THE WALTON ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES
MONROE, GEORGIA

CONSOLIDATED FINANCIAL STATEMENTS AS OF
JUNE 30, 2023 AND 2022 AND
INDEPENDENT AUDITOR'S REPORT

THE WALTON ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES

CONTENTS

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November 9, 2023

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
The Walton Electric Membership Corporation and Subsidiaries

Opinion

We have audited the consolidated financial statements of **The Walton Electric Membership Corporation and Subsidiaries**, which comprise the consolidated balance sheets as of June 30, 2023 and 2022, and the related consolidated statements of operations, comprehensive income, changes in members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of The Walton Electric Membership Corporation and Subsidiaries as of June 30, 2023 and 2022 and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our 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 The Walton Electric Membership Corporation and Subsidiaries 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 consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Walton Electric Membership Corporation and Subsidiaries' ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatements of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The Walton Electric Membership Corporation and Subsidiaries' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Walton Electric Membership Corporation and Subsidiaries' 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

THE WALTON ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
JUNE 30

ASSETS

	2023	2022
Utility Plant		
Electric Plant in Service - At Cost	**$ 562,790,282**	$ 534,875,066
Construction Work in Progress	**5,577,195**	4,049,183
	568,367,477	538,924,249
Accumulated Provision for Depreciation	**(223,528,790)**	(210,904,973)
	344,838,687	328,019,276
Other Property and Investments		
Investments in Associated Organizations	**139,437,715**	132,289,598
Other Investments	**3,519,076**	3,597,362
	142,956,791	135,886,960
Current Assets		
Cash and Cash Equivalents	**39,456,934**	10,200,137
Interest Receivable	**138,563**	40,017
Accounts Receivable (Net of Accumulated Provision for Uncollectibles of $18,367 in 2023 and $19,094 in 2022)	**52,468,501**	54,464,707
Materials and Supplies	**6,430,947**	6,275,548
Prepayments	**14,141,924**	13,686,113
	112,636,869	84,666,522
Other Assets	**17,440,846**	16,553,619
Total Assets	**$ 617,873,193**	$ 565,126,377

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

THE WALTON ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
JUNE 30

MEMBERS' EQUITIES AND LIABILITIES

	2023	2022
Members' Equities		
Membership Fees	**$ 952,270**	$ 959,145
Patronage Capital	**224,055,411**	200,900,931
Donated Capital	**4,980,627**	4,546,886
Other Equities	**43,377,654**	42,912,520
Accumulated Other Comprehensive Loss	**(11,549,372)**	(22,923,724)
	261,816,590	226,395,758
Long-Term Debt	**170,632,132**	128,892,090
Accumulated Provision for Postretirement Benefits		
Pension Plan	**4,499,207**	12,426,784
Healthcare Benefits	**47,447,749**	48,379,379
	51,946,956	60,806,163
Other Long-Term Liabilities	**991,789**	1,625,750
Current Liabilities		
Current Maturities of Mortgage Notes	**7,635,842**	6,688,792
Lines-of-Credit	**5,000,000**	24,700,000
Accounts Payable	**39,647,634**	47,592,438
Consumer Deposits	**10,930,019**	10,474,779
Current Portion of Healthcare Benefits	**2,062,000**	1,569,000
Accrued and Withheld Taxes	**4,265,248**	4,154,760
Accrued Interest	**1,213,324**	830,264
Other	**4,648,827**	4,254,244
	75,402,894	100,264,277
Deferred Credits	**57,082,832**	47,142,339
Total Members' Equities and Liabilities	**$ 617,873,193**	$ 565,126,377

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

THE WALTON ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED JUNE 30

	2023	2022
Operating Revenues	$ 496,012,479	$ 428,140,218
Cost of Revenues	383,617,877	353,204,172
Gross Margins	112,394,602	74,936,046
Operating Expenses		
Distribution Operations	10,886,622	14,924,446
Distribution Maintenance	15,041,946	17,725,727
Consumer Accounts	4,199,947	8,118,240
Consumer Service and Information	4,439,854	6,371,309
Sales	2,679,764	3,305,058
Administrative and General	21,814,547	7,384,067
Depreciation and Amortization	17,679,600	17,094,713
Other	221,102	181,466
	76,963,382	75,105,026
Operating Margins Before Interest Expense	35,431,220	(168,980)
Interest Expense	7,052,992	5,065,713
Operating Margins After Interest Expense	28,378,228	(5,234,693)
Nonoperating Margins	(3,394,472)	5,374,215
Generation and Transmission Cooperative Capital Credits	6,786,663	5,948,321
Other Capital Credits and Patronage Capital Allocations	994,740	880,970
Income Tax Expense (Benefit)	50,000	(398,000)
Net Margins	$ 32,715,159	$ 7,366,813

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

THE WALTON ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED JUNE 30

	2023	2022
Net Margins	**$ 32,715,159**	$ 7,366,813
Other Comprehensive Income (Loss)		
Change in Fair Value of Costs Related to Pension Plans	**3,975,403**	5,614,354
Change in Fair Value of Costs Related to Healthcare	**2,408,426**	21,112,039
Amortization of Actuarial Changes	**1,692,075**	(17,585,158)
Loss Due to Settlement	**2,814,761**	4,603,151
Amortization of Prior Service Cost	**(180,223)**	(180,223)
Amortization of Net Transition Obligation	**663,910**	663,910
Other Comprehensive Income	**11,374,352**	14,228,073
Comprehensive Income	**$ 44,089,511**	$ 21,594,886

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

THE WALTON ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY
FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

	Membership Fees	Patronage Capital	Donated Capital	Other Equities	Accumulated Other Comprehensive Income (Loss)	Total
Balance, June 30, 2021	$ 973,780	$ 202,712,934	$ 4,029,883	$ 44,085,326	$ (37,151,797)	$ 214,650,126
Net Margins	-	8,539,619	-	(1,172,806)	-	7,366,813
Patronage Capital Retirements	-	(10,351,622)	517,003	-	-	(9,834,619)
Membership Fees	(14,635)	-	-	-	-	(14,635)
Postretirement Benefits	-	-	-	-	14,228,073	14,228,073
Balance, June 30, 2022	959,145	200,900,931	4,546,886	42,912,520	(22,923,724)	226,395,758
Net Margins	-	32,250,025	-	465,134	-	32,715,159
Patronage Capital Retirements	-	(9,095,545)	433,741	-	-	(8,661,804)
Membership Fees	(6,875)	-	-	-	-	(6,875)
Postretirement Benefits	-	-	-	-	11,374,352	11,374,352
Balance, June 30, 2023	**$ 952,270**	**$ 224,055,411**	**$ 4,980,627**	**$ 43,377,654**	**$ (11,549,372)**	**$ 261,816,590**

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

THE WALTON ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30

	2023	2022
Cash Flows from Operating Activities		
Net Margins	**$ 32,715,159**	$ 7,366,813
Adjustments to Reconcile Net Margins to Net Cash		
Provided by Operating Activities		
Depreciation and Amortization	**18,482,538**	18,226,938
Patronage Capital from Associated Organizations	**(7,781,403)**	(6,829,291)
Medical Benefits Cost	**3,436,563**	2,675,762
Pension Plan Costs	**7,038,349**	2,619,996
Deferred Revenue Recognition	**(19,500,000)**	(13,500,000)
Funding of Medical Benefits	**(1,467,151)**	(1,150,717)
Funding of Pension Plan Costs	**(6,000,000)**	(6,000,000)
Power Cost Rebate	**(976,841)**	(976,841)
Change In		
Accounts Receivable (Net)	**1,996,206**	(9,361,920)
Other Current Assets	**(554,357)**	42,781
Other Assets	**(887,227)**	(781,205)
Accounts Payable	**(7,944,804)**	12,144,566
Consumer Deposits	**455,240**	351,565
Accrued and Withheld Taxes	**110,488**	280,012
Other Current and Accrued Liabilities	**777,643**	(1,217,372)
Deferred Credits	**30,417,718**	(872,828)
	50,318,121	3,018,259
Cash Flows from Investing Activities		
Extension and Replacement of Plant	**(35,301,949)**	(28,520,121)
Return of Equity from Associated Organizations	**633,286**	686,249
Materials and Supplies	**(155,399)**	(3,003,793)
Other Investments	**(555,675)**	(599,603)
	(35,379,737)	(31,437,268)
Balance - Carried Forward	**$ 14,938,384**	$ (28,419,009)

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

THE WALTON ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30

	2023	2022
Balance - Brought Forward	**$ 14,938,384**	$ (28,419,009)
Cash Flows from Financing Activities		
Line-of-Credit	**(19,700,000)**	19,100,000
Advances of Long-Term Debt	**50,000,000**	-
Membership Fees	**(6,875)**	(14,635)
Principal Payments on Long-Term Debt	**(7,312,908)**	(6,604,286)
Retirement of Patronage Capital	**(8,661,804)**	(9,834,619)
	14,318,413	2,646,460
Net Increase (Decrease) in Cash and Cash Equivalents	**29,256,797**	(25,772,549)
Cash and Cash Equivalents - Beginning	**10,200,137**	35,972,686
Cash and Cash Equivalents - Ending	**$ 39,456,934**	$ 10,200,137

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Nature of Operations

The Walton Electric Membership Corporation (Walton EMC) is a member-owned, not-for-profit corporation whose purpose is to provide electric service to its members. Walton EMC 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.

Walton Energy, Inc. d/b/a Walton EMC Natural Gas, a wholly-owned subsidiary of Walton EMC, is a natural gas affiliate whose purpose is to provide natural gas service to its customers. Walton Solar, LLC, a wholly-owned subsidiary of Walton Energy, Inc., is an entity whose purpose is to own and operate cooperative solar projects for wholesale renewable electricity generation and sale.

Walton Discover, LLC and Walton Bainbridge, LLC, wholly-owned subsidiaries of Walton EMC, are generation facilities whose purpose is to provide Morgan Stanley Capital Group, Inc. with all of the facility output, pursuant to a tolling agreement.

Walton EMC and Subsidiaries are collectively known as the Corporation.

(2) Summary of Significant Accounting Policies

General

Accounting policies of the Corporation reflect practices appropriate to the electric utility industry, the Georgia Natural Gas Consumption and Deregulation Act, and accounting principles generally accepted in 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 of those policies.

Basis of Presentation

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

Consolidation

The consolidated financial statements include the accounts and results of operations of Walton EMC and its wholly-owned subsidiaries. All significant intercompany transactions have been eliminated in consolidation.

Regulated Operations

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

(2) Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and 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 the 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.

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 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 a straight-line composite rate of 3.2 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 generation plant is provided on a straight-line basis over the estimated useful lives of the various assets. The rates range from 3.45 percent to 20.0 percent per annum.

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

(2) Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

Cash equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less.

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).

Accounts Receivable and Credit Policies

Accounts receivable are stated at the net realizable value. Once a 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. Receivables are reported on the consolidated balance sheets net of such accumulated allowance. Delinquent accounts receivable for natural gas is borne by a third-party gas asset manager through a contractual relationship.

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

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.

Advertising

The Corporation expenses advertising cost as it is incurred.

(2) Summary of Significant Accounting Policies (Continued)

Revenue Recognition

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

Electric revenue includes patronage capital and is billed monthly to consumers on a cycle basis. Electric rates for the Corporation include provisions to permit the board of directors to adjust billings for fluctuations in fuel costs, purchased power costs, and certain other costs.

Revenue from the sale of natural gas is generated from contracts (service agreements) with customers and is billed monthly to customers on a cycle basis. Revenue is recognized when the natural gas is delivered to the customer based upon meter reading data provided by the local distribution company (LDC) as a single performance obligation satisfied over time as natural gas is consumed. Unbilled revenue is recorded for estimated deliveries of natural gas at the end of each period. Unbilled receivables are included in accounts receivable on the consolidated balance sheets.

Revenue from solar sales is billed monthly based on meter readings of solar generation output of each solar facility. Meter readings of solar generation output are recorded at month end and billed according to contractual rates. There were no unbilled receivables related to solar sales for the years ended June 30, 2023 and 2022.

Walton Discover, LLC and Walton Bainbridge, LLC primary source of revenue is derived from a power plant tolling agreement with Morgan Stanley with offtake provisions for all energy to be produced by the facility. The Company considers bundled energy and capacity within these offtake agreements to be distinct performance obligations as each are often transacted separately in the marketplace, recognizing revenue associated with these contracts, the transaction price is allocated to each performance obligation based on its relative standalone selling price. Revenue is recognized as control of each individual component is transferred to the customer. Revenue from the sale of energy is generally recognized as units are produced and delivered to the customer within the production month. Capacity represents the reservation of the renewable generation facility and conveys the ability to call on the wind facility to produce electricity when needed by the customer. The nature of the Company's performance obligation as it relates to capacity is to stand ready to deliver power. This represents a single performance obligation transferred over time, which generally represents a monthly obligation. Accordingly, capacity revenue is recognized on a monthly basis.

Cost of Revenues

Cost of revenues for electricity and natural gas is expensed as consumed.

Cost of natural gas includes charges to purchase, transport, and store gas. The Corporation's contractual relationship with a third-party gas asset manager requires earnings by the unrelated party's operations derived from the Corporation to be shared at a 70 to 30 percent ratio. Payments in the amount of $1,165,972 and $1,269,283 are included as a component of cost of revenues for the years ended June 30, 2023 and 2022, respectively.

(2) Summary of Significant Accounting Policies (Continued)

Sales Tax

A portion of the Corporation's sales are subject to sales taxes. The Corporation collects the sales taxes from the customers and remits the taxes to the appropriate taxing authority. The Corporation excludes the taxes collected and remitted from revenues and cost of sales.

Generation and Transmission Cooperative Capital Credits

Generation and transmission cooperative capital credits represent the annual capital furnished generation and transmission cooperatives 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.

Other Comprehensive Income (Loss)

The objective of comprehensive income is to report a measure of all changes in equity of the entity that result from transactions and events of the period other than transactions with members. Comprehensive income consists of net margins and costs not yet recognized as a component of income related to retirement plans. Amounts reclassified out of accumulated other comprehensive income related to the Corporation's benefit plans are spread based on direct labor costs.

Income Taxes

Walton EMC operates under the Internal Revenue Code Section (IRC) 501(c)(12) as a tax-exempt cooperative. Wholly-owned subsidiaries, Walton Discover, LLC and Walton Bainbridge, LLC, are disregarded entities for income tax reporting purposes with operations reported in the Corporation's filings. Walton EMC is exempt from federal and state income taxes under Section 501(c)(12) of the IRC which provides, in part, that Walton EMC derive at least 85 percent of its annual gross income from members to retain the exemption. Walton EMC has met the requirement for the year ended December 31, 2022, which is on extension through November 15, 2023. As a tax-exempt cooperative, Walton EMC files a federal information return as of December 31 each year.

Walton Energy, Inc. operates under the Georgia Corporation Code as a for-profit corporation. The Corporation accounts for income taxes under the asset and liability method prescribed by U.S. GAAP. Wholly-owned subsidiary, Walton Solar, LLC, is a disregarded entity for income tax reporting purposes with operations reported in the Walton Energy, Inc.'s filings.

Walton Energy, Inc.'s deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates applied to taxable income. The effect of a change in tax rates on deferred income tax assets and liabilities is recognized in income in the period that includes the enactment date.

Walton Energy, Inc.'s taxable subsidiaries record interest and penalties related to federal and state income tax returns as a component of interest expense and nonoperating margins, respectively. No interest or penalties are included on the consolidated statements of operations for the years ended June 30, 2023 and 2022. Walton Energy, Inc. recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authority, based on technical merits of the position. As of June 30, 2023 and 2022, there were no known items which would result in a material accrual resulting from Walton Energy, Inc.'s federal or state tax positions. Additional information pertinent to the valuation of income taxes is provided in Note 12.

(2) Summary of Significant Accounting Policies (Continued)

Investments in Associated Organizations

Investments in associated organizations primarily include investments in other cooperative organizations. Representing capital investments are made primarily to obtain an economical source of 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 consolidated statements of operations as generation and transmission cooperative capital credits and other capital credits and patronage capital allocations.

Generation and transmission cooperative capital credits represent the annual capital furnished to generation and transmission cooperatives 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.

Patronage Capital and Margins

Walton EMC is organized and operates under the cooperative form of organization. As such, patronage capital or margins are allocated to patrons on the basis of patronage. Under provisions of the long-term debt agreements, until the total equities and margins equal or exceed 20 percent of the total assets of Walton EMC, the return to patrons of capital contributed by them is limited. 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 Walton EMC.

Reclassifications

Certain reclassifications have been made within the June 30, 2022 consolidated financial statements to conform to the June 30, 2023 presentation. The reclassifications had no effect on net margins for the year ended June 30, 2022.

Subsequent Events

In preparing these consolidated financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through November 9, 2023, the date the consolidated financial statements were available to be issued.

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

Billed receivables and contract assets and contract liabilities are as follows as of June 30, 2023 and 2022:

		2023		2022		2021
		End of Year		End of Year		End of Year
Billed Receivables, Net of Allowance						
Electric Operations	**$**	**22,357,274**	$	22,012,372	$	20,886,085
Natural Gas Operations		**5,249,208**		4,962,239		3,955,522
	$	**27,606,482**	$	26,974,611	$	24,841,607
Contract Assets						
Unbilled Revenue						
Electric Customers	**$**	**23,847,609**	$	25,317,341	$	19,573,550
Natural Gas Customers		**1,014,410**		2,172,755		1,174,362
	$	**24,862,019**	$	27,490,096	$	20,747,912
Total Accounts Receivable	**$**	**52,468,501**	$	54,464,707	$	45,589,519

(4) Utility Plant

Listed below are the major classes of the electric utility plant as of June 30:

		2023		2022
Distribution Plant	**$**	**492,858,608**	$	467,639,512
General Plant		**50,356,436**		47,660,316
Generation Plant		**19,575,238**		19,575,238
Electric Plant in Service		**562,790,282**		534,875,066
Construction Work in Progress		**5,577,195**		4,049,183
	$	**568,367,477**	$	538,924,249

(5) Investments in Associated Organizations

Investments in associated organizations consist of the following at June 30:

	2023	2022
National Rural Utilities Cooperative Finance Corporation		
Capital Term Certificates	$ 6,712,662	$ 6,920,316
Capital Credits	7,957,753	7,857,283
Oglethorpe Power Corporation		
Capital Credits	96,746,192	91,339,793
Georgia Transmission Corporation		
Contributed Capital	3,743,638	3,743,638
Capital Credits	19,314,945	17,934,680
Georgia System Operations Corporation	18,021	18,021
GRESCO Utility Supply, Inc.	821,297	621,966
Meridian Cooperative	655,585	662,895
Georgia Electric Membership Corporation	17,363	17,363
Smarr EMC		
Contributed Capital	423,079	423,079
Capital Credits	1,087,029	916,797
Federated Rural Electric Insurance Exchange		
Capital Credits	783,516	752,160
The National Rural Telecommunications Cooperative	14,561	13,950
Green Power EMC	21,899	21,899
Georgia Right-of-Way Company, Inc.	1,117,065	1,042,648
Other	3,110	3,110
	$ 139,437,715	$ 132,289,598

(6) Other Investments

Other investments consist of the following at June 30:

		2023		2022
Investment in Cooperative Choice, LLC	**$**	**2,499,819**	$	1,937,020
Deferred Compensation Holdings		**991,789**		1,625,750
Other		**27,468**		34,592
	$	**3,519,076**	$	3,597,362

The Corporation accounts for its investments in Cooperative Choice, LLC utilizing the equity method. For the years ended June 30, 2023 and 2022, the Corporation recorded income of $1,921,064 and $2,041,760, respectively, as a component of nonoperating margins, related to these investments.

The Corporation has deposited funds, representing deferred compensation, on behalf of qualified employees who have elected to defer certain amounts of compensation. The Corporation is subject to assessment for any amounts by which the market valuation of the funds might fall short of contracted and guaranteed amounts due the employees. It is believed that any ultimate liability will not be material in relation to the total assets of the Corporation. The annual deferral of the compensation plans is calculated in accordance with IRC 457, subject to changes under IRC Section 457(b). The plan assets and liabilities are measured at fair value using quoted prices in active markets for identical assets and considered Level 1 investments valued using the market approach. The amounts are invested in mutual funds and totaled $991,789 and $1,625,750 for the years ended June 30, 2023 and 2022, respectively.

(7) Prepayments

Prepayments consist of the following at June 30:

		2023		2022
Prepaid Gas	**$**	**13,000,000**	$	13,000,000
Other		**1,141,924**		686,113
	$	**14,141,924**	$	13,686,113

Prepaid natural gas consists of prepayments for customers from the Corporation to Texican Industrial Energy Marketing of $13,000,000 for the years ended June 30, 2023 and 2022. Of these prepayments, $3,000,000 represents a noninterest-bearing deposit with the remaining balance accruing interest at a rate of 5.2 percent along with principal. The prepayments have an annual maturity date of May 31.

(8) Patronage Capital

Patronage capital consist of the following at June 30:

		2023		2022
Assignable	$	**(28,155,290)**	$	(53,338,618)
Assigned		**396,042,670**		388,975,973
		367,887,380		335,637,355
Retired		**(143,831,969)**		(134,736,424)
	$	**224,055,411**	$	200,900,931

(9) Debt

Long-Term Debt

Long-term debt consists of mortgage notes payable to the NRUCFC. The notes are secured by a mortgage agreement between Walton EMC and NRUCFC. Substantially all the assets of Walton EMC are pledged as security for long-term debt of the Corporation. The notes have maturity periods varying from January 1, 2025 to July 31, 2053 and are payable on an installment basis. The notes contain certain affirmative and negative covenants, including maintenance of certain financial ratios as defined in the agreement. At June 30, 2023 and 2022, the Corporation was in compliance with the covenants.

Holder of Note	Interest Rate at June 30, 2023		2023		2022
NRUCFC	2.81% to 7.05%	**$**	**178,267,974**	$	135,580,882
Maturities Due Within One Year			**(7,635,842)**		(6,688,792)
		$	**170,632,132**	$	128,892,090

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

Year	Amount
2024	$ 7,635,842
2025	8,245,000
2026	8,903,000
2027	9,613,000
2028	10,974,000
Thereafter	132,897,132
	$178,267,974

Cash payments of interest totaled $6,050,234 and $6,765,162 for June 30, 2023 and 2022, respectively.

(9) Debt (Continued)

Lines-of-Credit

Walton EMC has a $24,000,000 line-of-credit at 7.00 percent with NRUCFC with an outstanding balance of $-0- and $19,000,000 as of June 30, 2023 and 2022, respectively. The line-of-credit is secured by substantially all of the general assets of the Corporation.

Walton Energy, Inc. has a $30,000,000 line-of-credit with the National Cooperative Services Corporation (NCSC) with an interest rate of 7.75 percent. The line-of-credit is secured by substantially all of the general assets of the Corporation. The line-of-credit has an outstanding balance of $5,000,000 and $5,700,000 as of June 30, 2023 and 2022, respectively.

Letter-of-Credit

Walton EMC has a $75,000,000 letter-of-credit with NRUCFC which is irrevocable and unconditionally guaranteed. The letter-of-credit would be payable to a third party under the terms of a power purchase and scheduling agent agreement entered into by the Corporation. Additional information pertinent to the agreement is provided in Note 15.

(10) Postretirement Benefits

Defined Contribution Plan

The Corporation provides employee benefits to substantially all employees through a sponsored defined contribution Savings Plan (401-k). In this defined contribution plan, the Corporation's contributory portion of the costs totaled $1,703,000 and $1,629,000 for the years ended June 30, 2023 and 2022, respectively.

Defined Benefit Pension Plan

The Corporation provides a noncontributory defined benefit pension plan covering substantially all employees of the Corporation. The plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). The administrative committee determines the appropriateness of the plan's investments, monitors the investment performance, and reports to the board of directors. The Corporation absorbs certain administrative costs associated with the plan.

Effective July 1, 2009, the Corporation approved an amendment to freeze participation in the plan for employees hired subsequent to July 1, 2009. Employees who commenced participation in the plan on or before this date are not effected by this amendment.

(10) Postretirement Benefits (Continued)

Defined Benefit Pension Plan (Continued)

The status of the Corporation's pension plan as of June 30 is detailed as follows:

	2023	2022
Accumulated Postretirement Benefit Obligation, Beginning of Year	**$ 61,163,541**	$ 73,955,232
Service Cost	**2,850,053**	3,244,041
Interest Cost	**2,481,879**	1,896,197
Change in Actuarial Assumptions	**(3,975,403)**	(5,614,354)
Benefits Paid	**(10,240,546)**	(12,317,575)
Accumulated Postretirement Benefit Obligation, End of Year	**52,279,524**	61,163,541
Fair Value of Plan Assets, Beginning of Year	**48,736,757**	64,205,971
Actual Return of Plan Assets	**3,284,106**	(9,151,639)
Contributions	**6,000,000**	6,000,000
Benefits Paid	**(10,240,546)**	(12,317,575)
Fair Value of Plan Assets, End of Year	**47,780,317**	48,736,757
Funded Status	**$ 4,499,207**	$ 12,426,784

Amounts recognized in accumulated other comprehensive income:

	2023	2022
Transition Obligation	**$ 59,752**	$ 723,662
Prior Service Cost	**(162,194)**	(342,417)
Actuarial Loss	**14,382,704**	22,864,943
	$ 14,280,262	$ 23,246,188

Changes in benefit obligations recognized as net periodic benefit cost are as follows:

Service Cost	**$ 2,850,053**	$ 3,244,041
Interest Cost	**2,481,879**	1,896,197
Amortization of Unrecognized Amounts	**2,175,762**	(16,275,032)
Loss Due to Settlement	**2,814,761**	4,603,151
Actual Return on Plan Assets	**(3,284,106)**	9,151,639
	$ 7,038,349	$ 2,619,996

(10) Postretirement Benefits (Continued)

Defined Benefit Pension Plan (Continued)

Changes in benefit obligations recognized in other comprehensive income as of June 30 are as follows:

	2023	2022
Actuarial Gain	**$ (3,975,403)**	$ (5,614,354)
Amortization of Unrecognized Amounts	**(1,692,075)**	16,758,719
Amortization of Prior Service Cost	**180,223**	180,223
Loss Due to Settlement	**(2,814,761)**	(4,603,151)
Amortization of Net Transition Obligation	**(663,910)**	(663,910)
	$ (8,965,926)	$ 6,057,527

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

	June 30		
Description	**2023**	2022	2021
Discount Rate			
APBO	**5.55%**	4.23%	2.65%
Net Periodic Postretirement Expense	**4.23%**	2.65%	2.40%
Expected Long-Term Rate of Return on Plan Assets	**7.50%**	7.50%	7.50%
Rate of Compensation Increase	**3.00%**	3.00%	3.00%
Plan Asset Allocation			
Equity	**67.00%**	76.00%	63.00%
Fixed	**26.00%**	20.00%	35.00%
Other	**7.00%**	4.00%	2.00%
Total Plan Asset Allocation	**100.00%**	100.00%	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. The investments are considered a Level 1 measurement based on quoted market prices in active markets for identical assets.

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 June 30, 2023 and 2022.

(10) Postretirement Benefits (Continued)

Defined Benefit Pension Plan (Continued)

The Corporation expects to contribute $6,000,000 to the pension plan for the year ending June 30, 2024.

The following benefits are expected to be paid:

Year	**Amount**
2024	$ 3,799,489
2025	5,685,471
2026	6,545,491
2027	4,422,819
2028	3,544,949
2029-2033	29,721,033

Postretirement Healthcare Benefits

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

The status of the Corporation's postretirement healthcare plan as of June 30 is detailed as follows:

	2023	2022
Accumulated Postretirement Benefit Obligation, Beginning of Year	**$ 49,948,379**	$ 68,708,934
Service Cost	**1,035,883**	1,705,970
Interest Cost	**2,400,680**	1,796,231
Participant Contributions	**253,562**	228,133
Change in Actuarial Assumptions	**(2,408,042)**	(21,112,039)
Benefits Paid	**(1,720,713)**	(1,378,850)
Accumulated Postretirement Benefit Obligation, End of Year	**49,509,749**	49,948,379
Fair Value of Plan Assets, Beginning of Year		
Actual Return on Plan Assets	**-**	-
Employer Contributions	**1,467,151**	1,150,717
Participant Contributions	**253,562**	228,133
Benefits Paid	**(1,720,713)**	(1,378,850)
Fair Value of Plan Assets, End of Year	-	-
Funded Status	**$ 49,509,749**	$ 49,948,379

(10) Postretirement Benefits (Continued)

Postretirement Healthcare Benefits (Continued)

Amounts recognized in the consolidated balance sheets consisted of:

	2023	2022
Noncurrent Liabilities	**$ 47,447,749**	$ 48,379,379
Current Liabilities	**2,062,000**	1,569,000
	$ 49,509,749	$ 49,948,379

Amounts recognized in accumulated other comprehensive income consisted of:

Actuarial (Gain) Loss	**$ (2,730,890)**	$ (322,464)

Change in benefit obligation recognized in patronage capital are as follows:

	2023	2022
Service Cost	**$ 1,035,883**	$ 1,705,970
Interest Cost	**2,400,680**	1,796,231
Amortization of Actuarial Gain	**-**	(826,439)
	$ 3,436,563	$ 2,675,762

Other changes in benefit obligations recognized in other comprehensive income as of June 30 are as follows:

	2023	2022
Actuarial Loss	**$ (2,408,426)**	$ (21,112,039)
Amortization of Actuarial Gain	**-**	826,439
	$ (2,408,426)	$ (20,285,600)

(10) Postretirement Benefits (Continued)

Postretirement Healthcare Benefits (Continued)

The following table shows key assumptions used for the measurement of obligations for the plan.

Description	June 30 **2023**	2022	2021
Discount Rate			
APBO	**5.65%**	4.46%	2.81%
Net Periodic Benefit Cost	**4.46%**	2.81%	2.68%
Medical Trend Rate			
Initial	**6.00%**	6.10%	6.20%
Ultimate	**5.00%**	5.00%	5.00%
Fiscal Year Reached	**2033**	2033	2033

The Corporation expects to contribute $2,062,000 to this postretirement healthcare plan for the fiscal year ending 2024.

The components of net periodic benefit cost, other than the service cost component, are included in the line item nonoperating margins for the years ended June 30, 2023 and 2022.

The following benefits are expected to be paid:

Year	Amount
2024	$ 2,062,000
2025	2,147,000
2026	2,208,000
2027	2,305,000
2028	2,367,000
2029-2033	12,323,000

(11) Other Assets

Other assets are comprised of the following as of June 30:

	2023	2022
Notes Receivable - Other	**$ 10,000,000**	$ 10,000,000
AGLC	**3,958,222**	2,956,341
Various Clearing Accounts	**85,819**	152,968
Deferred Tax Asset	**3,394,000**	3,444,000
Miscellaneous Deferred Debits	**2,805**	310
	$ 17,440,846	$ 16,553,619

AGLC charges for Walton Energy, Inc. are reported by the Corporation related to cost for pipeline, storage, and supporting services to be incurred the month following actual billing. The Corporation accounts for the charges as a deferred item and expenses them in the appropriate month.

Walton Energy, Inc. has a credit agreement with an unrelated party for $10,000,000 for the years ended June 30, 2023 and 2022. The agreement bears an interest rate of 5 percent and matured on June 30, 2023. Walton Energy, Inc. will be paid accrued interest annually along with principal upon maturity. Interest receivable on the agreement totaled $2,740 as of June 30, 2023 and 2022. Walton Energy, Inc. intends to continue to extend the agreement in subsequent years and has reported the amount as a component of other assets accordingly.

(12) Income Taxes

Details of income tax expense (benefit) are as follows as of June 30:

	2023	2022
Federal		
Current	**$ 126,000**	$ (315,000)
Deferred	**(15,000)**	(59,000)
State		
Current	**36,000**	(90,000)
Deferred	**(97,000)**	66,000
	$ 50,000	$ (398,000)

The tax effects of temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and their respective tax basis, which give rise to deferred tax assets and liabilities computed at statutory rates, are as follows as of June 30:

	2023	2022
Deferred Tax Assets		
Net Operating Loss Carryforwards	**$ 2,505,085**	$ 2,589,672
Unrealized Federal Tax Credits	**2,831,752**	2,831,752
Deferred Tax Liabilities		
Accelerated Depreciation and Other Property Basis Differences	**(1,942,837)**	(1,977,424)
	$ 3,394,000	$ 3,444,000

For the years ended June 30, 2023 and 2022, the Corporation had a federal net operating loss carryforward resulting in a deferred tax asset. No valuation allowance has been established due to the likelihood that the full tax benefit will be realized.

Unrealized federal tax credits are a result of the federal investment tax credit related to construction of solar plant. No valuation allowance has been established due to the likelihood that the full tax benefit will be realized before expiration beginning in 2036 through 2038.

Deferred tax liabilities are the result of property-related timing differences for depreciation. The application of bonus depreciation for solar plant significantly increased deferred tax liabilities for the years ended June 30, 2023 and 2022. The deferred tax asset is included in other assets on the consolidated balance sheet.

(13) Deferred Credits

Deferred credits are comprised of the following as of June 30:

	2023	2022
Unclaimed Property	**$ 6,858,090**	$ 6,739,301
Deferred Revenue	**8,500,000**	28,000,000
Power Cost Rebate	**11,426,197**	12,403,038
Construction Performance Deposits	**30,298,545**	-
	$ 57,082,832	$ 47,142,339

The power cost revenue deferrals represent a revenue deferral plan to reduce the impact of the future power cost increases by various power suppliers on the Corporation's rate structure. The revenue deferral is in compliance with U.S. GAAP related to the effects of certain types of regulations and has been approved by the board of directors.

The power cost rebate represents funds received from a purchased power supplier to offset a portion of the cost incurred related to providing credit support for the power purchase and scheduling agent agreement detailed in Note 15. The rebate will be recorded as a reduction in future power cost over the term of the agreement. The treatment is in compliance with U.S. GAAP related to the effects of certain types of regulations and has been approved by the board of directors.

The construction performance deposits represent funds received for four solar generation construction projects currently in progress. The deposits are refundable to contracted parties at the time the generation facilities are placed into service and the performance terms of the agreements are met. Additional information pertinent to the agreement is provided in Note 15.

(14) Accumulated Other Comprehensive Loss

The following table summarizes the components of accumulated other comprehensive loss and the changes in accumulated other comprehensive loss for the years ended June 30:

	Pension Plan	Postretirement Healthcare	Accumulated Other Comprehensive Loss
Balance, June 30, 2021	$17,188,661	$19,963,136	$37,151,797
Change in Fair Value Costs	(5,614,354)	(21,112,039)	(26,726,393)
Amortization of Actuarial Changes	16,758,719	826,439	17,585,158
Amortization of Prior Service Cost	180,223	-	180,223
Loss Due to Settlement	(4,603,151)	-	(4,603,151)
Amortization of Net Transition Obligation	(663,910)	-	(663,910)
Balance, June 30, 2022	23,246,188	(322,464)	22,923,724
Change in Fair Value Costs	(3,975,403)	(2,408,426)	(6,383,829)
Amortization of Actuarial Changes	(1,692,075)	-	(1,692,075)
Amortization of Prior Service Cost	180,223	-	180,223
Loss Due to Settlement	(2,814,761)	-	(2,814,761)
Amortization of Net Transition Obligation	(663,910)	-	(663,910)
Balance, June 30, 2023	**$14,280,262**	**$(2,730,890)**	**$11,549,372**

(15) Commitments

Walton EMC has entered into various long-term contracts to meet the power supply demands of its consumers. The Corporation has a commitment to pay for its assignment of fixed costs through the term of these contracts, as well as any variable cost incurred above the allocated fixed cost amounts. The Corporation is a member of a generation cooperative known as Oglethorpe Power Corporation (OPC) and has contracted with OPC based on a percentage of fixed or designated costs to purchase power supply from various facilities owned by OPC. The Corporation has multiple contracts with various expiration terms through 2050. Related fixed costs under these contracts were $70,621,000 in 2023 and are expected to remain relatively constant in the immediate future.

Walton EMC elected to participate in OPC's "5 for 5 Rate Management Program." The objective of this program is to provide a means by which existing obligations of OPC that would otherwise be recognized as expense and billed in the future can be billed to OPC members over a five-year period then credited back against the OPC member's power bill in the subsequent five years. The Corporation elected to make payments through 2021 and receive credits from 2022 through 2026. Total credits applied totaled approximately $11,701,000 for the year ended June 30, 2023. The Corporation earns a return on the amounts funded into this program which are credited against the Corporation's power bill.

(15) Commitments (Continued)

Effective January 1, 2016, Walton EMC entered into a power purchase and scheduling agent services agreement. The agreement will continue through December 31, 2025. Effective March 19, 2018, Walton EMC entered into an additional power purchase and scheduling agent services agreement with the same supplier extending the terms through December 31, 2035. Under the terms of the agreements, Walton EMC is required to maintain a modified debt service coverage ratio equal to or greater than 1.35 and a debt to equity ratio less than 2.5 to 1. In the event these conditions are not met, Walton EMC will be required to provide the supplier with acceptable credit support in an amount equal to $100 million through 2025. As a result of the additional agreement, Walton EMC was required to provide a credit enhancement in the form of an irrevocable standby letter of credit for an initial amount not less than $75 million. In the event the conditions outlined previously are not met from 2026 through 2035, Walton EMC will be required to provide the supplier additional acceptable credit not to exceed $75 million. Once conditions are again met by Walton EMC, the remaining amount of credit support will be returned.

Under the terms of the agreement, the supplier will supply 100 percent of regulation, spinning reserves, supplemental reserves, and planning reserve capacity. The Corporation is in compliance as of June 30, 2023.

Walton EMC 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 Walton EMC to take transmission-related services through 2060 and allows for a reduction in service at prescribed periods. Transmission service under the MTSA was $24,368,000 in 2023 and is expected to remain relatively constant in the immediate future. Transmission service is recorded as a component of cost of power.

Walton EMC has entered into various assignment and assumption agreements through Green Power EMC and their participating EMCs. These agreements are in support of Walton EMC receiving capacity and energy from the various renewable generation projects that Walton EMC has chosen to participate in through Green Power EMC. In 2023, Walton EMC made $2,009,000 in capacity and energy payments for these assets.

Effective August 31, 2018, Walton EMC entered into a solar power purchase agreement with SR Arlington, LLC to accept and purchase all the generated quantity at the agreed upon contract price. The agreement will stay in force for a term ending on the later of 16 years from commercial operating date or December 31, 2035 with an option to extend the initial term 5 years upon written notice at least one year prior to the end of the initial term.

Effective October 1, 2018, Walton EMC entered into two solar power purchase agreements with Odum Solar, LLC to accept and purchase all the generated quantity at agreed upon contract prices with contracted suppliers. The agreements will stay in force for a term ending on the later of 15 years from commercial operating dates or December 31, 2035.

Effective November 19, 2019, Walton EMC entered into a solar power purchase agreement with SR Baxley, LLC to accept and purchase all the generated quantity at agreed upon contract prices with contracted suppliers. The agreement will stay in force for a term ending on December 31, 2035.

Effective December 17, 2019, Walton EMC entered into a solar power purchase agreement with SR Lumpkin, LLC to accept and purchase all the generated quantity at agreed upon contract prices with contracted suppliers. The agreement will stay in force for a term ending on December 31, 2035.

(15) Commitments (Continued)

Effective October 24, 2019, Walton EMC entered into a solar power purchase agreement with SR Snipesville II, LLC to accept and purchase all the generated quantity at agreed upon contract prices with contracted suppliers. The agreement will stay in force for a term ending on December 31, 2035.

Effective April 5, 2021, Walton EMC entered into a solar power purchase agreement with Lancaster Solar, LLC to accept and purchase all the generated quantity at agreed upon contract prices with contracted suppliers. The agreement will stay in force for a term ending on December 31, 2037.

Effective December 7, 2021, Walton EMC entered into a solar power purchase agreement with SR Desoto I, LLC to accept and purchase all the generated quantity at agreed upon contract prices with contracted suppliers. The agreement will stay in force for a term ending on December 31, 2037.

Effective October 26, 2022, Walton EMC entered into a solar power purchase agreement with SR Desoto III, LLC to accept and purchase all the generated quantity at agreed upon contract prices with contracted suppliers. The agreement will stay in force for a term ending on December 31, 2038.

Effective October 26, 2022, Walton EMC entered into a solar power purchase agreement with SR Robins, LLC to accept and purchase all the generated quantity at agreed upon contract prices with contracted suppliers. The agreement will stay in force for a term ending on December 31, 2038.

Effective October 26, 2022, Walton EMC entered into a solar power purchase agreement with SR Tombs, LLC to accept and purchase all the generated quantity at agreed upon contract prices with contracted suppliers. The agreement will stay in force for a term ending on December 31, 2038.

Under current law, the Corporation has the ability to recover these costs from its members; however, any change to existing laws could adversely affect the ability to recover these costs.

In addition, Walton Energy, Inc. is subject to a natural gas supply management agreement, as amended, with an outside third party. The third-party acts as the gas asset manager and is responsible for “management services” which include, but are not limited to, performing all administrative and operational tasks associated with providing the Corporation with transportation services, storage services, consulting services, and nominating services.

Walton Energy, Inc. services both fixed and variable rate customers. The third party bills the Corporation monthly for the volume of gas used by each customer type. When fixed-rate customers lock their rate in with Walton Energy, Inc., the third party is required by the agreement to sell that volume at a negotiated fixed price to the Corporation. Therefore, the transaction is not considered a hedging activity, and no exposure to the Corporation exists as of the balance sheet date unless the third party fails to perform.

Walton Energy, Inc. has an obligation to deliver a volume of natural gas required by AGLC. If a natural gas marketer does not deliver the required amount of natural gas, penalties may apply in accordance with the AGLC Tariff. Since the amounts required by AGLC are based on estimates, an imbalance, either positive or negative, occurs with some natural gas marketers delivering more natural gas than their consumers actually consume and other natural gas marketers delivering less natural gas than their consumers actually consume. An imbalance in deliveries of natural gas results in some marketers owing other marketers for excess natural gas (short marketer) and some marketers being owed by other marketers for deficient deliveries of natural gas (long marketer). An imbalance from the short marketers is settled with the long marketers, pursuant to the AGLC Tariff.

(15) Commitments (Continued)

On December 12, 2008, Georgia Public Service Commission (GPSC) approved an order which changed the methodology to determine the amount of natural gas each marketer is required to deliver, established an escrow fund to receive imbalance amounts from short marketers, required letters-of-credit to secure payment obligations, and shortened the time period associated with the settlement process. GPSC conducts an audit to determine Walton Energy, Inc.'s letter-of-credit requirement. As a result of the audit, Walton Energy, Inc.'s letter-of-credit requirement totaled $67,093 and was obtained from NCSC for the year ended June 30, 2023. The letter-of-credit requirement is determined on a quarterly basis and has been guaranteed by Walton EMC.

Walton Energy, Inc. is also required by AGLC's Tariff to provide liquidity support to secure payment of their obligations to AGLC. The liquidity support required is adjusted semiannually based upon a calculation defined in the AGLC Tariff. The liquidity support requirement can be satisfied by cash deposits, a letter-of-credit, or a combination of each. Walton Energy, Inc. has elected to secure a letter-of-credit in the amount of $7,296,100 from NCSC to meet requirements for the year ended June 30, 2023. The letter-of-credit has been guaranteed by Walton EMC.

(16) Concentrations of Credit Risk

The Corporation maintains interest-bearing cash balances in multiple financial institutions; those cash balances throughout the year periodically exceed the federally insured deposit limits. The Corporation believes that its cash is not exposed to any significant risk and the Corporation has not experienced any loss in accounts which exceed federally insured limits. At June 30, 2023, bank balances exceeded federally insured deposit limits by $6,297,020.

As of June 30, 2023, NRUCFC select notes in the amount of $30,326,316 were included as a component of cash and cash equivalents. The amount is not secured or otherwise subject to federally insured deposit liability coverage.

The Corporation serves customers in the state of Georgia. The geographic concentrations of the Corporation's customers result 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. If a customer does not pay its bill based on the terms of its service agreement, the Corporation may require a consumer deposit as a condition for continued service.

(17) Litigation

The Corporation is 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.

McNAIR McLEMORE MIDDLEBROOKS & CO
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November 9, 2023

**INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY INFORMATION**

The Board of Directors
The Walton Electric Membership Corporation

We have audited the consolidated financial statements of **The Walton Electric Membership Corporation and Subsidiaries** as of and for the years ended June 30, 2023 and 2022 and have issued our report thereon dated November 9, 2023, which contained an unmodified opinion on the consolidated financial statements. Those audits were performed for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The accompanying information on pages 34 through 37 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic consolidated financial statements as a whole.

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

THE WALTON ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET
JUNE 30, 2023

	The Walton Electric Membership Corporation	Walton Energy, Inc. and Subsidiary	Walton Bainbridge, LLC	Walton Discover, LLC	Total	Eliminating Entries Debit	Eliminating Entries Credit	The Walton EMC and Subsidiaries
ASSETS								
Utility Plant								
Electric Plant in Service - At Cost	$ 543,162,408	$ 12,418,698	$ 3,145,535	$ 4,063,641	$ 562,790,282	$ -	$ -	**$ 562,790,282**
Construction Work in Progress	5,577,195	-	-	-	5,577,195	-	-	**5,577,195**
	548,739,603	12,418,698	3,145,535	4,063,641	568,367,477	-	-	**568,367,477**
Accumulated Provision for Depreciation	(218,285,320)	(2,527,781)	(1,379,564)	(1,336,125)	(223,528,790)	-	-	**(223,528,790)**
	330,454,283	9,890,917	1,765,971	2,727,516	344,838,687	-	-	**344,838,687**
Other Property and Investments								
Investments in Associated Organizations	139,437,715	-	-	-	139,437,715	-	-	**139,437,715**
Investment in Subsidiary	35,174,766	-	-	-	35,174,766	-	35,174,766	**-**
Other Investments	3,519,076	-	-	-	3,519,076	-	-	**3,519,076**
	178,131,557	-	-	-	178,131,557	-	35,174,766	**142,956,791**
Current Assets								
Cash and Cash Equivalents	36,102,255	1,262,041	992,899	1,099,739	39,456,934	-	-	**39,456,934**
Interest Receivable	34,878	103,685	-	-	138,563	-	-	**138,563**
Accounts Receivable (Net)	46,586,574	6,622,005	114,786	139,786	53,463,151	-	994,650	**52,468,501**
Materials and Supplies	6,123,981	-	104,159	202,807	6,430,947	-	-	**6,430,947**
Prepayments	572,477	13,000,000	256,426	313,021	14,141,924	-	-	**14,141,924**
	89,420,165	20,987,731	1,468,270	1,755,353	113,631,519	-	994,650	**112,636,869**
Other Assets	85,819	17,355,027	-	-	17,440,846	-	-	**17,440,846**
Total Assets	$ 598,091,824	$ 48,233,675	$ 3,234,241	$ 4,482,869	$ 654,042,609	$ -	$ 36,169,416	**$ 617,873,193**
MEMBERS' EQUITIES AND LIABILITIES								
Members' Equities								
Membership Fees	$ 952,270	$ -	$ -	$ -	$ 952,270	$ -	$ -	**$ 952,270**
Patronage Capital	224,055,411	-	-	-	224,055,411	-	-	**224,055,411**
Retained Earnings	-	7,557,657	-	-	7,557,657	7,557,657	-	**-**
Common Stock	-	10,000	-	-	10,000	10,000	-	**-**
Members' Equity	-	-	3,185,435	4,431,674	7,617,109	7,617,109	-	**-**
Paid-In Capital	-	19,990,000	-	-	19,990,000	19,990,000	-	**-**
Donated Capital	4,980,627	-	-	-	4,980,627	-	-	**4,980,627**
Other Equities	43,377,654	-	-	-	43,377,654	-	-	**43,377,654**
Accumulated Other Comprehensive Loss	(11,549,372)	-	-	-	(11,549,372)	-	-	**(11,549,372)**
	261,816,590	27,557,657	3,185,435	4,431,674	296,991,356	35,174,766	-	**261,816,590**
Long-Term Debt	170,632,132	-	-	-	170,632,132	-	-	**170,632,132**
Accumulated Provision for Postretirement Benefits								
Pension Plan	4,499,207	-	-	-	4,499,207	-	-	**4,499,207**
Healthcare Benefits	47,447,749	-	-	-	47,447,749	-	-	**47,447,749**
	51,946,956	-	-	-	51,946,956	-	-	**51,946,956**
Other Long-Term Liabilities	991,789	-	-	-	991,789	-	-	**991,789**
Current Liabilities								
Current Maturities of Mortgage Notes	7,635,842	-	-	-	7,635,842	-	-	**7,635,842**
Line-of-Credit	-	5,000,000	-	-	5,000,000	-	-	**5,000,000**
Accounts Payable	26,111,233	14,461,600	32,006	37,445	40,642,284	994,650	-	**39,647,634**
Consumer Deposits	10,081,450	848,569	-	-	10,930,019	-	-	**10,930,019**
Current Portion of Healthcare Benefits	2,062,000	-	-	-	2,062,000	-	-	**2,062,000**
Accrued and Withheld Taxes	3,901,702	332,996	16,800	13,750	4,265,248	-	-	**4,265,248**
Accrued Interest	1,213,324	-	-	-	1,213,324	-	-	**1,213,324**
Other	4,648,827	-	-	-	4,648,827	-	-	**4,648,827**
	55,654,378	20,643,165	48,806	51,195	76,397,544	994,650	-	**75,402,894**
Deferred Credits	57,049,979	32,853	-	-	57,082,832	-	-	**57,082,832**
Total Members' Equities and Liabilities	$ 598,091,824	$ 48,233,675	$ 3,234,241	$ 4,482,869	$ 654,042,609	$ 36,169,416	$ -	**$ 617,873,193**

THE WALTON ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE YEAR ENDED JUNE 30, 2023

	The Walton Electric Membership Corporation	Walton Energy, Inc. and Subsidiary	Walton Bainbridge, LLC	Walton Discover, LLC	Total	Eliminating Entries Debit	Eliminating Entries Credit	The Walton EMC and Subsidiaries
Operating Revenues	$ 398,012,004	$ 95,060,475	$ 1,320,000	$ 1,620,000	$ 496,012,479	$ -	$ -	**$ 496,012,479**
Cost of Revenues	296,251,600	87,366,277	-	-	383,617,877	-	-	**383,617,877**
Gross Margins	101,760,404	7,694,198	1,320,000	1,620,000	112,394,602	-	-	**112,394,602**
Operating Expenses								
Operations	10,509,427	-	215,580	161,615	10,886,622	-	-	**10,886,622**
Maintenance	14,395,331	-	228,743	417,872	15,041,946	-	-	**15,041,946**
Consumer Accounts	4,199,947	-	-	-	4,199,947	-	-	**4,199,947**
Consumer Service and Information	1,537,222	2,902,632	-	-	4,439,854	-	-	**4,439,854**
Sales	27,600	2,652,164	-	-	2,679,764	-	-	**2,679,764**
Administrative and General	18,705,558	2,028,162	506,388	574,439	21,814,547	-	-	**21,814,547**
Depreciation and Amortization	16,911,980	396,661	188,029	182,930	17,679,600	-	-	**17,679,600**
Other	167,491	-	29,582	24,029	221,102	-	-	**221,102**
	66,454,556	7,979,619	1,168,322	1,360,885	76,963,382	-	-	**76,963,382**
Operating Margins (Loss) Before Interest Expense	35,305,848	(285,421)	151,678	259,115	35,431,220	-	-	**35,431,220**
Interest Expense	6,725,539	327,453	-	-	7,052,992	-	-	**7,052,992**
Operating Margins (Loss) After Interest Expense	28,580,309	(612,874)	151,678	259,115	28,378,228	-	-	**28,378,228**
Nonoperating Margins	(3,646,553)	1,128,008	279	185	(2,518,081)	876,391	-	**(3,394,472)**
Generation and Transmission Cooperative Capital Credits	6,786,663	-	-	-	6,786,663	-	-	**6,786,663**
Other Capital Credits and Patronage Capital Allocations	994,740	-	-	-	994,740	-	-	**994,740**
Income Tax Expense	-	50,000	-	-	50,000	-	-	**50,000**
Net Margins	$ 32,715,159	$ 465,134	$ 151,957	$ 259,300	$ 33,591,550	$ 876,391	$ -	**$ 32,715,159**

THE WALTON ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET
JUNE 30, 2022

	The Walton Electric Membership Corporation	Walton Energy, Inc. and Subsidiary	Walton Bainbridge, LLC	Walton Discover, LLC	Total	Eliminating Entries Debit	Eliminating Entries Credit	The Walton EMC and Subsidiaries
ASSETS								
Utility Plant								
Electric Plant in Service - At Cost	$ 515,253,200	$ 12,412,690	$ 3,145,535	$ 4,063,641	$ 534,875,066	$ -	$ -	$ 534,875,066
Construction Work in Progress	4,049,183	-	-	-	4,049,183	-	-	4,049,183
	519,302,383	12,412,690	3,145,535	4,063,641	538,924,249	-	-	538,924,249
Accumulated Provision for Depreciation	(206,428,062)	(2,132,180)	(1,191,534)	(1,153,197)	(210,904,973)	-	-	(210,904,973)
	312,874,321	10,280,510	1,954,001	2,910,444	328,019,276	-	-	328,019,276
Other Property and Investments								
Investments in Associated Organizations	132,289,598	-	-	-	132,289,598	-	-	132,289,598
Investment in Subsidiary	34,298,375	-	-	-	34,298,375	-	34,298,375	-
Other Investments	3,597,362	-	-	-	3,597,362	-	-	3,597,362
	170,185,335	-	-	-	170,185,335	-	34,298,375	135,886,960
Current Assets								
Cash and Cash Equivalents	7,438,320	1,425,877	660,363	675,577	10,200,137	-	-	10,200,137
Interest Receivable	35,716	4,301	-	-	40,017	-	-	40,017
Accounts Receivable (Net)	47,672,599	7,621,726	114,692	139,692	55,548,709	-	1,084,002	54,464,707
Materials and Supplies	5,971,905	-	104,159	199,484	6,275,548	-	-	6,275,548
Prepayments	106,310	13,034,238	245,679	299,886	13,686,113	-	-	13,686,113
	61,224,850	22,086,142	1,124,893	1,314,639	85,750,524	-	1,084,002	84,666,522
Other Assets	152,968	16,400,651	-	-	16,553,619	-	-	16,553,619
Total Assets	$ 544,437,474	$ 48,767,303	$ 3,078,894	$ 4,225,083	$ 600,508,754	$ -	$ 35,382,377	$ 565,126,377
MEMBERS' EQUITIES AND LIABILITIES								
Members' Equities								
Membership Fees	$ 959,145	$ -	$ -	$ -	$ 959,145	$ -	$ -	$ 959,145
Patronage Capital	200,900,931	-	-	-	200,900,931	-	-	200,900,931
Retained Earnings	-	7,092,523	-	-	7,092,523	7,092,523	-	-
Common Stock	-	10,000	-	-	10,000	10,000	-	-
Members' Equity	-	-	3,033,478	4,172,374	7,205,852	7,205,852	-	-
Paid-In Capital	-	19,990,000	-	-	19,990,000	19,990,000	-	-
Donated Capital	4,546,886	-	-	-	4,546,886	-	-	4,546,886
Other Equities	42,912,520	-	-	-	42,912,520	-	-	42,912,520
Accumulated Other Comprehensive Loss	(22,923,724)	-	-	-	(22,923,724)	-	-	(22,923,724)
	226,395,758	27,092,523	3,033,478	4,172,374	260,694,133	34,298,375	-	226,395,758
Long-Term Debt	128,892,090	-	-	-	128,892,090	-	-	128,892,090
Accumulated Provision for Postretirement Benefits								
Pension Plan	12,426,784	-	-	-	12,426,784	-	-	12,426,784
Healthcare Benefits	48,379,379	-	-	-	48,379,379	-	-	48,379,379
	60,806,163	-	-	-	60,806,163	-	-	60,806,163
Other Long-Term Liabilities	1,625,750	-	-	-	1,625,750	-	-	1,625,750
Current Liabilities								
Current Maturities of Mortgage Notes	6,688,792	-	-	-	6,688,792	-	-	6,688,792
Line-of-Credit	19,000,000	5,700,000	-	-	24,700,000	-	-	24,700,000
Accounts Payable	33,763,701	14,845,114	28,616	39,009	48,676,440	1,084,002	-	47,592,438
Consumer Deposits	9,670,686	804,093	-	-	10,474,779	-	-	10,474,779
Current Portion of Healthcare Benefits	1,569,000	-	-	-	1,569,000	-	-	1,569,000
Accrued and Withheld Taxes	3,821,268	302,992	16,800	13,700	4,154,760	-	-	4,154,760
Accrued Interest	830,264	-	-	-	830,264	-	-	830,264
Other	4,254,244	-	-	-	4,254,244	-	-	4,254,244
	79,597,955	21,652,199	45,416	52,709	101,348,279	1,084,002	-	100,264,277
Deferred Credits	47,119,758	22,581	-	-	47,142,339	-	-	47,142,339
Total Members' Equities and Liabilities	$ 544,437,474	$ 48,767,303	$ 3,078,894	$ 4,225,083	$ 600,508,754	$ 35,382,377	$ -	$ 565,126,377

THE WALTON ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE YEAR ENDED JUNE 30, 2022

	The Walton Electric Membership Corporation	Walton Energy, Inc. and Subsidiary	Walton Bainbridge, LLC	Walton Discover, LLC	Total	Eliminating Entries Debit	Eliminating Entries Credit	The Walton EMC and Subsidiaries
Operating Revenues	$ 344,002,369	$ 81,197,849	$ 1,320,000	$ 1,620,000	$ 428,140,218	$ -	$ -	$ 428,140,218
Cost of Revenues	279,547,985	73,656,187	-	-	353,204,172	-	-	353,204,172
Gross Margins	64,454,384	7,541,662	1,320,000	1,620,000	74,936,046	-	-	74,936,046
Operating Expenses								
Operations	14,504,905	-	202,034	217,507	14,924,446	-	-	14,924,446
Maintenance	16,201,824	-	581,810	942,093	17,725,727	-	-	17,725,727
Consumer Accounts	8,118,240	-	-	-	8,118,240	-	-	8,118,240
Consumer Service and Information	2,275,629	4,095,680	-	-	6,371,309	-	-	6,371,309
Sales	49,600	3,255,458	-	-	3,305,058	-	-	3,305,058
Administrative and General	4,577,968	1,762,369	462,553	581,177	7,384,067	-	-	7,384,067
Depreciation and Amortization	16,321,757	395,601	191,796	185,559	17,094,713	-	-	17,094,713
Other	130,538	-	27,638	23,290	181,466	-	-	181,466
	62,180,461	9,509,108	1,465,831	1,949,626	75,105,026	-	-	75,105,026
Operating Margins (Loss) Before Interest Expense	2,273,923	(1,967,446)	(145,831)	(329,626)	(168,980)	-	-	(168,980)
Interest Expense	5,012,123	53,590	-	-	5,065,713	-	-	5,065,713
Operating Margins (Loss) After Interest Expense	(2,738,200)	(2,021,036)	(145,831)	(329,626)	(5,234,693)	-	-	(5,234,693)
Nonoperating Margins	3,275,722	450,230	335	132	3,726,419	-	1,647,796	5,374,215
Generation and Transmission Cooperative Capital Credits	5,948,321	-	-	-	5,948,321	-	-	5,948,321
Other Capital Credits and Patronage Capital Allocations	880,970	-	-	-	880,970	-	-	880,970
Income Tax Benefit	-	(398,000)	-	-	(398,000)	-	-	(398,000)
Net Margins	$ 7,366,813	$ (1,172,806)	$ (145,496)	$ (329,494)	$ 5,719,017	$ -	$ 1,647,796	$ 7,366,813

MCNAIR MCLEMORE
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November 9, 2023

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

The Board of Directors
The Walton Electric Membership Corporation and Subsidiaries

We have audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheets of **The Walton Electric Membership Corporation and Subsidiaries** as of June 30, 2023 and 2022 and the related consolidated statements of operations, comprehensive income, changes in members' equity, and cash flows for the years then ended, and have issued our report thereon dated November 9, 2023.

In connection with our audits, nothing came to our attention that caused us to believe that The Walton Electric Membership Corporation (Walton EMC) failed to comply with the terms of Article V of the National Rural Utilities Cooperative Finance Corporation Loan Agreement insofar as they relate to accounting matters. However, our audits were not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Walton EMC's noncompliance with the above-referenced terms insofar as they relate to accounting matters.

This report is intended solely for the information and use of the boards of directors and management of The Walton Electric Membership Corporation 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

McNair McLemore Middlebrooks & Co
Certified Public Accountants

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November 9, 2023

MATTERS TO BE COMMUNICATED WITH THOSE CHARGED WITH GOVERNANCE

The Board of Directors
The Walton Electric Membership Corporation and Subsidiaries

We have audited the consolidated financial statements of **The Walton Electric Membership Corporation and Subsidiaries** (the Corporation) for the year ended June 30, 2023 and have issued our report thereon dated November 9, 2023. 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 consolidated financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the consolidated financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the 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 consolidated financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the year ended June 30, 2023.

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

Significant Accounting Estimates

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

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.

- *Actuarial Assumptions of Postretirement Benefits*

  Management's estimates of actuarial assumptions for postretirement benefit plan obligations are based on historic trends and participant demographics. 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.

- *Fair Value Measurements*

  Management's estimates of retiree plan assets are stated at fair market value. Fair market value is measured using quoted market prices in active markets for identical assets and are considered level 1 instruments valued using the market approach.

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 consolidated financial statements relate to:

- Note 6 - Other Investments
- Note 9 - Debt
- Note 10 - Postretirement Benefits
- Note 13 - Deferred Credits
- Note 15 - 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 consolidated financial statements as a whole. Refer to Attachment A.

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

Disagreements with Management

For purposes of this communication, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Corporation's 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 November 9, 2023.

Management's Consultation with Other Accountants

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

Other Significant Matters, Findings, or Issues

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

This report is intended solely for the information and use of the board of directors and management of The Walton Electric Membership Corporation and Subsidiaries 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

ATTACHMENT A

THE WALTON ELECTRIC MEMBERSHIP CORPORATION
AUDIT ENTRIES
FOR THE YEAR ENDED JUNE 30, 2023

	Debit	Credit
Adjustment 1		
Equity in Earnings of Subsidiaries	$ 50,000	
Investment in Subsidiary Companies		$ 50,000
To record current year adjustments for earnings in subsidiaries		
Adjustment 2		
Administrative and General	4,062,998	
Pension Plan Liability	11,859,368	
Pension Plan Assets		6,956,440
Pension Plan Equity Adjustment		8,965,926
To record current year adjustments for actuarially determined pension liability		
Adjustment 3		
Postretirement Medical Benefit Liability	2,960,305	
Administrative and General		551,879
Medical Plan Equity Adjustment		2,408,426
To record current year adjustments for actuarially determined postretirement medical benefit liability		
Adjustment 4		
Other Investments	93,871	
Other Long-Term Liabilities		93,871
To record current year adjustments for deferred compensation funds		