

**A & N Electric Cooperative**  
**Financial Statements**  
**December 31, 2019 and 2018**

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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, 2019 and 2018 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, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 16, 2020, 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.

*Adams, Jenkins & Cheatham*

Richmond, Virginia  
February 16, 2020

## Balance Sheets

### A & N Electric Cooperative

	December 31,	
	2019	2018
<b>Assets</b>		
Electric plant		
Electric plant	\$ 206,360,885	\$ 194,261,426
Less accumulated provision for depreciation	<u>70,740,871</u>	<u>67,450,919</u>
	135,620,014	126,810,507
Investments		
Investments in associated organizations	21,509,913	20,569,966
Special funds	2,775,958	2,578,191
Investments in economic development project	<u>25,000</u>	<u>25,000</u>
	24,285,871	23,173,157
Current assets		
Cash and cash equivalents	3,936,486	5,973,804
Accounts receivable, net	12,678,455	12,477,802
Materials and supplies	2,062,673	2,393,574
Other current assets	<u>233,551</u>	<u>903,774</u>
	18,911,165	21,748,954
Deferred charges	<u>1,867,785</u>	<u>1,337,547</u>
	<u>\$ 180,684,835</u>	<u>\$ 173,070,165</u>

See Independent Auditor's Report and Notes to Financial Statements

	December 31,	
	2019	2018
<b>Equities and Liabilities</b>		
Equities		
Patronage capital	\$ 58,603,294	\$ 55,621,417
Other equities	14,520,090	12,696,342
Memberships	137,370	137,750
	<u>73,260,754</u>	<u>68,455,509</u>
Noncurrent liabilities		
Long-term debt	85,987,342	89,396,603
Other noncurrent liabilities	3,021,925	2,815,620
Line of credit	2,000,000	
	<u>91,009,267</u>	<u>92,212,223</u>
Current liabilities		
Accounts payable	9,379,536	5,755,308
Current maturities of long-term debt	3,724,000	3,700,379
Consumer deposits	2,283,005	2,314,245
Other current and accrued liabilities	960,752	610,169
	<u>16,347,293</u>	<u>12,380,101</u>
Deferred credits	<u>67,521</u>	<u>22,332</u>
	<u>\$ 180,684,835</u>	<u>\$ 173,070,165</u>

## Statements of Operations

### A & N Electric Cooperative

	Year Ended December 31,	
	2019	2018
Operating revenues	\$ 79,408,532	\$ 79,267,236
Operating expenses		
Cost of power	53,746,367	53,020,748
Transmission	20,183	23,099
Distribution - operation	2,188,134	2,484,313
Distribution - maintenance	4,363,531	4,728,322
Consumer accounts	2,507,932	2,818,681
Customer service and informational	49,800	51,782
Administrative and general	3,129,740	3,563,342
Depreciation and amortization	5,960,402	5,696,046
Interest on long-term debt	3,963,293	4,033,879
Interest - other	45,446	24,707
Other	232,709	258,739
	<u>76,207,537</u>	<u>76,703,658</u>
Operating Margins Before Patronage Allocations	3,200,995	2,563,578
Patronage allocations		
Generation and transmission	1,033,543	821,342
Other	116,553	132,638
	<u>1,150,096</u>	<u>953,980</u>
Net Operating Margins	4,351,091	3,517,558
Nonoperating income		
Interest income	1,532,146	1,573,787
Other, net	172,512	156,395
	<u>1,704,658</u>	<u>1,730,182</u>
Net Margins	<u>\$ 6,055,749</u>	<u>\$ 5,247,740</u>

See Independent Auditor's Report and Notes to Financial Statements

## Statements of Equities

### A & N Electric Cooperative

#### Years Ended December 31, 2019 and 2018

	Patronage Capital	Other Equities	Memberships	Total
Balance, December 31, 2017, as adjusted	\$ 54,188,461	\$ 10,887,155	\$ 137,500	\$ 65,213,116
Net margins	3,673,953	1,573,787		5,247,740
Retirement of capital credits	(2,240,997)	21,503		(2,219,494)
Net change in memberships			250	250
Unclaimed capital credits		213,897		213,897
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	<u>\$ 58,603,294</u>	<u>\$ 14,520,090</u>	<u>\$ 137,370</u>	<u>\$ 73,260,754</u>

See Independent Auditor's Report and Notes to Financial Statements



## Statements of Cash Flows

### A & N Electric Cooperative

	Year Ended December 31,	
	2019	2018
<b>Cash Flows from Operating Activities</b>		
Cash received from members	\$ 79,351,411	\$ 79,506,717
Cash paid to suppliers and employees	(61,897,361)	(66,533,068)
Interest received	240,787	286,635
Interest paid	(4,008,739)	(4,058,586)
Net Cash Provided by Operating Activities	13,686,098	9,201,698
<b>Cash Flows from Investing Activities</b>		
Extension and replacement of plant	(14,187,748)	(9,141,684)
Plant removal costs	(682,388)	(1,713,984)
Contribution in aid of construction	431,128	924,964
Proceeds from retirement of investments in CTC's	7,447	7,088
Collections on economic development loan	25,000	25,000
Net Cash Used by Investing Activities	(14,406,561)	(9,898,616)
<b>Cash Flows from Financing Activities</b>		
Capital credits received from suppliers	59,170	51,759
Capital credits paid to members	(1,250,124)	(2,005,597)
Principal payments of long-term debt	(2,094,281)	(3,790,033)
Borrowings on line of credit	2,000,000	
Proceeds from long-term borrowings		2,023,000
Net change in memberships	(380)	250
Net change in consumer deposits	(31,240)	57,210
Net Cash Used by Financing Activities	(1,316,855)	(3,663,411)
Net Decrease in Cash and Cash Equivalents	(2,037,318)	(4,360,329)
Cash and cash equivalents - beginning of year	5,973,804	10,334,133
Cash and Cash Equivalents - End of Year	\$ 3,936,486	\$ 5,973,804

See Independent Auditor's Report and Notes to Financial Statements

	Year Ended December 31,	
	2019	2018
<b>Net Margins</b>	\$ 6,055,749	\$ 5,247,740
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation and amortization	5,759,186	5,494,830
Acquisition adjustment amortization	201,216	201,216
Noncash capital credits	(1,006,564)	(953,980)
Noncash interest received from cushion of credit	(1,291,359)	(1,287,152)
(Increase) decrease in:		
Accounts receivable	(200,653)	239,481
Other current assets	670,223	(41,131)
Special funds	(197,767)	(237,547)
Deferred charges	(530,238)	36,565
Increase (decrease) in:		
Accounts payable	3,624,228	294,399
Other current and accrued liabilities	350,583	147,079
Deferred credits	45,189	(60,802)
Other noncurrent liabilities	206,305	121,000
Net Cash Provided by Operating Activities	<u>\$ 13,686,098</u>	<u>\$ 9,201,698</u>

## **Notes to Financial Statements**

### **A & N Electric Cooperative**

#### **December 31, 2019 and 2018**

##### **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, 2019 and 2018

##### 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

The Cooperative recognizes revenue at the time energy is delivered to consumers on a monthly basis. The Cooperative has analyzed the provisions of the Financial Accounting Standards Board (FASB) 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 sales are recognized as the electricity is consumed, which complies with the requirements of FASB 606. The Cooperative recognizes revenue from consumed electricity in the appropriate reporting period through its estimate 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, 2019 and 2018, the Cooperative had a cumulated over collection of power costs totaling approximately \$882,000 and \$52,000, respectively.

## Notes to Financial Statements

### A & N Electric Cooperative

#### December 31, 2019 and 2018

##### Note A - Summary of Significant Accounting Policies - Continued

###### Adoption of New Accounting Standard

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-19 *Revenue from Contracts with Customers (Topic 606)* to supersede previous revenue recognition guidance under current U.S. GAAP. The guidance presents a single five-step model for comprehensive revenue recognition that requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Two options are available for implementation of the standard which are either the retrospective approach or cumulative effect adjustment approach. The guidance became effective for annual reporting periods beginning after December 15, 2019. The Cooperative adopted the ASU beginning January 1, 2019, using the retrospective method. The adoption did not have a material impact on the financial statements and the method for recognizing revenue and there has been no cumulative effect adjustment recognized.

###### 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.

## Notes to Financial Statements

### A & N Electric Cooperative

#### December 31, 2019 and 2018

##### Note A - Summary of Significant Accounting Policies - Continued

###### Investments in Associated Organizations

Investments in associated organizations are primarily composed of patronage capital assigned from associated organizations. These investments are recorded at costs plus allocated equities.

###### Advertising Costs

Advertising costs were expensed as incurred.

###### Subsequent Events

Subsequent events have been evaluated through February 16, 2020, which is the date the financial statements were available to be issued.

##### 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,	
	2019	2018
Distribution plant	\$ 169,919,812	\$ 159,727,559
General plant	19,531,821	18,212,140
Acquisition adjustments	6,438,902	6,438,902
Transmission plant	3,997,433	3,821,253
Production plant	3,192,138	3,045,725
Intangible plant	2,026	2,026
Electric plant in service	203,082,132	191,247,605
Construction work in progress	3,278,753	3,013,821
	<u>\$ 206,360,885</u>	<u>\$ 194,261,426</u>

## Notes to Financial Statements

### A & N Electric Cooperative

#### December 31, 2019 and 2018

##### Note C - Electric Plant - Continued

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, 2019 and 2018. 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.

##### Note D - Investments in Associated Organizations

Investments in associated organizations consisted of the following:

	December 31,	
	2019	2018
Patronage capital:		
Old Dominion Electric Cooperative (ODEC)	\$ 18,847,896	\$ 17,957,885
National Rural Telecommunications Cooperative	862,008	862,154
CFC	401,831	389,878
Federated Insurance	391,572	365,717
National Information Solutions Cooperative	229,700	218,138
Other	92,250	86,684
	<u>20,825,257</u>	<u>19,880,456</u>
Capital Term Certificates (CTC):		
Subscriptions (SCTC's)	416,306	416,306
Loan (ZCTC's)	14,806	22,253
Loan (LCTC's)	8,850	8,850
	<u>439,962</u>	<u>447,409</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	27,314	24,721
	<u>244,694</u>	<u>242,101</u>
	<u>\$ 21,509,913</u>	<u>\$ 20,569,966</u>

## Notes to Financial Statements

### A & N Electric Cooperative

#### December 31, 2019 and 2018

##### 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, 2019, the Cooperative had approximately \$3,300,000 of deposits that exceed the insured limits. The Cooperative also had CFC Select Notes totaling approximately \$2,800,000, which were not insured.

##### Note F - Accounts Receivable

Accounts receivable consisted of the following:

	December 31,	
	2019	2018
Unbilled revenue	\$ 6,505,680	\$ 6,250,896
Consumer accounts receivable	5,580,551	5,924,464
Other accounts receivable	767,114	1,023,034
	12,853,345	13,198,394
Less provision for uncollectible accounts	174,890	720,592
	<u>\$ 12,678,455</u>	<u>\$ 12,477,802</u>



## Notes to Financial Statements

### A & N Electric Cooperative

#### December 31, 2019 and 2018

##### Note G - Deferred Charges

Deferred charges consisted of the following:

	December 31,	
	2019	2018
Deferred power costs	\$ 881,942	\$ 52,167
NRECA R&S prepayment	741,826	989,102
Other	244,017	296,278
	<u>\$ 1,867,785</u>	<u>\$ 1,337,547</u>

##### Note H - Patronage Capital

Patronage capital consisted of the following:

	December 31,	
	2019	2018
Assigned	\$ 81,542,744	\$ 78,025,186
Assignable	4,523,603	3,517,558
	86,066,347	81,542,744
Retired	(27,463,053)	(25,921,327)
	<u>\$ 58,603,294</u>	<u>\$ 55,621,417</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 41% and 40% of total assets for 2019 and 2018, respectively.

## Notes to Financial Statements

### A & N Electric Cooperative

#### December 31, 2019 and 2018

##### Note I - Other Equities

Other equities consisted of the following:

	December 31,	
	2019	2018
Interest	\$ 12,165,924	\$ 10,633,778
Donated capital	1,945,238	1,663,416
Other	408,928	399,148
	<u>\$ 14,520,090</u>	<u>\$ 12,696,342</u>

##### Note J - Long-Term Debt

Long-term debt consisted of the following:

	December 31,	
	2019	2018
FFB		
Mortgage notes, fixed	\$ 106,009,685	\$ 108,952,450
Advanced payments, unapplied	(26,229,204)	(26,552,511)
	<u>79,780,481</u>	<u>82,399,939</u>
CFC		
Mortgage notes, fixed	9,930,861	10,697,043
	<u>89,711,342</u>	<u>93,096,982</u>
Less current maturities	<u>3,724,000</u>	<u>3,700,379</u>
	<u>\$ 85,987,342</u>	<u>\$ 89,396,603</u>

Long-term debt payable with FFB is represented by mortgage notes with rates ranging from 1.94% to 5.56%. 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 \$1,614,000. The Cooperative had unadvanced funds totaling \$54,453,000 available from FFB as of December 31, 2019. The Cooperative has elected to participate in the RUS cushion of credit program, whereby a portion of principal and interest payments are prepaid to RUS and earn interest at a current rate of 5.00%. For the years ended December 31, 2019 and 2018, the Cooperative had prepaid approximately \$26,000,000 and \$27,000,000, respectively, which has been reflected in the financial statements as a reduction of long-term debt to FFB.

## Notes to Financial Statements

### A & N Electric Cooperative

#### December 31, 2019 and 2018

##### Note J - Long-Term Debt - Continued

The security and terms for the CFC notes, except for interest rates which range from 3.35% to 5.00%, are the same as the FFB notes. Principal and interest payments are due in monthly installments of approximately \$73,000 and quarterly installments of approximately \$50,000. The Cooperative had \$7,875,255 of unadvanced funds available from CFC as of December 31, 2019. In 2018, the Cooperative refinanced outstanding RUS debt with CFC and all outstanding principal was curtailed in the refinance. Long-term debt payable to RUS was represented by mortgage notes with rates ranging from 4.00% to 5.13%. The notes generally had 35-year maturity periods and were payable on an installment basis.

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

Annual maturities of long-term debt were as follows:

<u>Year Ending December 31,</u>	
2020	\$ 3,724,000
2021	3,864,789
2022	3,999,016
2023	4,100,359
2024	4,225,319
Thereafter	<u>69,797,859</u>
	<u>\$ 89,711,342</u>

The Cooperative has a line of credit with CFC in the amount of \$13,200,000, there was \$2,000,000 outstanding at December 31, 2019. There were no advances outstanding at December 31, 2018. The Cooperative has an unsecured line of credit with CoBank in the amount of \$7,000,000, there were no advances outstanding at December 31, 2019 and 2018.

The Cooperative had unused letters of credit from CFC in the amount of \$100,000 at December 31, 2019 and 2018.

## Notes to Financial Statements

### A & N Electric Cooperative

#### December 31, 2019 and 2018

##### Note K - Deferred Credits

Deferred credits consisted of the following:

	December 31,	
	2019	2018
Deferred fuel	\$ 46,258	\$
Deferred sales tax surcharge	21,263	18,582
Consumer advances and other		3,750
	<u>\$ 67,521</u>	<u>\$ 22,332</u>

##### Note L - 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 M - 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 N - Retirement Plans

###### Pension Plan

The retirement Security Plan (RS Plan), sponsored by the National Rural Electric Cooperative Association (NRECA) is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is considered a multi-employer 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 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 2019 and in 2018 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 \$1,081,000 and \$1,013,000 in 2019 and 2018, respectively.

## **Notes to Financial Statements**

### **A & N Electric Cooperative**

#### **December 31, 2019 and 2018**

##### **Note N - Retirement Plans - Continued**

For the RS Plan, a “zone status” determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was over 80% funded at January 1, 2019 and over 80% funded on January 1, 2018 based on the PPA funding target and PPA actuarial value of assets on those dates.

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

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, 2019 and 2018, the Cooperative’s required contribution to the Plan and its net pension cost was approximately \$177,000 and \$173,000, respectively.

##### **Note O - 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.

## **Notes to Financial Statements**

### **A & N Electric Cooperative**

#### **December 31, 2019 and 2018**

##### **Note O - Financial Instruments Carried at Cost - Continued**

###### Cash and Cash Equivalents

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

###### Accounts Receivable

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

###### Investments in Associated Organizations

Fair value of capital term certificates was determined by computing the present value of estimated future cash flows, discounted at the long-term treasury rate of 2.39% and 2.98% for the years ending December 31, 2019 and 2018, respectively. The fair value of patronage capital is not determinable since no legal obligation exists to retire capital credits. The 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 4.19% and 5.90% for the years ending December 31, 2019 and 2018, 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, 2019 and 2018

##### Note O - 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,			
	2019		2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Capital term certificates	\$ 439,962	\$ 771,000	\$ 447,409	\$ 673,000
Liabilities:				
CFC and FFB notes payable including current portion	\$ 89,711,342	\$ 87,634,000	\$ 93,096,982	\$ 75,381,000

##### Note P - 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 and mortgage notes payable at various interest rates and maturities.

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.

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

**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, 2019 and 2018, 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 16, 2020.

**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 16, 2020.

## **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.

*Adams, Jenkins & Cheatham*

Richmond, Virginia  
February 16, 2020



**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, 2019, 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 16, 2020. In accordance with *Government Auditing Standards*, we have also issued a report dated February 16, 2020 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.

*Adams, Jenkins & Cheatham*

Richmond, Virginia  
February 16, 2020