

NUECES ELECTRIC COOPERATIVE, INC.

ROBSTOWN, TEXAS

FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

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

CERTIFIED PUBLIC ACCOUNTANTS

LUBBOCK, TEXAS

NUECES ELECTRIC COOPERATIVE, INC.

ROBSTOWN, TEXAS

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CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditor's Report

Board of Directors
Nueces Electric Cooperative, Inc.
Robstown, Texas

Opinion

We have audited the financial statements of Nueces Electric Cooperative, Inc., which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of income and patronage capital, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Nueces Electric Cooperative, Inc. as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Nueces Electric Cooperative, Inc. (the Cooperative) and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Cooperative's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

In performing an audit in accordance with GAAS we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal controls. 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the Cooperative's financial statements. The schedules of electric plant, accumulated provision for depreciation, other property and investments and administrative and general expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

March 10, 2022

NUECES ELECTRIC COOPERATIVE, INC.

Exhibit A

BALANCE SHEETS
DECEMBER 31, 2021 AND 2020

ASSETS

	December 31,	
	2021	2020
UTILITY PLANT AT COST		
Electric Plant in Service	\$ 150,097,440	\$ 147,389,350
Construction Work in Progress	1,231,633	657,811
	\$ 151,329,073	\$ 148,047,161
Less: Accumulated Provision for Depreciation	32,419,883	29,880,024
	\$ 118,909,190	\$ 118,167,137
OTHER PROPERTY AND INVESTMENTS		
Investments in Associated Organizations	\$ 47,242,206	\$ 45,278,348
Investments in Treasury Strips	30,064,010	29,572,058
Other Investments - Restricted	719,931	771,478
	\$ 78,026,147	\$ 75,621,884
CURRENT ASSETS		
Cash - General	\$ 6,300,946	\$ 8,091,592
Temporary Cash Investments	500,000	
Accounts Receivable (Less allowance for uncollectibles of \$182,288 in 2021 and \$239,909 in 2020)	2,836,669	3,145,402
Accrued Unbilled Revenue	2,628,557	2,505,606
Materials and Supplies	1,888,101	1,915,598
Other Current and Accrued Assets	427,420	390,630
Total Current Assets	\$ 14,581,693	\$ 16,048,828
DEFERRED CHARGES	\$ 578,763	\$ 634,178
TOTAL ASSETS	\$ 212,095,793	\$ 210,472,027

EQUITIES AND LIABILITIES

EQUITIES		
Memberships	\$ 514,135	\$ 492,770
Patronage Capital	109,063,296	106,149,553
Other Equities	7,611,237	8,293,700
	\$ 117,188,668	\$ 114,936,023
LONG-TERM DEBT		
CoBank Mortgage Notes	\$ 60,413,201	\$ 62,947,278
CFC Mortgage Notes	13,205,234	12,144,367
Less: Current Maturities	(4,274,000)	(4,271,000)
	\$ 69,344,435	\$ 70,820,645
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 4,274,000	\$ 4,271,000
Accounts Payable - Purchased Power	4,451,065	4,559,689
Accounts Payable - Other	730,393	1,061,224
Consumer Deposits	1,990,077	2,148,710
Accrued Taxes	322,055	303,953
Accrued Interest	297,785	305,817
Patronage Capital Payable	796,827	1,196,619
Accrued Employee Compensated Absences	821,901	807,067
Other Current and Accrued Liabilities	590,474	480,231
Total Current Liabilities	\$ 14,274,577	\$ 15,134,310
DEFERRED CREDITS	\$ 11,288,113	\$ 9,581,049
TOTAL EQUITIES AND LIABILITIES	\$ 212,095,793	\$ 210,472,027

See accompanying notes to financial statements.

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NUECES ELECTRIC COOPERATIVE, INC.

Exhibit B

**STATEMENTS OF INCOME AND PATRONAGE CAPITAL
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

	December 31,				
	2021		2020		Increase
	Amount	%	Amount	%	(Decrease)
OPERATING REVENUES					
Residential	\$ 60,830,291	72.5	\$ 56,939,698	62.9	\$ 3,890,593
Small Commercial and Industrial	11,880,835	14.1	10,840,667	12.0	1,040,168
Large Commercial and Industrial	9,532,341	11.3	23,133,162	25.6	(13,600,821)
Public Street and Highway Lighting	986,751	1.2	977,819	1.1	8,932
Unbilled Revenue	122,951	0.1	(2,265,346)	(2.5)	2,388,297
Late Payment Penalties	540,215	0.6	571,312	0.6	(31,097)
Rent from Electric Property	49,445	0.1	48,978	0.1	467
Other Operating Revenues	100,999	0.1	147,895	0.2	(46,896)
Naval Base Net Margin (Loss)	(8,851)	0.0	(30,225)	0.0	21,374
Total Operating Revenues	\$ 84,034,977	100.0	\$ 90,363,960	100.0	\$ (6,350,357)
OPERATING EXPENSES					
Purchased Power	\$ 55,665,628	66.2	\$ 62,618,932	69.3	\$ (6,953,304)
Distribution - Operation	1,686,427	2.0	1,627,802	1.8	58,625
Distribution - Maintenance	3,349,711	4.0	3,557,854	3.9	(208,143)
Consumer Accounts	4,840,369	5.8	4,427,127	4.9	413,242
Customer Service and Information	330,451	0.4	319,416	0.4	11,035
Administrative and General	6,173,295	7.3	6,000,910	6.6	172,385
Depreciation	4,383,335	5.2	4,279,441	4.7	103,894
Taxes	1,330,493	1.6	1,261,375	1.4	69,118
Other Interest	6,225	0.0	45,701	0.1	(39,476)
Other Deductions	329,284	0.4	89,252	0.1	240,032
Total Operating Expenses	\$ 78,095,218	92.9	\$ 84,227,810	93.2	\$ (6,132,592)
OPERATING MARGINS - Before Fixed Charges	\$ 5,939,759	7.1	\$ 6,136,150	6.8	\$ (217,765)
FIXED CHARGES					
Interest on Long-Term Debt	\$ 3,193,096	3.8	\$ 3,274,678	3.6	\$ (81,582)
Amortization of Premium on Reacquired Debt	80,988	0.1	80,988	0.1	
	\$ 3,274,084	3.9	\$ 3,355,666	3.7	\$ (81,582)
OPERATING MARGINS - After Fixed Charges	\$ 2,665,675	3.2	\$ 2,780,484	3.1	\$ (136,183)
G&T Capital Credits	\$ 1,659,830	2.0	\$ 2,719,216	3.0	\$ (1,059,386)
Other Capital Credits	1,053,465	1.3	891,915	1.0	161,550
	\$ 2,713,295	3.3	\$ 3,611,131	4.0	\$ (897,836)
NET OPERATING MARGINS	\$ 5,378,970	6.5	\$ 6,391,615	7.1	\$ (1,012,645)
NONOPERATING MARGINS					
Interest Income	\$ 1,128,983	1.3	\$ 1,069,906	1.2	\$ 59,077
Other Nonoperating Income	49,487	0.1	32,407	0.0	17,080
Debt Forgiveness Income		0.0	1,464,800	1.6	(1,464,800)
Gain on Disposition of Property	3,872	0.0	44,546	0.0	(40,674)
	\$ 1,182,342	1.4	\$ 2,611,659	2.8	\$ (1,429,317)
NET MARGINS	\$ 6,561,312	7.9	\$ 9,003,274	9.9	\$ (2,441,962)
PATRONAGE CAPITAL - BEGINNING OF YEAR	106,149,553		102,428,751		
Patronage Capital Retired	(4,730,573)		(5,725,788)		
Unbilled Revenue Transferred to Other Equities	2,265,346		443,316		
Nonoperating Margins Transferred to Other Equities	(1,182,342)				
PATRONAGE CAPITAL - END OF YEAR	\$ 109,063,296		\$ 106,149,553		

See accompanying notes to financial statements.

NUECES ELECTRIC COOPERATIVE, INC.

Exhibit C

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	December 31,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 6,561,312	\$ 9,003,274
Adjustments to Reconcile Net Margins to Net Cash From Operating Activities		
Depreciation	5,193,429	5,123,105
Amortization of Premium on Reacquired Debt	80,988	80,988
Capital Credits - Non-Cash	(1,963,858)	(3,167,434)
(Increase) Decrease		
Accounts Receivable	308,733	(47,128)
Accrued Unbilled Revenue	(122,951)	2,265,346
Inventories and Other Current and Accrued Assets	(9,293)	82,638
Deferred Charges	(24,857)	57,343
Increase (Decrease)		
Payables and Accrued Expenses	(862,732)	(129,806)
Deferred Credits	1,706,347	737,296
Net Cash From Operating Activities	\$ 10,867,118	\$ 14,005,622
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Utility Plant	\$ (5,231,638)	\$ (5,458,204)
Plant Removal Costs (in excess of) Salvage and Other Credits	(703,844)	(570,429)
Purchase of Held-to-Maturity Securities	(491,952)	(761,769)
Other Property and Investments	51,547	937,492
Net Cash From Investing Activities	\$ (6,375,887)	\$ (5,852,910)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Long-Term Debt to CoBank	\$ (2,534,077)	\$ (2,442,138)
Payments on Long-Term Debt to CFC	(1,739,133)	(1,628,655)
Advances on CoBank Long-Term Debt		1,285,000
Advances on CFC Long-Term Debt	2,800,000	2,500,000
Other Equities	402,541	156,614
Retirement of Patronage Capital	(4,730,573)	(5,725,788)
Increase (Decrease) in Memberships - Net	21,365	42,970
Net Cash From Financing Activities	\$ (5,779,877)	\$ (5,811,997)
CHANGE IN CASH AND CASH EQUIVALENTS	\$ (1,288,646)	\$ 2,340,715
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>8,091,592</u>	<u>5,750,877</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 6,802,946</u>	<u>\$ 8,091,592</u>
CASH AND CASH EQUIVALENTS CONSISTS OF:		
Cash - General	\$ 6,300,946	\$ 8,091,592
Temporary Cash Investments	500,000	
	<u>\$ 6,800,946</u>	<u>\$ 8,091,592</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash Paid During the Year for:		
Interest on Long-Term Debt	\$ 3,193,096	\$ 3,274,678
Income Taxes	\$ 0	\$ 0

See accompanying notes to financial statements.

NUECES ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Nueces Electric Cooperative, Inc. (the Cooperative) is a non-profit company organized to provide electric service at the retail level to primarily residential and commercial accounts in a historically defined service area. Power delivered at retail is purchased wholesale from South Texas Electric Cooperative. Any revenues earned in excess of costs incurred are allocated to members of the Cooperative and are reflected as patronage capital in the balance sheet.

System of Accounts

Although the Cooperative is no longer an Rural Utilities Service (RUS) borrower, its accounting records are maintained in accordance with the RUS Uniform System of Accounts (USOA) prescribed for RUS electric borrowers.

Electric Plant, Maintenance, and Depreciation

Electric 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 statement of cash flows, cash - general and temporary cash 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 allows 16 days from the date of the bill for payment to be received or the service is considered delinquent. Delinquent notices are sent after the due date giving the member an additional ten days to pay. The NEC wires division charges 5% for delinquent accounts while the NEC retail division (DBA – NEC Co-op Energy) charges 5%. If no payment is received within 26 days or a deferred payment agreement is not in place, the account is subject to disconnect.

The Cooperative provides an allowance for doubtful accounts to recognize the portion of receivables considered uncollectible. The Cooperative accrues amounts monthly to the allowance. The allowance is estimated based on historical trends, aging of receivables and review of potential bad debts. The Board of Directors reviews delinquent accounts quarterly and charges off accounts over one year old.

NUECES ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

Inventories

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 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, 2021 and 2020 amounted to \$2,628,557 and \$2,505,606, respectively.

The Cooperative does not recognize a separate financing component of its collections from customers as contract terms are short-term in nature.

In 2008, the Cooperative entered into a 50 year contract with Corpus Christi and Kingsville Naval bases as part of a privatization agreement by which the Cooperative agreed to maintain the distribution plant for the federal government. The contract provided for the Cooperative to perform operations and maintenance, renewals and replacements, and special projects. Revenue for operations and maintenance is recorded when billed. Revenue for renewals and replacements is deferred and recognized upon performing the renewal or replacement for the Corpus Christi or Kingsville Naval Base. (See Note 16) Revenue for special projects is recognized upon completion of the project with the profit or loss recorded to revenue.

Income Tax Status

The Cooperative is an exempt organization for federal income tax purposes under Section 501(c)(12) of the Internal Revenue Code.

The Cooperative has adopted 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), or other State taxing authority 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 U.S. federal and state income tax examinations by federal taxing authorities for years before 2018.

The Cooperative recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. There were no penalties or interest recognized during the years ended December 31, 2021 and 2020.

NUECES ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

Group Concentration of Credit Risk

The Cooperative's headquarters facility is located in Robstown, Texas. The service area includes members located in all or parts of an eight county area surrounding the City of Robstown. In addition, the Cooperative provides "energy only" services to members outside their traditional service territory. 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 along with accrued interest after one year of prompt payments. The accrued interest on all retained deposits is returned annually. As of December 31, 2021 and 2020, deposits on hand totaled \$1,990,077 and \$2,148,710, respectively.

Although the financial institutions in which the Cooperative has deposits are insured by agencies of the federal government, deposits at times exceeded insured amounts.

Patronage Capital Certificates

Patronage capital from associated organizations is recorded at the stated amount of the certificate. At the end of each year, the Cooperative receives an estimated allocation from its G&T power supply cooperative. In accordance with the USOA, the Cooperative records this estimated amount as income. Any difference between the estimated amount and the actual final allocation is recorded in the following year.

The G&T patronage income recognized for the 2021 and 2020 years are as follows:

	December 31,	
	2021	2020
Estimated Allocation for 2021	\$ 1,440,565	\$
True Up to Actual for 2020	219,265	
Estimated Allocation for 2020		2,545,773
True Up to Actual for 2019		173,443
	<u>\$ 1,659,830</u>	<u>\$ 2,719,216</u>

Advertising

It is the Cooperative's policy to expense advertising as incurred. Advertising expense was \$1,556,439 and \$1,537,910 for 2021 and 2020, respectively.

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.

NUECES ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

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 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.

2. Assets Pledged

All assets are pledged as security for the long-term debt due the National Rural Utilities Cooperative Finance Corporation (CFC) and CoBank.

3. Electric Plant

The major classes of electric plant are as follows:

	December 31,	
	2021	2020
Distribution Plant	\$ 116,341,282	\$ 113,673,896
General Plant	33,756,158	33,715,454
Total Electric Plant in Service	\$ 150,097,440	\$ 147,389,350
Construction Work in Progress	1,231,633	657,811
Total Electric Plant	\$ 151,329,073	\$ 148,047,161

NUECES ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

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

Distribution Plant	3.00%
Distribution Plant - Meters	14.20%
General Plant	
Structures and Improvements	2.00%
Office Furniture and Fixtures	14.29%-33.33%
Transportation Equipment	14.29%-21.62%
Power Operated Equipment	20.00%
Communications Equipment	26.67%-33.33%
Miscellaneous Equipment	3.96%-10.00%
Tools, Shop, and Garage Equipment	6.00%
Laboratory Equipment	16.67%

Depreciation for the years ended December 31, 2021 and 2020 was \$5,193,429 and \$5,123,105, respectively, of which \$4,383,335 and \$4,279,441, was charged to depreciation expense and \$810,094 and \$843,664, was allocated to other accounts.

4. Investments in Associated Organizations

Investments in associated organizations consisted of:

	December 31,	
	2021	2020
CFC		
Capital Term Certificates	\$ 738,569	\$ 738,569
Patronage Capital	269,299	259,230
Membership	1,000	1,000
South Texas Electric Cooperative		
Patronage Capital	42,032,365	40,372,535
Texas Electric Cooperatives, Inc.		
Patronage Capital	1,039,359	991,821
CoBank		
Patronage Capital	2,313,974	2,110,842
Other	847,640	804,351
Total	<u>\$ 47,242,206</u>	<u>\$ 45,278,348</u>

NUECES ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

5. Other Investments – Held-to-Maturity Securities

In connection with the retirement of capital credits in future years the Cooperative has purchased U.S. Treasury Strips. These investments are designed to mature at the time the retirements are made. These investments were purchased at significant discounts. Securities classified as held-to-maturity with maturity dates between 2022 and 2038 consist of the following:

	December 31,	
	2021	2020
U.S. Treasury Strips		
Maturity Amount	\$ 43,018,000	\$ 37,233,000
Less: Unaccreted Discount	<u>(12,953,990)</u>	<u>(7,660,942)</u>
Total	<u>\$ 30,064,010</u>	<u>\$ 29,572,058</u>

The market value of the held-to-maturity securities was \$35,041,999 and \$36,555,539 as of December 31, 2021 and 2020, respectively.

Held-to-maturity valuations are considered Level 1.

6. Other Investments – Restricted

Restricted investments consisted of the following:

	December 31,	
	2021	2020
Transitional Charges Special Deposit	\$ 456,182	\$ 470,488
Scholarship Fund	<u>263,749</u>	<u>300,990</u>
Total	<u>\$ 719,931</u>	<u>\$ 771,478</u>

As part of the retail competitive market, the retail division of the Cooperative ensures the energy delivery provider's payment of their energy delivery charges through a special deposit held by an indenture trustee.

7. Materials and Supplies

Materials and supplies consisted of:

	December 31,	
	2021	2020
Construction Materials and Supplies	<u>\$ 1,888,101</u>	<u>\$ 1,915,598</u>

NUECES ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

8. Deferred Charges

Deferred charges included the following:

	December 31,	
	2021	2020
Premium - Refinancing RUS Debt	\$ 134,980	\$ 215,968
NRECA Pension Prepayment	155,214	310,427
Retail Billing Software Development Costs	254,697	100,570
Other	33,872	7,213
Total	<u>\$ 578,763</u>	<u>\$ 634,178</u>

In 2010, the Cooperative bought out RUS with loan draws from CFC. In the process the Cooperative had to pay a premium to RUS which is being amortized over the life of the new debt. The premium is being amortized over a period of 13 years starting November 2010.

Original RUS Refinancing Premium	\$ 1,039,345
Less: Accumulated Amortization	<u>904,365</u>
Balance	<u>\$ 134,980</u>

In 2013, the Cooperative elected to participate in the NRECA RS Plan Prepayment Program. The Cooperative's original contribution was \$1,552,137 and is being amortized over 10 years. Amortization expense for the years ended December 31, 2021 and 2020 was \$155,213.

In 2020, the Cooperative contracted with a retail billing software supplier to develop software for Nueces Electric Cooperative Retail Division. Once the software development is complete, the Cooperative will amortize the cost over the contract period.

9. Return of Capital

The mortgage agreements contain provisions that must be met for the Cooperative to make patronage capital retirements. These provisions include minimum equity, debt service, and earnings ratios. The Cooperative is in compliance with these provisions at December 31, 2021 and 2020. The equities and margins of the Cooperative represent 55.25% and 54.61% of the total assets at December 31, 2021 and 2020, respectively. Patronage capital totaling \$4,730,573 and \$5,725,788 was retired during 2021 and 2020, respectively.

NUECES ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

10. Patronage Capital

	December 31,	
	2021	2020
Beginning Patronage Capital	\$ 106,149,553	\$ 102,428,751
Transferred to Other Equities	1,083,004	443,316
Assignable	6,561,312	9,003,274
	\$ 113,793,869	\$ 111,875,341
Less: Current Year Retirements	4,730,573	5,725,788
Total	\$ 109,063,296	\$ 106,149,553

11. Other Equities

	December 31,	
	2021	2020
Retired Capital Credits - Gains	\$ 3,724,943	\$ 3,322,762
Unassignable Margins - Unbilled Revenue	2,703,952	4,970,938
Retired Non-Operating Margins	1,182,342	
	\$ 7,611,237	\$ 8,293,700

In accordance with the Cooperative's policies and procedures, the Cooperative retains non-operating margins as permanent equity.

12. Mortgage Notes – CoBank

Following is a summary of long-term debt due CoBank and maturing at various times from 2023 to 2050:

	December 31,	
	2021	2020
Fixed Rate Notes - 2.40% - 4.99%	\$ 60,413,201	\$ 62,947,278
Less: Current Maturities	2,554,000	2,534,200
Total	\$ 57,859,201	\$ 60,413,078

Principal and interest installments on the above notes are due on a monthly and quarterly basis. Annual maturities of long-term debt due CoBank for the next five years are as follows:

2022	\$ 2,554,000
2023	2,647,000
2024	2,739,000
2025	2,846,000
2026	2,952,000

NUECES ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

13. Mortgage Notes – CFC

Following is a summary of long-term debt due CFC and maturing at various times from 2022 to 2050:

	December 31,	
	2021	2020
Fixed Rate Notes - 3.83% - 4.55%	\$ 13,205,234	\$ 12,144,367
Less: Current Maturities	1,720,000	1,736,800
Total	<u>\$ 11,485,234</u>	<u>\$ 10,407,567</u>

Principal and interest installments on the above notes are due quarterly. Annual maturities of long-term debt due CFC for the next five years are as follows:

2022	\$ 1,720,000
2023	1,382,000
2024	701,000
2025	614,000
2026	280,000

The Cooperative has \$9,500,000 of loan funds available for draw from CFC.

14. Short-Term Borrowing

As of December 31, 2021 and 2020, the Cooperative had a \$4,000,000 line of credit with CFC to be drawn upon as needed. The interest rate on this line of credit was 2.45% and 2.45% as of December 31, 2021 and 2020, respectively. As of December 31, 2021 and 2020 the Cooperative had drawn \$0 and \$0, respectively against this line of credit.

As of December 31, 2021 and 2020, the Cooperative had a \$2,000,000 line of credit, with CoBank to be drawn upon as needed. The interest rate on this line of credit was 2.41% and 2.45% as of December 31, 2021 and 2020, respectively. As of December 31, 2021 and 2020 the Cooperative had drawn \$0 and \$0, respectively against this line of credit.

15. Operating Leases

The Cooperative leases office space for the Nueces Electric Cooperative, Inc. retail division. Minimum lease payments as of December 31, 2021 are as follows:

2022	\$ 77,760
2023	79,488
2024	81,216
2025	40,608

Lease expense for 2021 was \$82,621.

NUECES ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842), effective for annual reporting periods beginning after December 15, 2021. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP, which requires only capital leases to be recognized on the statement of financial condition, the new ASU will require both types of leases to be recognized on the statement of financial condition. The ASU will also require disclosures to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements providing additional information about the amounts recorded in the financial statements. The Cooperative is currently assessing the impact on its financial statements.

16. Deferred Credits

Deferred credits include the following:

	December 31,	
	2021	2020
Consumer Advances for Construction	\$ 2,784,736	\$ 2,601,220
Special Projects - Deferred Revenue	1,178,333	
Corpus Christi Naval Base - Deferred Revenue	5,312,298	5,072,900
Kingsville Naval Base - Deferred Revenue	1,748,997	1,589,186
Scholarship Fund	263,749	300,990
Other		16,753
Total	\$ 11,288,113	\$ 9,581,049

Consumer Advances for Construction represents refundable aid to construction on line extensions and subdivision construction contracts. Any amounts remaining anywhere from five to ten years, depending on the agreement, are forfeited to the Cooperative and charged against construction work in progress.

Corpus Christi Naval Base and Kingsville Naval Base – Deferred Revenue represents the amount billed per the contract with Corpus Christi Naval Base and Kingsville Naval Base for renewals and replacements and construction work in progress. These amounts will be recognized as qualifying renewals and replacements and construction work in progress costs as incurred.

Special Projects – Deferred Revenue represents the amounts billed for the scope of the privatization contract with Corpus Christi Naval Base and Kingsville Naval Base. As performance obligations for each contract are met, revenue will be recognized.

17. Litigation and Commitments

The Cooperative is involved in various legal actions arising in the normal course of business. Currently, there is no pending or threatened litigation that would materially affect the financial condition of the Cooperative.

NUECES ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

18. Pension Benefits

Narrative Description

The Retirement and Security Plan (the RS Plan), sponsored by the NRECA is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is a multiemployer plan under the accounting standards. The RS Plan sponsor's Employer Identification Number is 53-0116145 and the RS Plan Number is 333.

A unique characteristic of a multiemployer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

Plan Information

The Cooperative's contributions to the RS Plan in 2021 and in 2020 represented less than five percent of the total contributions made to the RS Plan by all participating employers. The Cooperative made contributions to the RS Plan of \$711,268 in 2021 and \$730,998 in 2020. Pension expense for the years ended December 31, 2021 and 2020, including amortization of the RS Plan prepayment, was \$866,482 and \$886,211, respectively. There have been no significant changes that affect the comparability of 2021 and 2020 contributions.

In the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was over 80% funded on January 1, 2021 and January 1, 2020 based on the PPA funding target and PPA actuarial value of assets on those dates.

Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the RS Plan and may change as a result of plan experience.

In addition, the Cooperative provides retirement benefits through a 401(k) plan that is administered by NRECA SelectRe Pension plan. The Cooperative provides matching funds up to 3.20% of an employee's salary. The cost of this plan for 2021 and 2020 was \$189,882 and \$194,214, respectively.

19. Related Party Transactions

Nueces Electric Cooperative, Inc. is committed to purchase its electric power from South Texas Electric Cooperative, Inc. (STEC), a cooperative of which it is a member and is represented on its Board of Directors.

During the years ended December 31, 2021 and 2020, the Cooperative purchased \$55,665,628 and \$62,618,932, respectively, from STEC. As of December 31, 2021 and 2020 amounts due to STEC were \$4,584,065 and \$4,755,696, respectively.

NUECES ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

During the years ended December 31, 2021 and 2020, the Cooperative held a patronage capital investment with STEC in the amount of \$42,032,365 and \$40,372,535, respectively. The Cooperative was allocated patronage capital from STEC for the years ended December 31, 2021 and 2020 in the amount of \$1,659,830 and \$2,719,216, respectively.

20. Subsequent Events

The Cooperative has evaluated subsequent events through March 10, 2022, the date which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

NUECES ELECTRIC COOPERATIVE, INC.

Schedule 1

**ELECTRIC PLANT
FOR THE YEAR ENDED DECEMBER 31, 2021**

	Balance 1/1/2021	Additions	Retirements	Balance 12/31/2021
CLASSIFIED ELECTRIC PLANT IN SERVICE				
Distribution Plant				
Station Equipment	\$ 1,053,218	\$	\$	\$ 1,053,218
Poles, Towers, and Fixtures	34,546,382	1,532,628	452,111	35,626,899
Overhead Conductors and Devices	26,726,187	535,033	265,059	26,996,161
Underground Conductors and Devices	6,938,476	96,976	12,233	7,023,219
Line Transformers	21,606,253	1,788,427	887,186	22,507,494
Services	8,590,506	280,370	48,679	8,822,197
Meters	5,000,795	51,471	3,588	5,048,678
Installations on Consumer Premises	2,080,102	219,603	148,128	2,151,577
Corpus Christi Naval Base Plant	5,454,412		17,197	5,437,215
Kingsville Naval Base Plant	1,677,565		2,941	1,674,624
Total	<u>\$ 113,673,896</u>	<u>\$ 4,504,508</u>	<u>\$ 1,837,122</u>	<u>\$ 116,341,282</u>
General Plant				
Land and Land Rights	\$ 1,234,601	\$	\$	\$ 1,234,601
Structures and Improvements	26,839,874	74,923	26,125	26,888,672
Office Furniture and Computer Equipment	662,563		24,253	638,310
Transportation Equipment	1,264,637	75,821	29,847	1,310,611
Laboratory Equipment	164,422			164,422
Power Operated Equipment	3,353,649	2,564	32,379	3,323,834
Communications Equipment	41,558			41,558
Miscellaneous Equipment	154,150			154,150
Total	<u>\$ 33,715,454</u>	<u>\$ 153,308</u>	<u>\$ 112,604</u>	<u>\$ 33,756,158</u>
Total Classified Electric Plant in Service	\$ 147,389,350	\$ 4,657,816	\$ 1,949,726	\$ 150,097,440
Construction Work in Progress	<u>657,811</u>	<u>573,822</u>		<u>1,231,633</u>
Total	<u>\$ 148,047,161</u>	<u>\$ 5,231,638</u>	<u>\$ 1,949,726</u>	<u>\$ 151,329,073</u>

NUECES ELECTRIC COOPERATIVE, INC.

Schedule 2

**ACCUMULATED PROVISION FOR DEPRECIATION
FOR THE YEAR ENDED DECEMBER 31, 2021**

	Balance 1/1/2021	Accruals	Retirements	Balance 12/31/2021
Distribution Plant				
NEC Distribution Plant	\$ 17,181,598	\$ 3,647,373	\$ 2,483,953	\$ 18,345,018
Corpus Christi Naval Base	3,227,765	266,485	17,197	3,477,053
Kingsville Naval Base	958,996	82,035	2,941	1,038,090
Total Distribution Plant	<u>\$ 21,368,359</u>	<u>\$ 3,995,893</u>	<u>\$ 2,504,091</u>	<u>\$ 22,860,161</u>
General Plant				
Structures and Improvements	\$ 4,922,892	\$ 676,928	\$ 3,593	\$ 5,596,227
Office Furniture and Computer Equipment	527,757	57,885	24,254	561,388
Transportation Equipment	819,657	122,366	29,847	912,176
Laboratory Equipment	164,425			164,425
Power Operated Equipment	2,034,658	339,209	32,379	2,341,488
Communication Equipment	41,557			41,557
Miscellaneous Equipment	134,236	1,148		135,384
Total General Plant	<u>\$ 8,645,182</u>	<u>\$ 1,197,536</u>	<u>\$ 90,073</u>	<u>\$ 9,752,645</u>
Total Classified Electric Plant in Service	\$ 30,013,541	\$ 5,193,429	\$ 2,594,164	\$ 32,612,806
Retirement Work in Progress	<u>(133,517)</u>		<u>59,406</u>	<u>(192,923)</u>
Total	<u>\$ 29,880,024</u>	<u>\$ 5,193,429</u>	<u>\$ 2,653,570</u>	<u>\$ 32,419,883</u>
		(1)	(2)	

- (1) Depreciation
 Charged to Depreciation Expense
 Charged to Clearing and Other Accounts

\$ 4,383,335
810,094
\$ 5,193,429

- (2) Net Loss on Retirement
 Original Cost
 Cost of Removal
 Less: Salvage and Other Credits

\$ 1,949,726
 906,641
202,797
\$ 2,653,570

NUECES ELECTRIC COOPERATIVE, INC.

Schedule 3

**OTHER PROPERTY AND INVESTMENTS
AS OF DECEMBER 31, 2021 AND 2020**

	December 31,	
	2021	2020
INVESTMENTS IN ASSOCIATED ORGANIZATIONS		
Memberships	\$ 2,135	\$ 2,135
Patronage Capital		
South Texas Electric Cooperative	42,032,365	40,372,535
Texas Electric Cooperatives, Inc.	1,039,359	991,821
National Information Solutions Cooperative	181,192	169,840
National Rural Utilities Cooperative Finance Corporation	269,299	259,230
CoBank	2,313,974	2,110,842
Federated Insurance	531,282	494,029
Cooperative Response Center	23,921	29,323
National Rural Telecommunications Cooperative	108,540	108,541
Other	1,570	1,483
Capital Term Certificates		
National Rural Utilities Cooperative Finance Corporation	738,569	738,569
Total	<u>\$ 47,242,206</u>	<u>\$ 45,278,348</u>
HELD-TO-MATURITY SECURITIES		
Treasury Strips	<u>\$ 30,064,010</u>	<u>\$ 29,572,058</u>

NUECES ELECTRIC COOPERATIVE, INC.

Schedule 4

**ADMINISTRATIVE AND GENERAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

	December 31,		Increase (Decrease)
	2021	2020	
Administrative and General Salaries	\$ 1,619,954	\$ 1,427,808	\$ 192,146
Office Supplies and Expenses	662,835	721,669	(58,834)
Outside Services Employed	219,395	333,641	(114,246)
Workmen's Compensation, General Liability, and Other Insurance	354,229	348,886	5,343
Regulatory Commission Expense	338,205	309,588	28,617
Directors' Fees and Expenses	156,360	180,049	(23,689)
Dues to Associated Organizations	63,630	97,203	(33,573)
Annual Meeting Expense	161,385	112,504	48,881
Advertising Expenses	1,556,439	1,537,910	18,529
Miscellaneous General Expenses	598,881	523,074	75,807
Maintenance of General Plant	441,982	408,578	33,404
Total	\$ <u>6,173,295</u>	\$ <u>6,000,910</u>	\$ <u>172,385</u>

COMPLIANCE AND INTERNAL CONTROL SECTION

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

CERTIFIED PUBLIC ACCOUNTANTS

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8215 NASHVILLE AVENUE

LUBBOCK, TEXAS 79423-1954

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

Board of Directors
Nueces Electric Cooperative, Inc.
Robstown, Texas

We have audited, in accordance with auditing standards generally accepted in the United States of America, the balance sheet of Nueces Electric Cooperative, Inc. as of December 31, 2021, and the related statements of income and patronage capital, and cash flows for the year then ended, and have issued our report thereon dated March 10, 2022.

In connection with our audit, nothing came to our attention that caused us to believe that the Cooperative failed to comply with the terms of Article V of the National Rural Utilities Cooperative Finance Corporation Loan Agreement insofar as they relate to accounting matters. However, our audits were not directed primarily toward obtaining knowledge of such noncompliance.

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

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

March 10, 2022