

A & N Electric Cooperative
Financial Statements
December 31, 2021 and 2020

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ADAMS, JENKINS AND CHEATHAM
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS CONSULTANTS

Independent Auditor's Report

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

Opinion

We have audited the accompanying financial statements of A & N Electric Cooperative, which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of operations, equities, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (*Government Auditing Standards*), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of A & N Electric Cooperative and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about A & N Electric Cooperative's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 A & N Electric Cooperative's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about A & N Electric Cooperative's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2022, on our consideration of A & N Electric 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.



Richmond, Virginia
February 15, 2022

Balance Sheets

A & N Electric Cooperative

	December 31,	
	2021	2020
Assets		
Electric plant		
Electric plant	\$ 213,584,610	\$ 211,710,666
Less accumulated provision for depreciation	67,017,712	71,119,915
	<u>146,566,898</u>	<u>140,590,751</u>
Investments		
Investments in associated organizations	23,426,977	22,300,759
Special funds	3,038,823	3,030,548
Other	250,597	138,161
	<u>26,716,397</u>	<u>25,469,468</u>
Current assets		
Cash and cash equivalents	15,365,900	20,902,817
Accounts receivable, net	12,572,241	12,468,534
Materials and supplies	2,270,850	1,848,580
Other current assets	65,821	465,263
	<u>30,274,812</u>	<u>35,685,194</u>
Deferred charges	<u>386,576</u>	<u>2,716,223</u>
	<u>\$ 203,944,683</u>	<u>\$ 204,461,636</u>

See Independent Auditor's Report and Notes to Financial Statements

	December 31,	
	2021	2020
Equities and Liabilities		
Equities		
Patronage capital	\$ 63,235,335	\$ 60,343,342
Other equities	16,174,953	15,928,199
Memberships	139,750	139,010
	<u>79,550,038</u>	<u>76,410,551</u>
Noncurrent liabilities		
Long-term debt	106,829,096	109,995,373
Other noncurrent liabilities	3,489,120	3,149,368
	<u>110,318,216</u>	<u>113,144,741</u>
Current liabilities		
Accounts payable	6,224,655	5,424,626
Current maturities of long-term debt	3,744,440	5,607,100
Consumer deposits	2,021,640	2,219,230
Other current and accrued liabilities	915,821	1,511,836
	<u>12,906,556</u>	<u>14,762,792</u>
Deferred credits	<u>1,169,873</u>	<u>143,552</u>
	<u>\$ 203,944,683</u>	<u>\$ 204,461,636</u>

Statements of Operations

A & N Electric Cooperative

	Year Ended December 31,	
	2021	2020
Operating revenues	\$ 74,936,644	\$ 73,332,961
Operating expenses		
Cost of power	49,350,589	48,454,392
Transmission	18,294	20,579
Distribution - operation	2,629,015	2,436,622
Distribution - maintenance	4,652,887	3,887,191
Consumer accounts	2,095,689	2,072,453
Customer service and informational	21,413	24,360
Administrative and general	3,563,557	2,685,864
Depreciation and amortization	6,413,007	6,330,364
Interest on long-term debt	3,040,135	3,799,996
Interest - other	2,122	26,830
Other	239,232	224,909
	<u>72,025,940</u>	<u>69,963,560</u>
Operating Margins Before Patronage Allocations	2,910,704	3,369,401
Patronage allocations		
Generation and transmission	1,338,096	759,303
Other	153,773	111,931
	<u>1,491,869</u>	<u>871,234</u>
Net Operating Margins	4,402,573	4,240,635
Nonoperating income		
Interest income	93,667	1,060,087
Other, net	228,596	160,399
	<u>322,263</u>	<u>1,220,486</u>
Net Margins	<u>\$ 4,724,836</u>	<u>\$ 5,461,121</u>

See Independent Auditor's Report and Notes to Financial Statements

Statements of Equities

A & N Electric Cooperative

Years Ended December 31, 2021 and 2020

	Patronage Capital	Other Equities	Memberships	Total
Balance, December 31, 2019,	\$ 58,603,294	\$ 14,520,090	\$ 137,370	\$ 73,260,754
Net margins	4,401,034	1,060,087		5,461,121
Retirement of capital credits	(2,660,986)	12,383		(2,648,603)
Net change in memberships			1,640	1,640
Unclaimed capital credits		335,639		335,639
Balance, December 31, 2020,	60,343,342	15,928,199	139,010	76,410,551
Net margins	4,631,169	93,667		4,724,836
Retirement of capital credits	(1,739,176)	17,978		(1,721,198)
Net change in memberships			740	740
Unclaimed capital credits		135,109		135,109
Balance, December 31, 2021	<u>\$ 63,235,335</u>	<u>\$ 16,174,953</u>	<u>\$ 139,750</u>	<u>\$ 79,550,038</u>

See Independent Auditor's Report and Notes to Financial Statements

Statements of Cash Flows

A & N Electric Cooperative

		Year Ended December 31,	
		2021	2020
Cash Flows from Operating Activities			
Cash received from members		\$ 75,125,702	\$ 73,399,350
Cash paid to suppliers and employees		(59,917,883)	(64,319,239)
Interest received		93,720	223,931
Interest paid		(3,042,257)	(3,826,826)
	Net Cash Provided by Operating Activities	12,259,282	5,477,216
Cash Flows from Investing Activities			
Extension and replacement of plant		(12,247,855)	(10,178,792)
Plant removal costs		(1,280,403)	(1,580,457)
Contribution in aid of construction		716,834	672,241
Proceeds from retirement of investments in CTC's		2,400	11,149
	Net Cash Used by Investing Activities	(12,809,024)	(11,075,859)
Cash Flows from Financing Activities			
Capital credits received from suppliers		70,486	212,771
Capital credits paid to members		(1,586,089)	(2,312,964)
Principal payments of long-term debt		(3,274,722)	(3,294,913)
Proceeds from long-term borrowings			30,022,215
Payments on line of credit			(2,000,000)
Net change in memberships		740	1,640
Net change in consumer deposits		(197,590)	(63,775)
	Net Cash Provided (Used) by Financing Activities	(4,987,175)	22,564,974
	Net Increase (Decrease) in Cash and Cash Equivalents	(5,536,917)	16,966,331
Cash and cash equivalents - beginning of year		20,902,817	3,936,486
	Cash and Cash Equivalents - End of Year	<u>\$ 15,365,900</u>	<u>\$ 20,902,817</u>

See Independent Auditor's Report and Notes to Financial Statements

		Year Ended December 31,	
		2021	2020
Net Margins		\$ 4,724,836	\$ 5,461,121
Adjustments to reconcile net margins to net cash provided by operating activities:			
Depreciation and amortization		6,211,791	6,129,148
Acquisition adjustment amortization		201,216	201,216
Noncash capital credits		(1,199,104)	(1,014,766)
Noncash interest received from cushion of credit			(836,171)
(Increase) decrease in:			
Accounts receivable		(103,707)	209,921
Other current assets		399,442	(231,712)
Special funds		(8,275)	(254,590)
Deferred charges		575,432	(848,438)
Increase (decrease) in:			
Accounts payable		800,029	(3,954,910)
Other current and accrued liabilities		(596,015)	551,084
Deferred credits		1,026,321	76,031
Other noncurrent liabilities		227,316	(10,718)
Net Cash Provided by Operating Activities		<u>\$ 12,259,282</u>	<u>\$ 5,477,216</u>
Noncash Finance Activity			
Forgiveness of Paycheck Protection Program loan		<u>\$ 1,754,215</u>	<u>\$</u>

Notes to Financial Statements

A & N Electric Cooperative

December 31, 2021 and 2020

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, 2021 and 2020

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. During 2021 and 2020, due to the economic hardships of the COVID-19 pandemic (Note R), certain moratoriums enacted by the SCC were placed in effect restricting the Cooperative's ability to disconnect member accounts due to non-payments.

Revenue Recognition

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

Power Cost Adjustment (PCA)

The Cooperative uses the deferred method of accounting for most power costs. Under this method, a deferred account is adjusted to recognize power costs that are billed to member consumers. Any amounts collected over and above or below the Cooperative's monthly power costs are recorded as a deferred credit or deferred charge as applicable. At December 31, 2021, the Cooperative had an accumulated over collection of power costs totaling approximately \$1,009,000. At December 31, 2020, the Cooperative had an accumulated under collection of power costs totaling approximately \$285,000.

Notes to Financial Statements

A & N Electric Cooperative

December 31, 2021 and 2020

Note A - Summary of Significant Accounting Policies - Continued

Regulatory Accounting

The Cooperative currently complies with accounting guidance set forth by the FASB's ASC Topic 980 regarding the effect of certain types of regulation. This guidance allows a regulated cooperative to record certain costs or credits that have been or are expected to be allowed in the ratemaking process in a period different from the period in which the costs would be charged to expense or income by a non-regulated enterprise. Accordingly, the Cooperative records certain assets and liabilities that result from the regulated ratemaking process that would not be recorded under GAAP for non-regulated entities.

Income Taxes

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

Cash and Cash Equivalents

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

Investments in Associated Organizations

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

Advertising Costs

Advertising costs were expensed as incurred.

Subsequent Events

Subsequent events have been evaluated through February 15, 2022, which is the date the financial statements were available to be issued.

Notes to Financial Statements

A & N Electric Cooperative

December 31, 2021 and 2020

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,	
	2021	2020
Distribution plant	\$ 173,431,222	\$ 174,614,294
General plant	19,714,005	19,253,441
Acquisition adjustments	6,438,902	6,438,902
Transmission plant	3,978,482	3,978,482
Production plant	3,184,363	3,283,037
Intangible plant	2,026	2,026
Electric plant in service	206,749,000	207,570,182
Construction work in progress	6,835,610	4,140,484
	<u>\$ 213,584,610</u>	<u>\$ 211,710,666</u>

In accordance with accounting for Asset Retirement Obligations and FERC Order 631 as adopted by the RUS, the Cooperative has determined that it had no legal asset retirement obligations for the years ended December 31, 2021 and 2020. Regarding non-legal retirement obligations, the Cooperative follows the regulatory principle of inter-generational cost allocation by including net salvage (gross salvage less cost of removal) as a component of depreciation rates.

Notes to Financial Statements

A & N Electric Cooperative

December 31, 2021 and 2020

Note D - Investments in Associated Organizations

Investments in associated organizations consisted of the following:

	December 31,	
	2021	2020
Patronage capital:		
Old Dominion Electric Cooperative (ODEC)	\$ 20,652,530	\$ 19,607,199
National Rural Telecommunications Cooperative	862,064	862,015
Federated Insurance	434,051	410,011
CFC	425,116	414,908
National Information Solutions Cooperative	249,887	233,817
Other	130,874	96,857
	<u>22,754,522</u>	<u>21,624,807</u>
Capital Term Certificates (CTC):		
Subscriptions (SCTC's)	416,306	416,306
Loan (ZCTC's)	10,106	12,506
	<u>426,412</u>	<u>428,812</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	28,663	29,760
	<u>246,043</u>	<u>247,140</u>
	<u>\$ 23,426,977</u>	<u>\$ 22,300,759</u>

Notes to Financial Statements

A & N Electric Cooperative

December 31, 2021 and 2020

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. 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, 2021, the Cooperative had approximately \$4,247,000 of deposits that exceed the insured limits. The Cooperative also had CFC Select Notes totaling approximately \$9,110,000, which were not insured.

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

Note F - Accounts Receivable

Accounts receivable consisted of the following:

	December 31,	
	2021	2020
Consumer accounts receivable	\$ 5,876,747	\$ 5,424,390
Unbilled revenue	5,407,189	5,933,869
Other accounts receivable	1,420,168	1,262,416
	<u>12,704,104</u>	<u>12,620,675</u>
Less provision for uncollectible accounts	<u>131,863</u>	<u>152,141</u>
	<u>\$ 12,572,241</u>	<u>\$ 12,468,534</u>

Notes to Financial Statements

A & N Electric Cooperative

December 31, 2021 and 2020

Note G - Deferred Charges

Deferred charges consisted of the following:

	December 31,	
	2021	2020
NRECA R&S prepayment (Note O)	\$ 247,276	\$ 494,551
Other	139,300	182,400
Deferred power costs (Note A)		285,057
Qualifying PPP expenses		1,754,215
	<u>\$ 386,576</u>	<u>\$ 2,716,223</u>

Qualifying Paycheck Protection Program (PPP) expenses represent expenses the Cooperative deferred for ratemaking purposes in order to match the forgiveness of the PPP loan from CoBank which occurred during 2021 (Note J).

Note H - Patronage Capital

Patronage capital consisted of the following:

	December 31,	
	2021	2020
Assigned	\$ 90,467,381	\$ 86,066,347
Assignable	<u>4,631,169</u>	<u>4,401,034</u>
	95,098,550	90,467,381
Retired	<u>(31,863,215)</u>	<u>(30,124,039)</u>
	<u>\$ 63,235,335</u>	<u>\$ 60,343,342</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 39% and 37% of total assets for 2021 and 2020, respectively.

Notes to Financial Statements

A & N Electric Cooperative

December 31, 2021 and 2020

Note I - Other Equities

Other equities consisted of the following:

	December 31,	
	2021	2020
Interest	\$ 13,322,573	\$ 13,226,011
Donated capital	2,415,986	2,280,877
Other	436,394	421,311
	<u>\$ 16,174,953</u>	<u>\$ 15,928,199</u>

Note J - Long-Term Debt

Long-term debt consisted of the following:

	December 31,	
	2021	2020
FFB		
Mortgage notes, fixed	\$ 102,068,676	\$ 104,617,538
CFC		
Mortgage notes, fixed	8,504,860	9,230,720
CoBank		
PPP loan, unsecured		1,754,215
	<u>110,573,536</u>	<u>115,602,473</u>
Less current maturities	<u>3,744,440</u>	<u>5,607,100</u>
	<u>\$ 106,829,096</u>	<u>\$ 109,995,373</u>

Long-term debt payable with FFB is represented by mortgage notes with rates ranging from 1.17% to 3.58%. The notes generally have 35-year maturity periods and are payable on an installment basis. Principal and interest payments are due quarterly in the amount of approximately \$1,395,000. The Cooperative had unadvanced funds totaling \$26,185,000 available from FFB as of December 31, 2021.

Notes to Financial Statements

A & N Electric Cooperative

December 31, 2021 and 2020

Note J - Long-Term Debt - Continued

The security and terms for the CFC notes, except for interest rates which range from 3.60% to 5.00%, are the same as the FFB notes. Principal and interest payments are due in monthly installments of approximately \$55,000 and quarterly installments of approximately \$108,000. The Cooperative had approximately \$7,875,000 of unadvanced funds available from CFC as of December 31, 2021.

Under the terms of the loan agreements with 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, 2021 and 2020, the Cooperative was in compliance with all covenants and restrictions.

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

Annual maturities of long-term debt were as follows:

<u>Year Ending December 31,</u>	
2022	\$ 3,744,440
2023	3,823,483
2024	3,908,129
2025	3,974,794
2026	4,048,232
Thereafter	<u>91,074,458</u>
	<u>\$ 110,573,536</u>

The Cooperative has a line of credit with CFC in the amount of \$13,200,000. There were no advances outstanding at December 31, 2021 and 2020. The Cooperative has an unsecured line of credit with CoBank in the amount of \$1,000,000. There were no advances outstanding at December 31, 2021 and 2020.

The Cooperative had an unused letter of credit from CFC in the amount of \$100,000 at December 31, 2020. The letter of credit matured during 2021.

Notes to Financial Statements

A & N Electric Cooperative

December 31, 2021 and 2020

Note K - Other Noncurrent Liabilities

Other noncurrent liabilities consisted of the following:

	December 31,	
	2021	2020
Accumulated provision for self-funded maintenance	\$ 2,908,523	\$ 2,681,207
Other	580,597	468,161
	<u>\$ 3,489,120</u>	<u>\$ 3,149,368</u>

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

Note L - Deferred Credits

Deferred credits consisted of the following:

	December 31,	
	2021	2020
Regulatory liability - deferred power costs	\$ 1,009,071	\$
Deferred fuel	136,527	120,718
Deferred sales tax surcharge	24,275	22,834
	<u>\$ 1,169,873</u>	<u>\$ 143,552</u>

Note M - Contingencies

The Cooperative and Local 1307 of the International Brotherhood of Electrical Workers have a collective bargaining agreement, which covers approximately 52% of the Cooperative's employees and substantially all non-administrative hourly employees. The current agreement expires on December 31, 2023.

The Cooperative entered into an agreement with Cooperative Building Solutions during 2021 for the renovation of the Cooperative's facilities. The total cost of the project is expected to be approximately \$6,915,000 and renovations are expected to start during 2022.

Note N - Cost of Power

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

The Cooperative has entered into a long-term contract with Morgan Stanley Capital Group (Morgan Stanley) for the purchase of power through December 2023. The cost of power purchases through Morgan Stanley is fixed through the duration of the contract.

Notes to Financial Statements

A & N Electric Cooperative

December 31, 2021 and 2020

Note O - Retirement Plans

Pension Plan

The Retirement Security Plan (RS Plan), sponsored by the National Rural Electric Cooperative Association (NRECA) is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is considered a multi-employer plan under the accounting standards.

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 2021 and in 2020 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 \$1,085,000 and \$1,091,000 in 2021 and 2020, respectively.

For the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was over 80% funded at January 1, 2021 and over 80% funded on January 1, 2020 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.

Notes to Financial Statements

A & N Electric Cooperative

December 31, 2021 and 2020

Note O - Retirement Plans - Continued

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, 2021 and 2020, the Cooperative's required contribution to the Plan and its net pension cost was approximately \$179,000 and \$191,000, respectively.

Note P - Financial Instruments Carried at Cost

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

Cash and Cash Equivalents

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

Accounts Receivable

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

Investments in Associated Organizations

Fair value of capital term certificates was determined by computing the present value of estimated future cash flows, discounted at the long-term treasury rate of 1.90% and 1.65% for the years ending December 31, 2021 and 2020, 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.

Notes to Financial Statements

A & N Electric Cooperative

December 31, 2021 and 2020

Note P - Financial Instruments Carried at Cost - Continued

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 4.06% and 3.57% for the years ending December 31, 2021 and 2020, respectively.

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

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,			
	2021		2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Capital term certificates	\$ 426,412	\$ 876,000	\$ 428,812	\$ 946,000
Liabilities:				
CFC, FFB and CoBank notes payable including current portion	\$ 110,573,536	\$ 96,541,000	\$ 115,602,473	\$ 105,631,000

Note Q - Related Party Transactions

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

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

The Cooperative was a member of CoBank, a national financing organization, and had investment assets, a line of credit, and in 2020 a note payable.

The Cooperative, as a member of ODEC, an organization composed of electric cooperatives, has entered into a contract for the acquisition of wholesale power. The cost of wholesale power to members is determined by the Board of Directors of ODEC. The Cooperative also maintains transmission assets owned by ODEC in the Cooperative's service territory.

Notes to Financial Statements

A & N Electric Cooperative

December 31, 2021 and 2020

Note Q - Related Party Transactions - Continued

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 additional immaterial investments in various other service organizations and conducts day to day operations with these organizations.

Note R - COVID-19

In December 2019, a novel strain of coronavirus (COVID-19) surfaced in Wuhan, China and has spread around the world, with resulting business and social disruption. COVID-19 was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The COVID-19 pandemic is having widespread, rapidly evolving, and unpredictable impacts on global society, economies, financial markets, and business practices. The Cooperative recognizes the substantial uncertainty and the nature and degree of the pandemic and resulting effects over time could result in disruption or restriction on the Cooperative's ability to operate normally. The Cooperative's members are also affected by the outbreak, which could delay their power bill payments. Cooperative plant construction projects may be delayed or cancelled, and certain management accounting estimates and assumptions could be affected by the future uncertainty. The Cooperative may also experience difficulties with suppliers or with vendors in their supply chain, which could have negative effects on operations. Overall, the future impact of the pandemic with respect to the Cooperative's territory is difficult to predict and could adversely impact its overall operations in the future.

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



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of A & N Electric Cooperative (the "Cooperative"), which comprise the balance sheets as of December 31, 2021 and 2020, 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 15, 2022.

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 15, 2022.

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
February 15, 2022



**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, 2021, 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 15, 2022. In accordance with *Government Auditing Standards*, we have also issued a report dated February 15, 2022 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;
- 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 15, 2022