

**Blue Ridge EMC and Subsidiaries**  
**Consolidated Financial Statements**  
**December 31, 2020 and 2019**

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## **Independent Auditor's Report**

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

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Blue Ridge EMC and Subsidiaries (the "Corporation") which comprise the consolidated balance sheets as of December 31, 2020 and 2019 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.

### **Management's Responsibility for the Consolidated Financial Statements**

The Corporation's management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

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, 2020 and 2019, 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.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 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, 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 Corporation's internal control over financial reporting and compliance.



Richmond, Virginia  
March 31, 2021

## Consolidated Balance Sheets

### Blue Ridge EMC and Subsidiaries

	December 31,	
	2020	2019
<b>Assets</b>		
Electric plant		
Electric plant	\$ 571,833,962	\$ 553,514,389
Less accumulated provision for depreciation	194,543,111	183,420,158
	<u>377,290,851</u>	<u>370,094,231</u>
Other property and investments		
Nonutility property, net	24,215,316	23,216,104
Investments in associated organizations	14,158,228	13,758,895
Deferred income taxes, net	318,000	918,000
Restricted cash and investments	2,531,527	2,117,906
Other	1,467,800	1,086,035
Assets held for sale	543,946	474,888
Intangible assets, net	129,202	129,202
	<u>43,364,019</u>	<u>41,701,030</u>
Notes receivable	4,622,411	6,231,038
Current assets		
Cash and cash equivalents	16,967,379	7,409,658
Accounts receivable, net	21,155,787	15,728,791
Deferred charges and regulatory assets - current	65,461	59,744
Inventory	5,905,144	6,403,584
Other current assets	2,303,792	3,096,457
Current portion of notes receivable	788,603	899,570
	<u>47,186,166</u>	<u>33,597,804</u>
Deferred charges and regulatory assets	<u>1,740,560</u>	<u>4,627,259</u>
	<u>\$ 474,204,007</u>	<u>\$ 456,251,362</u>

See Notes to Consolidated Financial Statements

	December 31,	
	<u>2020</u>	<u>2019</u>
<b>Equities and Liabilities</b>		
Equities		
Patronage capital	\$ 179,108,309	\$ 174,273,295
Other equities	8,461,343	7,728,041
Accumulated other comprehensive loss	(4,363,227)	(3,626,739)
Memberships	93,769	98,610
	<u>183,300,194</u>	<u>178,473,207</u>
Noncurrent liabilities		
Long-term debt	220,328,783	199,387,436
Deferred income taxes	703,802	642,496
Other	13,620,558	12,394,760
	<u>234,653,143</u>	<u>212,424,692</u>
Current liabilities		
Accounts payable	11,876,917	15,275,114
Current portion of long-term debt	14,230,134	13,373,601
Other current and accrued liabilities	9,041,908	8,305,066
Unearned revenue	2,118,861	1,935,273
Consumer deposits	1,496,890	1,468,886
Deferred credits and regulatory liabilities - current	748,167	732,197
Franchise taxes payable	4,224	18,573
Credit line payable		6,000,000
	<u>39,517,101</u>	<u>47,108,710</u>
Deferred credits and regulatory liabilities	<u>16,733,569</u>	<u>18,244,753</u>
	<u>\$ 474,204,007</u>	<u>\$ 456,251,362</u>

## Consolidated Statements of Operations

### Blue Ridge EMC and Subsidiaries

	Year Ended December 31,	
	2020	2019
Operating revenues	\$ 163,815,635	\$ 160,250,740
Operating expenses		
Cost of power/sales	82,226,258	81,500,002
Transmission	721,947	601,276
Distribution - operation	2,911,331	2,910,259
Distribution - maintenance	11,756,915	11,728,496
Consumer accounts	3,131,094	3,315,208
Customer service and informational	2,044,735	2,109,402
Sales expense	2,208,171	2,501,411
Administrative and general	23,191,515	20,087,708
Depreciation and amortization	18,240,587	20,037,688
Taxes	2,066,332	1,971,604
Interest	8,849,345	9,153,327
Interest charged to construction	(1,055,637)	(882,833)
	<u>156,292,593</u>	<u>155,033,548</u>
Operating Margins Before Patronage Allocations	7,523,042	5,217,192
Patronage allocations	<u>1,514,102</u>	<u>1,498,650</u>
Net Operating Margins	9,037,144	6,715,842
Nonoperating income		
Interest income	1,270,616	2,612,546
Other	1,127,579	740,700
Gain on sale of assets	96,157	319,972
	<u>2,494,352</u>	<u>3,673,218</u>
Net Margins Before Income Taxes	11,531,496	10,389,060
Income tax expense		
Deferred	<u>646,306</u>	<u>381,747</u>
Net Margins	<u>\$ 10,885,190</u>	<u>\$ 10,007,313</u>

See Notes to Consolidated Financial Statements

## Consolidated Statements of Comprehensive Income

### Blue Ridge EMC and Subsidiaries

	Year Ended December 31,	
	<u>2020</u>	<u>2019</u>
Net margins	\$ 10,885,190	\$ 10,007,313
Other comprehensive income (loss):		
Actuarial loss	(697,287)	(1,032,233)
Amortization of actuarial loss	220,045	179,797
Amortization of prior service credit	<u>(259,246)</u>	<u>(305,714)</u>
	<u>(736,488)</u>	<u>(1,158,150)</u>
Comprehensive Income	<u>\$ 10,148,702</u>	<u>\$ 8,849,163</u>

See Notes to Consolidated Financial Statements

## Consolidated Statements of Equities

### Blue Ridge EMC and Subsidiaries

#### Years Ended December 31, 2020 and 2019

	<u>Patronage Capital</u>	<u>Other Equities</u>	<u>AOCI</u>	<u>Memberships</u>	<u>Total</u>
Balance, December 31, 2018	\$170,156,715	\$ 6,984,907	\$(2,468,589)	\$ 103,730	\$ 174,776,763
Net margins	10,007,313				10,007,313
Retirement of capital credits	(5,890,733)	743,134			(5,147,599)
Other comprehensive loss			(1,158,150)		(1,158,150)
Other changes, net				(5,120)	(5,120)
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	<u>\$179,108,309</u>	<u>\$ 8,461,343</u>	<u>\$(4,363,227)</u>	<u>\$ 93,769</u>	<u>\$ 183,300,194</u>

See Notes to Consolidated Financial Statements

## Consolidated Statements of Cash Flows

### Blue Ridge EMC and Subsidiaries

	Year Ended December 31,	
	2020	2019
<b>Cash Flows from Operating Activities</b>		
Net margins	\$ 10,885,190	\$ 10,007,313
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation	18,240,587	20,037,688
Deferred income tax expense	646,306	381,747
Gain on sale of nonutility property	(96,157)	(319,972)
Noncash capital credits assigned	(1,514,102)	(1,498,650)
Allowance for funds used during construction	(1,055,637)	(882,833)
Interest earned on cushion of credit	(842,311)	(2,317,861)
(Increase) decrease in:		
Accounts receivable, net	(5,426,996)	7,252,974
Other current assets	807,665	(795,867)
Inventory - BRE	(29,202)	98,871
Other noncurrent assets	(381,765)	(348,219)
Deferred charges and regulatory assets	2,880,982	988,335
Increase (decrease) in:		
Accounts payable	(3,398,197)	1,363,624
Other current liabilities	906,081	1,303,438
Other noncurrent liabilities	489,310	470,929
Deferred credits and regulatory liabilities	(1,495,214)	(6,843,456)
Net Cash Provided by Operating Activities	20,616,540	28,898,061
<b>Cash Flows from Investing Activities</b>		
Investments in electric plant	(21,524,385)	(41,058,949)
Investments in nonutility property, plant and equipment	(2,569,865)	(2,896,010)
Proceeds from disposition of nonutility plant and equipment	126,585	3,017,038
Cost of removals	(1,630,380)	(1,028,782)
Contributions in aid of construction	772,004	1,119,658
Receipts from notes receivable	4,193,540	3,858,948
Issuance of notes receivable	(2,473,946)	(7,029,046)
Net Cash Used by Investing Activities	(23,106,447)	(44,017,143)

See Notes to Consolidated Financial Statements

	Year Ended December 31,	
	2020	2019
<b>Cash Flows from Financing Activities</b>		
Line of credit advances		10,000,000
Line of credit repayments	(6,000,000)	(4,000,000)
Proceeds from long-term debt	35,244,368	17,930,000
Principal payments of long-term debt	(12,604,177)	(9,554,112)
Consumer deposits	28,004	103,288
Memberships issued, net of terminations and other	(4,841)	(5,120)
Capital credits received from suppliers	1,114,769	964,581
Patronage capital retirements	(5,316,874)	(5,147,599)
Net Cash Provided by Financing Activities	<u>12,461,249</u>	<u>10,291,038</u>
Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash	9,971,342	(4,828,044)
Cash, cash equivalents and restricted cash - beginning of year	<u>9,527,564</u>	<u>14,355,608</u>
Cash, Cash Equivalents and Restricted Cash - End of Year	<u>\$ 19,498,906</u>	<u>\$ 9,527,564</u>
<b>Schedule of Noncash Financing Activity</b>		
Cushion of credit applied to principal payments	<u>\$ 32,806,061</u>	<u>\$ 2,981,774</u>

### Supplemental Disclosures

The Corporation paid approximately \$8,790,000 and \$9,190,000 interest expense for the years ended December 31, 2020 and 2019, respectively.

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiaries

#### December 31, 2020 and 2019

##### 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.

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiaries

#### December 31, 2020 and 2019

##### 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.

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiaries

#### December 31, 2020 and 2019

##### 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, 2020 and 2019.

###### 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.

###### 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.

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiaries

#### December 31, 2020 and 2019

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

###### Advertising Costs

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

###### Revenue Recognition

As of January 1, 2019, the Corporation adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606) using the retrospective method. The Corporation evaluated and determined that ASC 606 did not have a material effect on the financial statements.

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 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, 2020 and 2019.

RidgeLink obtains and subleases most of its network capacity under long-term indefeasible right of use agreements ("IRU's"). IRU's generally require up-front payments which are amortized into income and expense, on a straight-line basis, over the term of the respective agreements. Construction income is recognized as the contract is completed given the short duration of the contracts. The difference between using the completed contract method and the percentage of completion method is immaterial. RidgeLink classifies revenues and expenses which it expects to recognize during the next year as current.

Sales of propane, fuel oil and other fuels are recognized by BRE at the time product is delivered to the customer. 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

RidgeLink and BRE have analyzed the provisions of ASC Topic 606, *Revenue from Contracts with Customers*, and have concluded that no changes are necessary to conform to the standard. RidgeLink's 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 revenue is recorded upon delivery of fuel, sale or installation of appliance or equipment, as applicable, or when repair or maintenance is complete.

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiaries

#### December 31, 2020 and 2019

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

###### Subsequent Events

Subsequent events have been evaluated through March 31, 2021, 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,	
	2020	2019
Cash and cash equivalents	\$ 16,967,379	\$ 7,409,658
Restricted cash	2,531,527	2,117,906
Total cash, cash equivalents and restricted cash presented in the statements of cash flows	<u>\$ 19,498,906</u>	<u>\$ 9,527,564</u>

###### 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.

###### Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU replaced most existing revenue recognition guidance in U.S. GAAP. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606) - Deferral of the Effective Date*, which deferred the effective date of ASU 2014-09 to January 1, 2019. The Corporation elected to apply the new standard using the modified retrospective method. The standard did not have a material impact on the financial statements.

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiaries

#### December 31, 2020 and 2019

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

###### Recently Issued Accounting Standards - continued

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230) Restricted Cash. This update revised accounting guidance for the classification and presentation of restricted cash in the statement of cash flows. The Corporation adopted this update effective January 1, 2019, and it requires a reconciliation of cash and cash equivalents and restricted cash and cash equivalents within the Consolidated Balance Sheets and the amounts shown in the Consolidated Statements of Cash Flows.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 is a comprehensive new leases standard that amends various aspects of existing guidance for leases and requires additional disclosures about leasing arrangements. It will require lessees to recognize lease assets and lease liabilities for those leases classified as operating under legacy GAAP. However, Topic 842 does retain a distinction between finance leases and operating leases. In November 2019, the FASB issued ASU 2019-10, *Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*, which deferred the effective date of ASU 2016-02 by one year. In June 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*, which deferred the effective date of ASU 2016-02 by another year. As such, ASU 2016-02 is effective for the Corporation on January 1, 2022 with early adoption permitted. The Corporation is currently evaluating the effects of the standard on its ongoing financial reporting and has not yet adopted the standard.

##### Note B - Electric Plant

Listed below were the major classes of electric plant:

	December 31,	
	2020	2019
Distribution plant	\$ 352,820,431	\$ 339,463,447
Transmission plant	107,792,790	94,692,149
General plant	95,929,679	74,816,999
Electric plant in service	556,542,900	508,972,595
Construction work in progress	15,291,062	44,541,794
	<u>\$ 571,833,962</u>	<u>\$ 553,514,389</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, 2020 and 2019. 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.

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiaries

#### December 31, 2020 and 2019

##### Note C - Nonutility Property

Nonutility property consisted of the following:

	December 31,	
	2020	2019
Machinery and equipment	\$ 15,661,321	\$ 15,106,487
Fiber lines	11,819,774	10,147,536
Trucks and autos	4,896,828	4,275,017
Bulk plant equipment	2,162,606	2,155,172
Capitalized software	666,542	667,928
Buildings	458,140	264,011
Furniture and fixtures	145,572	145,572
Leasehold improvements	92,689	83,247
Land improvements	35,495	35,496
Easements	9,404	9,404
	<u>35,948,371</u>	<u>32,889,870</u>
Less accumulated depreciation	<u>12,042,768</u>	<u>10,866,379</u>
	23,905,603	22,023,491
Construction work in progress	20,163	903,063
Land	<u>289,550</u>	<u>289,550</u>
	<u>\$ 24,215,316</u>	<u>\$ 23,216,104</u>

##### Note D - Assets Held for Sale

Assets held for sale consists of the following:

Buildings - Caldwell	\$ 194,408
Land improvements - Caldwell	<u>194,408</u>
Accumulated depreciation	<u>(111,171)</u>
	83,237
Land - Caldwell	<u>460,709</u>
	<u>\$ 543,946</u>

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

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiaries

#### December 31, 2020 and 2019

##### Note E - Investments in Associated Organizations

Investments in associated organizations consisted of the following:

	December 31,	
	2020	2019
Patronage capital:		
North Carolina Electric Membership Corporation (NCEMC)	\$ 4,092,192	\$ 4,002,863
CoBank	4,274,561	3,994,132
Tarheel Electric Membership Association (TEMA)	1,973,431	1,917,437
National Rural Utilities Cooperative Finance Corporation (CFC)	534,384	516,638
Federated Rural Electric Insurance Corporation	513,832	490,043
Other	94,684	76,924
	<u>11,483,084</u>	<u>10,998,037</u>
Capital Term Certificates (CFC):		
SCTC's	1,869,410	1,869,410
LCTC's	271,100	354,600
	<u>2,140,510</u>	<u>2,224,010</u>
Other:		
CFC member capital securities	500,000	500,000
Other	29,074	31,288
Memberships	5,560	5,560
	<u>534,634</u>	<u>536,848</u>
	<u>\$ 14,158,228</u>	<u>\$ 13,758,895</u>

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 F - 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, 2020 and 2019, 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, 2020 and 2019.

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiaries

#### December 31, 2020 and 2019

##### Note G - 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, 2020, the Corporation had approximately \$13,862,000 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 9% and 10% of total electric customer revenues at December 31, 2020 and 2019, respectively.

BRE maintains cash balances at institutions that are insured by the FDIC. As of December 31, 2020, BRE had approximately \$4,450,000 in deposits that exceeded the \$250,000 limit.

RidgeLink maintains cash balances at institutions that are insured by the FDIC. As of December 31, 2020, RidgeLink had no deposits in excess of the \$250,000 limit.

##### Note H - Accounts Receivable

Accounts receivable consisted of the following:

	December 31,	
	2020	2019
Consumers	\$ 13,085,312	\$ 9,713,948
Unbilled revenue	7,882,978	6,380,753
Other	1,774,833	1,199,963
	<u>22,743,123</u>	<u>17,294,664</u>
Less provision for uncollectible accounts	<u>1,587,336</u>	<u>1,565,873</u>
	<u>\$ 21,155,787</u>	<u>\$ 15,728,791</u>

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiaries

#### December 31, 2020 and 2019

##### Note I - Deferred Charges and Regulatory Assets

Deferred charges and regulatory assets consisted of the following:

	December 31,	
	2020	2019
Regulatory Asset - NRECA R&S Prepayment (Note O)	\$ -	\$ 3,098,285
IRUs - RidgeLink	652,642	683,012
Preliminary survey and investigation costs	730,013	459,013
Deferred commissions - RidgeLink	426,894	446,298
Other	(3,528)	395
	<u>1,806,021</u>	<u>4,687,003</u>
Less current portion	(65,461)	(59,744)
	<u>\$ 1,740,560</u>	<u>\$ 4,627,259</u>

##### 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, 2020 was approximately \$16,000,000. These net operating loss carryforwards, some of which expire on various dates beginning in 2021, may be used to offset federal and state taxable income in future years.

	December 31,	
	2020	2019
Deferred tax asset (liability)		
Net operating loss carryforwards	\$ 3,784,198	\$ 4,387,504
Depreciation	(4,058,000)	(3,875,000)
Other	150,000	145,000
	<u>(123,802)</u>	<u>657,504</u>
Valuation allowance	(262,000)	(382,000)
Deferred income taxes, net	<u>\$ (385,802)</u>	<u>\$ 275,504</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.

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiaries

#### December 31, 2020 and 2019

##### Note J - Deferred Income Taxes - Continued

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

	December 31,	
	2020	2019
Deferred:		
Federal	\$ 607,528	\$ 358,843
State	38,778	22,904
	<u>\$ 646,306</u>	<u>\$ 381,747</u>

##### Note K - Patronage Capital

Patronage capital consisted of the following:

	December 31,	
	2020	2019
Assigned	\$ 248,897,891	\$ 238,890,578
Assignable	10,885,190	10,007,313
	<u>259,783,081</u>	<u>248,897,891</u>
Retired	<u>(80,674,772)</u>	<u>(74,624,596)</u>
	<u>\$ 179,108,309</u>	<u>\$ 174,273,295</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 40% of total assets for the years ended December 31, 2020 and 2019.

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiaries

#### December 31, 2020 and 2019

##### Note L - Long-Term Debt

Long-term debt consisted of the following:

	December 31,	
	2020	2019
CoBank - Mortgage notes, fixed	\$ 129,738,453	\$ 106,812,648
Federal Financing Bank (FFB) - Mortgage notes, fixed	92,261,528	126,768,884
Advanced payments unapplied	<u>(13,103,442)</u>	<u>(45,909,502)</u>
	79,158,086	80,859,382
CFC - Mortgage notes, fixed	20,091,902	20,729,354
Rural Business Cooperative Development Service (RBCDS)		
Economic development grant	<u>5,570,476</u>	<u>4,359,653</u>
	234,558,917	212,761,037
Less current maturities	<u>14,230,134</u>	<u>13,373,601</u>
	<u>\$ 220,328,783</u>	<u>\$ 199,387,436</u>

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 RUS 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, 2020 and 2019, the Corporation was in compliance with the covenants and restrictions.

During 2020 and 2019, 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 and earn interest at a rate of 4.00%. 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, 2020. The notes mature at various dates through January 20, 2040. Principal and interest installments are payable monthly in the amount of approximately \$1,330,000. There were no unadvanced loan funds available to the Corporation on loan commitments from CoBank at December 31, 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, 2020, 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, 2020.

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiaries

#### December 31, 2020 and 2019

##### Note L - Long-Term Debt - Continued

Long-term debt payable to the FFB is represented by mortgage notes with interest rates ranging from 2.08% to 3.06% at December 31, 2020. The notes mature at various dates through January 2052. Principal and interest installments are payable quarterly in the amount of approximately \$1,220,000. Unadvanced loan funds of \$11,300,000 were available to the Corporation on loan commitments from FFB at December 31, 2020 and 2019.

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 note bears interest at a fixed rate of 1.00% with deferred monthly interest payments (as defined in the loan documents) and one principle payment due in 2022. 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.

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

<u>Year Ending December 31,</u>	
2021	\$ 14,230,134
2022	15,737,146
2023	13,756,852
2024	13,716,998
2025	14,137,717
Thereafter	<u>162,980,070</u>
	<u>\$ 234,558,917</u>

##### 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, 2020 and 2019. There was no outstanding balance on the CoBank line of credit at December 31, 2020 and 2019. 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, 2020. There was an outstanding balance on the line of credit of \$6,000,000 with CFC at December 31, 2019. The Corporation had a line of credit with First Citizens Bank in the amount of \$2,000,000 for the years ended December 31, 2020 and 2019. There was no outstanding balance with First Citizens Bank December 31, 2020 and 2019.

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiaries

#### December 31, 2020 and 2019

##### Note M - Lines of Credit - Continued

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, 2020), which expires July 2021. BRE also has a line of credit with CoBank in the amount of \$1,000,000, accruing interest at weekly quoted variable rates (2.45% at December 31, 2020), which expires in July 2021. There was no outstanding balance on either line of credit at December 31, 2020 and 2019. 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, 2020 or 2019.

##### Note N - Other Noncurrent Liabilities

Other noncurrent liabilities consisted of the following:

	December 31,	
	2020	2019
Other postretirement benefits	\$ 10,308,375	\$ 9,732,544
Deferred compensation	2,982,746	2,328,815
Other	329,437	333,401
	<u>\$ 13,620,558</u>	<u>\$ 12,394,760</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 \$10,500/\$5,250 per year, respectively. Post-65 retirees and spouses/dependents will receive up to \$3,020/\$1,510 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.

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiaries

#### December 31, 2020 and 2019

##### 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,	
	2020	2019
APBO	\$ 10,308,375	\$ 9,732,544
Fair value of plan assets at end of year	-	-
Funded status	<u>\$ (10,308,375)</u>	<u>\$ (9,732,544)</u>

The components of the net periodic postretirement benefit cost included:

	Year Ended December 31,	
	2020	2019
Interest cost on benefit obligations	\$ 305,175	\$ 367,970
Service cost, benefits earned during the period	161,992	130,244
Amortization of net loss	220,045	179,797
Amortization of prior service credit	<u>(259,246)</u>	<u>(305,714)</u>
	<u>\$ 427,966</u>	<u>\$ 372,297</u>

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

	Year Ended December 31,	
	2020	2019
Net actuarial loss	\$ 5,044,715	\$ 4,567,473
Prior service credit	<u>(681,488)</u>	<u>(940,734)</u>
Unrecognized actuarial loss	<u>\$ 4,363,227</u>	<u>\$ 3,626,739</u>

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiaries

#### December 31, 2020 and 2019

##### Note N - Other Noncurrent Liabilities - Continued

Assumptions and effects:

	Year Ended December 31,	
	2020	2019
Actuarial assumptions:		
Discount rate	2.55%	3.25%
Measurement date	12/31/2020	12/31/2019
Expected subsequent accretion (amortization) from AOCI, net	\$ 50,019	\$ 26,928
Expected subsequent year benefit payments	\$ 640,000	\$ 630,000
Expected subsequent year contributions	\$ 640,000	\$ 630,000

Estimated future benefit payments reflecting expected future service:

<u>Year Ending December 31,</u>	
2021	\$ 640,000
2022	\$ 618,000
2023	\$ 580,000
2024	\$ 568,000
2025	\$ 575,000
2026 - 2030	\$ 2,846,000

##### 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 2020 and in 2019 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 \$3,957,000 and \$3,587,000 in 2020 and 2019, respectively. There have been no significant changes that affect the comparability of 2020 and 2019 contributions.

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiaries

#### December 31, 2020 and 2019

##### Note O - Retirement Plans - 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, 2020 and over 80 percent funded on January 1, 2019 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 \$1,546,000 and \$1,403,000 for the years ended December 31, 2020 and 2019, respectively.

BRE contributed approximately \$210,000 and \$199,000 for the years ended December 31, 2020 and 2019, respectively.

BRE provides a Top Hat Plan under Section 457(b) of the Internal Revenue Code (the 457(b) 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 457(b) Plan. Participants direct the investment of these contributions to various options offered through the 457(b) Plan.

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiaries

#### December 31, 2020 and 2019

##### Note P - Deferred Credits and Regulatory Liabilities

Deferred credits and regulatory liabilities consisted of the following:

	December 31,	
	2020	2019
Deferred revenue - RidgeLink	\$ 11,667,742	\$ 12,079,647
Regulatory liability - WPCA	3,934,423	4,456,853
Unclaimed capital credits	609,883	615,552
Customer deposits on construction	1,233,724	883,903
Other	35,964	35,382
Regulatory liability - power costs	-	905,613
	<u>17,481,736</u>	<u>18,976,950</u>
Less current portion	<u>(748,167)</u>	<u>(732,197)</u>
	<u>\$ 16,733,569</u>	<u>\$ 18,244,753</u>

Ridgeline subleases fiber optic cables as further described in Note Q. Ridgeline anticipates recognizing approximately \$725,000 of revenue annually through 2042 in connection with amounts received from IRU's. Approximately \$748,000 and \$732,000 have been included as a current liability on the balance sheet as of December 31, 2020 and 2019, respectively.

##### 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 \$224,000 and \$209,000 for the years ended December 31, 2020 and 2019, respectively.

RidgeLink will recognize approximately \$275,000 of expense annually through 2036 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, 2020 and 2019, RidgeLink recognized approximately \$264,000 and \$258,000, 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 \$978,000 and \$891,000 for the years ended December 31, 2020 and 2019, respectively.

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiaries

#### December 31, 2020 and 2019

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

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

<u>Year Ending December 31,</u>	
2021	\$ 988,200
2022	1,132,612
2023	1,132,612
2024	1,132,612
2025	1,132,612
Thereafter	<u>2,265,224</u>
	<u>\$ 7,783,872</u>

##### 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 1.65% and 2.39% for the years ending December 31, 2020 and 2019, 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 to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiaries

#### December 31, 2020 and 2019

##### Note R - Financial Instruments Carried at Cost - Continued

###### 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, 2020 and 2019.

###### 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 3.57% and 4.19% for the years ending December 31, 2020 and 2019, 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.

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

	December 31,			
	2020		2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Assets:</b>				
Capital term certificates	\$ 2,140,510	\$ 4,476,000	\$ 2,224,010	\$ 3,727,000
CFC member capital securities	\$ 500,000	\$ 831,000	\$ 500,000	\$ 751,000
Notes receivable	\$ 5,411,014	\$ 5,300,000	\$ 7,130,608	\$ 6,515,000
<b>Liabilities:</b>				
Long-term debt, fixed notes	\$234,558,917	\$223,335,000	\$212,761,037	\$207,400,000

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiaries

#### December 31, 2020 and 2019

##### 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 has 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 expire at various dates through 2021. Total lease payments amounted to approximately \$39,000 and \$44,000 for the years ended December 31, 2020 and 2019, respectively.

The future minimum lease payments for the noncancelable operating leases are \$24,253 for the year ended December 31, 2021.

###### Purchase Commitments

During 2020 and 2019, 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 \$459,000 and \$522,000 of propane from key suppliers, as of December 31, 2020 and 2019, 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:

###### CFC

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.

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiaries

#### December 31, 2020 and 2019

##### Note U - Related Party Transactions - Continued

###### 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 E, 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 E, the Corporation has an investment in TEMA.

###### Federated Rural Electric Insurance Corporation (Federated)

The Corporation is a shareholder of Federated, as explained in Note E, 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 \$1,450,000 and \$1,465,000 for the years ending December 31, 2020 and 2019, respectively. Sales to the Corporation were approximately \$45,500 and \$103,000 for the years ended December 31, 2020 and 2019, 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 \$198,000 and \$145,000 for the years ended December 31, 2020 and 2019, respectively.

###### RidgeLink

The Corporation provides administrative and operational support for RidgeLink's operations. Substantially all expenses of RidgeLink during the year ended December 31, 2020 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, 2020 and 2019, RidgeLink paid the Corporation approximately \$818,000 and \$783,000 for administrative services. RidgeLink had accounts payable of approximately \$340,000 and \$323,000 due to the Corporation at December 31, 2020 and 2019, respectively.

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

## **Notes to Consolidated Financial Statements**

### **Blue Ridge EMC and Subsidiaries**

#### **December 31, 2020 and 2019**

##### **Note U - Related Party Transactions - Continued**

During 2020, BRE advanced funds of \$400,000 to RidgeLink through the issuance of a note receivable. Such advances, bear interest at a variable rate based on the current line of credit market rate on the unpaid principal balance (3.2% at December 31, 2020). 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.

##### **Note W - Reclassifications**

Certain reclassifications have been made to the December 31, 2019 financial statements to conform to the December 31, 2020 presentation.

## **Supplementary Information**



**Independent Auditor's Report on Consolidating Information**

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

We have audited the consolidated financial statements of Blue Ridge EMC and Subsidiaries as of and for the years ended December, 31, 2020 and 2019, our report which expressed an unmodified opinion on those consolidated financial statements, appears on pages 1 and 2. The audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying consolidating financial information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual entities, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

*Adams, Jenkins & Cheatham*

Richmond, Virginia  
March 31, 2021

## Consolidating Balance Sheets

### Blue Ridge EMC and Subsidiaries

December 31, 2020

	Blue Ridge EMC	Blue Ridge Energies, LLC	RidgeLink, LLC	Eliminations	Total
<b>Assets</b>					
Electric plant					
Electric plant	\$ 571,833,962	\$	\$	\$	\$ 571,833,962
Less accumulated provision for depreciation	194,543,111				194,543,111
	<u>377,290,851</u>				<u>377,290,851</u>
Other property and investments					
Nonutility property, net		13,383,504	10,831,812		24,215,316
Investments in associated organizations	34,931,868			(20,773,640)	14,158,228
Deferred income taxes		318,000			318,000
Restricted cash and investments	2,531,527				2,531,527
Other		1,467,800			1,467,800
Assets held for sale		543,946			543,946
Intangible assets, net		129,202			129,202
	<u>37,463,395</u>	<u>15,842,452</u>	<u>10,831,812</u>	<u>(20,773,640)</u>	<u>43,364,019</u>
Notes receivable	4,622,411				4,622,411
Current assets					
Cash and cash equivalents	11,882,906	4,999,608	84,865		16,967,379
Accounts receivable, net	19,609,993	1,862,311	173,589	(490,106)	21,155,787
Deferred charges and regulatory assets - current			276,053	(210,592)	65,461
Inventory	4,626,727	1,278,417			5,905,144
Other current assets	1,508,012	664,544	131,236		2,303,792
Current portion of notes receivable	788,603	400,000		(400,000)	788,603
	<u>38,416,241</u>	<u>9,204,880</u>	<u>665,743</u>	<u>(1,100,698)</u>	<u>47,186,166</u>
Deferred charges and regulatory assets	<u>726,485</u>		<u>4,164,358</u>	<u>(3,150,283)</u>	<u>1,740,560</u>
	<u>\$ 458,519,383</u>	<u>\$ 25,047,332</u>	<u>\$ 15,661,913</u>	<u>\$ (25,024,621)</u>	<u>\$ 474,204,007</u>

See Independent Auditor's Report on Consolidating Information

	Blue Ridge EMC	Blue Ridge Energies, LLC	RidgeLink, LLC	Eliminations	Total
<b>Equities and Liabilities</b>					
Equities					
Patronage capital	\$ 179,108,309	\$	\$	\$	\$ 179,108,309
Other equities	8,461,343	18,531,068	2,242,572	(20,773,640)	8,461,343
Accumulated other comprehensive loss	(4,363,227)				(4,363,227)
Memberships	93,769				93,769
	<u>183,300,194</u>	<u>18,531,068</u>	<u>2,242,572</u>	<u>(20,773,640)</u>	<u>183,300,194</u>
Noncurrent liabilities					
Long-term debt	219,606,415	722,368			220,328,783
Deferred income taxes			703,802		703,802
Other	11,825,871	1,794,687			13,620,558
	<u>231,432,286</u>	<u>2,517,055</u>	<u>703,802</u>		<u>234,653,143</u>
Current liabilities					
Accounts payable	10,789,701	1,084,596	492,726	(490,106)	11,876,917
Current portion of long-term debt	14,230,134				14,230,134
Note payable - related party			400,000	(400,000)	
Credit line payable					
Other current and accrued liabilities	8,095,309	946,599			9,041,908
Unearned revenue		1,968,014	150,847		2,118,861
Consumer deposits	1,496,890				1,496,890
Deferred credits and regulatory liabilities - current			748,167		748,167
Franchise tax payable			4,224		4,224
	<u>34,612,034</u>	<u>3,999,209</u>	<u>1,795,964</u>	<u>(890,106)</u>	<u>39,517,101</u>
Deferred credits and regulatory liabilities	<u>9,174,869</u>		<u>10,919,575</u>	<u>(3,360,875)</u>	<u>16,733,569</u>
	<u>\$ 458,519,383</u>	<u>\$ 25,047,332</u>	<u>\$ 15,661,913</u>	<u>\$ (25,024,621)</u>	<u>\$ 474,204,007</u>

## Consolidating Statements of Operations

### Blue Ridge EMC and Subsidiaries

#### Year Ended December 31, 2020

	Blue Ridge EMC	Blue Ridge Energies, LLC	RidgeLink, LLC	Eliminations	Total
Operating revenues	\$144,423,238	\$ 17,677,769	\$2,218,573	\$ (503,945)	\$163,815,635
Operating expenses					
Cost of power/sales	72,807,320	8,560,200	1,301,089	(442,351)	82,226,258
Transmission	721,947				721,947
Distribution - operation	2,911,331				2,911,331
Distribution - maintenance	11,756,915				11,756,915
Consumer accounts	3,131,094				3,131,094
Customer service and informational	2,044,735				2,044,735
Sales expense	2,208,171				2,208,171
Administrative and general	15,655,826	7,460,290	335,557	(260,158)	23,191,515
Depreciation and amortization	16,769,420	1,151,059	320,108		18,240,587
Taxes	1,864,111	202,221			2,066,332
Interest	8,830,188	2,556	16,601		8,849,345
Interest charged to construction	(1,055,637)				(1,055,637)
	<u>137,645,421</u>	<u>17,376,326</u>	<u>1,973,355</u>	<u>(702,509)</u>	<u>156,292,593</u>
Operating Margins Before Patronage Allocations	6,777,817	301,443	245,218	198,564	7,523,042
Patronage allocations	<u>1,514,102</u>				<u>1,514,102</u>
Net Operating Margins	8,291,919	301,443	245,218	198,564	9,037,144
Nonoperating income (expense)					
Interest income	1,247,689	22,922	5		1,270,616
Other	433,752	892,391		(198,564)	1,127,579
Gain on sale of assets	52,228	43,929			96,157
Income from equity investment	<u>859,602</u>			<u>(859,602)</u>	<u></u>
Net Income Before Income Taxes	10,885,190	1,260,685	245,223	(859,602)	11,531,496
Income tax expense					
Deferred		585,000	61,306		646,306
		<u>585,000</u>	<u>61,306</u>		<u>646,306</u>
Net Margins	<u>\$ 10,885,190</u>	<u>\$ 675,685</u>	<u>\$ 183,917</u>	<u>\$ (859,602)</u>	<u>\$ 10,885,190</u>

See Independent Auditor's Report on Consolidating Information

**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, 2020 and 2019, 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 March 31, 2021.

**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.

## **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  
March 31, 2021



**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, 2020, 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 March 31, 2021. In accordance with *Government Auditing Standards*, we have also issued a report dated March 31, 2021 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 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  
March 31, 2021