MID-CAROLINA ELECTRIC COOPERATIVE, INC.
LEXINGTON, SOUTH CAROLINA

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

MID-CAROLINA ELECTRIC COOPERATIVE, INC.

CONTENTS

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February 23, 2024

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Mid-Carolina Electric Cooperative, Inc.

Opinion

We have audited the financial statements of **Mid-Carolina Electric Cooperative, Inc.**, which comprise the balance sheets as of December 31, 2023 and 2022, and the related statements of operations and comprehensive income, 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 Mid-Carolina Electric Cooperative, Inc. as of December 31, 2023 and 2022 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 Mid-Carolina Electric Cooperative, Inc. 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 Mid-Carolina Electric Cooperative, Inc.'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 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, we:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Mid-Carolina Electric Cooperative, Inc.'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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about Mid-Carolina Electric Cooperative, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

McNair, McLemore, Middlebrooks & Co., LLC

McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC

MID-CAROLINA ELECTRIC COOPERATIVE, INC.
BALANCE SHEETS
DECEMBER 31

ASSETS

	2023	2022
Utility Plant		
Electric Plant in Service - At Cost	**$ 407,410,008**	$ 363,407,688
Construction Work in Progress	**16,430,700**	21,521,760
Gross Utility Plant	**423,840,708**	384,929,448
Accumulated Provision For Depreciation and Amortization	**(106,582,662)**	(100,095,142)
	317,258,046	284,834,306
Other Property and Investments		
Investments in Associated Organizations	**14,659,146**	13,135,520
Prepaid Postretirement Healthcare Obligation	**13,071,996**	10,879,963
Other Investments	**524,569**	443,524
	28,255,711	24,459,007
Current Assets		
Cash and Cash Equivalents	**4,038,422**	3,238,584
Accounts Receivable (Net of Accumulated Provision for Uncollectibles of $667,435 and $638,476 in 2023 and 2022, Respectively)	**7,545,787**	5,551,720
Accrued Utility Revenue	**8,723,166**	8,718,098
Interest Receivable	**17,105**	17,105
Materials and Supplies	**3,161,975**	2,883,634
Prepayments	**377,666**	433,479
	23,864,121	20,842,620
Deferred Debits	**93,454**	41,730
Total Assets	**$ 369,471,332**	$ 330,177,663

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

MID-CAROLINA ELECTRIC COOPERATIVE, INC.
BALANCE SHEETS
DECEMBER 31

MEMBERS' EQUITY AND LIABILITIES

	2023	2022
Members' Equity		
Membership Fees	**$ 750,210**	$ 744,455
Patronage Capital	**71,414,594**	65,116,486
Accumulated Other Comprehensive Income	**1,217,100**	1,587,900
Other Equities	**12,239,289**	12,136,389
	85,621,193	79,585,230
Long-Term Liabilities		
Long-Term Debt	**229,862,119**	204,120,602
Long-Term Finance Lease Obligations	**1,773,817**	1,199,920
Other Long-Term Liabilities	**524,569**	443,523
	232,160,505	205,764,045
Current Liabilities		
Current Maturities of Long-Term Debt	**9,253,552**	8,793,087
Current Maturities of Finance Lease Obligations	**378,548**	281,604
Line-of-Credit	**16,000,000**	11,000,000
Accounts Payable	**8,727,749**	11,452,397
Consumer Deposits	**1,032,004**	977,401
Accrued and Withheld Taxes	**7,416,582**	6,768,771
Other Current and Accrued Liabilities	**2,638,613**	2,368,482
	45,447,048	41,641,742
Deferred Credits	**6,242,586**	3,186,646
Total Members' Equity and Liabilities	**$ 369,471,332**	$ 330,177,663

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

MID-CAROLINA ELECTRIC COOPERATIVE, INC.
STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31

	2023	2022
Operating Revenue and Patronage Capital	**$ 142,613,986**	$ 146,293,284
Operating Expenses		
Cost of Power	**80,998,888**	85,178,222
Distribution Operations	**4,463,660**	4,387,633
Distribution Maintenance	**15,694,043**	14,240,585
Consumer Accounts	**5,136,229**	4,877,010
Consumer Service and Information	**1,038,177**	924,659
Sales	**271,132**	320,396
Administrative and General	**6,343,338**	6,017,534
Depreciation and Amortization	**9,636,473**	9,269,994
Other	**1,106,081**	1,105,588
Total Operating Expenses	**124,688,021**	126,321,621
Operating Margins Before Interest Expense	**17,925,965**	19,971,663
Interest Expense	**11,437,760**	9,079,598
Operating Margins After Interest Expense	**6,488,205**	10,892,065
Nonoperating Margins (Loss)	**1,637,214**	(1,392,718)
Generation and Transmission Cooperative Capital Credits	**649,781**	679,472
Other Capital Credits and Patronage Capital Allocations	**1,481,950**	1,096,893
Net Margins	**10,257,150**	11,275,712
Other Comprehensive Income (Loss)		
Actuarial Gain (Loss)	**(580,732)**	(3,478,101)
Amortization of Actuarial Gain (Loss)	**580,732**	3,478,101
Amortization of Prior Service Cost	**(370,800)**	(370,800)
Total Other Comprehensive Income	**(370,800)**	(370,800)
Total Comprehensive Income	**$ 9,886,350**	$ 10,904,912

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

MID-CAROLINA ELECTRIC COOPERATIVE, INC.
STATEMENTS OF CHANGES IN MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	Membership Fees	Patronage Capital	Accumulated Other Comprehensive Income	Other Equities	Total Members' Equity
Balance, December 31, 2021	$ 737,820	$ 57,751,595	$ 1,958,700	$ 12,084,700	$ 72,532,815
Net Margins	-	11,275,712	-	-	11,275,712
Patronage Capital Retirements	-	(3,910,821)	-	-	(3,910,821)
Membership Fees	6,635	-	-	-	6,635
Other	-	-	-	51,689	51,689
Postretirement Benefits	-	-	(370,800)	-	(370,800)
Balance, December 31, 2022	744,455	65,116,486	1,587,900	12,136,389	79,585,230
Net Margins	-	10,257,150	-	-	10,257,150
Patronage Capital Retirements	-	(3,959,042)	-	-	(3,959,042)
Membership Fees	5,755	-	-	-	5,755
Other	-	-	-	102,900	102,900
Postretirement Benefits	-	-	(370,800)	-	(370,800)
Balance, December 31, 2023	**$ 750,210**	**$ 71,414,594**	**$ 1,217,100**	**$ 12,239,289**	**$ 85,621,193**

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

MID-CAROLINA ELECTRIC COOPERATIVE, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31

	2023	2022
Cash Flows from Operating Activities		
Net Margins	**$ 10,257,150**	$ 11,275,712
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities		
Accumulated Provision for Postretirement Benefits	**(3,436,966)**	646,483
Postretirement Benefit Contributions	**(125,867)**	(212,904)
Other Benefit Plan Redemption	**1,000,000**	1,000,000
Depreciation and Amortization	**9,636,473**	9,269,994
Deferred Debits	**(51,724)**	(26,474)
Deferred Credits	**3,055,940**	(7,059,370)
Patronage Capital from Associated Organizations	**(2,131,732)**	(1,776,365)
Change In		
Accounts Receivable	**(1,994,067)**	(337,807)
Accrued Utility Revenue	**(5,068)**	(1,111,824)
Other Current Assets	**55,813**	37,642
Accounts Payable	**(2,724,647)**	4,841,601
Consumer Deposits	**54,603**	33,880
Other Current Liabilities	**917,942**	(20,718)
	14,507,850	16,559,850
Cash Flows from Investing Activities		
Extension and Replacement of Plant	**(41,052,003)**	(26,810,065)
Return of Equity from Associated Organizations	**598,075**	531,204
Materials and Supplies	**(278,341)**	(903,773)
	(40,732,269)	(27,182,634)
Cash Flows from Financing Activities		
Principal Repayment of Long-Term Debt	**(8,798,019)**	(8,257,825)
Advances of Long-Term Debt	**35,000,000**	17,000,000
Lines-of-Credit Borrowings	**5,000,000**	-
Principal Repayment of Finance Lease Obligations	**(337,368)**	(207,816)
Membership Fees	**5,755**	6,635
Retirement of Patronage Capital	**(3,959,042)**	(3,910,821)
Other Equities	**102,900**	51,689
Capital Term Certificates	**10,031**	9,680
	27,024,257	4,691,542
Net Increase (Decrease) in Cash and Cash Equivalents	**799,838**	(5,931,242)
Cash and Cash Equivalents - Beginning	**3,238,584**	9,169,826
Cash and Cash Equivalents - Ending	**$ 4,038,422**	$ 3,238,584

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

(1) Nature of Operations

Mid-Carolina Electric Cooperative, Inc. (the Corporation) is a member-owned not-for-profit corporation whose purpose is 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 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. The following describes the more significant pf 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, accounts for certain revenue and expense deferrals in accordance with *ASC 980*.

Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates that were assumed in preparing the financial statements.

Long-Lived Assets

The Corporation evaluates long-lived assets for impairment when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The determination of whether an impairment has occurred is based on either a specific regulatory disallowance or an estimate of undiscounted future cash flows attributable to the assets, as compared with the carrying value of the assets. If an impairment has occurred, the amount of the impairment recognized is determined by estimating the fair value of the assets and recording a provision for loss if the carrying value is greater than the fair value. For assets identified as held for sale, the carrying value is compared to the estimated fair value less the cost to sell in order to determine if an impairment provision is required. Until the assets are disposed of, their estimated fair value is reevaluated when circumstances or events change.

(2) Summary of Significant Accounting Policies (Continued)

Long-Lived Assets (Continued)

U.S. GAAP requires the present value of the ultimate cost for an asset's future retirement be recorded in the period in which the liability is incurred. The cost should be capitalized as part of the related long-lived asset and depreciated over the asset's useful life. The Corporation has no legal retirement obligations related to its distribution facilities; therefore, a liability for the removal of these assets will not be recorded. Management believes the actual cost of removal, even though not a legal obligation, will be recovered through rates over the life of the distribution assets.

Utility Plant

Utility plant is capitalized at cost less related contributions in aid of construction. In general, utility plant is capitalized at the time it becomes part of an operating unit and has been energized. However, certain items of plant referred to as special equipment items (meters, transformers, oil circuit reclosers, etc.) are capitalized at the time of purchase along with related estimated cost of installation.

Depreciation and Maintenance

Depreciation of the capitalized cost 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 on a straight-line basis over the estimated useful lives of the assets. The rates range from 1.8 percent to 5.0 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 2.0 percent to 20.0 percent per annum.

Depreciation of plant completed not yet classified is provided on a straight-line basis over the estimated useful lives of the various assets at the rate of 3.3 percent per annum.

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

Cash and Cash Equivalents

Cash equivalents include demand deposit accounts, commercial paper and all highly liquid debt instruments with original maturities of three months or less.

Accounts Receivable and Credit Policies

Accounts receivable are stated at the amount management expects to collect. Once an electric consumer's service is shut off and the account is approximately 180 days past due, 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. Receivables are reported on the balance sheets net of such accumulated allowance.

(2) Summary of Significant Accounting Policies (Continued)

Accounts Receivable and Credit Policies (Continued)

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

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.

Investments in Associated Organizations

Investments in associated organizations primarily include investments in other cooperative organizations. Investments in other cooperative organizations represent capital investments made primarily to obtain an economical source of supply, financing, product, or service. Investments in other cooperative organizations are carried at cost plus allocated equities in accordance with *ASC 905-325-30*.

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.

Leases

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* for lease accounting under U.S. GAAP to increase transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. The Corporation does not have any material operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

Effective January 1, 2022, the Corporation adopted the new lease accounting guidance in *ASC Topic 842*. The Corporation elected the package of practical expedients permitted in *ASC Topic 842*. Accordingly, the Corporation accounted for its existing capital leases as finance leases under the new guidance, without reassessing (a) whether the contract contains a lease under *ASC Topic 842* or (b) whether classification of the capital lease would be different in accordance with *ASC Topic 842*. As a result of the adoption of the new lease accounting guidance, the Corporation recognized on January 1, 2021 a lease liability at the carrying amount of the capital lease obligation and a right-of-use asset at the carrying amount of the capital lease assets. The Corporation has elected to use the implicit rate as its discount rate for each lease.

(2) Summary of Significant Accounting Policies (Continued)

Patronage Capital, 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 individual consumption of electric energy. Patronage capital represents the Corporation's accumulated retained excess of revenue over expenses that has been allocated annually to its members. Distributions to members are made at the discretion of the board of trustees in accordance with the bylaws, subject to the restrictions contained in the long-term debt agreements.

Under provisions of the long-term debt agreements, until the total equities and margins equal or exceed 20 percent of the total assets of the Corporation, the return to patrons of capital contributed by them is limited. The Corporation's equities were 23.17 percent and 24.10 percent of total assets as of December 31, 2023 and 2022, respectively.

Revenue Recognition

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

Electric revenue, generated from the integrated service to deliver electricity when and if called upon by the customer, is recognized as a single performance obligation satisfied over time and as electricity is delivered to the customer during the month. Unbilled revenue related to retail sales are accrued at the end of each fiscal period. Electric revenue includes patronage capital and is billed monthly to consumers on a cycle basis. Electric rates for the Corporation include provisions to permit the board of trustees to adjust billings for fluctuations in fuel costs, purchased power costs, and certain other costs.

Cost of Purchased Power

Cost of power is expensed as consumed.

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.

Comprehensive Income

The objective of comprehensive income is to report a measure of all changes in equity of the Corporation that result from transactions and other economic events of the period other than membership fees and patronage capital retirements. Other comprehensive income consists of postretirement healthcare costs not yet recognized as a component of income related to the Corporation's postretirement healthcare plan.

(2) Summary of Significant Accounting Policies (Continued)

Generation and Transmission Cooperative Capital Credits

Generation and transmission cooperative capital credits represent the annual capital furnished to Central Electric Cooperative, Inc. (Central) through payment of power bills. The capital is recorded in the year provided, even though notification of the capital allocation is not received until later.

Sales Tax

A portion of the Corporation's sales are subject to sales tax. The Corporation collects the sales tax from the customers and remits the taxes to the appropriate taxing authority. The Corporation excludes the taxes collected and remitted from revenue 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 (IRC) which provides, in part, that the Corporation derive at least 85 percent of its annual gross income from members to retain the exemption. The Corporation expects to meet the requirement for the tax year ended December 31, 2023. Accordingly, no provision for income taxes has been made in the financial statements. Currently, the Corporation's federal information returns for calendar year 2020 and after are subject to examination by the Internal Revenue Service.

Recently Adopted Accounting Pronouncement

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

Subsequent Events

In preparing these financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through February 23, 2024, the date the financial statements were available to be issued.

(3) Contract Balances

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

	2023	2022	2021
Accounts Receivable	**$ 7,545,787**	$ 5,551,720	$ 5,213,913
Contract Assets			
Accrued Utility Revenue	**8,723,166**	8,718,098	7,606,274
Contract Liabilities			
Margin Stabilization Plan	**(5,673,433)**	(2,687,409)	(9,832,847)
Total Receivables and Contract Balances	**$ 10,595,520**	$ 11,582,409	$ 2,987,340

(4) Utility Plant

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

	2023	2022
Distribution Plant	**$ 376,676,089**	$ 263,865,122
General Plant	**27,810,133**	27,454,294
Right-of-Use Assets - Financing Lease	**2,923,786**	2,084,226
Completed Construction Not Yet Classified	**-**	70,004,046
Electric Plant in Service	**407,410,008**	363,407,688
Construction Work in Progress	**16,430,700**	21,521,760
	$ 423,840,708	$ 384,929,448

(5) Investments in Associated Organizations

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

	2023	2022
National Rural Utilities Cooperative Finance Corporation		
Capital Term Certificates	**$ 1,486,831**	$ 1,496,863
Capital Credits	**3,507,109**	3,100,796
Cooperative Electric Energy Utility Supply Corporation	**3,146,898**	2,698,988
Central Electric Cooperative, Inc.	**5,881,071**	5,231,289
National Information Solutions Cooperative, Inc.	**126,611**	115,946
Federated Rural Electric Insurance Exchange	**494,023**	475,035
Cooperative Response Center	**8,503**	8,503
Membership Fees	**8,100**	8,100
	$ 14,659,146	$ 13,135,520

(6) Deferred Debits and Deferred Credits

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

		2023		2022
Other	**$**	**93,454**	$	41,730

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

		2023		2022
Margin Stabilization Plan	**$**	**5,673,433**	$	2,687,409
Unclaimed Capital Credits		**569,153**		499,237
	$	**6,242,586**	$	3,186,646

The Corporation established a margin stabilization plan under the provisions of *ASC 980*, approved by the board of trustees which, in effect, requires the Corporation to adjust electrical rates to members to achieve defined margins. The targeted Times Interest Earned Ratio (TIER) established by the board of trustees required that the Corporation earn net margins resulting in a TIER of 1.92 for 2023. The average TIER was 2.25 for 2022 based on the approved margin by the board of trustees. Actual margins above the established TIER are deferred and recorded as deferred credits. Actual margins below the established TIER are deferred and recorded as deferred debits.

The following is a summary of the change in the margin stabilization plan during the years ended December 31:

		2023		2022
Beginning Balance	**$**	**(2,687,409)**	$	(9,832,847)
Revenue Returned		**2,687,409**		9,832,847
TIER Adjustment		**(5,673,433)**		(2,687,409)
	$	**(5,673,433)**	$	(2,687,409)

(7) Patronage Capital

Patronage capital is comprised of the following as of December 31:

	2023	2022
Assignable	**$ 10,257,150**	$ 11,275,712
Assigned	**154,103,796**	142,828,084
	164,360,946	154,103,796
Cumulative Retirements	**(92,946,352)**	(88,987,310)
	$ 71,414,594	$ 65,116,486

(8) Debt

Long-term debt consists of mortgage notes payable to the National Rural Utilities Cooperative Finance Corporation (NRUCFC). The notes are secured by a mortgage agreement between the Corporation and NRUCFC. Substantially all the assets of the Corporation are pledged as security for long-term debt of the Corporation. The notes generally have 35-year maturity periods and are payable on an installment basis.

Long-term debt is comprised of the following as of December 31:

Holder of Note	**Weighted Average Interest Rate as of December 31, 2023**	**2023**	2022
NRUCFC	4.976%	**$ 239,115,671**	$ 212,913,689
Maturities Due Within One Year		**(9,253,552)**	(8,793,087)
		$ 229,862,119	$ 204,120,602

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

Year	**Amount**
2023	$ 9,253,552
2024	8,851,823
2025	8,547,843
2026	8,855,478
2027	9,120,624
Thereafter	194,486,351
	$ 239,115,671

(8) Debt (Continued)

The Corporation has $69,000,000 in unadvanced loan funds on commitment from NRUCFC. The availability of the funds is contingent on the Corporation's compliance with one or more preconditions set forth in the mortgage agreements.

The Corporation currently has a line-of-credit with NRUCFC totaling $20,000,000 with an outstanding balance of $11,000,000 as of December 31, 2023 and 2022. The rate of interest as of December 31, 2023 was 7.05 percent. The Corporation has a $5,000,000 line-of-credit with CoBank with an outstanding balance of $5,000,000 as of December 31, 2023. The rate of interest as of December 31, 2023, was 7.61 percent. All lines-of-credit carry a variable interest rate based on a daily quoted price by the lender in accordance with credit facility agreements.

Cash payments of interest totaled $11,195,473 and $8,942,153 for the years ended December 31, 2023 and 2022, respectively.

These note and line of credit agreements contain certain affirmative and negative covenants, including maintenance of certain financial ratios as defined in the agreements. At December 31, 2023 and 2022, the Corporation was in compliance with the covenants.

(9) Finance Lease Obligations

The Corporation has entered into various lease obligations for vehicles under direct financing leases. The leased vehicles have been recorded as right-of-use assets and are amortized on a straight-line basis of 5-10 years as a component of depreciation and amortization expense. Accumulated amortization totaled $1,237,272 and $820,945 as of December 31, 2023 and 2022, respectively. The outstanding obligations for the years ended December 31, 2023 and 2022 totaled $2,152,365 and $1,481,524, respectively. The implicit interest rate related to the lease obligations range from 2.27 percent to 6.27 percent with maturity dates extending to April 2033.

Approximate future minimum lease payment for each of the next five years are as follows:

	Principal	Interest	Total
2024	$ 378,548	$ 90,007	$ 468,555
2025	390,877	73,537	464,414
2026	405,366	55,700	461,066
2027	371,599	37,502	409,101
2028	338,652	21,593	360,245
Thereafter	267,323	22,411	289,734
	$ 2,152,365	$ 300,750	$ 2,453,115

(9) Finance Lease Obligations (Continued)

The amortization and interest expense components of financing leases were as follows for the years ended December 31:

		2023		2022
Amortization	$	**416,327**	$	309,242
Interest		**86,458**		50,191
	$	**502,785**	$	359,433

Noncash lease liabilities arising from obtaining vehicle lease obligations totaled $1,008,210 and $346,903 for the years ended December 31, 2023 and 2022, respectively. Additionally, the Corporation took title of vehicles with an original cost of $168,648 through provisions of direct financial lease contracts. Accordingly, these vehicles are included as a component of general plant as of December 31, 2023.

(10) Retiree Benefits

Pension Plan (Defined Benefit)

Pension benefits for substantially all employees of the Corporation are provided through participation in the National Rural Electric Cooperative Association (NRECA) Retirement Security Plan (RS Plan), a defined benefit plan qualified under Section 401 and tax-exempt under 501(a) of the IRC. 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 program represented less than 5 percent of total contributions made to the plan by all participating employers and are equal to the amounts recorded for pension cost. Contributions were $3,809,443 and $3,608,110 for the years ended December 31, 2023 and 2022, respectively.

In the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was over 80 percent funded at January 1, 2023 and 2022 based on the PPA funding target and PPA actuarial value of assets on those dates.

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

(10) Retiree Benefits (Continued)

Pension Plan (Defined Contribution Plan)

The Corporation also provides additional employee benefits to substantially all employees through the NRECA sponsored defined contribution Savings Plan (401-k). In this defined contribution plan, the Corporation's contributory portion of costs of this plan totaled $786,046 and $673,405 for the years ended December 31, 2023 and 2022, respectively.

Postretirement Healthcare Benefits

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

The Corporation implemented a cap on annual employer contributions for retiree healthcare coverage in 2013. The effect of the amendment will be recognized over the average service life of participants as of the amendment date.

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

	2023	2022
Accumulated Benefit Obligation, Beginning of Year	**$ 7,730,310**	$ 10,805,731
Service Cost	**219,668**	345,603
Interest Cost	**378,586**	269,981
Participant Contributions	**323,952**	234,061
Change in Actuarial Assumptions	**(580,732)**	(3,478,101)
Benefits Paid	**(449,819)**	(446,965)
Accumulated Benefit Obligation, End of Year	**7,621,965**	7,730,310
Fair Value of Plan Assets, Beginning of Year	**18,610,273**	23,490,073
Actual Return on Plan Assets	**3,083,688**	(3,879,800)
Other Benefit Plan Redemption	**(1,000,000)**	(1,000,000)
Employer Contributions	**125,867**	212,904
Participant Contributions	**323,952**	234,061
Benefits Paid	**(449,819)**	(446,965)
Fair Value of Plan Assets, End of Year	**20,693,961**	18,610,273
Funded Status	**$ (13,071,996)**	$ (10,879,963)

(10) Retiree Benefits (Continued)

Postretirement Healthcare Benefits (Continued)

Net periodic postretirement benefit cost consists of the following for the years ended December 31:

		2023		2022
Service Cost	**$**	**219,668**	$	345,603
Interest Cost		**378,586**		269,981
Actual Return on Plan Assets		**(3,083,688)**		3,879,800
Amortization of Plan Amendments		**(370,800)**		(370,800)
Amortization of Actuarial Assumptions		**(580,732)**		(3,478,101)
	$	**(3,436,966)**	$	646,483

Amounts recognized as a component of equity consisted of:

		2023		2022
Prior Service Credit	**$**	**1,217,100**	$	1,587,900

The Corporation's accumulated postretirement benefit obligation and net periodic postretirement benefit cost are calculated using various actuarial assumptions and methodologies. The assumptions include discount rates, healthcare trend rates, mortality rates, and other factors. Actuarial assumptions are reviewed on an annual basis.

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

(10) Retiree Benefits (Continued)

Postretirement Healthcare Benefits (Continued)

The following table shows key assumptions used for the measurement of obligations for the plan as of December 31:

Description	December 31 **2023**	2022	#	2021
Discount Rate on Benefit Obligation	**5.30%**	5.20%		2.80%
Discount Rate on Net Postretirement Benefit Cost	**5.20%**	2.80%		3.15%
Expected Return on Plan Assets	**4.93%**	3.77%		3.87%
Medical Trend Rate				
Initial (Pre-65/Post-65)	**0.00%/4.68%**	0.00%/4.93%		0.00%/4.60%
Ultimate (Pre-65/Post-65)	**5.0%/4.30%**	5.0%/4.30%		5.0%/4.60%
Fiscal Year Reached (Pre-65/Post-65)	**2028/2026**	2028/2026		2028/2021

The Corporation expects to amortize $370,800 of prior service cost from accumulated other comprehensive income in the following period. The Corporation expects to make approximately $150,000 in voluntary contributions to its postretirement healthcare plan in 2024.

The following benefits are expected to be paid:

Year	Amount
2024	$ 466,786
2025	469,611
2026	458,299
2027	479,080
2028	455,977
2029-2033	2,706,839

The following table sets forth the weighted-average asset allocations of the Corporation's postretirement healthcare benefits at December 31, 2023 and 2022 by asset category.

Year	Bonds	Equities	Total
2023	**35.54%**	**64.46%**	**100.00%**
2022	37.29%	62.71%	100.00%

The Corporation employs a total-return investment approach whereby a mix of equities and fixed income investments is used to maximize the long-term return of plan assets for a prudent level of risk. The current asset allocation adheres to the Corporation's overall investment strategy for plan assets. Plan assets are measured at fair value (See Note 14).

(11) Commitments

Power Contracts

The Corporation is committed to purchase all electric energy requirements from Central, as have other members of the organization in accordance with the wholesale power contract expiring in 2058. Under the contract, the cost of wholesale power purchases through Central may increase or decrease based upon rates established by the board of trustees of Central.

Central is continuing negotiations for acquisition of additional electric generating capacity and transmission facilities for the purpose, among others, of supplying electric power and energy to members of the organization. Such benefits or detriments, if any, arising from participation in proposed joint projects with wholesale power suppliers will be passed to the members of Central.

Guarantees

The Corporation has provided guarantees for credit agreements obtained by CarolinaConnect Cooperative, Inc., (CarolinaConnect) a cooperative organization of which the Corporation is a member. CarolinaConnect is incorporated under the laws of South Carolina as a member-owned not-for-profit cooperative organized to develop a regional fiber optic network that that will facilitate the provision of reliable and affordable broadband and telecommunication services throughout South Carolina. The Corporation is a provider of affordable high-speed internet. As an internet service provider, the Corporation is determined to improve internet access and, as a result, quality of life.

CarolinaConnect commenced its principal operations as a provider of affordable high-speed internet in early 2017, and its financial condition is characterized by significant expenditures on plant investment and business development costs to achieve planned principal operations. CarolinaConnect utilizes the Corporation’s regional electric distribution system fiber optic network under an exclusive access agreement for additional fiber capacity as available. Access fees under the agreement were $4,142,703 and $3,052,178 for the years ended December 31, 2023 and 2022, respectively.

The Corporation’s maximum exposure under the guarantees is $20,424,558 CarolinaConnect has credit agreements in place of $15,000,000 and $44,250,000 with NRUCFC and CoBank, respectively. CarolinaConnect had outstanding obligations to NRUCFC on the guaranteed facilities of $12,481,881 and $13,604,699 for the years ended December 31, 2023 and 2022, respectively. The credit agreement with CoBank had outstanding obligations of $21,250,000 and $10,250,000 as of December 31, 2023 and 2022, respectively.

(12) Litigation

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

(13) Concentrations of Credit Risk

Financial instruments that potentially subject the Corporation to concentrations of credit risk consist principally of cash and cash equivalents and consumer accounts receivable. The Corporation maintains its cash balances in financial institutions; cash balances throughout the year periodically exceed federally insured deposit limits of $250,000. At December 31, 2023, the amount exceeding insured limits totaled $5,387,708.

The Corporation serves consumers in the state of South Carolina. The geographic concentration of the Corporation's consumers results in a concentration of credit risk with respect to the collection of accounts receivable. Credit evaluations are performed on most potential customers before accepting them for service. Depending upon the results of the credit evaluation, a deposit may be required.

(14) Accumulated Other Comprehensive Income

The following table summarizes the components of accumulated other comprehensive income and the changes in accumulated other comprehensive income for the years ended December 31 related to postretirement healthcare benefits:

	2023	2022
Beginning Balance	**$ 1,587,900**	$ 1,958,700
Actuarial Gain (Loss)	**580,723**	3,478,101
Amortization of Actuarial (Gain) Loss	**(580,723)**	(3,478,101)
Amortization of Prior Service Cost	**(370,800)**	(370,800)
	$ 1,217,100	$ 1,587,900

(14) Accumulated Other Comprehensive Income (Continued)

Fair Value Hierarchy

The Corporation records certain financial and nonfinancial assets using fair value measurements. The Corporation uses a hierarchical disclosure framework that prioritizes the level of market price observability to measure investments at fair value.

The guidance establishes a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value as follows:

- Level 1. Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Corporation has the ability to access.
- Level 2. Valuations based on quoted market prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets of 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.

Description	**Level**	**December 31, 2023**	December 31, 2022
Postretirement Benefit Plan Assets	(1)		
Short-Term Bond Fund		**$ 2,870,530**	$ 2,723,512
Intermediate Bond Fund		**4,484,018**	4,216,326
Stock Index Fund		**3,263,667**	2,884,177
Value Fund		**3,039,838**	2,994,422
Small-Company Stock Fund		**2,645,059**	2,259,010
Growth Fund		**3,384,408**	2,568,772
International Equity Fund		**1,006,441**	964,054
		$ 20,693,961	$ 18,610,273

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February 23, 2024

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

The Board of Trustees
Mid-Carolina Electric Cooperative, Inc.

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of **Mid-Carolina Electric Cooperative, Inc.** (the Corporation), which comprise the balance sheet as of December 31, 2023 and the related statements of operations and comprehensive income, 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 23, 2024.

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 Article V of the National Rural Utilities Cooperative Finance Corporation Loan Agreement insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such 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 insofar as they relate to accounting matters.

This report is intended solely for the information and use of the board of trustees and management of Mid-Carolina Electric Cooperative, Inc. and the National Rural Utilities Cooperative Finance Corporation and is not intended to be and should not be used by anyone other than these specified parties.

McNair, McLemore, Middlebrooks & Co., LLC

McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC

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February 23, 2024

MATTERS TO BE COMMUNICATED WITH THOSE CHARGED WITH GOVERNANCE

The Board of Trustees
Mid-Carolina Electric Cooperative, Inc.

We have audited the financial statements of **Mid-Carolina Electric Cooperative, Inc.** (the Corporation) for the year ended December 31, 2023 and have issued our report thereon dated February 23, 2024. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We communicated such information in our engagement letter. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility in Relation to the Financial Statement Audit

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

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

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

Planned Scope and Timing of the Audit

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

Compliance with All Ethics Requirements Regarding Independence

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

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

Significant Risks Identified

We have identified the following significant risks:

- Management Override of Controls

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

- Lender Compliance

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

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Corporation are outlined in Note 2 to the financial statements. There were no changes to existing significant accounting policies during the year or their application during the year ended December 31, 2023. The Corporation adopted the provisions of *ASC 326*, Financial Instruments - Credit Losses effective January 1, 2023. The adoption of *ASC 326* had no impact on the financial statements, other than additional disclosure in the Corporation's significant accounting policies.

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

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive estimates affecting the financial statements are:

- *Construction Work-in-Progress Overhead Allocations*

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

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

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

- *Allowance for Doubtful Accounts*

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

- *Postretirement Healthcare Plan*

  The Corporation provides healthcare benefits and life insurance to qualified retirees and trustees. Annual valuations of the accumulated postretirement benefit obligation and the net postretirement benefit cost are calculated by a third-party specialist engaged by management.

- *Fair Value Measurement*

  The Corporation's valuation of the fair value of the investments are based on quoted market values. We evaluated the key factors and assumptions used to develop the measurements in determining that they are reasonable in relation to the financial statements taken as a whole.

  We evaluated the key factors and assumptions used to develop fair value measurements and determined that it is reasonable in relation to the basic financial statements as a whole.

Financial Statement Disclosures

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

- Note 6 - Deferred Debits and Deferred Credits
- Note 8 - Debt
- Note 10 - Retiree Benefits
- Note 11 – Commitments

Significant Difficulties Encountered during the Audit

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

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards also require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances, or disclosures, and the financial statements as a whole. There were no significant uncorrected misstatements, material, or immaterial.

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

Disagreements with Management

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

Representations Requested from Management

We have requested certain representations from management, which are included in the management representation letter dated February 23, 2024.

Management's Consultation with Other Accountants

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

Other Significant Matters, Findings, or Issues

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

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

McNair, McLemore, Middlebrooks & Co., LLC

McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC