

**SAWNEE ELECTRIC MEMBERSHIP CORPORATION  
CUMMING, GEORGIA**

**FINANCIAL STATEMENTS AS OF  
DECEMBER 31, 2024 AND 2023 AND  
INDEPENDENT AUDITOR'S REPORT**

**SAWNEE ELECTRIC MEMBERSHIP CORPORATION**

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March 6, 2025

## **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, 2024 and 2023, 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, 2024 and 2023 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 judgment 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 Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2025 on our consideration of Sawnee Electric Membership Corporation's internal control 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**

	2024	2023
<b>Utility Plant</b>		
Electric Plant in Service	\$ 870,780,993	\$ 823,724,722
Construction Work in Progress	35,896,546	8,322,557
Gross Utility Plant	906,677,539	832,047,279
Accumulated Provision for Depreciation	(151,899,259)	(143,289,958)
	754,778,280	688,757,321
<b>Other Property and Investments</b>		
Investments in Associated Organizations	62,704,983	56,452,232
Restricted Funds	123,650,127	141,790,508
Other	258,873	-
	186,613,983	198,242,740
<b>Current Assets</b>		
Cash and Cash Equivalents	10,312,140	34,380,862
Accounts Receivable (Net of Allowance for Credit Losses of \$90,980 and \$169,087 in 2024 and 2023, Respectively)	40,785,985	41,822,942
Materials and Supplies	9,728,344	8,922,449
Prepayments	122,445	116,835
Interest Receivable	3,167,248	3,125,808
	64,116,162	88,368,896
<b>Deferred Debits</b>		
	223,993	2,109,780
<b>Total Assets</b>		
	\$ 1,005,732,418	\$ 977,478,737

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

**SAWNEE ELECTRIC MEMBERSHIP CORPORATION**  
**BALANCE SHEETS**  
**DECEMBER 31**

**MEMBERS' EQUITY AND LIABILITIES**

	2024	2023
<b>Members' Equity</b>		
Membership Fees	\$ 135,020	\$ 140,030
Patronage Capital	337,691,291	308,821,179
Other Equities	28,208,224	27,459,530
	<b>366,034,535</b>	<b>336,420,739</b>
<b>Long-Term Liabilities</b>		
Long-Term Debt	407,245,567	392,399,569
Accumulated Provisions for Postretirement Benefits		
Other Than Pensions	28,918,509	26,245,444
Other Liabilities	492,258	369,194
	<b>436,656,334</b>	<b>419,014,207</b>
<b>Current Liabilities</b>		
Long-Term Debt - Current Portion	16,456,866	14,925,801
Accumulated Provisions for Postretirement Benefits		
Other Than Pensions - Current Portion	1,417,617	1,416,621
Accounts Payable	27,845,825	26,940,068
Consumers' Deposits	13,208,890	12,068,576
Accrued and Withheld Taxes	6,538,140	5,828,103
Other	11,846,031	13,433,002
	<b>77,313,369</b>	<b>74,612,171</b>
<b>Deferred Credits</b>	<b>125,728,180</b>	<b>147,431,620</b>
<b>Total Members' Equity and Liabilities</b>	<b>\$ 1,005,732,418</b>	<b>\$ 977,478,737</b>

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**

	2024	2023
<b>Operating Revenues</b>	<b>\$ 450,006,775</b>	<b>\$ 441,494,527</b>
<b>Operating Expenses</b>		
Cost of Power	285,213,207	285,265,938
Distribution Operations	25,785,193	23,967,405
Distribution Maintenance	41,161,902	43,454,806
Consumer Accounts	11,483,552	10,684,854
Consumer Information and Sales	3,834,535	3,518,858
Administrative and General	21,438,283	19,755,471
Depreciation	26,404,408	25,078,379
Other	6,470	12,050
	<b>415,327,550</b>	<b>411,737,761</b>
<b>Operating Margins Before Interest Expense</b>	<b>34,679,225</b>	<b>29,756,766</b>
<b>Interest Expense</b>	<b>12,900,158</b>	<b>11,143,882</b>
<b>Operating Margins After Interest Expense</b>	<b>21,779,067</b>	<b>18,612,884</b>
<b>Nonoperating Margins</b>	<b>9,982,051</b>	<b>8,597,197</b>
<b>Generation and Transmission Cooperative Capital Credits</b>	<b>3,968,473</b>	<b>2,938,615</b>
<b>Other Capital Credits and Patronage Capital Allocations</b>	<b>2,559,196</b>	<b>2,336,270</b>
<b>Net Margins</b>	<b>\$ 38,288,787</b>	<b>\$ 32,484,966</b>

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, 2024 AND 2023**

	<b>Membership Fees</b>	<b>Patronage Capital</b>	<b>Other Equities</b>	<b>Total Members' Equity</b>
<b>Balance, December 31, 2022</b>	\$ 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
<b>Balance, December 31, 2023</b>	140,030	308,821,179	27,459,530	336,420,739
Net Margins	-	38,288,787	-	38,288,787
Retirement of Patronage Capital	-	(9,418,675)	668,013	(8,750,662)
Membership Fees	(5,010)	-	-	(5,010)
Other Equities	-	-	80,681	80,681
<b>Balance, December 31, 2024</b>	<b>\$ 135,020</b>	<b>\$ 337,691,291</b>	<b>\$ 28,208,224</b>	<b>\$ 366,034,535</b>

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**

	2024	2023
<b>Cash Flows from Operating Activities</b>		
Net Margins	\$ 38,288,787	\$ 32,484,966
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities		
Depreciation and Amortization	27,961,217	26,519,546
Investments in Associated Organizations	(6,527,669)	(5,274,885)
Revenue Deferral - <i>ASC 980</i>	-	11,000,000
Revenue Recognition - <i>ASC 980</i>	(18,140,381)	(18,140,381)
Postretirement Medical Benefits	4,053,250	3,287,674
Postretirement Medical Benefit Contributions	(1,379,189)	(1,356,509)
Postretirement Benefit Cost - <i>ASC 980</i>	(3,486,142)	(2,662,965)
<b>Change In</b>		
Accounts Receivable	1,036,957	(412,480)
Other Current Assets	(47,050)	(1,543,901)
Materials and Supplies	(805,895)	(455,438)
Other Liabilities	123,064	123,065
Accounts Payable	905,757	(1,762,885)
Consumers' Deposits	1,140,314	1,001,757
Other Current Liabilities	(876,934)	1,369,911
Deferred Debits	1,885,787	(1,997,780)
Deferred Credits	(76,917)	17,368
	44,054,956	42,197,063
<b>Cash Flows from Investing Activities</b>		
Extension and Replacement of Plant	(93,982,176)	(67,238,584)
Other Investments	(258,873)	119,111
Return of Equity from Associated Organizations	274,918	176,241
	(93,966,131)	(66,943,232)
<b>Balance - Carried Forward</b>	\$ (49,911,175)	\$ (24,746,169)

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**

	2024	2023
<b>Balance - Brought Forward</b>	<b>\$ (49,911,175)</b>	<b>\$ (24,746,169)</b>
<b>Cash Flows from Financing Activities</b>		
Membership Fees	(5,010)	(5,700)
Advances on Long-Term Debt	35,000,000	35,000,000
Principal Repayment of Long-Term Debt	(18,622,937)	(14,421,939)
Retirement of Patronage Capital	(8,750,663)	(8,474,293)
Other Equities	80,682	87,099
	7,702,072	12,185,167
<b>Net Decrease in Cash, Cash Equivalents, and Restricted Funds</b>	<b>(42,209,103)</b>	<b>(12,561,002)</b>
<b>Cash, Cash Equivalents, and Restricted Funds - Beginning</b>	<b>176,171,370</b>	<b>188,732,372</b>
<b>Cash, Cash Equivalents, and Restricted Funds - Ending</b>	<b>\$ 133,962,267</b>	<b>\$ 176,171,370</b>
<b>Balance Sheet Reconciliation</b>		
Cash and Cash Equivalents	\$ 10,312,140	\$ 34,380,862
Restricted Funds	123,650,127	141,790,508
	<b>\$ 133,962,267</b>	<b>\$ 176,171,370</b>

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

# SAWNEE ELECTRIC MEMBERSHIP CORPORATION

## 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) provides 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*. 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.

#### ***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***

Construction work in progress (CWIP) consists of construction and retirement costs associated with the Corporation's distribution system, as permitted under 7.CFR. 1767. CWIP charges principally include labor and applicable overheads, major materials and contractor costs. The Corporation does not capitalize any interest incurred during construction as the majority of its distribution construction projects are of short duration.

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 distribution plant is provided using composite 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.

## (2) Summary of Significant Accounting Policies (Continued)

### *Accounts Receivable and Allowance for Credit Losses*

Accounts receivable includes billed receivables and accrued utility revenue and 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 for credit losses is based on experience and other circumstances which may affect the ability of members to meet their obligations. Accounts considered uncollectible are charged against the allowance. Delinquent receivables are written off based on individual credit evaluations and specific circumstances of the members. Recoveries of accounts receivable previously written off are recorded against the allowance when received.

Credit evaluations are performed on most potential electric consumers before accepting them for service. Depending upon the results of the credit evaluation, a deposit may be required. If an electric consumer does not pay its bill based on the terms of the 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.

The allowance for credit loss activity was as follows for the years ended December 31:

	<u>2024</u>	<u>2023</u>
Beginning Balance	\$ 169,087	\$ 69,495
Credit Loss Accruals	112,238	86,940
Write-Offs, Net of Recoveries	<u>(190,345)</u>	<u>12,652</u>
	<u>\$ 90,980</u>	<u>\$ 169,087</u>

### *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.

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

### ***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 consists of debt securities invested in in Medium Term Notes with the National Rural Utilities Cooperative Finance Corporation (NRUCFC).

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 collectibility 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.

The carrying value of the debt securities investments approximated fair value with interest rates ranging from 4.56 percent to 5.80 percent with maturity dates ranging from January 15, 2025 to October 15, 2025. Based on ongoing credit evaluations of these investments, the Corporation does not expect payment defaults or delinquencies and has not recorded an allowance for credit losses for these securities as of December 31, 2024 and 2023.

### ***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*.
- Oglethorpe Power Corporation (OPC) and Georgia System Operations Corporation (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."

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

### ***Investments in Associated Organizations (Continued)***

The \$1,261,169 carrying value of capital term certificates (HTM), included in investments in associated organizations, approximated fair value with interest rates ranging from 3 percent to 5 percent at December 31, 2024 and 2023. The debt securities investments have maturity dates ranging from October 1, 2025 through October 1, 2080. Based on ongoing credit evaluations of these investments, the Corporation does not expect payment defaults or delinquencies and has not recorded an allowance for credit losses for these securities as of December 31, 2024 and 2023.

### ***Fair Value Option***

The Corporation has elected the fair value option for its allocated equities from OPC and 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***

#### **Sales of Electricity**

Electric revenue is generated from contracts (service agreements) with the Corporation's retail electric customers. This revenue, generated from the integrated service to deliver electricity when and if called upon by the customer, is recognized as a single performance obligation satisfied over time and as electricity is delivered to the customer during the month. Unbilled revenue related to retail sales is accrued at the end of each fiscal period and is included as a component of accounts receivable on the balance sheets.

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 customers 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)

### *Revenue Recognition (Continued)*

#### Pole Attachments

The Corporation has contractual agreements with customers for the attachment of other utility services to existing utility poles which it owns. Revenue is recognized monthly over the term of the agreements. Customers are billed in accordance with the respective contracts; either annually in arrears or semi-annual in advance depending on the type of utility service attached to the poles. Payment is due within 30 days of the bill date.

Revenue is comprised of the following for the years ended December 31:

	<u>2024</u>	<u>2023</u>
Electric Revenue	\$ 440,639,278	\$ 433,091,016
Pole Attachment Fees	3,434,194	2,458,757
Other Electric Revenue and Fees	5,933,303	5,944,754
	<u>\$ 450,006,775</u>	<u>\$ 441,494,527</u>

### *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.

### *Presentation of 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, 2024. Accordingly, no provision for income taxes has been made in the financial statements. Currently, the Corporation's federal information returns for calendar year 2021 and after are subject to examination by the Internal Revenue Service.

### *Subsequent Events*

In preparing these financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through March 6, 2025, the date the financial statements were available to be issued.



### (3) Accounts Receivable and Contract Balances

Accounts receivable are as follows as of December 31:

	<u>2024</u>	<u>2023</u>	<u>2022</u>
	End of Year	End of Year	End of Year
Billed Receivables	\$ 19,849,570	\$ 22,286,575	\$ 19,529,761
Accrued Utility Revenue	<u>21,027,395</u>	<u>19,705,454</u>	<u>21,950,196</u>
	<b>40,876,965</b>	41,992,029	41,479,957
Less: Allowance for Credit Losses	<u>(90,980)</u>	<u>(169,087)</u>	<u>(69,495)</u>
Accounts Receivable, Net of Allowance	<u><u>\$ 40,785,985</u></u>	<u><u>\$ 41,822,942</u></u>	<u><u>\$ 41,410,462</u></u>

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

### (4) Utility Plant

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

	<u>2024</u>	<u>2023</u>
Distribution Plant	\$ 798,592,507	\$ 753,959,217
General Plant	<u>72,188,486</u>	<u>69,765,505</u>
<b>Electric Plant in Service</b>	<b>870,780,993</b>	823,724,722
Construction Work in Progress	<u>35,896,546</u>	<u>8,322,557</u>
	<u><u>\$ 906,677,539</u></u>	<u><u>\$ 832,047,279</u></u>

## (5) Investments in Associated Organizations

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

	<u>2024</u>	<u>2023</u>
National Rural Utilities Cooperative Finance Corporation		
Capital Term Certificates	\$ 1,261,169	\$ 1,261,169
Capital Credits	1,059,624	1,171,729
GRESKO Utility Supply, Inc.	10,727,931	8,388,300
Meridian Cooperative, Inc.	37,140	38,808
Georgia Transmission Corporation	34,396,182	30,705,837
Smarr EMC	13,412,445	13,134,352
Federated Rural Electric Insurance Exchange	1,021,126	1,016,764
Green Power EMC	109,644	85,709
National Information Solutions Cooperative	678,682	648,524
Other	1,040	1,040
	<u>\$ 62,704,983</u>	<u>\$ 56,452,232</u>

## (6) Deferred Debits

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

	<u>2024</u>	<u>2023</u>
Hurricane Helene System Restoration	\$ 223,993	\$ -
Tropical Storm Zeta Storm Restoration	-	2,109,780
	<u>\$ 223,993</u>	<u>\$ 2,109,780</u>

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. 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. The Corporation received the FEMA reimbursement related to the storm in full during 2024.

The Federal Emergency Management Agency (FEMA) declared a portion of the Corporation's service territory a disaster area (FEMA-4830-DR-GA) on September 30, 2024. The Corporation anticipates to receive a total approved FEMA reimbursement in the amount of \$223,993 for the costs expended by the Corporation for Hurricane Helene system restoration.

## (7) Other Equities

Other equities consist of the following as of December 31:

	<u>2024</u>	<u>2023</u>
Capital Gains and Losses	\$ 37,520	\$ 37,520
Retired Capital Credits - Gain	12,968,641	12,300,629
Unbilled Revenue Prior to 2017	13,093,000	13,093,000
Donated Capital	2,109,063	2,028,381
	<u>\$ 28,208,224</u>	<u>\$ 27,459,530</u>

## (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, 2024 and 2023, the Corporation was in compliance with the covenants.

<u>Holder of Note</u>	<u>Weighted Average Interest Rate December 31, 2024</u>	<u>2024</u>	<u>2023</u>
RUS Mortgage Notes	4.082%	\$ 67,440,437	\$ 71,595,402
FFB Mortgage Notes	2.793%	356,261,996	335,729,968
		423,702,433	407,325,370
Maturities Due Within One Year		<u>(16,456,866)</u>	<u>(14,925,801)</u>
		<u>\$ 407,245,567</u>	<u>\$ 392,399,569</u>

## **(8) Debt (Continued)**

### ***Long-Term Debt (Continued)***

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

<u>Year</u>	<u>Amount</u>
2025	\$ 16,456,866
2026	16,918,281
2027	17,401,414
2028	17,854,909
2029	18,440,846
Thereafter	<u>336,630,116</u>
	<u><u>\$ 423,702,433</u></u>

Cash payments of interest totaled \$15,140,935 and \$10,886,658 for 2024 and 2023, respectively.

Subsequent to the year ended December 31, 2024 but prior to the date the financial statements were available to be issued, the Corporation's Board of Directors approved the borrowing of \$368,668,000 from RUS. The availability of the funds will be 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 and there were no limitations on availability. The line-of-credit instruments had no outstanding obligation as of December 31, 2024 and 2023. The lines-of-credit with NRUCFC carry a variable rate of 6.50 percent as of December 31, 2024.

## **(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 \$3,492,975 and \$3,568,620 for the years ended December 31, 2024 and 2023, 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, 2024 and 2023 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 \$1,818,734 and \$1,612,176 for the years ended December 31, 2024 and 2023, 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:

	<u>2024</u>	<u>2023</u>
<b>Changes in the Accumulated Postretirement Benefit Obligation (APBO)</b>		
APBO Beginning of Year	\$ 27,662,065	\$ 25,730,900
Service Cost	560,383	576,088
Interest Cost	1,604,499	1,350,082
Actuarial Loss (Gain)	(1,379,189)	1,361,504
Direct Benefit Payments	1,888,368	(1,356,509)
	<hr/>	<hr/>
APBO End of Year	30,336,126	27,662,065
<b>Changes in Plan Assets</b>		
Fair Value of Plan Assets at Beginning of Year	-	-
Employer Contributions	1,379,189	1,356,509
Plan Participant Contributions	-	-
Actual Distributions	(1,379,189)	(1,356,509)
	<hr/>	<hr/>
Fair Value of Plan Assets at End of Year	-	-
	<hr/>	<hr/>
<b>Under Funded Status at End of Year</b>	<b>\$ 30,336,126</b>	<b>\$ 27,662,065</b>
	<hr/> <hr/>	<hr/> <hr/>

Amounts recognized on the balance sheets consist of the following:

	<u>2024</u>	<u>2023</u>
Current Liabilities	\$ 1,417,617	\$ 1,416,621
Noncurrent Liabilities	28,918,509	26,245,444
	<hr/>	<hr/>
	<b>\$ 30,336,126</b>	<b>\$ 27,662,065</b>
	<hr/> <hr/>	<hr/> <hr/>

## (9) Retiree Benefits (Continued)

### *Postretirement Healthcare Benefits (Continued)*

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

	<u>2024</u>	<u>2023</u>
Service Cost	\$ 560,383	\$ 576,088
Interest Cost	1,604,499	1,350,082
Actuarial Loss (Gain)	1,888,368	1,361,504
	<u>\$ 4,053,250</u>	<u>\$ 3,287,674</u>

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:

<u>Description</u>	<u>December 31</u>		
	<u>2024</u>	<u>2023</u>	<u>2022</u>
Discount Rate			
Benefit Obligations	5.34%	5.69%	5.23%
Net Periodic Benefit Cost	5.69%	5.23%	2.83%
Medical Trend Rate			
Initial (Pre-65/Post 65)	7.07/19.78%	6.89/7.26%	5.51/5.58%
Ultimate	4.00/4.41%	4.00%	4.00%
Year Reached	2049	2048	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, 2024 and 2023.

The following benefits are expected to be paid:

<u>Year</u>	<u>Amount</u>
2025	\$ 1,417,617
2026	1,512,380
2027	1,560,240
2028	1,519,141
2029	1,671,623
2030-2034	8,756,430

## (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 \$492,258 and \$369,194 as of December 31, 2024 and 2023, 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:

	<u>2024</u>	<u>2023</u>
Power Cost Revenue Deferrals - ASC 980	\$ 123,650,127	\$ 141,790,508
Postretirement Benefit Cost Deferral - ASC 980	2,059,529	5,545,671
Clearing Accounts and Other	18,524	95,441
	<u>\$ 125,728,180</u>	<u>\$ 147,431,620</u>

### *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:

	<u>2024</u>	<u>2023</u>
Beginning Balance	\$ 141,790,508	\$ 148,930,889
Current Year Recognition	(18,140,381)	(18,140,381)
Current Year Deferral	-	11,000,000
	<u>\$ 123,650,127</u>	<u>\$ 141,790,508</u>

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 \$99,629,955 for the year ended December 31, 2024. 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.

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 \$23,000,000 and \$3,000,000 plus interest for the years ended December 31, 2024 and 2023, respectively. 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, 2012 and 2024. The MTSA revision of 2024 requires the Corporation to take transmission-related services through 2085 and allows for a reduction in service at prescribed periods. Transmission service under the MTSA was \$39,869,970 for the year ended December 31, 2024. 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 2024, the Corporation paid GSOC \$288,381.

## **(11) Commitments (Continued)**

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 2024, the Corporation paid SEPA \$1,398,326.

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. During the year ended December 31, 2024, the Corporation further amended the revised RSA to fix the rates of a portion of the energy served under the term of the RSA.

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. During 2024, the Corporation committed to participate in five additional Green Power EMC resources with service dates beginning in 2026 and 2027. Subsequent to the balance sheet date, one Green Power EMC resource was retired with an additional two to be retired by 2026. In 2024, the Corporation made \$11,432,948 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, 2024, the amount exceeding insured limits totaled \$8,690,044.

At December 31, 2024, the Corporation held medium-term notes of the NRUCFC in the amount of \$123,909,000. The amount is 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.

### (13) Fair Value Measurements (Continued)

The Corporation has capital credit notifications from OPC and GSOC totaling \$94,999,684 and \$89,917,663 as of December 31, 2024 and 2023, 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, 2024 and 2023.

#### *Fair Value Measurements Carried at Fair Value*

	Fair Value Measurements Using				Total Gains (Losses)
	Carrying Value as of December 31	Quoted Market Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>2024</b>					
<b><u>Recurring Fair Value Measurements</u></b>					
Investments in Associated Organizations					
OPC and GSOC Capital Credits	\$ -			\$ -	\$ -
<b>2023</b>					
<b><u>Recurring Fair Value Measurements</u></b>					
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:

	2024	2023
<b>Beginning Balance</b>	\$ -	\$ -
Transfers into Level 3	-	-
Total Gains or Losses for the Period		
Included in Margins		
Patronage Notifications	5,082,021	4,609,482
Fair Value Adjustment(s)	(5,082,021)	(4,609,482)
Purchases, Issues, Sales, and Settlements	-	-
<b>Ending Balance</b>	\$ -	\$ -

### (13) Fair Value Measurements (Continued)

#### *Fair Value Measurements Carried at Fair Value (Continued)*

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.

Quantitative information about Level 3 fair value measurements for the years ended December 31, 2024 and 2023 is as follows:

<b>Financial Instrument</b>	<b>Fair Value</b>	<b>Valuation Technique</b>	<b>Unobservable Input</b>	<b>Percentage</b>
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.

March 6, 2025

**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL;  
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, 2024 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 March 6, 2025.

***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.

*Mc Nair, Mc Lemore, Middlebrooks & Co., LLC*  
McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC