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

CONSOLIDATED FINANCIAL STATEMENTS AS OF
DECEMBER 31, 2021 AND 2020 AND
INDEPENDENT AUDITOR'S REPORT

BLACK RIVER ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

CONTENTS

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March 15, 2022

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Black River Electric Cooperative, Inc. and Subsidiary

Opinion

We have audited the consolidated financial statements of **Black River Electric Cooperative, Inc. and Subsidiary**, which comprise the consolidated balance sheets as of December 31, 2021 and 2020, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Black River Electric Cooperative, Inc. and Subsidiary as of December 31, 2021 and 2020, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Black River Electric Cooperative, Inc. and Subsidiary and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Black River Electric Cooperative, Inc. and Subsidiary's ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Black River Electric Cooperative, Inc. and Subsidiary's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Black River Electric Cooperative, Inc. and Subsidiary's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

McNair, McLemore, Middlebrooks & Co., LLC

McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC

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

ASSETS

	2021	2020
Utility Plant		
Electric Plant in Service - At Cost	**$ 144,028,661**	$ 139,270,467
Construction Work in Progress	**722,522**	179,748
	144,751,183	139,450,215
Accumulated Depreciation	**(63,714,476)**	(61,089,722)
	81,036,707	78,360,493
Other Property and Investments		
Investments in Associated Organizations	**6,266,541**	5,901,019
Nonutility Property	**839,542**	1,203,651
Notes Receivable	**1,270,051**	469,925
Other Investments	**1,482,563**	1,253,886
	9,858,697	8,828,481
Current Assets		
Cash and Cash Equivalents	**8,414,191**	11,330,629
Accounts Receivable (Net of Accumulated Provision for Uncollectible Accounts of $504,319 in 2021 and $431,466 in 2020)	**3,731,722**	4,010,492
Accrued Utility Revenue	**4,272,851**	4,862,278
Notes Receivable - Current Portion	**419,119**	69,887
Materials and Supplies	**1,071,476**	535,786
Other	**5,069,718**	5,074,577
	22,979,077	25,883,649
Total Assets	**$ 113,874,481**	$ 113,072,623

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

	2021	2020
Members' Equity		
Membership Fees	**$ 138,675**	$ 137,560
Patronage Capital	**81,842,654**	79,989,353
Other Equities	**10,713,759**	10,101,492
	92,695,088	90,228,405
Long-Term Debt	**8,017,388**	9,238,744
Other Long-Term Liabilities - Deferred Compensation	**1,157,276**	929,854
Current Liabilities		
Long-Term Debt - Current Portion	**2,175,423**	2,053,306
Other Long-Term Liabilities - Deferred Compensation - Current Portion	**8,412**	7,157
Accounts Payable	**4,577,434**	6,131,192
Consumer Deposits	**3,172,909**	3,101,354
Accrued and Withheld Taxes	**680,968**	658,335
Other	**406,408**	395,944
	11,021,554	12,347,288
Deferred Credits	**983,175**	328,332
Total Members' Equity and Liabilities	**$ 113,874,481**	$ 113,072,623

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

	2021	2020
Operating Revenues	$ **78,470,486**	$ 77,168,054
Operating Expenses		
Cost of Power	**52,972,472**	52,267,202
Distribution Operations	**3,907,190**	3,724,434
Distribution Maintenance	**3,358,115**	2,721,242
Consumer Accounts	**1,677,002**	1,529,542
Consumer Service and Information	**186,111**	87,434
Administrative and General	**4,606,965**	3,780,567
Depreciation	**5,020,386**	4,943,412
Taxes	**537,135**	512,463
	72,265,376	69,566,296
Operating Margins Before Interest Expense	**6,205,110**	7,601,758
Interest Expense	**338,977**	321,798
Operating Margins After Interest Expense	**5,866,133**	7,279,960
Nonoperating Margins	**206,352**	247,712
Generation and Transmission Cooperative Capital Credits	**164,991**	104,032
Other Capital Credits and Patronage Capital Allocations	**125,848**	150,042
Net Margins	$ **6,363,324**	$ 7,781,746

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, 2021 AND 2020

	Total Members' Equity	Membership Fees	Patronage Capital	Other Equities
Balance, December 31, 2019	$ 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
Balance, December 31, 2020	90,228,405	137,560	79,989,353	10,101,492
Net Margins	6,363,324	-	6,193,562	169,762
Retirement of Patronage Capital	(4,243,141)	-	(4,243,141)	-
Membership Fees	1,115	1,115	-	-
Other Equities	345,385	-	(97,120)	442,505
Balance, December 31, 2021	**$ 92,695,088**	**$ 138,675**	**$ 81,842,654**	**$ 10,713,759**

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

		2021		2020
Cash Flows from Operating Activities				
Net Margins	**$**	**6,363,324**	$	7,781,746
Adjustments to Reconcile Net Margins				
to Net Cash Provided from Operating Activities				
Depreciation		**5,503,409**		5,386,384
Patronage Capital from Associated Organizations		**(470,639)**		(315,561)
Deferred Revenue		**-**		(1,039,240)
Gain from Sale of Nonutility Property		**(21,081)**		-
Forgiveness of PPP Long-Term Debt		**-**		(1,413,500)
Change In				
Accounts Receivable		**278,770**		(102,970)
Accrued Utility Revenue		**589,427**		-
Other Current Assets		**4,859**		44,032
Other Long-Term Liabilities - Deferred Compensation		**228,677**		108,630
Accounts Payable		**(1,553,758)**		534,004
Consumer Deposits		**71,555**		95,214
Other Current Liabilities		**33,097**		43,835
Deferred Credits		**654,843**		(21,785)
		11,682,483		11,100,789
Cash Flows from Investing Activities				
Extension and Replacement of Plant		**(8,179,623)**		(5,683,369)
Return of Equity from Associated Organizations		**105,117**		303,186
Nonutility Property		**385,190**		-
Materials and Supplies		**(535,690)**		16,456
Notes Receivable		**(1,378,035)**		(98,554)
		(9,603,041)		(5,462,281)
Cash Flows from Financing Activities				
Advances from PPP Long-Term Debt		**-**		1,413,500
Advances from Long-Term Debt		**1,000,000**		4,377,000
Principal Repayment of Long-Term Debt		**(2,099,239)**		(1,867,894)
Membership Fees		**1,115**		2,440
Retirement of Patronage Capital		**(4,243,141)**		(2,846,774)
Other Equities		**345,385**		184,277
		(4,995,880)		1,262,549
Net Increase (Decrease) in Cash and Cash Equivalents		**(2,916,438)**		6,901,057
Cash and Cash Equivalents - Beginning		**11,330,629**		4,429,572
Cash and Cash Equivalents - Ending	**$**	**8,414,191**	$	11,330,629

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 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 81.40 percent and 79.80 percent of total assets as of December 31, 2021 and 2020, 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 $26,008,256 and $23,428,744 for the years ended December 31, 2021 and 2020, 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 and reported as accrued utility revenue on the consolidated balance sheets.

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, 2021. Accordingly, no provision for income taxes has been made in the consolidated financial statements. BRECI's federal information returns for calendar years 2018 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 2018 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)

Reclassifications

Certain reclassifications have been made within the December 31, 2020 financial statements to conform to the December 31, 2021 presentation.

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. The Cooperative can exercise a practical expedient and not apply retrospectively. 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:

	2021	2020
Electric Plant		
Intangible	**$ 360**	$ 360
Distribution	**129,862,840**	125,919,750
General	**14,165,461**	13,350,357
Electric Plant in Service	**144,028,661**	139,270,467
Construction Work in Progress	**722,522**	179,748
	$ 144,751,183	$ 139,450,215

(3) Investments in Associated Organizations

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

	2021	2020
National Rural Utilities Cooperative Finance Corporation		
Membership Fee	**$ 1,000**	$ 1,000
Capital Term Certificates	**1,050,425**	1,050,425
Capital Credits	**59,220**	66,636
Central Electric Power Cooperative, Inc.		
Capital Credits	**3,083,855**	2,918,865
Cooperative Electric Energy Utility Supply, Inc.		
Membership Fee	**2,500**	2,500
Capital Credits	**1,445,495**	1,283,148
Federated Rural Electric Insurance Exchange		
Capital Credits	**366,878**	348,366
CoBank		
Membership Fee	**1,000**	1,000
Capital Credits	**231,228**	206,279
National Cooperative Services Corporation		
Membership Fee	**100**	100
Cooperative Response Center, Inc.		
Contributed Capital	**10,000**	10,000
Capital Credits	**14,113**	12,641
Southeastern Data Cooperative		
Capital Credits	**727**	59
	$ 6,266,541	$ 5,901,019

(4) Nonutility Property

Nonutility property, totaling $839,542 and $1,203,651 as of December 31, 2021 and 2020, respectively, consists of land and improvements for the development of industrial sites to attract new industry into the Cooperative’s service area. The nonutility property is accounted for on the cost basis.

(5) Notes Receivable

Notes receivable consist of the following as of December 31:

	2021	2020
Shaw Air Force Base Electrical Resiliency Loan	**$ 1,184,287**	$ -
Energy Efficiency Loans	**304,883**	339,812
Economic Development Loan	**200,000**	200,000
	1,689,170	539,812
Current Portion	**(419,119)**	(69,887)
	$ 1,270,051	$ 469,925

BRECI made an electrical resiliency loan to Shaw Air Force Base. The loan is payable over a five-year period. The loan carries a 4 percent interest rate and is payable in a combination of monthly installments and capital credit retirements.

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) Accounts Receivable and Contract Balances

Accounts receivable, contract assets, and contract liabilities related to revenue from contracts with customers consist of the following as of December 31:

	2021	2020	2019
Accounts Receivable	**$ 3,731,722**	$ 4,010,492	$ 4,763,673
Contract Assets			
Accrued Utility Revenue	**4,272,851**	4,862,278	4,006,127
Total Receivables and Contract Balances	**$ 8,004,573**	$ 8,872,770	$ 8,769,800

(7) Other Investments

Other investments consist of the following as of December 31:

		2021		2020
Investment in Industrial Park	**$**	**316,875**	$	316,875
Deferred Compensation Investments (See Note 11)		**1,165,688**		937,011
	$	**1,482,563**	$	1,253,886

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.

(8) 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 $4,731,566 and $4,731,636 as of December 31, 2021 and 2020, respectively.

(9) Other Equities

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

		2021		2020
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		**(1,264,748)**		(1,269,519)
Capital Credits Earned - Central Electric Power Cooperative, Inc.		**3,246,466**		3,081,475
Retired Capital Credits - Gain		**2,276,174**		1,930,789
Donated Capital		**2,762,205**		2,665,085
	$	**10,713,759**	$	10,101,492

(10) 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 Cooperative are pledged as security for long-term debt of the Cooperative. 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, 2021 and 2020, the Cooperative was in compliance with the covenants.

(10) Debt (Continued)

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

Holder of Note	Blended Interest Rate at December 31, 2021	2021	2020
CoBank	4.15%	**$ 5,276,366**	$ 7,329,672
NRUCFC	1.90%	**4,916,445**	3,962,378
		10,192,811	11,292,050
Maturities Due Within One Year		**(2,175,423)**	(2,053,306)
		$ 8,017,388	$ 9,238,744

The Cooperative has $4,623,000 in unadvanced loan funds on commitment from 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, 2021 and 2020. The line-of-credit is secured by assets of the Cooperative.

Cash payments of interest totaled $343,330 and $318,681 for the years ended December 31, 2021 and 2020, respectively.

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

Year	Amount
2022	$ 2,175,423
2023	1,307,458
2024	1,040,386
2025	1,075,353
2026	1,111,343

(11) 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.

(11) Retiree Benefits (Continued)

Pension Plan (Defined Benefit)

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 $1,522,208 and $1,502,100 for the years ended December 31, 2021 and 2020, 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, 2022 and 2021 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 $64,046 and $58,905 for the years ended December 31, 2021 and 2020, 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 $1,165,688 and $937,011 as of December 31, 2021 and 2020, 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 15).

(12) Deferred Credits

Deferred credits consist of the following as of December 31:

	2021	2020
Unearned Rental Income	**$ 15,552**	$ 15,552
Unclaimed Capital Credits Settlement	**86,530**	86,280
SC Stay Plus Program - Energy Assistance Advanced Payment	**680,593**	-
Lot Deposits	**194,000**	226,500
Other	**6,500**	-
	$ 983,175	$ 328,332

(13) 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.

(14) 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.

(15) Fair Value of Financial Instruments

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:

Description	**Level**	**2021**	2020
Deferred Compensation Investments			
Short-Term Bond Funds	(1)	**$ 211,688**	$ 192,066
Stock Funds	(1)	**954,000**	744,945
		$ 1,165,688	$ 937,011

(16) 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, 2021, the carrying amount of the Cooperative's cash and cash equivalents was $8,414,191. Of this balance, $8,251,000 was covered under a repurchase agreement, maturing January 3, 2022. 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.

(17) Subsequent Events

In preparing these consolidated financial statements, the Cooperative has evaluated events and transactions for potential recognition or disclosure through March 15, 2022, the date the consolidated financial statements were available to be issued.

(18) 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.

(19) 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.

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.

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March 15, 2022

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

The Board of Trustees
Black River Electric Cooperative, Inc. and Subsidiary

We have audited the consolidated financial statements of **Black River Electric Cooperative, Inc. and Subsidiary** as of and for the years ended December 31, 2021 and 2020 and have issued our report thereon dated March 15, 2022, which contained an unmodified opinion on those consolidated financial statements. Our audits were performed 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, 2021

	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	$ 144,028,661	$ -	$ 144,028,661	$ -	$ -	**$ 144,028,661**
Construction Work in Progress	722,522	-	722,522	-	-	**722,522**
	144,751,183	-	144,751,183	-	-	**144,751,183**
Accumulated Depreciation	(63,714,476)	-	(63,714,476)	-	-	**(63,714,476)**
	81,036,707	-	81,036,707	-	-	**81,036,707**
Other Property and Investments						
Investments in Associated Organizations	6,266,541	-	6,266,541	-	-	**6,266,541**
Investment in Subsidiary	(1,264,748)	-	(1,264,748)	1,264,748	-	**-**
Nonutility Property	2,950	836,592	839,542	-	-	**839,542**
Notes Receivable	2,335,820	200,000	2,535,820	-	1,265,769	**1,270,051**
Other Investments	1,165,688	316,875	1,482,563	-	-	**1,482,563**
	8,506,251	1,353,467	9,859,718	1,264,748	1,265,769	**9,858,697**
Current Assets						
Cash and Cash Equivalents	8,414,191	-	8,414,191	-	-	**8,414,191**
Accounts Receivable (Net)	3,731,722	-	3,731,722	-	-	**3,731,722**
Accrued Utility Revenue	4,272,851	-	4,272,851	-	-	**4,272,851**
Accounts Receivable - Intercompany	1,336,894	-	1,336,894	-	1,336,894	**-**
Notes Receivable - Current Portion	419,119	-	419,119	-	-	**419,119**
Materials and Supplies	1,071,476	-	1,071,476	-	-	**1,071,476**
Other	5,069,718	-	5,069,718	-	-	**5,069,718**
	24,315,971	-	24,315,971	-	1,336,894	**22,979,077**
Total Assets	$ 113,858,929	$ 1,353,467	$ 115,212,396	$ 1,264,748	$ 2,602,663	**$ 113,874,481**
MEMBERS' EQUITY AND LIABILITIES						
Members' Equity						
Membership Fees	$ 138,675	$ -	$ 138,675	$ -	$ -	**$ 138,675**
Patronage Capital	81,842,654	-	81,842,654	-	-	**81,842,654**
Other Equities	10,713,759	(1,264,748)	9,449,011	-	1,264,748	**10,713,759**
	92,695,088	(1,264,748)	91,430,340	-	1,264,748	**92,695,088**
Long-Term Debt	8,017,388	-	8,017,388	-	-	**8,017,388**
Other Long-Term Liabilities - Deferred Compensation	1,157,276	-	1,157,276	-	-	**1,157,276**
Current Liabilities						
Long-Term Debt - Current Portion	2,175,423	-	2,175,423	-	-	**2,175,423**
Other Long-Term Liabilities - Deferred Compensation - Current Portion	8,412	-	8,412	-	-	**8,412**
Accounts Payable	4,577,434	-	4,577,434	-	-	**4,577,434**
Accounts Payable - Intercompany	-	1,336,894	1,336,894	1,336,894	-	**-**
Demand Note Payable to Parent Company	-	1,265,769	1,265,769	1,265,769	-	**-**
Consumer Deposits	3,172,909	-	3,172,909	-	-	**3,172,909**
Accrued and Withheld Taxes	680,968	-	680,968	-	-	**680,968**
Other	406,408	-	406,408	-	-	**406,408**
	11,021,554	2,602,663	13,624,217	2,602,663	-	**11,021,554**
Deferred Credits	967,623	15,552	983,175	-	-	**983,175**
Total Members' Equity and Liabilities	$ 113,858,929	$ 1,353,467	$ 115,212,396	$ 2,602,663	$ 1,264,748	**$ 113,874,481**

BLACK RIVER ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2021

	Black River Electric Cooperative, Inc.	Black River Economic Development Corporation	Totals	Elimination Entries Debit	Elimination Entries Credit	Consolidated Balances
Operating Revenues	$ 78,470,486	$ 414,736	$ 78,885,222	$ 414,736	$ -	**$ 78,470,486**
Operating Expenses						
Cost of Power	52,972,472	-	52,972,472	-	-	**52,972,472**
Cost of Revenues	-	364,109	364,109	-	364,109	**-**
Distribution Operations	3,907,190	-	3,907,190	-	-	**3,907,190**
Distribution Maintenance	3,358,115	15,325	3,373,440	-	15,325	**3,358,115**
Consumer Accounts	1,677,002	-	1,677,002	-	-	**1,677,002**
Consumer Service and Information	186,111	-	186,111	-	-	**186,111**
Administrative and General	4,606,965	28,108	4,635,073	-	28,108	**4,606,965**
Depreciation	5,020,386	-	5,020,386	-	-	**5,020,386**
Taxes	537,135	2,423	539,558	-	2,423	**537,135**
	72,265,376	409,965	72,675,341	-	409,965	**72,265,376**
Operating Margins Before Interest Expense	6,205,110	4,771	6,209,881	414,736	409,965	**6,205,110**
Interest Expense	338,977	-	338,977	-	-	**338,977**
Operating Margins After Interest Expense	5,866,133	4,771	5,870,904	414,736	409,965	**5,866,133**
Nonoperating Margins	201,581	-	201,581	(4,771)	-	**206,352**
Generation and Transmission Cooperative Capital Credits	164,991	-	164,991	-	-	**164,991**
Other Capital Credits and Patronage Capital Allocations	125,848	-	125,848	-	-	**125,848**
Net Margins	$ 6,358,553	$ 4,771	$ 6,363,324	$ 409,965	$ 409,965	**$ 6,363,324**

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 Debit	Elimination Entries Credit	Consolidated Balances
ASSETS						
Utility Plant						
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
Other Property and Investments						
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
Current Assets						
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
Total Assets	$ 113,057,071	$ 1,717,576	$ 114,774,647	$ 1,269,519	$ 2,971,543	$ 113,072,623
MEMBERS' EQUITY AND LIABILITIES						
Members' Equity						
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
Long-Term Debt	9,238,744	-	9,238,744	-	-	9,238,744
Other Long-Term Liabilities - Deferred Compensation	929,855	-	929,855	-	-	929,854
Current Liabilities						
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	-	-	395,944
	12,347,287	2,971,543	15,318,830	2,971,543	-	12,347,288
Deferred Credits	312,780	15,552	328,332		-	328,332
Total Members' Equity and Liabilities	$ 113,057,071	$ 1,717,576	$ 114,774,647	$ 2,971,543	$ 1,269,519	$ 113,072,623

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	
Operating Revenues	$ 77,168,054	$ 29,036	$ 77,197,090	$ 29,036	$ -	$ 77,168,054
Operating Expenses						
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
	69,566,296	46,380	69,612,676	-	46,380	69,566,296
Operating Margins Before Interest Expense	7,601,758	(17,344)	7,584,414	29,036	46,380	7,601,758
Interest Expense	321,798	-	321,798	-	-	321,798
Operating Margins After Interest Expense	7,279,960	(17,344)	7,262,616	29,036	46,380	7,279,960
Nonoperating Margins	265,056	-	265,056	17,344	-	247,712
Generation and Transmission Cooperative Capital Credits	104,032	-	104,032	-	-	104,032
Other Capital Credits and Patronage Capital Allocations	150,042	-	150,042	-	-	150,042
Net Margins	$ 7,799,090	$ (17,344)	$ 7,781,746	$ 46,380	$ 46,380	$ 7,781,746

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March 15, 2022

MANAGEMENT LETTER

The Board of Trustees
Black River Electric Cooperative, Inc. and Subsidiary

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the consolidated financial statements of **Black River Electric Cooperative, Inc. and Subsidiary** (the Cooperative), which comprise the consolidated balance sheet as of December 31, 2021 and the related consolidated statements of operations, changes in members' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements and have issued our report thereon dated March 15, 2022.

Internal Control Over Financial Reporting

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

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

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

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter, our responsibility, as described by professional standards, is to form and express an opinion about whether the consolidated financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the consolidated financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the consolidated financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of Black River Electric Cooperative, Inc. and Subsidiary (the Cooperative) solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm have complied with all relevant ethical requirements regarding independence.

As described in our engagement letter, we perform certain non-attest services for the Cooperative. To eliminate the threat to independence, management has accepted responsibility for these services as documented in the management representation letter. Additionally, an individual from our quality control department, not involved in the audit, performs a secondary review of the consolidated financial statements.

Significant Risks Identified

We have identified the following significant risks:

- Management override of controls
- Lender compliance

Management may override controls to intentionally misstate the nature and timing of revenue or other transactions by (1) recording fictitious business events or transactions or changing the timing of recognition of legitimate transactions, particularly those recorded close to the end of an accounting period; (2) establishing or reversing reserves to manipulate results, including intentionally biasing assumptions and judgments used to estimate account balances; and (3) altering records and terms related to significant or unusual transactions. Management override of controls is a presumed fraud risk in all audits performed under auditing standards generally accepted in the United States of America (U.S. GAAS).

The Cooperative's mortgage and credit agreements contain certain financial covenants and compliance requirements for which specific audit procedures are required.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Cooperative are outlined in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the year ended December 31, 2021.

No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on 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 them may differ markedly from management's current judgments.

The most sensitive estimates affecting the financial statements are:

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

Management's estimate of allocations for construction work in progress includes the allocation of indirect costs. Indirect costs are allocated to construction work in progress utilizing direct labor and material costs. 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.

Management's estimate of useful lives of utility plant is based on industry guidelines. 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.

Management's estimate of reserve for uncollectible accounts is based on historic revenues, historic collection rates, and an analysis of the collectability of individual account balances. 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.

Management's estimate of expense accruals is based on expenses incurred, anticipated payments, and historic trends. 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.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the Cooperative's financial statements relate to:

- Utility Plant (Note 2)
- Accounts Receivable and Contract Balances (Note 6)
- Debt (Note 10)
- Retiree Benefits (Note 11)

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management related to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards also 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. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. There were no significant uncorrected misstatements, material, or immaterial.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of audit procedures. We did not identify any misstatements as a result of our procedures that were material, either individually or in the aggregate, to the financial statements as a whole.

Disagreements with Management

For purposes of this communication, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Cooperative's financial statements or the auditor's report. No such disagreements arose during the course of our audit.

Representations Requested from Management

We have requested certain representations from management, which are included in the management representation letter dated March 15, 2022.

Management's Consultation with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Cooperative, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Cooperative auditors.

Other Matters

With respect to the supplementary information accompanying the consolidated 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 consolidated financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the consolidated financial statements or to the consolidated financial statements themselves.

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