

**RAPPAHANNOCK ELECTRIC COOPERATIVE  
AND SUBSIDIARY**

Consolidated Financial Statements and  
Supplementary Information

Years ended December 31, 2024 and 2023

**RAPPAHANNOCK ELECTRIC COOPERATIVE  
AND SUBSIDIARY**

**Table of Contents**

	<b>Page</b>
Independent Auditor's Report	1-3
Consolidated Balance Sheets - December 31, 2024 and 2023	4
Consolidated Statements of Operations and Comprehensive Income - Years ended December 31, 2024 and 2023	5
Consolidated Statements of Cash Flows - Years ended December 31, 2024 and 2023	6
Consolidated Statements of Equities - December 31, 2024 and 2023	7
Notes to Consolidated Financial Statements - December 31, 2024 and 2023	8-26
<b>Schedules</b>	
1 Consolidating Balance Sheet – December 31, 2024	27
2 Consolidating Statement of Operations – Year ended December 31, 2024	28
3 Consolidating Statement of Cash Flows – Year ended December 31, 2024	29
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 <i>Government Auditing Standards</i>	30-31



## Independent Auditor's Report

The Board of Directors  
Rappahannock Electric Cooperative  
Fredericksburg, Virginia

### Opinion

We have audited the accompanying consolidated financial statements of Rappahannock Electric Cooperative (the "Cooperative") and Rappahannock Electric Communications, Inc. (the "Subsidiary") which comprise the consolidated balance sheets as of December 31, 2024 and 2023 and the related consolidated statements of operations, comprehensive income, cash flows, and equities for the years ended December 31, 2024 and 2023, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Rappahannock Electric Cooperative and Subsidiary as of December 31, 2024 and 2023, and the results of their operations, comprehensive income and their cash flows for the years ended December 31, 2024 and 2023, 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 and Subsidiary and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Consolidated Financial Statements

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

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

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

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

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

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

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

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

## **Report on Consolidating Information**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information in Schedules 1 through 3 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, equities, and cash flows of the individual companies, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 18, 2025, on our consideration of Rappahannock Electric Cooperative and Subsidiary's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cooperative and Subsidiary's internal control over financial reporting and compliance.

*Adams, Jenkins & Cheatham*

Richmond, Virginia  
April 18, 2025

**RAPPAHANNOCK ELECTRIC COOPERATIVE  
AND SUBSIDIARY**

Consolidated Balance Sheets

December 31, 2024 and 2023

<b>Assets</b>	<b>2024</b>	<b>2023</b>
	(In thousands)	
Net utility plant	\$ 947,979	\$ 881,490
Investments:		
Associated organizations	161,048	156,464
Other	3,914	3,983
Total investments	164,962	160,447
Current assets:		
Cash and cash equivalents	121,492	46,467
Short-term investments	12	215
Accounts receivable, less allowance for credit losses	60,778	45,156
Unbilled receivables	14,081	16,986
Materials and supplies inventories	21,366	22,274
Prepaid expenses	4,994	3,473
Current lease receivable	269	—
Other	12,897	14,815
Total current assets	235,889	149,386
Lease receivable, excuding current portion	18,816	—
Deferred charges:		
Pension costs	5,104	6,281
Power cost adjustment	1,233	411
Other	1,089	1,018
Total deferred charges	7,426	7,710
Total assets	\$ 1,375,072	\$ 1,199,033
<b>Equities and Liabilities</b>		
Equities:		
Patronage capital	\$ 458,470	\$ 443,048
Accumulated other comprehensive loss	(150)	(979)
Total equities	458,320	442,069
Long-term debt, excluding current installments	622,929	597,963
Current liabilities:		
Key accounts contracts	105,616	46,947
Current installments of long-term debt	25,307	23,844
Line of credit	52,000	7,508
Amounts due to power suppliers	31,984	29,766
Accounts payable	29,978	20,665
Consumer deposits	22,854	7,265
Other	9,971	8,858
Total current liabilities	277,710	144,853
Other noncurrent liabilities:		
Postretirement benefit obligation	462	491
Deferred credits-other	11,822	9,147
Other	3,829	4,510
Total other noncurrent liabilities	16,113	14,148
Total equities and liabilities	\$ 1,375,072	\$ 1,199,033

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

**RAPPAHANNOCK ELECTRIC COOPERATIVE  
AND SUBSIDIARY**

Consolidated Statements of Operations  
Years ended December 31, 2024 and 2023

	<b>2024</b>	<b>2023</b>
	(In thousands)	
Operating revenues	\$ 521,602	\$ 507,005
Operating expenses:		
Cost of power	336,190	333,093
Transmission	561	1,004
Distribution-operations	20,899	16,639
Distribution-maintenance	37,838	39,717
Consumer accounts	16,697	16,478
Consumer service	3,114	3,202
Sales, administrative, and general	28,723	29,168
Total operating expenses	444,022	439,301
Other expenses:		
Depreciation	48,011	45,601
Interest on long-term debt	21,314	20,559
Other	3,396	1,588
Total other expenses	72,721	67,748
Total expenses	516,743	507,049
Operating income (loss)	4,859	(44)
Nonoperating margins:		
Patronage capital assigned	5,600	5,329
Interest income	3,487	3,236
Other income, net	3,051	2,689
Total nonoperating margins	12,138	11,254
Net margins	\$ 16,997	\$ 11,210

Consolidated Statements of Comprehensive Income  
Years ended December 31, 2024 and 2023

	<b>2024</b>	<b>2023</b>
	(In thousands)	
Net margins	\$ 16,997	\$ 11,210
Other comprehensive income (loss):		
Actuarial change	425	(377)
Amortization loss	(26)	(49)
Prior service cost	—	(250)
Curtailment and settlement	253	—
Amortization of prior service cost	177	177
Total other comprehensive income (loss)	829	(499)
Comprehensive income	\$ 17,826	\$ 10,711

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

**RAPPAHANNOCK ELECTRIC COOPERATIVE  
AND SUBSIDIARY**

Consolidated Statements of Cash Flows  
Years ended December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
	(In thousands)	
Cash flows from operating activities:		
Net margins	\$ 16,997	\$ 11,210
Adjustments:		
Depreciation	48,011	45,601
Noncash capital credit allocations	(5,600)	(5,329)
Special equipment installation costs	(2,187)	(5,034)
Gain on disposal of assets	(263)	(412)
(Increase) decrease in assets:		
Other investments	70	(32)
Accounts and unbilled receivables	(11,544)	(1,824)
Current lease receivable	(280)	—
Other current assets	1,020	(28)
Long-term lease receivable	(18,816)	—
Deferred charges	284	2,667
Increase (decrease) in liabilities:		
Accounts payable	9,524	386
Other current liabilities	59,781	48,902
Deferred credits	2,676	(847)
Other noncurrent liabilities	119	482
Net cash provided by operating activities	<u>99,792</u>	<u>95,742</u>
Cash flows from investing activities:		
Extension and replacement of plant	(180,537)	(158,066)
Contributions in aid of construction	75,601	21,447
Plant removal costs	(5,982)	(4,573)
Retirement of CTC's	55	49
Purchases/receipts of investments	(330,590)	(250,625)
Maturities of investments	330,792	316,436
Net cash used in investing activities	<u>(110,661)</u>	<u>(75,332)</u>
Cash flows from financing activities:		
Net change in consumer deposits	15,589	(1,472)
Proceeds from patronage capital retired	960	866
Retirements of patronage capital	(1,575)	(3,417)
Proceeds from long-term debt	50,000	35,000
Payments on long-term debt	(23,572)	(21,409)
Proceeds from line of credit	315,400	15,500
Payments on line of credit	(270,908)	(8,000)
Net cash provided by financing activities	<u>85,894</u>	<u>17,068</u>
Net increase in cash and cash equivalents	75,025	37,478
Cash and cash equivalents, beginning of year	<u>46,467</u>	<u>8,989</u>
Cash and cash equivalents, end of year	<u>\$ 121,492</u>	<u>\$ 46,467</u>
Supplemental disclosure:		
Cash paid for interest	\$ 23,572	\$ 20,314

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



**RAPPAHANNOCK ELECTRIC COOPERATIVE  
AND SUBSIDIARY**

Consolidated Statements of Equities

December 31, 2024 and 2023

	<u>Patronage Capital</u>	<u>Accumulated Other Comprehensive Income (Loss)</u> (In thousands)	<u>Total</u>
Balance, December 31, 2022	\$ 435,255	\$ (480)	\$ 434,775
Net Margins	11,210	—	11,210
Net Retirement of Patronage Capital	(3,417)	—	(3,417)
Other Comprehensive Loss	<u>—</u>	<u>(499)</u>	<u>(499)</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	\$ <u><u>458,470</u></u>	\$ <u><u>(150)</u></u>	\$ <u><u>458,320</u></u>

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

**RAPPAHANNOCK ELECTRIC COOPERATIVE  
AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

**(1) Significant Accounting Policies**

**(a) General**

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

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

The Cooperative is a member of Old Dominion Electric Cooperative (ODEC), a not-for-profit wholesale power supply cooperative. The Cooperative is required to purchase substantially all of its power from ODEC through 2054 (see note 9). The Cooperative’s investment of \$144,346,093 in ODEC as of December 31, 2024, is 28.8% of ODEC’s patronage capital.

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

**(b) Uniform System of Accounts**

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

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

**RAPPAHANNOCK ELECTRIC COOPERATIVE  
AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

**(c) Principles of Consolidation**

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

**(d) Utility Plant**

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

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

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

**RAPPAHANNOCK ELECTRIC COOPERATIVE  
AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

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

**(e) Cash and Cash Equivalents**

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

**(f) Short-Term Investments**

In 2024 and 2023, the Cooperative earned an average rate of 5.25% and 5.72%, 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, 2024 and 2023, the Cooperative had short-term investments of \$12,409 and \$214,867, respectively.

**RAPPAHANNOCK ELECTRIC COOPERATIVE  
AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

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

At year-end, the provision for credit losses is adjusted based on an analysis of aged accounts receivable balances, including evaluation of relevant information about past events, current conditions and reasonable and supportable forecasts. At December 31, 2024 and 2023, the Cooperative had allowances of \$1,056,158 and \$1,103,695, respectively. The Cooperative maintains a policy, which includes an analysis of aged accounts receivable, of writing off uncollectible accounts with Board approval.

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

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

**(i) *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, 2024, the Cooperative recognized a current lease receivable of \$286,860 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) 842, 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.

**(j) *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.

**(k) *Income Taxes***

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

**RAPPAHANNOCK ELECTRIC COOPERATIVE  
AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

**(l) 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, 2024 and 2023, the Cooperative had a cumulative under collection of power costs totaling \$1,233,426 and \$411,280, respectively.

**(m) Revenue Recognition**

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

**(n) Asset Retirement Obligations**

In accordance with the FASB 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, 2024 and 2023. 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.

**(o) Advertising Costs**

The Cooperative and Subsidiary expense advertising costs as incurred. There were no material advertising costs for the years ended December 31, 2024 and 2023.

**(p) 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. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

**RAPPAHANNOCK ELECTRIC COOPERATIVE  
AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

**(q) *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 capitalizes certain internal and external costs of developing internal use software and amortizes them over the estimated useful life of the software.

**(r) *Other***

In response to the increasing demand for large-load projects, the Cooperative has initiated strategic efforts to support and manage this emerging sector. During the reporting period, the Cooperative added resources to lead planning and development efforts. In conjunction with this initiative, the Cooperative has formed subsidiary entities to better address the distinct operational, financial, and regulatory considerations associated with these projects. These subsidiaries will allow the Cooperative to isolate risks, tailor service delivery, and meet the specialized power requirements of large-load facilities. As of December 31, 2024, subsidiary activities remain in the planning and evaluation phase.

**(s) *Recently Issued Accounting Standards***

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

**(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 18, 2025, which is the date the consolidated financial statements were available to be issued.

**RAPPAHANNOCK ELECTRIC COOPERATIVE  
AND SUBSIDIARY**

Notes to Consolidated Financial Statements  
December 31, 2024 and 2023

**(2) Utility Plant**

Utility plant, at cost, as of December 31, 2024 and 2023, consists of the following:

	<u>2024</u>	<u>2023</u>
	(In thousands)	
Distribution	\$ 1,115,630	\$ 1,076,418
Transmission	48,229	48,224
General	154,361	139,846
Acquisition adjustments	<u>54,324</u>	<u>54,324</u>
Utility plant in service	1,372,544	1,318,812
Construction in progress	<u>160,106</u>	<u>115,753</u>
Total utility plant	1,532,650	1,434,565
Less accumulated amortization and depreciation	<u>584,671</u>	<u>553,075</u>
Net utility plant	<u><u>\$ 947,979</u></u>	<u><u>\$ 881,490</u></u>

**(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, 2024 and 2023, investments in associated organizations consist of the following:



**RAPPAHANNOCK ELECTRIC COOPERATIVE  
AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
	(In thousands)	
ODEC patronage capital assigned	\$ 144,346	\$ 140,597
CFC patronage capital certificates	1,969	2,000
CoBank Class E stock	7,112	6,551
Other	<u>3,768</u>	<u>3,408</u>
Total patronage capital	<u>157,195</u>	<u>152,556</u>
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	118	173
Member capital securities	<u>500</u>	<u>500</u>
Capital term certificates and member capital securities	<u>3,853</u>	<u>3,908</u>
Total investments in associated organizations	<u>\$ 161,048</u>	<u>\$ 156,464</u>

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 2025 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.

**RAPPAHANNOCK ELECTRIC COOPERATIVE  
AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

**(4) Long-Term Debt**

Long-term debt at December 31, 2024 and 2023 consists of the following:

	<u>2024</u>	<u>2023</u>
	(In thousands)	
Mortgage notes:		
RUS-		
due 2031 through 2056; (1.05% - 4.44%)	\$ 530,233	\$ 494,409
CoBank-		
due 2026 through 2045; (2.65% - 6.85%)	67,540	73,377
CFC-		
due 2027 through 2045; (3.40% - 4.05%)	<u>50,463</u>	<u>54,021</u>
Total long-term debt	648,236	621,807
Less current installments	<u>25,307</u>	<u>23,844</u>
Long-term debt, excluding current installments	<u>\$ 622,929</u>	<u>\$ 597,963</u>

Annual maturities of long-term debt for the five years subsequent to December 31, 2024, and thereafter are approximately \$25.3 million in 2025, \$26.0 million in 2026, \$24.8 million in 2027, \$24.0 million in 2028, \$22.7 million in 2029 and \$525.4 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, 2024, and 2023, 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.

**RAPPAHANNOCK ELECTRIC COOPERATIVE  
AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

In September 2021, the Cooperative was approved for a \$175 million loan package from RUS. \$90 million was drawn on this loan package in 2022. The final draws of \$50 million and \$35 million were taken as of December 31, 2024 and 2023, respectively.

**(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, 6.50% at December 31, 2024.

The CoBank line-of-credit has a maximum commitment of \$50 million, maturing on July 8, 2025. Interest is charged at a variable rate based on CoBank's published base rate, 6.24% at December 31, 2024.

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, 2024, the Cooperative had drawn \$23 million on the CFC line and \$29 million on the CoBank line.

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.

**(5) Concentration of Credit Risk**

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

The Cooperative and Subsidiary maintain checking accounts in Truist, Atlantic Union Bank and Wells Fargo. The Federal Deposit Insurance Corporation (FDIC) provides insurance coverage for up to \$250,000 of cash held by the Cooperative and Subsidiary in each separate FDIC insured bank and savings institution. From time to time, the Cooperative and Subsidiary may have amounts on deposit in excess of the insured limits. As of December 31, 2024, the Cooperative and Subsidiary had approximately \$108.9 million of uninsured deposits. During 2024, a new checking account was opened at CoBank which is not subject to FDIC insurance. The balance of this account was \$15.4 million as of December 31, 2024.

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 75% of the Cooperative's receivables are for residential customers and due to the large number of customers involved, are a minimal risk. The commercial and public customers represent approximately 25% of receivables. Management minimizes the credit risk with deposit requirements, provisions for credit losses, and accounts receivable insurance.

**RAPPAHANNOCK ELECTRIC COOPERATIVE  
AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

**(6) 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 \$2,890,168 and \$1,068,275 as of December 31, 2024 and 2023, respectively which are included in deferred credits.

**(7) Benefits**

**(a) Pension Plan**

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

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

The Cooperative's contributions to the RS Plan in 2024 and in 2023 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 \$10,274,180 and \$9,552,985 in 2024 and 2023, respectively. There have been no significant changes that affect the comparability of 2024 and 2023 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, 2024 and over 80% funded on January 1, 2023 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 \$895,451 and \$805,571 for the years ended December 31, 2024 and 2023, respectively.

**RAPPAHANNOCK ELECTRIC COOPERATIVE  
AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

All employees of the Subsidiary are also eligible to participate in the NRECA SelectRE plan. The Subsidiary's required contribution was \$432,521 and \$312,269 for the years ended December 31, 2024 and 2023, 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 \$372,000 and \$412,000 as of December 31, 2024 and 2023, respectively, and are included in other liabilities. The expense under these agreements amounted to \$19,568 and \$21,364 in 2024 and 2023, 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, 2024 and 2023, the cash surrender values of these policies were \$770,147 and \$769,096, 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, 2024 and 2023, the balance of the deferred compensation held for the benefit of the directors of the board was \$40,518 and \$37,705, respectively. For the years ended December 31, 2024 and 2023, the balance of the deferred compensation held for the benefit of the key employees was \$357,102 and \$473,640, 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 \$551,965 and \$493,409 in 2024 and 2023, respectively. The accrued amount was \$2,606,385 and \$2,931,072 as of December 31, 2024 and 2023, respectively, and are included in other noncurrent liabilities in the accompanying consolidated balance sheets.

**RAPPAHANNOCK ELECTRIC COOPERATIVE  
AND SUBSIDIARY**

Notes to Consolidated Financial Statements  
December 31, 2024 and 2023

The following sets forth the benefit obligation with the funded status of the plan as December 31, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
	(In thousands)	
Benefit obligation at beginning of year	\$ 2,931	\$ 1,960
Service cost	224	198
Interest cost	151	129
Plan amendments	(53)	249
Curtailments	(253)	—
Actuarial (gain)/loss	(394)	395
Benefit obligation at end of year	<u>2,606</u>	<u>2,931</u>
Fair value of plan assets at end of year	<u>—</u>	<u>—</u>
Funded status	<u>\$ (2,606)</u>	<u>\$ (2,931)</u>

The net periodic pension costs are as follows:

	<u>2024</u>	<u>2023</u>
	(In thousands)	
Service cost	\$ 224	\$ 198
Interest cost	151	129
Amortization of loss	—	(11)
Amortization of prior service cost	177	177
Net periodic pension cost	<u>552</u>	<u>493</u>
Curtailment unrecognized PSC recognition	1	—
Gain recognition	(253)	—
Total periodic pension cost	<u>\$ 300</u>	<u>\$ 493</u>

**RAPPAHANNOCK ELECTRIC COOPERATIVE  
AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

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

	<u>2024</u>	<u>2023</u>
	(In thousands)	
Unrecognized prior service costs	\$ 1,260	\$ 1,437
Unrecognized actuarial gain	(854)	(225)
	<u>\$ 406</u>	<u>\$ 1,212</u>

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

	<u>2024</u>	<u>2023</u>
Discount rate	5.76%	5.03%
Salary increase assumption	5.00%	5.00%
Measurement date	12/31/2024	12/31/2023

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

<u>Year ending December 31,</u>	
2025	\$ —
2026	\$ —
2027	\$ —
2028	\$ —
2029	\$ —
2030 - 2034	\$ 5,171

**(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 \$84,446 and \$88,548 in 2024 and 2023, 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

**RAPPAHANNOCK ELECTRIC COOPERATIVE  
AND SUBSIDIARY**

Notes to Consolidated Financial Statements  
December 31, 2024 and 2023

Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. All measures of the benefit obligation and the net periodic postretirement benefit cost included in this footnote reflect the effects of the Medicare Act on the plan.

The following sets forth the benefit obligation with the funded status of the plan as of December 31, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
	(In thousands)	
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 491	\$ 565
Interest cost	23	25
Actuarial change	22	(18)
Medicare Part D subsidy received	10	8
Benefits paid	(84)	(89)
Benefit obligation at end of year	<u>462</u>	<u>491</u>
Fair value of plan assets at end of year	<u>—</u>	<u>—</u>
Funded status	<u>\$ (462)</u>	<u>\$ (491)</u>

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

	<u>2024</u>	<u>2023</u>
	(In thousands)	
Unrecognized actuarial gain	<u>\$ (256)</u>	<u>\$ (234)</u>

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

	<u>2024</u>	<u>2023</u>
Medical trend rate next year	6.00%	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	5.00%	4.75%
Measurement date	12/31/2024	12/31/2023



**RAPPAHANNOCK ELECTRIC COOPERATIVE  
AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

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)
2025	\$ 83
2026	75
2027	67
2028	59
2029	51
2030-2034	\$ 165

There are no assets that have been segregated and restricted to pay for the postretirement benefits; rather the plan is being funded on a pay-as-you-go basis. The total net periodic postretirement benefit amounts recorded were credits of \$2,533 and \$13,314 in 2024 and 2023, respectively. The estimated amortization amounts were approximately \$28,000 and \$35,000 as of December 31, 2024 and 2023, respectively.

**(8) Winter Storm Frida**

On January 5, 2022, Governor Ralph Northam declared a State of Emergency due to severe winter weather. Storm system Frida struck the Cooperative's service territory causing system damage totaling approximately \$18.6 million. The Cooperative submitted a request to the Federal Emergency Management Agency (FEMA) for approximately \$14 million to offset the cost of the storm. Those funds have been obligated by FEMA. Approximately \$4.1 million has been received by the Cooperative, but the remaining reimbursement is pending approval from the Virginia Department of Emergency Management (VDEM) as of the date of these consolidated financial statements.

**(9) Commitments**

The Cooperative, as a member of ODEC, purchases substantially all of its power from ODEC under a wholesale power contract dated January 1, 2009. The term of this contract is for 45 years and thereafter until terminated by either party giving to the other not less than three years written notice of its intention to terminate. To the extent available, the Cooperative is obligated to purchase from ODEC all electric power and energy that the Cooperative requires for the operation of its system. Purchases from ODEC amounted to \$334,586,734 and \$312,474,946 in 2024 and 2023, respectively.

As part of the Cooperative'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, the Cooperative'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

**RAPPAHANNOCK ELECTRIC COOPERATIVE  
AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

1, 2016. This contract was amended as of December 2, 2020 and continued through December 31, 2023. There were no purchases in 2024 and \$18,781,560 in 2023.

The Cooperative has binding contracts for a building project and substation work to be done. The balances of these contract commitments are approximately \$1,600,000 and \$1,300,000 as of December 31, 2024 and 2023, respectively.

The Cooperative is holding deposits from commercial members for the purchase of equipment and services that will be utilized for work in the future. The balances of these commitments are \$105,616,004 and \$46,947,059 as of December 31, 2024 and 2023, respectively, which have been recorded on the consolidated balance sheet as key accounts contracts in the current liabilities section.

**(10) Related Party Transactions**

The Cooperative has investments in and long-term loans with both CFC and CoBank at market interest rates. As of December 31, 2024, liabilities were \$50,463,215 and \$67,539,765, respectively. As of December 31, 2023, liabilities were \$54,020,642 and \$73,377,466, respectively.

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.

The Subsidiary is a wholly owned for-profit subsidiary of the Cooperative. The Subsidiary provides information technology and consulting services to the Cooperative and various external customers. Amounts related to these services provided to the Cooperative were approximately \$7,343,000 and \$6,779,000 for 2024 and 2023, respectively. The Cooperative provides personnel, administrative, and support services to the Subsidiary. Amounts related to these services provided to the Subsidiary were approximately \$571,000 and \$664,000 for 2024 and 2023, respectively. The Subsidiary had a payable to the Cooperative of approximately \$96,600 at December 31, 2024 and \$37,600 at December 31, 2023. The Subsidiary had a receivable from the Cooperative of approximately \$571,300 at December 31, 2024 and \$1,128,200 at December 31, 2023.

**(11) Financial Instruments Carried at Cost**

The Cooperative has recorded all financial instruments based on the carrying amount (book value) in the consolidated financial statements in accordance with 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

**RAPPAHANNOCK ELECTRIC COOPERATIVE  
AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

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 4.78% and 4.02% for the years ending December 31, 2024 and 2023, 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, 2024 and 2023 are as follows:

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

**RAPPAHANNOCK ELECTRIC COOPERATIVE  
AND SUBSIDIARY**

Notes to Consolidated Financial Statements  
December 31, 2024 and 2023

**(12) Deferred Credits-Other**

Other deferred credits consisted of the following:

	<u>2024</u>	<u>2023</u>
	(In thousands)	
Customer advances	\$ 637	\$ 1,168
Demand response rider	31	41
Deferred credits-fiber	3,551	79
Fort Walker deferred revenue	606	885
Fort Walker deferred revenue-replacements	6,112	6,081
Deferred credits-other	885	893
Total deferred credits-other	<u>\$ 11,822</u>	<u>\$ 9,147</u>

**(13) Deferred Income Taxes**

The Subsidiary has net operating loss carryforwards totaling approximately \$892,000 and \$538,000 at December 31, 2024 and 2023. These net operating loss carryforwards may be used to offset federal and state taxable income in future years. Based on the year in which they arose, net operating loss carryforwards of approximately \$596,000 expire at various dates through 2035; whereas the remaining \$7,000 carry forward indefinitely. Realization of deferred tax assets is dependent on future earnings, if any, the timing and amount of which is uncertain. Accordingly, a valuation allowance has been established to reflect these uncertainties.

The deferred tax asset and related valuation allowance at December 31, 2024 and 2023 are as follows:

	<u>2024</u>	<u>2023</u>
	(In thousands)	
Deferred tax asset		
Net operating loss carryforwards	\$ 241	\$ 150
Valuation allowance	(241)	(150)
Net deferred tax asset	<u>\$ —</u>	<u>\$ —</u>

**(14) 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 SUBSIDIARY**

Consolidating Balance Sheet

December 31, 2024

Assets	Rappahannock Electric Cooperative	R.E. Communications Inc.	Eliminating entries	Consolidated totals
	(In thousands)			
Net utility plant	\$ 947,900	\$ 79	\$ —	\$ 947,979
Investments:				
Associated organizations	161,234	—	(186)	161,048
Other	3,914	—	—	3,914
Total investments	165,148	—	(186)	164,962
Current assets:				
Cash and cash equivalents	120,800	692	—	121,492
Short-term investments	12	—	—	12
Accounts receivable less allowance for credit losses	60,611	738	(571)	60,778
Unbilled receivables	14,081	—	—	14,081
Materials and supplies inventories	21,366	—	—	21,366
Prepaid expenses	4,936	58	—	4,994
Current lease receivable	269	—	—	269
Other	12,994	—	(97)	12,897
Total current assets	235,069	1,488	(668)	235,889
Lease receivable, excuding current portion	18,816	—	—	18,816
Deferred charges:				
Pension costs	5,104	—	—	5,104
Power cost adjustment	1,233	—	—	1,233
Other	1,089	—	—	1,089
Total deferred charges	7,426	—	—	7,426
Total assets	\$ 1,374,359	\$ 1,567	\$ (854)	\$ 1,375,072
<b>Equities and Liabilities</b>				
Equities:				
Patronage capital	\$ 458,470	\$ —	\$ —	\$ 458,470
Subsidiary retained earnings	—	186	(186)	—
Accumulated other comprehensive loss	(150)	—	—	(150)
Total equities	458,320	186	(186)	458,320
Long-term debt, excluding current installments	622,929	—	—	622,929
Current liabilities:				
Key accounts contracts	105,616	—	—	105,616
Current installments of long-term debt	25,307	—	—	25,307
Lines of credit	52,000	—	—	52,000
Amounts due to power suppliers	31,984	—	—	31,984
Accounts payable	30,523	123	(668)	29,978
Consumer deposits	22,854	—	—	22,854
Other	8,900	1,071	—	9,971
Total current liabilities	277,184	1,194	(668)	277,710
Other noncurrent liabilities:				
Postretirement benefit obligation	462	—	—	462
Deferred credits-other	11,668	154	—	11,822
Other	3,796	33	—	3,829
Total other noncurrent liabilities	15,926	187	—	16,113
Total equities and liabilities	\$ 1,374,359	\$ 1,567	\$ (854)	\$ 1,375,072

See accompanying Independent Auditor's Report.

**RAPPAHANNOCK ELECTRIC COOPERATIVE  
AND SUBSIDIARY**

Consolidating Statement of Operations

Year ended December 31, 2024

	<b>Rappahannock Electric Cooperative</b>	<b>R.E. Communications Inc.</b>	<b>Eliminating entries</b>	<b>Consolidated totals</b>
	(In thousands)			
Operating revenues	\$ 521,214	\$ 7,731	\$ (7,343)	\$ 521,602
Operating expenses:				
Cost of power/cost of goods sold	336,097	6,364	(6,271)	336,190
Transmission	561	—	—	561
Distribution-operations	20,899	—	—	20,899
Distribution-maintenance	37,838	—	—	37,838
Consumer accounts	16,697	—	—	16,697
Consumer service	3,114	—	—	3,114
Sales, administrative, and general	28,087	1,708	(1,072)	28,723
Total operating expenses	443,293	8,072	(7,343)	444,022
Other expenses:				
Depreciation	48,008	3	—	48,011
Interest on long-term debt	21,314	—	—	21,314
Other	3,396	—	—	3,396
Total other expenses	72,718	3	—	72,721
Total expenses	516,011	8,075	(7,343)	516,743
Operating income (loss)	5,203	(344)	—	4,859
Nonoperating margins:				
Patronage capital assigned	5,600	—	—	5,600
Interest income	3,487	—	—	3,487
Other income, net	2,707	—	344	3,051
Total nonoperating margins	11,794	—	344	12,138
Net margins	\$ 16,997	\$ (344)	\$ 344	\$ 16,997

See accompanying Independent Auditor's Report.

**RAPPAHANNOCK ELECTRIC COOPERATIVE  
AND SUBSIDIARY**

Consolidating Statement of Cash Flows

Year ended December 31, 2024

	<b>Rappahannock Electric Cooperative</b>	<b>R.E. Communications Inc.</b>	<b>Eliminating entries</b>	<b>Consolidated totals</b>
	(In thousands)			
Cash flows from operating activities:				
Net margins	\$ 16,997	\$ (344)	\$ 344	\$ 16,997
Adjustments:				
Depreciation	48,007	4	—	48,011
Noncash capital credit allocations	(5,600)	—	—	(5,600)
Special equipment installation costs	(2,187)	—	—	(2,187)
Gain on disposal of assets	(263)	—	—	(263)
(Increase) decrease in assets:				
Other investments	70	—	—	70
Accounts and unbilled receivables	(12,824)	709	571	(11,544)
Current lease receivable	(280)	—	—	(280)
Other current assets	897	26	97	1,020
Long-term lease receivable	(18,816)	—	—	(18,816)
Deferred charges	284	—	—	284
Increase (decrease) in liabilities:				
Accounts payable	10,421	(229)	(668)	9,524
Other current liabilities	59,148	633	—	59,781
Deferred credits	2,685	(9)	—	2,676
Other noncurrent liabilities	134	(15)	—	119
Net cash provided by operating activities	98,673	775	344	99,792
Cash flows from investing activities:				
Extension and replacement of plant	(180,454)	(83)	—	(180,537)
Contributions in aid of construction	75,601	—	—	75,601
Plant removal costs	(5,982)	—	—	(5,982)
Retirement of CTC's	55	—	—	55
Purchases/receipts of investments	(330,590)	—	—	(330,590)
Maturities of investments	330,792	—	—	330,792
Net cash used in investing activities	(110,578)	(83)	—	(110,661)
Cash flows from financing activities:				
Net change in consumer deposits	15,589	—	—	15,589
Proceeds from patronage capital retired	1,304	—	(344)	960
Retirements of patronage capital	(1,575)	—	—	(1,575)
Proceeds from long-term debt	50,000	—	—	50,000
Payments on long-term debt	(23,572)	—	—	(23,572)
Proceeds from line of credit	315,400	—	—	315,400
Payments on line of credit	(270,908)	—	—	(270,908)
Net cash provided by financing activities	86,238	—	(344)	85,894
Net increase in cash and cash equivalents	74,333	692	—	75,025
Cash and cash equivalents:				
Beginning of year	46,467	—	—	46,467
End of year	\$ 120,800	\$ 692	\$ —	\$ 121,492

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") and Rappahannock Electric Communications, Inc. (the "Subsidiary"), which comprise the consolidated balance sheets as of December 31, 2024 and 2023, 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 18, 2025.

**Report on Internal Control Over Financial Reporting**

In planning and performing our audits of the consolidated financial statements, we considered the Cooperative and Subsidiary's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative and Subsidiary's internal control. Accordingly, we do not express an opinion on the effectiveness of the Cooperative and Subsidiary's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audits we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



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

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

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Cooperative and Subsidiary's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cooperative and Subsidiary's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Richmond, Virginia  
April 18, 2025

A handwritten signature in cursive script that reads "Allama, Jenkins & Cheatham".