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

CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2023 AND 2022 AND INDEPENDENT AUDITOR'S REPORT

BLACK RIVER ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

CONTENTS

Independent Auditor's Report.....1

Consolidated Balance Sheets.....3

Consolidated Statements of Operations.....5

Consolidated Statements of Changes in Members' Equity.....6

Consolidated Statements of Cash Flows.....7

Notes to Consolidated Financial Statements.....8

Independent Auditor's Report on Supplementary Information.....20

Supplementary Information.....21

Independent Auditor's Report on Internal Control over Financial Reporting.....25

Matters to be Communicated with Those Charged with Governance.....26

MCNAIR MCLEMORE
MIDDLEBROOKS & CO
CERTIFIED PUBLIC ACCOUNTANTS

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

March 12, 2024

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Black River Electric Cooperative, Inc.

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, 2023 and 2022, 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, 2023 and 2022, 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

		2023		2022
Utility Plant				
Electric Plant in Service - At Cost	**$**	**156,964,815**	$	150,448,349
Construction Work in Progress		**1,846,673**		1,447,900
		158,811,488		151,896,249
Accumulated Depreciation		**(70,818,716)**		(67,631,135)
		87,992,772		84,265,114
Other Property and Investments				
Investments in Associated Organizations		**7,838,267**		6,995,374
Nonutility Property		**839,542**		839,542
Notes Receivable		**528,686**		746,086
Other Investments		**1,545,263**		1,411,084
		10,751,758		9,992,086
Current Assets				
Cash and Cash Equivalents		**3,426,745**		7,018,730
Accounts Receivable (Net of Allowance for Credit Losses of $596,692 in 2023 and $559,696 in 2022)		**4,190,817**		3,551,328
Accrued Utility Revenue		**5,461,554**		5,987,497
Notes Receivable - Current Portion		**285,696**		419,515
Materials and Supplies		**1,133,257**		1,042,249
Other		**4,082,938**		5,153,088
		18,581,007		23,172,407
Total Assets	**$**	**117,325,537**	$	117,429,607

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

	2023	2022
Members' Equity		
Membership Fees	**$ 142,290**	$ 140,410
Patronage Capital	**81,601,832**	80,301,706
Other Equities	**12,506,565**	11,745,925
	94,250,687	92,188,041
Long-Term Debt	**9,058,208**	10,462,301
Other Long-Term Liabilities - Deferred Compensation	**1,228,388**	1,086,643
Current Liabilities		
Long-Term Debt - Current Portion	**1,516,000**	1,776,000
Other Long-Term Liabilities - Deferred Compensation - Current Portion	**58,870**	7,566
Accounts Payable	**6,504,956**	7,234,039
Consumer Deposits	**3,329,634**	3,257,880
Accrued and Withheld Taxes	**740,350**	712,174
Other	**478,862**	422,381
	12,628,672	13,410,040
Deferred Credits	**159,582**	282,582
Total Members' Equity and Liabilities	**$ 117,325,537**	$ 117,429,607

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

	2023	2022
Operating Revenues	**$ 83,167,015**	$ 80,657,569
Operating Expenses		
Cost of Power	**56,547,412**	56,960,092
Distribution Operations	**4,042,572**	4,119,204
Distribution Maintenance	**3,690,907**	3,646,358
Consumer Accounts	**1,856,760**	1,690,256
Consumer Service and Information	**204,536**	194,218
Administrative and General	**5,404,633**	4,938,737
Depreciation	**5,444,204**	5,221,834
Taxes	**548,973**	555,599
	77,739,997	77,326,298
Operating Margins Before Interest Expense	**5,427,018**	3,331,271
Interest Expense	**369,528**	403,630
Operating Margins After Interest Expense	**5,057,490**	2,927,641
Nonoperating Margins	**262,063**	234,936
Generation and Transmission Cooperative Capital Credits	**451,346**	456,014
Other Capital Credits and Patronage Capital Allocations	**82,340**	160,982
Net Margins	**$ 5,853,239**	$ 3,779,573

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, 2023 AND 2022

	Total Members' Equity	Membership Fees	Patronage Capital	Other Equities
Balance, December 31, 2021	$ 92,695,088	$ 138,675	$ 81,842,654	$ 10,713,759
Net Margins	3,779,573	-	3,334,008	445,565
Retirement of Patronage Capital	(4,790,548)	-	(4,790,548)	-
Membership Fees	1,735	1,735	-	-
Other Equities	502,193	-	(84,408)	586,601
Balance, December 31, 2022	92,188,041	140,410	80,301,706	11,745,925
Net Margins	5,853,239	-	5,413,647	439,592
Retirement of Patronage Capital	(4,062,412)	-	(4,062,412)	-
Membership Fees	1,880	1,880	-	-
Other Equities	269,939	-	(51,109)	321,048
Balance, December 31, 2023	**$ 94,250,687**	**$ 142,290**	**$ 81,601,832**	**$ 12,506,565**

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

	2023	2022
Cash Flows from Operating Activities		
Net Margins	$ 5,853,239	$ 3,779,573
Adjustments to Reconcile Net Margins		
to Net Cash Provided from Operating Activities		
Depreciation	6,002,511	5,693,492
Patronage Capital from Associated Organizations	(980,184)	(889,344)
Change In		
Accounts Receivable	(639,489)	180,394
Accrued Utility Revenue	525,943	(1,714,646)
Other Current Assets	1,070,150	(83,370)
Other Long-Term Liabilities - Deferred Compensation	193,049	(71,479)
Accounts Payable	(729,083)	2,656,605
Consumer Deposits	71,754	84,971
Other Current Liabilities	84,657	47,179
Deferred Credits	(123,000)	(700,593)
	11,329,547	8,982,782
Cash Flows from Investing Activities		
Extension and Replacement of Plant	(9,730,169)	(8,921,899)
Return of Equity from Associated Organizations	137,291	160,511
Materials and Supplies	(91,008)	29,227
Notes Receivable	351,219	523,569
Other Investments	(134,179)	71,479
	(9,466,846)	(8,137,113)
Cash Flows from Financing Activities		
Advances from Long-Term Debt	110,945	4,571,900
Principal Repayment of Long-Term Debt	(1,775,038)	(2,526,410)
Membership Fees	1,880	1,735
Retirement of Patronage Capital	(4,062,412)	(4,790,548)
Other Equities	269,939	502,193
	(5,454,686)	(2,241,130)
Net Decrease in Cash and Cash Equivalents	(3,591,985)	(1,395,461)
Cash and Cash Equivalents - Beginning	7,018,730	8,414,191
Cash and Cash Equivalents - Ending	$ 3,426,745	$ 7,018,730

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

(1) Nature of Operations

Black River Electric Cooperative, Inc. (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 in the service territory of BRECI.

(2) Summary of Significant Accounting Policies

General

Accounting policies of BRECI and BREDC (the Corporation) reflect practices appropriate to the electric utility industry and generally accepted accounting principles of the United States of America (U.S. GAAP). The records of BRECI are maintained in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission.

Basis of Presentation

The Corporation's consolidated financial statements have been prepared in accordance with U.S. GAAP. The Financial Accounting Standards Board (FASB) provides authoritative guidance regarding U.S. GAAP through the *Accounting Standards Codification (ASC)* and related *Accounting Standards Updates (ASUs*).

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 Corporation.

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.

Regulated Operations

Due to regulation of its rates by the board of trustees, the Corporation accounts for certain revenue and expense deferrals in accordance with *ASC 980*. Accordingly, certain costs and income may be capitalized as a regulatory asset or liability that would otherwise be charged to expense or revenue. Regulatory assets and liabilities are recorded when it is probable that future rates will permit recovery.

Long-Lived Assets

The Corporation 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. 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 Corporation 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.

Nonutility Property

Nonutility property consists of land and improvements for the development of industrial sites to attract new industry into the Corporation's service area. Nonutility property is accounted for on the cost basis.

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 20.0 percent per annum.

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

(2) Summary of Significant Accounting Policies (Continued)

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.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash equivalents typically include time deposits, certificates of deposit, commercial paper, U.S. Treasury Bills, and all highly liquid investments with original maturities of three months or less.

Accounts Receivable and Credit Losses

Accounts receivable are stated at the amount expected to be collected. Once an electric consumer's service ceases and the account is approximately 60 days past due, the Corporation writes off the associated accounts receivable. An allowance is made for credit losses 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. Accounts receivable are reported on the consolidated balance sheets net of accumulated provision for credit losses.

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. If a customer does not pay in accordance with the terms of service, the Corporation may require an additional deposit as a condition of continued service. Expected credit losses are determined based on how long a receivable has been outstanding, current economic conditions, and historical loss information.

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.

Patronage Capital

The Corporation is organized and operates under the Corporation form of organization. As provided in the bylaws, any excess revenues over expenses from operations are treated as advances of capital by the patrons and credited to each of them on an individual basis. Distributions to members are made at the discretion of the board of trustees in accordance with the bylaws, subject to the restrictions contained in the long-term debt agreements. 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 $30,222,848 and $28,399,347 for the years ended December 31, 2023 and 2022, respectively.

(2) Summary of Significant Accounting Policies (Continued)

Revenue Recognition

Electric revenue is generated from contracts (service agreements) with retail electric customers. This revenue, generated from 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 electric energy is delivered to the customer and consumed. Electric revenue includes patronage capital and is billed monthly to consumers on a cycle basis. Electric rates for the Corporation include provisions to permit the board of trustees to adjust billings for fluctuations in fuel costs, purchased power costs, and certain other costs. Electricity which had been used by members of the Corporation but had not been billed to the members is recorded on the consolidated balance sheets as accrued utility revenue.

Revenue generated from the sale of economic development property is recognized when the customer obtains control of the specified property under the terms of the contract (purchase agreement) with the customer. Revenue is recognized at the time the performance obligation is met, when control is transferred to the customer.

Sales, Use, and Other Value Added Taxes

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

Cost of Purchased Power

The Corporation has evaluated its wholesale power contracts and determined them to be capacity contracts that meet the criteria of *ASC 815-10-15-45-51*, qualifying them for the normal purchase and normal sales scope exception from the requirements of derivative accounting and reporting. For these contracts, the Corporation has elected to apply the normal purchase and normal sales scope exception. As such, the 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.

(2) Summary of Significant Accounting Policies (Continued)

Income Taxes

BRECI is exempt from federal and state income taxes under Section 501(c)(12) of the Internal Revenue Code which provides, in part, that the Corporation derive at least 85 percent of its annual gross income from members to retain the exemption. The Corporation expects to meet the requirement for the tax year ended December 31, 2023. Accordingly, no provision for income taxes has been made in the financial statements.

BREDC, is a taxable entity, and any taxes resulting from operations are not considered to be significant. Net operating losses (NOL) that may be used in future years are subject to adjustment by taxing authorities. 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.

Recently Adopted Accounting Pronouncement

In June 2016, the FASB issued guidance *ASC 326* which significantly changed how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The most significant change in this standard is a shift from the incurred loss model to the expected loss model. Under the standard, disclosures are required to provide users of the financial statements with useful information in analyzing an entity's exposure to credit risk and the measurement of credit losses. Financial assets held by the Corporation that are subject to the guidance in FASB *ASC 326* are trade accounts receivable. The Corporation adopted the standard effective January 1, 2023. The impact of the adoption was not considered material to the consolidated financial statements.

Subsequent Events

In preparing these consolidated financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through March 12, 2024, the date the consolidated financial statements were available to be issued.

(3) Utility Plant

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

		2023		2022
Electric Plant				
Intangible	$	360	$	360
Distribution		141,992,108		135,882,579
General		14,972,347		14,565,410
Electric Plant in Service		156,964,815		150,448,349
Construction Work in Progress		1,846,673		1,447,900
	$	158,811,488	$	151,896,249

(4) Investments in Associated Organizations

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

		2023		2022
Central Electric Power Cooperative, Inc.	$	3,991,215	$	3,539,869
Cooperative Electric Energy Utility Supply, Inc.		2,002,759		1,651,804
National Rural Utilities Cooperative Finance Corporation (CFC)		1,096,844		1,103,615
Federated Rural Electric Insurance Exchange		416,790		401,343
CoBank		266,077		251,791
Meridian Cooperative, Inc.		39,056		21,426
Cooperative Response Center, Inc.		25,426		25,426
National Cooperative Services Corporation		100		100
	$	7,838,267	$	6,995,374

(5) Notes Receivable

Notes receivable consist of the following as of December 31:

		2023		2022
Shaw Air Force Base Electrical Resiliency Loan	**$**	**534,581**	$	849,686
Energy Efficiency Loans		**279,801**		315,915
		814,382		1,165,601
Current Portion		**(285,696)**		(419,515)
	$	**528,686**	$	746,086

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.

BRECI provides up to $10,000 in energy efficiency loans to its consumers. The loans carry a 5 percent interest rate and are payable monthly in monthly installments not to exceed 120 months.

Based on ongoing credit evaluations of the notes receivable, the Corporation does not expect payment defaults or delinquencies, and has not recorded an allowance for credit losses for these notes receivable as of December 31, 2023 and 2022.

(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:

		2023		2022		2021
Accounts Receivable	**$**	**4,190,817**	$	3,551,328	$	3,731,722
Contract Assets						
Accrued Utility Revenue	**$**	**5,461,554**	$	5,987,497	$	4,272,851

The Corporation had no contract liabilities as of December 31, 2023, 2022, and 2021.

(7) Other Investments

Other investments consist of the following as of December 31:

		2023		2022
Investment in Industrial Park	**$**	**316,875**	$	316,875
Deferred Compensation Investments (See Note 11)		**1,228,388**		1,094,209
	$	**1,545,263**	$	1,411,084

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 $3,644,959 and $4,745,608 as of December 31, 2023 and 2022, respectively. The remaining balance of other current assets consists of other prepaid expenses.

(9) Other Equities

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

		2023		2022
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		**(1,286,951)**		(1,275,197)
Capital Credits Earned - Central Electric Power Cooperative, Inc.		**4,153,825**		3,702,479
Retired Capital Credits - Gain		**3,048,472**		2,778,369
Donated Capital		**2,897,557**		2,846,612
	$	**12,506,565**	$	11,745,925

(10) Debt

Long-Term Debt

Long-term debt consists primarily of mortgage notes payable to CFC, CoBank, and the Federal Agricultural Mortgage Corporation (Farmer Mac). Substantially all the assets of BRECI are pledged as security for long-term debt of the BRECI. 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, 2023 and 2022, the Corporation was in compliance with the covenants.

BRECI has received loan funds from the Rural Energy Savings Program (RESP) for the purpose of relending to qualified consumers for up to 10 years.

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

Holder of Note	**Weighted Interest Rate at December 31, 2023**	**2023**	2022
CFC	1.90%	**$ 3,875,499**	$ 4,400,888
CoBank	4.66%	**2,834,432**	3,616,501
Farmer Mac	3.62%	**3,692,308**	4,153,846
RESP	5.00%	**171,969**	67,066
		10,574,208	12,238,301
Maturities Due Within One Year		**(1,516,000)**	(1,776,000)
		$ 9,058,208	$ 10,462,301

BRECI has $15,000,000 in unadvanced loan funds on commitment from CFC. The availability of the funds is contingent on the Corporation's compliance with one or more preconditions set forth in the mortgage agreement.

Approximate principal maturities of long-term debt are as follows:

Year	**Amount**
2024	$ 1,516,000
2025	1,502,000
2026	1,537,000
2027	1,573,000
2028	1,610,000
Thereafter	2,836,208
	$ 10,574,208

(10) Debt (Continued)

Line-of-Credit

BRECI has a $3,000,000 line-of-credit with CFC. The line-of-credit has a maturity date of December 31, 2049 and carries a variable interest rate set by the financial institution. The stated interest rate was 7.25 percent as of December 31, 2023. There was no outstanding balance on the line-of-credit as of December 31, 2023 and 2022.

Cash Payment of Interest

Cash payments of interest totaled $373,672 and $409,369 for the years ended December 31, 2023 and 2022, respectively.

(11) Retiree Benefits

Pension Plan (Defined Benefit)

Pension benefits for substantially all employees of the Corporation 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 Corporation'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 $1,724,618 and $1,579,438 for the years ended December 31, 2023 and 2022, 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, 2023 and 2022 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 Corporation 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 Corporation's contributory portion of costs of this plan totaled $60,798 and $68,834 for the years ended December 31, 2023 and 2022, respectively.

(11) Retiree Benefits (Continued)

Deferred Compensation Plan

The Corporation 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 $1,287,258 and $1,094,209 as of December 31, 2023 and 2022, 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:

	2023	2022
Unclaimed Capital Credits Settlement	**$ 86,530**	$ 86,530
Lot Deposits	**57,500**	180,500
Other	**15,552**	15,552
	$ 159,582	$ 282,582

(13) Commitments

The Corporation 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 Corporation 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 Corporation 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 Corporation 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.

Further, the Corporation is periodically involved in litigation arising in the ordinary course of business. After consultation with legal counsel, management estimates that any legal matters will be resolved without a material adverse effect on the Corporation's future financial position or results from operations.

(15) Fair Value of Financial Instruments

The Corporation records certain financial and nonfinancial assets using fair value measurements. The Corporation 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 Corporation 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 Corporation's deferred compensation investments at December 31 by asset category are as follows:

Description	**Level**	**2023**	2022
Deferred Compensation Investments			
Short-Term Bond Funds	(1)	**$ 287,639**	$ 202,308
Stock Funds	(1)	**940,749**	891,901
		$ 1,228,388	$ 1,094,209

(16) Concentrations of Credit Risk

Financial instruments that potentially subject the Corporation to concentrations of credit risk consist principally of cash and cash equivalents and consumer accounts receivable. The Corporation maintains its cash balances in several financial institutions; cash balances throughout the year periodically exceed federally insured limits of $250,000. At December 31, 2023, the carrying amount of the Corporation's cash and cash equivalents was $3,426,745. Of this balance, $3,053,000 was covered under a repurchase agreement, maturing January 3, 2023. The repurchase agreement was collateralized by interests that include Government National Mortgage Association securities. The Corporation has not experienced any loss in accounts which exceed federally insured limits.

The Corporation serves consumers in the state of South Carolina. The geographic concentration of the Corporation's consumers results in a concentration of credit risk with respect to the collection of accounts receivable. Credit evaluations are performed on most potential consumers before accepting them for service. Depending upon the results of the credit evaluation, a deposit may be required. If a consumer does not pay based on the terms of the service agreement, the Corporation may require a consumer deposit as a condition for continued service.

MCNAIR MCLEMORE
MIDDLEBROOKS & CO
CERTIFIED PUBLIC ACCOUNTANTS

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

March 12, 2024

**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, 2023 and 2022 and have issued our report thereon dated March 12, 2024, 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 21 through 24 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

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

BLACK RIVER ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2023

	Black River Electric Cooperative, Inc.	Black River Economic Development Corporation	Totals	Elimination Entries	Consolidated Balances
ASSETS					
Utility Plant					
Electric Plant in Service - At Cost	$ 156,964,815	$ -	$ 156,964,815	$ -	**$ 156,964,815**
Construction Work in Progress	1,846,673	-	1,846,673	-	**1,846,673**
	158,811,488	-	158,811,488	-	**158,811,488**
Accumulated Depreciation	(70,818,716)	-	(70,818,716)	-	**(70,818,716)**
	87,992,772	-	87,992,772	-	**87,992,772**
Other Property and Investments					
Investments in Associated Organizations	7,838,267	-	7,838,267	-	**7,838,267**
Investment in Subsidiary	(1,286,951)	-	(1,286,951)	1,286,951	**-**
Nonutility Property	2,950	836,592	839,542	-	**839,542**
Notes Receivable	1,794,455	-	1,794,455	(1,265,769)	**528,686**
Other Investments	1,228,388	316,875	1,545,263	-	**1,545,263**
	9,577,109	1,153,467	10,730,576	21,182	**10,751,758**
Current Assets					
Cash and Cash Equivalents	3,426,745	-	3,426,745	-	**3,426,745**
Accounts Receivable (Net)	4,190,817	-	4,190,817	-	**4,190,817**
Accrued Utility Revenue	5,461,554	-	5,461,554	-	**5,461,554**
Accounts Receivable - Intercompany	1,159,375	-	1,159,375	(1,159,375)	**-**
Notes Receivable - Current Portion	285,696	-	285,696	-	**285,696**
Materials and Supplies	1,133,257	-	1,133,257	-	**1,133,257**
Other	4,082,938	-	4,082,938	-	**4,082,938**
	19,740,382	-	19,740,382	(1,159,375)	**18,581,007**
Total Assets	$ 117,310,263	$ 1,153,467	$ 118,463,730	$ (1,138,193)	**$ 117,325,537**
MEMBERS' EQUITY AND LIABILITIES					
Members' Equity					
Membership Fees	$ 142,290	$ -	$ 142,290	$ -	**$ 142,290**
Patronage Capital	81,601,832	-	81,601,832	-	**81,601,832**
Other Equities	12,506,565	(1,286,951)	11,219,614	1,286,951	**12,506,565**
	94,250,687	(1,286,951)	92,963,736	1,286,951	**94,250,687**
Long-Term Debt	9,058,208	-	9,058,208	-	**9,058,208**
Other Long-Term Liabilities - Deferred Compensation	1,228,388	-	1,228,388	-	**1,228,388**
Current Liabilities					
Long-Term Debt - Current Portion	1,516,000	-	1,516,000	-	**1,516,000**
Other Long-Term Liabilities - Deferred Compensation - Current Portion	58,870	-	58,870	-	**58,870**
Accounts Payable	6,505,234	-	6,505,234	(278)	**6,504,956**
Accounts Payable - Intercompany	-	1,159,097	1,159,097	(1,159,097)	**-**
Demand Note Payable to Parent Company	-	1,265,769	1,265,769	(1,265,769)	**-**
Consumer Deposits	3,329,634	-	3,329,634	-	**3,329,634**
Accrued and Withheld Taxes	740,350	-	740,350	-	**740,350**
Other	478,862	-	478,862	-	**478,862**
	12,628,950	2,424,866	15,053,816	(2,425,144)	**12,628,672**
Deferred Credits	144,030	15,552	159,582	-	**159,582**
Total Members' Equity and Liabilities	$ 117,310,263	$ 1,153,467	$ 118,463,730	$ (1,138,193)	**$ 117,325,537**

BLACK RIVER ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2023

	Black River Electric Cooperative, Inc.	Black River Economic Development Corporation	Totals	Elimination Entries	Consolidated Balances
Operating Revenues	$ 83,167,015	$ 28,176	$ 83,195,191	$ (28,176)	**$ 83,167,015**
Operating Expenses					
Cost of Power	56,547,412	-	56,547,412	-	**56,547,412**
Distribution Operations	4,042,572	-	4,042,572	-	**4,042,572**
Distribution Maintenance	3,690,907	15,068	3,705,975	(15,068)	**3,690,907**
Consumer Accounts	1,856,760	-	1,856,760	-	**1,856,760**
Consumer Service and Information	204,536	-	204,536	-	**204,536**
Administrative and General	5,404,633	23,723	5,428,356	(23,723)	**5,404,633**
Depreciation	5,444,204	-	5,444,204	-	**5,444,204**
Taxes	548,973	1,139	550,112	(1,139)	**548,973**
	77,739,997	39,930	77,779,927	(39,930)	**77,739,997**
Operating Margins Before Interest Expense	5,427,018	(11,754)	5,415,264	11,754	**5,427,018**
Interest Expense	369,528	-	369,528	-	**369,528**
Operating Margins After Interest Expense	5,057,490	(11,754)	5,045,736	11,754	**5,057,490**
Nonoperating Margins	262,063	-	262,063	-	**262,063**
Generation and Transmission Cooperative Capital Credits	451,346	-	451,346	-	**451,346**
Other Capital Credits and Patronage Capital Allocations	82,340	-	82,340	-	**82,340**
Net Margins	$ 5,853,239	$ (11,754)	$ 5,841,485	$ 11,754	**$ 5,853,239**

BLACK RIVER ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2022

	Black River Electric Cooperative, Inc.	Black River Economic Development Corporation	Totals	Elimination Entries	Consolidated Balances
ASSETS					
Utility Plant					
Electric Plant in Service - At Cost	$ 150,448,349	$ -	$ 150,448,349	$ -	$ 150,448,349
Construction Work in Progress	1,447,900	-	1,447,900	-	1,447,900
	151,896,249	-	151,896,249	-	151,896,249
Accumulated Depreciation	(67,631,135)	-	(67,631,135)	-	(67,631,135)
	84,265,114	-	84,265,114	-	84,265,114
Other Property and Investments					
Investments in Associated Organizations	6,995,374	-	6,995,374	-	6,995,374
Investment in Subsidiary	(1,275,197)	-	(1,275,197)	1,275,197	-
Nonutility Property	2,950	836,592	839,542	-	839,542
Notes Receivable	2,011,855	-	2,011,855	(1,265,769)	746,086
Other Investments	1,094,209	316,875	1,411,084	-	1,411,084
	8,829,191	1,153,467	9,982,658	9,428	9,992,086
Current Assets					
Cash and Cash Equivalents	7,018,730	-	7,018,730	-	7,018,730
Accounts Receivable (Net)	3,551,328	-	3,551,328	-	3,551,328
Accrued Utility Revenue	5,988,019	-	5,988,019	(522)	5,987,497
Accounts Receivable - Intercompany	1,146,821	-	1,146,821	(1,146,821)	-
Notes Receivable - Current Portion	419,515	-	419,515	-	419,515
Materials and Supplies	1,042,249	-	1,042,249	-	1,042,249
Other	5,153,088	-	5,153,088	-	5,153,088
	24,319,750	-	24,319,750	(1,147,343)	23,172,407
Total Assets	$ 117,414,055	$ 1,153,467	$ 118,567,522	$ (1,137,915)	$ 117,429,607
MEMBERS' EQUITY AND LIABILITIES					
Members' Equity					
Membership Fees	$ 140,410	$ -	$ 140,410	$ -	$ 140,410
Patronage Capital	80,301,706	-	80,301,706	-	80,301,706
Other Equities	11,745,925	(1,275,197)	10,470,728	1,275,197	11,745,925
	92,188,041	(1,275,197)	90,912,844	1,275,197	92,188,041
Long-Term Debt	10,462,301	-	10,462,301	-	10,462,301
Other Long-Term Liabilities - Deferred Compensation	1,086,643	-	1,086,643	-	1,086,643
Current Liabilities					
Long-Term Debt - Current Portion	1,776,000	-	1,776,000	-	1,776,000
Other Long-Term Liabilities - Deferred Compensation - Current Portion	7,566	-	7,566	-	7,566
Accounts Payable	7,234,039	-	7,234,039	-	7,234,039
Accounts Payable - Intercompany	-	1,147,343	1,147,343	(1,147,343)	-
Demand Note Payable to Parent Company	-	1,265,769	1,265,769	(1,265,769)	-
Consumer Deposits	3,257,880	-	3,257,880	-	3,257,880
Accrued and Withheld Taxes	712,174	-	712,174	-	712,174
Other	422,381	-	422,381	-	422,381
	13,410,040	2,413,112	15,823,152	(2,413,112)	13,410,040
Deferred Credits	267,030	15,552	282,582	-	282,582
Total Members' Equity and Liabilities	$ 117,414,055	$ 1,153,467	$ 118,567,522	$ (1,137,915)	$ 117,429,607

BLACK RIVER ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2022

	Black River Electric Cooperative, Inc.	Black River Economic Development Corporation	Totals	Elimination Entries	Consolidated Balances
Operating Revenues	$ 80,657,569	$ 27,641	$ 80,685,210	$ (27,641)	$ 80,657,569
Operating Expenses					
Cost of Power	56,960,092	-	56,960,092	-	56,960,092
Distribution Operations	4,119,204	-	4,119,204	-	4,119,204
Distribution Maintenance	3,646,358	12,980	3,659,338	(12,980)	3,646,358
Consumer Accounts	1,690,256	-	1,690,256	-	1,690,256
Consumer Service and Information	194,218	-	194,218	-	194,218
Administrative and General	4,938,737	23,723	4,962,460	(23,723)	4,938,737
Depreciation	5,221,834	-	5,221,834	-	5,221,834
Taxes	555,599	1,387	556,986	(1,387)	555,599
	77,326,298	38,090	77,364,388	(38,090)	77,326,298
Operating Margins Before Interest Expense	3,331,271	(10,449)	3,320,822	10,449	3,331,271
Interest Expense	403,630	-	403,630	-	403,630
Operating Margins After Interest Expense	2,927,641	(10,449)	2,917,192	10,449	2,927,641
Nonoperating Margins	234,936	-	234,936	-	234,936
Generation and Transmission Cooperative Capital Credits	456,014	-	456,014	-	456,014
Other Capital Credits and Patronage Capital Allocations	160,982	-	160,982	-	160,982
Net Margins	$ 3,779,573	$ (10,449)	$ 3,769,124	$ 10,449	$ 3,779,573

McNAIR McLEMORE MIDDLEBROOKS & CO
CERTIFIED PUBLIC ACCOUNTANTS

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

March 12, 2024

INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Board of Trustees
Black River Electric Cooperative, Inc.

In planning and performing our audit of the consolidated financial statements of **Black River Electric Cooperative, Inc. and Subsidiary** (the Corporation) as of and for the year ended December 31, 2023, in accordance with auditing standards generally accepted in the United States of America, we considered the Corporation'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 entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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 over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- *Reasonably possible.* The chance of the future event or events occurring is more than remote but less than likely.
- *Probable*. The future event or events are likely to occur.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. 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

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389 Mulberry Street | Macon, Georgia 31201
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March 12, 2024

MATTERS TO BE COMMUNICATED
WITH THOSE CHARGED WITH GOVERNANCE

The Board of Trustees
Black River Electric Cooperative, Inc.

We have audited the consolidated financial statements of **Black River Electric Cooperative, Inc. and Subsidiary** (the Corporation) for the year ended December 31, 2023 and have issued our report thereon dated March 12, 2024, Professional standards require that we provide you with the information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We communicated such information in our engagement letter. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated November 13, 2023, 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 the Corporation 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 Corporation. 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

  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).

- Loan Compliance

  The Corporation'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 Corporation is outlined in Note 2 to the consolidated financial statements. Other than the adoption of the provisions of *ASC 326, Financial Instruments - Credit Losses* effective January 1, 2023, 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, 2023.

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 consolidated 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 consolidated financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments. 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 most sensitive estimates affecting the consolidated financial statements are:

- *Construction Work-in-Progress Overhead Allocations*

  Management utilizes estimates to determine the allocation of costs to construction work-in-progress. The estimates utilize direct labor and material cost as the primary basis for allocation. The allocations utilized are similar to the allocation processes utilized by other electric utilities.

- *Useful Lives of Property, Plant, and Equipment*

  Management's estimates of the useful lives assigned to property, plant, and equipment are based on U.S. GAAP, industry standards and management's best estimate of the lives of the assets.

- *Allowance for Doubtful Accounts*

  Management's estimate for the allowance for doubtful accounts is based on historical revenues, historical collection rates, and an analysis of the collectability of individual accounts receivable.

Financial Statement Disclosures

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

- *Note 10 - Debt*
- *Note 11 - Retiree Benefits*
- *Note 15 - Fair Value of Financial Instruments*

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 consolidated 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 consolidated 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 Corporation's consolidated 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 12, 2024.

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.

Supplementary Information

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 information to determine that the information complies with U.S. generally accepted accounting principles, 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 account records used to prepare the consolidated financial statements or the consolidated financial statements themselves.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Corporation, 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 Corporation auditors.

This report is intended solely for the information and use of the board of trustees and management of the Corporation 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