

**NUECES ELECTRIC COOPERATIVE, INC.**

**ROBSTOWN, TEXAS**

**FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION**

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

**AND**

**REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

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

**CERTIFIED PUBLIC ACCOUNTANTS**

**LUBBOCK, TEXAS**

**NUECES ELECTRIC COOPERATIVE, INC.**

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ROBSTOWN, TEXAS**

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**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  
Nueces Electric Cooperative, Inc.  
Robstown, Texas

**Opinion**

We have audited the accompanying financial statements of Nueces Electric Cooperative, Inc., which comprise the balance sheets as of December 31, 2023 and 2022, and the related statements of income and patronage capital, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nueces Electric Cooperative, Inc. as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the 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.

### Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in GAAS. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

*Bolinger, Segars, Gilbert & Moss LLP*

Certified Public Accountants

Lubbock, Texas

March 21, 2024

## NUECES ELECTRIC COOPERATIVE, INC.

Exhibit A

BALANCE SHEETS  
DECEMBER 31, 2023 AND 2022

## ASSETS

	December 31,	
	2023	2022
UTILITY PLANT AT COST		
Electric Plant in Service	\$ 159,595,822	\$ 153,243,388
Right of Use Lease Assets	562,113	
Construction Work in Progress	1,869,022	1,619,184
	\$ 162,026,957	\$ 154,862,572
Less: Accumulated Provision for Depreciation	39,191,055	35,401,303
	\$ 122,835,902	\$ 119,461,269
OTHER PROPERTY AND INVESTMENTS		
Investments in Associated Organizations	\$ 54,111,288	\$ 49,921,136
Investments in Treasury Strips	30,880,575	30,359,099
Other Investments - Restricted	772,817	751,566
	\$ 85,764,680	\$ 81,031,801
CURRENT ASSETS		
Cash - General	\$ 1,204,896	\$ 10,227,895
Temporary Cash Investments	5,023,543	178,962
Accounts Receivable (Less allowance for credit losses of \$146,770 in 2023 and \$232,060 in 2022)	3,757,519	2,926,300
Accrued Unbilled Revenue	2,329,877	2,646,207
Materials and Supplies	1,729,790	1,939,614
Other Current and Accrued Assets	675,412	380,572
Total Current Assets	\$ 14,721,037	\$ 18,299,550
DEFERRED CHARGES	\$ 8,450	\$ 284,197
TOTAL ASSETS	\$ 223,330,069	\$ 219,076,817

## EQUITIES AND LIABILITIES

EQUITIES		
Memberships	\$ 593,015	\$ 575,015
Patronage Capital	121,128,048	113,972,426
Other Equities	10,410,315	8,738,495
Other Comprehensive Loss	(253,048)	
	\$ 131,878,330	\$ 123,285,936
LONG-TERM DEBT		
CoBank Mortgage Notes	\$ 55,212,327	\$ 57,859,176
CFC Mortgage Notes	12,559,059	13,982,377
Right of Use Lease Liability	562,113	
Less: Current Maturities	(3,665,825)	(4,070,000)
	\$ 64,667,674	\$ 67,771,553
OTHER LONG-TERM LIABILITIES		
Post-Retirement Benefits Less: Current Maturities	\$ 232,040	\$
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 3,665,825	\$ 4,070,000
Current Maturities of Post-Retirement Benefits	21,008	
Accounts Payable - Purchased Power	5,038,164	6,906,106
Accounts Payable - Other	1,638,594	1,174,495
Consumer Deposits	2,316,715	2,231,968
Accrued Taxes	384,253	415,065
Accrued Interest	279,115	284,449
Patronage Capital Payable	902,644	1,176,924
Accrued Employee Compensated Absences	1,158,742	1,192,229
Other Current and Accrued Liabilities	409,601	415,708
Total Current Liabilities	\$ 15,814,661	\$ 17,866,944
DEFERRED CREDITS	\$ 10,737,364	\$ 10,152,384
TOTAL EQUITIES AND LIABILITIES	\$ 223,330,069	\$ 219,076,817

See accompanying notes to financial statements.

## NUECES ELECTRIC COOPERATIVE, INC.

Exhibit B

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

	December 31,				Increase (Decrease)
	2023		2022		
	Amount	%	Amount	%	
<b>OPERATING REVENUES</b>					
Residential	\$ 74,591,634	78.1	\$ 79,201,125	75.5	\$ (4,609,491)
Small Commercial and Industrial	13,621,123	14.3	14,408,877	13.7	(787,754)
Large Commercial and Industrial	6,656,307	7.0	7,525,858	7.2	(869,551)
Public Street and Highway Lighting	991,186	1.0	1,037,769	1.0	(46,583)
Unbilled Revenue	(316,330)	(0.3)	17,650	0.0	(333,980)
Late Payment Penalties	747,201	0.8	917,689	0.9	(170,488)
Rent from Electric Property	51,585	0.1	51,585	0.0	0
Other Operating Revenues	(961,066)	(1.0)	918,561	0.9	(1,879,627)
Naval Base Net Margin (Loss)	(38,204)	0.0	890,061	0.8	(928,265)
Total Operating Revenues	<u>\$ 95,343,436</u>	<u>100.0</u>	<u>\$ 104,969,175</u>	<u>100.0</u>	<u>\$ (9,625,739)</u>
<b>OPERATING EXPENSES</b>					
Purchased Power	\$ 63,655,271	66.8	\$ 72,626,777	69.2	\$ (8,971,506)
Distribution - Operation	1,980,425	2.1	1,817,229	1.7	163,196
Distribution - Maintenance	3,850,776	4.0	3,618,484	3.4	232,292
Consumer Accounts	5,225,452	5.5	5,543,250	5.3	(317,798)
Customer Service and Information	426,889	0.4	368,281	0.4	58,608
Administrative and General	6,377,935	6.7	6,550,744	6.2	(172,809)
Depreciation	4,623,993	4.8	4,482,531	4.3	141,462
Taxes	1,518,309	1.6	1,560,360	1.5	(42,051)
Other Interest	28,118	0.0		0.0	28,118
Other Deductions	190,758	0.2	158,912	0.2	31,846
Total Operating Expenses	<u>\$ 87,877,926</u>	<u>92.1</u>	<u>\$ 96,726,568</u>	<u>92.2</u>	<u>\$ (8,848,642)</u>
<b>OPERATING MARGINS - Before Fixed Charges</b>	<u>\$ 7,465,510</u>	<u>7.9</u>	<u>\$ 8,242,607</u>	<u>7.8</u>	<u>\$ (777,097)</u>
<b>FIXED CHARGES</b>					
Interest on Long-Term Debt	\$ 3,041,992	3.2	\$ 3,171,675	3.0	\$ (129,683)
Amortization of Premium on Reacquired Debt	53,992	0.1	80,988	0.1	(26,996)
	<u>\$ 3,095,984</u>	<u>3.3</u>	<u>\$ 3,252,663</u>	<u>3.1</u>	<u>\$ (156,679)</u>
<b>OPERATING MARGINS - After Fixed Charges</b>	<u>\$ 4,369,526</u>	<u>4.6</u>	<u>\$ 4,989,944</u>	<u>4.7</u>	<u>\$ (620,418)</u>
G&T Capital Credits	\$ 3,415,833	3.6	\$ 2,318,103	2.2	\$ 1,097,730
Other Capital Credits	1,434,774	1.5	938,864	0.9	495,910
	<u>\$ 4,850,607</u>	<u>5.1</u>	<u>\$ 3,256,967</u>	<u>3.1</u>	<u>\$ 1,593,640</u>
<b>NET OPERATING MARGINS</b>	<u>\$ 9,220,133</u>	<u>9.7</u>	<u>\$ 8,246,911</u>	<u>7.8</u>	<u>\$ 973,222</u>
<b>NONOPERATING MARGINS</b>					
Interest Income	\$ 1,523,351	1.6	\$ 933,618	0.9	\$ 589,733
Other Nonoperating Income (Loss)	59,446	0.1	(1,969)	0.0	61,415
Gain on Disposition of Property (Loss)	4,084	0.0	(3,076)	0.0	7,160
	<u>\$ 1,586,881</u>	<u>1.7</u>	<u>\$ 928,573</u>	<u>0.9</u>	<u>\$ 658,308</u>
<b>NET MARGINS</b>	<u>\$ 10,807,014</u>	<u>11.4</u>	<u>\$ 9,175,484</u>	<u>8.7</u>	<u>\$ 1,631,530</u>
<b>COMPREHENSIVE INCOME (LOSS)</b>					
Current Year APBO Valuation Adjustment	(253,048)				
<b>COMPREHENSIVE INCOME</b>	<u>\$ 10,553,966</u>		<u>\$ 9,175,484</u>		
Less: Post-Retirement Benefit Adjustment	253,048		0		
<b>PATRONAGE CAPITAL - BEGINNING OF YEAR</b>	113,972,426		109,063,296		
Patronage Capital Retired	(2,046,861)		(3,214,829)		
Unbilled Revenue Transferred to Other Equities	(17,650)		(122,952)		
Nonoperating Margins Transferred to Other Equities	(1,586,881)		(928,573)		
<b>PATRONAGE CAPITAL - END OF YEAR</b>	<u>\$ 121,128,048</u>		<u>\$ 113,972,426</u>		

See accompanying notes to financial statements.



## NUECES ELECTRIC COOPERATIVE, INC.

Exhibit C

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

	December 31,	
	2023	2022
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Margins	\$ 10,807,014	\$ 9,175,484
Adjustments to Reconcile Net Margins to Net Cash From Operating Activities		
Depreciation	5,427,560	5,265,269
Amortization of Premium on Reacquired Debt	53,992	80,988
Capital Credits - Non-Cash	(4,267,224)	(2,678,929)
(Increase) Decrease		
Accounts Receivable	(831,219)	(89,631)
Accrued Unbilled Revenue	316,330	(17,650)
Inventories and Other Current and Accrued Assets	(85,012)	(4,665)
Deferred Charges	221,755	213,578
Increase (Decrease)		
Payables and Accrued Expenses	(1,669,116)	3,796,367
Deferred Credits	584,980	(1,135,729)
Net Cash From Operating Activities	\$ 10,559,060	\$ 14,605,082
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to Utility Plant	\$ (7,710,876)	\$ (5,531,561)
Plant Removal Costs (in excess of) Salvage and Other Credits	(529,208)	(285,787)
Purchase of Held-to-Maturity Securities	(521,476)	(295,089)
Other Property and Investments	55,821	(31,636)
Net Cash From Investing Activities	\$ (8,705,739)	\$ (6,144,073)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on Long-Term Debt to CoBank	\$ (2,646,849)	\$ (2,554,025)
Payments on Long-Term Debt to CFC	(1,423,318)	(1,722,857)
Advances on CFC Long-Term Debt		2,500,000
Other Equities	67,289	75,733
Retirement of Patronage Capital	(2,046,861)	(3,214,829)
Increase (Decrease) in Memberships - Net	18,000	60,880
Net Cash From Financing Activities	\$ (6,031,739)	\$ (4,855,098)
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	\$ (4,178,418)	\$ 3,605,911
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	10,406,857	6,800,946
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 6,228,439	\$ 10,406,857
<b>CASH AND CASH EQUIVALENTS CONSISTS OF:</b>		
Cash - General	\$ 1,204,896	\$ 10,227,895
Temporary Cash Investments	5,023,543	178,962
	\$ 6,228,439	\$ 10,406,857
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash Paid During the Year for:		
Interest on Long-Term Debt	\$ 3,056,841	\$ 3,171,675
Income Taxes	\$ 0	\$ 0
<b>SUPPLEMENTAL DISCLOSURES OF NON-CASH FLOW INFORMATION</b>		
Right of Use Leases	\$ 562,113	\$ 0
Post-retirement benefit plan	\$ (253,048)	\$ 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, Inc. 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. Investments maturing within twelve months after the year-end are considered 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 Nueces Electric Cooperative, Inc. (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.

**NUECES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**Allowance for Credit Losses**

With the adoption of ASC 326 during the year ended December 31, 2023, the term allowance for uncollectible accounts was changed to allowance for credit losses. The allowance for credit losses represents an estimate of the expected credit losses inherent in trade receivables as of the balance sheet date. Additions to the allowance for credit losses, if any, are made by recording charges to expenses in the income statement. Recoveries consist of consumer payments and application of general patronage retirements for members with outstanding balances.

The Cooperative's methodology in determining the adequacy of the allowance for credit losses includes consideration of the aging of accounts receivable and the significant balances that high usage commercial loads and oil and gas production operations accumulate. The delinquent accounts deemed uncollectible are written off upon approval by the Board of Directors. Changes in the allowance for credit losses during the years ended December 31, 2023 and 2022 were as follows:

	December 31,	
	2023	2022
Balance, Beginning of Year	\$ 232,060	\$ 182,288
Accruals		17,520
Write-Offs	(130,503)	(8,576)
Recoveries	45,213	40,828
Balance, End of Year	<u>\$ 146,770</u>	<u>\$ 232,060</u>

**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, 2023 and 2022 amounted to \$2,329,877 and \$2,646,207, respectively.

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

**NUECES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

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 15) 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 2020.

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, 2023 and 2022.

**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, 2023 and 2022, deposits on hand totaled \$2,316,715 and \$2,231,968, 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.

**NUECES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**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 2023 and 2022 years are as follows:

	December 31,	
	2023	2022
Estimated Allocation for 2023	\$ 3,336,173	\$
True Up to Actual for 2022	79,660	
Estimated Allocation for 2022		2,207,459
True Up to Actual for 2021		110,644
	\$ 3,415,833	\$ 2,318,103

**Advertising**

It is the Cooperative's policy to expense advertising as incurred. Advertising expense was \$1,574,176 and \$1,579,488 for 2023 and 2022, 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.

**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.

**NUECES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**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,	
	2023	2022
Distribution Plant	\$ 124,400,540	\$ 119,218,685
General Plant	35,195,282	34,024,703
Right of Use Lease Assets	562,113	0
Total Electric Plant in Service	\$ 160,157,935	\$ 153,243,388
Construction Work in Progress	1,869,022	1,619,184
Total Electric Plant	\$ 162,026,957	\$ 154,862,572

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 Computer Equipment	14.29%-33.33%
Transportation Equipment	14.29%-21.62%
Laboratory Equipment	16.67%
Power Operated Equipment	20.00%
Communications Equipment	26.67%-33.33%
Miscellaneous Equipment	3.96%-10.00%

Depreciation for the years ended December 31, 2023 and 2022 was \$5,427,560 and \$5,265,269, respectively, of which \$4,623,993 and \$4,482,531, was charged to depreciation expense and \$803,567 and \$782,738, was allocated to other accounts.

**NUECES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**4. Investments in Associated Organizations**

Investments in associated organizations consisted of:

	December 31,	
	<u>2023</u>	<u>2022</u>
CFC		
Capital Term Certificates	\$ 738,569	\$ 738,569
Patronage Capital	296,326	280,180
Membership	1,000	1,000
South Texas Electric Cooperative, Inc.		
Patronage Capital	47,766,301	44,350,468
Texas Electric Cooperatives, Inc.		
Patronage Capital	1,679,840	1,147,556
CoBank		
Patronage Capital	2,700,784	2,511,422
Other	<u>928,468</u>	<u>891,941</u>
Total	<u>\$ 54,111,288</u>	<u>\$ 49,921,136</u>

**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 2025 and 2038 consist of the following:

	December 31,	
	<u>2023</u>	<u>2022</u>
U.S. Treasury Strips		
Maturity Amount	\$ 43,018,000	\$ 43,018,000
Less: Unaccreted Discount	<u>(12,137,425)</u>	<u>(12,658,901)</u>
Total	<u>\$ 30,880,575</u>	<u>\$ 30,359,099</u>

The market value of the held-to-maturity securities was \$28,336,628 and \$27,248,463 as of December 31, 2023 and 2022, respectively.

Declines in the fair value of any Held-to-Maturity securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment (OTTI) losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Cooperative to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on any sale of securities are recorded on the trade date and the costs of securities sold are determined using the specific identification method.

Held-to-maturity valuations are considered Level 1.

**NUECES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**6. Other Investments – Restricted**

Restricted investments consisted of the following:

	December 31,	
	<u>2023</u>	<u>2022</u>
Transitional Charges Special Deposit	\$ 531,605	\$ 493,010
Scholarship Fund	<u>241,212</u>	<u>258,556</u>
Total	<u>\$ 772,817</u>	<u>\$ 751,566</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,	
	<u>2023</u>	<u>2022</u>
Construction Materials and Supplies	<u>\$ 1,729,790</u>	<u>\$ 1,939,614</u>

**8. Deferred Charges**

Deferred charges included the following:

	December 31,	
	<u>2023</u>	<u>2022</u>
Premium - Refinancing RUS Debt	\$	\$ 53,992
Retail Billing Software Development Costs		217,996
Other	<u>8,450</u>	<u>12,209</u>
Total	<u>\$ 8,450</u>	<u>\$ 284,197</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. Amortization expense was \$53,992 and \$80,988 for the years ended December 31, 2023 and 2022, respectively.

In 2020, the Cooperative contracted with a retail billing software supplier to develop software for Nueces Electric Cooperative Retail Division. The Retail Division began using the software during the 2022 year. Conversion costs expensed in the years ended December 31, 2023 and 2022 was \$217,996 and \$241,470, respectively in relation to levels of completeness for the software development.



**NUECES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**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, 2023 and 2022. The equities and margins of the Cooperative represent 59.05% and 56.28% of the total assets at December 31, 2023 and 2022, respectively. Patronage capital totaling \$2,046,861 and \$3,214,829 was retired during 2023 and 2022, respectively.

**10. Patronage Capital**

	December 31,	
	2023	2022
Beginning Patronage Capital	\$ 113,972,426	\$ 109,063,296
Transferred to Other Equities	(1,604,531)	(1,051,525)
Assignable	10,807,014	9,175,484
	\$ 123,174,909	\$ 117,187,255
Less: Current Year Retirements	2,046,861	3,214,829
Total	\$ 121,128,048	\$ 113,972,426

**11. Other Equities**

	December 31,	
	2023	2022
Retired Capital Credits - Gains	\$ 3,868,276	\$ 3,800,670
Unassignable Margins - Unbilled Revenue	2,844,244	2,826,910
Retained Non-Operating Margins	3,697,795	2,110,915
	\$ 10,410,315	\$ 8,738,495

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

**NUECES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**12. Mortgage Notes – CoBank**

Following is a summary of long-term debt due CoBank and maturing at various times from 2028 to 2050:

	December 31,	
	<u>2023</u>	<u>2022</u>
Fixed Rate Notes - 2.40% - 4.99%	\$ 55,212,327	\$ 57,859,176
Less: Current Maturities	<u>2,759,000</u>	<u>2,647,000</u>
Total	<u>\$ 52,453,327</u>	<u>\$ 55,212,176</u>

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:

2024	\$ 2,759,000
2025	2,846,000
2026	2,952,000
2027	3,064,000
2028	3,177,000

**13. Mortgage Notes – CFC**

Following is a summary of long-term debt due CFC and maturing at various times from 2025 to 2052:

	December 31,	
	<u>2023</u>	<u>2022</u>
Fixed Rate Notes - 3.32% - 5.05%	\$ 12,559,059	\$ 13,982,377
Less: Current Maturities	<u>741,000</u>	<u>1,423,000</u>
Total	<u>\$ 11,818,059</u>	<u>\$ 12,559,377</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:

2024	\$ 741,000
2025	656,000
2026	324,000
2027	337,000
2028	351,000

The Cooperative has \$4,200,000 of loan funds available for draw from CFC.

**NUECES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**14. Short-Term Borrowing**

As of December 31, 2023 and 2022, 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 7.25% and 5.75% as of December 31, 2023 and 2022, respectively. As of December 31, 2023 and 2022 the Cooperative had drawn \$0 and \$0, respectively against this line of credit.

As of December 31, 2023 and 2022, 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 7.41% and 6.25% as of December 31, 2023 and 2022, respectively. As of December 31, 2023 and 2022 the Cooperative had drawn \$0 and \$0, respectively against this line of credit.

**15. Right of Use Lease Assets and Liabilities**

The Cooperative is obligated to a real property lease for office space. The right-of-use (ROU) assets and lease liabilities were calculated at the net present value of the guaranteed lease payments over the term of each lease using the Cooperative's incremental borrowing rate of 6.00%. The leases will expire at various dates through October 2027.

	December 31,	
	2023	2022
ROU Lease	\$ 562,113	\$ 0
	<u>\$ 562,113</u>	<u>\$ 0</u>

A schedule of future minimum lease payments under these leases is as follows:

2024	\$ 170,411
2025	170,411
2026	170,411
2027	<u>113,354</u>
	\$ 624,587
Less: Interest	<u>62,474</u>
	\$ 562,113
Less: Current Maturities	<u>165,825</u>
	<u>\$ 396,288</u>

**NUECES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**16. Deferred Credits**

Deferred credits include the following:

	December 31,	
	2023	2022
Consumer Advances for Construction	\$ 2,788,727	\$ 2,698,330
Corpus Christi Naval Base - Deferred Revenue	5,788,275	5,406,312
Kingsville Naval Base - Deferred Revenue	1,919,150	1,789,186
Scholarship Fund	241,212	258,556
Total	<u>\$ 10,737,364</u>	<u>\$ 10,152,384</u>

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 instances of litigation, and in the normal course of business there can also arise instances of unasserted claims that could potentially involve the Cooperative. The ultimate outcome of these matters cannot presently be determined. However, in management’s opinion, the likelihood of any material adverse outcome is remote. Accordingly, adjustments, if any, which might result from resolution of these matters, have not been reflected in these financial statements.

**18. Benefits to Retirees**

On August 31, 2023, the Cooperative adopted an Early Retirement Medical Insurance Policy. The policy states that employees who retire after age 55 can access the Cooperative’s medical plans until they are eligible for Medicare. Employees who retire on or after January 1, 2024, after age 62, and with 20 years of service are eligible for partial Cooperative contribution.

A prior service cost was established as of December 31, 2023 to account for the adoption of this policy. The prior service cost will be amortized over a period of 14.23 years. The prior service cost recognized on the balance sheets in other comprehensive loss and other long term liabilities totaled \$253,048. The discount rate used as of December 31, 2023 was 5.30%.

**NUECES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**19. 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 2023 and in 2022 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 \$774,294 in 2023 and \$741,376 in 2022. Pension expense for the years ended December 31, 2023 and 2022, including amortization of the RS Plan prepayment, was \$774,294 and \$896,590, respectively. There have been no significant changes that affect the comparability of 2023 and 2022 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, 2023 and January 1, 2022 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 matches 3.2% of the employee's total compensation. The cost of this plan for 2023 and 2022 was \$218,367 and \$206,961, respectively.

**20. Related Party Transactions**

The Cooperative 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, 2023 and 2022, the Cooperative purchased \$63,655,271 and \$72,626,777, respectively, from STEC. As of December 31, 2023 and 2022 amounts due to STEC were \$5,038,164 and \$6,906,106, respectively.

**NUECES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

During the years ended December 31, 2023 and 2022, the Cooperative held a patronage capital investment with STEC in the amount of \$47,766,301 and \$44,350,468, respectively. The Cooperative was allocated patronage capital from STEC for the years ended December 31, 2023 and 2022 in the amount of \$3,415,833 and \$2,318,103, respectively.

**21. Subsequent Events**

The Cooperative has evaluated subsequent events through March 21, 2024, 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, 2023**

	<u>Balance 1/1/2023</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/2023</u>
<b>CLASSIFIED ELECTRIC PLANT IN SERVICE</b>				
<b>Distribution Plant</b>				
Station Equipment	\$ 1,066,474	\$	\$	\$ 1,066,474
Poles, Towers, and Fixtures	36,665,190	913,885	208,038	37,371,037
Overhead Conductors and Devices	27,459,356	471,908	262,890	27,668,374
Underground Conductors and Devices	7,188,044	993,434	25,518	8,155,960
Line Transformers	23,275,117	2,971,276	463,968	25,782,425
Services	9,205,084	693,694	28,000	9,870,778
Meters	5,123,302	72,303	3,684	5,191,921
Installations on Consumer Premises	2,253,208	172,837	103,610	2,322,435
Street Lights		1,122		1,122
Corpus Christi Naval Base Plant	5,318,767		9,092	5,309,675
Kingsville Naval Base Plant	1,664,143		3,804	1,660,339
Total	<u>\$ 119,218,685</u>	<u>\$ 6,290,459</u>	<u>\$ 1,108,604</u>	<u>\$ 124,400,540</u>
<b>General Plant</b>				
Land and Land Rights	\$ 1,234,601	\$	\$	\$ 1,234,601
Structures and Improvements	26,926,254	143,915		27,070,169
Office Furniture and Computer Equipment	638,310	316,016		954,326
Transportation Equipment	1,322,286	129,532		1,451,818
Laboratory Equipment	164,422			164,422
Power Operated Equipment	3,543,122	581,116		4,124,238
Communications Equipment	41,558			41,558
Miscellaneous Equipment	154,150			154,150
Total	<u>\$ 34,024,703</u>	<u>\$ 1,170,579</u>	<u>\$ 0</u>	<u>\$ 35,195,282</u>
Total Classified Electric Plant in Service	\$ 153,243,388	\$ 7,461,038	\$ 1,108,604	\$ 159,595,822
Right of Use Lease Assets	0	562,113		562,113
Construction Work in Progress	<u>1,619,184</u>	<u>249,838</u>		<u>1,869,022</u>
Total	<u>\$ 154,862,572</u>	<u>\$ 8,272,989</u>	<u>\$ 1,108,604</u>	<u>\$ 162,026,957</u>



**NUECES ELECTRIC COOPERATIVE, INC.**

**Schedule 2**

**ACCUMULATED PROVISION FOR DEPRECIATION  
FOR THE YEAR ENDED DECEMBER 31, 2023**

	<u>Balance 1/1/2023</u>	<u>Accruals</u>	<u>Retirements</u>	<u>Balance 12/31/2023</u>
Distribution Plant				
Distribution Plant	\$ 19,834,914	\$ 3,860,446	\$ 1,465,647	\$ 22,229,713
Corpus Christi Naval Base	3,620,770	260,188	9,360	3,871,598
Kingsville Naval Base	1,109,402	81,424	3,804	1,187,022
Total Distribution Plant	<u>\$ 24,565,086</u>	<u>\$ 4,202,058</u>	<u>\$ 1,478,811</u>	<u>\$ 27,288,333</u>
General Plant				
Structures and Improvements	\$ 6,183,096	\$ 699,565	\$	\$ 6,882,661
Office Furniture and Computer Equipment	616,993	62,832		679,825
Transportation Equipment	1,032,386	118,257		1,150,643
Laboratory Equipment	164,425			164,425
Power Operated Equipment	2,660,050	343,699		3,003,749
Communication Equipment	41,557			41,557
Miscellaneous Equipment	136,533	1,149		137,682
Total General Plant	<u>\$ 10,835,040</u>	<u>\$ 1,225,502</u>	<u>\$ 0</u>	<u>\$ 12,060,542</u>
Total Classified Electric Plant in Service	\$ 35,400,126	\$ 5,427,560	\$ 1,478,811	\$ 39,348,875
Retirement Work in Progress	<u>1,177</u>		<u>158,997</u>	<u>(157,820)</u>
Total	<u>\$ 35,401,303</u>	<u>\$ 5,427,560</u>	<u>\$ 1,637,808</u>	<u>\$ 39,191,055</u>
		(1)	(2)	
(1) Depreciation				
Charged to Depreciation Expense		\$ 4,623,993		
Charged to Clearing and Other Accounts		<u>803,567</u>		
		<u>\$ 5,427,560</u>		
(2) Net Loss on Retirement				
Original Cost			\$ 1,108,604	
Cost of Removal			726,209	
Less: Salvage and Other Credits			<u>197,005</u>	
			<u>\$ 1,637,808</u>	

## NUECES ELECTRIC COOPERATIVE, INC.

## Schedule 3

OTHER PROPERTY AND INVESTMENTS  
AS OF DECEMBER 31, 2023 AND 2022

	December 31,	
	<u>2023</u>	<u>2022</u>
INVESTMENTS IN ASSOCIATED ORGANIZATIONS		
Memberships	\$ 2,135	\$ 2,135
Patronage Capital		
South Texas Electric Cooperative, Inc.	47,766,301	44,350,468
Texas Electric Cooperatives, Inc.	1,679,840	1,147,556
National Information Solutions Cooperative	185,355	173,132
National Rural Utilities Cooperative Finance Corporation	296,326	280,180
CoBank	2,700,784	2,511,422
Federated Insurance	609,952	587,362
Cooperative Response Center	18,875	18,875
National Rural Telecommunications Cooperative	110,372	108,710
Other	2,779	2,727
Capital Term Certificates		
National Rural Utilities Cooperative Finance Corporation	<u>738,569</u>	<u>738,569</u>
Total	<u>\$ 54,111,288</u>	<u>\$ 49,921,136</u>
HELD-TO-MATURITY SECURITIES		
Treasury Strips	\$ 30,880,575	\$ 30,538,061
Less: Amount Classified as Cash and Cash Equivalents		<u>178,962</u>
Total	<u>\$ 30,880,575</u>	<u>\$ 30,359,099</u>
Other Investments - Restricted		
Transition Charge Special Deposit	\$ 531,605	\$ 493,010
Scholarship Fund	<u>241,212</u>	<u>258,556</u>
Total	<u>\$ 772,817</u>	<u>\$ 751,566</u>

## NUECES ELECTRIC COOPERATIVE, INC.

Schedule 4

**ADMINISTRATIVE AND GENERAL EXPENSES  
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

	December 31,		Increase
	2023	2022	(Decrease)
Administrative and General Salaries	\$ 1,604,834	\$ 1,527,472	\$ 77,362
Office Supplies and Expenses	835,677	773,794	61,883
Outside Services Employed	309,738	367,021	(57,283)
Workmen's Compensation, General Liability, and Other Insurance	362,003	376,987	(14,984)
Regulatory Commission Expense	394,541	378,431	16,110
Directors' Fees and Expenses	168,538	167,119	1,419
Dues to Associated Organizations	76,300	128,999	(52,699)
Annual Meeting Expense	172,265	236,871	(64,606)
Advertising Expenses	1,574,176	1,579,488	(5,312)
Miscellaneous General Expenses	492,532	582,113	(89,581)
Maintenance of General Plant	387,331	432,449	(45,118)
 Total	 \$ 6,377,935	 \$ 6,550,744	 \$ (172,809)

**COMPLIANCE AND INTERNAL CONTROL SECTION**

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

CERTIFIED PUBLIC ACCOUNTANTS

PHONE: (806) 747-3806

FAX: (806) 747-3815

8215 NASHVILLE AVENUE

LUBBOCK, TEXAS 79423-1954

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

Board of Directors  
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. (the Cooperative) as of December 31, 2023, 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 21, 2024.

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 the Cooperative 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 21, 2024