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

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Pedernales Electric Cooperative, Inc., which comprise the balance sheets as of December 31, 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	December 31, 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

	December 31, 2023	December 31, 2022
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, 2023	December 31, 2022
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	16,890,490	15,748,362
Total Operating Revenues	$ 878,003,071	$ 833,234,309
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	3,536,902	2,994,551
Total Operating Expenses	$ 785,601,658	$ 745,601,110
OPERATING MARGINS - Before Fixed Charges	$ 92,401,413	$ 87,633,199
FIXED CHARGES		
Interest and Amortization on Long-Term Debt	$ 41,050,264	$ 42,219,112
OPERATING MARGINS - After Fixed Charges	$ 51,351,149	$ 45,414,087
Capital Credits	3,874,885	2,046,352
NET OPERATING MARGINS	$ 55,226,034	$ 47,460,439
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	(75,404)	2,667,846
	$ 875,425	$ 3,137,170
NET MARGINS	$ 56,101,459	$ 50,597,609
PATRONAGE CAPITAL - BEGINNING OF YEAR	444,577,559	433,310,509
Patronage Capital Retired	(12,048,975)	(6,126,142)
Transfers to Other Equities	(33,025,714)	(33,204,417)
PATRONAGE CAPITAL - END OF YEAR	$ 455,604,329	$ 444,577,559

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, 2023	December 31, 2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	$ 56,101,458	$ 50,597,609
Adjustments to Reconcile Net Margins to Net Cash From 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	$ 145,353,814	$ 166,389,145
CASH FLOWS FROM INVESTING ACTIVITIES		
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	$ (201,334,630)	$ (153,746,363)
CASH FLOWS FROM FINANCING ACTIVITIES		
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	$ 56,277,153	$ (12,590,114)
CHANGE IN CASH AND CASH EQUIVALENTS	$ 296,337	$ 52,668
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	9,091,355	9,038,687
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 9,387,692	$ 9,091,355
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash Paid During the Year for:		
Interest on Long-Term Debt	$ 32,527,824	$ 31,481,448
Patronage Capital Retired by Non-Cash Discounting	$ 32,782,951	$ 30,136,081
Assets Obtained through Finance Leases	$ 17,005,865	$ 0
Assets Obtained through Operating Leases	$ 712,422	$ 2,238,541
Line of Credit Refinanced with Long-Term Debt	$ 0	$ 5,794,741

See accompanying notes to financial statements.

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.

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	$ 885,898	$ 865,322

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	$ 845,597	$ 498,082

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.

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).

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.

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:

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

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

	2023	2022
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:

	2023	2022
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	1,034,030	985,837
	$ 20,291,386	$ 17,880,318

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:

	2023	2022
Defined Benefit Plans (See Note 12)	$ 25,751,372	$ 29,984,016
	$ 25,751,372	$ 29,984,016

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.

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

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

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:

	2023	2022
Non-operating Margins	$ 6,025,843	$ 5,150,418
Discounted Capital Credits	402,709,625	370,559,337
	$ 408,735,468	$ 375,709,755

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.

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 - 5.95% to 6.20%; due 2032 Interest Payable Semi-Annually; Principal Payable Annually	$ 36,799,000	$ 39,797,000
CFC Loan - 3.40% - 4.15%; due 2043 to 2049 Interest and Principal Payable Quarterly	424,846,988	437,328,891
Chase Loan - 3.18%; due 2027 Interest and Principal Payable Monthly	3,776,169	4,891,783
CoBank Loan - 2.44%; due 2047 Interest and Principal Payable Quarterly	22,661,993	23,346,006
NYL Loan - 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 - 2.34% to 2.44%; due 2051 Interest Payable Semi-Annually	373,333,333	386,654,333
First Mortgage Bonds, 2023 Series A - 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

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:

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

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	143,222
Total Minimum Lease Payments	2,493,649
Amount Representing Interest	(83,624)
Present Value of Lease Payments	$ 2,410,025

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.

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:

		2023		2022
Bucket Trucks	$	4,286,650	$	4,286,650
Information Technolgy Hardware		645,091		645,091
Lights		17,005,865		
Accumulated Depreciation		(3,441,679)		(1,820,377)
	$	18,495,927	$	3,111,364

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

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

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		16,675,464
Total Minimum Lease Payments	$	27,616,075
Amount Representing Interest		(8,853,144)
Present Value of Lease Payments	$	18,762,931

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	

<u>National Rural Utilities Cooperative Finance Corporation (CFC)</u>

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.

<u>CoBank</u>

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.

<u>Bank of America</u>

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.

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:

	2023	2022
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
	$ 43,643,489	$ 51,306,087

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.

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:

	2023	2022
Discount Rate	5.25%	5.25%
Rate of Compensation Increase	4.00%	4.00%

The following weighted-average assumptions were used to determine the net benefit cost for 2023 and 2022:

	2023	2022
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:

		2023	2022
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	(12,270,486)	(15,666,515)
		$ 4,687,489	$ 1,137,590
II)	Projected Benefit Obligation (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	(11,478,669)	(10,825,377)
	Projected Benefit Obligation at Year End	$ 246,272,305	$ 234,231,752
III)	Reconciliation of Funded Status		
	Projected Benefit Obligation	$ 246,272,305	$ 234,231,752
	Fair Value of Assets	232,931,711	215,675,358
	Funded Status at Year End	$ (13,340,594)	$ (18,556,394)
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	(2,972,793)	(11,695,068)
	Deferred Charge at Year End	$ 25,751,372	$ 29,984,016

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.

Fair value of plan assets at December 31, 2023 and 2022 and asset allocation is as follows:

	2023	2022
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	11,563,287	10,514,551
Total	$ 232,931,711	$ 215,675,358

	2023	2022
Mutual Funds and Equity Securities	28%	29%
Debt Securities	66%	65%
Other	6%	6%
Total	100%	100%

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.

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:

	2023	2022
I) Net Post-Retirement Benefit Cost		
Interest Cost	$ 859,868	$ 534,879
Amortization	(3,936,252)	(3,143,731)
	$ (3,076,384)	$ (2,608,852)
II) Accumulated Post-Retirement Benefit Obligation (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	(1,277,658)	(1,295,940)
Net Post-Retirement Benefit Liability at Year End	$ 17,240,224	$ 15,570,933
III) Reconciliation of Funded Status		
APBO	$ 17,240,224	$ 15,570,933
Accrued Post-Retirement Benefit Cost	$ 17,240,224	$ 15,570,933
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	2,087,081	(7,347,231)
Deferred Credit at Year End	$ (38,086,750)	$ (44,110,083)

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

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

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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 incompliance.

This report is intended solely for the information and use of the Boards of Directors and management of Pedernales Electric Cooperative, Inc. and the National Rural Utilities Cooperative Finance Corporation and is not intended to be and should not be used by anyone other than these specified parties.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

April 2, 2024

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Pedernales Electric Cooperative, Inc., 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