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

FINANCIAL STATEMENTS AS OF
DECEMBER 31, 2021 AND 2020 AND
INDEPENDENT AUDITOR'S REPORT

MID-CAROLINA ELECTRIC COOPERATIVE, INC.

CONTENTS

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February 23, 2022

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the financial statements of **Mid-Carolina Electric Cooperative, Inc.**, which comprise the balance sheets as of December 31, 2021 and 2020, 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.

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

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatements of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Mid-Carolina Electric Cooperative, Inc.'s internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about Mid-Carolina Electric Cooperative, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

McNair, McLemore, Middlebrooks & Co., LLC

McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC

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

ASSETS

	2021	2020
Utility Plant		
Electric Plant in Service - At Cost	**$ 348,970,665**	$ 331,964,055
Construction Work in Progress	**12,682,091**	9,054,625
Gross Utility Plant	**361,652,756**	341,018,680
Accumulated Provision For Depreciation	**(94,705,424)**	(88,096,838)
	266,947,332	252,921,842
Other Property and Investments		
Investments in Associated Organizations	**11,900,039**	11,116,375
Prepaid Postretirement Healthcare Obligation	**12,684,342**	11,524,836
Other Investments	**386,300**	230,357
	24,970,681	22,871,568
Current Assets		
Cash and Cash Equivalents	**9,169,826**	8,844,299
Accounts Receivable (Net of Accumulated Provision for Uncollectibles of $720,679 in 2021 and $793,592 in 2020)	**5,213,913**	6,455,700
Accrued Utility Revenue	**7,606,274**	8,356,089
Interest Receivable	**18,030**	17,993
Materials and Supplies	**1,979,861**	1,800,284
Prepayments	**470,196**	433,920
	24,458,100	25,908,285
Deferred Debits	**15,256**	206,681
Total Assets	**$ 316,391,369**	$ 301,908,376

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

	2021	2020
Members' Equity		
Membership Fees	$ 737,820	$ 729,835
Patronage Capital	57,751,595	53,949,461
Accumulated Other Comprehensive Income	1,958,700	2,329,500
Other Equities	12,084,700	11,773,304
	72,532,815	68,782,100
Long-Term Liabilities		
Long-Term Debt	188,428,845	192,424,723
Long-Term Capital Lease Obligations	1,149,580	1,221,011
Other Long-Term Liabilities	386,300	230,357
	189,964,725	193,876,091
Current Liabilities		
Current Maturities of Long-Term Debt	8,092,669	8,225,994
Current Maturities of Capital Lease Obligations	192,857	163,511
Line-of-Credit	18,650,000	11,000,000
Accounts Payable	6,610,796	8,587,390
Consumer Deposits	943,521	931,888
Accrued and Withheld Taxes	6,923,941	7,012,010
Other Current and Accrued Liabilities	2,234,029	2,050,224
	43,647,813	37,971,017
Deferred Credits	10,246,016	1,279,168
Total Members' Equity and Liabilities	$ 316,391,369	$ 301,908,376

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

	2021	2020
Operating Revenue and Patronage Capital	**$ 126,060,232**	$ 128,046,898
Operating Expenses		
Cost of Power	**77,387,989**	78,731,920
Distribution Operations	**3,990,377**	4,007,641
Distribution Maintenance	**12,229,002**	13,332,848
Consumer Accounts	**3,661,725**	5,220,083
Consumer Service and Information	**1,078,161**	794,054
Sales	**296,764**	273,557
Administrative and General	**5,643,550**	5,481,797
Depreciation	**9,290,137**	8,963,877
Other	**1,036,845**	1,010,834
Total Operating Expenses	**114,614,550**	117,816,611
Operating Margins Before Interest Expense	**11,445,682**	10,230,287
Interest Expense	**8,796,141**	8,864,696
Operating Margins After Interest Expense	**2,649,541**	1,365,591
Nonoperating Margins	**4,745,882**	3,001,482
Generation and Transmission Cooperative Capital Credits	**242,946**	155,702
Other Capital Credits and Patronage Capital Allocations	**1,023,741**	938,662
Net Margins	**8,662,110**	5,461,437
Other Comprehensive Income		
Actuarial Gain (Loss)	**294,505**	266,467
Amortization of Actuarial Gain (Loss)	**(294,505)**	(266,467)
Amortization of Prior Service Cost	**(370,800)**	(370,800)
Total Other Comprehensive Income	**(370,800)**	(370,800)
Total Comprehensive Income	**$ 8,291,310**	$ 5,090,637

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, 2021 AND 2020

	Membership Fees	Patronage Capital	Accumulated Other Comprehensive Income	Other Equities	Total Members' Equity
Balance, December 31, 2019	$ 715,535	$ 51,576,708	$ 2,700,300	$ 11,768,694	$ 66,761,237
Net Margins	-	5,461,437	-	-	5,461,437
Patronage Capital Retirements	-	(3,088,684)	-	-	(3,088,684)
Membership Fees	14,300	-	-	-	14,300
Other	-	-	-	4,610	4,610
Postretirement Benefits	-	-	(370,800)	-	(370,800)
Balance, December 31, 2020	729,835	53,949,461	2,329,500	11,773,304	68,782,100
Net Margins	-	8,662,110	-	-	8,662,110
Patronage Capital Retirements	-	(4,859,976)	-	-	(4,859,976)
Membership Fees	7,985	-	-	-	7,985
Other	-	-	-	311,396	311,396
Postretirement Benefits	-	-	(370,800)	-	(370,800)
Balance, December 31, 2021	**$ 737,820**	**$ 57,751,595**	**$ 1,958,700**	**$ 12,084,700**	**$ 72,532,815**

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

		2021		2020
Cash Flows from Operating Activities				
Net Margins	**$**	**8,662,110**	$	5,461,437
Adjustments to Reconcile Net Margins to Net Cash				
Provided by Operating Activities				
Accumulated Provision for Postretirement Benefits		**(2,195,252)**		(2,604,210)
Postretirement Benefit Contributions		**(335,054)**		(327,280)
Other Benefit Plan Redemption		**1,000,000**		2,247,616
Depreciation		**9,889,592**		9,532,822
Deferred Debits		**191,425**		2,262,616
Deferred Credits		**8,966,848**		912,461
Patronage Capital from Associated Organizations		**(1,266,689)**		(1,094,366)
Change In				
Accounts Receivable		**1,241,787**		557,259
Accrued Utility Revenue		**749,815**		(1,173,524)
Other Current Assets		**(36,313)**		36,655
Accounts Payable		**(1,976,594)**		(2,719,020)
Consumer Deposits		**11,633**		(131,215)
Other Current Liabilities		**95,736**		(186,223)
		24,999,044		12,775,028
Cash Flows from Investing Activities				
Extension and Replacement of Plant		**(23,778,905)**		(13,221,801)
Return of Equity from Associated Organizations		**463,452**		609,846
Materials and Supplies		**(179,577)**		73,880
		(23,495,030)		(12,538,075)
Cash Flows from Financing Activities				
Principal Repayment of Long-Term Debt		**(7,777,373)**		(7,820,291)
Advances of Long-Term Debt		**14,650,000**		12,000,000
Proceeds Received Under Paycheck Protection Program		**(3,351,830)**		3,351,830
Principal Repayment of Lease Obligations		**(178,262)**		(120,142)
Membership Fees		**7,985**		14,300
Retirement of Patronage Capital		**(4,859,976)**		(3,088,684)
Other Equities		**311,396**		4,610
Capital Term Certificates		**19,573**		114,089
		(1,178,487)		4,455,712
Net Increase in Cash and Cash Equivalents		**325,527**		4,692,665
Cash and Cash Equivalents - Beginning		**8,844,299**		4,151,634
Cash and Cash Equivalents - Ending	**$**	**9,169,826**	$	8,844,299

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

(1) Nature of Operations

Mid-Carolina Electric Cooperative, Inc. (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.

(2) Summary of Significant Accounting Policies

Accounting policies of 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.

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.*

(2) 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 1.8 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 2.0 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.

(2) 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 *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 22.93 percent and 22.78 percent of total assets as of December 31, 2021 and 2020, 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.

Electric revenue includes patronage capital and is 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 revenue 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.

(2) 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. (Central) 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 revenue 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, 2021. Accordingly, no provision for income taxes has been made in the financial statements.

Recent Accounting Pronouncement

On February 25, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 was to become effective for private companies for fiscal years beginning after December 15, 2020. On June 3, 2020, as a result of COVID-19, the FASB amended the effective dates for *ASC 842*, through the issuance of ASU 2020-05, to fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. The Corporation can exercise a practical expedient and not apply retrospectively. 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 February 23, 2022, the date the financial statements were available to be issued.

(3) Contract Balances

Accounts receivable, contract assets, and contract liabilities related to revenue from contracts with customers consists of the following as of December 31:

	2021	2020	2019
Account Receivable	**$ 5,213,913**	$ 6,455,700	$ 7,012,959
Contract Assets			
Accrued Utility Revenue	**7,606,274**	8,356,089	7,182,565
Margin Stabilization Plan	**-**	-	2,449,254
Contract Liabilities			
Margin Stabilization Plan	**(9,832,847)**	(906,443)	-
Total Receivables and Contract Balances	**$ 2,987,340**	$ 13,905,346	$ 16,644,778

(4) Utility Plant

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

	2021	2020
Intangible	**$ 270**	$ 270
Distribution Plant	**250,535,825**	232,351,896
General Plant	**28,418,410**	27,160,405
Completed Construction Not Yet Classified	**70,016,160**	72,451,484
Electric Plant in Service	**348,970,665**	331,964,055
Construction Work in Progress	**12,682,091**	9,054,625
	$ 361,652,756	$ 341,018,680

(5) Investments in Associated Organizations

Investments in associated organizations consist of the following as of December 31:

	2021	2020
National Rural Utilities Cooperative Finance Corporation		
Membership Fee	**$ 1,000**	$ 1,000
Capital Term Certificates	**1,506,542**	1,526,114
Capital Credits	**2,765,822**	2,420,464
Cooperative Electric Energy Utility Supply Corporation		
Membership Fee	**2,500**	2,500
Capital Credits	**2,514,568**	2,347,127
Central Electric Cooperative, Inc.		
Capital Credits	**4,551,817**	4,308,871
National Information Solutions Cooperative, Inc.		
Membership Fee	**100**	100
Capital Credits	**116,313**	96,311
Federated Rural Electric Insurance Exchange		
Capital Credits	**428,856**	401,958
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	**8,021**	7,430
	$ 11,900,039	$ 11,116,375

(6) Deferred Debits and Deferred Credits

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

	2021	2020
Other	**$ 15,256**	$ 206,681

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

	2021	2020
Margin Stabilization Plan	**$ 9,832,847**	$ 906,443
Unclaimed Capital Credits	**413,169**	372,725
	$ 10,246,016	$ 1,279,168

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 of trustees required that the Corporation earn net margins resulting in a TIER of 1.65 for January thru September and 3.00 for October thru December for an average 1.99 for 2021 and 1.5 for 2020, 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.

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

	2021	2020
Beginning Balance	**$ (906,443)**	$ 2,449,254
Revenue Returned	**906,443**	(2,449,254)
TIER Adjustment	**(9,832,847)**	(906,443)
	$ (9,832,847)	$ (906,443)

(7) Patronage Capital

Patronage capital is comprised of the following as of December 31:

	2021	2020
Assignable	$ 8,662,110	$ 5,461,437
Assigned	134,165,974	128,704,537
	142,828,084	134,165,974
Cumulative Retirements	(85,076,489)	(80,216,513)
	$ 57,751,595	$ 53,949,461

(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.

Long-term debt is comprised of the following as of December 31:

Holder of Note	Interest Rate as of December 31, 2021	2021	2020
NRUCFC	3.45% to 5.10%	$ 196,521,514	$ 197,298,887
Payroll Protection Program Loan	1%	-	3,351,830
Maturities Due Within One Year		(8,092,669)	(8,225,994)
		$ 188,428,845	$ 192,424,723

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

Year	Amount
2022	$ 8,092,669
2023	8,375,672
2024	8,671,312
2025	8,294,216
2026	8,007,698
Thereafter	155,079,947
	$ 196,521,514

Cash payments of interest totaled $8,739,431 and $8,640,768 for the years ended December 31, 2021 and 2020, respectively.

(8) Debt (Continued)

The Corporation has $35,000,000 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 two line-of-credits with NRUCFC totaling $28,650,000 with an outstanding balance of $18,650,000 and $11,000,000 as of December 31, 2021 and 2020, respectively. The rate of interest as of December 31, 2021 and 2020 was 2.25 percent and 2.85 percent, respectively. Additionally, the Corporation has a $5,000,000 line-of-credit with CoBank with no balance outstanding as of December 31, 2021 and 2020.

On April 30, 2020, the Corporation qualified for and received a loan pursuant to the Paycheck Protection Program (PPP), a program implemented by the U.S. Small Business Administration (SBA) under the Coronavirus Aid, Relief, and Economic Security Act, from a qualified lender (the PPP Lender), for an aggregate principal amount of approximately $3,351,830 (the PPP Loan). The PPP Loan bears interest at a fixed rate of 1.0 percent per annum, with the first six months of interest deferred, has a term of two years, and is unsecured and guaranteed by the SBA. The principal amount of the PPP Loan is subject to forgiveness under the PPP, upon the Corporation's request, to the extent that the PPP Loan proceeds are used to pay expenses permitted by the PPP, including payroll costs, covered rent and interest, and covered utility payments incurred by the Corporation.

The Corporation applied for forgiveness of the PPP Loan with respect to these covered expenses. The Corporation has accounted for the PPP Loan under the Debt Model as provided for under *ASC 470*. The Corporation received notification of release during 2021. In accordance with *ASC 470*, the Corporation has recorded the full amount of the loan in the amount of $3,351,830 as a gain on extinguishment of debt and is included as a component of nonoperating margins for the year ended December 31, 2021.

(9) Capital Lease Obligations

The Corporation has entered into various lease obligations for vehicles totaling $1,714,532. 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, 2021 and 2020 totaled $511,703 and $263,735, respectively. The outstanding obligations for the years ended December 31, 2021 and 2020 totaled $1,342,437 and $1,384,522, respectively. The interest rate related to the lease obligations range from 2.30 percent to 4.71 percent with maturity dates extending to July 2030.

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

	Principal	Interest	Total
2022	$ 192,857	$ 41,932	$ 234,789
2023	216,652	34,887	251,539
2024	173,742	28,050	201,792
2025	175,529	22,122	197,651
2026	173,854	16,369	190,223
Thereafter	409,803	19,117	428,920
	$ 1,342,437	$ 162,477	$ 1,504,914

Total rental expense, excluding payments on capital leases, totaled $465,539 and $224,468 for the years ended December 31, 2021 and 2020, 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 $3,334,051 and $3,074,340 for the years ended December 31, 2021 and 2020, 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, 2022 and 2021 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 $551,204 and $428,345 for the years ended December 31, 2021 and 2020, 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:

	2021	2020
Accumulated Benefit Obligation, Beginning of Year	**$ 10,235,091**	$ 10,149,519
Service Cost	**304,815**	326,222
Interest Cost	**306,374**	353,097
Participant Contributions	**173,877**	193,736
Change in Actuarial Assumptions	**294,505**	(266,467)
Benefits Paid	**(508,931)**	(521,016)
Accumulated Benefit Obligation, End of Year	**10,805,731**	10,235,091
Fair Value of Plan Assets, Beginning of Year	**21,759,927**	21,361,281
Actual Return on Plan Assets	**2,730,146**	2,646,262
Other Benefit Plan Redemption	**(1,000,000)**	(2,247,616)
Employer Contributions	**335,054**	327,280
Participant Contributions	**173,877**	193,736
Benefits Paid	**(508,931)**	(521,016)
Fair Value of Plan Assets, End of Year	**23,490,073**	21,759,927
Funded Status	**$ (12,684,342)**	$ (11,524,836)

(10) Retiree Benefits (Continued)

Postretirement Healthcare Benefits (Continued)

Net periodic postretirement benefit cost consists of the following for the years ended December 31:

		2021		2020
Service Cost	**$**	**304,815**	$	326,222
Interest Cost		**306,374**		353,097
Actual Return on Plan Assets		**(2,730,146)**		(2,646,262)
Amortization of Plan Amendments		**(370,800)**		(370,800)
Amortization of Actuarial Assumptions		**294,505**		(266,467)
	$	**(2,195,252)**	$	(2,604,210)

Amounts recognized as a component of equity consisted of:

		2021		2020
Amortization of Prior Service Credit	**$**	**1,958,700**	$	2,329,500

The Corporation's accumulated postretirement benefit obligation and net periodic 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 postretirement benefit cost, other than the service cost component, are included in the line item nonoperating margins for the years ended December 31, 2021 and 2020.

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

	December 31		
Description	**2021**	2020	2019
Discount Rate on Net Postretirement Benefit Cost	**2.80%**	3.15%	3.65%
Expected Return on Plan Assets	**3.87%**	4.24%	4.96%
Medical Trend Rate			
Initial (Pre-65/Post-65)	**4.82%/4.60%**	0.00%/4.8%	3.39%/4.7%
Ultimate (Pre-65/Post-65)	**5.0%/4.60%**	4.5%/4.25%	5%/4.6%
Fiscal Year Reached (Pre-65/Post-65)	**2029+**	2029+	2026/2022

(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 $521,000 in voluntary contributions to its postretirement healthcare plan in 2022.

The following benefits are expected to be paid:

Year	Amount
2022	$ 520,584
2023	499,773
2024	517,504
2025	489,879
2026	504,286
2027-2031	2,836,260

The following table sets forth the weighted-average asset allocations of the Corporation's postretirement healthcare benefits at December 31, 2021 and 2020 by asset category.

Year	Bonds	Equities	Total
2021	**33.02%**	**66.98%**	**100.00%**
2020	36.05%	63.95%	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, 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 $2,243,814 and $1,223,131 for the years ended December 31, 2021 and 2020, respectively.

The Corporation's maximum exposure under the guarantees is $19,425,373. 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 $14,425,373 and $14,906,906 for the years ended December 31, 2021 and 2020, respectively. The credit agreement with CoBank had outstanding obligations of $5,000,000 and $2,000,000 as of December 31, 2021 and 2020, respectively.

(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, 2021, the amount exceeding insured limits totaled $9,513,717.

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:

	2021	2020
Beginning Balance	**$ 2,329,500**	$ 2,700,300
Actuarial Gain (Loss)	**(294,505)**	(266,467)
Amortization of Actuarial Gain	**294,505**	266,467
Amortization of Prior Service Cost	**(370,800)**	(370,800)
	$ 1,958,700	$ 2,329,500

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, 2021**	December 31, 2020
Postretirement Benefit Plan Assets	(1)		
Short-Term Bond Fund		**$ 2,888,604**	$ 2,920,995
Intermediate Bond Fund		**4,867,469**	4,922,810
Stock Index Fund		**4,044,482**	3,406,121
Value Fund		**3,624,368**	3,147,958
Small-Company Stock Fund		**2,718,604**	2,371,603
Growth Fund		**4,154,434**	3,792,589
International Equity Fund		**1,192,112**	1,197,851
		$ 23,490,073	$ 21,759,927