Blue Ridge EMC and Subsidiaries
Consolidated Financial Statements
December 31, 2018 and 2017

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, 2018 and 2017 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 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 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, 2018 and 2017, 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 12, 2019, 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
March 12, 2019

Consolidated Balance Sheets

Blue Ridge EMC and Subsidiaries

	December 31, 2018	December 31, 2017
Assets		
Electric plant		
Electric plant	$ 515,725,547	$ 494,338,399
Less accumulated provision for depreciation	168,827,776	158,758,908
	346,897,771	335,579,491
Other property and investments		
Nonutility property, net	24,795,811	23,532,366
Investments in associated organizations	13,224,826	12,966,017
Deferred income taxes, net	1,243,000	1,500,000
Restricted cash and investments	1,917,741	1,724,160
Other	737,816	633,821
Intangible assets, net	129,202	129,202
	42,048,396	40,485,566
Notes receivable	3,936,432	1,276,721
Current assets		
Cash and cash equivalents	12,437,867	6,700,174
Accounts receivable, net	22,981,765	24,341,044
Deferred charges and regulatory assets - current	47,499	31,556
Inventory	6,581,934	5,673,996
Other current assets	2,285,590	1,972,886
Current portion of notes receivable	24,078	22,166
Income tax receivable		125,000
	44,358,733	38,866,822
Deferred charges and regulatory assets	5,627,839	7,403,324
	$ 442,869,171	$ 423,611,924

See Notes to Consolidated Financial Statements

	December 31, 2018	December 31, 2017
Equities and Liabilities		
Equities		
Patronage capital	$ 170,156,715	$ 165,053,072
Other equities	6,984,907	6,191,397
Accumulated other comprehensive loss	(2,468,589)	(3,481,421)
Memberships	103,730	108,975
	174,776,763	167,872,023
Noncurrent liabilities		
Long-term debt	194,366,844	149,139,109
Deferred income taxes	570,749	455,000
Other	10,765,681	11,841,505
	205,703,274	161,435,614
Current liabilities		
Accounts payable	13,911,490	12,828,046
Current portion of long-term debt	12,336,166	12,336,165
Credit line payable		37,500,000
Other current and accrued liabilities	6,952,915	5,659,217
Unearned revenue	1,986,559	1,720,091
Consumer deposits	1,365,598	1,504,948
Deferred credits and regulatory liabilities - current	1,629,510	3,376,094
Income taxes payable	16,000	21,500
	38,198,238	74,946,061
Deferred credits and regulatory liabilities	24,190,896	19,358,226
	$ 442,869,171	$ 423,611,924

Consolidated Statements of Operations and Comprehensive Income

Blue Ridge EMC and Subsidiaries

	Year Ended December 31, 2018	2017
Operating revenues	$ 174,708,287	$ 156,698,570
Operating expenses		
Cost of power	82,389,372	74,270,290
Cost of sales	15,517,080	11,284,600
Transmission	926,373	1,154,457
Distribution - operation	2,953,073	3,170,174
Distribution - maintenance	12,298,464	10,382,138
Consumer accounts	3,236,991	3,297,791
Customer service and informational	2,120,985	2,153,589
Sales expense	2,110,736	2,088,097
Administrative and general	20,501,642	16,982,569
Depreciation and amortization	16,258,127	15,812,434
Taxes	1,940,680	1,813,885
Interest on long-term debt	8,527,208	7,948,209
Interest - other	207,004	526,754
Interest charged to construction	(482,703)	(588,817)
	168,505,032	150,296,170
Operating Margins Before Patronage Allocations	6,203,255	6,402,400
Patronage allocations	1,663,166	1,924,519
Net Operating Margins	7,866,421	8,326,919
Nonoperating income (expense)		
Interest income	2,481,147	2,323,650
Other	941,348	828,225
Income from equity investment		717
Gain on sale of assets	113,915	24,635
Income taxes - deferred	(351,564)	(309,960)
Income taxes - current	(16,000)	103,500
	3,168,846	2,970,767
Net Margins	11,035,267	11,297,686
Other comprehensive income (loss):		
Actuarial gain (loss)	982,740	(526,160)
Amortization of loss and prior service costs	30,092	36,049
	1,012,832	(490,111)
Comprehensive Income	$ 12,048,099	$ 10,807,575

See Notes to Consolidated Financial Statements

Consolidated Statements of Equities

Blue Ridge EMC and Subsidiaries

Years Ended December 31, 2018 and 2017

	Patronage Capital	Other Equities	AOCI	Memberships	Total
Balance, December 31, 2016	$159,330,075	$ 5,469,686	$(2,991,310)	$ 114,105	$ 161,922,556
Net margins	11,297,686				11,297,686
Retirement of capital credits	(5,574,689)	721,711			(4,852,978)
Other comprehensive loss			(490,111)		(490,111)
Other changes, net				(5,130)	(5,130)
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 loss			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

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

Blue Ridge EMC and Subsidiaries

	Year Ended December 31, 2018	Year Ended December 31, 2017
Cash Flows from Operating Activities		
Net margins	$ 11,035,267	$ 11,297,686
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation	16,258,127	15,812,434
Deferred income tax expense	351,564	309,960
Gain on sale of nonutility property	(113,915)	(24,635)
Noncash capital credits assigned	(1,663,166)	(1,924,519)
Allowance for funds used during construction	(482,703)	(588,817)
Interest earned on cushion of credit	(2,257,679)	(2,326,065)
(Increase) decrease in:		
Accounts receivable, net	1,359,279	(3,107,780)
Other current assets	(166,519)	917,070
Inventory - BRE	(202,192)	(75,445)
Other noncurrent assets	(103,995)	(265,872)
Deferred charges and regulatory assets	1,759,542	(268,248)
Increase (decrease) in:		
Accounts payable	1,083,444	(1,888,500)
Other current liabilities	1,554,666	334,948
Deferred revenue	(1,746,584)	289,956
Other noncurrent liabilities	(62,992)	454,763
Deferred credits and regulatory liabilities	4,832,670	(676,018)
Net Cash Provided by Operating Activities	31,434,815	18,270,918
Cash Flows from Investing Activities		
Investments in electric plant	(29,088,180)	(25,172,862)
Investments in nonutility property, plant and equipment	(2,807,450)	(2,600,604)
Proceeds from disposition of nonutility plant and equipment	373,292	101,729
Cost of removals	(1,082,990)	(1,384,411)
Contributions in aid of construction	3,656,348	708,669
Proceeds from CFC medium term notes		
Receipts from notes receivable	256,704	353,096
Issuance of notes receivable	(2,918,327)	(642,783)
Net Cash Used by Investing Activities	(31,610,603)	(28,637,166)

See Notes to Consolidated Financial Statements

	Year Ended December 31, 2018	2017
Cash Flows from Financing Activities		
Line of credit advances	13,000,000	27,000,000
Line of credit repayments	(50,500,000)	(500,000)
Proceeds from long-term debt	59,092,000	250,000
Principal payments of long-term debt	(11,606,585)	(11,221,078)
Consumer deposits	(139,350)	(105,092)
Memberships issued, net of terminations and other	(5,245)	(5,130)
Capital credits received from suppliers	1,404,357	1,313,464
Patronage capital retirements	(5,138,114)	(4,852,978)
Net Cash Provided by Financing Activities	6,107,063	11,879,186
Net Increase in and Cash Equivalents	5,931,274	1,512,938
Cash and cash equivalents - beginning of year	8,424,334	6,911,396
Cash and Cash Equivalents - End of Year	$ 14,355,608	$ 8,424,334

Supplemental Disclosures

The Corporation paid approximately $8,690,000 and $8,510,000 interest expense for the years ended December 31, 2018 and 2017, respectively.

Notes to Consolidated Financial Statements

Blue Ridge EMC and Subsidiaries

December 31, 2018 and 2017

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

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

Electric Plant

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

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

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

Depreciation

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

Transmission plant	2.75%
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, 2018 and 2017

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

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 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, 2018 and 2017.

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.

Revenue Recognition and Accounts Receivable

The Corporation recognizes revenue as service is rendered to customers. Recorded revenue includes an estimate of unbilled revenue for utility service rendered but not billed to customers.

The billing rate schedules of the Corporation contain provisions to either increase or decrease the consumers' billings from the base level billing schedules dependent upon the wholesale power cost from the supplier of electric energy purchased for resale. The Corporation provides for uncollectible accounts monthly, based on a percentage of sales, which past experience has indicated will be uncollectible. When accounts are deemed to be uncollectible, they are charged against the provision for uncollectible accounts.

BRE recognizes revenue upon the delivery of product to customers. 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. Sales are recorded net of sales and sales-related taxes collected from customers.

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

Revenue Recognition and Accounts Receivable - Continued

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.

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.

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.

Advertising Costs

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

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.

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.

Subsequent Events

Subsequent events have been evaluated through March 12, 2019, which is the date the financial statements were available to be issued.

Notes to Consolidated Financial Statements

Blue Ridge EMC and Subsidiaries

December 31, 2018 and 2017

Note B - Electric Plant

Listed below were the major classes of electric plant:

	December 31,	
	2018	2017
Distribution plant	$ 328,825,627	$ 321,741,077
Transmission plant	93,642,313	92,408,781
General plant	72,354,778	70,695,332
Electric plant in service	494,822,718	484,845,190
Construction work in progress	20,902,829	9,493,209
	$ 515,725,547	$ 494,338,399

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, 2018 and 2017. 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,	
	2018	2017
Machinery and equipment	$ 14,807,553	$ 14,641,649
Trucks and autos	3,497,937	3,702,895
Buildings	2,514,729	2,491,562
Fiber lines	7,993,262	7,662,138
Capitalized software	846,722	832,230
Land improvements	443,080	443,080
Bulk plant equipment	1,840,000	1,622,892
Furniture and fixtures	164,690	164,690
Leasehold improvements	83,247	89,790
Easements	9,404	9,404
	32,200,624	31,660,330
Less accumulated depreciation	10,779,985	9,883,304
	21,420,639	21,777,026
Fiber lines - Consturction work in progress	1,701,706	88,374
Land	1,673,466	1,666,966
	$ 24,795,811	$ 23,532,366

Notes to Consolidated Financial Statements

Blue Ridge EMC and Subsidiaries

December 31, 2018 and 2017

Note D - Investments in Associated Organizations

Investments in associated organizations consisted of the following:

	December 31,	
	2018	2017
Patronage capital:		
North Carolina Electric Membership		
Corporation (NCEMC)	$ 3,885,324	$ 3,764,352
CoBank	3,497,704	3,689,888
Tarheel Electric Membership Association (TEMA)	1,897,837	1,635,317
National Rural Utilities Cooperative		
Finance Corporation (CFC)	516,916	487,345
Federated Rural Electric Insurance Corporation	471,793	432,293
Other	198,358	200,579
	10,467,932	10,209,774
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	27,324	26,673
Memberships	5,560	5,560
	532,884	532,233
	$ 13,224,826	$ 12,966,017

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 E - 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, 2018 and 2017, 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, 2018 and 2017.

Note F - 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, 2018, the Corporation had approximately $11,535,000 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 10% and 9% of total electric customer revenues at December 31, 2018 and 2017, respectively.

BRE maintains cash balances at institutions that are insured by the FDIC. Deposits exceeded the insurance limits by approximately $1,314,000 as of December 31, 2018.

RidgeLink maintains cash balances at institutions that are insured by the FDIC. Deposits exceeded the insurance limits by approximately $50,000 as of December 31, 2018.

Note G - Accounts Receivable

Accounts receivable consisted of the following:

	December 31, 2018	December 31, 2017
Consumers	$ 14,023,609	$ 15,642,450
Unbilled revenue	7,098,742	7,702,929
Other	3,416,337	2,507,639
	24,538,688	25,853,018
Less provision for uncollectible accounts	1,556,923	1,511,974
	$ 22,981,765	$ 24,341,044

Note H - Deferred Charges and Regulatory Assets

Deferred charges and regulatory assets consisted of the following:

	December 31, 2018	December 31, 2017
Regulatory Asset - NRECA R&S Prepayment (Note N)	$ 3,972,082	$ 4,818,679
Deferred commissions - RidgeLink	755,490	684,039
Preliminary survey and investigation costs	510,779	531,984
IRUs - RidgeLink	434,694	700,023
Pole attachment project	2,293	604,743
Other		95,412
	5,675,338	7,434,880
Less current portion	(47,499)	(31,556)
	$ 5,627,839	$ 7,403,324

Note I - 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, 2018 was approximately $4,016,000, expiring in 2037.

	December 31, 2018	December 31, 2017
Deferred tax asset (liability)		
Net operating loss carryforwards	$ 4,793,000	$ 4,811,000
Depreciation	(3,839,000)	(3,350,000)
Other	155,251	134,000
	1,109,251	1,595,000
Valuation allowance	(437,000)	(550,000)
Deferred income taxes, net	$ 672,251	$ 1,045,000

Notes to Consolidated Financial Statements

Blue Ridge EMC and Subsidiaries

December 31, 2018 and 2017

Note J - Patronage Capital

Patronage capital consisted of the following:

	December 31,	
	2018	2017
Assigned	$ 227,855,311	$ 216,557,625
Assignable	11,035,267	11,297,686
	238,890,578	227,855,311
Retired	(68,733,863)	(62,802,239)
	$ 170,156,715	$ 165,053,072

Under provisions of the long-term debt agreement and Title 7 of the Code of Federal Regulations (Part 1717.617), the Corporation may refund capital to patrons without limitation if total equity is equal to or greater than 30% of total assets, and there are no instances of default. If equities are between 20% and 30% of total assets, general refunds are limited to 25% (adjusted for returns to estates, which are not limited) of patronage capital or margins received in the next preceding year. Total equities and margins amounted to 41% of total assets for the years ended December 31, 2018 and 2017.

Note K - Long-Term Debt

Long-term debt consisted of the following:

	December 31,	
	2018	2017
CoBank - Mortgage notes, fixed	$ 116,196,043	$ 125,277,587
Federal Financing Bank (FFB) - Mortgage notes, fixed	111,704,630	77,656,359
Advanced payments unapplied	(46,573,415)	(44,315,736)
	65,131,215	33,340,623
CFC - Mortgage notes, fixed	21,333,752	1,607,064
Rural Business Cooperative Development Service (RBCDS)		
Economic development grant	4,042,000	1,250,000
	206,703,010	161,475,274
Less current maturities	12,336,166	12,336,165
	$ 194,366,844	$ 149,139,109

Note K - Long-Term Debt - Continued

Substantially all of the Corporation's assets have been pledged as collateral for the long-term debt to CFC, FFB and CoBank. Under the terms of the loan agreements with 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 J. For the years ending December 31, 2018 and 2017, the Corporation was in compliance with the covenants and restrictions.

During 2018 and 2017, 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%. For the year ended December 31, 2018, the Corporation had prepaid approximately $47,000,000 in the cushion of credit program which was reflected in the financial statements as a reduction in the long term debt to FFB. At December 31, 2017, the Corporation had prepaid approximately $44,000,000 in the cushion of credit program which was reflected in the financial statements as a reduction in the long-term debt to FFB.

Long-term debt payable to CoBank is represented by mortgage notes with fixed rates ranging from 3.02% to 6.03% at December 31, 2018. The notes mature at various dates through September 20, 2031. Principal and interest installments are payable monthly in the amount of approximately $1,165,000.

The security and repayment terms for the CFC notes, with the exception of the interest rates which range from 4.80% to 6.35% at December 31, 2018, 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 $157,000.

Long-term debt payable to the FFB is represented by mortgage notes with interest rates ranging from 2.53% to 4.15% at December 31, 2018. The notes mature at various dates through January 2046. Principal and interest installments are payable quarterly in the amount of approximately $1,470,000. Unadvanced loan funds of $28,700,000 and $65,000,000 were available to the Corporation on loan commitments from FFB at December 31, 2018 and 2017, 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.

Note K - Long-Term Debt - Continued

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

Year Ending December 31,		
2019	$	12,336,166
2020		12,990,571
2021		13,416,264
2022		13,356,670
2023		4,989,615
Thereafter		149,613,724
	$	206,703,010

Note L - 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, respectively, for the years ended December 31, 2018 and 2017. The Corporation had a line of credit with CoBank in the amounts of $10,000,000 and $29,000,000 for the years ended December 31, 2018 and 2017, respectively. There was no outstanding balance with CFC at December 31, 2018. There was an outstanding balance of $31,500,000 with CFC at December 31, 2017. There was no outstanding balance with CoBank at December 31, 2018. There was an outstanding balance of $6,000,000 with CoBank at December 31, 2017. There was no outstanding balance with First Citizens Bank at December 31, 2018 and 2017.

BRE had two lines of credit established. First Citizens Bank has granted a line of credit in the amount of $1,000,000, accruing interest at variable rates LIBOR (as published by the Wall Street Journal) plus 2.0% (4.52% at December 31, 2018), which expires July 2019. This line of credit is guaranteed by the Corporation. There was no outstanding balance at December 31, 2018 and 2017. CoBank has also granted a line of credit in the amount of $1,000,000, accruing interest at weekly quoted variable rates (4.60% at December 31, 2018), which expires in July 2019 and is guaranteed by the Corporation. There was no outstanding balance at December 31, 2018 and 2017.

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, 2018.

Notes to Consolidated Financial Statements

Blue Ridge EMC and Subsidiaries

December 31, 2018 and 2017

Note M - Other Noncurrent Liabilities

Other noncurrent liabilities consisted of the following:

	December 31,	
	2018	2017
Other postretirement benefits	$ 8,783,286	$ 9,971,854
Other	1,003,584	865,152
Deferred compensation	978,811	1,004,499
	$ 10,765,681	$ 11,841,505

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 Blue Ridge Energies, LLC 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 $10,000/$5,000 per year, respectively. Post-65 retirees and spouses/dependents will receive up to $3,000/$1,500 per year, respectively. The dependent stipend is capped at $5,000 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, 2018 and 2017

Note M - Other Noncurrent Liabilities - Continued

The following sets forth the benefit obligation with the funded status of the plan in accordance with ASC Topic 715.

	December 31,	
	2018	2017
Change in accumulated postretirement benefit obligation (APBO):		
APBO at beginning of year	$ 9,971,854	$ 9,420,771
Interest cost	342,447	383,980
Service cost	168,392	165,300
Actuarial (gain) loss	(757,317)	526,160
Plan amendments	(225,423)	
Benefits paid	(716,667)	(524,357)
APBO at end of year	8,783,286	9,971,854
Fair value of plan assets at end of year		
Funded status	$ (8,783,286)	$ (9,971,854)

The components of the net periodic postretirement benefit cost included:

	Year Ended December 31,	
	2018	2017
Interest cost on benefit obligations	$ 342,447	$ 383,980
Service cost, benefits earned during the period	168,392	165,300
Amortization of net loss	238,051	237,641
Amortization of prior service credit	(207,959)	(201,592)
	$ 540,931	$ 585,329

Note M - Other Noncurrent Liabilities - Continued

Amounts in accumulated other comprehensive income not recognized in net periodic benefit cost consisted of the following:

	Year Ended December 31, 2018	Year Ended December 31, 2017
Unrecognized actuarial loss	$ (2,468,589)	$ (3,481,421)

Assumptions and effects:

	Year Ended December 31, 2018	Year Ended December 31, 2017
Actuarial assumptions:		
Discount rate	4.35%	3.70%
Measurement date	12/31/2018	12/31/2017
Expected amortization from accumulated other comprehensive income	$ (19,724)	$ (30,092)
Expected subsequent year contributions	$ 619,836	$ 658,779

Estimated future benefit payments reflecting expected future service:

Year Ending December 31,	
2019	$ 620,000
2020	$ 601,000
2021	$ 603,000
2022	$ 587,000
2023	$ 576,000
2024 - 2028	$ 2,915,000

Note N - 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 2018 and in 2017 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 $3,326,000 and $3,016,000 in 2018 and 2017, respectively. There have been no significant changes that affect the comparability of 2018 and 2017 contributions.

For the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was over 80 percent funded at January 1, 2018 and over 80 percent funded on January 1, 2017 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.

At its December 2012 meeting, the I&FS Committee of the NRECA Board of Directors approved an option to allow participating cooperatives in the RS Plan to make a contribution prepayment and reduce future required contributions. The prepayment amount is a cooperative's share, as of January 1, 2013, of future contributions required to fund the RS Plan's unfunded value of benefits earned to date using RS Plan actuarial valuation assumptions. The prepayment amount will typically equal approximately 2.5 times a cooperative's annual RS Plan required contribution as of January 1, 2013. After making the prepayment, the billing rate for most co-ops is reduced by approximately 25%, retroactive to the January 1 of the year in which the amount is paid to the RS Plan. The 25% differential in billing rates is expected to continue for approximately 15 years from January 1, 2013. However, unexpected changes in interest rates, asset returns and other plan experience, plan assumption changes and other factors may have an impact on the differential in billing rates and the 15-year period.

On April 30, 2013 the Corporation made a prepayment of $8,454,767 to the NRECA RS Plan. The Corporation elected to finance the prepayment through a 10 year term loan with a fixed interest rate of 3.10%. The Corporation is amortizing the prepayment to expense over 10 years.

Note N - Retirement Plans - Continued

Deferred Compensation Programs

In addition to the NRECA RS Plan, substantially all employees of the Corporation are eligible to participate in the NRECA SelectRE Plan (the "Plan"), a defined contribution multi-employer deferred income plan qualified under Section 401(k) and tax exempt under Section 501(a) of the Internal Revenue Code. The Corporation's required contributions to the Plan and its net pension cost was approximately $266,000 and $259,000 for the years ended December 31, 2018 and 2017, respectively.

BRE contributed approximately $102,000 and $98,000 for the years ended December 31, 2018 and 2017, 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.

Note O - Deferred Credits and Regulatory Liabilities

Deferred credits and regulatory liabilities consisted of the following:

	December 31, 2018	December 31, 2017
Deferred revenue - RidgeLink	$ 12,477,710	$ 13,189,107
Regulatory liability - WPCA	10,495,989	2,672,217
Unclaimed capital credits	1,148,262	1,354,591
Regulatory liability - power costs	905,613	4,819,317
Customer deposits on construction	758,095	663,856
Other	34,737	35,232
	25,820,406	22,734,320
Less current portion	(1,629,510)	(3,376,094)
	$ 24,190,896	$ 19,358,226

In anticipation of higher power costs that are scheduled to be billed to the Corporation from its supplier in 2018, the Corporation established a regulatory liability totaling $905,613. This amount represents the estimated portion of the power cost increase that relates to the years 2015 and 2016.

Note O - Deferred Credits and Regulatory Liabilities - Continued

Ridgelink subleases fiber optic cables as further described in Note P. Ridgelink anticipates recognizing approximately $725,000 of revenue annually through 2042 in connection with amounts received from IRU's. $723,897 and $703,877 has been included as a current liability on the balance sheet as of December 31, 2018 and 2017, respectively.

Note P - 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 $204,000 and $193,000 for the years ended December 31, 2018 and 2017, 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, 2018 and 2017, RidgeLink recognized approximately $253,000 and $189,000, 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 $828,000 and $785,000 for the years ended December 31, 2018 and 2017, respectively.

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

Year Ending December 31,		
2019	$	522,000
2020		521,100
2021		206,880
2022		176,208
2023		171,888
Thereafter		369,984
	$	1,968,060

Note Q - 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 3.02% and 2.74% for the years ending December 31, 2018 and 2017, respectively. The fair value of patronage capital is not determinable since no legal obligation exists to retire capital credits. The carrying value of memberships approximates fair value.

Notes Receivable

Fair value of notes receivable was computed at present value of future cash flows, discounted at market rates for the same or similar issues of notes for the years ending December 31, 2018 and 2017.

Note Q - Financial Instruments Carried at Cost - Continued

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 5.90% and 5.50% for the years ending December 31, 2018 and 2017, 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,			
	2018		2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Capital term certificates	$ 2,224,010	$ 3,224,000	$ 2,224,010	$ 3,547,000
CFC member capital securities	$ 500,000	$ 673,000	$ 500,000	$ 724,000
Notes receivable	$ 3,960,510	$ 3,446,000	$ 1,298,887	$ 1,026,000
Liabilities:				
Long-term debt, fixed notes	$ 206,703,010	$ 192,425,000	$ 161,475,274	$ 174,339,000

Notes to Consolidated Financial Statements

Blue Ridge EMC and Subsidiaries

December 31, 2018 and 2017

Note R - 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 $72,000 and $92,000 for the years ended December 31, 2018 and 2017, respectively.

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

Year Ending December 31,		
2019	$	44,058
2020		44,058
2021		24,253
	$	112,369

Purchase Commitments

During 2018 and 2017, BRE entered into propane purchase contracts with key suppliers. The contracts vary in length and require certain advance payments at the time of the negotiation, with the remaining due at the time of delivery. The advances are included in other current assets on the accompanying balance sheets. BRE had commitments to purchase approximately $1,080,000 and $292,000 of propane from key suppliers, as of December 31, 2018 and 2017, respectively.

Note S - 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, 2018 and 2017

Note T - 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 D, K and L, 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 D, 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 D, the Corporation has an investment in TEMA.

Federated Rural Electric Insurance Corporation (Federated)

The Corporation is a shareholder of Federated, as explained in Note D, 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 $1,378,000 and $1,259,000 for the years ending December 31, 2018 and 2017, respectively. Sales to the Corporation were approximately $127,000 and $94,000 for the years ended December 31, 2018 and 2017, 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 and $128,000 for the years ended December 31, 2018 and 2017, respectively.

Note T - 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, 2018 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, 2018 and 2017, RidgeLink paid the Corporation approximately $755,000 and $684,000 for administrative services. RidgeLink had accounts payable of approximately $470,000 and $1,150,000 due to the Corporation at December 31, 2018 and 2017, respectively.

The Corporation has outstanding advances from RidgeLink amounting to $1,000,000 at December 31, 2018 and $900,000 at December 31, 2017. Such advances, bearing interest at an annual rate of 3.35%, are payable in full on March 1, 2021. The Corporation accrued approximately $39,000 and $38,000 of interest from RidgeLink during the years ended December 31, 2018 and 2017, respectively.

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

Note U - Reclassifications

Certain reclassifications have been made to the December 31, 2017 financial statements to conform to the December 31, 2018 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, 2018 and 2017, 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 12, 2019.

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 of 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 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 *Governmental 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 12, 2019

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, 2018, 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 12, 2019. In accordance with *Government Auditing Standards*, we have also issued a report dated March 12, 2019 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above have been furnished to management.

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

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

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- Maintain adequate control over materials and supplies;

- Prepare accurate and timely Financial and Operating Reports;

- Obtain written RUS approval to enter into any contract for the management, operations, or maintenance of the borrower's system if the contract covers all or substantially all of the electric system;

- Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;

- Record depreciation in accordance with RUS requirements (See RUS Bulletin 183-1, Depreciation Rates and Procedures);

- Comply with the requirements for the detailed schedule of deferred debits and deferred credits; and

- Comply with the requirements for the detailed schedule of investments.

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

Adams, Jenkins & Cheatham

Richmond, Virginia
March 12, 2019