

Southside Electric Cooperative, Inc.
Financial Statements
December 31, 2021 and 2020

Contents

Financial Statements

Independent Auditor’s Report.....	Page	1 - 2
Balance Sheets		3 - 4
Statements of Operations		5
Statements of Equities.....		6
Statements of Cash Flows		7 - 8
Notes to Financial Statements.....		9 - 21

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 <i>Government Auditing Standards</i>		22 - 23
Independent Auditor’s Report on Compliance With Aspects of Contractual Agreements and Regulatory Requirements for Electric Borrowers.....		24 - 25



Independent Auditor's Report

The Board of Directors
Southside Electric Cooperative, Inc.
Crewe, Virginia

Opinion

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southside Electric Cooperative, Inc. as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Southside Electric Cooperative, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Southside Electric Cooperative, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2022 on our consideration of Southside Electric Cooperative, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cooperative's internal control over financial reporting and compliance.



Richmond, Virginia
March 7, 2022

Balance Sheets

Southside Electric Cooperative, Inc.

	December 31,	
	2021	2020
Assets		
Electric plant		
Electric plant	\$ 393,793,636	\$ 384,464,190
Less accumulated provision for depreciation	<u>141,309,091</u>	<u>135,126,159</u>
	252,484,545	249,338,031
Other property and investments		
Investments in associated organizations	54,178,390	53,576,576
Other investments	<u>709,645</u>	<u>710,408</u>
	54,888,035	54,286,984
Current assets		
Cash and cash equivalents	3,626,392	10,167,600
Accounts receivable, net	39,902,881	27,936,966
Materials and supplies	3,248,581	1,880,190
Notes receivable	10,075	18,919
Other current assets	<u>182,664</u>	<u>204,817</u>
	46,970,593	40,208,492
Deferred charges and regulatory asset	<u>104,157</u>	<u>201,752</u>
	<u>\$ 354,447,330</u>	<u>\$ 344,035,259</u>

See Independent Auditor's Report and Notes to Financial Statements

	December 31,	
	<u>2021</u>	<u>2020</u>
Equities and Liabilities		
Equities		
Patronage capital	\$ 116,958,838	\$ 111,994,195
Other equities	3,293,007	2,590,381
Memberships	<u>240,335</u>	<u>237,875</u>
	120,492,180	114,822,451
Noncurrent liabilities		
Long-term debt	202,431,071	201,023,530
Other	<u>53,212</u>	<u>44,152</u>
	202,484,283	201,067,682
Current liabilities		
Accounts payable	10,036,177	9,084,075
Current maturities of long-term debt	14,257,497	10,626,200
Consumer deposits	2,169,031	2,134,525
Other current and accrued liabilities	<u>3,132,559</u>	<u>4,090,203</u>
	29,595,264	25,935,003
Deferred credits and regulatory liability	<u>1,875,603</u>	<u>2,210,123</u>
	<u>\$ 354,447,330</u>	<u>\$ 344,035,259</u>

Statements of Operations

Southside Electric Cooperative, Inc.

	Year Ended December 31,	
	2021	2020
Operating revenues	\$ 116,842,895	\$ 123,454,890
Operating expenses		
Cost of power	59,637,108	66,113,524
Transmission	126,133	127,220
Distribution - operation	5,759,099	5,942,345
Distribution - maintenance	16,543,141	12,684,919
Consumer accounts	2,196,938	2,228,299
Customer service and informational	2,886,428	2,931,489
Administrative and general	5,809,887	5,854,460
Depreciation and amortization	12,026,106	11,876,816
Taxes	132,467	161,757
Interest expense	5,820,655	5,917,147
Other	32,660	1,724,067
	<u>110,970,622</u>	<u>115,562,043</u>
Operating Margins Before Patronage Allocations	5,872,273	7,892,847
Patronage allocations		
Generation and transmission	1,339,957	958,618
Other	532,818	566,835
	<u>1,872,775</u>	<u>1,525,453</u>
Net Operating Margins	7,745,048	9,418,300
Nonoperating income (expense)		
Investment income, net	259,998	116,415
Other	(41,213)	(39,977)
Gain on disposition of property	18,618	
	<u>237,403</u>	<u>76,438</u>
Net Margins	<u>\$ 7,982,451</u>	<u>\$ 9,494,738</u>

See Independent Auditor's Report and Notes to Financial Statements

Statements of Equities

Southside Electric Cooperative, Inc.

Years Ended December 31, 2021 and 2020

	<u>Patronage Capital</u>	<u>Other Equities</u>	<u>Memberships</u>	<u>Total</u>
Balance, December 31, 2019	\$ 106,468,111	\$ 2,082,493	\$ 234,805	\$ 108,785,409
Net margins	9,494,738			9,494,738
Retirement of capital credits	(4,167,357)	706,591		(3,460,766)
Reallocated gains	198,703	(198,703)		
Net change in memberships			<u>3,070</u>	<u>3,070</u>
Balance, December 31, 2020	111,994,195	2,590,381	237,875	114,822,451
Net margins	7,982,451			7,982,451
Retirement of capital credits	(3,203,513)	888,331		(2,315,182)
Reallocated gains	185,705	(185,705)		
Net change in memberships			<u>2,460</u>	<u>2,460</u>
Balance, December 31, 2021	<u>\$ 116,958,838</u>	<u>\$ 3,293,007</u>	<u>\$ 240,335</u>	<u>\$ 120,492,180</u>

See Independent Auditor's Report and Notes to Financial Statements

Statements of Cash Flows

Southside Electric Cooperative, Inc.

	Year Ended December 31,	
	2021	2020
Cash Flows from Operating Activities		
Cash received from members	\$ 120,703,575	\$ 124,505,920
Cash paid to suppliers and employees	(104,178,631)	(95,546,352)
Interest received	259,998	116,415
Interest paid	(5,820,655)	(5,961,480)
Net Cash Provided by Operating Activities	10,964,287	23,114,503
Cash Flows from Investing Activities		
Extension and replacement of plant	(20,043,088)	(15,295,318)
Plant removal costs	(2,947,204)	(1,564,502)
Contributions in aid of construction	2,506,840	3,034,772
Proceeds from retirement of investments in CTC's	18,063	16,902
Proceeds from the sale of plant	37,848	13,707
Net Cash Used by Investing Activities	(20,427,541)	(13,794,439)
Cash Flows from Financing Activities		
Principal payments of long-term debt	(10,643,894)	(10,092,215)
Proceeds from long-term debt	15,682,732	9,500,000
Capital credits paid to members, net	(2,466,503)	(3,580,872)
Proceeds from capital credits and other investments	312,745	922,132
Net change in member deposits	34,506	(172,976)
Net change in memberships	2,460	3,070
Payments on line of credit	(9,000,000)	(2,000,000)
Proceeds from line of credit	9,000,000	2,000,000
Net Cash Provided (Used) by Financing Activities	2,922,046	(3,420,861)
Net Increase (Decrease) in Cash and Cash Equivalents	(6,541,208)	5,899,203
Cash and cash equivalents - beginning of year	10,167,600	4,268,397
Cash and Cash Equivalents - End of Year	<u>\$ 3,626,392</u>	<u>\$ 10,167,600</u>

See Independent Auditor's Report and Notes to Financial Statements

	Year Ended December 31,	
	<u>2021</u>	<u>2020</u>
Net margins	\$ 7,982,451	\$ 9,494,738
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation and amortization	12,026,106	11,876,816
Net change in life insurance benefit	(2,911)	(2,911)
Noncash capital credits received	(1,872,775)	(1,525,453)
(Increase) decrease in:		
Accounts receivable	(7,406,751)	(2,641,622)
Other current assets	(22,153)	11,586
Deferred charges	97,595	2,483,307
Increase (decrease) in:		
Accounts payable	1,445,829	1,379
Other current and accrued liabilities	(957,644)	2,222,691
Other noncurrent liabilities	9,060	(16,203)
Deferred credits and regulatory liabilities	(334,520)	1,210,175
Net Cash Provided by Operating Activities	<u>\$ 10,964,287</u>	<u>\$ 23,114,503</u>

Notes to Financial Statements

Southside Electric Cooperative, Inc.

December 31, 2021 and 2020

Note A - Significant Accounting Policies

Nature of Operations

Southside Electric Cooperative, Inc. (the “Cooperative”) is a member owned, nonprofit Cooperative organized to provide electric service to its members residing in eighteen counties, five towns and one city in the Commonwealth of Virginia. The Cooperative’s main office is located in Crewe, Virginia.

Basis of Presentation

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

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

Accounting Estimates

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

Cash and Cash Equivalents

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

Income Taxes

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

Notes to Financial Statements

Southside Electric Cooperative, Inc.

December 31, 2021 and 2020

Note A - Significant Accounting Policies - Continued

Electric Plant

Electric plant is stated at the original cost of construction, which includes the cost of contracted services, direct labor, materials and overhead items. Contributions from others toward the construction of electric plant are credited to the applicable plant accounts. When property, which represents a retirement unit, is replaced or removed, the average cost of such property as determined from the continuing property records is credited to electric plant and such cost, together with 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 at December 31, 2021 and 2020:

Transmission plant	2.75%
Distribution plant	2.70 - 5.30%
Load management equipment	11.00%
General plant	3.00 - 25.00%

Materials and Supplies

Inventories 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.

Accounts Receivable

Accounts receivable from customers are recorded at the billed amount and do not bear interest. The Cooperative maintains 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 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.

Notes to Financial Statements

Southside Electric Cooperative, Inc.

December 31, 2021 and 2020

Note A - Significant Accounting Policies - Continued

Regulatory Assets and Liabilities

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

Advertising Costs

Advertising costs were expensed as incurred.

Subsequent Events

Subsequent events have been evaluated through March 7, 2022, which is the date the financial statements were available to be issued.

Revenue Recognition

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

Note B - Assets Pledged

All assets are pledged as security for the long-term debt to National Rural Utilities Cooperative Finance Corporation (CFC), Federal Financing Bank (FFB) and CoBank.

Notes to Financial Statements

Southside Electric Cooperative, Inc.

December 31, 2021 and 2020

Note C - Electric Plant

Listed below are the major classes of electric plant:

	December 31,	
	2021	2020
Distribution plant	\$ 318,667,274	\$ 314,153,208
General plant	44,503,320	46,389,524
Transmission plant	20,598,946	20,598,946
Electric plant in service	383,769,540	381,141,678
Construction work in progress	10,024,096	3,322,512
	<u>\$ 393,793,636</u>	<u>\$ 384,464,190</u>

In accordance with the guidance for asset retirement obligations, as set forth in the ASC Topic 410 - Asset Retirement and Environmental Obligations, and FERC Order 631 as adopted by the RUS, the Cooperative has determined that it had no legal asset retirement obligations as of December 31, 2021 and 2020. Regarding non-legal retirement costs, 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, 2021 and 2020, 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.

Note D - Concentrations of Credit Risk

The Cooperative places its cash on deposit with financial institutions located in the United States of America, which are insured by the Federal Deposit Insurance Corporation (FDIC). The FDIC provides insurance coverage for up to \$250,000 of cash held by the Cooperative in each separate FDIC insured bank and savings institution. From time to time, the Cooperative may have amounts on deposit in excess of the insured limits. As of December 31, 2021, the Cooperative had approximately \$4,029,000 of deposits that exceed the insured limits.

Notes to Financial Statements

Southside Electric Cooperative, Inc.

December 31, 2021 and 2020

Note E - Investments in Associated Organizations

Investments in associated organizations consisted of the following:

	December 31,	
	2021	2020
Patronage capital:		
Old Dominion Electric Cooperative (ODEC)	\$ 47,492,983	\$ 47,093,179
CFC	2,211,012	2,144,337
Tarheel Electric Membership Corp. (TEMA)	831,677	774,513
Federated Rural Electric Insurance Corp.	505,482	476,738
CoBank	242,047	
Other	204,271	178,975
	<u>51,487,472</u>	<u>50,667,742</u>
Capital Term Certificates (CTC):		
Subscriptions (SCTC's)	1,552,277	1,552,277
Loan (LCTC's)	299,200	299,200
Loan (ZCTC's)	160,840	178,903
	<u>2,012,317</u>	<u>2,030,380</u>
Other:		
TEC Trading, Inc.	622,500	622,500
Membership fees	1,000	200,209
Other	55,101	55,745
	<u>678,601</u>	<u>878,454</u>
	<u>\$ 54,178,390</u>	<u>\$ 53,576,576</u>

The capital term certificates invested in CFC are unsecured and subordinated. The SCTC's bear interest at an annual rate of 5% payable semiannually and the LCTC's bear interest at an annual rate of 3% payable semiannually. The ZCTC's are non-interest bearing.

The investment in TEC Trading, Inc. represents an unconsolidated joint venture with other members of ODEC. The Cooperative has a non-controlling ownership interest that has been accounted for under the cost method.

Notes to Financial Statements

Southside Electric Cooperative, Inc.

December 31, 2021 and 2020

Note F - Accounts Receivable

Accounts receivable consisted of the following:

	December 31,	
	2021	2020
Consumer accounts receivable	\$ 9,166,567	\$ 9,283,645
Unbilled revenue	7,169,032	9,224,301
Other accounts receivable	23,694,206	9,565,523
	<u>40,029,805</u>	<u>28,073,469</u>
Less provision for uncollectible accounts	126,924	136,503
	<u>\$ 39,902,881</u>	<u>\$ 27,936,966</u>

Note G - Deferred Charges and Regulatory Assets

Deferred charges and regulatory assets consisted of the following:

	December 31,	
	2021	2020
Survey and Investigation - preliminary	\$ 104,157	\$ 129,506
Regulatory asset:		
NRECA prepayment (Note K)		72,246
	<u>\$ 104,157</u>	<u>\$ 201,752</u>

Note H - Patronage Capital

Patronage capital consisted of the following:

	December 31,	
	2021	2020
Assigned	\$ 108,976,387	\$ 102,499,457
Assignable	7,982,451	9,494,738
	<u>\$ 116,958,838</u>	<u>\$ 111,994,195</u>

Notes to Financial Statements

Southside Electric Cooperative, Inc.

December 31, 2021 and 2020

Note H - Patronage Capital - Continued

Under provisions of the long-term debt agreements 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 34% and 33% of total assets for 2021 and 2020, respectively.

Note I - Deferred Credits and Regulatory Liability

Deferred credits and regulatory liability consisted of the following:

	December 31,	
	2021	2020
Regulatory liability:		
Deferred power costs	\$ 1,780,105	\$ 2,186,158
Other	95,498	23,965
	<u>\$ 1,875,603</u>	<u>\$ 2,210,123</u>

Note J - Long-Term Debt

Long-term debt consisted of the following:

	December 31,	
	2021	2020
FFB		
Mortgage notes, fixed	\$ 157,572,004	\$ 150,384,377
CFC		
Mortgage notes, fixed	43,689,762	48,417,024
CoBank		
Mortgage note, fixed	11,844,434	12,848,329
PPP loan, unsecured	3,582,368	
	<u>216,688,568</u>	<u>211,649,730</u>
Less current maturities	<u>14,257,497</u>	<u>10,626,200</u>
	<u>\$ 202,431,071</u>	<u>\$ 201,023,530</u>

The long-term debt payable to CoBank is represented by a mortgage note with an interest rate of 3.79%. The note matures in December 2031. Principal and interest installments were due monthly in the amount of approximately \$115,000.

Long-term debt payable to CFC is represented by mortgage notes with rates ranging from 2.85% to 6.80%. The notes generally have 35-year maturity periods and are payable on an installment basis. The notes mature at various dates between June 2022 and December 2047. Principal and interest installments were due quarterly in the amount of approximately \$1,750,000. The Cooperative had no unadvanced loan funds from CFC at December 31, 2021.

Notes to Financial Statements

Southside Electric Cooperative, Inc.

December 31, 2021 and 2020

Note J - Long-Term Debt - Continued

The long-term debt payable to FFB is represented by mortgage notes with interest rates ranging from 0.046% to 5.86%. The notes mature at various dates between March 2022 and December 2052. Principal and interest installments were due quarterly in the amount of approximately \$1,970,000. The Cooperative had unadvanced loan funds from FFB of \$6,099,636 at December 31, 2021.

During 2020, the Federal Government enacted legislation allowing companies to borrow money through qualified lenders backed by the Small Business Administration (SBA) to provide funds to extend employment for those that might be adversely affected by COVID-19. The program is known as the Paycheck Protection Program (PPP). Under this program the Cooperative applied for and received \$3,582,368 through CoBank to use for payroll and other qualified expenses. The program allows for forgiveness of the loan amount and any accrued interest if the Cooperative can demonstrate that they incurred qualifying expenses in a prescribed time frame. Subsequent to December 31, 2021, the Cooperative has received final notification and approval that their loan will be fully forgiven during 2022.

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

	<u>Total</u>
2022	\$ 14,257,497
2023	9,793,452
2024	10,195,000
2025	10,058,587
2026	9,712,652
2027 and thereafter	<u>162,671,380</u>
	<u>\$ 216,688,568</u>

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) of 1.25 and DSC (debt service coverage) of 1.25. There were also restrictions on the return of capital to patrons as discussed in (Note H). As of December 31, 2021 and 2020, the Cooperative was in compliance with all restrictions.

The Cooperative had lines of credit with CFC of \$15,000,000 and \$200,000 at variable interest rates (2.25% and 2.45%, respectively, at December 31, 2021), there were no funds outstanding on the lines at December 31, 2021 and 2020. The lines of credit are secured by substantially all of the Cooperative's assets and renew annually. Of the \$200,000 line of credit, \$190,000 was reserved by an agreement with the Virginia Department of Transportation, for the year ended December 31, 2021 and 2020. The Cooperative had a line of credit with CFC of \$10,000,000 at a variable interest rate, which will be determined at the time funds are drawn down. There were no funds outstanding on the line as of December 31, 2021. The line will expire in May 2022.

The Cooperative had a \$1,000,000 line of credit with First Citizens Bank at a variable interest rate (2.50% at December 31, 2021), of which there was no balance outstanding at December 31, 2021 and 2020, respectively. The line of credit is unsecured and will expire in June 2022.

Notes to Financial Statements

Southside Electric Cooperative, Inc.

December 31, 2021 and 2020

Note J - Long-Term Debt - Continued

The Cooperative has a \$5,000,000 line of credit with CoBank at variable rates (2.41% at December 31, 2021), of which there were no funds outstanding on the line at December 31, 2021 and 2020. The line of credit is unsecured and will expire in September 2022.

Note K - 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 2021 and in 2020 represented less than 5 percent of the total contributions made to the RS Plan by all participating employers. The Cooperative made contributions to the RS Plan of approximately \$3,307,000 and \$3,091,000 in 2021 and 2020, respectively.

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

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

At its December 2012 meeting, the I&FS Committee of the NRECA Board of Directors approved an option to allow participating cooperatives in the RS Plan to make a contribution prepayment and reduce future required contributions. The prepayment amount is a cooperative's share, as of January 1, 2013, of future contributions required to fund the RS Plan's unfunded value of benefits earned to date using RS Plan actuarial valuation assumptions. The prepayment amount will typically equal approximately 2.5 times a cooperative's annual RS Plan required contribution as of January 1, 2013. After making the prepayment, the billing rate for most co-ops is reduced by approximately 25%, retroactive to the January 1 of the year in which the amount is paid to the RS Plan. The 25% differential in billing rates is expected to continue for approximately 15 years from January 1, 2013. However, unexpected changes in interest rates, asset returns and other plan experience, plan assumption changes and other factors may have an impact on the differential in billing rates and the 15-year period.

Notes to Financial Statements

Southside Electric Cooperative, Inc.

December 31, 2021 and 2020

Note K - Retirement Plans - Continued

On April 29, 2013 the Cooperative made a prepayment of \$8,669,550 to the NRECA RS Plan. The Cooperative elected to finance the prepayment through a 10 year term loan with a fixed interest rate of 2.85%.

Deferred Income 401(k) Plan

In addition to the NRECA Retirement and Security Program, most of the employees of the Cooperative are eligible to participate in the NRECA SelectRE pension plan; a defined contribution multiemployer deferred income plan qualified under Section 401(k) of the Internal Revenue Code. For the years ended December 31, 2021 and 2020, the Cooperative's required contribution to the Plan and its net pension cost was approximately \$466,000 and \$435,000, 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 this 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.

Cash and Cash Equivalents

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

Accounts Receivable

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

Investments in Associated Organizations

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

Fair value of capital term certificates was determined by computing the present value of estimated future cash flows, discounted at the long-term treasury rate of 1.90% and 1.65% for the years ended December 31, 2021 and 2020, respectively. The fair value of patronage capital is not determinable since no legal obligation exists to retire capital credits. The fair value of the cost method investment is not estimated since there are no identified events or changes in circumstances that may have a significant adverse effect on the fair value and it is not practicable to estimate fair value. The carrying value of memberships approximates fair value.

Notes to Financial Statements

Southside Electric Cooperative, Inc.

December 31, 2021 and 2020

Note L - Financial Instruments Carried at Cost - Continued

Accounts Payable

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

Long-Term Debt

The carrying amount of the Cooperative's fixed long-term debt includes certain interest rates that are below quoted market prices for the same or similar issues. Therefore, the fair value of fixed long-term debt is estimated based on current market prices for the same or similar issues offered for debt of the same and remaining maturities which was 4.06% and 3.57% for the years ended December 31, 2021 and 2020, respectively.

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

Consumer Deposits

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

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

	December 31,			
	2021		2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Capital term certificates	\$ 2,012,317	\$ 3,690,000	\$ 2,030,380	\$ 3,990,000
Liabilities:				
Long-term debt, including mortgage notes	\$ 216,688,568	\$ 188,760,000	\$ 211,649,730	\$ 201,910,000

Note M - Commitments and Contingencies

Purchased Power

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

Notes to Financial Statements

Southside Electric Cooperative, Inc.

December 31, 2021 and 2020

Note M - Commitments and Contingencies - Continued

Other

From time to time, the Cooperative becomes involved in litigation in the ordinary course of business. In management's opinion, the ultimate resolution of these matters will not have a material adverse effect on the Cooperative's financial position, results of operations or cash flows.

Note N - Related Party Transactions

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

The Cooperative is a member of CFC (Notes E and J), a national financing organization, and had investment assets and mortgage notes payable at various interest rates and maturities.

The Cooperative, as a member of ODEC, has entered into a contract for the acquisition of wholesale power.

The Cooperative is a shareholder of Federated Rural Electric Insurance Corporation (Note E) and purchases its general property and liability coverage from this organization.

The Cooperative, as a member of TEMA (Note E), purchased materials and supplies for construction and maintenance of the utility assets.

Note O - COVID-19

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

Notes to Financial Statements

Southside Electric Cooperative, Inc.

December 31, 2021 and 2020

Note P - Other

On February 11, 2021, Governor Ralph Northam declared a State of Emergency due to severe winter weather. This storm system struck the Cooperative's service territory causing system damage totaling approximately \$21 million. The Cooperative has submitted a request to the Federal Emergency Management Agency ("FEMA") for approximately \$16 million to offset the cost of the storm. The request is pending approval as of the date of these financial statements.

**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
Southside Electric Cooperative, Inc.
Crewe, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Southside Electric Cooperative, Inc. (the “Cooperative”), which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of operations, equities and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated March 7, 2022.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of Southside Electric Cooperative, Inc. in a separate letter dated March 7, 2022.

Purpose of this Report

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



Richmond, Virginia
March 7, 2022



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

The Board of Directors
Southside Electric Cooperative, Inc.
Crewe, Virginia

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Southside Electric Cooperative, Inc. (the "Cooperative"), which comprise the balance sheet as of December 31, 2021, and the related statements of operations, equities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 7, 2022. In accordance with *Government Auditing Standards*, we have also issued a report dated March 7, 2022 on our consideration of the Cooperative's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above have been furnished to management.

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

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

- Maintain adequate control over materials and supplies;
- Prepare accurate and timely Financial and Operating Reports;
- Obtain written RUS approval to enter into any contract for the management, operations, or maintenance of the borrower's system if the contract covers all or substantially all of the electric system;
- Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;
- Record depreciation in accordance with RUS requirements;
- 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.

Allama, Jenkins & Cheatham

Richmond, Virginia
March 7, 2022