



PEDERNALES ELECTRIC COOPERATIVE



**2023**  
**ANNUAL**  
**REPORT**

## A MESSAGE FROM THE PRESIDENT OF PEC'S BOARD OF DIRECTORS



Another year serving on PEC's Board of Directors has passed, and after every trip around the sun, I become more impressed with our Cooperative. Whether navigating an ever-changing energy industry or persevering through the brutal Winter Storm Mara, 2023 came with challenges both familiar and unique. Through it all, the PEC team continued to provide safe, reliable power to approximately one million Central Texans who rely on us, just as we have done for 85 years.

But while we are all proud of our team's response to these challenges, they didn't stop there. Our employees are constantly analyzing operations to see where we can improve and how we can continue to be the reliable Cooperative our members deserve.

Out in the field, our crews continue to ensure our system is ready to serve a growing membership. In 2023 alone, PEC crews completed over 2,000 maintenance and repair jobs and inspected nearly 52,000 poles. They also completed 19,886 line extensions and added more than 590 miles of line, bringing us to nearly 25,000 total miles in our service area.

While you may see our bucket trucks throughout your community, managing this growth takes more than just a crew of lineworkers driving down the street. In fact, over the past year, our fleet vehicles have driven 6.5 million miles, which equates to 263 trips around Earth

“ PEC's crews work daily to ensure we are able to deliver safe, reliable power to our membership. Take a look below at some of the ways our teams worked to honor that commitment over the past year.



2,000+ maintenance jobs completed



6,500,000\* miles driven



20,000\* line extensions completed



20,000\* spans of line pruned

\*Numbers are approximate.

or 13 trips to the moon and back. But that never dissuades our crews and their commitment to serve you. We are proud to make that journey.

Though there have been significant changes and advances in technology since PEC was formed 85 years ago, I know this is the Cooperative our founders envisioned, and it's an honor to keep that same Cooperative spirit alive today.

The next 85 years are sure to come with a plethora of challenges and changes that we can't even imagine. But, in my four years of serving on this board, I have never seen a task this team couldn't handle. They're committed to going above and beyond for our members, and I will always be proud to call PEC my Cooperative.

Mark Ekrot  
PEC Board of Directors President

## A MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Since our founding in 1938, our mission to serve the people of the Texas Hill Country hasn't wavered. As PEC celebrates 85 years, I am once more reminded of the compassion our employees have for the communities we serve and their commitment to go above and beyond.

To say PEC has substantially grown over the years is an understatement. Before the end of 2023, we celebrated installing our 400,000<sup>th</sup> meter at the Buda Fire Department's Station 1, and welcomed more than 15,000 new members.

Last year we joined the ranks of the transmission service providers in the ERCOT region with the completion of our Transmission Control Center. This multi-year project was completed on time and under budget, and it has positioned PEC positively for the



Since this Cooperative was founded 85 years ago, we have always put our members first.



More than \$57,000 donated to 13 nonprofits for PEC's Power of Change Program



37,382 member applications processed



Inspected nearly 52,000 poles and restored more than 3,500 pad-mounted transformers



\$284,000 donated to nearly 240 nonprofits for United Charities by PEC employees

next generation of utility operations. For our members, completing this was an important step toward increased resiliency, continued reliability, and rate stabilization.

To meet our members where they are, we made several improvements to our member experience. We understand our members are busy, so we launched a new website, enhanced text communications, and upgraded our members' online accounts to make doing business with PEC easier than ever. Whether members need to pay their bills, report and track outages, start and stop service, or find important information about our Cooperative, we are proud to bring innovative tools to their fingertips.

In addition to improving our member services, we continued to empower our communities. Thanks to the 29,000-plus members who round up their bill through

our Power of Change Program, we were able to give \$57,900 to 13 nonprofits and donate \$1,000 each to 21 education foundations and three nonprofit libraries in our service area. Our employees also donated nearly \$284,000 to local nonprofits through our United Charities Program.

Since this Cooperative was founded 85 years ago, we have always put our members first. With such a strong member focus, this Cooperative will continue to empower our communities for years to come.

Julie C. Parsley  
PEC Chief Executive Officer





## CELEBRATING 85 YEARS WITH OUR MEMBERS

Thanks to our founding fathers and the Cooperative spirit of our communities, we were honored to celebrate 85 years of serving the Texas Hill Country. This monumental year provided an opportunity for reflection and a chance to honor those we serve: our members.

Throughout the year, we highlighted former employees such as Vickie Kilmer, the first female lineworker at PEC, and Annie Barker, who loved her 35 years here so much that she kept nearly every memento she was given.

We also shared stories about longtime members like Robert Puryear, whose family has owned the same ranch in Dripping Springs since 1939 and can remember when PEC came to power his home. And 91-year-old Marshall Kuykendall, who recalled when his mother threw out her wood stove the second PEC turned the lights on at the ranch they had owned since 1901. It was a pleasure to recall such stories with our members who understand firsthand the life-changing differences electricity can make.

But the celebration didn't stop with our members; our employees joined in on the fun as well. Throughout 2023, each PEC district partnered with local bakeries to host nine Bake Your Best competitions. Our employees brought in home-baked treats, and local bakers throughout our service area judged each of them. Through these events, our

“ PEC was founded in 1938 with the people of the Texas Hill Country in mind. Local rancher E. Babe Smith and then-Congressman Lyndon B. Johnson electrified rural Central Texas when others thought it to be unprofitable. We've always been member focused, and we couldn't have made it this far without each and every one of you.

employees raised more than \$1,000 in support of our Power of Change Program, which helps strengthen local nonprofit organizations annually.

To round out this milestone, we partnered with local senior centers and senior advocacy organizations to celebrate alongside the birthdays of our senior members who were also turning 85. We thank the various centers and organizations for their support in this effort, and we are so happy to have been able to celebrate with all of you.

As we move forward, we are committed to keeping our member-focused mission strong. Our communities count on us, and we are prepared to serve and invest in them for the next 85 years and beyond.



## PEC SURPASSED 400,000 METERS IN 2023

### We Are Committed to Serving Our Growing Membership

While PEC's roots run deep, we continue to grow and look ahead to the future. Although we're proud of our reliability and commitment to service, we aren't planning to rest anytime soon. Since 2018, PEC's meter count has increased 29%, and the Cooperative was thrilled to reach 400,000 meters in its 85<sup>th</sup> year, marking the milestone by placing it at the Buda Fire Department's Station 1 in November of 2023.

To accommodate our vibrant, booming communities and meet the resulting increased energy demands, we've also been strategically upgrading our substations to increase our voltage capacity from 7,200 volts to 14,400 volts. In 2023, 50 two-man teams from every operations district completed the Cranes Mill Substation conversion in Spring Branch. These crews worked to replace standard transformers with dual-voltage equipment to ensure our system could handle the increased capacity. The eight-day venture in March and May went swiftly with no incident, and

“

Managing a diverse service area and a growing membership requires extra planning, construction, and maintenance, but we're happy to go the extra mile for our members.

over 7,500 members benefited.

PEC works 24/7 to power our members and we've made monitoring our service area more efficient by deploying more than 122,800 radio frequency meters through our Advanced Metering Infrastructure (AMI) meter exchange project. These meters improve reliability by allowing us to detect outages and dispatch crews to restore power more swiftly.



We were also one of the first to pioneer the use of the Geiger-mode LiDAR technology and adopt cutting-edge vegetation management tools, both of which helped us identify and prune vegetation on nearly 20,000 spans of line in high-priority areas at a fraction of the cost. PEC implemented these technologies because we are invested in protecting our system and striving to eliminate preventable outages.

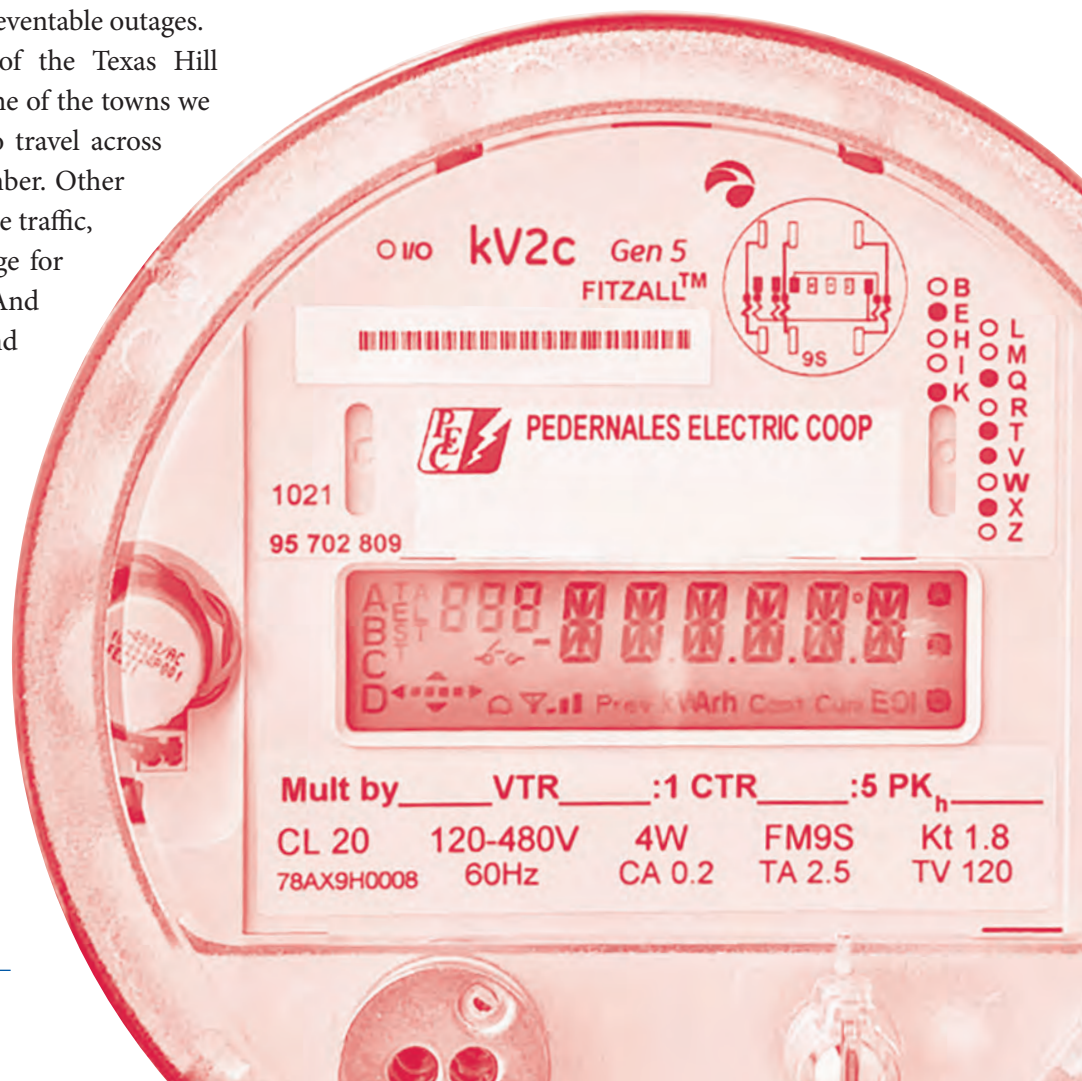
In our 8,100 square miles of the Texas Hill Country, no place is the same. Some of the towns we serve are rural, and crews have to travel across acres of land just to help one member. Other cities have more buildings and more traffic, which makes for an extra challenge for our lineworkers to get around. And with rocky terrain in some places and hillier lands in others, crews often require unique tools to overcome the elements.

Managing a service area such as this is a constant cycle of planning, building, maintaining, and upgrading equipment. This is no easy task, and we want to ensure our crews are properly trained to handle this duty.

That's why we prepare the next generation of lineworkers in-house through our own

Department of Labor-recognized apprenticeship training program. In 2023, we graduated 26 students.

We are proud of the work done by our passionate employees who continue to bring safe, reliable power to an ever-growing membership.



# MEETING OUR MEMBERS WHERE THEY ARE

## PEC Enhances Its Digital Presence and Community Outreach

As we continue to grow, the needs of our communities and the ways our members prefer to do business continue to change. To keep reliability strong, we are always looking at ways to better meet our members where they are.

“

Investing in our people hasn't been a new practice at PEC.

We've been supporting our communities in different ways since our founding in 1938, and that continued in 2023 through programs like Youth Tour, scholarships, classroom presentations, and Camp Save-a-Watt. As a member-focused organization, PEC will continue to invest in people, technology, and equipment to ensure excellent service and reliability for years to come.





## COMMUNITY FOCUSED



### Scholarships

In 2023, we honored 85 years of service by awarding 85 scholarships to 73 high school seniors and 12 adult members looking to further their education. Scholarships given totaled \$100,000 and ranged from \$1,000 to \$3,500. Those students were able to use the funds to pay for expenses at any accredited university, college, junior college, technical school, or trade school. These scholarships are funded through unclaimed property funds returned by the state.



### Youth Tour

We've been supporting our communities in different ways since our founding in 1938, and that continued in 2023 through programs like Youth Tour, where we sent 10 local students on an all-expenses-paid trip to Washington, D.C. to meet leaders and see government in action. It's a tradition we have proudly participated in for more than 55 years, and that will continue in 2024 and beyond.



### School Supply Drive

We further enhanced education in our community by providing more than 2,500 school supplies to classrooms across the service territory. The supplies were donated by PEC employees and helped provide students and educators with the tools they need to get the school year off to a bright start. This was the fourth year our employees held the school supply drive, and we plan to continue the tradition on an annual basis.

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## WORKING FOR YOU

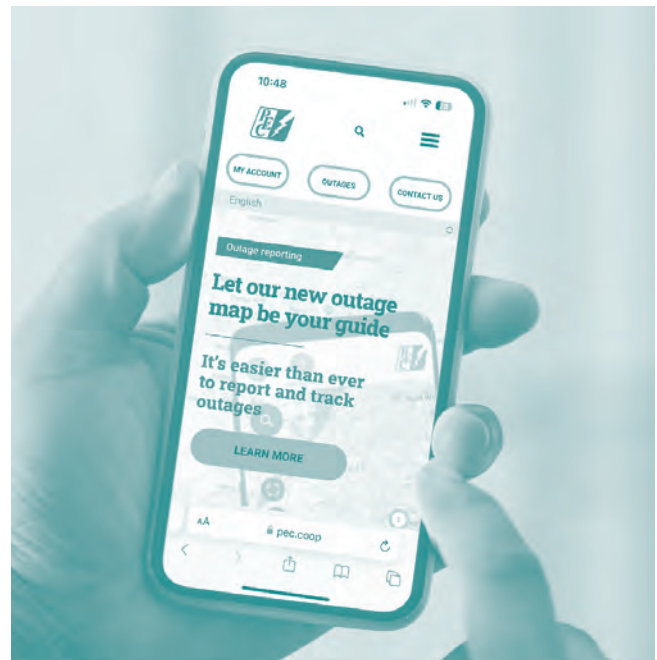
In our mission to serve, we're committed to staying up to date with technologies our members use most.

That's why we've overhauled our website to make finding what members need easier than ever and added convenient new features like chat assistance and streamlined outage reporting. We've also made it easier to stop and start service online.

Our new digital assistant can help visitors navigate their way around the site. Here, you can type in what you're looking for and the assistant will guide you in the right direction. If additional help is needed, there is also a feature to speak with a live agent by logging into your account on SmartHub and activating the chat button.

To make reporting outages easier, we've made it possible for members to do so by text. All you need to do is text "outage" to 25022 with the phone number associated with your account.

PEC will continue to invest in people, technology, and equipment to ensure excellent service and reliability to our members for years to come.



# PEC BOARD OF DIRECTORS

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**Mark Ekrut**  
President &  
District 3 Director



**Paul Graf**  
Vice President &  
District 6 Director



**Travis Cox**  
Secretary-Treasurer &  
District 4 Director



**Milton Rister**  
District 1 Director



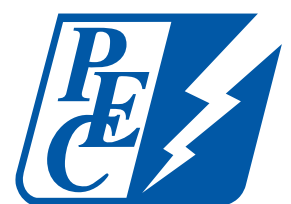
**Emily Pataki**  
District 2 Director



**James Oakley**  
District 5 Director



**Amy SJ Akers**  
District 7 Director





**PEDERNALES ELECTRIC COOPERATIVE, INC.**

**FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

**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, 2023 AND 2022**

**AND**

**REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

**PEDERNALES ELECTRIC COOPERATIVE, INC.**  
**FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

**TABLE OF CONTENTS**

|                                                                                                                                                                                                                                     | Page<br><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                                                                                                                                                                                             |                    |
| Letter to Board of Directors Regarding Policies Concerning Audits<br>of CFC Borrowers                                                                                                                                               | 24                 |
| Independent Auditor's Report on Internal Control Over Financial Reporting<br>and on Compliance and Other Matters Based on an Audit of the Financial<br>Statements Performed in Accordance with <i>Government Auditing Standards</i> | 25                 |

**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

**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, 2023 and 2022, and the related statements of income, comprehensive 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, 2023 and 2022, 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) 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 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 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 judgement 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 2, 2024 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 2, 2024

## PEDERNALES ELECTRIC COOPERATIVE, INC.

BALANCE SHEETS  
DECEMBER 31, 2023 AND 2022

## ASSETS

|                                                                                                            | December 31,     |                  |
|------------------------------------------------------------------------------------------------------------|------------------|------------------|
|                                                                                                            | 2023             | 2022             |
| UTILITY PLANT AT COST                                                                                      |                  |                  |
| Utility Plant in Service                                                                                   | \$ 2,248,792,051 | \$ 2,163,698,849 |
| Operating Lease - Right of Use Asset                                                                       | 2,410,025        | 2,639,238        |
| Construction Work in Progress                                                                              | 155,355,256      | 122,270,469      |
|                                                                                                            | \$ 2,406,557,332 | \$ 2,288,608,556 |
| Less: Accumulated Provision for Depreciation                                                               | 398,235,071      | 408,133,564      |
|                                                                                                            | \$ 2,008,322,261 | \$ 1,880,474,992 |
| OTHER PROPERTY AND INVESTMENTS - AT COST OR STATED VALUE                                                   |                  |                  |
| Investments in Associated Organizations                                                                    | \$ 20,291,386    | \$ 17,880,318    |
| CURRENT ASSETS                                                                                             |                  |                  |
| Cash and Cash Equivalents                                                                                  | \$ 9,387,692     | \$ 9,091,355     |
| Accounts Receivable - Energy (Less allowance for credit losses of \$885,898 in 2023 and \$865,322 in 2022) | 25,406,126       | 27,689,073       |
| Accounts Receivable - Other (Less allowance for credit losses of \$845,597 in 2023 and \$498,082 in 2022)  | 7,840,710        | 4,342,599        |
| Power Cost Adjustments - Under-Recovered                                                                   | 27,584,557       | 38,141,096       |
| Accrued Unbilled Revenue                                                                                   | 31,311,163       | 28,862,646       |
| Materials and Supplies Inventory                                                                           | 52,380,454       | 36,753,718       |
| Other Current and Accrued Assets                                                                           | 3,716,922        | 2,076,015        |
| Total Current Assets                                                                                       | \$ 157,627,624   | \$ 146,956,502   |
| DEFERRED CHARGES AND OTHER ASSETS                                                                          | \$ 25,751,372    | \$ 29,984,016    |
| TOTAL ASSETS                                                                                               | \$ 2,211,992,643 | \$ 2,075,295,828 |

## EQUITIES AND LIABILITIES

|                                                                    |                  |                  |
|--------------------------------------------------------------------|------------------|------------------|
| EQUITIES                                                           |                  |                  |
| Memberships                                                        | \$ 16,764,167    | \$ 15,988,077    |
| Patronage Capital                                                  | 455,604,329      | 444,577,559      |
| Other Equities                                                     | 408,735,468      | 375,709,755      |
| Total Equities                                                     | \$ 881,103,964   | \$ 836,275,391   |
| LONG-TERM DEBT                                                     |                  |                  |
| Mortgage Bonds Less Current Maturities and Issuance Costs          | \$ 479,830,003   | \$ 344,747,646   |
| CFC Mortgage Notes Less Current Maturities                         | 411,882,901      | 424,846,989      |
| Chase Notes Less Current Maturities                                | 2,624,510        | 3,776,169        |
| CoBank Notes Less Current Maturities                               | 21,962,466       | 22,661,993       |
| NYL Note Less Current Maturities                                   | 65,000,000       | 67,500,000       |
| Operating Lease Obligations Less Current Maturities                | 1,069,825        | 1,550,315        |
| Finance Lease Obligations Less Current Maturities                  | 17,167,787       | 2,103,554        |
| Commercial Paper to be Refinanced                                  | 84,805,208       | 132,729,211      |
| Total Long-Term Debt                                               | \$ 1,084,342,700 | \$ 999,915,877   |
| ACCUMULATED PROVISION FOR PENSIONS AND BENEFITS                    | \$ 28,986,793    | \$ 32,625,711    |
| CURRENT LIABILITIES                                                |                  |                  |
| Current Maturities of Long-Term Debt                               | \$ 38,830,607    | \$ 33,112,862    |
| Current Maturities of Operating Lease Obligations                  | 1,340,201        | 1,088,923        |
| Current Maturities of Finance Lease Obligations                    | 1,595,143        | 1,037,332        |
| Current Portion of Accumulated Provision for Pensions and Benefits | 1,594,025        | 1,501,616        |
| Purchased Power - Payable and Accrued                              | 40,074,336       | 44,901,707       |
| Accounts Payable - Other                                           | 38,977,533       | 30,819,776       |
| Tax Payable                                                        | 14,114,299       | 13,310,908       |
| Interest Payable                                                   | 6,425,983        | 4,525,419        |
| Member Deposits                                                    | 8,165,427        | 6,891,014        |
| Other Current and Accrued Liabilities                              | 22,798,143       | 17,983,204       |
| Total Current Liabilities                                          | \$ 173,915,697   | \$ 155,172,762   |
| DEFERRED CREDITS                                                   | \$ 43,643,489    | \$ 51,306,087    |
| TOTAL EQUITIES AND LIABILITIES                                     | \$ 2,211,992,643 | \$ 2,075,295,828 |

See accompanying notes to financial statements.

**PEDERNALES ELECTRIC COOPERATIVE, INC.**

**STATEMENTS OF INCOME AND PATRONAGE CAPITAL  
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

|                                             | December 31,          |                       |
|---------------------------------------------|-----------------------|-----------------------|
|                                             | <u>2023</u>           | <u>2022</u>           |
| OPERATING REVENUES                          |                       |                       |
| Residential                                 | \$ 639,415,777        | \$ 614,577,454        |
| Small and Large Power                       | 200,740,412           | 196,517,494           |
| Power Cost Adjustment                       | (10,556,539)          | (18,843,942)          |
| Transmission Revenues                       | 31,512,931            | 25,234,941            |
| Other Revenues                              | <u>16,890,490</u>     | <u>15,748,362</u>     |
| Total Operating Revenues                    | <u>\$ 878,003,071</u> | <u>\$ 833,234,309</u> |
| OPERATING EXPENSES                          |                       |                       |
| Purchased Power                             | \$ 396,032,748        | \$ 384,571,862        |
| ERCOT Transmission Access Charges           | 114,027,642           | 101,989,352           |
| Transmission - Operation                    | 9,289,724             | 5,081,490             |
| Transmission - Maintenance                  | 1,782,128             | 1,665,652             |
| Distribution - Operation                    | 59,909,813            | 48,913,553            |
| Distribution - Maintenance                  | 34,195,889            | 30,960,693            |
| Consumer Accounts                           | 33,462,482            | 30,856,019            |
| Customer Service and Information            | 2,972,782             | 4,157,438             |
| Administrative and General                  | 37,586,407            | 31,133,289            |
| Depreciation                                | 91,399,068            | 101,931,512           |
| Taxes                                       | 1,406,073             | 1,345,699             |
| Other Interest                              | <u>3,536,902</u>      | <u>2,994,551</u>      |
| Total Operating Expenses                    | <u>\$ 785,601,658</u> | <u>\$ 745,601,110</u> |
| OPERATING MARGINS - Before Fixed Charges    | <u>\$ 92,401,413</u>  | <u>\$ 87,633,199</u>  |
| FIXED CHARGES                               |                       |                       |
| Interest and Amortization on Long-Term Debt | <u>\$ 41,050,264</u>  | <u>\$ 42,219,112</u>  |
| OPERATING MARGINS - After Fixed Charges     | <u>\$ 51,351,149</u>  | <u>\$ 45,414,087</u>  |
| Capital Credits                             | <u>3,874,885</u>      | <u>2,046,352</u>      |
| NET OPERATING MARGINS                       | <u>\$ 55,226,034</u>  | <u>\$ 47,460,439</u>  |
| NON-OPERATING MARGINS                       |                       |                       |
| Interest and Dividend Income                | \$ 662,407            | \$ 162,629            |
| Utility - Non-Operating Income              |                       | 68,835                |
| Miscellaneous Non-Operating Income          | 288,422               | 237,860               |
| Disposal of Assets                          | <u>(75,404)</u>       | <u>2,667,846</u>      |
|                                             | <u>\$ 875,425</u>     | <u>\$ 3,137,170</u>   |
| NET MARGINS                                 | <u>\$ 56,101,459</u>  | <u>\$ 50,597,609</u>  |
| PATRONAGE CAPITAL - BEGINNING OF YEAR       | 444,577,559           | 433,310,509           |
| Patronage Capital Retired                   | (12,048,975)          | (6,126,142)           |
| Transfers to Other Equities                 | <u>(33,025,714)</u>   | <u>(33,204,417)</u>   |
| PATRONAGE CAPITAL - END OF YEAR             | <u>\$ 455,604,329</u> | <u>\$ 444,577,559</u> |

See accompanying notes to financial statements.

**PEDERNALES ELECTRIC COOPERATIVE, INC.**

**STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

|                                                                                        | December 31,            |                         |
|----------------------------------------------------------------------------------------|-------------------------|-------------------------|
|                                                                                        | <u>2023</u>             | <u>2022</u>             |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                            |                         |                         |
| Net Margins                                                                            | \$ 56,101,458           | \$ 50,597,609           |
| Adjustments to Reconcile Net Margins to Net Cash From<br>Non-Cash Operating Activities |                         |                         |
| Depreciation and Amortization Charged to Expense                                       | 98,026,035              | 112,838,173             |
| Capital Credits                                                                        | (3,874,885)             | (2,046,352)             |
| Non-Cash Pension and Benefits Expense                                                  | 2,497,793               | (629,437)               |
| Power Cost Adjustments                                                                 | 10,556,539              | 18,843,942              |
| Payments on Pension and Benefits                                                       | (6,948,303)             | (8,322,165)             |
| Changes in Assets and Liabilities:                                                     |                         |                         |
| Accounts Receivable - Net                                                              | (3,663,679)             | (15,995,927)            |
| Accounts Payable                                                                       | 7,637,513               | 9,041,748               |
| Materials & Supplies                                                                   | (15,626,737)            | (7,144,737)             |
| Other Assets and Liabilities                                                           | 648,080                 | 9,206,291               |
| Net Cash From Operating Activities                                                     | <u>\$ 145,353,814</u>   | <u>\$ 166,389,145</u>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                            |                         |                         |
| Net Additions to Property, Plant & Equipment                                           | \$ (202,798,445)        | \$ (154,792,198)        |
| Capital Credit Retirements from Associated Organizations                               | 1,463,815               | 1,045,835               |
| Net Cash From Investing Activities                                                     | <u>\$ (201,334,630)</u> | <u>\$ (153,746,363)</u> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                            |                         |                         |
| Payments on Long-Term Debt                                                             | \$ (34,525,959)         | \$ (38,250,073)         |
| Advances on Long-Term Debt                                                             | 150,000,000             |                         |
| Net Activity on Commercial Paper                                                       | (47,924,003)            | 30,732,271              |
| Net Activity on Line of Credit                                                         |                         | 250,074                 |
| Retirement of Patronage Capital                                                        | (12,048,975)            | (6,126,142)             |
| Increase in Memberships - Net                                                          | 776,090                 | 803,756                 |
| Net Cash From Financing Activities                                                     | <u>\$ 56,277,153</u>    | <u>\$ (12,590,114)</u>  |
| <b>CHANGE IN CASH AND CASH EQUIVALENTS</b>                                             | \$ 296,337              | \$ 52,668               |
| <b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>                                   | <u>9,091,355</u>        | <u>9,038,687</u>        |
| <b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>                                         | <u>\$ 9,387,692</u>     | <u>\$ 9,091,355</u>     |
| <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>                               |                         |                         |
| Cash Paid During the Year for:                                                         |                         |                         |
| Interest on Long-Term Debt                                                             | \$ 32,527,824           | \$ 31,481,448           |
| Patronage Capital Retired by Non-Cash Discounting                                      | <u>\$ 32,782,951</u>    | <u>\$ 30,136,081</u>    |
| Assets Obtained through Finance Leases                                                 | <u>\$ 17,005,865</u>    | <u>\$ 0</u>             |
| Assets Obtained through Operating Leases                                               | <u>\$ 712,422</u>       | <u>\$ 2,238,541</u>     |
| Line of Credit Refinanced with Long-Term Debt                                          | <u>\$ 0</u>             | <u>\$ 5,794,741</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, 2023, the Cooperative served 403,712 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.

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.

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 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

With the adoption of ASC 326 the term allowance for uncollectible accounts was changed to 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, 2023 and 2022 were as follows:

|                                     | 2023              | 2022              |
|-------------------------------------|-------------------|-------------------|
| Balance, Beginning of Year          | \$ 865,322        | \$ 430,143        |
| Adjustment - Expected Credit Losses | 603,404           | 854,301           |
| Write-Offs                          | (1,023,661)       | (718,250)         |
| Recoveries                          | 440,833           | 299,128           |
| Balance, End of Year                | <u>\$ 885,898</u> | <u>\$ 865,322</u> |

Changes in the allowance for credit losses related to miscellaneous accounts receivable during the years ended December 31, 2023 and 2022 were as follows:

|                                     | 2023              | 2022              |
|-------------------------------------|-------------------|-------------------|
| Balance, Beginning of Year          | \$ 498,082        | \$ 400,514        |
| Adjustment - Expected Credit Losses | 601,355           | 243,065           |
| Write-Offs                          | (258,791)         | (309,691)         |
| Recoveries                          | 4,952             | 164,195           |
| Balance, End of Year                | <u>\$ 845,597</u> | <u>\$ 498,082</u> |

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, 2023 and 2022 amounted to \$31,311,163 and \$28,862,646, respectively.

**PEDERNALES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

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. Under collected power cost to be recovered from consumers in subsequent periods is recognized as a current asset and an increase in operating revenues on the statement of income and patronage capital. The Cooperative had under collected power costs of \$27,584,557 as of December 31, 2023 and under collected power costs of \$38,141,096 as of December 31, 2022.

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 2020. In 2023 and 2022, 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 residential accounts along with accrued interest after one year of prompt payments. As of December 31, 2023, and 2022, deposits on hand totaled \$8,165,427 and \$6,891,014, 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 2023 and 2022.

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).



**PEDERNALES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

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.

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.

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.

Letters of Credit

As of December 31, 2023, the Cooperative was obligated for a total of \$3 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.

**PEDERNALES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**2. Assets Pledged**

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

**3. Utility Plant**

The major classes of utility plant are as follows:

|                                | <u>2023</u>             | <u>2022</u>             |
|--------------------------------|-------------------------|-------------------------|
| Transmission Plant             | \$ 262,946,006          | \$ 206,482,275          |
| Distribution Plant             | 1,742,540,131           | 1,718,646,423           |
| General Plant                  | <u>245,715,939</u>      | <u>241,209,389</u>      |
| Total Utility Plant in Service | \$ 2,251,202,076        | \$ 2,166,338,087        |
| Construction Work in Progress  | <u>155,355,256</u>      | <u>122,270,469</u>      |
| Total Utility Plant            | <u>\$ 2,406,557,332</u> | <u>\$ 2,288,608,556</u> |

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

|                    | <u>2023</u>    | <u>2022</u>    |
|--------------------|----------------|----------------|
| Transmission Plant | 1.57% - 10.00% | 1.57% - 10.00% |
| Distribution Plant | 1.75% - 20.00% | 1.75% - 20.00% |
| General Plant      | 2.00% - 20.00% | 2.00% - 20.00% |

Depreciation for the years ended December 31, 2023 and 2022 was \$91,399,068 and \$101,931,512, 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 \$12,290,873 and \$17,429,956 to depreciation expense for the years ended December 31, 2023 and 2022, respectively. The process of transferring most of the Cooperative's lighting structures to a third party that replaced them with newer lighting and leased them back to the Cooperative was completed in 2023. The Cooperative accelerated depreciation on these lighting fixtures, which added \$2,584,178 and \$12,732,693 to depreciation expense for the years ended December 31, 2023 and 2022, respectively.

**4. Investments in Associated Organizations**

Investments in associated organizations consisted of:

|                            | <u>2023</u>          | <u>2022</u>          |
|----------------------------|----------------------|----------------------|
| CFC                        |                      |                      |
| Capital Term Certificates  | \$ 4,813,296         | \$ 4,813,296         |
| Patronage Capital          | 8,554,716            | 7,990,119            |
| Texas Electric Cooperative |                      |                      |
| Patronage Capital          | 5,889,344            | 4,091,066            |
| Other                      | <u>1,034,030</u>     | <u>985,837</u>       |
|                            | <u>\$ 20,291,386</u> | <u>\$ 17,880,318</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, 2023 and 2022 were \$52,380,454 and \$36,753,718, respectively.

**6. Deferred Charges and Other Assets**

Deferred charges and other assets included the following:

|                                     | <u>2023</u>          | <u>2022</u>          |
|-------------------------------------|----------------------|----------------------|
| Defined Benefit Plans (See Note 12) | \$ 25,751,372        | \$ 29,984,016        |
|                                     | <u>\$ 25,751,372</u> | <u>\$ 29,984,016</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, 2023 and 2022.

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 \$12,048,975 and \$6,126,142 was distributed to members during 2023 and 2022, respectively.

**PEDERNALES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

Patronage capital assigned and assignable at December 31, 2023 and 2022, is as follows:

|                                                           | <u>2023</u>           | <u>2022</u>           |
|-----------------------------------------------------------|-----------------------|-----------------------|
| Assigned to Date                                          | \$ 934,222,597        | \$ 896,074,187        |
| Assignable                                                | <u>84,088,597</u>     | <u>67,010,974</u>     |
|                                                           | \$ 1,018,311,194      | \$ 963,085,161        |
| Less: Retirements to Date                                 | 159,997,241           | 147,948,265           |
| Less: Discounted Patronage Capital to<br>Permanent Equity | <u>402,709,625</u>    | <u>370,559,337</u>    |
|                                                           | <u>\$ 455,604,329</u> | <u>\$ 444,577,559</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, 2023 and 2022, are as follows:

|                            | <u>2023</u>           | <u>2022</u>           |
|----------------------------|-----------------------|-----------------------|
| Non-operating Margins      | \$ 6,025,843          | \$ 5,150,418          |
| Discounted Capital Credits | <u>402,709,625</u>    | <u>370,559,337</u>    |
|                            | <u>\$ 408,735,468</u> | <u>\$ 375,709,755</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, 2023 and 2022, bonds and mortgage notes consisted of the following:

|                                                                         | 2023             | 2022           |
|-------------------------------------------------------------------------|------------------|----------------|
| First Mortgage Bonds, 2002 Series A -<br>5.95% to 6.20%; due 2032       |                  |                |
| Interest Payable Semi-Annually; Principal Payable Annually              | \$ 36,799,000    | \$ 39,797,000  |
| CFC Loan -<br>3.40% - 4.15%; due 2043 to 2049                           |                  |                |
| Interest and Principal Payable Quarterly                                | 424,846,988      | 437,328,891    |
| Chase Loan -<br>3.18%; due 2027                                         |                  |                |
| Interest and Principal Payable Monthly                                  | 3,776,169        | 4,891,783      |
| CoBank Loan -<br>2.44%; due 2047                                        |                  |                |
| Interest and Principal Payable Quarterly                                | 22,661,993       | 23,346,006     |
| NYL Loan -<br>2.18%; due 2050                                           |                  |                |
| Interest Payable Semi-Annually; Principal Payable Annually              | 67,500,000       | 70,000,000     |
| First Mortgage Bonds, 2021 Series A and B -<br>2.34% to 2.44%; due 2051 |                  |                |
| Interest Payable Semi-Annually                                          | 373,333,333      | 386,654,333    |
| First Mortgage Bonds, 2023 Series A -<br>2.99%; due 2053                |                  |                |
| Interest Payable Semi-Annually                                          | 150,000,000      |                |
| Less: Deferred Charge on Refunding                                      | (55,240,563)     | (61,435,766)   |
| Less: Bond Issue Costs                                                  | (3,546,434)      | (3,936,588)    |
|                                                                         | \$ 1,020,130,487 | \$ 896,645,659 |
| Less: Current Maturities                                                | (38,830,607)     | (33,112,862)   |
| Total Bonds and Mortgage Notes                                          | \$ 981,299,880   | \$ 863,532,797 |

The Cooperative has \$59 million available under its uncommitted term loan facility with New York Life (NYL). See subsequent events note 14 for additional funds issued after year-end.

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

|            |               |
|------------|---------------|
| 2024       | \$ 38,830,607 |
| 2025       | 39,582,722    |
| 2026       | 40,368,368    |
| 2027       | 40,128,312    |
| 2028       | 40,732,850    |
| Thereafter | 879,274,625   |

**PEDERNALES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

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, 2023 varies between 4.3% and 6.6%. The annual discount rate for the year ended December 31, 2022 varies between 4.3% and 5.6%.

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, 2023 and 2022 were \$1,314,288 and \$966,391, respectively, including interest of \$73,377 and \$83,523, respectively.

At December 31, 2023 and 2022, the balances of these accounts were as follows:

|                                       | <u>2023</u>         | <u>2022</u>         |
|---------------------------------------|---------------------|---------------------|
| <b>Operating Leases</b>               |                     |                     |
| Operating Lease - Right of Use Assets | \$ <u>2,410,025</u> | \$ <u>2,639,238</u> |
| Operating Lease Obligations           | \$ 2,410,025        | \$ 2,639,238        |
| Less: Current Maturities              | <u>(1,340,201)</u>  | <u>(1,088,923)</u>  |
|                                       | <u>\$ 1,069,825</u> | <u>\$ 1,550,315</u> |

The maturities of operating lease obligations as of December 31, 2023 were as follows:

|                                 |                     |
|---------------------------------|---------------------|
| 2024                            | \$ 1,400,238        |
| 2025                            | 686,959             |
| 2026                            | 263,231             |
| 2027                            | <u>143,222</u>      |
| Total Minimum Lease Payments    | 2,493,649           |
| Amount Representing Interest    | <u>(83,624)</u>     |
| Present Value of Lease Payments | <u>\$ 2,410,025</u> |

Finance Lease Obligations

The Cooperative has entered into lease agreements with First American Equipment Finance (FAEF) for the purchase of bucket trucks and information technology hardware not to exceed \$10,000,000. These lease schedules expire through 2026. The Cooperative has also entered into a lighting service agreement with leasing 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, 2023 and 2022 totaled \$591,363 and \$84,194, respectively.

**PEDERNALES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

The following is an analysis of the book value of the leased assets included in electric plant at December 31, 2023 and 2022, which is being depreciated on a straight-line basis over the life of the lease:

|                                 | <u>2023</u>          | <u>2022</u>         |
|---------------------------------|----------------------|---------------------|
| Bucket Trucks                   | \$ 4,286,650         | \$ 4,286,650        |
| Information Technology Hardware | 645,091              | 645,091             |
| Lights                          | 17,005,865           |                     |
| Accumulated Depreciation        | <u>(3,441,679)</u>   | <u>(1,820,377)</u>  |
|                                 | <u>\$ 18,495,927</u> | <u>\$ 3,111,364</u> |

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

|                                  | <u>2023</u>          | <u>2022</u>         |
|----------------------------------|----------------------|---------------------|
| First American Equipment Finance | \$ 2,103,557         | \$ 3,140,886        |
| NextEra Energy Solutions         | 16,659,373           |                     |
| Less: Current Maturities         | <u>(1,595,143)</u>   | <u>(1,037,332)</u>  |
|                                  | <u>\$ 17,167,787</u> | <u>\$ 2,103,554</u> |

The entire lease obligation to FAEF and NextEra calls for monthly payments totaling \$221,067 over the remaining term of the leases. The average interest rate is 3.25%. Below is a schedule by years of the future minimum payments required under the leases, with their present value at December 31, 2023:

|                                 |                      |
|---------------------------------|----------------------|
| 2024                            | \$ 2,652,803         |
| 2025                            | 2,632,884            |
| 2026                            | 2,144,300            |
| 2027                            | 1,755,312            |
| 2028                            | 1,755,312            |
| Thereafter                      | <u>16,675,464</u>    |
| Total Minimum Lease Payments    | \$ 27,616,075        |
| Amount Representing Interest    | <u>(8,853,144)</u>   |
| Present Value of Lease Payments | <u>\$ 18,762,931</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, 2023 and 2022:

|                       | 2023           |           | 2022           |           |
|-----------------------|----------------|-----------|----------------|-----------|
|                       | Total Line     | Maturity  | Total Line     | Maturity  |
| CFC                   | \$ 100,000,000 | Perpetual | \$ 100,000,000 | Perpetual |
| CoBank                | 100,000,000    | 10/17/24  | 100,000,000    | 08/21/23  |
| Bank of America       | 105,000,000    | 11/29/24  | 105,000,000    | 12/01/23  |
| Bank of America       | 200,000,000    | 12/01/26  | 200,000,000    | 12/04/23  |
| JPMorgan Chase        | 15,000,000     | 12/31/24  | 15,000,000     | 12/30/23  |
| Total Lines of Credit | \$ 520,000,000 |           | \$ 520,000,000 |           |

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, 2023 and 2022.

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, 2023 and 2022.

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, 2023 and 2022.

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. 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. The outstanding balance as of December 31, 2023, is \$3.



**PEDERNALES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

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. No balances were outstanding on the credit line as of December 31, 2023 and 2022.

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, 2023 and 2022, the Cooperative had outstanding balances of \$84,805,208 and \$132,729,211, respectively, of Commercial Paper with interest rates of 4.30% to 5.50% with maturities through January 16, 2024. 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 \$84,805,208 and \$132,729,211 are classified as long-term debt on the balance sheet at December 31, 2023 and 2022, respectively.

**10. Deferred Credits**

Deferred credits included the following:

|                                                | <u>2023</u>          | <u>2022</u>          |
|------------------------------------------------|----------------------|----------------------|
| Patronage Capital - Unclaimed Property         | \$ 1,372,383         | \$ 1,964,267         |
| Post-Retirement Medical Benefits (See Note 13) | 38,086,750           | 44,110,083           |
| Retiree's Medical & Dental Insurance           | 4,182,988            | 5,228,737            |
| Other                                          | 1,368                | 3,000                |
|                                                | <u>\$ 43,643,489</u> | <u>\$ 51,306,087</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 2023 and 2022, 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 2023 and 2022, 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.

**PEDERNALES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

Letter of Credit Facilities

As of December 31, 2023, there are three Letter of Credits issued to counterparties totaling \$3.

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 2023 and 2022, 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 recovered 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, 2023, and 2022, were \$5,670,645 and \$7,026,225, respectively.

The measurement date used for the current valuation is December 31, 2023.

The following weighted-average assumptions were used to develop the accumulated post-retirement benefit obligation for 2023 and 2022:

|                               |             |             |
|-------------------------------|-------------|-------------|
|                               | <u>2023</u> | <u>2022</u> |
| Discount Rate                 | 5.25%       | 5.25%       |
| 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 2023 and 2022:

|                                          | <u>2023</u> | <u>2022</u> |
|------------------------------------------|-------------|-------------|
| Discount Rate                            | 5.02%       | 2.84%       |
| 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>2023</u>            | <u>2022</u>            |
|-----------------------------------------------------------|------------------------|------------------------|
| I) Net Periodic Benefit Cost                              |                        |                        |
| Service Cost                                              | \$ 3,632,295           | \$ 5,511,881           |
| Interest Cost                                             | 12,065,829             | 8,798,820              |
| Amortization                                              | 1,259,851              | 2,493,404              |
| Return on Assets                                          | <u>(12,270,486)</u>    | <u>(15,666,515)</u>    |
|                                                           | <u>\$ 4,687,489</u>    | <u>\$ 1,137,590</u>    |
| II) Projected Benefit Obligation<br>(PBO) Reconciliation: |                        |                        |
| PBO Balance at Beginning of Year                          | \$ 234,231,752         | \$ 312,237,261         |
| Actuarial (Gain)/Loss                                     | 7,821,098              | (81,490,833)           |
| Interest Cost/Service Cost                                | 15,698,124             | 14,310,701             |
| Benefits Paid                                             | <u>(11,478,669)</u>    | <u>(10,825,377)</u>    |
| Projected Benefit Obligation at Year End                  | <u>\$ 246,272,305</u>  | <u>\$ 234,231,752</u>  |
| III) Reconciliation of Funded Status                      |                        |                        |
| Projected Benefit Obligation                              | \$ 246,272,305         | \$ 234,231,752         |
| Fair Value of Assets                                      | <u>232,931,711</u>     | <u>215,675,358</u>     |
| Funded Status at Year End                                 | <u>\$ (13,340,594)</u> | <u>\$ (18,556,394)</u> |
| IV) Deferred Charge                                       |                        |                        |
| Actuarial Loss - Beginning of Year                        | \$ 29,984,016          | \$ 44,172,488          |
| Amortization of Loss/Remeasurement                        | (1,259,851)            | (2,493,404)            |
| Actuarial Loss                                            | <u>(2,972,793)</u>     | <u>(11,695,068)</u>    |
| Deferred Charge at Year End                               | <u>\$ 25,751,372</u>   | <u>\$ 29,984,016</u>   |

The accumulated benefit obligation for the plan was \$228,527,173 and \$216,892,159 at December 31, 2023 and 2022, 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, 2023 and 2022 and asset allocation is as follows:

|                                      | <u>2023</u>           | <u>2022</u>           |
|--------------------------------------|-----------------------|-----------------------|
| Cash and Cash Equivalents            | \$ 2,127,146          | \$ 2,441,763          |
| Government Agencies, Bonds and Notes | 154,474,996           | 140,059,807           |
| Mutual Funds                         | 64,766,282            | 62,659,237            |
| Other                                | <u>11,563,287</u>     | <u>10,514,551</u>     |
| Total                                | <u>\$ 232,931,711</u> | <u>\$ 215,675,358</u> |
|                                      | <u>2023</u>           | <u>2022</u>           |
| Mutual Funds and Equity Securities   | 28%                   | 29%                   |
| Debt Securities                      | 66%                   | 65%                   |
| 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:

|           |               |
|-----------|---------------|
| 2024      | \$ 12,268,814 |
| 2025      | 12,917,143    |
| 2026      | 13,713,651    |
| 2027      | 14,491,435    |
| 2028      | 15,249,907    |
| 2029-2033 | 86,353,273    |

The estimated 2023 plan year minimum required contribution is \$6,004,588.

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 \$7,677,536 and \$6,684,367 in 2023 and 2022, respectively.

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

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

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, 2023 and 2022, were \$1,343,919 and \$1,402,655, respectively. The Cooperative's policy for contributions is to contribute the amount of the current benefits in that year.

**PEDERNALES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

The measurement date used for the current valuation is December 31, 2023.

The weighted-average discount rate used to develop the accumulated post-retirement benefit obligation for the years ended December 31, 2023 and 2022, were 4.96% and 5.19%, respectively.

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

|                                                                              | <u>2023</u>            | <u>2022</u>            |
|------------------------------------------------------------------------------|------------------------|------------------------|
| I) Net Post-Retirement Benefit Cost                                          |                        |                        |
| Interest Cost                                                                | \$ 859,868             | \$ 534,879             |
| Amortization                                                                 | <u>(3,936,252)</u>     | <u>(3,143,731)</u>     |
|                                                                              | <u>\$ (3,076,384)</u>  | <u>\$ (2,608,852)</u>  |
| II) Accumulated Post-Retirement Benefit Obligation<br>(APBO) Reconciliation: |                        |                        |
| APBO Balance at Beginning of Year                                            | \$ 15,570,933          | \$ 23,679,225          |
| Actuarial (Gain)/Loss                                                        | 2,087,081              | (7,347,231)            |
| Interest Cost / Service Cost                                                 | 859,868                | 534,879                |
| Employer Contributions Net of Participant Amounts                            | <u>(1,277,658)</u>     | <u>(1,295,940)</u>     |
| Net Post-Retirement Benefit Liability at Year End                            | <u>\$ 17,240,224</u>   | <u>\$ 15,570,933</u>   |
| III) Reconciliation of Funded Status                                         |                        |                        |
| APBO                                                                         | <u>\$ 17,240,224</u>   | <u>\$ 15,570,933</u>   |
| Accrued Post-Retirement Benefit Cost                                         | <u>\$ 17,240,224</u>   | <u>\$ 15,570,933</u>   |
| IV) Deferred Credit                                                          |                        |                        |
| Actuarial Gain - Beginning of Year                                           | \$ (44,110,083)        | \$ (39,906,583)        |
| Amortization                                                                 | 3,936,252              | 3,143,731              |
| Current Year Net (Gain)/Loss                                                 | <u>2,087,081</u>       | <u>(7,347,231)</u>     |
| Deferred Credit at Year End                                                  | <u>\$ (38,086,750)</u> | <u>\$ (44,110,083)</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 \$3,038,624.

The Cooperative has not funded any plan assets as of December 31, 2023 or 2022.

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

|           |              |
|-----------|--------------|
| 2024      | \$ 1,594,025 |
| 2025      | 1,533,338    |
| 2026      | 1,384,232    |
| 2027      | 1,368,461    |
| 2028      | 1,310,812    |
| 2029-2033 | 6,195,606    |

**PEDERNALES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**14. Subsequent Events**

The Cooperative has evaluated subsequent events through April 2, 2024, the date which the financial statements were available to be issued.

In February of 2024, the Cooperative issued \$100 million in bonds with New York Life bearing interest of 5.55%. The proceeds will be used to refund the Company's outstanding Commercial Paper Notes which were incurred to pay the cost of additional facilities. Additionally, availability under the New York Life uncommitted term loan facility was increased to \$125 million.

**COMPLIANCE AND INTERNAL CONTROL 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, 2023 and 2022, and the related statements of income and patronage capital, and cash flows for the years ended, and have issued our report thereon dated April 2, 2024.

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 noncompliance.

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

April 2, 2024



**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 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., as of and for the year ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise Pedernales Electric Cooperative, Inc.'s financial statements, and have issued our report thereon dated April 2, 2024.

**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 and significant deficiencies may exist that have not been 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 2, 2024





PEDERNALES ELECTRIC COOPERATIVE