

**RAPPAHANNOCK ELECTRIC COOPERATIVE  
AND SUBSIDIARIES**

Consolidated Financial Statements and  
Supplementary Information

Years ended December 31, 2025 and 2024

**RAPPAHANNOCK ELECTRIC COOPERATIVE  
AND SUBSIDIARIES**

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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"), Rappahannock Electric Communications, Inc. (RECOM) and Hyperscale Energy Services, LLC (HES) which comprise the consolidated balance sheets as of December 31, 2025 and 2024 and the related consolidated statements of operations, comprehensive income, cash flows, and equities for the years ended December 31, 2025 and 2024, 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, RECOM and HES as of December 31, 2025 and 2024, and the results of their operations, comprehensive income and their cash flows for the years ended December 31, 2025 and 2024, 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 Consolidated Financial Statements section of our report. We are required to be independent of Rappahannock Electric Cooperative, RECOM and HES 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, RECOM and HES'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, RECOM and HES'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, RECOM and HES'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 16, 2026, on our consideration of Rappahannock Electric Cooperative, RECOM and HES'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, RECOM and HES's internal control over financial reporting and compliance.

*Allama, Jenkins & Cheatham*

Richmond, Virginia  
April 16, 2026

**RAPPAHANNOCK ELECTRIC COOPERATIVE  
AND SUBSIDIARIES**

Consolidated Balance Sheets

December 31, 2025 and 2024

<b>Assets</b>	<b>2025</b>	<b>2024</b>
	(In thousands)	
Net utility plant	\$ 1,003,134	\$ 947,979
Investments:		
Associated organizations	177,081	161,048
Other	4,079	3,914
Total investments	181,160	164,962
Current assets:		
Cash and cash equivalents	375,711	121,492
Short-term investments	98,520	12
Accounts receivable, less allowance for credit losses	107,115	60,778
Unbilled receivables	18,295	14,081
PJM collateral deposits	25,201	—
Materials and supplies inventories	22,299	21,366
Prepaid expenses	4,646	4,994
Current lease receivable	464	269
Other	5,222	12,897
Total current assets	657,473	235,889
Lease receivable, excluding current portion	30,983	18,816
Regulatory assets and deferred charges	5,028	7,426
Total assets	\$ 1,877,778	\$ 1,375,072
<b>Equities and Liabilities</b>		
Equities:		
Patronage capital	\$ 496,358	\$ 458,470
Accumulated other comprehensive loss	(278)	(150)
Total equities	496,080	458,320
Long-term debt, excluding current installments	675,485	622,929
Current liabilities:		
Key accounts contracts	351,996	105,616
Current installments of long-term debt	25,961	25,307
Lines of credit	37,500	52,000
Amounts due to power suppliers	36,241	31,984
Accounts payable	21,391	29,978
Consumer deposits	188,649	22,854
Other	16,893	9,971
Total current liabilities	678,631	277,710
Other noncurrent liabilities:		
Regulatory liabilities and deferred credits	22,522	11,822
Postretirement benefit obligation	439	462
Other	4,621	3,829
Total other noncurrent liabilities	27,582	16,113
Total equities and liabilities	\$ 1,877,778	\$ 1,375,072

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

**RAPPAHANNOCK ELECTRIC COOPERATIVE  
AND SUBSIDIARIES**

Consolidated Statements of Operations

Years ended December 31, 2025 and 2024

	<b>2025</b>	<b>2024</b>
	(In thousands)	
Operating revenues	\$ 574,615	\$ 521,602
Operating expenses:		
Cost of power	362,018	336,190
Transmission	882	561
Distribution-operations	24,548	20,899
Distribution-maintenance	47,132	37,838
Consumer accounts	17,959	16,697
Consumer service	2,973	3,114
Sales, administrative, and general	33,585	28,723
Total operating expenses	489,097	444,022
Other expenses:		
Depreciation	49,417	48,011
Interest on long-term debt	24,088	21,314
Other	2,816	3,396
Total other expenses	76,321	72,721
Total expenses	565,418	516,743
Operating income	9,197	4,859
Nonoperating margins:		
Patronage capital assigned	17,260	5,600
Interest income	11,702	3,487
Other income, net	3,897	3,051
Total nonoperating margins	32,859	12,138
Net margins	\$ 42,056	\$ 16,997

Consolidated Statements of Comprehensive Income

Years ended December 31, 2025 and 2024

	<b>2025</b>	<b>2024</b>
	(In thousands)	
Net margins	\$ 42,056	\$ 16,997
Other comprehensive income (loss):		
Actuarial change	(6)	425
Amortization of loss	(46)	(26)
Other	(253)	253
Amortization of prior service cost	177	177
Total other comprehensive income (loss)	(128)	829
Comprehensive income	\$ 41,928	\$ 17,826

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

**RAPPAHANNOCK ELECTRIC COOPERATIVE  
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Consolidated Statements of Cash Flows

Years ended December 31, 2025 and 2024

	<b>2025</b>	<b>2024</b>
	(In thousands)	
Cash flows from operating activities:		
Net margins	\$ 42,056	\$ 16,997
Adjustments:		
Depreciation	49,417	48,011
Noncash capital credit allocations	(17,260)	(5,600)
Special equipment installation costs	(697)	(2,187)
Gain on disposal of assets	16	(263)
(Increase) decrease in assets		
Other investments	(165)	70
Accounts and unbilled receivables	(49,784)	(11,544)
Other current assets	6,518	1,020
PJM collateral deposits	(25,201)	—
Lease receivable	341	192
Deferred charges	2,397	284
Increase (decrease) in liabilities		
Accounts payable	(4,998)	9,524
Other current liabilities	248,431	59,781
Deferred credits	10,699	2,676
Other noncurrent liabilities	(1,458)	119
Net cash provided by operating activities	260,312	119,080
Cash flows from investing activities:		
Extension and replacement of plant	(266,176)	(199,825)
Contributions in aid of construction	157,511	75,601
Plant removal costs	(7,467)	(5,982)
Retirement of CTC's	35	55
Purchases/receipts of investments	(454,773)	(330,590)
Maturities of investments	356,265	330,792
Net cash used in investing activities	(214,605)	(129,949)
Cash flows from financing activities:		
Net change in consumer deposits	165,794	15,589
Proceeds from patronage capital retirec	1,192	960
Retirements of patronage capita	(4,167)	(1,575)
Proceeds from long-term debt	77,100	50,000
Payments on long-term debt	(16,907)	(23,572)
Proceeds from line of credit/notes payable	204,100	315,400
Payments on line of credit/notes payable	(218,600)	(270,908)
Net cash provided by financing activities	208,512	85,894
Net increase in cash and cash equivalents	254,219	75,025
Cash and cash equivalents, beginning of year	121,492	46,467
Cash and cash equivalents, end of year	\$ 375,711	\$ 121,492
Supplemental disclosure:		
Cash paid for interest	\$ 23,965	\$ 23,572
Schedule of Noncash Operating and Investing Activity		
Recognition of lease receivable in exchange for fiber assets	\$ 12,759	\$ 19,288

See Independent Auditor's Report and Notes to Consolidated Financial Statement:

**RAPPAHANNOCK ELECTRIC COOPERATIVE  
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Consolidated Statements of Equities

December 31, 2025 and 2024

	<u>Patronage Capital</u>	<u>Accumulated Other Comprehensive Income (Loss)</u> (In thousands)	<u>Total</u>
Balance, December 31, 2023	\$ 443,048	\$ (979)	\$ 442,069
Net Margins	16,997	—	16,997
Net Retirement of Patronage Capital	(1,575)	—	(1,575)
Other Comprehensive Income	<u>—</u>	<u>829</u>	<u>829</u>
Balance, December 31, 2024	\$ 458,470	\$ (150)	\$ 458,320
Net Margins	42,056	—	42,056
Net Retirement of Patronage Capital	(4,168)	—	(4,168)
Other Comprehensive Loss	<u>—</u>	<u>(128)</u>	<u>(128)</u>
Balance, December 31, 2025	<u>\$ 496,358</u>	<u>\$ (278)</u>	<u>\$ 496,080</u>

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

**RAPPAHANNOCK ELECTRIC COOPERATIVE  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2025 and 2024

**(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. (RECOM) 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.

Hyperscale Energy Services, LLC (HES) 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. HES was created by the Cooperative to deliver tailored energy solutions to support large-scale data center customers, providing specialized wholesale power supply services through the PJM Interconnection, LLC regional transmission organization. The affiliate structure is designed to insulate and protect the Cooperative’s traditional residential and commercial members from the risks inherent in supplying power to exceptionally large data center loads.

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 13). The Cooperative’s investment of \$160,423,705 in ODEC as of December 31, 2025, is 29.2% 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).

**RAPPAHANNOCK ELECTRIC COOPERATIVE  
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Notes to Consolidated Financial Statements

December 31, 2025 and 2024

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.

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

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

**(d) *Key Accounts and Large Load Member Arrangements***

The Cooperative enters into arrangements with certain large commercial and industrial members to provide electric service requiring significant infrastructure development. These arrangements typically involve the construction of distribution and related facilities tailored to the specific energy requirements of the member.

Under these agreements, members may provide advance funding for construction activities or refundable deposits to support the Cooperative's investment in the required infrastructure. Advance payments are recognized as liabilities and are applied against construction costs or recognized in earnings as the Cooperative fulfills its obligations under the agreements. Refundable deposits are recorded as liabilities and are returned or applied in accordance with the terms of the respective contracts.

Advance payments related to these arrangements were approximately \$351,996,000 and \$105,616,000 at December 31, 2025 and 2024, respectively. Refundable deposits associated with large-load projects were approximately \$154,673,000 and \$15,400,000 at December 31, 2025 and 2024, respectively, and are included within consumer deposits on the consolidated balance sheets.

The accounting treatment of these arrangements is dependent on the underlying contractual terms, including whether amounts represent advance payments for services, refundable security deposits, or contributions associated with construction activities. Recognition into income or application against asset costs occurs as the related obligations are satisfied.

**(e) *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.

**RAPPAHANNOCK ELECTRIC COOPERATIVE  
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Notes to Consolidated Financial Statements  
December 31, 2025 and 2024

Provision is made for depreciation of transmission and distribution plant using group depreciation rates, whereas general plant is individual straight-line basis. These rates per annum are:

Transmission plant	2.39% - 4.48%
Distribution plant	0.44% - 10.00%
General plant	2.78% - 20.00%

**(f) Cash and Cash Equivalents**

The Cooperative and Subsidiaries 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.

**(g) Short-Term Investments**

In 2025 and 2024, the Cooperative earned an average rate of 4.92% and 5.25%, 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, 2025 and 2024, the Cooperative had these short-term investments of \$10,795 and \$12,409, respectively.

Beginning in 2025, the Cooperative maintains investments in CFC Daily Fund and short-term commercial paper instruments. The total of these investments was \$98,509,635 as of December 31, 2025. The large majority of the ending balance is the commercial paper with an initial maturity of 14 days and routinely reinvested at each maturity date. The average rate was 3.17% for 2025.

**(h) Allowance for Credit Losses**

At year-end, the provision for credit losses is adjusted based on an analysis of financial assets subject to credit risk, including accounts receivable and lease receivables, and includes evaluation of relevant information about past events, current conditions, and reasonable and supportable forecasts. At December 31, 2025 and 2024, the Cooperative had allowances for credit losses on accounts receivable of \$1,489,936 and \$1,056,158, respectively. The Cooperative maintains a policy that includes analysis of aged accounts receivable and writing off uncollectible accounts with Board approval. Lease receivables are separately evaluated for expected credit losses based on the terms of the lease arrangements and management's assessment of collectibility. No allowance for credit losses was recorded on lease receivables as of December 31, 2025 or 2024.

**(i) Materials and Supplies Inventories**

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

**RAPPAHANNOCK ELECTRIC COOPERATIVE  
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Notes to Consolidated Financial Statements  
December 31, 2025 and 2024

**(j) Leases-Lessor**

During the period, the Cooperative entered into lease agreements in which it acts as lessor. Under the terms of these agreements, the underlying assets were derecognized from the balance sheet, and lease receivables were recorded, representing the present value of future lease payments to be received. As of December 31, 2025, the Cooperative recognized a current lease receivable of \$463,641 and a non-current lease receivable of \$30,982,764. As of December 31, 2024, the Cooperative recognized a current lease receivable of \$268,860 and a non-current lease receivable of \$18,815,957.

The leases are accounted for as direct financing leases, in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 842, *Leases*, and income is recognized over the lease term using the effective interest method. The Cooperative continues to monitor the credit risk associated with these receivables and believes that the recorded amounts are fully collectible.

**(k) 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.

**(l) 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.

RECOM and HES are taxable entities subject to federal and state income taxes. Deferred taxes are provided for temporary differences between the financial reporting and tax bases of assets and liabilities using enacted tax rates expected to apply in the years in which those differences are expected to be recovered or settled. A valuation allowance is established when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

In accordance with FASB ASC Topic 740-10, *Accounting for Uncertainty in Income Taxes*, the Cooperative, RECOM and HES evaluate uncertain tax positions and recognize the effect of such positions when it is more likely than not that the position will be sustained upon examination. Interest and penalties related to uncertain tax positions, if any, are recognized in income tax expense.

**(m) Regulatory Accounting**

The Cooperative accounts for its operations in accordance with Financial Accounting Standards Board FASB ASC Topic 980, *Regulated Operations*, due to the rate-setting authority of the SCC, which establishes the Cooperative's retail rates. The Cooperative is also subject to oversight by RUS as a federal lending agency and operates within a regulatory framework that includes wholesale power cost structures influenced by the Federal Energy Regulatory Commission (FERC).

**RAPPAHANNOCK ELECTRIC COOPERATIVE  
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Notes to Consolidated Financial Statements  
December 31, 2025 and 2024

Under ASC 980, the Cooperative recognizes regulatory assets and regulatory liabilities when it is probable that certain costs or credits will be recovered from or returned to members through future rates. Regulatory assets represent incurred costs that are expected to be recovered in future periods through the ratemaking process, while regulatory liabilities represent amounts that are expected to be refunded to members through future rate adjustments.

These regulatory assets and liabilities are amortized consistent with applicable rate orders or expected recovery periods approved by the SCC. Management evaluates the continued applicability of regulatory accounting at each reporting period based on current regulatory and economic factors.

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, 2025, the Cooperative had a cumulative over collection of power costs totaling \$11,958,615. At December 31, 2024, the Cooperative had a cumulative under collection of power costs totaling \$1,233,426.

**(n) Revenue Recognition**

The Cooperative, RECOM and HES recognize revenue in accordance with Financial Accounting Standards Board FASB ASC Topic 606, *Revenue from Contracts with Customers*.

The Cooperative's primary source of revenue is from the sale and delivery of electricity to its members, which is recognized over time as electricity is consumed. The Cooperative records unbilled revenue for electricity delivered but not yet billed based on estimated usage at the end of each reporting period.

The Cooperative also enters into arrangements with certain commercial and industrial members for construction and related services. Revenue from these arrangements is recognized over time or at a point in time as the Cooperative satisfies its performance obligations in accordance with the terms of the respective agreements. Amounts received in advance of satisfying performance obligations are recorded as contract liabilities and recognized as revenue as the related services are performed.

RECOM generates revenue primarily from information technology, consulting, and related services provided to both the Cooperative and external customers. Revenue is recognized as services are performed over time in accordance with contractual arrangements.

HES generates revenue from arrangements related to large-load and specialized energy services. Revenue is recognized in accordance with the terms of the underlying agreements as performance obligations are satisfied.

In addition, the Cooperative recognizes revenue from telecommunications and fiber-related activities, which is recognized over the term of the related agreements as services are provided.

**RAPPAHANNOCK ELECTRIC COOPERATIVE  
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Notes to Consolidated Financial Statements

December 31, 2025 and 2024

**(o) *Asset Retirement Obligations***

The Cooperative accounts for asset retirement obligations in accordance with FASB ASC Topic 410, *Asset Retirement and Environmental Obligations*. Asset retirement obligations are recognized when there is a legal obligation associated with the retirement of a tangible long-lived asset and the amount can be reasonably estimated.

The Cooperative has determined that no material asset retirement obligations exist as of December 31, 2025 and 2024, as there are no legal or contractual requirements requiring the removal of utility plant or restoration of the underlying property. This determination includes assets constructed or funded through contributions in aid of construction (CIAC), including those recorded at zero net book value.

**(p) *Advertising Costs***

The Cooperative, RECOM and HES expense advertising costs as incurred. There were no material advertising costs for the years ended December 31, 2025 and 2024.

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

In accordance with the FASB 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. No impairment losses were recognized for the years ended December 31, 2025 and 2024.

**(r) *Internal Use Software***

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

**(s) *Credit Support and Affiliate Arrangements Related to HES/HE1***

In connection with the Cooperative's hyperscale power supply activities, the Cooperative entered into contractual arrangements with HES and its affiliate HE1, including a Wholesale Power Contract and an Operating Services Agreement, to support the Cooperative's obligations under a customer power supply service agreement. Under that customer agreement, the Cooperative assigned to HE1 its rights to receive certain power supply payments and agreed to administer certain customer-provided credit support and PJM collateral arrangements. The Cooperative also represented that HES and HE1 would remain wholly owned affiliates during the term of the agreement. Based on the agreements reviewed, the Cooperative does not have a separate unconditional guaranty of HES's or HE1's general indebtedness.

**RAPPAHANNOCK ELECTRIC COOPERATIVE  
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Notes to Consolidated Financial Statements

December 31, 2025 and 2024

**(t) 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.

**(u) Subsequent Events**

Subsequent events have been evaluated through April 16, 2026, which is the date the consolidated financial statements were available to be issued.

**(2) Grants**

The Cooperative was awarded a Grid Resilience and Innovation Partnerships (GRIP) grant totaling \$38,162,015, which represents approximately 50% of the total expected project cost. The grant period runs from October 2024 through September 30, 2029. As of December 31, 2025, the Cooperative had incurred \$257,201 of qualifying project expenditures under the grant. The remaining available award amount was approximately \$37.9 million at December 31, 2025, subject to the terms of the grant agreement and future qualifying expenditures. The Cooperative's participation in these programs subjects them to various compliance-related risks.

**(3) Utility Plant**

Utility plant, at cost, as of December 31, 2025 and 2024, consists of the following:

	<b>2025</b>	<b>2024</b>
	(In thousands)	
Distribution	\$ 1,170,630	\$ 1,115,630
Transmission	48,302	48,229
General	168,865	154,361
Acquisition adjustments	54,324	54,324
Utility plant in service	1,442,121	1,372,544
Construction in progress	177,789	160,106
Total utility plant	1,619,910	1,532,650
Less accumulated amortization and depreciation	616,776	584,671
Net utility plant	\$ 1,003,134	\$ 947,979

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**(4) 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, 2025 and 2024, investments in associated organizations consist of the following:

	<b>2025</b>	<b>2024</b>
	(In thousands)	
ODEC patronage capital assigned	\$ 160,424	\$ 144,346
CFC patronage capital certificates	1,973	1,969
CoBank Class E stock	6,937	7,112
Other	4,215	3,768
Total patronage capital	173,549	157,195
Investment in capital term certificates (CFC):		
Subscription capital term certificates	2,457	2,457
Loan capital term certificates:		
Interest-bearing	492	778
Non-interest-bearing	83	118
Member capital securities	500	500
Capital term certificates and member capital securities	3,532	3,853
Total investments in associated organizations	\$ 177,081	\$ 161,048

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 begin maturing in 2030 and ending in 2035. The CFC non-interest-bearing loan capital term certificates pay an annual amount based on the corresponding outstanding loan balance maturing in 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.

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**(5) PJM Collateral Deposits**

In October 2025, the Cooperative entered into a cash collateral arrangement with a large commercial member to support participation in the PJM wholesale power market. The collateral is required to satisfy PJM credit requirements associated with supplying power to the member's facilities.

Under the terms of the arrangement, the member provided cash collateral, which was posted to PJM by the Cooperative's subsidiary, HES, in connection with HES's participation in the PJM market. The Cooperative is obligated to return the collateral, along with any related interest earned, in accordance with the contractual provisions. Accordingly, amounts funded by the member are recorded as consumer deposits in the consolidated financial statements.

At December 31, 2025, total collateral posted with PJM was approximately \$25.2 million, including approximately \$24.5 million funded by the member and \$550,000 funded by HES. Interest earned on the member-funded portion is payable to the member and is recorded as a consumer deposit, while interest associated with the HES-funded portion is recognized as income.

The PJM collateral is presented as an asset in the consolidated financial statements, with a corresponding consumer deposit for amounts payable to the member.

**(6) Regulatory Assets and Deferred Charges**

As of December 31, 2025 and 2024, regulatory assets and deferred charges consist of the following components:

	<b>2025</b>	<b>2024</b>
	(In thousands)	
Regulatory assets		
Power cost adjustment	\$ —	\$ 1,233
Pension costs	3,926	5,104
Long range work plan	226	182
Four year work plan	609	552
Total regulatory assets	4,761	7,071
Deferred charges		
Unamortized debt expense	\$ 100	\$ 161
Construction overhead to be allocated	159	193
Other	8	1
Total deferred charges	267	355
Total regulatory assets and deferred charges	\$ 5,028	\$ 7,426

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Regulatory assets represent costs that are expected to be recovered from members through future rates in accordance with rate-making practices approved by the Virginia State Corporation Commission (SCC). These balances include under-collections of power costs under the Cooperative's PCA mechanism, deferred pension costs associated with participation in an NRECA prepayment program, and costs related to long-range work plans. The deferred pension costs are being amortized over approximately 16 years, which corresponds to the period over which the related economic benefits are realized and through which such amounts are recovered in rates. Long-range work plan costs are amortized over their expected benefit periods consistent with the Cooperative's rate recovery practices.

These amounts are recognized as regulatory assets as recovery through the rate-making process is considered probable.

Other deferred charges consist of amounts that do not meet the criteria for regulatory accounting under ASC 980 and are recognized in income over their respective benefit periods. These amounts are not material to the consolidated financial statements.

**(7) Patronage Capital**

Patronage capital represents the accumulated margins of the Cooperative, all of which are allocated to members on a patronage basis.

Certain components of patronage capital are not assignable to individual members and are not subject to retirement. These amounts primarily relate to discounts applied to estate capital credits and other adjustments associated with member capital accounts. Such amounts are retained by the Cooperative and are considered permanent equity.

At December 31, 2025 and 2024, these non-assignable amounts included in patronage capital totaled approximately \$31.5 million and \$28.1 million, respectively. The remaining balance of patronage capital at each date represents amounts allocated to members.

Allocated patronage capital has no fixed maturity date, does not bear a stated dividend rate, is non-transferable except as provided in the Cooperative's bylaws, is subordinate to all indebtedness of the Cooperative in liquidation, and is retired at the discretion of the Board of Directors under the Cooperative's capital credit retirement policies.

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**(8) Long-Term Debt**

Long-term debt at December 31, 2025 and 2024 consists of the following:

	<b>2025</b>	<b>2024</b>
	(In thousands)	
Mortgage notes:		
RUS-		
due 2031 through 2056; (1.05% - 4.44%)	\$ 593,183	\$ 530,233
CoBank-		
due 2026 through 2045; (2.65% - 6.85%)	61,377	67,540
CFC-		
due 2024 through 2045; (3.40% - 4.05%)	46,886	50,463
Total long-term debt	701,446	648,236
Less current installments	25,961	25,307
Long-term debt, excluding current installments	\$ 675,485	\$ 622,929

Annual maturities of long-term debt for the five years subsequent to December 31, 2025, and thereafter are approximately \$25.9 million in 2026, \$26.0 million in 2027, \$23.9 million in 2028, \$22.7 million in 2029, \$23.5 million in 2030 and \$579.4 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, 2025, and 2024, 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 November 2024, the Cooperative was approved for a \$293 million loan package from RUS. In May, 2025, \$75 million was drawn and as of December 31, 2025, approximately \$218 million remained available under this loan package.

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**(b) Lines of Credit**

The Cooperative maintains unsecured revolving line-of-credit agreements with two financial institutions, CFC and CoBank. The CFC line-of-credit has a maximum commitment of \$80 million, maturing on December 31, 2069. Interest is charged at variable rates based on prevailing market rates quoted by CFC at the time of borrowing, 5.75% at December 31, 2025.

The CoBank lines of credit have a maximum commitment of \$50 million, maturing on July 6, 2027. Interest is charged at a variable rate based on CoBank's published base rate, 5.77% at December 31, 2025.

Pursuant to authority granted by the SCC, the Cooperative is authorized to incur indebtedness under these agreements in an aggregate amount not to exceed \$125 million at any given time. As of December 31, 2025 and 2024, the Cooperative had drawn \$37.5 million and \$52.0 million, respectively.

The lines of credit are used primarily for seasonal working capital needs and short-term liquidity. Both agreements include customary representations and covenants; however, as of year-end, the Cooperative was in compliance with all applicable terms.

**(9) Concentration of Credit Risk**

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

The Cooperative, RECOM and HES maintain checking accounts in Truist, Atlantic Union Bank, Wells Fargo, Bank of America and PNC Bank. The Federal Deposit Insurance Corporation (FDIC) provides insurance coverage for up to \$250,000 of cash held by the Cooperative, RECOM and HES in each separate FDIC insured bank and savings institution. From time to time, the Cooperative, RECOM and HES may have amounts on deposit in excess of the insured limits. As of December 31, 2025, the Cooperative, RECOM and HES had approximately \$235.4 million of uninsured deposits. The Cooperative also maintains an overnight sweep account with CoBank which is not subject to FDIC insurance. The balance of this account was \$142.5 million as of December 31, 2025. Management monitors the financial condition of these institutions and customers on an ongoing basis and believes that the Cooperative is not subject to any significant near-term concentration risk that would materially impact its ability to operate.

Accounts receivable primarily consists 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 74% 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 26% of receivables. Management minimizes the credit risk with deposit requirements, provisions for credit losses, and accounts receivable insurance.

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**(10) Margin Stabilization**

ODEC, the Cooperative's wholesale power supplier, maintains an approved Margin Stabilization Plan designed to keep its financial margins within a specified range. As part of this plan, ODEC may issue margin stabilization payments or charges, which are passed through to the Cooperative's member-consumers through the power cost adjustment factor. The Cooperative recognized payments from ODEC totaling \$4,583,887 and \$2,890,168 as of December 31, 2025 and 2024, respectively which are included as a component of the power cost adjustment.

**(11) 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 2025 and in 2024 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 \$10,759,608 and \$10,274,180 in 2025 and 2024, respectively. There have been no significant changes that affect the comparability of 2025 and 2024 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 RS Plan was over 80% funded on January 1, 2025 and over 80% funded on January 1, 2024 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 \$941,615 and \$895,451 for the years ended December 31, 2025 and 2024, respectively.

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All employees of RECOM are also eligible to participate in the NRECA SelectRE plan. RECOM's required contribution was \$474,755 and \$432,521 for the years ended December 31, 2025 and 2024, respectively.

**(b) *Deferred Benefit Plan***

The Cooperative has entered into deferred benefit arrangements with certain employees. Under these agreements, the Cooperative will make annual benefit payments to the covered employees or their beneficiaries over a 15-year period, commencing upon the retirement or death of the employee. These obligations represent non-qualified, unfunded deferred compensation plans intended to provide post-employment benefits. 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 \$331,000 and \$372,000 as of December 31, 2025 and 2024, respectively, and are included in other liabilities. The expense under these agreements amounted to \$17,687 and \$19,568 in 2025 and 2024, 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, 2025 and 2024, the cash surrender values of these policies were \$769,370 and \$770,147, 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, 2025 and 2024, the balance of the deferred compensation held for the benefit of the directors of the board was \$43,464 and \$40,518, respectively. For the years ended December 31, 2025 and 2024, the balance of the deferred compensation held for the benefit of the key employees was \$478,344 and \$357,102, 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 \$541,866 and \$551,965 in 2025 and 2024, respectively. The accrued amount was \$3,212,909 and \$2,606,385 as of December 31, 2025 and 2024, respectively, and are included in other noncurrent liabilities in the accompanying consolidated balance sheets.

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The following sets forth the benefit obligation with the funded status of the plan as of December 31, 2025 and 2024:

	<b>2025</b>	<b>2024</b>
	(In thousands)	
Benefit obligation at beginning of year	\$ 2,606	\$ 2,931
Service cost	226	224
Interest cost	166	151
Plan amendments	—	(53)
Other	253	(253)
Actuarial (gain)/loss	(38)	(394)
Benefit obligation at end of year	3,213	2,606
Fair value of plan assets at end of year	—	—
Funded status	\$ (3,213)	\$ (2,606)

The net periodic pension costs are as follows:

	<b>2025</b>	<b>2024</b>
	(In thousands)	
Service cost	\$ 226	\$ 224
Interest cost	166	151
Amortization of loss	(27)	—
Amortization of prior service cost	177	177
Net periodic pension cost	542	552
Curtailment unrecognized PSC recognition	—	1
Gain recognition	—	(253)
Total periodic pension cost	\$ 542	\$ 300

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

	<b>2025</b>	<b>2024</b>
	(In thousands)	
Unrecognized prior service costs	\$ 1,229	\$ 1,260
Unrecognized actuarial gain	(630)	(854)
	\$ 599	\$ 406

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

	2025	2024
Discount rate	5.85%	5.76%
Salary increase assumption	5.00%	5.00%
Measurement date	12/31/2025	12/31/2024

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

<u>Year ending December 31,</u>	
2026	\$ —
2027	\$ —
2028	\$ —
2029	\$ —
2030	\$ 966
2031 - 2035	\$ 4,093

**(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 \$89,485 and \$84,446 in 2025 and 2024, respectively.

The Medicare Prescription Drug Improvement and Modernization Act includes 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.

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The following sets forth the benefit obligation with the funded status of the plan as of December 31, 2025 and 2024:

	<b>2025</b>	<b>2024</b>
	(In thousands)	
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 462	\$ 491
Interest cost	23	23
Actuarial change	43	22
Medicare Part D subsidy received	—	10
Benefits paid	(89)	(84)
Benefit obligation at end of year	439	462
Fair value of plan assets at end of year	—	—
Funded status	\$ (439)	\$ (462)

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

	<b>2025</b>	<b>2024</b>
	(In thousands)	
Unrecognized actuarial gain	\$ (123)	\$ (256)

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

	<b>2025</b>	<b>2024</b>
Medical trend rate next year	5.50%	6.00%
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	4.50%	5.00%
Measurement date	12/31/2025	12/31/2024

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

<u>Year beginning January 1,</u>	<u>Net Benefit Payment</u> (In thousands)
2026	\$ 83
2027	73
2028	65
2029	56
2030	48
2031-2035	\$ 146

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 expense amounts recorded were \$22,637 and \$23,222 in 2025 and 2024, respectively. The amounts recognized in other comprehensive income were amortization of unrealized gain of \$19,684 and \$25,755 during the years ended December 31, 2025 and 2024, respectively.

**(12) 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 \$1.2 million remains to be paid to the Cooperative as of December 31, 2025.

**(13) 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 \$356,665,153 and \$334,586,734 in 2025 and 2024, respectively.

The Cooperative has binding contracts for a building project and substation work to be done. The balances of these contract commitments are approximately \$686,000 and \$1,600,000 as of December 31, 2025 and 2024, respectively. Also, as of December 31, 2025, the Cooperative was under contract to purchase properties for an aggregate purchase price of approximately \$15.5 million. The transaction is expected to close on or about May 1, 2026.

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 \$351,995,457 and

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\$105,616,004 as of December 31, 2025 and 2024, respectively, which have been recorded on the consolidated balance sheet as key accounts contracts in the current liabilities section (see note 1d).

**(14) Related Party Transactions**

The Cooperative has investments in and long-term loans with both CFC and CoBank at market interest rates.

The Cooperative, as a member of ODEC, an organization composed of electric cooperatives, has entered into a contract for the acquisition of wholesale power and maintains an investment in ODEC (see note 13).

RECOM is a wholly owned for-profit subsidiary of the Cooperative. RECOM provides information technology and consulting services to the Cooperative and various external customers. Amounts related to these services provided to the Cooperative were approximately \$7,092,000 and \$7,343,000 for 2025 and 2024, respectively. The Cooperative provides personnel, administrative, and support services to RECOM. Amounts related to these services provided to RECOM were approximately \$589,000 and \$571,000 for 2025 and 2024, respectively. RECOM had a payable to the Cooperative of approximately \$491,800 at December 31, 2025 and \$96,600 at December 31, 2024. RECOM had a receivable from the Cooperative of approximately \$45,000 at December 31, 2025 and \$571,300 at December 31, 2024.

HES and its affiliates are wholly owned for-profit subsidiaries of the Cooperative. HES provides purchased power to the Cooperative for the purpose of serving its mega commercial members. For the year ending December 31, 2025, there were no services provided to the Cooperative. The Cooperative provides personnel services to HES. The amounts related to these services provided to HES were approximately \$183,000 for 2025. HES had a payable and accrued liabilities due to the Cooperative of approximately \$27,201,000 at December 31, 2025.

HES received services from RECOM as one of its external customers. Amounts related to these services provided to HES were approximately \$19,000 for 2025. HES had a current liability due to RECOM of approximately \$12,000 at December 31, 2025.

All intercompany transactions have been eliminated in consolidation.

**(15) 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 GAAP. In accordance with the FASB 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

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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 4.73% and 4.78% for the years ending December 31, 2025 and 2024, 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, 2025 and 2024 are as follows:

<u>2025</u>	<u>Carrying Value</u>	<u>Fair Value</u>
	(In thousands)	
Capital term certificates (CFC)	\$ 3,032	\$ 3,100
Member capital securities	500	500
Long-term debt	701,446	692,000
<u>2024</u>	<u>Carrying Value</u>	<u>Fair Value</u>
	(In thousands)	
Capital term certificates (CFC)	\$ 3,353	\$ 3,400
Member capital securities	500	500
Long-term debt	648,236	605,000

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**(16) Regulatory Liabilities and Deferred Credits**

As of December 31, 2025 and 2024, regulatory liabilities and deferred credits consist of the following components:

	2025	2024
	(In thousands)	
Regulatory liabilities		
Power cost adjustment	\$ 11,959	\$ —
Demand response rider	36	31
Total regulatory liabilities	11,995	31
Deferred credits		
Customer advances	\$ 400	\$ 637
Fiber	2,848	3,551
Fort Walker deferred revenue	327	606
Fort Walker deferred revenue-replacements	6,143	6,112
Other	809	885
Total deferred credits	10,527	11,791
Total regulatory liabilities and deferred credits	\$ 22,522	\$ 11,822

Regulatory liabilities represent amounts collected from members that are required to be returned through future rate adjustments in accordance with rate-making practices approved by the SCC. These balances include over-collections of power costs under the Cooperative's PCA mechanism, as well as amounts associated with demand response and other immaterial rate-related riders, which are refunded to members through future rates. These amounts are expected to be refunded to members through future rate adjustments and are recognized as regulatory liabilities as recovery or refund through the rate-making process is considered probable, generally over short-term periods consistent with the operation of the applicable rate mechanisms.

Other deferred credits include amounts arising from contractual arrangements with certain members, including amounts associated with the acquisition of service territory and related infrastructure from Fort Walker (formerly Fort A.P. Hill). A portion of these balances represents amounts collected through contractually established rates charged to Fort Walker for future system replacements and related capital improvements, which are recognized as income or applied against related costs as the Cooperative fulfills its obligations under the agreement. In addition, certain amounts were established in connection with assets recorded at fair value as part of these arrangements, for which a corresponding deferred credit is being amortized over the estimated useful life of the related assets (approximately 24.5 years). This deferred credit is recognized as a reduction of depreciation and related financing costs, resulting in no material impact on earnings over the life of the assets. These arrangements are contractual in nature and are not subject to refund through the rate-making process.

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December 31, 2025 and 2024

**(17) Deferred Income Taxes**

RECOM and HES are taxable entities subject to federal and state income taxes. Deferred tax assets and liabilities are recognized for temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases, as well as for the benefit of net operating loss carryforwards, using enacted tax rates expected to apply in the periods in which the temporary differences are expected to reverse. A valuation allowance is recognized when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

RECOM has net operating loss carryforwards totaling approximately \$460,000 and \$612,000 at December 31, 2025 and 2024, respectively. Based on the year in which they arose, net operating loss carryforwards of approximately \$453,400 expire at various dates through 2035, while the remaining \$7,000 carries forward indefinitely. HES is also a taxable entity; however, no provision for federal or state income taxes was recorded for the year ended December 31, 2025.

Realization of deferred tax assets is dependent on future taxable income, the timing and amount of which are uncertain. Accordingly, a valuation allowance has been established to reflect these uncertainties.

The deferred tax asset and related valuation allowance at December 31, 2025 and 2024 are as follows:

	<b>2025</b>	<b>2024</b>
	(In thousands)	
Deferred tax asset		
Net operating loss carryforwards	\$ 124	\$ 165
Valuation allowance	(124)	(165)
Net deferred tax asset	\$ —	\$ —

**(18) 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.

**RAPPAHANNOCK ELECTRIC COOPERATIVE  
AND SUBSIDIARIES**

Consolidating Balance Sheet

December 31, 2025

Assets	Rappahannock Electric Cooperative	R.E. Communications Inc.	Hyperscale Energy Services LLC <small>(In thousands)</small>	Eliminating entries	Consolidated totals
Net utility plant	\$ 1,002,909	\$ 71	\$ 154	\$ —	\$ 1,003,134
Investments:					
Associated organizations	176,383	—	—	698	177,081
Other	4,079	—	—	—	4,079
Total investments	180,462	—	—	698	181,160
Current assets:					
Cash and cash equivalents	373,603	1,333	775	—	375,711
Short-term investments	98,520	—	—	—	98,520
Accounts receivable less allowance for credit losses	131,706	329	—	(24,920)	107,115
Unbilled receivables	18,128	167	—	—	18,295
PJM collateral deposits	—	—	25,201	—	25,201
Materials and supplies inventories	22,298	1	—	—	22,299
Prepaid expenses	4,443	131	72	—	4,646
Current lease receivable	464	—	—	—	464
Other	8,053	—	—	(2,831)	5,222
Total current assets	657,215	1,961	26,048	(27,751)	657,473
Lease receivable, excluding current portion	30,983	—	—	—	30,983
Regulatory assets and deferred charges	5,028	—	—	—	5,028
Total assets	\$ 1,876,597	\$ 2,032	\$ 26,202	\$ (27,053)	\$ 1,877,778
<b>Equities and Liabilities</b>					
Equities:					
Patronage capital	\$ 496,358	\$ —	\$ —	\$ —	\$ 496,358
Subsidiary retained earnings	—	337	(1,035)	698	—
Accumulated other comprehensive loss	(278)	—	—	—	(278)
Total equities	496,080	337	(1,035)	698	496,080
Long-term debt, excluding current installments	675,485	—	2,100	(2,100)	675,485
Current liabilities:					
Key accounts contracts	351,996	—	—	—	351,996
Current installments of long-term deb	25,961	—	—	—	25,961
Lines of credit	37,500	—	—	—	37,500
Amounts due to power suppliers	36,241	—	—	—	36,241
Accounts payable	21,408	513	24,870	(25,400)	21,391
Consumer deposits	188,649	—	—	—	188,649
Other	15,843	1,034	267	(251)	16,893
Total current liabilities	677,598	1,547	25,137	(25,651)	678,631
Other noncurrent liabilities:					
Regulatory liabilities and deferred credits	22,418	104	—	—	22,522
Postretirement benefit obligator	439	—	—	—	439
Other	4,577	44	—	—	4,621
Total other noncurrent liabilities	27,434	148	—	—	27,582
Total equities and liabilities	\$ 1,876,597	\$ 2,032	\$ 26,202	\$ (27,053)	\$ 1,877,778

See accompanying Independent Auditor's Report.

**RAPPAHANNOCK ELECTRIC COOPERATIVE  
AND SUBSIDIARIES**

Consolidating Statement of Operations

Year ended December 31, 2025

	<b>Rappahannock Electric Cooperative</b>	<b>R.E. Communications Inc.</b>	<b>Hyperscale Energy Services LLC</b> (In thousands)	<b>Eliminating entries</b>	<b>Consolidated totals</b>
Operating revenues	\$ 573,433	\$ 8,293	\$ —	\$ (7,111)	\$ 574,615
Operating expenses:					
Cost of power/cost of goods sold	362,018	6,163	—	(6,163)	362,018
Transmission	882	—	—	—	882
Distribution-operations	24,548	—	—	—	24,548
Distribution-maintenance	47,132	—	—	—	47,132
Consumer accounts	17,959	—	—	—	17,959
Consumer service	2,973	—	—	—	2,973
Sales, administrative, and general	31,649	1,971	923	(958)	33,585
Total operating expenses	487,161	8,134	923	(7,121)	489,097
Other expenses:					
Depreciation	49,409	8	—	—	49,417
Interest on long-term debt	24,088	—	—	—	24,088
Other	2,666	—	266	(116)	2,816
Total other expenses	76,163	8	266	(116)	76,321
Total expenses	563,324	8,142	1,189	(7,237)	565,418
Operating income (loss)	10,109	151	(1,189)	126	9,197
Nonoperating margins:					
Patronage capital assigned	17,260	—	—	—	17,260
Interest income	11,664	—	154	(116)	11,702
Other income, net	3,023	—	—	874	3,897
Total nonoperating margins	31,947	—	154	758	32,859
Net margins	\$ 42,056	\$ 151	\$ (1,035)	\$ 884	\$ 42,056

See accompanying Independent Auditor's Report.

**RAPPAHANNOCK ELECTRIC COOPERATIVE  
AND SUBSIDIARIES**

Consolidating Statement of Cash Flows

Year ended December 31, 2025

	<b>Rappahannock Electric Cooperative</b>	<b>R.E. Communications Inc.</b>	<b>Hyperscale Energy Services LLC</b>	<b>Eliminating entries</b>	<b>Consolidated totals</b>
	(In thousands)				
Cash flows from operating activities:					
Net margins	\$ 42,056	\$ 151	\$ (1,035)	\$ 884	\$ 42,056
Adjustments:					
Depreciation	49,409	8	—	—	49,417
Noncash capital credit allocations	(17,260)	—	—	—	(17,260)
Special equipment installation costs	(697)	—	—	—	(697)
Gain on disposal of assets	16	—	—	—	16
(Increase) decrease in assets:					
Other investments	(165)	—	—	—	(165)
Accounts and unbilled receivables	(75,143)	409	—	24,950	(49,784)
Other current assets	4,042	(241)	(72)	2,789	6,518
PJM collateral deposits	—	—	(25,201)	—	(25,201)
Lease receivable	341	—	—	—	341
Deferred charges	2,397	—	—	—	2,397
Increase (decrease) in liabilities:					
Accounts payable	(4,858)	390	24,870	(25,400)	(4,998)
Other current liabilities	248,439	(36)	267	(239)	248,431
Deferred credits	10,750	(51)	—	—	10,699
Other noncurrent liabilities	631	11	—	(2,100)	(1,458)
Net cash provided by operating activities	<u>259,958</u>	<u>641</u>	<u>(1,171)</u>	<u>884</u>	<u>260,312</u>
Cash flows from investing activities:					
Extension and replacement of plant	(266,022)	—	(154)	—	(266,176)
Contributions in aid of construction	157,511	—	—	—	157,511
Plant removal costs	(7,467)	—	—	—	(7,467)
Retirement of CTC's	35	—	—	—	35
Purchases/receipts of investments	(454,773)	—	—	—	(454,773)
Maturities of investments	356,265	—	—	—	356,265
Net cash used in investing activities	<u>(214,451)</u>	<u>—</u>	<u>(154)</u>	<u>—</u>	<u>(214,605)</u>
Cash flows from financing activities:					
Net change in consumer deposits	165,794	—	—	—	165,794
Proceeds from patronage capital retired	2,076	—	—	(884)	1,192
Retirements of patronage capital	(4,167)	—	—	—	(4,167)
Proceeds from long-term debt	75,000	—	2,100	—	77,100
Payments on long-term debt	(16,907)	—	—	—	(16,907)
Proceeds from line of credit	204,100	—	—	—	204,100
Payments on line of credit	(218,600)	—	—	—	(218,600)
Net cash provided by financing activities	<u>207,296</u>	<u>—</u>	<u>2,100</u>	<u>(884)</u>	<u>208,512</u>
Net increase in cash and cash equivalents	252,803	641	775	—	254,219
Cash and cash equivalents:					
Beginning of year	120,800	692	—	—	121,492
End of year	<u>\$ 373,603</u>	<u>\$ 1,333</u>	<u>\$ 775</u>	<u>\$ —</u>	<u>\$ 375,711</u>

See accompanying Independent Auditor's Report.



**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”), Rappahannock Electric Communications, Inc. (RECOM) and Hyperscale Energy Services, LLC, (HES) which comprise the consolidated balance sheets as of December 31, 2025 and 2024, 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 16, 2026.

**Report on Internal Control Over Financial Reporting**

In planning and performing our audits of the consolidated financial statements, we considered the Cooperative, RECOM and HES’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, RECOM and HES’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Cooperative, RECOM and HES’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.

## **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Cooperative, RECOM and HES'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*.

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



Richmond, Virginia  
April 16, 2026