PEDERNALES ELECTRIC COOPERATIVE, INC.

JOHNSON CITY, TEXAS

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS
LUBBOCK, TEXAS

PEDERNALES ELECTRIC COOPERATIVE, INC.

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BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.
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Independent Auditor's Report

Board of Directors
Pedernales Electric Cooperative, Inc.
Johnson City, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of Pedernales Electric Cooperative, Inc. (the Cooperative), which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of income, comprehensive income and patronage capital, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our December 31, 2016 audit in accordance with auditing standards generally acceptable 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. We conducted our December 31, 2015 audit in accordance with auditing standards generally acceptable in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pedernales Electric Cooperative, Inc. as of December 31, 2016 and 2015, and the results of their operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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* (CFR) 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 information 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 6, 2017 on our consideration of Pedernales Electric Cooperative, Inc.'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. 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pedernales Electric Cooperative, Inc.'s internal control over financial reporting and compliance.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

April 6, 2017

PEDERNALES ELECTRIC COOPERATIVE, INC.

BALANCE SHEETS
DECEMBER 31, 2016 AND 2015

ASSETS

	December 31, 2016	December 31, 2015
UTILITY PLANT AT COST		
Utility Plant in Service	$ 1,591,444,290	$ 1,487,807,894
Construction Work in Progress	58,035,313	61,833,058
	$ 1,649,479,603	$ 1,549,640,952
Less: Accumulated Provision for Depreciation	286,311,583	293,745,821
	$ 1,363,168,020	$ 1,255,895,131
OTHER PROPERTY AND INVESTMENTS - AT COST OR STATED VALUE		
Investments in Associated Organizations	$ 12,179,047	$ 11,741,174
CURRENT ASSETS		
Cash and Cash Equivalents	$ 33,243,750	$ 74,756
Accounts Receivable - Energy (Less allowance for uncollectibles of $442,165 in 2016 and $1,365,829 in 2015)	15,498,114	20,893,343
Accounts Receivable - Other (Less allowance for uncollectibles of $604,357 in 2016 and $232,899 in 2015)	2,299,935	6,790,514
Unbilled Revenue	24,083,511	23,069,694
Materials and Supplies Inventory	22,423,471	27,576,113
Other Current and Accrued Assets	2,272,875	1,681,908
Total Current Assets	$ 99,821,656	$ 80,086,328
DEFERRED CHARGES AND OTHER ASSETS	$ 73,552,673	$ 78,582,292
TOTAL ASSETS	$ 1,548,721,396	$ 1,426,304,925

EQUITIES AND LIABILITIES

	2016	2015
EQUITIES		
Memberships	$ 11,614,133	$ 11,127,363
Patronage Capital	402,206,786	373,806,190
Other Equities	171,729,563	152,018,032
Total Equities	$ 585,550,482	$ 536,951,585
LONG-TERM DEBT		
Mortgage Bonds Less Current Maturities and Issuance Costs	$ 310,140,888	$ 322,230,748
CFC Mortgage Notes Less Current Maturities	360,369,031	303,139,848
Chase Notes Less Current Maturities	11,250,000	
Total Long-Term Debt	$ 681,759,919	$ 625,370,596
ACCUMULATED PROVISION FOR PENSIONS AND BENEFITS	$ 109,276,434	$ 107,885,842
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	$ 38,125,868	$ 28,380,995
Purchased Power - Payable and Accrued	27,034,494	27,037,435
Accounts Payable - Other	25,721,569	26,845,131
Power Cost Adjustments - Over-Recovered	18,304,892	3,472,762
Tax Payable	9,041,122	7,631,053
Interest Payable	3,865,734	3,336,077
Member Deposits	5,890,880	5,715,712
Other Current and Accrued Liabilities	9,231,255	7,361,180
Total Current Liabilities	$ 137,215,814	$ 109,780,345
DEFERRED CREDITS	$ 34,918,747	$ 46,316,557
TOTAL EQUITIES AND LIABILITIES	$ 1,548,721,396	$ 1,426,304,925

See accompanying notes to financial statements.

PEDERNALES ELECTRIC COOPERATIVE, INC.

STATEMENTS OF INCOME, COMPREHENSIVE INCOME AND PATRONAGE CAPITAL
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	December 31, 2016	December 31, 2015
OPERATING REVENUES		
Residential	$ 394,673,693	$ 432,113,791
Small Power	62,694,533	65,786,190
Industrial	8,027,092	9,156,794
Large Power	73,691,991	79,738,646
Public Authorities	698,778	721,625
Other Operating Revenues	27,505,058	26,147,996
Unbilled Revenue	1,013,817	(2,405,706)
Power Cost Adjustment	(2,546,272)	(21,651,734)
Total Operating Revenues	$ 565,758,690	$ 589,607,602
OPERATING EXPENSES		
Purchased Power	$ 323,577,675	$ 350,009,858
Transmission - Operation	559,320	891,427
Transmission - Maintenance	3,520,898	2,986,799
Distribution - Operation	34,137,812	27,936,940
Distribution - Maintenance	15,384,889	13,677,205
Consumer Accounts	23,762,962	29,375,435
Customer Service and Information	2,301,496	2,228,115
Sales	1,097,531	775,304
Administrative and General	29,425,083	29,336,463
Depreciation	43,048,303	54,533,299
Taxes	3,197,280	6,552,072
Other Deductions	473,734	491,978
Total Operating Expenses	$ 480,486,983	$ 518,794,895
OPERATING MARGINS - Before Fixed Charges	$ 85,271,707	$ 70,812,707
FIXED CHARGES		
Interest and Amortization on Long-Term Debt	$ 32,673,181	$ 37,999,680
Interest Charged to Construction	(1,943,730)	(1,373,756)
	$ 30,729,451	$ 36,625,924
OPERATING MARGINS - After Fixed Charges	$ 54,542,256	$ 34,186,783
Capital Credits	1,232,826	1,016,171
NET OPERATING MARGINS	$ 55,775,082	$ 35,202,954
NON-OPERATING MARGINS		
Interest and Dividend Income	$ 165,080	$ 184,073
Misc. Non-Operating Income	185,074	176,933
Gain/(Loss) on Disposal of Assets	672,494	44,959
	$ 1,022,648	$ 405,965
NET MARGINS	$ 56,797,730	$ 35,608,919
COMPREHENSIVE INCOME	$ 56,797,730	$ 35,608,919
PATRONAGE CAPITAL - BEGINNING OF YEAR	373,806,190	366,671,229
Patronage Capital Retired	(8,685,603)	(8,097,695)
Transfers to Other Equities	(19,711,531)	(20,376,263)
PATRONAGE CAPITAL - END OF YEAR	$ 402,206,786	$ 373,806,190

See accompanying notes to financial statements.

PEDERNALES ELECTRIC COOPERATIVE, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	December 31, 2016	December 31, 2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	$ 56,797,730	$ 35,608,919
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities		
Depreciation and Amortization Charged to Expense	43,313,443	55,219,518
Provision for Uncollectible Accounts	135,810	1,770,351
Capital Credits	(1,232,826)	(1,016,171)
Deferral/Accrual/Asset Activity for Pension/Post-Retirement Plans	8,379,731	12,641,894
Payments on Post-Retirement Benefits	(1,967,964)	(1,819,628)
Payments to Defined Benefit Plan	(9,600,000)	(10,200,000)
Changes in Assets and Liabilities:		
Accounts Receivable - Net	9,749,998	(4,283,501)
Accrued Unbilled Revenue	(1,013,817)	2,405,706
Power Cost Adjustments	14,832,130	9,794,226
Materials & Supplies	5,152,642	(142,398)
Prepayments & Other Current Assets	(590,967)	656,452
Deferred Charges & Other Assets	10,586,273	(12,315,950)
Accrued & Accounts Payable	(1,126,233)	(25,954,479)
Member Deposits	175,168	152,094
Accrued Taxes	1,410,069	(647,249)
Accrued Interest	529,657	(1,001,872)
Other Current Liabilities	1,870,075	3,113,041
Other Deferred Credits & Liabilities	(12,375,909)	7,665,390
Net Cash Provided by Operating Activities	$ 125,025,010	$ 71,646,343
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Additions to Property, Plant & Equipment	$ (150,321,192)	$ (112,354,321)
Redemption of Other Investments		14,000,000
Capital Credit Retirements from Associated Organizations	794,953	709,888
Net Cash Used by Investing Activities	$ (149,526,239)	$ (97,644,433)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Long-Term Debt	$ (29,130,944)	$ (28,194,069)
Advances on Long-Term Debt	95,000,000	25,000,000
Retirement of Patronage Capital	(8,729,736)	(8,097,695)
Transfers of Other Equities	44,133	179,097
Increase in Memberships - Net	486,770	392,832
Net Cash Provided (Used) by Financing Activities	$ 57,670,223	$ (10,719,835)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ 33,168,994	$ (36,717,925)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	74,756	36,792,681
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 33,243,750	$ 74,756
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash Paid During the Year for:		
Interest on Long-Term Debt	$ 31,875,889	$ 38,402,398
Patronage Capital Retired by Noncash Discounting	$ 19,711,531	$ 20,376,263
Debt Refinanced in a Noncash Transaction	$ 0	$ 78,200,000

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Pedernales Electric Cooperative, Inc. (the Cooperative) is a non-profit corporation organized to provide electric service at the retail level to primarily residential and commercial accounts in a designated service area. As of December 31, 2016, the Cooperative served approximately 287,420 meters.

Power delivered at retail is purchased wholesale from the Lower Colorado River Authority (LCRA) and other third-party wholesale power suppliers. Any revenues earned in excess of costs incurred are allocated to members of the Cooperative and are reflected as patronage capital on the balance sheet.

Regulatory Accounting

The Cooperative utilizes the Uniform System of Accounts established by the Rural Utilities Service (RUS). In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 980, Regulated Operations, the Cooperative records certain assets and liabilities in accordance with the economic effects of the rate making process.

Utility Plant

Plant is stated at the original cost of construction which includes the cost of contracted services, direct labor, materials, overhead items and capitalized interest. Contributions from others toward the construction of electric plant are credited to the applicable plant accounts.

When property, which represents a retirement unit, is replaced or removed, the average cost of such property as determined from the continuing property records is credited to electric plant and such cost, together with cost of removal less salvage, is charged to the accumulated provision for depreciation.

Maintenance and repairs, including the renewal of minor items of plant not comprising a retirement unit, are charged to the appropriate maintenance accounts, except that repairs of transportation and service equipment are charged to clearing accounts and redistributed to operating expense and other accounts.

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash and short-term investments are considered cash and cash equivalents.

Accounts Receivable

In the normal course of business the Cooperative recognizes accounts receivable for energy delivered and billed. The Cooperative provides a statement with a due date that will not be less than 16 days after the statement date. Payments not received by the due date are considered delinquent.

The Cooperative provides an allowance for uncollectible accounts to recognize the portion of receivables considered uncollectible. The allowance is estimated based on historical trends, aging of receivables, and review of potential bad debts. Accounts remaining unpaid 120 days after the due date of the final bill are written off.

PEDERNALES ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

Unbilled Revenue

At December 31, 2016 and 2015, the Cooperative had $24,083,511 and $23,069,694 of unbilled revenue consisting of its revenue accrued for power delivered but not billed and its revenue accrued attributable to purchased power.

Materials and Supplies Inventory

Materials and supplies inventories are valued at average unit cost.

Electric Revenues

The Cooperative records electric revenues as billed to customers on a monthly basis. Revenue is accrued for power delivered but not billed at the end of each month.

The Cooperative's tariffs for electric service include adjustment clauses under which billings to customers are adjusted to reflect changes in the cost of purchased power. In order to match power cost and related revenues these amounts to be billed to consumers in subsequent periods are included with the revenue accrual described above.

In December 2016, the Cooperative rebated 2016 revenue by applying a $.01561 credit to consumer bills. This resulted in a revenue rebate of approximately $6.1 million. In December 2015, the Cooperative rebated 2015 revenue by applying a $.00560 credit to consumer bills. This resulted in a revenue rebate of approximately $2.2 million.

Federal Income Taxes

The Cooperative is exempt from federal income taxes under Section 501(c)(12) of the Internal Revenue Code. More than 85% of the gross income is collected from members.

The Cooperative follows the “uncertain tax positions” provisions of accounting principles generally accepted in the United States of America. The primary tax position of the Cooperative is its filing status as a tax exempt entity. The Cooperative determined that it is more likely than not that its tax positions will be sustained upon examination by the Internal Revenue Service (IRS) and that all tax benefits are likely to be realized upon settlement with taxing authorities.

The Cooperative files income tax returns in the U.S. federal jurisdiction. The Cooperative is no longer subject to examinations by federal taxing authorities for years before 2013. In 2016 and 2015, the Cooperative did not incur tax related interest or penalties.

Group Concentration of Credit Risk

The Cooperative's headquarters facility is located in Johnson City, Texas. The service area extends into 24 counties in the Central Texas region. The Cooperative records a receivable for electric revenues as billed on a monthly basis. The Cooperative may require a deposit from new members upon connection which is applied to unpaid bills and fees in the event of default. The deposit accrues interest annually and is returned to residential accounts along with accrued interest after one year of prompt payments. As of December 31, 2016 and 2015, deposits on hand totaled $5,890,880 and $5,715,712, respectively.

The Cooperative maintains its cash balances in institutions insured by the Federal Deposit Insurance Corporation (FDIC). The cash balances exceeded applicable insurance coverage at times during 2016 and 2015.

Patronage Capital Certificates

Patronage capital from associated organizations is recorded at the stated amount of the certificate.

Pension Benefit Plans and Other Post-Retirement Benefits

The Cooperative has a defined benefit pension plan (Plan) for employees meeting eligibility requirements. In 2005, the Plan was amended to close entry to new participants after January 1, 2006. The benefit is based on years of service and the average of the employee's highest 36 months of compensation. The Cooperative also has a defined contribution (401(k) Plan) for employees eligible to participate.

The Cooperative also sponsors a health care plan for retirees who satisfy eligibility requirements. The cost of the Cooperative's obligation is actuarially determined based on certain weighted-average assumptions.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Assets Pledged

Substantially all assets are pledged as security for the long-term debt due to Bank of New York (BONY) and National Rural Utilities Cooperative Finance Corporation (CFC).

3. Utility Plant

The major classes of utility plant are as follows:

	December 31, 2016	December 31, 2015
Transmission Plant	$ 100,303,273	$ 102,537,684
Distribution Plant	1,344,293,316	1,258,670,132
General Plant	146,847,701	126,600,078
Total Utility Plant in Service	$ 1,591,444,290	$ 1,487,807,894
Construction Work in Progress	58,035,313	61,833,058
Total Utility Plant	$ 1,649,479,603	$ 1,549,640,952

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

	2016	2015
Transmission Plant	1.74% - 2.02%	2.75%
Distribution Plant	1.85% - 20.00%	2.05% - 20.00%
General Plant	2.50% - 20.00%	2.50% - 20.00%

Depreciation for the years ended December 31, 2016 and 2015, was $46,099,629 and $57,436,883, respectively, of which $43,048,303 and $54,533,299 was charged to depreciation expense and $3,051,326 and $2,903,584 was allocated to other accounts. Depreciation rates on transmission and distribution plant were changed effective January 1, 2016 based on a depreciation study conducted by an independent consulting firm. General plant rates will be updated in 2017.

4. Investments in Associated Organizations

Investments in associated organizations consisted of:

	December 31,	
	2016	2015
CFC		
Capital Term Certificates	$ 4,887,296	$ 4,887,296
Patronage Capital	4,054,246	3,614,457
Texas Electric Cooperative		
Patronage Capital	2,869,254	2,992,557
Other	368,251	246,864
	$ 12,179,047	$ 11,741,174

5. Materials and Supplies Inventory

Materials and supplies inventories consist of construction materials and supplies. The ending balances for materials and supplies at December 31, 2016 and 2015 were $22,423,471 and $27,576,113, respectively.

6. Deferred Charges and Other Assets

Deferred charges and other assets included the following:

	December 31, 2016	December 31, 2015
Regulatory Asset - Defined Benefit Plan	$ 64,183,498	$ 58,626,574
Debt Application Costs	45,045	30,000
Regulatory Asset - LCRA FPCRF	2,664,786	6,975,344
Regulatory Asset - GIS Inventory	5,740,200	9,294,924
Regulatory Asset - Facility Costs		2,628,633
LCRA Radio Services	919,144	1,026,817
	$ 73,552,673	$ 78,582,292

The Cooperative recognizes a regulatory asset for the portion of its pension and other post-retirement benefit plans that has not been recognized as a component of net periodic pension and other post-retirement benefit costs. Accordingly, no amounts have been recorded in other comprehensive income. The unrecognized portion is being amortized into pension and other post-retirement benefit costs over the average future service of current active plan participants expected to receive benefits.

The LCRA fuel & power cost recovery factor (FPCRF) represents the amount that the Cooperative will be billed by LCRA in future periods for electricity previously purchased. Since this amount will be collected from members in the future through the power cost adjustment (PCA), it is classified as a regulatory asset. A corresponding liability is also recorded for the same amount.

The GIS Inventory regulatory asset represents the deferral of costs incurred by the Cooperative in performing a GPS survey and field inventory of the transmission and distribution system. The deferral of the cost through the ratemaking process was approved by the Cooperative's Board of Directors and will be recovered over a period of up to 15 years. Amortization in 2016 and 2015 was $2,772,766 and $418,306, respectively.

The Facility Costs regulatory asset represents the deferral of the facility repair expenses that were incurred as a result of the Facility Assessment Study. The Study recommended significant and costly repairs and renovations to the Cooperative's facilities. The deferral of the cost through the ratemaking process was approved by the Cooperative's Board of Directors and will be recovered over a period of up to 10 years. It is fully amortized at December 31, 2016. Amortization in 2016 and 2015 was $2,628,633 and $995,351, respectively.

The Cooperative has an agreement in place to utilize LCRA's trunked radio system in the Junction district. The associated costs were paid upon initiation of the agreement. The costs have been capitalized and are being amortized over the contract term, which ends in August 2020.

7. Patronage Capital and Other Equities

Patronage capital represents the Cooperative's accumulated retained net margins that have been allocated annually to its members. Distributions to members are made at the discretion of the Board of Directors in accordance with the bylaws, subject to the covenants contained in the long-term debt agreements.

The loan agreements contain provisions that must be met for the Cooperative to make patronage capital retirements. These provisions include maintaining debt service coverage ratios of 1.15 for the BONY bonds and 1.35 for CFC debt. The Cooperative is in compliance with these provisions at December 31, 2016 and 2015.

Under certain circumstances, the Board of Directors may choose to retire patronage capital earlier than the Cooperative's current approximate 30 year retirement schedule. In these instances, the Cooperative retires and pays the net present value of patronage capital to a member or former member before the time the Cooperative anticipates normally retiring and paying patronage capital.

Patronage capital totaling $8,685,603 and $8,097,695 was distributed to members during 2016 and 2015, respectively.

Patronage capital assigned and assignable at December 31, 2016 and 2015, is as follows:

	December 31, 2016	December 31, 2015
Assigned to Date	$ 591,603,865	$ 553,588,934
Assignable	79,867,118	61,084,319
	$ 671,470,983	$ 614,673,253
Less: Retirements to Date	97,534,634	88,849,031
Less: Discounted Patronage Capital to Permanent Equity	171,729,563	152,018,032
	$ 402,206,786	$ 373,806,190

The Cooperative's bylaws provide that amounts received by the Cooperative in excess of costs and expenses shall, insofar as permitted by law, (a) be used to offset any losses incurred during the current or any prior fiscal year and, (b) to the extent not needed for that purpose, be allocated to its members on a patronage basis.

Other equities at December 31, 2016 and 2015, are as follows:

	December 31, 2016	December 31, 2015
Discounted Capital Credits	$ 171,729,563	$ 152,018,032

8. Long-Term Debt

At December 31, 2016 and 2015, long-term debt consisted of the following:

	December 31, 2016	December 31, 2015
First Mortgage Bonds, 2002 Series A; 5.952%; due 2022 Interest Payable Semi-Annually on May 15 and November 15;	$ 85,980,000	$ 97,655,000
First Mortgage Bonds, 2002 Series A; 6.202%; due 2032 Interest Payable Semi-Annually on May 15 and November 15; Principal Payments Begin 2023	239,500,000	239,500,000
CFC Loan; 3.85%; due 2043 Interest and Principal Payable Quarterly Principal Payments Began 2012	211,957,535	216,645,843
CFC Loan; 3.95%; due 2045 Interest and Principal Payable Quarterly Principal Payments Began 2016	24,663,070	25,000,000
CFC Loan; 2.75%; due 2020 Interest and Principal Payable Quarterly Principal Payments Began 2016	66,519,294	78,200,000
CFC Loan; 3.80%; due 2046 Interest and Principal Payable Quarterly Principal Payments Begin 2017	80,000,000	
Chase Loan; 2.50%; due 2021 Interest and Principal Payable Quarterly Principal Payments Began 2016	14,250,000	
Less: Bond Issue Costs	(2,984,112)	(3,249,252)
	$ 719,885,787	$ 653,751,591
Less: Current Maturities	38,125,868	28,380,995
Total Long-Term Debt	$ 681,759,919	$ 625,370,596

In prior years the Cooperative had reported debt issuance costs as a deferred charge in the balance sheet and amortization of such costs in the income statement as a component of interest expense. To comply with new GAAP presentation requirements, in 2016 the Cooperative began reporting such costs as a direct deduction from the face amount of the related debt (as shown in the table above) and reclassified prior year amounts. The change did not affect member's equity.

The Cooperative has $86,800,000 available on long-term loan commitments from CFC. These loans are available for drawdown through 2019.

The Cooperative has $100,000,000 available on long-term loan commitments from CoBank.

At December 31, 2016, the Cooperative has a loan application pending with RUS in the amount of $68,180,000.

Annual maturities of long-term debt for the next five years and thereafter are as follows:

2017	$	38,125,868
2018		40,320,144
2019		41,067,118
2020		42,647,869
2021		24,986,463
Thereafter		535,722,437

9. Short-Term Borrowing

The Cooperative has a line of credit at a variable interest rate with CFC not to exceed $100,000,000. There was no balance outstanding at December 31, 2016 and 2015. The line of credit agreement requires the Cooperative to pay down the balance to zero annually and automatically renews unless either party gives a 90 day notice.

The Cooperative has a line of credit at a variable interest rate with CoBank not to exceed $200,000,000. There was no balance outstanding at December 31, 2016 and 2015.

10. Deferred Credits

Deferred credits include the following:

	December 31,			
		2016		2015
Patronage Capital - Pre-Escheat	$	8,160,716	$	8,250,767
Regulatory Liability - LCRA FPCRF		2,951,190		15,237,048
Post-Retirement Medical Benefits Regulatory Liability		23,791,781		22,813,682
Unclaimed Property Payable		15,060		15,060
	$	34,918,747	$	46,316,557

The patronage capital pre-escheat component represents unclaimed patronage capital checks that do not meet escheat criterion. The liability is recorded as unclaimed patronage capital as the checks are voided. As the funds are claimed or reach escheat status, the liability is reduced.

During 2016 and 2015, the Cooperative realized a gain for post-retirement medical benefits. The Cooperative recognized a regulatory liability for the net amount of the unrecognized gain.

11. LCRA Fuel & Power Cost Recovery Factor (FPCRF)

The Fuel and Power Cost Recovery Factor represents over or under-recovered cost adjustments for electricity purchased from LCRA. During 2016, there were two components of the FPCRF that were recorded. The amount under-recovered by LCRA as of June 30, 2016 was recorded separately from the adjustments that occurred from July 1, 2016 – December 31, 2016.

The FPCRF activity that occurred from July 1, 2016 – December 31, 2016 represents an over-recovery by LCRA of $2,664,786, which is classified as a receivable on the balance sheet.

12. Commitments and Contingencies

Power Supply Contracts

The Cooperative entered into contracts for the purchase and delivery of electric energy to satisfy its electric energy requirements. In 2016 and 2015, the Cooperative purchased energy from the Lower Colorado River Authority (LCRA) and other third party wholesale power suppliers. LCRA was the primary wholesale electric energy supplier, while the other suppliers provided electric energy to serve a portion of the electric energy requirements for the Cooperative’s delivery points within LCRA’s service territory and the full electric energy requirements for delivery points outside of LCRA’s service territory. All of the electric energy purchased by the Cooperative is procured through term contracts of varying durations. As these terms expire, they may or may not be replaced with new agreements.

Transmission Lease Contracts

LCRA leases and operates certain transmission facilities and equipment owned by the Cooperative. Payments for the leased facilities vary from year to year and are based on the original cost of the facilities, adjusted for depreciation, and are updated annually to reflect additions, retirements and depreciation. The terms of the lease are perpetual, but may be terminated by LCRA or the Cooperative upon five years written notice. The Cooperative’s transmission lease revenues totaled $5,846,710 and $5,138,308 in 2016 and 2015, respectively.

Litigation

The Cooperative may be involved in various claims and litigation arising in the normal course of business. Although management is unable to predict the outcome of such proceedings, management and the Cooperative's legal counsel do not believe that the resolution of any claims or litigation involving the Cooperative will have a material adverse effect on the Cooperative's results of operations and financial condition.

13. Pension Benefits

The Cooperative has a defined benefit plan covering eligible employees. The cost of the plan is determined by an independent actuary and is funded in amounts sufficient to meet the minimum funding requirements under applicable regulations.

Contributions paid to the defined benefit plan for the years ended December 31, 2016 and 2015, were $9,600,000 and $10,200,000, respectively.

The measurement date used for the current valuation is December 31, 2016.

The following weighted-average assumptions were used to develop the accumulated post-retirement benefit obligation for 2016 and 2015:

	2016	2015
Discount Rate	4.15%	4.40%
Rate of Compensation Increase	4.84%	4.00%

NOTES TO FINANCIAL STATEMENTS

The following weighted-average assumptions were used to determine the net benefit cost for 2016 and 2015:

	2016	2015
Discount Rate	4.40%	4.10%
Rate of Compensation Increase	4.00%	4.16%
Expected Long-Term Return on Plan Assets	6.50%	6.50%

Amounts recognized in the Cooperative's financial statements and funded status of the plan are as follows:

		December 31, 2016	December 31, 2015
I)	Net Periodic Benefit Cost		
	Service Cost	$ 5,043,651	$ 5,312,209
	Interest Cost	8,972,846	8,280,035
	Amortization	5,054,789	4,462,282
	Return on Assets	(10,188,686)	(10,241,908)
		$ 8,882,600	$ 7,812,618
II)	Projected Benefit Obligation (PBO) Reconciliation:		
	PBO Balance at Beginning of Year	$ 207,835,865	$ 205,584,993
	Actuarial (Gain)/Loss	11,170,806	(4,189,883)
	Interest Cost/Service Cost	14,016,497	13,592,244
	Benefits Paid	(7,567,093)	(7,151,489)
	Projected Benefit Obligation at Year End	$ 225,456,075	$ 207,835,865
III)	Reconciliation of Funded Status		
	Projected Benefit Obligation	$ 225,456,075	$ 207,835,865
	Fair Value of Assets	168,719,379	155,938,693
	Funded Status at Year End	$ (56,736,696)	$ (51,897,172)
IV)	Accumulated Other Comprehensive Loss		
	Actuarial Loss - Beginning of Year	$ 58,626,574	$ 56,059,210
	Amortization of Loss/Remeasurement	(5,054,789)	(4,462,282)
	Actuarial (Gain)/Loss	10,611,713	7,029,646
	Other Comprehensive Loss	$ 64,183,498	$ 58,626,574

The accumulated benefit obligation for the plan was $197,851,561 and $186,242,484 at December 31, 2016 and 2015, respectively.

Plan Asset Information

Information related to fair value hierarchy measurements are disclosed in Note 16. The defined benefit plan asset fair value measurements are substantially Level 1.

Fair value of plan assets at December 31, 2016 and 2015 and asset allocation follows:

	December 31, 2016	December 31, 2015
Cash and Cash Equivalents	$ 5,223,794	$ 2,040,637
Government Agencies, Bonds and Notes	63,436,373	59,073,500
Mutual Funds	85,444,912	81,841,441
Other	14,614,300	12,983,115
Total	$ 168,719,379	$ 155,938,693

	December 31, 2016	December 31, 2015
Mutual Funds and Equity Securities	51%	52%
Debt Securities	38%	38%
Other	11%	10%
Total	100%	100%

Benefit payments for the next ten years are estimated as follows:

2017	$ 8,095,241
2018	8,540,626
2019	8,994,446
2020	9,581,433
2021	10,160,004
2022-2026	61,269,495

The estimated 2017 plan year minimum required contribution is $9,000,000.

The Cooperative has a defined contribution plan (401(k) plan) for employees that are eligible to participate. For employees that are also eligible to participate in the defined benefit plan, the maximum contribution is six percent of the employee's base annual salary. For employees not eligible for the defined benefit plan, the 401(k) plan contribution cost is a maximum of ten percent of the employee's base annual salary. These costs are funded each pay period as accrued. The Cooperative's contributions to the 401(k) plan (net of forfeitures) were $3,791,971 and $3,680,184 in 2016 and 2015, respectively.

14. Post-Retirement Benefits Other than Pensions

The Cooperative provides post-retirement medical benefits for eligible employees through a plan with a third-party insurance provider. For purposes of this statement, the written plan in effect is the substantive plan and is considered a defined benefit plan. The Cooperative contributes varying amounts dependent on retirement date, age, and years of service.

Benefits are paid on behalf of retirees and are a function of medical insurance costs and number of retirees. Benefits paid (excluding reimbursements) for the years ended December 31, 2016 and 2015, were $2,195,755 and $2,067,512, respectively.

The Cooperative's policy for contributions is to contribute the amount of the current benefits in that year.

The measurement date used for the current valuation is December 31, 2016.

The weighted-average discount rate used to develop the accumulated post-retirement benefit obligation for the years ended December 31, 2016 and 2015, were 4.05% and 4.40%, respectively. The assumed health care cost trend rate is 8.00% percent for 2016, declining to an ultimate level of 5.00% over ten years.

Amounts recognized in the Cooperative's financial statements and funded status of the plan are as follows:

	December 31, 2016	December 31, 2015
I) Net Post-Retirement Benefit Cost		
Service Cost	$ 478,080	$ 1,246,396
Interest Cost	2,163,769	2,972,836
Amortization	(3,144,718)	610,494
	$ (502,869)	$ 4,829,726
II) Accumulated Post-Retirement Benefit Obligation (APBO) Reconciliation:		
APBO Balance at Beginning of Year	$ 55,988,670	$ 74,755,462
Actuarial (Gain)/Loss	(4,122,817)	(21,165,946)
Interest Cost / Service Cost	2,641,849	4,218,782
Employer Contributions Net of Participant Amounts	(1,967,964)	(1,819,628)
Net Post-Retirement Benefit Liability at Year End	$ 52,539,738	$ 55,988,670
III) Reconciliation of Funded Status		
APBO	$ 52,539,738	$ 55,988,670
Accrued Post-Retirement Benefit Cost	$ 52,539,738	$ 55,988,670
IV) Accumulated Other Comprehensive Items		
Actuarial Loss/(Gain) - Beginning of Year	$ (22,813,682)	$ (1,037,242)
Amortization	3,144,718	(610,494)
Current Year Net (Gain)/Loss	(4,122,817)	(21,165,946)
Other Comprehensive (Gain)/Loss	$ (23,791,781)	$ (22,813,682)

The estimated actuarial loss for the post-retirement medical benefit plan that will be amortized from accumulated other comprehensive income into net post-retirement benefit cost over the next fiscal year is expected to be a gain of $2,455,339.

The Cooperative has not funded any plan assets as of December 31, 2016 or 2015.

Estimated future benefit payments for the next ten years are as follows:

2017	$	2,267,019
2018		2,416,566
2019		2,595,385
2020		2,719,170
2021		2,884,348
2022-2026		15,429,447

15. Recently Issued Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update 2016-02, Leases. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be clarified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The new standard is effective for nonpublic entities for fiscal years beginning after December 15, 2019. The Cooperative is evaluating the impact of the new standard on the financial statements.

16. Disclosures About Fair Value of Financial Instruments

Many of the Cooperative's financial instruments lack an available market with similar terms, conditions, and maturities as those reflected in the carrying amount recorded. Accordingly, significant assumptions, estimations, and present value calculations were used for purposes of this disclosure.

Estimated Fair Value has been determined by calculating the present value of financial instruments using the best data available.

Fair Value for some amounts carried on the financial statements has not been calculated for the following reasons:

Patronage Capital from Associated Organizations – The right to receive cash is an inherent component of a financial instrument. The Cooperative holds no right to receive cash since any payments are at the discretion of the governing body for the associated organizations. As such, Patronage Capital from Associated Organizations is not considered financial instruments.

CFC Capital Term Certificates and Member Capital Securities – It is not practicable to estimate fair value for these financial instruments given the lack of a market and their long holding period. Relevant information with respect to these is as follows:

	AMOUNT	INTEREST RATE	MATURITY
$	960,968	3.00%	2020-2030
	1,715,690	0.00%	2043
	2,210,638	5.00%	2070-2080

Cash and Short-Term Investments - The recorded book value approximates fair value given the short period to maturity.

Long-Term Debt - Estimated by computing the present value by individual note to maturity, using currently quoted or offered rates for similar issues of debt. The year-end CFC fixed interest rate for long-term debt was used in the calculation for all fixed rate long-term debt. These are the only financial instruments of the Cooperative that have a difference in Fair Value and Carrying Value.

The carrying values of the Cooperative's financial instruments and debt and the estimated fair values are as follows:

	December 31, 2016		December 31, 2015	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Assets:				
Cash and Cash Equivalents	$ 33,243,750	$ 33,243,750	$ 74,756	$ 74,756
Short-Term Investments	-	-	-	-
Long-Term Investments	-	-	-	-
Patronage Capital and Capital Term Certificates	12,179,047	12,179,047	11,741,174	11,741,174
Liabilities:				
Long-Term Debt	722,869,899	650,487,273	657,000,843	619,291,348

Fair Value Hierarchy

The Fair Value Measurements Topic of the FASB Accounting Standards Codification establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 - inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Cooperative has the ability to access at the measurement date.

Level 2 - inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - inputs are unobservable inputs for the asset or liability.

Long-Term Debt valuations are considered Level 2.

17. Subsequent Events

The Cooperative has evaluated subsequent events through April 6, 2017, the date which the financial statements were available to be issued.

COMPLIANCE SECTION

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

Board of Directors
Pedernales Electric Cooperative, Inc.
Johnson City, Texas

We have audited, in accordance with auditing standards generally accepted in the United States of America, the balance sheets of Pedernales Electric Cooperative, Inc. (the Cooperative) as of December 31, 2016 and 2015, and the related statements of income and patronage capital and cash flows for the years ended, and have issued our report thereon dated April 6, 2017.

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

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

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

April 6, 2017

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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*

Independent Auditor's Report

Board of Directors
Pedernales Electric Cooperative, Inc.
Johnson City, 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 Pedernales Electric Cooperative, Inc. (the Cooperative), which comprise the balance sheet as of December 31, 2016 and the related statement of income, comprehensive income and 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 6, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Pedernales Electric Cooperative, Inc.'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 on the effectiveness of Pedernales Electric Cooperative, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Pedernales Electric Cooperative, Inc.'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 a 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 internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in 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 consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pedernales Electric Cooperative, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters 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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

April 6, 2017

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REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Independent Auditor's Report

Board of Directors
Pedernales Electric Cooperative, Inc.
Johnson City, Texas

Report on Compliance for Each Major Federal Program

We have audited Pedernales Electric Cooperative, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each Pedernales Electric Cooperative, Inc.'s major federal programs for the year ended December 31, 2016. Pedernales Electric Cooperative, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Pedernales Electric Cooperative, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Pedernales Electric Cooperative, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Pedernales Electric Cooperative, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Pedernales Electric Cooperative, Inc. 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, 2016.

Report on Internal Control over Compliance

Management of Pedernales Electric Cooperative, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Pedernales Electric Cooperative, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Pedernales Electric Cooperative, Inc.'s 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 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

April 6, 2017

FEDERAL FINANCIAL ASSISTANCE SECTION

PEDERNALES ELECTRIC COOPERATIVE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2016

I. Summary of Auditor's Results

Financial Statements:

Type of Auditor's report issued on the financial statements: **Unmodified**

Internal Control over Financial Reporting

Significant Deficiencies: **None Reported**

Material Weaknesses: **No**

Noncompliance which is material to the financial statements: **No**

Federal Awards:

Type of Auditor's report on compliance for major programs: **Unmodified**

Internal Control over Major Federal Programs

Significant Deficiencies: **None Reported**

Material Weaknesses: **No**

Did the audit disclose findings which are required to be reported under 2 CFR 200.516(a): **No**

Major programs include:

97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)

Dollar threshold used to distinguish between Type A and Type B programs: **$750,000**
Low risk auditee: **No**

II. Financial Statement Findings

None Reported.

III. Federal Award Findings and Questioned Costs

None Reported.

PEDERNALES ELECTRIC COOPERATIVE, INC.

SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016

Federal Grantor/Pass-Through Grantor/Program Title	Pass-Through Entity Identifying Number	Federal CFDA Number	Total Federal Expenditures	Amount Passed Through to Subrecipient
FEDERAL AWARDS				
U.S. Department of Homeland Security				
Federal Emergency Management Agency Passed through the Texas Division of Emergency Management				
Public Assistance (Presidentially Declared Disasters)	4223-00542	97.036	$ 7,777	$ -
Public Assistance (Presidentially Declared Disasters)	4223-02115	97.036	1,760,128	
Total Department of Homeland Security and Federal Awards			$ 1,767,905	$ -

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A—BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (SEFA) includes the federal grant activity of Pedernales Electric Cooperative, Inc. (the Cooperative) and is presented on the accrual basis of accounting. 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 SEFA presents only a selected portion of the operations of the Cooperative, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Cooperative.

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the SEFA are reported on the accrual basis of accounting. Such 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.

NOTE C—SEFA AMOUNTS EXPENDED IN PRIOR YEARS

Public Assistance Grant expenditures in the amount of $1,767,905 were included in the SEFA for the year ended December 31, 2016 that were expended in the year ended December 31, 2015.