

**Central Virginia Electric Cooperative**  
**Financial Statements**  
**December 31, 2012 and 2011**

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**Financial Statements**

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## **Independent Auditors' Report**

The Board of Directors  
Central Virginia Electric Cooperative  
Arrington, Virginia

We have audited the accompanying financial statements of Central Virginia Electric Cooperative which comprise the balance sheets as of December 31, 2012 and 2011 and the related statements of operations and comprehensive income, equities and cash flows for the years then ended, and the related notes to the financial statements.

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

The Cooperative'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.

### **Auditors' Responsibility**

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

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Central Virginia Electric Cooperative as of December 31, 2012 and 2011, 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.

## **Report on Other Regulatory Requirements**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 4, 2013, on our consideration of Central Virginia Electric Cooperative's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

*Adams, Jenkins & Cheatham*

Richmond, Virginia  
April 4, 2013

## Balance Sheets

### Central Virginia Electric Cooperative

|   | December 31,          |                       |
|---|-----------------------|-----------------------|
|   | 2012                  | 2011                  |
| <b>Assets</b>   |                       |                       |
| Electric plant  |                       |                       |
| Electric plant  | \$ 196,669,494        | \$ 188,617,069        |
| Less accumulated provision for depreciation<br>and amortization | 59,756,838            | 55,697,900            |
|   | <u>136,912,656</u>    | <u>132,919,169</u>    |
| Other property and investments                                  |                       |                       |
| Investments in associated organizations                         | 2,147,329             | 2,181,295             |
| Other   | 639,943               | 609,050               |
|   | <u>2,787,272</u>      | <u>2,790,345</u>      |
| Current assets  |                       |                       |
| Cash and cash equivalents                                       | 4,029,086             | 2,592,564             |
| Accounts receivable, net  | 7,912,731             | 5,619,912             |
| Materials and supplies  | 1,727,237             | 1,741,343             |
| Other current assets  | 275,562               | 232,315               |
|   | <u>13,944,616</u>     | <u>10,186,134</u>     |
| Deferred charges  | 7,628,531             | 9,113,650             |
|   | <u>7,628,531</u>      | <u>9,113,650</u>      |
|   | <u>\$ 161,273,075</u> | <u>\$ 155,009,298</u> |

See Notes to Financial Statements

|   | December 31,          |                       |
|---|-----------------------|-----------------------|
|   | <u>2012</u>           | <u>2011</u>           |
| <b>Equities and Liabilities</b>                 |                       |                       |
| Equities  |                       |                       |
| Patronage capital                               | \$ 47,838,704         | \$ 45,718,689         |
| Other equities                                  | 3,354,336             | 3,116,996             |
| Accumulated other comprehensive loss            | <u>(2,231,808)</u>    | <u>(1,510,535)</u>    |
|   | 48,961,232            | 47,325,150            |
| Noncurrent liabilities                          |                       |                       |
| Long-term debt                                  | 95,446,235            | 92,929,339            |
| Other   | <u>3,277,134</u>      | <u>3,123,162</u>      |
|   | 98,723,369            | 96,052,501            |
| Current liabilities                             |                       |                       |
| Accounts payable                                | 4,871,428             | 3,106,163             |
| Current portion of long-term debt               | 3,079,473             | 3,109,334             |
| Consumer deposits                               | 1,675,296             | 1,400,191             |
| Other current and accrued liabilities           | 1,020,487             | 1,052,742             |
| Other postretirement benefits - current portion | <u>250,317</u>        | <u>281,326</u>        |
|   | 10,897,001            | 8,949,756             |
| Deferred credits                                | <u>2,691,473</u>      | <u>2,681,891</u>      |
|   | <u>\$ 161,273,075</u> | <u>\$ 155,009,298</u> |

## Statements of Operations and Comprehensive Income

### Central Virginia Electric Cooperative

|  | Year Ended December 31, |                     |
|--|-------------------------|---------------------|
|  | 2012                    | 2011                |
| Operating revenues                             | \$ 69,336,633           | \$ 62,261,281       |
| Operating expenses                             |                         |                     |
| Cost of power                                  | 41,467,392              | 34,992,638          |
| Transmission                                   | 79,027                  | 76,454              |
| Distribution - operation                       | 2,880,665               | 2,836,189           |
| Distribution - maintenance                     | 4,396,548               | 4,287,443           |
| Consumer accounts                              | 2,061,867               | 1,999,153           |
| Customer service and informational             | 162,834                 | 145,214             |
| Administrative and general                     | 4,578,247               | 4,344,818           |
| Depreciation and amortization                  | 5,606,425               | 5,408,893           |
| Interest on long-term debt                     | 4,691,195               | 4,765,284           |
| Other interest                                 | 32,348                  | 103,469             |
| Other deductions                               | (30,893)                | (36,278)            |
|  | <u>65,925,655</u>       | <u>58,923,277</u>   |
| Operating Margins Before Patronage Allocations | 3,410,978               | 3,338,004           |
| Patronage allocations                          | <u>133,801</u>          | <u>188,700</u>      |
| Net Operating Margins                          | 3,544,779               | 3,526,704           |
| Nonoperating income                            |                         |                     |
| Interest income                                | 34,237                  | 35,226              |
| Other  | <u>3,588</u>            | <u>25,877</u>       |
|  | <u>37,825</u>           | <u>61,103</u>       |
| Net Margins                                    | 3,582,604               | 3,587,807           |
| Other comprehensive loss                       |                         |                     |
| Unrecognized postretirement benefit cost       | <u>(721,273)</u>        | <u>(189,177)</u>    |
| Comprehensive Income                           | <u>\$ 2,861,331</u>     | <u>\$ 3,398,630</u> |

See Notes to Financial Statements

## Statements of Equities

### Central Virginia Electric Cooperative

#### Years Ended December 31, 2012 and 2011

|   | Patronage<br>Capital | Other<br>Equities   | Accumulated<br>Other<br>Comprehensive<br>Loss | Total                |
|---|----------------------|---------------------|---|----------------------|
| Balance, December 31, 2010                  | \$ 43,370,082        | \$ 2,941,296        | \$ (1,321,358)                                | \$ 44,990,020        |
| Net margins                                 | 3,526,704            | 61,103              |   | 3,587,807            |
| Unrecognized postretirement<br>benefit cost |                      |                     | (189,177)                                     | (189,177)            |
| Retirement of capital credits               | (1,260,772)          | 114,597             |   | (1,146,175)          |
| Other                                       | 82,675               |                     |   | 82,675               |
| Balance, December 31, 2011                  | 45,718,689           | 3,116,996           | (1,510,535)                                   | 47,325,150           |
| Net margins                                 | 3,544,779            | 37,825              |   | 3,582,604            |
| Unrecognized postretirement<br>benefit cost |                      |                     | (721,273)                                     | (721,273)            |
| Retirement of capital credits               | (1,424,764)          | 199,515             |   | (1,225,249)          |
| Balance, December 31, 2012                  | <u>\$ 47,838,704</u> | <u>\$ 3,354,336</u> | <u>\$ (2,231,808)</u>                         | <u>\$ 48,961,232</u> |

See Notes to Financial Statements

## Statements of Cash Flows

### Central Virginia Electric Cooperative

|  | Year Ended December 31, |               |
|--|-------------------------|---------------|
|  | 2012                    | 2011          |
| <b>Cash Flows from Operating Activities</b>      |                         |               |
| Cash received from members                       | \$ 67,586,718           | \$ 62,462,683 |
| Cash paid to suppliers and employees             | (53,653,905)            | (47,276,635)  |
| Interest paid                                    | (4,725,442)             | (4,870,498)   |
| Interest received                                | 34,237                  | 35,468        |
| Net Cash Provided by<br>Operating Activities     | 9,241,608               | 10,351,018    |
| <b>Cash Flows from Investing Activities</b>      |                         |               |
| Investments in utility plant                     | (9,321,832)             | (10,203,862)  |
| Plant removal costs                              | (506,915)               | (836,897)     |
| Contributions in aid of construction             | 214,455                 | 334,649       |
| Proceeds from the sale of plant                  | 104,548                 | 176,979       |
| Proceeds from retirement of investments in CTC's | 87,540                  | 9,316         |
| Net Cash Used by<br>Investing Activities         | (9,422,204)             | (10,519,815)  |
| <b>Cash Flows from Financing Activities</b>      |                         |               |
| Capital credits received from suppliers          | 80,227                  | 104,649       |
| Capital credits paid to members                  | (1,225,249)             | (1,146,175)   |
| Loan proceeds                                    | 6,000,000               | 8,000,000     |
| Loan payments                                    | (3,512,965)             | (3,730,853)   |
| Payments on line of credit                       |                         | (3,000,000)   |
| Deposits received from consumers, net            | 275,105                 | 54,356        |
| Net Cash Provided by<br>Financing Activities     | 1,617,118               | 281,977       |
| Net Increase in<br>Cash and Cash Equivalents     | 1,436,522               | 113,180       |
| Cash and cash equivalents - beginning of year    | 2,592,564               | 2,479,384     |
| Cash and Cash<br>Equivalents - End of Year       | \$ 4,029,086            | \$ 2,592,564  |

See Notes to Financial Statements

|   | Year Ended December 31, |                      |
|---|-------------------------|----------------------|
|   | <u>2012</u>             | <u>2011</u>          |
| Net margins   | \$ 3,582,604            | \$ 3,587,807         |
| Adjustments to reconcile net margins<br>to net cash provided by operating activities: |                         |                      |
| Depreciation and amortization charged to operations                                   | 5,606,425               | 5,408,893            |
| Noncash capital credits allocations   | (133,801)               | (188,700)            |
| Increase in cash surrender value of life insurance                                    | (30,893)                | (35,282)             |
| Special equipment installation costs  | (66,480)                | (75,000)             |
| Realized gain on sale of assets   |                         | (22,282)             |
| (Increase) decrease in:   |                         |                      |
| Accounts receivable   | (2,292,819)             | 354,381              |
| Other current assets  | (43,247)                | (9,797)              |
| Deferred charges  | 1,275,301               | 3,029,239            |
| Increase (decrease) in:   |                         |                      |
| Accounts payable  | 1,765,265               | (1,640,024)          |
| Other current and accrued liabilities   | (32,255)                | 180,463              |
| Other noncurrent liabilities  | (388,492)               | (238,680)            |
| Net Cash Provided by<br>Operating Activities  | <u>\$ 9,241,608</u>     | <u>\$ 10,351,018</u> |

## Notes to Financial Statements

### Central Virginia Electric Cooperative

#### December 31, 2012 and 2011

##### Note A - Significant Accounting Policies

###### Nature of Operations

Central Virginia Electric Cooperative (the "Cooperative") is a member-owned, not-for-profit cooperative organized to provide electric service to its members. The Cooperative's main office is located in Arrington, Virginia and the service area extends through portions of the counties of Albemarle, Amherst, Appomattox, Augusta, Buckingham, Campbell, Cumberland, Fluvanna, Goochland, Greene, Louisa, Nelson, Orange, Prince Edward and the towns of Appomattox, Gordonsville and Scottsville.

###### 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 is 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.

###### 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.

## Notes to Financial Statements

### Central Virginia Electric Cooperative

#### December 31, 2012 and 2011

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

###### 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:

|                    |                |
|--------------------|----------------|
| Production plant   | 4.00%          |
| Transmission plant | 2.75%          |
| Distribution plant | 1.80% - 10.00% |
| General plant      | 2.34% - 33.33% |

###### Materials and Supplies

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

###### Revenue Recognition and Accounts Receivable

Revenue is recognized at the time customers are billed.

Due to the dates customer meters are read, billings lag behind actual consumer usage each month. These unbilled amounts are not recorded by the Cooperative as revenue until the following month when actually billed. Revenues are recognized on the basis of such billings so that revenues reflect twelve monthly billings. Management estimated that total unbilled revenue was approximately \$3,980,000 and \$3,300,000 at December 31, 2012 and 2011, respectively.

The billing rate schedules of the Cooperative 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 Cooperative provides for uncollectible accounts 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.

###### Income Taxes

The Cooperative has been granted exemption from income tax under Internal Revenue Code (IRC) Section 501(c)(12). Accordingly, no provision for income taxes has been made in the financial statements. The tax years from 2009 to 2011 remain subject to examination by the taxing authorities.

## **Notes to Financial Statements**

### **Central Virginia Electric Cooperative**

#### **December 31, 2012 and 2011**

##### **Note A - Significant Accounting Policies - Continued**

###### Cash and Cash Equivalents

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

###### Investments

Investments in associated organizations and other investments are recorded at cost.

###### Regulatory Assets and Liabilities

The Cooperative currently complies with accounting guidance set forth by the Financial Accounting Standards Board (FASB) 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 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 Cooperative records certain assets and liabilities that result from the regulated ratemaking process that would not be recorded under GAAP for non-regulated entities.

###### Advertising Costs

The Cooperative expenses advertising costs as incurred.

###### Subsequent Events

Subsequent events have been evaluated through April 4, 2013, which is the date the financial statements were available to be issued.

###### Reclassifications

Certain reclassifications have been made to the December 31, 2011 financial statements to conform to the December 31, 2012 presentation.

## Notes to Financial Statements

### Central Virginia Electric Cooperative

#### December 31, 2012 and 2011

##### Note B - Electric Plant

Listed below were the major classes of electric plant:

|                               | December 31,          |                       |
|-------------------------------|-----------------------|-----------------------|
|                               | 2012                  | 2011                  |
| Distribution plant            | \$ 157,713,409        | \$ 151,888,721        |
| General plant                 | 18,934,016            | 18,091,610            |
| Transmission plant            | 14,242,022            | 14,213,051            |
| Intangible plant              | 2,126,286             | 2,126,286             |
| Production plant              | 353,248               | 353,248               |
| Electric plant in service     | 193,368,981           | 186,672,916           |
| Construction work in progress | 3,300,513             | 1,944,153             |
|                               | <u>\$ 196,669,494</u> | <u>\$ 188,617,069</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, 2012 and 2011. 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. For the years ended December 31, 2012 and 2011, the Cooperative followed the RUS prescribed rates for depreciation and therefore, collections for net salvage and differences in timing of recognition of period costs associated with non-legal retirement obligations had not been specifically identified.

## Notes to Financial Statements

### Central Virginia Electric Cooperative

#### December 31, 2012 and 2011

##### Note C - Investments in Associated Organizations

Investments in associated organizations consisted of the following:

|   | December 31,        |                     |
|---|---------------------|---------------------|
|   | 2012                | 2011                |
| Patronage Capital:  |                     |                     |
| National Rural Utilities Cooperative<br>Finance Corporation (CFC) | \$ 605,318          | \$ 564,187          |
| CoBank  | 170,412             | 163,090             |
| Other   | 194,282             | 189,162             |
|   | <u>970,012</u>      | <u>916,439</u>      |
| Capital Term Certificates (CTC's):                                |                     |                     |
| SCTC's  | 854,193             | 854,193             |
| LCTC's  | 210,600             | 210,600             |
| ZCTC's  | 84,053              | 171,592             |
|   | <u>1,148,846</u>    | <u>1,236,385</u>    |
| Other:  |                     |                     |
| CFC member capital certificates                                   | 25,000              | 25,000              |
| Membership fees   | 3,471               | 3,471               |
|   | <u>28,471</u>       | <u>28,471</u>       |
|   | <u>\$ 2,147,329</u> | <u>\$ 2,181,295</u> |

The CTC's are unsecured and subordinated. The SCTC's and LCTC's bear interest at an annual rate of 3%. The ZCTC's are non-interest bearing. The CTC's are required to be maintained under the note agreement with CFC and are similar to compensating bank balances.

The CFC member capital certificates are unsecured and subordinated and bear interest at an annual rate of 7.5% payable semiannually.

##### Note D - Concentrations of Credit Risk

The Cooperative places its cash on deposit with financial institutions located in the United States of America. The Federal Deposit Insurance Corporation (FDIC) provides insurance coverage for up to \$250,000 of cash held by the Cooperative in each separate FDIC insured bank and savings institution. The \$250,000 limit of coverage (per depositor, per bank) is in place through December 31, 2013. Effective January 1, 2014, the limit of deposits protected by the FDIC will decrease to \$100,000. From time to time, the Cooperative may have amounts on deposit in excess of the insured limits. As of December 31, 2012, the Cooperative had approximately \$3,745,000 of deposits that exceed the insured limits. Concentrations of credit risk with respect to consumer accounts receivable generally are limited due to the large number of consumers comprising the customer base.

## Notes to Financial Statements

### Central Virginia Electric Cooperative

#### December 31, 2012 and 2011

##### Note E - Accounts Receivable

Accounts receivable consisted of the following:

|   | December 31,        |                     |
|---|---------------------|---------------------|
|   | 2012                | 2011                |
| Consumer                                  | \$ 6,673,730        | \$ 4,848,263        |
| Other                                     | 1,429,018           | 957,763             |
|   | 8,102,748           | 5,806,026           |
| Less provision for uncollectible accounts | 190,017             | 186,114             |
|   | <u>\$ 7,912,731</u> | <u>\$ 5,619,912</u> |

##### Note F - Deferred Charges

Deferred charges consisted of the following:

|                                     | December 31,        |                     |
|-------------------------------------|---------------------|---------------------|
|                                     | 2012                | 2011                |
| Pension prior service cost          | \$ 3,755,519        | \$ 4,131,071        |
| Amp Ohio development and consulting | 2,384,456           | 3,228,326           |
| Deferred fuel costs                 | 914,941             | 592,322             |
| Deferred early retirement cost      | 389,716             | 635,852             |
| Preliminary survey                  | 99,052              | 72,058              |
| Other                               | 84,847              |                     |
| Radio study                         |                     | 367,647             |
| Remapping costs                     |                     | 86,374              |
|                                     | <u>\$ 7,628,531</u> | <u>\$ 9,113,650</u> |

##### Note G - Patronage Capital

Patronage capital consisted of the following:

|            | December 31,         |                      |
|------------|----------------------|----------------------|
|            | 2012                 | 2011                 |
| Assigned   | \$ 44,293,925        | \$ 42,109,310        |
| Assignable | 3,544,779            | 3,609,379            |
|            | <u>\$ 47,838,704</u> | <u>\$ 45,718,689</u> |

## Notes to Financial Statements

### Central Virginia Electric Cooperative

#### December 31, 2012 and 2011

##### Note G - Patronage Capital - Continued

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 30% and 31% of total assets for the years ended December 31, 2012 and 2011, respectively.

##### Note H - Long-Term Debt

Long-term debt consisted of the following:

|  | December 31,         |                      |
|--|----------------------|----------------------|
|  | 2012                 | 2011                 |
| RUS - Mortgage notes, fixed                          | \$ 34,360,344        | \$ 35,135,732        |
| Federal Financing Bank (FFB) - Mortgage notes, fixed | 48,011,121           | 42,894,046           |
| CFC - Mortgage notes, fixed                          | 14,157,425           | 15,947,538           |
| CoBank - Mortgage notes, fixed                       | 1,996,818            | 2,061,357            |
|  | <u>98,525,708</u>    | <u>96,038,673</u>    |
| Less current portion                                 | <u>3,079,473</u>     | <u>3,109,334</u>     |
|  | <u>\$ 95,446,235</u> | <u>\$ 92,929,339</u> |

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

| <u>Year Ending December 31,</u> |                      |
|---------------------------------|----------------------|
| 2013                            | \$ 3,079,473         |
| 2014                            | 2,865,783            |
| 2015                            | 2,686,176            |
| 2016                            | 2,816,549            |
| 2017                            | 2,943,842            |
| Thereafter                      | <u>84,133,885</u>    |
|                                 | <u>\$ 98,525,708</u> |

## Notes to Financial Statements

### Central Virginia Electric Cooperative

#### December 31, 2012 and 2011

##### Note H - Long-Term Debt - Continued

Substantially all of the Cooperative's assets have been pledged as collateral for the long-term debt to RUS, CFC, CoBank and FFB. Under the term 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. There were also restrictions on the return of capital to patrons as discussed in Note G. As of December 31, 2012 and 2011, the Cooperative was in compliance with all covenants and restrictions.

Terms and payments relating to the Cooperative's outstanding long-term debt as of December 31, 2012 and 2011 consisted of the following:

| <u>Lender</u>                         | <u>Terms</u>           | <u>Maturity dates</u> | <u>Interest rates</u> | <u>Approximate principal and interest payments</u> |
|---------------------------------------|------------------------|-----------------------|-----------------------|--|
| <b><u>As of December 31, 2012</u></b> |                        |                       |                       |  |
| RUS                                   | 35 years, monthly      | 11/2029 - 10/2041     | 2.63% - 5.75%         | \$ 200,000   |
| FFB                                   | 30-35 years, quarterly | 06/2030 - 12/2043     | 2.15% - 6.37%         | 747,000  |
| CFC                                   | 35 years, quarterly    | 06/2013 - 03/2033     | 2.75% - 7.90%         | 491,000  |
| CoBank                                | 28 years, monthly      | 10/2027               | 7.68%                 | 19,000   |
| <b><u>As of December 31, 2011</u></b> |                        |                       |                       |  |
| RUS                                   | 35 years, monthly      | 11/2029 - 10/2041     | 2.63% - 5.75%         | \$ 200,000   |
| FFB                                   | 30-35 years, quarterly | 06/2030 - 12/2043     | 2.49% - 6.37%         | 688,000  |
| CFC                                   | 35 years, quarterly    | 06/2011 - 03/2033     | 2.35% - 7.90%         | 733,000  |
| CoBank                                | 28 years, monthly      | 10/2027               | 7.68%                 | 18,000   |

## Notes to Financial Statements

### Central Virginia Electric Cooperative

#### December 31, 2012 and 2011

##### Note H - Long-Term Debt - Continued

Unadvanced loan funds of the Cooperative consisted of the following:

|     | December 31, |              |
|-----|--------------|--------------|
|     | 2012         | 2011         |
| FFB | \$ -         | \$ 6,000,000 |
| CFC | -            | 1,800,000    |

The Cooperative has a \$9,700,000 line of credit with CFC at a variable interest rate (2.90% at December 31, 2012). There were no outstanding advances against the line of credit at December 31, 2012 and 2011.

The Cooperative also has a \$1,000,000 line of credit with CoBank at a variable interest rate (2.96% at December 31, 2012). There were no outstanding advances against the line of credit at December 31, 2012 and 2011.

##### Note I - Deferred Credits

Deferred credits consisted of the following:

|                                      | December 31,        |                     |
|--------------------------------------|---------------------|---------------------|
|                                      | 2012                | 2011                |
| Consumer advances for construction   | \$ 2,605,193        | \$ 2,558,171        |
| Special equipment installation costs | 86,280              | 123,720             |
|                                      | <u>\$ 2,691,473</u> | <u>\$ 2,681,891</u> |

##### Note J - Retirement Plans

###### Pension Plan

The National Rural Electric Cooperative Association (NRECA) Retirement Security Plan (RS Plan) is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is a multiemployer plan under the accounting standards. The plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333. A unique characteristic of a multiemployer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

The Cooperative's contributions to the RS Plan in 2012 and in 2011 represented less than 5 percent of the total contributions made to the plan by all participating employers. The Cooperative made contributions to the plan of approximately \$1,608,000 in 2012 and \$1,530,000 in 2011. There have been no significant changes that affect the comparability of 2012 and 2011 contributions.

## Notes to Financial Statements

### Central Virginia Electric Cooperative

#### December 31, 2012 and 2011

##### Note J - Retirement Plans - Continued

###### Pension Plan - Continued

In the RS Plan, a “zone status” determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was between 65 percent and 80 percent funded at January 1, 2012 and January 1, 2011 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.

###### Deferred Income Plan

The Cooperative has a deferred compensation 401(k) plan for substantially all employees whereby the participants may voluntarily contribute. The Cooperative contributes to the plan 50% of the employees’ contribution, not to exceed 2.5%. The cost to the Cooperative for the years ended December 31, 2012 and 2011 was approximately \$157,000 and \$133,000, respectively.

##### Note K - Other Noncurrent Liabilities

Other noncurrent liabilities, as reported on the balance sheet, consisted of the following:

|                               | December 31,        |                     |
|-------------------------------|---------------------|---------------------|
|                               | 2012                | 2011                |
| Other postretirement benefits | \$ 2,838,464        | \$ 2,671,796        |
| Other                         | 438,670             | 451,366             |
|                               | <u>\$ 3,277,134</u> | <u>\$ 3,123,162</u> |

###### Postretirement Benefits Other than Pensions

In addition to providing pension benefits, the Cooperative sponsors a defined benefit postretirement medical and dental insurance plan that covers substantially all of its employees, their dependents, and one retired director. Employees hired on or before July 31, 2000 who reach the age of 55 and have 30 years of service become eligible to receive employer sponsored medical and dental benefits indefinitely. Employees hired on or after August 1, 2000, who reach the age of 55 and have 30 years of service become eligible to receive employer sponsored medical and dental benefits until the age of 65, when there are no longer employer sponsored benefits.

The premium for the retired director is based on the smaller of the retiree health insurance premium or the cap of \$5,200 per covered person. In both instances, the spouse must pay 25% of the premium.

## Notes to Financial Statements

### Central Virginia Electric Cooperative

#### December 31, 2012 and 2011

##### Note K - Other Noncurrent Liabilities - Continued

###### Postretirement Benefits Other than Pensions - Continued

Effective January 2012, employees hired on or after January 1, 2012 are not eligible to receive employer sponsored post-retirement medical and dental benefits.

The following sets forth the plan's funded status reconciled with amounts reported in the balance sheets:

|  | December 31,          |                       |
|--|-----------------------|-----------------------|
|  | 2012                  | 2011                  |
| Accumulated Postretirement Benefit             |                       |                       |
| Obligation (APBO):                             |                       |                       |
| APBO at beginning of year                      | \$ 4,693,997          | \$ 4,460,077          |
| Interest cost                                  | 223,054               | 239,939               |
| Actuarial loss                                 | 627,308               | 137,238               |
| Service cost                                   | 108,364               | 82,727                |
| Plan participant contributions                 | 24,357                | 28,106                |
| Benefit payments                               | (247,878)             | (254,090)             |
| APBO at end of year                            | <u>5,429,202</u>      | <u>4,693,997</u>      |
| Change in fair value of plan assets:           |                       |                       |
| Fair value of plan assets at beginning of year | 1,740,875             | 1,470,148             |
| Employer contributions                         | 354,739               | 314,079               |
| Unrealized gain (loss)                         | 115,853               | (146,262)             |
| Expected return on plan assets                 | 128,954               | 102,910               |
| Fair value of plan assets at end of year       | <u>2,340,421</u>      | <u>1,740,875</u>      |
| Funded status                                  | (3,088,781)           | (2,953,122)           |
| Less current portion                           | <u>250,317</u>        | <u>281,326</u>        |
|  | <u>\$ (2,838,464)</u> | <u>\$ (2,671,796)</u> |

## Notes to Financial Statements

### Central Virginia Electric Cooperative

#### December 31, 2012 and 2011

##### Note K - Other Noncurrent Liabilities - Continued

##### Postretirement Benefits Other than Pensions - Continued

The net periodic postretirement benefit cost included the following:

|                                    | Year Ended December 31, |                   |
|------------------------------------|-------------------------|-------------------|
|                                    | 2012                    | 2011              |
| Interest cost                      | \$ 223,054              | \$ 239,939        |
| Service cost                       | 108,364                 | 82,727            |
| Amortization of actuarial loss     | 86,514                  | 46,655            |
| Amortization of prior service cost | 58,668                  | 47,668            |
| Return on plan assets              | (128,954)               | (102,910)         |
|                                    | <u>\$ 347,646</u>       | <u>\$ 314,079</u> |

Assumptions and effects were as follows:

|  | December 31, |            |
|--|--------------|------------|
|  | 2012         | 2011       |
| Actuarial assumptions                                    |              |            |
| Medical trend rate next year                             | 8.00%        | 8.50%      |
| Ultimate trend rate                                      | 5.00%        | 5.00%      |
| Year ultimate trend rate is achieved                     | 2019         | 2019       |
| Discount rate  | 4.21%        | 5.28%      |
| Measurement date   | 1/1/2012     | 1/1/2011   |
| Long-term rate of return on assets                       | 7.00%        | 7.00%      |
| Effect of 1% increase in health care cost trend rate on: |              |            |
| APBO   | \$ 280,583   | \$ 217,455 |
| Interest cost plus service cost                          | \$ 22,400    | \$ 19,325  |

Investments in plan assets were allocated as follows:

|                    | December 31, |      |
|--------------------|--------------|------|
|                    | 2012         | 2011 |
| Equity funds       | 57%          | 69%  |
| Fixed income funds | 35%          | 31%  |
| Other              | 8%           |      |

## Notes to Financial Statements

### Central Virginia Electric Cooperative

#### December 31, 2012 and 2011

##### Note K - Other Noncurrent Liabilities - Continued

The long-term return on plan assets was determined by taking the expected annual rates of return for each asset class based on the ten-year return (or since inception) and taking a weighted average based on the market values of the asset classes as of December 31, 2012 and 2011. The Cooperative's investment strategy with respect to plan assets is designed to achieve a moderate level of overall portfolio risk in keeping with its desired risk objective, which is established after careful consideration of plan liabilities, plan funded status and the Cooperative's overall financial condition.

The fair value of plan assets is based on quoted market prices as of December 31, 2012, which are considered Level 1 inputs and defined as a quoted market price in active markets for identical assets.

The estimated net loss and prior service cost for the plan that is expected to amortize from accumulated comprehensive income into net periodic benefit cost over the next fiscal year consisted of the following at December 31, 2012:

|   |    |        |
|---|----|--------|
| Expected amortization of loss               | \$ | 83,000 |
| Expected amortization of prior service cost | \$ | 59,000 |

Amounts in accumulated other comprehensive loss not recognized in net periodic benefit cost consist of the following:

|                                 | December 31,        |                     |
|---------------------------------|---------------------|---------------------|
|                                 | 2012                | 2011                |
| Unrecognized net actuarial loss | \$ 1,618,429        | \$ 1,077,635        |
| Unrecognized prior service cost | 564,540             | 268,208             |
| Unrealized loss on investments  | 48,839              | 164,692             |
|                                 | <u>\$ 2,231,808</u> | <u>\$ 1,510,535</u> |

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

| <u>Year Ending December 31,</u> |              |
|---------------------------------|--------------|
| 2013                            | \$ 250,317   |
| 2014                            | \$ 248,486   |
| 2015                            | \$ 253,475   |
| 2016                            | \$ 261,540   |
| 2017                            | \$ 260,716   |
| 2018 - 2022                     | \$ 1,239,508 |

## Notes to Financial Statements

### Central Virginia Electric Cooperative

#### December 31, 2012 and 2011

##### Note K - Other Noncurrent Liabilities - Continued

###### Defined Benefit Plan

The Cooperative has entered into a defined benefit agreement with the former president of the Cooperative which provides for annual benefit payments to be made over the individual's lifetime. The present value of the estimated future payments under this agreement was accrued over the active employment period and amounted to approximately \$439,000 and \$451,000 as of December 31, 2012 and 2011, respectively. The Cooperative has funded this plan with a life insurance annuity contract with a cash surrender value amounting to approximately \$640,000 and \$609,000 at December 31, 2012 and 2011, respectively.

##### Note L - Fair Value of Financial Instruments

The Cooperative has recorded all financial instruments based on the carrying amount (book value) in the financial statements in accordance with GAAP. According to guidance set forth by FASB, the Cooperative 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.

###### Investments in Associated Organizations

Fair value of capital term certificates was determined by computing the present value of estimated future cash flows, discounted at the long-term treasury rate of 2.95% and 2.89% for the years ending December 31, 2012 and 2011, 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.

###### Accounts Receivable

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

###### 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

### Central Virginia Electric Cooperative

#### December 31, 2012 and 2011

##### Note L - Fair Value of Financial Instruments - Continued

###### Long-Term Debt

The carrying amounts of the Cooperative's fixed long-term debt include 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 5.55% and 5.60% for the years ending December 31, 2012 and 2011, respectively.

###### Consumer Deposits

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

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

|   | December 31,   |               |                |               |
|---|----------------|---------------|----------------|---------------|
|   | 2012           |               | 2011           |               |
|   | Carrying Value | Fair Value    | Carrying Value | Fair Value    |
| Assets:                                   |                |               |                |               |
| Capital term certificates                 | \$ 1,148,846   | \$ 2,949,000  | \$ 1,236,385   | \$ 3,165,000  |
| Member capital certificates               | \$ 25,000      | \$ 50,000     | \$ 25,000      | \$ 51,000     |
| Liabilities:                              |                |               |                |               |
| Long-term debt, including current portion | \$ 98,525,708  | \$ 89,140,000 | \$ 96,038,673  | \$ 87,483,000 |

##### Note M - Commitments and Contingencies

###### Power Supply

During 2011, the Cooperative entered into a 3 year wholesale power agreement to purchase substantially all of its electric power requirements (approximately 86% of the Cooperative's energy needs) from Constellation Power Source beginning June 2012 through May 2015.

## Notes to Financial Statements

### Central Virginia Electric Cooperative

#### December 31, 2012 and 2011

##### Note M - Commitments and Contingencies - Continued

During 2011, the Cooperative entered into an agreement with American Municipal Power (AMP) to take delivery of 4.15% of the energy output of AMP Freemont Energy Center (AMP Freemont), a new natural gas fired intermediate generation plant. Under the agreement, AMP will own and operate the plant passing along the Cooperative's proportionate share of the capital and operating costs. Because the current contracts in place provide the Cooperative with enough energy to meet its capacity needs, the Cooperative elected to assign its rights to its share of the energy generated by AMP Freemont to Michigan South Central Power Agency through May 2015.

The Cooperative has entered into long term and short term physically delivered forward purchase contracts with various counterparties in order to fulfill the Cooperative's power supply needs after the wholesale power agreement with Constellation expires. At December 31, 2012, the Cooperative's power supply commitments for future periods, relating to these contracts which expire on various dates through 2021, totaled approximately \$71,700,000.

##### Note N - 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:

###### CoBank

The Cooperative was a member of CoBank, a national financing organization, and had a line of credit and mortgage note payable with the organization.

###### CFC

The Cooperative was a member of CFC, a national financing organization, and, as explained in Notes C and H, had investment assets and mortgage notes payable at various interest rates and maturities.

###### Electric Research and Manufacturing Cooperatives, Inc. (ERMCO)

The Cooperative was a member of ERMCO and purchased materials and supplies for construction and maintenance of utility plant.

###### Virginia, Maryland & Delaware Association (VMDA)

The Cooperative is a member of VMDA. The purpose of VMDA is to provide those services that can be best performed in a group effort on a state or regional basis, which include public and members relations, government affairs, human resource development, technical services, legal services and educational seminars.

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



**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  
Central Virginia Electric Cooperative  
Arrington, VA

We have audited the financial statements of Central Virginia Electric Cooperative as of and for the years ended December 31, 2012 and 2011, and have issued our report thereon dated April 4, 2013. 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.

**Internal Control Over Financial Reporting**

Management of the Cooperative is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audits, we considered Central Virginia Electric Cooperative's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Central Virginia Electric Cooperative's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Central Virginia Electric Cooperative's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Central Virginia Electric 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 Central Virginia Electric Cooperative in a separate letter dated April 4, 2013.

This report is intended solely for the information and use of management, the audit committee, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Adams, Jenkins & Cheatham*



Independent Auditors' Management Letter  
for Electric Borrowers

The Board of Directors  
Central Virginia Electric Cooperative  
Arrington, Virginia

We have audited the financial statements of Central Virginia Electric Cooperative for the year ended December 31, 2012 and have issued our report thereon dated April 4, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and 7 CFR Part 1773, Policy on Audits of Rural Utilities Service (RUS) Borrowers. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of Central Virginia Electric Cooperative for the year ended December 31, 2012, we considered its internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting that we consider to be material weaknesses.

7 CFR Part 1773.33 requires comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and other additional matters. We have grouped our comments accordingly. In addition to obtaining reasonable assurance about whether the consolidated financial statements are free from material misstatements, at your request, we performed tests of specific aspects of the internal control over financial reporting, of compliance with specific RUS loan and security instrument provisions, and of additional matters. The specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions and additional matters tested include, among other things, the accounting procedures and records, materials control, compliance with specific RUS loan and security instrument provisions set forth in 7 CFR Part 1773.33(e)(1), related party transactions, and depreciation rates. The additional matters tested also include a schedule of deferred charges and credits and a schedule of investments, upon which we express an opinion. In addition, our audit of the financial statements also included the procedures specified in 7 CFR Part 1773.38 through 1773.45. Our objective was not to provide an opinion on these specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions or additional matters, and accordingly, we express no opinion thereon.

No reports (other than our independent auditors' report, independent auditors' report on other financial information, 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*, and management letter all dated April 4, 2013) or summary of recommendations related to our audit have been furnished to management.

Our comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and other additional matters as required by 7 CFR Part 1773.33 are presented below.

### **Comments on Certain Specific Aspects of the Internal Control Over Financial Reporting**

We noted no matters regarding Central Virginia Electric Cooperative's internal control over financial reporting and its operations that we consider to be a material weakness as previously defined with respect to:

- the accounting procedures and records;
- the process for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts; and
- the materials control.

### **Comments on Compliance with Specific RUS Loan and Security Instrument Provisions**

At your request, we have performed the procedures enumerated below with respect to compliance with certain provisions of laws, regulations, contracts and grants. The procedures we performed are summarized as follows:

Procedures performed with respect to the requirement for a borrower to obtain written approval of the mortgagee to enter into any contract for the operation or maintenance of property, or for the use of mortgaged property by others for the year ended December 31, 2012 of Central Virginia Electric Cooperative:

- Obtained and read a borrower-prepared schedule of new written contracts entered into during the year for the operation or maintenance of its property, or for the use of its property by others as defined in 7 CFR Part 1773.33(e)(1)(i).
- Reviewed Board of Director minutes to ascertain whether board approved written contracts are included in the borrower-prepared schedule.
- Noted the existence of written RUS approval of each contract listed by the borrower.

Procedures performed with respect to the requirement to submit RUS Financial and Operating Report to the RUS:

- Agreed amounts reported in Financial and Operating Report to Central Virginia Electric Cooperative's records.

The results of our tests indicate that, with respect to the items tested, Central Virginia Electric Cooperative complied in all material respects, with the specific RUS loan and security instrument provisions referred to below. The specific provisions tested, as well as any exceptions noted, include the requirements that:

- the borrower has obtained written approval of the RUS to enter into any contract for the operation or maintenance of its property, or for the use of mortgaged property by others as defined in 7 CFR Part 1773.33(e)(1)(i);
- the borrower has submitted its Financial and Operating Report to the RUS and the Financial and Operating Report, Financial and Statistical Report, as of December 31, 2012, represented by the borrower as having been submitted to RUS is in agreement with Central Virginia Electric Cooperative's audited records in all material respects, appears reasonable based upon the audit procedures performed.

### **Comments on Other Additional Matters**

In connection with our audit of the financial statements of Central Virginia Electric Cooperative nothing came to our attention that caused us to believe that Central Virginia Electric Cooperative failed to comply with respect to:

- the reconciliation of continuing property records to the controlling general ledger plant accounts addressed at 7 CFR Part 1773.33(c)(1);
- the clearing of construction accounts and the accrual of depreciation on completed construction addressed at 7 CFR Part 1773.33(c)(2);
- the retirement of plant addressed at 7 CFR Parts 1773.33(c)(3) and (4);
- approval of the sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap addressed at 7 CFR Part 1773.33(c)(5);
- the disclosures of material related party transactions, in accordance with Statement of Financial Accounting Standards No. 57, Related Party Transactions, for the year ended December 31, 2012, in the financial statements referenced in the first paragraph of this report addressed at 7 CFR Part 1773.33(f);
- depreciation rates addressed at 7 CFR Part 1773.33(g);
- detailed schedule of deferred charges and deferred credits; and
- detailed schedule of investments.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The detailed schedule of deferred charges and deferred credits required by 7 CFR Part 1773.33(h) and the detailed schedule of investments required by 7 CFR Part 1773.33(i), and provided below are presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in our audit of the basic financial statements and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as whole. Items marked with an asterisk (\*) indicate regulatory assets or liabilities that have been approved in writing by the RUS.

Deferred Charges

|                                     |                     |
|-------------------------------------|---------------------|
| Pension prior service cost          | \$ 3,755,519*       |
| Amp Ohio development and consulting | 2,384,456           |
| Deferred fuel costs                 | 914,941             |
| Deferred early retirement cost      | 389,716             |
| Other                               | <u>183,899</u>      |
|                                     | <u>\$ 7,628,531</u> |

Deferred Credits

|                                      |                     |
|--------------------------------------|---------------------|
| Consumer advances for construction   | \$ 2,605,193        |
| Special equipment installation costs | <u>86,280</u>       |
|                                      | <u>\$ 2,691,473</u> |

\* \* \* \* \*

This report is intended solely for the information and use of the Board of Directors, management, the Rural Utilities Service and supplemental lenders and is not intended to be and should not be used by anyone other than those specified parties.

*Adams, Jenkins & Cheatham*

Richmond, Virginia  
April 4, 2013