

RAPPAHANNOCK ELECTRIC COOPERATIVE

Financial Statements

December 31, 2020 and 2019

Years ended December 31, 2020, 2019 and 2018

RAPPAHANNOCK ELECTRIC COOPERATIVE

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Independent Auditor's Report

The Board of Directors
Rappahannock Electric Cooperative
Fredericksburg, Virginia

We have audited the accompanying financial statements of Rappahannock Electric Cooperative (the Cooperative) which comprise the balance sheets as of December 31, 2020 and 2019 and the related statements of operations, comprehensive income, cash flows and equities for the years ended December 31, 2020, 2019 and 2018, 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 audits 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 Rappahannock Electric Cooperative as of December 31, 2020 and 2019, and the results of its operations, comprehensive income and its cash flows for the years ended December 31, 2020, 2019 and 2018, 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 a report dated April 12, 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, 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* and should be read in considering the Cooperative's internal control over financial reporting and compliance.

Richmond, Virginia
April 12, 2021

A handwritten signature in cursive script that reads "Adams, Jenkins & Chestern".

RAPPAHANNOCK ELECTRIC COOPERATIVE

Balance Sheets

December 31, 2020 and 2019

Assets	2020	2019
	(In thousands)	
Net utility plant	\$ 730,007	\$ 701,900
Investments:		
Associated organizations	144,569	140,522
Other	3,843	3,256
Total investments	148,412	143,778
Current assets:		
Cash and cash equivalents	7,072	3,797
Short-term investments	51,672	8,810
Accounts receivable, less allowance for doubtful accounts	35,553	29,639
Unbilled receivables	17,572	17,722
Materials and supplies inventories	8,299	5,848
Prepaid expenses	1,615	1,730
Other	4,642	3,634
Total current assets	126,425	71,180
Deferred charges:		
Pension costs	9,814	10,992
Power cost adjustment	—	2,456
Labor costs (Paycheck Protection Program)	8,487	—
Other	954	1,471
Total deferred charges	19,255	14,919
Total assets	\$ 1,024,099	\$ 931,777
Equities and Liabilities		
Equities:		
Patronage capital	\$ 427,172	\$ 420,097
Accumulated other comprehensive income (loss)	(518)	(319)
Total equities	426,654	419,778
Long-term debt, excluding current installments	510,962	432,430
Current liabilities:		
Current installments of long-term debt	16,950	15,949
Amounts due to power suppliers	25,753	27,896
Accounts payable	10,803	9,895
Consumer deposits	7,358	7,400
Coronavirus Relief Funds	4,844	—
Other	7,098	6,769
Total current liabilities	72,806	67,909
Other noncurrent liabilities:		
Postretirement benefit obligation	910	1,181
Deferred credits-power cost adjustment	1,528	—
Deferred credits-other	8,360	8,392
Other	2,879	2,087
Total other noncurrent liabilities	13,677	11,660
Total equities and liabilities	\$ 1,024,099	\$ 931,777

See Independent Auditor's Report and Notes to Financial Statements

RAPPAHANNOCK ELECTRIC COOPERATIVE

Statements of Operations

Years ended December 31, 2020, 2019 and 2018

	2020	2019	2018
	(In thousands)		
Operating revenues	\$ 416,376	\$ 461,392	\$ 446,656
Operating expenses:			
Cost of power	266,170	307,394	293,833
Transmission	821	460	589
Distribution – operations	13,716	15,728	14,796
Distribution – maintenance	30,481	33,599	32,345
Consumer accounts	13,976	14,064	13,863
Consumer service	2,889	3,141	2,958
Sales, administrative, and general	18,774	19,943	17,014
Total	346,827	394,329	375,398
Other expenses:			
Depreciation	41,143	39,519	37,120
Interest on long-term debt	17,818	17,895	17,638
Other	1,083	836	1,173
Total other expenses	60,044	58,250	55,931
Total expenses	406,871	452,579	431,329
Operating margins	9,505	8,813	15,327
Nonoperating margins:			
Patronage capital assigned	5,190	6,640	5,705
Interest income	1,193	1,772	1,171
Other income (loss), net	1,893	1,298	(868)
Total nonoperating margins	8,276	9,710	6,008
Net margins	\$ 17,781	\$ 18,523	\$ 21,335

Statements of Comprehensive Income

Years ended December 31, 2020, 2019 and 2018

	2020	2019	2018
	(In thousands)		
Net Margins	\$ 17,781	\$ 18,523	\$ 21,335
Other Comprehensive Income (Loss):			
Actuarial change	(171)	95	(14)
Amortization loss	—	(16)	—
Prior service cost	(57)	—	(456)
Amortization of prior service cost	29	27	27
Total other comprehensive income (loss)	(199)	106	(443)
Comprehensive Income	\$ 17,582	\$ 18,629	\$ 20,892

See Independent Auditor's Report and Notes to Financial Statements

RAPPAHANNOCK ELECTRIC COOPERATIVE

Statements of Cash Flows

Years ended December 31, 2020, 2019 and 2018

	<u>2020</u>	<u>2019</u>	<u>2018</u>
		(In thousands)	
Cash flows from operating activities:			
Net margins	\$ 17,781	\$ 18,523	\$ 21,335
Adjustments:			
Depreciation	41,143	39,519	37,120
Noncash capital credit allocations	(5,190)	(6,640)	(5,705)
Special equipment installation costs	(3,475)	(2,733)	(2,380)
Cushion of credit interest expense applied	—	2,278	10,360
Loss on disposal of assets	28	359	2,274
(Increase) decrease in assets:			
Other investments	(587)	(88)	(22)
Accounts and unbilled receivables	(5,764)	6,771	5,088
Other current assets	(893)	(73)	3,267
Deferred charges	(4,336)	(1,552)	1,937
Increase (decrease) in liabilities:			
Accounts payable	(1,235)	3,075	1,872
Other current liabilities	5,146	(206)	112
Deferred credits	1,496	(10,924)	1,619
Other noncurrent liabilities	349	132	65
Net cash provided by operating activities	<u>44,463</u>	<u>48,441</u>	<u>76,942</u>
Cash flows from investing activities:			
Extension and replacement of plant	(71,566)	(60,347)	(47,777)
Contributions in aid of construction	5,461	4,472	4,578
Plant removal costs	(2,150)	(2,338)	(3,295)
Retirement of CTC's	182	42	47
Purchases/receipts of investments	(284,877)	(253,115)	(290,694)
Maturities of investments	242,015	276,031	259,047
Net cash used in investing activities	<u>(110,935)</u>	<u>(35,255)</u>	<u>(78,094)</u>
Cash flows from financing activities:			
Net change in consumer deposits	(42)	352	(756)
Proceeds from patronage capital retired	961	2,145	1,299
Retirements of patronage capital	(10,706)	(5,055)	(6,376)
Cushion of credit payments	—	—	(31,340)
Proceeds from long-term debt	95,488	—	51,975
Payments on long-term debt	(15,954)	(12,396)	(7,588)
Proceeds from line of credit	20,000	—	16,000
Payments on line of credit	(20,000)	—	(19,200)
Net cash provided by (used in) financing activities	<u>69,747</u>	<u>(14,954)</u>	<u>4,014</u>
Net increase (decrease) in cash and cash equivalents	3,275	(1,768)	2,862
Cash and cash equivalents, beginning of year	<u>3,797</u>	<u>5,565</u>	<u>2,703</u>
Cash and cash equivalents, end of year	\$ <u>7,072</u>	\$ <u>3,797</u>	\$ <u>5,565</u>
Supplemental disclosure:			
Cash paid for interest	\$ 18,146	\$ 18,103	\$ 17,771

See Independent Auditor's Report and Notes to Financial Statements

RAPPAHANNOCK ELECTRIC COOPERATIVE

Statements of Equities

December 31, 2020 and 2019

	<u>Patronage Capital</u>	<u>Accumulated Other Comprehensive Income (Loss)</u> (In thousands)	<u>Total</u>
Balance, December 31, 2018	\$ 406,629	\$ (425)	\$ 406,204
Net Margins	18,523	—	18,523
Retirement of Patronage Capital	(5,055)	—	(5,055)
Other Comprehensive Income	<u>—</u>	<u>106</u>	<u>106</u>
Balance, December 31, 2019	\$ 420,097	\$ (319)	\$ 419,778
Net Margins	17,781	—	17,781
Retirement of Patronage Capital	(10,706)	—	(10,706)
Other Comprehensive Loss	<u>—</u>	<u>(199)</u>	<u>(199)</u>
Balance, December 31, 2020	<u>\$ 427,172</u>	<u>\$ (518)</u>	<u>\$ 426,654</u>

See Independent Auditor's Report and Notes to Financial Statements

RAPPAHANNOCK ELECTRIC COOPERATIVE

Notes to Financial Statements

December 31, 2020, 2019 and 2018

(1) Significant Accounting Policies

(a) General

Rappahannock Electric Cooperative (the Cooperative) is an electric distribution utility engaged in the retail sale of electricity to residential and commercial member consumers in the central portion of Virginia. The Cooperative serves its member consumers located in select areas within the counties of Albemarle, Caroline, Clarke, Culpeper, Essex, Fauquier, Frederick, Goochland, Greene, Hanover, King & Queen, King William, Louisa, Madison, Orange, Page, Rappahannock, Rockingham, Shenandoah, Spotsylvania, Stafford and Warren and portions of the towns of Berryville, Bowling Green, Boyce, Culpeper, Front Royal, Madison, Middletown, Port Royal, Stanardsville, Stephens City, and Washington. The rates charged to member consumers of the Cooperative are regulated by the State Corporation Commission of Virginia (SCC).

Rappahannock Electric Communications, Inc. is a wholly owned for-profit subsidiary operating under a management agreement with the Cooperative. The investment is accounted for using the equity method. All transactions of the subsidiary are considered immaterial to the Cooperative's financial statements and therefore have not been consolidated.

The Cooperative is a member of Old Dominion Electric Cooperative (ODEC), a not-for-profit wholesale power supply cooperative. The Cooperative is required to purchase substantially all of its power from ODEC through 2054 (see note 10). The Cooperative's investment of \$129,506,998 in ODEC as of December 31, 2020, is 28.6% of ODEC's patronage capital.

As a cooperative regulated by the SCC, the Cooperative has exclusive rights to distribute electricity to portions of the above counties and towns. As of January 1, 2003, the Cooperative completed the transition to allow competition within its service area in accordance with the Electric Utility Restructuring Act of 1999 and the Retail Access Rules established by the SCC. The legislation clarifies that cooperatives will be default suppliers of all competitive services and will continue to be permitted to sell electricity directly to their customers.

(b) Uniform System of Accounts

The accounts of the Cooperative are maintained in accordance with the Uniform System of Accounts as prescribed by the United States of America – Rural Utilities Service (RUS). The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

The Cooperative follows the accounting practices set forth in GAAP regarding accounting for the effects of certain types of regulations. This standard requires entities to capitalize or defer certain costs or revenues based on the Cooperative's ongoing assessment that it is probable that such items will be recovered through future revenues.

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Notes to Financial Statements

December 31, 2020, 2019 and 2018

(c) *Utility Plant*

Utility plant is stated at original cost, which includes direct labor, payroll taxes and other fringe benefits related to employees engaged in construction, materials and certain indirect costs such as maintenance and depreciation of transportation and construction equipment. The costs of depreciable utility plant retired and related removal costs, less salvage values, are charged to accumulated depreciation.

As of December 31, 2015, the Cooperative authorized a depreciation study of its electric utility plant to determine if the rates in use were providing for an accurate recovery of costs. Based on that study, changes were made effective March, 2018. Provision is made for depreciation of plant based on straight-line rates per annum as follows:

Allegheny acquisition adjustment	3.05%
Fort A.P. Hill acquisition adjustment	4.08%
Transmission station equipment	2.47%
Transmission poles and fixtures	3.19%
Transmission overhead conductors and devices	3.47%
Transmission underground conductors and devices	4.74%
Distribution station equipment	4.09%
Distribution station equipment-SCADA	7.27%
Distribution station equipment-Load Management	6.83%
Poles, towers and fixtures	5.22%
Overhead conductors and devices	4.01%
Overhead conductors and devices-SCADA	8.54%
Overhead conductors and devices-load management	6.12%
Underground conduit	4.27%
Underground conductor and devices	3.75%
Underground conductor and devices-nonjacketed cable	0.24%
Line transformers	1.69%
Services	3.83%
Meters	4.79%
Meters-AMR modules	11.36%
Meters-communication devices	5.24%
Security lights	8.55%
Load management equipment	5.65%

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Notes to Financial Statements

December 31, 2020, 2019 and 2018

Structures and improvements	3.08%
Office furniture and equipment	4.26%
Office furniture and equipment-computerized	10.30%
Office furniture and equipment-software	2.51%
Office furniture and equipment-system hardware	3.47%
Transportation equipment	8.93%
Stores equipment	3.21%
Tools, shop and garage equipment	3.57%
Laboratory equipment	3.39%
Power operated equipment	3.12%
Communications equipment	8.52%
Miscellaneous equipment	4.37%

(d) Cash and Cash Equivalents

The Cooperative considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. Cash equivalents are stated at cost, which approximates their fair values.

(e) Short-Term Investments

In 2020 and 2019, the Cooperative earned an average rate of 0.78% and 2.37%, respectively, on prepayments of its ODEC power bill. ODEC allows for the immediate return of these prepayments if requested. Therefore, the Cooperative accounts for these interest-bearing prepayments as short-term investments. At December 31, 2020 and 2019, the Cooperative had short-term investments of \$51,671,672 and \$8,809,975, respectively.

(f) Allowance for Doubtful Accounts

At year-end, the provision for doubtful accounts is adjusted based on an analysis of aged accounts receivable balances. At December 31, 2020 and 2019, the Cooperative had allowances of \$2,604,680 and \$997,287, respectively. The Commonwealth of Virginia enacted a utility disconnect moratorium effective March 16, 2020 and continued beyond year-end. Due to unpaid bills caused by the COVID-19 pandemic, the Cooperative experienced an increase in delinquent accounts receivable balances. The Cooperative maintains a policy, which includes an analysis of aged accounts receivable, of writing off uncollectible accounts with Board approval.

(g) Materials and Supplies Inventories

Materials and supplies inventories are stated at the lower of market or average cost and are generally used for construction or operations, not for resale.

RAPPAHANNOCK ELECTRIC COOPERATIVE

Notes to Financial Statements

December 31, 2020, 2019 and 2018

(h) *Postretirement Benefits Other Than Pensions*

The Cooperative accounts for postretirement benefits other than pensions by charging the projected future cost of providing postretirement benefits, such as health care and life insurance, to expense as such benefits are earned by the employees.

(i) *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 components of the annual test for compliance to maintain its filing status as a tax exempt entity. In accordance with the Financial Accounting Standards Board ASC Topic 740-10, *Accounting for Uncertainty in Income Taxes*, the Cooperative had determined that it is more likely than not that their tax positions will be sustained upon examination by the Internal Revenue Service.

(j) *Power Cost Adjustment (PCA)*

The Cooperative uses the deferred method of accounting for all 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, the Cooperative had a cumulative over collection of power costs totaling \$1,527,763. At December 31, 2019, the Cooperative had a cumulative under collection of power costs totaling \$2,455,823.

(k) *Revenue Recognition*

The Cooperative has analyzed the provisions of ASC Topic 606, *Revenue from Contracts with Customers*, and has concluded that no changes are necessary to conform to the new standard. Revenue from electricity is recorded when it is consumed, which complies with the requirements of ASC Topic 606. The Cooperative recognized revenue from consumed electricity in the appropriate reporting period through its estimate of unbilled revenue which is recorded based on estimated amounts due from members for electricity used but not yet billed by the Cooperative.

(l) *Advertising Costs*

The Cooperative expenses advertising costs as incurred. There were no material advertising costs for the years ended December 31, 2020, 2019, and 2018.

(m) *Asset Retirement Obligations*

In accordance with the Financial Accounting Standards Board ASC Topic 410, *Accounting for Asset Retirement Obligations*, the Cooperative has determined that it had no material legal asset retirement obligations as of 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.

RAPPAHANNOCK ELECTRIC COOPERATIVE

Notes to Financial Statements

December 31, 2020, 2019 and 2018

(n) *Impairment or Disposal of Long-Lived Assets*

In accordance with the Financial Accounting Standards Board ASC Topic 360, *Accounting for the Impairment or Disposal of Long-Lived Assets*, long-lived assets and certain identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

(o) *Internal Use Software*

In accordance with the Financial Accounting Standards Board ASC Topic 350-40, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*, the Cooperative capitalizes certain internal and external costs of developing internal use software and amortizes them over the estimated useful life of the software.

(p) *Recently Issued Accounting Standards*

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

(q) *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(r) *Subsequent Events*

Subsequent events have been evaluated through April 12, 2021, which is the date the financial statements were available to be issued (see note 14).

RAPPAHANNOCK ELECTRIC COOPERATIVE

Notes to Financial Statements

December 31, 2020, 2019 and 2018

(2) Utility Plant

Utility plant, at cost, as of December 31, 2020 and 2019, consists of the following:

	2020	2019
	(In thousands)	
Distribution	\$ 926,522	\$ 898,035
Transmission	45,675	38,636
General	127,423	115,419
Acquisition adjustments	54,324	54,324
Utility plant in service	1,153,944	1,106,414
Construction in progress	44,025	36,176
Total utility plant	1,197,969	1,142,590
Less accumulated amortization and depreciation	467,962	440,690
Net utility plant	\$ 730,007	\$ 701,900

(3) Investments in Associated Organizations and Other Investments

Investments in associated organizations are primarily composed of patronage capital assigned from ODEC, National Rural Utilities Cooperative Finance Corporation (CFC), and CoBank. These investments are recorded at cost plus allocated patronage capital. The patronage allocations are non-interest-bearing and ultimate realization of the amounts is based upon the granting cooperative's policies. At December 31, 2020 and 2019, investments in associated organizations consist of the following:

	2020	2019
	(In thousands)	
ODEC patronage capital assigned	\$ 129,507	\$ 125,752
CFC patronage capital certificates	1,939	1,910
CoBank Class E stock	5,664	5,473
Other	3,410	3,156
Investments in associated organizations	140,520	136,291
Investment in capital term certificates (CFC):		
Subscription capital term certificates	2,457	2,457
Loan capital term certificates:		
Interest-bearing	778	916
Non-interest-bearing	314	358
Member capital securities	500	500
Capital term certificates and member capital securities	4,049	4,231
Total Investments in Associated Organizations	\$ 144,569	\$ 140,522

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Notes to Financial Statements

December 31, 2020, 2019 and 2018

The CFC patronage capital certificates and the CoBank Class E stock may be retired at book value at the sole discretion of those organizations' boards of directors.

The CFC subscription capital term certificates pay interest semiannually at a rate of 5% per annum and are currently scheduled to mature beginning in 2070 and ending in 2080. The CFC interest-bearing loan capital term certificates pay interest semiannually at a rate of 3% per annum and began maturing in 2020 and ending in 2035. The CFC non-interest-bearing loan capital term certificates include two types of certificates. The first type has each certificate maturing in the same year as the corresponding loan, the last one matured in 2018. The second type pays an annual amount based upon the outstanding loan balance with maturities ranging from 2024 to 2027.

In April, 2014, the Cooperative invested in member capital securities that pay interest semiannually at a rate of 5% per annum, are scheduled to mature in April, 2044 and are callable by CFC beginning April, 2024.

Other investments include TEC Trading, Inc. which is recorded at cost of \$1,782,500.

(4) Long-Term Debt

Long-term debt at December 31, 2020 and 2019 consists of the following:

	2020	2019
	(In thousands)	
Mortgage notes:		
RUS-		
due 2031 through 2053; (1.05% - 4.38%)	\$ 365,349	\$ 286,027
CoBank-		
due 2025 through 2045; (1.00% - 6.85%)	97,687	93,960
CFC-		
due 2024 through 2045; (3.40% - 4.05%)	64,876	68,236
CISCO-		
due 2020; (2.40%)	—	156
Total long-term debt	527,912	448,379
Less current installments	16,950	15,949
Long-term debt, excluding current installments	\$ 510,962	\$ 432,430

Annual maturities of long-term debt for the five years subsequent to December 31, 2020, and thereafter are approximately \$16.9 million in 2021, \$19.4 million in 2022, \$20.2 million in 2023, \$20.7 million in 2024, \$29.8 million in 2025 and \$420.9 million thereafter.

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Notes to Financial Statements

December 31, 2020, 2019 and 2018

(a) *Mortgage Notes*

Under provisions of the mortgage note agreements, if total equities are less than 30% of the total assets of the Cooperative, the return to members of patronage capital is limited to 25% of the margins earned by the Cooperative in the preceding year. Total equities of the Cooperative represented 41.7% and 45.1% of the total assets at December 31, 2020 and 2019, respectively. The mortgage note agreements also restrict the Cooperative's ability to retire equity when its Times Interest Earned Ratio (TIER) and Debt Service Coverage ratio (DSC) are both less than 1.25. TIER was 2.0, 2.0, and 2.2 in 2020, 2019 and 2018, respectively. DSC was 2.3, 2.3, and 2.4 in 2020, 2019 and 2018, respectively. The agreements also contain certain provisions and restrictions relating to, but not limited to, the sale of utility plant, insurance coverage and minimum equity requirements. Substantially all plant assets are pledged as collateral.

In February 2020, the Cooperative was approved for approximately \$123.2 million loan package from RUS. \$87 million was drawn on this loan package during 2020. During 2019, the Cooperative did not obtain any new debt.

(b) *Paycheck Protection Program*

During 2020, the Federal Government enacted legislation allowing companies to borrow money through the Small Business Administration (SBA) to extend employment for those that might be adversely affected by COVID-19. The program is known as the Paycheck Protection Program (PPP). Under this program, a company can apply for funds to use to continue to employ personnel through the downturn experienced during the COVID-19 pandemic. The program allows for a forgiveness of the loan amount if the company can demonstrate that they incurred qualifying expenses in a prescribed time frame, in this case 24 weeks.

The Cooperative applied for and was granted a loan of \$8,487,295 and received the funds on June 30, 2020. Currently, the balance is reflected in Long-Term Debt with CoBank and carries a 5-year maturity. The Cooperative believes it will have sufficient qualifying expenses within the 24-week period to obtain full forgiveness in 2021. With that in mind, in 2020, the Cooperative deferred those expenses for ratemaking purposes in order to match the anticipated forgiveness of the PPP loan. If the amount is forgiven, the Cooperative will credit the deferred asset and remove the loan obligation. If some or all of the amount is not forgiven, the Cooperative will again record the expenses and retain the loan obligation.

(c) *Lines of Credit*

The Cooperative has unsecured line-of-credit agreements with two banks in the amounts of \$80 million with CFC and \$50 million with CoBank. Under authority granted by the SCC, the Cooperative is authorized to incur indebtedness under these agreements in the aggregate amount up to \$80 million.

The interest rate on advances under these agreements is equal to the rate to be quoted by each bank based on its discretion. The Cooperative had a zero balance on both line-of-credit agreements as of December 31, 2020 and 2019.

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Notes to Financial Statements

December 31, 2020, 2019 and 2018

(5) Concentration of Credit Risk

Financial instruments, which potentially subject the Cooperative to concentration of credit risk, consist principally of cash and cash equivalents and customer accounts receivable.

The Cooperative maintains checking accounts in SunTrust Bank, Atlantic Union Bank and Wells Fargo. The Federal Deposit Insurance Corporation (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 \$8.3 million of uninsured deposits. Also, at December 31, 2020, the Cooperative had ODEC prepayments totaling approximately \$51.7 million which were not insured. This balance is shown as short-term investments on the balance sheet.

Accounts receivable primarily consist of amounts due from customers for the purchase of electricity. Customers are located within the twenty-two counties and eleven towns of Virginia served by the Cooperative. Approximately 75% of the Cooperative's receivables are for residential customers and due to the large number of customers involved, are a minimal risk. The commercial and public customers represent approximately 25% of receivables. Management minimizes the credit risk with deposit requirements, provisions for doubtful accounts, and accounts receivable insurance.

(6) Leases

The Cooperative has operating leases for facilities and office equipment. Future minimum lease payments under noncancellable operating leases that have remaining terms in excess of one year as of December 31, 2020 are as follows:

Year ending December 31:	(In thousands)
2021	\$ 174
2022	166
2023	26
Thereafter	3
Total minimum lease payments	<u>\$ 369</u>

Rental expense of \$324,648, \$317,668 and \$329,176 was recognized in 2020, 2019 and 2018, respectively.

(7) Margin Stabilization

The Cooperative's wholesale power supplier, ODEC, has an approved Margin Stabilization Plan. The purpose of this plan is to maintain ODEC's margins within a predetermined range. Margin stabilization payments or charges are passed through to member consumers as deferred credits or deferred charges utilizing the power cost adjustment factor. These payments from ODEC were \$4,334,896 and \$2,179,170 at December 31, 2020 and 2019, respectively.

RAPPAHANNOCK ELECTRIC COOPERATIVE

Notes to Financial Statements

December 31, 2020, 2019 and 2018

(8) Benefits

(a) *Pension Plan*

All employees of the Cooperative that complete one year of service are participants in the National Rural Electric Cooperative Association (NRECA) Retirement Security Plan (RS Plan) which is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is 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 2020 and in 2019 represented less than 5 percent of the total contributions made to the plan by all participating employers. The Cooperative made annual contributions to the plan of \$8,138,829 and \$7,414,629 in 2020 and 2019, respectively. There have been no significant changes that affect the comparability of 2020 and 2019 contributions.

In 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 Retirement Security Plan was over 80 percent funded on January 1, 2020 and over 80 percent funded on January 1, 2019 based on the PPA funding target and PPA actuarial value of assets on those dates.

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

In addition to the NRECA Retirement and Security Program, substantially all employees of the Cooperative are eligible to participate in the NRECA SelectRE plan, a defined contribution and multi-employer deferred income plan qualified under section 401(k) of the Internal Revenue Code. The Cooperative's required contribution to the Plan and its' net pension cost was \$709,572, \$656,691 and \$622,659 for the years ended December 31, 2020, 2019 and 2018, respectively.

(b) *Deferred Benefit Plan*

The Cooperative has entered into deferred benefit agreements with certain of its employees that provide for annual benefit payments to be made over a period of 15 years upon retirement or death of the covered employees. The contributions and related interest under these agreements are being accrued over the period of active employment of the covered employees. The amounts of such accruals were approximately \$558,000, \$593,000 and \$590,000, as of December 31, 2020, 2019 and 2018, respectively, and are included in other liabilities. The expense under these agreements amounted to \$48,155, \$39,334 and \$34,199, in 2020, 2019 and 2018, respectively.

RAPPAHANNOCK ELECTRIC COOPERATIVE

Notes to Financial Statements

December 31, 2020, 2019 and 2018

For the deferred benefit plan, the Cooperative is the beneficiary of life insurance policies on these employees which were acquired to provide for future payments of these benefits. These policies are shown as other investments in the accompanying balance sheets and are carried at current cash surrender value. The face amount of these policies total \$2,629,326. As of December 31, 2020 and 2019, the cash surrender values of these policies were \$869,628 and \$911,996, respectively.

(c) 457(b) Deferred Compensation Plan

The Cooperative participates in a nonqualified, deferred compensation 457(b) Plan limited to certain directors of the board and certain key employees. The Cooperative retains ownership of the assets and earnings until the retirement date of the participant. The plan is administered by Homestead Funds. For the years ended December 31, 2020 and 2019, the balance of the deferred compensation held for the benefit of the directors of the board was \$36,086 and \$33,936, respectively. For the years ended December 31, 2020 and 2019, the balance of the deferred compensation held for the benefit of the key employees was \$742,217 and \$526,857, respectively.

(d) Executive Benefit Restoration Plan

The Cooperative participates in an executive benefit restoration plan which is intended to provide a supplemental benefit for employees who would have a reduction in their pension benefit because of the Internal Revenue Code limitations.

The expense under this plan amounted to \$153,443 and \$62,670 in 2020 and 2019, respectively. The accrued amount was \$956,443 and \$410,652 as of December 31, 2020 and 2019, respectively.

The following sets forth the benefit obligation with the funded status of the plan as December 31, 2020 and 2019:

	2020	2019
	(In thousands)	
Benefit obligation at beginning of year	\$ 411	\$ 475
Service cost	101	40
Interest cost	23	12
Plan amendments	56	—
Actuarial (gain)/loss	365	(116)
Benefit obligation at end of year	956	411
Fair value of plan assets at end of year	—	—
Funded status	\$ (956)	\$ (411)

RAPPAHANNOCK ELECTRIC COOPERATIVE

Notes to Financial Statements
December 31, 2020, 2019 and 2018

The net periodic pension costs are as follows:

	2020	2019
	(In thousands)	
Service cost	\$ 101	\$ 40
Interest cost	23	12
Amortization of gain	—	(16)
Amortization of prior service cost	29	27
Net periodic pension cost	\$ 153	\$ 63

The reconciliation of accumulated other comprehensive (income) loss is:

	2020	2019
	(In thousands)	
Unrecognized prior service costs	\$ 430	\$ 403
Unrecognized actuarial (gain)/loss	189	(177)
	\$ 619	\$ 226

Amounts in accumulated other comprehensive income expected to be recognized during subsequent period:

	2020	2019
	(In thousands)	
Net prior service cost	\$ 29	\$ 27
Amortization of gain	—	(16)
	\$ 29	\$ 11

Weighted average assumptions used to determine the benefit obligation and benefit costs:

	2020	2019
Discount rate	2.72%	3.38%
Salary increase assumption	3.00%	3.00%
Measurement date	12/31/2020	12/31/2019

RAPPAHANNOCK ELECTRIC COOPERATIVE

Notes to Financial Statements

December 31, 2020, 2019 and 2018

Estimated future benefit payments reflecting expected future service years are as follows (in thousands):

<u>Year ending December 31,</u>	
2021	\$ —
2022	\$ —
2023	\$ —
2024	\$ —
2025	\$ —
2026 and later	\$ 4,304

(e) ***Postretirement Benefits Other Than Pensions***

The Cooperative pays the entire medical premium for employees who retired prior to December 31, 1995, as well as the premium for the spouse and dependents under the age of twenty-six. The Cooperative does not contribute to the cost of the medical coverage after the death of a retired participant. Employees retiring after December 31, 1995 may elect to purchase medical insurance, but are responsible for the entire premium resulting in no employer liability.

Amounts paid by the Cooperative under these commitments were \$119,598, \$140,960 and \$177,350, in 2020, 2019 and 2018, respectively.

The Medicare Prescription Drug Improvement and Modernization Act was signed into law as of December 7, 2003. The Medicare Act introduces a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. All measures of the benefit obligation and the net periodic postretirement benefit cost included in this footnote reflect the effects of the Medicare Act on the plan.

RAPPAHANNOCK ELECTRIC COOPERATIVE

Notes to Financial Statements
December 31, 2020, 2019 and 2018

The following sets forth the benefit obligation with the funded status of the plan as of December 31, 2020 and 2019:

	2020	2019
	(In thousands)	
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 1,181	\$ 1,237
Interest cost	31	48
Actuarial change	(194)	21
Medicare Part D subsidy received	12	16
Benefits paid	(120)	(141)
Benefit obligation at end of year	910	1,181
Fair value of plan assets at end of year	—	—
Funded status	\$ (910)	\$ (1,181)

The unrecognized amounts included in accumulated comprehensive (income) loss are as follows:

	2020	2019
	(In thousands)	
Net actuarial (gain)/loss	\$ (101)	\$ 93

Weighted average assumptions used to determine the benefit obligation and benefit costs:

	2020	2019
Medical trend rate next year	7.00%	7.50%
Ultimate trend rate	5.00%	5.00%
Year ultimate trend rate is achieved	2025	2025
Discount rate used to value end of year accumulated postretirement benefit obligation	2.75%	3.25%
Measurement date	12/31/2020	12/31/2019

RAPPAHANNOCK ELECTRIC COOPERATIVE

Notes to Financial Statements

December 31, 2020, 2019 and 2018

Estimated future benefit payments shown net of employee contributions are as follows:

<u>Year beginning January 1,</u>	<u>Gross Benefit Payment</u>	<u>Medicare Part D Subsidy</u>	<u>Net Benefit Payment</u>
		(In thousands)	
2021	\$ 138	\$ 11	\$ 127
2022	128	10	118
2023	118	9	109
2024	107	8	99
2025	97	8	89
2026-2030	\$ 338	\$ 26	\$ 312

There are no assets that have been segregated and restricted to pay for the postretirement benefits; rather the plan is being funded on a pay-as-you-go basis. The total net periodic postretirement benefit costs recorded were \$30,474, \$48,358 and \$50,000 in 2020, 2019 and 2018, respectively. There were no estimated amortization amounts in 2020 or 2019.

(9) Coronavirus Relief Fund Payment

In December, 2020, the Cooperative was awarded federal Coronavirus Relief Funds (CRF) in the amount of \$4,844,474. These funds are included in Current Liabilities and will be distributed according to the guidelines, to reduce individual customer arrearage balances for those customers who attest that their arrearages are attributable to the COVID-19 pandemic. As of March 31, 2021, the CRF was applied to customers' balances as mandated.

(10) Commitments

The Cooperative, as a member of ODEC, purchases substantially all of its power from ODEC under a wholesale power contract dated January 1, 2009. The term of this contract is for 45 years and thereafter until terminated by either party giving to the other not less than three years written notice of its intention to terminate. To the extent available, the Cooperative is obligated to purchase from ODEC all electric power and energy that the Cooperative requires for the operation of its system. Purchases from ODEC amounted to \$239,599,496, \$276,750,181 and \$261,054,475 in 2020, 2019 and 2018, respectively.

As part of REC's agreement with ODEC, the Cooperative has an option to obtain up to 5% of its power requirements from a third party provider. On October 15, 2015, REC's board of directors authorized the execution of a contract with Morgan Stanley Capital Group to purchase 5% of its power. The contract was dated November 9, 2015 and the Cooperative began purchasing from Morgan Stanley on May 1, 2016. This contract was amended as of December 2, 2020 and will continue through December 31, 2023. These purchases amounted to \$23,173,846, \$23,611,998 and \$24,196,371 in 2020, 2019 and 2018, respectively.

The Cooperative has binding contracts for substation work to be done. The balance of these contract commitments are \$5,720,051 as of December 31, 2020.

RAPPAHANNOCK ELECTRIC COOPERATIVE

Notes to Financial Statements

December 31, 2020, 2019 and 2018

(11) Related Party Transactions

The Cooperative has long-term loans with both CFC and CoBank at market interest rates. At December 31, 2020, liabilities were \$64,876,225 and \$97,686,872, respectively. At December 31, 2019, liabilities were \$68,235,612 and \$93,960,574, respectively.

(12) 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 accounting principles generally accepted in the United States of America. In accordance with the Financial Accounting Standards Board ASC Topic 825, *Disclosures about Fair Value of Financial Instruments*, 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.

(a) *Cash and Cash Equivalents, Accounts and Unbilled Receivables, Amounts Due to Power Suppliers, Accounts Payable and Consumer Deposits*

The carrying amount approximates fair value due to the short-term nature of these instruments.

(b) *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 30-year Treasury yield curve 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 and equity method investments are 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.

(c) *Long-Term Debt*

The carrying amount of the Cooperative's long-term debt includes certain interest rates that are below quoted market prices for the same or similar issues. Therefore, the fair value of the Cooperative's long-term debt is estimated based on current market prices offered for debt of the same and remaining maturities.

RAPPAHANNOCK ELECTRIC COOPERATIVE

Notes to Financial Statements
December 31, 2020, 2019 and 2018

The estimated fair values of the Cooperative’s financial instruments as of December 31, 2020 and 2019 are as follows:

2020	Carrying Value	Fair Value
	(In thousands)	
Capital term certificates (CFC)	\$ 3,549	\$ 6,600
Member capital securities	500	800
Long-term debt	527,912	617,000
2019	Carrying Value	Fair Value
	(In thousands)	
Capital term certificates (CFC)	\$ 3,731	\$ 5,700
Member capital securities	500	700
Long-term debt	448,379	509,000

(13) 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.

(14) Current Issues

The Cooperative is involved in legal actions and claims that arise as a result of events that occur in the normal course of operations. The ultimate resolution of these actions is not expected to have a material adverse effect on the Cooperative’s financial position.



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
Rappahannock Electric Cooperative
Fredericksburg, 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 Rappahannock Electric Cooperative (the Cooperative), which comprise the balance sheets as of and 9, and the related statements of operations, comprehensive income, cash flows and equities for the years ended December 31, 2020, 2019 and 2018, and the related notes to the financial statements, and have issued our report thereon dated April 12, 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.

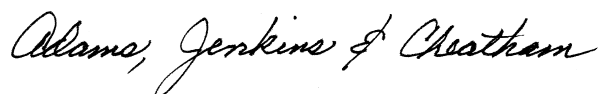
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cooperative's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of 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 the Cooperative in a separate letter dated April 12, 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 *Government Auditing Standards* in considering the Cooperative's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Richmond, Virginia
April 12, 2021





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

The Board of Directors
Rappahannock Electric Cooperative
Fredericksburg, 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 Rappahannock Electric Cooperative (the Cooperative), which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of operations, comprehensive income, cash flows and equities for the years ended December 31, 2020, 2019, and 2018, and the related notes to the financial statements, and have issued our report thereon dated April 12, 2021. In accordance with *Government Auditing Standards*, we have also issued a report dated April 12, 2021 on our consideration of the Cooperative'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 and our schedule of findings and recommendations related to our audit 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.

Adams, Jenkins & Cheatham

Richmond, Virginia
April 12, 2021