Blue Ridge EMC and Subsidiaries
Consolidated Financial Statements
December 31, 2021 and 2020

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Financial Statements

Supplemental Matters Required by the Rural Utilities Service

Independent Auditor's Report

The Board of Directors
Blue Ridge EMC and Subsidiaries
Lenoir, North Carolina

Opinion

We have audited the accompanying financial statements of Blue Ridge EMC and Subsidiaries (the "Corporation") which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of operations and comprehensive income, equities, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Blue Ridge EMC and Subsidiaries as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to consolidated financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Blue Ridge EMC 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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 consolidated 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 Blue Ridge EMC and Subsidiaries' ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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Auditor's Responsibilities for the Audit of the Consolidated 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 GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, 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 and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement 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 Blue Ridge EMC 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 judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Blue Ridge EMC 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 11, 2021, on our consideration of Blue Ridge EMC and Subsidiaries' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cooperative's internal control over financial reporting and compliance.

Adams, Jenkins & Cheatham

Richmond, Virginia
April 11, 2022

Consolidated Balance Sheets

Blue Ridge EMC and Subsidiaries

	December 31, 2021	December 31, 2020
Assets		
Electric plant		
Electric plant	$ 591,931,144	$ 571,833,962
Less accumulated provision for depreciation	212,180,965	194,543,111
	379,750,179	377,290,851
Other property and investments		
Nonutility property, net	23,471,519	24,215,316
Investments in associated organizations	14,800,936	14,158,228
Deferred income taxes, net		318,000
Restricted cash and investments	4,616,571	2,531,527
Other	1,899,323	1,467,800
Assets held for sale	543,946	543,946
Intangible assets, net	129,202	129,202
	45,461,497	43,364,019
Notes receivable	4,243,465	4,622,411
Current assets		
Cash and cash equivalents	23,790,575	16,967,379
Accounts receivable, net	21,273,782	21,155,787
Deferred charges and regulatory assets - current	70,292	65,461
Inventory	7,182,388	5,905,144
Other current assets	3,085,322	2,303,792
Current portion of notes receivable	823,823	788,603
	56,226,182	47,186,166
Deferred charges and regulatory assets	1,663,807	1,740,560
	$ 487,345,130	$ 474,204,007

See Notes to Consolidated Financial Statements

	December 31,	
	2021	2020
Equities and Liabilities		
Equities		
Patronage capital	$ 182,643,659	$ 179,108,309
Other equities	9,361,413	8,461,343
Accumulated other comprehensive loss	(4,069,524)	(4,363,227)
Memberships	88,499	93,769
	188,024,047	183,300,194
Noncurrent liabilities		
Long-term debt	221,139,520	220,328,783
Deferred income taxes	854,704	703,802
Other	13,909,627	13,620,558
	235,903,851	234,653,143
Current liabilities		
Accounts payable	10,689,195	11,876,917
Current portion of long-term debt	14,470,925	14,230,134
Other current and accrued liabilities	10,473,156	9,041,908
Unearned revenue	2,600,467	2,118,861
Consumer deposits	1,655,946	1,496,890
Deferred credits and regulatory liabilities - current	808,258	748,167
Franchise taxes payable	15,000	4,224
	40,712,947	39,517,101
Deferred credits and regulatory liabilities	22,704,285	16,733,569
	$ 487,345,130	$ 474,204,007

Consolidated Statements of Operations

Blue Ridge EMC and Subsidiaries

	Year Ended December 31, 2021	Year Ended December 31, 2020
Operating revenues	$ 163,517,680	$ 163,815,635
Operating expenses		
Cost of power/sales	80,611,880	82,226,258
Transmission	747,688	721,947
Distribution - operation	2,889,422	2,911,331
Distribution - maintenance	11,600,327	11,756,915
Consumer accounts	3,038,657	3,131,094
Customer service and informational	2,156,578	2,044,735
Sales expense	2,277,798	2,208,171
Administrative and general	20,790,522	23,191,515
Depreciation and amortization	23,209,485	18,240,587
Taxes	2,070,787	2,066,332
Interest	8,276,931	8,849,345
Interest charged to construction	(530,402)	(1,055,637)
	157,139,673	156,292,593
Operating Margins Before Patronage Allocations	6,378,007	7,523,042
Patronage allocations	1,602,241	1,514,102
Net Operating Margins	7,980,248	9,037,144
Nonoperating income		
Interest income	570,991	1,270,616
Other	1,947,899	1,127,579
Gain on sale of assets	68,327	96,157
	2,587,217	2,494,352
Net Margins Before Income Taxes	10,567,465	11,531,496
Income tax expense		
Deferred	468,903	646,306
Net Margins	$ 10,098,562	$ 10,885,190

See Notes to Consolidated Financial Statements

Consolidated Statements of Comprehensive Income

Blue Ridge EMC and Subsidiaries

	Year Ended December 31, 2021	Year Ended December 31, 2020
Net margins	$ 10,098,562	$ 10,885,190
Other comprehensive income (loss):		
Actuarial gain (loss)	426,767	(697,287)
Amortization of actuarial loss	239,956	220,045
Amortization of prior service credit	(373,020)	(259,246)
	293,703	(736,488)
Comprehensive Income	$ 10,392,265	$ 10,148,702

See Notes to Consolidated Financial Statements

Consolidated Statements of Equities

Blue Ridge EMC and Subsidiaries

Years Ended December 31, 2021 and 2020

	Patronage Capital	Other Equities	Accumulated Other Comprehensive Loss	Memberships	Total
Balance, December 31, 2019	$ 174,273,295	$ 7,728,041	$ (3,626,739)	$ 98,610	$ 178,473,207
Net margins	10,885,190				10,885,190
Retirement of capital credits	(6,050,176)	733,302			(5,316,874)
Other comprehensive loss			(736,488)		(736,488)
Other changes, net				(4,841)	(4,841)
Balance, December 31, 2020	179,108,309	8,461,343	(4,363,227)	93,769	183,300,194
Net margins	10,098,562				10,098,562
Retirement of capital credits	(6,563,212)	900,070			(5,663,142)
Other comprehensive income			293,703		293,703
Other changes, net				(5,270)	(5,270)
Balance, December 31, 2021	$ 182,643,659	$ 9,361,413	$ (4,069,524)	$ 88,499	$ 188,024,047

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

Blue Ridge EMC and Subsidiaries

	Year Ended December 31, 2021	2020
Cash Flows from Operating Activities		
Net margins	$ 10,098,562	$ 10,885,190
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation and amortization	23,209,485	18,240,587
Interest paid by cushion of credit	2,686,842	
Deferred income tax expense	468,903	646,306
Gain on sale of nonutility property	(68,327)	(96,157)
Interest earned on cushion of credit	(361,301)	(842,311)
Allowance for funds used during construction	(530,402)	(1,055,637)
Payroll Protection Program loan forgiveness	(722,368)	
Noncash capital credits assigned	(1,602,241)	(1,514,102)
(Increase) decrease in:		
Accounts receivable, net	(117,995)	(5,426,996)
Other current assets	(781,530)	807,665
Inventory - BRE	(712,148)	(29,202)
Other noncurrent assets	(431,523)	(381,765)
Deferred charges and regulatory assets	71,922	2,880,982
Increase (decrease) in:		
Accounts payable	(1,187,722)	(3,398,197)
Other current and accrued liabilities	1,930,803	927,601
Other noncurrent liabilities	582,772	489,310
Deferred credits and regulatory liabilities	6,030,807	(1,495,214)
Net Cash Provided by Operating Activities	38,564,539	20,638,060
Cash Flows from Investing Activities		
Investments in electric plant	(24,585,381)	(21,524,385)
Investments in nonutility property, plant and equipment	(852,782)	(2,569,865)
Proceeds from disposition of nonutility plant and equipment	99,576	126,585
Cost of removals	(1,004,285)	(1,630,380)
Contributions in aid of construction	1,085,379	772,004
Receipts from notes receivable	958,834	4,193,540
Issuance of notes receivable	(615,109)	(2,473,946)
Net Cash Used by Investing Activities	(24,913,768)	(23,106,447)

See Notes to Consolidated Financial Statements

	Year Ended December 31, 2021	Year Ended December 31, 2020
Cash Flows from Financing Activities		
Proceeds from long-term debt	11,765,000	35,244,368
Principal payments of long-term debt	(12,316,645)	(12,604,177)
Consumer deposits	159,056	28,004
Memberships issued, net of terminations and other	(5,270)	(4,841)
Capital credits received from suppliers	959,533	1,114,769
Patronage capital retirements	(5,663,142)	(5,316,874)
Capitalized lease obligation	(7,173)	(21,520)
Line of credit repayments		(6,000,000)
Net Cash Provided (Used) by Financing Activities	(5,108,641)	12,439,729
Net Increase in Cash, Cash Equivalents and Restricted Cash	8,542,130	9,971,342
Cash, cash equivalents and restricted cash - beginning of year	19,498,906	9,527,564
Cash, Cash Equivalents and Restricted Cash - End of Year	$ 28,041,036	$ 19,498,906
Schedule of Noncash Financing Activity		
Cushion of credit applied to principal payments	$ 2,363,204	$ 32,806,061

Supplemental Disclosures

The Corporation paid approximately $8,263,000 and $8,790,000 interest expense for the years ended December 31, 2021 and 2020, respectively.

Notes to Consolidated Financial Statements

Blue Ridge EMC and Subsidiaries

December 31, 2021 and 2020

Note A - Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Blue Ridge Electric Membership Corporation (the "Corporation") is a member-owned, nonprofit cooperative organized to provide electric service to its members. The Corporation's main office is located in Lenoir, North Carolina, and the service area extends through portions of the counties of Alexander, Alleghany, Ashe, Avery, Caldwell, Watauga and Wilkes, North Carolina.

Blue Ridge Energies, LLC (BRE), a wholly owned subsidiary of the Corporation, provides gasoline, propane and other petroleum products and appliances throughout the Western North Carolina and Southwestern Virginia areas. BRE's principal business offices are located in Lenoir, Boone, Sparta, West Jefferson and Morganton, North Carolina.

RidgeLink, LLC (RidgeLink), a wholly owned subsidiary of the Corporation, leases excess fiber optic capacity from the Corporation and subleases such capacity to data and voice network providers throughout northwest North Carolina and Tennessee. All administrative and operational support is provided by the Corporation as RidgeLink has no employees.

Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries, BRE and RidgeLink. Significant intercompany transactions have been eliminated in consolidation.

Basis of Presentation

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), including GAAP for regulated operations.

The system of accounts of the Corporation are maintained in accordance with the Uniform System of Accounts as prescribed by the Federal Energy Regulatory Commission (FERC) for Class A and B electric utilities modified for electric borrowers of the Rural Utilities Service (RUS).

Accounting Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note A - Nature of Operations and Summary of Significant Accounting Policies - Continued

Electric Plant

Electric plant is stated at the original cost of construction, which includes the cost of contracted services, direct labor, materials and overhead items. Contributions from others toward the construction of electric plant are credited to the applicable plant accounts.

When property which represents a retirement unit is replaced or removed, the average cost of such property as determined from the continuing property records is credited to electric plant and such cost, together with the cost of removal less salvage, is charged to the accumulated provision for depreciation.

Maintenance and repairs, including the renewal of minor items of plant not comprising a retirement unit, are charged to the appropriate maintenance accounts, except that repairs of transportation and service equipment are charged to clearing accounts and redistributed to operating expense and other accounts.

Depreciation

Provision for depreciation has been made by application of the straight-line composite method to the original cost, by groups of depreciable properties in service. Current depreciation rates, which are estimated to amortize the cost of plant over the service lives, were as follows:

Transmission plant	2.76%
Fiber optic	2.76%
Distribution plant	3.10-20.00%
Buildings and improvements	3.00%
Equipment	7.00-20.00%
Furniture and fixtures	7.00-10.00%
Vehicles	12.00%

Nonutility Property

Nonutility property, plant and equipment acquired through acquisitions are stated at the fair market value at the time of the acquisitions. Property acquired outside of the aforementioned acquisitions is stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from five to forty years. Accelerated methods, as provided by federal income tax laws, are used for income tax purposes.

The cost of maintenance and repairs is charged to operations when incurred and renewals and betterments are capitalized. When properties are retired or otherwise disposed of, the related costs and allowance for depreciation are removed from the respective accounts and any gain or loss on disposition is reflected in income.

Note A - Nature of Operations and Summary of Significant Accounting Policies - Continued

Investments in Associated Organizations

Investments in associated organizations are primarily composed of patronage capital assigned from associated organizations. These investments are recorded at costs plus allocated equities.

Income Taxes

The Corporation has been granted exemption from income tax under Internal Revenue Service (IRS) Code Section 501(c)12 of the Internal Revenue Code. The Corporation evaluates the components of the annual test for compliance to maintain its filing status as a tax exempt entity. In accordance with Accounting Standards Codification (ASC) Topic 740 for "uncertain tax positions", the Corporation, BRE, and RidgeLink had determined that it is more likely than not that their tax positions will be sustained upon examination by the IRS.

BRE and RidgeLink have elected to be taxed as corporations for Federal and State income taxes. BRE and RidgeLink accounts for income taxes in accordance with U.S. GAAP. Under the liability method specified by U.S. GAAP, deferred tax assets and liabilities are based on the difference between the financial statement and tax basis of assets and liabilities as measured by tax rates that are anticipated to be in effect when these differences reverse. The deferred tax provision represents the net change in the assets and liabilities for deferred tax. A valuation is established when it is necessary to reduce deferred tax assets to amounts for which realization is reasonably assumed. Currently, BRE and RidgeLink had no significant uncertain tax positions or tax liability for benefits in trust or penalties accrued at December 31, 2021 and 2020.

Inventory

The inventory of the Corporation consisted of materials and supplies generally used for construction, operation, and maintenance work and are not for resale. They are valued at the lower of market value or moving average unit cost.

The inventory of BRE consisted primarily of gasoline, fuel oils, propane, merchandise and maintenance parts and supplies used for services. Inventory is valued at the lower of average cost or market.

Advertising Costs

The Corporation, BRE and RidgeLink expense advertising costs as incurred.

Reclassifications

Certain reclassifications were made to the 2020 consolidated financial statements to conform with the presentation in the 2021 consolidated financial statements.

Note A - Nature of Operations and Summary of Significant Accounting Policies - Continued

Accounts Receivable

Accounts receivable from customers are recorded at the billed amount and do not bear interest. The Corporation maintains an allowance based on the expected collectability of accounts receivable. The allowance is determined based on historical experience and other circumstances which may affect the ability of customers to meet their obligations. The Corporation reviews its allowance for doubtful accounts on a monthly basis. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

Accounts receivable for BRE and RidgeLink are stated at the amount management expects to collect from outstanding balances. Management provides for uncollectable amounts through a charge to expense and a credit to the valuation allowance based on its assessment of the current status of individual accounts. When accounts are deemed to be uncollectible, they are charged against the provision for uncollectible accounts.

Revenue Recognition

The Corporation's primary source of revenue and accounts receivable is derived from implied contractual agreements with its customers for the provision of electric service. Electric revenue and the related cost of power are recognized when electricity is consumed, which complies with the requirements of Financial Accounting Standards Board (FASB) ASC Topic 606, *Revenue from Contracts with Customers* (ASC 606). The Corporation recognizes revenue from consumed electricity in the appropriate reporting period through its estimation of unbilled revenue, on a monthly basis. See Note H for unbilled revenue recorded as of December 31, 2021 and 2020.

RidgeLink recognizes revenue from its contracts with customers in accordance with Accounting Standards Codification (ASC) Topic 606, Revenue from Contracts with Customers. Revenue relating to other fiber optic leases is recognized on a straight-line basis over the terms of the respective lease. Maintenance income is recognized and generally collected on a monthly basis under agreements which run concurrent with the IRU's. Construction income is recognized using the completed-contract method which is not significantly different than the use of percentage-of-completion method given the typically short duration of the construction contracts.

BRE's primary source of revenue and accounts receivable is derived from sales of propane, fuel oils and other fuels. Sales of propane, fuel oil and other fuels are recognized at the time product is delivered to the customer, which complies with the requirements of ASC 606. In some instances, BRE receives advance payments from certain customers who seek to lock in the price of propane. Such advance payments are recognized as unearned revenue until product is delivered to the respective customers. Revenue from the sale of appliances and equipment is recognized at the time of the sale or when installation is complete, as applicable. Revenue from repairs, maintenance and other service activities is recognized upon completion of the service. Sales are recorded net of sales and sales-related taxes collected from customers.

Note A - Nature of Operations and Summary of Significant Accounting Policies - Continued

Subsequent Events

Subsequent events have been evaluated through April 11, 2022, which is the date the consolidated financial statements were available to be issued.

Cash and Cash Equivalents and Restricted Cash

For purposes of the balance sheets and the statements of cash flows, cash and cash equivalents consist of cash and other highly liquid resources with an original maturity of three months or less when purchased. Restricted cash represents cash received from members to be donated to charitable organizations (Blue Ridge Energy Members Foundation) or scholarship funds, and the proceeds of economic development loans not yet reinvested. The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the balance sheet that sum to the total of the same such amounts shown in the statement of cash flows.

	December 31, 2021	December 31, 2020
Cash and cash equivalents	$ 23,790,575	$ 16,967,379
Restricted cash	4,616,571	2,531,527
Total cash, cash equivalents and restricted cash presented in the statements of cash flows	$ 28,407,146	$ 19,498,906

Regulatory Assets and Liabilities

The Corporation currently complies with accounting guidance set forth by the ASC Topic 980 regarding the effect of certain types of regulation. This guidance allows a regulated corporation to record certain costs or credits that have been or are expected to be allowed in the rate-making process in a period different from the period in which the costs would be charged to expense or income by a non-regulated enterprise. Accordingly, the Corporation records certain assets and liabilities that result from the regulated rate-making process that would not be recorded under GAAP for non-regulated entities.

Notes to Consolidated Financial Statements

Blue Ridge EMC and Subsidiaries

December 31, 2021 and 2020

Note B - Electric Plant

Listed below were the major classes of electric plant:

	December 31, 2021	December 31, 2020
Distribution plant	$ 367,422,897	$ 352,820,431
Transmission plant	120,452,737	107,792,790
General plant	96,823,666	95,929,679
Electric plant in service	584,699,300	556,542,900
Construction work in progress	7,231,844	15,291,062
	$ 591,931,144	$ 571,833,962

The Corporation followed the guidance as set forth in the ASC Topic 410, Asset Retirement and Environmental Obligations in determining that it had no legal asset retirement obligations for the years ended December 31, 2021 and 2020. Regarding the non-legal retirement costs, the Corporation follows the regulatory principle of inter-generational cost allocation by including net salvage (gross salvage less cost of removal) as a component of depreciation rates.

Note C - Nonutility Property

Nonutility property consisted of the following:

	December 31, 2021	December 31, 2020
Machinery and equipment	$ 16,306,766	$ 15,661,321
Fiber lines	11,763,826	11,795,732
Trucks and autos	5,016,070	4,896,828
Bulk plant equipment	2,162,606	2,162,606
Capitalized software	662,474	666,542
Buildings	459,687	458,140
Furniture and fixtures	145,572	145,572
Leasehold improvements	109,289	92,689
Land improvements	35,495	35,495
Easements	9,404	9,404
	36,671,189	35,924,329
Less accumulated depreciation	13,513,262	12,042,768
	23,157,927	23,881,561
Land	313,592	313,592
Construction work in progress		20,163
	$ 23,471,519	$ 24,215,316

Notes to Consolidated Financial Statements

Blue Ridge EMC and Subsidiaries

December 31, 2021 and 2020

Note D - Assets Held for Sale

Assets held for sale consists of the following:

	December 31,	
	2021	2020
Buildings - Caldwell	$ 194,408	$ 194,408
Prior accumulated depreciation	(111,171)	(111,171)
	83,237	83,237
Land - Caldwell	460,709	460,709
	$ 543,946	$ 543,946

The building and land previously used by BRE for the Caldwell district office is no longer needed for operations.

Note E - Concentrations of Credit Risk

The Corporation places its cash on deposit with financial institutions located in the United States of America which are insured by the Federal Deposit Insurance Corporation (FDIC). The FDIC provides insurance coverage for up to $250,000 of cash held by the Corporation in each separate FDIC insured bank and savings institution.

From time to time, the Corporation may have amounts on deposit in excess of the insured limits. As of December 31, 2021, the Corporation had approximately $21,252,000 of deposits that exceed the $250,000 limit.

Concentrations of credit risk with respect to electric customer accounts were limited due to the large number of customers comprising the customer base. However, the Corporation serves one wholesale power electric customer that comprised approximately 7% and 9% of total electric customer revenues at December 31, 2021 and 2020, respectively.

BRE maintains cash balances at institutions that are insured by the FDIC. As of December 31, 2021, BRE had approximately $5,041,000 in deposits that exceeded the $250,000 limit.

RidgeLink maintains cash balances at institutions that are insured by the FDIC. As of December 31, 2021, RidgeLink had approximately $51,000 in deposits that exceeded the $250,000 limit.

Notes to Consolidated Financial Statements

Blue Ridge EMC and Subsidiaries

December 31, 2021 and 2020

Note F - Investments in Associated Organizations

Investments in associated organizations consisted of the following:

	December 31, 2021	December 31, 2020
Patronage capital:		
CoBank	$ 4,522,460	$ 4,274,561
North Carolina Electric Membership Corporation (NCEMC)	4,177,273	4,092,192
Tarheel Electric Membership Association (TEMA)	2,241,253	1,973,431
National Rural Utilities Cooperative Finance Corporation (CFC)	544,577	534,384
Federated Rural Electric Insurance Corporation	544,312	513,832
Other	99,912	94,684
	12,129,787	11,483,084
Capital Term Certificates (CFC):		
SCTC's	1,869,410	1,869,410
LCTC's	271,100	271,100
	2,140,510	2,140,510
Other:		
CFC member capital securities	500,000	500,000
Other	25,079	29,074
Memberships	5,560	5,560
	530,639	534,634
	$ 14,800,936	$ 14,158,228

The capital term certificates invested in CFC are unsecured and subordinated. The SCTC's and LCTC's bear interest at an annual rate of 5% and 3% respectively, and are payable semiannually. The capital term certificates are required to be maintained under the note agreement with CFC and are similar to compensating bank balances. The CFC member capital securities are unsecured and unsubordinated and bear interest at an annual rate of 5%, payable semiannually.

Note G - Intangible Asset

The goodwill acquired in the purchase of assets is being accounted for in accordance with ASC Topic 350. BRE evaluates the goodwill on an annual basis for potential impairment. After estimating the value of the goodwill at December 31, 2021 and 2020, using standard valuation techniques and comparing that value to the carrying cost, BRE did not recognize an impairment loss for the years ended December 31, 2021 and 2020.

Notes to Consolidated Financial Statements

Blue Ridge EMC and Subsidiaries

December 31, 2021 and 2020

Note H - Accounts Receivable

Accounts receivable consisted of the following:

	December 31, 2021	December 31, 2020
Consumers	$ 14,366,880	$ 13,085,312
Unbilled revenue	5,751,798	7,882,978
Other	2,762,812	1,774,833
	22,881,490	22,743,123
Less provision for uncollectible accounts	1,607,708	1,587,336
	$ 21,273,782	$ 21,155,787

Note I - Deferred Charges and Regulatory Assets

Deferred charges and regulatory assets consisted of the following:

	December 31, 2021	December 31, 2020
Preliminary survey and investigation costs	$ 677,665	$ 730,013
IRUs - RidgeLink	666,190	652,642
Deferred commissions - RidgeLink	407,490	426,894
Other	(17,246)	(3,528)
	1,734,099	1,806,021
Less current portion	(70,292)	(65,461)
	$ 1,663,807	$ 1,740,560

RidgeLink obtains and subleases most of its network capacity under IRU's which generally require up-front payments that are amortized into income and expense, on a straight-line basis, over the term of the respective agreements. RidgeLink classifies the expected revenue and expense which it expects to recognize during the next year as current assets and liabilities.

Note J - Deferred Income Taxes

Deferred income tax balances reflect the effects of temporary differences between the carrying amounts of assets and liabilities and their tax bases, as well as from net operating loss and tax credit carryforwards, and are stated at enacted tax rates expected to be in effect when taxes are paid or recovered. Deferred income tax assets represent amounts available to reduce income taxes payable on taxable income in future years. We evaluate the recoverability of these future deductions and credits by assessing the adequacy of future expected taxable income from all sources, including reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies. To the extent we consider it more likely than not that a deferred tax asset will not be recovered, a valuation allowance is established. The total net operating loss (NOL) at December 31, 2021 was approximately $13,400,000. These net operating loss carryforwards, some of which expire on various dates beginning in 2022, may be used to offset federal and state taxable income in future years.

	December 31,	
	2021	2020
Deferred tax asset (liability)		
Net operating loss carryforwards	$ 3,159,000	$ 3,784,198
Depreciation	(3,701,000)	(4,058,000)
Other	162,296	150,000
	(379,704)	(123,802)
Valuation allowance	(475,000)	(262,000)
Deferred income tax liability, net	$ (854,704)	$ (385,802)

The income tax provision could differ from the expense that would result from applying federal statutory rates to income before income taxes because the Company is subject to state income taxes, and also uses marginal federal tax rates to compute deferred taxes.

Provision for federal and state taxes in the statement of income consisted of the following components:

	December 31,	
	2021	2020
Deferred:		
Federal	$ 388,295	$ 607,528
State	80,608	38,778
	$ 468,903	$ 646,306

Notes to Consolidated Financial Statements

Blue Ridge EMC and Subsidiaries

December 31, 2021 and 2020

Note K - Patronage Capital

Patronage capital consisted of the following:

	December 31, 2021	December 31, 2020
Assigned	$ 259,783,081	$ 248,897,891
Assignable	10,098,562	10,885,190
	269,881,643	259,783,081
Retired	(87,237,984)	(80,674,772)
	$ 182,643,659	$ 179,108,309

Under provisions of the long-term debt agreement and Title 7 of the Code of Federal Regulations (Part 1717.617), the Corporation may refund capital to patrons without limitation if total equity is equal to or greater than 30% of total assets, and there are no instances of default. If equities are between 20% and 30% of total assets, general refunds are limited to 25% (adjusted for returns to estates, which are not limited) of patronage capital or margins received in the next preceding year. Total equities and margins amounted to 40% of total assets for the years ended December 31, 2021 and 2020.

Note L - Long-Term Debt

Long-term debt consisted of the following:

	December 31, 2021	December 31, 2020
CoBank - Mortgage notes, fixed	$ 117,745,956	$ 129,738,453
Federal Financing Bank (FFB) - Mortgage notes, fixed	101,198,324	92,261,528
Advanced payments unapplied	(8,414,697)	(13,103,442)
	92,783,627	79,158,086
CFC - Mortgage notes, fixed	19,420,445	20,091,902
Rural Business Cooperative Development Service (RBCDS) Economic development grant	5,660,417	5,570,476
	235,610,445	234,558,917
Less current maturities	14,470,925	14,230,134
	$ 221,139,520	$ 220,328,783

Note L - Long-Term Debt - Continued

Substantially all of the Corporation's assets have been pledged as collateral for the long-term debt to CFC, FFB and CoBank. Under the terms of the loan agreements with FFB and CFC, there are certain restrictions which include requirements to maintain a TIER (times interest earned ratio) and DSC (debt service coverage) of 1.25, respectively. In addition, the Corporation has other ratios that must be maintained in accordance with the CoBank loan covenants. There were also restrictions on the return of capital to patrons as discussed in Note K. For the years ending December 31, 2021 and 2020, the Corporation was in compliance with the covenants and restrictions.

During 2021 and 2020, the Corporation elected to participate in the RUS cushion of credit program, whereby a portion of principle and interest payments are prepaid to RUS and FFB. Effective October 2021, interest on cushion of credit funds is earned at the floating treasury rate. Prepayments are reflected above as a reduction of long-term debt as advance payments unapplied.

Long-term debt payable to CoBank is represented by mortgage notes with fixed rates ranging from 3.02% to 6.03% at December 31, 2021. The notes mature at various dates through January 20, 2040. Principal and interest installments are payable monthly in the amount of approximately $1,324,000. There were no unadvanced loan funds available to the Corporation on loan commitments from CoBank at December 31, 2021 and 2020.

The security and repayment terms for the CFC notes, with the exception of the interest rates which range from 4.65% to 6.35% at December 31, 2021, were the same as the RUS notes. The notes mature at various dates through August 2048. Principal and interest installments are payable quarterly in the amount of approximately $407,000. Unadvanced loan funds of $25,000,000 were available to the Corporation on loan commitments from CFC at December 31, 2021 and 2020.

Long-term debt payable to the FFB is represented by mortgage notes with interest rates ranging from 1.81% to 3.06% at December 31, 2021. The notes mature at various dates through January 2052. Principal and interest installments are payable quarterly in the amount of approximately $1,345,000. There were no unadvanced loan funds available at December 31, 2021. Unadvanced loan funds of $11,300,000 were available to the Corporation on loan commitments from FFB at December 31, 2020.

The debt to the RBCDS (an agency of the U.S. Department of Agriculture) resulted from a grant made to the Corporation under the Rural Economic Development Grant and Loan Program to fund local economic development projects. The grant must be repaid to the federal government (without interest) upon termination of the program by the Corporation.

During 2020, the Federal Government enacted legislation allowing companies to borrow money through the Small Business Administration (SBA) to extend employment for those that might be adversely affected by COVID-19. The program is known as the Payroll Protection Program (PPP). Under this program BRE applied for and received $722,368 through CoBank to use for payroll and other qualified expenses. The program allows for forgiveness of the loan amount and any accrued interest if BRE can demonstrate that they incurred qualifying expenses in a prescribed time frame. BRE received approval of forgiveness in March 2021.

Note L - Long-Term Debt - Continued

Approximate future maturities of long-term debt were as follows:

Year Ending December 31,	
2022	$ 14,470,925
2023	14,053,994
2024	14,020,105
2025	14,445,407
2026	14,565,834
Thereafter	164,054,180
	$ 235,610,445

Note M - Lines of Credit

The Corporation had a line of credit with CoBank in the amount of $10,000,000 for the years ended December 31, 2021 and 2020. There was no outstanding balance on the CoBank line of credit at December 31, 2021 and 2020. The Corporation had a line of credit with CFC in the amount of $31,500,000. There was no outstanding balance on this line of credit for the year ended December 31, 2021 or 2020. The Corporation had a line of credit with First Citizens Bank in the amount of $2,000,000 for the years ended December 31, 2021 and 2020. There was no outstanding balance with First Citizens Bank December 31, 2021 and 2020.

BRE has a line of credit with First Citizens Bank in the amount of $1,000,000, accruing interest at variable rates LIBOR (as published by the Wall Street Journal) plus 2.0% (3.25% at December 31, 2021), which expires July 2022. BRE also has a line of credit with CoBank in the amount of $1,000,000, accruing interest at weekly quoted variable rates (2.41% at December 31, 2021), which expires in July 2022. There was no outstanding balance on either line of credit at December 31, 2021 and 2020. Both lines of credit are guaranteed by BREMC.

RidgeLink had a line of credit with National Cooperative Services Corporation in the amount of $1,000,000. There were no advances outstanding at December 31, 2021 or 2020.

Note N - Other Noncurrent Liabilities

Other noncurrent liabilities consisted of the following:

	December 31, 2021	December 31, 2020
Other postretirement benefits	$ 9,746,896	$ 10,308,375
Deferred compensation	3,833,570	2,982,746
Other	329,161	329,437
	$ 13,909,627	$ 13,620,558

The Corporation sponsors an unfunded defined benefit postretirement medical and dental insurance plan that covers substantially all of its employees and their dependents. The premium for future retirees is subsidized by the employer. Employees of subsidiaries are not eligible for medical insurance upon retirement.

According to the provisions of the plan the pre-65 retirees and spouses/dependent(s) will receive $10,500/$5,250 per year, respectively. Post-65 retirees and spouses/dependents will receive up to $3,079/$1,540 per year, respectively. The dependent defined contribution is capped at $5,250 regardless of number of dependents. These credits will not vary by service and will not be indexed. Employees must have 20 years of service and be at least 59.5 years old to be eligible to retire with these postretirement benefits.

The Corporation recognizes the funded status of its other postretirement medical, dental and vision benefit programs as a liability in its balance sheet and recognizes changes in the funded status as a component of other comprehensive income in the year in which the changes occur in accordance with Financial Accounting Standards Board ASC Topic 715. The funded status is measured as the difference between the fair value of the plan's assets and the benefit obligation.

The following sets forth the accumulated postretirement plan's benefit obligation (APBO) with the funded status of the plan in accordance with ASC Topic 715.

	December 31, 2021	December 31, 2020
APBO	$ 9,746,896	$ 10,308,375
Fair value of plan assets at end of year	-	-
Funded status	$ (9,746,896)	$ (10,308,375)

Note N - Other Noncurrent Liabilities - Continued

The components of the net periodic postretirement benefit cost included:

	Year Ended December 31, 2021	Year Ended December 31, 2020
Interest cost on benefit obligations	$ 254,536	$ 305,175
Service cost, benefits earned during the period	188,190	161,992
Amortization of net loss	239,956	220,045
Amortization of prior service credit	(373,020)	(259,246)
	$ 309,662	$ 427,966

Amounts in Accumulated Other Comprehensive Income (AOCI) not recognized in net periodic benefit cost consisted of the following:

	Year Ended December 31, 2021	Year Ended December 31, 2020
Net actuarial loss	$ 4,377,992	$ 5,044,715
Prior service credit	(308,468)	(681,488)
Unrecognized actuarial loss	$ 4,069,524	$ 4,363,227

Assumptions and effects:

	Year Ended December 31, 2021	Year Ended December 31, 2020
Actuarial assumptions:		
Discount rate	2.95%	2.55%
Measurement date	12/31/2021	12/31/2020
Expected subsequent accretion (amortization) from AOCI, net	$ 18,000	$ 50,019
Expected subsequent year benefit payments	$ 651,000	$ 640,000
Expected subsequent year contributions	$ 651,000	$ 640,000

Note N - Other Noncurrent Liabilities - Continued

Estimated future benefit payments reflecting expected future service:

Year Ending December 31,		
2022	$	651,000
2023	$	583,000
2024	$	573,000
2025	$	580,000
2026	$	585,000
2027 - 2031	$	2,840,000

Note O - Retirement Plans

Pension Plan

The retirement Security Plan (RS Plan), sponsored by the National Rural Electric Cooperative Association (NRECA) is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is considered a multiemployer plan under the accounting standards.

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 contributions to the RS Plan in 2021 and in 2020 represented less than 5 percent of the total contributions made to the RS Plan by all participating employers. The Corporation made contributions to the RS Plan of approximately $3,834,000 and $3,957,000 in 2021 and 2020, respectively. There have been no significant changes that affect the comparability of 2021 and 2020 contributions.

For 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, 2021 and over 80 percent funded on January 1, 2020 based on the PPA funding target and PPA actuarial value of assets on those dates.

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

Note O - Retirement Plans - Continued

Deferred Compensation Programs

In addition to the NRECA RS Plan, substantially all employees of the Corporation are eligible to participate in the NRECA SelectRE Plan (the "Plan"), a defined contribution multi-employer deferred income plan qualified under Section 401(k) and tax exempt under Section 501(a) of the Internal Revenue Code. The Corporation's required contributions to the Plan and its net pension cost was approximately $313,262 and $1,546,000 for the years ended December 31, 2021 and 2020, respectively.

BRE contributed approximately $231,000 and $210,000 for the years ended December 31, 2021 and 2020, respectively.

BRE provides a Top Hat Plan under Section 409(a) of the Internal Revenue Code (the 409(a) Plan) to permit a select group of management or highly compensated employees to defer a portion of their current compensation in accordance with the provisions of the 409(a) Plan. Participants direct the investment of these contributions to various options offered through the 409(a) Plan.

Note P - Deferred Credits and Regulatory Liabilities

Deferred credits and regulatory liabilities consisted of the following:

	December 31,	
	2021	2020
Deferred revenue - RidgeLink	$ 12,117,948	$ 11,667,742
Regulatory liability - WPCA	9,111,990	3,934,423
Unclaimed capital credits	493,709	609,883
Customer deposits on construction	1,752,412	1,233,724
Other	36,484	35,964
	23,512,543	17,481,736
Less current portion	(808,258)	(748,167)
	$ 22,704,285	$ 16,733,569

Ridgelink subleases fiber optic cables as further described in Note Q. Ridgelink anticipates recognizing approximately $725,000 of revenue annually through 2042 in connection with amounts received from IRU's. Approximately $808,000 and $748,000 have been included as a current liability on the balance sheet as of December 31, 2021 and 2020, respectively.

Notes to Consolidated Financial Statements

Blue Ridge EMC and Subsidiaries

December 31, 2021 and 2020

Note Q - Leases and IRU's, Lessee Considerations

RidgeLink has entered into a Fiber, Pole and Ground Lease Agreement (Master Fiber Agreement) with the Corporation under which it agreed to lease certain strands of fiber optic cable. The Master Fiber Agreement is adjusted annually, for the number of strands then provided under lease and the monthly fee to be charged per fiber optic mile. Lease payments under the Master Fiber Agreement totaled approximately $267,000 and $224,000 for the years ended December 31, 2021 and 2020, respectively.

RidgeLink will recognize approximately $300,000 of expense annually through 2042 in connection with the amounts paid to the Corporation for the IRU's and related legal and other executory costs capitalized in connection with the IRU's.

During the years ended December 31, 2021 and 2020, RidgeLink recognized approximately $268,000 and $264,000, respectively, of deferred cost associated with the periods in which such fibers were lit.

RidgeLink subleases fiber optic cables it obtains under the Master Fiber Agreement to third parties. The terms of the subleases provide for fixed monthly payments through 2042. Lease payments under these agreements totaled approximately $1,097,000 and $978,000 for the years ended December 31, 2021 and 2020, respectively.

Future minimum lease payments under these non-cancellable subleases are as follows:

Year Ending December 31,		
2022	$	1,093,680
2023		1,108,252
2024		1,108,252
2025		1,108,252
2026		1,108,252
Thereafter		2,216,504
	$	7,743,192

Note R - Financial Instruments Carried at Cost

The Corporation has recorded all financial instruments based on the carrying amount (book value) in the financial statements in accordance with ASC Topic 825. According to guidance, the Corporation is required to disclose the fair value of those financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using discounted cash flow analysis. This technique involves subjective judgment and is significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. As a result, the derived fair value estimates cannot be substantiated by comparison to independent markets, and in many cases, could not be realized in immediate settlement of the instrument. Accordingly, the following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it was practicable to estimate that value.

Cash and Cash Equivalents

The carrying amount of cash and cash equivalents approximates fair value due to the short maturity of these instruments.

Accounts Receivable

The carrying amount of accounts receivable approximates fair value due to the short period of time amounts are outstanding.

Investments in Associated Organizations

Fair value of capital term certificates was determined by computing the present value of estimated future cash flows, discounted at the long-term treasury rate of 1.90% and 1.65% for the years ending December 31, 2021 and 2020, respectively. The fair value of patronage capital is not determinable since no legal obligation exists to retire capital credits. The carrying value of memberships approximates fair value.

Notes Receivable

Fair value of notes receivable was computed at present value of future cash flows, discounted at market rates for the same or similar issues of notes for the years ending December 31, 2021 and 2020.

Accounts Payable

The carrying amount of accounts payable approximates fair value due to the short period of time amounts are outstanding.

Long-Term Debt

The carrying amount of the Corporation's fixed long-term debt includes certain interest rates that are below quoted market prices for the same or similar issues. Therefore, the fair value of fixed long-term debt is estimated based on current market prices for the same or similar issues offered for debt of the same and remaining maturities which was 4.06% and 3.57% for the years ending December 31, 2021 and 2020, respectively.

Note R - Financial Instruments Carried at Cost - Continued

Lines of Credit

The carrying amount of lines of credit approximates fair value due to the short period of time amounts are outstanding.

Consumer Deposits

The carrying amount approximates fair value due to the relatively short maturity of the deposits.

The estimated fair values of the Corporation's financial instruments were as follows:

	December 31,			
	2021		2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Capital term certificates	$ 2,140,510	$ 4,981,000	$ 2,140,510	$ 4,476,000
CFC member capital securities	$ 500,000	$ 789,000	$ 500,000	$ 831,000
Notes receivable	$ 5,067,288	$ 4,406,000	$ 5,411,014	$ 5,300,000
Liabilities:				
Long-term debt, fixed notes	$ 235,610,445	$ 214,364,000	$ 234,558,917	$ 223,335,000

Note S - Commitments

Purchased Power

The Corporation has a contract to purchase power from NCEMC, a generation and transmission cooperative, through December 31, 2046. In addition, the Corporation had a full requirements service agreement with Duke Energy Carolinas, LLC (Duke) through December 31, 2021. The First Amended and Restated Electric Full Requirements Power Purchase and REPS Compliance Service Agreement with Duke dated October 1, 2010, extended the power purchase agreement to December 31, 2031.

Operating Leases

BRE leases certain trucks under non-cancellable operating leases. The leases provide for monthly rental payments and expired at various dates through 2021. Total lease payments amounted to approximately $29 and $39,000 for the years ended December 31, 2021 and 2020, respectively.

There were no future minimum lease payments for the noncancelable operating leases (excluding those with BREMC) for the year ending December 31, 2022, as the last BRE lease expired in early 2021.

Notes to Consolidated Financial Statements

Blue Ridge EMC and Subsidiaries

December 31, 2021 and 2020

Note S – Commitments - Continued

<u>Purchase Commitments</u>

During 2021 and 2020, BRE entered into propane purchase contracts with key suppliers. The contracts vary in length and require certain advance payments at the time of the negotiation, with the remaining due at the time of delivery. The advances are included in other current assets on the accompanying balance sheets. BRE had commitments to purchase approximately $1,200,000 and $459,000 of propane from key suppliers, as of December 31, 2021 and 2020, respectively.

Note T - Contingencies

The Corporation, BRE and RidgeLink, are involved in certain litigation in the ordinary course of business. In management's opinion, the ultimate resolution of these matters will not have a material adverse effect on the financial position, results of operations or cash flows.

Note U - Related Party Transactions

The Corporation was a member of the following organizations and conducted business transactions during the current and prior years as set forth below:

<u>CFC</u>

The Corporation is a member of CFC, a national financing organization, and, as explained in Notes E, L and M, had investment assets, mortgage notes payable, and a line of credit at various interest rates and maturities.

<u>NCEMC</u>

The Corporation, as an independent member of NCEMC, an organization composed of electric cooperatives, has entered into a contract for the acquisition of wholesale power. The cost of wholesale power to members is determined by the Board of Directors of NCEMC. Additionally, as explained in Note F, the Corporation had an investment in NCEMC.

<u>TEMA</u>

As a member of TEMA, a statewide organization composed of electric cooperatives and others, the Corporation purchases a substantial amount of materials and supplies for construction and maintenance of the utility plant. Additionally, as explained in Note F, the Corporation has an investment in TEMA.

<u>Federated Rural Electric Insurance Corporation (Federated</u>)

The Corporation is a shareholder of Federated, as explained in Note F, and purchases its general property and liability coverage from this corporation.

Note U - Related Party Transactions - Continued

BRE

The Corporation allocates certain costs to BRE on a monthly basis, including labor expense, lease expense, medical insurance premiums, and operating expenses for shared services, which amounted to approximately $1,411,000 and $1,450,000 for the years ending December 31, 2021 and 2020, respectively. Sales to the Corporation were approximately $70,800 and $45,500 for the years ended December 31, 2021 and 2020, respectively.

BRE leases real property from the Corporation at terms which can be modified by mutual agreement of both parties. Total rent amounted to approximately $201,000 and $198,000 for the years ended December 31, 2021 and 2020, respectively.

RidgeLink

The Corporation provides administrative and operational support for RidgeLink's operations. Substantially all expenses of RidgeLink during the year ended December 31, 2021 were directly incurred by the Corporation in support of Company operations and charged to RidgeLink under the terms of the Service Agreement. During the years ended December 31, 2021 and 2020, RidgeLink paid the Corporation approximately $935,000 and $818,000 for administrative services. RidgeLink had accounts payable of approximately $386,000 and $340,000 due to the Corporation at December 31, 2021 and 2020, respectively.

RidgeLink has also entered into certain leases and IRUs with the Corporation as more fully described in Note Q.

During 2020, BRE issued a $400,000 note receivable to RidgeLink with interest payable on the unpaid principal balance at a variable interest rate (3.2% at December 31, 2021). RidgeLink made interest only payments to BRE during 2021. RidgeLink has not paid any outstanding principle as of December 31, 2021. The effects of this transaction have been eliminated as a part of the consolidation.

Note V - COVID-19

In December 2019, a novel strain of coronavirus (COVID-19) surfaced in Wuhan, China and has spread around the world, with resulting business and social disruption. COVID-19 was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The COVID-19 pandemic is having widespread, rapidly evolving, and unpredictable impacts on global society, economies, financial markets, and business practices. The Corporation to date has not seen significant disruption or significant operational restrictions, but the substantial uncertainty and the nature and degree of the pandemic and resulting effects over time could result in disruption or restriction on the Corporation's ability to operate normally. The Corporation's members are also affected by the outbreak, which could delay the payment of bills. Corporation plant construction projects may be delayed or cancelled and certain management accounting estimates and assumptions could be affected by the future uncertainty. The Corporation may also experience difficulties with suppliers or with vendors in their supply chain, which could have negative effects on operations. Overall, the future impact of the pandemic with respect to the Corporation's territory is difficult to predict and could adversely impact its overall operations in the future.

Supplemental Matters Required by the

Rural Utilities Service

ADAMS, JENKINS AND CHEATHAM
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS CONSULTANTS

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
Blue Ridge EMC and Subsidiaries
Lenoir, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Blue Ridge EMC and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of operations, equities and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 11, 2022.

Internal Control Over Financial Reporting

In planning and performing our audits of the consolidated financial statements, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audits we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Blue Ridge EMC's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Blue Ridge EMC's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Blue Ridge EMC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Adams, Jenkins & Cheatham

Richmond, Virginia
April 11, 2022

ADAMS, JENKINS AND CHEATHAM
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS CONSULTANTS

Independent Auditor's Report on Compliance With Aspects of Contractual Agreements and Regulatory Requirements for Electric Borrowers

The Board of Directors
Blue Ridge EMC
Lenoir, North Carolina

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Blue Ridge EMC and Subsidiaries (the "Corporation"), which comprise the consolidated balance sheet as of December 31, 2021, and the related consolidated statements of operations, equities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 11, 2022. In accordance with *Government Auditing Standards*, we have also issued a report dated April 11, 2022 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above have been furnished to management.

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

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

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- Maintain adequate control over materials and supplies;
- Prepare accurate and timely Financial and Operating Reports;
- Obtain written RUS approval to enter into any contract for the management, operations, or maintenance of the borrower's system if the contract covers all or substantially all of the electric system;
- Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;
- Record depreciation in accordance with RUS requirements (See RUS Bulletin 183-1, Depreciation Rates and Procedures);
- Comply with the requirements for the detailed schedule of deferred debits and deferred credits; and
- Comply with the requirements for the detailed schedule of investments.

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

Adams, Jenkins & Cheatham

Richmond, Virginia
April 11, 2022