SAWNEE ELECTRIC MEMBERSHIP CORPORATION
CUMMING, GEORGIA

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

SAWNEE ELECTRIC MEMBERSHIP CORPORATION

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February 26, 2024

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Sawnee Electric Membership Corporation

Opinion

We have audited the financial statements of **Sawnee Electric Membership Corporation**, which comprise the balance sheets as of December 31, 2023 and 2022, and the related statements of operations, changes in members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Sawnee Electric Membership Corporation as of December 31, 2023 and 2022 and the results of its operations and its 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 audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 Sawnee Electric Membership Corporation 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 these 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Sawnee Electric Membership Corporation's ability to continue as a going concern for one year after the date that the 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 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 and *Government Auditing Standards* 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 financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatements of the 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 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 Sawnee Electric Membership Corporation'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Sawnee Electric Membership Corporation'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.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 *U.S Code of Federal Regulation* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2024 on our consideration of Sawnee Electric Membership Corporation's internal controls and our tests of its compliance with provisions of laws, regulations, contracts and grant agreements and instances of fraud. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Sawnee Electric Membership Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sawnee Electric Membership Corporation's internal control over financial reporting and compliance.

McNair, McLemore, Middlebrooks & Co., LLC

McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC

SAWNEE ELECTRIC MEMBERSHIP CORPORATION
BALANCE SHEETS
DECEMBER 31

ASSETS

	2023	2022
Utility Plant		
Electric Plant in Service - At Cost	**$ 823,724,722**	$ 774,633,712
Construction Work in Progress	**8,322,557**	9,700,884
Gross Utility Plant	**832,047,279**	784,334,596
Accumulated Provision for Depreciation	**(143,289,958)**	(136,296,313)
	688,757,321	648,038,283
Other Property and Investments		
Investments in Associated Organizations	**56,452,232**	51,353,588
Restricted Funds	**141,790,508**	148,930,889
Other Investments	**-**	119,111
	198,242,740	200,403,588
Current Assets		
Cash and Cash Equivalents	**34,380,862**	39,801,483
Accounts Receivable (Net of Accumulated Provision for Credit Losses of $169,087 and $69,495 in 2023 and 2022, Respectively)	**22,117,488**	19,460,266
Accrued Utility Revenue	**19,705,454**	21,950,196
Materials and Supplies	**8,922,449**	8,467,011
Prepayments	**116,835**	104,712
Interest Receivable	**3,125,808**	1,594,030
	88,368,896	91,377,698
Deferred Debits	**2,109,780**	112,000
Total Assets	**$ 977,478,737**	$ 939,931,569

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

SAWNEE ELECTRIC MEMBERSHIP CORPORATION
BALANCE SHEETS
DECEMBER 31

MEMBERS' EQUITY AND LIABILITIES

	2023	2022
Members' Equity		
Membership Fees	**$ 140,030**	$ 145,730
Patronage Capital	**308,821,179**	285,576,092
Other Equities	**27,459,530**	26,606,845
	336,420,739	312,328,667
Long-Term Liabilities		
Long-Term Debt	**392,399,569**	372,445,557
Accumulated Provisions for Postretirement Benefits Other Than Pensions	**26,245,444**	24,475,170
Other Liabilities	**369,194**	246,129
	419,014,207	397,166,856
Current Liabilities		
Long-Term Debt - Current Portion	**14,925,801**	14,301,752
Accumulated Provisions for Postretirement Benefits Other Than Pensions - Current Portion	**1,416,621**	1,255,730
Accounts Payable	**26,940,068**	28,702,953
Consumers' Deposits	**12,068,576**	11,066,819
Accrued and Withheld Taxes	**5,828,103**	4,411,109
Other	**13,433,002**	13,480,085
	74,612,171	73,218,448
Deferred Credits	**147,431,620**	157,217,598
Total Members' Equity and Liabilities	**$ 977,478,737**	$ 939,931,569

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

SAWNEE ELECTRIC MEMBERSHIP CORPORATION
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31

	2023	2022
Operating Revenues	**$ 441,494,527**	$ 452,343,517
Operating Expenses		
Cost of Power	**285,265,938**	306,709,719
Distribution Operations	**23,967,405**	21,680,458
Distribution Maintenance	**43,454,806**	35,840,459
Consumer Accounts	**10,684,854**	10,661,957
Consumer Information and Sales	**3,518,858**	3,436,129
Administrative and General	**19,755,471**	18,503,349
Depreciation	**25,078,379**	23,317,018
Other	**12,050**	2,277
	411,737,761	420,151,366
Operating Margins Before Interest Expense	**29,756,766**	32,192,151
Interest Expense	**11,143,882**	10,350,256
Operating Margins After Interest Expense	**18,612,884**	21,841,895
Nonoperating Margins	**8,597,197**	3,884,943
Generation and Transmission Cooperative Capital Credits	**2,938,615**	3,316,015
Other Capital Credits and Patronage Capital Allocations	**2,336,270**	1,150,355
Net Margins	**$ 32,484,966**	$ 30,193,208

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

SAWNEE ELECTRIC MEMBERSHIP CORPORATION
STATEMENTS OF CHANGES IN MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	Membership Fees	Patronage Capital	Other Equities	Total Members' Equity
Balance, December 31, 2021	$ 152,165	$ 264,465,560	$ 25,801,121	$ 290,418,846
Net Margins	-	30,193,208	-	30,193,208
Retirement of Patronage Capital	-	(9,082,676)	711,496	(8,371,180)
Membership Fees	(6,435)	-	-	(6,435)
Other Equities	-	-	94,228	94,228
Balance, December 31, 2022	145,730	285,576,092	26,606,845	312,328,667
Net Margins	-	32,484,966	-	32,484,966
Retirement of Patronage Capital	-	(9,239,879)	765,586	(8,474,293)
Membership Fees	(5,700)	-	-	(5,700)
Other Equities	-	-	87,099	87,099
Balance, December 31, 2023	**$ 140,030**	**$ 308,821,179**	**$ 27,459,530**	**$ 336,420,739**

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

SAWNEE ELECTRIC MEMBERSHIP CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31

	2023	2022
Cash Flows from Operating Activities		
Net Margins	**$ 32,484,966**	$ 30,193,208
Adjustments to Reconcile Net Margins to Net Cash		
Provided by Operating Activities		
Depreciation and Amortization	**26,519,546**	24,808,944
Investments in Associated Organizations	**(5,274,885)**	(4,466,370)
Revenue Deferral - *ASC 980*	**11,000,000**	1,587,026
Revenue Recognition - *ASC 980*	**(18,140,381)**	(19,727,406)
Postretirement Medical Benefits	**3,287,674**	(5,855,225)
Postretirement Medical Benefit Contributions	**(1,356,509)**	(1,100,127)
Postretirement Benefit Cost - *ASC 980*	**(2,662,965)**	8,208,636
Change In		
Accounts Receivable	**(412,480)**	(2,869,884)
Other Current Assets	**(1,543,901)**	(1,163,880)
Other Liabilities	**123,065**	123,064
Accounts Payable	**(1,762,885)**	11,375,417
Consumers' Deposits	**1,001,757**	1,376,890
Other Current Liabilities	**1,369,911**	598,110
Deferred Debits	**(1,997,780)**	17,108
Deferred Credits	**17,368**	(6,805)
	42,652,501	43,098,706
Cash Flows from Investing Activities		
Extension and Replacement of Plant	**(67,238,584)**	(77,008,168)
Materials and Supplies	**(455,438)**	(1,734,018)
Other Investments	**119,111**	359,619
Return of Equity from Associated Organizations	**176,241**	225,644
	(67,398,670)	(78,156,923)
Balance - Carried Forward	**$ (24,746,169)**	$ (35,058,217)

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

SAWNEE ELECTRIC MEMBERSHIP CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31

	2023	2022
Balance - Brought Forward	**$ (24,746,169)**	$ (35,058,217)
Cash Flows from Financing Activities		
Membership Fees	**(5,700)**	(6,435)
Advances on Long-Term Debt	**35,000,000**	53,000,000
Principal Repayment of Long-Term Debt	**(14,421,939)**	(13,330,545)
Retirement of Patronage Capital	**(8,474,293)**	(8,371,180)
Other Equities	**87,099**	94,228
	12,185,167	31,386,068
Net Decrease in Cash, Cash Equivalents, and Restricted Funds	**(12,561,002)**	(3,672,149)
Cash, Cash Equivalents, and Restricted Funds - Beginning	**188,732,372**	192,404,521
Cash, Cash Equivalents, and Restricted Funds - Ending	**$ 176,171,370**	$ 188,732,372
Balance Sheet Reconciliation		
Cash and Cash Equivalents	**$ 34,380,862**	$ 39,801,483
Restricted Funds	**141,790,508**	148,930,889
	$ 176,171,370	$ 188,732,372

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

NOTES TO FINANCIAL STATEMENTS

(1) Nature of Operations

Sawnee Electric Membership Corporation (the Corporation) is a member-owned, not-for-profit corporation organized to provide electric service to its members. The Corporation operates as a cooperative whereby all monies in excess of cost of providing electric service are considered as capital, at the moment of receipt, and are credited to each member's capital account.

(2) Summary of Significant Accounting Policies

Accounting policies of 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 the Corporation are maintained in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission as modified and adopted by the Rural Utilities Service (RUS). The following describes the more significant of those policies.

Basis of Presentation

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

Regulated Operations

The Corporation, in its rate-making capacity, has the ability to account for certain revenue and expense deferrals in accordance with *ASC 980*.

Use of Estimates

The preparation of financial statements in accordance 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 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.

(2) Summary of Significant Accounting Policies (Continued)

Long-Lived Assets (Continued)

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 the related estimated cost of installation.

Depreciation and Maintenance

Depreciation of capitalized cost is provided using 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 the accumulated provision for depreciation.

Provision has been made for depreciation of distribution plant at straight-line rates ranging from 2.80 percent to 3.90 percent per annum with the exception of automated meters and fault indicators. Automated meters and fault indicators 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 2.00 percent to 16.67 percent per annum.

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

Accounts Receivable and Allowance for Credit Losses

Accounts receivable are stated at the amount management expects to collect. Once an electric consumer's service is shut off and the account is deemed uncollectible, the Corporation 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 balance sheets net of such accumulated allowance.

Credit evaluations are performed on most potential members before accepting them for service. Depending upon the results of the credit evaluation, a deposit may be required. If a member does not pay its bill based on the terms of the Corporation's service agreement, the Corporation may require an additional deposit as a condition of continued service Expected credit losses are determined on the basis of how long a receivable has been outstanding, current economic conditions, and historical loss information.

(2) Summary of Significant Accounting Policies (Continued)

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.

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less.

Restricted Funds and Other Investments

The Corporation is required to restrict funds related to revenue deferral plans by depositing them in special accounts until such time as a like amount is subsequently amortized into power cost revenue.

Restricted funds and other investments consist of corporate debt securities. The Corporation classifies all of its debt securities as held-to-maturity (HTM). HTM debt securities are those debt securities in which the Corporation has the ability and intent to hold the security until maturity. HTM debt securities are recorded at cost, as there are no associated premiums and discounts to amortize. A decline in the market value of any HTM security below cost that is deemed to be other than temporary, results in an impairment to reduce the carrying amount to fair value. To determine whether impairment is other than temporary, the Corporation considers all available information relevant to the collectability of the security, including past events, current conditions and reasonable and supportable forecasts when developing estimates of cash flows expected to be collected. Evidence considered in this assessment includes the reasons for impairment, the severity and duration of the impairment, changes in value subsequent to year-end, forecasted performances of the investee, and the general market conditions in the geographical area or industry in which the investee operates. Management has determined that, as of December 31, 2023 and 2022, there is no expectation of a credit loss related to restricted funds and other investments, therefore, no allowance for credit losses was recorded. The Corporation's debt securities investments are invested at the National Rural Utilities Cooperative Finance Corporation (NRUCFC).

The carrying value of the debt securities investments approximated fair value with interest rates ranging from 5.51 percent to 5.88 percent with maturity dates ranging from January 22, 2024 to October 15, 2024.

(2) Summary of Significant Accounting Policies (Continued)

Investments in Associated Organizations

Investments in associated organizations consist of the following:

- Investments in Other Cooperative Organizations - These investments represent capital investments made primarily to obtain an economical source of financing, product, or service. These investments are carried at cost plus allocated equities based on guidance issued in *ASC 905-325-30*.

- OPC and GSOC Capital Credits - The Corporation has elected the fair value option for valuing OPC and GSOC capital credits. The election to account for these financial instruments under the fair value option was made based on management's assessment of the industry in which OPC and GSOC operate and its potential effect on future returns of capital. See Note 13 for additional details on the Corporation's fair value assessment of OPC and GSOC capital credits.

Capital credit allocations from associated organizations are included on the statements of operations as "generation and transmission cooperative capital credits" and "other capital credits and patronage capital allocations."

Fair Value Option

The Corporation has elected the fair value option for its allocated equities from Oglethorpe Power Corporation (OPC) and Georgia System Operations Corporation (GSOC). The election to account for this financial instrument under the fair value option was made based on management's assessment of the regulation surrounding the industry in which OPC operates, OPC's financial condition, and its potential effect on future returns of capital. The decision to elect the fair value option is determined on an instrument-by-instrument basis, must be applied to an entire instrument, and is irrevocable once elected. At this time, the Corporation has not elected to apply the fair value option to any of its other financial instruments.

Patronage Capital

Patronage capital represents the Corporation's accumulated retained excess of revenues over operating cost and expenses that has been allocated annually to its members. Distributions to members are made at the discretion of the board of directors in accordance with the bylaws, subject to the restrictions contained in the long-term debt agreements and the policies of the Corporation. Under provisions of long-term debt agreements, generally until the total equities and margins equal or exceed 30 percent of the total assets of the Corporation, the return to patrons of capital contributed is limited.

Revenue Recognition

Electric revenue is generated from contracts (service agreements) with retail customers and is recognized in accordance with ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*.

Electric 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. Unbilled revenue related to retail sales are accrued at the end of each reporting period. 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 directors to adjust billings for fluctuations in fuel costs, purchased power costs, and certain other costs.

(2) Summary of Significant Accounting Policies (Continued)

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.

Sales Tax

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.

Income Taxes

The Corporation 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 this exemption. The Corporation has met the requirement for the tax year ended December 31, 2023. Accordingly, no provision for income taxes has been made in the financial statements. Currently, the Corporation's federal information returns for calendar year 2020 and after are subject to examination by the Internal Revenue Service.

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 and HTM debt securities. The Corporation adopted the standard effective January 1, 2023. The impact of the adoption was not considered material to the financial statements.

Subsequent Events

In preparing these financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through February 26, 2024, the date the financial statements were available to be issued.

(3) Accounts Receivable, Contract Assets, and Contract Liabilities

Billed receivables and contract assets and contract liabilities related to revenue from contracts with customers consists of the following as of December 31:

	2023	2022	2021
	End of Year	End of Year	End of Year
Billed Receivables, Net of Allowance			
Electric Operations	**$ 22,117,488**	$ 19,460,266	$ 20,851,593
Contract Assets			
Unbilled Revenue			
Electric Customers	**$ 19,705,454**	$ 21,950,196	$ 17,688,985

The Corporation had no contract liabilities for the periods presented above.

(4) Utility Plant

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

	2023	2022
Distribution Plant	**$ 753,959,217**	$ 705,571,230
General Plant	**69,765,505**	69,062,482
Electric Plant in Service	**823,724,722**	774,633,712
Construction Work in Progress	**8,322,557**	9,700,884
	$ 832,047,279	$ 784,334,596

(5) Investments in Associated Organizations

Investments in associated organizations are comprised of the following as of December 31:

	2023	2022
National Rural Utilities Cooperative Finance Corporation		
Capital Term Certificates	**$ 1,261,169**	$ 1,261,169
Capital Credits	**1,171,729**	1,263,257
GRESCO Utility Supply, Inc.	**8,388,300**	6,210,382
Meridian Cooperative, Inc.	**38,808**	40,846
Georgia Transmission Corporation	**30,705,837**	28,413,686
Smarr EMC	**13,134,352**	12,487,886
Federated Rural Electric Insurance Exchange	**1,016,764**	978,978
Green Power EMC	**85,709**	79,819
National Information Solutions Cooperative	**648,524**	616,525
Other	**1,040**	1,040
	$ 56,452,232	$ 51,353,588

(6) Deferred Debits

Deferred debits are comprised of the following as of December 31:

	2023	2022
Tropical Storm Zeta System Restoration	**$ 2,109,780**	$ -
Clearing Accounts and Other	**-**	112,000
	$ 2,109,780	$ 112,000

The Federal Emergency Management Agency (FEMA) declared a portion of the Corporation's service territory a disaster area (FEMA-4579-DR-GA) on January 12, 2021. During 2021, FEMA rejected the original claim filed by the Corporation and resulting rejected claim was recorded as a component of distribution maintenance for the year ended December 31, 2021. However, during 2023, FEMA approved the original claim through an appellate process. The reinstatement of the original claim has been included as a reduction component of distribution maintenance for the year ended December 31, 2023. The Corporation's total approved FEMA reimbursement was for $2,109,780 of the costs expended by the Corporation for Tropical Storm Zeta system restoration. Subsequent to the year ended December 31, 2023 but prior to the date the financial statements were available to be issued, the Corporation received the FEMA reimbursement in full.

(7) Other Equities

Other equities consist of the following as of December 31:

	2023	2022
Capital Gains and Losses	**$ 37,520**	$ 37,520
Retired Capital Credits - Gain	**12,300,629**	11,535,044
Unbilled Revenue Prior to 2017	**13,093,000**	13,093,000
Donated Capital	**2,028,381**	1,941,281
	$ 27,459,530	$ 26,606,845

(8) Debt

Long-Term Debt

Long-term debt consists primarily of mortgage notes payable to the United States of America acting through RUS and the Federal Financing Bank (FFB). The notes are secured by a mortgage agreement among the Corporation, RUS, and FFB. Substantially all the assets of the Corporation are pledged as security for the long-term debt. The notes generally have 35-year maturity periods and are payable in quarterly and monthly installments. The notes 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.

Holder of Note	**Weighted Average Interest Rate December 31, 2023**	**2023**	2022
RUS Mortgage Notes	4.049%	**$ 71,595,402**	$ 75,630,580
FFB Mortgage Notes	2.561%	**335,729,968**	311,116,729
		407,325,370	386,747,309
Maturities Due Within One Year		**(14,925,801)**	(14,301,752)
		$ 392,399,569	$ 372,445,557

(8) Debt (Continued)

Long-Term Debt (Continued)

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

Year	Amount
2024	$ 14,925,801
2025	15,298,634
2026	15,707,216
2027	16,133,994
2028	16,537,211
Thereafter	328,722,514
	$ 407,325,370

Cash payments of interest totaled $10,886,658 and $10,209,615 for 2023 and 2022, respectively.

The Corporation had $99,701,000 in unadvanced loan funds on commitment from FFB as of December 31, 2023. The availability of the funds is contingent on the Corporation's compliance with one or more preconditions set forth in the mortgage agreements.

Lines-of-Credit

The Corporation has two separate and distinct line-of-credit instruments with NRUCFC that total $80,000,000. The first line-of-credit is for $50,000,000 and is for general use to meet the ongoing short-term cash needs of the Corporation. The second line-of-credit is for $30,000,000 and is limited to serving the short-term cash needs of the Corporation. The line-of-credit instruments had no outstanding obligation as of December 31, 2023 and 2022. The lines-of-credit with NRUCFC carry a variable rate of 7.25 percent as of December 31, 2023.

(9) Retiree Benefits

Pension Plan (Defined Benefit)

Pension benefits for qualified employees of the Corporation are provided through participation in the National Rural Electric Cooperative Association (NRECA) Retirement Security (RS) Plan, a defined benefit plan qualified under Section 401 and tax-exempt under 501(a) of the Internal Revenue Code. The plan sponsor's employer identification number is 53-0116145 and the plan number is 333.

A unique characteristic of a multiemployer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

The Corporation's annual contributions to the NRECA RS Plan 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 $3,568,620 and $3,515,657 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 employee benefits to qualified 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 $1,612,176 and $1,390,663 for the years ended December 31, 2023 and 2022, respectively.

(9) Retiree Benefits (Continued)

Postretirement Healthcare Benefits

The Corporation provides healthcare benefits to qualified retirees and directors. U.S. GAAP requires cooperatives to recognize the estimated future cost of providing healthcare and any other postretirement benefits on an accrual basis.

The status of the Corporation's postretirement healthcare plan as of December 31 is detailed as follows:

	2023	2022
Changes in the Accumulated Postretirement Benefit Obligation (APBO)		
APBO Beginning of Year	**$ 25,730,900**	$ 32,686,252
Service Cost	**576,088**	972,917
Interest Cost	**1,350,082**	951,269
Actuarial Loss (Gain)	**1,361,504**	(7,779,411)
Direct Benefit Payments	**(1,356,509)**	(1,100,127)
APBO End of Year	**27,662,065**	25,730,900
Changes in Plan Assets		
Fair Value of Plan Assets at Beginning of Year	**-**	-
Employer Contributions	**1,356,509**	1,100,127
Plan Participant Contributions	**-**	-
Actual Distributions	**(1,356,509)**	(1,100,127)
Fair Value of Plan Assets at End of Year	**-**	-
Under Funded Status at End of Year	**$ 27,662,065**	$ 25,730,900

Amounts recognized on the balance sheets consist of the following:

	2023	2022
Current Liabilities	**$ 1,416,621**	$ 1,255,730
Noncurrent Liabilities	**26,245,444**	24,475,170
	$ 27,662,065	$ 25,730,900

(9) Retiree Benefits (Continued)

Postretirement Healthcare Benefits (Continued)

Changes in benefit obligations recognized in patronage capital are as follows:

	2023	2022
Service Cost	**$ 576,088**	$ 972,917
Interest Cost	**1,350,082**	951,269
Actuarial Loss (Gain)	**1,361,504**	(7,779,411)
	$ 3,287,674	$ (5,855,225)

The Corporation's net postretirement benefit cost is calculated using various actuarial assumptions and methodologies. These assumptions include discount rates, expected return on plan assets, mortality rates, and other factors. Actuarial assumptions are reviewed on an annual basis. The following table shows key assumptions used for the measurement of obligations for the plan:

	December 31		
Description	**2023**	2022	2021
Discount Rate			
Benefit Obligations	**5.69%**	5.23%	2.83%
Net Periodic Benefit Cost	**5.23%**	2.83%	2.62%
Medical Trend Rate			
Initial (Pre-65/Post 65)	**6.89/7.26%**	5.51/5.58%	5.49/5.70%
Ultimate	**4.00%**	4.00%	4.00%
Year Reached	**2048**	2047	2047

The Corporation has elected to amortize gains and losses from changes in actuarial assumptions in the year they occur. This practice is accepted under U.S. GAAP.

The components of net periodic benefit cost, other than the service cost component, are included in the line item nonoperating margins for the years ended December 31, 2023 and 2022.

The following benefits are expected to be paid:

Year	**Amount**
2024	$ 1,416,621
2025	1,420,212
2026	1,434,283
2027	1,469,652
2028	1,470,434
2029-2032	8,502,018

(9) Retiree Benefits (Continued)

Deferred Compensation Plans

The Corporation has also established an Executive Benefit Restoration Plan (EBR Plan) for key management and highly compensated employees whose benefits under the RS Plan are restricted because of maximum limits on benefits or compensation that may be provided by the RS Plan. The net periodic benefit cost is calculated using various actuarial assumptions and methodologies. These assumptions include discount rates, expected return on plan assets, mortality rates, and other factors. Actuarial assumptions are reviewed on an annual basis.

The EBR Plan accumulated benefit obligation was $369,194 and $246,129 as of December 31, 2023 and 2022, respectively. The amounts are included in other long-term liabilities on the balance sheets.

(10) Deferred Credits

Deferred credits are comprised of the following as of December 31:

	2023	2022
Power Cost Revenue Deferral - *ASC 980*	**$ 141,790,508**	$ 148,930,889
Postretirement Benefit Cost Deferral - *ASC 980*	**5,545,671**	8,208,636
Clearing Accounts and Other	**95,441**	78,073
	$ 147,431,620	$ 157,217,598

Power Cost Revenue Deferrals

The power cost revenue deferrals represent revenue deferral plans to reduce the impact of the future power cost increases by various power suppliers on the Corporation's rate structure.

Plan transactions were as follows:

	2023	2022
Beginning Balance	**$ 148,930,889**	$ 167,071,270
Current Year Recognition	**(18,140,381)**	(19,727,407)
Current Year Deferral	**11,000,000**	1,587,026
	$ 141,790,508	$ 148,930,889

The revenue deferrals are in compliance with U.S. GAAP related to the effects of certain types of regulation and have been approved by RUS.

The board of directors of the Corporation specified the deferred funds be deposited in special accounts until such time as a like amount is subsequently amortized into revenue. Accordingly, the funds have been set aside as restricted funds.

(10) Deferred Credits (Continued)

Postretirement Benefit Cost Deferral

The board of directors, in their rate-making capacity, has elected to defer changes in actuarial assumptions related to postretirement healthcare benefits for the purpose of offsetting future net periodic postretirement benefit costs due to the volatility of interest rates in the current market. The Corporation's intention is to stabilize costs for rate-making purposes, rather than having to change rates more frequently than its members' desire. The plan is in accordance with *ASC 980,* allowing current period costs or revenues to be passed on to future members with the assumption that such costs or revenues will be included in future rates. The deferrals are in compliance with U.S. GAAP related to the effects of certain types of regulation.

(11) Commitments

The Corporation entered into a Wholesale Power Contract with OPC in 1997. The Wholesale Power Contract was amended in 2003 and its term has been extended through December 31, 2085. Under the Wholesale Power Contract, the Corporation is obligated, on a "take or pay" basis, for a fixed percentage of capacity costs (referred to as a "percentage capacity responsibility") of certain OPC generation and purchased power resources. The Corporation will be assigned only a percentage capacity responsibility for any future OPC resource if the Corporation elects to participate in the resource. The Corporation's percentage capacity responsibility in each of OPC's existing generation and purchased power resources ranges from 3.5246 percent to 33.3294 percent with an aggregate capacity cost responsibility totaling approximately $94,144,263 for the year ended December 31, 2023. Additionally, the aggregate capacity cost reported includes costs for the Smarr and Sewell Creek energy facilities of which OPC provides operational and financial management services to.

The Corporation elected to participate in OPC's "5 for 5 Rate Management Program." This program allows OPC members to make payments towards cost obligations that have already been incurred but would otherwise be billed in the future. As a result, these payments are expensed as incurred based on the subscription period selected. The Corporation elected to make payments under this program totaling $28,000,000 from 2020 through 2021. The $28,000,000 will be credited to the Corporation's power bills from 2023 through 2024. The Corporation recognized credits of approximately $3,000,000 plus interest for the year ended December 31, 2023. The Corporation earns a return on the amounts funded into this program which are credited against the Corporation's power bill.

The Corporation is a member of a transmission cooperative known as Georgia Transmission Corporation and as such, has a Member Transmission Service Agreement (MTSA) executed in 1996 and amended in 2005 and 2012. The MTSA revision of 2012 requires the Corporation to take transmission-related services through 2060 and allows for a reduction in service at prescribed periods. Transmission service under the MTSA was $39,383,518 in 2023 and is expected to remain relatively constant in the immediate future. Transmission service is recorded as a component of cost of power.

GSOC is an independent, not-for-profit system operations company. The Corporation has a service agreement with GSOC that can be terminated with a one-year notice. For 2023, the Corporation paid GSOC $267,326.

Southeastern Power Administration (SEPA) is responsible for marketing electric power and energy to preferred power customers of which the Corporation is considered to be. The Corporation has a perpetual agreement with SEPA that can be terminated with a two-year notice. For 2023, the Corporation paid SEPA $1,344,640.

(11) Commitments (Continued)

The Corporation entered into a Requirements Service Agreement (RSA) dated February 28, 2002 through December 31, 2017 with Southern Power Company. Under the original terms of the RSA, the Corporation received all energy and capacity above its existing and approved resources and agreements. On September 28, 2010, the Corporation extended the RSA until December 31, 2027. Beginning on January 1, 2028, by mutual consent, a portion of the RSA can be converted to a Block Power Purchase Agreement for the balance of the term which ends December 31, 2034. The Corporation has to meet certain financial covenants under the RSA or provide a predefined level of credit support as specified by the agreement.

On May 21, 2020, the Corporation entered into an amendment to the current Requirements Service Agreement (RSA) effective January 1, 2025 through December 31, 2037 with Southern Power Company. Under the revised RSA, the Corporation will receive all energy and capacity above its existing and approved resources and agreements until December 31, 2037.

In addition, the Corporation has committed to participate in a utility scale solar project known as Sandhill under a power purchase agreement with Southern Power Company. This agreement is to expire 25 years from the date of commercial operations or on approximately December 31, 2042. The Corporation currently meets these required financial covenants and currently provides no credit support.

The Corporation has entered into various assignment and assumption agreements through Green Power EMC and its participating EMCs. These agreements are in support of the Corporation's receiving capacity and energy from the various renewable generation projects that the Corporation has chosen to participate in through Green Power EMC. The Corporation participates in fourteen Green Power EMC projects throughout the state of Georgia. In 2023, the Corporation made $9,150,693 in capacity and energy payments for these assets.

Under current Georgia law, the Corporation has the ability to recover these purchase power costs as well as other operating costs from its members; however, any change to existing laws could adversely affect the ability to recover such costs.

(12) 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 financial institutions; cash balances throughout the year periodically exceed federally insured deposit limits of $250,000. At December 31, 2023, the amount exceeding insured limits totaled $13,458,286.

At December 31, 2023, the Corporation held commercial paper and medium-term notes of the NRUCFC in the amounts of $24,648,507 and $135,909,000, respectively. The amounts are not secured or otherwise subject to federally insured deposit liability coverage.

The Corporation serves consumers in the state of Georgia. 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 potential customers based on a board-approved methodology as defined in board policy prior to accepting them for service. Depending upon the results of the credit evaluation, a service security deposit may be required.

(13) Fair Value Measurements

The Corporation measures and reflects fair value in the balance sheets for OPC and GSOC Capital Credits. Since the Corporation reflects these assets at fair value, accounting standards require the following three-tier value information.

- 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 following valuation techniques are used to estimate the fair value of each class of financial instruments:

(1) *Market approach*. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities (including a business) and deriving fair value based on these inputs.

(2) *Income approach*. The income approach uses valuation techniques to convert future amounts (for example, cash flows or earnings) to a single present amount (discounted). The measurement is based on the value indicated by current market expectations about those future amounts.

(3) *Cost approach.* The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (often referred to as current replacement cost). This approach assumes that the fair value would not exceed what it would cost a market participant to acquire or construct a substitute asset or comparable utility, adjusted for obsolescence.

The Corporation has capital credit notifications from OPC and GSOC totaling $89,917,663 and $85,308,181 as of December 31, 2023 and 2022, respectively. The Corporation has elected to account for OPC and GSOC capital credits as financial instruments under U.S. GAAP, based on an expectation of a return of capital, and measures these capital credits at fair value on an annual basis (recurring fair value measurement) using significant unobservable inputs (Level 3). No market data exists for these instruments.

The Corporation had no nonrecurring fair value measurements for the years ended December 31, 2023 and 2022.

(13) Fair Value Measurements (Continued)

Fair Value Measurements Carried at Fair Value

	Carrying Value as of December 31	Fair Value Measurements Using: Quoted Market Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
2023					
Recurring Fair Value Measurements					
Investments in Associated Organizations					
OPC and GSOC Capital Credits	**$ -**			**$ -**	**$ -**
2022					
Recurring Fair Value Measurements					
Investments in Associated Organizations					
OPC and GSOC Capital Credits	$ -			$ -	$ -

Gains and losses included in earnings for each period are presented as a component of generation and transmission cooperative capital credits on the statements of operations.

Unobservable inputs are inputs that reflect management's own assumptions about the assumptions market participants would use in pricing an asset or liability developed based on the best information available in the circumstances. Level 3 fair value measurements for the years ended December 31 are as follows:

	2023	2022
Beginning Balance	**$ -**	$ -
Transfers into Level 3	-	-
Total Gains or Losses for the Period		
Included in Margins		
Patronage Notifications	**4,609,482**	4,474,186
Fair Value Adjustment(s)	**(4,609,482)**	(4,474,186)
Purchases, Issues, Sales, and Settlements	-	-
Ending Balance	**$ -**	$ -

For Level 3 fair value measurements, the Corporation's management determines the fair value measurement valuation policies and procedures. In accordance with board policy, the board of directors assess and approve the fair value measurement policies and procedures. On an annual basis, management determines if the current valuation techniques used in the fair value measurements are still appropriate and evaluates and adjusts the unobservable inputs used in the fair value measurements based on current market conditions and any available third-party information. There were no changes in the valuation techniques during the current year.

(13) Fair Value Measurements (Continued)

Fair Value Measurements Carried at Fair Value (Continued)

Quantitative information about Level 3 fair value measurements for the years ended December 31, 2023 and 2022 is as follows:

Financial Instrument	Fair Value	Valuation Technique	Unobservable Input	Percentage
OPC and GSOC Capital Credits	$ -	Discounted Cash Flow	Expected Return of Capital	0.0%

The significant unobservable input used in the fair value measurement of the Corporation's OPC capital credits is an expected return of capital. Management has assessed that no expected return of capital exists based on the following factors:

- Uncertainty as to return of capital since no capital has been returned in recent years.
- Capital returns limited by debt agreements.
- Review of major construction and related debt requirements.
- Regulatory environment.
- No known market.

An increase in the percentage of expected capital returns would result in a significantly higher fair value measurement.

McNair McLemore Middlebrooks & Co
Certified Public Accountants

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February 26, 2024

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROLS;
COMPLIANCE WITH PROVISIONS OF LAWS,
REGULATIONS, CONTRACTS AND GRANT AGREEMENTS;
AND INSTANCES OF FRAUD IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

The Board of Directors
Sawnee Electric Membership Corporation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of **Sawnee Electric Membership Corporation** (the Corporation), which comprise the balance sheet as of December 31, 2023 and the related statements of operations, changes in members' equity, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 26, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation'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 such that there is a reasonable possibility that a material misstatement of the Corporation's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by 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 may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

McNair, McLemore, Middlebrooks & Co., LLC

McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC

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February 26, 2024

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

The Board of Directors
Sawnee Electric Membership Corporation

Report on Compliance for Each Major Federal Program

Opinion on Major Federal Program

We have audited **Sawnee Electric Membership Corporation's** (the Corporation) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Corporation's major federal programs for the year ended December 31, 2023. The Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Corporation complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Corporation and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Corporation's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Corporation's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Corporation's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Corporation's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Corporation's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Corporation's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

McNair, McLemore, Middlebrooks & Co., LLC

McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC

SAWNEE ELECTRIC MEMBERSHIP CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2023

Federal Grantor/Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
Department of Homeland Security			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)			
Pass-through Program From:			
Georgia Emergency Management Division	97.036	000-U3X50-00	$ 2,109,780

SAWNEE ELECTRIC MEMBERSHIP CORPORATION
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2023

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Sawnee Electric Membership Corporation (the Corporation) for the year ended December 31, 2023. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Corporation, it is not intended to and does not present the financial position, changes in equities or cash flows of the Corporation.

(2) Federal Award

On January 12, 2021, President Donald J. Trump issued a major disaster declaration designated FEMA-4579-DR-GA for the state of Georgia as a result of Tropical Storm Zeta. The declaration authorized public assistance in the following Georgia counties: Banks, Carroll, Cherokee, Dawson, Douglas, Fannin, Forsyth, Franklin, Gilmer, Habersham, Hall, Haralson, Heard, Lumpkin, Paulding, Pickens, Rabun, Stephens, Towns, Union, and White.

The Corporation's federal award related to Tropical Storm Zeta includes Public Assistance grants under FEMA project category F.

(3) Summary of Significant Accounting Policies

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

(4) Indirect Cost Rate

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

SAWNEE ELECTRIC MEMBERSHIP CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2023

(A) Summary of Audit Results

(1) The Independent Auditor's Report expresses an unmodified opinion on whether the financial statements of Sawnee Electric Membership Corporation were prepared in accordance with accounting principles generally accepted in the United States of America.

(2) There were no significant deficiencies or material weaknesses disclosed during the audit of the financial statements.

(3) No instances of noncompliance material to the financial statements of Sawnee Electric Membership Corporation, which would be reported in accordance with *Governmental Auditing Standards*, were disclosed during the audit.

(4) There were no significant deficiencies or material weaknesses in internal controls over major federal awards programs disclosed during the audit of the major federal awards program.

(5) The Independent Auditor's Report on Compliance for the major federal awards program of Sawnee Electric Membership Corporation expresses an unmodified opinion for the major federal programs.

(6) There were no audit findings, required to be reported in accordance with 2 CFR section 200.516(a).

(7) The program tested as major program: CFDA No. 97.036, Disaster Grants - Public Assistance (Presidentially Declared Disasters).

(8) The threshold for distinguishing whether the program was Type A or B was $750,000.

(9) Sawnee Electric Membership Corporation did not qualify as a low-risk auditee.

(B) Findings - Audit of Financial Statements

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

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

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

McNair McLemore Middlebrooks & Co
Certified Public Accountants

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February 26, 2024

MATTERS TO BE COMMUNICATED WITH THOSE CHARGED WITH GOVERNANCE

The Board of Directors
Sawnee Electric Membership Corporation

We have audited the financial statements of **Sawnee Electric Membership Corporation** (the Corporation) for the year ended December 31, 2023 and have issued our report thereon dated February 26, 2024. Professional standards require that we provide you with 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, our responsibility, as described by professional standards, is to form and express an opinion about whether the 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 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 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 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).

- Lender Compliance

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

- Compliance for Major Federal Programs

  The Corporation's reimbursement through federal award programs have a noncompliance risk related to submission of unallowed or ineligible cost. 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 are outlined in Note 2 to the financial statements. There were no changes to existing significant accounting policies during the year or their application during the year ended December 31, 2023. The Corporation adopted the provisions of *ASC 326, Financial Instruments - Credit Losses* effective January 1, 2023. The adoption of *ASC 326* had no impact on the financial statements, other than additional disclosure in the Corporation's significant accounting policies.

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. 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 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.

- *Postretirement Healthcare Plan*

  The Corporation provides medical and dental benefits in retirement to qualifying employees and directors. Annual valuations of the accumulated postretirement benefit obligation and the net postretirement benefit cost are calculated by a third-party specialist engaged by management.

- *Fair Value Measurements*

  The Corporation has elected the fair value option for its allocated equities from Oglethorpe Power Corporation (OPC) and Georgia System Operating Corporation (GSOC). The election to account for these financial instruments under the fair value option was made based on management's assessment of the regulation surrounding the industry in which OPC and GSOC operates, OPC and GSOC's financial conditions, and their potential effect on future returns of capital. The decision to elect the fair value option is determined on an instrument-by-instrument basis, must be applied to an entire instrument, and is irrevocable once elected. At this time, the Corporation has not elected to apply the fair value option to any of its other financial instruments.

- *Allowance for Credit Losses*

  Management's estimates for the allowance for credit losses is based on historical revenues, historical collection rates and an analysis of the collectability of individual accounts receivable. In addition, management has determined there is no expectation of default or delinquencies requiring an allowance for credit loss related to debt securities held.

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 Corporation's financial statements relate to:

- Note 8 - Debt
- Note 9 - Retiree Benefits
- Note 10 - Deferred Credits
- Note 11 - Commitments
- Note 13 - Fair Value Measurements

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 Corporation'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 February 26, 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.

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's auditors.

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

McNair, McLemore, Middlebrooks & Co., LLC

McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC