

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

**CONSOLIDATED FINANCIAL STATEMENTS AS OF  
DECEMBER 31, 2020 AND 2019 AND  
INDEPENDENT AUDITOR'S REPORT**

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

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March 10, 2021

## **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, 2020 and 2019 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 consolidated 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 consolidated 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, 2020 and 2019 and the results of their operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

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

**ASSETS**

	<b>2020</b>	<b>2019</b>
<b>Utility Plant</b>		
Electric Plant in Service - At Cost	\$ 139,270,467	\$ 135,625,556
Construction Work in Progress	179,748	77,897
	<b>139,450,215</b>	<b>135,703,453</b>
Accumulated Depreciation	(61,089,722)	(57,639,945)
	<b>78,360,493</b>	<b>78,063,508</b>
<b>Other Property and Investments</b>		
Investments in Associated Organizations	5,901,019	5,888,644
Nonutility Property	1,203,651	1,203,651
Notes Receivable	469,925	469,596
Other Investments	1,253,886	1,145,257
	<b>8,828,481</b>	<b>8,707,148</b>
<b>Current Assets</b>		
Cash and Cash Equivalents	11,330,629	4,429,572
Accounts Receivable (Net of Accumulated Provision for Uncollectible Accounts of \$431,466 in 2020 and \$394,496 in 2019)	4,010,492	4,763,673
Accrued Utility Revenue	4,862,278	4,006,127
Notes Receivable - Current Portion	69,887	80,291
Materials and Supplies	535,786	552,242
Other	5,074,577	5,118,609
	<b>25,883,649</b>	<b>18,950,514</b>
<b>Total Assets</b>	<b>\$ 113,072,623</b>	<b>\$ 105,721,170</b>

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**

	2020	2019
<b>Members' Equity</b>		
Membership Fees	\$ 137,560	\$ 135,120
Patronage Capital	79,989,353	75,237,027
Other Equities	10,101,492	9,734,569
	90,228,405	85,106,716
<b>Long-Term Debt</b>	9,238,744	6,832,944
<b>Other Long-Term Liabilities - Deferred Compensation</b>	929,855	821,942
<b>Current Liabilities</b>		
Long-Term Debt - Current Portion	2,053,306	1,950,000
Other Long-Term Liabilities - Deferred Compensation - Current Portion	7,157	6,440
Accounts Payable	6,131,192	5,597,188
Consumer Deposits	3,101,354	3,006,140
Accrued and Withheld Taxes	658,335	755,849
Other	395,943	254,594
	12,347,287	11,570,211
<b>Deferred Credits</b>	328,332	1,389,357
<b>Total Members' Equity and Liabilities</b>	\$ 113,072,623	\$ 105,721,170

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**

	2020	2019
<b>Operating Revenues</b>	<b>\$ 77,168,054</b>	<b>\$ 81,577,746</b>
<b>Operating Expenses</b>		
Cost of Power	52,267,202	56,486,621
Distribution Operations	3,724,434	3,739,380
Distribution Maintenance	2,721,242	2,764,812
Consumer Accounts	1,529,542	1,892,469
Consumer Service and Information	87,434	184,984
Administrative and General	3,780,567	4,114,126
Depreciation	4,943,412	4,572,587
Taxes	512,463	552,208
	<b>69,566,296</b>	<b>74,307,187</b>
<b>Operating Margins Before Interest Expense</b>	<b>7,601,758</b>	<b>7,270,559</b>
<b>Interest Expense</b>	<b>321,798</b>	<b>356,008</b>
<b>Operating Margins After Interest Expense</b>	<b>7,279,960</b>	<b>6,914,551</b>
<b>Nonoperating Margins</b>	<b>247,712</b>	<b>229,648</b>
<b>Generation and Transmission Cooperative Capital Credits</b>	<b>104,032</b>	<b>113,662</b>
<b>Other Capital Credits and Patronage Capital Allocations</b>	<b>150,042</b>	<b>106,575</b>
<b>Net Margins</b>	<b>\$ 7,781,746</b>	<b>\$ 7,364,436</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, 2020 AND 2019**

	<b>Total Members' Equity</b>	<b>Membership Fees</b>	<b>Patronage Capital</b>	<b>Other Equities</b>
<b>Balance, December 31, 2018</b>	\$ 80,850,218	\$ 133,790	\$ 71,238,753	\$ 9,477,675
Net Margins	7,364,436	-	7,271,384	93,052
Retirement of Patronage Capital	(3,174,781)	-	(3,174,781)	-
Membership Fees	1,330	1,330	-	-
Other Equities	65,513	-	(98,329)	163,842
<b>Balance, December 31, 2019</b>	85,106,716	135,120	75,237,027	9,734,569
Net Margins	7,781,746	-	7,695,058	86,688
Retirement of Patronage Capital	(2,846,774)	-	(2,846,774)	-
Membership Fees	2,440	2,440	-	-
Other Equities	184,277	-	(95,958)	280,235
<b>Balance, December 31, 2020</b>	<b>\$ 90,228,405</b>	<b>\$ 137,560</b>	<b>\$ 79,989,353</b>	<b>\$ 10,101,492</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**

	2020	2019
<b>Cash Flows from Operating Activities</b>		
Net Margins	\$ 7,781,746	\$ 7,364,436
Adjustments to Reconcile Net Margins to Net Cash Provided from Operating Activities		
Depreciation	5,386,384	4,977,700
Patronage Capital from Associated Organizations	(315,561)	(499,381)
Deferred Revenue	(1,039,240)	(1,012,195)
<b>Change In</b>		
Accounts Receivable	(102,970)	(410,089)
Other Current Assets	44,032	20,401
Other Long-Term Liabilities - Deferred Compensation	108,630	59,548
Accounts Payable	534,004	(69,242)
Consumer Deposits	95,214	32,572
Other Current Liabilities	43,835	105,937
Deferred Credits	(21,785)	(14,437)
	<b>12,514,289</b>	<b>10,555,250</b>
<b>Cash Flows from Investing Activities</b>		
Extension and Replacement of Plant	(5,683,369)	(10,381,710)
Return of Equity from Associated Organizations	303,186	128,419
Materials and Supplies	16,456	55,288
Notes Receivable	(98,554)	(54,029)
	<b>(5,462,281)</b>	<b>(10,252,032)</b>
<b>Cash Flows from Financing Activities</b>		
Advances from Long-Term Debt	4,377,000	5,000,000
Principal Repayment of Long-Term Debt	(1,867,894)	(2,167,056)
Membership Fees	2,440	1,330
Retirement of Patronage Capital	(2,846,774)	(3,174,781)
Other Equities	184,277	65,513
	<b>(150,951)</b>	<b>(274,994)</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>6,901,057</b>	<b>28,224</b>
<b>Cash and Cash Equivalents - Beginning</b>	<b>4,429,572</b>	<b>4,401,348</b>
<b>Cash and Cash Equivalents - Ending</b>	<b>\$ 11,330,629</b>	<b>\$ 4,429,572</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 Corporation (BREDC), is a for-profit corporation 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.

The costs of maintenance, repairs, and replacements of minor items of property are charged to maintenance expense accounts.

### ***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. Recoveries of accounts receivable previously written off are recorded against the allowance when received. 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 79.80 percent and 80.50 percent of total assets as of December 31, 2020 and 2019, 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 \$23,428,744 and \$21,801,945 for the years ended December 31, 2020 and 2019, respectively.

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

### ***Revenue Recognition***

Electric revenue is generated from contracts with retail electric customers. This revenue, generated from the integrated service to deliver electricity when and if called upon by the customer, is recognized as a single performance obligation satisfied over time and as electricity is delivered to the customer during the month. Electric revenue includes patronage capital and is 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. Unbilled revenue related to retail sales is accrued at the end of each fiscal period. Accrued but unbilled utility revenue totals \$4,862,278 and \$4,006,127 as of December 31, 2020 and 2019, 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, 2020. Accordingly, no provision for income taxes has been made in the consolidated financial statements. BRECI's federal information returns for calendar years 2017 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 years 2017 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 Pronouncement*

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 was to become effective for private companies for fiscal years beginning after December 15, 2020. On June 3, 2020, as a result of COVID-19, the FASB amended the effective dates for *Topic 842*, through the issuance of ASU 2020-05, to fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. 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 in 2022 is not expected to have a material impact on the consolidated financial statements.

## (2) Utility Plant

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

	<u>2020</u>	<u>2019</u>
Electric Plant		
Intangible	\$ 360	\$ 360
Distribution	125,919,751	122,647,020
General	<u>13,350,356</u>	<u>12,978,176</u>
<b>Electric Plant in Service</b>	<b>139,270,467</b>	<b>135,625,556</b>
Construction Work in Progress	<u>179,748</u>	<u>77,897</u>
	<u><u>\$ 139,450,215</u></u>	<u><u>\$ 135,703,453</u></u>

### (3) Investments in Associated Organizations

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

	<u>2020</u>	<u>2019</u>
National Rural Utilities Cooperative Finance Corporation		
Membership Fee	\$ 1,000	\$ 1,000
Capital Term Certificates	1,050,425	1,136,725
Capital Credits	66,636	74,734
Central Electric Power Cooperative, Inc.		
Capital Credits	2,918,865	2,814,833
Cooperative Electric Energy Utility Supply, Inc.		
Membership Fee	2,500	2,500
Capital Credits	1,283,148	1,327,955
Federated Rural Electric Insurance Exchange		
Capital Credits	348,366	333,156
CoBank		
Membership Fee	1,000	1,000
Capital Credits	206,279	175,902
National Cooperative Services Corporation		
Membership Fee	100	100
Cooperative Response Center, Inc.		
Contributed Capital	10,000	10,000
Capital Credits	12,641	10,739
Southeastern Data Cooperative		
Capital Credits	59	-
	<u>\$ 5,901,019</u>	<u>\$ 5,888,644</u>

### (4) Nonutility Property

Nonutility property, totaling \$1,203,651 as of December 31, 2020 and 2019, 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:

	<u>2020</u>	<u>2019</u>
Energy Efficiency Loans	\$ 339,812	\$ 349,887
Economic Development Loan	<u>200,000</u>	<u>200,000</u>
	539,812	549,887
Current Portion	<u>(69,887)</u>	<u>(80,291)</u>
	<u>\$ 469,925</u>	<u>\$ 469,596</u>

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:

	<u>2020</u>	<u>2019</u>
Investment in Industrial Park	\$ 316,875	\$ 316,875
Deferred Compensation Investments (See Note 10)	<u>937,011</u>	<u>828,382</u>
	<u>\$ 1,253,886</u>	<u>\$ 1,145,257</u>

The investment in industrial park is BREDC'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 \$4,731,636 and \$4,737,374 as of December 31, 2020 and 2019, respectively.



## (8) Other Equities

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

	<u>2020</u>	<u>2019</u>
Operating Margins	\$ 11,967	\$ 11,967
Nonoperating Margins	70,695	70,695
Accrued Utility Revenue Prior to 2018	3,611,000	3,611,000
Undistributed Loss in Subsidiary	(1,269,519)	(1,252,175)
Capital Credits Earned - Central Electric Power Cooperative, Inc.	3,081,475	2,977,443
Retired Capital Credits - Gain	1,930,789	1,746,244
Donated Capital	2,665,085	2,569,395
	<u>\$ 10,101,492</u>	<u>\$ 9,734,569</u>

## (9) Debt

Long-term debt consists primarily of mortgage notes payable to the National Rural Utilities Finance Corporation (NRUCFC) and CoBank. Substantially all the assets of the Corporation are pledged as security for long-term debt of the Corporation. The loans have 10-year maturity periods and are payable on an installment basis. The loans contain certain affirmative and negative covenants, including maintenance of certain financial ratios as defined in the agreement. At December 31, 2020 and 2019, the Cooperative was in compliance with the covenants.

Long-term debts consist of the following as of December 31:

<u>Holder of Note</u>	<u>Blended Interest Rate at December 31, 2020</u>	<u>2020</u>	<u>2019</u>
CoBank	3.81%	\$ 6,915,050	\$ 8,782,944
CFC	1.79%	4,377,000	-
		<u>11,292,050</u>	8,782,944
Maturities Due Within One Year		<u>(2,053,306)</u>	<u>(1,950,000)</u>
		<u>\$ 9,238,744</u>	<u>\$ 6,832,944</u>

The Corporation has \$5,623,000 in unadvanced loan funds on commitment from NRUCFC. The availability of the funds is contingent on the Corporation'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, 2020 and 2019. The line-of-credit is secured by assets of the Cooperative.

Cash payments of interest totaled \$318,681 and \$341,628 for the years ended December 31, 2020 and 2019, respectively.

## **(9) Debt (Continued)**

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

<u>Year</u>	<u>Amount</u>
2021	\$ 2,053,306
2022	2,082,000
2023	1,211,811
2024	942,462
2025	975,097

## **(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. It is considered a multi-employer plan under the accounting standards. The plan sponsor's employer identification number is 53-0116145 and the plan number is 333.

A unique characteristic of a multi-employer 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 \$1,502,100 and \$1,434,220 for the years ended December 31, 2020 and 2019, 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, 2021 and 2020 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 \$58,905 and \$54,651 for the years ended December 31, 2020 and 2019, respectively.

## (10) Retiree Benefits (Continued)

### *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 \$937,011 and \$828,382 as of December 31, 2020 and 2019, 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>2020</u>	<u>2019</u>
Unearned Rental Income	\$ 15,552	\$ 15,552
Unclaimed Capital Credits Settlement	86,280	86,565
Regulatory Liability - Deferred Revenue	-	1,039,240
Other	226,500	248,000
	<u>\$ 328,332</u>	<u>\$ 1,389,357</u>

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

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

	<u>2020</u>	<u>2019</u>
Beginning Balance	\$ 1,039,240	\$ 2,051,435
Current Year Deferral	-	-
Current Year Recognition	(1,039,240)	(1,012,195)
Ending Balance	<u>\$ -</u>	<u>\$ 1,039,240</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>2020</u>	<u>2019</u>
Deferred Compensation Investments			
Short-Term Bond Funds	(1)	\$ 192,067	\$ 113,847
Stock Funds	(1)	744,945	714,535
		<u>\$ 937,012</u>	<u>\$ 828,382</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, 2020, the carrying amount of the Cooperative's cash and cash equivalents was \$11,330,629. Of this balance, \$10,960,427 was covered under a repurchase agreement, maturing January 2, 2020. 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 10, 2021, the date the consolidated financial statements were available to be issued.

## **(17) Risks and Uncertainties**

As of the issuance date of these consolidated financial statements, the Coronavirus pandemic (COVID-19) was continuing to have an adverse effect on financial markets. The effects of COVID-19 are widespread and unprecedented. However, the full impact of COVID-19 is uncertain as to the full magnitude that the pandemic will have on the Cooperative's financial condition, liquidity, and future results of operations are uncertain and difficult to predict considering the rapidly evolving landscape. The board of trustees is actively monitoring the situation but, given the daily evolution of the COVID-19 outbreak, the Cooperative is not able to estimate the effects at this time.

## **(18) Paycheck Protection Program**

On April 22, 2020, the Cooperative qualified for and received a loan pursuant to the Paycheck Protection Program (PPP), a program implemented by the U.S. Small Business Administration (the SBA) under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), from a qualified lender (the PPP Lender), for an aggregate principal amount of approximately \$1,413,500 (the PPP Loan). The PPP Loan bears interest at a fixed rate of 1 percent per annum, with the first six months of interest deferred, has a term of two years, and is unsecured and guaranteed by the SBA. The principal amount of the PPP Loan is subject to forgiveness under the PPP, upon the Cooperative's request, to the extent that the PPP Loan proceeds are used to pay expenses permitted by the PPP, including payroll costs, covered rent and interest, and covered utility payments incurred by the Cooperative.

### **(18) Paycheck Protection Program (Continued)**

As permitted under U.S. GAAP, the Cooperative has analogized to Internal Accounting Standards (IAS) 20, *Accounting for Government Grants and Disclosure of Government Assistance* in its accounting for PPP loan forgiveness. Under the income approach detailed in IAS 20, when there is reasonable assurance (probable under U.S. GAAP) that an entity has systematically met the terms of forgiveness for a government loan, the loan amount is converted to a government grant as the requirements for conversion are met. As of December 31, 2020, the Cooperative has determined that sufficient qualifying expenses have been incurred and the full amount of the initial loan has qualified for conversion to a government grant. As such, the \$1,413,500 has been recorded as an offset to qualifying expenses during the year ended December 31, 2020. On February 6, 2021, the Cooperative received notification from PPP lender that full forgiveness was approved by the SBA.

March 10, 2021

**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, 2020 and 2019, and our report thereon dated March 10, 2021, which contained an unmodified opinion on those consolidated financial statements. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying information on pages 22 through 25 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, 2020**

	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	\$ 139,270,467	\$ -	\$ 139,270,467	\$ -	\$ -	\$ 139,270,467
Construction Work in Progress	179,748	-	179,748	-	-	179,748
	139,450,215	-	139,450,215	-	-	139,450,215
Accumulated Depreciation	(61,089,722)	-	(61,089,722)	-	-	(61,089,722)
	78,360,493	-	78,360,493	-	-	78,360,493
<b>Other Property and Investments</b>						
Investments in Associated Organizations	5,901,019	-	5,901,019	-	-	5,901,019
Investment in Subsidiary	(1,269,519)	-	(1,269,519)	1,269,519	-	-
Nonutility Property	2,950	1,200,701	1,203,651	-	-	1,203,651
Notes Receivable	1,766,808	200,000	1,966,808	-	1,496,883	469,925
Other Investments	937,011	316,875	1,253,886	-	-	1,253,886
	7,338,269	1,717,576	9,055,845	1,269,519	1,496,883	8,828,481
<b>Current Assets</b>						
Cash and Cash Equivalents	11,330,629	-	11,330,629	-	-	11,330,629
Accounts Receivable (Net)	4,010,492	-	4,010,492	-	-	4,010,492
Accrued Utility Revenue	4,862,278	-	4,862,278	-	-	4,862,278
Accounts Receivable - Intercompany	1,474,660	-	1,474,660	-	1,474,660	-
Notes Receivable - Current Portion	69,887	-	69,887	-	-	69,887
Materials and Supplies	535,786	-	535,786	-	-	535,786
Other	5,074,577	-	5,074,577	-	-	5,074,577
	27,358,309	-	27,358,309	-	1,474,660	25,883,649
<b>Total Assets</b>	<b>\$ 113,057,071</b>	<b>\$ 1,717,576</b>	<b>\$ 114,774,647</b>	<b>\$ 1,269,519</b>	<b>\$ 2,971,543</b>	<b>\$ 113,072,623</b>
<b>MEMBERS' EQUITY AND LIABILITIES</b>						
<b>Members' Equity</b>						
Membership Fees	\$ 137,560	\$ -	\$ 137,560	\$ -	\$ -	\$ 137,560
Patronage Capital	79,989,353	-	79,989,353	-	-	79,989,353
Other Equities	10,101,492	(1,269,519)	8,831,973	-	1,269,519	10,101,492
	90,228,405	(1,269,519)	88,958,886	-	1,269,519	90,228,405
<b>Long-Term Debt</b>	<b>9,238,744</b>	<b>-</b>	<b>9,238,744</b>	<b>-</b>	<b>-</b>	<b>9,238,744</b>
<b>Other Long-Term Liabilities - Deferred Compensation</b>	<b>929,855</b>	<b>-</b>	<b>929,855</b>	<b>-</b>	<b>-</b>	<b>929,855</b>
<b>Current Liabilities</b>						
Long-Term Debt - Current Portion	2,053,306	-	2,053,306	-	-	2,053,306
Other Long-Term Liabilities - Deferred Compensation - Current Portion	7,157	-	7,157	-	-	7,157
Accounts Payable	6,131,192	-	6,131,192	-	-	6,131,192
Accounts Payable - Intercompany	-	1,474,660	1,474,660	1,474,660	-	-
Demand Note Payable to Parent Company	-	1,496,883	1,496,883	1,496,883	-	-
Consumer Deposits	3,101,354	-	3,101,354	-	-	3,101,354
Accrued and Withheld Taxes	658,335	-	658,335	-	-	658,335
Other	395,943	-	395,943	-	-	395,943
	12,347,287	2,971,543	15,318,830	2,971,543	-	12,347,287
<b>Deferred Credits</b>	<b>312,780</b>	<b>15,552</b>	<b>328,332</b>	<b>-</b>	<b>-</b>	<b>328,332</b>
<b>Total Members' Equity and Liabilities</b>	<b>\$ 113,057,071</b>	<b>\$ 1,717,576</b>	<b>\$ 114,774,647</b>	<b>\$ 2,971,543</b>	<b>\$ 1,269,519</b>	<b>\$ 113,072,623</b>



**BLACK RIVER ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY**  
**CONSOLIDATING STATEMENT OF OPERATIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

	Black River Electric Cooperative, Inc.	Black River Economic Development Corporation	Totals	Elimination Entries		Consolidated Balances
				Debit	Credit	
<b>Operating Revenues</b>	\$ 77,168,054	\$ 29,036	\$ 77,197,090	\$ 29,036	\$ -	\$ 77,168,054
<b>Operating Expenses</b>						
Cost of Power	52,267,202	-	52,267,202	-	-	52,267,202
Distribution Operations	3,724,434	-	3,724,434	-	-	3,724,434
Distribution Maintenance	2,721,242	16,302	2,737,544	-	16,302	2,721,242
Consumer Accounts	1,529,542	-	1,529,542	-	-	1,529,542
Consumer Service and Information	87,434	-	87,434	-	-	87,434
Administrative and General	3,780,567	27,858	3,808,425	-	27,858	3,780,567
Depreciation	4,943,412	-	4,943,412	-	-	4,943,412
Taxes	512,463	2,220	514,683	-	2,220	512,463
	<u>69,566,296</u>	<u>46,380</u>	<u>69,612,676</u>	<u>-</u>	<u>46,380</u>	<u>69,566,296</u>
<b>Operating Margins Before Interest Expense</b>	7,601,758	(17,344)	7,584,414	29,036	46,380	7,601,758
<b>Interest Expense</b>	<u>321,798</u>	<u>-</u>	<u>321,798</u>	<u>-</u>	<u>-</u>	<u>321,798</u>
<b>Operating Margins After Interest Expense</b>	7,279,960	(17,344)	7,262,616	29,036	46,380	7,279,960
<b>Nonoperating Margins</b>	265,056	-	265,056	17,344	-	247,712
<b>Generation and Transmission Cooperative Capital Credits</b>	104,032	-	104,032	-	-	104,032
<b>Other Capital Credits and Patronage Capital Allocations</b>	<u>150,042</u>	<u>-</u>	<u>150,042</u>	<u>-</u>	<u>-</u>	<u>150,042</u>
<b>Net Margins</b>	<u>\$ 7,799,090</u>	<u>\$ (17,344)</u>	<u>\$ 7,781,746</u>	<u>\$ 46,380</u>	<u>\$ 46,380</u>	<u>\$ 7,781,746</u>

**BLACK RIVER ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY**  
**CONSOLIDATING BALANCE SHEET**  
**DECEMBER 31, 2019**

	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	\$ 135,625,556	\$ -	\$ 135,625,556	\$ -	\$ -	\$ 135,625,556
Construction Work in Progress	77,897	-	77,897	-	-	77,897
	135,703,453	-	135,703,453	-	-	135,703,453
Accumulated Depreciation	(57,639,945)	-	(57,639,945)	-	-	(57,639,945)
	78,063,508	-	78,063,508	-	-	78,063,508
<b>Other Property and Investments</b>						
Investments in Associated Organizations	5,888,644	-	5,888,644	-	-	5,888,644
Investment in Subsidiary	(1,252,175)	-	(1,252,175)	1,252,175	-	-
Nonutility Property	2,950	1,200,701	1,203,651	-	-	1,203,651
Notes Receivable	1,766,479	200,000	1,966,479	-	1,496,883	469,596
Other Investments	828,382	316,875	1,145,257	-	-	1,145,257
	7,234,280	1,717,576	8,951,856	1,252,175	1,496,883	8,707,148
<b>Current Assets</b>						
Cash and Cash Equivalents	4,429,572	-	4,429,572	-	-	4,429,572
Accounts Receivable (Net)	4,763,673	-	4,763,673	-	-	4,763,673
Accrued Utility Revenue	4,006,127	-	4,006,127	-	-	4,006,127
Accounts Receivable - Intercompany	1,457,316	-	1,457,316	-	1,457,316	-
Notes Receivable - Current Portion	80,291	-	80,291	-	-	80,291
Materials and Supplies	552,242	-	552,242	-	-	552,242
Other	5,118,609	-	5,118,609	-	-	5,118,609
	20,407,830	-	20,407,830	-	1,457,316	18,950,514
<b>Total Assets</b>	<b>\$ 105,705,618</b>	<b>\$ 1,717,576</b>	<b>\$ 107,423,194</b>	<b>\$ 1,252,175</b>	<b>\$ 2,954,199</b>	<b>\$ 105,721,170</b>
<b>MEMBERS' EQUITY AND LIABILITIES</b>						
<b>Members' Equity</b>						
Membership Fees	\$ 135,120	\$ -	\$ 135,120	\$ -	\$ -	\$ 135,120
Patronage Capital	75,237,027	-	75,237,027	-	-	75,237,027
Other Equities	9,734,569	(1,252,175)	8,482,394	-	1,252,175	9,734,569
	85,106,716	(1,252,175)	83,854,541	-	1,252,175	85,106,716
<b>Long-Term Debt</b>	<b>6,832,944</b>	<b>-</b>	<b>6,832,944</b>	<b>-</b>	<b>-</b>	<b>6,832,944</b>
<b>Other Long-Term Liabilities - Deferred</b>						
Compensation	821,942	-	821,942	-	-	821,942
<b>Current Liabilities</b>						
Long-Term Debt - Current Portion	1,950,000	-	1,950,000	-	-	1,950,000
Other Long-Term Liabilities - Deferred						
Compensation - Current Portion	6,440	-	6,440	-	-	6,440
Accounts Payable	5,597,188	-	5,597,188	-	-	5,597,188
Accounts Payable - Intercompany	-	1,457,316	1,457,316	1,457,316	-	-
Demand Note Payable to Parent Company	-	1,496,883	1,496,883	1,496,883	-	-
Consumer Deposits	3,006,140	-	3,006,140	-	-	3,006,140
Accrued and Withheld Taxes	755,849	-	755,849	-	-	755,849
Other	254,594	-	254,594	-	-	254,594
	11,570,211	2,954,199	14,524,410	2,954,199	-	11,570,211
<b>Deferred Credits</b>	<b>1,373,805</b>	<b>15,552</b>	<b>1,389,357</b>	<b>-</b>	<b>-</b>	<b>1,389,357</b>
<b>Total Members' Equity and Liabilities</b>	<b>\$ 105,705,618</b>	<b>\$ 1,717,576</b>	<b>\$ 107,423,194</b>	<b>\$ 2,954,199</b>	<b>\$ 1,252,175</b>	<b>\$ 105,721,170</b>

**BLACK RIVER ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY**  
**CONSOLIDATING STATEMENT OF OPERATIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	Black River Electric Cooperative, Inc.	Black River Economic Development Corporation	Totals	Elimination Entries		Consolidated Balances
				Debit	Credit	
<b>Operating Revenues</b>	\$ 81,577,746	\$ 26,444	\$ 81,604,190	\$ 26,444	\$ -	\$ 81,577,746
<b>Operating Expenses</b>						
Cost of Power	56,486,621	-	56,486,621	-	-	56,486,621
Distribution Operations	3,739,380	-	3,739,380	-	-	3,739,380
Distribution Maintenance	2,764,812	16,991	2,781,803	-	16,991	2,764,812
Consumer Accounts	1,892,469	-	1,892,469	-	-	1,892,469
Consumer Service and Information	184,984	-	184,984	-	-	184,984
Administrative and General	4,114,126	27,858	4,141,984	-	27,858	4,114,126
Depreciation	4,572,587	-	4,572,587	-	-	4,572,587
Taxes	552,208	2,205	554,413	-	2,205	552,208
	<u>74,307,187</u>	<u>47,054</u>	<u>74,354,241</u>	<u>-</u>	<u>47,054</u>	<u>74,307,187</u>
<b>Operating Margins Before Interest Expense</b>	7,270,559	(20,610)	7,249,949	26,444	47,054	7,270,559
<b>Interest Expense</b>	<u>356,008</u>	<u>-</u>	<u>356,008</u>	<u>-</u>	<u>-</u>	<u>356,008</u>
<b>Operating Margins After Interest Expense</b>	6,914,551	(20,610)	6,893,941	26,444	47,054	6,914,551
<b>Nonoperating Margins</b>	250,258	-	250,258	20,610	-	229,648
<b>Generation and Transmission Cooperative Capital Credits</b>	113,662	-	113,662	-	-	113,662
<b>Other Capital Credits and Patronage Capital Allocations</b>	<u>106,575</u>	<u>-</u>	<u>106,575</u>	<u>-</u>	<u>-</u>	<u>106,575</u>
<b>Net Margins</b>	<u>\$ 7,385,046</u>	<u>\$ (20,610)</u>	<u>\$ 7,364,436</u>	<u>\$ 47,054</u>	<u>\$ 47,054</u>	<u>\$ 7,364,436</u>

March 10, 2021

## 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, 2020 and have issued our report thereon dated March 10, 2021. 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, 2020, 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

**BLACK RIVER ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY**  
**MATTERS TO BE COMMUNICATED WITH THE BOARD OF TRUSTEES**  
**DECEMBER 31, 2020**

**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 (the Cooperative) 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, 2020. 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
- Accrued utility revenue
- 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. The financial statement disclosures are neutral, consistent, and clear.

## **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, 2020. 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 10, 2021.

## **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.