MID-CAROLINA ELECTRIC COOPERATIVE, INC.
LEXINGTON, SOUTH CAROLINA

FINANCIAL STATEMENTS AS OF
DECEMBER 31, 2019 AND 2018 AND
INDEPENDENT AUDITOR'S REPORT

MID-CAROLINA ELECTRIC COOPERATIVE, INC.

CONTENTS

MCNAIR MCLEMORE
MIDDLEBROOKS & CO
CERTIFIED PUBLIC ACCOUNTANTS

389 Mulberry Street | Macon, Georgia 31201
Post Office Box One | Macon, Georgia 31202
478-746-6277 | mmmcpa.com

March 13, 2020

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Mid-Carolina Electric Cooperative, Inc.

We have audited the accompanying financial statements of **Mid-Carolina Electric Cooperative, Inc**. (the Corporation), which comprise the balance sheets as of December 31, 2019 and 2018 and the related statements of operations and comprehensive income, changes in members' equity, 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. Those standards require that we plan and perform the audits 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 Corporation'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 Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 Mid-Carolina Electric Cooperative, Inc. as of December 31, 2019 and 2018 and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, the Corporation adopted Accounting Standards Update 2014-09, *Revenue from Contracts with Customers* on January 1, 2019. Our opinion is not modified with respect to this matter.

McNair, McLemore, Middlebrooks & Co., LLC

McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC

MID-CAROLINA ELECTRIC COOPERATIVE, INC.
BALANCE SHEETS
DECEMBER 31

ASSETS

		2019		2018
Utility Plant				
Electric Plant in Service - At Cost	**$**	**323,402,710**	$	308,558,322
Construction Work in Progress		**6,637,028**		13,824,895
Gross Utility Plant		**330,039,738**		322,383,217
Accumulated Provision For Depreciation		**(81,662,432)**		(76,379,422)
		248,377,306		246,003,795
Other Property and Investments				
Investments in Associated Organizations		**10,745,944**		10,213,215
Prepaid Postretirement Healthcare Obligation		**11,211,762**		9,255,267
Other Investments		**106,071**		54,260
		22,063,777		19,522,742
Current Assets				
Cash and Cash Equivalents		**4,151,634**		5,089,966
Accounts Receivable (Net of Accumulated Provision for Uncollectibles of $472,316 in 2019 and $303,933 in 2018)		**7,012,959**		7,540,744
Accrued Utility Revenue		**7,182,565**		7,231,877
Interest Receivable		**17,857**		17,867
Materials and Supplies		**1,874,164**		1,724,667
Prepayments		**470,711**		487,685
		20,709,890		22,092,806
Deferred Debits		**2,469,297**		672,322
Total Assets	**$**	**293,620,270**	$	288,291,665

See accompanying notes which are an integral part of these financial statements.

MID-CAROLINA ELECTRIC COOPERATIVE, INC.
BALANCE SHEETS
DECEMBER 31

MEMBERS' EQUITY AND LIABILITIES

	2019	2018
Members' Equity		
Membership Fees	**$ 715,535**	$ 704,915
Patronage Capital	**51,576,708**	50,664,276
Accumulated Other Comprehensive Income	**2,700,300**	3,071,100
Other Equities	**11,768,694**	10,272,900
	66,761,237	64,713,191
Long-Term Liabilities		
Long-Term Debt	**185,363,123**	177,295,427
Long-Term Capital Lease Obligations	**573,075**	360,815
Other Long-Term Liabilities	**106,071**	54,260
	186,042,269	177,710,502
Current Liabilities		
Current Maturities of Long-Term Debt	**7,756,055**	7,987,283
Current Maturities of Capital Lease Obligations	**76,032**	48,480
Line-of-Credit	**11,000,000**	11,000,000
Accounts Payable	**11,306,410**	16,696,578
Consumer Deposits	**1,063,103**	1,183,265
Accrued and Withheld Taxes	**7,098,970**	6,582,773
Other Current and Accrued Liabilities	**2,149,487**	2,022,307
	40,450,057	45,520,686
Deferred Credits	**366,707**	347,286
Total Members' Equity and Liabilities	**$ 293,620,270**	$ 288,291,665

See accompanying notes which are an integral part of these financial statements.

MID-CAROLINA ELECTRIC COOPERATIVE, INC.
STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31

	2019	2018
Operating Revenue and Patronage Capital	**$ 131,290,666**	$ 131,123,222
Operating Expenses		
Cost of Power	**83,656,513**	85,237,714
Distribution Operations	**3,650,416**	3,540,092
Distribution Maintenance	**13,278,398**	12,106,172
Consumer Accounts	**4,964,516**	4,339,308
Consumer Service and Information	**704,854**	652,890
Sales	**313,256**	297,661
Administrative and General	**5,527,875**	5,386,406
Depreciation	**8,521,231**	8,322,139
Other	**1,070,850**	1,037,277
Total Operating Expenses	**121,687,909**	120,919,659
Operating Margins Before Interest Expense	**9,602,757**	10,203,563
Interest Expense	**8,676,085**	7,412,364
Operating Margins After Interest Expense	**926,672**	2,791,199
Nonoperating Margins (Loss)	**2,181,968**	(1,823,177)
Generation and Transmission Cooperative Capital Credits	**168,689**	266,722
Other Capital Credits and Patronage Capital Allocations	**1,048,562**	1,452,430
Net Margins	**4,325,891**	2,687,174
Other Comprehensive Income		
Amortization of Prior Service Cost	**(370,800)**	(370,800)
Total Other Comprehensive Income	**(370,800)**	(370,800)
Total Comprehensive Income	**$ 3,955,091**	$ 2,316,374

See accompanying notes which are an integral part of these financial statements.

MID-CAROLINA ELECTRIC COOPERATIVE, INC.
STATEMENTS OF CHANGES IN MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	Membership Fees	Patronage Capital	Accumulated Other Comprehensive Income	Other Equities	Total Members' Equity
Balance, December 31, 2017	$ 692,675	$ 52,277,247	$ 3,441,900	$ 10,305,058	$ 66,716,880
Net Margins	-	2,687,174	-	-	2,687,174
Patronage Capital Retirements	-	(4,300,145)	-	-	(4,300,145)
Membership Fees	12,240	-	-	-	12,240
Other	-	-	-	(32,158)	(32,158)
Postretirement Benefits	-	-	(370,800)	-	(370,800)
Balance, December 31, 2018	704,915	50,664,276	3,071,100	10,272,900	64,713,191
Net Margins	-	4,325,891	-	-	4,325,891
Patronage Capital Retirements	-	(3,413,459)	-	-	(3,413,459)
Membership Fees	10,620	-	-	-	10,620
Other	-	-	-	1,495,794	1,495,794
Postretirement Benefits	-	-	(370,800)	-	(370,800)
Balance, December 31, 2019	**$ 715,535**	**$ 51,576,708**	**$ 2,700,300**	**$ 11,768,694**	**$ 66,761,237**

See accompanying notes which are an integral part of these financial statements.

MID-CAROLINA ELECTRIC COOPERATIVE, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31

	2019	2018
Cash Flows from Operating Activities		
Net Margins	**$ 4,325,891**	$ 2,687,174
Adjustments to Reconcile Net Margins to Net Cash		
Provided by Operating Activities		
Accumulated Provision for Postretirement Benefits	**(2,816,029)**	531,503
Postretirement Benefit Contributions	**(511,266)**	(467,175)
Other Benefit Redemption	**1,000,000**	1,500,000
Depreciation	**9,136,398**	8,950,893
Deferred Debits	**(1,796,975)**	(669,547)
Deferred Credits	**19,421**	(2,211,410)
Patronage Capital from Associated Organizations	**(1,217,251)**	(1,719,152)
Change In		
Accounts Receivable	**527,785**	1,047,493
Accrued Utility Revenue	**49,312**	(1,489,134)
Other Current Assets	**16,984**	444,025
Accounts Payable	**(5,390,168)**	4,292,809
Consumer Deposits	**(120,162)**	168,968
Other Current Liabilities	**643,378**	(22,121)
	3,867,318	13,044,326
Cash Flows from Investing Activities		
Extension and Replacement of Plant	**(11,209,498)**	(60,754,389)
Return of Equity from Associated Organizations	**670,439**	428,106
Membership Fee to Associated Organizations	**-**	(1,000)
Materials and Supplies	**(149,497)**	(6,298)
	(10,688,556)	(60,333,581)
Cash Flows from Financing Activities		
Principal Repayment of Long-Term Debt	**(7,663,532)**	(6,600,029)
Advances of Long-Term Debt	**15,500,000**	45,500,000
Line-of-Credit	**-**	9,500,000
Principal Repayment of Lease Obligations	**(60,600)**	(15,592)
Membership Fees	**10,620**	12,240
Retirement of Patronage Capital	**(3,413,459)**	(4,300,145)
Other Equities	**1,495,794**	(32,158)
Capital Term Certificates	**14,083**	13,104
	5,882,906	44,077,420
Net Decrease in Cash and Cash Equivalents	**(938,332)**	(3,211,835)
Cash and Cash Equivalents - Beginning	**5,089,966**	8,301,801
Cash and Cash Equivalents - Ending	**$ 4,151,634**	$ 5,089,966

See accompanying notes which are an integral part of these financial statements.

(1) Summary of Significant Accounting Policies

Accounting policies of Mid-Carolina Electric Cooperative, Inc. (the Corporation) reflect practices appropriate to the electric utility industry and generally accepted accounting principles of the United States of America (U.S. GAAP). The records of the Corporation are maintained in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission. The following describes the more significant of those policies.

Nature of Operations

The Corporation is a not-for-profit corporation whose purpose is to provide electric service to its members. The Corporation operates as a cooperative whereby all monies in excess of cost of providing electric service are capital, at the moment of receipt, and are credited to each member's capital account.

Long-Lived Assets

The Corporation evaluates long-lived assets for impairment when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The determination of whether an impairment has occurred is based on either a specific regulatory disallowance or an estimate of undiscounted future cash flows attributable to the assets, as compared with the carrying value of the assets. If an impairment has occurred, the amount of the impairment recognized is determined by estimating the fair value of the assets and recording a provision for loss if the carrying value is greater than the fair value. For assets identified as held for sale, the carrying value is compared to the estimated fair value less the cost to sell in order to determine if an impairment provision is required. Until the assets are disposed of, their estimated fair value is reevaluated when circumstances or events change.

U.S. GAAP requires the present value of the ultimate cost for an asset's future retirement be recorded in the period in which the liability is incurred. The cost should be capitalized as part of the related long-lived asset and depreciated over the asset's useful life. The Corporation has no legal retirement obligations related to its distribution facilities; therefore, a liability for the removal of these assets will not be recorded. Management believes the actual cost of removal, even though not a legal obligation, will be recovered through rates over the life of the distribution assets.

Utility Plant

Utility plant is capitalized at cost less related contributions in aid of construction. In general, utility plant is capitalized at the time it becomes part of an operating unit and has been energized. However, certain items of plant referred to as special equipment items (meters, transformers, oil circuit reclosers, etc.) are capitalized at the time of purchase along with related estimated cost of installation.

Regulated Operations

The Corporation, in its rate-making capacity, accounts for certain revenue and expense deferrals in accordance with *Accounting Standards Codification (ASC) 980.*

(1) Summary of Significant Accounting Policies (Continued)

Depreciation and Maintenance

Depreciation of the capitalized cost is provided using composite rates. When property subject to depreciation is retired or otherwise disposed of in the normal course of business, its capitalized cost and its cost of removal less salvage are charged to the accumulated provision for depreciation.

Provision has been made for depreciation of distribution plant on a straight-line basis over the estimated useful lives of the assets. The rates range from 2.5 percent to 5.0 percent per annum.

Depreciation of general plant is provided on a straight-line basis over the estimated useful lives of the various assets. The rates range from 3.0 percent to 20.0 percent per annum.

Depreciation of plant completed not yet classified is provided on a straight-line basis over the estimated useful lives of the various assets at the rate of 3.3 percent per annum.

The costs of maintenance, repairs and replacements of minor items of property are charged to maintenance expense accounts.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounts Receivable and Credit Policies

Accounts receivable are stated at the amount billed to the consumer. Once an electric consumer's service is shut off and the account is approximately 180 days past due, the Corporation writes off the associated accounts receivable. An allowance is made for doubtful accounts based on experience and other circumstances which may affect the ability of consumers to meet their obligations. Accounts considered uncollectible are charged against the allowance. Receivables are reported on the balance sheets net of such accumulated allowance.

Cash Equivalents

For purposes of the statements of cash flows, cash equivalents include time deposits, certificates of deposit and all highly liquid debt instruments with original maturities of three months or less.

Materials and Supplies

Materials and supplies are generally used for construction and for operation and maintenance work, and are not for resale. Cost is determined by the moving average method of inventory valuation. Materials and supplies are charged to construction or operations at moving average cost when used.

(1) Summary of Significant Accounting Policies (Continued)

Investments in Associated Organizations

Investments in associated organizations primarily include investments in other cooperative organizations. Investments in other cooperative organizations represent capital investments made primarily to obtain an economical source of supply, financing, product or service. Investments in other cooperative organizations are carried at cost plus allocated equities in accordance with *Accounting Standards Codification (ASC) 905-325-30*.

Equities and Margins

The Corporation is organized and operates under the cooperative form of organization. As such, patronage capital or margins are allocated to patrons on the basis of individual consumption of electric energy. Under provisions of the long-term debt agreements, until the total equities and margins equal or exceed 20 percent of the total assets of the Corporation, the return to patrons of capital contributed by them is limited. The Corporation's equities were 22.71 percent and 22.45 percent of total assets as of December 31, 2019 and 2018, respectively.

Revenue Recognition

Electric revenue is generated from contracts (service agreements) with retail electric customers. This revenue, generated from the integrated service to deliver electricity when and if called upon by the customer, is recognized as a single performance obligation satisfied over time and as electricity is delivered to the customer during the month. Unbilled revenue related to retail sales are accrued at the end of each fiscal period. Accrued, but unbilled, electric revenue totaled $7,182,565 and $7,231,877 as of December 31, 2019 and 2018, respectively. See Note 2 for the effect of the adoption of *ASC Topic 606.*

Electric revenues include patronage capital and are billed monthly to consumers on a cycle basis. Electric rates for the Corporation include provisions to permit the board of trustees to adjust billings for fluctuations in fuel costs, purchased power costs and certain other costs.

Patronage Capital

Patronage capital represents the Corporation's accumulated retained excess of revenues over expenses that has been allocated annually to its members. Distributions to members are made at the discretion of the board of trustees in accordance with the bylaws, subject to the restrictions contained in the long-term debt agreements.

Cost of Purchased Power

Cost of power is expensed as consumed.

Comprehensive Income

The objective of comprehensive income is to report a measure of all changes in equity of the Corporation that result from transactions and other economic events of the period other than membership fees and patronage capital retirements. Other comprehensive income consists of postretirement healthcare costs not yet recognized as a component of income related to the Corporation's postretirement healthcare plan.

(1) Summary of Significant Accounting Policies (Continued)

Generation and Transmission Cooperative Capital Credits

Generation and transmission cooperative capital credits represent the annual capital furnished to Central Electric Cooperative, Inc. through payment of power bills. The capital is recorded in the year provided, even though notification of the capital allocation is not received until later.

Sales Tax

A portion of the Corporation's sales are subject to sales tax. The Corporation collects the sales tax from the customers and remits the taxes to the appropriate taxing authority. The Corporation excludes the taxes collected and remitted from revenues and cost of sales.

Income Taxes

The Corporation is exempt from federal and state income taxes under Section 501(c)(12) of the Internal Revenue Code (IRC) which provides, in part, that the Corporation derive at least 85 percent of its annual gross income from members to retain the exemption. The Corporation expects to meet the requirement for the tax year ended December 31, 2019. Accordingly, no provision for income taxes has been made in the financial statements.

Recently Adopted Accounting Pronouncements

Accounting Standards Update (ASU) 2017-07, *Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. ASU 2017-07 requires that an entity report the service cost component of net periodic pension and postretirement benefit cost in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The remaining components of net benefit costs are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. The amendment further allows only the service cost component of net periodic pension and postretirement costs to be eligible for capitalization. ASU 2017-07 is effective for private companies for annual periods beginning after December 15, 2018, and the interim periods within annual periods beginning after December 15, 2019, with early adoption permitted. ASU 2017-07 was effective for the Corporation beginning on January 1, 2019. The standard was applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost on the statement of operations and comprehensive income, and prospectively, for the capitalization of the service cost component of net periodic pension cost and net periodic postretirement benefit cost in assets.

ASU 2014-09, *Revenue from Contracts with Customers* is designed to create greater comparability for financial statement users across industries and jurisdictions through a more principles-based approach than companies in the United States are used to following. The standard would require companies to recognize revenue through a five-step process: (1) identify the contract with the customer, (2) identify the separate performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the separate performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2015-14 deferred the effective dates for nonpublic companies to reporting periods beginning after December 15, 2018, and for interim periods within annual reporting periods beginning after December 15, 2019. The Corporation adopted the standard on January 1, 2019. The standard required the Corporation to accrue unbilled electric revenue with retrospective application and a change in accounting principle (See Note 2).

(1) Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncement

On February 25, 2016, the Financial Accounting Standards Board issued ASU 2016-02, *Leases (Topic 842)* for lease accounting under U.S. GAAP. The new standard is intended to eliminate off-balance-sheet recording of lease obligations in an effort to create financial statements that more accurately reflect leasing activities. In general, an entity will record on the balance sheet the right-of-use assets and the corresponding lease obligations. The new standard will become effective for private companies for fiscal years beginning after December 15, 2020. Comparative periods presented in financial statements must use the same standards, as if ASU 2016-02 was in effect for the prior year presented. The adoption of ASU 2016-02 is not expected to have a material impact on the financial statements.

Subsequent Events

In preparing these financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through March 13, 2020, the date the financial statements were available to be issued.

(2) Change in Accounting Principle

On January 1, 2019, the Corporation adopted ASU 2014-09, *Revenue from Contracts with Customers (ASC Topic 606)*. ASU 2014-09 required the Corporation to accrue electric revenue from the most recent meter read date through period end. Prior to the adoption of ASU 2014-09, industry standard required the amount of accrued utility revenue be disclosed, but not recorded. Comparative financial statements have been adjusted to apply the new method retrospectively.

The following financial statement line items were affected by the change in accounting principle:

	Prior to Change	After Change	Effect of Change
Balance Sheet 2019			
Assets			
Accrued Utility Revenue	**$ -**	**$ 7,182,565**	**$ 7,182,565**
Deferred Debits	**2,763,352**	**2,469,297**	**(294,055)**
	$ 2,763,352	**$ 9,651,862**	**$ 6,888,510**
Members' Equity and Liabilities			
Other Equities	**$ 4,536,817**	**$ 11,768,694**	**$ 7,231,877**
Other Current and Accrued Liabilities	**2,492,854**	**2,149,487**	**(343,367)**
	$ 7,029,671	**$ 13,918,181**	**$ 6,888,510**
Statement of Operations and Comprehensive Income 2019			
Operating Revenue and Patronage Capital	**$ 131,290,666**	**$ 131,290,666**	**$ -**
Net Margins	**$ 4,325,891**	**$ 4,325,891**	**$ -**

(2) Change in Accounting Principle (Continued)

	As Previously Reported	As Adjusted	Effect of Change
Balance Sheet 2018			
Assets			
Accrued Utility Revenue	$ -	$ 7,231,877	$ 7,231,877
Deferred Debits	2,161,456	672,322	(1,489,134)
	$ 2,161,456	$ 7,904,199	$ 5,742,743
Members' Equity and Liabilities			
Other Equities	$ 4,530,157	$ 10,272,900	$ 5,742,743
Statement of Operations and Comprehensive Income 2018			
Operating Revenue and Patronage Capital	$ 131,123,222	$ 131,123,222	$ -
Net Margins	$ 2,687,174	$ 2,687,174	$ -

Since a substantial portion of the accrual is attributable to prior years and the patronage for those years has already been assigned, accrued utility revenue prior to January 1, 2019, which totaled $7,231,877, will remain a component of other equities until the Corporation is liquidated or dissolved, at which time it will be allocated and assigned as patronage capital to the members that contributed the patronage.

The change in accounting principle also resulted in an increase of prior year beginning accrued utility revenue and other equities of $5,742,743.

(3) Utility Plant

Listed below are the major classes of the electric utility plant as of December 31:

	2019	2018
Intangible	**$ 270**	$ 270
Distribution Plant	**224,689,420**	216,813,780
General Plant	**26,072,700**	26,114,666
Completed Construction Not Yet Classified	**72,640,320**	65,629,606
Electric Plant in Service	**323,402,710**	308,558,322
Construction Work in Progress	**6,637,028**	13,824,895
	$ 330,039,738	$ 322,383,217

(4) Investments in Associated Organizations

	2019	2018
National Rural Utilities Cooperative Finance Corporation		
Membership Fee	**$ 1,000**	$ 1,000
Capital Term Certificates	**1,640,201**	1,654,282
Capital Credits	**2,050,386**	1,709,632
Cooperative Electric Energy Utility Supply Corporation		
Membership Fee	**2,500**	2,500
Capital Credits	**2,415,677**	2,420,255
Central Electric Cooperative, Inc.		
Capital Credits	**4,153,169**	3,984,480
National Information Solutions Cooperative, Inc.		
Membership Fee	**100**	100
Capital Credits	**89,620**	75,947
Federated Rural Electric Insurance Exchange		
Capital Credits	**382,181**	354,966
CarolinaConnect Cooperative, Inc.		
Membership Fee	**1,000**	1,000
CoBank		
Membership Fee	**1,000**	1,000
Cooperative Response Center		
Membership Fee	**2,500**	2,500
Capital Credits	**6,610**	5,553
	$ 10,745,944	$ 10,213,215

(5) Deferred Debits

Deferred debits are comprised of the following as of December 31:

	2019	2018
Margin Stabilization Plan	**$ 2,449,254**	$ 670,537
Other	**20,043**	1,785
	$ 2,469,297	$ 672,322

The Corporation established a margin stabilization plan under the provisions of *ASC 980*, approved by the board of trustees which, in effect, requires the Corporation to adjust electrical rates to members to achieve defined margins. The targeted Times Interest Earned Ratio (TIER) established by the board required that the Corporation earn net margins resulting in a TIER of 1.5 and 1.36 for 2019 and 2018, respectively. Actual margins above the established TIER are deferred and recorded as deferred credits. Actual margins below the established TIER are deferred and recorded as deferred debits.

(5) Deferred Debits (Continued)

The following is a summary of the change in the margin stabilization plan during the years ended December 31:

	2019	2018
Beginning Balance	**$ 670,537**	$ (2,339,845)
Revenue Recovered (Returned)	**(670,537)**	2,339,845
TIER Adjustment	**2,449,254**	670,537
	$ 2,449,254	$ 670,537

(6) Deferred Credits

Deferred credits are comprised of the following as of December 31:

	2019	2018
Unclaimed Capital Credits	**$ 366,707**	$ 347,286

(7) Patronage Capital

	2019	2018
Assignable	**$ 4,325,891**	$ 2,687,174
Assigned	**124,378,646**	121,691,472
	128,704,537	124,378,646
Cumulative Retirements	**(77,127,829)**	(73,714,370)
	$ 51,576,708	$ 50,664,276

(8) Debt

Long-term debt consists of mortgage notes payable to the National Rural Utilities Cooperative Finance Corporation (NRUCFC). The notes are secured by a mortgage agreement between the Corporation and NRUCFC. Substantially all the assets of the Corporation are pledged as security for long-term debt of the Corporation. The notes generally have 35-year maturity periods and are payable on an installment basis.

Holder of Note	Interest Rate as of December 31, 2019	2019	2018
NRUCFC	3.45% to 5.10%	**193,119,178**	185,282,710
Maturities Due Within One Year		**(7,756,055)**	(7,987,283)
		$ 185,363,123	$ 177,295,427

Approximate principal maturities of long-term debt for each of the next five years are as follows:

Year	Amount
2020	$ 7,756,055
2021	8,121,522
2022	8,261,082
2023	8,557,627
2024	8,866,942
Thereafter	151,555,950
	$193,119,178

Cash payments of interest totaled $8,640,768 and $7,257,464 for the years ended December 31, 2019 and 2018, respectively.

The Corporation has $14,000,000 in unadvanced loan funds on commitment from NRUCFC. The availability of the funds is contingent on the Corporation's compliance with one or more preconditions set forth in the mortgage agreements.

The Corporation has an $11,000,000 line-of-credit with NRUCFC with an outstanding balance of $11,000,000 as of December 31, 2019 and 2018. The rate of interest as of December 31, 2019 was 2.85 percent. Additionally, the Corporation has a $5,000,000 line-of-credit with CoBank with no balance outstanding as of December 31, 2019 and 2018.

(9) Capital Lease Obligations

The Corporation has entered into various lease obligations for vehicles totaling $725,298. The leased vehicles have been recorded as general plant and are amortized on a straight-line basis of 5-7 years as a component of depreciation expense. Total accumulated amortization for the years ended December 31, 2019 and 2018 totaled $65,140 and $13,899, respectively. The outstanding obligations for the years ended December 31, 2019 and 2018 totaled $657,636 and $409,295, respectively. The interest rate related to the lease obligations range from 3.49 percent to 4.80 percent with maturity dates extending to September 2029.

Approximate future minimum lease payment for each of the next five years are as follows:

	Principal	Interest	Total
2020	$ 76,032	$ 25,683	$101,715
2021	79,293	22,422	101,715
2022	82,696	19,019	101,715
2023	103,150	15,313	118,463
2024	57,041	11,675	68,716
Thereafter	259,424	22,429	281,853
	$657,636	$116,541	$774,177

Total rental expense, excluding payments on capital leases, totaled $79,537 and $15,684 for the years ended December 31, 2019 and 2018, respectively.

(10) Retiree Benefits

Pension Plan (Defined Benefit)

Pension benefits for substantially all employees of the Corporation are provided through participation in the National Rural Electric Cooperative Association (NRECA) Retirement Security Plan (RS Plan), a defined benefit plan qualified under Section 401 and tax-exempt under 501(a) of the IRC. The plan sponsor's employer identification number is 53-0116145 and the plan number is 333.

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

The Corporation's annual contributions to the program represented less than 5 percent of total contributions made to the plan by all participating employers and are equal to the amounts recorded for pension cost. Contributions were $3,125,145 and $3,066,971 for the years ended December 31, 2019 and 2018, respectively.

In the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was over 80 percent funded at January 1, 2020 and 2019 based on the PPA funding target and PPA actuarial value of assets on those dates.

(10) Retiree Benefits (Continued)

Pension Plan (Defined Contribution Plan)

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.

The Corporation also provides additional employee benefits to substantially all employees through the NRECA sponsored defined contribution Savings Plan (401-k). In this defined contribution plan, the Corporation's contributory portion of costs of this plan totaled $405,187 and $380,398 for the years ended December 31, 2019 and 2018, respectively.

Postretirement Healthcare Benefits

The Corporation provides healthcare benefits to qualified retirees and trustees. U.S. GAAP requires cooperatives to recognize the estimated future cost of providing healthcare and any other postretirement benefits on an accrual basis.

The Corporation implemented a cap on annual employer contributions for retiree healthcare coverage in 2013. The effect of the amendment will be recognized over the average service life of participants.

The status of the Corporation's postretirement healthcare plan as of December 31 is detailed as follows:

	2019	2018
Accumulated Benefit Obligation, Beginning of Year	**$ 9,244,808**	$ 9,949,400
Service Cost	**294,171**	332,948
Interest Cost	**381,316**	342,827
Participant Contributions	**186,367**	171,248
Actuarial Gain (Loss)	**740,488**	(913,192)
Benefits Paid	**(697,631)**	(638,423)
Accumulated Benefit Obligation, End of Year	**10,149,519**	9,244,808
Fair Value of Plan Assets, Beginning of Year	**18,500,075**	21,139,795
Actual Return on Plan Assets	**3,861,204**	(1,139,720)
Other Benefit Plan Redemption	**(1,000,000)**	(1,500,000)
Employer Contributions	**511,266**	467,175
Participant Contributions	**186,367**	171,248
Benefits Paid	**(697,631)**	(638,423)
Fair Value of Plan Assets, End of Year	**21,361,281**	18,500,075
Funded Status	**$ (11,211,762)**	$ (9,255,267)

(10) Retiree Benefits (Continued)

Postretirement Healthcare Benefits (Continued)

Net Periodic Postretirement Benefit Cost:

	2019	2018
Service Cost	**$ 294,171**	$ 332,948
Interest Cost	**381,316**	342,827
Actual Return on Plan Assets	**(3,861,204)**	1,139,720
Amortization of Plan Amendments	**(370,800)**	(370,800)
Amortization of Actuarial Gain (Loss)	**740,488**	(913,192)
	$ (2,816,029)	$ 531,503

Amounts recognized as a component of equity consisted of:

Plan Amendment Recognized as a Component of Equity Not Yet Recognized as Periodic Benefit Cost	**$ 2,700,300**	$ 3,071,100

The Corporation's accumulated postretirement benefit obligation and net postretirement benefit cost are calculated using various actuarial assumptions and methodologies. The assumptions include discount rates, healthcare trend rates, mortality rates and other factors. Actuarial assumptions are reviewed on an annual basis.

The components of net periodic benefit cost, other than the service cost component, are included in the line item nonoperating margins (loss) for the year ended December 31, 2019. All components of net periodic benefit cost included in the statements of operations and comprehensive income for the year ended December 31, 2018 have been reclassified to the line item nonoperating margins (loss).

The following table shows key assumptions used for the measurement of obligations for the plan as of December 31:

Description	**2019**	2018	2017
Discount Rate	**3.65%**	4.35%	3.65%
Expected Long-Term Rate of Return on Plan Assets	**4.96%**	4.88%	6.60%
Medical Trend Rate			
Initial	**3.39%/4.70%**	2.40%/4.70%	7.50%/6.15%
Ultimate	**5.00%/4.60%**	5.00%/4.60%	5.00%/5.00%
Fiscal Year Reached	**2026/2022**	2025+	2027/2024

The Corporation has elected to recognize actuarial gains and losses in the year incurred. As a result, the Corporation does not recognize comprehensive income related to actuarial changes in assumptions.

(10) Retiree Benefits (Continued)

Postretirement Healthcare Benefits (Continued)

The Corporation expects to amortize $370,800 of prior service cost from accumulated other comprehensive income in the following period. The Corporation expects to make approximately $476,000 in voluntary contributions to its postretirement healthcare plan in 2020.

The following benefits are expected to be paid:

Year	Amount
2020	$ 475,614
2021	521,239
2022	537,935
2023	516,194
2024	536,368
2025-2029	2,784,832

The following table sets forth the weighted-average asset allocations of the Corporation's postretirement healthcare benefits at December 31, 2019 and 2018 by asset category.

Year	Bonds	Equities	Total
2019	**21.28%**	**78.72%**	**100.00%**
2018	24.71%	75.29%	100.00%

The Corporation employs a total-return investment approach whereby a mix of equities and fixed income investments is used to maximize the long-term return of plan assets for a prudent level of risk. The current asset allocation adheres to the Corporation's overall investment strategy for plan assets. Plan assets are measured at fair value (See Note 13).

(11) Commitments

Power Contracts

The Corporation is committed to purchase all electric energy requirements from Central Electric Power Cooperative, Inc. (Central), as have other members of the organization in accordance with the wholesale power contract expiring in 2058. Under the contract, the cost of wholesale power purchases through Central may increase or decrease based upon rates established by the board of trustees of Central.

Central is continuing negotiations for acquisition of additional electric generating capacity and transmission facilities for the purpose, among others, of supplying electric power and energy to members of the organization. Such benefits or detriments, if any, arising from participation in proposed joint projects with wholesale power suppliers will be passed to the members of Central.

(11) Commitments (Continued)

Guarantees

The Corporation has provided guarantees for credit agreements obtained by CarolinaConnect Cooperative, Inc., (CarolinaConnect) a cooperative organization of which the Corporation is a member. CarolinaConnect is incorporated under the laws of South Carolina as a member-owned not-for-profit cooperative organized to develop a regional fiber optic network that that will facilitate the provision of reliable and affordable broadband and telecommunication services throughout South Carolina. The Corporation is a provider of affordable high-speed internet. As an internet service provider, the Corporation is determined to improve internet access and, as a result, quality of life.

CarolinaConnect commenced its principal operations as a provider of affordable high-speed internet in early 2017, and its financial condition is characterized by significant expenditures on plant investment and business development costs to achieve planned principal operations. CarolinaConnect utilizes the Corporation's regional electric distribution system fiber optic network under an exclusive access agreement for additional fiber capacity as available. Access fees under the agreement were $737,026 and $289,282 for the years ended December 31, 2019 and 2018, respectively.

The Corporation's maximum exposure under the guarantees is $19,340,000. CarolinaConnect has credit agreements in place of $15,000,000 and $5,340,000 with NRUCFC and CoBank, respectively. CarolinaConnect had outstanding obligations to NRUCFC on the guaranteed facilities of $15,000,000 and $13,000,000 for the years ended December 31, 2019 and 2018, respectively. The credit agreement with CoBank has no balance outstanding as of December 31, 2019.

(12) Concentrations of Credit Risk

Financial instruments that potentially subject the Corporation to concentrations of credit risk consist principally of cash and cash equivalents and consumer accounts receivable. The Corporation maintains its cash balances in financial institutions; cash balances throughout the year periodically exceed federally insured deposit limits of $250,000. At December 31, 2019, the amount exceeding insured limits totaled $4,146,697.

The Corporation serves consumers in the state of South Carolina. The geographic concentration of the Corporation's consumers results in a concentration of credit risk with respect to the collection of accounts receivable. Credit evaluations are performed on most potential customers before accepting them for service. Depending upon the results of the credit evaluation, a deposit may be required.

(13) Accumulated Other Comprehensive Income

The following table summarizes the components of accumulated other comprehensive income and the changes in accumulated other comprehensive income for the years ended December 31 related to postretirement healthcare benefits:

	2019	2018
Beginning Balance	**$ 3,071,100**	$ 3,441,900
Actuarial Gain (Loss)	**(740,488)**	913,192
Amortization of Actuarial Gain (Loss)	**740,488**	(913,192)
Amortization of Prior Service Cost	**(370,800)**	(370,800)
	$ 2,700,300	$ 3,071,100

Fair Value Hierarchy

The Corporation records certain financial and nonfinancial assets using fair value measurements. The Corporation uses a hierarchical disclosure framework that prioritizes the level of market price observability to measure investments at fair value.

The guidance establishes a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value as follows:

- Level 1. Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Corporation has the ability to access.
- Level 2. Valuations based on quoted market prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets of liabilities.
- Level 3. Valuations based on inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Description	**Level**	**December 31, 2019**	December 31, 2018
Postretirement Benefit Plan Assets	(1)		
Short-Term Bond Fund		**$ 4,545,792**	$ 4,570,631
Stock Index Fund		**3,294,927**	2,655,426
Value Fund		**5,123,324**	4,196,955
Small-Company Stock Fund		**2,633,336**	2,337,415
Growth Fund		**4,655,977**	3,806,812
International Value Fund		**1,107,925**	932,836
		$ 21,361,281	$ 18,500,075

McNAIR McLEMORE MIDDLEBROOKS & CO
CERTIFIED PUBLIC ACCOUNTANTS

389 Mulberry Street | Macon, Georgia 31201
Post Office Box One | Macon, Georgia 31202
478-746-6277 | mmmcpa.com

March 13, 2020

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

The Board of Trustees
Mid-Carolina Electric Cooperative, Inc.

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of **Mid-Carolina Electric Cooperative, Inc.** (the Corporation), which comprise the balance sheet as of December 31, 2019 and the related statements of operations and comprehensive income, changes in members' equity, 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, 2020.

In connection with our audit, nothing came to our attention that caused us to believe that the Corporation failed to comply with the terms, covenants, provisions or conditions of Article V of the National Rural Utilities Cooperative Finance Corporation Loan Agreement insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Corporation's noncompliance with the above-referenced terms, covenants, provisions or conditions insofar as they relate to accounting matters.

This report is intended solely for the information and use of the board of trustees and management of Mid-Carolina Electric Cooperative, Inc. and the National Rural Utilities Cooperative Finance Corporation and is not intended to be and should not be used by anyone other than these specified parties.

McNair, McLemore, Middlebrooks & Co., LLC

McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC

MCNAIR MCLEMORE
MIDDLEBROOKS & CO
CERTIFIED PUBLIC ACCOUNTANTS

389 Mulberry Street | Macon, Georgia 31201
Post Office Box One | Macon, Georgia 31202
478-746-6277 | mmmcpa.com

March 13, 2020

COMMUNICATION OF SIGNIFICANT DEFICIENCIES

The Board of Trustees
Mid-Carolina Electric Cooperative, Inc.

In planning and performing our audit of the financial statements of **Mid-Carolina Electric Cooperative, Inc.** (the Corporation) as of and for the year ended December 31, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the Corporation's internal control over financial reporting (internal control) as a basis for designing 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 entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Corporation's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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. We consider the following deficiencies in the Corporation's internal control to be significant deficiencies:

Unitization and Classification of Fiber Plant Units

Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission requires that the Corporation shall maintain records for each plant account to ensure the annual additions and retirements are classified as to show the number and cost of the various record or retirement units. The work order system should be used to accumulate the nature, source of cost and plant account unitization for the account or accounts that are to be charged or credited.

During our testing of fiber plant cost accumulation, we noted the Corporation as lacking underlying detailed support required for a systematic classification of record units as it relates to in service fiber plant construction. A significant amount of fiber plant is currently recorded as completed construction not yet classified.

We recommend the Corporation implement procedures necessary to reconcile detailed supporting documentation and record classification of fiber plant units to the appropriate plant accounts.

This communication is intended solely for the information and use of management and the board of trustees, and others within the Corporation and is not intended to be and should not be used by anyone other than these specified parties.

McNair, McLemore, Middlebrooks & Co., LLC

McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC

MID-CAROLINA ELECTRIC COOPERATIVE, INC.
MATTERS TO BE COMMUNICATED WITH THE BOARD OF TRUSTEES
DECEMBER 31, 2019

Auditor's Responsibility Under Generally Accepted Auditing Standards

As stated in our engagement letter, the auditor is responsible for forming and expressing an opinion about whether the financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles in the United States of America. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Planned Scope and Timing of the Audit

The audit was performed according to the planned scope and timing previously communicated to you in our engagement letter.

Significant Accounting Policies

Management is responsible for the selection of appropriate accounting policies. The significant accounting policies used by Mid-Carolina Electric Cooperative, Inc. are outlined in Note 1 to the financial statements. The Corporation implemented the following provisions during the year:

- Accounting Standards Update (ASU) 2017-07, *Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, to report the service cost component of net periodic pension and postretirement benefit cost in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The remaining components of net benefit costs are presented in the statements of operations separately from the service cost component and outside a subtotal of income from operations. The amendment further allows only the service cost component of net periodic pension and postretirement costs to be eligible for capitalization.
- ASU 2014-09, *Revenue from Contracts with Customers* is designed to create greater comparability for financial statement users across industries and jurisdictions through a more principles-based approach than companies in the United States are used to following. The standard would require companies to recognize revenue through a five-step process: (1) identify the contract with the customer, (2) identify the separate performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the separate performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation.

We noted no transaction entered into by the Corporation during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a period other than when the transaction occurred.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the financial statements and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting the estimates may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Allocations for construction work in progress
- Useful lives of utility plant
- Reserve for uncollectible accounts
- Accrued utility revenue
- Expense accruals
- Actuarial assumptions of employee benefit plans

We evaluated the key factors and assumptions used to develop management's estimates in determining that they are reasonable in relation to the financial statements as a whole.

Significant Audit Adjustments and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no audit adjustments for the year ended December 31, 2019. There were no significant uncorrected misstatements, material or immaterial.

Disagreements with Management

Professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 13, 2020.

Consultation with Other Accountants

To our knowledge, management did not consult with other accountants relating to auditing or accounting matters.

Major Issues Discussed with Management Prior to Retention

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Corporation's auditor. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

There were no difficulties encountered in dealing with management related to the performance of the audit.

Restriction of Use

This report is intended solely for the information and use of the board of trustees and management and is not intended to be and should not be used by anyone other than these specified parties.