

**NUECES ELECTRIC COOPERATIVE, INC.**

**ROBSTOWN, TEXAS**

**FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION**

**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

**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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**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

**Opinion**

We have audited the accompanying financial statements of Nueces Electric Cooperative, Inc., which comprise the balance sheets as of December 31, 2022 and 2021, 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, 2022 and 2021, 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 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

April 12, 2023

## NUECES ELECTRIC COOPERATIVE, INC.

Exhibit A

BALANCE SHEETS  
DECEMBER 31, 2022 AND 2021

## ASSETS

	December 31,	
	2022	2021
UTILITY PLANT AT COST		
Electric Plant in Service	\$ 153,243,388	\$ 150,097,440
Construction Work in Progress	1,619,184	1,231,633
	\$ 154,862,572	\$ 151,329,073
Less: Accumulated Provision for Depreciation	35,401,303	32,419,883
	\$ 119,461,269	\$ 118,909,190
OTHER PROPERTY AND INVESTMENTS		
Investments in Associated Organizations	\$ 49,921,136	\$ 47,242,206
Investments in Treasury Strips	30,359,099	30,064,010
Other Investments - Restricted	751,566	719,931
	\$ 81,031,801	\$ 78,026,147
CURRENT ASSETS		
Cash - General	\$ 10,227,895	\$ 6,300,946
Temporary Cash Investments	178,962	500,000
Accounts Receivable (Less allowance for uncollectibles of \$232,060 in 2022 and \$182,288 in 2021)	2,926,300	2,836,669
Accrued Unbilled Revenue	2,646,207	2,628,557
Materials and Supplies	1,939,614	1,888,101
Other Current and Accrued Assets	380,572	427,420
Total Current Assets	\$ 18,299,550	\$ 14,581,693
DEFERRED CHARGES	\$ 284,197	\$ 578,763
TOTAL ASSETS	\$ 219,076,817	\$ 212,095,793

## EQUITIES AND LIABILITIES

EQUITIES		
Memberships	\$ 575,015	\$ 514,135
Patronage Capital	113,972,426	109,063,296
Other Equities	8,738,495	7,611,237
	\$ 123,285,936	\$ 117,188,668
LONG-TERM DEBT		
CoBank Mortgage Notes	\$ 57,859,176	\$ 60,413,201
CFC Mortgage Notes	13,982,377	13,205,234
Less: Current Maturities	(4,070,000)	(4,274,000)
	\$ 67,771,553	\$ 69,344,435
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 4,070,000	\$ 4,274,000
Accounts Payable - Purchased Power	6,906,106	4,451,065
Accounts Payable - Other	1,174,495	730,393
Consumer Deposits	2,231,968	1,990,077
Accrued Taxes	415,065	322,055
Accrued Interest	284,449	297,785
Patronage Capital Payable	1,176,924	796,827
Accrued Employee Compensated Absences	1,192,229	821,901
Other Current and Accrued Liabilities	415,708	590,474
Total Current Liabilities	\$ 17,866,944	\$ 14,274,577
DEFERRED CREDITS	\$ 10,152,384	\$ 11,288,113
TOTAL EQUITIES AND LIABILITIES	\$ 219,076,817	\$ 212,095,793

See accompanying notes to financial statements.

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**NUECES ELECTRIC COOPERATIVE, INC.**

**Exhibit B**

**STATEMENTS OF INCOME AND PATRONAGE CAPITAL  
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

	December 31,				Increase (Decrease)
	2022		2021		
	Amount	%	Amount	%	
<b>OPERATING REVENUES</b>					
Residential	\$ 79,201,125	75.5	\$ 60,830,291	72.5	\$ 18,370,834
Small Commercial and Industrial	14,408,877	13.7	11,880,835	14.1	2,528,042
Large Commercial and Industrial	7,525,858	7.2	9,532,341	11.3	(2,006,483)
Public Street and Highway Lighting	1,037,769	1.0	986,751	1.2	51,018
Unbilled Revenue	17,650	0.0	122,951	0.1	(105,301)
Late Payment Penalties	917,689	0.9	540,215	0.6	377,474
Rent from Electric Property	51,585	0.0	49,445	0.1	2,140
Other Operating Revenues	918,561	0.9	100,999	0.1	817,562
Naval Base Net Margin (Loss)	890,061	0.8	(8,851)	0.0	898,912
Total Operating Revenues	\$ 104,969,175	100.0	\$ 84,034,977	100.0	\$ 20,934,198
<b>OPERATING EXPENSES</b>					
Purchased Power	\$ 72,626,777	69.2	\$ 55,665,628	66.2	\$ 16,961,149
Distribution - Operation	1,817,229	1.7	1,686,427	2.0	130,802
Distribution - Maintenance	3,618,484	3.4	3,349,711	4.0	268,773
Consumer Accounts	5,543,250	5.3	4,840,369	5.8	702,881
Customer Service and Information	368,281	0.4	330,451	0.4	37,830
Administrative and General	6,550,744	6.2	6,173,295	7.3	377,449
Depreciation	4,482,531	4.3	4,383,335	5.2	99,196
Taxes	1,560,360	1.5	1,330,493	1.6	229,867
Other Interest		0.0	6,225	0.0	(6,225)
Other Deductions	158,912	0.2	329,284	0.4	(170,372)
Total Operating Expenses	\$ 96,726,568	92.2	\$ 78,095,218	92.9	\$ 18,631,350
<b>OPERATING MARGINS - Before Fixed Charges</b>	\$ 8,242,607	7.8	\$ 5,939,759	7.1	\$ 2,302,848
<b>FIXED CHARGES</b>					
Interest on Long-Term Debt	\$ 3,171,675	3.0	\$ 3,193,096	3.8	\$ (21,421)
Amortization of Premium on Reacquired Debt	80,988	0.1	80,988	0.1	
	\$ 3,252,663	3.1	\$ 3,274,084	3.9	\$ (21,421)
<b>OPERATING MARGINS - After Fixed Charges</b>	\$ 4,989,944	4.7	\$ 2,665,675	3.2	\$ 2,324,269
G&T Capital Credits	\$ 2,318,103	2.2	\$ 1,659,830	2.0	\$ 658,273
Other Capital Credits	938,864	0.9	1,053,465	1.3	(114,601)
	\$ 3,256,967	3.1	\$ 2,713,295	3.3	\$ 543,672
<b>NET OPERATING MARGINS</b>	\$ 8,246,911	7.8	\$ 5,378,970	6.5	\$ 2,867,941
<b>NONOPERATING MARGINS (Loss)</b>					
Interest Income	\$ 933,618	0.9	\$ 1,128,983	1.3	\$ (195,365)
Other Nonoperating Income (Loss)	(1,969)	0.0	49,487	0.1	(51,456)
Gain on Disposition of Property (Loss)	(3,076)	0.0	3,872	0.0	(6,948)
	\$ 928,573	0.9	\$ 1,182,342	1.4	\$ (253,769)
<b>NET MARGINS</b>	\$ 9,175,484	8.7	\$ 6,561,312	7.9	\$ 2,614,172
<b>PATRONAGE CAPITAL - BEGINNING OF YEAR</b>	109,063,296		106,149,553		
Patronage Capital Retired	(3,214,829)		(4,730,573)		
Unbilled Revenue Transferred to Other Equities	(122,952)		2,265,346		
Nonoperating Margins Transferred to Other Equities	(928,573)		(1,182,342)		
<b>PATRONAGE CAPITAL - END OF YEAR</b>	\$ 113,972,426		\$ 109,063,296		

See accompanying notes to financial statements.



## NUECES ELECTRIC COOPERATIVE, INC.

Exhibit C

**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

	December 31,	
	<u>2022</u>	<u>2021</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Margins	\$ 9,175,484	\$ 6,561,312
Adjustments to Reconcile Net Margins to Net Cash From Operating Activities		
Depreciation	5,265,269	5,193,429
Amortization of Premium on Reacquired Debt	80,988	80,988
Capital Credits - Non-Cash	(2,678,929)	(1,963,858)
(Increase) Decrease		
Accounts Receivable	(89,631)	308,733
Accrued Unbilled Revenue	(17,650)	(122,951)
Inventories and Other Current and Accrued Assets	(4,665)	(9,293)
Deferred Charges	213,578	(25,573)
Increase (Decrease)		
Payables and Accrued Expenses	3,796,367	(862,733)
Deferred Credits	(1,135,729)	1,707,064
Net Cash From Operating Activities	<u>\$ 14,605,082</u>	<u>\$ 10,867,118</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to Utility Plant	\$ (5,531,561)	\$ (5,231,638)
Plant Removal Costs (in excess of) Salvage and Other Credits	(285,787)	(703,844)
Purchase of Held-to-Maturity Securities	(295,089)	(491,952)
Other Property and Investments	(31,636)	51,547
Net Cash From Investing Activities	<u>\$ (6,144,073)</u>	<u>\$ (6,375,887)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on Long-Term Debt to CoBank	\$ (2,554,025)	\$ (2,534,077)
Payments on Long-Term Debt to CFC	(1,722,857)	(1,739,133)
Advances on CFC Long-Term Debt	2,500,000	2,800,000
Other Equities	75,733	400,541
Retirement of Patronage Capital	(3,214,829)	(4,730,573)
Increase (Decrease) in Memberships - Net	60,880	21,365
Net Cash From Financing Activities	<u>\$ (4,855,098)</u>	<u>\$ (5,781,877)</u>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>\$ 3,605,911</b>	<b>\$ (1,290,646)</b>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<b><u>6,800,946</u></b>	<b><u>8,091,592</u></b>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b><u>\$ 10,406,857</u></b>	<b><u>\$ 6,800,946</u></b>
<b>CASH AND CASH EQUIVALENTS CONSISTS OF:</b>		
Cash - General	\$ 10,227,895	\$ 6,300,946
Temporary Cash Investments	178,962	500,000
	<u>\$ 10,406,857</u>	<u>\$ 6,800,946</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash Paid During the Year for:		
Interest on Long-Term Debt	<u>\$ 3,171,675</u>	<u>\$ 3,193,096</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 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 NEC wires division charges 5% for delinquent accounts while the NEC retail division (DBA – NEC Co-op Energy) charges 5%. If no payment is received within 26 days or a deferred payment agreement is not in place, the account is subject to disconnect.

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

**NUECES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**Inventories**

Materials and supplies inventories are valued at average unit cost.

**Electric Revenues from Contracts with Customers**

Substantially all operating revenues and customer accounts receivables are derived from contracts with customers. Performance obligations related to the sale of energy are satisfied as energy is delivered to customers. The Cooperative recognizes revenue that corresponds to the price of the energy delivered to the customer. The measurement of energy sales to customers is generally based on the reading of their meters, which occurs on a systematic basis throughout the month. At the end of each month, amounts of energy delivered to customers since the date of the last meter reading are estimated, and the corresponding unbilled revenue is recognized. The Cooperative has calculated that its unbilled revenue for delivered power usage which has not been billed to customers at December 31, 2022 and 2021 amounted to \$2,646,207 and \$2,628,557, 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 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 2019.

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, 2022 and 2021.

**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, 2022 and 2021, deposits on hand totaled \$2,231,968 and \$1,990,077, 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 2022 and 2021 years are as follows:

	December 31,	
	<u>2022</u>	<u>2021</u>
Estimated Allocation for 2022	\$ 2,207,459	\$
True Up to Actual for 2021	110,644	
Estimated Allocation for 2021		1,440,565
True Up to Actual for 2020		219,265
	<u>\$ 2,318,103</u>	<u>\$ 1,659,830</u>

**Advertising**

It is the Cooperative's policy to expense advertising as incurred. Advertising expense was \$1,579,488 and \$1,556,439 for 2022 and 2021, 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,	
	2022	2021
Distribution Plant	\$ 119,218,685	\$ 116,341,282
General Plant	34,024,703	33,756,158
Total Electric Plant in Service	\$ 153,243,388	\$ 150,097,440
Construction Work in Progress	1,619,184	1,231,633
Total Electric Plant	\$ 154,862,572	\$ 151,329,073

**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, 2022 and 2021 was \$5,265,269 and \$5,193,429, respectively, of which \$4,482,531 and \$4,383,335, was charged to depreciation expense and \$782,738 and \$810,094, was allocated to other accounts.

**4. Investments in Associated Organizations**

Investments in associated organizations consisted of:

	December 31,	
	2022	2021
CFC		
Capital Term Certificates	\$ 738,569	\$ 738,569
Patronage Capital	280,180	269,299
Membership	1,000	1,000
South Texas Electric Cooperative		
Patronage Capital	44,350,468	42,032,365
Texas Electric Cooperatives, Inc.		
Patronage Capital	1,147,556	1,039,359
CoBank		
Patronage Capital	2,511,422	2,313,974
Other	891,941	847,640
Total	\$ <u>49,921,136</u>	\$ <u>47,242,206</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 2023 and 2038 consist of the following:

	December 31,	
	2022	2021
U.S. Treasury Strips		
Maturity Amount	\$ 43,018,000	\$ 43,018,000
Less: Unaccreted Discount	<u>(12,658,901)</u>	<u>(12,953,990)</u>
Total	<u>\$ 30,359,099</u>	<u>\$ 30,064,010</u>

The market value of the held-to-maturity securities was \$27,248,463 and \$35,041,999 as of December 31, 2022 and 2021, 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.

**6. Other Investments – Restricted**

Restricted investments consisted of the following:

	December 31,	
	2022	2021
Transitional Charges Special Deposit	\$ 493,010	\$ 456,182
Scholarship Fund	<u>258,556</u>	<u>263,749</u>
Total	<u>\$ 751,566</u>	<u>\$ 719,931</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.

**NUECES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**7. Materials and Supplies**

Materials and supplies consisted of:

	December 31,	
	2022	2021
Construction Materials and Supplies	\$ <u>1,939,614</u>	\$ <u>1,888,101</u>

**8. Deferred Charges**

Deferred charges included the following:

	December 31,	
	2022	2021
Premium - Refinancing RUS Debt	\$ 53,992	\$ 134,980
NRECA Pension Prepayment		155,214
Retail Billing Software Development Costs	217,996	254,697
Other	<u>12,209</u>	<u>33,872</u>
Total	\$ <u>284,197</u>	\$ <u>578,763</u>

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

Original RUS Refinancing Premium	\$ 1,039,345
Less: Accumulated Amortization	<u>985,353</u>
Balance	<u>\$ 53,992</u>

In 2013, the Cooperative elected to participate in the NRECA RS Plan Prepayment Program. The Cooperative's original contribution was \$1,552,137 and is being amortized over 10 years. Amortization expense for the years ended December 31, 2022 and 2021 was \$155,214 and \$155,213 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. The Cooperative expensed \$241,470 of the conversion cost. Since the project is on-going the Cooperative is deferring amounts and expensing the costs as milestones are completed.



## 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, 2022 and 2021. The equities and margins of the Cooperative represent 56.28% and 55.25% of the total assets at December 31, 2022 and 2021, respectively. Patronage capital totaling \$3,214,829 and \$4,730,573 was retired during 2022 and 2021, respectively.

**10. Patronage Capital**

	December 31,	
	2022	2021
Beginning Patronage Capital	\$ 109,063,296	\$ 106,149,553
Transferred to Other Equities	(1,051,525)	1,083,004
Assignable	9,175,484	6,561,312
	<u>\$ 117,187,255</u>	<u>\$ 113,793,869</u>
Less: Current Year Retirements	3,214,829	4,730,573
Total	<u><u>\$ 113,972,426</u></u>	<u><u>\$ 109,063,296</u></u>

**11. Other Equities**

	December 31,	
	2022	2021
Retired Capital Credits - Gains	\$ 3,800,670	\$ 3,724,943
Unassignable Margins - Unbilled Revenue	2,826,910	2,703,952
Retained Non-Operating Margins	2,110,915	1,182,342
	<u>\$ 8,738,495</u>	<u>\$ 7,611,237</u>

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>2022</u>	<u>2021</u>
Fixed Rate Notes - 2.72% - 4.99%	\$ 57,859,176	\$ 60,413,201
Less: Current Maturities	<u>2,647,000</u>	<u>2,554,000</u>
Total	<u>\$ 55,212,176</u>	<u>\$ 57,859,201</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:

2023	\$ 2,647,000
2024	2,739,000
2025	2,846,000
2026	2,952,000
2027	3,064,000

**13. Mortgage Notes – CFC**

Following is a summary of long-term debt due CFC and maturing at various times from 2023 to 2052:

	December 31,	
	<u>2022</u>	<u>2021</u>
Fixed Rate Notes - 3.32% - 5.05%	\$ 13,982,377	\$ 13,205,234
Less: Current Maturities	<u>1,423,000</u>	<u>1,720,000</u>
Total	<u>\$ 12,559,377</u>	<u>\$ 11,485,234</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:

2023	\$ 1,423,000
2024	741,000
2025	656,000
2026	324,000
2027	337,000

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, 2022 and 2021, 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 5.75% and 2.45% as of December 31, 2022 and 2021, respectively. As of December 31, 2022 and 2021 the Cooperative had drawn \$0 and \$0, respectively against this line of credit.

As of December 31, 2022 and 2021, 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 6.25% and 2.41% as of December 31, 2022 and 2021, respectively. As of December 31, 2022 and 2021 the Cooperative had drawn \$0 and \$0, respectively against this line of credit.

**15. Deferred Credits**

Deferred credits include the following:

	December 31,	
	2022	2021
Consumer Advances for Construction	\$ 2,698,330	\$ 2,784,736
Special Projects - Deferred Revenue		1,178,333
Corpus Christi Naval Base - Deferred Revenue	5,406,312	5,312,298
Kingsville Naval Base - Deferred Revenue	1,789,186	1,748,997
Scholarship Fund	258,556	263,749
Total	\$ 10,152,384	\$ 11,288,113

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.

**16. 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**

**17. 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 2022 and in 2021 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 \$741,376 in 2022 and \$711,268 in 2021. Pension expense for the years ended December 31, 2022 and 2021, including amortization of the RS Plan prepayment, was \$896,590 and \$866,482, respectively. There have been no significant changes that affect the comparability of 2022 and 2021 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, 2022 and January 1, 2021 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 2022 and 2021 was \$206,961 and \$189,882, respectively.

**18. 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, 2022 and 2021, the Cooperative purchased \$72,626,777 and \$55,665,628, respectively, from STEC. As of December 31, 2022 and 2021 amounts due to STEC were \$6,906,106 and \$4,451,065, respectively.

**NUECES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

During the years ended December 31, 2022 and 2021, the Cooperative held a patronage capital investment with STEC in the amount of \$44,350,468 and \$42,032,365, respectively. The Cooperative was allocated patronage capital from STEC for the years ended December 31, 2022 and 2021 in the amount of \$2,318,103 and \$1,659,830, respectively.

**19. Subsequent Events**

The Cooperative has evaluated subsequent events through April 12, 2023, 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, 2022**

	<u>Balance 1/1/2022</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/2022</u>
<b>CLASSIFIED ELECTRIC PLANT IN SERVICE</b>				
<b>Distribution Plant</b>				
Station Equipment	\$ 1,053,218	\$ 13,256	\$	\$ 1,066,474
Poles, Towers, and Fixtures	35,626,899	1,535,782	497,491	36,665,190
Overhead Conductors and Devices	26,996,161	838,125	374,930	27,459,356
Underground Conductors and Devices	7,023,219	186,031	21,206	7,188,044
Line Transformers	22,507,494	1,493,956	726,333	23,275,117
Services	8,822,197	416,006	33,119	9,205,084
Meters	5,048,678	83,336	8,712	5,123,302
Installations on Consumer Premises	2,151,577	204,273	102,642	2,253,208
Corpus Christi Naval Base Plant	5,437,215	8	118,456	5,318,767
Kingsville Naval Base Plant	1,674,624		10,481	1,664,143
Total	<u>\$ 116,341,282</u>	<u>\$ 4,770,773</u>	<u>\$ 1,893,370</u>	<u>\$ 119,218,685</u>
<b>General Plant</b>				
Land and Land Rights	\$ 1,234,601	\$	\$	\$ 1,234,601
Structures and Improvements	26,888,672	142,274	104,692	26,926,254
Office Furniture and Computer Equipment	638,310			638,310
Transportation Equipment	1,310,611	11,675		1,322,286
Laboratory Equipment	164,422			164,422
Power Operated Equipment	3,323,834	219,288		3,543,122
Communications Equipment	41,558			41,558
Miscellaneous Equipment	154,150			154,150
Total	<u>\$ 33,756,158</u>	<u>\$ 373,237</u>	<u>\$ 104,692</u>	<u>\$ 34,024,703</u>
Total Classified Electric Plant in Service	\$ 150,097,440	\$ 5,144,010	\$ 1,998,062	\$ 153,243,388
Construction Work in Progress	<u>1,231,633</u>	<u>387,551</u>		<u>1,619,184</u>
Total	<u>\$ 151,329,073</u>	<u>\$ 5,531,561</u>	<u>\$ 1,998,062</u>	<u>\$ 154,862,572</u>

**NUECES ELECTRIC COOPERATIVE, INC.**

**Schedule 2**

**ACCUMULATED PROVISION FOR DEPRECIATION  
FOR THE YEAR ENDED DECEMBER 31, 2022**

	<u>Balance 1/1/2022</u>	<u>Accruals</u>	<u>Retirements</u>	<u>Balance 12/31/2022</u>
Distribution Plant				
NEC Distribution Plant	\$ 18,345,018	\$ 3,737,478	\$ 2,247,582	\$ 19,834,914
Corpus Christi Naval Base	3,477,053	262,173	118,456	3,620,770
Kingsville Naval Base	1,038,090	81,793	10,481	1,109,402
Total Distribution Plant	<u>\$ 22,860,161</u>	<u>\$ 4,081,444</u>	<u>\$ 2,376,519</u>	<u>\$ 24,565,086</u>
General Plant				
Structures and Improvements	\$ 5,596,227	\$ 688,299	\$ 101,430	\$ 6,183,096
Office Furniture and Computer Equipment	561,388	55,605		616,993
Transportation Equipment	912,176	120,210		1,032,386
Laboratory Equipment	164,425			164,425
Power Operated Equipment	2,341,488	318,562		2,660,050
Communication Equipment	41,557			41,557
Miscellaneous Equipment	135,384	1,149		136,533
Total General Plant	<u>\$ 9,752,645</u>	<u>\$ 1,183,825</u>	<u>\$ 101,430</u>	<u>\$ 10,835,040</u>
Total Classified Electric Plant in Service	\$ 32,612,806	\$ 5,265,269	\$ 2,477,949	\$ 35,400,126
Retirement Work in Progress	<u>(192,923)</u>		<u>(194,100)</u>	<u>1,177</u>
Total	<u>\$ 32,419,883</u>	<u>\$ 5,265,269</u>	<u>\$ 2,283,849</u>	<u>\$ 35,401,303</u>

(1)

(2)

(1) Depreciation		
Charged to Depreciation Expense	\$ 4,482,531	
Charged to Clearing and Other Accounts	<u>782,738</u>	
	<u>\$ 5,265,269</u>	

(2) Net Loss on Retirement		
Original Cost		\$ 1,998,062
Cost of Removal		608,177
Less: Salvage and Other Credits		<u>322,390</u>
		<u>\$ 2,283,849</u>



## NUECES ELECTRIC COOPERATIVE, INC.

## Schedule 3

OTHER PROPERTY AND INVESTMENTS  
AS OF DECEMBER 31, 2022 AND 2021

	December 31,	
	<u>2022</u>	<u>2021</u>
INVESTMENTS IN ASSOCIATED ORGANIZATIONS		
Memberships	\$ 2,135	\$ 2,135
Patronage Capital		
South Texas Electric Cooperative	44,350,468	42,032,365
Texas Electric Cooperatives, Inc.	1,147,556	1,039,359
National Information Solutions Cooperative	173,132	181,192
National Rural Utilities Cooperative Finance Corporation	280,180	269,299
CoBank	2,511,422	2,313,974
Federated Insurance	587,362	531,282
Cooperative Response Center	18,875	23,921
National Rural Telecommunications Cooperative	108,710	108,540
Other	2,727	1,570
Capital Term Certificates		
National Rural Utilities Cooperative Finance Corporation	<u>738,569</u>	<u>738,569</u>
Total	<u>\$ 49,921,136</u>	<u>\$ 47,242,206</u>
HELD-TO-MATURITY SECURITIES		
Treasury Strips	<u>\$ 30,538,061</u>	<u>\$ 30,064,010</u>
Other Investments - Restricted		
Transition Charge Special Deposit	\$ 493,010	\$ 456,182
Scholarship Fund	<u>258,556</u>	<u>263,749</u>
Total	<u>\$ 751,566</u>	<u>\$ 719,931</u>

## NUECES ELECTRIC COOPERATIVE, INC.

Schedule 4

**ADMINISTRATIVE AND GENERAL EXPENSES  
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

	December 31,		Increase
	2022	2021	(Decrease)
Administrative and General Salaries	\$ 1,527,472	\$ 1,619,954	\$ (92,482)
Office Supplies and Expenses	773,794	662,835	110,959
Outside Services Employed	367,021	219,395	147,626
Workmen's Compensation, General Liability, and Other Insurance	376,987	354,229	22,758
Regulatory Commission Expense	378,431	338,205	40,226
Directors' Fees and Expenses	167,119	156,360	10,759
Dues to Associated Organizations	128,999	63,630	65,369
Annual Meeting Expense	236,871	161,385	75,486
Advertising Expenses	1,579,488	1,556,439	23,049
Miscellaneous General Expenses	582,113	598,881	(16,768)
Maintenance of General Plant	432,449	441,982	(9,533)
 Total	 \$ 6,550,744	 \$ 6,173,295	 \$ 377,449

**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. (the Cooperative) as of December 31, 2022, and the related statements of income and patronage capital, and cash flows for the year then ended, and have issued our report thereon dated April 12, 2023.

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

April 12, 2023