

**Blue Ridge EMC and Subsidiary**  
**Consolidated Financial Statements**  
**December 31, 2010 and 2009**

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## Financial Statements

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ADAMS, JENKINS AND CHEATHAM  
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS CONSULTANTS

### Independent Auditors' Report

The Board of Directors  
Blue Ridge EMC and Subsidiary  
Lenoir, North Carolina

We have audited the accompanying consolidated balance sheets of Blue Ridge EMC and Subsidiary as of December 31, 2010 and 2009, and the related consolidated statements of operations and comprehensive income, equities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Blue Ridge EMC and Subsidiary as of December 31, 2010 and 2009, and the results of their operations, changes in equities and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 25, 2011 on our consideration of Blue Ridge EMC's internal control over financial reporting and our tests on its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

*Adams, Jenkins & Cheatham*

Richmond, Virginia  
February 25, 2011

## Consolidated Balance Sheets

### Blue Ridge EMC and Subsidiary

	December 31,	
	<u>2010</u>	<u>2009</u>
<b>Assets</b>		
Electric plant		
Electric plant	\$ 382,433,293	\$ 367,469,756
Less accumulated provision for depreciation	<u>98,004,932</u>	<u>91,907,130</u>
	284,428,361	275,562,626
Other property and investments		
Nonutility property, net	8,592,600	8,497,845
Investments in associated organizations	8,919,830	8,730,010
Deferred income taxes, net	1,770,000	1,770,000
Restricted cash and investments	705,441	696,208
Intangible assets, net	106,239	127,668
Other	<u>65,862</u>	<u>23,784</u>
	20,159,972	19,845,515
Notes receivable	130,000	164,999
Current assets		
Cash and cash equivalents	7,866,131	3,130,262
Accounts receivable	20,796,747	22,028,032
Inventory	3,568,965	4,309,985
Other current assets	818,736	496,979
Current portion of notes receivable	<u>30,832</u>	<u>98,334</u>
	33,081,411	30,063,592
Deferred charges	<u>3,656,443</u>	<u>10,476,394</u>
	<u>\$ 341,456,187</u>	<u>\$ 336,113,126</u>

See Notes to Consolidated Financial Statements

	December 31,	
	2010	2009
<b>Equities and Liabilities</b>		
Equities		
Patronage capital	\$ 121,845,449	\$ 116,286,862
Other equities	1,719,136	1,480,334
Memberships	149,964	156,324
	<u>123,714,549</u>	<u>117,923,520</u>
Noncurrent liabilities		
Long-term debt	178,796,804	172,828,700
Other	9,070,885	8,468,008
	<u>187,867,689</u>	<u>181,296,708</u>
Current liabilities		
Accounts payable	10,077,782	10,997,884
Current portion of long-term debt	4,900,000	9,591,018
Other current and accrued liabilities	3,920,926	4,352,311
Consumer deposits	1,932,886	1,845,300
Credit line payable		6,332,610
	<u>20,831,594</u>	<u>33,119,123</u>
Deferred credits	9,042,355	3,773,775
	<u>\$ 341,456,187</u>	<u>\$ 336,113,126</u>

## Consolidated Statements of Operations and Comprehensive Income

### Blue Ridge EMC and Subsidiary

	Year Ended December 31,	
	2010	2009
Operating revenues	\$ 155,678,107	\$ 143,509,619
Operating expenses		
Cost of power	77,057,014	71,528,741
Cost of sales	12,757,232	9,595,343
Transmission	1,022,563	1,010,726
Distribution - operation	3,970,566	3,987,470
Distribution - maintenance	8,994,603	7,555,533
Consumer accounts	3,655,622	4,167,618
Customer service and informational	1,734,404	1,691,905
Sales expense	1,069,240	1,131,489
Administrative and general	13,449,458	11,208,240
Depreciation and amortization	11,971,075	11,736,194
Taxes	4,079,901	3,820,703
Interest on long-term debt	8,859,047	9,214,266
Interest - other	218,514	45,559
Interest charged to construction	(417,509)	(339,719)
	148,421,730	136,354,068
Operating Margins Before Patronage Allocations	7,256,377	7,155,551
Patronage allocations	545,991	676,742
Net Operating Margins	7,802,368	7,832,293
Nonoperating income		
Interest income	148,756	92,797
Gain on sale of assets	600	2,557
Other	162,879	234,146
	312,235	329,500
Net Margins	8,114,603	8,161,793
Other comprehensive income (loss)		
Unrecognized actuarial gain (loss)	(243,421)	111,646
Comprehensive Income	\$ 7,871,182	\$ 8,273,439

See Notes to Consolidated Financial Statements

## Consolidated Statements of Equities

### Blue Ridge EMC and Subsidiary

#### Years Ended December 31, 2010 and 2009

	Patronage Capital	Other Equities	Memberships	Total
Balance, December 31, 2008	\$ 110,481,557	\$ 974,833	\$ 163,406	\$ 111,619,796
Net margins	8,161,793			8,161,793
Retirement of capital credits	(2,356,488)	393,855		(1,962,633)
Other comprehensive income		111,646		111,646
Other changes, net			(7,082)	(7,082)
Balance, December 31, 2009	116,286,862	1,480,334	156,324	117,923,520
Net margins	8,114,603			8,114,603
Retirement of capital credits	(2,556,016)	482,223		(2,073,793)
Other comprehensive loss		(243,421)		(243,421)
Other changes, net			(6,360)	(6,360)
Balance, December 31, 2010	<u>\$ 121,845,449</u>	<u>\$ 1,719,136</u>	<u>\$ 149,964</u>	<u>\$ 123,714,549</u>

See Notes to Consolidated Financial Statements

## Consolidated Statements of Cash Flows

### Blue Ridge EMC and Subsidiary

	Year Ended December 31,	
	2010	2009
<b>Cash Flows from Operating Activities</b>		
Net margins	\$ 8,114,603	\$ 8,161,793
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation	11,971,075	11,736,194
Gain on sale of nonutility property	(600)	(2,557)
Noncash capital credits assigned	(545,991)	(676,742)
Allowance for funds used during construction	(417,509)	(339,719)
(Increase) decrease in:		
Accounts receivable	1,231,285	(3,460,705)
Other current assets	(270,317)	12,680
Advances on purchase commitments	(51,440)	(51,440)
Inventory - BRE	(6,959)	97,706
Other noncurrent assets	(42,078)	(1,562)
Deferred charges	6,576,530	6,610,996
Increase (decrease) in:		
Accounts payable	(920,102)	971,905
Other current liabilities	(431,385)	(175,440)
Other noncurrent liabilities	602,877	453,032
Deferred credits	5,268,580	(924)
Net Cash Provided by Operating Activities	31,078,569	23,335,217
<b>Cash Flows from Investing Activities</b>		
Investments in electric plant	(19,480,882)	(22,683,124)
Investments in nonutility property, plant and equipment	(625,461)	(533,486)
Cost of removals	(602,741)	(860,017)
Contributions in aid of construction	965,036	1,987,055
Purchase of CFC member capital securities		(500,000)
Receipts from notes receivable	102,501	91,667
Issuance of note receivable		(100,000)
Net Cash Used by Investing Activities	(19,641,547)	(22,597,905)

See Notes to Consolidated Financial Statements

	Year Ended December 31,	
	2010	2009
<b>Cash Flows from Financing Activities</b>		
Line of credit advances	64,833,322	24,060,948
Line of credit repayments	(71,165,932)	(17,728,338)
Proceeds from long-term debt	12,000,000	5,800,000
Principal payments of long-term debt	(10,722,914)	(9,985,815)
Consumer deposits	87,586	(486,167)
Memberships issued, net of terminations and other	(6,360)	(7,082)
Capital credits received from suppliers	356,171	469,477
Patronage capital retirements	(2,073,793)	(1,962,633)
Net Cash Provided (Used) by Financing Activities	<u>(6,691,920)</u>	<u>160,390</u>
Net Increase in Cash and Cash Equivalents	4,745,102	897,702
Cash and cash equivalents - beginning of year	<u>3,826,470</u>	<u>2,928,768</u>
Cash and Cash Equivalents - End of Year	<u>\$ 8,571,572</u>	<u>\$ 3,826,470</u>

### Supplemental Disclosures

The Corporation paid approximately \$9,020,000 and \$8,970,000 interest expense for the years ended December 31, 2010 and 2009, respectively.

## **Notes to Consolidated Financial Statements**

### **Blue Ridge EMC and Subsidiary**

**December 31, 2010 and 2009**

#### **Note A - Summary of Significant Accounting Policies**

##### Nature of Operations

Blue Ridge Electric Membership Corporation (the "Corporation") is a member-owned, nonprofit cooperative organized to provide electric service to its members. The Corporation's main office is located in Lenoir, North Carolina, and the service area extends through portions of the counties of Alexander, Alleghany, Ashe, Avery, Caldwell, Watauga and Wilkes, North Carolina.

Blue Ridge Energies, LLC ("BRE"), a wholly owned subsidiary of the Corporation, provides gasoline, propane and other petroleum products and appliances throughout the Western North Carolina area. BRE's principal business offices are located in Lenoir, Boone, Sparta and West Jefferson, North Carolina.

Northwestern Land Company, LLC ("NLC") was organized for the purpose of holding land that the Corporation intends to use in its future business operations. As of December 31, 2009, the assets of NLC were transferred to the Corporation.

##### Principles of Consolidation

The consolidated financial statements include the accounts of Blue Ridge Electric Membership Corporation and its wholly owned subsidiary, BRE. Significant intercompany transactions have been eliminated in consolidation.

##### Basis of Presentation

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

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

##### Accounting Estimates

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

##### Electric Plant

Electric plant is stated at the original cost of construction, which includes the cost of contracted services, direct labor, materials and overhead items. Contributions from others toward the construction of electric plant are credited to the applicable plant accounts.

# Notes to Consolidated Financial Statements

## Blue Ridge EMC and Subsidiary

December 31, 2010 and 2009

### Note A - Summary of Significant Accounting Policies - Continued

#### Electric Plant - Continued

When property which represents a retirement unit is replaced or removed, the average cost of such property as determined from the continuing property records is credited to electric plant and such cost, together with the cost of removal less salvage, is charged to the accumulated provision for depreciation.

Maintenance and repairs, including the renewal of minor items of plant not comprising a retirement unit, are charged to the appropriate maintenance accounts, except that repairs of transportation and service equipment are charged to clearing accounts and redistributed to operating expense and other accounts.

#### Nonutility Property

Nonutility property, plant and equipment acquired through acquisitions are stated at the fair market value at the time of the acquisitions. Property acquired outside of the aforementioned acquisitions is stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from five to forty years. Accelerated methods, as provided by federal income tax laws, are used for income tax purposes.

The cost of maintenance and repairs is charged to operations when incurred and renewals and betterments are capitalized. When properties are retired or otherwise disposed of, the related costs and allowance for depreciation are removed from the respective accounts and any gain or loss on disposition is reflected in income.

#### Depreciation

Provision for depreciation has been made by application of the straight-line composite method to the original cost, by groups of depreciable properties in service. Current depreciation rates, which are estimated to amortize the cost of plant over the service lives, were as follows:

Transmission plant	2.75%
Distribution plant	3.10-20.00%
Buildings and improvements	3.00%
Equipment	7.00-20.00%
Furniture and fixtures	7.00-10.00%
Vehicles	12.00%

#### Income Taxes

The Corporation has been granted exemption from income taxes under Internal Revenue Service Code Section 501(c) (12). Accordingly, no provision for income taxes has been made in the consolidated financial statements.

BRE is taxed as a corporation and is subject to federal and state income taxes. Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences arising between the tax bases of assets and liabilities and their reported amounts in accordance with GAAP.

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiary

December 31, 2010 and 2009

#### Note A - Summary of Significant Accounting Policies - Continued

##### Inventory

The inventory of the Corporation consisted of materials and supplies generally used for construction, operation, and maintenance work and are not for resale. They are valued at the lower of market value or moving average unit cost.

The inventory of BRE consisted primarily of gasoline, fuel oils, propane, merchandise and maintenance parts and supplies used for services. Inventory is valued at the lower of cost, determined primarily using the first-in, first-out (FIFO) method, or market.

##### Revenue Recognition and Accounts Receivable

The Corporation recognizes revenue as service is rendered to customers. Recorded revenue includes an estimate of unbilled revenue for utility service rendered but not billed to customers that amounted to approximately \$7,000,000 and \$6,600,000 at December 31, 2010 and 2009, respectively.

The billing rate schedules of the Corporation contain provisions to either increase or decrease the consumers' billings from the base level billing schedules dependent upon the wholesale power cost from the supplier of electric energy purchased for resale. The Corporation provides for uncollectible accounts monthly, based on a percentage of sales, which past experience has indicated will be uncollectible. When accounts are deemed to be uncollectible, they are charged against the provision for uncollectible accounts.

BRE uses the reserve for bad debts method of valuing doubtful accounts receivable, which is based on historical experience, coupled with a review of the current status of existing receivables.

##### Cash and Cash Equivalents

The Corporation and BRE consider all highly liquid investments with a maturity of three months or less to be cash equivalents.

##### Restricted Cash

Restricted cash represents cash received from members to be donated to charitable organizations (Blue Ridge Electric Members Foundation, Inc.) or scholarship funds, and the proceeds of economic development loans not yet reinvested.

##### Advertising Costs

The Corporation and BRE expensed advertising costs as incurred.

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiary

December 31, 2010 and 2009

#### Note A - Summary of Significant Accounting Policies - Continued

##### Regulatory Assets and Liabilities

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

##### Subsequent Events

Subsequent events have been evaluated through February 25, 2011, which is the date the financial statements were available to be issued.

##### Reclassifications

Certain amounts for the year ended December 31, 2009, have been reclassified to conform to the presentation used in the December 31, 2010, consolidated financial statements.

#### Note B - Electric Plant

Listed below were the major classes of electric plant:

	December 31,	
	2010	2009
Distribution plant	\$ 253,793,002	\$ 242,306,205
Transmission plant	72,770,662	72,514,890
General plant	49,950,564	41,329,145
Electric plant in service	376,514,228	356,150,240
Construction work in progress	5,919,065	11,319,516
	<u>\$ 382,433,293</u>	<u>\$ 367,469,756</u>

In accordance with accounting for Asset Retirement Obligations and FERC Order 631 as adopted by the RUS, the Corporation has determined that it had no legal asset retirement obligations for the years ended December 31, 2010 and 2009. Regarding non-legal retirement obligations, the Corporation follows the regulatory principle of inter-generational cost allocation by including net salvage (gross salvage less cost of removal) as a component of depreciation rates. For the years ended December 31, 2010 and 2009, the Corporation followed the RUS prescribed rates for depreciation and therefore, collections for net salvage and differences in timing of recognition of period costs associated with non-legal retirement obligations had not been specifically identified.

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiary

December 31, 2010 and 2009

#### Note C - Nonutility Property

Nonutility property consisted of the following:

	December 31,	
	2010	2009
Machinery and equipment	\$ 10,554,044	\$ 10,124,477
Trucks and autos	1,678,625	1,507,295
Capitalized software	480,675	475,385
Land improvements	443,080	439,968
Bulk plant equipment	261,730	261,730
Buildings	233,151	233,151
Furniture and fixtures	133,792	131,892
Leasehold improvements	83,247	83,247
	<u>13,868,344</u>	<u>13,257,145</u>
Less accumulated depreciation	5,499,022	4,982,578
	<u>8,369,322</u>	<u>8,274,567</u>
Land	223,278	223,278
	<u><u>\$ 8,592,600</u></u>	<u><u>\$ 8,497,845</u></u>

#### Note D - Investments in Associated Organizations

Investments in associated organizations consisted of the following:

	December 31,	
	2010	2009
Patronage capital:		
North Carolina Electric Membership Corporation (NCEMC)	\$ 2,919,103	\$ 2,795,966
CoBank	1,398,199	1,296,786
Tarheel Electric Membership Association (TEMA)	925,496	972,410
National Rural Utilities Cooperative Finance Corporation (CFC)	428,430	416,069
Federated Rural Electric Insurance Corporation	290,353	289,132
Other	155,806	156,671
	<u>6,117,387</u>	<u>5,927,034</u>
Capital Term Certificates (CFC):		
SCTC's	1,869,410	1,869,410
LCTC's	354,600	354,600
	<u>2,224,010</u>	<u>2,224,010</u>

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiary

December 31, 2010 and 2009

#### Note D - Investments in Associated Organizations - Continued

	December 31,	
	2010	2009
Other:		
CFC member capital securities	500,000	500,000
Other	71,873	72,406
Memberships	6,560	6,560
	<u>578,433</u>	<u>578,966</u>
	<u>\$ 8,919,830</u>	<u>\$ 8,730,010</u>

The capital term certificates invested in CFC are unsecured and subordinated. The SCTC's and LCTC's bear interest at an annual rate of 5% and 3% respectively, and are payable semiannually. The capital term certificates are required to be maintained under the note agreement with CFC and are similar to compensating bank balances. The CFC member capital securities are unsecured and unsubordinated and bear interest at an annual rate of 7.5%, payable semiannually.

#### Note E - Goodwill

The goodwill acquired in the purchase of assets is being accounted for in accordance with GAAP. BRE evaluates the goodwill on an annual basis for potential impairment. After estimating the value of the goodwill at December 31, 2010 and 2009, using standard valuation techniques and comparing that value to the carrying cost, BRE did not recognize an impairment loss for the years ended December 31, 2010 and 2009.

#### Note F - 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. All depository accounts of the Corporation are in institutions insured by the Federal Deposit Insurance Corporation ("FDIC"). There were no deposits that exceeded the FDIC insurance limits at December 31, 2010. The deposits exceeded the FDIC insurance limits by approximately \$108,000 at December 31, 2009. At December 31, 2010, the Corporation had CFC commercial paper in the amount of \$4,000,000 which was not insured.

Concentrations of credit risk with respect to electric customer accounts and notes receivable were limited due to the large number of customers comprising the customer base. However, the Corporation serves one wholesale power electric customer that comprised approximately 8% of total electric customer revenues at December 31, 2010 and 2009.

BRE maintains a cash balance at two financial institutions. Accounts at each institution are insured by the FDIC; however, the deposits exceeded the insurance limits by approximately \$636,000 as of December 31, 2010.

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiary

December 31, 2010 and 2009

#### Note G - Accounts Receivable

Accounts receivable consisted of the following:

	December 31,	
	2010	2009
Consumers	\$ 20,644,747	\$ 18,963,287
Other	1,573,179	4,307,781
	<u>22,217,926</u>	<u>23,271,068</u>
Less provision for uncollectible accounts	<u>1,421,179</u>	<u>1,243,036</u>
	<u>\$ 20,796,747</u>	<u>\$ 22,028,032</u>

#### Note H - Notes Receivable

Notes receivable consisted of economic development loans, which represent funds advanced to counties and companies in the Corporation's service territory to promote economic development. The Corporation received funding for the loans from the Rural Business Cooperative Development Service, and has corresponding notes payable to this entity. The loans are zero-interest loans. All of the loans are to be repaid to the Corporation once the respective projects are complete.

#### Note I - Deferred Charges

Deferred charges consisted of the following:

	December 31,	
	2010	2009
Unrecognized post retirement benefit cost	\$ 3,016,426	\$ 3,410,684
Preliminary survey and investigation costs	433,617	549,174
Deferred charges - RidgeLink	200,102	149,713
Renewable energy portfolio	4,647	618,041
Other	1,651	2,089
Morgan Stanley PPA buyout		4,201,277
Wholesale power cost adjustment		1,269,000
Power study costs		<u>276,416</u>
	<u>\$ 3,656,443</u>	<u>\$ 10,476,394</u>

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiary

#### December 31, 2010 and 2009

##### Note J - Deferred Income Taxes

BRE has net operating loss carryforwards totaling in excess of \$15,500,000 at December 31, 2010. These net operating loss carryforwards, which expire on various dates through December 31, 2030, may be used to offset federal and state taxable income in future years. Realization of deferred tax assets is dependent on future earnings, if any, the timing and amount of which is uncertain. Accordingly, a valuation allowance has been established to reflect these uncertainties. The deferred tax assets and related valuation allowance are summarized as follows:

	December 31,	
	2010	2009
Deferred tax asset (liability)		
Net operating loss carryforwards	\$ 6,050,000	\$ 6,130,000
Depreciation	(2,420,000)	(2,320,000)
Other	275,000	275,000
	<u>3,905,000</u>	<u>4,085,000</u>
Valuation allowance	(2,135,000)	(2,315,000)
	<u>\$ 1,770,000</u>	<u>\$ 1,770,000</u>

##### Note K - Patronage Capital

Patronage capital consisted of the following:

	December 31,	
	2010	2009
Assigned	\$ 145,188,070	\$ 137,026,277
Assignable	8,114,603	8,161,793
	<u>153,302,673</u>	<u>145,188,070</u>
Retired	(31,457,224)	(28,901,208)
	<u>\$ 121,845,449</u>	<u>\$ 116,286,862</u>

Under provisions of the long-term debt agreement and Title 7 of the Code of Federal Regulations (Part 1717.617), the Corporation may refund capital to patrons without limitation if total equity is equal to or greater than 30% of total assets, and there are no instances of default. If equities are between 20% and 30% of total assets, general refunds are limited to 25% (adjusted for returns to estates, which are not limited) of patronage capital or margins received in the next preceding year. Total equities and margins amounted to 36% and 35% of total assets for the years ended December 31, 2010 and 2009.

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiary

December 31, 2010 and 2009

#### Note L - Other Equities

Other equities consisted of the following:

	December 31,	
	2010	2009
Other	\$ 1,850,911	\$ 1,368,688
Accumulated other comprehensive income (loss)	(131,775)	111,646
	<u>\$ 1,719,136</u>	<u>\$ 1,480,334</u>

#### Note M - Long-Term Debt

Long-term debt consisted of the following:

	December 31,	
	2010	2009
RUS - Mortgage notes, fixed	\$ 129,945,367	\$ 149,926,160
CoBank - Mortgage notes, fixed	35,483,493	25,286,830
Federal Financing Bank (FFB) - Mortgage notes, fixed	14,463,494	2,618,777
CFC - Mortgage notes, fixed	3,404,450	3,704,563
Rural Business Cooperative Development Service (RBCDS) Economic development grant	400,000	400,000
National Rural Electric Cooperative Association (NRECA) Obligation, prior service cost		427,688
Other		55,700
	<u>183,696,804</u>	<u>182,419,718</u>
Less current maturities	<u>4,900,000</u>	<u>9,591,018</u>
	<u>\$ 178,796,804</u>	<u>\$ 172,828,700</u>

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiary

#### December 31, 2010 and 2009

##### Note M - Long-Term Debt - Continued

Substantially all of the Corporation's assets have been pledged as collateral for the long-term debt to RUS, CFC, FFB and CoBank. Under the terms of the loan agreements with RUS and CFC, there are certain restrictions which include requirements to maintain a TIER (times interest earned ratio) and DSC (debt service coverage) of 1.25, respectively. In addition, the Corporation has other ratios that must be maintained in accordance with the CoBank loan covenants. There were also restrictions on the return of capital to patrons as discussed in Note K. For the years ending December 31, 2010 and 2009, the Corporation was in compliance with the covenants and restrictions.

Long-term debt payable to the RUS is represented by mortgage notes with rates ranging from 3.65% to 5.88% at December 31, 2010 and 2009. The notes are for 35-year periods each, maturing at various dates through September 2040. Principal and interest installments are payable monthly in the amount of approximately \$767,000. There were no unadvanced loan funds available to the Corporation on loan commitments from RUS as of December 31, 2010 and 2009.

Long-term debt payable to CoBank is represented by mortgage notes with fixed rates ranging from 4.37% to 6.03% at December 31, 2010 and 4.66% to 6.31% at December 31, 2009. The notes mature at various dates through September 20, 2028. Principal and interest installments are payable monthly in the amount of approximately \$645,000 and quarterly in the amount of approximately \$90,000.

The security and repayment terms for the CFC notes, with the exception of the interest rates which range from 6.00% to 6.35% at December 31, 2010 and 2009, were the same as the RUS notes. The notes mature at various dates through November 2023. Principal and interest installments are payable quarterly in the amount of approximately \$130,000. Unadvanced loan funds of \$46,000,000 were available to the Corporation on loan commitments from CFC at December 31, 2010 and 2009.

Long-term debt payable to the FFB is represented by mortgage notes with interest rates ranging from 4.15% to 8.01% at December 31, 2010 and 7.46% to 8.01% at December 31, 2009. The notes mature at various dates through January 2045. Principal and interest installments are payable quarterly in the amount of approximately \$102,000. Unadvanced loan funds of \$48,000,000 were available to the Corporation on loan commitments from FFB at December 31, 2010.

The Corporation had contractually agreed to pay past service costs to the NRECA. The entire amount owed to NRECA was paid in full during the year ended December 31, 2010.

The debt to the RBCDS (an agency of the U.S. Department of Agriculture) resulted from a grant made to the Corporation under the Rural Economic Development Grant and Loan Program to fund local economic development projects. The grant must be repaid to the federal government (without interest) upon termination of the program by the Corporation.

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiary

#### December 31, 2010 and 2009

##### Note M - Long-Term Debt - Continued

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

<u>Year Ending December 31,</u>	
2011	\$ 4,900,000
2012	5,007,553
2013	4,959,204
2014	5,221,195
2015	5,497,488
Thereafter	<u>158,111,364</u>
	<u>\$ 183,696,804</u>

##### Note N - Lines of Credit

The Corporation had lines of credit with CFC and CoBank in the amount of \$31,500,000 and \$29,000,000, respectively, for the years ended December 31, 2010 and 2009. There were no outstanding balances with CFC and CoBank at December 31, 2010. There was a \$6,332,610 balance with CoBank at December 31, 2009.

BRE had two lines of credit established. First Citizens Bank has granted a line of credit in the amount of \$1,000,000 at variable interest rates (3.25% at December 31, 2010), which expires July 2011. This line of credit is unsecured and guaranteed by the Corporation. There was no outstanding balance at December 31, 2010 and 2009. CoBank has also granted a line of credit in the amount of \$2,000,000 at variable rates (3.42% at December 31, 2010), which expires in July 2011 and is guaranteed by the Corporation. There was no outstanding balance at December 31, 2010 and 2009.

##### Note O - Other Current and Accrued Liabilities

Other current and accrued liabilities consisted of the following:

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
Accrued vacation	\$ 986,000	\$ 1,014,184
Patronage capital payable	834,617	708,396
Health insurance reserve	618,403	641,330
Accrued payroll	537,889	805,280
Accrued taxes	485,803	564,217
Accrued interest	335,664	280,367
Other	122,550	98,851
Deferred propane payable		<u>239,686</u>
	<u>\$ 3,920,926</u>	<u>\$ 4,352,311</u>

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiary

#### December 31, 2010 and 2009

##### Note O - Other Current and Accrued Liabilities - Continued

The Corporation has a self-insurance plan for hospitalization, medical and dental coverage for its employees. The Corporation limits its losses through the use of both specific and aggregate stop-loss policies from reinsurers. The reserve for losses represents estimates of the ultimate net cost if all losses were incurred through the end of the period. As adjustments to the reserve become necessary, such adjustments are reflected in current operations.

##### Note P - Other Noncurrent Liabilities

Other noncurrent liabilities consisted of the following:

	December 31,	
	2010	2009
Other postretirement benefits	\$ 8,762,349	\$ 8,201,768
Deferred compensation	218,136	194,389
Other	90,400	71,851
	<u>\$ 9,070,885</u>	<u>\$ 8,468,008</u>

The Corporation sponsors an unfunded defined benefit postretirement medical and dental insurance plan that covers substantially all of its employees and their dependents. The premium for future retirees is subsidized by the employer based on a graded scale. The following graded eligibility requirements for active employees who were born after January 1, 1945, apply:

Age 55 with 20 years of service	50% subsidy for employee benefits, 25% for spouse
Age 55 with 25 years of service	75% subsidy for employee benefits, 37.5% for spouse
Age 55 with 30 years of service	100% subsidy for employee benefits, 50% for spouse

All retirees and current employees born on or before January 1, 1945, receive an employer subsidy at 100% for the employee and 50% for the spouse. Employees of Blue Ridge Energies, LLC are not eligible for medical insurance upon retirement. Benefits after age 65 are limited to \$3,000 per year.

The Corporation recognizes the funded status of its defined benefit pension plan and other postretirement benefit plans as an asset or liability, respectively, in its balance sheet and recognizes changes in the funded status as a component of other comprehensive income in the year in which the changes occur. The funded status is measured as the difference between the fair value of the plan's assets and the benefit obligation.

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiary

December 31, 2010 and 2009

#### Note P - Other Noncurrent Liabilities - Continued

The following sets forth the benefit obligation with the funded status of the plan:

	December 31,	
	2010	2009
Change in accumulated postretirement benefit obligation (APBO):		
APBO at beginning of year	\$ 8,201,768	\$ 7,848,631
Interest cost	451,177	450,160
Service cost	197,846	169,312
Actuarial loss	320,337	137,438
Participant contributions	171,837	167,161
Benefits paid	(580,616)	(570,934)
APBO at end of year	<u>8,762,349</u>	<u>8,201,768</u>
Fair value of plan assets at end of year	<u>-</u>	<u>-</u>
Funded status	<u>\$ (8,762,349)</u>	<u>\$ (8,201,768)</u>

The components of the net periodic postretirement benefit cost included:

	Year Ended December 31,	
	2010	2009
Interest cost on benefit obligations	\$ 451,177	\$ 450,160
Service cost, benefits earned during the period	197,846	169,312
Amortization of transition obligation	151,196	151,196
Amortization of net loss	129,513	84,139
Amortization of prior service credit	(12,705)	(12,705)
	<u>\$ 917,027</u>	<u>\$ 842,102</u>

Amounts in accumulated other comprehensive income not recognized in net periodic benefit cost consisted of the following:

	Year Ended December 31,	
	2010	2009
Unrecognized actuarial gain (loss)	<u>\$ (131,775)</u>	<u>\$ 111,646</u>

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiary

December 31, 2010 and 2009

#### Note P - Other Noncurrent Liabilities - Continued

Assumptions and effects:

	Year Ended December 31,	
	2010	2009
Actuarial assumptions:		
Medical trend rate	10.00%	9.50%
Ultimate trend rate	5%	5%
Year ultimate trend rate achieved	2021	2019
Discount rate	5.50%	5.60%
Measurement date	12/31/2010	12/31/2009
Effect of a 1% increase in health care cost trend rate on:		
Interest and service cost components	\$ 39,000	\$ 36,000
APBO	\$ 324,000	\$ 284,000
Effect of a 1% decrease in health care cost trend rate on:		
Interest and service cost components	\$ (33,000)	\$ (31,000)
APBO	\$ (286,000)	\$ (251,000)

Estimated future benefit payments reflecting expected future service:

<u>Year Ending December 31,</u>	
2011	\$ 538,378
2012	\$ 523,452
2013	\$ 523,802
2014	\$ 547,949
2015	\$ 582,272
2016-2020	\$ 3,385,387

Expected net employer contributions for the year ending December 31, 2011, are approximately \$538,000.

The net transition obligation, prior service credit, and estimated net loss for the plan that are expected to be amortized from regulatory assets into net periodic benefit cost and accumulated other comprehensive income is anticipated to be the following during the year ending December 31, 2011:

Expected amortization of transition obligation	\$ 151,196
Expected amortization of prior service credit	\$ (12,705)
Expected amortization of net loss	\$ 131,444

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiary

#### December 31, 2010 and 2009

##### Note Q - Retirement Plans

###### Pension Plan

Substantially all eligible employees of the Corporation participate in the National Rural Electric Cooperative Association (NRECA) Retirement and Security Program (the "Program"); a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. The Corporation made monthly contributions to the Program equal to the amounts accrued for pension expense. In this multi-employer plan, which is available to all member cooperatives of the NRECA, the accumulated benefits and plan assets are not determined or allocated separately by individual employers. The Corporation's pension costs were approximately \$3,061,000 and \$2,380,000 for the years ended December 31, 2010 and 2009, respectively.

###### Deferred Income Plan

In addition to the NRECA Retirement and Security Program, substantially all employees of the Corporation are eligible to participate in the NRECA SelectRE Plan (the "Plan"), a defined contribution multi-employer deferred income plan qualified under Section 401(k) and tax exempt under Section 501(a) of the Internal Revenue Code. For the years ended December 31, 2010 and 2009, the Corporation's required contribution to the Plan was approximately \$211,000 and \$216,000, respectively.

BRE contributed approximately \$55,000 for each of the years ended December 31, 2010 and 2009.

##### Note R - Deferred Credits

Deferred credits consisted of the following:

	December 31,	
	2010	2009
Wholesale power cost adjustment	\$ 5,958,222	\$
Customer deposits on construction	2,027,401	2,737,908
Unearned revenue - BRE	991,619	892,826
Unclaimed capital credits	36,893	115,920
Other	28,220	27,121
	<u>\$ 9,042,355</u>	<u>\$ 3,773,775</u>

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiary

December 31, 2010 and 2009

#### Note S - Fair Value of Financial Instruments

The Corporation has recorded all financial instruments based on the carrying amount (book value) in the financial statements in accordance with GAAP. According to guidance set forth by FASB, the Corporation is required to disclose the fair value of those financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using discounted cash flow analysis. This technique involves subjective judgment and is significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. As a result, the derived fair value estimates cannot be substantiated by comparison to independent markets, and in many cases, could not be realized in immediate settlement of the instrument. Accordingly, the following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it was practicable to estimate that value.

##### Cash and Cash Equivalents

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

##### Accounts Receivable

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

##### Investments in Associated Organizations

Fair value of capital term certificates was determined by computing the present value of estimated future cash flows, discounted at the long-term treasury rate of 4.34% and 4.63% for the years ending December 31, 2010 and 2009, respectively. The fair value of patronage capital is not determinable since no legal obligation exists to retire capital credits. The carrying value of memberships approximates fair value.

##### Notes Receivable

Fair value of notes receivable was computed at present value of future cash flows, discounted at market rates for the same or similar issues of notes for the years ending December 31, 2010 and 2009.

##### Accounts Payable

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

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiary

#### December 31, 2010 and 2009

##### Note S - Fair Value of Financial Instruments - Continued

###### Long-Term Debt

The carrying amount of the Corporation's fixed long-term debt includes certain interest rates that are below quoted market prices for the same or similar issues. Therefore, the fair value of fixed long-term debt is estimated based on current market prices for the same or similar issues offered for debt of the same and remaining maturities which was 7.45% and 7.90% for the years ending December 31, 2010 and 2009, respectively.

###### Lines of Credit

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

###### Consumer Deposits

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

The estimated fair values of the Corporation's financial instruments were as follows:

	December 31,			
	2010		2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Assets:</b>				
Capital term certificates	\$ 2,224,010	\$ 2,541,000	\$ 2,224,010	\$ 2,404,000
CFC member capital securities	\$ 500,000	\$ 805,000	\$ 500,000	\$ 775,000
Notes receivable	\$ 160,832	\$ 155,000	\$ 263,333	\$ 231,000
<b>Liabilities:</b>				
Long-term debt, fixed notes	\$ 183,696,804	\$ 153,496,000	\$ 182,419,718	\$ 149,277,000

##### Note T - Commitments

###### Purchased Power

The Corporation has a contract to purchase power from NCEMC, a generation and transmission cooperative, through December 31, 2046. In addition, the Corporation entered into a partial requirements service contract with Duke Energy Carolinas, LLC (Duke) through December 31, 2021. Beginning February 1, 2008, the Duke contract was converted into a full requirements service agreement through December 31, 2021. The First Amended and Restated Electric Full Requirements Power Purchase and REPS Compliance Service Agreement with Duke dated October 1, 2010, extended the power purchase agreement to December 31, 2031.

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiary

#### December 31, 2010 and 2009

##### Note T - Commitments - Continued

###### Construction Contracts

The Corporation had a commitment of approximately \$5,050,000 associated with various construction projects, of which approximately \$2,180,000 was paid as of December 31, 2010.

###### Operating Leases

BRE leases certain buildings which are accounted for as operating leases. These leases were noncancellable and expire at various dates through 2011. Lease expense amounted to approximately \$75,000 for each of the years ended December 31, 2010 and 2009.

BRE leases certain trucks under noncancellable operating leases. The leases provide for monthly rental payments and expire at various dates through 2014. Total lease payments amounted to approximately \$77,000 and \$88,000 for the years ended December 31, 2010 and 2009, respectively.

The future minimum lease payments for these noncancellable operating leases were as follows:

<u>Year Ending December 31,</u>	
2011	\$ 129,996
2012	46,122
2013	37,722
2014	<u>20,047</u>
	<u>\$ 233,887</u>

###### Purchase Commitments

During 2010 and 2009, BRE entered into propane purchase contracts with key suppliers. The contracts vary in length and require certain advance payments at the time of the negotiation, with the remaining due at the time of delivery. The advances are included in other current assets on the accompanying balance sheets. As of December 31, 2010, BRE had commitments to purchase approximately \$564,000 of propane from key suppliers.

##### Note U - Contingencies

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

## Notes to Consolidated Financial Statements

### Blue Ridge EMC and Subsidiary

December 31, 2010 and 2009

#### Note V - Related Party Transactions

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

##### CFC

The Corporation was a member of CFC, a national financing organization, and, as explained in Notes D, M and N, had investment assets, mortgage notes payable, and a line of credit at various interest rates and maturities.

##### NCEMC

The Corporation, as an independent member of NCEMC, an organization composed of electric cooperatives, has entered into a contract for the acquisition of wholesale power. The cost of wholesale power to members is determined by the Board of Directors of NCEMC. Additionally, as explained in Note D, the Corporation had an investment in NCEMC.

##### TEMA

As a member of TEMA, a statewide organization composed of electric cooperatives and others, the Corporation purchased a substantial amount of materials and supplies for construction and maintenance of the utility plant. Additionally, as explained in Note D, the Corporation has an investment in TEMA.

##### Federated Rural Electric Insurance Corporation (Federated)

The Corporation is a shareholder of Federated, as explained in Note D, and purchases its general property and liability coverage from this corporation.

##### BRE

The Corporation allocated certain costs to BRE on a monthly basis, including labor expense, lease expense, medical insurance premiums, and operating expenses for shared services, which amounted to approximately \$1,304,000 and \$1,126,000 for the years ending December 31, 2010 and 2009, respectively. Sales to the Corporation were approximately \$597,000 and \$424,000 for the years ended December 31, 2010 and 2009, respectively.

BRE leases real property from the Corporation. Minimum future lease payments due the Corporation through years ending December 31, 2011, are \$75,475 annually.

**Supplemental Matters Required by the  
Rural Utilities Service**



**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***

To the Board of Directors  
Blue Ridge EMC and Subsidiary  
Lenoir, North Carolina

We have audited the financial statements of Blue Ridge EMC and Subsidiary as of and for the years ended December 31, 2010 and 2009, and have issued our report thereon dated February 25, 2011. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audits, we considered Blue Ridge EMC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Blue Ridge EMC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Blue Ridge EMC's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to management of Blue Ridge EMC in a separate letter dated February 25, 2011. This report is intended solely for the information and use of management, the audit committee, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Adams, Jenkins & Chestern*