

**SAWNEE ELECTRIC MEMBERSHIP CORPORATION  
CUMMING, GEORGIA**

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

## SAWNEE ELECTRIC MEMBERSHIP CORPORATION

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February 26, 2021

## INDEPENDENT AUDITOR'S REPORT

The Board of Directors  
Sawnee Electric Membership Corporation

### Report on the Financial Statements

We have audited the accompanying financial statements of **Sawnee Electric Membership Corporation** (the Corporation), which comprise the balance sheets as of December 31, 2020 and 2019 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.

### *Management's Responsibility 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; this includes 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.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sawnee Electric Membership Corporation as of December 31, 2020 and 2019 and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Report on Other Legal and Regulatory Requirements**

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2021, on our consideration of Sawnee Electric Membership Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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**

	2020	2019
<b>Utility Plant</b>		
Electric Plant in Service - At Cost	\$ 692,470,005	\$ 651,961,175
Construction Work in Progress	7,122,792	7,700,509
	699,592,797	659,661,684
Gross Utility Plant	699,592,797	659,661,684
Accumulated Provision for Depreciation	(132,589,958)	(127,826,612)
	567,002,839	531,835,072
<b>Other Property and Investments</b>		
Investments in Associated Organizations	44,725,285	42,673,143
Restricted Funds	152,071,270	137,071,270
Other Investments	478,730	478,730
	197,275,285	180,223,143
<b>Current Assets</b>		
Cash and Cash Equivalents	21,881,498	49,562,993
Accounts Receivable (Net of Accumulated Provision for Uncollectibles of \$116,979 in 2020 and \$111,533 in 2019)	39,227,902	32,722,252
Materials and Supplies	4,605,161	3,667,704
Prepayments	103,968	379,382
Interest Receivable	435,645	1,471,429
	66,254,174	87,803,760
<b>Deferred Debits</b>	2,000,000	435,734
<b>Total Assets</b>	\$ 832,532,298	\$ 800,297,709

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

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

**MEMBERS' EQUITY AND LIABILITIES**

	2020	2019
<b>Members' Equity</b>		
Membership Fees	\$ 160,890	\$ 168,695
Patronage Capital	244,294,490	247,762,268
Other Equities	25,096,784	24,162,507
	<b>269,552,164</b>	272,093,470
 <b>Long-Term Liabilities</b>		
Long-Term Debt	319,927,545	301,695,610
Accumulated Provisions for Postretirement Benefits		
Other Than Pensions	34,133,262	32,863,910
Other Liabilities	-	213,530
	<b>354,060,807</b>	334,773,050
 <b>Current Liabilities</b>		
Long-Term Debt - Current Portion	11,870,000	11,301,000
Accumulated Provisions for Postretirement Benefits		
Other Than Pensions - Current Portion	874,329	958,104
Accounts Payable	21,424,985	19,839,926
Consumers' Deposits	8,110,892	8,997,549
Accrued and Withheld Taxes	3,719,995	4,833,381
Other	10,699,111	10,314,192
	<b>56,699,312</b>	56,244,152
 <b>Deferred Credits</b>	<b>152,220,015</b>	137,187,037
 <b>Total Members' Equity and Liabilities</b>	<b>\$ 832,532,298</b>	\$ 800,297,709

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**

	2020	2019
<b>Operating Revenues</b>	<b>\$ 375,079,465</b>	<b>\$ 361,057,252</b>
<b>Operating Expenses</b>		
Cost of Power	248,848,185	233,123,478
Distribution Operations	24,059,776	22,058,935
Distribution Maintenance	27,458,538	28,494,105
Consumer Accounts	10,280,666	9,737,459
Consumer Information and Sales	3,218,142	2,824,770
Administrative and General	19,310,332	14,323,517
Depreciation	21,248,228	20,073,207
Other	288,693	9,927
	<b>354,712,560</b>	<b>330,645,398</b>
<b>Operating Margins Before Interest Expense</b>	<b>20,366,905</b>	<b>30,411,854</b>
<b>Interest Expense</b>	<b>10,231,272</b>	<b>12,129,149</b>
<b>Operating Margins After Interest Expense</b>	<b>10,135,633</b>	<b>18,282,705</b>
<b>Nonoperating Margins</b>	<b>5,343,024</b>	<b>738,221</b>
<b>Generation and Transmission Cooperative Capital Credits</b>	<b>1,852,051</b>	<b>1,205,465</b>
<b>Other Capital Credits and Patronage Capital Allocations</b>	<b>447,543</b>	<b>566,127</b>
<b>Net Margins</b>	<b>\$ 17,778,251</b>	<b>\$ 20,792,518</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, 2020 AND 2019**

	<b>Membership Fees</b>	<b>Patronage Capital</b>	<b>Other Equities</b>	<b>Total Members' Equity</b>
<b>Balance, December 31, 2018</b>	\$ 176,170	\$ 238,243,472	\$ 23,118,844	\$ 261,538,486
Net Margins	-	20,792,518	-	20,792,518
Retirement of Patronage Capital	-	(11,273,722)	947,021	(10,326,701)
Membership Fees	(7,475)	-	-	(7,475)
Other Equities	-	-	96,642	96,642
<b>Balance, December 31, 2019</b>	168,695	247,762,268	24,162,507	272,093,470
Net Margins	-	17,778,251	-	17,778,251
Retirement of Patronage Capital	-	(21,246,029)	835,405	(20,410,624)
Membership Fees	(7,805)	-	-	(7,805)
Other Equities	-	-	98,872	98,872
<b>Balance, December 31, 2020</b>	<b>\$ 160,890</b>	<b>\$ 244,294,490</b>	<b>\$ 25,096,784</b>	<b>\$ 269,552,164</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**

	2020	2019
<b>Cash Flows from Operating Activities</b>		
Net Margins	\$ 17,778,251	\$ 20,792,518
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities		
Depreciation and Amortization	22,663,659	21,359,615
Investments in Associated Organizations	(2,299,593)	(1,771,591)
Revenue Deferral	54,331,359	37,420,846
Revenue Recognition	(39,331,359)	(22,420,846)
Postretirement Medical Benefits	2,026,686	8,621,163
Postretirement Medical Benefit Contributions	(841,109)	(982,117)
<b>Change In</b>		
Accounts Receivable	(6,505,650)	132,926
Other Current Assets	1,311,198	(503,470)
Other Liabilities	(213,530)	(218,288)
Accounts Payable	1,585,059	1,314,696
Consumers' Deposits	(886,657)	838,127
Other Current Liabilities	(728,467)	246,477
Deferred Debits	(1,564,266)	(141,266)
Deferred Credits	32,978	(9,010)
	<b>47,358,559</b>	<b>64,679,780</b>
<b>Cash Flows from Investing Activities</b>		
Extension and Replacement of Plant	(57,831,426)	(50,238,977)
Materials and Supplies	(937,457)	408,910
Return of Equity from Associated Organizations	247,451	257,554
	<b>(58,521,432)</b>	<b>(49,572,513)</b>
<b>Balance - Carried Forward</b>	<b>\$ (11,162,873)</b>	<b>\$ 15,107,267</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**

	2020	2019
<b>Balance - Brought Forward</b>	<b>\$ (11,162,873)</b>	<b>\$ 15,107,267</b>
<b>Cash Flows from Financing Activities</b>		
Membership Fees	(7,805)	(7,475)
Advances on Long-Term Debt	16,576,000	89,481,000
Principal Repayment of Long-Term Debt	(31,379,663)	(58,258,354)
Advanced Payments Unapplied	33,604,598	43,441,479
Lines-of-Credit	-	(22,820,183)
Retirement of Patronage Capital	(20,410,624)	(10,326,701)
Other Equities	98,872	96,642
	<b>(1,518,622)</b>	<b>41,606,408</b>
<b>Net Increase (Decrease) in Cash, Cash Equivalents, and Restricted Funds</b>	<b>(12,681,495)</b>	<b>56,713,675</b>
<b>Cash, Cash Equivalents, and Restricted Funds - Beginning</b>	<b>186,634,263</b>	<b>129,920,588</b>
<b>Cash, Cash Equivalents, and Restricted Funds - Ending</b>	<b>\$ 173,952,768</b>	<b>\$ 186,634,263</b>
<b>Balance Sheet Reconciliation</b>		
Cash and Cash Equivalents	\$ 21,881,498	\$ 49,562,993
Restricted Funds	152,071,270	137,071,270
	<b>\$ 173,952,768</b>	<b>\$ 186,634,263</b>

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

# SAWNEE ELECTRIC MEMBERSHIP CORPORATION

## NOTES TO FINANCIAL STATEMENTS

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

Accounting policies of Sawnee Electric Membership Corporation (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.

#### ***Nature of Operations***

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.

#### ***Regulated Operations***

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

#### ***Use of Estimates***

The preparation of financial statements in 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.

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.

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

### ***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. Automated meters are depreciated based on the manufacturer's useful life which equates to 6.67 percent per annum.

Depreciation of general plant is provided on a straight-line basis over the estimated useful lives of the various assets. The rates range from 2.00 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 Credit Policies***

Accounts receivable are stated at the amount billed to the consumer. Once an electric consumer's service is shut off and the account is 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.

### ***Materials and Supplies***

Materials and supplies are generally used for construction and for operation and maintenance work, and are not for resale. Cost is determined by the moving average method of inventory valuation. Materials and supplies are charged to construction or operations at moving average cost when used.

### ***Equities and Margins***

The Corporation is organized and operates under the cooperative form of organization. As such, patronage capital or margins are allocated to patrons on the basis of revenue from individual consumption of electric energy.

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

### ***Revenue Recognition***

Electric revenue is generated from contracts (service agreements) with retail electric customers. This revenue, generated from integrated service to deliver electricity when and if called upon by the customer, is recognized as a single performance obligation satisfied over time and as electricity is delivered to the customer during the month. Electric revenues include patronage capital and are 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. Electricity which had been used by the members of the Corporation but had not been billed to the members is recorded as a component of accounts receivable in the balance sheets. Unbilled electric revenue totaled \$18,017,089 and \$17,837,404 as of December 31, 2020 and 2019, respectively.

### ***New Accounting Pronouncement***

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)* for lease accounting under U.S. GAAP. The new standard is intended to eliminate off-balance-sheet recording of lease obligations in an effort to create financial statements that more accurately reflect leasing activities. In general, an entity will record on the balance sheet the right-of-use assets and the corresponding lease obligations. The new standard was to become effective for private companies for fiscal years beginning after December 15, 2020. On June 3, 2020, as a result of COVID-19, the FASB amended the effective dates for *Topic 842*, through the issuance of ASU 2020-05, to fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Comparative periods presented in financial statements must use the same standards, as if ASU 2016-02 was in effect for the prior year presented. The adoption of ASU 2016-02 is not expected to have a material impact on the financial statements.

### ***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.

### ***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.

### ***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.

## **(1) 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 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 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 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 0.4 percent to 1.23 percent and matures in various months in 2021.

### ***Cost of Purchased Power***

Cost of purchased power is expensed as consumed.

### ***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 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.

### ***Reclassifications***

Certain reclassifications have been made to the 2019 financial statements to conform to the 2020 financial statements presentation. The reclassification had no effect on net margins for the year ended December 31, 2019.

## **(1) 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 11 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."

### ***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, 2020. Accordingly, no provision for income taxes has been made in 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, 2021, the date the financial statements were available to be issued.

## (2) Utility Plant

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

	<u>2020</u>	<u>2019</u>
Distribution Plant	\$ 633,415,205	\$ 597,677,481
General Plant	<u>59,054,800</u>	<u>54,283,694</u>
<b>Electric Plant in Service</b>	<b>692,470,005</b>	<b>651,961,175</b>
Construction Work in Progress	<u>7,122,792</u>	<u>7,700,509</u>
	<u><u>\$ 699,592,797</u></u>	<u><u>\$ 659,661,684</u></u>

## (3) Investments in Associated Organizations

	<u>2020</u>	<u>2019</u>
National Rural Utilities Cooperative Finance Corporation		
Capital Term Certificates	\$ 1,261,169	\$ 1,286,469
Capital Credits	1,424,402	1,490,928
GRESKO Utility Supply, Inc.	4,758,627	4,534,417
Southeastern Data Cooperative, Inc.	40,846	40,846
Georgia Transmission Corporation	24,734,095	23,226,045
Smarr EMC	11,009,084	10,665,084
Federated Rural Electric Insurance Exchange	841,319	802,937
Green Power EMC	70,629	63,351
National Information Solutions Cooperative	584,074	562,026
Other	<u>1,040</u>	<u>1,040</u>
	<u><u>\$ 44,725,285</u></u>	<u><u>\$ 42,673,143</u></u>

## (4) Deferred Debits

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

	<u>2020</u>	<u>2019</u>
Hurricane Irma System Restoration	\$ -	\$ 435,534
Hurricane Zeta System Restoration	2,000,000	-
Clearing Accounts and Other	<u>-</u>	<u>\$ 200</u>
	<u><u>\$ 2,000,000</u></u>	<u><u>\$ 435,734</u></u>

The Federal Emergency Management Agency (FEMA) declared a portion of the Corporation's service territory a disaster area (FEMA-4579-DR) on January 12, 2021.



## (5) Other Equities

	<u>2020</u>	<u>2019</u>
Capital Gains and Losses	\$ 37,520	\$ 37,520
Retired Capital Credits - Gain	10,223,434	9,388,029
Unbilled Revenue Prior to 2017	13,093,000	13,093,000
Donated Capital	1,742,830	1,643,958
	<u>\$ 25,096,784</u>	<u>\$ 24,162,507</u>

## (6) 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, 2020 and 2019, the Corporation was in compliance with the covenants.

<u>Holder of Note</u>	<u>Weighted Average Interest Rate December 31, 2020</u>	<u>2020</u>	<u>2019</u>
RUS Mortgage Notes	4.122%	\$ 83,254,893	\$ 86,823,339
FFB Mortgage Notes	2.370%	248,542,652	259,777,869
		<u>331,797,545</u>	346,601,208
RUS Advanced Payments Unapplied		-	(33,604,598)
Maturities Due Within One Year		<u>(11,870,000)</u>	<u>(11,301,000)</u>
		<u>\$ 319,927,545</u>	<u>\$ 301,695,610</u>

## (6) Debt (Continued)

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

<u>Year</u>	<u>Amount</u>
2021	\$ 11,870,000
2022	12,689,000
2023	13,564,000
2024	14,500,000
2025	15,500,000

Cash payments of interest totaled \$10,111,807 and \$11,970,575 for 2020 and 2019, respectively.

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, 2020 and 2019. The rate of interest as of December 31, 2020 was 2.45 percent.

The Corporation has made unapplied advance payments to the RUS Cushion-of-Credit program. Under this program, the Corporation may make voluntary deposits into a special cushion-of-credit account.

On December 20, 2018, the President of the United States signed the Agriculture Improvement Act which makes the following changes to the RUS Cushion-of-Credit program:

- No new cushion-of-credit deposits will be allowed after December 20, 2018,
- Cooperatives in the program may transfer their cushion-of-credit money to prepay RUS loans without penalty through September 30, 2020,
- Remaining cushion-of-credit funds after September 30, 2020, may be applied only to regular RUS and FFB debt service payments,
- Existing cushion-of-credit balances will earn 5 percent interest until October 1, 2020, when that rate will drop to 4 percent. Beginning October 1, 2021, interest on remaining balances will be paid at a floating one-year Treasury rate.

The cushion-of-credit account balance accrues interest to the Corporation at a rate of 5 percent per annum. The use of the cushion-of-credit account is restricted to funding the future debt service payments that the Corporation is obligated to pay against its outstanding indebtedness to RUS or FFB. Interest payments totaling \$121,170 and \$32,724 were made through the cushion-of-credit program for the years ended December 31, 2020 and 2019, respectively. Interest earned on unapplied advanced payments is recorded as a component of nonoperating margins.

## **(7) 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 \$3,119,365 and \$3,273,527 for the years ended December 31, 2020 and 2019, respectively.

In the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was greater than 80 percent funded at January 1, 2021 and 2020 based on the PPA funding target and PPA actuarial value of assets on those dates.

Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

### ***Pension Plan (Defined Contribution Plan)***

The 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 \$1,097,114 and \$882,249 for the years ended December 31, 2020 and 2019, respectively.

### ***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.

**(7) Retiree Benefits (Continued)**

***Postretirement Healthcare Benefits (Continued)***

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

	<u>2020</u>	<u>2019</u>
<b>Changes in the Accumulated Postretirement Benefit Obligation (APBO)</b>		
APBO Beginning of Year	\$ 33,822,014	\$ 26,182,968
Service Cost	991,925	651,847
Interest Cost	1,144,953	1,172,241
Actuarial (Gain) Loss	(110,192)	6,797,075
Direct Benefit Payments	(841,109)	(982,117)
	<hr/>	<hr/>
APBO End of Year	35,007,591	33,822,014
	<hr/>	<hr/>
<b>Changes in Plan Assets</b>		
Fair Value of Plan Assets Beginning of Year	-	-
Employer Contributions	841,109	982,117
Plan Participant Contributions	-	-
Actual Distributions	(841,109)	(982,117)
	<hr/>	<hr/>
Fair Value of Plan Assets at End of Year	-	-
	<hr/>	<hr/>
<b>Under Funded Status at End of Year</b>	<b>\$ 35,007,591</b>	<b>\$ 33,822,014</b>
	<hr/> <hr/>	<hr/> <hr/>

Amounts recognized on the balance sheets consist of the following:

	<u>2020</u>	<u>2019</u>
Current Liabilities	\$ 874,329	\$ 958,104
Noncurrent Liabilities	34,133,262	32,863,910
	<hr/>	<hr/>
	\$ 35,007,591	\$ 33,822,014
	<hr/> <hr/>	<hr/> <hr/>

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

	<u>2020</u>	<u>2019</u>
Service Cost	\$ 991,925	\$ 651,847
Interest Cost	1,144,953	1,172,241
Actuarial (Gain) Loss	(110,192)	6,797,075
	<hr/>	<hr/>
	\$ 2,026,686	\$ 8,621,163
	<hr/> <hr/>	<hr/> <hr/>

## (7) Retiree Benefits (Continued)

### *Postretirement Healthcare Benefits (Continued)*

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:

Description	December 31		
	2020	2019	2018
Discount Rate			
Benefit Obligations	2.62%	3.43%	4.70%
Net Periodic Benefit Cost	4.70%	3.98%	4.62%
Medical Trend Rate			
Initial (Pre-65/Post 65)	6.00/6.30%	6.30/6.70%	6.60/7.10%
Ultimate	4.50%	4.50%	4.50%
Year Reached	2037	2037	2037

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 year ended December 31, 2020. All components of net periodic benefit cost, other than service costs, included in the statement of operations for the year ended December 31, 2019 have been reclassified to the line item nonoperating margins.

The following benefits are expected to be paid:

Year	Amount
2021	\$ 874,329
2022	921,420
2023	1,052,549
2024	1,060,415
2025	999,558
2026-2029	5,944,020

### *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 \$-0- and \$213,530 as of December 31, 2020 and 2019, respectively. The amounts are included in other long-term liabilities on the balance sheets.

## (8) Deferred Credits

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

	<u>2020</u>	<u>2019</u>
Power Cost Revenue Deferral	\$ 152,071,270	\$ 137,071,270
Holcombe Bridge Substation	87,856	105,424
Clearing Accounts and Other	60,889	10,343
	<u>\$ 152,220,015</u>	<u>\$ 137,187,037</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>2020</u>	<u>2019</u>
Beginning Balance	\$ 137,071,270	\$ 122,071,270
Current Year Recognition	(39,331,359)	(22,420,846)
Current Year Deferral	54,331,359	37,420,846
	<u>\$ 152,071,270</u>	<u>\$ 137,071,270</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.

## (9) Commitments

The Corporation entered into a Wholesale Power Contract with Oglethorpe Power Corporation (An Electric Membership Corporation) (OPC) in 1997. The Wholesale Power Contract was amended in 2003 and its term has been extended through December 31, 2050. 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 of OPC's 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 \$99,527,200 for the year ended December 31, 2020.

## **(9) Commitments (Continued)**

The Corporation is a member of a transmission cooperative known as Georgia Transmission Corporation (GTC) 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 \$31,174,551 in 2020 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 2020, the Corporation paid GSOC \$284,853.

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 2020, the Corporation paid SEPA \$1,427,020.

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 thirteen Green Power EMC projects (Taylor County Biomass, Rabun Gap Woodburning, Wolf Creek Biomass, Hazlehurst Solar Project, SR South Living Solar, SR Baxley, SR Hazlehurst, SR Clay, SR Houston, SR Arlington, SR Lumpkin, Snipesville Solar, and Terrell Solar). In 2020, the Corporation made \$6,025,343 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.

## **(10) 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, 2020, the amount exceeding insured limits totaled \$9,604,244.

At December 31, 2020, the Corporation held medium-term notes and commercial paper of the NRUCFC in the amounts of \$152,550,000 and \$12,000,000, 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.

## **(11) 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.



## (11) Fair Value Measurements (Continued)

The Corporation has capital credit notifications from OPC and GSOC totaling \$76,665,672 and \$72,651,595 as of December 31, 2020 and 2019, 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, 2020 and 2019.

### *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)	
<u>2020</u>					
<u>Recurring Fair Value Measurements</u>					
Investments in Associated Organizations					
OPC and GSOC Capital Credits	<u>\$</u>	<u>-</u>		<u>\$</u>	<u>-</u> <u>\$</u> <u>-</u>
<u>2019</u>					
<u>Recurring Fair Value Measurements</u>					
Investments in Associated Organizations					
OPC and GSOC Capital Credits	<u>\$</u>	<u>-</u>		<u>\$</u>	<u>-</u> <u>\$</u> <u>-</u>

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.

## (11) Fair Value Measurements (Continued)

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

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:

	2020	2019
<b>Beginning Balance</b>	\$ -	\$ -
Transfers into Level 3	-	-
Total Gains or Losses for the Period		
Included in Margins		
Patronage Notifications	4,014,077	3,969,896
Fair Value Adjustment(s)	(4,014,077)	(3,969,896)
Purchases, Issues, Sales and Settlements	-	-
<b>Ending Balance</b>	<u>\$ -</u>	<u>\$ -</u>

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, 2020 and 2019 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.

## **(12) Risks and Uncertainties**

As of the issuance date of these financial statements, the Coronavirus pandemic (COVID-19) was continuing to have an adverse effect on financial markets. The effects of COVID-19 are widespread and unprecedented. However, the full impact that the COVID-19 outbreak will have on the Corporation's financial condition, liquidity, and future results of operation is uncertain. Management is actively monitoring the situation but given the daily evolution of the COVID-19 outbreak the Corporation is not able to estimate the effects at this time.

February 26, 2021

**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
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, 2020 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, 2021.

***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 audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 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.

### ***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

February 26, 2021

**INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE WITH ASPECTS OF CONTRACTUAL AGREEMENTS  
AND REGULATORY REQUIREMENTS FOR ELECTRIC BORROWERS**

The Board of Directors  
Sawnee Electric Membership Corporation

We have audited, in accordance with 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, 2020 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, 2021. In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2021, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. No reports other than the reports referred to above have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that the Corporation failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers*, §1773.33 and clarified in the RUS policy memorandum dated February 7, 2014, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Corporation's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, we noted no matters regarding the Corporation's accounting and records to indicate that the Corporation did not:

- Maintain adequate and effective accounting procedures;
- Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance, or other expense accounts;
- Reconcile continuing property records to the controlling general ledger plant accounts;
- Clear construction accounts and accrue depreciation on completed construction;
- Record and properly price the retirement of plant;

- Seek approval of the sale, lease, or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;
- Maintain adequate control over materials and supplies;
- Prepare accurate and timely Financial and Operating Reports;
- Obtain written RUS approval to enter into any contract for the management, operation or maintenance of the borrower's system if the contract covers all or substantially all of the electric system;
- Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;
- Record depreciation in accordance with RUS requirements (See RUS Bulletin 183-1, Depreciation Rates and Procedures), except for automated metering equipment which is being depreciated in compliance with guidance provided in 7 CFR Part 1767;
- Comply with the requirements for the detailed schedule of deferred debits and deferred credits which is included in the notes to the financial statements; and
- Comply with the requirements for the detailed schedule of investments which consists of investments in associated organizations and is disclosed in the notes to the financial statements.

This report is intended solely for the information and use of the board of directors, management, RUS, and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

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

**SAWNEE ELECTRIC MEMBERSHIP CORPORATION**  
**MATTERS TO BE COMMUNICATED WITH THE BOARD OF DIRECTORS**  
**DECEMBER 31, 2020**

**Auditor's Responsibility Under Generally Accepted Auditing Standards and *Government Auditing Standards***

As stated in our engagement letter, the auditor is responsible for forming and expressing an opinion about whether the financial statements are presented fairly, in all material respects, in accordance with generally accepted accounting principles in the United States of America. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

**Planned Scope and Timing of the Audit**

The audit was performed according to the planned scope and timing previously communicated to you in our engagement letter.

**Significant Accounting Policies**

Management is responsible for the selection of appropriate accounting policies. The significant accounting policies used by Sawnee Electric Membership Corporation (the Corporation) are outlined in Note 1 to the financial statements. There were no accounting policies that were adopted during the year. We noted no transactions entered into by the Corporation during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a period other than when the transaction occurred.

**Management Judgments and Accounting Estimates**

Accounting estimates are an integral part of the financial statements and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting the estimates may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Allocations for construction work in progress
- Useful lives of utility plant
- Reserve for uncollectible accounts
- Expense accruals
- Actuarial assumptions of postretirement benefit plans
- Accrued utility revenue
- Fair value measurements

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.

**Significant Audit Adjustments and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no audit adjustments for the year ended December 31, 2020. There were no material uncorrected misstatements.



## **Disagreements with Management**

Professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

## **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated February 26, 2021.

## **Consultation with Other Accountants**

To our knowledge, management did not consult with other accountants relating to auditing or accounting matters.

## **Major Issues Discussed with Management Prior to Retention**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Corporation's auditor. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

## **Difficulties Encountered in Performing the Audit**

There were no difficulties encountered in dealing with management related to the performance of the audit.

## **Restriction of Use**

This report is intended solely for the information and use of the board of directors and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.