

NUECES ELECTRIC COOPERATIVE, INC.

ROBSTOWN, TEXAS

FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION

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

NUECES ELECTRIC COOPERATIVE, INC.

ROBSTOWN, TEXAS

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ROBSTOWN, TEXAS**

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FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

TABLE OF CONTENTS

	<u>Statement Identification</u>	<u>Page No.</u>
Independent Auditor's Report		1
Financial Statements		
Balance Sheets	Exhibit A	3
Statements of Income and Patronage Capital	Exhibit B	4
Statements of Cash Flows	Exhibit C	5
Notes to Financial Statements		6
Supplementary Information		
Electric Plant	Schedule 1	19
Accumulated Provision for Depreciation	Schedule 2	20
Other Property and Investments	Schedule 3	21
Administrative and General Expenses	Schedule 4	22
Compliance and Internal Control Section		
Letter to Board of Directors Regarding Policies Concerning Audits of CFC Borrowers		23

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

CERTIFIED PUBLIC ACCOUNTANTS

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LUBBOCK, TEXAS 79423-1954

Independent Auditor's Report

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

We have audited the accompanying financial statements of Nueces 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 Nueces Electric Cooperative, Inc. as of December 31, 2020 and 2019, 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.

Other Matter

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 is presented for the purposes of additional analysis and is 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 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 financial statements as a whole.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

March 9, 2021

NUECES ELECTRIC COOPERATIVE, INC.

Exhibit A

BALANCE SHEETS
DECEMBER 31, 2020 AND 2019

ASSETS

	December 31,	
	2020	2019
UTILITY PLANT AT COST		
Electric Plant in Service	\$ 147,389,350	\$ 143,733,601
Construction Work in Progress	657,811	703,731
	\$ 148,047,161	\$ 144,437,332
Less: Accumulated Provision for Depreciation	29,880,024	27,175,723
	\$ 118,167,137	\$ 117,261,609
OTHER PROPERTY AND INVESTMENTS		
Investments in Associated Organizations	\$ 45,278,348	\$ 42,146,135
Investments in Treasury Strips	29,572,058	28,810,289
Other Investments - Restricted	771,478	1,673,749
	\$ 75,621,884	\$ 72,630,173
CURRENT ASSETS		
Cash - General	\$ 8,091,592	\$ 5,750,877
Accounts Receivable (Less allowance for uncollectibles of \$239,909 in 2020 and \$329,149 in 2019)	3,145,402	3,098,274
Accrued Unbilled Revenue	2,505,606	4,770,952
Materials and Supplies	1,915,598	1,932,816
Other Current and Accrued Assets	390,630	456,050
Total Current Assets	\$ 16,048,828	\$ 16,008,969
DEFERRED CHARGES	\$ 634,178	\$ 772,509
TOTAL ASSETS	\$ 210,472,027	\$ 206,673,260

EQUITIES AND LIABILITIES

EQUITIES		
Memberships	\$ 492,770	\$ 449,800
Patronage Capital	106,149,553	102,428,751
Other Equities	8,293,700	8,580,402
	\$ 114,936,023	\$ 111,458,953
LONG-TERM DEBT		
CoBank Mortgage Notes	\$ 62,947,278	\$ 64,104,417
CFC Mortgage Notes	12,144,367	11,273,021
Less: Current Maturities	(4,271,000)	(4,041,000)
	\$ 70,820,645	\$ 71,336,438
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 4,271,000	\$ 4,041,000
Accounts Payable - Purchased Power	4,559,689	5,695,815
Accounts Payable - Other	1,061,224	554,323
Consumer Deposits	2,148,710	2,071,156
Accrued Taxes	303,953	270,954
Accrued Interest	305,817	297,579
Patronage Capital Payable	1,196,619	723,095
Accrued Employee Compensated Absences	807,067	726,040
Other Current and Accrued Liabilities	480,231	654,154
Total Current Liabilities	\$ 15,134,310	\$ 15,034,116
DEFERRED CREDITS	\$ 9,581,049	\$ 8,843,753
TOTAL EQUITIES AND LIABILITIES	\$ 210,472,027	\$ 206,673,260

See accompanying notes to financial statements.

NUECES ELECTRIC COOPERATIVE, INC.

Exhibit B

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

	December 31,				Increase (Decrease)
	2020		2019		
	Amount	%	Amount	%	
OPERATING REVENUES					
Residential	\$ 56,939,698	63.0	\$ 56,175,245	51.8	\$ 764,453
Small Commercial and Industrial	10,840,667	12.0	11,220,346	10.3	(379,679)
Large Commercial and Industrial	23,133,162	25.5	39,496,169	36.4	(16,363,007)
Public Street and Highway Lighting	977,819	1.1	981,806	0.9	(3,987)
Unbilled Revenue	(2,265,346)	(2.5)	(443,324)	(0.4)	(1,822,022)
Late Payment Penalties	571,312	0.6	722,482	0.7	(151,170)
Rent from Electric Property	48,978	0.1	47,342	0.0	1,636
Other Operating Revenues	147,895	0.2	331,549	0.3	(183,654)
Total Operating Revenues	<u>\$ 90,394,185</u>	<u>100.0</u>	<u>\$ 108,531,615</u>	<u>100.0</u>	<u>\$ (18,137,430)</u>
OPERATING EXPENSES					
Purchased Power	\$ 62,618,932	69.3	\$ 77,805,120	71.7	\$ (15,186,188)
Distribution - Operation	1,627,802	1.8	1,589,095	1.5	38,707
Distribution - Maintenance	3,557,854	3.9	3,561,460	3.3	(3,606)
Consumer Accounts	4,427,127	4.9	4,560,804	4.2	(133,677)
Customer Service and Information	319,416	0.4	302,256	0.3	17,160
Administrative and General	6,000,910	6.6	5,802,429	5.3	198,481
Depreciation	4,279,441	4.7	4,168,412	3.8	111,029
Taxes	1,261,375	1.4	1,291,270	1.2	(29,895)
Other Interest	45,701	0.1	41,038	0.0	4,663
Other Deductions	89,252	0.1	88,154	0.1	1,098
Total Operating Expenses	<u>\$ 84,227,810</u>	<u>93.2</u>	<u>\$ 99,210,038</u>	<u>91.4</u>	<u>\$ (14,982,228)</u>
OPERATING MARGINS - Before Fixed Charges	<u>\$ 6,166,375</u>	<u>6.8</u>	<u>\$ 9,321,577</u>	<u>8.6</u>	<u>\$ (3,155,202)</u>
FIXED CHARGES					
Interest on Long-Term Debt	\$ 3,274,678	3.6	\$ 3,184,554	2.9	\$ 90,124
Amortization of Premium on Reacquired Debt	80,988	0.1	80,988	0.1	
	<u>\$ 3,355,666</u>	<u>3.7</u>	<u>\$ 3,265,542</u>	<u>3.0</u>	<u>\$ 90,124</u>
OPERATING MARGINS - After Fixed Charges	<u>\$ 2,810,709</u>	<u>3.1</u>	<u>\$ 6,056,035</u>	<u>5.6</u>	<u>\$ (3,245,326)</u>
G&T Capital Credits	\$ 2,719,216	3.0	\$ 3,995,437	3.7	\$ (1,276,221)
Other Capital Credits	891,915	1.0	769,569	0.7	122,346
	<u>\$ 3,611,131</u>	<u>4.0</u>	<u>\$ 4,765,006</u>	<u>4.4</u>	<u>\$ (1,153,875)</u>
NET OPERATING MARGINS	<u>\$ 6,421,840</u>	<u>7.1</u>	<u>\$ 10,821,041</u>	<u>10.0</u>	<u>\$ (4,399,201)</u>
NONOPERATING MARGINS					
Interest Income	\$ 1,069,906	1.2	\$ 1,046,407	1.0	\$ 23,499
Other Nonoperating Income	32,407	0.0	31,488	0.0	919
Debt Forgiveness Income	1,464,800	1.6		0.0	1,464,800
Naval Base Net Margin (Loss)	(30,225)	0.0	(164,104)	(0.2)	133,879
Gain on Disposition of Property	44,546	0.0	45,523	0.0	(977)
	<u>\$ 2,581,434</u>	<u>2.8</u>	<u>\$ 959,314</u>	<u>0.8</u>	<u>\$ 1,622,120</u>
NET MARGINS	<u>\$ 9,003,274</u>	<u>9.9</u>	<u>\$ 11,780,355</u>	<u>10.8</u>	<u>\$ (2,777,081)</u>
PATRONAGE CAPITAL - BEGINNING OF YEAR	102,428,751		92,567,163		
Patronage Capital Retired	(5,725,788)		(1,527,209)		
Transferred to Other Equities	443,316		(391,558)		
PATRONAGE CAPITAL - END OF YEAR	<u>\$ 106,149,553</u>		<u>\$ 102,428,751</u>		

See accompanying notes to financial statements.

NUECES ELECTRIC COOPERATIVE, INC.

Exhibit C

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

	December 31,	
	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 9,003,274	\$ 11,780,355
Adjustments to Reconcile Net Margins to Net Cash From Operating Activities		
Depreciation	5,123,105	5,014,932
Amortization of Premium on Reacquired Debt	80,988	80,988
Capital Credits - Non-Cash	(3,167,434)	(4,373,765)
(Increase) Decrease		
Accounts Receivable	(47,128)	(886,538)
Accrued Unbilled Revenue	2,265,346	443,323
Inventories and Other Current and Accrued Assets	82,638	(18,684)
Deferred Charges	57,343	153,951
Increase (Decrease)		
Payables and Accrued Expenses	(129,806)	(706,155)
Deferred Credits	737,296	376,847
Net Cash From Operating Activities	<u>\$ 14,005,622</u>	<u>\$ 11,865,254</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Utility Plant	\$ (5,458,204)	\$ (6,687,471)
Plant Removal Costs (in excess of) Salvage and Other Credits	(570,429)	(562,218)
Purchase of Held-to-Maturity Securities	(761,769)	(4,223,797)
Other Property and Investments	937,492	(141,100)
Net Cash From Investing Activities	<u>\$ (5,852,910)</u>	<u>\$ (11,614,586)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Long-Term Debt to CoBank	\$ (2,442,138)	\$ (2,487,819)
Payments on Long-Term Debt to CFC	(1,628,655)	(1,504,518)
Advances on CoBank Long-Term Debt	1,285,000	3,670,000
Advances on CFC Long-Term Debt	2,500,000	4,850,000
Advances (Repayments) on Line of Credit - Net		(500,000)
Other Equities	156,614	182,743
Retirement of Patronage Capital	(5,725,788)	(1,527,209)
Increase (Decrease) in Memberships - Net	42,970	18,275
Net Cash From Financing Activities	<u>\$ (5,811,997)</u>	<u>\$ 2,701,472</u>
CHANGE IN CASH AND CASH EQUIVALENTS	\$ 2,340,715	\$ 2,952,140
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>5,750,877</u>	<u>2,798,737</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 8,091,592</u>	<u>\$ 5,750,877</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash Paid During the Year for:		
Interest on Long-Term Debt	<u>\$ 3,274,677</u>	<u>\$ 3,143,605</u>
Income Taxes	<u>\$ 0</u>	<u>\$ 0</u>

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 is 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 7% 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, 2020 and 2019 amounted to \$2,505,606 and \$4,770,952, 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 2017.

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, 2020 and 2019.

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, 2020 and 2019, deposits on hand totaled \$2,148,710 and \$2,071,156, 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 2020 and 2019 years are as follows:

	December 31,	
	<u>2020</u>	<u>2019</u>
Estimated Allocation for 2020	\$ 2,545,773	\$
True Up to Actual for 2019	173,443	
Estimated Allocation for 2019		4,007,173
True Up to Actual for 2018		<u>(11,736)</u>
	<u>\$ 2,719,216</u>	<u>\$ 3,995,437</u>

Advertising

It is the Cooperative's policy to expense advertising as incurred. Advertising expense was \$1,537,910 and \$1,487,718 for 2020 and 2019, 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,	
	2020	2019
Distribution Plant	\$ 113,673,896	\$ 110,445,655
General Plant	33,715,454	33,287,946
Total Electric Plant in Service	\$ 147,389,350	\$ 143,733,601
Construction Work in Progress	657,811	703,731
Total Electric Plant	\$ 148,047,161	\$ 144,437,332

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, 2020 and 2019 was \$5,123,105 and \$5,014,932, respectively, of which \$4,279,441 and \$4,168,412, was charged to depreciation expense and \$843,664 and \$846,520, was allocated to other accounts.

4. Investments in Associated Organizations

Investments in associated organizations consisted of:

	December 31,	
	2020	2019
CFC		
Capital Term Certificates	\$ 738,569	\$ 738,569
Patronage Capital	259,230	248,575
Membership	1,000	1,000
South Texas Electric Cooperative		
Patronage Capital	40,372,535	37,653,318
Texas Electric Cooperatives, Inc.		
Patronage Capital	991,821	822,016
CoBank		
Patronage Capital	2,110,842	1,909,450
Other	804,351	773,207
Total	\$ <u>45,278,348</u>	\$ <u>42,146,135</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 2021 and 2038 consist of the following:

	December 31,	
	2020	2019
U.S. Treasury Strips		
Maturity Amount	\$ 37,233,000	\$ 38,133,000
Less: Unaccreted Discount	<u>(7,660,942)</u>	<u>(9,322,711)</u>
Total	<u>\$ 29,572,058</u>	<u>\$ 28,810,289</u>

The market value of the held-to-maturity securities was \$36,555,539 and \$32,023,156 as of December 31, 2020 and 2019, respectively.

Held-to-maturity valuations are considered Level 1.

6. Other Investments – Restricted

Restricted investments consisted of the following:

	December 31,	
	2020	2019
Transitional Charges Special Deposit	\$ 470,488	\$ 1,329,515
Scholarship Fund	<u>300,990</u>	<u>344,234</u>
Total	<u>\$ 771,478</u>	<u>\$ 1,673,749</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,	
	2020	2019
Construction Materials and Supplies	<u>\$ 1,915,598</u>	<u>\$ 1,932,816</u>

NUECES ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

8. Deferred Charges

Deferred charges included the following:

	December 31,	
	2020	2019
Premium - Refinancing RUS Debt	\$ 215,968	\$ 296,956
NRECA Pension Prepayment	310,427	465,641
Retail Billing Software Development Costs	100,570	
Other	7,213	9,912
Total	<u>\$ 634,178</u>	<u>\$ 772,509</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.

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, 2020 and 2019 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.

Original RUS Refinancing Premium	\$ 1,039,346
Less: Accumulated Amortization	<u>823,378</u>
Balance	<u>\$ 215,968</u>

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, 2020 and 2019. The equities and margins of the Cooperative represent 54.61% and 53.93% of the total assets at December 31, 2020 and 2019, respectively. Patronage capital totaling \$5,725,788 and \$1,527,209 was retired during 2020 and 2019, respectively.

NUECES ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

10. Patronage Capital

	December 31,	
	<u>2020</u>	<u>2019</u>
Beginning Patronage Capital	\$ 102,428,751	\$ 92,567,163
Transferred to Other Equities	443,316	(391,558)
Assignable	<u>9,003,274</u>	<u>11,780,355</u>
	\$ 111,875,341	\$ 103,955,960
Less: Current Year Retirements	<u>5,725,788</u>	<u>1,527,209</u>
Total	<u>\$ 106,149,553</u>	<u>\$ 102,428,751</u>

11. Other Equities

	December 31,	
	<u>2020</u>	<u>2019</u>
Retired Capital Credits - Gains	\$ 3,322,762	\$ 3,166,148
Unassignable Margins - Unbilled Revenue	<u>4,970,938</u>	<u>5,414,254</u>
	<u>\$ 8,293,700</u>	<u>\$ 8,580,402</u>

12. Mortgage Notes – CoBank

Following is a summary of long-term debt due CoBank and maturing at various times from 2021 to 2050:

	December 31,	
	<u>2020</u>	<u>2019</u>
Fixed Rate Notes - 2.40% - 4.99%	\$ 62,947,278	\$ 62,604,417
Variable Rate Note - 3.89% in 2019		<u>1,500,000</u>
	\$ 62,947,278	\$ 64,104,417
Less: Current Maturities	<u>2,534,200</u>	<u>2,412,000</u>
Total	<u>\$ 60,413,078</u>	<u>\$ 61,692,417</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:

2021	\$ 2,534,200
2022	2,554,200
2023	2,646,600
2024	2,739,200
2025	2,845,300

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 2021 to 2050:

	December 31,	
	2020	2019
Fixed Rate Notes - 3.83% - 4.55%	\$ 12,144,367	\$ 11,273,021
Less: Current Maturities	<u>1,736,800</u>	<u>1,629,000</u>
Total	<u>\$ 10,407,567</u>	<u>\$ 9,644,021</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:

2021	\$ 1,736,800
2022	1,666,800
2023	1,326,400
2024	643,800
2025	554,700

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

14. Short-Term Borrowing

As of December 31, 2020 and 2019, 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 3.25% as of December 31, 2020 and 2019, respectively. As of December 31, 2020 and 2019 the Cooperative had drawn \$0 and \$0, respectively against this line of credit.

In addition, the Cooperative has a \$15,000,000 emergency line of credit available with CFC. As of December 31, 2020 and 2019 the Cooperative had drawn \$0 and \$0, respectively against this line of credit.

As of December 31, 2020 and 2019, 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 2.45% and 3.34% as of December 31, 2020 and 2019, respectively. As of December 31, 2020 and 2019 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, 2020 are as follows:

2021	\$ 77,760
2022	77,760
2023	79,488
2024	81,216
2025	40,608

NUECES ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

Lease expense for 2020 was \$87,757.

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842), effective for annual reporting periods beginning after December 15, 2020. 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,	
	2020	2019
Consumer Advances for Construction	\$ 2,601,220	\$ 2,191,695
Corpus Christi Naval Base - Deferred Revenue	5,072,900	4,867,640
Kingsville Naval Base - Deferred Revenue	1,589,186	1,439,134
Scholarship Fund	300,990	344,234
Other	16,753	1,050
Total	\$ 9,581,049	\$ 8,843,753

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.

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

During 2020, the Federal Government enacted legislation allowing companies to borrow money through the Small Business Administration (SBA) to extend employment for those that might be adversely affected by COVID-19. The program is known as the Payroll Protection Program (PPP). Under this program, a company can apply for funds to use to continue to employ personnel through the downturn experienced during the COVID-19 epidemic. The program allows forgiveness of the loan amount if the company can demonstrate that they incurred qualifying expenses in a prescribed timeframe.

The Cooperative applied for and was granted a loan of \$1,484,800 and has received the funds. The Cooperative as of November 9, 2020 has determined that sufficient qualifying expenses have been incurred that will allow the Cooperative to seek forgiveness for the loan. Loan forgiveness was approved December 18, 2020. As such, the \$1,484,800 has been recorded as non-operating income for the year ended December 31, 2020.

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 2020 and in 2019 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 \$730,998 in 2020 and \$681,999 in 2019. Pension expense for the years ended December 31, 2020 and 2019, including amortization of the RS Plan prepayment, was \$886,211 and \$837,213, respectively. There have been no significant changes that affect the comparability of 2020 and 2019 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, 2020 and January 1, 2019 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.

NUECES ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

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 2020 and 2019 was \$194,214 and \$189,037, 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, 2020 and 2019, the Cooperative purchased \$62,618,932 and \$77,805,120, respectively, from STEC. As of December 31, 2020 and 2019 amounts due to STEC were \$4,755,696 and \$5,797,086, respectively.

During the years ended December 31, 2020 and 2019, the Cooperative held a patronage capital investment with STEC in the amount of \$40,372,535 and \$37,653,318, respectively. The Cooperative was allocated patronage capital from STEC for the years ended December 31, 2020 and 2019 in the amount of \$2,719,216 and \$3,995,437, respectively.

20. Major Consumer

The Cooperative has one consumer who accounted for the following:

	December 31,	
	2020	2019
Electric Energy Revenue	\$ 16,859,813	\$ 35,109,149
kWh Sales	541,588,150	631,680,010
Purchase Power Expense	\$ 15,456,194	\$ 33,409,101

21. Disclosures About Fair Value of Financial Statements

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 is not considered financial instruments.

NUECES ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

CFC Capital Term Certificates – 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 are as follows:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Maturity</u>
\$	131,408	5.00%	2070
	137,474	5.00%	2075
	267,287	5.00%	2080
	42,750	3.00%	2025
	<u>159,650</u>	3.00%	2030
\$	<u><u>738,569</u></u>		

Cash and Temporary Cash Investments – The recorded book value approximates fair value given the short period to maturity.

Long-Term Debt valuations are considered Level 2 as described in Note 1.

The estimated fair value of the Cooperative’s financial instruments is as follows:

CoBank, CFC, and Other Fixed Rate Long-Term Debt – The fair value of the Cooperative’s CFC, CoBank, and other long term fixed rate long-term debt is calculated by computing the present value of the individual notes to maturity. The discount rate used is the currently available CFC fixed interest rate available for long-term debt repricing at the same maturity as the current debt.

	<u>Carrying Value</u>	<u>Fair Value</u>
As of December 31, 2020	\$ <u><u>75,091,645</u></u>	\$ <u><u>83,131,894</u></u>

22. Subsequent Events

The Cooperative has evaluated subsequent events through March 9, 2021, 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, 2020**

	<u>Balance 1/1/2020</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/2020</u>
CLASSIFIED ELECTRIC PLANT IN SERVICE				
Distribution Plant				
Station Equipment	\$ 1,053,218	\$	\$	\$ 1,053,218
Poles, Towers, and Fixtures	33,414,699	1,593,696	462,013	34,546,382
Overhead Conductors and Devices	26,041,520	985,393	300,726	26,726,187
Underground Conductors and Devices	6,783,278	194,528	39,330	6,938,476
Line Transformers	20,659,478	1,610,254	663,479	21,606,253
Services	8,354,521	268,657	32,672	8,590,506
Meters	4,941,882	66,651	7,738	5,000,795
Installations on Consumer Premises	2,022,221	144,027	86,146	2,080,102
Corpus Christi Naval Base Plant	5,483,044	275	28,907	5,454,412
Kingsville Naval Base Plant	1,691,794		14,229	1,677,565
Total	<u>\$ 110,445,655</u>	<u>\$ 4,863,481</u>	<u>\$ 1,635,240</u>	<u>\$ 113,673,896</u>
General Plant				
Land and Land Rights	\$ 1,264,178	\$	\$ 29,577	\$ 1,234,601
Structures and Improvements	26,683,248	156,626		26,839,874
Office Furniture and Computer Equipment	640,658	49,355	27,450	662,563
Transportation Equipment	1,086,934	230,978	53,275	1,264,637
Laboratory Equipment	164,422			164,422
Power Operated Equipment	3,252,798	203,684	102,833	3,353,649
Communications Equipment	41,558			41,558
Miscellaneous Equipment	154,150			154,150
Total	<u>\$ 33,287,946</u>	<u>\$ 640,643</u>	<u>\$ 213,135</u>	<u>\$ 33,715,454</u>
Total Classified Electric Plant in Service	\$ 143,733,601	\$ 5,504,124	\$ 1,848,375	\$ 147,389,350
Construction Work in Progress	<u>703,731</u>	<u>(45,920)</u>		<u>657,811</u>
Total Utility Plant	<u>\$ 144,437,332</u>	<u>\$ 5,458,204</u>	<u>\$ 1,848,375</u>	<u>\$ 148,047,161</u>

NUECES ELECTRIC COOPERATIVE, INC.

Schedule 2

**ACCUMULATED PROVISION FOR DEPRECIATION
FOR THE YEAR ENDED DECEMBER 31, 2020**

	<u>Balance 1/1/2020</u>	<u>Accruals</u>	<u>Retirements</u>	<u>Balance 12/31/2020</u>
Distribution Plant				
NEC Distribution Plant	\$ 15,797,871	\$ 3,555,795	\$ 2,172,068	\$ 17,181,598
Corpus Christi Naval Base	2,988,921	267,653	28,809	3,227,765
Kingsville Naval Base	890,860	82,372	14,236	958,996
Total Distribution Plant	<u>\$ 19,677,652</u>	<u>\$ 3,905,820</u>	<u>\$ 2,215,113</u>	<u>\$ 21,368,359</u>
General Plant				
Structures and Improvements	\$ 4,252,064	\$ 670,828	\$	\$ 4,922,892
Office Furniture and Computer Equipment	476,089	51,669	1	527,757
Transportation Equipment	735,645	137,286	53,274	819,657
Laboratory Equipment	164,425			164,425
Power Operated Equipment	1,781,138	356,353	102,833	2,034,658
Communication Equipment	41,557			41,557
Miscellaneous Equipment	133,087	1,149		134,236
Total General Plant	<u>\$ 7,584,005</u>	<u>\$ 1,217,285</u>	<u>\$ 156,108</u>	<u>\$ 8,645,182</u>
Total Classified Electric Plant in Service	\$ 27,261,657	\$ 5,123,105	\$ 2,371,221	\$ 30,013,541
Retirement Work in Progress	<u>(85,934)</u>		<u>47,583</u>	<u>(133,517)</u>
Total	<u>\$ 27,175,723</u>	<u>\$ 5,123,105</u>	<u>\$ 2,418,804</u>	<u>\$ 29,880,024</u>

(1)

(2)

(1) Depreciation			
Charged to Depreciation Expense		\$ 4,279,441	
Charged to Clearing and Other Accounts		<u>843,664</u>	
		<u>\$ 5,123,105</u>	

(2) Net Loss on Retirement			
Original Cost			\$ 1,848,375
Cost of Removal			881,328
Less: Salvage and Other Credits			281,322
Less: Sale of Land and Land Rights			<u>29,577</u>
			<u>\$ 2,418,804</u>

NUECES ELECTRIC COOPERATIVE, INC.

Schedule 3

OTHER PROPERTY AND INVESTMENTS
AS OF DECEMBER 31, 2020 AND 2019

	December 31,	
	<u>2020</u>	<u>2019</u>
INVESTMENTS IN ASSOCIATED ORGANIZATIONS		
Memberships	\$ 2,135	\$ 2,135
Patronage Capital		
South Texas Electric Cooperative	40,372,535	37,653,318
Texas Electric Cooperatives, Inc.	991,821	822,016
National Information Solutions Cooperative	169,840	167,266
National Rural Utilities Cooperative Finance Corporation	259,230	248,575
CoBank	2,110,842	1,909,450
Federated Insurance	494,029	467,167
Cooperative Response Center	29,323	27,846
National Rural Telecommunications Cooperative	108,541	108,448
Other	1,483	1,345
Capital Term Certificates		
National Rural Utilities Cooperative Finance Corporation	<u>738,569</u>	<u>738,569</u>
Total	<u>\$ 45,278,348</u>	<u>\$ 42,146,135</u>
HELD-TO-MATURITY SECURITIES		
Treasury Strips	<u>\$ 29,572,058</u>	<u>\$ 28,810,289</u>

NUECES ELECTRIC COOPERATIVE, INC.

Schedule 4

**ADMINISTRATIVE AND GENERAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

	December 31,		Increase (Decrease)
	<u>2020</u>	<u>2019</u>	
Administrative and General Salaries	\$ 1,427,808	\$ 1,374,209	\$ 53,599
Office Supplies and Expenses	721,669	686,885	34,784
Outside Services Employed	333,641	202,140	131,501
Workmen's Compensation, General Liability, and Other Insurance	348,886	348,208	678
Regulatory Commission Expense	309,588	366,477	(56,889)
Directors' Fees and Expenses	180,049	275,987	(95,938)
Dues to Associated Organizations	97,203	72,746	24,457
Annual Meeting Expense	112,504	190,048	(77,544)
Advertising Expenses	1,537,910	1,487,718	50,192
Miscellaneous General Expenses	523,074	417,360	105,714
Maintenance of General Plant	<u>408,578</u>	<u>380,651</u>	<u>27,927</u>
Total	<u>\$ 6,000,910</u>	<u>\$ 5,802,429</u>	<u>\$ 198,481</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, 2020, 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 9, 2021.

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 9, 2021