

Preliminary Financial Review - LREC and RiverNet Connect

Date: July 11, 2025

Summary of Concerns

Based on financial documents from May 2025, there is evidence suggesting that Lynches River Electric Cooperative (LREC), a nonprofit utility, may be improperly subsidizing or transferring resources to RiverNet Connect, a for-profit broadband subsidiary.

1. Significant Transfer of Funds from LREC to RiverNet

RiverNet's income statement shows it paid only \$1.51 million YTD to LREC for lease and interest expenses, despite owing LREC over \$4.66 million. RiverNet operates on \$3.1 million in revenue, suggesting minimal repayment and a potential misuse of nonprofit funds.

2. Negative Owner's Equity

RiverNet's balance sheet shows negative owner's equity of -\$1.35 million and no undistributed retained earnings. This indicates that the entity is financially insolvent and still being supported by LREC's resources with no return to the cooperative's membership.

3. Intercompany Payables and Receivables Lack Transparency

RiverNet's liabilities include vague line items like 'Due to/from Associated Company' (\$41,139.75), 'Accounts Payable' (\$586,354.09), and 'Advanced Billing' (\$381,449.31), with no clear detail or reconciliation. These could represent intercompany transfers or shared costs that are not properly disclosed.

4. Use of Federal Grants Without Profitability

Despite receiving over \$1.85 million in federal grant revenue, RiverNet still reported only \$158,259.90 in net income year-to-date and continues to post negative equity. This suggests reliance on public funds without delivering sustainable results.

5. No Return to LREC Members

There is no indication that LREC's investments in RiverNet have returned value to its members. Instead, cooperative funds appear to be propping up a struggling subsidiary that continues to operate at a loss.

Conclusion

The available financials raise serious questions about the transparency, governance, and fiduciary responsibility associated with the relationship between LREC and RiverNet Connect. There is a strong basis to believe that nonprofit resources are being transferred to support a separate for-profit venture without member oversight or return on investment.

Recommended Actions

- Request a full intercompany ledger and transaction detail between LREC and RiverNet.
- Review loan terms, repayment schedules, and whether interest and principal are being paid.
- Confirm whether board approval was obtained for all transfers and intercompany support.
- Initiate or request an external audit focused on cooperative-to-subsidary fund movement.
- Determine compliance with IRS nonprofit standards and USDA RUS loan restrictions.