

**Blue Ridge EMC and Subsidiaries**  
**Consolidated Financial Statements**  
**December 31, 2016 and 2015**

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## **Independent Auditor's Report**

The Board of Directors  
Blue Ridge EMC and Subsidiaries  
Lenoir, North Carolina

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Blue Ridge EMC and Subsidiaries (the "Corporation") which comprise the consolidated balance sheets as of December 31, 2016 and 2015 and the related consolidated statements of operations and comprehensive income, equities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

## Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Blue Ridge EMC and Subsidiaries as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2017, on our consideration of Blue Ridge EMC and Subsidiaries internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.



Richmond, Virginia  
March 15, 2017

## Consolidated Balance Sheets

### Blue Ridge EMC and Subsidiaries

	December 31,	
	2016	2015
<b>Assets</b>		
Electric plant		
Electric plant	\$ 480,612,953	\$ 448,548,309
Less accumulated provision for depreciation	156,430,348	144,871,922
	<u>324,182,605</u>	<u>303,676,387</u>
Other property and investments		
Nonutility property, net	22,167,501	16,526,321
Investments in associated organizations	12,354,962	10,389,629
Deferred income taxes	1,770,000	1,770,000
Restricted cash and investments	1,409,503	1,140,449
Other	367,949	13,767
Intangible assets, net	129,202	129,202
	<u>38,199,117</u>	<u>29,969,368</u>
Notes receivable	865,547	202,976
Current assets		
Cash and cash equivalents	5,501,893	18,782,676
Accounts receivable, net	21,233,264	16,510,909
Deferred charges and regulatory assets - current	53,376	
Inventory	5,211,805	5,418,886
Other current assets	3,014,956	1,942,848
Current portion of notes receivable	143,653	74,864
Investments		10,000,000
Income tax receivable		64,609
	<u>35,158,947</u>	<u>52,794,792</u>
Deferred charges and regulatory assets	<u>7,113,256</u>	<u>8,615,412</u>
	<u>\$ 405,519,472</u>	<u>\$ 395,258,935</u>

See Notes to Consolidated Financial Statements

	December 31,	
	2016	2015
<b>Equities and Liabilities</b>		
Equities		
Patronage capital	\$ 159,330,075	\$ 155,754,404
Other equities	5,469,686	4,770,745
Accumulated other comprehensive income (loss)	(2,991,310)	(1,888,531)
Memberships	114,105	120,434
	<u>161,922,556</u>	<u>158,757,052</u>
Noncurrent liabilities		
Long-term debt	163,708,755	176,208,356
Other	10,896,631	10,526,403
	<u>174,605,386</u>	<u>186,734,759</u>
Current liabilities		
Accounts payable	14,716,546	10,505,068
Current portion of long-term debt	11,063,662	10,902,283
Credit line payable	11,000,000	
Other current and accrued liabilities	4,867,775	5,682,515
Unearned revenue	2,065,683	1,154,417
Consumer deposits	1,610,040	1,682,944
Deferred credits and regulatory liabilities - current	3,086,138	7,485,234
Deferred income taxes	415,040	350,000
Income taxes payable	132,402	6,234
	<u>48,957,286</u>	<u>37,768,695</u>
Deferred credits and regulatory liabilities	<u>20,034,244</u>	<u>11,998,429</u>
	<u>\$ 405,519,472</u>	<u>\$ 395,258,935</u>

## Consolidated Statements of Operations and Comprehensive Income

### Blue Ridge EMC and Subsidiaries

	Year Ended December 31,	
	2016	2015
Operating revenues	\$ 141,529,864	\$ 157,417,317
Operating expenses		
Cost of power	68,458,166	78,416,132
Cost of sales	9,184,876	11,394,301
Transmission	1,191,807	1,087,680
Distribution - operation	3,636,597	3,916,929
Distribution - maintenance	10,255,239	9,652,247
Consumer accounts	3,183,198	3,125,695
Customer service and informational	2,159,177	1,925,135
Sales expense	1,831,551	1,663,802
Administrative and general	15,153,244	14,750,470
Depreciation and amortization	14,570,481	14,065,864
Taxes	353,273	206,264
Interest on long-term debt	8,480,591	9,612,921
Interest - other	39,056	15,299
Interest charged to construction	(608,804)	(349,262)
	137,888,452	149,483,477
Operating Margins Before Patronage Allocations	3,641,412	7,933,840
Patronage allocations	2,607,155	879,100
Net Operating Margins	6,248,567	8,812,940
Nonoperating income (expense)		
Interest income	2,316,165	2,165,477
Other	656,881	478,917
Gain on sale of assets	33,303	43,352
Income taxes - deferred	(84,569)	(186,545)
Income taxes - current	(105,891)	(6,234)
	2,815,889	2,494,967
Net Margins	9,064,456	11,307,907
Other comprehensive income (loss)		
Unrecognized actuarial loss	(1,102,779)	(293,488)
Comprehensive Income	\$ 7,961,677	\$ 11,014,419

See Notes to Consolidated Financial Statements

## Consolidated Statements of Equities

### Blue Ridge EMC and Subsidiaries

#### Years Ended December 31, 2016 and 2015

	<u>Patronage Capital</u>	<u>Other Equities</u>	<u>AOCI</u>	<u>Memberships</u>	<u>Total</u>
Balance, December 31, 2014	\$ 149,749,488	\$ 4,085,949	\$ (1,595,043)	\$ 126,259	\$ 152,366,653
Net margins	11,307,907				11,307,907
Retirement of capital credits	(5,302,991)	684,796			(4,618,195)
Other comprehensive loss			(293,488)		(293,488)
Other changes, net				(5,825)	(5,825)
Balance, December 31, 2015	155,754,404	4,770,745	(1,888,531)	120,434	158,757,052
Net margins	9,064,456				9,064,456
Retirement of capital credits	(5,488,785)	698,941			(4,789,844)
Other comprehensive loss			(1,102,779)		(1,102,779)
Other changes, net				(6,329)	(6,329)
Balance, December 31, 2016	<u>\$ 159,330,075</u>	<u>\$ 5,469,686</u>	<u>\$ (2,991,310)</u>	<u>\$ 114,105</u>	<u>\$ 161,922,556</u>

See Notes to Consolidated Financial Statements



## Consolidated Statements of Cash Flows

### Blue Ridge EMC and Subsidiaries

	Year Ended December 31,	
	2016	2015
<b>Cash Flows from Operating Activities</b>		
Net margins	\$ 9,064,456	\$ 11,307,907
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation	14,570,481	14,065,864
Deferred income tax expense (benefit)	84,569	186,545
Gain on sale of nonutility property	(33,303)	(43,352)
Noncash capital credits assigned	(2,607,155)	(879,100)
Allowance for funds used during construction	(608,804)	(349,262)
Interest earned on cushion of credit	(2,035,938)	(1,831,693)
(Increase) decrease in:		
Accounts receivable, net	(4,722,355)	5,096,929
Other current assets	(1,007,499)	(559,468)
Inventory - BRE	(134,980)	130,122
Other noncurrent assets	(354,182)	49,476
Deferred charges and regulatory assets	1,429,253	834,406
Increase (decrease) in:		
Accounts payable	4,211,478	(215,269)
Other current liabilities	222,694	1,586,432
Deferred revenue	(4,399,096)	
Other noncurrent liabilities	(732,551)	(147,500)
Deferred credits and regulatory liabilities	8,035,815	(336,481)
Net Cash Provided by Operating Activities	20,982,883	28,895,556
<b>Cash Flows from Investing Activities</b>		
Investments in electric plant	(34,094,195)	(20,327,419)
Investments in nonutility property, plant and equipment	(6,532,768)	(2,782,154)
Proceeds from disposition of nonutility plant and equipment	67,200	43,352
Cost of removals	(701,244)	(583,251)
Contributions in aid of construction	1,527,296	1,513,468
Proceeds from CFC medium term notes	10,000,000	
Receipts from notes receivable	120,456	1,332,439
Issuance of notes receivable	(851,816)	(60,000)
Net Cash Used by Investing Activities	(30,465,071)	(20,863,565)

See Notes to Consolidated Financial Statements

	Year Ended December 31,	
	2016	2015
<b>Cash Flows from Financing Activities</b>		
Line of credit advances	11,000,000	215,223
Line of credit repayments		(215,223)
Proceeds from long-term debt	600,000	17,142,393
Principal payments of long-term debt	(10,902,284)	(9,691,409)
Advance payments on cushion of credit		(3,000,000)
Consumer deposits	(72,906)	26,667
Memberships issued, net of terminations and other	(6,329)	(5,825)
Capital credits received from suppliers	641,822	452,167
Patronage capital retirements	(4,789,844)	(4,618,195)
Net Cash Provided (Used) by Financing Activities	<u>(3,529,541)</u>	<u>305,798</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(13,011,729)	8,337,789
Cash and cash equivalents - beginning of year	<u>19,923,125</u>	<u>11,585,336</u>
Cash and Cash Equivalents - End of Year	<u>\$ 6,911,396</u>	<u>\$ 19,923,125</u>

#### **Schedule of Noncash Financing Activity**

Refinance of long-term debt	<u>\$</u>	<u>\$ 107,851,303</u>
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#### **Supplemental Disclosures**

The Corporation paid approximately \$8,569,000 and \$9,176,000 interest expense for the years ended December 31, 2016 and 2015, respectively.

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiaries

#### December 31, 2016 and 2015

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

###### Nature of Operations

Blue Ridge Electric Membership Corporation (the "Corporation") is a member-owned, nonprofit cooperative organized to provide electric service to its members. The Corporation's main office is located in Lenoir, North Carolina, and the service area extends through portions of the counties of Alexander, Alleghany, Ashe, Avery, Caldwell, Watauga and Wilkes, North Carolina.

Blue Ridge Energies, LLC ("BRE"), a wholly owned subsidiary of the Corporation, provides gasoline, propane and other petroleum products and appliances throughout the Western North Carolina and Southwestern Virginia areas. BRE's principal business offices are located in Lenoir, Boone, Sparta, West Jefferson and Morganton, North Carolina and Independence, Virginia.

RidgeLink, LLC ("RidgeLink"), a wholly owned subsidiary of the Corporation, leases excess fiber optic capacity from the Corporation and subleases such capacity to data and voice network providers throughout northwest North Carolina. All administrative and operational support is provided by the Corporation as RidgeLink has no employees or physical facilities.

###### Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries, BRE and RidgeLink. Significant intercompany transactions have been eliminated in consolidation.

###### Basis of Presentation

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), including GAAP for regulated operations.

The system of accounts of the Corporation are maintained in accordance with the Uniform System of Accounts as prescribed by the Federal Energy Regulatory Commission (FERC) for Class A and B electric utilities modified for electric borrowers of the Rural Utilities Service (RUS).

###### Accounting Estimates

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

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiaries

#### December 31, 2016 and 2015

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

###### Electric Plant

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

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

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

###### Depreciation

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

Transmission plant	2.75%
Fiber Optic	2.76%
Distribution plant	3.10-20.00%
Buildings and improvements	3.00%
Equipment	7.00-20.00%
Furniture and fixtures	7.00-10.00%
Vehicles	12.00%

###### Nonutility Property

Nonutility property, plant and equipment acquired through acquisitions are stated at the fair market value at the time of the acquisitions. Property acquired outside of the aforementioned acquisitions is stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from five to forty years. Accelerated methods, as provided by federal income tax laws, are used for income tax purposes.

The cost of maintenance and repairs is charged to operations when incurred and renewals and betterments are capitalized. When properties are retired or otherwise disposed of, the related costs and allowance for depreciation are removed from the respective accounts and any gain or loss on disposition is reflected in income.

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiaries

#### December 31, 2016 and 2015

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

###### Income Taxes

The Corporation has been granted exemption from income tax under Internal Revenue Service (IRS) Code Section 501(c)12 of the Internal Revenue Code. The Corporation evaluates the components of the annual test for compliance to maintain its filing status as a tax exempt entity. In accordance with Accounting Standards Codification (ASC) Topic 740 for “uncertain tax positions”, the Corporation, BRE, and RidgeLink had determined that it is more likely than not that their tax positions will be sustained upon examination by the IRS. The tax years from 2013 to 2015 remain subject to examination by the taxing authorities.

BRE is taxed as a corporation and is subject to federal and state income taxes. Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences arising between the tax bases of assets and liabilities and their reported amounts in accordance with ASC Topic 740.

RidgeLink has elected to be taxed as a separate corporation subject to federal and state income taxes. Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences arising between the tax bases of assets and liabilities and their reported amounts.

###### Inventory

The inventory of the Corporation consisted of materials and supplies generally used for construction, operation, and maintenance work and are not for resale. They are valued at the lower of market value or moving average unit cost.

The inventory of BRE consisted primarily of gasoline, fuel oils, propane, merchandise and maintenance parts and supplies used for services. Inventory is valued at the lower of average cost or market.

###### Revenue Recognition and Accounts Receivable

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

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

BRE uses a reserve for bad debts method of valuing doubtful accounts receivable, which is based on historical experience, coupled with a review of the current status of existing receivables.

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiaries

#### December 31, 2016 and 2015

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

###### Revenue Recognition and Accounts Receivable - Continued

RidgeLink obtains and subleases most of its network capacity under long-term indefeasible right of use agreements (“IRU’s”). IRU’s generally require up-front payments which are amortized into income and expense, on a straight-line basis, over the term of the respective agreements. Construction income is recognized as the contract is completed given the short duration of the contracts. The difference between using the completed contract method and the percentage of completion method is immaterial. RidgeLink classifies revenues and expenses which it expects to recognize during the next year as current.

###### Cash and Cash Equivalents

The Corporation, BRE, and RidgeLink consider all highly liquid investments with a maturity of three months or less to be cash equivalents.

###### Restricted Cash

Restricted cash represents cash received from members to be donated to charitable organizations (Blue Ridge Electric Members Foundation, Inc.) or scholarship funds, and the proceeds of economic development loans not yet reinvested.

###### Advertising Costs

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

###### Investments in Associated Organizations

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

###### Regulatory Assets and Liabilities

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

###### Subsequent Events

Subsequent events have been evaluated through March 15, 2017, which is the date the financial statements were available to be issued.

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiaries

#### December 31, 2016 and 2015

##### Note B - Electric Plant

Listed below were the major classes of electric plant:

	December 31,	
	2016	2015
Distribution plant	\$ 303,802,889	\$ 294,568,737
Transmission plant	87,217,835	85,173,871
General plant	63,895,594	61,124,253
Electric plant in service	454,916,318	440,866,861
Construction work in progress	25,696,635	7,681,448
	<u>\$ 480,612,953</u>	<u>\$ 448,548,309</u>

The Corporation followed the guidance as set forth in the ASC Topic 410, Asset Retirement and Environmental Obligations in determining that it had no legal asset retirement obligations for the years ended December 31, 2016 and 2015. Regarding the non-legal retirement costs, the Corporation follows the regulatory principle of inter-generational cost allocation by including net salvage (gross salvage less cost of removal) as a component of depreciation rates.

##### Note C - Nonutility Property

Nonutility property consisted of the following:

	December 31,	
	2016	2015
Machinery and equipment	\$ 14,297,205	\$ 13,899,942
Trucks and autos	3,546,177	3,119,554
Buildings	2,356,847	2,343,008
Fiber lines	6,194,996	2,378,042
Construction work in progress	810,000	
Capitalized software	1,131,281	652,475
Land improvements	443,080	443,080
Bulk plant equipment	778,503	481,730
Furniture and fixtures	161,780	159,938
Leasehold improvements	89,790	89,790
	<u>29,809,659</u>	<u>23,567,559</u>
Less accumulated depreciation	9,265,584	8,408,705
	<u>20,544,075</u>	<u>15,158,854</u>
Land	1,623,426	1,367,467
	<u>\$ 22,167,501</u>	<u>\$ 16,526,321</u>

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiaries

#### December 31, 2016 and 2015

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

Investments in associated organizations consisted of the following:

	December 31,	
	2016	2015
Patronage capital:		
North Carolina Electric Membership Corporation (NCEMC)	\$ 3,643,356	\$ 3,523,356
CoBank	3,426,335	1,890,292
Tarheel Electric Membership Association (TEMA)	1,479,109	1,220,726
National Rural Utilities Cooperative Finance Corporation (CFC)	474,407	468,575
Federated Rural Electric Insurance Corporation	417,443	371,503
Other	160,190	161,095
	<u>9,600,840</u>	<u>7,635,547</u>
Capital Term Certificates (CFC):		
SCTC's	1,869,410	1,869,410
LCTC's	354,600	354,600
	<u>2,224,010</u>	<u>2,224,010</u>
Other:		
CFC member capital securities	500,000	500,000
Other	24,552	24,512
Memberships	5,560	5,560
	<u>530,112</u>	<u>530,072</u>
	<u>\$ 12,354,962</u>	<u>\$ 10,389,629</u>

The capital term certificates invested in CFC are unsecured and subordinated. The SCTC's and LCTC's bear interest at an annual rate of 5% and 3% respectively, and are payable semiannually. The capital term certificates are required to be maintained under the note agreement with CFC and are similar to compensating bank balances. The CFC member capital securities are unsecured and unsubordinated and bear interest at an annual rate of 5%, payable semiannually.



## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiaries

#### December 31, 2016 and 2015

##### Note E - Intangible Asset

The goodwill acquired in the purchase of assets is being accounted for in accordance with ASC Topic 350. BRE evaluates the goodwill on an annual basis for potential impairment. After estimating the value of the goodwill at December 31, 2016 and 2015, using standard valuation techniques and comparing that value to the carrying cost, BRE did not recognize an impairment loss for the years ended December 31, 2016 and 2015.

##### Note F - Concentrations of Credit Risk

The Corporation places its cash on deposit with financial institutions located in the United States of America which are insured by the Federal Deposit Insurance Corporation (FDIC). The FDIC provides insurance coverage for up to \$250,000 of cash held by the Corporation in each separate FDIC insured bank and savings institution. From time to time, the Corporation may have amounts on deposit in excess of the insured limits. As of December 31, 2016, the Corporation had approximately \$4,690,000 of deposits that exceed the \$250,000 limit.

Concentrations of credit risk with respect to electric customer accounts and notes receivable were limited due to the large number of customers comprising the customer base. However, the Corporation serves one wholesale power electric customer that comprised approximately 10% of total electric customer revenues at December 31, 2016 and 2015.

BRE maintains cash balances at institutions that are insured by the FDIC. Deposits exceeded the insurance limits by approximately \$1,600,000 as of December 31, 2016.

RidgeLink maintains cash balances at institutions that are insured by the FDIC. Deposits exceeded the insurance limits by approximately \$122,000 as of December 31, 2016.

##### Note G - Accounts Receivable

Accounts receivable consisted of the following:

	December 31,	
	2016	2015
Consumers	\$ 13,683,681	\$ 10,306,587
Unbilled revenue	6,417,556	5,004,330
Other	2,633,723	2,537,863
	<u>22,734,960</u>	<u>17,848,780</u>
Less provision for uncollectible accounts	<u>1,501,696</u>	<u>1,337,871</u>
	<u>\$ 21,233,264</u>	<u>\$ 16,510,909</u>

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiaries

#### December 31, 2016 and 2015

##### Note H - Deferred Charges and Regulatory Assets

Deferred charges and regulatory assets consisted of the following:

	December 31,	
	2016	2015
Regulatory Asset - NRECA R&S Prepayment (Note N)	\$ 5,640,778	\$ 6,438,606
Preliminary survey and investigation costs	504,273	436,253
IRUs - RidgeLink	652,509	641,603
Deferred commissions - RidgeLink	353,570	
Other	15,502	7,868
Unrecognized post retirement benefit cost		1,091,082
	<u>7,166,632</u>	<u>8,615,412</u>
Less current portion	(53,376)	
	<u>\$ 7,113,256</u>	<u>\$ 8,615,412</u>

##### Note I - Deferred Income Taxes

BRE has net operating loss carryforwards totaling in excess of \$14,200,000 at December 31, 2016. These net operating loss carryforwards, which expire on various dates beginning December 31, 2019, may be used to offset federal and state taxable income in future years. Realization of deferred tax assets is dependent on future earnings, if any, the timing and amount of which is uncertain. Accordingly, a valuation allowance has been established to reflect these uncertainties. The deferred tax assets (liabilities) and related valuation allowance for BRE and RidgeLink are summarized as follows:

	December 31,	
	2016	2015
Deferred tax asset (liability)		
Net operating loss carryforwards	\$ 5,180,000	\$ 5,550,000
Depreciation	(2,700,000)	(2,300,000)
Other	275,000	275,000
	<u>2,755,000</u>	<u>3,525,000</u>
Valuation allowance	(985,000)	(1,755,000)
	<u>\$ 1,770,000</u>	<u>\$ 1,770,000</u>

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiaries

#### December 31, 2016 and 2015

##### Note J - Patronage Capital

Patronage capital consisted of the following:

	December 31,	
	2016	2015
Assigned	\$ 207,493,169	\$ 196,185,262
Assignable	9,064,456	11,307,907
	<u>216,557,625</u>	<u>207,493,169</u>
Retired	(57,227,550)	(51,738,765)
	<u>\$ 159,330,075</u>	<u>\$ 155,754,404</u>

Under provisions of the long-term debt agreement and Title 7 of the Code of Federal Regulations (Part 1717.617), the Corporation may refund capital to patrons without limitation if total equity is equal to or greater than 30% of total assets, and there are no instances of default. If equities are between 20% and 30% of total assets, general refunds are limited to 25% (adjusted for returns to estates, which are not limited) of patronage capital or margins received in the next preceding year. Total equities and margins amounted to 41% of total assets for the years ended December 31, 2016 and 2015.

##### Note K - Long-Term Debt

Long-term debt consisted of the following:

	December 31,	
	2016	2015
CoBank - Mortgage notes, fixed	\$ 134,082,208	\$ 142,694,246
Federal Financing Bank (FFB) - Mortgage notes, fixed	79,815,892	81,864,621
Advanced payments unapplied	(41,989,671)	(39,953,733)
	<u>37,826,221</u>	<u>41,910,888</u>
CFC - Mortgage notes, fixed	1,863,988	2,105,505
Rural Business Cooperative Development Service (RBCDS)		
Economic development grant	1,000,000	400,000
	<u>174,772,417</u>	<u>187,110,639</u>
Less current maturities	11,063,662	10,902,283
	<u>\$ 163,708,755</u>	<u>\$ 176,208,356</u>

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiaries

#### December 31, 2016 and 2015

##### Note K - Long-Term Debt - Continued

Substantially all of the Corporation's assets have been pledged as collateral for the long-term debt to CFC, FFB and CoBank. Under the terms of the loan agreements with RUS and CFC, there are certain restrictions which include requirements to maintain a TIER (times interest earned ratio) and DSC (debt service coverage) of 1.25, respectively. In addition, the Corporation has other ratios that must be maintained in accordance with the CoBank loan covenants. There were also restrictions on the return of capital to patrons as discussed in Note J. For the years ending December 31, 2016 and 2015, the Corporation was in compliance with the covenants and restrictions.

In November 2015, the Corporation refinanced approximately \$107,851,000 of debt with RUS to CoBank. During 2016 and 2015, the Corporation elected to participate in the RUS cushion of credit program, whereby a portion of principle and interest payments are prepaid to RUS and FFB and earn interest at a rate of 5.00%. For the year ended December 31, 2016, the Corporation had prepaid approximately \$42,000,000 in the cushion of credit program which was reflected in the financial statements as a reduction in the long term debt to FFB. At December 31, 2015, the Corporation had prepaid approximately \$40,000,000 in the cushion of credit program which was reflected in the financial statements as a reduction in the long term debt to FFB.

Long-term debt payable to CoBank is represented by mortgage notes with fixed rates ranging from 3.02% to 6.03% at December 31, 2016. The notes mature at various dates through September 20, 2031. Principal and interest installments are payable monthly in the amount of approximately \$1,180,000.

The security and repayment terms for the CFC notes, with the exception of the interest rates which range from 6.05% to 6.35% at December 31, 2016, were the same as the RUS notes. The notes mature at various dates through November 2023. Principal and interest installments are payable quarterly in the amount of approximately \$91,000.

Long-term debt payable to the FFB is represented by mortgage notes with interest rates ranging from 2.53% to 8.01% at December 31, 2016. The notes mature at various dates through January 2046. Principal and interest installments are payable quarterly in the amount of approximately \$1,200,000. No unadvanced loan funds were available to the Corporation on loan commitments from FFB at December 31, 2016 and 2015.

The debt to the RBCDS (an agency of the U.S. Department of Agriculture) resulted from a grant made to the Corporation under the Rural Economic Development Grant and Loan Program to fund local economic development projects. The grant must be repaid to the federal government (without interest) upon termination of the program by the Corporation.

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiaries

#### December 31, 2016 and 2015

##### Note K - Long-Term Debt - Continued

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

<u>Year Ending December 31,</u>	
2017	\$ 11,063,662
2018	11,443,851
2019	11,414,801
2020	11,794,120
2021	12,189,730
Thereafter	<u>116,866,253</u>
	<u>\$ 174,772,417</u>

##### Note L - Lines of Credit

The Corporation had lines of credit with CFC, CoBank and First Citizens Bank in the amount of \$31,500,000, \$29,000,000 and \$1,700,000, respectively, for the years ended December 31, 2016 and 2015. There was an outstanding balance of \$11,000,000 with CFC at December 31, 2016. There were no outstanding balances with CFC at December 31, 2015. There was no outstanding balance with CoBank or First Citizens Bank at December 31, 2016 and 2015.

BRE had two lines of credit established. First Citizens Bank has granted a line of credit in the amount of \$1,000,000, which expires July 2018. This line of credit is unsecured and guaranteed by the Corporation. There was no outstanding balance at December 31, 2016 and 2015. CoBank has also granted a line of credit in the amount of \$2,000,000, which expires in July 2018 and is guaranteed by the Corporation. There was no outstanding balance at December 31, 2016 and 2015.

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiaries

#### December 31, 2016 and 2015

##### Note M - Other Noncurrent Liabilities

Other noncurrent liabilities consisted of the following:

	December 31,	
	2016	2015
Other postretirement benefits	\$ 9,420,771	\$ 9,570,111
Deferred compensation	799,336	686,718
Other	676,524	269,574
	<u>\$ 10,896,631</u>	<u>\$ 10,526,403</u>

The Corporation sponsors an unfunded defined benefit postretirement medical and dental insurance plan that covers substantially all of its employees and their dependents. The premium for future retirees is subsidized by the employer. Employees of Blue Ridge Energies, LLC are not eligible for medical insurance upon retirement.

According to the provisions of the plan the pre-65 retirees and spouses/dependent(s) will receive \$11,000/\$5,500 per year, respectively. Post-65 retirees and spouses/dependents will receive \$3,000/\$1,500 per year, respectively. The dependent stipend is capped at \$5,500 regardless of number of dependents. These credits will not vary by service and will not be indexed. Employees must have 20 years of service and be at least 59.5 years old to be eligible to retire with these postretirement benefits.

The Corporation recognizes the funded status of its other postretirement medical, dental and vision benefit programs as a liability in its balance sheet and recognizes changes in the funded status as a component of other comprehensive income in the year in which the changes occur in accordance with Financial Accounting Standards Board ASC Topic 715. The funded status is measured as the difference between the fair value of the plan's assets and the benefit obligation.

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiaries

#### December 31, 2016 and 2015

##### Note M - Other Noncurrent Liabilities - Continued

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

	December 31,	
	2016	2015
Change in accumulated postretirement benefit obligation (APBO):		
APBO at beginning of year	\$ 9,570,111	\$ 9,596,372
Interest cost	413,016	387,411
Plan amendments		227,975
Service cost	166,232	173,935
Actuarial (gain) loss	57,540	(126,115)
Benefits paid	(786,128)	(689,467)
APBO at end of year	<u>9,420,771</u>	<u>9,570,111</u>
Fair value of plan assets at end of year		
Funded status	<u>\$ (9,420,771)</u>	<u>\$ (9,570,111)</u>

The components of the net periodic postretirement benefit cost included:

	Year Ended December 31,	
	2016	2015
Interest cost on benefit obligations	\$ 413,016	\$ 387,411
Service cost, benefits earned during the period	166,232	173,935
Amortization of net loss	247,431	291,452
Amortization of prior service credit	(201,588)	(218,964)
	<u>\$ 625,091</u>	<u>\$ 633,834</u>

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiaries

#### December 31, 2016 and 2015

##### Note M - Other Noncurrent Liabilities - Continued

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

	Year Ended December 31,	
	2016	2015
Unrecognized actuarial gain (loss)	\$ (2,991,310)	\$ (1,888,531)

Assumptions and effects:

	Year Ended December 31,	
	2016	2015
Actuarial assumptions:		
Discount rate	4.20%	4.45%
Measurement date	12/31/2016	12/31/2015

Estimated future benefit payments reflecting expected future service:

<u>Year Ending December 31,</u>		
2017	\$	728,000
2018	\$	658,000
2019	\$	610,000
2020	\$	598,000
2021	\$	601,000
2022 - 2026	\$	2,983,000

Expected net employer contributions for the year ending December 31, 2017, are approximately \$728,000.



## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiaries

#### December 31, 2016 and 2015

##### Note N - Retirement Plans

###### Pension Plan

The retirement Security Plan (RS Plan), sponsored by the National Rural Electric Cooperative Association (NRECA), is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is considered a multiemployer plan under the accounting standards. The plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333.

A unique characteristic of a multiemployer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

The Corporation's contributions to the RS Plan in 2016 and in 2015 represented less than 5 percent of the total contributions made to the plan by all participating employers. The Corporation made contributions to the plan of approximately \$2,591,000 and \$3,113,000 in 2016 and 2015, 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 percent funded at January 1, 2016 and January 1, 2015 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 the December 2012 meeting of the I&FS Committee of the NRECA Board of Directors, the Committee 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 contributions as of January 1, 2013. After making the prepayments, for most cooperatives the billing rate is reduced by approximately 25%, retroactive to January 1<sup>st</sup> 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. However changes in interest rates, asset returns and other plan experience different from expected, plan assumption changes and other factors may have an impact on the differential in billing rates and the 15 year period.

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

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiaries

#### December 31, 2016 and 2015

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

###### Deferred Compensation Programs

In addition to the NRECA RS Plan, substantially all employees of the Corporation are eligible to participate in the NRECA SelectRE Plan (the "Plan"), a defined contribution multi-employer deferred income plan qualified under Section 401(k) and tax exempt under Section 501(a) of the Internal Revenue Code. The Corporation's required contributions to the Plan were approximately \$117,000 and \$306,000 for the years ended December 31, 2016 and 2015, respectively.

BRE contributed approximately \$88,000 and \$79,000 for the years ended December 31, 2016 and 2015, respectively.

BRE provides a Top Hat Plan under Section 457(b) of the Internal Revenue Code (the 457(b) Plan) to permit a select group of management or highly compensated employees to defer a portion of their current compensation in accordance with the provisions of the 457(b) Plan. Participants direct the investment of these contributions to various options offered through the 457(b) Plan.

##### Note O - Deferred Credits and Regulatory Liabilities

Deferred credits and regulatory liabilities consisted of the following:

	December 31,	
	2016	2015
Deferred revenue - RidgeLink	\$ 13,822,644	\$ 9,073,773
Regulatory liability - power costs	4,819,317	
Regulatory liability - deferred revenue	2,355,000	9,317,000
Unclaimed capital credits	1,364,984	237,453
Customer deposits on construction	723,966	821,874
Other	34,471	33,563
	<u>23,120,382</u>	<u>19,483,663</u>
Less current portion	<u>(3,086,138)</u>	<u>(7,485,234)</u>
	<u>\$ 20,034,244</u>	<u>\$ 11,998,429</u>

In anticipation of higher power costs that are scheduled to be billed to the Corporation from its supplier in 2017, the Corporation established a regulatory liability totaling \$4,819,317. This amount represents the estimated portion of the power cost increase that relates to the years 2015 and 2016.

The Corporation elected to participate in the RUS revenue deferral plan in accordance with ASC Topic 980. Approximately \$2,400,000 of revenue will be amortized into margins during 2017. In accordance with the RUS requirements, the deferred revenue has been funded through a prepayment to the RUS cushion of credit program.

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiaries

#### December 31, 2016 and 2015

##### Note O - Deferred Credits and Regulatory Liabilities - Continued

Ridgeline subleases fiber optic cables as further described in Note P. Ridgeline anticipates recognizing approximately \$730,000 of revenue annually through 2024 in connection with amounts received from IRU's. \$731,138 has been included as a current liability on the balance sheet as of December 31, 2016.

##### Note P - Leases and IRU's, Lessee Considerations

RidgeLink has entered into a Fiber, Pole and Ground Lease Agreement ("Master Fiber Agreement") with the Corporation under which it agreed to lease certain strands of fiber optic cable through December 2016. The Master Fiber Agreement is adjusted annually, for the number of strands then provided under lease and the monthly fee to be charged per fiber optic mile. Lease payments under the Master Fiber Agreement totaled approximately \$139,000 and \$142,000 for the years ended December 31, 2016 and 2015, respectively.

During the year ended December 31, 2016, RidgeLink obtained a new IRU from the Corporation. RidgeLink made one payment of \$965,064 to the Corporation in connection with new IRU obtained from the Corporation during the year ended December 31, 2016. During the year ended December 31, 2015, RidgeLink obtained a new IRU from the Corporation. RidgeLink made aggregate payments of \$990 to the Corporation in connection with the new IRU during the year ended December 31, 2015. The IRU's allow RidgeLink to access specific fiber lines maintained by the Corporation in connection with the Corporation's provision of electric services to its members.

RidgeLink will recognize approximately \$259,000 of expense annually through 2036 in connection with the amounts paid to the Corporation for the IRU's and related legal and other executory costs capitalized in connection with the IRU's.

During the years ended December 31, 2016 and 2015, RidgeLink recognized approximately \$176,000 and \$174,000, respectively, of deferred cost associated with the periods in which such fibers were lit.

RidgeLink subleases fiber optic cables it obtains under the Master Fiber Agreement to third parties. The terms of the subleases provide for fixed monthly payments through 2035. Lease payments under these agreements totaled approximately \$596,000 and \$499,000 for the years ended December 31, 2016 and 2015, respectively.

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

<u>Year Ending December 31,</u>		
2017	\$	695,770
2018		598,523
2019		522,000
2020		521,100
2021		206,880
Thereafter		<u>718,080</u>
	\$	<u><u>3,262,353</u></u>

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiaries

#### December 31, 2016 and 2015

##### Note P - Leases and IRU's, Lessee Considerations - Continued

RidgeLink received one payment of \$2,598,800 from one party in connection with the IRU's provided to various data and voice network providers throughout northwest North Carolina during the year ended December 31, 2016. During the year ended December 31, 2015, RidgeLink received aggregate payments of \$787,184 from various parties in connection with the same IRU's provided. These IRU's provide the customers with access to specific fiber lines constructed by RidgeLink and obtained through the Corporation's IRU's referred to above.

##### Note Q - Financial Instruments Carried at Cost

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

##### Cash and Cash Equivalents

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

##### Accounts Receivable

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

##### Investments in Associated Organizations

Fair value of capital term certificates was determined by computing the present value of estimated future cash flows, discounted at the long-term treasury rate of 3.06% and 3.01% for the years ending December 31, 2016 and 2015, respectively. The fair value of patronage capital is not determinable since no legal obligation exists to retire capital credits. The carrying value of memberships approximates fair value.

##### Notes Receivable

Fair value of notes receivable was computed at present value of future cash flows, discounted at market rates for the same or similar issues of notes for the years ending December 31, 2016 and 2015.

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiaries

#### December 31, 2016 and 2015

##### Note Q - Financial Instruments Carried at Cost - Continued

###### Accounts Payable

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

###### Long-Term Debt

The carrying amount of the Corporation's fixed long-term debt includes certain interest rates that are below quoted market prices for the same or similar issues. Therefore, the fair value of fixed long-term debt is estimated based on current market prices for the same or similar issues offered for debt of the same and remaining maturities which was 5.85% for the years ending December 31, 2016 and 2015.

###### Lines of Credit

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

###### Consumer Deposits

The carrying amount approximates fair value due to the relatively short maturity of the deposits.

The estimated fair values of the Corporation's financial instruments were as follows:

	December 31,			
	2016		2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Assets:</b>				
Capital term certificates	\$ 2,224,010	\$ 3,305,000	\$ 2,224,010	\$ 3,348,000
CFC member capital securities	\$ 500,000	\$ 693,000	\$ 500,000	\$ 703,000
Notes receivable	\$ 1,009,200	\$ 743,000	\$ 277,840	\$ 260,000
<b>Liabilities:</b>				
Long-term debt, fixed notes	\$ 174,772,417	\$ 174,035,000	\$ 187,110,639	\$ 177,144,000

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiaries

#### December 31, 2016 and 2015

##### Note R - Commitments

###### Purchased Power

The Corporation has a contract to purchase power from NCEMC, a generation and transmission cooperative, through December 31, 2046. In addition, the Corporation has a full requirements service agreement with Duke Energy Carolinas, LLC (Duke) through December 31, 2021. The First Amended and Restated Electric Full Requirements Power Purchase and REPS Compliance Service Agreement with Duke dated October 1, 2010, extended the power purchase agreement to December 31, 2031.

###### Operating Leases

BRE leases certain trucks under non-cancellable operating leases. The leases provide for monthly rental payments and expire at various dates through 2020. Total lease payments amounted to approximately \$101,000 and \$119,000 for the years ended December 31, 2016 and 2015, respectively.

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

<u>Year Ending December 31,</u>		
2017	\$	97,352
2018		44,058
2019		44,058
2020		<u>24,253</u>
	\$	<u>209,721</u>

###### Purchase Commitments

During 2016 and 2015, BRE entered into propane purchase contracts with key suppliers. The contracts vary in length and require certain advance payments at the time of the negotiation, with the remaining due at the time of delivery. The advances are included in other current assets on the accompanying balance sheets. BRE had commitments to purchase approximately \$366,000 and \$382,000 of propane from key suppliers, as of December 31, 2016 and 2015, respectively.

##### Note S - Contingencies

The Corporation, BRE and RidgeLink, are involved in certain litigation in the ordinary course of business. In management's opinion, the ultimate resolution of these matters will not have a material adverse effect on the financial position, results of operations or cash flows.

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiaries

#### December 31, 2016 and 2015

##### Note T - Related Party Transactions

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

##### CFC

The Corporation is a member of CFC, a national financing organization, and, as explained in Notes D, K and L, had investment assets, mortgage notes payable, and a line of credit at various interest rates and maturities.

##### NCEMC

The Corporation, as an independent member of NCEMC, an organization composed of electric cooperatives, has entered into a contract for the acquisition of wholesale power. The cost of wholesale power to members is determined by the Board of Directors of NCEMC. Additionally, as explained in Note D, the Corporation had an investment in NCEMC.

##### TEMA

As a member of TEMA, a statewide organization composed of electric cooperatives and others, the Corporation purchases a substantial amount of materials and supplies for construction and maintenance of the utility plant. Additionally, as explained in Note D, the Corporation has an investment in TEMA.

##### Federated Rural Electric Insurance Corporation (Federated)

The Corporation is a shareholder of Federated, as explained in Note D, and purchases its general property and liability coverage from this corporation.

##### BRE

The Corporation allocates certain costs to BRE on a monthly basis, including labor expense, lease expense, medical insurance premiums, and operating expenses for shared services, which amounted to approximately \$1,863,000 and \$922,000 for the years ending December 31, 2016 and 2015, respectively. Sales to the Corporation were approximately \$239,000 and \$507,000 for the years ended December 31, 2016 and 2015, respectively.

BRE leases real property from the Corporation at terms which can be modified by mutual agreement of both parties. Total rent amounted to approximately \$109,000 and \$96,000 in 2016 and 2015, respectively.

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiaries

#### December 31, 2016 and 2015

##### Note T - Related Party Transactions - Continued

###### RidgeLink

The Corporation provides administrative and operational support for RidgeLink's operations. Substantially all expenses of RidgeLink during the year ended December 31, 2016, were directly incurred by the Corporation in support of Company operations and charged to RidgeLink under the terms of the Service Agreement. During the years ended December 31, 2016 and 2015, RidgeLink paid the Corporation approximately \$735,000 and \$565,000 for administrative services. RidgeLink had accounts payable of approximately \$1,413,000 and \$685,000 due to the Corporation at December 31, 2016 and 2015, respectively.

The Corporation has outstanding advances from RidgeLink amounting to \$2,000,000 at December 31, 2016 and \$3,500,000 at December 31, 2015. Such advances, bearing interest at an annual rate of 2.9%, are payable in full on March 1, 2017. The Corporation accrued approximately \$94,000 and \$101,000 of interest to RidgeLink during the years ended December 31, 2016 and 2015, respectively.

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

##### Note U - Other

On October 30, 2015 BRE entered into an asset purchase agreement with Carswell Heating & Air in which BRE acquired the following assets (at fair value):

Property, plant and equipment	\$ 1,090,336
Land	135,000
Goodwill	65,800
Accounts receivable	43,239
Propane Inventory	<u>19,137</u>
	<u>\$ 1,353,512</u>

The purchase price of \$1,353,512 approximated the fair value of the acquisition and was recorded accordingly.



**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  
Blue Ridge EMC and Subsidiaries  
Lenoir, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Blue Ridge EMC and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of operations, equities and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 15, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audits of the consolidated financial statements, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

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

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

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Blue Ridge EMC's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Blue Ridge EMC's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering Blue Ridge EMC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Adams, Jenkins & Cheatham*

Richmond, Virginia  
March 15, 2017



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

The Board of Directors  
Blue Ridge EMC  
Lenoir, North Carolina

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Blue Ridge EMC and Subsidiaries (the "Corporation"), which comprise the consolidated balance sheet as of December 31, 2016, and the related consolidated statements of operations, equities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 15, 2017. In accordance with *Government Auditing Standards*, we have also issued a report dated March 15, 2017 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above have been furnished to management.

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

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

- 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.

*Alama, Jenkins & Cheatham*

Richmond, Virginia  
March 15, 2017