

PEDERNALES ELECTRIC COOPERATIVE, INC.

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

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

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TABLE OF CONTENTS

	Page <u>No.</u>
Independent Auditor's Report	1
Financial Statements	
Balance Sheets	4
Statements of Income and Patronage Capital	5
Statements of Cash Flows	6
Notes to Financial Statements	7
Compliance and Internal Control Section	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	27

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

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Pedernales Electric Cooperative, Inc., which comprise the balance sheets as of December 31, 2025 and 2024, 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 the Pedernales Electric Cooperative, Inc. as of December 31, 2025 and 2024, 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 (GAAP).

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 GAAP, 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 and *Government Auditing Standards* 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 aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 9, 2026 on our consideration of the Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Pedernales Electric Cooperative, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cooperative's internal control over financial reporting and compliance.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

April 9, 2026

PEDERNALES ELECTRIC COOPERATIVE, INC.

BALANCE SHEETS
DECEMBER 31, 2025 AND 2024

ASSETS

	December 31,	
	2025	2024
UTILITY PLANT AT COST		
Utility Plant in Service	\$ 2,560,375,048	\$ 2,363,061,482
Operating Lease - Right of Use Asset	2,450,649	1,058,945
Construction Work in Progress	147,170,250	185,109,614
	<u>\$ 2,709,995,947</u>	<u>\$ 2,549,230,041</u>
Less: Accumulated Provision for Depreciation	(425,198,296)	(397,401,079)
	<u>\$ 2,284,797,651</u>	<u>\$ 2,151,828,962</u>
OTHER PROPERTY AND INVESTMENTS - AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 22,155,460	\$ 21,480,385
CURRENT ASSETS		
Unrestricted Cash and Cash Equivalents	\$ 71,721,876	\$ 20,382,009
Restricted Cash and Cash Equivalents	4,802,914	
Accounts Receivable - Energy (Less allowance for credit losses of \$842,039 in 2025 and \$709,869 in 2024)	37,068,970	32,745,386
Accounts Receivable - Other (Less allowance for credit losses of \$492,407 in 2025 and \$761,367 in 2024)	13,086,353	10,635,508
Accrued Unbilled Revenue	37,127,751	29,042,447
Materials and Supplies Inventory	58,236,620	56,018,420
Other Current and Accrued Assets	7,057,436	5,326,373
Total Current Assets	<u>\$ 229,101,920</u>	<u>\$ 154,150,143</u>
DEFERRED CHARGES AND OTHER ASSETS	\$ 21,911,117	\$ 25,102,541
TOTAL ASSETS	<u>\$ 2,557,966,148</u>	<u>\$ 2,352,562,031</u>

EQUITIES AND LIABILITIES

EQUITIES		
Memberships	\$ 18,370,771	\$ 17,609,441
Patronage Capital	460,701,147	442,987,523
Other Equities	505,632,198	460,780,800
Total Equities	<u>\$ 984,704,116</u>	<u>\$ 921,377,764</u>
LONG-TERM DEBT		
Mortgage Bonds Less Current Maturities and Issuance Costs	\$ 448,877,287	\$ 464,458,145
CFC Mortgage Notes Less Current Maturities	384,432,675	398,417,933
Chase Notes Less Current Maturities	208,367	1,435,645
CoBank Notes Less Current Maturities	170,507,408	21,243,907
NYL Note Less Current Maturities	153,333,334	159,166,667
Operating Lease Obligations Less Current Maturities	1,288,479	397,974
Finance Lease Obligations Less Current Maturities	16,823,102	16,498,959
Commercial Paper to be Refinanced	89,937,750	114,560,833
Total Long-Term Debt	<u>\$ 1,265,408,402</u>	<u>\$ 1,176,180,063</u>
ACCUMULATED PROVISION FOR PENSIONS AND BENEFITS	\$ 16,384,845	\$ 24,665,913
CURRENT LIABILITIES		
Current Maturities of Bonds and Mortgage Notes	\$ 43,701,702	\$ 42,916,057
Current Maturities of Operating Lease Obligations	1,162,170	660,971
Current Maturities of Finance Lease Obligations	1,337,786	1,649,733
Current Portion of Accumulated Provision for Pensions and Benefits	1,106,041	1,520,925
Purchased Power - Payable and Accrued	45,455,176	42,874,502
Accounts Payable - Other	41,067,012	33,266,448
Power Cost Adjustments - Over-Recovered	48,395,131	7,293,112
Tax Payable	15,611,829	14,675,866
Interest Payable	8,743,907	8,404,700
Member Deposits	8,835,708	8,701,849
Other Current and Accrued Liabilities	29,697,179	24,090,593
Total Current Liabilities	<u>\$ 245,113,641</u>	<u>\$ 186,054,756</u>
DEFERRED CREDITS	\$ 46,355,144	\$ 44,283,535
TOTAL EQUITIES AND LIABILITIES	<u>\$ 2,557,966,148</u>	<u>\$ 2,352,562,031</u>

See accompanying notes to financial statements.

PEDERNALES ELECTRIC COOPERATIVE, INC.

**STATEMENTS OF INCOME AND PATRONAGE CAPITAL
FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024**

	December 31,	
	<u>2025</u>	<u>2024</u>
OPERATING REVENUES		
Residential	\$ 747,204,956	\$ 676,361,340
Small and Large Power	241,239,211	228,960,205
Power Cost Adjustment	(41,102,019)	(34,877,669)
Transmission Revenues	38,278,635	34,570,732
Other Revenues	18,848,225	16,775,024
Total Operating Revenues	<u>\$ 1,004,469,008</u>	<u>\$ 921,789,632</u>
OPERATING EXPENSES		
Purchased Power	\$ 461,045,861	\$ 415,170,823
ERCOT Transmission Access Charges	137,171,723	131,441,736
Transmission	21,951,034	20,057,864
Distribution	165,620,500	159,755,479
Unallocated Administrative and General	3,084,128	2,752,607
Depreciation	81,123,380	89,863,674
Taxes	3,236,966	1,477,821
Other Interest and Deductions	859,336	1,533,113
Total Operating Expenses	<u>\$ 874,092,928</u>	<u>\$ 822,053,117</u>
OPERATING MARGINS - Before Fixed Charges	<u>\$ 130,376,080</u>	<u>\$ 99,736,515</u>
FIXED CHARGES		
Interest and Amortization on Commercial Paper and Long-Term Debt	<u>\$ 54,225,632</u>	<u>\$ 50,819,219</u>
OPERATING MARGINS - After Fixed Charges	<u>\$ 76,150,448</u>	<u>\$ 48,917,296</u>
Capital Credits	<u>2,441,967</u>	<u>2,180,336</u>
NET OPERATING MARGINS	<u>\$ 78,592,415</u>	<u>\$ 51,097,632</u>
NON-OPERATING MARGINS		
Realized Utility Non-Operating Income	\$ 1,964,010	\$ 1,384,947
Unrealized Utility Non-Operating Expense	(6,750)	(1,247)
Disposal of Assets	(68,611)	2,539,537
	<u>\$ 1,888,649</u>	<u>\$ 3,923,237</u>
NET MARGINS	<u>\$ 80,481,064</u>	<u>\$ 55,020,869</u>
PATRONAGE CAPITAL - BEGINNING OF YEAR	442,987,523	455,604,329
Patronage Capital Retired	(17,916,041)	(15,592,342)
Transfers to Other Equities	<u>(44,851,399)</u>	<u>(52,045,333)</u>
PATRONAGE CAPITAL - END OF YEAR	<u>\$ 460,701,147</u>	<u>\$ 442,987,523</u>

See accompanying notes to financial statements.

PEDERNALES ELECTRIC COOPERATIVE, INC.

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024**

	December 31,	
	<u>2025</u>	<u>2024</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 80,481,064	\$ 55,020,869
Adjustments to Reconcile Net Margins to Net Cash From Non-Cash Operating Activities		
Depreciation and Amortization Expense	87,461,854	96,202,148
Capital Credits	(2,441,967)	(2,180,336)
Non-Cash Pension and Benefits Expense	3,336,448	2,080,576
Power Cost Adjustments	41,102,019	34,877,669
Payments on Pension and Benefits	(8,914,168)	(7,344,575)
Changes in Assets and Liabilities:		
Accounts Receivable - Net	(14,859,732)	(7,865,343)
Accounts Payable	12,327,680	(2,140,304)
Materials & Supplies	(2,218,201)	(3,637,966)
Other Assets and Liabilities	6,020,323	1,841,891
Net Cash From Operating Activities	<u>\$ 202,295,320</u>	<u>\$ 166,854,629</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Additions to Property, Plant & Equipment	\$ (211,484,877)	\$ (231,353,358)
Capital Credit Retirements from Associated Organizations	1,766,892	991,338
Net Cash From Investing Activities	<u>\$ (209,717,985)</u>	<u>\$ (230,362,020)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Long-Term Debt	\$ (44,656,760)	\$ (40,506,850)
Advances on Long-Term Debt	150,000,000	100,000,000
Net Activity on Commercial Paper	(24,623,083)	29,755,625
Retirement of Patronage Capital	(17,916,041)	(15,592,341)
Increase in Memberships - Net	761,330	845,274
Net Cash From Financing Activities	<u>\$ 63,565,446</u>	<u>\$ 74,501,708</u>
CHANGE IN CASH AND CASH EQUIVALENTS	<u>\$ 56,142,781</u>	<u>\$ 10,994,317</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>20,382,009</u>	<u>9,387,692</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 76,524,790</u>	<u>\$ 20,382,009</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash Paid During the Year for:		
Interest on Long-Term Debt	\$ 37,885,704	\$ 36,381,412
Patronage Capital Retired by Non-Cash Discounting	\$ 44,926,759	\$ 49,507,042
Assets Obtained through Finance Leases	\$ 1,752,901	\$ 1,062,005
Assets Obtained through Operating Leases	\$ 2,052,675	\$
Accounts Payable included in CIP	<u>\$ 537,413</u>	<u>\$</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 Texas electric cooperative corporation organized on a non-profit basis to provide electric service at the retail level to primarily residential and commercial accounts in a designated service area. As of December 31, 2025, the Cooperative served 441,007 accounts.

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.

The Cooperative uses a cost allocation methodology consistent with utility industry standards to allocate administrative and general (A&G) costs to distribution and transmission business functions. This presentation allows financial statement users to better understand the costs attributable to each of these business functions. Any costs that do not fall in this methodology are reported as unallocated A&G.

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 with an original maturity of three months or less are considered cash and cash equivalents. Restricted cash and cash equivalents represent funds reserved to cover self-insurance claims.

PEDERNALES ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

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.

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

Allowance for Credit Losses

The allowance for credit losses represents an estimate of the expected credit losses inherent in trade receivables as of the balance sheet date. Additions to the allowance for credit losses, if any, are made by recording charges to expenses in the income statement. Recoveries consist of consumer payments and application of general retirements for members with outstanding balances. The Cooperative's methodology in determining the adequacy of the allowance for credit losses includes consideration of the aging of accounts receivable, historical trends, and a review of potential bad debts. The delinquent accounts deemed uncollectible are written off once outstanding for more than 120 days. Changes in the allowance for credit losses related to electric accounts receivable during the years ended December 31, 2025 and 2024 were as follows:

	<u>2025</u>	<u>2024</u>
Balance, Beginning of Year	\$ 709,869	\$ 885,898
Adjustment - Expected Credit Losses	462,810	186,932
Write-Offs	(1,204,415)	(1,164,194)
Recoveries	<u>873,775</u>	<u>801,233</u>
Balance, End of Year	<u>\$ 842,039</u>	<u>\$ 709,869</u>

Changes in the allowance for credit losses related to miscellaneous accounts receivable during the years ended December 31, 2025 and 2024 were as follows:

	<u>2025</u>	<u>2024</u>
Balance, Beginning of Year	\$ 761,367	\$ 845,597
Adjustment - Expected Credit Losses	(38,151)	63,787
Write-Offs	(230,809)	(148,017)
Recoveries	<u></u>	<u></u>
Balance, End of Year	<u>\$ 492,407</u>	<u>\$ 761,367</u>

Materials and Supplies Inventory

Materials and supplies inventories are valued at average unit cost.

PEDERNALES ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

Electric Revenues

Substantially all operating revenues and accounts receivables are derived from Cooperative members. Performance obligations related to the sale of energy are satisfied as energy is delivered to members. The Cooperative recognizes electric revenue that corresponds to the price of the energy delivered to the member and the costs assessed to members associated with the use of its distribution and transmission delivery systems. The measurement of energy sales to members is based on the reading of their meters, which occurs on a systematic basis daily. At the end of each month, amounts of energy delivered to members 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 members at December 31, 2025 and 2024 amounted to \$37,127,751 and \$29,042,447, respectively.

In addition, the Cooperative realizes a small portion of its revenues from the use of its transmission system by other distribution utilities within the Electric Reliability Council of Texas (ERCOT). These transmission access revenues are collected on behalf of PEC by Lower Colorado River Authority (LCRA) Transmission Services Corporation (TSC). Revenues from the transmission access charges were \$38,278,635 and \$30,411,642 in 2025 and 2024, respectively, attributable to the lease termination in 2024 with LCRA TSC.

LCRA TSC previously leased and operated certain transmission facilities and equipment owned by the Cooperative. In 2019, both parties agreed to terminate the lease upon certain conditions. The lease terminated in 2024, and the Cooperative became a transmission operator. The Cooperative's transmission lease revenues totaled \$0 and \$4,159,090 in 2025 and 2024, respectively.

The Cooperative does not recognize a separate financing component of its collections from members given receivables short-term nature. The Cooperative presents its revenues net of any excise taxes, sales taxes, or fees, except for gross receipts taxes.

The Cooperative's tariffs for electric service include a separate charge under which billings to customers can be adjusted to reflect changes in the cost of purchased power subject to the approval of the Board. In order to match power cost and related revenues, over recovered power costs to be credited to members 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 over recovered power costs of \$48,395,131 and \$7,293,112 as of December 31, 2025 and 2024, respectively.

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.

PEDERNALES ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

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 2022. In 2025 and 2024, the Cooperative did not incur tax related interest or penalties.

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 members along with accrued interest after one year of prompt payments or two years for non-residential accounts. As of December 31, 2025, and 2024, deposits on hand totaled \$8,835,708 and \$8,701,849, 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 2025 and 2024.

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.

PEDERNALES ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

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.

The Cooperative's pension plan assets are substantially all Level 1 inputs.

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.

2. Assets Pledged

Substantially all assets are pledged as security for 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>2025</u>	<u>2024</u>
Transmission Plant	\$ 368,363,932	\$ 287,190,393
Distribution Plant	1,902,039,683	1,806,016,952
General Plant	251,625,305	231,869,580
Plant Held for Future Use	13,742,042	15,133,372
Leased Assets	<u>27,054,735</u>	<u>23,910,130</u>
Total Utility Plant in Service	\$ 2,562,825,697	\$ 2,364,120,427
Construction Work in Progress	<u>147,170,250</u>	<u>185,109,614</u>
Total Utility Plant	<u>\$ 2,709,995,947</u>	<u>\$ 2,549,230,041</u>

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

	<u>2025</u>	<u>2024</u>
Transmission Plant	1.57% - 20.00%	1.57% - 20.00%
Distribution Plant	1.75% - 20.00%	1.75% - 20.00%
General Plant	2.00% - 20.00%	2.00% - 20.00%

Plant Held for Future Use represents the cost of property owned by the Cooperative, primarily land and land rights, acquired for use in future electric service under a definite plan for utility operations. These assets are typically acquired to ensure the availability of strategic transmission corridors and substation sites necessary to meet long-term grid reliability and load growth requirements.

Depreciation for the years ended December 31, 2025 and 2024 was \$81,123,380 and \$89,863,674, respectively. In 2021, the Cooperative started replacing most meters with newer advanced metering infrastructure (AMI) meters. The Cooperative accelerated depreciation on these older meters during subsequent years, which added \$9,345,619 to depreciation expense for the year ended December 31, 2024. As of December 31, 2024, the replacement of existing meters was complete, and no additional accelerated depreciation has been recorded in 2025.

PEDERNALES ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

4. Investments in Associated Organizations

Investments in associated organizations consisted of:

	December 31,	
	<u>2025</u>	<u>2024</u>
CFC		
Capital Term Certificates	\$ 4,429,446	\$ 4,813,296
Patronage Capital	8,808,714	8,702,070
Texas Electric Cooperative		
Patronage Capital	7,856,552	6,869,831
Other	1,060,748	1,095,188
	<u>\$ 22,155,460</u>	<u>\$ 21,480,385</u>

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, 2025 and 2024 were \$58,236,620 and \$56,018,420, respectively.

6. Deferred Charges and Other Assets

Deferred charges and other assets included the following:

	<u>2025</u>	<u>2024</u>
Defined Benefit Plans (See Note 12)	\$ 21,911,117	\$ 25,102,541
	<u>\$ 21,911,117</u>	<u>\$ 25,102,541</u>

The Cooperative recognizes a deferred charge for the portion of its pension and other post-retirement benefit plans that have 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 state law, the Cooperative's organizational documents, and its capital credits policy subject to the covenants contained in the long-term debt agreements.

PEDERNALES ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

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 as of December 31, 2025 and 2024.

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 \$17,916,041 and \$15,592,341 was distributed to members during 2025 and 2024, respectively.

Patronage capital assigned and assignable at December 31, 2025 and 2024, is as follows:

	<u>2025</u>	<u>2024</u>
Assigned to Date	\$ 1,041,751,456	\$ 987,000,145
Assignable	<u>109,598,764</u>	<u>83,793,661</u>
	\$ 1,151,350,220	\$ 1,070,793,806
Less: Retirements to Date	193,505,628	175,589,587
Less: Discounted Patronage Capital to Permanent Equity	<u>497,143,444</u>	<u>452,216,696</u>
	<u>\$ 460,701,147</u>	<u>\$ 442,987,523</u>

The Cooperative's organizational documents and its capital credits policy provide that amounts received by the Cooperative in excess of costs and expenses shall, insofar as permitted by law, be allocated to its members on a patronage basis subject to any losses incurred being carried forward to the next fiscal year(s).

Other equities at December 31, 2025 and 2024, are as follows:

	<u>2025</u>	<u>2024</u>
Non-operating Margins	\$ 8,488,771	\$ 8,564,133
Discounted Capital Credits	<u>497,143,427</u>	<u>452,216,667</u>
	<u>\$ 505,632,198</u>	<u>\$ 460,780,800</u>

The Cooperative may utilize non-utility 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, 2025 and 2024, bonds and mortgage notes consisted of the following:

	2025	2024
First Mortgage Bonds, 2002 Series A - 6.20%; due 2032 Interest Payable Semi-Annually; Principal Payable Annually	\$ 30,240,000	\$ 33,617,000
CFC Loan - 3.40% - 4.15%; due 2043 to 2049 Interest and Principal Payable Quarterly	398,417,934	411,882,899
Chase Loan - 3.18%; due 2027 Interest and Principal Payable Monthly	1,435,644	2,624,511
CoBank Loan - 2.44%; due 2047 Interest and Principal Payable Quarterly	21,243,907	21,962,466
CoBank Loan - 4.57%; due 2028 Interest and Principal Payable Quarterly	150,000,000	
NYL Loan - 2.18%; due 2050 Interest Payable Semi-Annually; Principal Payable Annually	62,500,000	65,000,000
NYL Loan - 5.55%; due 2054 Interest Payable Semi-Annually; Principal Payable Annually	96,666,667	100,000,000
First Mortgage Bonds, 2021 Series A and B - 2.34% to 2.44%; due 2051 Interest Payable Semi-Annually; Principal Payable Annually	346,666,667	360,000,000
First Mortgage Bonds, 2023 Series A - 2.99%; due 2053 Interest Payable Semi-Annually; Principal Payable Annually	140,000,000	145,000,000
Less: Deferred Premium	(42,850,156)	(49,045,360)
Less: Bond Issue Costs	(3,259,890)	(3,403,162)
	\$ 1,201,060,773	\$ 1,087,638,354
Less: Current Maturities	(43,701,702)	(42,916,057)
Total Bonds and Mortgage Notes	\$ 1,157,359,071	\$ 1,044,722,297

The Cooperative amended the New York Life (NYL) Shelf agreement in December 2025 to add an additional \$200 million in capacity. The Cooperative has \$180 million available under its uncommitted term loan facility with New York Life (NYL).

PEDERNALES ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

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

2026	\$	43,701,702
2027		43,461,645
2028		194,066,183
2029		44,919,022
2030		45,809,632
Thereafter		<u>875,212,636</u>
Total	\$	<u>1,247,170,820</u>

Operating Lease Obligations

The Cooperative has entered into operating leases for back up control centers, copiers, office space, and the 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 applied for existing operating leases for the years ended December 31, 2025 and 2024 varies between 4.3% and 6.6%.

Lease expense is included in administrative and general expenses in the statements of income and patronage capital. Total lease payments for the year ended December 31, 2025 and 2024 were \$1,078,346 and \$1,407,183, respectively, including interest of \$96,451 and \$64,230, respectively.

At December 31, 2025 and 2024, the balances of these accounts were as follows:

	<u>2025</u>	<u>2024</u>
Operating Leases		
Operating Lease - Right of Use Assets	\$ <u>2,450,649</u>	\$ <u>1,058,945</u>
Operating Lease Obligations	\$ 2,450,649	\$ 1,058,945
Less: Current Maturities	<u>(1,162,170)</u>	<u>(660,971)</u>
	<u>\$ 1,288,479</u>	<u>\$ 397,974</u>

The maturities of operating lease obligations as of December 31, 2025 were as follows:

2026	\$	1,233,111
2027		1,121,709
2028		<u>201,367</u>
Total Minimum Lease Payments	\$	<u>2,556,187</u>
Amount Representing Interest		<u>(105,538)</u>
Present Value of Lease Payments	\$	<u>2,450,649</u>

PEDERNALES ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

Finance Lease Obligations

The Cooperative has entered into a lease line with First American Equipment Finance (FAEF) for the purchase of bucket trucks and information technology hardware not to exceed \$10,000,000. The individual leases under this line expire in 2026. The Cooperative has also entered into a lighting service lease with NextEra Energy Solutions (NextEra) for the purchase of lights to be used on member property. The economic substance of the finance 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, 2025 and 2024 totaled \$1,182,023 and \$1,135,727, respectively.

The following is an analysis of the book value of the leased assets included in electric plant at December 31, 2025 and 2024, which is being depreciated on a straight-line basis over the life of the lease:

	<u>2025</u>	<u>2024</u>
Bucket Trucks	\$ 4,138,224	\$ 4,138,224
Information Technology Hardware	645,091	645,091
Lights	19,820,770	18,067,870
Accumulated Depreciation	<u>(7,546,099)</u>	<u>(5,402,077)</u>
	<u>\$ 17,057,986</u>	<u>\$ 17,449,108</u>

Following is a summary of the finance lease obligation due to FAEF and NextEra with schedule maturities:

	<u>2025</u>	<u>2024</u>
First American Equipment Finance	\$ 370,930	\$ 1,198,889
NextEra Energy Solutions	17,789,958	16,949,803
Less: Current Maturities	<u>(1,337,786)</u>	<u>(1,649,733)</u>
	<u>\$ 16,823,102</u>	<u>\$ 16,498,959</u>

PEDERNALES ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

The entire lease obligation to FAEF and NextEra calls for monthly payments totaling \$233,894 over the remaining term of the leases. The average interest rate is 5.63%. Below is a schedule by years of the future minimum payments required under the leases, with their present value at December 31, 2025:

2026	\$	2,433,301
2027		2,059,872
2028		2,059,872
2029		2,059,872
2030		2,059,872
Thereafter		15,449,034
Total Minimum Lease Payments	\$	26,121,823
Amount Representing Interest		(7,960,935)
Present Value of Lease Payments	\$	18,160,888

9. Lines of Credit

The Cooperative has the following lines of credit as of December 31, 2025 and 2024:

	2025		2024	
	Total Line	Maturity	Total Line	Maturity
CFC	\$ 100,000,000	Perpetual	\$ 100,000,000	Perpetual
CFC	100,000,000	11/26/27	100,000,000	11/26/27
CoBank	100,000,000	11/27/26	100,000,000	11/28/25
Bank of America	105,000,000	11/25/26	105,000,000	11/28/25
Bank of America	200,000,000	11/26/27	200,000,000	11/26/27
JPMorgan Chase	15,000,000	12/31/26	15,000,000	12/31/24
Total Lines of Credit	\$ <u>620,000,000</u>		\$ <u>620,000,000</u>	

National Rural Utilities Cooperative Finance Corporation (CFC)

The Cooperative has two lines of credit agreements which require the Cooperative to pay down the balances to zero annually. Interest is charged on balances outstanding based on the CFC short-term rate in effect upon the date funds were initially borrowed. The first line automatically renews unless either party gives a 90-day notice. The second line has a 3-year term in which funds are committed upon payment of an annual fee charged of 0.10% on the commitment amount. This credit line provides 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, 2025 and 2024.

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, 2025 and 2024.

PEDERNALES ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

The Cooperative entered into a second agreement with CoBank in June 2025 for a facility with capacity of \$300 million dollars. The Cooperative issued \$150 million in notes on November 24, 2025 bearing interest of 4.57% maturing January 20, 2028. The proceeds were used to refund the Company's outstanding Commercial Paper Notes which were incurred to fund capital expenditures and for general corporate purposes.

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 1.15% 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 Term SOFR plus 1.00%. Funds under this credit line are committed with a fee charged of 0.20% on the undrawn balance. The second credit line has a three-year term which bear interest at SOFR plus 1.35% 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 Term SOFR plus 1.00%. Funds under this credit line are committed with a fee charged of 0.35% 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, 2025 and 2024.

The Cooperative also has a non-syndicated revolving credit line reserved for issued Letters of Credit. Each issued Letter of Credit bears a Letter of Credit fee equal to 0.75% per annum times the maximum stated amount of each Letter of Credit. As of December 31, 2025, and 2024, the Cooperative was obligated for a total of \$4 under letters of credit. These letters of credit are issued in support of the Cooperative's obligations to perform under power supply agreements. Many of these letters of credit expire within one year of issuance, and it is typical for the Cooperative to renew them on similar terms. The capacity for these letters of credit is \$50,000,000. Any amounts disbursed under the revolving credit line bears an interest at a base rate on the date of such disbursement and thereafter bears an interest rate at the default rate. The base rate is the highest of the Federal Funds rate plus 0.50% or the Prime Rate. Funds under this credit line are committed with a fee charged of 0.30% on the undrawn balance. No balances were outstanding on either line as of December 31, 2025 and 2024.

PEDERNALES ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

JPMorgan Chase

The Cooperative had a line of credit to purchase equipment with JPMorgan Chase which was later refinanced to long-term debt. The line of credit matured on December 31, 2024 but was renewed in March 2025 and matures 12/31/2026.. No balances were outstanding on the credit line as of December 31, 2025 and 2024.

The Cooperative also has a revolving credit line reserved for issued Letters of Credit. Each issued Letter of Credit bears a Letter of Credit fee equal to 1.15% per annum that accrues on the daily maximum amount available under to be drawn under each Letter of Credit. As of December 31, 2025 and 2024, the Cooperative was obligated for a total of \$1 under the letter of credit. These letters of credit are issued in support of the Cooperative’s obligations to perform under power supply agreements. Many of these letters of credit expire within one year of issuance, and it is typical for the Cooperative to renew them on similar terms.. The capacity for these letters of credit is \$50,000,000. Any amounts disbursed under the revolving credit line bears an interest at the per annum equal to the greater of the Prime Rate or 2.5%. Funds under this credit line are committed with a fee charged of 0.20% on the undrawn balance. There is no outstanding balance as of December 31, 2025.

Commercial Paper Program

The Cooperative has a Commercial Paper Notes program in an aggregate principal amount not to exceed \$300 million for the purpose of funding capital projects and general corporate purposes.

As of December 31, 2025 and 2024, the Cooperative had outstanding balances of \$89,937,750 and \$114,560,833, respectively, of Commercial Paper with interest rates of 4.15% to 4.69% with maturities through January 7, 2026. The Cooperative has two syndicated revolving credit lines in which Bank of America is the lead bank and a non-syndicated revolving credit line with CFC 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 \$89,937,750 and \$114,560,833 are classified as long-term debt on the balance sheet at December 31, 2025 and 2024, respectively. Corresponding interest related to the balances is classified as interest on long-term debt on the Statements of Income and Patronage Capital.

10. Deferred Credits

Deferred credits included the following:

	<u>2025</u>	<u>2024</u>
Patronage Capital - Unclaimed Property	\$ 9,674,834	\$ 5,493,938
Post-Retirement Medical Benefits (See Note 13)	34,587,448	35,650,988
Retiree’s Medical & Dental Insurance	2,091,494	3,137,241
Other	1,368	1,368
	<u>\$ 46,355,144</u>	<u>\$ 44,283,535</u>

PEDERNALES ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

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 2025 and 2024, 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 2025 and 2024, 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.

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, 2025, and 2024, were \$7,402,155 and \$6,004,588, respectively.

The measurement date used for the current valuation is December 31, 2025.

The following weighted-average assumptions were used to develop the accumulated post-retirement benefit obligation for 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Discount Rate	5.47%	5.61%
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 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Discount Rate	5.61%	5.02%
Rate of Compensation Increase	4.00%	4.00%
Expected Long-Term Return on Plan Assets	5.00%	5.80%

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

	<u>December 31,</u>	
	<u>2025</u>	<u>2024</u>
I) Net Periodic Benefit Cost		
Service Cost	\$ 3,337,559	\$ 3,817,113
Interest Cost	13,339,413	12,434,744
Amortization	673,627	1,347,770
Return on Assets	<u>(11,282,729)</u>	<u>(13,253,755)</u>
	<u>\$ 6,067,870</u>	<u>\$ 4,345,872</u>
II) Projected Benefit Obligation		
(PBO) Reconciliation:		
PBO Balance at Beginning of Year	\$ 241,288,602	\$ 246,272,305
Actuarial (Gain)/Loss	7,008,248	(8,858,229)
Interest Cost/Service Cost	16,676,972	16,251,857
Benefits Paid	<u>(13,186,439)</u>	<u>(12,377,331)</u>
Projected Benefit Obligation at Year End	<u>\$ 251,787,383</u>	<u>\$ 241,288,602</u>
III) Reconciliation of Funded Status		
Projected Benefit Obligation	\$ 251,787,383	\$ 241,288,602
Fair Value of Assets	<u>245,280,045</u>	<u>230,255,555</u>
Funded Status at Year End	<u>\$ (6,507,338)</u>	<u>\$ (11,033,047)</u>
IV) Deferred Charge		
Actuarial Loss - Beginning of Year	\$ 25,102,541	\$ 25,751,372
Amortization of Loss/Remeasurement	(673,627)	(1,347,770)
Actuarial Loss (Gain)	<u>(2,517,797)</u>	<u>698,939</u>
Deferred Charge at Year End	<u>\$ 21,911,117</u>	<u>\$ 25,102,541</u>

The accumulated benefit obligation for the plan was \$236,012,743 and \$224,333,330 at December 31, 2025 and 2024, respectively.

Plan Asset Information

Information related to fair value hierarchy measurements are disclosed in Note 1. 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, 2025 and 2024 and asset allocation is as follows:

	<u>2025</u>	<u>2024</u>
Cash and Cash Equivalents	\$ 3,594,095	\$ 4,039,498
Government Agencies, Bonds and Notes	188,357,509	176,307,653
Mutual Funds	42,341,115	39,556,655
Other	<u>10,987,326</u>	<u>10,351,749</u>
Total	<u>\$ 245,280,045</u>	<u>\$ 230,255,555</u>

	<u>2025</u>	<u>2024</u>
Mutual Funds and Equity Securities	17%	17%
Debt Securities	77%	77%
Other	<u>6%</u>	<u>6%</u>
Total	<u>100%</u>	<u>100%</u>

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

2026	\$ 14,174,147
2027	15,009,089
2028	15,680,640
2029	16,335,347
2030	16,991,801
2031-2035	93,799,892

The expected minimum contribution for the next plan year is \$7,270,965.

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 \$10,955,134 and \$9,971,122 in 2025 and 2024, respectively.

13. Post-Retirement Benefits Other than Pensions

The Cooperative provides post-retirement medical benefits for eligible former employees dependent on eligibility either the Cooperative's self-insurance medical plan or a plan with a third-party insurance provider. For purposes of this statement, the insurance continuation program 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, 2025, and 2024, were \$1,557,545 and \$1,392,208, 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, 2025.

The weighted-average discount rate used to develop the accumulated post-retirement benefit obligation for the years ended December 31, 2025, and 2024, were 5.19% and 5.51%, respectively.

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

	<u>2025</u>	<u>2024</u>
I) Net Post-Retirement Benefit Cost		
Interest Cost	\$ 612,389	\$ 777,896
Amortization	<u>(4,334,159)</u>	<u>(3,960,104)</u>
	<u>\$ (3,721,770)</u>	<u>\$ (3,182,208)</u>
II) Accumulated Post-Retirement Benefit Obligation (APBO) Reconciliation:		
APBO Balance at Beginning of Year	\$ 15,153,791	\$ 17,240,224
Actuarial (Gain)/Loss	(3,270,619)	(1,524,342)
Interest Cost / Service Cost	612,389	777,896
Employer Contributions Net of Participant Amounts	<u>(1,512,013)</u>	<u>(1,339,987)</u>
Net Post-Retirement Benefit Liability at Year End	<u>\$ 10,983,548</u>	<u>\$ 15,153,791</u>
III) Reconciliation of Funded Status		
APBO	\$ 10,983,548	\$ 15,153,791
Accrued Post-Retirement Benefit Cost	<u>\$ 10,983,548</u>	<u>\$ 15,153,791</u>
IV) Deferred Credit		
Actuarial Gain - Beginning of Year	\$ (35,650,988)	\$ (38,086,750)
Amortization	4,334,159	3,960,104
Current Year Net (Gain)/Loss	<u>(3,270,619)</u>	<u>(1,524,342)</u>
Deferred Credit at Year End	<u>\$ (34,587,448)</u>	<u>\$ (35,650,988)</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 \$3,721,770.

The Cooperative has not funded any plan assets as of December 31, 2025 or 2024.

PEDERNALES ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

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

2026	\$	1,106,041
2027		1,086,364
2028		1,047,697
2029		1,006,098
2030		953,429
2031-2035		4,562,147

14. Self-Insurance Program

The Cooperative has established a self-insurance program covering medical benefits for all eligible employees in 2025 and existing eligible retirees. The Cooperative limits its losses through the use of stop-loss policies from re-insurers. For the year ended December 31, 2025, the Cooperative contributed \$14,339,493, and employees contributed \$3,073,331. The program had estimated claims payable of \$881,000 as of December 31, 2025.

15. Subsequent Events

In March 2026, the Cooperative issued \$150 million in Notes with CoBank bearing interest of 4.50%. The proceeds will be used to refund the Company's outstanding Commercial Paper Notes which were incurred to fund capital expenditures and for general corporate purposes.

The Cooperative has evaluated subsequent events through April 9, 2026, the date which the financial statements were available to be issued.

COMPLIANCE AND INTERNAL CONTROL SECTION

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

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Pedernales Electric Cooperative, Inc. (the Cooperative), as of and for the year ended December 31, 2025 and 2024, and the related notes to the financial statements, which collectively comprise the Cooperative's financial statements, and have issued our report thereon dated April 9, 2026.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Cooperative's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pedernales Electric Cooperative, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pedernales Electric Cooperative, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

April 9, 2026