

RAPPAHANNOCK ELECTRIC COOPERATIVE

Financial Statements

December 31, 2021 and 2020

Years ended December 31, 2021, 2020 and 2019

RAPPAHANNOCK ELECTRIC COOPERATIVE

Table of Contents

	Page
Independent Auditor's Report	1-2
Balance Sheets - December 31, 2021 and 2020	3
Statements of Operations and Comprehensive Income - Years ended December 31, 2021, 2020 and 2019	4
Statements of Cash Flows - Years ended December 31, 2021, 2020 and 2019	5
Statements of Equities - December 31, 2021 and 2020	6
Notes to Financial Statements - December 31, 2021, 2020 and 2019	7-23
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 <i>Government Auditing Standards</i>	24-25
Independent Auditor's Report on Compliance with Aspects of Contractual Agreements and Regulatory Requirements for Electric Borrowers	26-27



Independent Auditor's Report

The Board of Directors
Rappahannock Electric Cooperative
Fredericksburg, Virginia

Opinion

We have audited the accompanying financial statements of Rappahannock Electric Cooperative (the Cooperative), which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of operations, comprehensive income, cash flows, and equities for the years ended December 31, 2021, 2020, and 2019, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rappahannock Electric Cooperative as of December 31, 2021 and 2020, and the results of its operations, comprehensive income and its cash flows for the years ended December 31, 2021, 2020, and 2019, 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*, 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 Financial Statements section of our report. We are required to be independent of Rappahannock Electric Cooperative and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS 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, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS 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 financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Rappahannock Electric Cooperative's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Rappahannock Electric Cooperative'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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 5, 2022, on our consideration of Rappahannock Electric Cooperative'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's internal control over financial reporting and compliance.



Richmond, Virginia
April 5, 2022

RAPPAHANNOCK ELECTRIC COOPERATIVE

Balance Sheets

December 31, 2021 and 2020

Assets	2021	2020
	(In thousands)	
Net utility plant	\$ 758,376	\$ 730,007
Investments:		
Associated organizations	150,802	144,569
Other	4,357	3,843
Total investments	155,159	148,412
Current assets:		
Cash and cash equivalents	6,123	7,072
Short-term investments	53,534	51,672
Accounts receivable, less allowance for doubtful accounts	31,531	35,553
Unbilled receivables	12,429	17,572
Materials and supplies inventories	8,272	8,299
Prepaid expenses	3,494	1,615
Other	4,895	4,642
Total current assets	120,278	126,425
Deferred charges:		
Pension costs	8,637	9,814
Labor costs (Paycheck Protection Program)	—	8,487
Other	709	954
Total deferred charges	9,346	19,255
Total assets	\$ 1,043,159	\$ 1,024,099
Equities and Liabilities		
Equities:		
Patronage capital	\$ 438,404	\$ 427,172
Accumulated other comprehensive loss	(1,551)	(518)
Total equities	436,853	426,654
Long-term debt, excluding current installments	518,221	510,962
Current liabilities:		
Current installments of long-term debt	20,221	16,950
Amounts due to power suppliers	21,728	25,753
Accounts payable	10,276	10,803
Consumer deposits	8,035	7,358
Coronavirus Relief Funds	—	4,844
Other	7,828	7,098
Total current liabilities	68,088	72,806
Other noncurrent liabilities:		
Postretirement benefit obligation	821	910
Deferred credits-power cost adjustment	6,118	1,528
Deferred credits-other	9,090	8,360
Other	3,968	2,879
Total other noncurrent liabilities	19,997	13,677
Total equities and liabilities	\$ 1,043,159	\$ 1,024,099

See Independent Auditor's Report and Notes to Financial Statements

RAPPAHANNOCK ELECTRIC COOPERATIVE

Statements of Operations

Years ended December 31, 2021, 2020 and 2019

	<u>2021</u>	<u>2020</u>	<u>2019</u>
		(In thousands)	
Operating revenues	\$ 408,665	\$ 416,376	\$ 461,392
Operating expenses:			
Cost of power	247,785	266,170	307,394
Transmission	822	821	460
Distribution – operations	15,943	13,716	15,728
Distribution – maintenance	35,373	30,481	33,599
Consumer accounts	12,338	13,976	14,064
Consumer service	3,364	2,889	3,141
Sales, administrative, and general	23,925	18,774	19,943
Total	<u>339,550</u>	<u>346,827</u>	<u>394,329</u>
Other expenses:			
Depreciation	42,933	41,143	39,519
Interest on long-term debt	17,373	17,818	17,895
Other	976	1,083	836
Total other expenses	<u>61,282</u>	<u>60,044</u>	<u>58,250</u>
Total expenses	<u>400,832</u>	<u>406,871</u>	<u>452,579</u>
Operating margins	7,833	9,505	8,813
Nonoperating margins:			
Patronage capital assigned	7,555	5,190	6,640
Interest income	461	1,193	1,772
Other income, net	1,626	1,893	1,298
Total nonoperating margins	<u>9,642</u>	<u>8,276</u>	<u>9,710</u>
Net margins	<u>\$ 17,475</u>	<u>\$ 17,781</u>	<u>\$ 18,523</u>

Statements of Comprehensive Income

Years ended December 31, 2021, 2020 and 2019

	<u>2021</u>	<u>2020</u>	<u>2019</u>
		(In thousands)	
Net Margins	\$ 17,475	\$ 17,781	\$ 18,523
Other Comprehensive Income (Loss):			
Actuarial change	(1,088)	(171)	95
Amortization gain (loss)	26	—	(16)
Prior service cost	—	(57)	—
Amortization of prior service cost	29	29	27
Total other comprehensive income (loss)	<u>(1,033)</u>	<u>(199)</u>	<u>106</u>
Comprehensive Income	<u>\$ 16,442</u>	<u>\$ 17,582</u>	<u>\$ 18,629</u>

See Independent Auditor's Report and Notes to Financial Statements

RAPPAHANNOCK ELECTRIC COOPERATIVE

Statements of Cash Flows

Years ended December 31, 2021, 2020 and 2019

	2021	2020	2019
	(In thousands)		
Cash flows from operating activities:			
Net margins	\$ 17,475	\$ 17,781	\$ 18,523
Adjustments:			
Depreciation	42,933	41,143	39,519
Noncash capital credit allocations	(7,555)	(5,190)	(6,640)
Special equipment installation costs	(3,985)	(3,475)	(2,733)
Cushion of credit interest expense applied	—	—	2,278
Loss on disposal of assets	497	28	359
(Increase) decrease in assets:			
Other investments	(514)	(587)	(88)
Accounts and unbilled receivables	9,173	(5,764)	6,771
Other current assets	(2,139)	(893)	(73)
Deferred charges	1,422	(4,336)	(1,552)
Increase (decrease) in liabilities:			
Accounts payable	(4,552)	(1,235)	3,075
Other current liabilities	(4,129)	5,146	(206)
Deferred credits	5,321	1,496	(10,924)
Other noncurrent liabilities	(18)	349	132
Net cash provided by operating activities	53,929	44,463	48,441
Cash flows from investing activities:			
Extension and replacement of plant	(70,931)	(71,566)	(60,347)
Contributions in aid of construction	5,659	5,461	4,472
Plant removal costs	(2,518)	(2,150)	(2,338)
Retirement of CTC's	45	182	42
Purchases/receipts of investments	(227,884)	(284,877)	(253,115)
Maturities of investments	226,022	242,015	276,031
Net cash used in investing activities	(69,607)	(110,935)	(35,255)
Cash flows from financing activities:			
Net change in consumer deposits	677	(42)	352
Proceeds from patronage capital retired	1,278	961	2,145
Retirements of patronage capital	(6,243)	(10,706)	(5,055)
Proceeds from long-term debt	36,236	95,488	—
Payments on long-term debt	(17,219)	(15,954)	(12,396)
Proceeds from line of credit	—	20,000	—
Payments on line of credit	—	(20,000)	—
Net cash provided by (used in) financing activities	14,729	69,747	(14,954)
Net increase (decrease) in cash and cash equivalents	(949)	3,275	(1,768)
Cash and cash equivalents, beginning of year	7,072	3,797	5,565
Cash and cash equivalents, end of year	\$ 6,123	\$ 7,072	\$ 3,797
Supplemental disclosure:			
Cash paid for interest	\$ 17,772	\$ 18,146	\$ 18,103
Forgiveness of Paycheck Protection Program	\$ 8,487		

See Independent Auditor's Report and Notes to Financial Statements

RAPPAHANNOCK ELECTRIC COOPERATIVE

Statements of Equities

December 31, 2021 and 2020

	Patronage Capital	Accumulated Other Comprehensive Income (Loss) <small>(In thousands)</small>	Total
Balance, December 31, 2019	\$ 420,097	\$ (319)	\$ 419,778
Net Margins	17,781	—	17,781
Retirement of Patronage Capital	(10,706)	—	(10,706)
Other Comprehensive Loss	—	(199)	(199)
Balance, December 31, 2020	\$ 427,172	\$ (518)	\$ 426,654
Net Margins	17,475	—	17,475
Retirement of Patronage Capital	(6,243)	—	(6,243)
Other Comprehensive Loss	—	(1,033)	(1,033)
Balance, December 31, 2021	\$ <u>438,404</u>	\$ <u>(1,551)</u>	\$ <u>436,853</u>

See Independent Auditor's Report and Notes to Financial Statements

RAPPAHANNOCK ELECTRIC COOPERATIVE

Notes to Financial Statements

December 31, 2021, 2020 and 2019

(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. is a wholly owned for-profit subsidiary operating under a management agreement with the Cooperative. The investment is accounted for using the equity method. All transactions of the subsidiary are considered immaterial to the Cooperative's financial statements and therefore have not been consolidated.

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 11). The Cooperative's investment of \$135,646,391 in ODEC as of December 31, 2021, is 28.7% 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 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.

RAPPAHANNOCK ELECTRIC COOPERATIVE

Notes to Financial Statements

December 31, 2021, 2020 and 2019

(c) 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 December 31, 2015, 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, changes were made effective March, 2018. Provision is made for depreciation of plant based on straight-line rates per annum as follows:

Allegheny acquisition adjustment	3.05%
Fort A.P. Hill acquisition adjustment	4.08%
Transmission station equipment	2.47%
Transmission poles and fixtures	3.19%
Transmission overhead conductors and devices	3.47%
Transmission underground conductors and devices	4.74%
Distribution station equipment	4.09%
Distribution station equipment-SCADA	7.27%
Distribution station equipment-Load Management	6.83%
Poles, towers and fixtures	5.22%
Overhead conductors and devices	4.01%
Overhead conductors and devices-SCADA	8.54%
Overhead conductors and devices-load management	6.12%
Underground conduit	4.27%
Underground conductor and devices	3.75%
Underground conductor and devices-nonjacketed cable	0.24%
Line transformers	1.69%
Services	3.83%
Meters	4.79%
Meters-AMR modules	11.36%
Meters-communication devices	5.24%
Security lights	8.55%
Load management equipment	5.65%

RAPPAHANNOCK ELECTRIC COOPERATIVE

Notes to Financial Statements

December 31, 2021, 2020 and 2019

Structures and improvements	3.08%
Office furniture and equipment	4.26%
Office furniture and equipment-computerized	10.30%
Office furniture and equipment-software	2.51%
Office furniture and equipment-system hardware	3.47%
Transportation equipment	8.93%
Stores equipment	3.21%
Tools, shop and garage equipment	3.57%
Laboratory equipment	3.39%
Power operated equipment	3.12%
Communications equipment	8.52%
Miscellaneous equipment	4.37%

(d) Cash and Cash Equivalents

The Cooperative considers 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.

(e) Short-Term Investments

In 2021 and 2020, the Cooperative earned an average rate of 0.71% and 0.78%, 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, 2021 and 2020, the Cooperative had short-term investments of \$53,533,914 and \$51,671,672, respectively.

(f) Allowance for Doubtful Accounts

At year-end, the provision for doubtful accounts is adjusted based on an analysis of aged accounts receivable balances. At December 31, 2021 and 2020, the Cooperative had allowances of \$1,492,833 and \$2,604,680, respectively. The Commonwealth of Virginia enacted a utility disconnect moratorium effective March, 2020 through September, 2021. Due to unpaid bills caused by the COVID-19 pandemic, the Cooperative experienced an increase in delinquent accounts receivable balances. The Cooperative maintains a policy, which includes an analysis of aged accounts receivable, of writing off uncollectible accounts with Board approval.

(g) 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.

RAPPAHANNOCK ELECTRIC COOPERATIVE

Notes to Financial Statements

December 31, 2021, 2020 and 2019

(h) 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.

(i) Income Taxes

The Cooperative has been granted exemption from income tax under Internal Revenue Service Code 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.

(j) 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, 2021 and 2020, the Cooperative had a cumulative over collection of power costs totaling \$6,118,048 and \$1,527,763, respectively.

(k) Revenue Recognition

The Cooperative analyzed the provisions of ASC Topic 606, *Revenue from Contracts with Customers*, and concluded that no changes were necessary to conform to the new standard. Revenue from electricity is recorded when it is consumed, which complies with the requirements of ASC Topic 606. The Cooperative recognized 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.

(l) Advertising Costs

The Cooperative expenses advertising costs as incurred. There were no material advertising costs for the years ended December 31, 2021, 2020, and 2019.

(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, 2021 and 2020. 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) 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

RAPPAHANNOCK ELECTRIC COOPERATIVE

Notes to Financial Statements

December 31, 2021, 2020 and 2019

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.

(o) 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.

(p) Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU replaced most existing revenue recognition guidance in U.S. GAAP. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606) – Deferral of the Effective Date*, which deferred the effective date of ASU 2014-09 to January 1, 2019. The Cooperative elected to apply the new standard using the modified retrospective method. The new standard did not have a material impact on the financial statements.

(q) Use of Estimates

The preparation of 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(r) Subsequent Events

Subsequent events have been evaluated through April 5, 2022, which is the date the financial statements were available to be issued (see note 15).

On March 11, 2022, President Joseph R. Biden, Jr. declared a major disaster existed in Virginia and ordered Federal assistance to supplement recovery efforts in the areas affected by winter storm Frida from January 2 to January 3, 2022. The storm system struck the Cooperative's service territory causing system damage estimated at \$22 million. The Cooperative will submit a request to the Federal Emergency Management Agency ("FEMA") to offset the cost of the storm for 75% of the final total. The request has not been made as of the date of these financial statements.

RAPPAHANNOCK ELECTRIC COOPERATIVE

Notes to Financial Statements
December 31, 2021, 2020 and 2019

(2) Utility Plant

Utility plant, at cost, as of December 31, 2021 and 2020, consists of the following:

	2021	2020
	(In thousands)	
Distribution	\$ 975,989	\$ 926,522
Transmission	48,773	45,675
General	128,372	127,423
Acquisition adjustments	54,324	54,324
Utility plant in service	1,207,458	1,153,944
Construction in progress	46,096	44,025
Total utility plant	1,253,554	1,197,969
Less accumulated amortization and depreciation	495,178	467,962
Net utility plant	\$ 758,376	\$ 730,007

(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, 2021 and 2020, investments in associated organizations consist of the following:

	2021	2020
	(In thousands)	
ODEC patronage capital assigned	\$ 135,646	\$ 129,507
CFC patronage capital certificates	1,975	1,939
CoBank Class E stock	5,754	5,664
Other	3,423	3,410
Investments in associated organizations	146,798	140,520
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	269	314
Member capital securities	500	500
Capital term certificates and member capital securities	4,004	4,049
Total Investments in Associated Organizations	\$ 150,802	\$ 144,569

RAPPAHANNOCK ELECTRIC COOPERATIVE

Notes to Financial Statements

December 31, 2021, 2020 and 2019

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 include two types of certificates. The first type has each certificate maturing in the same year as the corresponding loan, the last one matured in 2018. The second type pays an annual amount based upon the 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.

(4) Long-Term Debt

Long-term debt at December 31, 2021 and 2020 consists of the following:

	2021	2020
	(In thousands)	
Mortgage notes:		
RUS-		
due 2031 through 2053; (1.05% - 4.38%)	\$ 392,873	\$ 365,349
CoBank-		
due 2026 through 2045; (2.65% - 6.85%)	84,178	97,687
CFC-		
due 2024 through 2045; (3.40% - 4.05%)	61,391	64,876
Total long-term debt	538,442	527,912
Less current installments	20,221	16,950
Long-term debt, excluding current installments	\$ 518,221	\$ 510,962

Annual maturities of long-term debt for the five years subsequent to December 31, 2021, and thereafter are approximately \$20.2 million in 2022, \$21.0 million in 2023, \$21.5 million in 2024, \$22.2 million in 2025, \$23.0 million in 2026 and \$430.5 million thereafter.

RAPPAHANNOCK ELECTRIC COOPERATIVE

Notes to Financial Statements

December 31, 2021, 2020 and 2019

(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. Total equities of the Cooperative represented 41.9% and 41.7% of the total assets at December 31, 2021 and 2020, respectively. The mortgage note agreements also restrict the Cooperative's ability to retire equity when its Times Interest Earned Ratio (TIER) and Debt Service Coverage ratio (DSC) are both less than 1.25. TIER was 2.0, 2.0, and 2.0 in 2021, 2020 and 2019, respectively. DSC was 2.3, 2.3, and 2.3 in 2021, 2020 and 2019, respectively. 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 February 2020, the Cooperative was approved for approximately \$123.2 million loan package from RUS. \$87 million was drawn on this loan package during 2020 and the remaining \$36.2 million was drawn in 2021.

(b) *Paycheck Protection Program*

During 2020, the Federal Government enacted legislation allowing companies to borrow money through the Small Business Administration (SBA) to extend employment for those that might be adversely affected by COVID-19. The program was known as the Paycheck Protection Program (PPP). Under this program, a company could apply for funds to use to continue to employ personnel through the downturn experienced during the COVID-19 pandemic. The program allowed for a forgiveness of the loan amount if the company could demonstrate that they incurred qualifying expenses in a prescribed time frame, in this case 24 weeks.

The Cooperative applied for and was granted a loan of \$8,487,295 and received the funds on June 30, 2020. At that time, the balance was reflected in Long-Term Debt with CoBank and carried a 5-year maturity and the Cooperative deferred qualifying expenses for ratemaking purposes in order to match the anticipated forgiveness of the PPP loan. In June, 2021, the SBA granted the Cooperative forgiveness after reviewing submitted documentation. The Cooperative credited the deferred asset and removed the loan obligation.

(c) *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 both line-of-credit agreements as of December 31, 2021 and 2020.

RAPPAHANNOCK ELECTRIC COOPERATIVE

Notes to Financial Statements

December 31, 2021, 2020 and 2019

(5) Concentration of Credit Risk

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

The Cooperative maintains checking accounts in SunTrust Bank (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 in each separate FDIC insured bank and savings institution. From time to time, the Cooperative may have amounts on deposit in excess of the insured limits. As of December 31, 2021, the Cooperative had approximately \$8.9 million of uninsured deposits. Also, at December 31, 2021, the Cooperative had ODEC prepayments totaling approximately \$53.5 million which were not insured. This balance is shown as short-term investments on the balance sheet.

Accounts receivable primarily consist of amounts due from customers for the purchase of electricity. Customers are located within the twenty-two counties and eleven 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 doubtful accounts, and accounts receivable insurance.

(6) Leases

The Cooperative has operating leases for facilities and office equipment. Future minimum lease payments under noncancellable operating leases that have remaining terms in excess of one year as of December 31, 2021 are as follows:

Year ending December 31:	(In thousands)
2022	\$ 166
2023	26
2024	3
Thereafter	—
Total minimum lease payments	\$ <u>195</u>

Rental expense of \$173,279, \$324,648 and \$317,668 was recognized in 2021, 2020 and 2019, respectively.

(7) 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 \$3,554,641 and \$4,334,896 at December 31, 2021 and 2020, respectively.

RAPPAHANNOCK ELECTRIC COOPERATIVE

Notes to Financial Statements

December 31, 2021, 2020 and 2019

(8) 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 2021 and in 2020 represented less than 5 percent of the total contributions made to the plan by all participating employers. The Cooperative made annual contributions to the plan of \$8,171,680 and \$8,138,829 in 2021 and 2020, respectively. There have been no significant changes that affect the comparability of 2021 and 2020 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 percent funded on January 1, 2021 and over 80 percent funded on January 1, 2020 based on the PPA funding target and PPA actuarial value of assets on those dates.

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

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 and its' net pension cost was \$717,314, \$709,572 and \$656,691 for the years ended December 31, 2021, 2020 and 2019, 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 were approximately \$497,000, \$558,000 and \$593,000, as of December 31, 2021, 2020 and 2019, respectively, and are included in other liabilities. The expense under these agreements amounted to \$27,112, \$48,155 and \$39,334, in 2021, 2020 and 2019, respectively.

RAPPAHANNOCK ELECTRIC COOPERATIVE

Notes to Financial Statements

December 31, 2021, 2020 and 2019

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 balance sheets and are carried at current cash surrender value. The face amount of these policies total \$2,720,252. As of December 31, 2021 and 2020, the cash surrender values of these policies were \$853,640 and \$869,628, 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, 2021 and 2020, the balance of the deferred compensation held for the benefit of the directors of the board was \$37,443 and \$36,086, respectively. For the years ended December 31, 2021 and 2020, the balance of the deferred compensation held for the benefit of the key employees was \$809,848 and \$742,217, 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 \$255,115 and \$153,443 in 2021 and 2020, respectively. The accrued amount was \$2,242,594 and \$956,443 as of December 31, 2021 and 2020, respectively.

The following sets forth the benefit obligation with the funded status of the plan as December 31, 2021 and 2020:

	2021	2020
	(In thousands)	
Benefit obligation at beginning of year	\$ 956	\$ 411
Service cost	164	101
Interest cost	35	23
Plan amendments	—	56
Actuarial (gain)/loss	1,088	365
Benefit obligation at end of year	2,243	956
Fair value of plan assets at end of year	—	—
Funded status	\$ (2,243)	\$ (956)

RAPPAHANNOCK ELECTRIC COOPERATIVE

Notes to Financial Statements
December 31, 2021, 2020 and 2019

The net periodic pension costs are as follows:

	2021	2020
	(In thousands)	
Service cost	\$ 164	\$ 101
Interest cost	35	23
Amortization of gain	27	—
Amortization of prior service cost	29	29
Net periodic pension cost	\$ 255	\$ 153

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

	2021	2020
	(In thousands)	
Unrecognized prior service costs	\$ 400	\$ 430
Unrecognized actuarial (gain)/loss	1,250	189
	\$ 1,650	\$ 619

Amounts in accumulated other comprehensive income expected to be recognized during subsequent period:

	2021	2020
	(In thousands)	
Net prior service cost	\$ 29	\$ 29
Amortization of loss	79	—
	\$ 108	\$ 29

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

	2021	2020
Discount rate	2.96%	2.72%
Salary increase assumption	5.00%	3.00%
Measurement date	12/31/2021	12/31/2020

RAPPAHANNOCK ELECTRIC COOPERATIVE

Notes to Financial Statements
December 31, 2021, 2020 and 2019

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

<u>Year ending December 31,</u>	
2022	\$ —
2023	\$ —
2024	\$ —
2025	\$ —
2026	\$ —
2027 and later	\$ 377

(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 \$124,375, \$119,598 and \$140,960, in 2021, 2020 and 2019, 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.

RAPPAHANNOCK ELECTRIC COOPERATIVE

Notes to Financial Statements
December 31, 2021, 2020 and 2019

The following sets forth the benefit obligation with the funded status of the plan as of December 31, 2021 and 2020:

	2021	2020
	(In thousands)	
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 910	\$ 1,181
Interest cost	24	31
Actuarial change	—	(194)
Medicare Part D subsidy received	11	12
Benefits paid	(124)	(120)
Benefit obligation at end of year	821	910
Fair value of plan assets at end of year	—	—
Funded status	\$ (821)	\$ (910)

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

	2021	2020
	(In thousands)	
Net actuarial (gain)/loss	\$ (99)	\$ (101)

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

	2021	2020
Medical trend rate next year	7.00%	7.00%
Ultimate trend rate	5.00%	5.00%
Year ultimate trend rate is achieved	2026	2025
Discount rate used to value end of year accumulated postretirement benefit obligation	3.00%	2.75%
Measurement date	12/31/2021	12/31/2020

RAPPAHANNOCK ELECTRIC COOPERATIVE

Notes to Financial Statements

December 31, 2021, 2020 and 2019

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

<u>Year beginning January 1,</u>	<u>Gross Benefit Payment</u>	<u>Medicare Part D Subsidy</u> (In thousands)	<u>Net Benefit Payment</u>
2022	\$ 124	\$ 11	\$ 113
2023	117	10	107
2024	109	9	100
2025	100	8	92
2026	91	8	83
2027-2031	\$ 317	\$ 26	\$ 291

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 costs recorded were \$21,978, \$30,474 and \$48,358 in 2021, 2020 and 2019, respectively. There were no estimated amortization amounts in 2021 or 2020.

(9) Coronavirus Relief Fund Payment

In December, 2020, the Cooperative was awarded federal Coronavirus Relief Funds (CRF) in the amount of \$4,844,474. These funds were included in Current Liabilities and were distributed according to the guidelines, to reduce individual customer arrearage balances for those customers who attested that their arrearages were attributable to the COVID-19 pandemic. As of March 31, 2021, the CRF was applied to customers' balances as mandated.

(10) American Rescue Plan Act Funds

In 2021, the Commonwealth of Virginia awarded the Cooperative American Rescue Plan Act Funds (ARPA Funds) in the amount of \$6,679,549. The funds were used to provide direct assistance to residential members with an account receivable balance of 60 days and over in arrears. During 2021, the funds were received and distributed to applicable members' arrearages.

(11) 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 \$222,353,251, \$239,599,496 and \$276,750,181 in 2021, 2020 and 2019, 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

RAPPAHANNOCK ELECTRIC COOPERATIVE

Notes to Financial Statements

December 31, 2021, 2020 and 2019

contract was amended as of December 2, 2020 and will continue through December 31, 2023. These purchases amounted to \$21,681,030, \$23,173,846 and \$23,611,998 in 2021, 2020 and 2019, respectively.

The Cooperative has binding contracts for substation work to be done. The balance of these contract commitments are \$49,849 as of December 31, 2021.

(12) Related Party Transactions

The Cooperative has long-term loans with both CFC and CoBank at market interest rates. At December 31, 2021, liabilities were \$61,390,483 and \$84,178,347, respectively. At December 31, 2020, liabilities were \$64,876,225 and \$97,686,872, respectively.

(13) Financial Instruments Carried at Cost

The Cooperative has recorded all financial instruments based on the carrying amount (book value) in the 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 1.90% and 1.65% for the years ending December 31, 2021 and 2020, 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.

RAPPAHANNOCK ELECTRIC COOPERATIVE

Notes to Financial Statements
December 31, 2021, 2020 and 2019

The estimated fair values of the Cooperative's financial instruments as of December 31, 2021 and 2020 are as follows:

2021	Carrying Value	Fair Value
	(In thousands)	
Capital term certificates (CFC)	\$ 3,504	\$ 6,100
Member capital securities	500	800
Long-term debt	538,442	603,000
2020	Carrying Value	Fair Value
	(In thousands)	
Capital term certificates (CFC)	\$ 3,549	\$ 6,600
Member capital securities	500	800
Long-term debt	527,912	617,000

(14) COVID-19

In December 2019, a novel strain of coronavirus (COVID-19) surfaced in Wuhan, China and has spread around the world, with resulting business and social disruption. COVID-19 was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The COVID-19 pandemic is having widespread, rapidly evolving, and unpredictable impacts on global society, economies, financial markets, and business practices. The Cooperative to date has not seen significant disruption or significant operational restrictions, but the substantial uncertainty and the nature and degree of the pandemic and resulting effects over time could result in disruption or restriction on the Cooperative's ability to operate normally. The Cooperative's members are also affected by the outbreak, which could delay their power bill payments. Cooperative plant construction projects may be delayed or cancelled and certain management accounting estimates and assumptions could be affected by the future uncertainty. The Cooperative may also experience difficulties with suppliers or with vendors in their supply chain, which could have negative effects on operations. Overall, the future impact of the pandemic with respect to the Cooperative's territory is difficult to predict and could adversely impact its overall operations in the future.

(15) 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.



**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
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 financial statements of Rappahannock Electric Cooperative (the Cooperative), which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of operations, comprehensive income, cash flows and equities for the years ended December 31, 2021, 2020 and 2019, and the related notes to the financial statements, and have issued our report thereon dated April 5, 2022.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered the Cooperative’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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Cooperative’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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cooperative's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. We noted certain matters that we reported to management of the Cooperative in a separate letter dated April 5, 2022.

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'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's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Allama, Jenkins & Cheatham

Richmond, Virginia
April 5, 2022



**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 financial statements of Rappahannock Electric Cooperative (the Cooperative), which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of operations, comprehensive income, cash flows and equities for the years ended December 31, 2021, 2020, and 2019, and the related notes to the financial statements, and have issued our report thereon dated April 5, 2022. In accordance with *Government Auditing Standards*, we have also issued a report dated April 5, 2022 on our consideration of the Cooperative'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 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'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's accounting and records to indicate that the Cooperative did not:

Maintain adequate and effective accounting procedures;

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

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

Clear construction accounts and accrue depreciation on completed construction;

Record and properly price the retirement of plant;

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

Maintain adequate control over materials and supplies;

Prepare accurate and timely Financial and Operating Reports;

Obtain written RUS approval to enter into any contract for the management, 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.

Alamo, Jenkins & Cheatham

Richmond, Virginia
April 5, 2022