

PEDERNALES ELECTRIC COOPERATIVE, INC.

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

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, 2020 AND 2019

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

PEDERNALES ELECTRIC COOPERATIVE, INC.
FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditor's Report	1
Financial Statements	
Balance Sheets	3
Statements of Income and Patronage Capital	4
Statements of Cash Flows	5
Notes to Financial Statements	6
Compliance Section	
Letter to Board of Directors Regarding Policies Concerning Audits of CFC Borrowers	23

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 Financial Statements

We have audited the accompanying financial statements of Pedernales Electric Cooperative, Inc., which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of income and patronage capital, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pedernales Electric Cooperative, Inc. as of December 31, 2020 and 2019, and the results of their operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

April 7, 2021

PEDERNALES ELECTRIC COOPERATIVE, INC.

BALANCE SHEETS
DECEMBER 31, 2020 AND 2019

ASSETS

	<u>2020</u>	<u>2019</u>
UTILITY PLANT AT COST		
Utility Plant in Service	\$ 1,964,123,047	\$ 1,852,689,244
Construction Work in Progress	113,548,694	105,448,674
	<u>\$ 2,077,671,741</u>	<u>\$ 1,958,137,918</u>
Less: Accumulated Provision for Depreciation	344,116,472	310,728,192
	<u>\$ 1,733,555,269</u>	<u>\$ 1,647,409,726</u>
OTHER PROPERTY AND INVESTMENTS - AT COST OR STATED VALUE		
Investments in Associated Organizations	<u>\$ 16,002,062</u>	<u>\$ 14,853,345</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 11,458,857	\$ 768,768
Accounts Receivable - Energy (Less allowance for uncollectibles of \$1,007,841 in 2020 and \$474,031 in 2019)	22,601,860	19,626,978
Accounts Receivable - Other (Less allowance for uncollectibles of \$308,000 in 2020 and \$224,355 in 2019)	2,382,669	2,462,428
Accrued Unbilled Revenue	22,235,356	26,250,305
Materials and Supplies Inventory	21,235,224	17,921,711
Other Current and Accrued Assets	3,915,957	3,563,414
Total Current Assets	<u>\$ 83,829,923</u>	<u>\$ 70,593,604</u>
DEFERRED CHARGES AND OTHER ASSETS	<u>\$ 70,490,122</u>	<u>\$ 75,147,217</u>
TOTAL ASSETS	<u>\$ 1,903,877,376</u>	<u>\$ 1,808,003,892</u>
EQUITIES AND LIABILITIES		
EQUITIES		
Memberships	\$ 14,287,737	\$ 13,456,187
Patronage Capital	440,222,950	466,276,144
Other Equities	308,320,339	254,747,734
Total Equities	<u>\$ 762,831,026</u>	<u>\$ 734,480,065</u>
LONG-TERM DEBT		
Mortgage Bonds Less Current Maturities and Issuance Costs	\$ 253,017,989	\$ 269,311,308
CFC Mortgage Notes Less Current Maturities	449,346,592	460,917,422
Chase Notes Less Current Maturities	1,950,000	6,050,000
CoBank Notes Less Current Maturities	24,017,347	-
NYL Note Less Current Maturities	72,500,000	-
Capital Lease Obligations Less Current Maturities	849,643	-
Line of Credit to be Refinanced	2,737,564	8,200,000
Total Long-Term Debt	<u>\$ 804,419,135</u>	<u>\$ 744,478,730</u>
ACCUMULATED PROVISION FOR PENSIONS AND BENEFITS	<u>\$ 88,942,271</u>	<u>\$ 85,965,102</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 34,357,932	\$ 48,740,433
Current Maturities of Capital Lease Obligations	315,198	-
Current Portion of Accumulated Provision for Pensions and Benefits	1,764,010	2,095,220
Purchased Power - Payable and Accrued	32,751,586	28,980,423
Accounts Payable - Other	21,970,552	29,709,181
Power Cost Adjustments - Over-Recovered	76,455,353	40,009,785
Tax Payable	10,295,591	10,531,239
Interest Payable	3,748,757	3,750,407
Member Deposits	4,194,751	5,811,779
Other Current and Accrued Liabilities	14,360,435	13,035,015
Total Current Liabilities	<u>\$ 200,214,165</u>	<u>\$ 182,663,482</u>
DEFERRED CREDITS	<u>\$ 47,470,779</u>	<u>\$ 60,416,513</u>
TOTAL EQUITIES AND LIABILITIES	<u>\$ 1,903,877,376</u>	<u>\$ 1,808,003,892</u>

See accompanying notes to financial statements.

PEDERNALES ELECTRIC COOPERATIVE, INC.

STATEMENTS OF INCOME AND PATRONAGE CAPITAL
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
OPERATING REVENUES		
Residential	\$ 476,274,796	\$ 464,321,990
Small and Large Power	157,705,711	167,163,174
Power Cost Adjustment	(19,711,870)	(42,905,099)
Other Revenues	28,790,711	29,336,940
Total Operating Revenues	<u>\$ 643,059,348</u>	<u>\$ 617,917,005</u>
OPERATING EXPENSES		
Purchased Power	\$ 356,869,021	\$ 336,358,046
Transmission - Operation	2,592,190	2,581,131
Transmission - Maintenance	3,180,963	3,117,569
Distribution - Operation	46,398,901	45,427,226
Distribution - Maintenance	31,701,120	20,272,723
Consumer Accounts	29,386,320	27,803,227
Customer Service and Information	4,143,029	3,821,042
Sales	1,682,896	1,693,704
Administrative and General	27,156,006	27,003,121
Depreciation	69,664,300	57,620,272
Taxes	1,034,014	(108,236)
Other Interest	1,122,354	1,740,606
Other Deductions	123,891	124,329
Total Operating Expenses	<u>\$ 575,055,005</u>	<u>\$ 527,454,760</u>
OPERATING MARGINS - Before Fixed Charges	<u>\$ 68,004,343</u>	<u>\$ 90,462,245</u>
FIXED CHARGES		
Interest and Amortization on Long-Term Debt	\$ 37,268,985	\$ 35,809,236
Interest Charged to Construction	-	(235,555)
	<u>\$ 37,268,985</u>	<u>\$ 35,573,681</u>
OPERATING MARGINS - After Fixed Charges	<u>\$ 30,735,358</u>	<u>\$ 54,888,564</u>
Capital Credits	<u>2,220,243</u>	<u>2,080,747</u>
NET OPERATING MARGINS	<u>\$ 32,955,601</u>	<u>\$ 56,969,311</u>
NON-OPERATING MARGINS		
Interest and Dividend Income	\$ 157,575	\$ 278,796
Miscellaneous Non-Operating Income	536,130	508,549
Disposal of Assets	151,286	430,821
	<u>\$ 844,991</u>	<u>\$ 1,218,166</u>
NET MARGINS	<u>\$ 33,800,592</u>	<u>\$ 58,187,477</u>
PATRONAGE CAPITAL - BEGINNING OF YEAR	466,276,144	458,957,514
Patronage Capital Retired	(6,281,179)	(12,033,727)
Transfers to Other Equities	<u>(53,572,607)</u>	<u>(38,835,120)</u>
PATRONAGE CAPITAL - END OF YEAR	<u>\$ 440,222,950</u>	<u>\$ 466,276,144</u>

See accompanying notes to financial statements.

PEDERNALES ELECTRIC COOPERATIVE, INC.

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 33,800,592	\$ 58,187,477
Adjustments to Reconcile Net Margins to Net Cash From Non-Cash Operating Activities		
Depreciation and Amortization Charged to Expense	69,929,440	57,885,412
Provision for Uncollectible Accounts	1,356,871	1,066,559
Capital Credits	(2,220,243)	(2,080,747)
Non-Cash Pension Expense	4,529,929	7,439,787
Payments on Pension Plans	(8,059,163)	(9,034,514)
Changes in Assets and Liabilities:		
Accounts Receivable - Net	(237,045)	1,830,321
Accounts Payable	(7,878,078)	6,991,697
Power Cost Adjustments	36,445,568	21,988,284
Materials & Supplies	(3,313,513)	1,521,948
Other Assets and Liabilities	(1,140,569)	4,639,267
Net Cash From Operating Activities	<u>\$ 123,213,789</u>	<u>\$ 150,435,491</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Additions to Property, Plant & Equipment	\$ (152,532,468)	\$ (152,841,806)
Capital Credit Retirements from Associated Organizations	1,071,526	1,072,507
Net Cash From Investing Activities	<u>\$ (151,460,942)</u>	<u>\$ (151,769,299)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Long-Term Debt	\$ (49,132,234)	\$ (45,590,106)
Advances on Long-Term Debt	98,981,541	100,000,000
Net Activity on Line of Credit	(5,462,436)	(43,300,000)
Retirement of Patronage Capital	(6,281,179)	(12,033,727)
Increase in Memberships - Net	831,550	671,569
Net Cash From Financing Activities	<u>\$ 38,937,242</u>	<u>\$ (252,264)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	\$ 10,690,089	\$ (1,586,072)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>768,768</u>	<u>2,354,840</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 11,458,857</u>	<u>\$ 768,768</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash Paid During the Year for:		
Interest on Long-Term Debt	\$ 36,295,461	\$ 35,432,397
Patronage Capital Retired by Non-Cash Discounting	\$ 53,263,746	\$ 37,936,352
Assets Obtained through Capital Leases	\$ 1,221,091	\$ -

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, 2020, the Cooperative served 348,280 meters.

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

Regulatory Accounting

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

Utility Plant

Plant is stated at the original cost of construction which includes the cost of contracted services, direct labor, materials, overhead items and capitalized interest. During 2019, the Cooperative discontinued capitalizing interest amounts. Contributions from others toward the construction of electric plant are credited to the applicable plant accounts.

When property, which represents a retirement unit, is replaced or removed, the average cost of such property as determined from the continuing property records is credited to electric plant and such cost, together with cost of removal less salvage, is charged to the accumulated provision for depreciation.

Maintenance and repairs, including the renewal of minor items of plant not comprising a retirement unit, are charged to the appropriate maintenance accounts, except that repairs of transportation and service equipment are charged to clearing accounts and redistributed to operating expense and other accounts.

Cash and Cash Equivalents

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

Accounts Receivable

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

PEDERNALES ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

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

Materials and Supplies Inventory

Materials and supplies inventories are valued at average unit cost.

Electric Revenues from Contracts with Customers

Substantially all operating revenues and customer accounts receivables are derived from contracts with customers. Performance obligations related to the sale of energy are satisfied as energy is delivered to customers. The Cooperative recognizes electric revenue that corresponds to the price of the energy delivered to the customer. The measurement of energy sales to customers is generally based on the reading of their meters, which occurs on a systematic basis throughout the month. At the end of each month, amounts of energy delivered to customers since the date of the last meter reading are estimated, and the corresponding unbilled revenue is recognized. The Cooperative has calculated that its unbilled revenue for delivered power usage which has not been billed to customers at December 31, 2020 and 2019 amounted to \$22,235,536 and \$26,250,305, respectively.

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

The Cooperative's tariffs for electric service include adjustment clauses under which billings to customers are adjusted to reflect changes in the cost of purchased power. In order to match power cost and related revenues, over collected power cost to be credited to consumers in subsequent periods is recognized as a current liability and as a reduction of operating revenues on the statement of income and patronage capital. The Cooperative had over collected power costs of \$76,455,353 and \$40,009,785 as of December 31, 2020 and 2019, respectively. The Cooperative received significant payments from LCRA during 2020, which increased the over collected power costs (See Note 6).

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 2017. In 2020 and 2019, the Cooperative did not incur tax related interest or penalties.

PEDERNALES ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

Group Concentration of Credit Risk

The headquarters of the Cooperative is located in Johnson City, Texas. The service area extends into 24 counties in the Central Texas region. The Cooperative records a receivable for electric revenues as billed on a monthly basis. The Cooperative may require a deposit from new members upon connection, which is applied to unpaid bills and fees in the event of default. The deposit accrues interest annually and is returned to residential accounts along with accrued interest after one year of prompt payments. As of December 31, 2020 and 2019, deposits on hand totaled \$4,194,751 and \$5,811,779, 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 2020 and 2019.

Patronage Capital Certificates

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

Pension Benefit Plans and Other Post-Retirement Benefits

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

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

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Comparative Financial Information

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

2. Assets Pledged

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

PEDERNALES ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

3. Utility Plant

The major classes of utility plant are as follows:

	<u>2020</u>	<u>2019</u>
Transmission Plant	\$ 145,226,037	\$ 109,540,612
Distribution Plant	1,601,795,587	1,545,617,790
General Plant	<u>217,101,423</u>	<u>197,530,842</u>
Total Utility Plant in Service	\$ 1,964,123,047	\$ 1,852,689,244
Construction Work in Progress	<u>113,548,694</u>	<u>105,448,674</u>
Total Utility Plant	<u>\$ 2,077,671,741</u>	<u>\$ 1,958,137,918</u>

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

	<u>2020</u>	<u>2019</u>
Transmission Plant	1.57% - 10.00%	1.74% - 2.02%
Distribution Plant	1.75% - 20.00%	1.85% - 20.00%
General Plant	2.00% - 20.00%	2.38% - 20.00%

Depreciation for the years ended December 31, 2020 and 2019 was \$69,664,300 and \$57,620,272, respectively.

4. Investments in Associated Organizations

Investments in associated organizations consisted of:

	<u>2020</u>	<u>2019</u>
CFC		
Capital Term Certificates	\$ 4,813,296	\$ 4,887,296
Patronage Capital	6,800,675	6,141,780
Texas Electric Cooperative		
Patronage Capital	3,618,728	3,156,575
Other	<u>769,363</u>	<u>667,694</u>
	<u>\$ 16,002,062</u>	<u>\$ 14,853,345</u>

5. Materials and Supplies Inventory

Materials and supplies inventories consist of construction materials and supplies. The ending balances for materials and supplies at December 31, 2020 and 2019 were \$21,235,224 and \$17,921,711, respectively.

PEDERNALES ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

6. Deferred Charges and Other Assets

Deferred charges and other assets included the following:

	<u>2020</u>	<u>2019</u>
Defined Benefit Plan (See Note 12)	\$ 69,713,560	\$ 58,880,411
LCRA FPCRf (See Note 10)	776,562	16,099,689
LCRA Radio Services	-	167,117
	<u>\$ 70,490,122</u>	<u>\$ 75,147,217</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.

The LCRA Fuel & Power Cost Recovery Factor (FPCRf) represent the amounts the Cooperative will be billed by LCRA in future periods or a reduction in billings by LCRA in future periods for electricity purchased, which will be recovered or passed through member rate adjustments. The FPCRf as of December 31, 2020 represents an under-recovery by LCRA or payable of \$776,562, which is classified as a deferred credit along with the same amount as a deferred charge. The FPCRf as of December 31, 2019 represents an over-recovery by LCRA or receivable of \$16,099,689, which is classified as a deferred charge along with the same amount as a deferred credit. During 2020, the Cooperative transitioned their payment mechanism for the FPCRf from the managed balance method to the pay as you go method. This transition resulted in significant payments from LCRA to the Cooperative, which reduced the deferred charge and deferred credit in 2020. These payments are reflected as a liability in over collected power costs on the balance sheet.

The Cooperative has an agreement in place to utilize LCRA's trunked radio system in the Junction district. The associated costs were paid upon initiation of the agreement. The contract term ended on August 2020.

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, 2020 and 2019.

PEDERNALES ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

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

Patronage capital totaling \$6,281,179 and \$12,033,727 was distributed to members during 2020 and 2019, respectively.

Patronage capital assigned and assignable at December 31, 2020 and 2019, is as follows:

	<u>2020</u>	<u>2019</u>
Assigned to Date	\$ 823,699,642	\$ 764,889,011
Assignable	<u>59,485,519</u>	<u>85,060,689</u>
	\$ 883,185,161	\$ 849,949,700
Less: Retirements to Date	136,105,769	129,824,590
Less: Discounted Patronage Capital to Permanent Equity	<u>306,856,442</u>	<u>253,848,966</u>
	<u>\$ 440,222,950</u>	<u>\$ 466,276,144</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, 2020 and 2019, are as follows:

	<u>2020</u>	<u>2019</u>
Non-operating Margins	\$ 1,463,897	\$ 898,768
Discounted Capital Credits	<u>306,856,442</u>	<u>253,848,966</u>
	<u>\$ 308,320,339</u>	<u>\$ 254,747,734</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, 2020 and 2019, bonds and mortgage notes consisted of the following:

	<u>2020</u>	<u>2019</u>
First Mortgage Bonds, 2002 Series A - 5.95% to 6.20%; due 2022 to 2032 Interest Payable Semi-Annually	\$ 271,500,000	\$ 286,180,000
CFC Loan - 2.75% - 4.15%; due 2020 to 2049 Interest and Principal Payable Quarterly	460,917,422	489,377,855
Chase Loan - 2.50% to 3.80%; due 2021 to 2022 Interest and Principal Payable Quarterly	6,050,000	11,650,000
CoBank Loan - 2.44%; due 2047 Interest and Principal Payable Quarterly	24,664,449	
NYL Loan - 2.18%; due 2050 Interest and Principal Payable Quarterly	75,000,000	
Less: Bond Issue Costs	<u>(2,942,011)</u>	<u>(2,188,692)</u>
	\$ 835,189,860	\$ 785,019,163
Less: Current Maturities	<u>34,357,932</u>	<u>48,740,433</u>
Total Bonds and Mortgage Notes	<u>\$ 800,831,928</u>	<u>\$ 736,278,730</u>

The Cooperative has \$75,000,000 available on committed term loans from CoBank.

The Cooperative also has \$125,000,000 available on uncommitted term loans from New York Life (NYL).

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

2021	\$ 34,357,932
2022	33,590,969
2023	33,706,728
2024	35,309,335
2025	37,004,119
Thereafter	664,162,788

PEDERNALES ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

Capital Lease Obligations

The Cooperative has entered into lease agreements with First American Equipment Finance (FAEF) for the purchase of bucket trucks and IT Hardware not to exceed \$10,000,000. These leases expire in 2023 and 2025. The economic substance of the capital leases is that the Cooperative is financing the acquisition of the assets through the leases over their terms, and accordingly, they are reflected in the Cooperative's plant assets and long-term liabilities. Lease expense for the years ended December 31, 2020 and 2019 totaled \$872 and \$0, respectively.

The following is an analysis of the book value of the leased assets included in electric plant at December 31, 2020 and 2019, which is being depreciated on a straight-line basis over the life of the lease:

	<u>2020</u>	<u>2019</u>
Bucket Trucks	\$ 576,000	\$ -
It Hardware	645,091	-
Accumulated Depreciation	(46,719)	-
	<u>\$ 1,174,372</u>	<u>\$ -</u>

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

	<u>2020</u>	<u>2019</u>
First American Equipment Finance	\$ 1,164,841	\$ -
Less: Current Maturities	(315,198)	-
	<u>\$ 849,643</u>	<u>\$ -</u>

The entire lease obligation to FAEF calls for monthly payments totaling \$28,095 over the remaining term of the leases. The average interest rate is 1.90%. Below is a schedule by years of the future minimum payments required under the leases, with their present value at December 31, 2020:

2021	\$ 337,740
2022	337,740
2023	319,554
2024	119,515
2025	<u>99,596</u>
Total Minimum Lease Payments	\$ 1,214,145
Amount Representing Interest	<u>(49,304)</u>
Present Value of Lease Payments	<u>\$ 1,164,841</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, 2020 and 2019:

	2020		2019	
	Total Line	Maturity	Total Line	Maturity
CFC	\$ 100,000,000	Perpetual	\$ 100,000,000	Perpetual
CoBank	80,000,000	03/26/21	80,000,000	03/26/21
Bank of America	50,000,000	12/08/21	-	N/A
Bank of America	200,000,000	12/08/23	-	N/A
JPMorgan Chase	15,000,000	06/30/21	-	N/A
Total Lines of Credit	<u>\$ 445,000,000</u>		<u>\$ 180,000,000</u>	

National Rural Utilities Cooperative Finance Corporation (CFC)

The CFC line of credit agreement requires the Cooperative to pay down the balance to zero annually and automatically renews unless either party gives a 90 day notice. Interest is charged on balances outstanding based on the CFC short-term rate in effect upon the date funds were initially borrowed. At December 31, 2020 and 2019, the Cooperative had \$0 and \$8,200,000, respectively, outstanding on this line of credit. Balances outstanding at December 31, 2019 bear interest at 2.45%

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, 2020 and 2019.

Bank of America

The Cooperative entered into two syndicated revolving credit lines during 2020 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 a prime rate plus .85% or LIBOR plus 1.10% as selected by the Cooperative. Funds under this credit line are committed with a fee charged of .15% on the undrawn balance. The second credit line has a three year term which bear interest at a prime rate plus .85% or LIBOR plus 1.25% as selected by the Cooperative. Funds under this credit line are committed with a fee charged of .30% on the undrawn balance. No balances were outstanding as of December 31, 2020.

JPMorgan Chase Equipment Purchase Line

The Cooperative has a line of credit to purchase equipment with JPMorgan Chase. At December 31, 2020 and 2019, the Cooperative had \$2,737,564 and \$0, respectively, outstanding on this line of credit. Balances outstanding at December 31, 2020 bear interest at LIBOR plus 1.75%.

Pursuant to the Cooperative's utilization of long-term funds to repay these amounts \$2,737,564 and \$8,200,000 are classified as long-term debt on the balance sheet at December 31, 2020 and 2019, respectively.

PEDERNALES ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

10. Deferred Credits

Deferred credits included the following:

	<u>2020</u>	<u>2019</u>
Patronage Capital - Unclaimed Property	\$ 5,495,072	\$ 7,747,930
LCRA FPCRF (See Note 6)	776,562	16,099,689
Post-Retirement Medical Benefits (See Note 13)	41,197,777	36,539,821
Other	1,368	29,073
	<u>\$ 47,470,779</u>	<u>\$ 60,416,513</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 2020 and 2019, 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 2020 and 2019, the Cooperative purchased energy from various third party wholesale power suppliers. All of the electric energy purchased by the Cooperative is procured through term contracts of varying durations. As these terms expire, they may or may not be replaced with new agreements.

Transmission Lease Contracts

LCRA leases and operates certain transmission facilities and equipment owned by the Cooperative. Payments for the leased facilities vary from year to year and are based on the original cost of the facilities, adjusted for depreciation, and are updated annually to reflect additions, retirements and depreciation. The terms of the lease are perpetual, but may be terminated by LCRA or the Cooperative upon five years written notice. In 2019, the lease was terminated by both parties. The lease will end in June 2024. The Cooperative's transmission lease revenues totaled \$4,783,618 and \$5,196,223 in 2020 and 2019, respectively.

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.

PEDERNALES ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

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, 2020 and 2019, were \$6,376,367 and \$7,037,451, respectively.

The measurement date used for the current valuation is December 31, 2020.

The following weighted-average assumptions were used to develop the accumulated post-retirement benefit obligation for 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Discount Rate	2.52%	3.25%
Rate of Compensation Increase	4.00%	4.00%

The following weighted-average assumptions were used to determine the net benefit cost for 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Discount Rate	3.25%	4.25%
Rate of Compensation Increase	4.00%	4.00%
Expected Long-Term Return on Plan Assets	6.25%	6.50%

PEDERNALES ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

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

	<u>2020</u>	<u>2019</u>
I) Net Periodic Benefit Cost		
Service Cost	\$ 5,705,463	\$ 4,757,855
Interest Cost	9,089,089	9,904,325
Amortization	5,692,668	5,332,848
Return on Assets	<u>(13,765,863)</u>	<u>(11,604,349)</u>
	<u>\$ 6,721,357</u>	<u>\$ 8,390,679</u>
II) Projected Benefit Obligation (PBO) Reconciliation:		
PBO Balance at Beginning of Year	\$ 276,800,668	\$ 236,828,676
Actuarial (Gain)/Loss	38,013,413	34,023,378
Interest Cost/Service Cost	14,794,552	14,662,180
Benefits Paid	<u>(9,801,985)</u>	<u>(8,713,566)</u>
Projected Benefit Obligation at Year End	<u>\$ 319,806,648</u>	<u>\$ 276,800,668</u>
III) Reconciliation of Funded Status		
Projected Benefit Obligation	\$ 319,806,648	\$ 276,800,668
Fair Value of Assets	<u>254,899,761</u>	<u>223,071,920</u>
Funded Status at Year End	<u>\$ (64,906,887)</u>	<u>\$ (53,728,748)</u>
IV) Deferred Charge		
Actuarial Loss - Beginning of Year	\$ 58,880,411	\$ 60,663,121
Amortization of Loss/Remeasurement	(5,692,668)	(5,332,848)
Actuarial Loss	<u>16,525,817</u>	<u>3,550,138</u>
Deferred Charge at Year End	<u>\$ 69,713,560</u>	<u>\$ 58,880,411</u>

The accumulated benefit obligation for the plan was \$286,102,549 and \$249,547,793 at December 31, 2020 and 2019, respectively.

Plan Asset Information

Information related to fair value hierarchy measurements are disclosed in Note 17. 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, 2020 and 2019 and asset allocation is as follows:

	<u>2020</u>	<u>2019</u>
Cash and Cash Equivalents	\$ 1,808,287	\$ 959,831
Government Agencies, Bonds and Notes	117,044,192	104,287,888
Mutual Funds	116,525,886	104,007,990
Other	<u>19,521,396</u>	<u>13,816,211</u>
Total	<u>\$ 254,899,761</u>	<u>\$ 223,071,920</u>

	<u>2020</u>	<u>2019</u>
Mutual Funds and Equity Securities	46%	47%
Debt Securities	46%	47%
Other	<u>8%</u>	<u>6%</u>
Total	<u>100%</u>	<u>100%</u>

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

2021	\$ 10,113,370
2022	10,720,434
2023	11,280,991
2024	11,941,673
2025	12,524,920
2026-2030	71,657,691

The estimated 2021 plan year minimum required contribution is \$6,500,000.

The Cooperative has a defined contribution plan (401(k) plan) for employees that are eligible to participate. For employees that are also eligible to participate in the defined benefit plan, the maximum contribution is six percent of the employee's base annual salary. For employees not eligible for the defined benefit plan, the 401(k) plan contribution cost is a maximum of ten percent of the employee's base annual salary. These costs are funded each pay period as accrued. The Cooperative's contributions to the 401(k) plan (net of forfeitures) were \$5,762,565 and \$5,087,827 in 2020 and 2019, respectively.

13. Post-Retirement Benefits Other than Pensions

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

PEDERNALES ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

Benefits are paid on behalf of retirees and are a function of medical insurance costs and number of retirees. Benefits paid (excluding reimbursements) for the years ended December 31, 2020 and 2019, were \$1,828,211 and \$2,177,390, 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, 2020.

The weighted-average discount rate used to develop the accumulated post-retirement benefit obligation for the years ended December 31, 2020 and 2019, were 2.31% and 3.13%, respectively.

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

	<u>2020</u>	<u>2019</u>
I) Net Post-Retirement Benefit Cost		
Interest Cost	\$ 756,763	\$ 1,379,239
Amortization	<u>(2,948,191)</u>	<u>(2,330,131)</u>
	<u>\$ (2,191,428)</u>	<u>\$ (950,892)</u>
II) Accumulated Post-Retirement Benefit Obligation (APBO) Reconciliation:		
APBO Balance at Beginning of Year	\$ 34,331,574	\$ 30,086,542
Actuarial (Gain)/Loss	(7,606,147)	4,862,856
Interest Cost / Service Cost	756,763	1,379,239
Employer Contributions Net of Participant Amounts	<u>(1,682,796)</u>	<u>(1,997,063)</u>
Net Post-Retirement Benefit Liability at Year End	<u>\$ 25,799,394</u>	<u>\$ 34,331,574</u>
III) Reconciliation of Funded Status		
APBO	<u>\$ 25,799,394</u>	<u>\$ 34,331,574</u>
Accrued Post-Retirement Benefit Cost	<u>\$ 25,799,394</u>	<u>\$ 34,331,574</u>
IV) Deferred Credit		
Actuarial Gain - Beginning of Year	\$ (36,539,821)	\$ (43,732,808)
Amortization	2,948,191	2,330,131
Current Year Net (Gain)/Loss	<u>(7,606,147)</u>	<u>4,862,856</u>
Deferred Credit at Year End	<u>\$ (41,197,777)</u>	<u>\$ (36,539,821)</u>

The estimated actuarial amount for the post-retirement medical benefit plan that will be amortized into net post-retirement benefit cost over the next fiscal year is expected to be a gain of \$2,762,011.

The Cooperative has not funded any plan assets as of December 31, 2020 or 2019.

PEDERNALES ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

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

2021	\$	1,784,268
2022		1,699,175
2023		1,684,937
2024		1,601,610
2025		1,540,560
2026-2030		6,700,432

14. Recently Issued Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update 2016-02, *Leases*. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The new standard is effective for nonpublic entities for fiscal years beginning after December 15, 2021. The Cooperative is evaluating the impact of the new standard on the financial statements.

15. Disclosures About Fair Value of Financial Instruments

Many of the Cooperative's financial instruments lack an available market with similar terms, conditions, and maturities as those reflected in the carrying amount recorded. Accordingly, significant assumptions, estimations, and present value calculations were used for purposes of this disclosure.

Estimated Fair Value has been determined by calculating the present value of financial instruments using the best data available.

Fair Value for some amounts carried on the financial statements has not been calculated for the following reasons:

Patronage Capital from Associated Organizations – The right to receive cash is an inherent component of a financial instrument. The Cooperative holds no right to receive cash since any payments are at the discretion of the governing body for the associated organizations. As such, Patronage Capital from Associated Organizations are not considered financial instruments.

PEDERNALES ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

CFC Capital Term Certificates and Member Capital Securities – It is not practicable to estimate fair value for these financial instruments given the lack of a market and their long holding period. Relevant information with respect to these is as follows:

	Amount	Interest Rate	Maturity
\$	886,968	3.00%	2025-2030
	1,715,690	0.00%	2043
	2,210,638	5.00%	2070-2080

Cash and Short-Term Investments - The recorded book value approximates fair value given the short period to maturity.

Long-Term Debt - Estimated by computing the present value by individual note to maturity, using currently quoted or offered rates for similar issues of debt. The year-end CFC fixed interest rate for long-term debt was used in the calculation for all fixed rate long-term debt. These are the only financial instruments of the Cooperative that have a difference in Fair Value and Carrying Value.

The carrying values of the Cooperative's financial instruments and debt and the estimated fair values are as follows:

	2020		2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Cash and Cash Equivalents	\$ 11,458,857	\$ 11,458,857	\$ 768,768	\$ 768,768
Liabilities:				
Long-Term Debt	\$ 838,131,871	\$ 887,200,421	\$ 787,207,855	\$ 814,827,315

Fair Value Hierarchy

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.

Long-Term Debt valuations are considered Level 2.

PEDERNALES ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

16. Subsequent Events

The Cooperative has evaluated subsequent events through April 7, 2021, the date which the financial statements were available to be issued.

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

From February 14, 2021 through February 19, 2021, the State of Texas (the State) experienced a historically severe winter storm in terms of scope and duration statewide with record breaking below freezing temperatures over prolonged periods of time (the Weather Event). On February 12, 2021, in anticipation of the storm, the Governor of the State declared a state of disaster for all counties in the State. Due to generation outages throughout the State, ERCOT mandated reductions in electric load across the State and prolonged power outages began in the early morning hours of Monday, February 15, 2021, continuing throughout the week. During this Weather Event wholesale electric prices reached the price cap of \$9,000/MWh and were held there for a sustained period by order of the Texas Public Utilities Commission.

During the Weather Event the Cooperative incurred significant costs for the purchase of electric power from the ERCOT market. To a lesser degree, the Cooperative also incurred costs for the restoration of power to its members. At this time, the full financial impact of the Weather Event remains uncertain due to ongoing billing disputes, finalization of meter settlement data, customer and counterparty risk including ERCOT's shortfall payments and uplift charges as well as proposed regulatory changes including repricing. Based on the information known to date, which is not complete and subject to change, the Cooperative estimates the winter storm costs could require significant incremental funding. The Cooperative has sufficient cash and liquidity under its credit lines to absorb these costs and is evaluating measures necessary to manage the cost prospectively.

COMPLIANCE SECTION

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

CERTIFIED PUBLIC ACCOUNTANTS

PHONE: (806) 747-3806

FAX: (806) 747-3815

8215 NASHVILLE AVENUE

LUBBOCK, TEXAS 79423-1954

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, the balance sheets of Pedernales Electric Cooperative, Inc. as of December 31, 2020 and 2019, and the related statements of income and patronage capital, and cash flows for the years ended, and have issued our report thereon dated April 7, 2021.

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 7, 2021