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

CONSOLIDATED FINANCIAL STATEMENTS AS OF
DECEMBER 31, 2018 AND 2017 AND
INDEPENDENT AUDITOR'S REPORT

BLACK RIVER ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

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McNair McLemore Middlebrooks & Co
Certified Public Accountants

389 Mulberry Street | Macon, Georgia 31201
Post Office Box One | Macon, Georgia 31202
478-746-6277 | mmmcpa.com

March 14, 2019

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Black River Electric Cooperative, Inc.

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, 2018 and 2017 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 (financial statements).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 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 Cooperative'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 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 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 Black River Electric Cooperative, Inc. and Subsidiary as of December 31, 2018 and 2017 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.

McNair, McLemore, Middlebrooks & Co., LLC

McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC

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

ASSETS

	2018	2017
Utility Plant		
Electric Plant in Service - At Cost	**$ 133,228,238**	$ 129,841,513
Construction Work in Progress	**52,001**	28,093
	133,280,239	129,869,606
Accumulated Depreciation	**(60,620,741)**	(58,116,979)
	72,659,498	71,752,627
Other Property and Investments		
Investments in Associated Organizations	**5,517,682**	5,221,409
Nonutility Property	**1,203,651**	1,203,651
Notes Receivable	**488,917**	324,910
Other Investments	**1,085,709**	1,194,762
	8,295,959	7,944,732
Current Assets		
Cash and Cash Equivalents	**4,401,348**	4,735,530
Accounts Receivable (Net of Accumulated Provision for Uncollectible Accounts of $363,119 in 2018 and $365,457 in 2017)	**4,748,711**	4,722,758
Notes Receivable - Current Portion	**66,489**	45,553
Materials and Supplies	**607,530**	556,395
Other	**5,139,010**	5,095,882
	14,963,088	15,156,118
Total Assets	**$ 95,918,545**	$ 94,853,477

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

	2018	2017
Members' Equity		
Membership Fees	**$ 133,790**	$ 132,765
Patronage Capital	**71,238,753**	67,686,739
Other Equities	**5,866,675**	5,687,972
	77,239,218	73,507,476
Long-Term Debt	**4,150,000**	5,950,000
Other Long-Term Liabilities - Deferred Compensation	**615,358**	717,880
Current Liabilities		
Long-Term Debt - Current Portion	**1,800,000**	1,800,000
Other Long-Term Liabilities - Deferred Compensation - Current Portion	**153,476**	154,011
Accounts Payable	**5,666,430**	5,679,012
Consumer Deposits	**2,973,568**	2,976,838
Accrued and Withheld Taxes	**667,219**	591,188
Other	**237,287**	173,192
	11,497,980	11,374,241
Deferred Credits	**2,415,989**	3,303,880
Total Members' Equity and Liabilities	**$ 95,918,545**	$ 94,853,477

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

	2018	2017
Operating Revenues	**$ 83,009,667**	$ 76,653,419
Operating Expenses		
Cost of Power	**58,794,078**	55,563,193
Distribution Operations	**3,670,901**	3,605,664
Distribution Maintenance	**2,847,050**	2,443,270
Consumer Accounts	**1,790,081**	1,761,735
Consumer Service and Information	**288,343**	156,997
Administrative and General	**4,012,479**	3,812,739
Depreciation	**4,363,219**	4,235,584
Taxes	**581,318**	527,285
	76,347,469	72,106,467
Operating Margins Before Interest Expense	**6,662,198**	4,546,952
Interest Expense	**197,472**	248,622
Operating Margins After Interest Expense	**6,464,726**	4,298,330
Nonoperating Margins	**236,608**	150,740
Generation and Transmission Cooperative Capital Credits	**181,887**	126,932
Other Capital Credits and Patronage Capital Allocations	**145,441**	150,093
Net Margins	**$ 7,028,662**	$ 4,726,095

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, 2018 AND 2017

	Total Members' Equity	Membership Fees	Patronage Capital	Other Equities
Balance, December 31, 2016	$ 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
Balance, December 31, 2017	73,507,476	132,765	67,686,739	5,687,972
Net Margins	7,028,662	-	6,869,856	158,806
Retirement of Patronage Capital	(3,249,339)	-	(3,249,339)	-
Membership Fees	1,025	1,025	-	-
Other	(48,606)	-	(68,503)	19,897
Balance, December 31, 2018	**$ 77,239,218**	**$ 133,790**	**$ 71,238,753**	**$ 5,866,675**

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

		2018		2017
Cash Flows from Operating Activities				
Net Margins	$	**7,028,662**	$	4,726,095
Adjustments to Reconcile Net Margins				
to Net Cash Provided from Operating Activities				
Depreciation		**4,800,815**		4,649,274
Patronage Capital from Associated Organizations		**(452,136)**		(356,472)
Loss on Sale of Nonutility Property		**-**		47,824
Deferred Revenue		**(986,215)**		(962,350)
Change In				
Accounts Receivable		**(25,953)**		465,394
Other Current Assets		**(43,128)**		5,480
Other Long-Term Liabilities - Deferred Compensation		**(103,057)**		27,551
Accounts Payable		**(12,582)**		375,927
Consumer Deposits		**(3,270)**		80,476
Other Current Liabilities		**140,126**		(44,681)
Deferred Credits		**98,324**		213
		10,441,586		9,014,731
Cash Flows from Investing Activities				
Extension and Replacement of Plant		**(5,707,686)**		(5,816,609)
Return of Equity from Associated Organizations		**155,863**		130,907
Materials and Supplies		**(51,135)**		(49,974)
Sale of Nonutility Property		**-**		200,000
Notes Receivable		**(184,943)**		(16,802)
Other Investments		**109,053**		(27,551)
		(5,678,848)		(5,580,029)
Cash Flows from Financing Activities				
Principal Repayment of Long-Term Debt		**(1,800,000)**		(1,800,000)
Membership Fees		**1,025**		1,430
Retirement of Patronage Capital		**(3,249,339)**		(4,648,787)
Other Equities		**(48,606)**		320,138
		(5,096,920)		(6,127,219)
Net Decrease in Cash and Cash Equivalents		**(334,182)**		(2,692,517)
Cash and Cash Equivalents - Beginning		**4,735,530**		7,428,047
Cash and Cash Equivalents - Ending	**$**	**4,401,348**	$	4,735,530

See accompanying notes which are an integral part of these 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 Corporation (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 percent to 33.0 percent per annum.

Investments in Associated Organizations

Investments in associated organizations 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

BRECI 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 BRECI, the return to patrons of capital contributed by them is limited. Total equities were 80.53 percent and 77.49 percent of total assets as of December 31, 2018 and 2017, respectively.

Patronage Capital

Patronage capital represents BRECI'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 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 BRECI. 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 $20,506,531 and $18,490,242 for the years ended December 31, 2018 and 2017, 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 $3,611,000 and $3,457,000 as of December 31, 2018 and 2017, respectively.

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.

Income Taxes

BRECI is exempt from federal and state income taxes under Section 501(c)(12) of the Internal Revenue Code (IRC) which provides, in part, that BRECI derive at least 85 percent of its annual gross income from members to retain the exemption. BRECI expects to meet the requirement for the tax year ended December 31, 2018. Accordingly, no provision for income taxes has been made in the consolidated financial statements. BRECI's federal information returns for calendar year 2015 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 2015 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.

(1) Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) released Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. 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 price, (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 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.

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)* for lease accounting under U.S. GAAP. The new standard is intended to eliminate off-balance-sheet recording of lease obligations in an effort to create financial statements that more accurately reflect leasing activities. In general, an entity will record on the balance sheet the right-of-use assets and the corresponding lease obligations. The new standard will become effective for private companies for fiscal years beginning after December 15, 2019. Comparative periods presented in financial statements must use the same standards, as if ASU 2016-02 was in effect for the prior year presented. The adoption of ASU 2016-02 is not expected to have a material impact on the consolidated financial statements of the Cooperative.

(2) Utility Plant

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

	2018	2017
Electric Plant		
Intangible	**$ 360**	$ 360
Distribution	**120,717,053**	117,323,243
General	**12,510,825**	12,517,910
Electric Plant in Service	**133,228,238**	129,841,513
Construction Work in Progress	**52,001**	28,093
	$ 133,280,239	$ 129,869,606

(3) Investments in Associated Organizations

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

	2018	2017
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	**2,701,171**	2,519,284
Cooperative Electric Energy Utility Supply, Inc.		
Membership Fee	**2,500**	2,500
Capital Credits	**1,102,351**	1,024,276
Federated Rural Electric Insurance Exchange		
Capital Credits	**319,797**	295,729
CoBank		
Membership Fee	**1,000**	1,000
Capital Credits	**142,947**	132,262
National Cooperative Services Corporation		
Membership Fee	**100**	100
Cooperative Response Center, Inc.		
Contributed Capital	**10,000**	10,000
Capital Credits	**8,571**	7,013
	$ 5,517,682	$ 5,221,409

(4) Nonutility Property

Nonutility property, totaling $1,203,651 as of December 31, 2018 and 2017, 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 the following as of December 31:

		2018		2017
Energy Efficiency Loans	$	**355,406**	$	370,463
Economic Development Loan		**200,000**		-
		555,406		370,463
Current Portion		**(66,489)**		(45,553)
	$	**488,917**	$	324,910

Energy efficiency loans are made to BRECI consumers. The loans carry a 5 percent interest rate, are payable monthly in no more than 120 installments and cannot exceed $10,000.

BREDC made an economic development loan to a local nonprofit for the construction of an industrial speculative building. The loan has a zero interest rate and BREDC will be repaid upon the sale of the building.

(6) Other Investments

Other investments consist of the following as of December 31:

		2018		2017
Investment in Industrial Park	$	**316,875**	$	322,869
Deferred Compensation Investments (See Note 10)		**768,834**		871,893
	$	**1,085,709**	$	1,194,762

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 $4,739,876 and $4,735,992 as of December 31, 2018 and 2017, respectively.

(8) Other Equities

Other equities are comprised of the following as of December 31:

		2018		2017
Operating Margins	**$**	**11,967**	$	11,967
Nonoperating Margins		**70,695**		70,695
Undistributed Loss in Subsidiary		**(1,231,564)**		(1,208,484)
Capital Credits Earned - Central Electric Power Cooperative, Inc.		**2,863,781**		2,681,895
Retired Capital Credits - Gain		**1,679,902**		1,729,746
Donated Capital		**2,471,894**		2,402,153
	$	**5,866,675**	$	5,687,972

(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, 2018 and 2017, the Cooperative was in compliance with the covenants.

Holder of Note	**Interest Rate at December 31, 2018**		**2018**		2017
CoBank	2.67% to 2.87%	**$**	**5,950,000**	$	7,750,000
Maturities Due Within One Year			**(1,800,000)**		(1,800,000)
		$	**4,150,000**	$	5,950,000

The Cooperative has $10,000,000 in unadvanced loan funds on commitment from National Rural Utilities Cooperative Finance Corporation (NRUCFC). The availability of the funds is contingent on the Cooperative's compliance with one or more preconditions set forth in the mortgage agreement. The Cooperative has a $3,000,000 line-of-credit available with the NRUCFC with no balance outstanding as of December 31, 2018 and 2017. The line-of-credit is secured by assets of the Cooperative.

Cash payments of interest totaled $201,818 and $252,967 for the years ended December 31, 2018 and 2017, respectively.

(9) Debt (Continued)

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

Year	Amount
2019	$1,800,000
2020	1,450,000
2021	1,200,000
2022	1,200,000
2023	300,000

Subsequent Event

The Cooperative had no unadvanced loan on commitment from CoBank as of December 31, 2018, but in January 2019, the Cooperative received approval and advanced funds from CoBank totaling $5,000,000.

(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 IRC. 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 $1,338,591 and $1,172,362 for the years ended December 31, 2018 and 2017, respectively.

In the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was greater than 80 percent funded at January 1, 2019 and 2018 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.

(10) Retiree Benefits (Continued)

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 $50,221 and $48,665 for the years ended December 31, 2018 and 2017, respectively.

Deferred Compensation Plan

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 $768,834 and $871,893 as of December 31, 2018 and 2017, 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:

	2018	2017
Unearned Rental Income	**$ 12,960**	$ 12,960
Unclaimed Capital Credits Settlement	**86,594**	86,594
Regulatory Liability - Deferred Revenue	**2,051,435**	3,037,650
Other	**265,000**	166,676
	$ 2,415,989	$ 3,303,880

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.

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

	2018	2017
Beginning Balance	**$ 3,037,650**	$ 4,000,000
Current Year Deferral	**-**	-
Current Year Recognition	**(986,215)**	(962,350)
Ending Balance	**$ 2,051,435**	$ 3,037,650

(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

<u>*Fair Value Hierarchy*</u>

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.

(14) Fair Value of Financial Instruments (Continued)

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

Description	Level	2018	2017
Deferred Compensation Investments			
Short-Term Bond Funds	(1)	**$ 223,743**	$ 359,739
Stock Funds	(1)	**545,091**	512,154
		$ 768,834	$ 871,893

(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, 2018, the carrying amount of the Cooperative's cash and cash equivalents was $4,401,348. Of this balance, $4,173,000 was covered under a repurchase agreement, maturing January 2, 2019. 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, 2019, the date the consolidated financial statements were available to be issued.

MCNAIR MCLEMORE
MIDDLEBROOKS & CO
CERTIFIED PUBLIC ACCOUNTANTS

389 Mulberry Street | Macon, Georgia 31201
Post Office Box One | Macon, Georgia 31202
478-746-6277 | mmmcpa.com

March 14, 2019

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, 2018 and 2017, and our report thereon dated March 14, 2019, 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, 2018

	Black River Electric Cooperative, Inc.	Black River Economic Development Corporation	Totals	Elimination Entries		Consolidated Balances
				Debit	Credit	
ASSETS						
Utility Plant						
Electric Plant in Service - At Cost	$ 133,228,238	$ -	$ 133,228,238	$ -	$ -	**$ 133,228,238**
Construction Work in Progress	52,001	-	52,001	-	-	**52,001**
	133,280,239	-	133,280,239	-	-	**133,280,239**
Accumulated Depreciation	(60,620,741)	-	(60,620,741)	-	-	**(60,620,741)**
	72,659,498	-	72,659,498	-	-	**72,659,498**
Other Property and Investments						
Investments in Associated Organizations	5,517,682	-	5,517,682	-	-	**5,517,682**
Investment in Subsidiary	(1,231,564)	-	(1,231,564)	1,231,564		**-**
Nonutility Property	2,950	1,200,701	1,203,651	-	-	**1,203,651**
Notes Receivable	1,785,800	200,000	1,985,800	-	1,496,883	**488,917**
Other Investments	768,834	316,875	1,085,709	-	-	**1,085,709**
	6,843,702	1,717,576	8,561,278	1,231,564	1,496,883	**8,295,959**
Current Assets						
Cash and Cash Equivalents	4,401,348	-	4,401,348	-	-	**4,401,348**
Accounts Receivable (Net)	4,748,711	-	4,748,711	-	-	**4,748,711**
Accounts Receivable - Intercompany	1,439,298	-	1,439,298	-	1,439,298	**-**
Notes Receivable - Current Portion	66,489	-	66,489	-	-	**66,489**
Materials and Supplies	607,530	-	607,530	-	-	**607,530**
Other	5,139,010	-	5,139,010	-	-	**5,139,010**
	16,402,386	-	16,402,386	-	1,439,298	**14,963,088**
Total Assets	$ 95,905,586	$ 1,717,576	$ 97,623,162	$ 1,231,564	$ 2,936,181	**$ 95,918,545**
MEMBERS' EQUITY AND LIABILITIES						
Members' Equity						
Membership Fees	$ 133,790	$ -	$ 133,790	$ -	$ -	**$ 133,790**
Patronage Capital	71,238,753	-	71,238,753	-	-	**71,238,753**
Other Equities	5,866,675	(1,231,564)	4,635,111	-	1,231,564	**5,866,675**
	77,239,218	(1,231,564)	76,007,654	-	1,231,564	**77,239,218**
Long-Term Debt	4,150,000	-	4,150,000	-	-	**4,150,000**
Other Long-Term Liabilities - Deferred Compensation	615,358	-	615,358	-	-	**615,358**
Current Liabilities						
Long-Term Debt - Current Portion	1,800,000	-	1,800,000	-	-	**1,800,000**
Other Long-Term Liabilities - Deferred Compensation - Current Portion	153,476	-	153,476	-	-	**153,476**
Accounts Payable	5,666,430	-	5,666,430	-	-	**5,666,430**
Accounts Payable - Intercompany	-	1,439,298	1,439,298	1,439,298	-	**-**
Demand Note Payable to Parent Company	-	1,496,883	1,496,883	1,496,883	-	**-**
Consumer Deposits	2,973,568	-	2,973,568	-	-	**2,973,568**
Accrued and Withheld Taxes	667,219	-	667,219	-	-	**667,219**
Other	237,287	-	237,287	-	-	**237,287**
	11,497,980	2,936,181	14,434,161	2,936,181	-	**11,497,980**
Deferred Credits	2,403,030	12,959	2,415,989	-	-	**2,415,989**
Total Members' Equity and Liabilities	$ 95,905,586	$ 1,717,576	$ 97,623,162	$ 2,936,181	$ 1,231,564	**$ 95,918,545**

BLACK RIVER ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2018

	Black River Electric Cooperative, Inc.	Black River Economic Development Corporation	Totals	Elimination Entries		Consolidated Balances
				Debit	Credit	
Operating Revenues	$ 83,009,667	$ 25,580	$ 83,035,247	$ 25,580	$ -	**$ 83,009,667**
Operating Expenses						
Cost of Power	58,794,078	-	58,794,078	-	-	**58,794,078**
Distribution Operations	3,670,901	-	3,670,901	-	-	**3,670,901**
Distribution Maintenance	2,847,050	16,766	2,863,816	-	16,766	**2,847,050**
Consumer Accounts	1,790,081	-	1,790,081	-	-	**1,790,081**
Consumer Service and Information	288,343	-	288,343	-	-	**288,343**
Administrative and General	4,012,479	29,683	4,042,162	-	29,683	**4,012,479**
Depreciation	4,363,219	-	4,363,219	-	-	**4,363,219**
Taxes	581,318	2,211	583,529	-	2,211	**581,318**
	76,347,469	48,660	76,396,129	-	48,660	**76,347,469**
Operating Margins Before Interest Expense	6,662,198	(23,080)	6,639,118	25,580	48,660	**6,662,198**
Interest Expense	197,472	-	197,472	-	-	**197,472**
Operating Margins After Interest Expense	6,464,726	(23,080)	6,441,646	25,580	48,660	**6,464,726**
Nonoperating Margins	259,688	-	259,688	23,080	-	**236,608**
Generation and Transmission Cooperative Capital Credits	181,887	-	181,887	-	-	**181,887**
Other Capital Credits and Patronage Capital Allocations	145,441	-	145,441	-	-	**145,441**
Net Margins	$ 7,051,742	$ (23,080)	$ 7,028,662	$ 48,660	$ 48,660	**$ 7,028,662**

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 Debit	Elimination Entries Credit	Consolidated Balances
ASSETS						
Utility Plant						
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)
	71,752,627	-	71,752,627	-	-	71,752,627
Other Property and Investments						
Investments in Associated Organizations	5,221,409	-	5,221,409	-	-	5,221,409
Investment in Subsidiary	(1,208,484)	-	(1,208,484)	1,208,484	-	-
Nonutility Property	2,950	1,200,701	1,203,651	-	-	1,203,651
Notes Receivable	1,821,793	-	1,821,793	-	1,496,883	324,910
Other Investments	871,893	322,869	1,194,762	-	-	1,194,762
	6,709,561	1,523,570	8,233,131	1,208,484	1,496,883	7,944,732
Current Assets						
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
	16,378,330	-	16,378,330	-	1,222,212	15,156,118
Total Assets	$ 94,840,518	$ 1,523,570	$ 96,364,088	$ 1,208,484	$ 2,719,095	$ 94,853,477
MEMBERS' EQUITY AND LIABILITIES						
Members' Equity						
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
	73,507,476	(1,208,484)	72,298,992	-	1,208,484	73,507,476
Long-Term Debt	5,950,000	-	5,950,000	-	-	5,950,000
Other Long-Term Liabilities - Deferred Compensation	717,880	-	717,880	-	-	717,880
Current Liabilities						
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
	11,374,241	2,719,095	14,093,336	2,719,095	-	11,374,241
Deferred Credits	3,290,921	12,959	3,303,880		-	3,303,880
Total Members' Equity and Liabilities	$ 94,840,518	$ 1,523,570	$ 96,364,088	$ 2,719,095	$ 1,208,484	$ 94,853,477

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 Debit	Elimination Entries Credit	Consolidated Balances
Operating Revenues	$ 76,653,419	$ 17,206	$ 76,670,625	$ 17,206	$ -	$ 76,653,419
Operating Expenses						
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
	72,106,467	46,630	72,153,097	-	46,630	72,106,467
Operating Margins Before Interest Expense	4,546,952	(29,424)	4,517,528	17,206	46,630	4,546,952
Interest Expense	248,622	-	248,622	-	-	248,622
Operating Margins After Interest Expense	4,298,330	(29,424)	4,268,906	17,206	46,630	4,298,330
Nonoperating Margins	180,164	-	180,164	29,424	-	150,740
Generation and Transmission Cooperative Capital Credits	126,932	-	126,932	-	-	126,932
Other Capital Credits and Patronage Capital Allocations	150,093	-	150,093	-	-	150,093
Net Margins	$ 4,755,519	$ (29,424)	$ 4,726,095	$ 46,630	$ 46,630	$ 4,726,095

McNAIR McLEMORE MIDDLEBROOKS & CO
CERTIFIED PUBLIC ACCOUNTANTS

389 Mulberry Street | Macon, Georgia 31201
Post Office Box One | Macon, Georgia 31202
478-746-6277 | mmmcpa.com

March 14, 2019

MANAGEMENT LETTER

The Board of Trustees
Black River Electric Cooperative, Inc.

We have audited consolidated financial statements of **Black River Electric Cooperative, Inc. and Subsidiary** (the Cooperative) as of and for the year ended December 31, 2018 and have issued our report thereon dated March 14, 2019. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements (financial statements) are free of material misstatement.

In planning and performing our audit of the financial statements of the Cooperative as of and for the year ended December 31, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the Cooperative's internal control over financial reporting (internal control) as a basis for designing 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 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.

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.

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

McNair, McLemore, Middlebrooks & Co., LLC

McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC

Auditor's Responsibility Under Generally Accepted Auditing Standards

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, 2018. 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, 2018. 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, 2019.

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.