

**Working with
you in mind**



**PEDERNALES ELECTRIC
COOPERATIVE
2022 ANNUAL REPORT**

A message from Mark Ekrut, President, PEC Board of Directors

Every year, the Texas Hill Country continues to draw more residents, leading to record-breaking growth for our cooperative. I am so proud of how we've continued to meet the demands of this growth while also staying focused on the individual member's needs. Looking back on 2022, while PEC looks much different than it did when we were established in 1938, our mission remains the same: to provide reliable, safe energy for each and every one of our members.

Service to others is woven into the fabric of PEC, and the common thread connecting the PEC Board and staff is our shared commitment to serve and improve our members' lives. I could not be prouder of our team of professionals who authentically care for our members, community, and one another, and in 2022, Team PEC really shined.

Last year, PEC's lineworkers proved they were the cream of the crop at lineman's rodeos hosted near and far. I'm very proud of the men and women who worked hard to bring home 10 awards at the international competition in Kansas and 16 at the state competition in Seguin. It's hard to be humble when the top lineworkers in the world work at PEC, but the truth is our cooperative wouldn't be able to serve our members so well if not for PEC lineworkers' constant efforts to hone their craft.

I also want to take a moment to commend PEC employees for fostering a positive workplace culture focused on bringing the best to members every day. By working together and supporting each other, our employees helped the cooperative earn recognition as a 2022 Top Workplace among large employers by the San Antonio Express-News and garner national recognition as a Top Workplace for Cultural Excellence by a Woman-Led Business. On behalf of the Board of Directors, I extend my full

gratitude to PEC's staff: Your selfless hearts and passion to grow this cooperative are priceless, and we couldn't thank you all enough for your efforts.

As I mentioned, PEC looks and operates differently than we did 85 years ago, and we're always looking forward to meeting our members' needs. To enhance engagement and satisfaction, we surveyed members to get a better understanding of what they want and need from us as their cooperative. We implemented methods to better communicate with members, including an outage texting service. To help members connect their service faster, we deployed online applications — processing more than 36,700 member applications in 2022. And for our members who may be struggling to make ends meet during these difficult economic times, we offer member assistance programs to help keep the lights on.

As someone who works very closely with members in my district, it makes me proud to know our cooperative is always looking out for our members, and our employees are working hard on their behalf. Understanding our members' needs, implementing new technology, and providing efficient solutions have truly prepared us to take on the continued growth we expect.

It has been an honor to serve as Board President this past year, ensuring that members' voices and concerns are heard. It's a pleasure to serve on this board and work alongside such a talented, member-focused team.

Thank you!



2022 PEC Statistics

Accounts: 386,000

Meters: 384,000

Line Extensions: 20,600

Miles of Line: 557

A message from Julie C. Parsley, PEC CEO

Reflecting on PEC's hard work and accomplishments in 2022 certainly gives me a great sense of pride. As Mark mentioned, growth was at an all-time high in the Texas Hill Country. And while last year was not without its challenges, our team at PEC rose to the occasion and set new milestones for the cooperative.

In 2022, PEC grew to 384,000 meters, which means our crews set approximately 1,595 meters per month. In addition, we completed more than 20,000 line extensions and added 557 miles of line – more than the distance from Johnson City to El Paso. We also inspected more than 37,000 poles and restored or replaced nearly 700 of them. On top of this, our crews pruned nearly 400 miles of line, reaffirming that vegetation maintenance is vital to our reliability. It was a busy year for all of PEC.

To meet the growth demands, PEC worked nimbly to respond to supply chain challenges and market uncertainty. We brought on additional material alliance partners and worked diligently with suppliers to ensure we are getting the best goods, services, and value possible for our members.

Operations also kept an eye on member value. In the field, teams from across the cooperative completed extensive maintenance on poles, substations, and voltage regulators, as proactive maintenance saves money for our members. Even with persistent inflation, the PEC team was able to cut back on spending, shaving off more than \$14.5 million in spending when compared to 2021. And our smart financial strategies continued to earn PEC a AA- rating from Fitch Ratings.

While we kept a close eye on costs and implemented new operational efficiencies, we continued our strong cooperative commitment to support our local communities. Whenever there was a chance to give back, Team PEC immediately jumped at the chance.

In 2022, we participated in a virtual Read Across America event with 250 local educators and donated books to local school libraries. Through PEC United Charities, our employees – many of whom are PEC members – helped support groups that provide vital services in our communities by donating more than \$236,000 to 242 nonprofit organizations.

This past year makes me excited about what the future holds.

I also want to thank our members for their generosity and donations to our Power of Change Program, which funded more than \$64,000 in grants to 14 nonprofits in 2022. It also allowed us to provide \$23,000

in support for education foundations in our service territory. If you haven't yet joined Power of Change, please consider doing so! Your small contributions go a long way in strengthening our communities and cooperative. These efforts demonstrate the PEC difference.

This past year makes me excited about what the future holds. Through constant record-breaking growth, our team's focus on the membership has never changed, and we have stayed PEC Strong.

Thank you!





A strong member focus

As a cooperative, we take pride in delivering safe, reliable electricity to all our members.

Over the past few years of economic uncertainty, we have worked hard to remain the strong cooperative that our members have trusted for decades.

Record growth within our 8,100 square miles of service territory hasn't kept us from delivering safe, reliable

electricity to our members. Our commitment to reliability doesn't just happen with a flip of a switch. Over the past year, we've upgraded 15 substations and completed 15 transmission-related projects to keep up with our members' growing energy needs.

To ensure our team has highly qualified professionals to build and maintain a reliable system, PEC hires and trains exceptional men and women. Through our 8,000-hour, industry-recognized Lineworker Apprenticeship Program, our lineworkers become the best they can be. In 2022, 15



apprentices earned the intensive and difficult Department of Labor Journeyworker certification.

Our dedication to providing exceptional service isn't limited to the field. We want our members to get the most out of their energy service, and that's why our expert energy advisors performed more than 300 over-the-phone energy audits. Doing so helped make their home more energy efficient, which led to cost savings.

As we continue to navigate the digital age, we recognize

that many of our members prefer a more automated transaction when it comes to paying their bill and enrolling in service. That's why we initiated paperless and auto pay billing options and implemented an online application for service. For members who want to pay locally, we have pay centers at our offices and offer bill payment in many stores, including HEB.

All this is to say we are proud to serve the members who have counted on us to keep their lights on for 85 years.



Supporting our communities

Serving our communities is built into our values as a cooperative.

As COVID-19 restrictions lifted in 2022, we were excited to get back to our friends and neighbors.

After a two-year hiatus, PEC re-opened applications for Youth Tour, a co-op tradition for nearly 60 years. This trip allows area students to learn more about our local and national government while visiting Washington D.C., as well as create lifelong friendships.

We also connected with our local youth thanks to Camp Save-a-Watt. In the program's second year, participation doubled. We hosted in-person events, including a Meet a Lineworker Day, where more than 40 campers from Blanco, Buda, Dripping Springs, Liberty Hill, and Marble Falls were able to meet our crews. We also held our first Solar Car Derby where more than 50 campers and their parents learned about solar energy.

Meeting and educating our young members are major

priorities for all our employees. Lineworkers, Unmanned Aerial Vehicle (drone) pilots, management representatives, and other members of the PEC team educated our youth through 40 different career day presentations in 2022.

Our passion for powering the leaders of tomorrow continued as we were able to award 39 scholarships to graduating high school seniors and adults. These scholarships totaled \$100,000 and were funded by unclaimed property funds that were returned to PEC from the state.

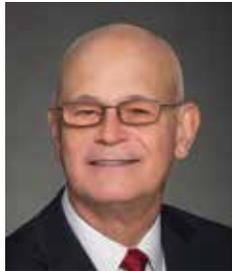
This giving spirit is also reflected in the generosity of our employees. For those in need, employees collected more than 550 toys and six bikes and donated more than \$236,000 to nonprofits through the PEC United Charities Program.

With the combined efforts of members and employees to empower our communities through donations and outreach events, the future of our service area is sure to shine.

PEC BOARD OF DIRECTORS



Mark Ekrot
President & District 3
Director



Milton Rister
Vice President &
District 1 Director



Paul Graf
Secretary-Treasurer &
District 6 Director



Emily Pataki
District 2 Director



Travis Cox
District 4 Director



James Oakley
District 5 Director



Amy Lea SJ Akers
District 7 Director



For 85 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
2022 ANNUAL REPORT**



pec.coop



PEDERNALES ELECTRIC 2022 FINANCIAL REPORT



PEDERNALES ELECTRIC COOPERATIVE, INC.

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

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, 2022 AND 2021

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

PEDERNALES ELECTRIC COOPERATIVE, INC.
FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

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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 accompanying financial statements of Pedernales Electric Cooperative, Inc., which comprise the balance sheets as of December 31, 2022 and 2021, 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 financial statements referred to above present fairly, in all material respects, the financial position of Pedernales Electric Cooperative, Inc. as of December 31, 2022 and 2021, 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 there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the 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.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

March 29, 2023

PEDERNALES ELECTRIC COOPERATIVE, INC.

BALANCE SHEETS
DECEMBER 31, 2022 AND 2021

ASSETS

	2022	2021
UTILITY PLANT AT COST		
Utility Plant in Service	\$ 2,163,698,849	\$ 2,060,478,279
Operating Lease - Right of Use Assets	2,639,238	1,283,565
Construction Work in Progress	<u>122,270,469</u>	<u>120,732,900</u>
	\$ 2,288,608,556	\$ 2,182,494,744
Less: Accumulated Provision for Depreciation	408,133,564	354,965,981
	<u>\$ 1,880,474,992</u>	<u>\$ 1,827,528,763</u>
OTHER PROPERTY AND INVESTMENTS - AT COST OR STATED VALUE		
Investments in Associated Organizations	<u>\$ 17,880,318</u>	<u>\$ 16,879,801</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 9,091,355	\$ 9,038,687
Accounts Receivable - Energy (Less allowance for uncollectibles of \$865,322 in 2022 and \$430,143 in 2021)	27,689,073	23,023,437
Accounts Receivable - Other (Less allowance for uncollectibles of \$498,082 in 2022 and \$400,514 in 2021)	4,342,599	2,393,231
Power Cost Adjustment Under-Recovered	27,209,264	55,531,970
Accrued Unbilled Revenue	28,862,646	19,481,723
Materials and Supplies Inventory	36,753,718	29,608,981
Other Current and Accrued Assets	<u>13,007,847</u>	<u>3,494,668</u>
Total Current Assets	<u>\$ 146,956,502</u>	<u>\$ 142,572,697</u>
DEFERRED CHARGES AND OTHER ASSETS	<u>\$ 29,984,016</u>	<u>\$ 44,172,488</u>
TOTAL ASSETS	<u>\$ 2,075,295,828</u>	<u>\$ 2,031,153,749</u>

EQUITIES AND LIABILITIES

EQUITIES		
Memberships	\$ 15,988,077	\$ 15,184,321
Patronage Capital	444,577,559	433,310,509
Other Equities	<u>375,709,755</u>	<u>342,505,338</u>
Total Equities	<u>\$ 836,275,391</u>	<u>\$ 791,000,168</u>
LONG-TERM DEBT		
Mortgage Bonds Less Current Maturities and Issuance Costs	\$ 344,747,646	\$ 350,895,520
CFC Mortgage Notes Less Current Maturities	424,846,989	437,328,890
Chase Notes Less Current Maturities	3,776,169	
CoBank Notes Less Current Maturities	22,661,993	23,346,006
NYL Note Less Current Maturities	67,500,000	70,000,000
Operating Lease Obligations Less Current Maturities	1,550,315	795,818
Finance Lease Obligations Less Current Maturities	2,103,554	3,140,889
Commercial Paper	132,729,211	101,996,940
Line of Credit to be Refinanced		5,544,667
Total Long-Term Debt	<u>\$ 999,915,877</u>	<u>\$ 993,048,730</u>
ACCUMULATED PROVISION FOR PENSIONS AND BENEFITS	<u>\$ 32,625,711</u>	<u>\$ 60,688,933</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 33,112,862	\$ 35,592,389
Current Maturities of Operating Lease Obligations	1,088,923	487,747
Current Maturities of Finance Lease Obligations	1,037,332	1,031,522
Current Portion of Accumulated Provision for Pensions and Benefits	1,501,616	1,623,793
Purchased Power - Payable and Accrued	33,969,875	30,209,602
Accounts Payable - Other	30,819,776	29,331,005
Tax Payable	13,310,908	12,106,081
Interest Payable	4,525,419	4,696,891
Member Deposits	6,891,014	5,401,795
Other Current and Accrued Liabilities	<u>28,915,037</u>	<u>17,507,389</u>
Total Current Liabilities	<u>\$ 155,172,762</u>	<u>\$ 137,988,214</u>
DEFERRED CREDITS	<u>\$ 51,306,087</u>	<u>\$ 48,427,704</u>
TOTAL EQUITIES AND LIABILITIES	<u>\$ 2,075,295,828</u>	<u>\$ 2,031,153,749</u>

See accompanying notes to financial statements.

PEDERNALES ELECTRIC COOPERATIVE, INC.

STATEMENTS OF INCOME AND PATRONAGE CAPITAL
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
OPERATING REVENUES		
Residential	\$ 605,196,531	\$ 496,932,821
Small and Large Power	196,517,494	165,092,379
Power Cost Adjustment	(18,843,942)	131,043,454
Other Revenues	50,364,226	34,285,115
Total Operating Revenues	<u>\$ 833,234,309</u>	<u>\$ 827,353,769</u>
OPERATING EXPENSES		
Purchased Power	\$ 486,561,214	\$ 518,792,868
Transmission - Operation	5,081,490	3,006,720
Transmission - Maintenance	1,665,652	1,880,838
Distribution - Operation	48,913,553	53,849,443
Distribution - Maintenance	30,960,693	32,639,173
Consumer Accounts	30,856,019	30,335,812
Customer Service and Information	4,157,438	4,262,401
Administrative and General	31,133,289	30,668,617
Depreciation	101,931,512	82,171,010
Taxes	1,345,699	1,354,268
Other Interest	2,994,551	1,199,006
Other Deductions		26,553
Total Operating Expenses	<u>\$ 745,601,110</u>	<u>\$ 760,186,709</u>
OPERATING MARGINS - Before Fixed Charges	<u>\$ 87,633,199</u>	<u>\$ 67,167,060</u>
FIXED CHARGES		
Interest and Amortization on Long-Term Debt	<u>\$ 42,219,112</u>	<u>\$ 37,240,069</u>
OPERATING MARGINS - After Fixed Charges	<u>\$ 45,414,087</u>	<u>\$ 29,926,991</u>
Capital Credits	<u>2,046,352</u>	<u>2,443,736</u>
NET OPERATING MARGINS	<u>\$ 47,460,439</u>	<u>\$ 32,370,727</u>
NON-OPERATING MARGINS		
Interest and Dividend Income	\$ 162,629	\$ 155,844
Utility Non-Operating Income	68,835	
Miscellaneous Non-Operating Income	237,860	204,150
Disposal of Assets	2,667,846	258,191
	<u>\$ 3,137,170</u>	<u>\$ 618,185</u>
NET MARGINS	<u>\$ 50,597,609</u>	<u>\$ 32,988,912</u>
PATRONAGE CAPITAL - BEGINNING OF YEAR	433,310,509	440,222,950
Patronage Capital Retired	(6,126,142)	(5,716,354)
Transfers to Other Equities	<u>(33,204,417)</u>	<u>(34,184,999)</u>
PATRONAGE CAPITAL - END OF YEAR	<u>\$ 444,577,559</u>	<u>\$ 433,310,509</u>

See accompanying notes to financial statements.

PEDERNALES ELECTRIC COOPERATIVE, INC.

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 50,597,609	\$ 32,988,912
Adjustments to Reconcile Net Margins to Net Cash From Non-Cash Operating Activities		
Depreciation and Amortization Charged to Expense	112,838,173	91,326,779
Capital Credits	(2,046,352)	(2,443,736)
Non-Cash Pension Expense	(629,437)	3,522,790
Pension and Post-Retirement Funding	(8,322,165)	(7,666,467)
Changes in Assets and Liabilities:		
Accounts Receivable - Net	(15,995,927)	2,321,494
Accounts Payable	9,041,748	9,152,248
Power Cost Adjustments	28,322,706	(131,987,323)
Materials & Supplies	(7,144,737)	(8,373,757)
Other Assets and Liabilities	<u>(272,473)</u>	<u>2,206,015</u>
Net Cash From Operating Activities	\$ <u>166,389,145</u>	\$ <u>(8,953,045)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Additions to Property, Plant & Equipment	\$ (154,792,198)	\$ (167,131,491)
Capital Credit Retirements from Associated Organizations	1,045,835	1,565,997
Net Cash From Investing Activities	\$ <u>(153,746,363)</u>	\$ <u>(165,565,494)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Long-Term Debt	\$ (38,250,073)	\$ (27,031,426)
Advances on Long-Term Debt		99,145,522
Net Activity on Commercial Paper	30,732,271	101,996,940
Net Activity on Line of Credit	250,074	2,807,103
Retirement of Patronage Capital	(6,126,142)	(5,716,354)
Increase in Memberships - Net	803,756	896,584
Net Cash From Financing Activities	\$ <u>(12,590,114)</u>	\$ <u>172,098,369</u>
CHANGE IN CASH AND CASH EQUIVALENTS	\$ 52,668	\$ (2,420,170)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>9,038,687</u>	<u>11,458,857</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ <u><u>9,091,355</u></u>	\$ <u><u>9,038,687</u></u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash Paid During the Year for:		
Interest on Long-Term Debt	\$ <u>31,481,448</u>	\$ <u>27,112,200</u>
Patronage Capital Retired by Non-Cash Discounting	\$ <u>30,136,081</u>	\$ <u>33,566,814</u>
Assets Obtained through Finance Leases	\$ <u>0</u>	\$ <u>3,710,650</u>
Right of Use Assets Obtained through Operating Leases	\$ <u>2,238,541</u>	\$ <u>1,335,161</u>
Line of Credit Refinanced with Long-Term Debt	\$ <u>5,794,741</u>	\$ <u>0</u>
Bond Defeasance and Bond Issuance	\$ <u>0</u>	\$ <u>302,411,141</u>

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, 2022, the Cooperative served 385,868 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, 2022 and 2021 amounted to \$28,862,646 and \$19,481,723, 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 \$27,209,264 as of December 31, 2022 and under collected power costs of \$55,531,970 as of December 31, 2021.

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 2019. In 2022 and 2021, 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, 2022 and 2021, deposits on hand totaled \$6,891,014 and \$5,401,795, 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 2022 and 2021.

Patronage Capital Certificates

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

Leases

The Cooperative has adopted the provision of Financial Accounting Standards Board Accounting Standards Codification Section 842, Leases (FASB ASC 842).

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>2022</u>	<u>2021</u>
Transmission Plant	\$ 206,482,275	\$ 171,319,539
Distribution Plant	1,718,646,423	1,662,917,595
General Plant	238,570,151	226,241,145
Operating Lease - Right of Use Asset	<u>2,639,238</u>	<u>1,283,565</u>
Total Utility Plant in Service	\$ 2,166,338,087	\$ 2,061,761,844
Construction Work in Progress	<u>122,270,469</u>	<u>120,732,900</u>
Total Utility Plant	<u><u>\$ 2,288,608,556</u></u>	<u><u>\$ 2,182,494,744</u></u>

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

	<u>2022</u>	<u>2021</u>
Transmission Plant	1.57% - 10.00%	1.57% - 10.00%
Distribution Plant	1.75% - 20.00%	1.75% - 20.00%

Depreciation for the years ended December 31, 2022 and 2021 was \$101,931,512 and \$82,171,010, 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 approximately \$17,429,956 and \$7,856,968 to depreciation expense for the years ended December 31, 2022 and 2021, respectively. 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 in early 2023. The Cooperative accelerated depreciation on these lighting fixtures during the year, which added \$12,732,693 and \$4,040,495 to depreciation expense for the years ended December 31, 2022 and 2021, respectively.

4. Investments in Associated Organizations

Investments in associated organizations consisted of:

	<u>2022</u>	<u>2021</u>
CFC		
Capital Term Certificates	\$ 4,813,296	\$ 4,813,296
Patronage Capital	7,990,119	7,408,748
Texas Electric Cooperative		
Patronage Capital	4,091,066	3,664,978
Other	<u>985,837</u>	<u>992,779</u>
	<u><u>\$ 17,880,318</u></u>	<u><u>\$ 16,879,801</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, 2022 and 2021 were \$36,753,718 and \$29,608,981, respectively.

6. Deferred Charges and Other Assets

Deferred charges and other assets included the following:

	<u>2022</u>	<u>2021</u>
Defined Benefit Plan (See Note 12)	\$ 29,984,016	\$ 44,172,488
	<u>\$ 29,984,016</u>	<u>\$ 44,172,488</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, 2022 and 2021.

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 \$6,126,142 and \$5,716,354 was distributed to members during 2022 and 2021, respectively.

PEDERNALES ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

Patronage capital assigned and assignable at December 31, 2022 and 2021, is as follows:

	<u>2022</u>	<u>2021</u>
Assigned to Date	\$ 896,074,187	\$ 860,950,054
Assignable	<u>67,010,974</u>	<u>54,605,833</u>
	\$ 963,085,161	\$ 915,555,887
Less: Retirements to Date	147,948,265	141,822,123
Less: Discounted Patronage Capital to Permanent Equity	<u>370,559,337</u>	<u>340,423,255</u>
	<u><u>\$ 444,577,559</u></u>	<u><u>\$ 433,310,509</u></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, 2022 and 2021, are as follows:

	<u>2022</u>	<u>2021</u>
Non-operating Margins	\$ 5,150,418	\$ 2,082,082
Discounted Capital Credits	<u>370,559,337</u>	<u>340,423,256</u>
	<u><u>\$ 375,709,755</u></u>	<u><u>\$ 342,505,338</u></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, 2022 and 2021, bonds and mortgage notes consisted of the following:

	2022	2021
First Mortgage Bonds, 2002 Series A - 5.95% to 6.20%; due 2022 to 2032 Interest Payable Semi-Annually; Principal Payable Annually	\$ 39,797,000	\$ 44,921,000
CFC Loan - 3.40% - 4.15%; due 2043 to 2049 Interest and Principal Payable Quarterly	437,328,891	449,346,596
Chase Loan - 3.18% - 3.80%; due 2022 to 2027 Interest and Principal Payable Quarterly	4,891,783	1,950,000
CoBank Loan - 2.44%; due 2047 Interest and Principal Payable Quarterly	23,346,006	24,013,356
NYL Loan - 2.18%; due 2050 Interest Payable Semi-Annually; Principal Payable Annually	70,000,000	72,500,000
First Mortgage Bonds, 2021 Series A and B - 2.34% to 2.44%; due 2051 Interest Payable Semi-Annually	386,654,333	400,000,000
Less: Deferred Premiums	(61,435,766)	(71,905,811)
Less: Bond Issue Costs	(3,936,588)	(3,662,336)
	\$ 896,645,659	\$ 917,162,805
Less: Current Maturities	33,112,862	35,592,389
Total Bonds and Mortgage Notes	\$ 863,532,797	\$ 881,570,416

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:

2023	\$ 33,112,862
2024	33,830,608
2025	34,582,722
2026	35,368,368
2027	35,128,312
Thereafter	789,995,141

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.

Operating Lease Obligations

The Cooperative has entered into operating leases for back up control center, copiers, office space, and technology center. These operating leases have lease terms from 3 years to 5 years. The right of use asset and lease liability were calculated at the net present value of the guaranteed lease payments over the term of each lease using a discount rate based on the Cooperative's incremental borrowing rate. The annual discount rate for the year ended December 31, 2022 varies between 4.3% and 5.6%. The annual discount rate for the year ended December 31, 2021 was 5.6%.

Lease expense is included in distribution – operation and administrative and general expenses in the statements of income and patronage capital. Total lease payments for the year ended December 31, 2022 and 2021 were \$966,391 and \$554,188, respectively, including interest of \$83,523 and \$37,008, respectively.

At December 31, 2022 and 2021, the balances of these accounts were as follows:

	<u>2022</u>	<u>2021</u>
Operating Lease - Right of Use Assets	\$ <u>2,639,238</u>	\$ <u>1,283,565</u>
Operating Lease Obligations	\$ 2,639,238	\$ 1,283,565
Less: Current Maturities	<u>(1,088,923)</u>	<u>(487,747)</u>
	<u>\$ 1,550,315</u>	<u>\$ 795,818</u>

The maturities of operating lease obligations as of December 31, 2022 were as follows:

2023	\$ 1,191,948
2024	1,121,388
2025	<u>487,589</u>
Total Minimum Lease Payments	\$ 2,800,925
Amount Representing Interest	<u>(161,687)</u>
Present Value of Lease Payments	<u>\$ 2,639,238</u>

PEDERNALES ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

Finance Lease Obligations

The Cooperative has entered into finance 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, 2022 and 2021 totaled \$84,194 and \$56,073, respectively.

The following is an analysis of the book value of the leased assets included in electric plant at December 31, 2022 and 2021, which is being depreciated on a straight-line basis over the life of the lease:

	<u>2022</u>	<u>2021</u>
Bucket Trucks	\$ 4,286,650	\$ 4,286,650
Information Technology Hardware	645,091	645,091
Accumulated Depreciation	<u>(1,820,377)</u>	<u>(701,296)</u>
	<u>\$ 3,111,364</u>	<u>\$ 4,230,445</u>

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

	<u>2022</u>	<u>2021</u>
First American Equipment Finance	\$ 3,140,886	\$ 4,172,411
Less: Current Maturities	<u>(1,037,332)</u>	<u>(1,031,522)</u>
	<u>\$ 2,103,554</u>	<u>\$ 3,140,889</u>

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, 2022:

2023	\$ 1,097,530
2024	897,491
2025	877,571
2026	<u>388,989</u>
Total Minimum Lease Payments	\$ 3,261,581
Amount Representing Interest	<u>(120,695)</u>
Present Value of Lease Payments	<u>\$ 3,140,886</u>

PEDERNALES ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

9. Lines of Credit

The Cooperative has the following lines of credit as of December 31, 2022 and 2021:

	2022		2021	
	Total Line	Maturity	Total Line	Maturity
CFC	\$ 100,000,000	Perpetual	\$ 100,000,000	Perpetual
CoBank	100,000,000	08/22/23	100,000,000	08/22/22
Bank of America	105,000,000	12/01/23	105,000,000	12/04/22
Bank of America	200,000,000	12/04/23	200,000,000	12/04/23
JPMorgan Chase	15,000,000	12/30/23	15,000,000	12/30/22
Total Lines of Credit	<u>\$ 520,000,000</u>		<u>\$ 520,000,000</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, 2022 and 2021.

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, 2022 and 2021.

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, 2022 and 2021.

JPMorgan Chase Equipment Purchase Line

The Cooperative has a line of credit to purchase equipment with JPMorgan Chase. In February 2022, the Cooperative refinanced the line of credit to long-term debt of \$5,794,741. At December 31, 2022 and 2021, the Cooperative had \$0 and \$5,544,667, respectively, outstanding on this line of credit.

PEDERNALES ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

Pursuant to the Cooperative's utilization of long-term funds to repay these amounts \$0 and \$5,544,667 are classified as long-term debt on the balance sheet at December 31, 2022 and 2021, respectively.

Commercial Paper Program

The Cooperative has a Commercial Paper Notes program 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, 2022 and 2021, the Cooperative had an outstanding balance of \$132,792,211 and \$101,996,940, respectively, of Commercial Paper with interest rates of 4.30% to 4.45% with maturities through January 20, 2023. 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 \$132,792,211 and \$101,996,940 are classified as long-term debt on the balance sheet at December 31, 2022 and 2021, respectively.

10. Deferred Credits

Deferred credits included the following:

	<u>2022</u>	<u>2021</u>
Patronage Capital - Unclaimed Property	\$ 1,964,267	\$ 4,131,692
Post-Retirement Medical Benefits (See Note 13)	44,110,083	39,906,583
Retiree's Medical and Dental Insurance	5,228,737	4,386,909
Other	3,000	2,520
	<u>\$ 51,306,087</u>	<u>\$ 48,427,704</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 2022 and 2021, 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.

PEDERNALES ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

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 2022 and 2021, 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 2022 and 2021, respectively.

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.

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, 2022 and 2021, were \$7,026,225 and \$6,480,217, respectively.

The measurement date used for the current valuation is December 31, 2022.

PEDERNALES ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

The following weighted-average assumptions were used to develop the accumulated post-retirement benefit obligation for 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Discount Rate	5.25%	2.84%
Rate of Compensation Increase	4.00%	4.00%

The following weighted-average assumptions were used to determine the net benefit cost for 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Discount Rate	2.84%	2.52%
Rate of Compensation Increase	4.00%	4.00%
Expected Long-Term Return on Plan Assets	5.80%	5.80%

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

	<u>2022</u>	<u>2021</u>
I) Net Periodic Benefit Cost		
Service Cost	\$ 5,511,881	\$ 6,183,573
Interest Cost	8,798,820	7,990,695
Amortization	2,493,404	6,159,391
Return on Assets	<u>(15,666,515)</u>	<u>(14,585,756)</u>
	<u>\$ 1,137,590</u>	<u>\$ 5,747,903</u>
II) Projected Benefit Obligation (PBO) Reconciliation:		
PBO Balance at Beginning of Year	\$ 312,237,261	\$ 319,806,648
Actuarial (Gain)/Loss	(81,490,833)	(11,279,407)
Interest Cost/Service Cost	14,310,701	14,174,268
Benefits Paid	<u>(10,825,377)</u>	<u>(10,464,248)</u>
Projected Benefit Obligation at Year End	<u>\$ 234,231,752</u>	<u>\$ 312,237,261</u>
III) Reconciliation of Funded Status		
Projected Benefit Obligation	\$ 234,231,752	\$ 312,237,261
Fair Value of Assets	<u>215,675,358</u>	<u>273,603,760</u>
Funded Status at Year End	<u>\$ (18,556,394)</u>	<u>\$ (38,633,501)</u>
IV) Deferred Charge		
Actuarial Loss - Beginning of Year	\$ 44,172,488	\$ 69,713,560
Amortization of Loss/Remeasurement	(11,695,068)	(6,159,391)
Actuarial Loss	<u>(2,493,404)</u>	<u>(19,381,681)</u>
Deferred Charge at Year End	<u>\$ 29,984,016</u>	<u>\$ 44,172,488</u>

PEDERNALES ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

The accumulated benefit obligation for the plan was \$216,892,159 and \$282,902,663 at December 31, 2022 and 2021, respectively.

Plan Asset Information

Information related to fair value hierarchy measurements are disclosed in Note 14. The defined benefit plan asset fair value measurements are substantially Level 1.

Fair value of plan assets at December 31, 2022 and 2021 and asset allocation is as follows:

	<u>2022</u>	<u>2021</u>
Cash and Cash Equivalents	\$ 2,441,763	\$ 1,108,438
Government Agencies, Bonds and Notes	140,059,807	146,769,488
Mutual Funds	62,659,237	106,866,414
Other	10,514,551	18,859,420
Total	<u>\$ 215,675,358</u>	<u>\$ 273,603,760</u>

	<u>2022</u>	<u>2021</u>
Mutual Funds and Equity Securities	29%	39%
Debt Securities	65%	54%
Other	6%	7%
Total	<u>100%</u>	<u>100%</u>

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

2023	\$ 11,733,632
2024	12,342,384
2025	13,007,965
2026	13,850,353
2027	14,572,834
2028-2032	82,989,606

The estimated 2023 plan year minimum required contribution is \$5,671,000.

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 \$6,684,367 and \$6,205,072 in 2022 and 2021, respectively.

PEDERNALES ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

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.

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, 2022 and 2021, were \$1,402,655 and \$1,331,731, 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, 2022.

The weighted-average discount rate used to develop the accumulated post-retirement benefit obligation for the years ended December 31, 2022 and 2021, were 5.19% and 2.69%, respectively.

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

	<u>2022</u>	<u>2021</u>
I) Net Post-Retirement Benefit Cost		
Interest Cost	\$ 534,879	\$ 573,636
Amortization	<u>(3,143,731)</u>	<u>(2,798,749)</u>
	<u>\$ (2,608,852)</u>	<u>\$ (2,225,113)</u>
II) Accumulated Post-Retirement Benefit Obligation (APBO) Reconciliation:		
APBO Balance at Beginning of Year	\$ 23,679,225	\$ 25,799,394
Actuarial (Gain)/Loss	(7,347,231)	(1,507,555)
Interest Cost / Service Cost	534,879	573,636
Employer Contributions Net of Participant Amounts	<u>(1,295,940)</u>	<u>(1,186,250)</u>
Net Post-Retirement Benefit Liability at Year End	<u>\$ 15,570,933</u>	<u>\$ 23,679,225</u>
III) Reconciliation of Funded Status		
APBO	<u>\$ 15,570,933</u>	<u>\$ 23,679,225</u>
Accrued Post-Retirement Benefit Cost	<u>\$ 15,570,933</u>	<u>\$ 23,679,225</u>
IV) Deferred Credit		
Actuarial Gain - Beginning of Year	\$ (39,906,583)	\$ (41,197,777)
Amortization	3,143,731	2,798,749
Current Year Net (Gain)/Loss	<u>(7,347,231)</u>	<u>(1,507,555)</u>
Deferred Credit at Year End	<u>\$ (44,110,083)</u>	<u>\$ (39,906,583)</u>

PEDERNALES ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

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 \$3,427,846.

The Cooperative has not funded any plan assets as of December 31, 2022 or 2021.

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

2023	\$	1,501,616
2024		1,424,745
2025		1,369,206
2026		1,259,038
2027		1,257,197
2028-2032		5,884,252

14. 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.

15. Subsequent Events

The Cooperative has evaluated subsequent events through March 29, 2023, the date which the financial statements were available to be issued.

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

COMPLIANCE SECTION

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

**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, 2022 and 2021, and the related statements of income and patronage capital, and cash flows for the years ended, and have issued our report thereon dated March 29, 2023.

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 29, 2023