

Blue Ridge EMC and Subsidiaries
Consolidated Financial Statements
December 31, 2023 and 2022

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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 which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of operations, 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, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) 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 consolidated financial statements are available to be issued.

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 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 1, 2024, 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 Blue Ridge EMC and Subsidiaries internal control over financial reporting and compliance.

Richmond, Virginia
April 1, 2024



Consolidated Balance Sheets

Blue Ridge EMC and Subsidiaries

	December 31,	
	2023	2022
Assets		
Electric plant		
Electric plant	\$ 621,549,716	\$ 600,747,741
Less accumulated provision for depreciation	222,563,599	207,837,358
	<u>398,986,117</u>	<u>392,910,383</u>
Other property and investments		
Nonutility property, net	24,380,885	23,786,562
Investments in associated organizations	16,044,318	15,259,861
Restricted cash and investments	3,155,634	3,859,351
Other	2,095,168	1,737,452
Intangible assets	129,202	129,202
Assets held for sale		543,946
	<u>45,805,207</u>	<u>45,316,374</u>
Notes receivable	5,713,257	6,231,455
Current assets		
Cash and cash equivalents	19,872,974	16,385,910
Accounts receivable, net	24,820,598	31,330,365
Inventory	9,670,221	8,744,875
Other current assets	2,884,840	3,523,939
Current portion of notes receivable	1,135,110	1,196,420
Short term investments		21,000,000
Deferred charges and regulatory assets - current		70,793
	<u>58,383,743</u>	<u>82,252,302</u>
Deferred charges and regulatory assets	<u>4,346,132</u>	<u>1,629,509</u>
	<u>\$ 513,234,456</u>	<u>\$ 528,340,023</u>

See Notes to Consolidated Financial Statements

	December 31,	
	<u>2023</u>	<u>2022</u>
Equities and Liabilities		
Equities		
Patronage capital	\$ 192,686,763	\$ 188,785,353
Other equities	11,404,215	10,352,153
Accumulated other comprehensive loss	(3,456,766)	(2,747,448)
Memberships	79,804	83,629
	<u>200,714,016</u>	<u>196,473,687</u>
Noncurrent liabilities		
Long-term debt	235,677,570	245,595,735
Deferred income taxes, net	3,263,683	2,499,399
Other	13,094,722	12,060,650
	<u>252,035,975</u>	<u>260,155,784</u>
Current liabilities		
Current portion of long-term debt	13,799,422	13,376,778
Accounts payable	13,262,293	16,162,904
Other current and accrued liabilities	13,316,202	12,155,406
Unearned revenue	3,262,057	2,828,828
Consumer deposits	1,871,138	1,867,465
Deferred credits and regulatory liabilities - current	820,481	4,422,455
Franchise tax payable	15,000	15,000
	<u>46,346,593</u>	<u>50,828,836</u>
Deferred credits and regulatory liabilities	<u>14,137,872</u>	<u>20,881,716</u>
	<u>\$ 513,234,456</u>	<u>\$ 528,340,023</u>

Consolidated Statements of Operations

Blue Ridge EMC and Subsidiaries

	Year Ended December 31,	
	2023	2022
Operating revenues	\$ 176,621,001	\$ 172,573,472
Operating expenses		
Cost of power/sales	89,811,434	86,817,244
Transmission	1,069,106	740,345
Distribution - operation	3,376,587	3,082,179
Distribution - maintenance	14,861,221	11,780,460
Consumer accounts	3,685,104	3,318,500
Customer service and informational	2,201,542	2,183,963
Sales expense	2,598,599	2,419,739
Administrative and general	23,369,496	22,319,387
Depreciation and amortization	20,032,047	19,428,417
Taxes	2,142,868	2,189,016
Interest	8,489,163	8,307,457
Interest charged to construction	(504,064)	(349,622)
	<u>171,133,103</u>	<u>162,237,085</u>
Operating Margins Before Patronage Allocations	5,487,898	10,336,387
Patronage allocations	<u>1,619,427</u>	<u>1,435,617</u>
Net Operating Margins	7,107,325	11,772,004
Nonoperating income		
Interest income	1,317,554	379,074
Other	5,577,459	2,642,300
Loss on disposal of assets	<u>(2,337,578)</u>	<u>(303,207)</u>
	<u>4,557,435</u>	<u>2,718,167</u>
Net Margins Before Income Taxes	11,664,760	14,490,171
Income tax expense		
Deferred	<u>764,284</u>	<u>1,644,695</u>
Net Margins	<u>\$ 10,900,476</u>	<u>\$ 12,845,476</u>

See Notes to Consolidated Financial Statements

Consolidated Statements of Comprehensive Income

Blue Ridge EMC and Subsidiaries

	Year Ended December 31,	
	2023	2022
Net margins	\$ 10,900,476	\$ 12,845,476
Other comprehensive income (loss):		
Actuarial gain (loss)	(134,233)	1,641,069
Amortization of actuarial loss	92,560	218,562
Amortization of prior service credit	<u>(667,645)</u>	<u>(537,555)</u>
	<u>(709,318)</u>	<u>1,322,076</u>
Comprehensive Income	<u>\$ 10,191,158</u>	<u>\$ 14,167,552</u>

See Notes to Consolidated Financial Statements

Consolidated Statements of Equities

Blue Ridge EMC and Subsidiaries

Years Ended December 31, 2023 and 2022

	Patronage Capital	Other Equities	Accumulated Other Comprehensive Loss	Memberships	Total
Balance, December 31, 2021	\$182,643,659	\$ 9,361,413	\$(4,069,524)	\$ 88,499	\$ 188,024,047
Net margins	12,845,476				12,845,476
Retirement of capital credits	(6,703,782)	990,740			(5,713,042)
Other comprehensive income			1,322,076		1,322,076
Other changes, net				(4,870)	(4,870)
Balance, December 31, 2022	188,785,353	10,352,153	(2,747,448)	83,629	196,473,687
Net margins	10,900,476				10,900,476
Retirement of capital credits	(6,999,066)	1,052,062			(5,947,004)
Other comprehensive loss			(709,318)		(709,318)
Other changes, net				(3,825)	(3,825)
Balance, December 31, 2023	<u>\$192,686,763</u>	<u>\$ 11,404,215</u>	<u>\$(3,456,766)</u>	<u>\$ 79,804</u>	<u>\$ 200,714,016</u>

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

Blue Ridge EMC and Subsidiaries

	Year Ended December 31,	
	2023	2022
Cash Flows from Operating Activities		
Net margins	\$ 10,900,476	\$ 12,845,476
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation and amortization	20,032,047	19,428,417
Interest paid by cushion of credit	2,867,054	2,223,943
Interest received from short term investments	(583,620)	
Deferred income tax expense	764,284	1,644,695
Loss on disposal of assets	2,337,578	303,207
Interest earned on cushion of credit	(79,204)	(47,410)
Allowance for funds used during construction	(504,064)	(349,622)
Noncash capital credits assigned	(1,619,427)	(1,435,617)
(Increase) decrease in:		
Accounts receivable, net	6,509,767	(6,966,593)
Other current assets	639,099	(438,617)
Inventory	393,167	(687,140)
Other noncurrent assets	(357,716)	161,871
Deferred charges and regulatory assets	(2,645,830)	33,797
Increase (decrease) in:		
Accounts payable	(2,900,611)	5,473,709
Other current and accrued liabilities	1,594,025	1,910,611
Other noncurrent liabilities	324,754	(526,901)
Deferred credits and regulatory liabilities	(10,345,818)	(1,298,362)
Net Cash Provided by Operating Activities	27,325,961	32,275,464
Cash Flows from Investing Activities		
Investments in electric plant	(34,234,104)	(32,475,691)
Investments in nonutility property, plant and equipment	(2,472,972)	(2,005,786)
Proceeds (payments) from disposition of nonutility plant and equipment	1,181,888	(239,566)
Cost of removals	(786,871)	(1,107,860)
Contributions in aid of construction	7,001,874	2,096,307
Receipts from notes receivable	1,581,667	1,199,232
Issuance of notes receivable	(1,002,159)	(3,559,819)
Maturity of short term investments	21,000,000	
Interest received from short term investments	583,620	
Purchase of short term investments		(21,000,000)
Net Cash Used by Investing Activities	(7,147,057)	(57,093,183)

See Notes to Consolidated Financial Statements

	Year Ended December 31,	
	2023	2022
Cash Flows from Financing Activities		
Proceeds from long-term debt	141,700	34,071,330
Principal payments of long-term debt	(12,425,071)	(12,885,795)
Consumer deposits, net	3,673	211,519
Memberships issued, net of terminations and other	(3,825)	(4,870)
Capital credits received from suppliers	834,970	976,692
Patronage capital retirements	(5,947,004)	(5,713,042)
Net Cash Provided (Used) by Financing Activities	<u>(17,395,557)</u>	<u>16,655,834</u>
Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash	2,783,347	(8,161,885)
Cash, cash equivalents and restricted cash - beginning of year	<u>20,245,261</u>	<u>28,407,146</u>
Cash, Cash Equivalents and Restricted Cash - End of Year	<u>\$ 23,028,608</u>	<u>\$ 20,245,261</u>
Schedule of Noncash Financing Activity		
Cushion of credit applied to principal payments	<u>\$ 1,433,656</u>	<u>\$ 2,016,658</u>

Supplemental Disclosures

The Corporation paid approximately \$8,530,000 and \$8,350,000 in interest expense for the years ended December 31, 2023 and 2022, respectively.

Notes to Consolidated Financial Statements

Blue Ridge EMC and Subsidiaries

December 31, 2023 and 2022

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

Nature of Operations

Blue Ridge Electric Membership Corporation (the Corporation) is primarily an electric distribution cooperative engaged in the retail sale of electricity 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.

Notes to Consolidated Financial Statements

Blue Ridge EMC and Subsidiaries

December 31, 2023 and 2022

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	2.76 - 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.

Notes to Consolidated Financial Statements

Blue Ridge EMC and Subsidiaries

December 31, 2023 and 2022

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 account 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 have no significant uncertain tax positions or tax liability for benefits in trust or penalties accrued at December 31, 2023 and 2022.

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, and merchandise. Inventory is valued at the lower of average cost or market. Cost is determined by applying the weighted average cost to purchases and the first-in, first-out (FIFO) method for each type of fuel.

Advertising Costs

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

Reclassifications

Certain reclassifications were made to the 2022 consolidated financial statements to conform with the presentation in the 2023 consolidated financial statements.

Notes to Consolidated Financial Statements

Blue Ridge EMC and Subsidiaries

December 31, 2023 and 2022

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 expected credit losses 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 allowance for credit losses based on its assessment of the current status of individual accounts. When accounts are deemed to be uncollectible, they are charged against the allowance for credit losses.

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, 2023 and 2022.

RidgeLink recognizes revenue from its contracts with customers in accordance with FASB ASC 606. 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 indefeasible right of use agreements (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 FASB 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 are recognized upon completion of the service. Sales are recorded net of sales and sales-related taxes collected from customers.

Notes to Consolidated Financial Statements

Blue Ridge EMC and Subsidiaries

December 31, 2023 and 2022

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

Revenue Recognition - Continued

The following table presents the Corporation's revenues disaggregated by the timing of such revenue recognized:

	December 31,	
	2023	2022
Timing of revenue and recognition		
At a point of time	\$ 173,309,926	\$ 169,691,827
Over a period of time	3,311,075	2,881,645
	<u>\$ 176,621,001</u>	<u>\$ 172,573,472</u>

Subsequent Events

Subsequent events have been evaluated through April 1, 2024, which is the date the consolidated financial statements were available to be issued.

Recently Issued Accounting Standards

During the year ended December 31, 2023, the Corporation adopted FASB ASC Topic 326 *Financial Instruments – Credit Losses*, which became effective for fiscal years beginning after December 15, 2022. The new standard requires the Corporation to estimate expected credit losses over the life of its financial assets and certain off-balance sheet exposures as of the reporting date based on relevant information about past events, current conditions, and reasonable and supportable forecasts. The Corporation, BRE and RidgeLink record an estimate of expected credit losses as an allowance for credit losses.

Cash and Cash Equivalents and Restricted Cash

For purposes of the consolidated balance sheets and the consolidated 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 consolidated balance sheets that sum to the total of the same such amounts shown in the consolidated statements of cash flows.

	December 31,	
	2023	2022
Cash and cash equivalents	\$ 19,872,974	\$ 16,385,910
Restricted cash	3,155,634	3,859,351
Total cash, cash equivalents and restricted cash presented in the consolidated statements of cash flows	<u>\$ 23,028,608</u>	<u>\$ 20,245,261</u>

Notes to Consolidated Financial Statements

Blue Ridge EMC and Subsidiaries

December 31, 2023 and 2022

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

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.

Note B - Electric Plant

Listed below were the major classes of electric plant:

	December 31,	
	2023	2022
Distribution plant	\$ 393,448,602	\$ 380,865,942
Transmission plant	120,354,661	120,089,762
General plant	91,913,655	84,790,730
Electric plant in service	605,716,918	585,746,434
Construction work in progress	15,832,798	15,001,307
	<u>\$ 621,549,716</u>	<u>\$ 600,747,741</u>

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, 2023 and 2022. 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.

During 2023, the Corporation had to abandon a pilot program with Honeywell AMI meters due to a lack of feasibility for the Corporation's service territory. This project abandonment resulted in a loss on disposition of approximately \$2,500,000 which has been included in loss on disposal of assets in the consolidated statements of operations.

Notes to Consolidated Financial Statements

Blue Ridge EMC and Subsidiaries

December 31, 2023 and 2022

Note C - Nonutility Property

Nonutility property consisted of the following:

	December 31,	
	2023	2022
Machinery and equipment	\$ 20,521,017	\$ 19,005,707
Fiber lines	11,975,938	11,931,649
Trucks and autos	6,086,496	5,785,226
Capitalized software	746,483	720,151
Buildings	566,828	459,687
Furniture and fixtures	145,572	145,572
Leasehold improvements	109,289	109,289
Land improvements	35,495	35,495
Easements	9,404	9,404
	<u>40,196,522</u>	<u>38,202,180</u>
Less accumulated depreciation	<u>16,210,009</u>	<u>14,742,469</u>
	23,986,513	23,459,711
Land	338,592	313,592
Construction work in progress	<u>55,780</u>	<u>13,259</u>
	<u>\$ 24,380,885</u>	<u>\$ 23,786,562</u>

Note D - Assets Held for Sale

Assets held for sale consisted of the building and land previously used by BRE for the Caldwell district office that was no longer needed for operations. The building, related accumulated depreciation, and land were held for sale at a value of \$543,946. During 2022, BRE entered into a contract with LPE Investments, LLC for the sale of the Caldwell building. The sale was closed during 2023 for \$668,700.

Notes to Consolidated Financial Statements

Blue Ridge EMC and Subsidiaries

December 31, 2023 and 2022

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, 2023, the Corporation had approximately \$4,452,000 of deposits that exceed the \$250,000 limit.

As of December 31, 2023 the Corporation has approximately \$4,325,000 of deposits in CFC Daily Fund investments which are unsecured.

BRE maintains cash balances at institutions that are insured by the FDIC. As of December 31, 2023, BRE had approximately \$3,528,000 in deposits that exceeded the \$250,000 limit.

RidgeLink maintains cash balances at institutions that are insured by the FDIC. As of December 31, 2023, RidgeLink had approximately \$3,000 in deposits that exceeded the \$250,000 limit. RidgeLink also has approximately \$711,000 of deposits in CFC Daily Fund investments which are unsecured.

Note F - Investments in Associated Organizations

Investments in associated organizations consisted of the following:

	December 31,	
	2023	2022
Patronage capital:		
CoBank	\$ 4,778,724	\$ 4,736,543
North Carolina Electric Membership Corporation (NCEMC)	4,345,849	4,260,100
Tarheel Electric Membership Association (TEMA)	2,898,237	2,287,368
Federated Rural Electric Insurance Corporation	630,190	606,560
National Rural Utilities Cooperative Finance Corporation (CFC)	544,556	547,950
Other	181,459	149,243
	<u>13,379,015</u>	<u>12,587,764</u>
Capital Term Certificates (CFC):		
SCTC's	1,869,410	1,869,410
LCTC's	271,100	271,100
	<u>2,140,510</u>	<u>2,140,510</u>
Other:		
CFC member capital securities	500,000	500,000
Other Memberships	19,233	26,027
	<u>5,560</u>	<u>5,560</u>
	<u>524,793</u>	<u>531,587</u>
	<u>\$ 16,044,318</u>	<u>\$ 15,259,861</u>

Notes to Consolidated Financial Statements

Blue Ridge EMC and Subsidiaries

December 31, 2023 and 2022

Note F - Investments in Associated Organizations - Continued

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.

The Corporation had \$21,000,000 invested in CFC Select Notes and CFC Medium Term Notes as of December 31, 2022. The notes matured at various dates through November 2023. The investments were recorded as short term investments at December 31, 2022. There were no such investments as of December 31, 2023.

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, 2023 and 2022, 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, 2023 and 2022.

Note H - Accounts Receivable

Accounts receivable consisted of the following:

	December 31,	
	2023	2022
Consumers	\$ 14,588,380	\$ 15,128,028
Unbilled revenue	8,000,982	8,846,353
Other	3,750,311	8,828,603
	<u>26,339,673</u>	<u>32,802,984</u>
Less provision for credit losses	<u>1,519,075</u>	<u>1,472,619</u>
	<u>\$ 24,820,598</u>	<u>\$ 31,330,365</u>

Notes to Consolidated Financial Statements

Blue Ridge EMC and Subsidiaries

December 31, 2023 and 2022

Note I – Notes Receivable

Notes receivable consisted of the following:

	December 31,	
	2023	2022
Economic development loans	\$ 6,848,250	\$ 7,425,087
Other	117	2,788
	<u>6,848,367</u>	<u>7,427,875</u>
Less - current portion	<u>(1,135,110)</u>	<u>(1,196,420)</u>
	<u>\$ 5,713,257</u>	<u>\$ 6,231,455</u>

Economic development loans receivable consisted of loans made to local organizations within the Corporation's service territory to promote economic development. The notes are interest free and payable in equal monthly installments over 7 years.

Note J - Deferred Charges and Regulatory Assets

Deferred charges and regulatory assets consisted of the following:

	December 31,	
	2023	2022
Regulatory asset - WPCA	\$ 2,741,000	\$
Preliminary survey and investigation costs	602,622	650,990
IRUs - RidgeLink	614,424	661,226
Deferred commissions - RidgeLink	<u>388,086</u>	<u>388,086</u>
	<u>4,346,132</u>	<u>1,700,302</u>
Less current portion		<u>(70,793)</u>
	<u>\$ 4,346,132</u>	<u>\$ 1,629,509</u>

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.

Notes to Consolidated Financial Statements

Blue Ridge EMC and Subsidiaries

December 31, 2023 and 2022

Note K - Deferred Income Taxes

Deferred income tax balances reflect the effects of temporary differences between the carrying amounts of assets and liabilities and their tax basis, 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. The Corporation evaluates 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, 2023 was approximately \$5,470,000. These net operating loss carryforwards, some of which expire on various dates beginning in 2023, may be used to offset federal and state taxable income in future years.

	December 31,	
	2023	2022
Deferred tax asset (liability)		
Net operating loss carryforwards	\$ 1,275,000	\$ 2,189,000
Other	102,000	94,538
Depreciation	(3,949,000)	(3,734,000)
	<u>(2,572,000)</u>	<u>(1,450,462)</u>
Valuation allowance	(691,683)	(1,048,937)
Deferred income tax liability, net	<u>\$ (3,263,683)</u>	<u>\$ (2,499,399)</u>

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 income taxes in the consolidated statements of operations consisted of the following components:

	December 31,	
	2023	2022
Deferred:		
Federal	\$ 592,594	\$ 1,424,304
State	171,690	220,391
	<u>\$ 764,284</u>	<u>\$ 1,644,695</u>

During 2023, the Corporation reduced its valuation allowance due to the increased likelihood that the Corporation would generate sufficient taxable income to utilize expiring NOLs recorded as deferred income taxes as of December 31, 2023.

Notes to Consolidated Financial Statements

Blue Ridge EMC and Subsidiaries

December 31, 2023 and 2022

Note L - Patronage Capital

Patronage capital consisted of the following:

	December 31,	
	2023	2022
Assigned	\$ 282,727,119	\$ 269,881,643
Assignable	10,900,476	12,845,476
	293,627,595	282,727,119
Retired	(100,940,832)	(93,941,766)
	<u>\$ 192,686,763</u>	<u>\$ 188,785,353</u>

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 41% and 38% of total assets for the years ended December 31, 2023 and 2022, respectively.

Note M - Long-Term Debt

Long-term debt consisted of the following:

	December 31,	
	2023	2022
CoBank - Mortgage notes, fixed	\$ 96,567,920	\$ 106,560,995
Federal Financing Bank (FFB) - Mortgage notes, fixed	127,667,955	130,536,113
Advanced payments unapplied		(4,221,506)
	<u>127,667,955</u>	<u>126,314,607</u>
CFC - Mortgage notes, fixed	18,281,149	18,796,693
Rural Business Cooperative Development Service (RBCDS)		
Economic development grant	6,959,968	7,300,218
	<u>249,476,992</u>	<u>258,972,513</u>
Less current maturities	<u>13,799,422</u>	<u>13,376,778</u>
	<u>\$ 235,677,570</u>	<u>\$ 245,595,735</u>

Notes to Consolidated Financial Statements

Blue Ridge EMC and Subsidiaries

December 31, 2023 and 2022

Note M - 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, 2023 and 2022, the Corporation was in compliance with the covenants and restrictions.

During 2023 and 2022, 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. 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. Effective December 31, 2018, future deposits into the cushion of credit program were prohibited. The Corporation had no prepaid balance as of December 31, 2023. The Corporation had prepaid \$4,221,506 as of December 31, 2022.

Long-term debt payable to CoBank is represented by mortgage notes with fixed rates ranging from 3.05% to 6.03% at December 31, 2023. The notes mature at various dates through August 2057. Principal and interest installments are payable monthly in the amount of approximately \$1,122,000. There was \$25,000,000 of loan funds available to the Corporation on loan commitments from CoBank at December 31, 2023. There were no unadvanced loan funds available to the Corporation on loan commitments from CoBank at December 31, 2022.

The security and repayment terms for the CFC notes, with the exception of the interest rates of 4.80% at December 31, 2023, were the same as the RUS notes. The notes mature in August 2048. Principal and interest installments are payable quarterly in the amount of approximately \$352,000. Unadvanced loan funds of \$25,000,000 were available to the Corporation on loan commitments from CFC at December 31, 2023 and 2022.

Long-term debt payable to the FFB is represented by mortgage notes with interest rates ranging from 1.81% to 4.22% at December 31, 2023. The notes mature at various dates through January 2056. Principal and interest installments are payable quarterly in the amount of approximately \$1,775,000. Unadvanced loan funds of \$62,000,000 were available to the Corporation on loan commitments from FFB at December 31, 2023 and 2022.

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. Principal installments are payable monthly in the amount of approximately \$40,000. The grant must be repaid to the federal government (without interest) upon termination of the program by the Corporation.

Notes to Consolidated Financial Statements

Blue Ridge EMC and Subsidiaries

December 31, 2023 and 2022

Note M - Long-Term Debt - Continued

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

<u>Year Ending December 31,</u>	
2024	\$ 13,799,422
2025	14,296,097
2026	14,701,987
2027	14,594,873
2028	14,910,639
Thereafter	<u>177,173,974</u>
	<u>\$ 249,476,992</u>

The Corporation had a line of credit with CoBank in the amount of \$1,000,000 and \$10,000,000 for the years ended December 31, 2023 and 2022, respectively. The interest rate on the CoBank line of credit was 7.41% and 6.25% at December 31, 2023 and 2022, respectively. There was no outstanding balance on the CoBank line of credit at December 31, 2023 and 2022. The Corporation also had a line of credit with CFC in the amount of \$31,500,000. The interest rate on the CFC line of credit was 7.25% and 5.75% at December 31, 2023 and 2022, respectively. There was no outstanding balance on this line of credit for the years ended December 31, 2023 or 2022. The Corporation had a line of credit with First Citizens Bank in the amount of \$2,000,000, accruing interest at variable rates LIBOR (as published by the Wall Street Journal) plus 2.0% (7.49% at December 31, 2023) which expires July 2024. There was no outstanding balance with First Citizens Bank at December 31, 2023 and 2022.

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% (7.49% at December 31, 2023), which expires July 2024. BRE also has a line of credit with CoBank in the amount of \$1,000,000, accruing interest at weekly quoted variable rates (7.41% at December 31, 2023), which expires in July 2024. There was no outstanding balance on either line of credit at December 31, 2023 and 2022. 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, 2023 or 2022.

Notes to Consolidated Financial Statements

Blue Ridge EMC and Subsidiaries

December 31, 2023 and 2022

Note N - Other Noncurrent Liabilities

Other noncurrent liabilities consisted of the following:

	December 31,	
	2023	2022
Other postretirement benefits	\$ 8,531,831	\$ 8,247,394
Deferred compensation	4,031,094	3,438,762
Other	531,797	374,494
	<u>\$ 13,094,722</u>	<u>\$ 12,060,650</u>

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 \$11,075/\$5,538 per year, respectively. Post-65 retirees and spouses/dependents will receive up to \$3,413/\$1,706 per year, respectively. The dependent defined contribution is capped at \$5,538 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 consolidated balance sheets 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 FASB ASC Topic 715. The funded status is measured as the difference between the fair value of the plan's assets and the benefit obligation.

Notes to Consolidated Financial Statements

Blue Ridge EMC and Subsidiaries

December 31, 2023 and 2022

Note N - Other Noncurrent Liabilities - Continued

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,	
	2023	2022
APBO	\$ 8,531,831	\$ 8,247,394
Fair value of plan assets at end of year	-	-
Funded status	<u>\$ (8,531,831)</u>	<u>\$ (8,247,394)</u>

The components of the net periodic postretirement benefit cost included:

	Year Ended December 31,	
	2023	2022
Interest cost on benefit obligations	\$ 410,189	\$ 288,121
Service cost, benefits earned during the period	106,810	175,258
Amortization of net loss	92,560	218,562
Amortization of prior service credit	<u>(163,531)</u>	<u>(185,623)</u>
	<u>\$ 446,028</u>	<u>\$ 496,318</u>

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

	Year Ended December 31,	
	2023	2022
Net actuarial loss	\$ 2,560,034	\$ 2,518,361
Prior service cost	<u>896,732</u>	<u>229,087</u>
Unrecognized actuarial loss	<u>\$ 3,456,766</u>	<u>\$ 2,747,448</u>

Notes to Consolidated Financial Statements

Blue Ridge EMC and Subsidiaries

December 31, 2023 and 2022

Note N - Other Noncurrent Liabilities - Continued

Assumptions and effects:

	Year Ended December 31,	
	2023	2022
Actuarial assumptions:		
Discount rate	5.00%	5.20%
Measurement date	12/31/2023	12/31/2022
Expected subsequent accretion (amortization) from AOCI, net	\$ (28,000)	\$ (65,000)
Expected subsequent year benefit payments	\$ 678,000	\$ 654,000
Expected subsequent year contributions	\$ 678,000	\$ 654,000

Estimated future benefit payments reflecting expected future service:

<u>Year Ending December 31,</u>	
2024	\$ 678,000
2025	\$ 656,000
2026	\$ 656,000
2027	\$ 637,000
2028	\$ 633,000
2029 - 2032	\$ 3,055,000

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 2023 and 2022 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 \$4,520,000 and \$3,990,000 in 2023 and 2022, respectively. There have been no significant changes that affect the comparability of 2023 and 2022 contributions.

Notes to Consolidated Financial Statements

Blue Ridge EMC and Subsidiaries

December 31, 2023 and 2022

Note O - Retirement Plans - Continued

Pension Plan - Continued

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, 2023 and over 80 percent funded on January 1, 2022 based on the PPA funding target and PPA actuarial value of assets on those dates.

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

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 \$344,000 and \$318,000 for the years ended December 31, 2023 and 2022, respectively.

BRE contributed approximately \$272,000 and \$242,000 for the years ended December 31, 2023 and 2022, 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.

Notes to Consolidated Financial Statements

Blue Ridge EMC and Subsidiaries

December 31, 2023 and 2022

Note P - Deferred Credits and Regulatory Liabilities

Deferred credits and regulatory liabilities consisted of the following:

	December 31,	
	2023	2022
Deferred revenue - RidgeLink	\$ 10,939,695	\$ 11,314,534
Customer deposits on construction	3,563,620	2,569,511
Unclaimed capital credits	455,038	442,694
Regulatory liability - WPCA		7,326,299
Deferred revenue - ERC Credit		3,614,197
Other		36,936
	<u>14,958,353</u>	<u>25,304,171</u>
Less current portion	<u>(820,481)</u>	<u>(4,422,455)</u>
	<u>\$ 14,137,872</u>	<u>\$ 20,881,716</u>

Ridgeline subleases fiber optic cables as further described in Note P. Ridgeline anticipates recognizing approximately \$800,000 of revenue annually through 2042 in connection with amounts received from IRU's. Approximately \$820,000 has been included as a current liability on the consolidated balance sheets as of December 31, 2023 and 2022, respectively.

Under the provisions of the Coronavirus Aid, Relieve, and Economic Security Act (CARES Act) signed into law on March 27, 2020 and the subsequent extension of the CARES Act, BREMC and BRE were eligible for a refundable employee retention credits (ERC) subject to certain criteria. BREMC had previously deferred recognition of the ERC credits until such time as the funds were received. BREMC received credits of approximately \$4,104,000 during 2023, these amounts are included in other nonoperating income on the consolidated statements of operations for the year ended December 31, 2023.

As of December 31, 2022, BRE had ERC credits of approximately \$1,060,000 which were included as a component of other nonoperating income on the consolidated statements of operations. The funds were received during 2023.

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 with the Corporation was amended January 1, 2023, whereas RidgeLink pays the Corporation approximately 50% of gross revenue received under the leases related to the Corporation. Lease payments under the Master Fiber Agreement totaled approximately \$394,000 and \$268,000 for the years ended December 31, 2023 and 2022, 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.

Notes to Consolidated Financial Statements

Blue Ridge EMC and Subsidiaries

December 31, 2023 and 2022

Note Q - Leases and IRU's, Lessee Considerations - Continued

During the years ended December 31, 2023 and 2022, RidgeLink recognized approximately \$272,000 and \$287,000, 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. Lease payments under these agreements totaled approximately \$1,309,000 and \$1,158,000 for the years ended December 31, 2023 and 2022, respectively.

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

<u>Year Ending December 31,</u>	
2024	\$ 1,207,000
2025	1,207,000
2026	1,207,000
2027	1,207,000
2028	1,207,000
Thereafter	<u>18,105,000</u>
	<u>\$ 24,140,000</u>

Note R - Financial Instruments Carried at Cost

The Corporation has recorded all financial instruments based on the carrying amount (book value) in the consolidated 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.

Notes to Consolidated Financial Statements

Blue Ridge EMC and Subsidiaries

December 31, 2023 and 2022

Note R - Financial Instruments Carried at Cost – Continued

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 4.03% and 3.97% for the years ending December 31, 2023 and 2022, 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. The fair value of short term investments approximates fair value due to the short period of time amounts are outstanding.

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, 2023 and 2022 which was 3.84% and 3.99%, respectively.

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 6.47% and 6.41% for the years ending December 31, 2023 and 2022, respectively.

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.

Notes to Consolidated Financial Statements

Blue Ridge EMC and Subsidiaries

December 31, 2023 and 2022

Note R - Financial Instruments Carried at Cost - Continued

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

	December 31,			
	2023		2022	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Capital term certificates	\$ 2,140,510	\$ 2,620,000	\$ 2,140,510	\$ 2,650,000
CFC member capital securities	\$ 500,000	\$ 582,000	\$ 500,000	\$ 589,000
Notes receivable	\$ 6,848,367	\$ 6,075,000	\$ 7,427,875	\$ 7,006,000
Liabilities:				
Long-term debt, fixed notes	\$249,476,992	\$192,417,000	\$258,972,513	\$203,205,000

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.

Description of Leasing Arrangements

BRE leases propane tanks to customers under multi-year lease arrangements, for which they receive annual payments. These leases are indefinite and remain in effect until the customer terminates the lease. Propane tank leases do not transfer ownership of the leased assets and do not provide an option for the lessees to purchase the assets. Leased tanks and the related accumulated depreciation are recorded as nonutility property on the consolidated balance sheets (Note C).

Lease income is included in the consolidated statements of operations and members' equity as part of operating income. BRE received lease income of \$469,330 and \$413,328 for the years ended December 31, 2023 and 2022, respectively. Cash receipts from operating leases are classified within cash flows from operating activities.

Notes to Consolidated Financial Statements

Blue Ridge EMC and Subsidiaries

December 31, 2023 and 2022

Note S - Commitments - Continued

Description of Leasing Arrangements - Continued

The following is an analysis of the maturity of the operating lease payments for the next 5 years:

<u>Year Ending December 31,</u>	
2024	\$ 510,000
2025	500,000
2026	510,000
2027	520,000
2028	<u>530,000</u>
	<u>\$ 2,570,000</u>

The following is an analysis of the carrying amounts of the underlying assets related to BRE operating leases:

	<u>December 31,</u>	
	<u>2023</u>	<u>2022</u>
Propane tanks	\$ 15,296,749	\$ 12,462,384
Less accumulated depreciation	<u>(7,198,935)</u>	<u>(5,685,496)</u>
	<u>\$ 8,097,814</u>	<u>\$ 6,776,888</u>

Purchase Commitments

During 2023 and 2022, 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 consolidated balance sheets. BRE had commitments to purchase approximately \$894,000 and \$1,366,000 of propane from key suppliers, as of December 31, 2023 and 2022, 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.

Notes to Consolidated Financial Statements

Blue Ridge EMC and Subsidiaries

December 31, 2023 and 2022

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:

CFC

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

NCEMC

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.

TEMA

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.

Federated Rural Electric Insurance Corporation (Federated)

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

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 \$1,588,000 and \$1,557,000 for the years ending December 31, 2023 and 2022, respectively. Sales to the Corporation were approximately \$168,000 and \$107,800 for the years ended December 31, 2023 and 2022, respectively. During 2023 and 2022, BRE allocated expenses of approximately \$204,000 and \$211,000, respectively, to BREMC.

BRE leases real property from BREMC at terms which can be modified by mutual agreement of both parties. This is a 12 month lease that is not affected by ASU 2016-02. Rent expense, which is included as a component of allocated expenses referred to above, was approximately \$208,000 and \$201,000 for the years ended December 31, 2023 and 2022, respectively.

During the year ended December 31, 2023, BRE paid a \$2,000,000 distribution to BREMC. The effects of this transaction were eliminated as a part of the consolidation.

Notes to Consolidated Financial Statements

Blue Ridge EMC and Subsidiaries

December 31, 2023 and 2022

Note U - Related Party Transactions - Continued

RidgeLink

BREMC provides administrative and operational support for RidgeLink's operations. Substantially all expenses of RidgeLink during the year ended December 31, 2023 were directly incurred by the Corporation in support of RidgeLink operations and charged to RidgeLink under the terms of the Master Fiber Agreement. During the years ended December 31, 2023 and 2022, RidgeLink paid the Corporation approximately \$850,000 and \$935,000 for administrative services. RidgeLink had accounts payable of approximately \$127,000 and \$386,000 due to the Corporation at December 31, 2023 and 2022, respectively.

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

During 2020, BRE issued a \$400,000 note receivable to RidgeLink with interest payable on the unpaid principal balance at a variable interest rate. At December 31, 2021, the effects of this transaction were eliminated as a part of the consolidation. During 2022, RidgeLink paid the balance in full to BRE.

**Supplemental Matters Required by the
Rural Utilities Service**



**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, 2023 and 2022, and the related consolidated statements of operations, comprehensive income, 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 1, 2024.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purposes 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.

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 consolidated 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.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation'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.



Richmond, Virginia
April 1, 2024



**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, 2023, and the related consolidated statements of operations, comprehensive income, 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 1, 2024. In accordance with *Government Auditing Standards*, we have also issued a report dated April 1, 2024, 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;
- 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 consolidated 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.

Allamo, Jenkins & Cheatham

Richmond, Virginia
April 1, 2024