FINANCIAL STATEMENTS WITH
REPORT OF INDEPENDENT AUDITORS

EAST TEXAS ELECTRIC COOPERATIVE, INC.

December 31, 2022 and 2021

C O N T E N T S

AXLEY & RODE LLP
CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT AUDITORS

The Board of Directors
East Texas Electric Cooperative, Inc.
Nacogdoches, Texas

Opinion

We have audited the accompanying financial statements of East Texas Electric Cooperative, Inc. (the "Cooperative") which comprise the balance sheets as of December 31, 2022 and 2021 and the related statements of revenue and expense, comprehensive income, patronage capital and other equities 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 the Cooperative as of December 31, 2022 and 2021, and the results of operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis of Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 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 of our audit opinion.

Responsibility of Management 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.

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 Responsibility 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 generally accepted auditing standards and *Government Auditing Standards* 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, including omission, 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 generally accepted auditing standards and *Governmental Auditing Standards*, we:

- Exercise professional judgement 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 control. 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 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2023, on our consideration of the Cooperative's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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.

Axley & Rode LLP
CERTIFIED PUBLIC ACCOUNTANTS

Lufkin, Texas
April 19, 2023

axleyrode.cpa

EAST TEXAS ELECTRIC COOPERATIVE, INC.
BALANCE SHEETS
December 31, 2022 and 2021

	2022	2021
ASSETS		
Utility Plant:		
Utility plant in service	$ 1 117 986 120	$ 1 103 916 752
Construction work in progress	3 356 408	823 834
	1 121 342 528	1 104 740 586
Less accumulated provision for depreciation	453 645 019	417 205 857
	667 697 509	687 534 729
Investments and Other Assets:		
Investments in associated organizations	42 298 472	42 152 647
	42 298 472	42 152 647
Current Assets:		
Cash and cash equivalents	24 614 644	24 410 682
Accounts receivable from member cooperatives	67 635 277	47 062 813
Accounts receivable - Other	1 875 127	1 145 712
Certificates of deposit	5 880 080	6 908 163
Investment securities - Available for sale	4 188 951	33 612 260
Fuel stock	7 904 102	5 873 534
Materials and supplies	15 344 440	15 251 811
Other current assets	10 130 432	6 211 287
	137 573 053	140 476 262
Deferred debits	230 087 209	248 371 014
	$ 1 077 656 243	$ 1 118 534 652
EQUITIES AND LIABILITIES		
Equity and Margin:		
Patronage capital	$ 220 579 417	$ 209 965 777
Accumulated comprehensive income (loss)	(575 522)	(56 726)
	220 003 895	209 909 051
Long-term debt, less current maturities	739 943 145	734 479 481
Current Liabilities:		
Accounts payable - Purchased power	35 487 563	12 067 973
Accounts payable - Other	3 793 619	6 972 957
Accrued expenses	12 011 565	11 229 723
Line of credit - General	-	100 000 000
Current maturities of long-term debt	60 929 106	41 619 274
	112 221 853	171 889 927
Deferred credits	5 487 350	2 256 193
	$ 1 077 656 243	$ 1 118 534 652

The accompanying notes are an integral part of these financial statements.

EAST TEXAS ELECTRIC COOPERATIVE, INC.
STATEMENTS OF REVENUE AND EXPENSE
For the Years Ended December 31, 2022 and 2021

	2022	2021
Operating Revenues:		
Power sales - Members	$ 465 301 113	$ 459 164 458
Other electric revenues	25 584 339	41 330 958
	490 885 452	500 495 416
Operating Expenses:		
Purchased power	173 549 195	210 321 556
Power Generation:		
Fuel	114 901 650	101 526 342
Other production expenses	36 768 072	36 590 175
Transmission	77 509 308	60 511 666
Administrative and general	9 403 605	9 337 145
Depreciation	36 814 459	36 487 248
Amortization of regulatory asset	8 792 658	8 816 612
	457 738 947	463 590 744
OPERATING MARGINS BEFORE INTEREST EXPENSE	33 146 505	36 904 672
Interest expense	28 300 384	30 207 436
OPERATING MARGINS	4 846 121	6 697 236
Nonoperating Margins:		
Other income	77 256	-
Interest income	1 409 429	1 186 342
Capital credits and patronage capital allocations	4 280 834	2 648 988
NET MARGINS	$ 10 613 640	$ 10 532 566

The accompanying notes are an integral part of these financial statements.

EAST TEXAS ELECTRIC COOPERATIVE, INC.
STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2022 and 2021

	2022	2021
NET MARGINS	$ 10 613 640	$ 10 532 566
Other Comprehensive Income (Loss):		
Unrealized gains (losses) on available for sale securities	(518 796)	(56 754)
OTHER COMPREHENSIVE INCOME (LOSS)	(518 796)	(56 754)
COMPREHENSIVE INCOME	$ 10 094 844	$ 10 475 812

The accompanying notes are an integral part of these financial statements.

EAST TEXAS ELECTRIC COOPERATIVE, INC.
STATEMENTS OF PATRONAGE CAPITAL AND OTHER EQUITIES
For the Years Ended December 31, 2022 and 2021

	PATRONAGE CAPITAL	ACCUMULATED COMPREHENSIVE INCOME (LOSS)	TOTAL
Balance, December 31, 2020	$ 199 433 211	$ 28	$ 199 433 239
Net margins	10 532 566	-	10 532 566
Other comprehensive income (loss)	-	(56 754)	(56 754)
Balance, December 31, 2021	209 965 777	(56 726)	209 909 051
Net margins	10 613 640	-	10 613 640
Other comprehensive income (loss)	-	(518 796)	(518 796)
Balance, December 31, 2022	$ 220 579 417	$ (575 522)	$ 220 003 895

The accompanying notes are an integral part of these financial statements.

EAST TEXAS ELECTRIC COOPERATIVE, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2022 and 2021

	2022	2021
Operating Activities:		
Net margins	$ 10 613 640	$ 10 532 566
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities:		
Depreciation	36 814 459	36 487 248
Amortization	24 048 469	8 816 612
Patronage capital credits - Non-cash	(1 493 472)	(1 031 918)
Reinvested dividends on investment securities	(20 428)	(14 860)
Cash Provided by (Used for) the Change in:		
Accounts receivable - Members	(20 572 464)	134 920
Accounts receivable - Other	(211 104)	648 915
Fuel stock	(2 030 568)	207 574
Materials and supplies	(92 629)	(1 524 507)
Other current assets	(4 468 957)	(3 679 397)
Deferred debits	(5 764 665)	198 863
Accounts payable	23 419 590	(6 465 565)
Accounts payable - Other	(3 179 338)	(3 920 159)
Accrued expenses	781 841	598 038
Deferred credits	3 178 207	(4 323 126)
NET CASH PROVIDED BY OPERATING ACTIVITIES	61 022 581	36 665 204
Investing Activities:		
Capital expenditures (including interest capitalized)	(16 924 288)	(90 916 408)
Redemption of CFC loan certificates	1 379 147	1 366 921
Proceeds from disposition of Hardin facility	-	36 534 117
Regulatory asset - Winter Storm Uri	-	(97 496 969)
Certificates of deposit	1 028 083	320 337
Other investments	28 924 941	(30 414 630)
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES	14 407 883	(180 606 632)
Financing Activities:		
Loan advances - RUS	183 468 260	46 392 072
Loan advances - CoBank	-	100 000 000
Loan payments - RUS	(30 957 758)	(12 202 240)
Loan payments - Others	(120 213 792)	(56 033 626)
Clean Renewable Energy Bonds	(7 523 212)	(7 523 213)
Net activity - Syndicated facility/lines of credit	(100 000 000)	82 124 761
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(75 226 502)	152 757 754
NET INCREASE IN CASH AND CASH EQUIVALENTS	203 962	8 816 326
Cash and cash equivalents, beginning of year	24 410 682	15 594 356
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 24 614 644	$ 24 410 682
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	$ 27 489 904	$ 30 370 450
Supplemental Schedule of Non-Cash Investing and Financing Activities:		
Unrealized gain/(loss) on investment available for sale	$ (518 976)	$ (56 754)
(Decrease)/Increase in accounts payable for capital expenditures	$ 1 965 938	$ (7 452 738)

The accompanying notes are an integral part of these financial statements.

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF ACCOUNTING POLICIES

Nature of Operations:

East Texas Electric Cooperative, Inc. ("Cooperative") is an electric generating and transmission cooperative formed and operating pursuant to the Texas Electric Cooperative Corporation Act for the purpose of providing wholesale electric service to the Members. The Cooperative's members consist of one electric generating and transmission cooperative, Northeast Texas Electric Cooperative, Inc. ("NTEC"), and seven distribution cooperatives, Cherokee County Electric Cooperative Association ("CCECA"), Deep East Texas Electric Cooperative, Inc. ("DETEC"), Houston County Electric Cooperative, Inc. ("HCEC"), Jasper-Newton Electric Cooperative, Inc. ("JNEC"), Rusk County Electric Cooperative, Inc. ("RCEC"), Sam Houston Electric Cooperative, Inc. ("SHECO") and Wood County Electric Cooperative, Inc. ("WCEC") ("Members").

The Cooperative was formed principally to provide dependable power to its Members at the lowest cost possible. In doing so, the Cooperative works closely with its Members in determining their power requirements.

Use of Estimates:

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. The estimates and assumptions used in the accompanying financial statements are based upon management's evaluation of the relevant facts and circumstances as of the date of the financial statements. Actual results may differ from the estimates and assumptions used in preparing the accompanying financial statements.

System of Accounts:

The Cooperative maintains its accounting records in accordance with the Federal Energy Regulatory Commission's ("FERC") Uniform System of Accounts as adopted by the USDA Rural Development's Rural Utilities Service ("RUS"), which conforms with U.S. generally accepted accounting principles in all material respects. The more significant accounting policies are described below.

Revenue Recognition:

Revenue from Contracts with Customers

The Cooperative's policies with respect to its various revenue streams are detailed below. In general, the Cooperative applies the invoicing practical expedient to recognize revenue for the revenue streams detailed below, except in circumstances where the invoiced amount does not represent the value transferred to the customer.

Energy Revenue

Electric energy revenue is recognized upon transmission to the customer over time, using the output method for measuring progress of satisfaction of performance obligations. The sale of electricity is recorded on a gross basis in the Cooperative's statements of revenue. The Cooperative applies the invoicing practical expedient, where applicable, in recognizing electric revenue. Under the practical expedient, revenue is recognized based on the invoiced amount which is equal to the value to the customer of the Cooperative's performance obligation completed to date.

The Cooperative's tariffs provide that rates are to be adjusted from time to time based on changes in estimated power costs. At the end of the year, the estimated power costs are compared to actual power costs. At the discretion of the Board of Directors, an over-collection is either refunded to the members over the subsequent year or in a lump sum; under-collections are collected from the members over the subsequent year. In 2022 and 2021, there was an under-collection of $8,686,433 and $1,727,376, respectively, included in deferrals.

As contracts for wholesale electricity can be for multi-year periods, the Cooperative has performance obligations under these contracts that have not yet been satisfied. These performance obligations have transaction prices that are expected to vary based on customer usage, ultimate duration of the contract, and future over or under recoveries, which will vary with the larger power market. Therefore, it is not practicable to estimate such amounts.

Renewable Energy Certificates

The Cooperative receives renewable energy certificates, also known as renewable energy credits, (RECs) in connection with generation from its hydroelectric facility and its power purchases from wind farms, which are discussed in Note 9 - Power Contracts. The Cooperative holds these certificates in a trading account and sells them periodically. Balances held and revenues from the sale of RECs were not material to the balance sheet or operating results in 2022 or 2021. REC sales are reported as reductions of purchased power cost.

Cash Flows Statement:

For purposes of reporting cash flows, cash and cash equivalents consist of cash and temporary cash investments with original maturities of three months or less.

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF ACCOUNTING POLICIES - CONTINUED

Accounts Receivable:

Accounts receivable from member cooperatives are recorded from the billings of the sale of electricity to the Members. The Cooperative considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been established. If accounts become uncollectible, they will be charged to operations when that determination is made. No accounts receivable from Member Cooperatives were past due more than 90 days as of December 31, 2022 and 2021.

Utility Plant:

The utility plant is stated at original cost less accumulated depreciation. The cost of additions to the electric plant includes contracted work, direct labor, materials, allocable overhead, and interest on debt used for construction. The cost of retirements, replacements, or betterments are removed from utility plant and, in accordance with industry practice, the cost of the unit and its removal cost, less salvage, are charged to accumulated depreciation. Maintenance and repairs are charged to operating expenses as incurred.

Depreciation of the utility plant is provided on the composite straight-line method over the estimated useful lives of the various components. The method and rates are prescribed by RUS or as approved for rate-making purposes. The annual depreciation rates are:

Transmission	2.75%
Office Building	2.00%
Production plant	3.23% - 6.67%
Load dispatching equipment	6.67%

In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 360-10, *Impairment of Long-Lived Assets,* the Cooperative evaluates, when indicators of impairment are identified, the carrying amount of its long-lived assets. Recoverability is determined by comparing the projected undiscounted net cash flows of the long-lived assets against their respective carrying amounts. The amount of impairment, if any, is measured based upon the excess of the carrying value over the fair value.

Asset Retirement Obligations

Accounting standards require entities to record liabilities for all legal obligations associated with the retirement of long-lived assets that result from the normal operation of the assets. The Cooperative has recognized an Asset Retirement Obligation (ARO) for legal obligations primarily for the retirement of certain ash disposal facilities, reclamation of landfill sites and asbestos removal and disposal at four jointly owned coal-fired power plants. These liabilities are recorded at their fair values (which are the present values of the estimated future cash outflows).

For the years ended December 31, 2022 and 2021, there are no assets legally restricted for the purpose of settling any AROs. These AROs are recorded as deferred credits on the balance sheet in the amount of $1,269,130 and $1,216,179, respectively.

Investments in Associated Organizations:

Investments in patronage capital credits of associated organizations are accounted for under the equity method. Patronage capital is recorded at the stated amount of the certificate when allocated by the associated organization.

Investment Securities:

The Cooperative's investment securities are classified as available for sale. These securities are carried at estimated fair value with any unrealized gains or losses excluded from net margin and reported in accumulated other comprehensive income (loss), which is reported as a separate component of members' equity.

Premiums and discounts on securities available for sale are recognized in interest income using a method approximating the interest method over the period to expected maturity. Purchases and sales of securities are accounted for on a trade date basis on a specific identification basis.

Declines in the estimated fair value of individual securities below their cost that are other-than-temporary are accounted for as a write-down of the individual securities to their fair value. Any related write-downs are included in earnings as realized losses.

Unrealized holding gains and losses on securities available for sale are reported in other comprehensive income. Realized gains and losses on securities available for sale are included in gains and losses on sale of available for sale securities in the statement of revenue and expenses and, when applicable, are reported as a reclassification adjustment in other comprehensive income. Gains and losses on the sale of securities are determined using the specific-identification method.

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF ACCOUNTING POLICIES - CONTINUED

Fair Value Measurements:

The fair value of financial assets and liabilities is measured according to the *Fair Value Measurements and Disclosure* topic of FASB Accounting Standards Codification. Fair value is required to be evaluated and adjusted according to the following valuation techniques.

Level 1 - Fair value is determined using quoted market prices in active markets for identical assets and liabilities.

Level 2 - Fair value is determined using quoted market prices in active markets for similar assets and liabilities, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant inputs are observable in the market for substantially the full term of the assets or liabilities.

Level 3 - Fair value is determined using inputs that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The market for assets and liabilities using Level 3 measures is typically inactive.

Inventories:

Inventory consists of fuel stock (primarily coal) for operation of the electric plants. Fuel inventory is carried at weighted average cost. Materials and supplies inventory used for the operation of the electric plants is valued at average cost and is stated at the lower of average cost or net realizable value (NRV), with NRV determined to be the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Cost is determined using the average cost method and includes all costs related to acquisition.

Allowance for Borrowed Funds Used During Construction:

The Cooperative capitalizes the carrying costs on certain significant construction and development projects while in progress. Interest is capitalized based on the debt specifically borrowed to finance projects during construction and is reflected as a credit to interest expense in the Statement of Revenue and Expense. There was no capitalized interest for the years ended December 31, 2022 and 2021.

Income Taxes:

The Cooperative is exempt from Federal income tax under the provisions of Section 501(c)(12) of the Internal Revenue Code of 1986.

Uncertain Tax Positions:

FASB ASC 740 requires recognition, measurement, and disclosure of uncertain tax positions. The Cooperative currently accounts for uncertain tax positions based on the estimated likelihood of assessment and has not determined that any tax positions require an accrual based on current standards of accounting. For federal income tax purposes, the tax returns essentially remain open for possible examination for a period of three years after the date on which those returns are filed.

Comprehensive Income:

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net margin. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities are reported as a separate component of the equity section of the balance sheet, such items, along with net margin, are components of comprehensive income.

Deferred Debits/Credits:

In accordance with FASB ASC 980: *Regulated Operations* (formerly FASB Statement No. 71, *Accounting for the Effects of Certain Types of Regulation*), certain costs have been capitalized as deferred debits that would otherwise be charged to expense. Such deferred debits are recorded when it is probable that future revenue in an amount at least equal to the capitalized costs will result from inclusion of those costs in future rates. Accordingly, certain obligations have been accrued as deferred credits that would otherwise be charged to income. Such deferred credits are recorded when it is probable that future expenses in an amount at least equal to the accrued liabilities will result from inclusion of those revenues in future rates.

Derivative Instruments:

The accounting standards for derivative instruments and hedging activities require that all derivatives be recognized at fair value on the balance sheet, either as assets or liabilities, unless they meet the normal purchase, normal sales criteria. The changes in the fair value of recognized derivatives are recorded each period in current margins or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and the type of hedge transaction. The Cooperative's policy is that derivatives are to be used only for hedging purposes and Management does not engage in transactions unrelated to the underlying financial exposures. The Cooperative does not enter into derivative financial instruments for trading purposes.

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF ACCOUNTING POLICIES - CONTINUED

There were no derivative instruments outstanding as of December 31, 2022 or 2021.

Regional Transmission Organizations:

The Cooperative is a member of and participates in three Regional Transmission Organizations ("RTO"), which include the Midcontinent Independent System Operator ("MISO") RTO, Southwest Power Pool ("SPP") RTO and Electric Reliability Council of Texas ("ERCOT") RTO. The RTOs operate wholesale electric markets and are responsible for moving electricity over large areas. They also coordinate, control, and monitor the electric transmission grid within their areas. As a result of this, the Cooperative now sells all plant generation into the RTO markets and purchases power to serve a large portion of its load from markets. The Cooperative records RTO transactions on an hour-to-hour basis. Transactions within each individual hour are netted to a single purchase or sale based on actual load and net megawatt-hour generation.

Significant Events Impacting Operations

In February 2021, a severe winter storm ("Winter Storm Uri") with extremely cold temperatures affected much of the U.S., including Texas. This severe weather resulted in surging demand for power, gas supply shortages, operational challenges for generators, widespread power outages, and disruption to the wholesale and retail energy markets. As a result, the Cooperative experienced increased cost of power, which will be recovered on a deferred basis over a period not to exceed ten years. Refer to Notes 5 for additional details.

New Authoritative Accounting Guidance:

In February 2016, FASB issued ASU 2016-02, *Leases,* which modifies the guidance used by lessors and lessees to account for leasing transactions. It is effective for fiscal years beginning after December 15, 2021, and interim periods beginning after December 15, 2022. The Cooperative adopted ASU 2016-02 using the optional transition method, which allows for the prospective application of the standard. In addition, the Cooperative elected practical expedients permitted under the transition guidance permitting the Cooperative to not reassess historical lease classification, prior conclusions relating to initial direct costs, and whether any expired or existing contracts are or contain leases. Upon adoption of ASU 2016-02, which was effective for the Cooperative on January 1, 2022, the Cooperative recognized no opening balance adjustments based on management's determination that there were no material leases in effect as of that date. Adoption had no material effect on net income or cash flows.

Subsequent Events:

Management has evaluated subsequent events through April 19, 2023, the date the financial statements were available to be issued.

NOTE 2 - UTILITY PLANT

The following summarizes utility plant as of December 31, 2022 and 2021:

	2022	2021
Utility Plant, at Cost:		
Transmission	$ 133 054 594	$ 132 947 756
Production plant	981 779 994	968 087 770
Distribution and telemetering	696 921	696 921
Asset retirement obligations - Generation, net	684 761	736 452
Office building	698 312	698 312
Office equipment	1 071 538	749 541
	1 117 986 120	1 103 916 752
Construction work in progress	3 356 408	823 834
	1 121 342 528	1 104 740 586
Less accumulated depreciation	453 645 019	417 205 857
	$ 667 697 509	$ 687 534 729

The Cooperative outright owns or holds partial ownership in multiple power plant facilities. The Cooperative is responsible for its share of operating and capital costs for each facility it jointly owns with other entities. The Cooperative's ownership share of each facility as of December 31, 2022 and 2021, is as follows:

Nelson Unit 6 (155Mw)	19.10%
Independence Steam Electric Station Unit 2 ("ISES 2") (60Mw)	7.13%
Plum Point Energy Station ("Plum Point") (50Mw)	7.52%
John W. Turk Power Plant ("Turk") (50Mw)	8.33%
Harrison County Power Project ("HCPP") (248Mw)	45.03%
Montgomery County Power Station (75Mw)	7.56%
San Jacinto Units 1 and 2 (150Mw)	100.00%
Hilton Lively Renewable Power Project (49Mw)	100.00%
R.C. Thomas Hydroelectric Project (24Mw)	100.00%

NOTE 2 - UTILITY PLANT - CONTINUED

Montgomery County Power Station

The Cooperative entered into an Asset Purchase Agreement (APA) with Entergy Texas, Inc. for the purchase of 7.56% of the Montgomery County Power Station (MCPS). MCPS is a nominal 993Mw combined-cycle generating unit in Willis, Texas. The total cost of MCPS is $870,786,137 with the Cooperative's share $65,831,432. The facility achieved commercial operation January 1, 2021. On June 4, 2021, the Cooperative funded its ownership share of MCPS with available cash and closed on the transaction. Subsequently, the Cooperative obtained financing from RUS to fund its ownership in the facility (Note 7).

Hardin County Units 1 and 2

In 2021, the Cooperative entered into a sales agreement with Entergy Texas, Inc. for its ownership in Hardin County Units 1 and 2 at the historical book value of $36,534,117. This sale occurred as a simultaneous transaction with the purchase of its participation in Montgomery County Power Station as detailed above, which also closed on June 4, 2021. A portion of the proceeds from this sale were used by the Cooperative to pay off its debt related to Hardin County Units 1 and 2.

Hilton Lively Renewable Power Project

During the year ended December 31, 2016, the Cooperative elected to temporarily suspend operations at the Hilton Lively Renewable Power Project. Due to several operational challenges including steep declines in natural gas prices and lower wholesale energy prices in the MISO market, the Project was determined to no longer be economically viable to operate under current conditions. During the year ended December 31, 2019, the three-year suspension period ended and the Board elected to disconnect the Lively Project from the MISO transmission system. This was a result of continued poor economic conditions and a negative outlook for the Lively Project moving forward. The Cooperative does not at this time anticipate economic conditions to change, absent a major environmental or political change, that would result in reconnecting to MISO.

As a result of the suspension and subsequent disconnection from MISO, the Cooperative applied the provisions of ASC 360-10, *Impairment of Long-Lived Assets,* and performed an impairment analysis. Under generally accepted accounting principles the determination of an asset's recoverability is based on the probability-weighted net cash flows expected to be generated. The projected net cash flows primarily depend on the status of operations as well as projections of future revenues and costs over the estimated remaining life of the Project. The Cooperative performed an impairment analysis based upon energy and capacity price curves as well as anticipated salvage values for the project, as applicable, which were developed internally with both observable Level 2 quotations and unobservable Level 3 inputs, as well as management's forecasts of fuel, operating, and capital expenditures. A separate impairment analysis was performed in both 2016 and 2019 due to the separate triggering events of suspension of operations and the subsequent disconnection from MISO.

During the year ended December 31, 2016, the Cooperative estimated fair value of the Project to be $17,766,600, while the carrying value was $182,655,457, resulting in an impairment charge of $164,888,857. The Cooperative applied for and received approval from RUS to defer $163,925,311 of the impairment charge for future rate recovery as a regulatory asset. The Cooperative was approved to amortize and recover the regulatory asset over a period of twenty-one years beginning January 2017 using a regulatory method based on the bonds outstanding.

During the year ended December 31, 2019, the second impairment analysis resulted in an estimated fair value of the Project to be $1,500,000, while the carrying value was $16,583,039, resulting in an additional impairment charge of $15,083,039. The Cooperative again applied for and received approval from RUS to defer $13,797,551 of the impairment charge for future rate recovery as a regulatory asset. The Cooperative will amortize and recover the regulatory asset over a period of seventeen years beginning January 2020 using a regulatory method based on the bonds outstanding. The remaining net impairment of $1,285,488 was written-off in 2019.

For the years ended December 31, 2022 and 2021, the amount amortized and recovered through rates was $8,792,658 and $8,816,612, respectively. As of December 31, 2022 and 2021, the balance of the regulatory asset including both impairment deferrals was $127,061,270 and $135,853,928, respectively.

NOTE 3 - INVESTMENTS IN ASSOCIATED ORGANIZATIONS

Investments in associated organizations as of December 31, 2022 and 2021 consisted of the following:

	2022	2021
National Rural Utilities Cooperative Finance Corporation (CFC):		
Patronage capital and membership	$ 8 775 035	$ 8 355 966
Member capital securities	500 000	500 000
Loan capital term certificates	19 895 480	21 274 627
CoBank:		
Patronage capital and membership	8 025 022	6 954 358
National Information Solutions Cooperative (NISC):		
Patronage capital and membership	3 739	-
Sam Rayburn Dam Electric Cooperative, Inc. (Note 9)	5 097 086	5 065 586
Memberships	2 110	2 110
	$ 42 298 472	$ 42 152 647

NOTE 3 - INVESTMENTS IN ASSOCIATED ORGANIZATIONS - CONTINUED

Patronage capital allocations reported in the Statements of Revenue and Expense in the amount of $4,280,834 and $2,648,988 for the fiscal years ended December 31, 2022 and 2021, respectively, represent patronage capital allocations from CoBank, NISC and CFC.

NOTE 4 - INVESTMENT SECURITIES AND FAIR VALUE MEASUREMENTS

Investment securities consisted of investments in fixed income mutual funds and government bonds with an estimated fair value of $4,188,951 and $33,612,260 as of December 31, 2022 and 2021, respectively. The amount of unrealized gain or (loss) included in other comprehensive income is $(575,522) and $(56,726) for the years ended December 31, 2022 and 2021.

Mutual funds are valued at the net asset value (NAV) of shares held which is considered a Level 1 valuation technique.

Government bonds are valued using quoted market prices in active markets for identical assets which is considered a Level 1 valuation technique.

The amortized costs and estimated fair values of investment securities are as follows:

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
Securities Available for Sale December 31, 2022:				
Money Market Mutual Fund	$ 369 224	$ -	$ -	$ 369 224
U.S. Government Obligations	3 630 301	80 584	(558 230)	3 152 655
Mutual Fund Bond	764 948	-	(97 876)	667 072
TOTALS	$ 4 764 473	$ 80 584	$ (656 106)	$ 4 188 951
Securities Available for Sale December 31, 2021:				
Money Market Mutual Fund	$ 30 015 652	$ -	$ -	$ 30 015 652
U.S. Government Obligations	2 888 386	16 392	(51 597)	2 853 181
Mutual Fund Bond	764 948	-	(21 521)	743 427
TOTALS	$ 33 668 986	$ 16 392	$ (73 118)	$ 33 612 260

The scheduled maturities of securities to be held to maturity and securities available for sale as of December 31, 2022 were as follows:

	AVAILABLE FOR SALE SECURITIES	
	AMORTIZED COST	ESTIMATED FAIR VALUE
Due in one year or less	$ -	$ -
Due from one to five years	764 948	667 072
Due from five to ten years	-	-
Over ten years	-	-
Money Market Mutual Fund	369 224	369 224
Mutual Fund Bond	3 630 301	3 152 655
	$ 4 764 473	$ 4 188 951

Information pertaining to securities with gross unrealized losses as of December 31, 2022 and 2021 aggregated by investment category and length of time that individual securities have been in a continuous loss position follows:

	LESS THAN 12 MONTHS		12 MONTHS OR GREATER		TOTAL	
2022 Description of Securities:	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES
U.S. Governments	$ 1 030 765	$ (171 677)	$ 1 997 414	$ (386 553)	$ 3 028 179	$ (558 230)
Mutual Fund Bonds	$ -	$ -	$ 667 072	$ (97 876)	$ 667 072	$ (97 876)
2021 Description of Securities:						
U.S. Governments	$ 974 428	$ (9 311)	$ 1 246 900	$ (42 286)	$ 2 221 328	$ (51 597)
Mutual Fund Bonds	$ -	$ -	$ 743 427	$ (21 521)	$ 743 427	$ (21 521)

Management evaluates securities for other-than-temporary impairment on a periodic basis. Consideration is given to (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. As the Cooperative has the ability to hold investment securities until maturity, or the foreseeable future, none of the declines are deemed to be other-than-temporary.

NOTE 4 - INVESTMENT SECURITIES AND FAIR VALUE MEASUREMENTS - CONTINUED

As of December 31, 2022, the majority of the securities are guaranteed by the U.S. Government, agencies thereof or municipalities. These unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities until maturity, or for the foreseeable future, none of the declines are deemed to be other-than-temporary.

NOTE 5 - DEFERRED DEBITS/CREDITS

The following is a summary of the amounts recorded as deferred debits/credits as of December 31, 2022 and 2021:

		2022		2021
DEFERRED DEBITS				
Debt issuance costs	$	48 096	$	73 190
Retirement security plan		5 607		39 254
Prepayment premium on settlement of derivative		3 171 246		3 345 014
Due from member - Billing correction		-		697 686
Due from members - Levelized billing		8 686 433		1 727 376
Regulatory asset - Impairment (Note 2)		127 061 270		135 853 928
Regulatory asset - Winter Storm Uri		82 241 158		97 496 969
Prepayment premium on early payoff of debt		5 455 562		5 745 238
Provision for property insurance (Note 13)		3 417 837		3 392 359
	$	230 087 209	$	248 371 014
DEFERRED CREDITS				
Overhead and maintenance	$	4 218 220	$	1 040 014
Asset retirement obligations (Note 1)		1 269 130		1 216 179
	$	5 487 350	$	2 256 193

Debt Issuance Costs

Debt issuance costs represent the unamortized costs associated with the issuance of Clean Renewable Energy Bonds ("CREBS") and refinancing of debt. The costs are being amortized over the life of the bonds and the life of the loan, respectively.

Retirement Security Plan

The NRECA Board of Directors approved an option to allow participating cooperatives to make a prepayment and reduce future required contributions to the NRECA Retirement Security Plan ("RS Plan"). The prepayment amount is the Cooperative's share of future contributions required to fund the RS Plan's unfunded value of benefits earned to date using Plan actuarial valuation assumptions. The Cooperative elected to accept the option and made a prepayment to the NRECA RS Plan. The Cooperative recorded the prepayment as a miscellaneous deferred debit and is amortizing the prepayment over ten years as stipulated by RUS.

Prepayment Premium on Settlement of Derivative

In connection with the Cooperative's long-term financing for a 50Mw interest in the Turk power plant, the Cooperative entered into an interest rate swap that effectively fixed the interest rate for this loan. The interest rate swap agreement effectively converted floating rates into fixed rates so that the Cooperative could predict with greater assurance what its future interest costs will be and protect itself against increases in floating rates. During 2016, the Cooperative refinanced the debt associated and settled the interest rate swap. The Cooperative incurred a prepayment premium for settling the swap in the amount of $4,344,200. The premium was deferred and is being amortized over the remaining term of the new debt.

Due from Members - Levelized Billing

The Cooperative's tariff includes a levelized billing rate plan. Under the levelized billing rate plan, each of the Cooperative's Members has the option to pay a monthly levelized bill computed using the actual kilowatt-hours and a levelized billing rate. The difference between the actual monthly power cost computed under the Cooperative's Board approved wholesale rate and the amount paid to the Cooperative under the levelized billing rate plan is recorded on monthly billing statements to the Members and accumulated by the Cooperative in a designated deferred account.

Under the levelized billing plan, a Member's levelized billing factor is recalculated each month. The levelized billing rate is calculated using actual data for the year to date and projected figures for the remainder of the year. At the end of each twelve-month period, the Cooperative computes a new projected cost of power. The new projected cost of power and the accumulated deferred billing for the previous twelve-month period are combined to determine the levelized billing rate for the next twelve-month period. The Board of Directors of the Cooperative may revise the levelized billing rate due to unforeseen fluctuations in the cost of purchased power. As of December 31, 2022 and 2021, the balance of the levelized billing rate plan is $8,686,433 and $1,727,376, respectively.

NOTE 5 - DEFERRED DEBITS/CREDITS - CONTINUED

Regulatory Asset - Winter Storm Uri

In February 2021, a severe winter storm with extremely cold temperatures affected much of the U.S., including Texas. This severe weather resulted in surging demand for power, gas supply shortages, operational challenges for generators, widespread power outages, and disruption to the wholesale and retail energy markets. The Cooperative was required to purchase power during the storm at significantly escalated prices in order to meet supply obligations. As a result, the Cooperative incurred unbudgeted and unforeseen additional power purchase expenses of $199,519,080. The Cooperative received $102,022,111 of the unbudgeted power cost from the Members during the year ending December 31, 2021 and, as a result, the Cooperative recorded $102,022,111 of winter storm related power cost and related revenue in 2021. The Cooperative applied for and received approval from RUS to defer the remaining $97,496,969 power purchases incurred for future rate recovery as a regulatory asset. The Cooperative was approved to amortize and recover the regulatory asset over a period not to exceed 10 years beginning January 2022. The short-term and permanent financing associated with the regulatory asset are described in Note 7.

Prepayment Premium of Early Payoff of Debt

During the year ended December 31, 2020, the Cooperative utilized the RUS Cushion of Credit to pay off RUS notes related to HCPP, San Jacinto Units 1 and 2 and Hardin Units 1 and 2. The Cooperative obtained unsecured financing from CoBank and CFC to refinance the remaining amounts outstanding. A prepayment premium was incurred for paying off the RUS debt prior to maturity in the amount of $6,179,751. The premium was deferred and is being amortized over the remaining term of the new debt.

Overhead and Maintenance

The Board of Directors approves the Cooperative's rates, which allow recovery of overhead and maintenance ("O & M") expenses, including administrative and general expenses incurred by the Cooperative on behalf of the Members. Under this provision, the difference in the allowable customer charge computed under the Cooperative's rate and the actual amount of O & M expenses incurred by the Cooperative is to be accumulated by the Cooperative in a deferred account. The allowable customer charge is a monthly average of O & M expenses as budgeted by the Cooperative at the beginning of each twelve-month billing period. Subsequent periods reflect the adjustments between actual and estimated O & M expenses.

NOTE 6 - PATRONAGE CAPITAL

Patronage capital as of December 31, 2022 and 2021 consists of the following:

	2022	2021
Assignable patronage capital	$ 10 613 640	$ 10 532 566
Assigned patronage capital	209 965 777	199 433 211
	$ 220 579 417	$ 209 965 777

The by-laws of the Cooperative provide that all amounts received and receivable from the furnishing of electric energy in excess of the sum of operating costs and expenses are to be assigned to Members' patronage capital credit accounts on a patronage basis. The bylaws permit the Cooperative to allocate losses to Members, offset losses with margins from future years, or offset losses with certain nonoperating margins from current or future years.

Pursuant to the RUS mortgage and related loan agreements, until the total of equities and margins equal or exceed 30% of total assets, the distribution of capital contributed by members in each year is limited generally to 25% of patronage capital and margins of the preceding year provided that, after giving effect to such distribution, the total equity will equal or exceed 20% of total assets. The equities and margins of the Cooperative represent 20% and 19% of total assets as of December 31, 2022 and 2021, respectively. For the years ended December 31, 2022 and 2021, no patronage capital was retired.

NOTE 7 - LONG-TERM DEBT

Long-term debt as of December 31, 2022 and 2021 consisted of the following:

	2022	2021
Federal Financing Bank ("FFB") mortgage notes guaranteed by RUS, fixed rates 1.94% to 5.27%, maturing at various times through 2044	$ 352 301 875	$ 281 783 745
FFB Fixed Rate Notes – Winter Storm Uri, 2.84% to 2.88%, maturing 2026-2031	81 992 369	-
CFC Fixed Rate Notes - 3.35% to 7.15%, maturing at various times through 2041	164 133 133	178 268 690
CFC Financing Notes - Capital term certificates, fixed rates from 4.52% to 5.72%, maturing 2024-2041	18 580 320	19 813 302
Clean Renewable Energy Bonds - Hilton Lively Renewable Power Plant, CFC, effective rate of 1.36%, maturing 2035	30 824 176	33 241 758
Clean Renewable Energy Bonds - R.C. Thomas Facility CFC, effective rate of 2.95%, maturing 2024	1 275 001	1 912 500
Clean Renewable Energy Bonds - R.C. Thomas Facility CoBank, effective rate of 1.25%, maturing 2035-2040	62 093 083	66 215 741
CoBank Variable Rate Note - maturing 2022	-	100 000 000
CoBank Fixed Rate Note - 3.92%, maturing 2031	7 894 475	8 771 639
CoBank Fixed Rate Notes - 2.75% to 5.64%, maturing 2041	81 777 819	86 091 380
	800 872 251	776 098 755
Less current maturities	60 929 106	41 619 274
	$ 739 953 145	$ 734 479 481

NOTE 7 - LONG-TERM DEBT - CONTINUED

The Cooperative has secured long-term financing from RUS to finance an ownership interest in several power projects including HCPP, MCPS, Nelson Unit 6, San Jacinto, Hardin, Martinsville-Chireno transmission line and the Hilton Lively Renewable Power Project. The RUS mortgage secures existing RUS debt in an amount up to $451,407,196, in the form of ten separate RUS promissory notes. During the year ended December 31, 2022, the Cooperative received an advance in the amount of $85,971,291 related to Montgomery County Power Station and Martinsville-Chireno transmission line. As of December 31, 2022, the RUS notes aggregated $352,301,875.

The Cooperative has a senior credit facility with CFC. The facility includes fixed rate notes that have been utilized to finance construction projects including the Cooperative's undivided ownership interest in Nelson Unit 6, Plum Point, and the Turk power plant. The Cooperative receives a performance discount rate reduction of 0.125% and a volume discount rate reduction of 0.125% on CFC fixed rate notes. The notes feature a combination of level debt service and level principal payment arrangements.

The Cooperative has a syndicated revolving credit facility with CFC, Regions Bank, and BancorpSouth with a five-year term. The facility consists of an aggregate commitment of $115,000,000. The facility has been utilized for general corporate purposes and to provide unsecured interim financing for the R.C. Thomas Hydroelectric Project. The Cooperative had $100,000,000 outstanding on this facility as of December 31, 2021. In March 2021, the Cooperative closed the $115,000,000 facility with CFC and secured a three-year revolving facility for $100,000,000 with CoBank. The facility has been utilized to fund the additional power purchases incurred during Winter Storm Uri (Note 5). The Cooperative had no funds outstanding on this facility as of December 31, 2022.

On March 9, 2021, the Cooperative also obtained a short-term loan from CoBank to fund the additional power purchases incurred during Winter Storm Uri (Note 5). This short-term financing consists of a $100,000,000 term loan, which carries a variable interest. In June 2022, the Cooperative terminated the $100,000,000 facility with CoBank and secured an operating loan for $97,469,969 with RUS that consists of three separate fixed rate term loans with various maturities. A five-year fixed rate term loan of $35,351,840, a seven-year fixed rate term of $45,988,365 and a ten-year fixed rate term loan of $16,156,764. As of December 31, 2022, the Cooperative had a balance of $81,992,369 on this facility.

The Cooperative has received an allocation and has issued $55,000,000 in CREBS related to the Hilton Lively Renewable Power Project from CFC. The funds were utilized to finance the construction of the facility and had a balance of $30,824,176 as of December 31, 2022.

The Cooperative has been allocated and has issued a total of $106,355,693 in CREBS in coordination with R.C. Thomas Hydroelectric Project. The initial issue of CREBS was in the amount of $10,200,000 and was issued by CFC. The Cooperative utilized the funds to finance the initial stages of development of the hydropower facility. As of December 31, 2021, the balance of the CREBS amounted to $66,215,741. The Cooperative applied for and was approved for three issuances of CREBS. The three separate CREBS allocations were issued in coordination with CoBank in the total amount of $96,155,693. The funds have been utilized to finance construction of the hydropower facility. As of December 31, 2022, the balance of the CREBS amounted to $62,093,083.

The Cooperative has an unsecured financing facility with CoBank. The facility includes a fixed rate note that was utilized to refinance and combine two existing facilities held by CoBank. The CoBank term loan had a balance of $7,894,475 as of December 31, 2022.

The Cooperative has also secured long-term financing from CoBank to finance an ownership interest in Plum Point power plant. The facility consists of a fixed rate note with level principal payment arrangements. As of December 31, 2022, the Cooperative had a balance of $30,833,332 on this facility.

On July 14, 2020, the Cooperative refinanced the Cooperative's ownership interest in Hardin, Jacinto and HCPP held at RUS with CoBank and CFC. The Cooperative secured financing with CoBank for the ownership interest of Hardin and Jacinto. The long-term financing consists of fixed rate loan with CoBank with a balance of $50,944,487 as of December 31, 2022 and a fixed rate note with CFC with a balance of $10,940,953 as of December 31, 2022.

The long-term debt agreements with lenders contain certain restrictive covenants and restrictions on payment of patronage capital. The covenants require the Cooperative to maintain certain annual minimum financial ratios. The restrictions on payment of patronage capital are related in general to the Cooperative's equity and assets as defined in the agreements. For the years ended December 31, 2022 and 2021, the Cooperative was in compliance with all restrictive covenants.

Substantially all owned assets of the Cooperative are pledged as collateral for the above-mentioned secured debt.

The approximate annual maturities of long-term debt for the next five years that are not expected to be refinanced are as follows:

2023	$	60 929 106
2024	$	57 722 235
2025	$	56 329 683
2026	$	56 639 783
2027	$	49 861 621

NOTE 7 - LONG-TERM DEBT - CONTINUED

The Cooperative has a $12,000,000 line of credit with CFC that matures on May 28, 2023. During the year ended December 31, 2022, the Cooperative increased the line of credit with CFC from $12,000,000 to $75,000,000 with the maturity date extended to May 28, 2025. As of December 31, 2022 and 2021, no funds were advanced or owed under this line of credit.

The Cooperative also has an additional line of $25,000,000 with CoBank that matures on October 31, 2024. As of December 31, 2022 and 2021, no funds were advanced or owed under this line of credit.

NOTE 8 - LEASES AND FACILITIES AGREEMENTS

The Cooperative has accepted an assignment of a transmission lease obligation between one of its Members, NTEC, and a distribution cooperative, Wood County Electric Cooperative, Inc., in connection with a 5Mw load served by the Cooperative. The annual lease payments are based upon an estimate using various factors. An annual true-up of this estimate is performed once actual amounts have been determined. This lease obligation has no fixed term, but will remain in effect until terminated by the mutual agreement of both parties. For the years ended December 31, 2022 and 2021 the total transmission lease payments were $106,717 and $133,517, respectively. Estimated lease payments for each of the next five (5) years will approximate $130,000.

NOTE 9 - POWER CONTRACTS

The Cooperative has entered into Wholesale Power Contracts (the "Contracts") with each of its Members extending through December 31, 2044. Pursuant to the Contracts, the Cooperative has agreed to serve all of the Members' power needs, except for the power supply responsibility that is specifically retained in the Contracts by the Members. The Cooperative's Board of Directors, as well as the Cooperative's lenders, have approved amendments to the Contracts permitting the Members to purchase renewable distributed generation resources in an amount not to exceed one percent of the Member's annual summer peak purchases from the Cooperative.

The Cooperative has a power supply agreement with SWEPCO, whereby SWEPCO agrees to provide the Cooperative's requirements at certain points of delivery. SWEPCO, the Cooperative and NTEC entered into an agreement dated November 2, 2009, that has a twenty (20) year term and provides for the sale of partial requirements service for the first five years and 80Mw for the remaining fifteen years. During 2022 and 2021, the Cooperative paid $33,094,169 and $46,673,803, respectively, to SWEPCO for the purchase requirements.

The Cooperative is also obligated under several power purchase agreements with third-party suppliers to purchase fixed quantities of energy at fixed rates in the SPP, MISO and ERCOT region. The Cooperative paid $41,284,338 and $26,566,534 in 2022 and 2021, respectively, for purchased power associated with these agreements. These agreements are for varying quantities and lengths, terminating from 2022 to 2031.

In October 2015, the Cooperative entered into a purchase power agreement with Grant Wind, LLC, a subsidiary of Southern Renewable Energy, Inc., to purchase 50Mw of output from a wind-powered generating facility for a fixed price. The facility has a total of 150Mw of installed capacity and the agreement is for a 20-year term. In November 2016, the Cooperative has also entered into a purchase power agreement with Redbed Plains Wind Farm, LLC, a subsidiary of EDP Renewables, to purchase 50Mw of output from a wind-powered generating facility for a fixed price. The facility has a total of 100Mw of installed capacity and the agreement is for a 20-year term.

The Cooperative purchases power from the Southwestern Power Administration ("SWPA"), an agency of the Department of Energy, through Sam Rayburn Dam Electric Cooperative, Inc. ("SRDEC"). SRDEC has entered into a contract whereby the Cooperative acquired an entitlement of 66.67 % (35 MW) of the hydroelectric output of the Sam Rayburn Hydroelectric Plant with the term of the agreement expiring December 2027. In the event that SRDEC is not able to receive enough power (primarily as a result of inadequate rainfall) to cover operating costs (primarily entitlement to SWPA), the Cooperative is obligated to absorb 66.67% of the deficiency. In 2022 and 2021, $3,354,478 was paid for power and energy purchased from SRDEC.

The Cooperative has an additional purchase power agreement with SWPA whereby the Cooperative acquired a 39.25% share (37 MW) of the hydroelectric output of the Denison Dam Hydroelectric Plant. The term of the agreement expires in May 2023, with the term continuing for one year periods until notice of termination is provided. The Cooperative will pay 39.25% of all the costs and expenses related to the Denison Dam Hydroelectric Plant, which amounted to $1,071,957 and $1,529,794 for 2022 and 2021, respectively.

Sam Rayburn Municipal Power Agency ("Agency") and the Cooperative have an agreement for the Agency to sell to the Cooperative a 24.89% share (2 MW) of the output of the Robert Douglas Willis Hydropower Project (the "Project") with the term of the agreement expiring December 2039. Under the assignment arrangement, the Cooperative will pay 24.89% of all the Project costs and expenses, including debt service, which amounted to $656,400 for both 2022 and 2021. The assignment arrangement provides that the Cooperative is to receive 24.89% of any power made available to the Agency from the Project each month. Subsequent to the year ended December 31, 2022, the Agency terminated the agreement with SWPA effective April 1, 2023. As a result, the Cooperative will no longer have a 24.89% share of the output of the Project, nor be obligated for any related charges from the Agency.

NOTE 10 - RETIREMENT PLANS

All employees of the Cooperative participate in the NRECA RS Plan, 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 plan sponsor's Employer identification Number is 53-0116145 and the 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. The Cooperative's contributions to the RS Plan in 2022 represented less than 5 percent of the total contributions made to the plan by all participating employers. The Cooperative made contributions to the plan of $234,840 and $99,792 in 2022 and 2021, respectively.

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 percent funded on January 1, 2022 based on the 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 plan and may change as a result of plan experience.

The Cooperative also participates in a 401(k)-plan offered to similar cooperatives by the NRECA. The Cooperative matches certain employee contributions. Such matching contributions amounted to $50,509 and $24,702 in 2022 and 2021, respectively.

During the year ending December 31, 2022, the Cooperative implemented an Executive Compensation 457(b) plan for the highly compensated employees of the Cooperative. The Cooperative made contributions to the plan of $20,500 in 2022.

NOTE 11 - RELATED PARTY TRANSACTIONS

The Cooperative has various electrical facility operating agreements with its Members for the operation and maintenance of certain transmission facilities and telemetering equipment. During 2022 and 2021, the Cooperative paid approximately $680,000 and $672,000, respectively, to its Members for operations and maintenance services. There were no amounts payable as of the years ended December 31, 2022 and 2021 to these Members.

NOTE 12 - RATE MATTERS

In 1999, the Texas Legislature approved Senate Bill 7, which provided, among other things, that the Cooperative's rates for the sale of wholesale power are no longer regulated by the Public Utility Commission of Texas ("PUCT"). Similarly, the rates of the Members for the sale of electricity are no longer regulated by the PUCT. The law permits cooperatives' boards of directors to set rates.

Investor-owned utilities in the Electric Reliability Council of Texas ("ERCOT") were required to allow their retail customers to select generation suppliers of electricity as of January 2002. The law gives cooperatives' boards of directors sole authority to allow, or not allow, generating suppliers to attempt to sell electricity to retail customers of a cooperative. Allowing retail customer choice is called "opting in". Even if a cooperative's board decides to opt in, retail customers will continue to use the transmission and distribution facilities of the Cooperative's Members. The Cooperative monitors whether any of its Members will decide to opt in and thus evaluate the potential effects of a change in generation sales. The law allows the Cooperative to recover stranded costs if it experiences a loss of load which would impair payment of debt service and payment of purchased power fixed charges. As of December 31, 2022, none of the distribution cooperatives who are served by the Cooperative's Members have elected to opt in.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

General

The Cooperative is not a party to any pending legal proceedings that management or the Cooperative's legal counsel believe are material to its financial condition, results of its operations, or cash flows. The Cooperative maintains liability insurance against risks, subject to certain self-insurance limits, arising out of the normal course of its business.

In addition, in the normal course of business the Cooperative has ongoing disputes with some of its power suppliers. Some of the billings received by the Cooperative for purchased power are subject to adjustments based on the actual costs of the seller.

NOTE 13 - COMMITMENTS AND CONTINGENCIES - CONTINUED

Power Supply

To protect and maximize the effectiveness of the Cooperative's power supply strategy, including the value of the physical assets and long-term agreements we have secured, the Cooperative must actively participate and advocate in regional markets and federal and state regulatory proceedings that affect our operations. Within the SPP and MISO market, the Cooperatives' rates for power sales and the rates it pays for purchases of wholesale power and interstate transmission services, which are later passed on to its Members through the Cooperative's wholesale rates, are regulated by the Federal Energy Regulatory Commission (FERC). Within the ERCOT region, the Cooperative's rates for wholesale power sales to Members are not subject to FERC jurisdiction, and the rates it pays for purchases of wholesale power and transmission services are regulated by the Public Utility Commission of Texas (PUCT). ERCOT, MISO and SPP market rules substantially affect the operations and financial performance of the Cooperative's generation fleet and power supply strategy.

Investments in Utility Plant Projects

The Cooperative has experienced three significant flood events that impacted the construction of the R.C. Thomas Hydroelectric Project. The events delayed the commercial operations date from an initial estimate of May 2019 to July 2020. The contract for construction of the project is a fixed price contract; however, it is subject to force majeure events. The Cooperative is seeking relief from its insurance carrier and from the Federal Emergency Management Agency (FEMA). During the year ending December 31, 2022, the Cooperative received approximately $767,877 from FEMA for the flood events. Additionally, the Cooperative received approximately $136,000 from the insurance carrier associated with the flood events during the year ending December 31, 2021.

Entergy Texas completed construction on a 993Mw combined-cycle generating unit in Montgomery County, Texas. The total cost of the MCPS is $871 million. MCPS achieved commercial operation on January 1, 2021. The Cooperative funded its ownership in MCPS (75Mw) on June 4, 2021 with a total cost of $65,832,432. See Note 2.

The Cooperative entered into an Asset Purchase Agreement with Entergy Texas, Inc. to sell Hardin Units 1 and 2 at the Cooperative's net book value as of closing. This transaction occurred at the same time the Cooperative acquired its ownership in MCPS June 4, 2021. The net book value total of $36,534,117. The Cooperative received approval from its lenders for this transaction.

In 2020, Hurricane Laura caused significant damage to the distribution and transmission to Nelson Unit 6. Total restoration costs for the repair and/or replacement of the electrical system damaged by Hurricane Laura is approximately $4,200,000 for the Cooperative. The Cooperative is seeking relief from the Federal Emergency Management Agency (FEMA).

Environmental Regulation

The Cooperative's facilities and operations are subject to regulation by various governmental authorities having jurisdiction over air quality, water quality, control of toxic substances and hazardous and solid wastes, and other environmental matters. Management believes that the Cooperative is in substantial compliance with environmental regulations currently applicable to its facilities and operations. Because environmental regulations are subject to change, future compliance requirements and costs cannot be precisely estimated.

There have been significant efforts in the United States to regulate conventional and hazardous air pollutants as well as greenhouse gas (GHG) emissions through regulatory changes to existing programs and through new or expanded uses of relatively dormant sections of the Federal Clean Air Act (FCAA).

For conventional pollutants, Federal Environmental Protection Agency (EPA) primary area of air regulation comes through its implementation and enforcement of National Ambient Air Quality Standards (NAAQS). Ozone NAAQS compliance is currently the most active area of development, especially regulations being developed and implemented under the "Good Neighbor" provisions of the FCAA which have been and continue to be used by EPA to impose Federal Implementation Plans (FIPs) requiring reduction of emissions of ozone precursors – primarily oxides of nitrogen (NOx). The power plants relied upon by the Cooperative are equipped with a range of advanced pollution control technologies designed to significantly reduce NOx emissions. There is uncertainty regarding the extent to which EPA will move forward with a FIP that requires deeper emission reductions that would require some facilities to meet unit-level standards that currently-installed controls cannot accomplish, which would mean that one or more of the facilities relied on by the Cooperative could encounter operational restrictions during the summer ozone season or additional expense purchasing allowances or enhancing controls.

The other area of active EPA NAAQS development and enforcement relates to emissions of Sulfur Dioxide (SO2). While no currently proposed NAAQS regulation seeks to impose additional SO2 controls on units relied upon by the Cooperative, EPA continues to expand its "Regional Haze" program, which is designed to preserve or enhance visibility goals for certain federally designated areas, including national parks, forests, and wildernesses. While not currently directly threatened, EPA may pursue FIPs to impose restrictions in states where the units relied upon by the Cooperative which could increase costs of control or make full operation economically challenging in the future.

NOTE 13 - COMMITMENTS AND CONTINGENCIES - CONTINUED

For hazardous air pollutants, such as mercury and acid gasses, EPA's regulation revolves around the development and imposition of Maximum Achievable Control Technology (MACT) standards, which are currently under review and expected to be made more stringent. Controls required to achieve MACT standards for mercury and acid gasses target those pollutants through a combination of technologies that enhance the ability of the plants relied upon by the Cooperative to capture pollutants while controlling particulate matter (PM) with controls such as electrostatic precipitators and baghouses. Mercury, acid gas, and PM controls are installed at all of the facilities relied upon by the Cooperative but there is a risk that such controls will have to be enhanced or upgraded if EPA opts to impose additional restrictions in the next few years.

In 2015, the Federal Environmental Protection Agency finalized the Clean Power Plan (CPP) which provided standards and guidelines for the development of state implementation plans that would reduce carbon emissions from existing power plants. In 2017, the Federal EPA issued a proposal to repeal the CPP and an advance notice of proposed rulemaking seeking information that should be considered in the development of new emission guidelines. The EPA issued the proposed Affordable Clean Energy (ACE) rule in December 2018 to replace the CPP. The ACE rule was finalized by EPA in June 2019 and the rule provided the states wide latitude to formulate unit-specific standards and focuses primarily on efficiency upgrades at coal units.

The ACE rule was vacated by the U.S. Court of Appeals for the DC Circuit in January 2021, with the EPA being directed to develop a new plan that is consistent with existing federal guidelines.

Reduced carbon emission standards could result in increases in capital expenditures and operating costs and could impact the dates for retirement of Cooperative coal-fired power plants. The Cooperative is currently unable to predict with any degree of certainty when (or if) a comprehensive regulatory scheme for greenhouse gases will be in place.

NOTE 14 - CONCENTRATIONS OF CREDIT RISK

The Cooperative's financial instruments that are exposed to concentrations of credit risk consist primarily of cash equivalents and accounts receivable. The Cooperative places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation (FDIC) provides coverage to $250,000 for substantially all depository accounts, per depositor, per depository institution. At various times during the year, cash balances may exceed insured limits. The Cooperative has not experienced any losses in such accounts.

The Cooperative's accounts receivable are subject to concentration of credit risk due to the Cooperative's customer base. Substantially all of the accounts receivable balance is due from the Cooperative's Members.

AXLEY&RODE LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors
East Texas Electric Cooperative, Inc.
Nacogdoches, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of East Texas Electric Cooperative, Inc. which comprise the balance sheet as of December 31, 2022 and 2021 and the related statements of revenue and expenses, comprehensive income, patronage capital and cash flow for the year then ended and the related notes to the financial statements and have issued our report thereon dated April 19, 2023.

Report on Internal Control

In planning and performing our audit of the financial statements, we considered the Cooperative's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion of the effectiveness of the Cooperative's internal control. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we considered to be material weaknesses. However, material weaknesses may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

Report on Compliance

As part of obtaining reasonable assurance about whether East Texas Electric Cooperative, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Cooperative's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cooperative's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Axley & Rode LLP
CERTIFIED PUBLIC ACCOUNTANTS

Lufkin, Texas
April 19, 2023

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH ASPECTS
OF CONTRACTUAL AGREEMENTS AND REGULATORY REQUIREMENTS
FOR RUS ELECTRIC BORROWERS

Board of Directors
East Texas Electric Cooperative, Inc.
Nacogdoches, Texas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of East Texas Electric Cooperative, Inc. (the Cooperative), which comprise the balance sheet as of December 31, 2022 and the related statements of revenue and expenses, patronage capital and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 19, 2023. In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2023, on our consideration of the Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above and our schedule of findings and recommendation related to our audit have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that the Cooperative failed to comply with the terms, covenants, provisions or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers*, section 1773.33 and clarified in RUS policy memorandum dated February 7, 2014, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Cooperative's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, we noted no matters regarding the Cooperative's accounting and records to indicate that the Cooperative did not:

Maintain adequate and effective accounting procedures;

Utilize adequate and fair methods of accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expenses accounts;

Reconcile continuing property records to the controlling general ledger plant accounts;

Clear construction accounts and accrue depreciation on completed construction;

Record and properly price the retirement of plant;

Seek approval of the sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;

Maintain adequate control over materials and supplies;

Prepare accurate and timely Financial and Operating Reports;

Obtain written RUS approval to enter into any contract for the management, operation, or maintenance of the borrower's system if the contract covers all or substantially all of the electric system;

Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;

Record depreciation in accordance with RUS requirements (See RUS Bulletin 183-1, Depreciation Rates and Procedures);

Comply with the requirements for the detailed schedule of deferred debits and deferred credits; and

Comply with the requirements for the detailed schedule of investments.

This report is intended solely for the information and use of the board of directors, management, and the RUS and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Axley & Rode LLP
CERTIFIED PUBLIC ACCOUNTANTS

Lufkin, Texas
April 19, 2023

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH *UNIFORM GUIDANCE*

The Board of Directors
East Texas Electric Cooperative, Inc.
Nacogdoches, Texas

Members of the Board:

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited East Texas Electric Cooperative's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of East Texas Electric Cooperative's major federal programs for the year ended December 31, 2022. East Texas Electric Cooperative's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, East Texas Electric Cooperative complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of East Texas Electric Cooperative and to meet our other ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of East Texas Electric Cooperative's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to East Texas Electric Cooperative's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on East Texas Electric Cooperative's compliance based on our audit. 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 generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about East Texas Electric Cooperative's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 East Texas Electric Cooperative's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of East Texas Electric Cooperative's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of East Texas Electric Cooperative's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Axley & Rode LLP
CERTIFIED PUBLIC ACCOUNTANTS

Lufkin, Texas
April 19, 2023

EAST TEXAS ELECTRIC COOPERATIVE, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2022

FEDERAL GRANTOR/PASS-THROUGH GRANTOR PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	EXPENDITURES
U.S. Department of Homeland Security:			
Passed through Office of the Governor, Division of Emergency Management:			
Federal Emergency Management	97.036	N/A	$ 767 877
TOTAL EXPENDITURE OF FEDERAL AWARDS			$ 767 877

1. The accompanying schedule of expenditures of federal awards (SEFA) includes the federal award activity of East Texas Electric Cooperative, Inc. under programs of the federal government for the year ended December 31, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of East Texas Electric Cooperative, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of East Texas Electric Cooperative, Inc.

2. Expenditures reported on the SEFA are reported on the accrual basis of accounting. These expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the SEFA, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

3. The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project period ending date, in accordance with provisions in Section H, Period of Availability of Federal Funds, Part 3 Uniform Guidance Compliance Statement - Provisional 6/97.

4. The Cooperative has not elected to use the 10% de minimis indirect cost rate as allowed under Uniform Guidance.

EAST TEXAS ELECTRIC COOPERATIVE, INC.
SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND CORRECTIVE ACTION
For the Year Ended December 31, 2022

A. Summary of the Auditor's Results

Type of report on financial statements	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	____ Yes _X_ No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	____ Yes _X_ None reported
Internal control over major programs:	
Material weakness(es) identified?	____ Yes _X_ No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	____ Yes _X_ None reported
Noncompliance which is material to the basic financial statement	____ Yes _X_ None
Type of report on compliance with major programs:	Unmodified
Findings and questioned costs for Federal awards as defined in Section 200.516, Uniform Guidance	None
Dollar threshold considered between Type A and Type B Federal programs:	$750,000
Low-risk auditee statement	The Cooperative was not classified as a low-risk auditee in the context of Uniform Guidance
Major Federal programs	97.036 Federal Emergency Management

B. Findings related to the financial statements which are required to be reported in Accordance with Generally Accepted Auditing Standards.

NONE

C. Findings and Questioned Costs for Federal Award

NONE

Corrective Action Plan

NONE

EAST TEXAS ELECTRIC COOPERATIVE, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended December 31, 2022

NONE