.'s state programs.

### ***Auditors' Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Pedernales Electric Cooperative Inc.'s compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and UGMS will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Pedernales Electric Cooperative Inc.'s compliance with the requirements of each major state program as a whole.

In performing an audit in accordance with generally accepted auditing standards and UGMS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Pedernales Electric Cooperative Inc.'s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Pedernales Electric Cooperative Inc.'s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the UGMS, but not for the purpose of expressing an opinion on the effectiveness of Pedernales Electric Cooperative Inc.'s internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

## Report on Internal Control Over Compliance

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

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

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of UGMS. Accordingly, this report is not suitable for any other purpose.

*Bolinger, Segars, Gilbert & Moss LLP*

Certified Public Accountants

Lubbock, Texas

March 31, 2022

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

**CERTIFIED PUBLIC ACCOUNTANTS**

**PHONE: (806) 747-3806**

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**LUBBOCK, TEXAS 79423-1954**

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

Board of Directors  
Pedernales Electric Cooperative, Inc.  
Johnson City, Texas

We have audited, in accordance with auditing standards generally accepted in the United States of America, the balance sheets of Pedernales Electric Cooperative, Inc. as of December 31, 2021 and 2020, and the related statements of income and patronage capital, and cash flows for the years ended, and have issued our report thereon dated March 31, 2022.

In connection with our audit, nothing came to our attention that caused us to believe that Pedernales Electric Cooperative, Inc. failed to comply with the terms of Article V 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 incompliance.

This report is intended solely for the information and use of the Boards of Directors and management of Pedernales Electric Cooperative, Inc. 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

March 31, 2022

**STATE FINANCIAL ASSISTANCE SECTION**

**PEDERNALES ELECTRIC COOPERATIVE, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2021**

**A. Section I - Summary of Auditor's Results**

**1. Financial Statements**

Type of auditor's report issued: Unmodified

**2. State Awards**

Internal control over major programs:

Material weakness(es) identified?        yes   X   no

Significant deficiency identified that are not considered to be material weaknesses?        yes   X   none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with UGMS        yes   X   no

Identification of major programs:

Name of State Program or Cluster

**New Technology Implementation Grant**

Dollar threshold used to distinguish between type A and type B programs: \$   300,000  

Auditee qualified as low-risk auditee?        yes   X   no

**B. Section II - Findings Related to the Financial Statements**

The audit disclosed no findings required to be reported.

**C. Section IV - Findings and Questioned Costs Related to the State Awards**

The audit disclosed no findings required to be reported.

**PEDERNALES ELECTRIC COOPERATIVE, INC.**

**SCHEDULE OF CURRENT YEAR AND PRIOR YEAR AUDIT FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2021**

<b><u>Finding/Recommendation</u></b>	<b><u>Current Status</u></b>	<b><u>Management's Explanation If Not Implemented</u></b>
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There were no state findings or questioned costs in the current or prior year.

PEDERNALES ELECTRIC COOPERATIVE, INC.

SCHEDULE OF EXPENDITURES OF STATE AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2021

<u>State Grantor Pass-Through Grantor/Program or Cluster Title</u>	<u>Contract Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed Through To Subrecipients</u>	<u>State Expenditures</u>
<b>STATE AWARDS:</b>				
<u>TEXAS COMMISSION ON ENVIRONMENTAL QUALITY</u>				
New Technology Implementation Grant	2017-08-0006-NG	N/A	N/A	\$ <u>1,464,707</u>
TOTAL TEXAS COMMISSION ON ENVIRONMENTAL QUALITY				\$ <u>1,464,707</u>
TOTAL EXPENDITURES OF STATE AWARDS				\$ <u>1,464,707</u>

**PEDERNALES ELECTRIC COOPERATIVE, INC.**

**NOTES TO THE SCHEDULE OF EXPENDITURES  
OF STATE AWARDS**

**BASIS OF PRESENTATION**

The accompanying schedule of expenditures of state awards (the Schedule) includes the state grant activity of Pedernales Electric Cooperative, Inc. The information in the Schedule is presented in accordance with the requirements of the State of Texas Uniform Grants Management Standards (UGMS).

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. These expenditures are recognized following the cost principles contained in UGMS, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Pedernales Electric Cooperative, Inc. has elected not to use the 10 percent de minimus indirect cost rate allowed under the UGMS.