

**BLACK RIVER ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY  
SUMTER, SOUTH CAROLINA**

**CONSOLIDATED FINANCIAL STATEMENTS AS OF  
DECEMBER 31, 2017 AND 2016 AND  
INDEPENDENT AUDITOR'S REPORT**

## BLACK RIVER ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

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March 14, 2018

**INDEPENDENT AUDITOR'S REPORT**

The Board of Trustees  
Black River Electric Cooperative, Inc.

**Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of **Black River Electric Cooperative, Inc. and Subsidiary** (the Cooperative), which comprise the consolidated balance sheets as of December 31, 2017 and 2016 and the related consolidated statements of operations, changes in members' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Cooperative's preparation and fair presentation of the consolidated 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 Cooperative'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Black River Electric Cooperative, Inc. and Subsidiary as of December 31, 2017 and 2016 and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Other 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 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 March 14, 2018 on our consideration of Black River Electric Cooperative, Inc. and Subsidiary'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 solely 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 effectiveness of the Cooperative's 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 Black River Electric Cooperative, Inc. and Subsidiary's internal control over financial reporting and compliance.

*McNair, McLemore, Middlebrooks & Co., LLC*  
McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC

**BLACK RIVER ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31**

**ASSETS**

	<b>2017</b>	<b>2016</b>
<b>Utility Plant</b>		
Electric Plant in Service - At Cost	\$ <b>129,841,513</b>	\$ 126,690,687
Construction Work in Progress	<b>28,093</b>	22,820
	<b>129,869,606</b>	126,713,507
Accumulated Depreciation	<b>(58,116,979)</b>	(56,134,499)
	<b>71,752,627</b>	70,579,008
<b>Other Property and Investments</b>		
Investments in Associated Organizations	<b>5,221,409</b>	4,995,844
Nonutility Property	<b>1,203,651</b>	2,483,957
Notes Receivable	<b>324,910</b>	313,375
Other Investments	<b>1,194,762</b>	1,167,210
	<b>7,944,732</b>	8,960,386
<b>Current Assets</b>		
Cash and Cash Equivalents	<b>4,735,530</b>	7,428,047
Accounts Receivable (Net of Accumulated Provision for Uncollectible Accounts of \$365,457 in 2017 and \$322,232 in 2016)	<b>4,722,758</b>	5,188,152
Notes Receivable - Current Portion	<b>45,553</b>	40,287
Materials and Supplies	<b>556,395</b>	506,421
Other	<b>5,095,882</b>	5,101,362
	<b>15,156,118</b>	18,264,269
<b>Total Assets</b>	<b>\$ 94,853,477</b>	\$ 97,803,663

See accompanying notes which are an integral part of these financial statements.

**BLACK RIVER ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31**

**MEMBERS' EQUITY AND LIABILITIES**

	<b>2017</b>	<b>2016</b>
<b>Members' Equity</b>		
Membership Fees	\$ 132,765	\$ 131,335
Patronage Capital	67,686,739	67,800,377
Other Equities	5,687,972	5,176,888
	<b>73,507,476</b>	<b>73,108,600</b>
<b>Long-Term Debt</b>	<b>5,950,000</b>	<b>7,750,000</b>
<b>Other Long-Term Liabilities - Deferred Compensation</b>	<b>717,880</b>	<b>698,116</b>
<b>Current Liabilities</b>		
Long-Term Debt - Current Portion	1,800,000	1,800,000
Other Long-Term Liabilities		
Deferred Compensation - Current Portion	154,011	146,224
Accounts Payable	5,679,012	5,303,085
Consumer Deposits	2,976,838	2,896,362
Accrued and Withheld Taxes	591,188	654,729
Other	173,192	154,332
	<b>11,374,241</b>	<b>10,954,732</b>
<b>Deferred Credits</b>	<b>3,303,880</b>	<b>5,292,215</b>
<b>Total Members' Equity and Liabilities</b>	<b>\$ 94,853,477</b>	<b>\$ 97,803,663</b>

See accompanying notes which are an integral part of these financial statements.

**BLACK RIVER ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE YEARS ENDED DECEMBER 31**

	2017	2016
<b>Operating Revenues</b>	<b>\$ 76,653,419</b>	<b>\$ 77,322,144</b>
<b>Operating Expenses</b>		
Cost of Power	55,563,193	54,862,381
Distribution Operations	3,605,664	3,571,480
Distribution Maintenance	2,443,270	2,730,323
Consumer Accounts	1,761,735	1,639,694
Consumer Service and Information	156,997	332,263
Administrative and General	3,812,739	3,643,275
Depreciation	4,235,584	4,155,379
Taxes	527,285	549,805
	<b>72,106,467</b>	<b>71,484,600</b>
<b>Operating Margins Before Interest Expense</b>	<b>4,546,952</b>	<b>5,837,544</b>
<b>Interest Expense</b>	<b>248,622</b>	<b>300,673</b>
<b>Operating Margins After Interest Expense</b>	<b>4,298,330</b>	<b>5,536,871</b>
<b>Nonoperating Margins</b>	<b>150,740</b>	<b>131,426</b>
<b>Generation and Transmission Cooperative Capital Credits</b>	<b>126,932</b>	<b>147,764</b>
<b>Other Capital Credits and Patronage Capital Allocations</b>	<b>150,093</b>	<b>230,593</b>
<b>Net Margins</b>	<b>\$ 4,726,095</b>	<b>\$ 6,046,654</b>

See accompanying notes which are an integral part of these financial statements.

**BLACK RIVER ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<b>Total Members' Equity</b>	<b>Membership Fees</b>	<b>Patronage Capital</b>	<b>Other Equities</b>
<b>Balance, December 31, 2015</b>	\$ 70,680,360	\$ 130,675	\$ 65,817,537	\$ 4,732,148
Net Margins	6,046,654	-	5,926,140	120,514
Retirement of Patronage Capital	(3,784,734)	-	(3,784,734)	-
Membership Fees	660	660	-	-
Other	165,660	-	(158,566)	324,226
<b>Balance, December 31, 2016</b>	73,108,600	131,335	67,800,377	5,176,888
Net Margins	4,726,095	-	4,628,587	97,508
Retirement of Patronage Capital	(4,648,787)	-	(4,648,787)	-
Membership Fees	1,430	1,430	-	-
Other	320,138	-	(93,438)	413,576
<b>Balance, December 31, 2017</b>	<b>\$ 73,507,476</b>	<b>\$ 132,765</b>	<b>\$ 67,686,739</b>	<b>\$ 5,687,972</b>

See accompanying notes which are an integral part of these financial statements.



**BLACK RIVER ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31**

	2017	2016
<b>Cash Flows from Operating Activities</b>		
Net Margins	\$ 4,726,095	\$ 6,046,654
Adjustments to Reconcile Net Margins to Net Cash Provided from Operating Activities		
Depreciation	4,649,274	4,472,408
Patronage Capital from Associated Organizations	(356,472)	(437,661)
Loss on Sale of Nonutility Property	47,824	-
Deferred Revenue	(962,350)	-
<b>Change In</b>		
Accounts Receivable	465,394	(1,043,120)
Other Current Assets	5,480	29,488
Other Long-Term Liabilities - Deferred Compensation	27,551	(35,295)
Accounts Payable	375,927	999,721
Consumer Deposits	80,476	40,381
Other Current Liabilities	(44,681)	(105,402)
Deferred Credits	213	(131,714)
	<b>9,014,731</b>	<b>9,835,460</b>
<b>Cash Flows from Investing Activities</b>		
Extension and Replacement of Plant	(5,816,609)	(4,654,132)
Return of Equity from Associated Organizations	130,907	171,723
Materials and Supplies	(49,974)	(86,786)
Sale of Nonutility Property	200,000	-
Notes Receivable	(16,802)	(40,460)
Other Investments	(27,551)	35,295
	<b>(5,580,029)</b>	<b>(4,574,360)</b>
<b>Cash Flows from Financing Activities</b>		
Principal Repayment of Long-Term Debt	(1,800,000)	(1,800,000)
Membership Fees	1,430	660
Retirement of Patronage Capital	(4,648,787)	(3,784,734)
Other Equities	320,138	165,660
	<b>(6,127,219)</b>	<b>(5,418,414)</b>
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(2,692,517)</b>	<b>(157,314)</b>
<b>Cash and Cash Equivalents - Beginning</b>	<b>7,428,047</b>	<b>7,585,361</b>
<b>Cash and Cash Equivalents - Ending</b>	<b>\$ 4,735,530</b>	<b>\$ 7,428,047</b>

See accompanying notes which are an integral part of these financial statements.

# **BLACK RIVER ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

### **(1) Summary of Significant Accounting Policies**

Accounting policies of Black River Electric Cooperative, Inc. (BRECI) reflect practices appropriate to the electric utility industry. The records of BRECI are maintained in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission. Accounting policies of the subsidiary reflect practices appropriate to the industrial real estate development industry. The accounting policies conform to generally accepted accounting principles of the United States of America (U.S. GAAP). The following describes the more significant of those policies.

#### ***Nature of Operations***

BRECI is a member-owned, not-for-profit Cooperative whose purpose is to provide electric service to its members. As a cooperative, all monies in excess of cost of providing electric service are capital, at the moment of receipt, and are credited to each member's capital account. BRECI's wholly-owned subsidiary, Black River Economic Development Cooperative (BREDC), is a for-profit Cooperative whose purpose is to foster economic development by developing and selling industrial and commercial real estate.

#### ***Consolidation***

The consolidated financial statements include the accounts and results of operations of BRECI and its wholly-owned subsidiary, BREDC. Intercompany transactions have been eliminated in consolidation. BRECI and BREDC are collectively known as the Cooperative.

#### ***Regulated Operations***

The Cooperative, in its rate-making capacity, has the ability to account for certain revenue and expense deferrals in accordance with *Accounting Standards Codification (ASC) 980*.

#### ***Use of Estimates***

The preparation of financial statements in conformity with U.S. GAAP 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### ***Long-Lived Assets***

The Cooperative evaluates long-lived assets for impairment when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The determination of whether an impairment has occurred is based on either a specific regulatory disallowance or an estimate of undiscounted future cash flows attributable to the assets, as compared with the carrying value of the assets. If an impairment has occurred, the amount of the impairment recognized is determined by estimating the fair value of the assets and recording a provision for loss if the carrying value is greater than the fair value.

## **(1) Summary of Significant Accounting Policies (Continued)**

### ***Long-Lived Assets (Continued)***

For assets identified as held for sale, the carrying value is compared to the estimated fair value less the cost to sell in order to determine if an impairment provision is required. Until the assets are disposed of, their estimated fair value is reevaluated when circumstances or events change.

U.S. GAAP requires the present value of the ultimate cost for an asset's future retirement be recorded in the period in which the liability is incurred. The cost should be capitalized as part of the related long-lived asset and depreciated over the asset's useful life. The Cooperative has no legal retirement obligations related to its distribution facilities; therefore, a liability for the removal of these assets will not be recorded. Management believes the actual cost of removal, even though not a legal obligation, will be recovered through rates over the life of the distribution assets.

### ***Utility Plant***

Utility plant is capitalized at cost less related contributions in aid of construction. In general, utility plant is capitalized at the time it becomes part of an operating unit and has been energized. However, certain items of plant referred to as special equipment items (meters, transformers, oil circuit reclosers, etc.) are capitalized at the time of purchase along with related estimated cost of installation.

### ***Depreciation and Maintenance***

Depreciation of the capitalized cost is provided using composite straight-line rates. When property subject to depreciation is retired or otherwise disposed of in the normal course of business, its capitalized cost and its cost of removal less salvage are charged to accumulated depreciation.

Provision has been made for depreciation of distribution plant at a straight-line composite rate of 3.4 percent per annum with the exception of automated meters. Automated meters are depreciated based on the manufacturer's useful life which equates to 6.67 percent per annum.

Depreciation of general plant is provided on a straight-line basis over the estimated useful lives of the various assets. The rates range from 2.5 to 33.0 percent per annum.

### ***Investments in Associated Organizations***

Investments in associated organizations primarily include investments in other cooperative organizations. Investments in other cooperative organizations represent capital investments made primarily to obtain an economical source of supply, financing, product or service. Investments in other cooperative organizations are carried at cost plus allocated equities in accordance with guidance issued in ASC 905-325-30. Capital credit allocations from associated organizations are included on the consolidated statements of operations as "generation and transmission cooperative capital credits" and "other capital credits and patronage capital allocations."

## **(1) Summary of Significant Accounting Policies (Continued)**

### ***Accounts Receivable and Credit Policies***

Accounts receivable are stated at the amount billed to the consumer. Once an electric consumer's service is shut off and the account is approximately 60 days past due, the Cooperative writes off the associated accounts receivable. An allowance is made for doubtful accounts based on experience and other circumstances which may affect the ability of consumers to meet their obligations. Accounts considered uncollectible are charged against the allowance. Receivables are reported on the consolidated balance sheets net of such accumulated allowance.

### ***Cash Equivalents***

Cash equivalents include time deposits, certificates of deposit and all highly liquid debt instruments with original maturities of three months or less.

### ***Materials and Supplies***

Materials and supplies are generally used for construction and for operation and maintenance work, and are not for resale. Cost is determined by the moving average method of inventory valuation. Materials and supplies are charged to construction or operations at moving average cost when used.

### ***Equities and Margins***

The Cooperative is organized and operates under the cooperative form of organization. As such, patronage capital or margins are allocated to patrons on the basis of individual consumption of electric energy. Under provisions of the long-term debt agreement, until the total equities and margins equal or exceed 40 percent of the total assets of the Cooperative, the return to patrons of capital contributed by them is limited. The Cooperative's equities were 77.49 and 74.75 percent of total assets as of December 31, 2017 and 2016, respectively.

### ***Patronage Capital***

Patronage capital represents the Cooperative's accumulated retained excess of revenues over expenses that has been allocated annually to its members. Distributions to members are made at the discretion of the board of trustees in accordance with the bylaws and rotation cycle established by the board of trustees and are subject to the restrictions contained in the Cooperative's long-term debt agreement. Patronage capital returned to members prior to the established rotation cycle is adjusted for present value. The present value adjustment is included in patronage capital and will remain assigned to members until dissolution or liquidation of the Cooperative. In the event of dissolution or liquidation, the amounts will be returned on a pro rata basis along with any remaining patronage capital. The present value adjustment included in assigned patronage capital totaled \$18,490,242 and \$15,905,777 for the years ended December 31, 2017 and 2016, respectively.

## **(1) Summary of Significant Accounting Policies (Continued)**

### ***Operating Revenues***

Electric revenues include patronage capital and are billed monthly to consumers on a cycle basis. Electric rates for the Cooperative include provisions to permit the board of trustees to adjust billings for fluctuations in fuel costs, purchased power costs and certain other costs. Electricity which had been used by the members of the Cooperative but had not been billed to the members was not recorded. The components of this unbilled revenue can fluctuate based on factors including rate structure, weather, period of use, cost of purchased power and other factors. As a result, the overall estimate of unbilled revenues could be significantly affected, which could have a material impact on the Cooperative's results of operations if recorded in the consolidated financial statements. Unbilled electric revenue totaled approximately \$3,456,740 and \$3,321,420 as of December 31, 2017 and 2016, respectively.

### ***New Accounting Pronouncements***

In May 2014, the Financial Accounting Standards Board released Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 is designed to create greater comparability for financial statement users across industries and jurisdictions through a more principles-based approach than companies in the United States are used to following. The standard would require companies to recognize revenue through a five-step process: (1) identify the contract with the customer, (2) identify the separate performance obligations in the contract, (3) determine the transaction type, (4) allocate the transaction price to the separate performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation. The standard, as deferred one year by ASU 2015-14, will be effective for annual reporting periods beginning after December 15, 2018 and interim reporting periods within annual reporting periods beginning after December 15, 2019. The standard will require the Cooperative to accrue unbilled electric revenue using either a full retrospective or retrospective with cumulative effect transition method and will require a change in accounting principle in the period adopted. The Cooperative has not yet selected a transition method and is currently evaluating the impact of the pending adoption of ASU 2014-09 on the consolidated financial statements.

### ***Presentation of Sales Tax***

Certain portions of the Cooperative's sales are subject to sales tax imposed by jurisdictions. When required, the Cooperative collects sales tax from customers and remits it to the applicable jurisdiction. The Cooperative's accounting policy is to exclude the tax collected and remitted from revenues and cost of sales.

### ***Cost of Purchased Power***

Cost of power is expensed as consumed.

### ***Generation and Transmission Cooperative Capital Credits***

Generation and transmission cooperative capital credits represent the annual capital furnished to Central Electric Power Cooperative, Inc. through the payment of power bills. The capital is recorded in the year provided, even though notification of the capital allocation is not received until later.

## (1) Summary of Significant Accounting Policies (Continued)

### *Income Taxes*

The Cooperative is exempt from federal and state income taxes under Section 501(c)(12) of the Internal Revenue Code which provides, in part, that the Cooperative derive at least 85 percent of its annual gross income from members to retain the exemption. The Cooperative expects to meet the requirement for the tax year ended December 31, 2017. Accordingly, no provision for income taxes has been made in the consolidated financial statements. The Cooperative's federal information returns for calendar year 2014 and after are subject to examination by the Internal Revenue Service (IRS).

The wholly-owned subsidiary, BREDC, is a taxable entity, and any taxes resulting from operations are not considered to be significant. BREDC's federal and state tax returns for calendar year 2014 and after are subject to examination by the IRS and the state of South Carolina. In addition, all net operating losses that may be used in future years are still subject to adjustment.

The calculation of tax assets involves various management estimates and assumptions as to the future taxable earnings. A valuation allowance is provided against deferred tax assets to the extent that is more likely than not, based on management's estimate, that they will not be realized. Management does not believe it is more likely than not that the NOL carryforward will be utilized; as a result, a valuation allowance has been recorded.

## (2) Utility Plant

Listed below are the major classes of the electric plant as of December 31:

	<u>2017</u>	<u>2016</u>
Electric Plant		
Intangible	\$ 360	\$ 360
Distribution	117,323,243	114,188,942
General	12,517,910	12,501,385
	<hr/>	<hr/>
Electric Plant in Service	129,841,513	126,690,687
Construction Work in Progress	28,093	22,820
	<hr/>	<hr/>
	\$ 129,869,606	\$ 126,713,507

### (3) Investments in Associated Organizations

Investments in associated organizations consist of the following as of December 31:

	<u>2017</u>	<u>2016</u>
National Rural Utilities Cooperative Finance Corporation		
Membership Fee	\$ 1,000	\$ 1,000
Capital Term Certificates	1,136,725	1,136,725
Capital Credits	91,520	91,520
Central Electric Power Cooperative, Inc.		
Capital Credits	2,519,284	2,392,353
Cooperative Electric Energy Utility Supply, Inc.		
Membership Fee	2,500	2,500
Capital Credits	1,024,276	973,722
Federated Rural Electric Insurance Exchange		
Capital Credits	295,729	277,470
CoBank		
Membership Fee	1,000	1,000
Capital Credits	132,262	106,090
National Cooperative Services Corporation		
Membership Fee	100	100
Cooperative Response Center, Inc.		
Contributed Capital	10,000	10,000
Capital Credits	7,013	3,364
	<u>\$ 5,221,409</u>	<u>\$ 4,995,844</u>

### (4) Nonutility Property

Nonutility property, totaling \$1,203,651 and \$2,483,957 as of December 31, 2017 and 2016, respectively, consists of land and improvements for the development of industrial sites to attract new industry into the Cooperative's service area. The nonutility property is accounted for on the cost basis.

### (5) Notes Receivable

Notes receivable consist of energy efficiency loans to the Cooperative's consumers. The consumer loans carry a 5.00 percent interest rate, are payable monthly in no more than 120 installments and cannot exceed \$10,000.

## (6) Other Investments

Other investments consist of the following as of December 31:

	<u>2017</u>	<u>2016</u>
Investment in Industrial Park	\$ 322,869	\$ 322,869
Deferred Compensation Investments (See Note 10)	<u>871,893</u>	<u>844,341</u>
	<u>\$ 1,194,762</u>	<u>\$ 1,167,210</u>

The investment in industrial park is the Cooperative's investment in a joint venture with a government entity to develop an industrial park to foster economic development in the area. The investment is accounted for on the cost basis.

## (7) Other Current Assets

Other current assets are primarily composed of a prepayment to Central Electric Power Cooperative, Inc. for electric energy in the amount of \$4,735,992 and \$4,733,041 as of December 31, 2017 and 2016, respectively.

## (8) Other Equities

	<u>2017</u>	<u>2016</u>
Operating Margins	\$ 11,967	\$ 11,967
Nonoperating Margins	70,695	70,695
Undistributed Loss in Subsidiary	(1,208,484)	(1,179,060)
Capital Credits Earned - Central Electric Power Cooperative, Inc.	2,681,895	2,554,962
Retired Capital Credits - Gain	1,729,746	1,408,894
Donated Capital	<u>2,402,153</u>	<u>2,309,430</u>
	<u>\$ 5,687,972</u>	<u>\$ 5,176,888</u>

## (9) Debt

Long-term debt consists of a master loan agreement between the Cooperative and CoBank. The loan is secured by a statutory first lien on all equity allocated to the Cooperative by CoBank. In addition, the loan shall be secured by a first priority lien on all real and personal property of the Cooperative. The loan has 10-year and 7-year maturity periods and is payable on an installment basis. The loan contains certain affirmative and negative covenants, including maintenance of certain financial ratios as defined in the agreement. At December 31, 2017 and 2016, the Cooperative was in compliance with the covenants.



**(9) Debt (Continued)**

<b>Holder of Note</b>	<b>Interest Rate at December 31, 2017</b>	<b>2017</b>	<b>2016</b>
CoBank	2.67% to 2.87%	\$ 7,750,000	\$ 9,550,000
Maturities Due Within One Year		<u>(1,800,000)</u>	<u>(1,800,000)</u>
		<u>\$ 5,950,000</u>	<u>\$ 7,750,000</u>

The Cooperative has a \$3,000,000 line-of-credit available with the National Rural Utilities Cooperative Finance Corporation (NRUCFC) with no balance outstanding as of December 31, 2017 and 2016. The line-of-credit is secured by asset of the Cooperative.

Cash payments of interest totaled \$252,967 and \$305,029 for the years ended December 31, 2017 and 2016, respectively.

Approximate principal maturities of long-term debt for each of the next five years are as follows:

<b>Year</b>	<b>Amount</b>
2018	\$1,800,000
2019	1,800,000
2020	1,450,000
2021	1,200,000
2022	1,200,000

**(10) Retiree Benefits**

***Pension Plan (Defined Benefit)***

Pension benefits for substantially all employees of the Cooperative are provided through participation in the NRECA Retirement Security Plan (RS Plan), a defined benefit plan qualified under Section 401 and tax-exempt under 501(a) of the Internal Revenue Code. 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 annual contributions to the program represented less than 5 percent of total contributions made to the plan by all participating employers and are equal to the amounts recorded for pension cost. Contributions were \$1,172,362 and \$1,176,374 for the years ended December 31, 2017 and 2016, respectively.

## (10) Retiree Benefits (Continued)

### *Pension Plan (Defined Benefit) (Continued)*

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 greater than 80 percent funded at January 1, 2018 and 2017 based on the PPA funding target and PPA actuarial value of assets on those dates.

Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

### *Pension Plan (Defined Contribution Plan)*

The Cooperative also provides additional employee benefits to substantially all employees through the NRECA sponsored defined contribution Savings Plan (401-k). In this defined contribution plan, the Cooperative’s contributory portion of costs of this plan totaled \$48,665 and \$46,372 for the years ended December 31, 2017 and 2016, respectively.

### *Deferred Compensation Plans*

The Cooperative sponsors a deferred compensation plan. Eligible employees are defined as highly compensated individuals within the definition of IRC Section 414(q). The annual deferral to the deferred compensation plan is calculated in accordance with IRC Section 457, subject to changes under IRC Section 457(b). The obligations, totaling \$871,891 and \$844,340 as of December 31, 2017 and 2016, respectively, are recorded as other long-term liabilities - deferred compensation and the related assets are reflected as a component of other investments. Plan assets are measured at fair value (See Note 14).

## (11) Deferred Credits

Deferred credits consist of the following as of December 31:

	<u>2017</u>	<u>2016</u>
Unearned Rental Income	\$ 12,960	\$ 12,960
Nonutility Property Escrow Payable	-	1,026,198
Unclaimed Capital Credits Settlement	86,594	84,056
Regulatory Liability - Deferred Revenue	3,037,650	4,000,000
Other	166,676	169,001
	<u>\$ 3,303,880</u>	<u>\$ 5,292,215</u>

The board of trustees, in its rate-making capacity, elected to defer revenues to offset future power cost increases for the year ended December 31, 2015. The deferred revenue is being recognized from January 1, 2017 through December 31, 2020.

### (11) Deferred Credits (Continued)

The revenue deferral plan detailed as follows has been applied in accordance with U.S. GAAP for regulated entities.

	<u>2017</u>	<u>2016</u>
Beginning Balance	\$ 4,000,000	\$ -
Current Year Deferral	-	4,000,000
Current Year Recognition	<u>(962,350)</u>	<u>-</u>
Ending Balance	<u>\$ 3,037,650</u>	<u>\$ 4,000,000</u>

### (12) Commitments

The Cooperative is committed to purchase all electric energy requirements from Central Electric Power Cooperative, Inc., in accordance with the wholesale power contract expiring in 2058. Under the contract, rates paid for electric power are subject to periodic review and adjustment.

Under current law, the Cooperative has the ability to recover these costs from its members; however, any change to existing laws could adversely affect the ability to recover these costs.

### (13) Contingencies

The Cooperative has been named as a defendant in a class action lawsuit regarding the retirement of capital credits. Although it is not possible to predict with certainty the outcome of these unresolved legal actions or the range of possible losses or recovery, the Cooperative believes these unresolved legal actions will not have a material effect on its financial position or results of operations and intends to vigorously defend its position related to the unresolved issues. However, any resolution that differs from management's position could adversely impact the consolidated financial statements.

## (14) Fair Value of Financial Instruments

### *Financial Instruments Carried at Fair Value*

#### Fair Value Hierarchy

The Cooperative records certain financial and nonfinancial assets using fair value measurements. The Cooperative uses a hierarchical disclosure framework that prioritizes the level of market price observability to measure investments at fair value.

The guidance establishes a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value as follows:

**Level 1** - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Cooperative has the ability to access.

**Level 2** - Valuations based on quoted market prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities.

**Level 3** - Valuations based on inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The fair values of the Cooperative's deferred compensation investments at December 31 by asset category are as follows:

<u>Description</u>	<u>Level</u>	<u>2017</u>	<u>2016</u>
Deferred Compensation Investments			
Short-Term Bond Funds	(1)	\$ 359,739	\$ 463,500
Stock Funds	(1)	512,154	380,841
		<u>\$ 871,893</u>	<u>\$ 844,341</u>

## (15) Concentrations of Credit Risk

Financial instruments that potentially subject the Cooperative to concentrations of credit risk consist principally of cash and cash equivalents and consumer accounts receivable. The Cooperative maintains its cash balances in several financial institutions; cash balances throughout the year periodically exceed federally insured limits of \$250,000.

At December 31, 2017, the carrying amount of the Cooperative's cash and cash equivalents was \$4,735,530. Of this balance, \$4,478,000 was covered under a repurchase agreement, maturing January 2, 2018. The repurchase agreement was collateralized by interests that include Government National Mortgage Association securities.

The Cooperative serves consumers in the state of South Carolina. The geographic concentration of the Cooperative's consumers results in a concentration of credit risk with respect to the collection of accounts receivable. Credit evaluations are performed on most potential customers before accepting them for service. Depending upon the results of the credit evaluation, a deposit may be required.

**(16) Subsequent Events**

In preparing these consolidated financial statements, the Cooperative has evaluated events and transactions for potential recognition or disclosure through March 14, 2018, the date the consolidated financial statements were available to be issued.

**(17) Reclassifications**

Certain reclassifications have been made within the December 31, 2016 consolidated financial statements to conform to the December 31, 2017 presentation. The reclassifications had no effect on the net margin for the year ended December 31, 2016.

March 14, 2018

**INDEPENDENT AUDITOR'S REPORT  
ON SUPPLEMENTARY INFORMATION**

The Board of Trustees  
Black River Electric Cooperative, Inc.

We have audited the consolidated financial statements of **Black River Electric Cooperative, Inc. and Subsidiary** as of and for the years ended December 31, 2017 and 2016, and our report thereon dated March 14, 2018, which expressed an unmodified opinion on those consolidated financial statements, appears on page 1. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying information on pages 21 through 24 is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

*McNair, McLemore, Middlebrooks & Co., LLC*  
McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC

**BLACK RIVER ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY**  
**CONSOLIDATING BALANCE SHEET**  
**DECEMBER 31, 2017**

	Black River Electric Cooperative, Inc.	Black River Economic Development Corporation	Totals	Elimination Entries		Consolidated Balances
				Debit	Credit	
<b>ASSETS</b>						
<b>Utility Plant</b>						
Electric Plant in Service - At Cost	\$ 129,841,513	\$ -	\$ 129,841,513	\$ -	\$ -	\$ 129,841,513
Construction Work in Progress	28,093	-	28,093	-	-	28,093
	129,869,606	-	129,869,606	-	-	129,869,606
Accumulated Depreciation	(58,116,979)	-	(58,116,979)	-	-	(58,116,979)
	<u>71,752,627</u>	<u>-</u>	<u>71,752,627</u>	<u>-</u>	<u>-</u>	<u>71,752,627</u>
<b>Other Property and Investments</b>						
Investments in Associated Organizations	5,221,409	-	5,221,409	-	-	5,221,409
Investment in Subsidiary	288,399	-	288,399	-	288,399	-
Nonutility Property	2,950	1,200,701	1,203,651	-	-	1,203,651
Notes Receivable	324,910	-	324,910	-	-	324,910
Other Investments	871,893	322,869	1,194,762	-	-	1,194,762
	<u>6,709,561</u>	<u>1,523,570</u>	<u>8,233,131</u>	<u>-</u>	<u>288,399</u>	<u>7,944,732</u>
<b>Current Assets</b>						
Cash and Cash Equivalents	4,735,530	-	4,735,530	-	-	4,735,530
Accounts Receivable (Net)	4,722,758	-	4,722,758	-	-	4,722,758
Accounts Receivable - Intercompany	1,222,212	-	1,222,212	-	1,222,212	-
Notes Receivable - Current Portion	45,553	-	45,553	-	-	45,553
Materials and Supplies	556,395	-	556,395	-	-	556,395
Other	5,095,882	-	5,095,882	-	-	5,095,882
	<u>16,378,330</u>	<u>-</u>	<u>16,378,330</u>	<u>-</u>	<u>1,222,212</u>	<u>15,156,118</u>
<b>Total Assets</b>	<u>\$ 94,840,518</u>	<u>\$ 1,523,570</u>	<u>\$ 96,364,088</u>	<u>\$ -</u>	<u>\$ 1,510,611</u>	<u>\$ 94,853,477</u>
<b>MEMBERS' EQUITY AND LIABILITIES</b>						
<b>Members' Equity</b>						
Membership Fees	\$ 132,765	\$ -	\$ 132,765	\$ -	\$ -	\$ 132,765
Patronage Capital	67,686,739	-	67,686,739	-	-	67,686,739
Other Equities	5,687,972	(1,208,484)	4,479,488	-	1,208,484	5,687,972
	<u>73,507,476</u>	<u>(1,208,484)</u>	<u>72,298,992</u>	<u>-</u>	<u>1,208,484</u>	<u>73,507,476</u>
<b>Long-Term Debt</b>	<u>5,950,000</u>	<u>-</u>	<u>5,950,000</u>	<u>-</u>	<u>-</u>	<u>5,950,000</u>
<b>Other Long-Term Liabilities - Deferred Compensation</b>	<u>717,880</u>	<u>-</u>	<u>717,880</u>	<u>-</u>	<u>-</u>	<u>717,880</u>
<b>Current Liabilities</b>						
Long-Term Debt - Current Portion	1,800,000	-	1,800,000	-	-	1,800,000
Other Long-Term Liabilities - Deferred Compensation - Current Portion	154,011	-	154,011	-	-	154,011
Accounts Payable	5,679,012	-	5,679,012	-	-	5,679,012
Accounts Payable - Intercompany	-	1,222,212	1,222,212	1,222,212	-	-
Demand Note Payable to Parent Company	-	1,496,883	1,496,883	1,496,883	-	-
Consumer Deposits	2,976,838	-	2,976,838	-	-	2,976,838
Accrued and Withheld Taxes	591,188	-	591,188	-	-	591,188
Other	173,192	-	173,192	-	-	173,192
	<u>11,374,241</u>	<u>2,719,095</u>	<u>14,093,336</u>	<u>2,719,095</u>	<u>-</u>	<u>11,374,241</u>
<b>Deferred Credits</b>	<u>3,290,921</u>	<u>12,959</u>	<u>3,303,880</u>	<u>-</u>	<u>-</u>	<u>3,303,880</u>
<b>Total Members' Equity and Liabilities</b>	<u>\$ 94,840,518</u>	<u>\$ 1,523,570</u>	<u>\$ 96,364,088</u>	<u>\$ 2,719,095</u>	<u>\$ 1,208,484</u>	<u>\$ 94,853,477</u>

**BLACK RIVER ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY**  
**CONSOLIDATING STATEMENT OF OPERATIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

	Black River Electric Cooperative, Inc.	Black River Economic Development Corporation	Totals	Elimination Entries		Consolidated Balances
				Debit	Credit	
<b>Operating Revenues</b>	\$ 76,653,419	\$ 17,206	\$ 76,670,625	\$ 17,206	\$ -	\$ 76,653,419
<b>Operating Expenses</b>						
Cost of Power	55,563,193	-	55,563,193	-	-	55,563,193
Distribution Operations	3,605,664	-	3,605,664	-	-	3,605,664
Distribution Maintenance	2,443,270	16,613	2,459,883	-	16,613	2,443,270
Consumer Accounts	1,761,735	-	1,761,735	-	-	1,761,735
Consumer Service and Information	156,997	-	156,997	-	-	156,997
Administrative and General	3,812,739	27,858	3,840,597	-	27,858	3,812,739
Depreciation	4,235,584	-	4,235,584	-	-	4,235,584
Taxes	527,285	2,159	529,444	-	2,159	527,285
	<u>72,106,467</u>	<u>46,630</u>	<u>72,153,097</u>	<u>-</u>	<u>46,630</u>	<u>72,106,467</u>
<b>Operating Margins Before Interest Expense</b>	4,546,952	(29,424)	4,517,528	17,206	46,630	4,546,952
<b>Interest Expense</b>	<u>248,622</u>	<u>-</u>	<u>248,622</u>	<u>-</u>	<u>-</u>	<u>248,622</u>
<b>Operating Margins After Interest Expense</b>	4,298,330	(29,424)	4,268,906	17,206	46,630	4,298,330
<b>Nonoperating Margins</b>	180,164	-	180,164	29,424	-	150,740
<b>Generation and Transmission Cooperative Capital Credits</b>	126,932	-	126,932	-	-	126,932
<b>Other Capital Credits and Patronage Capital Allocations</b>	<u>150,093</u>	<u>-</u>	<u>150,093</u>	<u>-</u>	<u>-</u>	<u>150,093</u>
<b>Net Margins</b>	<u>\$ 4,755,519</u>	<u>\$ (29,424)</u>	<u>\$ 4,726,095</u>	<u>\$ 46,630</u>	<u>\$ 46,630</u>	<u>\$ 4,726,095</u>



**BLACK RIVER ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY**  
**CONSOLIDATING BALANCE SHEET**  
**DECEMBER 31, 2016**

	Black River Electric Cooperative, Inc.	Black River Economic Development Corporation	Totals	Elimination Entries		Consolidated Balances
				Debit	Credit	
<b>ASSETS</b>						
<b>Utility Plant</b>						
Electric Plant in Service - At Cost	\$ 126,690,687	\$ -	\$ 126,690,687	\$ -	\$ -	\$ 126,690,687
Construction Work in Progress	22,820	-	22,820	-	-	22,820
	126,713,507	-	126,713,507	-	-	126,713,507
Accumulated Depreciation	(56,134,499)	-	(56,134,499)	-	-	(56,134,499)
	70,579,008	-	70,579,008	-	-	70,579,008
<b>Other Property and Investments</b>						
Investments in Associated Organizations	4,995,844	-	4,995,844	-	-	4,995,844
Investment in Subsidiary	565,646	-	565,646	-	565,646	-
Nonutility Property	2,950	2,481,007	2,483,957	-	-	2,483,957
Notes Receivable	313,375	-	313,375	-	-	313,375
Other Investments	844,341	322,869	1,167,210	-	-	1,167,210
	6,722,156	2,803,876	9,526,032	-	565,646	8,960,386
<b>Current Assets</b>						
Cash and Cash Equivalents	7,428,047	-	7,428,047	-	-	7,428,047
Accounts Receivable (Net)	5,188,152	-	5,188,152	-	-	5,188,152
Accounts Receivable - Intercompany	1,199,071	-	1,199,071	-	1,199,071	-
Notes Receivable - Current Portion	40,287	-	40,287	-	-	40,287
Materials and Supplies	506,421	-	506,421	-	-	506,421
Other	5,101,362	-	5,101,362	-	-	5,101,362
	19,463,340	-	19,463,340	-	1,199,071	18,264,269
<b>Total Assets</b>	<b>\$ 96,764,504</b>	<b>\$ 2,803,876</b>	<b>\$ 99,568,380</b>	<b>\$ -</b>	<b>\$ 1,764,717</b>	<b>\$ 97,803,663</b>
<b>MEMBERS' EQUITY AND LIABILITIES</b>						
<b>Members' Equity</b>						
Membership Fees	\$ 131,335	\$ -	\$ 131,335	\$ -	\$ -	\$ 131,335
Patronage Capital	67,800,377	-	67,800,377	-	-	67,800,377
Other Equities	5,176,888	(1,179,060)	3,997,828	-	1,179,060	5,176,888
	73,108,600	(1,179,060)	71,929,540	-	1,179,060	73,108,600
<b>Long-Term Debt</b>	<b>7,750,000</b>	<b>-</b>	<b>7,750,000</b>	<b>-</b>	<b>-</b>	<b>7,750,000</b>
<b>Other Long-Term Liabilities - Deferred Compensation</b>	<b>698,116</b>	<b>-</b>	<b>698,116</b>	<b>-</b>	<b>-</b>	<b>698,116</b>
<b>Current Liabilities</b>						
Long-Term Debt - Current Portion	1,800,000	-	1,800,000	-	-	1,800,000
Other Long-Term Liabilities - Deferred Compensation - Current Portion	146,224	-	146,224	-	-	146,224
Accounts Payable	5,303,085	-	5,303,085	-	-	5,303,085
Accounts Payable - Intercompany	-	1,199,071	1,199,071	1,199,071	-	-
Demand Note Payable to Parent Company	-	1,496,883	1,496,883	1,496,883	-	-
Consumer Deposits	2,896,362	-	2,896,362	-	-	2,896,362
Accrued and Withheld Taxes	654,729	-	654,729	-	-	654,729
Other	154,332	-	154,332	-	-	154,332
	10,954,732	2,695,954	13,650,686	2,695,954	-	10,954,732
<b>Deferred Credits</b>	<b>4,253,056</b>	<b>1,286,982</b>	<b>5,540,038</b>	<b>247,823</b>	<b>-</b>	<b>5,292,215</b>
<b>Total Members' Equity and Liabilities</b>	<b>\$ 96,764,504</b>	<b>\$ 2,803,876</b>	<b>\$ 99,568,380</b>	<b>\$ 2,943,777</b>	<b>\$ 1,179,060</b>	<b>\$ 97,803,663</b>

**BLACK RIVER ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY**  
**CONSOLIDATING STATEMENT OF OPERATIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	Black River Electric Cooperative, Inc.	Black River Economic Development Corporation	Totals	Elimination Entries		Consolidated Balances
				Debit	Credit	
<b>Operating Revenues</b>	\$ 77,322,144	\$ 17,280	\$ 77,339,424	\$ 17,280	\$ -	\$ 77,322,144
<b>Operating Expenses</b>						
Cost of Power	54,862,381	-	54,862,381	-	-	54,862,381
Distribution Operations	3,571,480	-	3,571,480	-	-	3,571,480
Distribution Maintenance	2,730,323	14,529	2,744,852	-	14,529	2,730,323
Consumer Accounts	1,639,694	-	1,639,694	-	-	1,639,694
Consumer Service and Information	332,263	-	332,263	-	-	332,263
Administrative and General	3,643,275	27,858	3,671,133	-	27,858	3,643,275
Depreciation	4,155,379	-	4,155,379	-	-	4,155,379
Taxes	549,805	2,143	551,948	-	2,143	549,805
	<u>71,484,600</u>	<u>44,530</u>	<u>71,529,130</u>	<u>-</u>	<u>44,530</u>	<u>71,484,600</u>
<b>Operating Margins Before Interest Expense</b>	5,837,544	(27,250)	5,810,294	17,280	44,530	5,837,544
<b>Interest Expense</b>	<u>300,673</u>	<u>-</u>	<u>300,673</u>	<u>-</u>	<u>-</u>	<u>300,673</u>
<b>Operating Margins After Interest Expense</b>	5,536,871	(27,250)	5,509,621	17,280	44,530	5,536,871
<b>Nonoperating Margins</b>	158,676	-	158,676	27,250	-	131,426
<b>Generation and Transmission Cooperative Capital Credits</b>	147,764	-	147,764	-	-	147,764
<b>Other Capital Credits and Patronage Capital Allocations</b>	<u>230,593</u>	<u>-</u>	<u>230,593</u>	<u>-</u>	<u>-</u>	<u>230,593</u>
<b>Net Margins</b>	<u>\$ 6,073,904</u>	<u>\$ (27,250)</u>	<u>\$ 6,046,654</u>	<u>\$ 44,530</u>	<u>\$ 44,530</u>	<u>\$ 6,046,654</u>

MCNAIR, MCLEMORE, MIDDLEBROOKS & Co., LLC

CERTIFIED PUBLIC ACCOUNTANTS

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March 14, 2018

**INDEPENDENT AUDITOR'S 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 Trustees  
Black River Electric Cooperative, Inc.

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 **Black River Electric Cooperative, Inc. and Subsidiary** (the Cooperative), which comprise the consolidated balance sheet as of December 31, 2017 and the related consolidated statements of operations, changes in members' equity and cash flows for the year then ended, and the related notes to the consolidated financial statements (financial statements), and have issued our report thereon dated March 14, 2018.

***Internal Control Over Financial Reporting***

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 on 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Cooperative'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 the board of trustees.

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 the Cooperative's financial statements are free of 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 Cooperative's internal control or on compliance. The 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.

*McNair, McLemore, Middlebrooks & Co., LLC*

McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC

McNAIR, McLEMORE, MIDDLEBROOKS & Co., LLC

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March 14, 2018

**INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED  
BY THE UNIFORM GUIDANCE**

The Board of Trustees  
Black River Electric Cooperative, Inc.

**Report on Compliance for Each Major Federal Program**

We have audited **Black River Electric Cooperative, Inc.'s** (the Cooperative) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Cooperative's major federal programs for the year ended December 31, 2017. The Cooperative'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 the Cooperative'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 the Cooperative'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 the Cooperative's compliance.

## ***Opinion on Each Major Federal Program***

In our opinion, the 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, 2017.

## **Report on Internal Control over Compliance**

Management of the Cooperative 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 the Cooperative'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 the Cooperative'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 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 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.

*McNair, McLemore, Middlebrooks & Co., LLC*  
McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC

**BLACK RIVER ELECTRIC COOPERATIVE, INC.  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED DECEMBER 31, 2017**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<b>Department of Homeland Security</b>			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)			
<i>Pass-through Program From:</i>			
South Carolina Emergency Management Division	97.036	000-UGK5I-00	<u>\$ 804,865</u>

**BLACK RIVER ELECTRIC COOPERATIVE, INC.**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

**(1) Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Black River Electric Cooperative, Inc. (the Cooperative) for the year ended December 31, 2017. The information in the 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 the Cooperative, it is not intended to and does not present the financial position, changes in equities or cash flows of the Cooperative.

**(2) Federal Award**

On October 11, 2016, President Barack H. Obama issued a major disaster declaration designated FEMA-4286-DR-SC for the state of South Carolina as a result of Hurricane Matthew. The declaration authorized public assistance in Allendale, Bamberg, Barnwell, Beaufort, Berkeley, Calhoun, Charleston, Chesterfield, Clarendon, Colleton, Darlington, Dillon, Dorchester, Florence, Georgetown, Hampton, Horry, Jasper, Kershaw, Lee, Marion, Marlboro, Orangeburg, Richland, Sumter and Williamsburg Counties.

**(3) Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited for reimbursement.

**(4) Indirect Cost Rate**

The Cooperative has elected not to use the ten percent de minimis indirect cost rate allowed under the Uniform Guidance.

**(5) SEFA Amounts Expended in Prior Years**

Public assistance grant expenditures in the amount of \$804,865, which were included in the SEFA for the year ended December 31, 2017, were expended in the year ended December 31, 2016.



**BLACK RIVER ELECTRIC COOPERATIVE, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**DECEMBER 31, 2017**

**(A) Summary of Audit Results**

- (1) The Independent Auditor's Report expresses an unmodified opinion on whether the financial statements of Black River Electric Cooperative, Inc. were prepared in accordance with accounting principles generally accepted in the United States of America.
- (2) There were no significant deficiencies or material weaknesses disclosed during the audit of the financial statements.
- (3) No instances of noncompliance material to the financial statements of Black River Electric Cooperative, Inc., which would be reported in accordance with *Governmental Auditing Standards*, were disclosed during the audit.
- (4) There were no significant deficiencies or material weaknesses in internal controls over major federal award programs disclosed during the audit of the major federal award program.
- (5) The Independent Auditor's Report on Compliance for the major federal award program of Black River Electric Cooperative, Inc. expresses an unmodified opinion for the major program.
- (6) There were no audit findings, required to be reported in accordance with 2 CFR section 200.516(a).
- (7) The program tested as major program: CFDA No. 97.036, Disaster Grants - Public Assistance (Presidentially Declared Disasters).
- (8) The threshold for distinguishing whether the program was Type A or B was \$750,000.
- (9) Black River Electric Cooperative, Inc. did not qualify as a low-risk auditee.

**(B) Findings - Audit of Financial Statements**

- There were no findings related to the audit of the financial statements.

**(C) Findings and Questioned Costs - Major Federal Award Program Audit**

- There were no findings or questioned costs related to the major federal awards program.

**BLACK RIVER ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY**  
**MATTERS TO BE COMMUNICATED WITH THE BOARD OF TRUSTEES**  
**DECEMBER 31, 2017**

**Auditor's Responsibility Under Generally Accepted Auditing Standards and *Governmental Auditing Standards* and the Uniform Guidance**

As stated in our engagement letter, the auditor is responsible for forming and expressing an opinion about whether the consolidated financial statements (financial statements) are presented fairly, in all material respects, in conformity with generally accepted accounting principles in the United States of America (U.S. GAAP). The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

**Planned Scope and Timing of the Audit**

The audit was performed according to the planned scope and timing previously communicated to you in our engagement letter.

**Significant Accounting Policies**

Management is responsible for the selection of appropriate accounting policies. The significant accounting policies used by Black River Electric Cooperative, Inc. and Subsidiary are outlined in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2017. We noted no transaction entered into by the Cooperative during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a period other than when the transaction occurred.

**Management Judgments and Accounting Estimates**

Accounting estimates are an integral part of the financial statements and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting the estimates may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Allocations for construction work in progress
- Useful lives of utility plant
- Reserve for uncollectible accounts
- Expense accruals

We evaluated the key factors and assumptions used to develop management's estimates in determining that they are reasonable in relation to the financial statements as a whole.

**Significant Audit Adjustments and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no audit adjustments for the year ended December 31, 2017. There were no significant uncorrected misstatements, material or immaterial.

## **Disagreements with Management**

Professional standards define a disagreement with management as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

## **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated March 14, 2018.

## **Consultation with Other Accountants**

To our knowledge, management did not consult with other accountants relating to auditing or accounting matters.

## **Major Issues Discussed with Management Prior to Retention**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Cooperative's auditor. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

## **Difficulties Encountered in Performing the Audit**

There were no difficulties encountered in dealing with management related to the performance of the audit.

## **Other Matters**

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with U.S. GAAP, the method of preparing it has not changed from the prior period and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

## **Restriction of Use**

This report is intended solely for the information and use of the board of trustees and management and is not intended to be and should not be used by anyone other than these specified parties.