

**THE WALTON ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES
MONROE, GEORGIA**

**CONSOLIDATED FINANCIAL STATEMENTS AS OF
JUNE 30, 2020 AND 2019 AND
INDEPENDENT AUDITOR'S REPORT**

THE WALTON ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES

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November 10, 2020

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
The Walton Electric Membership Corporation and Subsidiaries

We have audited the accompanying consolidated financial statements of **The Walton Electric Membership Corporation and Subsidiaries** (the Corporation), which comprise the consolidated balance sheets as of June 30, 2020 and 2019 and the related consolidated statements of operations, comprehensive income, changes in members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 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 *Governmental 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Walton Electric Membership Corporation and Subsidiaries as of June 30, 2020 and 2019 and the results of their operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

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

McNair, McLeMore, Middlebrooks & Co., LLC
McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC

THE WALTON ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
JUNE 30

ASSETS

	<u>2020</u>	<u>2019</u>
Utility Plant		
Electric Plant in Service - At Cost	\$ 493,295,167	\$ 474,048,248
Construction Work in Progress	<u>3,107,899</u>	<u>3,609,744</u>
	496,403,066	477,657,992
Accumulated Provision for Depreciation	<u>(188,321,494)</u>	<u>(177,793,190)</u>
	<u>308,081,572</u>	<u>299,864,802</u>
 Other Property and Investments		
Investments in Associated Organizations	120,417,539	114,876,461
Other Investments	<u>32,499,393</u>	<u>2,214,138</u>
	<u>152,916,932</u>	<u>117,090,599</u>
 Current Assets		
Cash and Cash Equivalents	47,603,134	53,656,102
Interest Receivable	565,417	606,197
Accounts Receivable (Net of Accumulated Provision for Uncollectibles of \$3,109 in 2020 and \$103,007 in 2019)	44,207,622	47,003,048
Materials and Supplies	2,412,497	2,338,292
Prepayments	<u>13,478,514</u>	<u>26,365,454</u>
	<u>108,267,184</u>	<u>129,969,093</u>
 Other Assets	<u>17,413,534</u>	<u>17,403,779</u>
 Total Assets	<u><u>\$ 586,679,222</u></u>	<u><u>\$ 564,328,273</u></u>

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

THE WALTON ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
JUNE 30

EQUITIES AND LIABILITIES

	<u>2020</u>	<u>2019</u>
Equities		
Membership Fees	\$ 987,200	\$ 999,150
Patronage Capital	191,805,379	186,697,314
Donated Capital	3,573,408	3,010,567
Other	44,088,160	44,456,840
Accumulated Other Comprehensive Loss	(56,470,428)	(42,127,255)
	<u>183,983,719</u>	<u>193,036,616</u>
Long-Term Debt	<u>143,467,143</u>	<u>118,847,404</u>
Accumulated Provision for Postretirement Benefits		
Pension Plan	24,129,208	17,683,506
Healthcare Benefits	66,942,368	57,628,445
	<u>91,071,576</u>	<u>75,311,951</u>
Other Long-Term Liabilities	<u>889,498</u>	<u>1,050,412</u>
Current Liabilities		
Current Maturities of Mortgage Notes	5,372,246	5,582,000
Line-of-Credit	8,000,000	13,500,000
Accounts Payable	32,613,170	33,287,310
Consumer Deposits	10,028,592	10,021,409
Current Portion of Healthcare Benefits	1,329,000	1,266,000
Accrued and Withheld Taxes	3,663,128	3,913,927
Accrued Interest	870,061	850,093
Other	5,232,477	4,648,265
	<u>67,108,674</u>	<u>73,069,004</u>
Deferred Credits	<u>100,158,612</u>	<u>103,012,886</u>
Total Equities and Liabilities	<u><u>\$ 586,679,222</u></u>	<u><u>\$ 564,328,273</u></u>

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

THE WALTON ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED JUNE 30

	<u>2020</u>	<u>2019</u>
Operating Revenues	\$ 380,619,080	\$ 374,620,975
Cost of Revenues	<u>300,530,070</u>	<u>309,400,234</u>
Gross Margins	<u>80,089,010</u>	<u>65,220,741</u>
Operating Expenses		
Distribution Operations	11,378,475	9,698,155
Distribution Maintenance	14,005,934	11,848,241
Consumer Accounts	5,657,339	5,031,174
Consumer Service and Information	7,942,395	7,377,065
Sales	30,400	53,400
Administrative and General	10,908,128	9,262,227
Depreciation and Amortization	15,882,103	15,470,273
Other	183,356	208,420
	<u>65,988,130</u>	<u>58,948,955</u>
Operating Margins Before Interest Expense	14,100,880	6,271,786
Interest Expense	<u>5,171,130</u>	<u>5,217,814</u>
Operating Margins After Interest Expense	8,929,750	1,053,972
Nonoperating Margins	(795,106)	(5,784,120)
Generation and Transmission Cooperative Capital Credits	5,507,815	5,251,486
Other Capital Credits and Patronage Capital Allocations	714,136	931,301
Income Tax Benefit	<u>(111,500)</u>	<u>(220,500)</u>
Net Margins	<u>\$ 14,468,095</u>	<u>\$ 1,673,139</u>

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

THE WALTON ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED JUNE 30

	<u>2020</u>	<u>2019</u>
Net Margins	\$ 14,468,095	\$ 1,673,139
Other Comprehensive Income (Loss)		
Change in Fair Value of Costs Related to Pension Plans	(8,535,136)	(5,811,963)
Change in Fair Value of Costs Related to Healthcare	(7,143,976)	(6,774,537)
Amortization of Actuarial Changes	852,252	2,631,824
Amortization of Prior Service Cost	(180,223)	(180,223)
Amortization of Net Transition Obligation	<u>663,910</u>	<u>663,910</u>
Other Comprehensive Loss	<u>(14,343,173)</u>	<u>(9,470,989)</u>
Comprehensive Income (Loss)	<u>\$ 124,922</u>	<u>\$ (7,797,850)</u>

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

THE WALTON ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	Membership Fees	Patronage Capital	Donated Capital	Other Equities	Accumulated Other Comprehensive Loss	Total
Balance, June 30, 2018	\$ 1,012,765	\$ 191,565,788	\$ 2,590,141	\$ 45,120,622	\$ (32,656,266)	\$ 207,633,050
Net Margins		2,336,921		(663,782)		1,673,139
Patronage Capital Retirements		(7,205,395)	420,426			(6,784,969)
Membership Fees	(13,615)					(13,615)
Postretirement Benefits					(9,470,989)	(9,470,989)
Balance, June 30, 2019	999,150	186,697,314	3,010,567	44,456,840	(42,127,255)	193,036,616
Net Margins		14,836,775		(368,680)		14,468,095
Patronage Capital Retirements		(9,728,710)	562,841			(9,165,869)
Membership Fees	(11,950)					(11,950)
Postretirement Benefits					(14,343,173)	(14,343,173)
Balance, June 30, 2020	\$ 987,200	\$ 191,805,379	\$ 3,573,408	\$ 44,088,160	\$ (56,470,428)	\$ 183,983,719

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

THE WALTON ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities		
Net Margins	\$ 14,468,095	\$ 1,673,139
Adjustments to Reconcile Net Margins to Net Cash		
Provided by Operating Activities		
Depreciation and Amortization	16,191,434	16,204,003
Patronage Capital from Associated Organizations	(6,221,951)	(6,182,787)
Medical Benefits Cost	4,401,979	4,299,525
Pension Plan Costs	4,381,449	5,265,404
Revenue Deferral	-	25,000,000
Deferred Revenue Recognition	(14,800,000)	(5,500,000)
Funding of Medical Benefits	(1,303,976)	(1,068,892)
Funding of Pension Plan Costs	(6,000,000)	(11,800,000)
Power Cost Rebate	4,856,493	9,500,227
Change In		
Accounts Receivable (Net)	2,795,426	(736,100)
Other Current Assets	12,927,720	11,644,151
Other Assets	(9,755)	(943,910)
Accounts Payable	(674,140)	444,220
Consumer Deposits	7,183	92,156
Accrued and Withheld Taxes	(250,799)	78,124
Other Current and Accrued Liabilities	604,180	192,954
Deferred Credits	7,089,233	9,064,619
	<u>38,462,571</u>	<u>57,226,833</u>
Cash Flows from Investing Activities		
Extension and Replacement of Plant	(24,408,204)	(22,619,708)
Return of Equity from Associated Organizations	680,873	626,544
Materials and Supplies	(74,205)	(106,611)
Other Investments	(30,446,169)	121,678
	<u>(54,247,705)</u>	<u>(21,978,097)</u>
Balance - Carried Forward	<u>\$ (15,785,134)</u>	<u>\$ 35,248,736</u>

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

THE WALTON ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30

	<u>2020</u>	<u>2019</u>
Balance - Brought Forward	\$ (15,785,134)	\$ 35,248,736
Cash Flows from Financing Activities		
Advances on Long-Term Debt	30,000,000	-
Line-of-Credit	(5,500,000)	1,500,000
Membership Fees	(11,950)	(13,615)
Principal Payments on Long-Term Debt	(5,590,015)	(5,573,131)
Retirement of Patronage Capital	(9,165,869)	(6,784,969)
	<u>9,732,166</u>	<u>(10,871,715)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(6,052,968)	24,377,021
Cash and Cash Equivalents - Beginning	<u>53,656,102</u>	<u>29,279,081</u>
Cash and Cash Equivalents - Ending	<u>\$ 47,603,134</u>	<u>\$ 53,656,102</u>

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

THE WALTON ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

Accounting policies of The Walton Electric Membership Corporation and Subsidiaries (the Corporation) reflect practices appropriate to the electric utility industry, the Georgia Natural Gas Consumption and Deregulation Act and accounting principles generally accepted in the United States of America (U.S. GAAP). The records of the Corporation are maintained in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission. The following describes the more significant of those policies.

Consolidation

The consolidated financial statements include the accounts and results of operations of The Walton Electric Membership Corporation (Walton EMC) and its wholly-owned subsidiaries. All significant intercompany transactions have been eliminated in consolidation.

Nature of Operations

Walton EMC is a member-owned, not-for-profit corporation whose purpose is to provide electric service to its members. Walton EMC 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.

Walton Energy, Inc. d/b/a Walton EMC Natural Gas, a wholly-owned subsidiary of Walton EMC, is a natural gas affiliate whose purpose is to provide natural gas service to its customers. Walton Solar, LLC, a wholly-owned subsidiary of Walton Energy, Inc., is an entity whose purpose is to own and operate cooperative solar projects for wholesale renewable electricity generation and sale.

Walton Discover, LLC and Walton Bainbridge, LLC, wholly-owned subsidiaries of Walton EMC, are generation facilities whose purpose is to provide Morgan Stanley Capital Group, Inc. with all of the facility output, pursuant to a tolling agreement.

Regulated Operations

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

Use of Estimates

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

(1) Summary of Significant Accounting Policies (Continued)

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 the 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.

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

Utility Plant

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

Depreciation and Maintenance

Depreciation of the capitalized cost is provided using composite straight-line 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 straight-line composite rate of 3.2 percent per annum.

Depreciation of general plant is provided on a straight-line basis over the estimated useful lives of the various assets. The rates range from 2.0 percent to 20.0 percent per annum.

Depreciation of generation plant is provided on a straight-line basis over the estimated useful lives of the various assets. The rates range from 3.45 percent to 20.0 percent per annum.

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

(1) Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

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

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 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 included in cash and cash equivalents approximated fair value with interest rates ranging from 0.13 percent to 1.01 percent at June 30, 2020, and have maturities of three months or less.

Accounts Receivable and Credit Policies

Accounts receivable are stated at the net realizable value. Once a 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 consumers to meet their obligations. Accounts considered uncollectible are charged against the allowance. Receivables are reported on the consolidated balance sheets net of such accumulated allowance. Delinquent accounts receivable for natural gas is borne by a third-party gas asset manager through a contractual relationship.

Credit evaluations are performed on most potential consumers before accepting them for service. Depending upon the results of the credit evaluation, a deposit may be required. If a consumer 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.

Advertising

The Corporation expenses advertising cost as it is incurred.

(1) Summary of Significant Accounting Policies (Continued)

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 totaled \$18,151,107 and \$17,702,030 as of June 30, 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 provisions to permit the board of directors to adjust billings for fluctuations in fuel costs, purchased power costs and certain other costs.

Revenues from the sale of natural gas are generated from contracts (service agreements) with customers and are billed monthly to customers on a cycle basis. Revenue is recognized when the natural gas is delivered to the customer based upon meter reading data provided by the local distribution company (LDC) as a single performance obligation satisfied over time as natural gas is consumed. Unbilled revenue is recorded for estimated deliveries of natural gas at the end of each period. Unbilled receivables of \$937,926 and \$1,316,374 are included in accounts receivable for the years ended June 30, 2020 and 2019, respectively.

Revenues from solar sales are billed monthly based on meter readings of solar generation output of each solar facility. Meter readings of solar generation output are recorded at month end and billed according to contractual rates. There were no unbilled receivables related to solar sales for the years ended June 30, 2020 and 2019.

Sales Tax

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

Cost of Revenues

Cost of revenues for electricity and natural gas is expensed as consumed.

Cost of natural gas included charges to purchase, transport, and store gas. The Corporation's contractual relationship with a third-party gas asset manager requires earnings by the unrelated party's operations derived from the Corporation to be shared at a 70 to 30 percent ratio. Payments in the amount of \$1,546,501 and \$1,097,894 have been included as a component of cost of revenues for the years ended June 30, 2020 and 2019, respectively.

Generation and Transmission Cooperative Capital Credits

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

(1) Summary of Significant Accounting Policies (Continued)

Other Comprehensive Income (Loss)

The objective of comprehensive income (loss) is to report a measure of all changes in equity of the entity that result from transactions and events of the period other than transactions with members. Comprehensive income consists of net margins and costs not yet recognized as a component of income related to retirement plans. Amounts reclassified out of accumulated other comprehensive income (loss) related to the Corporation's benefit plans are spread based on direct labor costs.

Recently Adopted Accounting Pronouncements

In March 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2017-07, *Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. ASU 2017-07 requires that an entity report the service cost component of net periodic pension and postretirement benefit cost in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The remaining components of net benefit cost are required to be presented in the statement of operations separately from the service cost component and outside a subtotal of income from operations, if one is presented. The amendments further allow only the service cost component of net periodic pension and postretirement benefit costs to be eligible for capitalization. ASU 2017-07 is effective for private companies for annual periods beginning after December 15, 2018, and the interim periods within annual periods beginning after December 15, 2019, with early adoption permitted. ASU 2017-07 was effective for the Corporation beginning on July 1, 2019. ASU 2017-07 must be applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the income statement, and prospectively, on and after the effective date, for the capitalization of the service cost component of net periodic pension cost and net periodic postretirement benefit cost in assets. Certain amounts included in the accompanying consolidated financial statements for the year ended June 30, 2019 have been reclassified through implementation provisions of ASU 2017-07. The reclassification had no effect on net margins for the year ended June 30, 2019.

In May 2014, the FASB released ASU 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 is designed to create greater comparability for financial statement users across industries and jurisdictions through a more principles-based approach than companies in the United States are used to following. The standard would require companies to recognize revenue through a five-step process: (1) identify the contract with the customer, (2) identify the separate performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the separate performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2015-14 deferred the effective dates for nonpublic companies to reporting periods beginning after December 15, 2018, and for interim periods within annual reporting periods beginning after December 15, 2019. The Corporation adopted the standard on July 1, 2019. The standard required the Corporation to accrue unbilled electric revenue with retrospective application and change in accounting principle. (See Note 2). For natural gas operations, the Corporation has determined that it serves as an agent for gas distribution services in its retail market in the form of LDC passthrough charges. Accordingly, certain passthrough charges that the Corporation previously recorded in revenues, and which were entirely offset within cost of revenues, have been recorded net on the consolidated statements of operations.

(1) Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncement

On February 25, 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* for lease accounting under U.S. GAAP. The new standard is intended to eliminate off-balance-sheet recording of lease obligations in an effort to create financial statements that more accurately reflect leasing activities. In general, an entity will record on the balance sheet the right-of-use assets and the corresponding lease obligations. The new standard 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 consolidated financial statements.

Income Taxes

Walton EMC operates under the Internal Revenue Code Section 501(c)(12) as a tax-exempt cooperative. Wholly-owned subsidiaries, Walton Discover, LLC and Walton Bainbridge, LLC, are disregarded entities for income tax reporting purposes with operations reported in the Corporation's filings. Walton EMC is exempt from federal and state income taxes under Section 501(c)(12) of the Internal Revenue Code (IRC) which provides, in part, that Walton EMC derive at least 85 percent of its annual gross income from members to retain the exemption. Walton EMC has met the requirement for the year ended December 31, 2019, which is on extension through November 15, 2020. As a tax-exempt cooperative, Walton EMC files a federal information return as of December 31 each year.

Walton Energy, Inc. operates under the Georgia Corporation Code as a for-profit corporation. The Corporation accounts for income taxes under the asset and liability method prescribed by U.S. GAAP. Wholly-owned subsidiary, Walton Solar, LLC, is a disregarded entity for income tax reporting purposes with operations reported in the Walton Energy, Inc.'s filings.

Walton Energy, Inc.'s deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates applied to taxable income. The effect of a change in tax rates on deferred income tax assets and liabilities is recognized in income in the period that includes the enactment date.

Walton Energy, Inc.'s taxable subsidiaries record interest and penalties related to federal and state income tax returns as a component of interest expense and nonoperating margins, respectively. No interest or penalties are included on the consolidated statements of operations for the years ended June 30, 2020 and 2019. The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authority, based on technical merits of the position. As of June 30, 2020 and 2019, there were no known items which would result in a material accrual resulting from the Company's federal or state tax positions. Additional information pertinent to the valuation of income taxes is provided in Note 11.

(1) Summary of Significant Accounting Policies (Continued)

Investments in Associated Organizations

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

Capital credit allocations from associated organizations are included on the consolidated statements of operations as “generation and transmission cooperative capital credits” and “other capital credits and patronage capital allocations.”

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

Patronage Capital and Margins

Walton EMC is organized and operates under the cooperative form of organization. As such, patronage capital or margins are allocated to patrons on the basis of patronage. Under provisions of the long-term debt agreements, until the total equities and margins equal or exceed 20 percent of the total assets of Walton EMC, the return to patrons of capital contributed by them is limited. 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 and the policies of the Corporation.

Reclassifications

Certain reclassifications have been made within the June 30, 2019 consolidated financial statements to conform to the June 30, 2020 presentation. The reclassifications had no effect on net margins for the year ended June 30, 2019.

Subsequent Events

In preparing these consolidated financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through November 10, 2020, the date the consolidated financial statements were available to be issued.

(2) Change in Accounting Principle

On July 1, 2019, the Corporation adopted ASU 2014-09, *Revenue from Contracts with Customers*. The standard required the Corporation to accrue electric revenue from the most recent meter read date through the period end. Prior to the adoption of ASU 2014-09, industry standards required the amount of unbilled revenue be disclosed, but not recorded. Comparative financial statements have been adjusted to apply the new accounting standard retrospectively.

	Prior to Change	After Change	Effect of Change
<i>Consolidated Balance Sheet 2020</i>			
Assets			
Accounts Receivable	\$ 26,056,515	\$ 44,207,622	\$ 18,151,107
Members' Equity and Liabilities			
Patronage Capital	\$ 188,506,046	\$ 191,805,379	\$ 3,299,333
Other Equities	29,236,386	44,088,160	14,851,774
	\$ 217,742,432	\$ 235,893,539	\$ 18,151,107
<i>Consolidated Statement of Operations 2020</i>			
Operating Revenues	\$ 380,170,003	\$ 380,619,080	\$ 449,077
Net Margins	\$ 14,019,018	\$ 14,468,095	\$ 449,077

(2) Change in Accounting Principle (Continued)

	As Previously Reported	As Adjusted	Effect of Change
<i>Consolidated Balance Sheet 2019</i>			
Assets			
Accounts Receivable	\$ 29,301,018	\$ 47,003,048	\$ 17,702,030
Members' Equity and Liabilities			
Patronage Capital	\$ 183,847,058	\$ 186,697,314	\$ 2,850,256
Other Equities	29,605,066	44,456,840	14,851,774
	<u>\$ 213,452,124</u>	<u>\$ 231,154,154</u>	<u>\$ 17,702,030</u>

Consolidated Statement of Operations 2019

Operating Revenues	<u>\$ 374,309,586</u>	<u>\$ 374,620,975</u>	<u>\$ 311,389</u>
Net Margins	<u>\$ 1,361,750</u>	<u>\$ 1,673,139</u>	<u>\$ 311,389</u>

(3) Utility Plant

Listed below are the major classes of the electric utility plant as of June 30:

	2020	2019
Distribution Plant	\$ 430,560,647	\$ 412,015,918
General Plant	43,166,410	42,481,393
Generation Plant	<u>19,568,110</u>	<u>19,550,937</u>
Electric Plant in Service	493,295,167	474,048,248
Construction Work in Progress	<u>3,107,899</u>	<u>3,609,744</u>
	<u>\$ 496,403,066</u>	<u>\$ 477,657,992</u>

(4) Investments in Associated Organizations

Investments in associated organizations consist of the following at June 30:

	<u>2020</u>	<u>2019</u>
National Rural Utilities Cooperative Finance Corporation		
Capital Term Certificates	\$ 7,515,746	\$ 7,727,390
Capital Credits	7,546,567	7,364,287
Oglethorpe Power Corporation		
Capital Credits	81,499,152	76,856,713
Georgia Transmission Corporation		
Contributed Capital	3,743,638	3,743,638
Capital Credits	16,081,652	15,216,275
Georgia System Operations Corporation	18,021	18,021
GRESKO Utility Supply, Inc.	546,887	548,681
Southeastern Data Cooperative, Inc.	559,578	518,196
Georgia Electric Membership Corporation	44,459	44,459
Smarr EMC		
Contributed Capital	423,079	423,079
Capital Credits	916,797	916,797
Federated Rural Electric Insurance Exchange		
Capital Credits	598,006	615,678
The National Rural Telecommunications Cooperative	13,858	13,858
Green Power EMC	21,899	21,899
Georgia Right-of-Way Company, Inc.	884,090	843,380
Other	4,110	4,110
	<u>\$ 120,417,539</u>	<u>\$ 114,876,461</u>

(5) Other Investments

Other investments consist of the following at June 30:

	<u>2020</u>	<u>2019</u>
NRUCFC Select Term Note	\$ 30,000,000	\$ -
Investment in Cooperative Choice, LLC	1,552,366	1,123,801
Deferred Compensation Holdings	889,498	1,050,416
Other	57,529	39,921
	<u>\$ 32,499,393</u>	<u>\$ 2,214,138</u>

The Corporation accounts for its investments in Cooperative Choice, LLC utilizing the equity method. For the years ended June 30, 2020 and 2019, the Corporation recorded income of \$1,441,973 and \$1,250,872, respectively, as a component of nonoperating margins, related to these investments.

(5) Other Investments (Continued)

The Corporation has deposited funds, representing deferred compensation, on behalf of qualified employees who have elected to defer certain amounts of compensation. The Corporation is subject to assessment for any amounts by which the market valuation of the funds might fall short of contracted and guaranteed amounts due the employees. It is believed that any ultimate liability will not be material in relation to the total assets of the Corporation. The annual deferral of the compensation plans is calculated in accordance with IRC 457, subject to changes under IRC Section 457(b). The plan assets and liabilities are measured at fair value using quoted prices in active markets for identical assets and considered level 1 investments valued using the market approach. The amounts are invested in mutual funds and totaled \$889,498 and \$1,050,416 for the years ended June 30, 2020 and 2019, respectively.

NRUCFC Select Term Note represents HTM Debt securities in which the Walton EMC has the ability to hold the security until maturity. The carrying value of the debt securities approximated fair value with an interest rate of 0.41 percent at June 30, 2020 and a maturity date of November 23, 2021.

(6) Prepayments

Prepayments consist of the following at June 30:

	2020	2019
Prepaid Power Cost	\$ -	\$ 12,455,036
Prepaid Gas Cost	13,000,000	13,000,000
Other	478,514	910,418
	<u>\$ 13,478,514</u>	<u>\$ 26,365,454</u>

During the years ended June 30, 2020 and 2019, the Corporation elected to participate in a prepayment of power bills program initiated by one of its wholesale power providers. Under the terms of the program, the Corporation prepaid its wholesale power costs and earned a prepayment discount on its power bills during the years ended June 30, 2020 and 2019.

Prepaid natural gas consists of prepayments for customers from the Corporation to Texican Industrial Energy Marketing of \$13,000,000 for the years ended June 30, 2020 and 2019. Of these prepayments, \$3,000,000 represents a noninterest-bearing deposit with the remaining balance accruing interest at a rate of 5.9 percent along with principal. The prepayments have a maturity date of May 31, 2021.

(7) Patronage Capital

Patronage capital consist of the following at June 30:

	2020	2019
Assignable	\$ (67,005,356)	\$ (79,942,651)
Assigned	372,961,328	371,061,848
	305,955,972	291,119,197
Retired	(114,150,593)	(104,421,883)
	<u>\$ 191,805,379</u>	<u>\$ 186,697,314</u>

(8) Debt

Long-term debt consists of mortgage notes payable to the NRUCFC. The notes are secured by a mortgage agreement between Walton EMC and NRUCFC. Substantially all the assets of Walton EMC are pledged as security for long-term debt of the Corporation. The notes have maturity periods varying from November 23, 2020 to January 13, 2055 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 June 30, 2020 and 2019, the Corporation was in compliance with the covenants.

Holder of Note	Interest Rate at June 30, 2020	2020	2019
NRUCFC	2.90% to 7.05%	\$ 148,839,389	\$ 124,429,404
Maturities Due Within One Year		(5,372,246)	(5,582,000)
		<u>\$ 143,467,143</u>	<u>\$ 118,847,404</u>

Walton EMC has a \$24,000,000 line-of-credit at 2.95 percent with NRUCFC which had no outstanding balance for the years ended June 30, 2020 and 2019.

Walton EMC has a \$75,000,000 letter-of-credit with NRUCFC which is irrevocable and unconditionally guaranteed. The letter-of-credit would be payable to a third party under the terms of a power purchase and scheduling agent agreement entered into by the Corporation. Additional information pertinent to the agreement is provided in Note 14.

Walton Energy, Inc. has a \$30,000,000 line-of-credit with the National Cooperative Services Corporation (NCSC) with an interest rate of 3.70 percent. The line-of-credit is secured by substantially all of the general assets of the Corporation. The line-of-credit has an outstanding balance of \$8,000,000 and \$13,500,000 as of June 30, 2020 and 2019, respectively.

(8) Debt (Continued)

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

<u>Year</u>	<u>Amount</u>
2021	\$ 5,372,246
2022	5,017,429
2023	5,125,000
2024	5,368,000
2025	5,444,103
Thereafter	<u>122,512,611</u>
	<u>\$148,839,389</u>

Cash payments of interest totaled \$4,840,799 and \$5,212,630 for June 30, 2020 and 2019, respectively.

(9) Postretirement Benefits***Defined Contribution Plan***

The Corporation provides employee benefits to substantially all employees through a sponsored defined contribution Savings Plan (401-k). In this defined contribution plan, the Corporation's contributory portion of the costs totaled \$1,328,601 and \$1,233,043 for the years ended June 30, 2020 and 2019, respectively.

(9) Postretirement Benefits (Continued)***Defined Benefit Pension Plan***

The status of the Corporation's pension plan as of June 30 is detailed as follows:

	<u>2020</u>	<u>2019</u>
Accumulated Postretirement Benefit Obligation,		
Beginning of Year	\$ 65,732,077	\$ 63,314,789
Service Cost	3,118,650	2,943,639
Interest Cost	1,869,415	2,286,290
Change in Actuarial Assumptions	8,535,136	5,811,963
Benefits Paid	<u>(4,065,077)</u>	<u>(8,624,604)</u>
Accumulated Postretirement Benefit Obligation, End of Year	<u>75,190,201</u>	<u>65,732,077</u>
Fair Value of Plan Assets, Beginning of Year	48,048,571	42,590,587
Actual Return of Plan Assets	1,077,499	2,282,588
Contributions	6,000,000	11,800,000
Benefits Paid	<u>(4,065,077)</u>	<u>(8,624,604)</u>
Fair Value of Plan Assets, End of Year	<u>51,060,993</u>	<u>48,048,571</u>
Funded Status	<u>\$ 24,129,208</u>	<u>\$ 17,683,506</u>
Amounts recognized in accumulated other comprehensive income:		
Transition Obligation	\$ 2,051,482	\$ 2,715,392
Prior Service Cost	(702,863)	(883,086)
Actuarial Loss	<u>31,556,935</u>	<u>23,008,995</u>
	<u>\$ 32,905,554</u>	<u>\$ 24,841,301</u>

Changes in benefit obligations recognized as net periodic benefit cost are as follows:

Service Cost	\$ 3,118,650	\$ 2,943,639
Interest Cost	1,869,415	2,286,290
Amortization of Unrecognized Amounts	470,883	2,318,063
Actual Return on Plan Assets	<u>(1,077,499)</u>	<u>(2,282,588)</u>
	<u>\$ 4,381,449</u>	<u>\$ 5,265,404</u>

(9) Postretirement Benefits (Continued)

Defined Benefit Pension Plan (Continued)

Changes in benefit obligations recognized in other comprehensive income as of June 30 are as follows:

	<u>2020</u>	<u>2019</u>
Actuarial Loss	\$ 8,535,136	\$ 5,811,963
Amortization of Unrecognized Amounts	12,804	(1,834,376)
Amortization of Prior Service Cost	180,223	180,223
Amortization of Net Transition Obligation	<u>(663,910)</u>	<u>(663,910)</u>
	<u>\$ 8,064,253</u>	<u>\$ 3,493,900</u>

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

<u>Description</u>	<u>June 30</u>		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Discount Rate			
APBO	2.40%	2.93%	3.77%
Net Periodic Expense	2.96%	3.77%	3.19%
Expected Long-Term Rate of Return on Plan Assets	7.50%	7.50%	7.50%
Rate of Compensation Increase	3.00%	3.00%	3.00%
Plan Asset Allocation			
Equity	76.00%	58.00%	58.00%
Fixed	22.00%	40.00%	40.00%
Other	<u>2.00%</u>	<u>2.00%</u>	<u>2.00%</u>
Total Plan Asset Allocation	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

The Corporation employs a total-return investment approach whereby a mix of equities and fixed income investments is used to maximize the long-term return of plan assets for a prudent level of risk. The current asset allocation adheres to the Corporation's overall investment strategy for plan assets. Plan assets are measured at fair value. The equity investments are considered a Level 1 measurement based on quoted market prices in active markets for identical assets. Fixed and other plan assets are considered a Level 2 measurement.

The components of net periodic benefit cost, other than the service cost component, are included in the line item nonoperating margins for the year ended June 30, 2020. All components of net periodic benefit cost are included in the consolidated statement of operations for the year ended June 30, 2019 and have been reclassified to the line item nonoperating margins.

(9) Postretirement Benefits (Continued)

Defined Benefit Pension Plan (Continued)

Level 2 inputs to the valuation methodology include the following:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

The Corporation expects to contribute \$6,000,000 to the pension plan for the year ending June 30, 2021.

The Corporation expects to amortize the following amounts from accumulated other comprehensive income during the next fiscal year:

Net Loss	\$3,730,294
Prior Service Credit	(180,233)
Net Transition Obligation	663,910

The following benefits are expected to be paid:

<u>Year</u>	<u>Amount</u>
2021	\$ 5,519,000
2022	5,137,000
2023	6,825,000
2024	7,527,000
2025	7,174,000
2026-2030	34,147,000

(9) Postretirement Benefits (Continued)

Postretirement Healthcare Benefits

The status of the Corporation's postretirement healthcare plan as of June 30 is detailed as follows:

	<u>2020</u>	<u>2019</u>
Accumulated Postretirement Benefit Obligation,		
Beginning of Year	\$ 58,894,445	\$ 49,686,723
Service Cost	1,579,584	1,384,112
Interest Cost	1,957,339	2,117,965
Participant Contributions	204,738	130,226
Change in Actuarial Assumptions	7,143,976	6,774,537
Benefits Paid	<u>(1,508,714)</u>	<u>(1,199,118)</u>
Accumulated Postretirement Benefit Obligation, End of Year	<u>68,271,368</u>	<u>58,894,445</u>
Fair Value of Plan Assets, Beginning of Year	-	-
Actual Return on Plan Assets	-	-
Employer Contributions	1,303,976	1,068,892
Participant Contributions	204,738	130,226
Benefits Paid	<u>(1,508,714)</u>	<u>(1,199,118)</u>
Fair Value of Plan Assets, End of Year	<u>-</u>	<u>-</u>
Funded Status	<u>\$ 68,271,368</u>	<u>\$ 58,894,445</u>

Amounts recognized in the consolidated balance sheets consisted of:

Noncurrent Liabilities	\$ 66,942,368	\$ 57,628,445
Current Liabilities	<u>1,329,000</u>	<u>1,266,000</u>
	<u>\$ 68,271,368</u>	<u>\$ 58,894,445</u>

Amounts recognized in accumulated other comprehensive income consisted of:

Actuarial Loss	<u>\$ 23,564,874</u>	<u>\$ 17,285,954</u>
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Change in benefit obligation recognized in patronage capital are as follows:

Service Cost	\$ 1,579,584	\$ 1,384,112
Interest Cost	1,957,339	2,117,965
Amortization of Actuarial Loss	<u>865,056</u>	<u>797,448</u>
	<u>\$ 4,401,979</u>	<u>\$ 4,299,525</u>

(9) Postretirement Benefits (Continued)

Postretirement Healthcare Benefits (Continued)

Other changes in benefit obligations recognized in other comprehensive income as of June 30 are as follows:

	2020	2019
Actuarial Loss	\$ 7,143,976	\$ 6,774,537
Amortization of Actuarial Loss	(865,056)	(797,448)
	<u>\$ 6,278,920</u>	<u>\$ 5,977,089</u>

The following table shows key assumptions used for the measurement of obligations for the plan.

Description	June 30		
	2020	2019	2018
Discount Rate			
APBO	2.68%	3.50%	4.12%
Net Periodic Benefit Cost	3.50%	4.12%	3.89%
Medical Trend Rate			
Initial	6.30%	6.40%	6.40%
Ultimate	5.00%	5.00%	5.00%
Fiscal Year Reached	2034	2033	2032

The Corporation expects to contribute \$1,329,000 to this postretirement healthcare plan for the fiscal year ending 2021.

The Corporation expects to amortize \$1,396,967 of net loss from accumulated other comprehensive loss during the next fiscal year.

The components of net periodic benefit cost, other than the service cost component, are included in the line item nonoperating margins for the year ended June 30, 2020. All components of net periodic benefit cost are included in the consolidated statement of operations for the year ended June 30, 2019 and have been reclassified to the line item nonoperating margins.

The following benefits are expected to be paid:

Year	Amount
2021	\$1,329,000
2022	1,405,000
2023	1,457,000
2024	1,550,000
2025	1,648,000
2026-2030	9,937,000

(10) Other Assets

Other assets are comprised of the following as of June 30:

	<u>2020</u>	<u>2019</u>
Notes Receivable - Other	\$ 10,000,000	\$ 10,000,000
AGLC	2,419,294	2,365,986
Various Clearing Accounts	1,809,883	1,969,124
Deferred Tax Asset	3,184,000	3,068,000
Miscellaneous Deferred Debits	357	669
	<u>\$ 17,413,534</u>	<u>\$ 17,403,779</u>

AGLC charges for Walton Energy, Inc. are reported by the Corporation related to cost for pipeline, storage, and supporting services to be incurred the month following actual billing. The Corporation accounts for the charges as a deferred item and expenses them in the appropriate month.

Walton Energy, Inc. has a credit agreement with an unrelated party for \$10,000,000 for the years ended June 30, 2020 and 2019. The agreement bears an interest rate of 5 percent and matures on June 30, 2021. Walton Energy, Inc. will be paid accrued interest annually along with principal upon maturity. Interest receivable on the agreement totaled \$500,000 as of June 30, 2020 and 2019. Interest receivable balance as of June 30, 2020 was noted as being received in full the month following period end. Walton Energy, Inc. intends to continue to extend the agreement in subsequent years and has reported the amount as a component of other assets accordingly.

(11) Income Taxes

Details of income tax expense (benefit) are as follows:

	<u>2020</u>	<u>2019</u>
Federal		
Current	\$ (91,000)	\$(176,000)
Deferred	1,000	1,000
State		
Current	(22,000)	(46,000)
Deferred	500	500
	<u>\$ (111,500)</u>	<u>\$(220,500)</u>

(11) Income Taxes (Continued)

The tax effects of temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and their respective tax basis, which give rise to deferred tax assets and liabilities computed at statutory rates, are as follows as of June 30:

	<u>2020</u>	<u>2019</u>
Deferred Tax Assets		
Net Operating Loss Carryforwards	\$ 2,213,900	\$ 1,891,235
Unrealized Federal Tax Credits	2,831,752	2,831,752
Deferred Tax Liabilities		
Accelerated Depreciation and Other Property Basis Differences	<u>(1,861,652)</u>	<u>(1,654,987)</u>
	<u>\$ 3,184,000</u>	<u>\$ 3,068,000</u>

For the years ended June 30, 2020 and 2019, the Corporation had a federal net operating loss carryforward resulting in a deferred tax asset. No valuation allowance has been established due to the likelihood that the full tax benefit will be realized before expiration beginning in 2036 through 2040.

Unrealized federal tax credits are a result of the federal investment tax credit related to construction of solar plant. No valuation allowance has been established due to the likelihood that the full tax benefit will be realized before expiration beginning in 2036 through 2038.

Deferred tax liabilities are the result of property-related timing differences for depreciation. The application of bonus depreciation for solar plant significantly increased deferred tax liabilities for the years ended June 30, 2020 and 2019.

(12) Deferred Credits

Deferred credits are comprised of the following as of June 30:

	<u>2020</u>	<u>2019</u>
Unclaimed Property	\$ 7,255,837	\$ 6,764,815
Deferred Revenue	61,300,000	76,100,000
Power Cost Rebate	14,356,720	9,500,227
Construction Performance Deposits	<u>17,246,055</u>	<u>10,647,844</u>
	<u>\$ 100,158,612</u>	<u>\$ 103,012,886</u>

The power cost revenue deferrals represent a revenue deferral plan to reduce the impact of the future power cost increases by various power suppliers on the Corporation's rate structure. The revenue deferral is in compliance with U.S. GAAP related to the effects of certain types of regulations and has been approved by the board of directors.

(12) Deferred Credits (Continued)

The power cost rebate represents funds received from a purchased power supplier to offset a portion of the cost incurred related to providing credit support for the power purchase and scheduling agent agreement detailed in Note 14. The rebate will be recorded as a reduction in future power cost over the term of the agreement. The treatment is in compliance with U.S. GAAP related to the effects of certain types of regulations and has been approved by the board of directors.

The construction performance deposits represent funds received for three solar generation construction projects currently in progress. The deposits are refundable to contracted parties at the time the generation facilities are placed into service and the performance terms of the agreements are met. Additional information pertinent to the agreements is provided in Note 14.

(13) Accumulated Other Comprehensive Loss

The following table summarizes the components of accumulated other comprehensive loss and the changes in accumulated other comprehensive loss for the years ended June 30:

	Pension Plan	Postretirement Healthcare	Accumulated Other Comprehensive Loss
Balance, June 30, 2018	\$21,347,401	\$11,308,865	\$32,656,266
Change in Fair Value Costs	5,811,963	6,774,537	12,586,500
Amortization of Actuarial Changes	(1,834,376)	(797,448)	(2,631,824)
Amortization of Prior Service Cost	180,223	-	180,223
Amortization of Net Transition Obligation	(663,910)	-	(663,910)
Balance, June 30, 2019	24,841,301	17,285,954	42,127,255
Change in Fair Value Costs	8,535,136	7,143,976	15,679,112
Amortization of Actuarial Changes	12,804	(865,056)	(852,252)
Amortization of Prior Service Cost	180,223	-	180,223
Amortization of Net Transition Obligation	(663,910)	-	(663,910)
Balance, June 30, 2020	\$32,905,554	\$23,564,874	\$56,470,428

(14) Commitments

Walton EMC 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 cost 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 \$95,315,831 in 2020 and are expected to remain relatively constant in the immediate future.

Walton EMC elected to participate in OPC's "5 for 5 Rate Management Program." The objective of this program is to provide a means by which existing obligations of OPC that would otherwise be recognized as expense and billed in the future can be billed to OPC members over a five-year period then credited back against the OPC member's power bill in the subsequent five years. The Corporation elected to make payments through 2021 and receive credits from 2022 through 2026. The Corporation paid approximately \$24,800,000 into OPC's 5 for 5 Rate Management Program for the year ended June 30, 2020. The Corporation earns a return on the amounts funded into this program which are credited against the Corporation's power bill.

Effective January 1, 2016, Walton EMC entered into a power purchase and scheduling agent services agreement. The agreement will continue through December 31, 2025. Effective March 19, 2018, Walton EMC entered into an additional power purchase and scheduling agent services agreement with the same supplier extending the terms through December 31, 2035. Under the terms of the agreements, Walton EMC is required to maintain a modified debt service coverage ratio equal to or greater than 1.35 and a debt to equity ratio less than 2.5 to 1. In the event these conditions are not met, Walton EMC will be required to provide the supplier with acceptable credit support in an amount equal to \$100 million through 2025. As a result of the additional agreement, Walton EMC was required to provide a credit enhancement in the form of an irrevocable standby letter of credit for an initial amount not less than \$75 million. In the event the conditions outlined previously are not met from 2026 through 2035, Walton EMC will be required to provide the supplier additional acceptable credit not to exceed \$75 million. Once conditions are again met by Walton EMC, the remaining amount of credit support will be returned.

Under the terms of the agreement, the supplier will supply 100 percent of regulation, spinning reserves, supplemental reserves and planning reserve capacity. The Corporation is in compliance as of June 30, 2020.

Walton EMC is a member of a transmission cooperative known as Georgia Transmission Corporation (GTC) and as such, has a Member Transmission Service Agreement (MTSA) executed in 1996 and amended in 2005 and 2012. The MTSA revision of 2012 requires Walton EMC to take transmission-related services through 2060 and allows for a reduction in service at prescribed periods. Transmission service under the MTSA was \$18,022,685 in 2020 and is expected to remain relatively constant in the immediate future. Transmission service is recorded as a component of cost of power.

Walton EMC has entered into various assignment and assumption agreements through Green Power EMC and their participating EMCs. These agreements are in support of Walton EMC receiving capacity and energy from the various renewable generation projects that Walton EMC has chosen to participate in through Green Power EMC. In 2020, Walton EMC made \$1,879,846 in capacity and energy payments for these assets.

(14) Commitments (Continued)

Effective August 31, 2018, Walton Solar, LLC entered into a solar power purchase agreement to accept and purchase all the generated quantity at the agreed upon contract price. The agreement will stay in force for a term ending on the later of sixteen years from commercial operating date or December 31, 2035 with an option to extend the initial term five years upon written notice at least one year prior to the end of the initial term.

Effective October 1, 2018, Walton Solar, LLC entered into two solar power purchase agreements to accept and purchase all the generated quantity at agreed upon contract prices with contracted suppliers. The agreements will stay in force for a term ending on the later of fifteen years from commercial operating dates or December 31, 2035.

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.

In addition, Walton Energy, Inc. is subject to a natural gas supply management agreement, as amended, with an outside third party. The third party acts as the gas asset manager and is responsible for “management services” which include, but are not limited to, performing all administrative and operational tasks associated with providing the Corporation with transportation services, storage services, consulting services and nominating services.

Walton Energy, Inc. services both fixed- and variable-rate customers. The third party bills the Corporation monthly for the volume of gas used by each customer type. When fixed-rate customers lock their rate in with Walton Energy, Inc., the third party is required by the agreement to sell that volume at a negotiated fixed price to the Corporation. Therefore, the transaction is not considered a hedging activity, and no exposure to the Corporation exists as of the balance sheet date unless the third party fails to perform.

Walton Energy, Inc. has an obligation to deliver a volume of natural gas required by AGLC. If a natural gas marketer does not deliver the required amount of natural gas, penalties may apply in accordance with the AGLC Tariff. Since the amounts required by AGLC are based on estimates, an imbalance, either positive or negative, occurs with some natural gas marketers delivering more natural gas than their consumers actually consume and other natural gas marketers delivering less natural gas than their consumers actually consume. An imbalance in deliveries of natural gas results in some marketers owing other marketers for excess natural gas (short marketer) and some marketers being owed by other marketers for deficient deliveries of natural gas (long marketer). An imbalance from the short marketers is settled with the long marketers, pursuant to the AGLC Tariff.

On December 12, 2008, Georgia Public Service Commission (GPSC) approved an order which changed the methodology to determine the amount of natural gas each marketer is required to deliver, established an escrow fund to receive imbalance amounts from short marketers, required letters-of-credit to secure payment obligations and shortened the time period associated with the settlement process. GPSC conducts an audit to determine Walton Energy, Inc.’s letter-of-credit requirement. As a result of the audit, Walton Energy, Inc.’s letter-of-credit requirement totaled \$194,407 and was obtained from NCSC for the year ended June 30, 2020. The letter-of-credit requirement is determined on a quarterly basis and has been guaranteed by Walton EMC.

(14) Commitments (Continued)

Walton Energy, Inc. is also required by AGLC's Tariff to provide liquidity support to secure payment of their obligations to AGLC. The liquidity support required is adjusted semiannually based upon a calculation defined in the AGLC Tariff. The liquidity support requirement can be satisfied by cash deposits, a letter-of-credit or a combination of each. Walton Energy, Inc. has elected to secure a letter-of-credit in the amount of \$5,398,100 from NCSC to meet requirements for the year ended June 30, 2020. The letter-of-credit has been guaranteed by Walton EMC.

(15) Concentrations of Credit Risk

The Corporation maintains interest-bearing cash balances in multiple financial institutions; those cash balances throughout the year periodically exceed the federally insured deposit limits. 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 June 30, 2020, bank balances exceeded federally insured deposit limits by \$9,927,031.

At June 30, 2020, debt instruments of the NRUCFC in the amount of \$64,246,055 were held by the Corporation. The amount is not secured or otherwise subject to federally insured deposit liability coverage.

The Corporation serves customers in the state of Georgia. The geographic concentrations of the Corporation's customers result 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. If a customer does not pay its bill based on the terms of its service agreement, the Corporation may require a consumer deposit as a condition for continued service.

(16) Litigation

The Corporation is involved in litigation arising in the ordinary course of business. After consultation with legal counsel, management estimates that these matters will be resolved without a material adverse effect on the Corporation's future financial position or results from operations.

(17) Risks and Uncertainties

As of the issuance date of these consolidated 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 operations 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.

November 10, 2020

**INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY INFORMATION**

The Board of Directors
The Walton Electric Membership Corporation

We have audited the consolidated financial statements of **The Walton Electric Membership Corporation and Subsidiaries** as of and for the years ended June 30, 2020 and 2019 and our report thereon dated November 10, 2020, which expressed an unmodified opinion on the consolidated financial statements, appears on page 1. Those audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The accompanying information on pages 35 through 38 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic consolidated financial statements as a whole.

McNair, McLemore, Middlebrooks & Co., LLC
McNAIR, MCLEMORE, MIDDLEBROOKS & CO., LLC

THE WALTON ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET
JUNE 30, 2020

	The Walton Electric Membership Corporation	Walton Energy, Inc. and Subsidiary	Walton Bainbridge, LLC	Walton Discover, LLC	Total	Eliminating Entries		The Walton EMC and Subsidiaries
						Debit	Credit	
ASSETS								
Utility Plant								
Electric Plant in Service - At Cost	\$ 473,680,429	\$ 12,405,564	\$ 3,145,535	4,063,639	\$ 493,295,167	\$ -	\$ -	\$ 493,295,167
Construction Work in Progress	3,107,899	-	-	-	3,107,899	-	-	3,107,899
	476,788,328	12,405,564	3,145,535	4,063,639	496,403,066	-	-	496,403,066
Accumulated Provision for Depreciation	(185,395,257)	(1,340,979)	(805,250)	(780,008)	(188,321,494)	-	-	(188,321,494)
	291,393,071	11,064,585	2,340,285	3,283,631	308,081,572	-	-	308,081,572
Other Property and Investments								
Investments in Associated Organizations	120,417,539	-	-	-	120,417,539	-	-	120,417,539
Investment in Subsidiary	39,994,255	-	-	-	39,994,255	-	39,994,255	-
Other Investments	32,499,393	-	-	-	32,499,393	-	-	32,499,393
	192,911,187	-	-	-	192,911,187	-	39,994,255	152,916,932
Current Assets								
Cash and Cash Equivalents	39,559,694	2,825,539	2,756,433	2,461,468	47,603,134	-	-	47,603,134
Interest Receivable	59,746	505,671	-	-	565,417	-	-	565,417
Accounts Receivable (Net)	39,667,515	4,868,159	114,510	139,510	44,789,694	-	582,072	44,207,622
Materials and Supplies	2,110,212	-	106,140	196,145	2,412,497	-	-	2,412,497
Prepayments	33,100	13,000,000	201,618	243,796	13,478,514	-	-	13,478,514
	81,430,267	21,199,369	3,178,701	3,040,919	108,849,256	-	582,072	108,267,184
Other Assets								
	1,809,883	15,603,651	-	-	17,413,534	-	-	17,413,534
Total Assets								
	\$ 567,544,408	\$ 47,867,605	\$ 5,518,986	\$ 6,324,550	\$ 627,255,549	\$ -	\$ 40,576,327	\$ 586,679,222
EQUITIES AND LIABILITIES								
Equities								
Membership Fees	\$ 987,200	\$ -	\$ -	\$ -	\$ 987,200	\$ -	\$ -	\$ 987,200
Patronage Capital	191,805,379	-	-	-	191,805,379	-	-	191,805,379
Retained Earnings	-	8,268,163	-	-	8,268,163	8,268,163	-	-
Common Stock	-	10,000	-	-	10,000	10,000	-	-
Members' Equity	-	-	5,469,287	6,256,805	11,726,092	11,726,092	-	-
Paid-In Capital	-	19,990,000	-	-	19,990,000	19,990,000	-	-
Donated Capital	3,573,408	-	-	-	3,573,408	-	-	3,573,408
Other Equities	44,088,160	-	-	-	44,088,160	-	-	44,088,160
Accumulated Other Comprehensive Loss	(56,470,428)	-	-	-	(56,470,428)	-	-	(56,470,428)
	183,983,719	28,268,163	5,469,287	6,256,805	223,977,974	39,994,255	-	183,983,719
Long-Term Debt								
	143,467,143	-	-	-	143,467,143	-	-	143,467,143
Accumulated Provision for Postretirement Benefits								
Pension Plan	24,129,208	-	-	-	24,129,208	-	-	24,129,208
Healthcare Benefits	66,942,368	-	-	-	66,942,368	-	-	66,942,368
	91,071,576	-	-	-	91,071,576	-	-	91,071,576
Other Long-Term Liabilities								
	889,498	-	-	-	889,498	-	-	889,498
Current Liabilities								
Current Maturities of Mortgage Notes	5,372,246	-	-	-	5,372,246	-	-	5,372,246
Line-of-Credit	-	8,000,000	-	-	8,000,000	-	-	8,000,000
Accounts Payable	22,574,494	10,540,404	28,699	51,645	33,195,242	582,072	-	32,613,170
Consumer Deposits	9,254,165	774,427	-	-	10,028,592	-	-	10,028,592
Current Portion of Healthcare Benefits	1,329,000	-	-	-	1,329,000	-	-	1,329,000
Accrued and Withheld Taxes	3,368,482	257,546	21,000	16,100	3,663,128	-	-	3,663,128
Accrued Interest	870,061	-	-	-	870,061	-	-	870,061
Other	5,232,477	-	-	-	5,232,477	-	-	5,232,477
	48,000,925	19,572,377	49,699	67,745	67,690,746	582,072	-	67,108,674
Deferred Credits								
	100,131,547	27,065	-	-	100,158,612	-	-	100,158,612
Total Equities and Liabilities								
	\$ 567,544,408	\$ 47,867,605	\$ 5,518,986	\$ 6,324,550	\$ 627,255,549	\$ 40,576,327	\$ -	\$ 586,679,222

THE WALTON ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE YEAR ENDED JUNE 30, 2020

	The Walton Electric Membership Corporation	Walton Energy, Inc. and Subsidiary	Walton Bainbridge, LLC	Walton Discover, LLC	Total	Eliminating Entries		The Walton EMC and Subsidiaries
						Debit	Credit	
Operating Revenues and Patronage Capital	\$ 314,542,072	\$ 63,137,008	\$ 1,320,000	\$ 1,620,000	\$ 380,619,080	\$ -	\$ -	\$ 380,619,080
Cost of Revenues	244,400,099	56,129,971	-	-	300,530,070	-	-	300,530,070
Gross Margins	70,141,973	7,007,037	1,320,000	1,620,000	80,089,010	-	-	80,089,010
Operating Expenses								
Operations	10,961,984	-	156,077	260,414	11,378,475	-	-	11,378,475
Maintenance	13,174,260	-	282,412	549,262	14,005,934	-	-	14,005,934
Consumer Accounts	5,657,339	-	-	-	5,657,339	-	-	5,657,339
Consumer Service and Information	1,789,789	6,152,606	-	-	7,942,395	-	-	7,942,395
Sales	30,400	-	-	-	30,400	-	-	30,400
Administrative and General	8,713,027	1,482,007	292,747	420,347	10,908,128	-	-	10,908,128
Depreciation and Amortization	15,104,730	394,888	194,488	187,997	15,882,103	-	-	15,882,103
Other	114,992	-	38,050	30,314	183,356	-	-	183,356
	55,546,521	8,029,501	963,774	1,448,334	65,988,130	-	-	65,988,130
Operating Margins (Loss) Before Interest Expense	14,595,452	(1,022,464)	356,226	171,666	14,100,880	-	-	14,100,880
Interest Expense	4,907,666	263,464	-	-	5,171,130	-	-	5,171,130
Operating Margins (Loss) After Interest Expense	9,687,786	(1,285,928)	356,226	171,666	8,929,750	-	-	8,929,750
Nonoperating Margins	(1,441,642)	805,749	2,458	2,210	(631,225)	163,881	-	(795,106)
Generation and Transmission Cooperative Capital Credits	5,507,815	-	-	-	5,507,815	-	-	5,507,815
Other Capital Credits and Patronage Capital Allocations	714,136	-	-	-	714,136	-	-	714,136
Income Tax Benefit	-	(111,500)	-	-	(111,500)	-	-	(111,500)
Net Margins	\$ 14,468,095	\$ (368,679)	\$ 358,684	\$ 173,876	\$ 14,631,976	\$ 163,881	\$ -	\$ 14,468,095

THE WALTON ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET
JUNE 30, 2019

	The Walton Electric Membership Corporation	Walton Energy, Inc. and Subsidiary	Walton Bainbridge, LLC	Walton Discover, LLC	Total	Eliminating Entries		The Walton EMC and Subsidiaries
						Debit	Credit	
ASSETS								
Utility Plant								
Electric Plant in Service - At Cost	\$ 454,450,683	\$ 12,388,389	\$ 3,145,535	\$ 4,063,641	\$ 474,048,248	\$ -	\$ -	\$ 474,048,248
Construction Work in Progress	3,609,744	-	-	-	3,609,744	-	-	3,609,744
	458,060,427	12,388,389	3,145,535	4,063,641	477,657,992	-	-	477,657,992
Accumulated Provision for Depreciation	(175,644,326)	(946,091)	(610,762)	(592,011)	(177,793,190)	-	-	(177,793,190)
	282,416,101	11,442,298	2,534,773	3,471,630	299,864,802	-	-	299,864,802
Other Property and Investments								
Investments in Associated Organizations	114,876,461	-	-	-	114,876,461	-	-	114,876,461
Investment in Subsidiary	32,830,373	-	-	-	32,830,373	-	32,830,373	-
Other Investments	2,214,138	-	-	-	2,214,138	-	-	2,214,138
	149,920,972	-	-	-	149,920,972	-	32,830,373	117,090,599
Current Assets								
Cash and Cash Equivalents	47,953,165	1,292,539	2,254,869	2,155,529	53,656,102	-	-	53,656,102
Interest Receivable	84,327	521,870	-	-	606,197	-	-	606,197
Accounts Receivable (Net)	41,352,346	5,973,202	114,422	139,422	47,579,392	-	576,344	47,003,048
Materials and Supplies	2,037,961	-	106,140	194,191	2,338,292	-	-	2,338,292
Prepayments	12,946,852	13,097,445	146,418	174,739	26,365,454	-	-	26,365,454
	104,374,651	20,885,056	2,621,849	2,663,881	130,545,437	-	576,344	129,969,093
Other Assets								
	1,969,124	15,434,655	-	-	17,403,779	-	-	17,403,779
Total Assets								
	\$ 538,680,848	\$ 47,762,009	\$ 5,156,622	\$ 6,135,511	\$ 597,734,990	\$ -	\$ 33,406,717	\$ 564,328,273
EQUITIES AND LIABILITIES								
Equities								
Membership Fees	\$ 999,150	\$ -	\$ -	\$ -	\$ 999,150	\$ -	\$ -	\$ 999,150
Patronage Capital	186,697,314	-	-	-	186,697,314	-	-	186,697,314
Retained Earnings	-	8,636,842	-	-	8,636,842	8,636,842	-	-
Common Stock	-	6,500	-	-	6,500	6,500	-	-
Members' Equity	-	-	5,110,602	6,082,929	11,193,531	11,193,531	-	-
Paid-In Capital	-	12,993,500	-	-	12,993,500	12,993,500	-	-
Donated Capital	3,010,567	-	-	-	3,010,567	-	-	3,010,567
Other Equities	44,456,840	-	-	-	44,456,840	-	-	44,456,840
Accumulated Other Comprehensive Loss	(42,127,255)	-	-	-	(42,127,255)	-	-	(42,127,255)
	193,036,616	21,636,842	5,110,602	6,082,929	225,866,989	32,830,373	-	193,036,616
Long-Term Debt								
	118,847,404	-	-	-	118,847,404	-	-	118,847,404
Accumulated Provision for Postretirement Benefits								
Pension Plan	17,683,506	-	-	-	17,683,506	-	-	17,683,506
Healthcare Benefits	57,628,445	-	-	-	57,628,445	-	-	57,628,445
	75,311,951	-	-	-	75,311,951	-	-	75,311,951
Other Long-Term Liabilities								
	1,050,412	-	-	-	1,050,412	-	-	1,050,412
Current Liabilities								
Current Maturities of Mortgage Notes	5,582,000	-	-	-	5,582,000	-	-	5,582,000
Line-of-Credit	-	13,500,000	-	-	13,500,000	-	-	13,500,000
Accounts Payable	22,328,540	11,473,612	25,020	36,482	33,863,654	576,344	-	33,287,310
Consumer Deposits	9,209,516	811,893	-	-	10,021,409	-	-	10,021,409
Current Portion of Healthcare Benefits	1,266,000	-	-	-	1,266,000	-	-	1,266,000
Accrued and Withheld Taxes	3,557,785	319,042	21,000	16,100	3,913,927	-	-	3,913,927
Accrued Interest	850,093	-	-	-	850,093	-	-	850,093
Other	4,648,265	-	-	-	4,648,265	-	-	4,648,265
	47,442,199	26,104,547	46,020	52,582	73,645,348	576,344	-	73,069,004
Deferred Credits								
	102,992,266	20,620	-	-	103,012,886	-	-	103,012,886
Total Equities and Liabilities								
	\$ 538,680,848	\$ 47,762,009	\$ 5,156,622	\$ 6,135,511	\$ 597,734,990	\$ 33,406,717	\$ -	\$ 564,328,273

THE WALTON ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE YEAR ENDED JUNE 30, 2019

	The Walton Electric Membership Corporation	Walton Energy, Inc. and Subsidiary	Walton Bainbridge, LLC	Walton Discover, LLC	Total	Eliminating Entries		The Walton EMC and Subsidiaries
						Debit	Credit	
Operating Revenues and Patronage Capital	\$ 281,123,726	\$ 90,557,249	\$ 1,320,000	\$ 1,620,000	\$ 374,620,975	\$ -	\$ -	\$ 374,620,975
Cost of Revenues	225,436,807	83,963,427	-	-	309,400,234	-	-	309,400,234
Gross Margins	55,686,919	6,593,822	1,320,000	1,620,000	65,220,741	-	-	65,220,741
Operating Expenses								
Operations	9,263,061	-	171,597	263,497	9,698,155	-	-	9,698,155
Maintenance	11,090,831	-	253,703	503,707	11,848,241	-	-	11,848,241
Consumer Accounts	5,031,174	-	-	-	5,031,174	-	-	5,031,174
Consumer Service and Information	1,604,342	5,772,723	-	-	7,377,065	-	-	7,377,065
Sales	53,400	-	-	-	53,400	-	-	53,400
Administrative and General	6,923,500	1,687,469	279,154	372,104	9,262,227	-	-	9,262,227
Depreciation and Amortization	14,693,048	394,740	194,488	187,997	15,470,273	-	-	15,470,273
Other	140,147	-	38,995	29,278	208,420	-	-	208,420
	48,799,503	7,854,932	937,937	1,356,583	58,948,955	-	-	58,948,955
Operating Margins (Loss) Before Interest Expense	6,887,416	(1,261,110)	382,063	263,417	6,271,786	-	-	6,271,786
Interest Expense	4,995,615	222,199	-	-	5,217,814	-	-	5,217,814
Operating Margins (Loss) After Interest Expense	1,891,801	(1,483,309)	382,063	263,417	1,053,972	-	-	1,053,972
Nonoperating Margins	(6,401,449)	599,026	1,434	1,426	(5,799,563)	(15,443)	-	(5,784,120)
Generation and Transmission Cooperative Capital Credits	5,251,486	-	-	-	5,251,486	-	-	5,251,486
Other Capital Credits and Patronage Capital Allocations	931,301	-	-	-	931,301	-	-	931,301
Income Tax Benefit	-	(220,500)	-	-	(220,500)	-	-	(220,500)
Net Margins	<u>\$ 1,673,139</u>	<u>\$ (663,783)</u>	<u>\$ 383,497</u>	<u>\$ 264,843</u>	<u>\$ 1,657,696</u>	<u>\$ (15,443)</u>	<u>\$ -</u>	<u>\$ 1,673,139</u>

November 10, 2020

**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
The Walton Electric Membership Corporation and Subsidiaries

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 consolidated financial statements of **The Walton Electric Membership Corporation and Subsidiaries** (the Corporation), which comprise the consolidated balance sheet as of June 30, 2020 and the related consolidated statements of operations, comprehensive income, changes in members' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 10, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated 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 consolidated 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 the board of directors.

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 consolidated 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 consolidated financial statement amounts. 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. The 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
McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC

November 10, 2020

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

The Board of Directors
The Walton Electric Membership Corporation and Subsidiaries

We have audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheets of **The Walton Electric Membership Corporation and Subsidiaries** as of June 30, 2020 and 2019 and the related consolidated statements of operations, comprehensive income, changes in members' equity, and cash flows for the years then ended, and have issued our report thereon dated November 10, 2020.

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

This report is intended solely for the information and use of the boards of directors and management of The Walton Electric Membership Corporation and the National Rural Utilities Cooperative Finance Corporation and is not intended to be and should not be used by anyone other than these specified parties.

McNair, McLeMore, Middlebrooks & Co., LLC
McNAIR, MCLEMORE, MIDDLEBROOKS & CO., LLC

THE WALTON ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES
MATTERS TO BE COMMUNICATED WITH THE BOARD OF DIRECTORS
JUNE 30, 2020

Auditor's Responsibility Under Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in our engagement letter, the auditors are responsible for forming and expressing an opinion about whether the consolidated financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles in the United States of America. The audit of the consolidated 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 The Walton Electric Membership Corporation and Subsidiaries (the Corporation) are outlined in Note 1 to the financial statements. The Corporation implemented the following provisions during the year:

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

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the consolidated 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 consolidated 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 consolidated financial statements were:

- Construction work in progress
- Useful lives of utility plant
- Reserve for uncollectible accounts
- Expense accruals
- Accrued utility revenue
- Actuarial assumptions related to postretirement benefits accruals

We evaluated the key factors and assumptions used to develop management's estimates in determining that they are reasonable in relation to the consolidated 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. Attachment A lists adjustments to the consolidated financial statements.

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 consolidated financial statements or the auditors' 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 November 10, 2020.

Consultation with Other Accountants

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

Major Issues Discussed with Management Prior to Retention

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Corporation's auditors. 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.

Supplementary Information

With respect to the supplementary information accompanying the consolidated financial statements, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period and the information is appropriate and complete in relation to our audit of the consolidated financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the consolidated financial statements or to the consolidated financial statements themselves.

Restriction of Use

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

THE WALTON ELECTRIC MEMBERSHIP CORPORATION
AUDIT ENTRIES
FOR THE YEAR ENDED JUNE 30, 2020

	<u>Debit</u>	<u>Credit</u>
Adjustment 1		
Investment in Subsidiary Companies	\$ 51,255	
Equity in Earnings of Subsidiaries		\$ 51,255
To record current year adjustments for earnings in subsidiaries		
Adjustment 2		
Pension Plan Equity Adjustment	8,064,253	
Administrative and General		1,251,253
Pension Plan Liability		3,825,422
Pension Plan Assets		2,987,578
To record current year adjustments for actuarially determined pension liability		
Adjustment 3		
Medical Plan Equity Adjustment	6,278,920	
Administrative and General	26,327	
Postretirement Medical Benefit Liability		6,305,247
To record current year adjustments for actuarially determined postretirement medical benefit liability		
Adjustment 4		
Other Long-Term Liabilities	281,914	
Other Investments		281,914
To record current year adjustments for deferred compensation funds		