

A & N Electric Cooperative
Financial Statements
December 31, 2020 and 2019

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Financial Statements

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Independent Auditor's Report

The Board of Directors
A & N Electric Cooperative
Tasley, Virginia

We have audited the accompanying financial statements of A & N Electric Cooperative (the "Cooperative") which comprise the balance sheets as of December 31, 2020 and 2019 and the related statements of operations, equities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Cooperative's preparation and fair presentation of the 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 Cooperative'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 financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of A & N Electric Cooperative as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 2021, on our consideration of the Cooperative's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cooperative's internal control over financial reporting and compliance.

Allamo, Jenkins & Cheatham

Richmond, Virginia
February 18, 2021

Balance Sheets

A & N Electric Cooperative

| | December 31, | |
|---|-----------------------|-----------------------|
| | <u>2020</u> | <u>2019</u> |
| Assets | | |
| Electric plant | | |
| Electric plant | \$ 211,710,666 | \$ 206,360,885 |
| Less accumulated provision for depreciation | <u>71,119,915</u> | <u>70,740,871</u> |
| | 140,590,751 | 135,620,014 |
| Investments | | |
| Investments in associated organizations | 22,300,759 | 21,509,913 |
| Special funds | 3,030,548 | 2,775,958 |
| Other | <u>138,161</u> | |
| | 25,469,468 | 24,285,871 |
| Current assets | | |
| Cash and cash equivalents | 20,902,817 | 3,936,486 |
| Accounts receivable, net | 12,468,534 | 12,678,455 |
| Materials and supplies | 1,848,580 | 2,062,673 |
| Other current assets | <u>465,263</u> | <u>233,551</u> |
| | 35,685,194 | 18,911,165 |
| Deferred charges | <u>2,716,223</u> | <u>1,867,785</u> |
| | <u>\$ 204,461,636</u> | <u>\$ 180,684,835</u> |

See Independent Auditor's Report and Notes to Financial Statements

| | December 31, | |
|---------------------------------------|-----------------------|-----------------------|
| | <u>2020</u> | <u>2019</u> |
| Equities and Liabilities | | |
| Equities | | |
| Patronage capital | \$ 60,343,342 | \$ 58,603,294 |
| Other equities | 15,928,199 | 14,520,090 |
| Memberships | <u>139,010</u> | <u>137,370</u> |
| | 76,410,551 | 73,260,754 |
| Noncurrent liabilities | | |
| Long-term debt | 109,995,373 | 85,987,342 |
| Other noncurrent liabilities | 3,149,368 | 3,021,925 |
| Line of credit | | <u>2,000,000</u> |
| | <u>113,144,741</u> | <u>91,009,267</u> |
| Current liabilities | | |
| Accounts payable | 5,424,626 | 9,379,536 |
| Current maturities of long-term debt | 5,607,100 | 3,724,000 |
| Consumer deposits | 2,219,230 | 2,283,005 |
| Other current and accrued liabilities | <u>1,511,836</u> | <u>960,752</u> |
| | 14,762,792 | 16,347,293 |
| Deferred credits | <u>143,552</u> | <u>67,521</u> |
| | <u>\$ 204,461,636</u> | <u>\$ 180,684,835</u> |

Statements of Operations

A & N Electric Cooperative

| | Year Ended December 31, | |
|--|-------------------------|---------------------|
| | 2020 | 2019 |
| Operating revenues | \$ 73,332,961 | \$ 79,408,532 |
| Operating expenses | | |
| Cost of power | 48,454,392 | 53,746,367 |
| Transmission | 20,579 | 20,183 |
| Distribution - operation | 2,436,622 | 2,188,134 |
| Distribution - maintenance | 3,887,191 | 4,363,531 |
| Consumer accounts | 2,072,453 | 2,507,932 |
| Customer service and informational | 24,360 | 49,800 |
| Administrative and general | 2,685,864 | 3,129,740 |
| Depreciation and amortization | 6,330,364 | 5,960,402 |
| Interest on long-term debt | 3,799,996 | 3,963,293 |
| Interest - other | 26,830 | 45,446 |
| Other | 224,909 | 232,709 |
| | <u>69,963,560</u> | <u>76,207,537</u> |
| Operating Margins Before Patronage Allocations | 3,369,401 | 3,200,995 |
| Patronage allocations | | |
| Generation and transmission | 759,303 | 1,033,543 |
| Other | 111,931 | 116,553 |
| | <u>871,234</u> | <u>1,150,096</u> |
| Net Operating Margins | 4,240,635 | 4,351,091 |
| Nonoperating income | | |
| Interest income | 1,060,087 | 1,532,146 |
| Other, net | 160,399 | 172,512 |
| | <u>1,220,486</u> | <u>1,704,658</u> |
| Net Margins | <u>\$ 5,461,121</u> | <u>\$ 6,055,749</u> |

See Independent Auditor's Report and Notes to Financial Statements

Statements of Equities

A & N Electric Cooperative

Years Ended December 31, 2020 and 2019

| | <u>Patronage Capital</u> | <u>Other Equities</u> | <u>Memberships</u> | <u>Total</u> |
|-------------------------------|------------------------------|---------------------------|--------------------|----------------------|
| Balance, December 31, 2018, | \$ 55,621,417 | \$ 12,696,342 | \$ 137,750 | \$ 68,455,509 |
| Net margins | 4,523,603 | 1,532,146 | | 6,055,749 |
| Retirement of capital credits | (1,541,726) | 1,376 | | (1,540,350) |
| Net change in memberships | | | (380) | (380) |
| Unclaimed capital credits | | 290,226 | | 290,226 |
| Balance, December 31, 2019, | 58,603,294 | 14,520,090 | 137,370 | 73,260,754 |
| Net margins | 4,401,034 | 1,060,087 | | 5,461,121 |
| Retirement of capital credits | (2,660,986) | 12,383 | | (2,648,603) |
| Net change in memberships | | | 1,640 | 1,640 |
| Unclaimed capital credits | | 335,639 | | 335,639 |
| Balance, December 31, 2020 | <u>\$ 60,343,342</u> | <u>\$ 15,928,199</u> | <u>\$ 139,010</u> | <u>\$ 76,410,551</u> |

See Independent Auditor's Report and Notes to Financial Statements

Statements of Cash Flows

A & N Electric Cooperative

| | Year Ended December 31, | |
|---|-------------------------|---------------|
| | 2020 | 2019 |
| Cash Flows from Operating Activities | | |
| Cash received from members | \$ 73,399,350 | \$ 79,351,411 |
| Cash paid to suppliers and employees | (64,319,239) | (61,897,361) |
| Interest received | 223,931 | 240,787 |
| Interest paid | (3,826,826) | (4,008,739) |
| Net Cash Provided by Operating Activities | 5,477,216 | 13,686,098 |
| Cash Flows from Investing Activities | | |
| Extension and replacement of plant | (10,178,792) | (14,187,748) |
| Plant removal costs | (1,580,457) | (682,388) |
| Contribution in aid of construction | 672,241 | 431,128 |
| Proceeds from retirement of investments in CTC's | 11,149 | 7,447 |
| Collections on economic development loan | | 25,000 |
| Net Cash Used by Investing Activities | (11,075,859) | (14,406,561) |
| Cash Flows from Financing Activities | | |
| Capital credits received from suppliers | 212,771 | 59,170 |
| Capital credits paid to members | (2,312,964) | (1,250,124) |
| Principal payments of long-term debt | (3,294,913) | (2,094,281) |
| Borrowings on line of credit | | 2,000,000 |
| Payments on line of credit | (2,000,000) | |
| Proceeds from long-term borrowings | 30,022,215 | |
| Net change in memberships | 1,640 | (380) |
| Net change in consumer deposits | (63,775) | (31,240) |
| Net Cash Provided (Used) by Financing Activities | 22,564,974 | (1,316,855) |
| Net Increase (Decrease) in Cash and Cash Equivalents | 16,966,331 | (2,037,318) |
| Cash and cash equivalents - beginning of year | 3,936,486 | 5,973,804 |
| Cash and Cash Equivalents - End of Year | \$ 20,902,817 | \$ 3,936,486 |

See Independent Auditor's Report and Notes to Financial Statements

| | <u>Year Ended December 31,</u> | |
|--|--------------------------------|----------------------|
| | <u>2020</u> | <u>2019</u> |
| Net Margins | \$ 5,461,121 | \$ 6,055,749 |
| Adjustments to reconcile net margins to net cash provided by operating activities: | | |
| Depreciation and amortization | 6,129,148 | 5,759,186 |
| Acquisition adjustment amortization | 201,216 | 201,216 |
| Noncash capital credits | (1,014,766) | (1,006,564) |
| Noncash interest received from cushion of credit | (836,171) | (1,291,359) |
| (Increase) decrease in: | | |
| Accounts receivable | 209,921 | (200,653) |
| Other current assets | (231,712) | 670,223 |
| Special funds | (254,590) | (197,767) |
| Deferred charges | (848,438) | (530,238) |
| Increase (decrease) in: | | |
| Accounts payable | (3,954,910) | 3,624,228 |
| Other current and accrued liabilities | 551,084 | 350,583 |
| Deferred credits | 76,031 | 45,189 |
| Other noncurrent liabilities | (10,718) | 206,305 |
| Net Cash Provided by Operating Activities | <u>\$ 5,477,216</u> | <u>\$ 13,686,098</u> |

Notes to Financial Statements

A & N Electric Cooperative

December 31, 2020 and 2019

Note A - Summary of Significant Accounting Policies

Nature of Operations

A & N Electric Cooperative (the “Cooperative”) is a member owned, not-for-profit company organized to provide electric service to its members residing in the counties of Accomack and Northampton in Virginia, along with Smith Island in Maryland.

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 Cooperative 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) and the State Corporation Commission of the Commonwealth of Virginia (SCC).

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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 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 expenses and other accounts.

Inventories

Inventories are 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.

Notes to Financial Statements

A & N Electric Cooperative

December 31, 2020 and 2019

Note A - Summary of Significant Accounting Policies - Continued

Depreciation

Provision for depreciation has been made by application of the straight-line 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:

| | |
|--------------------|---------------|
| Production plant | 3.00 - 7.00% |
| Transmission plant | 4.72% |
| Distribution plant | 1.70 - 8.13% |
| General plant | 2.00 - 20.00% |

Accounts Receivable

Accounts receivable are uncollateralized obligations of members which are stated at the amount billed. The carrying amount of accounts receivable is reduced by accounts considered uncollectible. The Cooperative provides for the 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.

Revenue Recognition

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

The Cooperative's primary source of revenue and accounts receivable is derived from implied contractual agreements with its customers for the provision of electric service. Electric revenue and the related cost of power are recognized when electricity is consumed, which complies with the requirements of ASC 606. The Cooperative recognizes revenue from consumed electricity in the appropriate reporting period through its estimation of unbilled revenue, on a monthly basis.

Power Cost Adjustment (PCA)

The Cooperative uses the deferred method of accounting for most power costs. Under this method, a deferred account is adjusted to recognize power costs that are billed to member consumers. Any amounts collected over and above or below the Cooperative's monthly power costs are recorded as a deferred credit or deferred charge as applicable. At December 31, 2020 and 2019, the Cooperative had an accumulated over collection of power costs totaling approximately \$285,000 and \$882,000, respectively.

Notes to Financial Statements

A & N Electric Cooperative

December 31, 2020 and 2019

Note A - Summary of Significant Accounting Policies - Continued

Regulatory Accounting

The Cooperative 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 cooperative to record certain costs or credits that have been or are expected to be allowed in the ratemaking 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 Cooperative records certain assets and liabilities that result from the regulated ratemaking process that would not be recorded under GAAP for non-regulated entities.

Income Taxes

The Cooperative has been granted exemption from income tax under Internal Revenue Service Code Section 501(c)(12) of the Internal Revenue Code. The Cooperative evaluates the filing positions in all federal and state jurisdictions where it is required to file income tax returns, including its status as a tax-exempt electric cooperative entity. The Cooperative believes its income tax filing positions, including its status as a tax-exempt entity will be sustained and does not anticipate any adjustment that will result in a material change to its financial position.

Cash and Cash Equivalents

The Cooperative considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

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.

Advertising Costs

Advertising costs were expensed as incurred.

Subsequent Events

Subsequent events have been evaluated through February 18, 2021, which is the date the financial statements were available to be issued.

Notes to Financial Statements

A & N Electric Cooperative

December 31, 2020 and 2019

Note B - Assets Pledged

All assets are pledged as security for the long-term debt to National Rural Utilities Cooperative Finance Corporation (CFC) and Federal Financing Bank (FFB).

Note C - Electric Plant

Listed below are the major classes of electric plant:

| | December 31, | |
|-------------------------------|-----------------------|-----------------------|
| | 2020 | 2019 |
| Distribution plant | \$ 174,614,294 | \$ 169,919,812 |
| General plant | 19,253,441 | 19,531,821 |
| Acquisition adjustments | 6,438,902 | 6,438,902 |
| Transmission plant | 3,978,482 | 3,997,433 |
| Production plant | 3,283,037 | 3,192,138 |
| Intangible plant | 2,026 | 2,026 |
| Electric plant in service | 207,570,182 | 203,082,132 |
| Construction work in progress | 4,140,484 | 3,278,753 |
| | <u>\$ 211,710,666</u> | <u>\$ 206,360,885</u> |

In accordance with accounting for Asset Retirement Obligations and FERC Order 631 as adopted by the RUS, the Cooperative has determined that it had no legal asset retirement obligations for the years ended December 31, 2020 and 2019. Regarding non-legal retirement obligations, the Cooperative follows the regulatory principle of inter-generational cost allocation by including net salvage (gross salvage less cost of removal) as a component of depreciation rates.

Notes to Financial Statements

A & N Electric Cooperative

December 31, 2020 and 2019

Note D - Investments in Associated Organizations

Investments in associated organizations consisted of the following:

| | December 31, | |
|--|----------------------|----------------------|
| | 2020 | 2019 |
| Patronage capital: | | |
| Old Dominion Electric Cooperative (ODEC) | \$ 19,607,199 | \$ 18,847,896 |
| National Rural Telecommunications Cooperative | 862,015 | 862,008 |
| CFC | 414,908 | 401,831 |
| Federated Insurance | 410,011 | 391,572 |
| National Information Solutions Cooperative | 233,817 | 229,700 |
| Other | 96,857 | 92,250 |
| | <u>21,624,807</u> | <u>20,825,257</u> |
| Capital Term Certificates (CTC): | | |
| Subscriptions (SCTC's) | 416,306 | 416,306 |
| Loan (ZCTC's) | 12,506 | 14,806 |
| Loan (LCTC's) | | 8,850 |
| | <u>428,812</u> | <u>439,962</u> |
| Other: | | |
| Investment - TEC Trading | 202,500 | 202,500 |
| Investment in building - Virginia, Maryland and Delaware Association of Electric Cooperatives | 12,880 | 12,880 |
| Membership fees | 2,000 | 2,000 |
| Other | 29,760 | 27,314 |
| | <u>247,140</u> | <u>244,694</u> |
| | <u>\$ 22,300,759</u> | <u>\$ 21,509,913</u> |

Notes to Financial Statements

A & N Electric Cooperative

December 31, 2020 and 2019

Note D - Investments in Associated Organizations - Continued

The capital term certificates invested in CFC are unsecured and subordinated. The SCTC's bear interest at an annual rate of 5% payable semiannually and the LCTC's bear interest at an annual rate of 3% payable semiannually. The ZCTC's are non-interest bearing.

The investment in TEC Trading, Inc. represents an unconsolidated joint venture with other members of ODEC. The Cooperative has a non-controlling ownership interest that has been accounted for under the cost method.

Note E - Concentrations of Credit Risk

The Cooperative 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 Cooperative in each separate FDIC insured bank and savings institution. From time to time, the Cooperative may have amounts on deposit in excess of the insured limits. As of December 31, 2020, the Cooperative had approximately \$3,600,000 of deposits that exceed the insured limits. The Cooperative also had CFC Select Notes totaling approximately \$18,123,000, which were not insured.

Concentrations of credit risk with respect to consumer accounts receivable are generally limited due to the large number of consumers comprising the customer base.

Note F - Accounts Receivable

Accounts receivable consisted of the following:

| | December 31, | |
|---|----------------------|----------------------|
| | 2020 | 2019 |
| Unbilled revenue | \$ 5,933,869 | \$ 6,505,680 |
| Consumer accounts receivable | 5,424,390 | 5,580,551 |
| Other accounts receivable | 1,262,416 | 767,114 |
| | <u>12,620,675</u> | <u>12,853,345</u> |
| Less provision for uncollectible accounts | 152,141 | 174,890 |
| | <u>\$ 12,468,534</u> | <u>\$ 12,678,455</u> |

Notes to Financial Statements

A & N Electric Cooperative

December 31, 2020 and 2019

Note G - Deferred Charges

Deferred charges consisted of the following:

| | December 31, | |
|-------------------------------|---------------------|---------------------|
| | 2020 | 2019 |
| Qualifying PPP expenses | \$ 1,754,215 | \$ |
| NRECA R&S prepayment (Note O) | 494,551 | 741,826 |
| Deferred power costs (Note A) | 285,057 | 881,942 |
| Other | 182,400 | 244,017 |
| | <u>\$ 2,716,223</u> | <u>\$ 1,867,785</u> |

Qualifying Paycheck Protection Program (PPP) expenses represent expenses the Cooperative has deferred for ratemaking purposes in order to match the anticipated forgiveness of the PPP loan from CoBank which has been approved and is expected to occur during 2021 (Note J).

Note H - Patronage Capital

Patronage capital consisted of the following:

| | December 31, | |
|------------|----------------------|----------------------|
| | 2020 | 2019 |
| Assigned | \$ 86,066,347 | \$ 81,542,744 |
| Assignable | 4,401,034 | 4,523,603 |
| | 90,467,381 | 86,066,347 |
| Retired | (30,124,039) | (27,463,053) |
| | <u>\$ 60,343,342</u> | <u>\$ 58,603,294</u> |

Under provisions of the long-term debt agreement and Title 7 of the Code of Federal Regulations (Part 1717.617), the Cooperative 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 approximately 37% and 41% of total assets for 2020 and 2019, respectively.

Notes to Financial Statements

A & N Electric Cooperative

December 31, 2020 and 2019

Note I - Other Equities

Other equities consisted of the following:

| | December 31, | |
|-----------------|----------------------|----------------------|
| | 2020 | 2019 |
| Interest | \$ 13,226,011 | \$ 12,165,924 |
| Donated capital | 2,280,877 | 1,945,238 |
| Other | 421,311 | 408,928 |
| | <u>\$ 15,928,199</u> | <u>\$ 14,520,090</u> |

Note J - Long-Term Debt

Long-term debt consisted of the following:

| | December 31, | |
|------------------------------|-----------------------|----------------------|
| | 2020 | 2019 |
| FFB | | |
| Mortgage notes, fixed | \$ 104,617,538 | \$ 106,009,685 |
| Advanced payments, unapplied | | (26,229,204) |
| | <u>104,617,538</u> | <u>79,780,481</u> |
| CFC | | |
| Mortgage notes, fixed | 9,230,720 | 9,930,861 |
| CoBank | | |
| PPP loan, unsecured | 1,754,215 | |
| | <u>115,602,473</u> | <u>89,711,342</u> |
| Less current maturities | <u>5,607,100</u> | <u>3,724,000</u> |
| | <u>\$ 109,995,373</u> | <u>\$ 85,987,342</u> |

Long-term debt payable with FFB is represented by mortgage notes with rates ranging from 1.17% to 3.58%. The notes generally have 35-year maturity periods and are payable on an installment basis. Principal and interest payments are due quarterly in the amount of approximately \$1,230,000. The Cooperative had unadvanced funds totaling \$26,185,000 available from FFB as of December 31, 2020. In 2019, the Cooperative elected to participate in the RUS cushion of credit program, whereby a portion of principal and interest payments were prepaid to RUS and earned interest at a rate of 5.00%. During 2020, the Cooperative applied the RUS cushion of credit to pay off a portion of the FFB mortgage notes. For the year ended December 31, 2019, the Cooperative had prepaid approximately \$26,000,000, which was reflected in the financial statements as a reduction of long-term debt to FFB.

Notes to Financial Statements

A & N Electric Cooperative

December 31, 2020 and 2019

Note J - Long-Term Debt - Continued

The security and terms for the CFC notes, except for interest rates which range from 3.45% to 5.00%, are the same as the FFB notes. Principal and interest payments are due in monthly installments of approximately \$56,000 and quarterly installments of approximately \$108,000. The Cooperative had approximately \$7,875,000 of unadvanced funds available from CFC as of December 31, 2020.

Under the terms of the loan agreements with RUS, CFC, and FFB there are certain restrictions, which include requirements to maintain a TIER (times interest earned ratio) of 1.25 and DSC (debt service coverage) of 1.25. There were also restrictions on the return of capital to patrons as discussed in Note H. As of December 31, 2020 and 2019, the Cooperative was in compliance with all covenants and restrictions.

Long-term debt payable to CoBank is represented by an unsecured PPP note bearing interest at a fixed rate of 1.00% with deferred monthly interest payments (as defined in the loan documents) and one principal payment due in 2025.

During 2020, the Federal Government enacted legislation allowing companies to borrow money through qualified lenders backed by the Small Business Administration (SBA) to provide funds to extend employment for those that might be adversely affected by COVID-19. The program is known as the Paycheck Protection Program (PPP). Under this program the Cooperative applied for and received \$1,754,215 through CoBank to use for payroll and other qualified expenses. The program allows for forgiveness of the loan amount and any accrued interest if the Cooperative can demonstrate that they incurred qualifying expenses in a prescribed time frame. Subsequent to December 31, 2020, the Cooperative has received final notification and approval that their loan will be fully forgiven during 2021. The related qualifying expenses have been recorded as a regulatory asset (Note G) and will be recognized at the time the loan is forgiven in 2021.

Annual maturities of long-term debt were as follows:

| <u>Year Ending December 31,</u> | |
|---------------------------------|-----------------------|
| 2021 | \$ 5,607,100 |
| 2022 | 3,608,684 |
| 2023 | 3,685,452 |
| 2024 | 3,767,778 |
| 2025 | 5,586,301 |
| Thereafter | <u>93,347,158</u> |
| | <u>\$ 115,602,473</u> |

The Cooperative has a line of credit with CFC in the amount of \$13,200,000, there was no advances outstanding at December 31, 2020. There was \$2,000,000 of advances outstanding at December 31, 2019. The Cooperative has an unsecured line of credit with CoBank in the amount of \$1,000,000. There were no advances outstanding at December 31, 2020 and 2019.

The Cooperative had an unused letter of credit from CFC in the amount of \$100,000 at December 31, 2020 and 2019.

Notes to Financial Statements

A & N Electric Cooperative

December 31, 2020 and 2019

Note K - Other Noncurrent Liabilities

Other noncurrent liabilities consisted of the following:

| | December 31, | |
|---|---------------------|---------------------|
| | 2020 | 2019 |
| Accumulated provision for self-funded maintenance | \$ 2,681,207 | \$ 2,691,925 |
| Other | 468,161 | 330,000 |
| | <u>\$ 3,149,368</u> | <u>\$ 3,021,925</u> |

The Cooperative has a self-funded maintenance reserve intended for use for major storm damage repair. The reserve has been funded through investments which are included in special funds on the balance sheet.

Note L - Deferred Credits

Deferred credits consisted of the following:

| | December 31, | |
|------------------------------|-------------------|------------------|
| | 2020 | 2019 |
| Deferred fuel | \$ 120,718 | \$ 46,258 |
| Deferred sales tax surcharge | 22,834 | 21,263 |
| | <u>\$ 143,552</u> | <u>\$ 67,521</u> |

Note M - Contingencies

The Cooperative and Local 1307 of the International Brotherhood of Electrical Workers have a collective bargaining agreement, which covers approximately 55% of the Cooperative's employees and substantially all non-administrative hourly employees. The current agreement expires on December 31, 2021.

Note N - Cost of Power

The Cooperative, as a member of ODEC, an organization composed of electric cooperatives in Virginia, Maryland and Delaware, has entered into a long-term contract with ODEC for the acquisition of wholesale power through ODEC as have other members of the organization. The cost of wholesale power purchases through ODEC may increase or decrease based upon rates established by the Board of Directors of ODEC.

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 multi-employer plan under the accounting standards.

Notes to Financial Statements

A & N Electric Cooperative

December 31, 2020 and 2019

Note O - Retirement Plans - Continued

The plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333.

A unique characteristic of a multi-employer plan compared with 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 2020 and in 2019 represented less than 5% of the total contributions made to the RS Plan by all participating employers. The Cooperative made contributions to the RS Plan of approximately \$1,091,000 and \$1,081,000 in 2020 and 2019, respectively.

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% funded at January 1, 2020 and over 80% funded on January 1, 2019 based on the PPA funding target and PPA actuarial value of assets on those dates.

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

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 23, 2013, the Cooperative made a prepayment of \$2,431,316 to the NRECA RS Plan, which is being amortized over a period of 10 years as part of deferred charges.

Deferred Income Plan

In addition to the NRECA RS Plan, substantially all employees of the Cooperative are eligible to participate in the NRECA SelectRE pension plan (the "Plan"), a defined contribution multi-employer deferred income plan qualified under Section 401(k) of the Internal Revenue Code. For the years ended December 31, 2020 and 2019, the Cooperative's required contribution to the Plan and its net pension cost was approximately \$191,000 and \$177,000, respectively.

Notes to Financial Statements

A & N Electric Cooperative

December 31, 2020 and 2019

Note P - Financial Instruments Carried at Cost

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

Cash and Cash Equivalents

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

Accounts Receivable

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

Investments in Associated Organizations

Fair value of capital term certificates was determined by computing the present value of estimated future cash flows, discounted at the long-term treasury rate of 1.65% and 2.39% for the years ending December 31, 2020 and 2019, respectively. The fair value of patronage capital is not determinable since no legal obligation exists to retire capital credits. The fair value of the cost method investment is not estimated since there are no identified events or changes in circumstances that may have a significant adverse effect on the fair value, and it is not practicable to estimate fair value. The carrying value of memberships approximates fair value.

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 Cooperative's fixed long-term debt includes certain interest rates that are below quoted market prices for the same or similar issues. Therefore, the fair value of fixed long-term debt is estimated based on current market prices for the same or similar issues offered for debt of the same and remaining maturities which was 3.57% and 4.19% for the years ending December 31, 2020 and 2019, respectively.

The carrying amount of lines of credit approximates fair value due to the short maturity of these instruments.

Notes to Financial Statements

A & N Electric Cooperative

December 31, 2020 and 2019

Note P - Financial Instruments Carried at Cost - Continued

Consumer Deposits

The carrying amount of consumer deposits approximates fair value due to the short maturity of these instruments.

The estimated fair value of the Cooperative's financial instruments are as follows:

| | December 31, | | | |
|---|-------------------|----------------|-------------------|---------------|
| | 2020 | | 2019 | |
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Assets: | | | | |
| Capital term certificates | \$ 428,812 | \$ 946,000 | \$ 439,962 | \$ 771,000 |
| Liabilities: | | | | |
| CFC, FFB and CoBank notes payable including current portion | \$ 115,602,473 | \$ 105,631,000 | \$ 89,711,342 | \$ 87,634,000 |

Note Q - Related Party Transactions

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

The Cooperative was a member of CFC, a national financing organization, and had investment assets, a line of credit, and mortgage notes payable at various interest rates and maturities.

The Cooperative was a member of CoBank, a national financing organization, and had investment assets, a line of credit, and a note payable.

The Cooperative, as a member of ODEC, 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 ODEC. The Cooperative also maintains transmission assets owned by ODEC in the Cooperative's service territory.

The Cooperative was a member of the Virginia, Maryland and Delaware Association of Electric Cooperatives, an association organized to serve rural electrification in those three state areas by providing group efforts on a regional basis in public and member relations, government affairs, human resource development, technical services, and legal services.

The Cooperative was a member of National Rural Telecommunications Cooperative (NRTC), a telecommunications cooperative, and purchases various equipment from NRTC.

Notes to Financial Statements

A & N Electric Cooperative

December 31, 2020 and 2019

Note Q - Related Party Transactions - Continued

The Cooperative also has immaterial investments in various other service organizations and conducts day to day operations with these organizations.

Note R - COVID-19

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

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



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

The Board of Directors
A & N Electric Cooperative
Tasley, Virginia

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 financial statements of A & N Electric Cooperative (the “Cooperative”), which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of operations, equities and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated February 18, 2021.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered the Cooperative’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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Cooperative’s internal control.

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

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

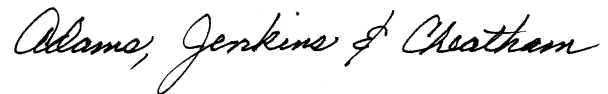
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cooperative's 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*.

We noted certain matters that we reported to management of A & N Electric Cooperative in a separate letter dated February 18, 2021.

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 Cooperative's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the Cooperative's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Richmond, Virginia
February 18, 2021



**Independent Auditor’s Report on Compliance with
Aspects of Contractual Agreements and Regulatory
Requirements for Electric Borrowers**

The Board of Directors
A & N Electric Cooperative
Tasley, Virginia

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 financial statements of A & N Electric Cooperative (the “Cooperative”), which comprise the balance sheet as of December 31, 2020, and the related statements of operations, equities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 18, 2021. In accordance with *Government Auditing Standards*, we have also issued a report dated February 18, 2021 on our consideration of the Cooperative’s internal control over financial reporting and 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 Cooperative 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 Cooperative’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 Cooperative’s accounting and records to indicate that the Cooperative did not:

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

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

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

Allama, Jenkins & Cheatham

Richmond, Virginia
February 18, 2021