WASHINGTON ELECTRIC MEMBERSHIP CORPORATION
SANDERSVILLE, GEORGIA

FINANCIAL STATEMENTS AS OF
DECEMBER 31, 2020 AND 2019 AND
INDEPENDENT AUDITOR'S REPORT

WASHINGTON ELECTRIC MEMBERSHIP CORPORATION

CONTENTS

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March 19, 2021

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Washington Electric Membership Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of **Washington Electric Membership Corporation** (the Corporation), which comprise the balance sheets as of December 31, 2020 and 2019 and the related statements of operations, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 Washington Electric Membership Corporation as of December 31, 2020 and 2019 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2021 on our consideration of Washington Electric Membership Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Washington Electric Membership Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Washington Electric Membership Corporation's internal control over financial reporting and compliance.

Mc Nair, Mc Lemore, Middlebrooks & Co., LLC

McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC

WASHINGTON ELECTRIC MEMBERSHIP CORPORATION
BALANCE SHEETS
DECEMBER 31

ASSETS

	2020	2019
Utility Plant		
Electric Plant in Service - At Cost	**$ 94,698,630**	$ 91,233,561
Construction Work in Progress	**153,896**	801,449
Gross Utility Plant	**94,852,526**	92,035,010
Accumulated Provision for Depreciation	**(34,604,970)**	(32,346,707)
	60,247,556	59,688,303
Other Property and Investments		
Investments in Associated Organizations	**17,882,914**	17,421,245
Other Investments	**261,089**	259,935
	18,144,003	17,681,180
Current Assets		
Cash and Cash Equivalents	**1,838,122**	5,762,510
Short-Term Investment Securities	**3,701,000**	-
Accounts Receivable (Net of Accumulated Provision for Uncollectibles of $223,366 in 2020 and $235,327 in 2019)	**2,747,396**	3,328,163
Accrued Utility Revenue	**1,325,897**	1,162,810
Materials and Supplies	**445,791**	431,999
Other	**176,232**	146,386
	10,234,438	10,831,868
Deferred Debits	**2,660,144**	537,102
Total Assets	**$ 91,286,141**	$ 88,738,453

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

WASHINGTON ELECTRIC MEMBERSHIP CORPORATION
BALANCE SHEETS
DECEMBER 31

MEMBERS' EQUITY AND LIABILITIES

	2020	2019
Members' Equity		
Membership Fees	$ **65,758**	$ 65,113
Patronage Capital	**40,414,303**	39,734,514
Other Equities	**6,950,088**	6,891,192
	47,430,149	46,690,819
Long-Term Debt	**37,057,202**	35,215,285
Current Liabilities		
Current Maturities of Long-Term Debt	**1,563,000**	1,619,000
Accounts Payable	**2,178,462**	2,055,672
Consumer Deposits	**1,416,048**	1,377,413
Accrued and Withheld Taxes	**427,000**	416,631
Other Current and Accrued Liabilities	**1,199,904**	1,102,081
	6,784,414	6,570,797
Deferred Credits	**14,376**	261,552
Total Members' Equity and Liabilities	$ **91,286,141**	$ 88,738,453

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

WASHINGTON ELECTRIC MEMBERSHIP CORPORATION
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31

	2020	2019
Operating Revenues	**$ 36,513,766**	$ 37,360,119
Operating Expenses		
Cost of Power	**22,478,921**	23,205,921
Distribution Operations	**2,477,628**	2,711,869
Distribution Maintenance	**2,962,064**	2,556,628
Consumer Accounts, Information, and Sales	**1,575,697**	1,724,123
Administrative and General	**2,220,483**	2,325,871
Depreciation	**2,796,474**	2,700,132
Total Operating Expenses	**34,511,267**	35,224,544
Operating Margins Before Interest Expense	**2,002,499**	2,135,575
Interest Expense	**1,247,343**	1,487,777
Operating Margins After Interest Expense	**755,156**	647,798
Nonoperating Margins	**323,912**	447,300
Generation and Transmission Cooperative Capital Credits	**427,902**	461,241
Other Capital Credits and Patronage Capital Allocations	**178,568**	187,862
Net Margins	**$ 1,685,538**	$ 1,744,201

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

WASHINGTON ELECTRIC MEMBERSHIP CORPORATION
STATEMENTS OF CHANGES IN MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	Total Members' Equity	Membership Fees	Patronage Capital	Other Equities
Balance, December 31, 2018	$ 45,902,943	$ 64,908	$ 38,963,278	$ 6,874,757
Net Margins	1,744,201	-	1,744,201	-
Membership Fees	205	205	-	-
Retirement of Patronage Capital	(956,530)	-	(972,965)	16,435
Balance, December 31, 2019	46,690,819	65,113	39,734,514	6,891,192
Net Margins	1,685,538	-	1,685,538	-
Membership Fees	645	645	-	-
Retirement of Patronage Capital	(946,853)	-	(1,005,749)	58,896
Balance, December 31, 2020	**$ 47,430,149**	**$ 65,758**	**$ 40,414,303**	**$ 6,950,088**

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

WASHINGTON ELECTRIC MEMBERSHIP CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31

	2020	2019
Cash Flows from Operating Activities		
Net Margins	$ **1,685,538**	$ 1,744,201
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities		
Depreciation and Amortization	**3,122,168**	3,006,324
Patronage Capital from Associated Organizations	**(606,470)**	(651,602)
Change In		
Accounts Receivable	**417,680**	(85,543)
Other Current Assets	**(29,846)**	487,910
Accounts Payable and Other Accrued Liabilities	**230,982**	(7,621)
Consumer Deposits	**38,635**	38,285
Deferred Credits	**(247,176)**	252,291
	4,611,511	4,784,245
Cash Flows from Investing Activities		
Extension and Replacement of Plant	**(3,681,421)**	(3,711,646)
Return of Equity from Associated Organizations	**144,801**	130,803
Short-Term Investment Securities	**(3,701,000)**	1,000,000
Other Investments	**(1,154)**	(1,524)
Deferred Debits	**(2,123,042)**	38,322
Materials and Supplies	**(13,792)**	34,639
	(9,375,608)	(2,509,406)
Cash Flows from Financing Activities		
Advances from Long-Term Debt	**2,993,380**	1,620,249
Principal Reduction of Long-Term Debt	**(5,626,625)**	(1,609,917)
Advanced Payments on Long-Term Debt Unapplied	**4,419,162**	18,798
Membership Fees	**645**	205
Retirement of Patronage Capital	**(946,853)**	(956,530)
	839,709	(927,195)
Net Increase (Decrease) in Cash and Cash Equivalents	**(3,924,388)**	1,347,644
Cash and Cash Equivalents - Beginning	**5,762,510**	4,414,866
Cash and Cash Equivalents - Ending	$ **1,838,122**	$ 5,762,510

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

(1) Summary of Significant Accounting Policies

Accounting policies of Washington Electric Membership Corporation (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 as modified and adopted by the Rural Utilities Service (RUS). The following describes the more significant of those policies.

Nature of Operations

The Corporation is a member-owned, 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.

Regulated Operations

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

Use of Estimates

The preparation of financial statements in accordance 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.

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.

(1) Summary of Significant Accounting Policies (Continued)

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.

Depreciation and Maintenance

Depreciation of 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 at a weighted average straight-line rate of 3.29 percent per annum, except automated metering equipment which is depreciated at 6.67 percent per annum.

Depreciation of general plant is provided on a straight-line basis over the estimated useful lives of the various assets. The weighted average depreciation rate of general plant is 6.87 percent per annum.

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

Cash Equivalents

Cash equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less.

Other Investments

Other investments consist of corporate debt securities. The Corporation classifies all of its debt securities as held-to-maturity (HTM). HTM debt securities are those debt securities in which the Corporation has the ability and intent to hold the security until maturity. HTM debt securities are recorded at cost, as there are no associated premiums and discounts to amortize. A decline in the market value of any HTM debt security below cost that is deemed to be other than temporary, results in an impairment to reduce the carrying amount to fair value. To determine whether impairment is other than temporary, the Corporation considers all available information relevant to the collectibility of the security, including past events, current conditions, and reasonable and supportable forecasts when developing estimates of cash flows expected to be collected. Evidence considered in this assessment includes the reasons for impairment, the severity and duration of the impairment, changes in value subsequent to year-end, forecasted performances of the investee, and the general market conditions in the geographical area or industry in which the investee operates. The Corporation's debt securities investments are invested at the National Rural Utilities Cooperative Finance Corporation (NRUCFC).

The carrying value of the debt securities investments approximated fair value with interest rates ranging from 0.29 percent to 0.38 percent at December 31, 2020.

(1) Summary of Significant Accounting Policies (Continued)

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 deemed uncollectible, 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 members to meet their obligations. Accounts considered uncollectible are charged against the allowance. Delinquent receivables are written off based on individual credit evaluations and specific circumstances of the members. Recoveries of accounts receivable previously written off are recorded against the allowance when received. Receivables are reported on the balance sheets net of such accumulated allowance.

Credit evaluations are performed on most potential members before accepting them for service. Depending upon the results of the credit evaluation, a deposit may be required. If a member does not pay its bill based on the terms of the Corporation's service agreement, the Corporation may require an additional deposit as a condition of continued service.

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.

Patronage Capital and Margins

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 directors in accordance with the bylaws, subject to the restrictions contained in the long-term debt agreements. Under provisions of the long-term debt agreements, until the total equities and margins equal or exceed 30 percent of the total assets of the Corporation, the return to patrons of capital contributed by them is limited. At December 31, 2020 and 2019, the total equities approximate 52.0 and 52.6 percent of total assets, 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 is accrued at the end of each fiscal period. Accrued, but unbilled, electric revenue is recorded as accrued utility revenue on the balance sheets and totaled $1,325,897 and $1,162,810 as of December 31, 2020 and 2019, respectively.

Electric revenue includes patronage capital and is billed monthly to consumers on a cycle basis. Electric rates for the Corporation include a provision to permit the board of directors to adjust billings for fluctuations in fuel costs, purchased power costs, and certain other costs.

Revenue from merchandising included in nonoperating margins is recognized at the time of transfer of goods and services to customers for internet and security system monitoring. Internet and security system monitoring is billed monthly to consumers on a cycle basis. Transaction pricing for services are set by the board of directors and entered into by customers on a subscription basis.

(1) Summary of Significant Accounting Policies (Continued)

Cost of Purchased Power

Cost of power is expensed as consumed.

Sales, Use, and Other Value Added Taxes

Certain portions of the Corporation's sales are subject to sales tax imposed by jurisdictions. When required, the Corporation collects sales tax from customers and remits it to the applicable jurisdiction. The Corporation's accounting policy is to exclude the tax 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 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, 2020. Accordingly, no provision for income taxes has been made in the financial statements.

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 guidance issued in A*SC 905-325-30*. Capital credit allocations from associated organizations are included on the statements of operations as "generation and transmission cooperative capital credits" and "other capital credits and patronage capital allocations."

New Accounting Pronouncement

In February 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 *Topic 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. 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.

(1) Summary of Significant Accounting Policies (Continued)

Reclassifications

Certain amounts included in the accompanying financial statements for the year ended December 31, 2019 have been reclassified from their original presentation to conform to the presentation for the year ended December 31, 2020. The reclassification had no effect on net margins for the year ended December 31, 2019.

Subsequent Events

In preparing these financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through March 19, 2021, the date the financial statements were available to be issued.

(2) Utility Plant

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

	2020	2019
Distribution	**$ 79,324,464**	$ 76,164,711
General	**15,373,912**	15,068,596
Intangible	**254**	254
Electric Plant in Service	**94,698,630**	91,233,561
Construction Work in Progress	**153,896**	801,449
	$ 94,852,526	$ 92,035,010

(3) Investments in Associated Organizations

Investments in associated organizations are comprised of the following as of December 31:

	2020	2019
National Rural Utilities Cooperative Finance Corporation		
Capital Term Certificates	**$ 707,147**	$ 725,961
Capital Credits	**228,586**	236,381
Oglethorpe Power Corporation	**12,086,641**	11,771,270
GRESCO Utility Supply, Inc.	**647,742**	643,958
National Rural Telecommunications Cooperative, Inc.	**228,509**	225,639
Southeastern Data Cooperative, Inc.	**155,157**	150,626
Georgia Transmission Corporation		
Contributed Capital	**811,579**	811,579
Capital Credits	**2,134,839**	2,035,266
Georgia System Operations Corporation	**2,595**	2,595
CoBank	**218,732**	180,090
Smarr EMC		
Contributed Capital	**19,328**	19,328
Capital Credits	**377,708**	365,708
Cooperative Response Center		
Contributed Capital	**12,500**	12,500
Capital Credits	**2,347**	1,462
Federated Rural Electric Insurance Exchange	**243,599**	233,934
Green Power EMC	**5,905**	4,948
	$ 17,882,914	$ 17,421,245

(4) Deferred Debits

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

	2020	2019
System Restoration - Hurricane Michael	**$ 74,844**	$ 260,609
Main Office Upgrade	**2,558,737**	181,267
Work Plans and Projects	**26,563**	95,226
	$ 2,660,144	$ 537,102

The Federal Emergency Management Agency (FEMA) declared a substantial portion of the Corporation's service territory a disaster area (FEMA-4400-DR-GA) on October 15, 2018. The Corporation initially estimated incurred costs reimbursable through FEMA of $296,995 for Hurricane Michael system restoration. FEMA ultimately approved reimbursement of incurred costs on November 5, 2019. The Corporation estimates the remaining unpaid balance will be released in 2021.

(5) Patronage Capital

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

		2020		2019
Assignable	**$**	**1,685,538**	$	1,744,201
Assigned		**58,583,824**		56,839,623
		60,269,362		58,583,824
Cumulative Retirements		**(19,855,059)**		(18,849,310)
	$	**40,414,303**	$	39,734,514

(6) Other Equities

Other equities are comprised of the following as of December 31:

		2020		2019
Capital Gains and Losses	**$**	**5,945,851**	$	5,945,851
Unbilled Revenue		**904,412**		904,412
Donated Capital - Estate Refunds		**97,207**		38,310
Donated Capital		**2,618**		2,619
	$	**6,950,088**	$	6,891,192

(7) Debt

Long-Term Debt

Long-term debt consists of mortgage notes payable to the United States of America acting through RUS, Federal Financing Bank (FFB), NRUCFC, and CoBank. The notes are secured by a mortgage agreement among the Corporation, RUS, FFB, NRUCFC, and CoBank. Substantially all of 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. The notes contain certain affirmative and negative covenants, including maintenance of certain financial ratios as defined in the agreement. At December 31, 2020 and 2019, the Corporation was in compliance with the covenants.

Holder of Note	**Weighted Average Interest Rate at December 31, 2020**	**2020**	2019
RUS	2.84%	**$ 3,464,621**	$ 7,619,987
FFB	2.56%	**25,325,382**	22,964,343
NRUCFC	5.17%	**1,328,615**	1,535,725
CoBank	3.74%	**11,132,456**	11,764,264
		41,251,074	43,884,319
RUS Cushion-of-Credit		**(2,630,872)**	(7,050,034)
Maturities Due Within One Year		**(1,563,000)**	(1,619,000)
		$ 37,057,202	$ 35,215,285

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

Year	**Amount**
2021	$ 1,563,000
2022	1,616,000
2023	1,671,000
2024	1,700,000
2025	1,674,000
Thereafter	33,027,074
	$ 41,251,074

The Corporation has unadvanced loan funds through FFB of $12,524,245 and $-0- for the years ended December 31, 2020 and 2019, respectively.

(7) Debt (Continued)

Long-Term Debt (Continued)

The Corporation has made unapplied advance payments to the RUS Cushion-of-Credit program. Under this program the Corporation may make voluntary deposits into a special cushion-of-credit account. The cushion-of-credit account balance accrues interest to the Corporation. The use of the cushion-of-credit account is restricted to funding the future debt service payments that the Corporation is obligated to pay against its outstanding indebtedness to RUS and FFB.

On December 20, 2018, the President of the United States signed the Agriculture Improvement Act which makes the following changes to the RUS Cushion-of-Credit program:

- No new cushion-of-credit deposits will be allowed after December 20, 2018,

- Cooperatives in the program may transfer their cushion-of-credit money to prepay RUS loans without penalty through September 30, 2020,

- Remaining cushion-of-credit funds after September 30, 2020, may be applied only to regular RUS and FFB debt service payments,

- Existing cushion-of-credit balances will earn 5 percent interest until October 1, 2020, when that rate will drop to 4 percent. Beginning October 1, 2021, interest on remaining balances will be paid at a floating one-year Treasury rate.

Cash payments of interest on long-term debt totaled $1,021,947 and $1,491,477 for the years ended December 31, 2020 and 2019, respectively. In addition, the Corporation utilized its RUS cushion-of-credit account to fund interest payments of $369,909 and $201,224 for the years ended December 31, 2020 and 2019, respectively.

In addition, the Corporation also utilized the cushion-of-credit balance to prepay certain RUS notes with principal balances totaling $3,966,445 during the year ended December 31, 2020.

Lines-of-Credit

The Corporation has two lines-of-credit, $4,000,000 at 2.50 percent with NRUCFC and $1,000,000 at 2.90 percent with CoBank. There was no outstanding balance as of December 31, 2020 and 2019.

Note Payable

The Corporation applied for and received Paycheck Protection Program (PPP) Loan Funds in the amount of $1,150,000 on April 21, 2020 through George D. Warthen Bank. As permitted under U.S. GAAP, the Corporation has analogized to *Internal Accounting Standards (IAS) 20, Accounting for Government Grants and Disclosure of Government Assistance* in its accounting for PPP loan forgiveness. Under the income approach detailed in *IAS 20*, when there is reasonable assurance (probable under U.S. GAAP) that an entity has systematically met the terms of forgiveness for a government loan, the loan amount is converted to a government grant as the requirements for conversion are met.

(7) Debt (Continued)

Note Payable (Continued)

The Corporation has incurred sufficient qualifying expenses to meet forgiveness requirements and has applied for forgiveness as of December 31, 2020 with the U.S. Small Business Administration (SBA). The application was submitted to the SBA on November 20, 2020. The application is under SBA review and the Corporation expects to receive legal release subsequent to the release of the audit report. The $1,150,000 has been recorded as an offset to qualifying expenses during the year ended December 31, 2020.

(8) Pension Plan

Pension Plan (Defined Benefit)

Pension benefits for substantially all employees of the Corporation are provided through participation in the NRECA Retirement Security Plan (RS Plan), a defined benefit plan qualified under Section 401 and tax-exempt under 501(a) of the Internal Revenue Code. 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 $1,118,964 and $1,023,747 for the years ended December 31, 2020 and 2019, 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 greater than 80 percent funded at January 1, 2021 and 2020 based on the PPA funding target and PPA actuarial value of assets on those dates.

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

(8) Pension Plan (Continued)

Pension Plan (Defined Contribution Plan)

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 $133,716 and $130,227 for the years ended December 31, 2020 and 2019, respectively.

(9) Deferred Credits

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

	2020	2019
Overrecovery of Wholesale Power Costs	**$ 6,086**	$ 252,291
Charter Escrow Account	**525**	-
Other	**7,765**	9,261
	$ 14,376	$ 261,552

(10) Nonoperating Margins

	2020	2019
Revenues from Merchandising	**$ 634,716**	$ 682,810
Cost of Merchandising	**(629,541)**	(708,369)
Net Gain (Loss) from Merchandising	**5,175**	(25,559)
Interest Income	**318,737**	474,893
Miscellaneous Expense	**-**	(2,034)
	$ 323,912	$ 447,300

(11) Commitments

The Corporation has entered into various long-term contracts to meet the power supply demands of its consumers. The Corporation has a commitment to pay for its assignment of fixed costs through the term of these contracts, as well as any variable costs incurred above the allocated fixed cost amounts. The Corporation is a member of a generation cooperative known as Oglethorpe Power Corporation (OPC) and has contracted with OPC based on a percentage of fixed or designated costs to purchase power supply from various facilities owned by OPC. The Corporation has multiple contracts with various expiration terms through 2050. Related fixed costs under these contracts were $10,650,211 and $10,334,040 in 2020 and 2019, respectively, and are expected to remain relatively constant in the immediate future.

(11) Commitments (Continued)

The Corporation is a member of a transmission cooperative known as Georgia Transmission Corporation and, as such, has a Member Transmission Service Agreement (MTSA) executed in 1996 and amended in 2005. The MTSA requires the Corporation to take transmission-related service through 2060 and allows for a reduction in service at prescribed periods. Transmission service under the MTSA was $2,185,400 in 2020 and is expected to remain relatively constant in the immediate future. Transmission service is recorded as a component of cost of power.

The Corporation has entered into various assignment and assumption agreements through Green Power EMC and their participating EMCs. These agreements are in support of the Corporation's receiving capacity and energy from the various renewable generation projects that the Corporation has chosen to participate in through Green Power EMC. The Corporation participates in multiple biomass and solar projects through Green Power EMC. In 2020, the Corporation made $103,600 in capacity and energy payments for these assets.

The Corporation entered into a Member Power Purchase and Sales and Scheduling Agreement with Cooperative Energy Incorporated (CEI) in 2014. Without written notice of termination by the Corporation, the agreement will renew for a five-year term on January of each year. Under the contract, the Corporation sells to CEI, at cost, all capacity and energy which the Corporation is entitled to receive under contracts with OPC and other power suppliers. CEI provides, at cost, all electricity required to serve the load of the Corporation. Also under this agreement, to reduce cost to the Corporation, CEI, by itself or through agents, enters into transactions with third parties to meet the electrical load requirement of the Corporation.

Under current law, the Corporation has the ability to recover these costs from its members; however, any change to existing laws could adversely affect the ability to recover these costs.

(12) Concentrations of Credit Risk

Financial instruments that potentially subject the Corporation to concentrations of credit risk consist principally of cash. The Corporation maintains interest-bearing and noninterest-bearing transaction accounts at several financial institutions. Although cash balances throughout the year periodically exceed federally insured deposit limits of $250,000, the Corporation believes that its cash is not exposed to any significant risk and the Corporation has not experienced any loss in accounts which exceed federally insured limits. At December 31, 2020, bank balances exceeded federally insured deposit limits by $5,353,417. At December 31, 2020, the Corporation held select notes of the NRUCFC in the amount of $3,701,000. The amount is not secured or otherwise subject to federally insured deposit liability coverage.

Operating revenues from four customers totaled $7,287,247 and $7,904,492 for the years ended December 31, 2020 and 2019, respectively. These amounts represent approximately 21 percent of the Corporation's operating revenues for the years ended December 31, 2020 and 2019. Accounts receivable from these customers totaled $591,662 and $1,058,401, representing 24 percent and 29 percent of accounts receivable as of December 31, 2020 and 2019, respectively.

The Corporation serves consumers in the state of Georgia. 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) Risks and Uncertainties

As of the issuance date of these financial statements, the Coronavirus pandemic (COVID-19) was continuing to have an adverse effect on financial markets. The effects of COVID-19 are widespread and unprecedented. However, the full impact that the COVID-19 outbreak will have on the Corporation's financial condition, liquidity, and future results of operation is uncertain. Management is actively monitoring the situation but given the daily evolution of the COVID-19 outbreak the Corporation is not able to estimate the effects at this time.

In response to the growing concern related to COVID-19, the USDA waived all RUS/FFB covenant requirements for the loan agreement financial ratios from January 1, 2020 through December 31, 2020. Although the Corporation received the waiver, it achieved all RUS/FFB financial covenants for the year ended December 31, 2020.

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March 19, 2021

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Board of Directors
Washington Electric Membership Corporation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of **Washington Electric Membership Corporation** (the Corporation), which comprise the balance sheet as of December 31, 2020 and the related statements of operations, 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 19, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, 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 Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

McNair, McLemore, Middlebrooks & Co., LLC

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March 19, 2021

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH ASPECTS OF CONTRACTUAL AGREEMENTS
AND REGULATORY REQUIREMENTS FOR ELECTRIC BORROWERS**

The Board of Directors
Washington Electric Membership Corporation

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of **Washington Electric Membership Corporation** (the Corporation), which comprise the balance sheet as of December 31, 2020 and the related statements of operations, 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 19, 2021. In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2021 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. No reports other than the reports referred to above have been furnished to management.

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

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

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

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

McNair, McLemore, Middlebrooks & Co., LLC

McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC

Auditor's Responsibility Under Generally Accepted Auditing Standards and *Government 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 accordance with accounting principles and standards generally accepted 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 Washington Electric Membership Corporation (the Corporation) are outlined in Note 1 to the financial statements. There were no accounting policies that were adopted during the year. We noted no transactions 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
- Accrued utility revenue
- Overrecovery of wholesale power costs
- Reserve for uncollectible accounts
- Expense accruals

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, 2020. 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 19, 2021.

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 directors and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.