

**Southside Electric Cooperative, Inc.**  
**Financial Statements**  
**December 31, 2018 and 2017**

**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 - 20

**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> .....		21 - 22
Independent Auditor’s Report on Compliance With Aspects of Contractual Agreements and Regulatory Requirements for Electric Borrowers.....		23 - 24



## **Independent Auditor's Report**

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

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

We have audited the accompanying financial statements of Southside Electric Cooperative, Inc. (the "Cooperative") which comprise the balance sheets as of December 31, 2018 and 2017 and the related statements of operations, equities and cash flows for the years then ended, and the related notes to the financial statements.

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

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

### **Auditor's Responsibility**

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

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

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

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southside Electric Cooperative, Inc. as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2019 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 grants 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.

*Adams, Jenkins & Cheatham*

Richmond, Virginia  
March 13, 2019



	December 31,	
	<u>2018</u>	<u>2017</u>
<b>Equities and Liabilities</b>		
Equities		
Patronage capital	\$ 105,918,046	\$ 103,363,475
Other equities	1,449,672	1,242,468
Memberships	233,235	232,490
	<u>107,600,953</u>	<u>104,838,433</u>
Noncurrent liabilities		
Long-term debt	212,238,216	189,204,922
Other	48,357	115,058
	<u>212,286,573</u>	<u>189,319,980</u>
Current liabilities		
Accounts payable	9,542,194	9,679,487
Current maturities of long-term debt	9,082,224	8,251,180
Consumer deposits	2,202,571	2,192,691
Other current and accrued liabilities	2,193,986	1,413,988
Lines of credit		21,500,000
	<u>23,020,975</u>	<u>43,037,346</u>
Deferred credits and regulatory liabilities	<u>1,960,763</u>	<u>5,327,203</u>
	<u>\$ 344,869,264</u>	<u>\$ 342,522,962</u>

## Statements of Operations

### Southside Electric Cooperative, Inc.

	Year Ended December 31,	
	2018	2017
Operating revenues	\$ 121,430,186	\$ 108,770,569
Operating expenses		
Cost of power	69,080,662	61,138,533
Transmission	138,807	58,545
Distribution - operation	5,139,736	5,626,491
Distribution - maintenance	13,276,676	10,823,864
Consumer accounts	2,146,320	1,993,434
Customer service and informational	2,652,035	2,702,377
Administrative and general	6,314,546	6,195,781
Depreciation and amortization	11,724,397	10,488,513
Taxes	1,086	39,632
Interest on long-term debt	6,918,208	6,211,842
Other	93,430	124,383
	<u>117,485,903</u>	<u>105,403,395</u>
Operating Margins Before Patronage Allocations	3,944,283	3,367,174
Patronage allocations		
Generation and transmission	1,083,667	2,221,015
Other	702,843	715,226
	<u>1,786,510</u>	<u>2,936,241</u>
Net Operating Margins	5,730,793	6,303,415
Nonoperating income (expense)		
Investment income, net	128,058	111,052
Other	(17,414)	86,779
Gain (Loss) on disposition of property	238,289	(20,286)
	<u>348,933</u>	<u>177,545</u>
Net Margins	<u>\$ 6,079,726</u>	<u>\$ 6,480,960</u>

See Independent Auditor's Report and Notes to Financial Statements

## Statements of Equities

### Southside Electric Cooperative, Inc.

#### Years Ended December 31, 2018 and 2017

	<u>Patronage Capital</u>	<u>Other Equities</u>	<u>Memberships</u>	<u>Total</u>
Balance, December 31, 2016	\$ 99,998,786	\$ 980,852	\$ 231,060	\$ 101,210,698
Net margins	6,480,960			6,480,960
Retirement of capital credits	(3,213,190)	358,535		(2,854,655)
Reallocated gains	96,919	(96,919)		
Net change in memberships			<u>1,430</u>	<u>1,430</u>
Balance, December 31, 2017	103,363,475	1,242,468	232,490	104,838,433
Net margins	6,079,726			6,079,726
Retirement of capital credits	(3,709,907)	391,956		(3,317,951)
Reallocated gains	184,752	(184,752)		
Net change in memberships			<u>745</u>	<u>745</u>
Balance, December 31, 2018	<u>\$ 105,918,046</u>	<u>\$ 1,449,672</u>	<u>\$ 233,235</u>	<u>\$ 107,600,953</u>

See Independent Auditor's Report and Notes to Financial Statements

## Statements of Cash Flows

### Southside Electric Cooperative, Inc.

	Year Ended December 31,	
	2018	2017
<b>Cash Flows from Operating Activities</b>		
Cash received from members	\$ 122,069,127	\$ 109,500,281
Cash paid to suppliers and employees	(99,618,061)	(85,847,091)
Interest received	128,058	111,052
Interest paid	(6,942,017)	(6,223,069)
Net Cash Provided by Operating Activities	15,637,107	17,541,173
<b>Cash Flows from Investing Activities</b>		
Extension and replacement of plant	(10,523,690)	(17,870,097)
Plant removal costs	(1,322,987)	(1,625,656)
Contributions in aid of construction	722,436	1,946,101
Proceeds from retirement of investments in CTC's	18,383	17,207
Proceeds from the sale of plant	395,171	88,239
Net Cash Used by Investing Activities	(10,710,687)	(17,444,206)
<b>Cash Flows from Financing Activities</b>		
Proceeds from line of credit		6,500,000
Payments on line of credit	(21,500,000)	
Proceeds from long-term debt	32,900,000	6,000,000
Principal payments of long-term debt	(9,035,662)	(8,722,948)
Capital credits paid to members, net	(2,752,136)	(2,615,146)
Proceeds from capital credits and other investments	2,000,358	1,003,831
Net change in member deposits	9,878	(120,249)
Net change in memberships	745	1,430
Net Cash Provided by Financing Activities	1,623,183	2,046,918
Net Increase in Cash and Cash Equivalents	6,549,603	2,143,885
Cash and cash equivalents - beginning of year	4,360,479	2,216,594
Cash and Cash Equivalents - End of Year	<u>\$ 10,910,082</u>	<u>\$ 4,360,479</u>

See Independent Auditor's Report and Notes to Financial Statements

	Year Ended December 31,	
	2018	2017
Net margins	\$ 6,079,726	\$ 6,480,960
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation and amortization	11,724,397	10,488,513
Net change in life insurance benefit	(7,920)	144,119
(Gain) loss on disposition of plant	(238,289)	20,746
Special equipment installation costs		(54,187)
Noncash capital credits received	(1,786,510)	(2,936,241)
(Increase) decrease in:		
Accounts receivable	(1,748,780)	1,260,374
Other current assets	2,847,376	(622,557)
Deferred charges	907,600	889,218
Increase (decrease) in:		
Accounts payable	907,535	984,184
Other current and accrued liabilities	385,111	12,679
Other noncurrent liabilities	(66,699)	
Deferred credits and regulatory liabilities	(3,366,440)	873,365
Net Cash Provided by Operating Activities	<u>\$ 15,637,107</u>	<u>\$ 17,541,173</u>

## **Notes to Financial Statements**

### **Southside Electric Cooperative, Inc.**

#### **December 31, 2018 and 2017**

##### **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).

###### 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, 2018 and 2017**

**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, 2018 and 2017:

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

The Cooperative provides for the uncollectible accounts monthly, based on a percentage of sales which past experience has indicated will be uncollectible. When accounts are deemed to be uncollectible, they are charged against the provision for uncollectible accounts.

Revenues

The Cooperative records electric revenues as energy is delivered to consumers on a monthly basis. The billing rate schedules of the Cooperative contain provisions to either increase or decrease the consumers' billing from the base level billing schedules dependent upon the cost of the wholesale power for electrical energy purchased for resale. Any amounts collected over or under the Cooperative's monthly power costs are recorded as a deferred credit or deferred charge as applicable.

## **Notes to Financial Statements**

### **Southside Electric Cooperative, Inc.**

#### **December 31, 2018 and 2017**

##### **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 13, 2019, which is the date the financial statements were available to be issued.

##### **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, 2018 and 2017

##### Note C - Electric Plant

Listed below are the major classes of electric plant:

	December 31,	
	2018	2017
Distribution plant	\$ 302,117,914	\$ 297,208,463
General plant	44,398,530	43,773,262
Transmission plant	18,471,197	18,471,197
Electric plant in service	364,987,641	359,452,922
Construction work in progress	6,664,255	4,964,614
	<u>\$ 371,651,896</u>	<u>\$ 364,417,536</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, 2018 and 2017. 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, 2018 and 2017, 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, 2018, the Cooperative had approximately \$1,006,000 of deposits that exceed the insured limits.

## Notes to Financial Statements

### Southside Electric Cooperative, Inc.

#### December 31, 2018 and 2017

##### Note E - Investments in Associated Organizations

Investments in associated organizations consisted of the following:

	December 31,	
	2018	2017
Patronage capital:		
Old Dominion Electric Cooperative (ODEC)	\$ 45,249,837	\$ 44,166,170
CFC	1,967,667	1,825,020
Tarheel Electric Membership Corp. (TEMA)	670,964	614,399
Federated Rural Electric Insurance Corp.	427,570	381,882
Other	157,248	136,701
	<u>48,473,286</u>	<u>47,124,172</u>
Capital Term Certificates (CTC):		
Subscriptions (SCTC's)	1,552,277	1,552,277
Loan (LCTC's)	367,050	367,050
Loan (ZCTC's)	215,447	233,830
	<u>2,134,774</u>	<u>2,153,157</u>
Other:		
TEC Trading, Inc.	622,500	622,500
Membership fees	76,574	49,251
Other	53,182	51,066
	<u>752,256</u>	<u>722,817</u>
	<u>\$ 51,360,316</u>	<u>\$ 50,000,146</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, 2018 and 2017

##### Note F - Accounts Receivable

Accounts receivable consisted of the following:

	December 31,	
	2018	2017
Consumer accounts receivable	\$ 8,833,452	\$ 7,251,693
Unbilled revenue	8,069,089	8,777,582
Other accounts receivable	5,464,388	7,979,948
	<u>22,366,929</u>	<u>24,009,223</u>
Less provision for uncollectible accounts	85,736	79,880
	<u>\$ 22,281,193</u>	<u>\$ 23,929,343</u>

##### Note G - Deferred Charges and Regulatory Asset

Deferred charges and regulatory asset consisted of the following:

	December 31,	
	2018	2017
Regulatory asset:		
NRECA prepayment (Note K)	\$ 3,467,820	\$ 4,334,775
Survey and Investigation - preliminary	4,589	45,235
	<u>\$ 3,472,409</u>	<u>\$ 4,380,010</u>

##### Note H - Patronage Capital

Patronage capital consisted of the following:

	December 31,	
	2018	2017
Assigned	\$ 99,838,320	\$ 96,882,515
Assignable	6,079,726	6,480,960
	<u>\$ 105,918,046</u>	<u>\$ 103,363,475</u>

## Notes to Financial Statements

### Southside Electric Cooperative, Inc.

#### December 31, 2018 and 2017

##### 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 31% of total assets for 2018 and 2017, respectively.

##### Note I - Long-Term Debt

Long-term debt consisted of the following:

	December 31,	
	2018	2017
FFB		
Mortgage notes, fixed	\$ 149,187,411	\$ 126,501,172
CFC		
Mortgage notes, fixed	57,365,370	55,271,439
CoBank		
Mortgage note, fixed	14,767,659	15,683,491
	<u>221,320,440</u>	<u>197,456,102</u>
Less current maturities	<u>9,082,224</u>	<u>8,251,180</u>
	<u>\$ 212,238,216</u>	<u>\$ 189,204,922</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 3.05% to 7.15%. The notes generally have 35-year maturity periods and are payable on an installment basis. The notes mature at various dates between March 2019 and December 2047. Principal and interest installments were due quarterly in the amount of approximately \$1,870,000. The Cooperative had no unadvanced loan funds from CFC at December 31, 2018.

## Notes to Financial Statements

### Southside Electric Cooperative, Inc.

#### December 31, 2018 and 2017

##### Note I - Long-Term Debt - Continued

The long-term debt payable to FFB is represented by mortgage notes with interest rates ranging from 1.69% to 5.86%. The notes mature at various dates between December 2033 and December 2052. Principal and interest installments were due quarterly in the amount of approximately \$1,770,000. The Cooperative had unadvanced loan funds from FFB of \$27,700,000 at December 31, 2018.

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

	<u>Total</u>
2019	\$ 9,082,224
2020	9,734,017
2021	10,202,769
2022	10,304,995
2023	9,321,398
2024 and thereafter	<u>172,675,037</u>
	<u>\$ 221,320,440</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, 2018 and 2017, the Cooperative was in compliance with all restrictions.

The Cooperative had a \$15,000,000 line of credit with CFC at a variable interest rate (3.35% at December 31, 2018), of which \$14,500,000 was outstanding at December 31, 2017. There were no funds outstanding on the line at December 31, 2018. The line of credit is secured by substantially all of the Cooperative's assets and renews annually.

The Cooperative had a \$8,000,000 line of credit with First Citizens Bank at a variable interest rate (4.35% at December 31, 2018), of which there was no balance outstanding at December 31, 2018 and 2017, respectively. The line of credit is unsecured and will expire in June 2019.

The Cooperative has a \$5,000,000 line of credit with CoBank at variable rates (4.61% at December 31, 2018). There were no funds outstanding on the line at December 31, 2018. At December 31, 2017, the Cooperative had a \$10,000,000 line of credit with CoBank, of which \$7,000,000 was outstanding at December 31, 2017. The line of credit is unsecured and will expire in September 2019.

**Notes to Financial Statements**

**Southside Electric Cooperative, Inc.**

**December 31, 2018 and 2017**

**Note J - Deferred Credits and Regulatory Liabilities**

Deferred credits and regulatory liabilities consisted of the following:

	December 31,	
	2018	2017
Regulatory liabilities:		
Deferred power costs	\$ 1,938,515	\$ 5,195,126
Deferred special equipment labor		113,092
Other	22,248	18,985
	<u>\$ 1,960,763</u>	<u>\$ 5,327,203</u>

**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 2018 and in 2017 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 \$3,070,000 in 2018 and \$3,093,000 in 2017.

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, 2018 and over 80 percent funded on January 1, 2017 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.

## Notes to Financial Statements

### Southside Electric Cooperative, Inc.

#### December 31, 2018 and 2017

##### Note K - Retirement Plans - Continued

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

On April 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%. The Cooperative is amortizing the prepayment to expense over 10 years with the balance represented as a part of deferred charges.

##### Deferred Income Plan

In addition to the NRECA RS Plan, substantially all employees of the Cooperative are eligible to participate in the NRECA SelectRE pension plan (the "Plan"), a defined contribution multi-employer deferred income plan qualified under Section 401(k) of the Internal Revenue Code. The Cooperative's required contribution to the Plan and its net pension cost was approximately \$431,000 and \$424,000 for the years ended December 31, 2018 and 2017, 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.

## Notes to Financial Statements

### Southside Electric Cooperative, Inc.

#### December 31, 2018 and 2017

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

###### 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 3.02% and 2.74% for the years ended December 31, 2018 and 2017, respectively. The fair value of patronage capital is not determinable since no legal obligation exists to retire capital credits. The fair value of the cost method investment is not estimated since there are no identified events or changes in circumstances that may have a significant adverse effect on the fair value and it is not practicable to estimate fair value. The carrying value of memberships approximates fair value.

###### Accounts Payable

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

###### 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 5.90% and 5.50% for the years ended December 31, 2018 and 2017, 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.

## Notes to Financial Statements

### Southside Electric Cooperative, Inc.

#### December 31, 2018 and 2017

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

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

	December 31,			
	2018		2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Capital term certificates	\$ 2,134,774	\$ 2,990,000	\$ 2,153,157	\$ 3,200,000
Liabilities:				
Long-term debt, including mortgage notes and capital lease obligation	\$ 221,320,440	\$ 177,470,000	\$ 197,456,102	\$ 164,670,000

##### 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.

###### 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 I), a national financing organization, and had investment assets and mortgage notes payable at various interest rates and maturities.

The Cooperative, as a member of the 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.

**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, 2018 and 2017, 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 13, 2019.

**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 13, 2019.

## **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 *Governmental Auditing Standards* in considering the Cooperative's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Adams, Jenkins & Cheatham*

Richmond, Virginia  
March 13, 2019



**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, 2018, 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 13, 2019. In accordance with *Government Auditing Standards*, we have also issued a report dated March 13, 2019 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  
March 13, 2019

**Southside Electric Cooperative**  
**Single Audit Report**  
**December 31, 2018**

# Contents

## Independent Auditor's Report

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> .....	Page 1 - 2
---	------------

Independent Auditor's Report on Compliance for Each Major Program; and Report on Internal Control over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance.....	3 - 4
---	-------

## Single Audit Schedules

Schedule of Expenditures of Federal Awards .....	5
Notes to Schedule of Expenditures of Federal Awards .....	6
Schedule of Findings and Questioned Costs .....	7 - 8



**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  
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 (the “Cooperative”), which comprise the balance sheets as of December 31, 2018 and 2017, 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 13, 2019.

**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*.

## **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.

*Alamo, Jenkins & Cheatham*

Richmond, Virginia  
March 13, 2019



**Independent Auditor’s Report on Compliance for Each Major Program;  
and Report on Internal Control over Compliance; and Report on the Schedule of Expenditures of  
Federal Awards Required by the Uniform Guidance**

The Board of Directors  
Southside Electric Cooperative  
Crewe, Virginia

**Report on Compliance for Each Major Federal Program**

We have audited Southside Electric Cooperative’s (the “Cooperative”) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Cooperative’s major federal programs for the year ended December 31, 2018. The Cooperative’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

**Management’s Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor’s Responsibility**

Our responsibility is to express an opinion on compliance for each of the Cooperative’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Cooperative’s compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Cooperative’s compliance.

**Opinion on Each Major Federal Program**

In our opinion, the Cooperative complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

## **Report on Internal Control over Compliance**

Management of the Cooperative is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Cooperative's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

## **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of Southside Electric Cooperative as of and for the year ended December 31, 2018, and have issued our report thereon dated March 13, 2019, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Richmond, Virginia

September 6, 2019, except as to the paragraph relating to the report on schedule of expenditures of federal awards, which is dated March 13, 2019



## **Single Audit Schedules**

**Schedule of Expenditures of Federal Awards**

**Southside Electric Cooperative**

**Year Ended December 31, 2018**

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Grantor's Number</u>	<u>Federal Expenditures</u>
<b>U. S. DEPARTMENT OF HOMELAND SECURITY</b>			
Passed through State Department of Public Safety, Division of Emergency Management:			
Disaster Assistance - Tropical Storm Michael	97.036	FEMA- 4411-DR- VA	\$ 2,028,403
		<b>TOTAL FEDERAL AWARDS</b>	<b><u>\$ 2,028,403</u></b>

This information is an integral part of the accompanying schedule

## **Notes to Schedule of Expenditures of Federal Awards**

### **Southside Electric Cooperative**

### **Year Ended December 31, 2018**

#### **Note A - Basis of Presentation and Summary of Significant Accounting Policies**

##### **Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Southside Electric Cooperative and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

##### **Summary of Significant Accounting Policies**

Expenditures reported on the Schedule of Expenditures of Federal Awards are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited for reimbursement.

The Cooperative has not elected to use the 10 percent de minimis indirect cost rate as described in 2 CFR 200.414.

# Schedule of Findings and Questioned Costs

## Southside Electric Cooperative

Year Ended December 31, 2018

### Section 1 Summary of Independent Auditor's Results:

#### Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- |  |       |     |              |               |
|--|-------|-----|--------------|---------------|
| • Material weaknesses identified?  | _____ | Yes | <u>  X  </u> | No            |
| • Significant deficiencies identified that are not considered material weaknesses? | _____ | Yes | <u>  X  </u> | None reported |
| • Noncompliance considered to be material to the financial statements noted?       | _____ | Yes | <u>  X  </u> | No            |

#### Federal Awards

Type of auditor's report issued on compliance for major federal programs: Unmodified

Internal control over major federal reporting:

- |  |       |     |              |               |
|--|-------|-----|--------------|---------------|
| • Material weaknesses identified?  | _____ | Yes | <u>  X  </u> | No            |
| • Significant deficiencies identified that are not considered to be material weaknesses?             | _____ | Yes | <u>  X  </u> | None reported |
| • Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | _____ | Yes | <u>  X  </u> | No            |

Identification of major federal programs:

<u>CFDA #</u>	<u>Name of Federal Program</u>
97.036	Public Assistance (Disaster Grant)

Dollar threshold used to distinguish Between Type A and Type B Programs \$ 750,000

Auditee qualified as low-risk auditee? \_\_\_\_\_ Yes   X   No

This information is an integral part of the accompanying schedule

## **Schedule of Findings and Questioned Costs - Continued**

### **Southside Electric Cooperative**

#### **Year Ended December 31, 2018**

**Section 2      Financial Statement Findings:**

- There were no findings related to the audit of the financial statements.

**Section 3      Major Federal Award Programs Audit Findings and Questioned Costs:**

- There were no findings or questioned costs related to the major federal awards program.