# RAPPAHANNOCK ELECTRIC COOPERATIVE AND SUBSIDIARY

Consolidated Financial Statements and
Supplementary Information

Years ended December 31, 2023 and 2022

**RAPPAHANNOCK ELECTRIC COOPERATIVE**
**AND SUBSIDIARY**

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# Independent Auditor's Report

The Board of Directors
Rappahannock Electric Cooperative
Fredericksburg, Virginia

**Opinion**

We have audited the accompanying consolidated financial statements of Rappahannock Electric Cooperative (the Cooperative) and Rappahannock Electric Communications, Inc. (the Subsidiary) which comprise the consolidated balance sheets as of December 31, 2023 and 2022 and the related consolidated statements of operations, comprehensive income, cash flows, and equities for the years ended December 31, 2023 and 2022, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Rappahannock Electric Cooperative and Subsidiary as of December 31, 2023 and 2022, and the results of their operations, comprehensive income and their cash flows for the years ended December 31, 2023 and 2022, in accordance with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (*Government Auditing Standards*), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Rappahannock Electric Cooperative and Subsidiary and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Responsibilities of Management for the Consolidated Financial Statements**

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

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

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Rappahannock Electric Cooperative and Subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Rappahannock Electric Cooperative and Subsidiary's ability to continue as a going concern for a reasonable period of time.

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

## Report on Consolidating Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information in Schedules 1 through 3 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, equities and cash flows of the individual companies, and it is not a required part of the 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. The consolidating information has been subjected to the auditing procedures applied in the audit of the 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 consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 12, 2024, on our consideration of Rappahannock Electric Cooperative and Subsidiary's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cooperative and Subsidiary's internal control over financial reporting and compliance.

Adams, Jenkins & Cheatham

Richmond, Virginia
April 12, 2024

**RAPPAHANNOCK ELECTRIC COOPERATIVE**
**AND SUBSIDIARY**

Consolidated Balance Sheets

December 31, 2023 and 2022

| Assets | | 2023 | | 2022 |
|---|---|---|---|---|
| | | (In thousands) | | |
| Net utility plant | $ | 881,490 | $ | 790,231 |
| Investments: | | | | |
| Associated organizations | | 156,464 | | 152,050 |
| Other | | 3,983 | | 3,952 |
| Total investments | | 160,447 | | 156,002 |
| Current assets: | | | | |
| Cash and cash equivalents | | 46,467 | | 8,989 |
| Short-term investments | | 215 | | 66,026 |
| Accounts receivable, less allowance for credit losses | | 45,156 | | 35,684 |
| Unbilled receivables | | 16,986 | | 24,522 |
| Materials and supplies inventories | | 22,274 | | 12,440 |
| Prepaid expenses | | 3,473 | | 2,451 |
| Other | | 14,815 | | 15,864 |
| Total current assets | | 149,386 | | 165,976 |
| Deferred charges: | | | | |
| Pension costs | | 6,281 | | 7,459 |
| Power cost adjustment | | 411 | | 1,743 |
| Other | | 1,018 | | 1,175 |
| Total deferred charges | | 7,710 | | 10,377 |
| Total assets | $ | 1,199,033 | $ | 1,122,586 |
| **Equities and Liabilities** | | | | |
| Equities: | | | | |
| Patronage capital | $ | 443,048 | $ | 435,255 |
| Accumulated other comprehensive loss | | (979) | | (480) |
| Total equities | | 442,069 | | 434,775 |
| Long-term debt, excluding current installments | | 597,963 | | 586,854 |
| Current liabilities: | | | | |
| Key accounts contracts | | 46,947 | | — |
| Current installments of long-term debt | | 23,844 | | 21,363 |
| Line of credit | | 7,508 | | — |
| Amounts due to power suppliers | | 29,766 | | 33,822 |
| Accounts payable | | 20,665 | | 16,107 |
| Consumer deposits | | 7,265 | | 8,737 |
| Other | | 8,858 | | 6,906 |
| Total current liabilities | | 144,853 | | 86,935 |
| Other noncurrent liabilities: | | | | |
| Postretirement benefit obligation | | 491 | | 565 |
| Deferred credits-other | | 9,147 | | 9,994 |
| Other | | 4,510 | | 3,463 |
| Total other noncurrent liabilities | | 14,148 | | 14,022 |
| Total equities and liabilities | $ | 1,199,033 | $ | 1,122,586 |

See Independent Auditor's Report and Notes to Consolidated Financial Statements

**RAPPAHANNOCK ELECTRIC COOPERATIVE**
**AND SUBSIDIARY**

Consolidated Statements of Operations

December 31, 2023 and 2022

| | 2023 | 2022 |
|---|---|---|
| | (In thousands) | |
| Operating revenues | $ 507,005 | $ 479,216 |
| Operating expenses: | | |
| Cost of power | 333,093 | 312,561 |
| Transmission | 1,004 | 805 |
| Distribution – operations | 16,639 | 17,139 |
| Distribution – maintenance | 39,717 | 42,415 |
| Consumer accounts | 16,478 | 15,429 |
| Consumer service | 3,202 | 2,964 |
| Sales, administrative, and general | 29,168 | 25,799 |
| Total operating expenses | 439,301 | 417,112 |
| Other expenses: | | |
| Depreciation | 45,601 | 44,783 |
| Interest on long-term debt | 20,559 | 18,044 |
| Other | 1,588 | 1,502 |
| Total other expenses | 67,748 | 64,329 |
| Total expenses | 507,049 | 481,441 |
| Operating losses | (44) | (2,225) |
| Nonoperating margins: | | |
| Patronage capital assigned | 5,329 | 5,166 |
| Interest income | 3,236 | 1,723 |
| Other income, net | 2,689 | 1,142 |
| Total nonoperating margins | 11,254 | 8,031 |
| Net margins | $ 11,210 | $ 5,806 |

Consolidated Statements of Comprehensive Income

Years ended December 31, 2023 and 2022

| | 2023 | 2022 |
|---|---|---|
| | (In thousands) | |
| Net margins | $ 11,210 | $ 5,806 |
| Other comprehensive income (loss): | | |
| Actuarial change | (377) | 1,992 |
| Amortization gain (loss) | (49) | 44 |
| Prior service cost | (250) | (1,119) |
| Amortization of prior service cost | 177 | 154 |
| Total other comprehensive income (loss) | (499) | 1,071 |
| Comprehensive income | $ 10,711 | $ 6,877 |

See Independent Auditor's Report and Notes to Consolidated Financial Statements

**RAPPAHANNOCK ELECTRIC COOPERATIVE**
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Consolidated Statements of Cash Flows

December 31, 2023 and 2022

| | | 2023 | | 2022 |
|---|---|---|---|---|
| | | (In thousands) | | |
| Cash flows from operating activities: | | | | |
| Net margins | $ | 11,210 | $ | 5,806 |
| Adjustments: | | | | |
| Depreciation | | 45,601 | | 44,783 |
| Noncash capital credit allocations | | (5,329) | | (5,166) |
| Special equipment installation costs | | (5,034) | | (3,029) |
| Loss (gain) on disposal of assets | | (412) | | 1,052 |
| (Increase) decrease in assets: | | | | |
| Other investments | | (32) | | 405 |
| Accounts and unbilled receivables | | (1,824) | | (16,250) |
| Other current assets | | (28) | | (9,926) |
| Deferred charges | | 2,667 | | (1,031) |
| Increase (decrease) in liabilities: | | | | |
| Accounts payable | | 386 | | 17,925 |
| Other current liabilities | | 48,902 | | (922) |
| Deferred credits | | (847) | | (5,214) |
| Other noncurrent liabilities | | 482 | | 308 |
| Net cash provided by operating activities | | 95,742 | | 28,741 |
| Cash flows from investing activities: | | | | |
| Extension and replacement of plant | | (158,066) | | (83,708) |
| Contributions in aid of construction | | 21,447 | | 6,895 |
| Plant removal costs | | (4,573) | | (2,015) |
| Retirement of CTC's | | 49 | | 47 |
| Purchases/receipts of investments | | (250,625) | | (285,924) |
| Maturities of investments | | 316,436 | | 273,432 |
| Net cash used in investing activities | | (75,332) | | (91,273) |
| Cash flows from financing activities: | | | | |
| Net change in consumer deposits | | (1,472) | | 702 |
| Proceeds from patronage capital retired | | 866 | | 3,445 |
| Retirements of patronage capital | | (3,417) | | (8,955) |
| Proceeds from long-term debt | | 35,000 | | 90,000 |
| Payments on long-term debt | | (21,409) | | (20,225) |
| Proceeds from line of credit | | 15,500 | | — |
| Payments on line of credit | | (8,000) | | — |
| Net cash provided by financing activities | | 17,068 | | 64,967 |
| Net increase in cash and cash equivalents | | 37,478 | | 2,435 |
| Cash and cash equivalents, beginning of year | | 8,989 | | 6,554 |
| Cash and cash equivalents, end of year | $ | 46,467 | $ | 8,989 |
| Supplemental disclosure: | | | | |
| Cash paid for interest | $ | 20,314 | $ | 18,482 |
| Right-of-use asset obtained in exchange for operating lease liability | $ | 515 | $ | 412 |

See Independent Auditor's Report and Notes to Consolidated Financial Statements

**RAPPAHANNOCK ELECTRIC COOPERATIVE**
**AND SUBSIDIARY**

Consolidated Statements of Equities

December 31, 2023 and 2022

| | Patronage Capital | Accumulated Other Comprehensive Income (Loss) | Total |
|---|---|---|---|
| | | (In thousands) | |
| Balance, December 31, 2021 | $ 438,404 | $ (1,551) | $ 436,853 |
| Net Margins | 5,806 | — | 5,806 |
| Retirement of Patronage Capital | (8,955) | — | (8,955) |
| Other Comprehensive Income | — | 1,071 | 1,071 |
| Balance, December 31, 2022 | $ 435,255 | $ (480) | $ 434,775 |
| Net Margins | 11,210 | — | 11,210 |
| Retirement of Patronage Capital | (3,417) | — | (3,417) |
| Other Comprehensive Loss | — | (499) | (499) |
| Balance, December 31, 2023 | $ 443,048 | $ (979) | $ 442,069 |

See Independent Auditor's Report and Notes to Consolidated Financial Statements

## (1) Significant Accounting Policies

### *(a) General*

Rappahannock Electric Cooperative (the Cooperative) is an electric distribution utility engaged in the retail sale of electricity to residential and commercial member consumers in the central portion of Virginia. The Cooperative serves its member consumers located in select areas within the counties of Albemarle, Caroline, Clarke, Culpeper, Essex, Fauquier, Frederick, Goochland, Greene, Hanover, King & Queen, King William, Louisa, Madison, Orange, Page, Rappahannock, Rockingham, Shenandoah, Spotsylvania, Stafford and Warren and portions of the towns of Berryville, Bowling Green, Boyce, Culpeper, Front Royal, Madison, Middletown, Port Royal, Stanardsville, Stephens City, and Washington. The rates charged to member consumers of the Cooperative are regulated by the State Corporation Commission of Virginia (SCC).

Rappahannock Electric Communications, Inc. (the Subsidiary) is a wholly owned for-profit subsidiary operating under a management agreement with the Cooperative. All earnings and losses have been included in the consolidating statement of operations.

The Cooperative is a member of Old Dominion Electric Cooperative (ODEC), a not-for-profit wholesale power supply cooperative. The Cooperative is required to purchase substantially all of its power from ODEC through 2054 (see note 10). The Cooperative's investment of $140,596,803 in ODEC as of December 31, 2023, is 29% of ODEC's patronage capital.

As a cooperative regulated by the SCC, the Cooperative has exclusive rights to distribute electricity to portions of the above counties and towns. As of January 1, 2003, the Cooperative completed the transition to allow competition within its service area in accordance with the Electric Utility Restructuring Act of 1999 and the Retail Access Rules established by the SCC. The legislation clarifies that cooperatives will be default suppliers of all competitive services and will continue to be permitted to sell electricity directly to their customers.

### *(b) Uniform System of Accounts*

The accounts of the Cooperative are maintained in accordance with the Uniform System of Accounts as prescribed by the United States of America – Rural Utilities Service (RUS). The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

The Cooperative follows the accounting practices set forth in GAAP regarding accounting for the effects of certain types of regulations. This standard requires entities to capitalize or defer certain costs or revenues based on the Cooperative's ongoing assessment that it is probable that such items will be recovered through future revenues.



(Continued)

***(c) Principles of Consolidation***

The consolidated financial statements include the financial statements of the Cooperative and the Subsidiary. All significant intercompany balances and transactions have been eliminated in consolidation.

***(d) Utility Plant***

Utility plant is stated at original cost, which includes direct labor, payroll taxes and other fringe benefits related to employees engaged in construction, materials and certain indirect costs such as maintenance and depreciation of transportation and construction equipment. The costs of depreciable utility plant retired and related removal costs, less salvage values, are charged to accumulated depreciation.

As of September 7, 2021, the Cooperative authorized a depreciation study of its electric utility plant to determine if the rates in use were providing for an accurate recovery of costs. Based on that study and approval by the SCC, changes were made effective in the first quarter, 2023. Provision is made for depreciation of plant based on straight-line rates per annum as follows:

| | |
|---|---|
| Allegheny acquisition adjustment | 3.05% |
| Fort Walker (formerly Fort A.P. Hill) acquisition adjustment | 4.08% |
| Transmission station equipment | 2.39% |
| Transmission poles and fixtures | 3.34% |
| Transmission overhead conductors and devices | 3.62% |
| Transmission underground conductors and devices | 4.48% |
| Distribution station equipment | 3.70% |
| Distribution station equipment-SCADA | 6.93% |
| Distribution station equipment-load management | 3.79% |
| Poles, towers and fixtures | 4.83% |
| Overhead conductors and devices | 3.88% |
| Overhead conductors and devices-SCADA | 5.77% |
| Overhead conductors and devices-load management | 3.56% |

| | |
|---|---|
| Underground conduit | 2.91% |
| Underground conductor and devices | 2.85% |
| Underground conductor and devices-nonjacketed cable | 0.44% |
| Line transformers | 1.92% |
| Services | 3.55% |
| Meters | 6.59% |
| Meters-AMR modules | 4.32% |
| Meters-communication devices | 8.48% |
| Security lights | 6.06% |
| Load management equipment | 2.80% |
| Structures and improvements | 2.78% |
| Structures and improvements - HVAC equipment | 16.67% |
| Office furniture and equipment | 6.25% |
| Office furniture and equipment-computerized | 20.00% |
| Office furniture and equipment-software | 20.00% |
| Office furniture and equipment-system hardware | 20.00% |
| Transportation equipment - autos, SUVs and pickups | 16.67% |
| Transportation equipment - small bucket trucks | 12.50% |
| Transportation equipment - large bucket trucks | 8.33% |
| Transportation equipment - 75'-100' bucket trucks, trailers | 6.25% |
| Stores equipment | 4.17% |
| Tools, shop and garage equipment | 4.76% |
| Laboratory equipment | 3.85% |
| Power operated equipment | 6.25% |
| Communications equipment | 8.33% |
| Communications equipment - fiber | 3.80% |
| Miscellaneous equipment | 5.00% |

### *(e) Cash and Cash Equivalents*

The Cooperative and Subsidiary consider all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. Cash equivalents are stated at cost, which approximates their fair values.

### *(f) Short-Term Investments*

In 2023 and 2022, the Cooperative earned an average rate of 5.72% and 2.77%, respectively, on prepayments of its ODEC power bill. ODEC allows for the immediate return of these prepayments if requested. Therefore, the Cooperative accounts for these interest-bearing prepayments as short-term investments. At December 31, 2023 and 2022, the Cooperative had short-term investments of $214,867 and $66,026,001, respectively.

***(g) Allowance for Credit Losses***

At year-end, the provision for credit losses is adjusted based on an analysis of aged accounts receivable balances, including evaluation of relevant information about past events, current conditions and reasonable and supportable forecasts. At December 31, 2023 and 2022, the Cooperative had allowances of $1,103,695 and $1,123,020, respectively. The Cooperative maintains a policy, which includes an analysis of aged accounts receivable, of writing off uncollectible accounts with Board approval.

***(h) Materials and Supplies Inventories***

Materials and supplies inventories are stated at the lower of market or average cost and are generally used for construction or operations, not for resale.

***(i) Postretirement Benefits Other Than Pensions***

The Cooperative accounts for postretirement benefits other than pensions by charging the projected future cost of providing postretirement benefits, such as health care and life insurance, to expense as such benefits are earned by the employees.

***(j) Income Taxes***

The Cooperative has been granted exemption from income tax under Section 501(c)(12) of the Internal Revenue Code. The Cooperative evaluates the components of the annual test for compliance to maintain its filing status as a tax-exempt entity. In accordance with the Financial Accounting Standards Board ASC Topic 740-10, *Accounting for Uncertainty in Income Taxes*, the Cooperative had determined that it is more likely than not that their tax positions will be sustained upon examination by the Internal Revenue Service. The Subsidiary is an incorporated taxable entity subject to state and federal income taxation. Deferred tax assets and liabilities of the Subsidiary 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.

***(k) Power Cost Adjustment (PCA)***

The Cooperative uses the deferred method of accounting for all power costs. Under this method, a deferred account is adjusted to recognize power costs that are billed to member consumers. Any amounts collected over and above or below the Cooperative's monthly power costs are recorded as a deferred credit or deferred charge as applicable. At December 31, 2023 and 2022, the Cooperative had a cumulative under collection of power costs totaling $411,280 and $1,742,888, respectively.

***(l) Revenue Recognition***

The Cooperative and Subsidiary recognize revenue in accordance with Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*. The Cooperative's primary source of revenue and accounts receivable is derived from implied contractual agreements with its customers for the provision of electric service. Electric revenue is recorded when it is consumed, which complies with the requirements of ASC Topic 606. The Cooperative recognizes revenue from consumed electricity in the appropriate reporting period through its estimate of unbilled revenue which is recorded based on estimated amounts due from members for electricity used but not yet billed by the Cooperative. The Subsidiary recognizes revenue based upon contracts which are specific to each customer in accordance with ASC Topic 606.

***(m) Asset Retirement Obligations***

In accordance with the Financial Accounting Standards Board ASC Topic 410, *Accounting for Asset Retirement Obligations*, the Cooperative has determined that it had no material legal asset retirement obligations as of December 31, 2023 and 2022. Regarding non-legal retirement obligations, the Cooperative 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.

***(n) Advertising Costs***

The Cooperative and Subsidiary expense advertising costs as incurred. There were no material advertising costs for the years ended December 31, 2023 and 2022.

***(o) Impairment or Disposal of Long-Lived Assets***

In accordance with the Financial Accounting Standards Board ASC Topic 360, *Accounting for the Impairment or Disposal of Long-Lived Assets*, long-lived assets and certain identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

***(p) Internal Use Software***

In accordance with the Financial Accounting Standards Board ASC Topic 350-40, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*, the Cooperative capitalizes certain internal and external costs of developing internal use software and amortizes them over the estimated useful life of the software.



(Continued)

*(q) Recently Issued Accounting Standards*

During the year ended December 31, 2023, the Cooperative adopted Financial Accounting Standards Board (FASB) ASC Topic 326 Financial Instruments Credit Losses, which became effective for fiscal years beginning after December 15, 2022. The new standard requires the Cooperative to estimate expected credit losses over the life of its financial assets and certain off-balance sheet exposures as of the reporting date based on relevant information about past events, current conditions, and reasonable and supportable forecasts. The Cooperative records the estimate of expected credit losses as an allowance for credit losses.

*(r) Use of Estimates*

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States 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.

*(s) Subsequent Events*

Subsequent events have been evaluated through April 12, 2024, which is the date the consolidated financial statements were available to be issued (see note 13).

## (2) Utility Plant

Utility plant, at cost, as of December 31, 2023 and 2022, consists of the following:

| | 2023 | 2022 |
|---|---|---|
| | (In thousands) | |
| Distribution | $ 1,076,418 | $ 1,010,260 |
| Transmission | 48,224 | 48,803 |
| General | 139,846 | 126,896 |
| Acquisition adjustments | 54,324 | 54,324 |
| Utility plant in service | 1,318,812 | 1,240,283 |
| Construction in progress | 115,753 | 74,153 |
| Total utility plant | 1,434,565 | 1,314,436 |
| Less accumulated amortization and depreciation | 553,075 | 524,205 |
| Net utility plant | $ 881,490 | $ 790,231 |

(Continued)

## (3) Investments in Associated Organizations and Other Investments

Investments in associated organizations are primarily composed of patronage capital assigned from ODEC, National Rural Utilities Cooperative Finance Corporation (CFC), and CoBank. These investments are recorded at cost plus allocated patronage capital. The patronage allocations are non-interest-bearing and ultimate realization of the amounts is based upon the granting cooperative's policies.

At December 31, 2023 and 2022, investments in associated organizations consist of the following:

| | 2023 | 2022 |
|---|---|---|
| | (In thousands) | |
| ODEC patronage capital assigned | $ 140,597 | $ 136,681 |
| CFC patronage capital certificates | 2,000 | 1,983 |
| CoBank Class E stock | 6,551 | 6,372 |
| Other | 3,408 | 3,057 |
| Total patronage capital | 152,556 | 148,093 |
| Investment in capital term certificates (CFC): | | |
| Subscription capital term certificates | 2,457 | 2,457 |
| Loan capital term certificates: | | |
| Interest-bearing | 778 | 778 |
| Non-interest-bearing | 173 | 222 |
| Member capital securities | 500 | 500 |
| Capital term certificates and member capital securities | 3,908 | 3,957 |
| Total investments in associated organizations | $ 156,464 | $ 152,050 |

The CFC patronage capital certificates and the CoBank Class E stock may be retired at book value at the sole discretion of those organizations' boards of directors.

The CFC subscription capital term certificates pay interest semiannually at a rate of 5% per annum and are currently scheduled to mature beginning in 2070 and ending in 2080. The CFC interest-bearing loan capital term certificates pay interest semiannually at a rate of 3% per annum and began maturing in 2020 and ending in 2035. The CFC non-interest-bearing loan capital term certificates pay an annual amount based on the corresponding outstanding loan balance with maturities ranging from 2024 to 2027.

In April, 2014, the Cooperative invested in member capital securities that pay interest semiannually at a rate of 5% per annum, are scheduled to mature in April, 2044 and are callable by CFC beginning April, 2024.

Other investments include TEC Trading, Inc. which is recorded at cost of $1,782,500.



(Continued)

## (4) Long-Term Debt

Long-term debt at December 31, 2023 and 2022 consists of the following:

| | 2023 | 2022 |
|---|---|---|
| | (In thousands) | |
| Mortgage notes: | | |
| RUS- | | |
| due 2031 through 2056; (1.05% - 4.44%) | $ 494,409 | $ 471,524 |
| CoBank- | | |
| due 2026 through 2045; (2.65% - 6.85%) | 73,377 | 78,919 |
| CFC- | | |
| due 2024 through 2045; (3.40% - 4.05%) | 54,021 | 57,774 |
| Total long-term debt | 621,807 | 608,217 |
| Less current installments | 23,844 | 21,363 |
| Long-term debt, excluding current installments | $ 597,963 | $ 586,854 |

Annual maturities of long-term debt for the five years subsequent to December 31, 2023, and thereafter are approximately $23.8 million in 2024, $24.1 million in 2025, $25.1 million in 2026, $23.9 million in 2027, $23.0 million in 2028 and $501.9 million thereafter.

### *(a) Mortgage Notes*

Under provisions of the mortgage note agreements, if total equities are less than 30% of the total assets of the Cooperative, the return to members of patronage capital is limited to 25% of the margins earned by the Cooperative in the preceding year. Additionally, the mortgage note agreements impose certain restrictions, including requirements to maintain a Times Interest Earned Ratio (TIER) and Debt Service Coverage Ratio (DSC) of 1.25, calculated as an average of the two best years of the three most recent calendar years. Furthermore, the Cooperative's mortgage note agreements also stipulate a requirement to maintain an average Operating Times Interest Earned Ratio (OTIER) of 1.1 in the two best years of the three most recent calendar years. As of December 31, 2023, and 2022, the Cooperative was in compliance with all restrictions. The agreements also contain certain provisions and restrictions relating to, but not limited to, the sale of utility plant, insurance coverage and minimum equity requirements. Substantially all plant assets are pledged as collateral.

In September 2021, the Cooperative was approved for a $175 million loan package from RUS. $90 million was drawn on this loan package in 2022. A second draw of $35 million was taken during 2023.



(Continued)

### *(b) Lines of Credit*

The Cooperative has unsecured line-of-credit agreements with two banks in the amounts of $80 million with CFC and $50 million with CoBank. Under authority granted by the SCC, the Cooperative is authorized to incur indebtedness under these agreements in the aggregate amount up to $80 million.

The interest rate on advances under these agreements is equal to the rate to be quoted by each bank based on its discretion. The Cooperative had a zero balance on the CFC line of credit agreement as of December 31, 2023 and 2022. The Cooperative had a balance of $7.5 million on the CoBank line of credit as of December 31, 2023 and a zero balance as of December 31, 2022.

## (5) Concentration of Credit Risk

Financial instruments, which potentially subject the Cooperative and Subsidiary to concentration of credit risk, consist principally of cash and cash equivalents and customer accounts receivable.

The Cooperative and Subsidiary maintain checking accounts in Truist, Atlantic Union Bank and Wells Fargo. The Federal Deposit Insurance Corporation (FDIC) provides insurance coverage for up to $250,000 of cash held by the Cooperative and Subsidiary in each separate FDIC insured bank and savings institution. From time to time, the Cooperative and Subsidiary may have amounts on deposit in excess of the insured limits. As of December 31, 2023, the Cooperative and Subsidiary had approximately $47.6 million of uninsured deposits. Also, at December 31, 2023, the Cooperative had ODEC prepayments totaling approximately $215 thousand, which were not insured. This balance is shown as short-term investments on the consolidated balance sheet.

Accounts receivable primarily consist of amounts due from customers for the purchase of electricity. Customers are located within the 22 counties and 11 towns of Virginia served by the Cooperative. Approximately 75% of the Cooperative's receivables are for residential customers and due to the large number of customers involved, are a minimal risk. The commercial and public customers represent approximately 25% of receivables. Management minimizes the credit risk with deposit requirements, provisions for credit losses, and accounts receivable insurance.

## (6) Margin Stabilization

The Cooperative's wholesale power supplier, ODEC, has an approved Margin Stabilization Plan. The purpose of this plan is to maintain ODEC's margins within a predetermined range. Margin stabilization payments or charges are passed through to member consumers as deferred credits or deferred charges utilizing the power cost adjustment factor. These payments from ODEC were $1,068,275 and $624,671 at December 31, 2023 and 2022, respectively.

## (7) Benefits

### *(a) Pension Plan*

All employees of the Cooperative that complete one year of service are participants in the National Rural Electric Cooperative Association (NRECA) Retirement Security Plan (RS Plan) which is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is a multiemployer plan under the accounting standards. The plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333.

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

The Cooperative's contributions to the RS Plan in 2023 and in 2022 represented less than 5% of the total contributions made to the plan by all participating employers. The Cooperative made annual contributions to the plan of $9,552,985 and $8,402,429 in 2023 and 2022, respectively. There have been no significant changes that affect the comparability of 2023 and 2022 contributions.

In the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the Retirement Security Plan was over 80% funded on January 1, 2023 and over 80% funded on January 1, 2022 based on the PPA funding target and PPA actuarial value of assets on those dates.

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

In addition to the NRECA Retirement and Security Program, substantially all employees of the Cooperative are eligible to participate in the NRECA SelectRE plan, a defined contribution and multi-employer deferred income plan qualified under section 401(k) of the Internal Revenue Code. The Cooperative's required contribution to the Plan was $805,571 and $740,781 for the years ended December 31, 2023 and 2022, respectively.

All employees of the Subsidiary are also eligible to participate in the NRECA SelectRE plan. The Subsidiary's required contribution was $312,269 and $211,852 for the years ended December 31, 2023 and 2022, respectively.

### *(b) Deferred Benefit Plan*

The Cooperative has entered into deferred benefit agreements with certain of its employees that provide for annual benefit payments to be made over a period of 15 years upon retirement or death of the covered employees. The contributions and related interest under these agreements are being accrued over the period of active employment of the covered employees. The amounts of such accruals



(Continued)

were approximately $412,000 and $450,000 as of December 31, 2023 and 2022, respectively, and are included in other liabilities. The expense under these agreements amounted to $21,364 and $23,609 in 2023 and 2022, respectively.

For the deferred benefit plan, the Cooperative is the beneficiary of life insurance policies on these employees which were acquired to provide for future payments of these benefits. These policies are shown as other investments in the accompanying consolidated balance sheets and are carried at current cash surrender value. The face amount of these policies total $1,528,352. As of December 31, 2023 and 2022, the cash surrender values of these policies were $769,096 and $775,137, respectively.

***(c) 457(b) Deferred Compensation Plan***

The Cooperative participates in a nonqualified, deferred compensation 457(b) Plan limited to certain directors of the board and certain key employees. The Cooperative retains ownership of the assets and earnings until the retirement date of the participant. The plan is administered by Homestead Funds. For the years ended December 31, 2023 and 2022, the balance of the deferred compensation held for the benefit of the directors of the board was $37,705 and $34,761, respectively. For the years ended December 31, 2023 and 2022, the balance of the deferred compensation held for the benefit of the key employees was $473,640 and $479,255, respectively.

***(d) Executive Benefit Restoration Plan***

The Cooperative participates in an executive benefit restoration plan which is intended to provide a supplemental benefit for employees who would have a reduction in their pension benefit because of the Internal Revenue Code limitations.

The expense under this plan amounted to $493,409 and $632,002 in 2023 and 2022, respectively. The accrued amount was $2,931,072 and $1,960,054 as of December 31, 2023 and 2022, respectively, and are included in other noncurrent liabilities in the accompanying consolidated balance sheets.

The following sets forth the benefit obligation with the funded status of the plan as December 31, 2023 and 2022:

| | | 2023 | | 2022 |
|---|---|---|---|---|
| | | (In thousands) | | |
| Benefit obligation at beginning of year | $ | 1,960 | $ | 2,243 |
| Service cost | | 198 | | 311 |
| Interest cost | | 129 | | 97 |
| Plan amendments | | 249 | | 1,119 |
| Actuarial (gain)/loss | | 395 | | (1,810) |
| Benefit obligation at end of year | | 2,931 | | 1,960 |
| Fair value of plan assets at end of year | | — | | — |
| Funded status | $ | (2,931) | $ | (1,960) |

The net periodic pension costs are as follows:

| | | 2023 | | 2022 |
|---|---|---|---|---|
| | | (In thousands) | | |
| Service cost | $ | 198 | $ | 311 |
| Interest cost | | 129 | | 97 |
| Amortization of gain/(loss) | | (11) | | 70 |
| Amortization of prior service cost | | 177 | | 154 |
| Net periodic pension cost | $ | 493 | $ | 632 |

The reconciliation of accumulated other comprehensive (income) loss is:

| | | 2023 | | 2022 |
|---|---|---|---|---|
| | | (In thousands) | | |
| Unrecognized prior service costs | $ | 1,437 | $ | 1,365 |
| Unrecognized actuarial (gain)/loss | | (225) | | (630) |
| | $ | 1,212 | $ | 735 |

Weighted average assumptions used to determine the benefit obligation and benefit costs:

| | 2023 | 2022 |
|---|---|---|
| Discount rate | 5.03% | 5.24% |
| Salary increase assumption | 5.00% | 5.00% |
| Measurement date | 12/31/2023 | 12/31/2022 |

Estimated future benefit payments reflecting expected future service years are as follows (in thousands):

| Year ending December 31, | | |
|---|---|---|
| 2024 | $ | — |
| 2025 | $ | — |
| 2026 | $ | — |
| 2027 | $ | 92 |
| 2028 | $ | — |
| 2029 - 2033 | $ | 1,196 |

### *(e) Postretirement Benefits Other Than Pensions*

The Cooperative pays the entire medical premium for employees who retired prior to December 31, 1995, as well as the premium for the spouse and dependents under the age of twenty-six. The Cooperative does not contribute to the cost of the medical coverage after the death of a retired participant. Employees retiring after December 31, 1995 may elect to purchase medical insurance, but are responsible for the entire premium resulting in no employer liability.

Amounts paid by the Cooperative under these commitments were $88,548 and $102,106 in 2023 and 2022, respectively.

The Medicare Prescription Drug Improvement and Modernization Act was signed into law as of December 7, 2003. The Medicare Act introduces a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. All measures of the benefit obligation and the net periodic postretirement benefit cost included in this footnote reflect the effects of the Medicare Act on the plan.

The following sets forth the benefit obligation with the funded status of the plan as of December 31, 2023 and 2022:

| | 2023 | 2022 |
|---|---|---|
| | (In thousands) | |
| Change in benefit obligation: | | |
| Benefit obligation at beginning of year | $ 565 | $ 821 |
| Interest cost | 25 | 20 |
| Actuarial change | (18) | (182) |
| Medicare Part D subsidy received | 8 | 8 |
| Benefits paid | (89) | (102) |
| Benefit obligation at end of year | 491 | 565 |
| Fair value of plan assets at end of year | — | — |
| Funded status | $ (491) | $ (565) |

The unrecognized amounts included in accumulated comprehensive (income) loss are as follows:

| | 2023 | 2022 |
|---|---|---|
| | (In thousands) | |
| Net actuarial (gain)/loss | $ (234) | $ (255) |

Weighted average assumptions used to determine the benefit obligation and benefit costs:

| | 2023 | 2022 |
|---|---|---|
| Medical trend rate next year | 6.00% | 7.00% |
| Ultimate trend rate | 5.00% | 5.00% |
| Year ultimate trend rate is achieved | 2026 | 2026 |
| Discount rate used to value end of year accumulated postretirement benefit obligation | 4.75% | 5.00% |
| Measurement date | 12/31/2023 | 12/31/2022 |

Estimated future benefit payments shown net of employee contributions are as follows:

| Year beginning January 1, | Net Benefit Payment |
|---|---|
| | (In thousands) |
| 2024 | $ 84 |
| 2025 | 77 |
| 2026 | 69 |
| 2027 | 62 |
| 2028 | 54 |
| 2029-2033 | 177 |

There are no assets that have been segregated and restricted to pay for the postretirement benefits; rather the plan is being funded on a pay-as-you-go basis. The total net periodic postretirement benefit amounts recorded were credits of $13,314 and $6,127 in 2023 and 2022, respectively. The estimated amortization amounts were approximately $35,000 as of December 31, 2023 and 2022.

## (8) Winter Storm Frida

On January 5, 2022, Governor Ralph Northam declared a State of Emergency due to severe winter weather. Storm system Frida struck the Cooperative's service territory causing system damage totaling approximately $18.6 million. The Cooperative submitted a request to the Federal Emergency Management Agency (FEMA) for approximately $14 million to offset the cost of the storm. Those funds have been obligated by FEMA. Approximately $700 thousand has been received by the Cooperative, but the remaining reimbursement is pending approval from the Virginia Department of Emergency Management (VDEM) as of the date of these consolidated financial statements.

## (9) Commitments

The Cooperative, as a member of ODEC, purchases substantially all of its power from ODEC under a wholesale power contract dated January 1, 2009. The term of this contract is for 45 years and thereafter until terminated by either party giving to the other not less than three years written notice of its intention to terminate. To the extent available, the Cooperative is obligated to purchase from ODEC all electric power and energy that the Cooperative requires for the operation of its system. Purchases from ODEC amounted to $312,474,946 and $285,662,098 in 2023 and 2022, respectively.

As part of REC's agreement with ODEC, the Cooperative has an option to obtain up to 5% of its power requirements from a third-party provider. On October 15, 2015, REC's board of directors authorized the execution of a contract with Morgan Stanley Capital Group to purchase 5% of its power. The contract was dated November 9, 2015 and the Cooperative began purchasing from Morgan Stanley on May 1, 2016. This contract was amended as of December 2, 2020 and continued through December 31, 2023. These purchases amounted to $18,781,560 and $19,949,935 in 2023 and 2022, respectively.

The Cooperative has binding contracts for substation and fiber work to be done. The balances of these contract commitments are $1,348,415 and $650,568 as of December 31, 2023 and 2022, respectively.

The Cooperative is holding deposits from commercial members for the purchase of equipment and services that will be utilized for work in the future. The balances of these commitments are $46,947,059 as of December 31, 2023. As of December 31, 2022, there were no such commitments.

## (10) Related Party Transactions

The Cooperative has investments in and long-term loans with both CFC and CoBank at market interest rates. As of December 31, 2023, liabilities were $54,020,642 and $73,377,466, respectively. As of December 31, 2022, liabilities were $57,773,609 and $78,919,366, respectively.

Rappahannock Electric Communications, Inc. (the Subsidiary) is a wholly owned for-profit subsidiary of the Cooperative. The Subsidiary provides information technology and consulting services to the Cooperative and various external customers. Amounts related to these services provided to the Cooperative were approximately $6,779,000 and $4,438,000 for 2023 and 2022, respectively. The Cooperative provides personnel, administrative, and support services to the Subsidiary. Amounts related to these services provided to the Subsidiary were approximately $664,000 and $720,000 for 2023 and 2022, respectively. The Subsidiary had a payable to the Cooperative of approximately $37,600 at December 31, 2023 and $63,000 at December 31, 2022. The Subsidiary had a receivable from the Cooperative of approximately $1,128,200 at December 31, 2023 and $51,000 at December 31, 2022.

## (11) Financial Instruments Carried at Cost

The Cooperative has recorded all financial instruments based on the carrying amount (book value) in the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. In accordance with the Financial Accounting Standards Board ASC Topic 825, *Disclosures about Fair Value of Financial Instruments*, the Cooperative is required to disclose the fair value of 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.

### *(a) Cash and Cash Equivalents, Accounts and Unbilled Receivables, Amounts Due to Power Suppliers, Accounts Payable and Consumer Deposits*

The carrying amount approximates fair value due to the short-term nature of these instruments.

### *(b) 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 30-year Treasury yield curve rate of 4.02% and 3.97% for the years ending December 31, 2023 and 2022, respectively. The fair value of patronage capital is not determinable since no legal obligation exists to retire capital credits. The fair value of the cost and equity method investments are not estimated since there are no identified events or changes in circumstances that may have a significant adverse effect on the fair value and it is not practicable to estimate fair value. The carrying value of memberships approximates fair value.

***(c) Long-Term Debt***

The carrying amount of the Cooperative's long-term debt includes certain interest rates that are below quoted market prices for the same or similar issues. Therefore, the fair value of the Cooperative's long-term debt is estimated based on current market prices offered for debt of the same and remaining maturities.

The estimated fair values of the Cooperative's financial instruments as of December 31, 2023 and 2022 are as follows:

| 2023 | Carrying Value | Fair Value |
|---|---|---|
| | (In thousands) | |
| Capital term certificates (CFC) | $ 3,408 | $ 3,900 |
| Member capital securities | 500 | 600 |
| Long-term debt | 621,807 | 605,000 |

| 2022 | Carrying Value | Fair Value |
|---|---|---|
| | (In thousands) | |
| Capital term certificates (CFC) | $ 3,457 | $ 4,000 |
| Member capital securities | 500 | 600 |
| Long-term debt | 608,217 | 569,000 |

## (12) Deferred Income Taxes

The Subsidiary has net operating loss carryforwards totaling approximately $538,000 and $792,000 at December 31, 2023 and 2022. These net operating loss carryforwards may be used to offset federal and state taxable income in future years. Based on the year in which they arose, net operating loss carryforwards of approximately $531,000 expire at various dates through 2035; whereas the remaining $7,000 carry forward indefinitely. 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 asset and related valuation allowance at December 31, 2023 and 2022 are as follows:

| | 2023 | 2022 |
|---|---|---|
| | (In thousands) | |
| Deferred tax asset | | |
| Net operating loss carryforwards | $ 150 | $ 169 |
| Valuation allowance | (150) | (169) |
| Net deferred tax asset | $ — | $ — |

## (13) Current Issues

The Cooperative is involved in legal actions and claims that arise as a result of events that occur in the normal course of operations. The ultimate resolution of these actions is not expected to have a material adverse effect on the Cooperative’s financial position.

Schedule 1

**RAPPAHANNOCK ELECTRIC COOPERATIVE**
**AND SUBSIDIARY**

Consolidating Balance Sheet

December 31, 2023

| Assets | Rappahannock Electric Cooperative | R.E. Communications Inc. | Eliminating entries | Consolidated totals |
|---|---|---|---|---|
| | | (In thousands) | | |
| Net utility plant | $ 881,490 | $ — | $ — | $ 881,490 |
| Investments: | | | | |
| Associated organizations | 156,993 | — | (529) | 156,464 |
| Other | 3,983 | — | — | 3,983 |
| Total investments | 160,976 | — | (529) | 160,447 |
| Current assets: | | | | |
| Cash and cash equivalents | 46,467 | — | — | 46,467 |
| Short-term investments | 215 | — | — | 215 |
| Accounts receivable less allowance for credit losses | 44,874 | 1,447 | (1,165) | 45,156 |
| Unbilled receivables | 16,986 | — | — | 16,986 |
| Materials and supplies inventories | 22,218 | 56 | — | 22,274 |
| Prepaid expenses | 3,445 | 28 | — | 3,473 |
| Other | 15,087 | — | (272) | 14,815 |
| Total current assets | 149,292 | 1,531 | (1,437) | 149,386 |
| Deferred charges: | | | | |
| Pension costs | 6,281 | — | — | 6,281 |
| Power cost adjustment | 411 | — | — | 411 |
| Other | 1,018 | — | — | 1,018 |
| Total deferred charges | 7,710 | — | — | 7,710 |
| Total assets | $ 1,199,468 | $ 1,531 | $ (1,966) | $ 1,199,033 |
| **Equities and Liabilities** | | | | |
| Equities: | | | | |
| Patronage capital | $ 443,048 | $ — | $ — | $ 443,048 |
| Subsidiary retained earnings | — | 529 | (529) | — |
| Accumulated other comprehensive loss | (979) | — | — | (979) |
| Total equities | 442,069 | 529 | (529) | 442,069 |
| Long-term debt, excluding current installments | 597,963 | — | — | 597,963 |
| Current liabilities: | | | | |
| Key accounts contracts | 46,947 | — | — | 46,947 |
| Current installments of long-term debt | 23,844 | — | — | 23,844 |
| Line of credit | 7,508 | — | — | 7,508 |
| Amounts due to power suppliers | 29,766 | — | — | 29,766 |
| Accounts payable | 21,750 | 352 | (1,437) | 20,665 |
| Consumer deposits | 7,265 | — | — | 7,265 |
| Other | 8,420 | 438 | — | 8,858 |
| Total current liabilities | 145,500 | 790 | (1,437) | 144,853 |
| Other noncurrent liabilities: | | | | |
| Postretirement benefit obligation | 491 | — | — | 491 |
| Deferred credits-other | 8,983 | 164 | — | 9,147 |
| Other | 4,462 | 48 | — | 4,510 |
| Total other noncurrent liabilities | 13,936 | 212 | — | 14,148 |
| Total equities and liabilities | $ 1,199,468 | $ 1,531 | $ (1,966) | $ 1,199,033 |

See accompanying Independent Auditor's Report.

**Schedule 2**

**RAPPAHANNOCK ELECTRIC COOPERATIVE AND SUBSIDIARY**

Consolidating Statement of Operations

Year ended December 31, 2023

| | Rappahannock Electric Cooperative | R.E. Communications Inc. | Eliminating entries | Consolidated totals |
|---|---|---|---|---|
| | | (In thousands) | | |
| Operating revenues | $ 506,581 | $ 7,203 | $ (6,779) | $ 507,005 |
| Operating expenses: | | | | |
| Cost of power/cost of goods sold | 333,093 | 5,301 | (5,301) | 333,093 |
| Transmission | 1,004 | — | — | 1,004 |
| Distribution – operations | 16,639 | — | — | 16,639 |
| Distribution – maintenance | 39,717 | — | — | 39,717 |
| Consumer accounts | 16,478 | — | — | 16,478 |
| Consumer service | 3,202 | — | — | 3,202 |
| Sales, administrative, and general | 28,703 | 1,943 | (1,478) | 29,168 |
| Total operating expenses | 438,836 | 7,244 | (6,779) | 439,301 |
| Other expenses: | | | | |
| Depreciation | 45,601 | — | — | 45,601 |
| Interest on long-term debt | 20,559 | — | — | 20,559 |
| Other | 1,588 | — | — | 1,588 |
| Total other expenses | 67,748 | — | — | 67,748 |
| Total expenses | 506,584 | 7,244 | (6,779) | 507,049 |
| Operating losses | (3) | (41) | — | (44) |
| Nonoperating margins: | | | | |
| Patronage capital assigned | 5,329 | — | — | 5,329 |
| Interest income | 3,236 | — | — | 3,236 |
| Other income, net | 2,648 | 117 | (76) | 2,689 |
| Total nonoperating margins | 11,213 | 117 | (76) | 11,254 |
| Net margins | $ 11,210 | $ 76 | $ (76) | $ 11,210 |

See accompanying Independent Auditor's Report.

Schedule 3

**RAPPAHANNOCK ELECTRIC COOPERATIVE**
**AND SUBSIDIARY**

Consolidating Statement of Cash Flows

Year ended December 31, 2023

| | Rappahannock Electric Cooperative | R.E. Communications Inc. | Eliminating entries | Consolidated totals |
|---|---|---|---|---|
| | (In thousands) | | | |
| Cash flows from operating activities: | | | | |
| Net margins | $ 11,210 | $ 76 | $ (76) | $ 11,210 |
| Adjustments: | | | | |
| Depreciation | 45,601 | — | — | 45,601 |
| Noncash capital credit allocations | (5,329) | — | — | (5,329) |
| Special equipment installation costs | (5,034) | — | — | (5,034) |
| Gain on disposal of assets | (412) | — | — | (412) |
| (Increase) decrease in assets: | | | | |
| Other investments | (32) | — | — | (32) |
| Accounts and unbilled receivables | (1,592) | (1,397) | 1,165 | (1,824) |
| Other current assets | (227) | (73) | 272 | (28) |
| Deferred charges | 2,667 | — | — | 2,667 |
| Increase (decrease) in liabilities: | | | | |
| Accounts payable | 1,542 | 281 | (1,437) | 386 |
| Other current liabilities | 48,735 | 167 | — | 48,902 |
| Deferred credits | (1,011) | 164 | — | (847) |
| Other noncurrent liabilities | 434 | 48 | — | 482 |
| Net cash provided by operating activities | 96,552 | (734) | (76) | 95,742 |
| Cash flows from investing activities: | | | | |
| Extension and replacement of plant | (158,066) | — | — | (158,066) |
| Contributions in aid of construction | 21,447 | — | — | 21,447 |
| Plant removal costs | (4,573) | — | — | (4,573) |
| Retirement of CTC's | 49 | — | — | 49 |
| Purchases/receipts of investments | (250,625) | — | — | (250,625) |
| Maturities of investments | 316,436 | — | — | 316,436 |
| Net cash used in investing activities | (75,332) | — | — | (75,332) |
| Cash flows from financing activities: | | | | |
| Net change in consumer deposits | (1,472) | — | — | (1,472) |
| Proceeds from patronage capital retired | 790 | — | 76 | 866 |
| Retirements of patronage capital | (3,417) | — | — | (3,417) |
| Proceeds from long-term debt | 35,000 | — | — | 35,000 |
| Payments on long-term debt | (21,409) | — | — | (21,409) |
| Proceeds from line of credit | 15,500 | — | — | 15,500 |
| Payments on line of credit | (8,000) | — | — | (8,000) |
| Net cash provided by financing activities | 16,992 | — | 76 | 17,068 |
| Net increase in cash and cash equivalents | 38,212 | (734) | — | 37,478 |
| Cash and cash equivalents: | | | | |
| Beginning of year | 8,255 | 734 | — | 8,989 |
| End of year | $ 46,467 | $ — | $ — | $ 46,467 |

See accompanying Independent Auditor's Report.

ADAMS, JENKINS AND CHEATHAM
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS CONSULTANTS

# **Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Consolidated Financial Statements Performed in Accordance with *Government Auditing Standards***

The Board of Directors
Rappahannock Electric Cooperative
Fredericksburg, Virginia

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 Rappahannock Electric Cooperative (the Cooperative) and Rappahannock Electric Communications, Inc. (the Subsidiary), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of operations, comprehensive income, cash flows and equities for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 12, 2024.

## Report on Internal Control Over Financial Reporting

In planning and performing our audits of the consolidated financial statements, we considered the Cooperative and Subsidiary's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative and Subsidiary's internal control. Accordingly, we do not express an opinion on the effectiveness of the Cooperative and Subsidiary'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 entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audits 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.



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**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Cooperative and Subsidiary's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated 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 the Cooperative and Subsidiary in a separate letter dated April 12, 2024.

**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 Cooperative and Subsidiary's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cooperative and Subsidiary's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Adams, Jenkins & Cheatham

Richmond, Virginia
April 12, 2024

ADAMS, JENKINS AND CHEATHAM
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS CONSULTANTS

**Independent Auditor's Report on Compliance with Aspects of Contractual Agreements and Regulatory Requirements for Electric Borrowers**

The Board of Directors
Rappahannock Electric Cooperative
Fredericksburg, Virginia

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Rappahannock Electric Cooperative (the Cooperative) and Rappahannock Electric Communications, Inc. (the Subsidiary), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of operations, comprehensive income, cash flows and equities for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 12, 2024. In accordance with *Government Auditing Standards*, we have also issued a report dated April 12, 2024 on our consideration of the Cooperative and Subsidiary's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above and our schedule of findings and recommendations related to our audit have been furnished to management.

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

Maintain adequate and effective accounting procedures;

Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;

Reconcile continuing property records to the controlling general ledger plant accounts;

Clear construction accounts and accrue depreciation on completed construction;

Record and properly price the retirement of plant;

Seek approval of the sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;



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Maintain adequate control over materials and supplies;

Prepare accurate and timely Financial and Operating Reports;

Obtain written RUS approval to enter into any contract for the management, operations, or maintenance of the borrower's system if the contract covers all or substantially all of the electric system;

Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;

Record depreciation in accordance with RUS requirements (See RUS Bulletin 183-1, Depreciation Rates and Procedures);

Comply with the requirements for the detailed schedule of deferred debits and deferred credits; and

Comply with the requirements for the detailed schedule of investments.

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

Adams, Jenkins & Cheatham

Richmond, Virginia
April 12, 2024