Blue Ridge EMC and Subsidiaries
Consolidated Financial Statements
December 31, 2019 and 2018

Contents

Financial Statements

Supplemental Matters Required by the Rural Utilities Service

ADAMS, JENKINS AND CHEATHAM
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS CONSULTANTS

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, 2019 and 2018 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.

231 Wylderose Drive | Midlothian, VA 23113 | 804.323.1313

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, 2019 and 2018, 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 April 16, 2020, 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.

Adams, Jenkins & Cheatham

Richmond, Virginia
April 16, 2020

Consolidated Balance Sheets

Blue Ridge EMC and Subsidiaries

	December 31, 2019	December 31, 2018
Assets		
Electric plant		
Electric plant	$ 553,514,389	$ 515,725,547
Less accumulated provision for depreciation	183,420,158	168,827,776
	370,094,231	346,897,771
Other property and investments		
Nonutility property, net	23,216,104	24,795,811
Investments in associated organizations	13,758,895	13,224,826
Deferred income taxes, net	918,000	1,243,000
Restricted cash and investments	2,117,906	1,917,741
Other	1,086,035	737,816
Assets held for sale	474,888	
Intangible assets, net	129,202	129,202
	41,701,030	42,048,396
Notes receivable	6,231,038	3,936,432
Current assets		
Cash and cash equivalents	7,409,658	12,437,867
Accounts receivable, net	15,728,791	22,981,765
Deferred charges and regulatory assets - current	59,744	47,499
Inventory	6,403,584	6,581,934
Other current assets	3,096,457	2,285,590
Current portion of notes receivable	899,570	24,078
	33,597,804	44,358,733
Deferred charges and regulatory assets	4,627,259	5,627,839
	$ 456,251,362	$ 442,869,171

See Notes to Consolidated Financial Statements

	December 31, 2019	December 31, 2018
Equities and Liabilities		
Equities		
Patronage capital	$ 174,273,295	$ 170,156,715
Other equities	7,728,041	6,984,907
Accumulated other comprehensive loss	(3,626,739)	(2,468,589)
Memberships	98,610	103,730
	178,473,207	174,776,763
Noncurrent liabilities		
Long-term debt	199,387,436	194,366,844
Deferred income taxes	642,496	570,749
Other	12,394,760	10,765,681
	212,424,692	205,703,274
Current liabilities		
Accounts payable	15,275,114	13,911,490
Current portion of long-term debt	13,373,601	12,336,166
Credit line payable	6,000,000	
Other current and accrued liabilities	8,305,066	6,952,915
Unearned revenue	1,935,273	1,986,559
Consumer deposits	1,468,886	1,365,598
Deferred credits and regulatory liabilities - current	732,197	1,629,510
Franchise taxes payable	18,573	16,000
	47,108,710	38,198,238
Deferred credits and regulatory liabilities	18,244,753	24,190,896
	$ 456,251,362	$ 442,869,171

Consolidated Statements of Operations

Blue Ridge EMC and Subsidiaries

	Year Ended December 31, 2019	2018
Operating revenues	$ 160,250,740	$ 174,732,912
Operating expenses		
Cost of power	69,007,859	82,389,372
Cost of sales	12,492,143	15,517,080
Transmission	601,276	926,373
Distribution - operation	2,910,259	2,953,073
Distribution - maintenance	11,728,496	12,298,464
Consumer accounts	3,315,208	3,236,991
Customer service and informational	2,109,402	2,120,985
Sales expense	2,501,411	2,110,736
Administrative and general	20,087,708	20,501,642
Depreciation and amortization	20,037,688	16,258,127
Taxes	1,971,604	1,940,680
Interest	9,153,327	8,734,212
Interest charged to construction	(882,833)	(482,703)
	155,033,548	168,505,032
Operating Margins Before Patronage Allocations	5,217,192	6,227,880
Patronage allocations	1,498,650	1,663,166
Net Operating Margins	6,715,842	7,891,046
Nonoperating income (expense)		
Interest income	2,612,546	2,481,147
Other	740,700	916,723
Gain on sale of assets	319,972	113,915
	3,673,218	3,511,785
Net Margins Before Income Taxes	10,389,060	11,402,831
Income tax expense		
Deferred	381,747	351,564
Current		16,000
Net Margins	$ 10,007,313	$ 11,035,267

See Notes to Consolidated Financial Statements

Consolidated Statements of Comprehensive Income

Blue Ridge EMC and Subsidiaries

	Year Ended December 31, 2019	2018
Net margins	$ 10,007,313	$ 11,035,267
Other comprehensive income (loss):		
Actuarial gain (loss)	(1,032,233)	982,740
Amortization of actuarial loss	179,797	238,051
Amortization of prior service credit	(305,714)	(207,959)
	(1,158,150)	1,012,832
Comprehensive Income	$ 8,849,163	$ 12,048,099

See Notes to Consolidated Financial Statements

Consolidated Statements of Equities

Blue Ridge EMC and Subsidiaries

Years Ended December 31, 2019 and 2018

	Patronage Capital	Other Equities	AOCI	Memberships	Total
Balance, December 31, 2017	$165,053,072	$ 6,191,397	$ (3,481,421)	$ 108,975	$ 167,872,023
Net margins	11,035,267				11,035,267
Retirement of capital credits	(5,931,624)	793,510			(5,138,114)
Other comprehensive gain			1,012,832		1,012,832
Other changes, net				(5,245)	(5,245)
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

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

Blue Ridge EMC and Subsidiaries

	Year Ended December 31, 2019	2018
Cash Flows from Operating Activities		
Net margins	$ 10,007,313	$ 11,035,267
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation	20,037,688	16,258,127
Deferred income tax expense	381,747	351,564
Gain on sale of nonutility property	(319,972)	(113,915)
Noncash capital credits assigned	(1,498,650)	(1,663,166)
Allowance for funds used during construction	(882,833)	(482,703)
Interest earned on cushion of credit	(2,317,861)	(2,257,679)
(Increase) decrease in:		
Accounts receivable, net	7,252,974	1,359,279
Other current assets	(795,867)	(166,519)
Inventory - BRE	98,871	(202,192)
Other noncurrent assets	(348,219)	(103,995)
Deferred charges and regulatory assets	988,335	1,759,542
Increase (decrease) in:		
Accounts payable	1,363,624	1,083,444
Other current liabilities	1,303,438	1,554,666
Other noncurrent liabilities	470,929	(62,992)
Deferred credits and regulatory liabilities	(6,843,456)	3,086,086
Net Cash Provided by Operating Activities	28,898,061	31,434,814
Cash Flows from Investing Activities		
Investments in electric plant	(41,058,949)	(29,088,180)
Investments in nonutility property, plant and equipment	(2,896,010)	(2,807,450)
Proceeds from disposition of nonutility plant and equipment	3,017,038	373,292
Cost of removals	(1,028,782)	(1,082,990)
Contributions in aid of construction	1,119,658	3,656,348
Receipts from notes receivable	3,858,948	256,704
Issuance of notes receivable	(7,029,046)	(2,918,327)
Net Cash Used by Investing Activities	(44,017,143)	(31,610,603)

See Notes to Consolidated Financial Statements

	Year Ended December 31,	
	2019	2018
Cash Flows from Financing Activities		
Line of credit advances	10,000,000	13,000,000
Line of credit repayments	(4,000,000)	(50,500,000)
Proceeds from long-term debt	17,930,000	59,092,000
Principal payments of long-term debt	(9,554,112)	(11,606,585)
Consumer deposits	103,288	(139,350)
Memberships issued, net of terminations and other	(5,120)	(5,245)
Capital credits received from suppliers	964,581	1,404,357
Patronage capital retirements	(5,147,599)	(5,138,114)
Net Cash Provided by Financing Activities	10,291,038	6,107,063
Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash	(4,828,044)	5,931,274
Cash, cash equivalents and restricted cash - beginning of year	14,355,608	8,424,334
Cash, Cash Equivalents and Restricted Cash - End of Year	$ 9,527,564	$ 14,355,608

Supplemental Disclosures

The Corporation paid approximately $9,190,000 and $8,690,000 interest expense for the years ended December 31, 2019 and 2018, respectively.

Notes to Consolidated Financial Statements

Blue Ridge EMC and Subsidiaries

December 31, 2019 and 2018

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, 2019 and 2018

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.

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.

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

<u>Income Taxes</u>

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 a corporation 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, 2019 and 2018.

<u>Inventory</u>

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.

<u>Accounts Receivable</u>

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.

<u>Advertising Costs</u>

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

Notes to Consolidated Financial Statements

Blue Ridge EMC and Subsidiaries

December 31, 2019 and 2018

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

Revenue Recognition

The Corporation recognizes revenue when earned, that is, when electricity is used by customers on a monthly basis. The Corporation's billing system bills customers on a cycle billing basis as opposed to a calendar month; therefore, the Corporation estimates unbilled revenue on a monthly basis for power delivered but not billed to customers to calculated calendar month-end revenue amounts. See Note H for unbilled revenue recorded as of December 31, 2019 and 2018.

The Corporation has analyzed the provisions of ASC Topic 606, *Revenue from Contracts with Customers,* and has concluded that no changes are necessary to conform to the new standard. Revenue from electricity is recorded when it is consumed, which complies with the requirements of ASC Topic 606. The Corporation recognizes revenue from consumed electricity in the appropriate reporting period though its estimate of unbilled revenue.

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

RideLink 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 new 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.

Subsequent Events

Subsequent events have been evaluated through April 16, 2020, which is the date the consolidated financial statements were available to be issued. In March 2020, the Governor of North Carolina declared a state of emergency to respond to the COVID-19 crisis. Subsequently, he ordered statewide closures of certain non-essential businesses. The Corporation is considered essential and as such continues to operate with many employees working remotely. As of the date of the financial statements, there is no known material effect on the Corporation related to COVID-19.

Notes to Consolidated Financial Statements

Blue Ridge EMC and Subsidiaries

December 31, 2019 and 2018

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

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,	
	2019	2018
Cash and cash equivalents	$ 7,409,658	$ 12,437,867
Restricted cash	2,117,906	1,917,741
Total cash, cash equivalents and restricted cash presented in the statements of cash flows	$ 9,527,564	$ 14,355,608

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 has elected to apply the new standard using the modified retrospective method. The new standard does not have a material impact on the financial statements.

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.

Note B - Electric Plant

Listed below were the major classes of electric plant:

	December 31, 2019	December 31, 2018
Distribution plant	$ 339,463,447	$ 328,825,627
Transmission plant	94,692,149	93,642,313
General plant	74,816,999	72,354,778
Electric plant in service	508,972,595	494,822,718
Construction work in progress	44,541,794	20,902,829
	$ 553,514,389	$ 515,725,547

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, 2019 and 2018. Regarding the non-legal retirement costs, the Corporation follows the regulatory principle of inter-generational cost allocation by including net salvage (gross salvage less cost of removal) as a component of depreciation rates.

Note C - Nonutility Property

Nonutility property consisted of the following:

	December 31, 2019	December 31, 2018
Machinery and equipment	$ 15,106,487	$ 14,807,553
Fiber lines	10,147,536	7,993,262
Trucks and autos	4,275,017	3,497,937
Bulk plant equipment	2,155,172	1,840,000
Capitalized software	667,928	846,722
Buildings	264,011	2,514,729
Furniture and fixtures	145,572	164,690
Leasehold improvements	83,247	83,247
Land improvements	35,496	443,080
Easements	9,404	9,404
	32,889,870	32,200,624
Less accumulated depreciation	10,866,379	10,779,985
	22,023,491	21,420,639
Construction work in progress	903,063	1,701,706
Land	289,550	1,673,466
	$ 23,216,104	$ 24,795,811

Notes to Consolidated Financial Statements

Blue Ridge EMC and Subsidiaries

December 31, 2019 and 2018

Note D - Assets Held for Sale

Assets held for sale consists of the following:

Buildings - Caldwell	$	249,952
Land improvements - Caldwell		232,728
		482,680
Accumulated depreciation		(378,122)
		104,558
Land - Caldwell		370,330
	$	474,888

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

Note E - Investments in Associated Organizations

Investments in associated organizations consisted of the following:

	December 31,			
	2019		2018	
Patronage capital:				
North Carolina Electric Membership Corporation (NCEMC)	$	4,002,863	$	3,885,324
CoBank		3,994,132		3,497,704
Tarheel Electric Membership Association (TEMA)		1,917,437		1,897,837
National Rural Utilities Cooperative Finance Corporation (CFC)		516,638		516,916
Federated Rural Electric Insurance Corporation		490,043		471,793
Other		80,040		198,358
		11,001,153		10,467,932
Capital Term Certificates (CFC):				
SCTC's		1,869,410		1,869,410
LCTC's		354,600		354,600
		2,224,010		2,224,010
Other:				
CFC member capital securities		500,000		500,000
Other		28,172		27,324
Memberships		5,560		5,560
		533,732		532,884
	$	13,758,895	$	13,224,826

Note E - 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.

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, 2019 and 2018, 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, 2019 and 2018.

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, 2019, the Corporation had approximately $5,014,000 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, 2019 and 2018, respectively.

BRE maintains cash balances at institutions that are insured by the FDIC. As of December 31, 2019, BRE had approximately $1,886,000 in deposits that exceeded the $250,000 limit. BRE also had a short-term cash equivalent investment of $1,500,000 at December 31, 2019 that was not insured by the FDIC.

RidgeLink maintains cash balances at institutions that are insured by the FDIC. As of December 31, 2019, RidgeLink had no deposits in excess of the $250,000 limit.

Notes to Consolidated Financial Statements

Blue Ridge EMC and Subsidiaries

December 31, 2019 and 2018

Note H - Accounts Receivable

Accounts receivable consisted of the following:

	December 31, 2019	December 31, 2018
Consumers	$ 9,711,301	$ 14,023,609
Unbilled revenue	6,380,753	7,098,742
Other	1,199,963	3,416,337
	17,292,017	24,538,688
Less provision for uncollectible accounts	1,563,226	1,556,923
	$ 15,728,791	$ 22,981,765

Note I - Deferred Charges and Regulatory Assets

Deferred charges and regulatory assets consisted of the following:

	December 31, 2019	December 31, 2018
Regulatory Asset - NRECA R&S Prepayment (Note O)	$ 3,098,285	$ 3,972,082
IRUs - RidgeLink	683,012	434,694
Preliminary survey and investigation costs	459,013	510,779
Deferred commissions - RidgeLink	446,298	755,490
Other	395	
Pole attachment project		2,293
	4,687,003	5,675,338
Less current portion	(59,744)	(47,499)
	$ 4,627,259	$ 5,627,839

Note J - Deferred Income Taxes

On December 22, 2017, the U.S. enacted the Tax Cuts and Jobs Act ("U.S. tax reform") that lowers the statutory tax rate on earnings at a reduced rate of tax. Deferred income tax balances reflect the effect 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 (including the U.S. tax rate of 21% beginning in 2018 as a result of U.S. tax reform) expected to be in effect when taxes are paid or recovered. The major temporary differences that give rise to the deferred tax assets and liabilities are depreciation and charitable contributions. 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 tax 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, 2019 was approximately $18,487,000, expiring in 2037.

Note J - Deferred Income Taxes - Continued

	December 31, 2019	December 31, 2018
Deferred tax asset (liability)		
Net operating loss carryforwards	$ 4,387,504	$ 4,793,000
Depreciation	(3,875,000)	(3,839,000)
Other	145,000	155,251
	657,504	1,109,251
Valuation allowance	(382,000)	(437,000)
Deferred income taxes, net	$ 275,504	$ 672,251

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

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

	December 31, 2019	December 31, 2018
Deferred:		
Federal	$ 363,147	$ 336,064
State	18,600	15,500
	$ 381,747	$ 351,564

Note K - Patronage Capital

Patronage capital consisted of the following:

	December 31, 2019	December 31, 2018
Assigned	$ 238,890,578	$ 227,855,311
Assignable	10,007,313	11,035,267
	248,897,891	238,890,578
Retired	(74,624,596)	(68,733,863)
	$ 174,273,295	$ 170,156,715

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% and 41% of total assets for the years ended December 31, 2019 and 2018, respectively.

Note L - Long-Term Debt

Long-term debt consisted of the following:

	December 31,	
	2019	2018
CoBank - Mortgage notes, fixed	$ 106,812,648	$ 116,196,043
Federal Financing Bank (FFB) - Mortgage notes, fixed	126,768,884	111,704,630
Advanced payments unapplied	(45,909,502)	(46,573,415)
	80,859,382	65,131,215
CFC - Mortgage notes, fixed	20,729,354	21,333,752
Rural Business Cooperative Development Service (RBCDS)		
Economic development grant	4,359,653	4,042,000
	212,761,037	206,703,010
Less current maturities	13,373,601	12,336,166
	$ 199,387,436	$ 194,366,844

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, 2019 and 2018, the Corporation was in compliance with the covenants and restrictions.

During 2019 and 2018, 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 5.00%. Prepayments are reflected above as a reduction of long-term debt as advance payments unapplied. The Corporation plans to pay off approximately $32.2 million of FFB debt during 2020. The current portion of long-term debt is shown net of the $32.2 million from the cushion of credit that will be used to pay off the FFB debt.

Long-term debt payable to CoBank is represented by mortgage notes with fixed rates ranging from 3.02% to 6.03% at December 31, 2019. The notes mature at various dates through September 20, 2031. Principal and interest installments are payable monthly in the amount of approximately $1,150,000. Unadvanced loan funds of $25,000,000 were available to the Corporation on loan commitments from CoBank at December 31, 2019.

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, 2019, 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.

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 4.15% at December 31, 2019. The notes mature at various dates through January 2052. Principal and interest installments are payable quarterly in the amount of approximately $1,662,000. Unadvanced loan funds of $11,300,000 and $28,700,000 were available to the Corporation on loan commitments from FFB at December 31, 2019 and 2018, respectively.

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.

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

Year Ending December 31,	
2020	$ 13,373,601
2021	13,133,699
2022	13,058,766
2023	11,801,381
2024	11,774,823
Thereafter	149,618,767
	$ 212,761,037

Note M - Lines of Credit

The Corporation had lines of credit with CFC and First Citizens Bank in the amount of $31,500,000 and $2,000,000 for the years ended December 31, 2019 and 2018. The Corporation had a line of credit with CoBank in the amount of $10,000,000 for the years ended December 31, 2019 and 2018. There was an outstanding balance on the line of credit of $6,000,000 with CFC at December 31, 2019. There was no outstanding balance with CFC at December 31, 2018. There was no outstanding balance with CoBank at December 31, 2019 and 2018. There was no outstanding balance with First Citizens Bank at December 31, 2019 and 2018.

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% (3.78% at December 31, 2019), which expires July 2020. BRE also has a line of credit with CoBank in the amount of $1,000,000, accruing interest at weekly quoted variable rates (3.77% at December 31, 2019), which expires in July 2020. There was no outstanding balance on either line of credit at December 31, 2019 and 2018. 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, 2019.

Notes to Consolidated Financial Statements

Blue Ridge EMC and Subsidiaries

December 31, 2019 and 2018

Note N - Other Noncurrent Liabilities

Other noncurrent liabilities consisted of the following:

	December 31,	
	2019	2018
Other postretirement benefits	$ 9,732,544	$ 8,783,286
Other	1,416,530	1,003,584
Deferred compensation	1,245,686	978,811
	$ 12,394,760	$ 10,765,681

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 $3,000/$1,500 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, 2019 and 2018

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,	
	2019	2018
APBO	$ 9,732,544	$ 8,783,286
Fair value of plan assets at end of year	-	-
Funded status	$ (9,732,544)	$ (8,783,286)

The components of the net periodic postretirement benefit cost included:

	2019	2018
Interest cost on benefit obligations	$ 367,970	$ 342,447
Service cost, benefits earned during the period	130,244	168,392
Amortization of net loss	179,797	238,051
Amortization of prior service credit	(305,714)	(207,959)
	$ 372,297	$ 540,931

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

	Year Ended December 31,	
	2019	2018
Net actuarial loss	$ 4,567,473	$ 3,715,037
Prior service credit	(940,734)	(1,246,448)
Unrecognized actuarial loss	$ 3,626,739	$ 2,468,589

Note N - Other Noncurrent Liabilities - Continued

Assumptions and effects:

	Year Ended December 31, 2019		Year Ended December 31, 2018	
Actuarial assumptions:				
Discount rate		3.25%		4.35%
Measurement date		12/31/2019		12/31/2018
Expected subsequent accretion (amortization) from AOCI, net	$	26,928	$	(19,724)
Expected subsequent year benefit payments	$	630,000	$	620,000
Expected subsequent year contributions	$	630,000	$	620,000

Estimated future benefit payments reflecting expected future service:

Year Ending December 31,		
2020	$	630,000
2021	$	627,000
2022	$	610,000
2023	$	573,000
2024	$	561,000
2025 - 2029	$	2,285,000

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 Cooperative's contributions to the RS Plan in 2019 and in 2018 represented less than 5 percent of the total contributions made to the RS Plan by all participating employers. The Cooperative made contributions to the RS Plan of approximately $3,587,000 and $3,326,000 in 2019 and 2018, respectively. There have been no significant changes that affect the comparability of 2019 and 2018 contributions.

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, 2019 and over 80 percent funded on January 1, 2018 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 $1,403,000 and $266,000 for the years ended December 31, 2019 and 2018, respectively.

BRE contributed approximately $199,000 and $148,000 for the years ended December 31, 2019 and 2018, 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, 2019 and 2018

Note P - Deferred Credits and Regulatory Liabilities

Deferred credits and regulatory liabilities consisted of the following:

	December 31,	
	2019	2018
Deferred revenue - RidgeLink	$ 12,079,647	$ 12,477,710
Regulatory liability - WPCA	5,362,466	10,495,989
Unclaimed capital credits	615,552	1,148,262
Customer deposits on construction	883,903	758,095
Other	35,382	34,737
Regulatory liability - power costs	-	905,613
	18,976,950	25,820,406
Less current portion	(732,197)	(1,629,510)
	$ 18,244,753	$ 24,190,896

Ridgelink subleases fiber optic cables as further described in Note Q. Ridgelink anticipates recognizing approximately $725,000 of revenue annually through 2042 in connection with amounts received from IRU's. $732,197 and $723,897 has been included as a current liability on the balance sheet as of December 31, 2019 and 2018, 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 through December 2020. 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 $209,000 and $204,000 for the years ended December 31, 2019 and 2018, 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, 2019 and 2018, RidgeLink recognized approximately $258,000 and $253,000, 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 $891,000 and $828,000 for the years ended December 31, 2019 and 2018, respectively.

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

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

Year Ending December 31,		
2020	$	521,100
2021		206,880
2022		176,208
2023		171,888
2024		107,928
Thereafter		262,056
	$	1,446,060

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 2.39% and 3.02% for the years ending December 31, 2019 and 2018, 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.

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, 2019 and 2018.

Accounts Payable

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

Long-Term Debt

The carrying amount of the Corporation's fixed long-term debt includes certain interest rates that are below quoted market prices for the same or similar issues. Therefore, the fair value of fixed long-term debt is estimated based on current market prices for the same or similar issues offered for debt of the same and remaining maturities which was 4.19% and 5.90% for the years ending December 31, 2019 and 2018, 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,			
	2019		2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Capital term certificates	$ 2,224,010	$ 3,727,000	$ 2,224,010	$ 3,224,000
CFC member capital securities	$ 500,000	$ 751,000	$ 500,000	$ 673,000
Notes receivable	$ 7,130,608	$ 6,515,000	$ 3,960,510	$ 3,446,000
Liabilities:				
Long-term debt, fixed notes	$212,761,037	$207,400,000	$206,703,010	$192,425,000

Notes to Consolidated Financial Statements

Blue Ridge EMC and Subsidiaries

December 31, 2019 and 2018

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 $44,000 and $72,000 for the years ended December 31, 2019 and 2018, respectively.

The future minimum lease payments for these non-cancellable operating leases were as follows:

Year Ending December 31,		
2020	$	44,058
2021		24,253
	$	68,311

Purchase Commitments

During 2019 and 2018, 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 $522,000 and $1,080,000 of propane from key suppliers, as of December 31, 2019 and 2018, 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, 2019 and 2018

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.

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 $1,465,000 and $1,378,000 for the years ending December 31, 2019 and 2018, respectively. Sales to the Corporation were approximately $103,000 and $127,000 for the years ended December 31, 2019 and 2018, 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 $145,000 for the years ended December 31, 2019 and 2018.

Note U - Related Party Transactions - Continued

RidgeLink

The Corporation provides administrative and operational support for RidgeLink's operations. Substantially all expenses of RidgeLink during the year ended December 31, 2019 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, 2019 and 2018, RidgeLink paid the Corporation approximately $783,000 and $755,000 for administrative services. RidgeLink had accounts payable of approximately $323,000 and $470,000 due to the Corporation at December 31, 2019 and 2018, respectively.

The Corporation had no outstanding advances from RidgeLink at December 31, 2019. The Corporation had outstanding advances from RidgeLink amounting to $1,000,000 at December 31, 2018. Such advances, bearing interest at an annual rate of 3.35%, were paid in full during 2019. The Corporation received approximately $15,000 and $39,000 of interest from RidgeLink during the years ended December 31, 2019 and 2018, respectively.

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

Note V - Reclassifications

Certain reclassifications have been made to the December 31, 2018 financial statements to conform to the December 31, 2019 presentation.

Supplemental Matters Required by the

Rural Utilities Service

ADAMS, JENKINS AND CHEATHAM
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS CONSULTANTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Blue Ridge EMC and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations, equities and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 16, 2020.

Internal Control Over Financial Reporting

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

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

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

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Compliance and Other Matters

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

Purpose of this Report

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

Adams, Jenkins & Cheatham

Richmond, Virginia
April 16, 2020

ADAMS, JENKINS AND CHEATHAM
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS CONSULTANTS

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

The Board of Directors
Blue Ridge EMC
Lenoir, North Carolina

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Blue Ridge EMC and Subsidiaries (the "Corporation"), which comprise the consolidated balance sheet as of December 31, 2019, and the related consolidated statements of operations, equities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 16, 2020. In accordance with *Government Auditing Standards*, we have also issued a report dated April 16, 2020 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;

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

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

Adams, Jenkins & Cheatham

Richmond, Virginia
April 16, 2020

1216 BLOWING ROCK BLVD., NE
PO BOX 112 • LENOIR, NC 28645

April 16, 2020

Adams, Jenkins & Cheatham
231 Wylderose Drive
Midlothian, VA 23113

This representation letter is provided in connection with your audit of the financial statements of Blue Ridge Electric Membership Corporation (the "Corporation"), which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of income, retained earnings, and cash flows for the years then ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of April 16, 2020, the following representations made to you during your audit.

Financial Statements

1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated May 1, 2019, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for preparation of the supplementary information in accordance with the applicable criteria.
2) The financial statements referred to above are fairly presented in conformity with U.S. GAAP.
3) We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
4) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5) Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6) Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with U.S. GAAP.
7) Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.
8) The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to the representation letter.
9) The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
10) Guarantees, whether written or oral, under which the Corporation is contingently liable, have been properly recorded or disclosed.
11) Upon implementation of ASU 2014-09, revenue from contracts with customers has been appropriately accounted for and disclosed in accordance with FASB ASC 606, Revenue from Contracts with Customers. All contracts underlying revenue recognized in the financial statements have commercial substance and have been approved by appropriate parties. We have considered side agreements, implied promises, and unstated customary business practices in identifying performance obligations in the contracts. We have sufficient and appropriate documentation supporting all estimates and judgments underlying the amount and timing of revenue recognized in the financial statements.

Information Provided

12) We have provided you with:

   a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.

   b) Additional information that you have requested from us for the purpose of the audit.

   c) Unrestricted access to persons within the Corporation from whom you determined it necessary to obtain audit evidence.

   d) Minutes of the meetings of the Corporation or summaries of actions of recent meetings for which minutes have not been prepared.

13) All material transactions have been recorded in the accounting records and are reflected in the financial statements.

14) We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

15) We have no knowledge of any fraud or suspected fraud that affects the Corporation and involves:

   a) Management,

   b) Employees who have significant roles in internal control, or

   c) Others where the fraud could have a material effect on the financial statements.

16) We have no knowledge of any allegations of fraud or suspected fraud affecting the Corporation's financial statements communicated by employees, former employees, analysts, regulators, or others.

17) We have no knowledge of any instances of noncompliance or suspected noncompliance with laws and regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.

18) We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.

19) We have disclosed to you the identity of the Corporation's related parties and all the related parties and all the related party relationships and transactions of which we are aware.

20) The Corporation has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

21) We acknowledge our responsibility for presenting the supplementary information in accordance with U.S. GAAP, and we believe the supplementary information, including its form and content, is fairly presented in accordance with U.S. GAAP. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.

22) We agree the findings of specialists in evaluating the actuarial valuation report for postretirement non-pension benefits and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause and instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.

Douglas Dixon — 4/16/20

(Chief Executive Officer) — (4/16/2020)

Katie M. Woodle — 4/16/20

(Senior Vice President) — (4/16/2020)