

Vermont Electric Cooperative, Inc.

FINANCIAL STATEMENTS

December 31, 2021

Vermont Electric Cooperative, Inc.
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Kittell Branagan & Sargent

Certified Public Accountants

Vermont License #167

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Vermont Electric Cooperative, Inc.
Johnson, Vermont

Opinion

We have audited the accompanying financial statements of Vermont Electric Cooperative, Inc. (a nonprofit member owned cooperative), which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of operations, equities and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Vermont Electric Cooperative, Inc. as of December 31, 2021 and 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Vermont Electric Cooperative, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

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



St. Albans, Vermont
March 15, 2022

Vermont Electric Cooperative, Inc.

BALANCE SHEETS

December 31,

ASSETS

| | <u>2021</u> | <u>2020</u> |
|---|-----------------------|-----------------------|
| ELECTRIC PLANT, at cost | \$ 195,397,037 | \$ 188,089,529 |
| Less accumulated depreciation | <u>(61,028,609)</u> | <u>(57,534,435)</u> |
| Electric plant in service, net | 134,368,428 | 130,555,094 |
| Construction work in progress | <u>3,441,305</u> | <u>3,259,539</u> |
| TOTAL ELECTRIC PLANT, net | <u>137,809,733</u> | <u>133,814,633</u> |
| CURRENT ASSETS | | |
| Cash | 405,445 | 451,022 |
| Accounts receivable, net of allowance of \$166,785 and \$260,032 at December 31, 2021 and 2020, respectively | 6,897,556 | 6,835,136 |
| Unbilled revenue | 5,344,374 | 5,223,098 |
| Inventories | 5,734,999 | 5,417,204 |
| Prepaid expenses | <u>697,419</u> | <u>555,891</u> |
| TOTAL CURRENT ASSETS | <u>19,079,793</u> | <u>18,482,351</u> |
| OTHER ASSETS | | |
| Nonutility property | 65,697 | 65,697 |
| Other investments | <u>47,893,539</u> | <u>44,632,770</u> |
| TOTAL OTHER ASSETS | <u>47,959,236</u> | <u>44,698,467</u> |
| TOTAL ASSETS | <u>\$ 204,848,762</u> | <u>\$ 196,995,451</u> |

LIABILITIES AND EQUITY

| | | |
|--|-----------------------|-----------------------|
| EQUITIES | | |
| Patronage capital assignable | \$ 87,995,992 | \$ 83,657,906 |
| Other equities | <u>2,052,756</u> | <u>1,679,232</u> |
| NET EQUITY | <u>90,048,748</u> | <u>85,337,138</u> |
| LONG-TERM DEBT | <u>80,819,683</u> | <u>87,631,582</u> |
| OBLIGATIONS UNDER CAPITAL LEASE | <u>-</u> | <u>110,919</u> |
| DEFERRED COMPENSATION PLAN | <u>372,553</u> | <u>307,343</u> |
| CURRENT LIABILITIES | | |
| Current portion of long-term debt | 5,122,628 | 5,935,033 |
| Current portion of capital lease obligations | - | 23,823 |
| Revolving debt | 11,636,007 | 3,400,000 |
| Accounts payable | 8,268,919 | 7,595,230 |
| Customer deposits | 1,930,009 | 1,862,177 |
| Deferred credits | 739,013 | 1,139,741 |
| Other regulatory liabilities | 2,588,600 | - |
| Deferred grant revenues | 301,404 | 706,915 |
| Other accrued expenses | <u>3,021,198</u> | <u>2,945,550</u> |
| TOTAL CURRENT LIABILITIES | <u>33,607,778</u> | <u>23,608,469</u> |
| TOTAL LIABILITIES AND EQUITY | <u>\$ 204,848,762</u> | <u>\$ 196,995,451</u> |

See Accompanying Notes to Financial Statements.

Vermont Electric Cooperative, Inc.
STATEMENTS OF OPERATIONS
For the Years Ended December 31,

| | <u>2021</u> | <u>2020</u> |
|------------------------------------|---------------------|---------------------|
| OPERATING REVENUE | \$ 79,655,749 | \$ 79,377,526 |
| OPERATING EXPENSES | | |
| Purchased power | 35,961,869 | 36,113,236 |
| Transmission: | | |
| Operations | 12,634,071 | 12,648,508 |
| Maintenance | 630,469 | 574,674 |
| Distribution: | | |
| Operations | 7,815,938 | 7,460,048 |
| Maintenance | 6,568,471 | 7,610,053 |
| Customer accounts | 2,503,268 | 2,613,860 |
| Administrative and general | 4,182,812 | 3,904,884 |
| General plant maintenance | 338,837 | 301,787 |
| Depreciation | 6,404,619 | 6,143,106 |
| Taxes | 804,605 | 796,987 |
| Other deductions, net | 12,745 | 15,119 |
| TOTAL OPERATING EXPENSES | <u>77,857,704</u> | <u>78,182,262</u> |
| INCOME FROM OPERATIONS | <u>1,798,045</u> | <u>1,195,264</u> |
| OTHER INCOME | | |
| Renewable energy credits | 1,857,221 | 1,419,414 |
| Gain on sale of fixed assets | 67,658 | 24,692 |
| Other income | 97,795 | 111,897 |
| Interest and dividend income | 5,182,381 | 5,026,725 |
| Other capital credits & dividends | 610,134 | 628,954 |
| TOTAL OTHER INCOME | <u>7,815,189</u> | <u>7,211,682</u> |
| NET INCOME BEFORE INTEREST CHARGES | <u>9,613,234</u> | <u>8,406,946</u> |
| INTEREST CHARGES | | |
| Interest on long-term debt | 3,426,623 | 3,565,631 |
| Other interest | 109,980 | 127,992 |
| TOTAL INTEREST CHARGES | <u>3,536,603</u> | <u>3,693,623</u> |
| INCOME FROM CONTINUING OPERATIONS | <u>6,076,631</u> | <u>4,713,323</u> |
| NET INCOME | <u>\$ 6,076,631</u> | <u>\$ 4,713,323</u> |

See Accompanying Notes to Financial Statements

Vermont Electric Cooperative, Inc.
STATEMENTS OF EQUITIES
For the Years Ended December 31,

| | Other Equities | | | | | Total |
|--|-----------------------|---------------------|--------------------|--|----------------------|----------------------|
| | Capital Assignable | Retired Credits | Donated Capital | Postretirement Medical & Life Plan | Earnings (Losses) | |
| BALANCE, at December 31, 2019 | \$ 80,417,770 | \$ 1,281,361 | \$ 214,645 | \$ 73,949 | \$ - | \$ 81,987,725 |
| Net income for the year | - | - | - | - | 4,713,323 | 4,713,323 |
| Transfer to patronage capital assignable | 4,713,323 | - | - | - | (4,713,323) | - |
| Retirement of capital credits | <u>(1,473,187)</u> | <u>109,277</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(1,363,910)</u> |
| BALANCE, at December 31, 2020 | 83,657,906 | 1,390,638 | 214,645 | 73,949 | - | 85,337,138 |
| Net income for the year | - | - | - | - | 6,076,631 | 6,076,631 |
| Transfer to patronage capital assignable | 6,076,631 | - | - | - | (6,076,631) | - |
| Retirement of capital credits | <u>(1,738,545)</u> | <u>373,524</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(1,365,021)</u> |
| BALANCE, at December 31, 2021 | <u>\$ 87,995,992</u> | <u>\$ 1,764,162</u> | <u>\$ 214,645</u> | <u>\$ 73,949</u> | <u>\$ -</u> | <u>\$ 90,048,748</u> |

See Accompanying Notes to Financial Statements

Vermont Electric Cooperative, Inc.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31,

| | <u>2021</u> | <u>2020</u> |
|--|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$ 6,076,631 | \$ 4,713,323 |
| Noncash expenses (income) included in earnings: | | |
| Depreciation | 6,908,369 | 6,576,564 |
| Amortization | 34,308 | 34,308 |
| (Gain)/Loss on sale of fixed assets | (67,658) | (24,692) |
| Hydro Quebec disallowance | - | (6,961) |
| Changes in assets and liabilities: | | |
| Decrease (Increase) in accounts receivable | (183,696) | (26,002) |
| Decrease (Increase) in inventories | (317,795) | (272,921) |
| Decrease (Increase) in prepaid expenses | (141,528) | (48,033) |
| Increase (Decrease) in accounts payable | 673,689 | 665,673 |
| Increase (Decrease) in customer deposits | 67,832 | 138,655 |
| Increase (Decrease) in accrued expenses | 75,648 | 172,574 |
| Increase (Decrease) in deferred grant revenues | (405,511) | 320,633 |
| Increase (Decrease) in deferred credits | <u>(400,728)</u> | <u>(510,190)</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>12,319,561</u> | <u>11,732,931</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Additions to electric plant in service and construction work in progress | (10,976,198) | (14,911,612) |
| Proceeds from sale of electric plant in service | 17,378 | 29,760 |
| Return on capital investments | (235,919) | (258,541) |
| Purchase of investments | <u>(2,959,640)</u> | <u>(1,363,940)</u> |
| NET CASH USED BY INVESTING ACTIVITIES | <u>(14,154,379)</u> | <u>(16,504,333)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from long-term borrowings | - | 11,088,600 |
| Principal payments to creditors related to long-term borrowings | (5,070,012) | (4,629,904) |
| Net borrowing (payment) on line of credit | 8,236,007 | (550,878) |
| Patronage capital retired, net | (1,365,021) | (1,363,910) |
| Principal payments under capital lease obligations | <u>(11,733)</u> | <u>(22,439)</u> |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | <u>1,789,241</u> | <u>4,521,469</u> |
| NET DECREASE IN CASH | (45,577) | (249,933) |
| CASH - Beginning of Year | <u>451,022</u> | <u>700,955</u> |
| CASH - End of Year | <u>\$ 405,445</u> | <u>\$ 451,022</u> |

See Accompanying Notes to Financial Statements

Vermont Electric Cooperative, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Vermont Electric Cooperative, Inc. (VEC or the Cooperative) is a rural electric cooperative utility established under the laws of the state of Vermont (VT). The Cooperative is subject to regulation by the Federal Energy Regulatory Commission (FERC) and its operations are under the jurisdiction of the Vermont Public Utility Commission (PUC). The PUC has the primary responsibility of regulating the Cooperative's rates. VEC is a distribution cooperative, providing residential and commercial electrical service to members in the State of Vermont.

Regulatory Accounting

The Cooperative utilizes the Uniform System of Accounts established by the Rural Utilities Service (RUS), except where the PSB has prescribed other treatment. In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 980, *Regulated Operations*, the Cooperative records certain assets and liabilities in accordance with the economic effects of the rate making process.

Revenue Recognition

The Cooperative recognizes revenue for electric service in the month that service is rendered. This method of recognizing operating revenue is consistent with industry practice.

Unbilled Revenue

The Cooperative records unbilled revenue for the amount of electricity consumed from the last meter reading date to the last day of the year.

Electric Plant

Electric plant is stated at cost. The Cooperative employs the straight-line and straight-line composite methods for determining the annual charge for depreciation. Under RUS accounting, a portion of depreciation expense on transportation equipment is allocated to transmission and distribution expense.

Maintenance and repairs are charged to expense as incurred. When assets are retired or otherwise disposed of, the costs are removed from plant, and such costs, plus removal costs, less salvage, are charged to accumulated depreciation.

Cash and Cash Equivalents

The Cooperative considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. At December 31, 2021 the Cooperative had cash balance at two local financial institutions in excess of the \$250,000 that is insured by the FDIC. At December 31, 2021 the total balance held by these financial institutions was fully insured by the FDIC.

Investments

Investments in stock of associated companies and other investments are stated at cost. Because these investments are not publicly traded, market values are not readily determinable.

Inventories

Inventories are stated at the lower of cost or market, cost is determined on a rolling average basis.

Vermont Electric Cooperative, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Amortization

The Cooperative follows the policy of charging to operating expenses annual amounts of amortization which allocate the cost of various deferred charges over periods established by management for rate-making purposes. The Cooperative employs the straight-line method for determining the annual charge for amortization.

Contributions in Aid of Construction

As explained in note 1 above, the Cooperative follows RUS accounting guidelines, except as otherwise prescribed or allowed by its state regulator, the PUC. In accordance with state regulatory requirements from 1973 through 2010, contributions in aid of construction were accounted for as a component of members' equity rather than as a reduction of electric plant in service. All contributions in aid of construction come from members of the Cooperative. During 2021 and 2020, the Cooperative received \$2,499,737 and \$2,697,749, respectively, in contributions in aid of construction.

Corporate Structure and Income Taxes

The Cooperative is a nonprofit and non-stock membership corporation organized under provisions of the Electric Cooperative Act of Vermont. The Cooperative is an organization described in Section 501 (c)(12) of the Internal Revenue Code, and has been recognized by the Internal Revenue Service as an organization exempt from taxes on related income under Section 501(a).

Consideration has been given to uncertain tax positions. The federal income tax returns for the years ended after December 31, 2018, remain open for potential examination by major tax jurisdictions, generally for three years after they were filed.

Taxes

The Cooperative pays property, gross revenue and gross receipts taxes on a yearly basis. Gross revenue taxes are paid to the State of Vermont annually. During 2021 and 2020, the Cooperative paid \$4,050,388 and \$3,749,695 for property taxes, \$423,253 and \$418,942 for gross revenue taxes and \$381,351 and \$378,046, respectively, for gross receipt taxes. In accordance with RUS accounting guidelines, the property tax payments are allocated to various other accounts. Gross receipts taxes are paid to the State of Vermont on a quarterly basis as a percentage of sales.

Use of Estimates

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

Vermont Electric Cooperative, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

NOTE 2 ELECTRIC PLANT IN SERVICE

An analysis of electric plant in service at is as follows:

| <u>December 31, 2021</u> | <u>Depreciable Life/Rate Per Year</u> | |
|--------------------------|---|-----------------------------|
| Transmission Plant | 2.75% | \$ 21,310,324 |
| Distribution Plant | 3.00% | 148,679,369 |
| Buildings and Structures | 20-50 | 6,596,732 |
| Transportation Equipment | 5-10 | 4,361,730 |
| General Plant | 3-10 | <u>14,448,882</u> |
| | | <u><u>\$195,397,037</u></u> |

| <u>December 31, 2020</u> | <u>Depreciable Life/Rate Per Year</u> | |
|--------------------------|---|-----------------------------|
| Transmission Plant | 2.75% | \$ 20,797,039 |
| Distribution Plant | 3.00% | 142,779,627 |
| Buildings and Structures | 20-50 | 6,646,331 |
| Transportation Equipment | 5-10 | 4,020,728 |
| General Plant | 3-10 | <u>13,845,804</u> |
| | | <u><u>\$188,089,529</u></u> |

Depreciation of electric plant in service totaled \$6,908,369 and \$6,576,564 in 2021 and 2020, respectively.

- Reduction in power supply costs for 2021 and 2020 was \$0 and \$6,961, respectively. The disallowance was fully amortized in 2020 at the conclusion of the Hydro-Quebec Participation Agreement.

Vermont Electric Cooperative, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

NOTE 3 OTHER INVESTMENTS

Other investments for which there is no active market and stated at cost are as follows
December 31,:

| | <u>2021</u> | <u>2020</u> |
|---|--------------------------|--------------------------|
| Investments in associated organizations | | |
| National Rural Utilities Cooperative Finance Corporation (CFC) membership | \$ 3,255,810 | \$ 3,183,858 |
| Southeastern Data Cooperative capital credit | 1,657 | 1,635 |
| CoBank Capital Credit | 1,516,848 | 1,380,702 |
| NISC Capital Credit | 241,240 | 250,737 |
| Cooperative Response Center | 19,222 | 18,475 |
| National Rural Telecommunications Council | 7,577 | 3,176 |
| Federated Rural Electric Insurance Exchange | <u>105,354</u> | <u>73,207</u> |
| | <u>5,147,708</u> | <u>4,911,790</u> |
| Other investments | | |
| Vermont Electric Power Company common stock | 1,691,775 | 1,691,775 |
| Vermont Transco, LLC Stock | 40,243,465 | 37,283,825 |
| New England Hydro-Transmission Corporation Common Stock | 438,039 | 438,039 |
| Other | <u>372,552</u> | <u>307,341</u> |
| | <u>42,745,831</u> | <u>39,720,980</u> |
| TOTAL OTHER INVESTMENTS | <u>\$ 47,893,539</u> | <u>\$ 44,632,770</u> |

NOTE 4 PATRONAGE CAPITAL & OTHER CAPITAL

Patronage capital at December 31, included:

| | <u>2021</u> | <u>2020</u> |
|---------------------------|----------------------|----------------------|
| Assignable | \$ 6,076,631 | \$ 4,713,323 |
| Assigned to date | <u>91,622,563</u> | <u>86,909,240</u> |
| | 97,699,194 | 91,622,563 |
| Less: Retirements to date | <u>(9,703,202)</u> | <u>(7,964,657)</u> |
| | <u>\$ 87,995,992</u> | <u>\$ 83,657,906</u> |

Vermont Electric Cooperative, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

NOTE 4 PATRONAGE CAPITAL & OTHER CAPITAL (continued)

Other capital credits at December 31, included:

| | <u>2021</u> | <u>2020</u> |
|-------------------------------------|---------------------|---------------------|
| Retired capital credits - gain | \$ 327,671 | \$ 257,562 |
| Retired capital credits - unlocated | 1,394,421 | 1,092,028 |
| Retired capital credits - no checks | <u>42,070</u> | <u>41,048</u> |
| | <u>\$ 1,764,162</u> | <u>\$ 1,390,638</u> |

The Cooperative is obligated to allocate credits to a capital account to each patron for all amounts in excess of annual operating costs and expenses. Capital credited to patrons' accounts can be retired in full or in part by determination of The Board of Directors. After such retirement, the Cooperative will have total equity equal to at least forty percent (40%) of total assets of the Cooperative.

NOTE 5 LONG-TERM DEBT

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

| | <u>2021</u> | <u>2020</u> |
|--|-------------|-------------|
| 2002 Series A bonds, 5.70%, due through 2027 | \$ 676,553 | \$ 771,826 |
| 2003 Series A bonds, 6.64%, due through 2028 | 608,779 | 685,088 |
| 2003 Series B bonds, 6.60%, due through 2023 | 69,701 | 102,526 |
| 2004 Series A bonds, 4.25% - 6.70%, due through 2034 | 13,369,168 | 14,099,400 |
| 2005 Series A bonds, 1.53% - 6.90%, due through 2034 | 1,456,642 | 1,627,283 |
| 2006 Series A bonds, 4.85% - 6.85%, due through 2035 | 2,907,748 | 3,041,391 |
| 2008 Series A bonds, 3.26% - 5.69%, due through 2023 | 1,015,875 | 1,693,125 |
| 2008 Series B bonds, 2.09%, due through 2038 | 2,533,613 | 2,684,874 |
| 2009 Series A bonds, 3.10%, due through 2039 | 4,433,735 | 4,596,039 |
| 2010 Series A bonds, 1.18% - 4.58%, due through 2035 | 4,435,033 | 4,939,008 |
| 2012 Series A bonds, 3.41%, due through 2032 | 3,042,006 | 3,279,089 |
| 2012 Series B bonds, 3.26%, due through 2027 | 1,744,613 | 2,003,750 |
| 2013 Series A bonds, 2.92%, due through 2033 | 4,517,818 | 4,803,053 |
| 2014 Series A bonds, 3.95%, due through 2034 | 6,897,396 | 7,314,855 |
| 2016 Series A bonds, 2.81%, due through 2046 | 8,305,537 | 8,536,998 |
| 2016 Series B bonds, 4.45%, due through 2046 | 7,729,058 | 7,897,186 |
| 2017 Series A bonds, 4.30%, due through 2037 | 6,875,402 | 7,174,837 |
| 2019 Series A bonds, 3.40%, due through 2049 | 7,158,429 | 7,313,455 |

Vermont Electric Cooperative, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

NOTE 5 LONG-TERM DEBT (continued)

| | <u>2021</u> | <u>2020</u> |
|---|--------------------------|--------------------------|
| 2020 Series A bonds, 1.86%, due through 2050 | 8,216,665 | 8,500,000 |
| 2020 PPP Loan, 1.00%, due through 2022 unless forgiven. | <u>-</u> | <u>2,588,600</u> |
| Total long-term debt before unamortized debt | | |
| issuance costs | 85,993,771 | 93,652,383 |
| Unamortized debt issuance cost | <u>(51,460)</u> | <u>(85,768)</u> |
| Total long-term debt | 85,942,311 | 93,566,615 |
| Less: Current installments of long-term debt | <u>(5,122,628)</u> | <u>(5,935,033)</u> |
| TOTAL LONG-TERM DEBT | <u>\$ 80,819,683</u> | <u>\$ 87,631,582</u> |

2002 Bonds

On October 1, 2002, the Cooperative issued \$1,900,000 from VEC's Supplemental Mortgage Indenture, the proceeds of which were used to fund capital expenditures. The bonds have a term of 25 years and bear interest at 5.70% at December 31, 2021, with interest and principal payable quarterly.

2003 Bonds, Series A

On May 1, 2003, the Cooperative issued \$1,600,000 from VEC's Supplemental Mortgage Indenture, the proceeds of which were used to fund capital expenditures. The bonds have a term of 25 years and bear interest at 6.64% at December 31, 2021, with interest and principal payable quarterly.

2003 Bonds, Series B

On November 1, 2003, the Cooperative issued \$500,000 from VEC's Supplemental Mortgage Indenture, the proceeds of which were used to fund a warehouse addition. The bonds have a term of 20 years and interest at 6.60% at December 31, 2021, with interest and principal payable quarterly.

2004 Bonds, Series A

On April 1, 2004 the Cooperative issued \$21,337,226 from VEC's Supplemental Mortgage Indenture, the proceeds were used to purchase the Vermont assets of Citizens Communication Corporation (Vermont Electric Division). The bonds were advanced in various denominations, management has elected to group the 2004 Bonds, Series A into seven separate agreements with various variable and fixed rate options. The 2004 Bonds, Series A have a term of 30 years. The interest rates, fixed rate terms and debt consist of the following at December 31,:

Vermont Electric Cooperative, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

NOTE 5 LONG-TERM DEBT (continued)

| | | |
|-------------------------------------|---------------------|---------------------|
| VT0079024002 - 4.41% Fixed 15 Years | \$ 2,618,535 | \$ 2,764,864 |
| VT0079024003 - 4.25% Fixed 19 Years | 1,267,346 | 1,344,669 |
| VT0079024004 - 4.65% Fixed 16 Years | 2,605,670 | 2,760,201 |
| VT0079024005 - 6.40% Fixed 25 Years | 1,375,949 | 1,446,587 |
| VT0079024006 - 6.45% Fixed 30 Years | 2,758,640 | 2,899,745 |
| VT0079024007 - 6.45% Fixed 25 Years | 1,307,325 | 1,374,195 |
| VT0079024008 - 6.70% Fixed 27 Years | <u>1,435,703</u> | <u>1,509,139</u> |
| | <u>\$13,369,168</u> | <u>\$14,099,400</u> |

2005 Bonds Series A

On January 5, 2005, the Cooperative issued \$4,100,000 from VEC's Supplemental Mortgage Indenture, the proceeds of which were used to refinance the line of credit. The bonds have a term of 30 years at various fixed rate options, paying from 1.53% to 6.90% at December 31, 2021.

The loan agreements allow management the ability to set the terms of the fixed rate bonds (Conversion Request). At the end of each fixed rate period management needs to convert to a new term and reprice the fixed rate or the bond will revert to the Variable Rate Option. The interest rate will be paid in accordance with the interest rate options for Fixed and Variable Rates as outlined in the loan agreements.

2006 Series A Bonds

On January 1, 2006, the Cooperative issued \$4,250,000 from VEC's Supplemental Mortgage Indenture, the proceeds of which were to refinance the line of credit and fund the Cooperative's plant additions. The bonds have 30 year terms and bear interest at 4.85% and 6.85% at December 31, 2021, with interest and principal payments payable quarterly.

2008 Series A Bonds

On June 30, 2008, the Cooperative issued \$10,158,750 from VEC's Supplemental Mortgage Indenture, the proceeds of which were to refinance the 1997 First Mortgage Bonds. The bonds have 15 year terms and bear interest at 3.26% and 5.69% at December 31, 2021, with interest and principal payments payable quarterly.

2008 Series B Bonds

On December 1, 2008, the Cooperative issued \$4,500,000 from VEC's Supplemental Mortgage Indenture, the proceeds of which were to refinance the line of credit and fund the Cooperative's plant additions. The bonds have 30 year terms and bear interest at 2.09% at December 31, 2021, with interest and principal payments payable quarterly.

2009 Series A Bonds

On October 1, 2009, the Cooperative issued \$6,000,000 from VEC's Supplemental Mortgage Indenture, the proceeds of which were to refinance the line of credit and fund the Cooperative's plant additions. The bonds have 30 year terms and bear interest at 3.10% at December 31, 2021, with interest and principal payments payable quarterly.

Vermont Electric Cooperative, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

NOTE 5 LONG-TERM DEBT (continued)

2010 Series A Bonds

On November 1, 2010, the Cooperative issued \$9,000,000 from VEC's Supplemental Mortgage Indenture, the proceeds of which were to refinance the line of credit and fund the Cooperative's plant additions. The bonds have 15 and 25 year terms and bear interest at a rate of 1.18% and 4.58% at December 31, 2021, with interest and principal payments payable semi-annually.

2012 Series A Bonds

On May 1, 2012, the Cooperative issued \$5,000,000 from VEC's Supplemental Mortgage Indenture, the proceeds of which were to refinance the line of credit and fund the Cooperative's plant additions. The bonds have 20 year terms and bear interest at a rate of 3.41% at December 31, 2021 with interest and principal payments payable quarterly.

2012 Series B Bonds

On December 26, 2012 the Cooperative issued \$3,800,000 from VEC's Supplemental Mortgage Indenture, the proceeds of which were to refinance the line of credit and fund the Cooperative's plant additions. The bonds have 15 year terms and bear interest at a rate of 3.26% at December 31, 2021 with interest and principal payments payable quarterly.

2013 Series A Bonds

On December 16, 2013 the Cooperative issued \$6,500,000 from VEC's Supplemental Mortgage Indenture, the proceeds of which were to refinance the line of credit and fund the Cooperative's plant additions. The bonds have 20 year terms and bear interest at a rate of 2.92% at December 31, 2021 with interest and principal payments payable quarterly.

2014 Series A Bonds

On June 27, 2014, the Cooperative issued \$9,650,000 from VEC's Supplemental Mortgage Indenture, the proceeds of which were to refinance the line of credit and fund the Cooperative's plant additions. The bonds have 20 year terms and bear interest at a rate of 3.95% at December 31, 2021 with interest and principal payments payable quarterly.

2016 Series A Bonds

On June 13, 2016 the Cooperative issued \$9,500,000 from VEC's Supplemental Mortgage Indenture, the proceeds of which were to refinance the line of credit and fund the Cooperative's plant additions. The bonds have 30 year terms and bear interest at a rate of 2.81% at December 31, 2021 with interest and principal payments payable quarterly.

2016 Series B Bonds

On December 28, 2016 the Cooperative issued \$8,500,000 from VEC's Supplemental Mortgage Indenture, the proceeds of which were to refinance the line of credit and fund the Cooperative's plant additions. The bonds have 30 year terms and bear interest at a rate of 4.45% at December 31, 2021 with interest and principal payments payable quarterly.

2017 Series A Bonds

On December 28, 2017 the Cooperative issued \$8,000,000 from VEC's Supplemental Mortgage Indenture, the proceeds of which were to refinance the line of credit and fund the Cooperative's plant additions. The bonds have 30 year terms and bear interest at a rate of 4.30% at December 31, 2021 with interest and principal payments payable quarterly.

Vermont Electric Cooperative, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

NOTE 5 LONG-TERM DEBT (continued)

2019 Series A Bonds

On September 26, 2019 the Cooperative issued \$7,500,000 from VEC's Supplemental Mortgage Indenture, the proceeds of which were to refinance the line of credit and fund the Cooperative's plan additions. The bonds have 30 year terms and bear interest at a rate of 3.40% at December 31, 2020 with interest and principal payments payable quarterly.

2020 Paycheck Protection Program Loan (PPP)

On April 22, 2020 the Cooperative received \$2,588,600 for their application to the Federal PPP loan request. The Cooperative received notice from the SBA in 2021 that the loan had been forgiven. The Cooperative received an accounting order to defer the income recognized in 2021.

2020 Series A Bonds

On December 1, 2020 the Cooperative issued \$8,500,000 from VEC's Supplemental Mortgage Indenture, the proceeds of which were to refinance the line of credit and fund the Cooperative's plan additions. The bonds have 30 year terms and bear interest at a rate of 1.86% at December 31, 2020 with interest and principal payments payable quarterly.

Security for First Mortgage Bonds

As security for the mortgage bonds, the Cooperative has pledged substantially all net electric plant assets. In addition, the Mortgage Indentures obligate the Cooperative to meet certain rate and financial covenants. Additionally, the Cooperative must achieve and sustain various equity levels per loan agreement.

The maturities of long-term debt for the next five years and thereafter are as follows:

| <u>December,</u> | |
|------------------|----------------------|
| 2022 | \$ 5,122,628 |
| 2023 | 5,068,569 |
| 2024 | 4,865,173 |
| 2025 | 5,046,249 |
| 2026 | 4,717,611 |
| Thereafter | <u>61,173,541</u> |
| | <u>\$ 85,993,771</u> |

The Cooperative's short term credit facility consists of a revolving line of credit agreement and security agreement that can provide for up to eighteen million in short term loans or issuance of letters of credit on VEC's behalf as long as the total outstanding principal short term loan does not exceed twenty million in aggregate. The short term credit facility is available from two Cooperative lenders. The Cooperative had drawn short term loans of \$11,636,007 and \$3,400,000, as of December 31, 2021 and 2020, respectively. Advances under this line of credit bear a variable rate of interest, which was 3.29% at December 31, 2021. The credit facilities have a maturity date of December 31, 2026.

Vermont Electric Cooperative, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

NOTE 6 LEASES

Capital Leases

Leases that meet the criteria of capital leases have been capitalized and the related assets are included in electric plant in service as follows:

| | <u>2021</u> | <u>2020</u> |
|--------------------------------|-------------|------------------|
| General Plant | \$ - | \$ 363,597 |
| Less: Accumulated Amortization | <u>-</u> | <u>269,668</u> |
| | <u>\$ -</u> | <u>\$ 93,929</u> |

The lease was terminated effective in June 2021.

Operating Leases

The Cooperative has several non-cancelable operating leases for vehicles and equipment. The future minimum lease payments under these non-cancelable operating leases as of December 31, are as follows:

| <u>Year Ending December 31,</u> | |
|-------------------------------------|------------------|
| 2022 | \$ 40,879 |
| 2023 | 40,879 |
| 2024 | 13,626 |
| 2025 | - |
| 2026 | - |
| Thereafter | <u>-</u> |
| | <u>\$ 95,384</u> |

Total operating lease expense for 2021 and 2020 was \$146,586 and \$255,130, respectively.

NOTE 7 PENSION PLAN

Multiemployer Retirement Security Plan

All eligible employees of the Cooperative participate in the NRECA Retirement and Security Program, a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is considered a multi-employer plan under the accounting standards. The plan sponsor's Employer Identification Number is 03-0164375 and the Plan Number is 01-46007-001.

A unique characteristic of multiemployer plans compared to a single employer plan is that all plan assets are available to pay benefits to 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.

Vermont Electric Cooperative, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

NOTE 7 PENSION PLAN (continued)

The Cooperatives contributions to the RS Plan in 2021 and 2020 represent less than 5 percent of the total contributions made to the plan by all participating employers. At December 31, 2021 and 2020 The Cooperative made contributions to the plan of \$1,201,135 and \$1,179,781, respectively. There have been no significant changes that affect the comparability of 2021 and 2020 contributions.

In the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was over 80% funded on January 1, 2021 and over 80% funded on January 1, 2020, based on the PPA funding target and the actuarial value of assets at those dates.

Because of 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.

Section 457(b) Deferred Compensation Plan

The Cooperative has an executive retirement plan that is designed in accordance with Section 457(b) of the Internal Revenue Code. The plan became effective on June 1, 2014 and is administered by NRECA. The plan is available to highly compensated employees who are not a current participant in the RS plan. The Cooperative has the option to make elective annual contributions to the plan on behalf of each participant. No such contributions were made in 2021 and 2020 by the Cooperative. The Board of Directors is responsible for determining the investment fund or funds into which the participants account is invested. The funds remain assets of the Cooperative until such time as the participant, or the participant's beneficiary, withdraws the funds in accordance with plan provisions. Assets held for this plan and reported in investments for December 31, 2021 and 2020 was \$372,553 and \$307,343, respectively.

NOTE 8 COMMITMENTS AND CONTINGENCIES

Power Contracts

In 2021 and 2020, the Cooperative has entered into contracts with Engie, Emera Energy, Nextera and Hydro Quebec to replace expiring contracts covering from two to twenty years based on forecasted power usage.

The Cooperative entered into a contract in the first quarter of 2009 with First Wind Energy for 20 MW of nameplate capacity for a wind farm located in Sheffield, Vermont. The project was placed into service in 2011. The contract covers a period of twenty years and includes a portion of the MW at a predetermined fixed price and a portion at a variable market rate.

The Cooperative entered into a purchase power agreement from Green Mountain Power Corporation for 8 MW of nameplate capacity for a wind farm located in Lowell, Vermont. The agreement covers a period of twenty-five years at a price shared between the two utilities. The project was placed into service in 2012.

Vermont Electric Cooperative, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

NOTE 8 COMMITMENTS AND CONTINGENCIES (continued)

The Cooperative entered into a contract for a peaking generating unit with Vermont Public Power Supply Authority (VPPSA) in the second quarter of 2009 to provide for some peaking energy, capacity and ancillary services over the life of the facility estimated to be twenty years. The project was placed into service in 2010.

As a result of the acquisition of Citizens Vermont Electric Division, power supply contracts serving the Citizens customers were assigned to Vermont Electric Cooperative, Inc. These contracts included a long term power supply agreement with Hydro Quebec. In 2010, VEC participated in a joint utility negotiation to replace the Hydro Quebec contract on terms and prices that were approved by the Vermont Public Service Board. The new contract began in 2012.

In 2011, VEC participated in a joint utility negotiation with NextEra Energy Resources for a unit contingent contract for output from the Seabrook nuclear plant for a term of twenty years. The contract is for 10 MW including capacity and energy beginning in 2015 at a fixed price with a known fixed escalating adjustment each year. The contract was approved by the Vermont Public Service Board and the Cooperative's membership in 2012.

The Cooperative entered into a purchase power agreement with BDE Grand Isle Solar, LLC in 2015 for 5 MW of nameplate capacity for a solar farm to be located in Grand Isle, Vermont. The agreement covers a period of twenty-five years. The project was placed in service in 2017.

The Cooperative entered into a purchase power agreement with SoCore Vt Alburgh, LLC in 2016 for 1 MW of nameplate capacity for a solar farm to be located in Alburgh, Vermont. The agreement covers a period of twenty-five years. The project was placed into service in 2016.

The Cooperative entered into a purchase power agreement with SoCore Vt Magee Hill, LLC in 2016 for 1.26MW of nameplate capacity for a solar farm to be located in Hinesburg, Vermont. The agreement covers a period of twenty-five years. The project was placed in service in 2017.

The Cooperative entered into a purchase power agreement with ER Jericho Landfill Solar, LLC, in 2019 for 1.65MW of nameplate capacity for a solar farm to be located in Jericho, Vermont. The agreement covers a period of twenty-five years. The project was placed in service in 2020.

The Cooperative entered into a purchase power agreement with ER Jericho Gravel Solar, LLC, in 2019 for 1.5MW of nameplate capacity for a solar farm to be located in Jericho, Vermont. The agreement covers a period of twenty-five years. The project was placed in service in 2021.

The Cooperative entered into an agreement with NextEra in 2021 to purchase 187,000 MWh of energy from December 2021 to December 2025. The deal was designed to meet expected shortfalls on contracted resources for the period.

Vermont Electric Cooperative, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

NOTE 8 COMMITMENTS AND CONTINGENCIES (continued)

The Cooperative entered into an energy storage service agreement with Viridity Energy Solutions, Inc. in 2018 for coincident peak load reduction services. The agreement allows for a discharge of up to 1MW of capacity for up to four hours per day. The agreement covers a period of ten years. The project was placed in service in 2019.

The Cooperative has entered into agreements to sell the environmental attributes, renewable energy credits (REC's), from the two wind farms in Sheffield and Lowell and other smaller renewable generation projects and purchase environmental attributes when needed. Agreements to sell and purchase the REC's have been executed for REC's generated from 2018 through 2024.

Power purchased in excess of usage is resold on the spot market and power purchased through the contracts that is less than usage requires the Cooperative to purchase the difference on the spot market.

Other Legal and Regulatory Matters

The Cooperative is exposed to various risks of loss related to torts; theft of, damage to a destruction of assets; errors and omissions; injuries to employees; stray voltage and natural disasters. The Cooperative manages these risks through commercial insurance packages purchased in the name of the Cooperative. The Cooperative has transferred the risk of loss to the commercial insurance carrier. Insurance settlements have not exceeded insurance coverage for any of the past five fiscal years.

Letter of Credit

The Cooperative can issue letters of credit through National Rural Utilities Cooperative Finance Corporation and CoBank, ACB using the short term credit facility. The purpose of letters of credit is to allow the availability of credit for power suppliers and other vendors. The Cooperative had used \$1,500,000 and \$1,500,000 of the total letter of credit at December 31, 2021 and 2020, respectively.

NOTE 9 POSTRETIREMENT MEDICAL AND LIFE PLAN

The plan was acquired on April 1, 2004 as part of the acquisition of Citizens Communication Corporation (Vermont Electric Division).

The table below presents in accordance with professional accounting standards and details about the Cooperatives Plan, including its funded status, components of net periodic benefit cost, and certain assumptions used in determining the funded status and cost at December 31, 2021.

Vermont Electric Cooperative, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

NOTE 9 POSTRETIREMENT MEDICAL AND LIFE PLAN (continued)

Change in benefit obligation:

| | |
|---|-------------------|
| Benefit obligation at beginning of year | \$ 153,180 |
| Interest Cost | - |
| Benefits paid | (16,370) |
| Actuarial loss | <u>-</u> |
| Benefit obligation at end of year | <u>\$ 136,810</u> |

Change in plan assets:

| | |
|-----------------------|-----------------|
| Employer contribution | \$ 16,370 |
| Benefits paid | <u>(16,370)</u> |

| | |
|--|-------------|
| Fair value of plan assets at end of year | <u>\$ -</u> |
|--|-------------|

Expected future benefit payments for each of the next five fiscal years and in the aggregate for the following five years are as follows:

| | |
|-----------|-----------|
| 2022 | \$ 12,089 |
| 2023 | 12,089 |
| 2024 | 12,089 |
| 2025 | 10,589 |
| 2026 | 10,589 |
| 2027-2031 | 45,444 |

Assumptions

Weighted average assumptions used to determine the benefit obligation as of December 31, 2021 and the periodic benefit cost for the fiscal year then ended are as follows:

| | |
|-----------------------------------|-------|
| Discount rate – beginning of year | 2.00% |
| Discount rate – end of year | 2.50% |
| Rate of compensation increase | N/A |

NOTE 10 SALE-LEASE BACK AGREEMENT

On December 28, 2005, the Cooperative entered into a sale-leaseback agreement for a portion of a property sale of land and buildings. Under the agreement the Cooperative has conveyed title to the land and buildings, however, will leaseback a warehouse and the portion of land where the warehouse is located under a capital lease transaction.

The Cooperative will lease the warehouse facility for \$45,000 per year for a period of 20 years, which consists of an initial 5-year term and three subsequent 5-year renewal periods. The Cooperatives obligations are disclosed as part of the Note 6 – Leases.

The portion of the gain on sale of assets for the warehouse was deferred and is being amortized over the term of the lease agreement. The Cooperative had a deferred gain of \$-0- and \$31,736, as of December 31, 2021 and 2020, respectively.

Vermont Electric Cooperative, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

NOTE 11 SUPPLEMENTAL CASH FLOW INFORMATION

| | <u>2021</u> | <u>2020</u> |
|--|---------------------|---------------------|
| Cash paid during the year for interest | <u>\$ 3,523,101</u> | <u>\$ 3,700,076</u> |

NOTE 13 RISKS & UNCERTAINTIES

During the past year, a global pandemic was declared regarding COVID-19 Coronavirus. As a result of the spread of the virus, economic uncertainties have arisen which may cause a disruption to business operations. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and additional government actions to mitigate them. Accordingly, while management expects this matter to impact operating results, the related financial impact and duration cannot be reasonably estimated.

NOTE 14 PAYROLL PROTECTION PROGRAM ACCOUNTING ORDER

Due to the economic uncertainties described in Note 13, the Cooperative applied for and received Federal support and aid funding through the Paycheck Protection Program (aka PPP), which was implemented as part of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). These proceeds, which amounted to \$2,588,600, were used to cover payroll & related, rent and utility costs. As of December 31, 2020 the proceeds received were expended in full on these specific purposes. During the year ending December 31, 2021, the Cooperative applied for and received full forgiveness of the outstanding debt. In addition, the Cooperative requested and received approval from the Public Utility Commission to defer the recognition of these funds to 2022.

NOTE 14 SUBSEQUENT EVENTS

In accordance with professional accounting standards, the Cooperative has evaluated subsequent events through March 15, 2022, the date which the financial statements were available to be issued. All subsequent events requiring recognition as of December 31, 2021 have been incorporated into these financial statements herein.