

**Central Virginia Electric Cooperative  
and Subsidiary  
Consolidated Financial Statements  
December 31, 2020 and 2019**

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## **Independent Auditor's Report**

The Board of Directors  
Central Virginia Electric Cooperative  
and Subsidiary  
Arrington, Virginia

We have audited the accompanying consolidated financial statements of Central Virginia Electric Cooperative and Subsidiary which comprise the consolidated balance sheets as of December 31, 2020 and 2019 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**

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 Cooperative'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 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 consolidated financial statements.

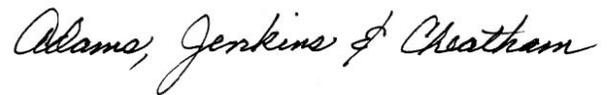
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Central Virginia Electric Cooperative and Subsidiary as of December 31, 2020 and 2019, 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 1, 2021, 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.



Richmond, Virginia  
April 1, 2021

## Consolidated Balance Sheets

### Central Virginia Electric Cooperative and Subsidiary

	December 31,	
	<u>2020</u>	<u>2019</u>
<b>Assets</b>		
Electric plant		
Electric plant	\$ 315,504,207	\$ 298,877,897
Less accumulated provision for depreciation and amortization	<u>79,686,891</u>	<u>80,902,575</u>
	235,817,316	217,975,322
Other property and investments		
Investments in associated organizations	2,832,014	2,764,945
Nonutility property, net	57,758,853	14,602,909
Other	<u>972,791</u>	<u>476,024</u>
	61,563,658	17,843,878
Current assets		
Cash and cash equivalents	8,192,983	1,181,294
Accounts receivable, net	14,741,476	12,129,238
Materials and supplies	6,238,066	4,501,796
Other current assets	<u>393,099</u>	<u>256,070</u>
	29,565,624	18,068,398
Deferred charges	1,068,267	2,164,190
	<u>\$ 328,014,865</u>	<u>\$ 256,051,788</u>

See Independent Auditor's Report and Notes to Consolidated Financial Statements

	December 31,	
	<u>2020</u>	<u>2019</u>
<b>Equities and Liabilities</b>		
Equities		
Patronage capital	\$ 61,808,607	\$ 58,601,817
Other equities	9,558,273	5,723,327
Accumulated other comprehensive loss	<u>(1,186,482)</u>	<u>(1,411,361)</u>
	70,180,398	62,913,783
Noncurrent liabilities		
Long-term debt	204,145,191	154,095,159
Deferred tax liability	625,000	
Other	<u>1,389,022</u>	<u>1,467,731</u>
	206,159,213	155,562,890
Current liabilities		
Accounts payable	8,853,680	8,876,458
Lines of credit	26,200,000	16,000,000
Current portion of long-term debt	8,069,606	5,494,874
Consumer deposits	1,364,521	1,802,732
Other current and accrued liabilities	4,072,433	2,356,973
Other postretirement benefits - current	<u>300,000</u>	<u>300,000</u>
	48,860,240	34,831,037
Deferred credits	<u>2,815,014</u>	<u>2,744,078</u>
	<u>\$ 328,014,865</u>	<u>\$ 256,051,788</u>

## Consolidated Statements of Operations and Comprehensive Income

### Central Virginia Electric Cooperative and Subsidiary

	Year Ended December 31,	
	2020	2019
Operating revenues		
Electricity, voice-over IP, and miscellaneous	\$ 92,068,274	\$ 97,701,634
Grant income	7,208,396	1,668,506
	99,276,670	99,370,140
Operating expenses		
Cost of power	51,321,061	59,721,324
Cost of sales	382,166	212,487
Transmission	189,677	158,886
Distribution - operation	3,968,804	3,229,297
Distribution - maintenance	5,871,956	6,473,628
Consumer accounts	2,277,169	2,100,091
Customer service and informational	1,173,589	787,604
Administrative and general	10,195,708	8,369,474
Depreciation and amortization	9,385,770	7,804,187
Interest	6,028,935	5,305,898
Other	(31,154)	30,976
	90,763,681	94,193,852
Operating Margins Before Patronage Allocations	8,512,989	5,176,288
Patronage allocations	317,512	252,739
Net Operating Margins	8,830,501	5,429,027
Nonoperating income (expense)		
Gain (loss) on sale of plant	(32,073)	49,578
Interest income	91,986	33,166
	59,913	82,744
Net Margins Before Income Taxes	8,890,414	5,511,771
Income tax expense		
Deferred	(703,730)	(214,588)
Net Margins	\$ 8,186,684	\$ 5,297,183
<b>Statements of Comprehensive Income</b>		
Net Margins	\$ 8,186,684	\$ 5,297,183
Other comprehensive income (loss)		
Amortization of net loss	49,495	42,512
Postretirement benefit plan actuarial loss	(115,101)	(187,908)
Unrealized gain on funded assets	231,817	481,522
Amortization of prior service cost	58,668	58,668
	224,879	394,794
Comprehensive Income	\$ 8,411,563	\$ 5,691,977

See Independent Auditor's Report and Notes to Consolidated Financial Statements

## Consolidated Statements of Equities

### Central Virginia Electric Cooperative and Subsidiary

#### Years Ended December 31, 2020 and 2019

	Patronage Capital	Other Equities	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2018	\$ 53,881,093	\$ 6,297,779	\$ (1,806,155)	\$ 58,372,717
Net margins	6,286,901	(989,718)		5,297,183
Other comprehensive income			394,794	394,794
Retirement of capital credits	<u>(1,566,177)</u>	<u>415,266</u>		<u>(1,150,911)</u>
Balance, December 31, 2019	58,601,817	5,723,327	(1,411,361)	62,913,783
Net margins	4,569,477	3,617,207		8,186,684
Other comprehensive income			224,879	224,879
Retirement of capital credits	<u>(1,362,687)</u>	<u>217,739</u>		<u>(1,144,948)</u>
Balance, December 31, 2020	<u>\$ 61,808,607</u>	<u>\$ 9,558,273</u>	<u>\$ (1,186,482)</u>	<u>\$ 70,180,398</u>

See Independent Auditor's Report and Notes to Consolidated Financial Statements

## Consolidated Statements of Cash Flows

### Central Virginia Electric Cooperative and Subsidiary

	Year Ended December 31,	
	2020	2019
<b>Cash Flows from Operating Activities</b>		
Cash received from members	\$ 97,784,634	\$ 101,729,883
Cash paid to suppliers and employees	(74,123,676)	(77,262,377)
Interest paid	(6,028,935)	(5,305,898)
Interest received	91,986	33,166
Net Cash Provided by Operating Activities	17,724,009	19,194,774
<b>Cash Flows from Investing Activities</b>		
Investments in plant	(61,440,120)	(55,854,258)
Plant removal costs	(3,213,864)	(1,021,068)
Grant in aid of construction	373,248	979,850
Contributions in aid of construction	109,658	529,413
Proceeds from the sale of plant	44,003	49,578
Proceeds from retirement of investments in CTC's	34,553	4,904
Investment in associated organization		(1,000)
Investments in nonutility property	(8,000,373)	(1,169,324)
Net Cash Used by Investing Activities	(72,092,895)	(56,481,905)
<b>Cash Flows from Financing Activities</b>		
Capital credits received from suppliers	216,890	165,894
Capital credits paid to members	(1,144,948)	(1,150,911)
Loan proceeds	58,465,477	41,100,000
Loan payments	(5,840,713)	(5,110,379)
Deposits (refunded) received from consumers, net	(439,211)	519,081
Proceeds from line of credit	21,200,000	21,400,000
Payments on line of credit	(11,000,000)	(19,400,000)
Payments on capital lease	(76,920)	(27,988)
Net Cash Provided by Financing Activities	61,380,575	37,495,697
Net Increase in Cash and Cash Equivalents	7,011,689	208,566
Cash and cash equivalents - beginning of year	1,181,294	972,728
Cash and Cash Equivalents - End of Year	\$ 8,192,983	\$ 1,181,294

See Independent Auditor's Report and Notes to Consolidated Financial Statements

	Year Ended December 31,	
	<u>2020</u>	<u>2019</u>
Net margins	\$ 8,186,684	\$ 5,297,183
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation and amortization charged to operations	9,385,770	7,804,187
Noncash capital credit allocations	(317,512)	(252,739)
Increase in cash surrender value of life insurance	(33,235)	(30,976)
(Gain) charge from disposal of assets, net	32,073	(49,578)
Deferred income tax expense	703,730	214,588
(Increase) decrease in:		
Accounts receivable	(2,612,238)	967,421
Other current assets	(137,029)	(65,882)
Deferred charges	1,095,923	1,850,406
Other assets	(542,262)	514,221
Increase (decrease) in:		
Accounts payable	(22,778)	2,451,376
Other current and accrued liabilities	1,940,339	1,090,347
Deferred credits	70,936	(210,330)
Other noncurrent liabilities	(26,392)	(385,450)
Net Cash Provided by Operating Activities	<u>\$ 17,724,009</u>	<u>\$ 19,194,774</u>
<b>Schedule of Noncash Investing and Financing Activity</b>		
Property and equipment acquired through capital lease	<u>\$ 431,456</u>	<u>\$ 171,429</u>

## Notes to Consolidated Financial Statements

### Central Virginia Electric Cooperative and Subsidiary

#### December 31, 2020 and 2019

##### Note A - Nature of Operations and Summary of 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.

Central Virginia Services, Inc. (D/B/A Firefly Fiber Broadband “Firefly”), was organized on August 1, 1996, as a corporation in the Commonwealth of Virginia. Firefly commenced operations in 2018 selling broadband internet and voice-over IP services in addition to employing operations, sales and customer service personnel. Accounting, financial management, administrative and other services are provided by the Cooperative. 25,000 shares of Firefly common stock are authorized with 7,500 shares outstanding. The common stock has a par value of \$100 and all outstanding shares are owned by the Cooperative.

###### Principles of Consolidation

The consolidated financial statements include the accounts of the Cooperative and its wholly-owned subsidiary, Firefly. Significant intercompany transactions have been eliminated in consolidation.

###### Basis of Presentation

These consolidated 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 consolidated financial statements and accounting records are maintained on the accrual basis of accounting.

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 consolidated 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.

###### Subsequent Events

Subsequent events have been evaluated through April 1, 2021, which is the date the consolidated financial statements were available to be issued. See Note S for further discussion.

## Notes to Consolidated Financial Statements

### Central Virginia Electric Cooperative and Subsidiary

#### December 31, 2020 and 2019

##### Note A - Nature of Operations and Summary of Significant Accounting Policies - Continued

###### Cash and Cash Equivalents

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

###### 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.

###### Depreciation

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

Production plant	4.00%
Transmission plant	2.33%
Distribution plant	1.50% - 10.00%
General plant	2.34% - 33.33%

###### Nonutility Property

Property and equipment are stated at cost. Provision for depreciation is computed using the straight-line method at rates to amortize the cost of the assets over their estimated useful lives. The general range of estimated useful lives is 3 to 10 years. The cost of maintenance and repairs is charged to operations when incurred.

Firefly utilizes right-of-use assets acquired under finance lease agreements. Provision for depreciation is computed using the straight-line method over their estimated useful lives of 5 to 30 years. See Note Q for further details.

###### Materials and Supplies

Inventories of the Cooperative and Firefly 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.

## Notes to Consolidated Financial Statements

### Central Virginia Electric Cooperative and Subsidiary

#### December 31, 2020 and 2019

##### Note A - Nature of Operations and Summary of Significant Accounting Policies - Continued

###### Accounts Receivable and Uncollectable Accounts

Accounts receivable from customers are recorded at the billed amount and do not bear interest. Firefly bills customers for broadband internet and voice-over IP services in advance and amortizes the payments into income on a straight-line basis over the term of the agreement, generally monthly. The Cooperative and Firefly maintain an allowance based on the expected collectability of accounts receivable. The allowance is determined based on historical experience and other circumstances which may affect the ability of customers to meet their obligations. The Cooperative and Firefly reviews its allowance for doubtful accounts on a monthly basis. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

###### Revenue Recognition

As of January 1, 2019, the Cooperative and Firefly adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606) using the retrospective method. The Cooperative and Firefly evaluated and determined that ASC 606 did not have a material effect on the financial statements.

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

Firefly records revenue from broadband internet and voice-over IP monthly, as billed, in advance and amortized into income on a straight-line basis, which complies with the requirements of ASC Topic 606. Revenue is recognized when control of the promised goods or services is transferred to their customers, in an amount that reflects the consideration we expect to be entitled to receive in exchange for those goods or services. Operating grant revenue represents Connect America Fund Phase II (CAF). CAF support payments are designed to reimburse Firefly for various costs related to certain telecommunication services and other operating costs.

Revenue is recognized based on the following five-step model:

1. Identification of the contract with a customer;
2. Identification of the performance obligations in the contract;
3. Determination of the transaction price;
4. Allocation of the transaction price to the performance obligations in the contract; and
5. Recognition of revenue when, or as, they satisfy a performance obligation.

## Notes to Consolidated Financial Statements

### Central Virginia Electric Cooperative and Subsidiary

#### December 31, 2020 and 2019

##### Note A - Nature of Operations and Summary of Significant Accounting Policies - Continued

###### Investments

Investments in associated organizations are composed of patronage capital assigned from associated organizations and are recorded at costs plus allocated equities. Other investments are recorded at cost.

###### Income Taxes

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

Firefly has elected to be taxed as a corporation and computes income taxes according to ASC Topic 740 Income Taxes. Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences arising between the tax bases of assets or liabilities for financial statement purposes at December 31, 2020 and 2019. In accordance with ASC Topic 740, as it relates to uncertain tax positions, the Company has determined through evaluations that it is more likely than not that all their tax positions would be sustained by the Internal Revenue Service.

###### Regulatory Assets and Liabilities

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

###### Advertising Costs

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

###### Reclassifications

Certain reclassifications were made to 2019 balances to conform to the 2020 presentation. As a result of these reclassifications, there were no changes to net income or equity.

## Notes to Consolidated Financial Statements

### Central Virginia Electric Cooperative and Subsidiary

#### December 31, 2020 and 2019

##### Note B - Electric Plant

Listed below were the major classes of electric plant:

	December 31,	
	2020	2019
Distribution plant	\$ 227,871,425	\$ 219,530,256
General plant	41,846,595	36,024,692
Transmission plant	17,573,565	15,581,034
Intangible plant	2,126,286	2,126,286
Production plant	663,204	663,204
Electric plant in service	290,081,075	273,925,472
Construction work in progress	25,423,132	24,952,425
	<u>\$ 315,504,207</u>	<u>\$ 298,877,897</u>

The Cooperative followed the guidance as set forth in the ASC Topic 410, Asset Retirement and Environmental Obligations, in determining it had no legal asset retirement obligations for the years ended December 31, 2020 and 2019. Regarding non-legal retirement obligations, the Cooperative follows the regulatory principle of inter-generational cost allocation by including net salvage (gross salvage less cost of removal) as a component of depreciation rates.

##### Note C - Accounts Receivable

Accounts receivable consisted of the following:

	December 31,	
	2020	2019
Consumer accounts	\$ 6,498,158	\$ 5,820,610
Unbilled revenue	6,147,864	5,201,544
Other	2,429,445	1,276,782
	15,075,467	12,298,936
Less provision for uncollectible accounts	333,991	169,698
	<u>\$ 14,741,476</u>	<u>\$ 12,129,238</u>

## Notes to Consolidated Financial Statements

### Central Virginia Electric Cooperative and Subsidiary

#### December 31, 2020 and 2019

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

Investments in associated organizations consisted of the following:

	December 31,	
	2020	2019
Patronage Capital:		
National Rural Utilities Cooperative Finance Corporation (CFC)	\$ 1,056,191	\$ 993,496
ERMCO	138,456	168,649
CoBank	225,531	189,729
Federated	214,958	192,765
Other	85,252	74,127
	<u>1,720,388</u>	<u>1,618,766</u>
Capital Term Certificates (CTC's):		
SCTC's	854,193	854,193
LCTC's	181,350	210,600
ZCTC's	46,612	51,915
	<u>1,082,155</u>	<u>1,116,708</u>
Other:	<u>29,471</u>	<u>29,471</u>
	<u>\$ 2,832,014</u>	<u>\$ 2,764,945</u>

The CTC's are unsecured and subordinated. The SCTC's and LCTC's bear interest at an annual rate of 3.0%. 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 5.0%, payable semiannually.

##### Note E - Concentrations of Credit Risk

The Cooperative and Firefly place cash on deposit with financial institutions located in the United States of America, which are insured by the Federal Deposit Insurance Corporation (FDIC). The FDIC provides insurance coverage for up to \$250,000 of cash held by the Cooperative and Firefly in each separate FDIC insured bank and savings institution. From time to time, the Cooperative and Firefly may have amounts on deposit in excess of the insured limits. As of December 31, 2020, the Cooperative and Firefly had approximately \$8,302,000 and \$1,153,000 of deposits that exceed the insured limits, respectively.

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

## Notes to Consolidated Financial Statements

### Central Virginia Electric Cooperative and Subsidiary

#### December 31, 2020 and 2019

##### Note F - Deferred Charges

Deferred charges consisted of the following:

	December 31,	
	2020	2019
Regulatory asset - deferred power costs	\$ 722,725	\$ 923,029
Other	229,449	114,506
Firefly deferred charges	116,093	
Regulatory asset - pension prior service cost		1,126,655
	<u>\$ 1,068,267</u>	<u>\$ 2,164,190</u>

In accordance with the Virginia State Corporation Commission Division of the Public Utility Regulation (SCC), the Cooperative tracks the over/under collection of power costs from base rates and the power cost adjustment factor. As of December 31, 2020 and 2019, the Cooperative had a cumulative under collection of power costs and has been reflected above as deferred power costs.

##### Note G - Patronage Capital

Patronage capital consisted of the following:

	December 31,	
	2020	2019
Assigned	\$ 57,239,130	\$ 52,314,916
Assignable	4,569,477	6,286,901
	<u>\$ 61,808,607</u>	<u>\$ 58,601,817</u>

Under provisions of the long-term debt agreement and Title 7 of the Code of Federal Regulations (Part 1717.617), the Cooperative may refund capital to patrons without limitation if total equity is equal to or greater than 30% of total assets, and there are no instances of default. If equities are between 20% and 30% of total assets, general refunds are limited to 25% (adjusted for returns to estates, which are not limited) of patronage capital or margins received in the next preceding year, unless a waiver is approved by RUS. For the year ended December 31, 2019, the waiver was approved by RUS. Total equities and margins amounted to approximately 21% and 23% of total assets for the years ended December 31, 2020 and 2019, respectively.

## Notes to Consolidated Financial Statements

### Central Virginia Electric Cooperative and Subsidiary

#### December 31, 2020 and 2019

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

Long-term debt consisted of the following:

	December 31,	
	2020	2019
Federal Financing Bank (FFB) - Mortgage notes, fixed	\$ 177,144,204	\$ 124,341,479
CFC - Mortgage notes, fixed	29,485,818	32,250,263
CoBank - Mortgage note, fixed	2,754,298	2,998,291
CoBank - PPP loan	2,570,477	
Village Bank - PPP loan	260,000	
	<u>212,214,797</u>	<u>159,590,033</u>
Less current portion	<u>8,069,606</u>	<u>5,494,874</u>
	<u>\$ 204,145,191</u>	<u>\$ 154,095,159</u>

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

<u>Year Ending December 31,</u>	
2021	\$ 8,069,606
2022	8,377,238
2023	8,660,845
2024	8,803,939
2025	8,702,694
Thereafter	<u>169,600,475</u>
	<u>\$ 212,214,797</u>

Substantially all the Cooperative's assets have been pledged as collateral for the long-term debt to CFC, CoBank and FFB. 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. At December 31, 2020 and 2019, returns of capital to patrons from general refunds (adjusted for returns to estates, which were not limited) will be limited to 25%, as discussed in Note G. As of December 31, 2020 and 2019, the Cooperative was in compliance with all covenants and restrictions.

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

## Notes to Consolidated Financial Statements

### Central Virginia Electric Cooperative and Subsidiary

#### December 31, 2020 and 2019

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

Terms and payments relating to the Cooperative's outstanding long-term debt as of December 31, 2020 and 2019 consisted of the following:

<u>Lender</u>	<u>Terms</u>	<u>Maturity dates</u>	<u>Interest rates</u>	<u>Approx. principle and interest payments</u>
<b><u>As of December 31, 2020</u></b>				
FFB	30-35 years, quarterly	07/2030 - 12/2052	1.01% - 6.37%	\$ 1,745,000
CFC	35 years, monthly and quarterly	04/2025 - 03/2033	3.30% - 7.90%	\$ 552,000
CoBank	28 years, monthly	10/2027 - 09/2031	3.18% - 7.68%	\$ 33,000
<b><u>As of December 31, 2019</u></b>				
FFB	30-35 years, quarterly	07/2030 - 12/2052	2.02% - 6.37%	\$ 1,544,000
CFC	35 years, monthly and quarterly	06/2025 - 04/2033	3.30% - 7.90%	\$ 544,000
CoBank	28 years, monthly	10/2027 - 09/2031	3.18% - 7.68%	\$ 33,000

Unadvanced loan funds of the Cooperative consisted of the following:

	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
FFB	\$ 310,000	\$ 55,945,000

The Cooperative has two lines of credit, totaling \$15,200,000 with CFC at a variable interest rate (2.45% at December 31, 2020). Outstanding advances against the lines of credit were \$15,200,000 and \$6,000,000 at December 31, 2020 and 2019, respectively. The Cooperative also has a \$10,000,000 line of credit with CoBank at a variable interest rate (2.55% at December 31, 2020). Outstanding advances against the line of credit were \$10,000,000 at December 31, 2020 and 2019.

Firefly has a line of credit in the amount of \$10,000,000 with the Cooperative. Interest accrues monthly based on the prior June or December CFC prime rate, which was 3.25% and 4.75% for 2020 and 2019, respectively. Outstanding advances against the line of credit were \$7,541,124 and \$4,300,000 as of December 31, 2020 and 2019, respectively, and has been eliminated within the consolidated financial statements. There is no current portion due to the Cooperative at December 31, 2020 as Firefly does not plan to pay any principal during 2021. The line of credit expires December 6, 2023, at which point the agreement will automatically renew for successive one-year terms. Accrued interest associated with the line of credit was approximately \$34,000 and \$39,000 as of December 31, 2020 and 2019, respectively. Firefly paid approximately \$209,000 and \$174,000 in interest to the Cooperative during the years ended December 31, 2020 and 2019, respectively. Firefly also has a line of credit with CoBank in the amount of \$1,000,000 and is fully guaranteed by the Cooperative. The line of credit has a variable interest rate and was 2.55% at December 31, 2020. The line of credit will expire, and subsequently renew, on September 10, 2021. The outstanding balance on the line of credit was \$1,000,000 at December 31, 2020. There was no outstanding balance on the line of credit at December 31, 2019.

## Notes to Consolidated Financial Statements

### Central Virginia Electric Cooperative and Subsidiary

#### December 31, 2020 and 2019

##### Note I - Deferred Credits

Deferred credits consisted of the following:

	December 31,	
	2020	2019
Consumer advances for construction	\$ 2,712,842	\$ 2,235,970
Special equipment installation costs	102,172	508,108
	<u>\$ 2,815,014</u>	<u>\$ 2,744,078</u>

##### Note J - 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 Cooperative's contributions to the RS Plan in 2020 and in 2019 represented less than 5 percent of the total contributions made to the plan by all participating employers. The Cooperative made contributions to the plan of approximately \$782,000 and \$820,000 in 2020 and 2019, respectively. There have been no significant changes that affect the comparability of 2020 and 2019 contributions.

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

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

Effective January 1, 2015, the RS Plan benefits have been frozen, and employees will no longer accrue additional benefits under the plan.

## Notes to Consolidated Financial Statements

### Central Virginia Electric Cooperative and Subsidiary

#### December 31, 2020 and 2019

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

###### Deferred Income Plan

The Cooperative has a deferred compensation 401(k) plan for substantially all employees whereby the participants may voluntarily contribute. The plan provides for a matching contribution of 50% of the employees' salary deferral, with a limit of 6%, and a contribution not to exceed 3%. When the RS Plan was frozen, the Cooperative added a non-elective contribution for substantially all employees, which is based on a tiered schedule, with tiers varying based on age and years of service. These contributions range from 5% to 24% of employee salaries. The cost to the Cooperative for the years ended December 31, 2020 and 2019 was approximately \$1,811,000 and \$1,670,000, respectively.

Firefly has a deferred compensation 401(k) plan for substantially all employees whereby the participants may voluntarily contribute. The plan provides for a matching contribution of 100% of the employees' salary deferral, with a limit of 4%, and a contribution not to exceed 4%. Firefly also contributes 5% of employees' salary under safe harbor and 5% of employees' salary as part of the non-elective portion of the plan. The cost to Firefly for the years ended December 31, 2020 and 2019 was approximately \$186,000 and \$136,000, respectively.

##### Note K - Other Noncurrent Liabilities

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

	December 31,	
	2020	2019
Other postretirement benefits	\$ 631,640	\$ 1,006,185
Other	757,382	461,546
	<u>\$ 1,389,022</u>	<u>\$ 1,467,731</u>

###### Postretirement Benefits Other than Pensions

The Cooperative sponsors a defined benefit postretirement medical and dental insurance plan that covers a portion of its employees and their dependents.

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.

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 premium 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 Consolidated Financial Statements

### Central Virginia Electric Cooperative and Subsidiary

#### December 31, 2020 and 2019

##### Note K - 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,	
	2020	2019
APBO	\$ 5,896,795	\$ 5,729,865
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	4,423,680	3,684,260
Actual return on plan assets	541,475	739,420
Employer Contributions	225,101	264,837
Employee Contributions	34,992	32,931
Withdrawals	<u>(260,093)</u>	<u>(297,768)</u>
Fair value of plan assets at end of year	<u>4,965,155</u>	<u>4,423,680</u>
Funded status	(931,640)	(1,306,185)
Less current portion	<u>300,000</u>	<u>300,000</u>
	<u>\$ (631,640)</u>	<u>\$ (1,006,185)</u>

The net periodic postretirement benefit cost included the following:

	Year Ended December 31,	
	2020	2019
Interest cost	\$ 168,886	\$ 205,445
Service cost	108,044	83,465
Amortization of prior service cost	58,668	58,668
Amortization of actuarial loss	49,495	42,512
Expected return on plan assets	<u>(309,658)</u>	<u>(257,898)</u>
	<u>\$ 75,435</u>	<u>\$ 132,192</u>

## Notes to Consolidated Financial Statements

### Central Virginia Electric Cooperative and Subsidiary

#### December 31, 2020 and 2019

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

Assumptions and effects were as follows:

	December 31,	
	2020	2019
Actuarial assumptions		
Medical trend rate next year	7.50%	7.00%
Ultimate trend rate	5.00%	5.00%
Year ultimate trend rate is achieved	2026	2024
Discount rate	2.75%	3.03%
Measurement date	12/31/2020	12/31/2019
Long-term rate of return on assets	7.00%	7.00%

Investments in plan assets were allocated as follows:

	December 31,	
	2020	2019
Equity funds	73%	67%
Fixed income funds	24%	29%
Other	3%	4%

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, 2020 and 2019. 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, 2020, 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, 2020:

Expected amortization of actuarial gain, net	\$ (2,006,000)
Expected amortization of prior service cost	\$ 59,000

## Notes to Consolidated Financial Statements

### Central Virginia Electric Cooperative and Subsidiary

#### December 31, 2020 and 2019

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

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

	December 31,	
	2020	2019
Unrecognized actuarial loss, net	\$ 1,091,286	\$ 1,257,497
Unrecognized prior service cost	95,196	153,864
	<u>\$ 1,186,482</u>	<u>\$ 1,411,361</u>

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

<u>Year Ending December 31,</u>	
2021	\$ 296,875
2022	\$ 309,212
2023	\$ 299,072
2024	\$ 288,981
2025	\$ 300,691
2026 - 2030	\$ 1,583,339

##### 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 \$337,000 and \$350,000 as of December 31, 2020 and 2019, respectively. The Cooperative has funded this plan with a life insurance annuity contract with a cash surrender value amounting to approximately \$890,000 and \$857,000 at December 31, 2020 and 2019, respectively.

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

The Cooperative has recorded all financial instruments based on the carrying amount (book value) in the financial statements in accordance with ASC Topic 825. According to guidance, 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.

## Notes to Consolidated Financial Statements

### Central Virginia Electric Cooperative and Subsidiary

#### December 31, 2020 and 2019

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

###### Cash and Cash Equivalents

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

###### Investments in Associated Organizations

Fair value of capital term certificates was determined by computing the present value of estimated future cash flows, discounted at the long-term treasury rate of 1.65% and 2.39% for the years ending December 31, 2020 and 2019, respectively. The fair value of patronage capital is not determinable since no legal obligation exists to retire capital credits. The 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.

###### 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 3.57% and 4.19% for the years ending December 31, 2020 and 2019, respectively.

###### Consumer Deposits

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

## Notes to Consolidated Financial Statements

### Central Virginia Electric Cooperative and Subsidiary

#### December 31, 2020 and 2019

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

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

	December 31,			
	2020		2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Capital term certificates	\$ 1,082,155	\$ 1,393,000	\$ 1,116,708	\$ 1,418,000
Member capital certificates	\$ 25,000	\$ 41,000	\$ 25,000	\$ 37,000
Liabilities:				
Long-term debt, including current portion	\$ 212,214,797	\$ 196,468,000	\$ 159,590,033	\$ 153,114,000

##### Note M - Fair Value Measurements

The Cooperative follows the guidance issued by FASB as it relates to the accounting and disclosure requirements for assets and liabilities reported at fair value.

Accounting for fair value measurements establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability. Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset or liability. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The three levels of the fair value hierarchy are described as follows:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.

Level 2 - Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 - Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

## Notes to Consolidated Financial Statements

### Central Virginia Electric Cooperative and Subsidiary

#### December 31, 2020 and 2019

##### Note M - Fair Value Measurements - Continued

The following table summarizes the financial assets measured at fair value:

	December 31, 2020			
	Total	Level 1	Level 2	Level 3
Equity funds	\$ 3,632,182	\$ 3,632,182	\$	\$
Fixed income funds	1,332,973	1,332,973		
Total financial assets	<u>\$ 4,965,155</u>	<u>\$ 4,965,155</u>	<u>\$</u>	<u>\$</u>
	December 31, 2019			
	Total	Level 1	Level 2	Level 3
Equity funds	\$ 2,964,332	\$ 2,964,332	\$	\$
Fixed income funds	1,459,348	1,459,348		
Total financial assets	<u>\$ 4,423,680</u>	<u>\$ 4,423,680</u>	<u>\$</u>	<u>\$</u>

There were no financial liabilities measured at fair value as of December 31, 2020 and 2019.

##### Note N - Commitments and Contingencies

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. At December 31, 2020, the Cooperative's power supply commitments for future periods, relating to these contracts which expire on various dates through 2043, totaled approximately \$150,000,000. The Cooperative is also taking delivery of energy and capacity from the AMP Fremont Energy Center, Martin Solar Center, Palmer Solar Center, Southeastern Power Administration, 30 MW capacity transaction from Doswell Limited Partnership, and 4 MW of the Blue Creek Wind generation facility.

##### Note O - 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, as explained in Note H. Firefly has a line of credit and leases right-of-use assets from CoBank as explained in Notes A, H and Q.

## Notes to Consolidated Financial Statements

### Central Virginia Electric Cooperative and Subsidiary

#### December 31, 2020 and 2019

##### Note O - Related Party Transactions - Continued

###### CFC

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

###### 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.

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

The Cooperative is a member of Federated and purchases its general property and liability coverage as well as worker's compensation coverage from this corporation.

###### Central Virginia Services, Inc. (Firefly)

The Cooperative owns 7,500 shares of \$100 par value Firefly common stock (25,000 shares authorized, 7,500 outstanding), and provides Firefly with a line of credit, leased assets, as well as accounting, financial management, administrative, and various other services; explained in Notes A, H, and Q. At December 31, 2020 and 2019, Firefly owed the Cooperative \$1,621,876 and \$670,857, respectively, which has been eliminated from the consolidated financial statements. During 2020 and 2019, Firefly incurred \$1,015,504 and \$673,356, respectively for services provided by the Cooperative. Firefly and the Cooperative also share a common Board of Directors.

###### Other

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

##### Note P - Other

The Cooperative has undertaken construction of a system-wide fiber communication network. The first phase of the project was approved in 2017 and construction started in July 2018. The goal is to have the project complete by 2022 with fiber available to every member account. The total project budget is \$130 million. The fiber is being leased to Firefly by the Cooperative. Firefly will make retail broadband internet service available to every Cooperative electric account.

## Notes to Consolidated Financial Statements

### Central Virginia Electric Cooperative and Subsidiary

#### December 31, 2020 and 2019

##### Note P - Other - Continued

Firefly is not limited to providing service within the CVEC electric territory. It presently serves subscribers outside of CVEC in several areas funded with CARES grants. Firefly owns all fiber built off system for the specific purpose of providing internet service. In future years, the off-system construction will be more extensive to meet obligations associated with the Federal Communications Commission's (FCC) Connect America Fund Phase II (CAF) and Rural Digital Opportunity Fund (RDOF) auction award funding as well as to take advantage of other grant and economic opportunities.

The Cooperative and Firefly were awarded a \$28,000,000 grant and loan combination from the U.S. Department of Agriculture (USDA) ReConnect Program. The funds will be used to buildout fiber to portions of 11 Cooperative substation areas. The award is based on the Cooperative installing and owning the fiber-optic cable. Firefly will lease the fiber and purchase all the electronics to offer retail internet and phone services. As of December 31, 2020, no funds have been advanced. As a requirement of the ReConnect program, a Pledged Deposit Account was established for all ReConnect funds to be direct deposited from USDA. This account is insured by the FDIC. At December 31, 2020, the balance in this account was \$50 and included with Cash and cash equivalents on the consolidated balance sheet.

In January 2020, Nelson County donated approximately \$2,700,000 in fiber infrastructure to Firefly. Firefly owns all assets from the donation and is responsible for operating an open network providing wholesale access to all internet service providers who choose to sign agreements to operate on the network. The grant funds are included as other operating income on the consolidated statement of operations.

The Cooperative has applied for and been awarded various grants from the Tobacco Region Revitalization Commission, Virginia Telecommunication Initiative and Local Economic Development Authorities. These grants help offset capital costs to build fiber to the home to provide high speed broadband in the rural underserved areas serviced by the Cooperative. At December 31, 2020 and 2019, the Cooperative recorded grants of \$1,990,215 and \$979,850, respectively.

In 2018, Firefly was part of a consortium of winning bidders of the FCC's CAF auction. Under this program, Firefly was awarded more than \$28 million over 10 years to expand fixed broadband service in underserved high-cost areas for census blocks bid on and won in the auction. The auction support distributions of \$238,358 began in June of 2019 and will continue until May 2029. The build out to all funded auction locations must be completed by December 21, 2025. These grant funds are included as other operating income on the consolidated statement of operations.

In 2020, Firefly was party to the RDOF auction, which similar to CAF, is support to offer broadband and voice service in unserved high-cost areas. Under this program, Firefly was awarded approximately \$34 million to be distributed monthly over the next 10 years. No funds were received in 2020. It is anticipated that the first of 120 monthly distributions of \$282,991 will be received by July 2021. The buildout to all funded auction locations must be completed by December 31, 2027.

Firefly's participation in the CAF Phase II and RDOF programs subjects them to various compliance-related risks. All compliance requirements must be met by Firefly at the completion of each program or substantial penalties may be incurred. Firefly believes all compliance requirements of each program will be fulfilled.

## Notes to Consolidated Financial Statements

### Central Virginia Electric Cooperative and Subsidiary

#### December 31, 2020 and 2019

##### Note P - Other - Continued

As part of the CAF II and RDOF award, winning bidders are required to have an irrevocable letter of credit naming Universal Service Administrative Company (USAC) as beneficiary. This will cover the first year of support, at a minimum, and increases each year to include the current and prior year of support until certain milestones are met. The letter of credit for the CAF award was issued by CFC and amounted to \$5,720,591 and \$2,860,244 at December 31, 2020 and 2019, respectively. The RDOF letter of credit has been approved by CFC, but the agreement had not yet been executed as of December 31, 2020.

##### Note Q - Finance Leases

Firefly leases fiber optic assets from the Cooperative under a 10-year lease agreement with renewal options that are relatively certain. Monthly payments of \$209,209, including imputed interest of 3.175% to 4.151% will be made through November 2050. The lease is classified as a financing lease resulting in recognition of a right-of-use asset and lease liability on the Firefly balance sheet, and a net investment in lease asset on the Cooperative balance sheet. The lease liability and net investment in the lease asset are eliminated upon consolidation. The right-of-use asset (fiber assets) are included in the nonutility property caption on the consolidated balance sheet; see Note A.

Firefly acquired vehicles under 60 and 73-month leases. Monthly payments of \$8,689, including imputed interest ranging from 2.21% to 4.34% will be made through June 2026. The vehicles are included in the nonutility property caption on the consolidated balance sheet; see Note A.

Total future minimum lease payments as of December 31, 2020, by year and in the aggregate are as follows:

	<u>Year Ending December 31,</u>	
	2021	\$ 2,614,770
	2022	2,614,770
	2023	2,626,574
	2024	2,552,467
	2025	2,558,799
	Thereafter	61,281,458
Less amount representing interest and executory costs		<u>(27,796,525)</u>
		46,452,313
Present value of minimum lease payments		1,003,571
		<u>1,003,571</u>
		<u>\$ 45,448,742</u>

## Notes to Consolidated Financial Statements

### Central Virginia Electric Cooperative and Subsidiary

#### December 31, 2020 and 2019

##### Note Q - Finance Leases - Continued

The gross amount of the assets under finance leases and accumulated amortization are as follows:

	December 31,	
	2020	2019
Fiber assets	\$ 46,468,981	\$ 12,218,376
Transportation equipment	602,885	171,429
Accumulated amortization	<u>(1,063,760)</u>	<u>(134,447)</u>
	46,008,106	12,255,358
Less related party portion (eliminated)	<u>(45,504,172)</u>	<u>(12,118,677)</u>
Net carrying value of asset under finance lease	<u>\$ 503,934</u>	<u>\$ 136,681</u>

Interest expense and interest income resulting from the lease transaction between the Cooperative from Firefly have been eliminated upon consolidation.

##### Note R - Deferred Taxes

Deferred income tax assets (liabilities) approximately consist of the following components at:

	December 31,	
	2020	2019
Book/tax depreciation on fixed assets	\$ (2,082,000)	\$ (442,031)
NOL carryforward	<u>1,457,000</u>	<u>520,761</u>
	<u>\$ (625,000)</u>	<u>\$ 78,730</u>

The provision for income tax consists of the following at:

	December 31,	
	2020	2019
Deferred income tax expense		
Federal	\$ 540,198	\$ 164,568
State	<u>163,532</u>	<u>50,020</u>
	<u>\$ 703,730</u>	<u>\$ 214,588</u>

## **Notes to Consolidated Financial Statements**

### **Central Virginia Electric Cooperative and Subsidiary**

#### **December 31, 2020 and 2019**

##### **Note R - Deferred Taxes - Continued**

There is no provision for current income taxes at December 31, 2020 or 2019. Deferred income tax balances reflect the effect of temporary differences between the carrying amounts of assets and liabilities and their tax bases, as well as from net operating loss and carryforwards, and are stated at enacted tax rates expected to be in effect when taxes are paid or recovered. Firefly evaluates the recoverability of these future deductions and credits by assessing the adequacy of future expected taxable income from all sources, including reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies. To the extent we consider it more likely than not that a deferred tax asset will not be recovered, a valuation allowance is established. The total net operating loss (NOL) at December 31, 2020 and 2019 was \$5,661,821 and \$2,023,161, respectively.

##### **Note S - Subsequent Events**

Subsequent events have been evaluated through April 1, 2021, the date which the consolidated financial statements were available to be issued.

Firefly obtained \$10,000,000 of secured long-term loans from National Cooperative Services Corporation (NCSC). Loan term is up to ten years including the three-year draw period. Firefly has not drawn funds on this loan as of the date at which subsequent events were evaluated. NCSC is an affiliate of NRUCFC that provides the Cooperative with specialized financing services.

On February 1, 2021, the Cooperative signed a 30-year loan agreement with FFB in the amount of \$16 million which matures December 31, 2025 and has a four-year draw period. These funds are the reimbursement of past projects approved by RUS for which no financing was previously obtained.

On March 31, 2021, the Cooperative entered into an agreement with CFC for long-term financing of \$40 million to fund the remaining phases of the fiber project. The loan term is up to thirty years with a three-year draw period.

On February 23, 2021, the Cooperative obtained a \$10 million unsecured short-term line of credit with CFC to provide interim financing for work on the Cooperative's Electric and Broadband work plans.

## **Notes to Consolidated Financial Statements**

### **Central Virginia Electric Cooperative and Subsidiary**

#### **December 31, 2020 and 2019**

##### **Note T - COVID-19**

In December 2019, a novel strain of coronavirus (COVID-19) surfaced in Wuhan, China and has spread around the world, with resulting business and social disruption. COVID-19 was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The COVID-19 pandemic is having widespread, rapidly evolving, and unpredictable impacts on global society, economies, financial markets, and business practices. The Cooperative to date has not seen significant disruption or significant operational restrictions, but the substantial uncertainty and the nature and degree of the pandemic and resulting effects over time could result in disruption or restriction on the Cooperative's ability to operate normally. The Cooperative's members are also affected by the outbreak, which could delay their power bill payments. Cooperative plant construction projects may be delayed or cancelled, and certain management accounting estimates and assumptions could be affected by the future uncertainty. The Cooperative may also experience difficulties with suppliers or with vendors in their supply chain, which could have negative effects on operations. Overall, the future impact of the pandemic with respect to the Cooperative's territory is difficult to predict and could adversely impact its overall operations in the future.

##### **Note U - Guarantees**

In November 2020, Firefly executed a guarantee agreement related to the \$14,000,000 ReConnect loan. The United States of America is the lender for this loan administrated through Rural Utilities Services. CVEC did not draw on the loan in 2020.

## **Supplementary Information**



**Independent Auditor's Report on Consolidating Information**

The Board of Directors  
Central Virginia Electric Cooperative  
and Subsidiary  
Arrington, Virginia

We have audited the consolidated financial statements of Central Virginia Electric Cooperative and Central Virginia Services, Inc. (D/B/A Firefly) as of and for the years ended December 31, 2020 and 2019, and our report thereon dated April 1, 2021, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 33-35 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Adams, Jenkins & Cheatham*

Richmond, Virginia  
April 1, 2021

## Consolidating Balance Sheet

### Central Virginia Electric Cooperative and Subsidiary

December 31, 2020

	<u>CVEC</u>	<u>Firefly</u>	<u>Eliminations</u>	<u>Total</u>
<b>Assets</b>				
Electric plant				
Electric plant	\$ 315,504,207	\$	\$	\$ 315,504,207
Less accumulated provision for depreciation and amortization	<u>79,686,891</u>			<u>79,686,891</u>
	235,817,316			235,817,316
Other assets and investments				
Investments in associated organizations	2,831,014	1,000		2,832,014
Nonutility property, net		57,758,853		57,758,853
Investment in subsidiary	762,864		(762,864)	
Other	44,282,595	82,655	(43,392,459)	972,791
Note receivable	<u>7,541,124</u>		<u>(7,541,124)</u>	
	55,417,597	57,842,508	(51,696,447)	61,563,658
Current assets				
Cash and cash equivalents	7,116,410	1,076,573		8,192,983
Accounts receivable, net	18,405,700	505,197	(4,169,421)	14,741,476
Materials and supplies	5,335,178	902,888		6,238,066
Other current assets	<u>287,456</u>	<u>139,739</u>	<u>(34,096)</u>	<u>393,099</u>
	31,144,744	2,624,397	(4,203,517)	29,565,624
Deferred charges	<u>952,174</u>	<u>116,093</u>		<u>1,068,267</u>
	<u>\$ 323,331,831</u>	<u>\$ 60,582,998</u>	<u>\$ (55,899,964)</u>	<u>\$ 328,014,865</u>

See Independent Auditor's Report on Consolidating Information

<b>Equities and Liabilities</b>	<u>CVEC</u>	<u>Firefly</u>	<u>Eliminations</u>	<u>Total</u>
<b>Equities</b>				
Patronage capital	\$ 61,808,607	\$	\$	\$ 61,808,607
Other equities	9,558,273	762,865	(762,865)	9,558,273
Accumulated other comprehensive loss	(1,186,482)			(1,186,482)
	<u>70,180,398</u>	<u>762,865</u>	<u>(762,865)</u>	<u>70,180,398</u>
<b>Noncurrent liabilities</b>				
Long-term debt	203,885,191	260,000		204,145,191
Deferred tax liability		625,000		625,000
Other	968,742	45,448,742	(45,028,462)	1,389,022
	<u>204,853,933</u>	<u>46,333,742</u>	<u>(45,028,462)</u>	<u>206,159,213</u>
<b>Current liabilities</b>				
Accounts payable	7,392,811	1,712,859	(251,990)	8,853,680
Lines of credit	25,200,000	8,541,124	(7,541,124)	26,200,000
Current portion of long-term debt	8,069,606			8,069,606
Consumer deposits	1,364,521			1,364,521
Other current and accrued liabilities	3,155,548	3,232,408	(2,315,523)	4,072,433
Other postretirement benefits - current	300,000			300,000
	<u>45,482,486</u>	<u>13,486,391</u>	<u>(10,108,637)</u>	<u>48,860,240</u>
Deferred credits	<u>2,815,014</u>			<u>2,815,014</u>
	<u>\$ 323,331,831</u>	<u>\$ 60,582,998</u>	<u>\$ (55,899,964)</u>	<u>\$ 328,014,865</u>

## Consolidating Statement of Operations

### Central Virginia Electric Cooperative and Subsidiary

#### Year Ended December 31, 2020

	CVEC	Firefly	Eliminations	Total
Operating revenues				
Electricity, voice-over IP, and miscellaneous	\$ 89,511,922	\$ 3,068,834	\$ (512,482)	\$ 92,068,274
Grant income		7,208,396		7,208,396
	<u>89,511,922</u>	<u>10,277,230</u>	<u>(512,482)</u>	<u>99,276,670</u>
Operating expenses				
Cost of power	51,321,061			51,321,061
Cost of sales		894,648	(512,482)	382,166
Transmission	189,677			189,677
Distribution - operation	3,968,804			3,968,804
Distribution - maintenance	5,871,956			5,871,956
Consumer accounts	2,277,169			2,277,169
Customer service and informational	283,777	889,812		1,173,589
Administrative and general	7,628,448	2,668,793	(101,533)	10,195,708
Depreciation and amortization	7,732,309	1,653,461		9,385,770
Interest	6,017,910	1,153,041	(1,142,016)	6,028,935
Other	(31,154)			(31,154)
	<u>85,259,957</u>	<u>7,259,755</u>	<u>(1,756,031)</u>	<u>90,763,681</u>
Operating Margins Before Patronage Allocations	4,251,965	3,017,475	1,243,549	8,512,989
Patronage allocations	<u>317,512</u>			<u>317,512</u>
Net Operating Margins	4,569,477	3,017,475	1,243,549	8,830,501
Nonoperating income (expense)				
Loss on sale of plant	(32,073)			(32,073)
Interest income	1,234,002		(1,142,016)	91,986
Other, net	101,533		(101,533)	
Gain from equity investment	<u>2,313,745</u>		<u>(2,313,745)</u>	
	<u>3,617,207</u>		<u>(3,557,294)</u>	<u>59,913</u>
Net Income Before Taxes	8,186,684	3,017,475	(2,313,745)	8,890,414
Income tax expense				
Deferred		(703,730)		(703,730)
Net Margins	<u>\$ 8,186,684</u>	<u>\$ 2,313,745</u>	<u>\$ (2,313,745)</u>	<u>\$ 8,186,684</u>

See Independent Auditor's Report on Consolidating Information

**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  
Central Virginia Electric Cooperative  
and Subsidiary  
Arrington, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Central Virginia Electric Cooperative (the “Cooperative”), which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of operations and comprehensive income, 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 April 1, 2021.

**Internal Control over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Cooperative's 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 Cooperative's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cooperative's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Allama, Jenkins & Cheatham*

Richmond, Virginia  
April 1, 2021



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

The Board of Directors  
Central Virginia Electric Cooperative  
and Subsidiary  
Arrington, Virginia

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Central Virginia Electric Cooperative (the "Cooperative"), which comprise the consolidated balance sheet as of December 31, 2020, and the related consolidated statements of operations and comprehensive income, 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 April 1, 2021. In accordance with *Government Auditing Standards*, we have also issued a report dated April 1, 2021 on our consideration of the Cooperative's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above have been furnished to management.

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

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

- Seek approval of the sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;
- Maintain adequate control over materials and supplies;
- Prepare accurate and timely Financial and Operating Reports;
- Obtain written RUS approval to enter into any contract for the management, operations, or maintenance of the borrower's system if the contract covers all or substantially all of the electric system;
- Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;
- Record depreciation in accordance with RUS requirements (See RUS Bulletin 183-1, Depreciation Rates and Procedures);
- Comply with the requirements for the detailed schedule of deferred debits and deferred credits; and
- Comply with the requirements for the detailed schedule of investments.

This report is intended solely for the information and use of the board of directors, management, and the RUS and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*Adams, Jenkins & Cheatham*

Richmond, Virginia  
April 1, 2021