

Vermont Electric Cooperative, Inc.

FINANCIAL STATEMENTS

December 31, 2019

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

Report on the Financial Statements

We have audited the accompanying financial statements of Vermont Electric Cooperative, Inc. (a nonprofit member owned cooperative), which comprise the statement of financial position as of December 31, 2019 and 2018, and the related statements of operations, equities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Kittell, Braragar + Sargent

St. Albans, Vermont
March 17, 2020

Vermont Electric Cooperative, Inc.

BALANCE SHEETS

December 31,

ASSETS

	<u>2019</u>	<u>2018</u>
ELECTRIC PLANT, at cost	\$ 176,223,429	\$ 168,887,584
Less accumulated depreciation	<u>(53,184,609)</u>	<u>(49,473,142)</u>
Electric plant in service, net	123,038,820	119,414,442
Construction work in progress	<u>2,438,870</u>	<u>697,879</u>
TOTAL ELECTRIC PLANT, net	<u>125,477,690</u>	<u>120,112,321</u>
CURRENT ASSETS		
Cash	700,955	2,029,000
Accounts receivable, net of allowance of \$74,812 and \$646,161 at December 31, 2019 and 2018, respectively	7,077,187	6,286,749
Unbilled revenue	4,955,045	4,960,707
Inventories	5,144,283	4,954,850
Prepaid expenses	<u>507,858</u>	<u>450,722</u>
TOTAL CURRENT ASSETS	<u>18,385,328</u>	<u>18,682,028</u>
OTHER ASSETS		
Nonutility property	65,697	65,697
Other investments	<u>42,976,179</u>	<u>41,828,348</u>
TOTAL OTHER ASSETS	<u>43,041,876</u>	<u>41,894,045</u>
TOTAL ASSETS	<u>\$ 186,904,894</u>	<u>\$ 180,688,394</u>

LIABILITIES AND EQUITY

EQUITIES		
Patronage capital assignable	\$ 80,417,770	\$ 77,352,136
Other equities	<u>1,569,955</u>	<u>1,247,025</u>
NET EQUITY	<u>81,987,725</u>	<u>78,599,161</u>
LONG-TERM DEBT	<u>82,443,707</u>	<u>79,575,983</u>
OBLIGATIONS UNDER CAPITAL LEASE	<u>134,742</u>	<u>157,180</u>
DEFERRED COMPENSATION PLAN	<u>273,231</u>	<u>217,065</u>
CURRENT LIABILITIES		
Current portion of long-term debt	4,629,904	4,339,234
Current portion of capital lease obligations	22,439	21,135
Revolving debt	3,950,878	4,700,000
Accounts payable	6,929,557	7,588,187
Customer deposits	1,723,522	1,440,404
Deferred credits	1,649,931	48,839
Deferred grant revenues	386,282	578,398
Other accrued expenses	<u>2,772,976</u>	<u>3,422,808</u>
TOTAL CURRENT LIABILITIES	<u>22,065,489</u>	<u>22,139,005</u>
TOTAL LIABILITIES AND EQUITY	<u>\$ 186,904,894</u>	<u>\$ 180,688,394</u>

See Accompanying Notes to Financial Statements.

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

	<u>2019</u>	<u>2018</u>
OPERATING REVENUE	<u>\$ 77,145,301</u>	<u>\$ 78,932,024</u>
OPERATING EXPENSES		
Purchased power	35,560,277	35,794,876
Transmission:		
Operations	13,264,389	11,875,231
Maintenance	286,538	468,132
Distribution:		
Operations, including vehicle depreciation expense of \$314,528 and \$153,543 in 2019 and 2018, respectively	6,580,646	5,944,467
Maintenance	7,291,957	8,083,460
Customer accounts	2,573,871	2,460,952
Administrative and general	3,980,181	3,734,326
General plant maintenance	263,721	308,090
Depreciation	5,966,284	5,904,602
Taxes	761,504	768,405
Other deductions, net	<u>75,280</u>	<u>2,909,233</u>
TOTAL OPERATING EXPENSES	<u>76,604,648</u>	<u>78,251,774</u>
INCOME FROM OPERATIONS	<u>540,653</u>	<u>680,250</u>
OTHER INCOME		
Renewable energy credits	1,815,000	1,726,777
Gain (Loss) on sale of fixed assets	89,491	(71,543)
Other income	152,557	115,400
Interest and dividend income	4,989,882	4,875,403
Other capital credits & dividends	<u>554,671</u>	<u>718,690</u>
TOTAL OTHER INCOME	<u>7,601,601</u>	<u>7,364,727</u>
NET INCOME BEFORE INTEREST CHARGES	<u>8,142,254</u>	<u>8,044,977</u>
INTEREST CHARGES		
Interest on long-term debt	3,573,997	3,707,479
Other interest	<u>183,195</u>	<u>42,017</u>
TOTAL INTEREST CHARGES	<u>3,757,192</u>	<u>3,749,496</u>
NET INCOME	<u>\$ 4,385,062</u>	<u>\$ 4,295,481</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, 2017	\$ 74,653,167	\$ 592,505	\$ 214,645	\$ 73,949	\$ -	\$ 75,534,266
Net income for the year	-	-	-	-	4,295,481	4,295,481
Transfer to patronage capital assignable	4,295,481	-	-	-	(4,295,481)	-
Retirement of capital credits	<u>(1,596,512)</u>	<u>365,926</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,230,586)</u>
BALANCE, at December 31, 2018	77,352,136	958,431	214,645	73,949	-	78,599,161
Net income for the year	-	-	-	-	4,385,062	4,385,062
Transfer to patronage capital assignable	4,385,062	-	-	-	(4,385,062)	-
Retirement of capital credits	<u>(1,319,428)</u>	<u>322,930</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(996,498)</u>
BALANCE, at December 31, 2019	<u>\$ 80,417,770</u>	<u>\$ 1,281,361</u>	<u>\$ 214,645</u>	<u>\$ 73,949</u>	<u>\$ -</u>	<u>\$ 81,987,725</u>

See Accompanying Notes to Financial Statements

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

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 4,385,062	\$ 4,295,481
Noncash expenses (income) included in earnings:		
Depreciation	6,280,812	6,058,145
Amortization	34,308	34,308
(Gain)/Loss on sale of fixed assets	(89,491)	71,543
Hydro Quebec disallowance	(14,309)	(22,737)
Changes in assets and liabilities:		
Decrease in accounts receivable	(784,776)	1,680,643
Decrease (increase) in inventories	(189,433)	106,916
Decrease (increase) in prepaid expenses	(57,136)	25,217
Decrease in accounts payable	(658,630)	434,146
Increase in customer deposits	283,118	206,102
Decrease in accrued expenses	(649,832)	617,703
Decrease in deferred grant revenues	(192,116)	578,398
Decrease in deferred credits	<u>1,601,092</u>	<u>(7,047)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>9,948,669</u>	<u>14,078,818</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to electric plant in service and construction work in progress	(11,603,191)	(6,703,377)
Proceeds from sale of electric plant in service	60,812	11,336
Return on capital investments	(292,705)	(208,007)
Purchase of investments	<u>(798,960)</u>	<u>(4,269,160)</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(12,634,044)</u>	<u>(11,169,208)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term borrowings	7,500,000	-
Principal payments to creditors related to long-term borrowings	(4,375,915)	(4,195,407)
Net borrowing (payment) on line of credit	(749,122)	3,146,776
Patronage capital retired, net	(996,498)	(1,230,586)
Principal payments under capital lease obligations	<u>(21,135)</u>	<u>(19,907)</u>
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>1,357,330</u>	<u>(2,299,124)</u>
NET INCREASE (DECREASE) IN CASH	(1,328,045)	610,486
CASH - Beginning of Year	<u>2,029,000</u>	<u>1,418,514</u>
CASH - End of Year	<u>\$ 700,955</u>	<u>\$ 2,029,000</u>

See Accompanying Notes to Financial Statements

Vermont Electric Cooperative, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

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, 2019 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, 2019 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, 2019

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 2019 and 2018, the Cooperative received \$1,948,376 and \$2,107,422, 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, 2016, 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 2019 and 2018, the Cooperative paid \$3,540,044 and \$3,176,090 for property taxes, \$397,104 and \$394,233 for gross revenue taxes and \$364,399 and \$374,172, 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, 2019

NOTE 2 ELECTRIC PLANT IN SERVICE

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

<u>December 31, 2019</u>	<u>Depreciable Life/Rate Per Year</u>	
Transmission Plant	2.75%	\$ 18,335,391
Distribution Plant	3.00%	137,443,821
Buildings and Structures	20-50	4,231,078
Transportation Equipment	5-10	3,453,400
General Plant	3-10	12,766,700
Hydro Quebec Disallowance	17	<u>(6,961)</u>
		<u>\$176,223,429</u>

<u>December 31, 2018</u>	<u>Depreciable Life/Rate Per Year</u>	
Transmission Plant	2.75%	\$ 17,824,535
Distribution Plant	3.00%	132,303,586
Buildings and Structures	20-50	4,204,697
Transportation Equipment	5-10	2,519,527
General Plant	3-10	12,056,509
Hydro Quebec Disallowance	17	<u>(21,270)</u>
		<u>\$168,887,584</u>

Depreciation of electric plant in service totaled \$6,280,812 and \$6,058,145 in 2019 and 2018, respectively.

- Reduction in power supply costs for 2019 and 2018 was \$14,309 and \$22,737, respectively. The remaining disallowance will be amortized over the remaining life of the Hydro-Quebec Participation Agreement.

Vermont Electric Cooperative, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 3 OTHER INVESTMENTS

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

	<u>2019</u>	<u>2018</u>
Investments in associated organizations		
National Rural Utilities Cooperative Finance Corporation (CFC) membership	\$ 3,109,105	\$ 3,037,567
Southeastern Data Cooperative capital credit	1,635	1,635
CoBank Capital Credit	1,238,943	1,099,674
NISC Capital Credit	225,209	205,024
Cooperative Response Center	17,523	16,511
Federated Rural Electric Insurance Exchange	<u>60,700</u>	<u>-</u>
	<u>4,653,115</u>	<u>4,360,411</u>
Other investments		
Vermont Electric Power Company common stock	1,691,775	1,691,775
Vermont Transco, LLC Stock	35,919,885	35,120,925
New England Hydro-Transmission Corporation Common Stock	438,039	438,039
Other	<u>273,365</u>	<u>217,198</u>
	<u>38,323,064</u>	<u>37,467,937</u>
TOTAL OTHER INVESTMENTS	<u>\$ 42,976,179</u>	<u>\$ 41,828,348</u>

NOTE 4 PATRONAGE CAPITAL & OTHER CAPITAL

Patronage capital at December 31, included:

	<u>2019</u>	<u>2018</u>
Assignable	\$ 4,385,062	\$ 4,295,481
Assigned to date	<u>82,524,178</u>	<u>78,228,697</u>
	86,909,240	82,524,178
Less: Retirements to date	<u>(6,491,470)</u>	<u>(5,172,042)</u>
	<u>\$ 80,417,770</u>	<u>\$ 77,352,136</u>

Vermont Electric Cooperative, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 4 PATRONAGE CAPITAL & OTHER CAPITAL (continued)

Other capital credits at December 31, included:

	<u>2019</u>	<u>2018</u>
Retired capital credits - gain	\$ 225,439	\$ 156,935
Retired capital credits - unlocated	1,022,003	772,383
Retired capital credits - no checks	<u>33,919</u>	<u>29,113</u>
	<u>\$ 1,281,361</u>	<u>\$ 958,431</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>2019</u>	<u>2018</u>
2002 Series A bonds, 5.70%, due through 2027	\$ 862,704	\$ 949,391
2003 Series A bonds, 6.64%, due through 2028	758,239	828,361
2003 Series B bonds, 6.60%, due through 2023	134,070	164,384
2004 Series A bonds, 4.25% - 6.70%, due through 2034	14,790,604	15,444,946
2005 Series A bonds, 4.15% - 6.90%, due through 2034	1,796,979	1,965,757
2006 Series A bonds, 4.85% - 6.85%, due through 2035	3,167,496	3,286,499
2008 Series A bonds, 3.26% - 5.69%, due through 2023	2,370,375	3,047,625
2008 Series B bonds, 3.12%, due through 2038	2,836,134	2,987,395
2009 Series A bonds, 3.10%, due through 2039	4,751,748	4,901,130
2010 Series A bonds, 2.80% - 4.58%, due through 2035	5,426,742	5,898,872
2012 Series A bonds, 3.41%, due through 2032	3,508,257	3,729,774
2012 Series B bonds, 3.26%, due through 2027	2,254,608	2,497,452
2013 Series A bonds, 4.10%, due through 2033	5,076,160	5,338,775
2014 Series A bonds, 3.95%, due through 2034	7,715,168	8,100,681
2016 Series A bonds, 2.81%, due through 2046	8,761,310	8,980,013
2016 Series B bonds, 4.45%, due through 2046	8,058,036	8,211,923
2017 Series A bonds, 4.30%, due through 2037	7,461,737	7,736,623
2019 Series A bonds, 3.40%, due through 2049	<u>7,463,320</u>	<u>-</u>
Total long-term debt before unamortized debt issuance costs	<u>87,193,687</u>	<u>84,069,601</u>

Vermont Electric Cooperative, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 5 LONG-TERM DEBT (continued)

	<u>2019</u>	<u>2018</u>
Unamortized debt issuance cost	<u>(120,076)</u>	<u>(154,384)</u>
Total long-term debt	87,073,611	83,915,217
Less: Current installments of long-term debt	<u>(4,629,904)</u>	<u>(4,339,234)</u>
TOTAL LONG-TERM DEBT	<u>\$82,443,707</u>	<u>\$79,575,983</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, 2019, 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, 2019, 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, 2019, 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, 2019

NOTE 5 LONG-TERM DEBT (continued)

	<u>2019</u>	<u>2018</u>
VT0079024002 - 4.41% Fixed 15 Years	\$ 2,904,947	\$ 3,039,052
VT0079024003 - 4.25% Fixed 19 Years	1,418,793	1,489,847
VT0079024004 - 4.65% Fixed 16 Years	2,907,750	3,048,633
VT0079024005 - 6.40% Fixed 25 Years	1,512,717	1,574,625
VT0079024006 - 6.45% Fixed 30 Years	3,031,778	3,155,324
VT0079024007 - 6.45% Fixed 25 Years	1,436,765	1,495,314
VT0079024008 - 6.70% Fixed 27 Years	<u>1,577,854</u>	<u>1,642,151</u>
	<u>\$14,790,604</u>	<u>\$15,444,946</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 4.15% to 6.90% at December 31, 2019.

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, 2019, 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, 2019, 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 3.12% at December 31, 2019, 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, 2019, with interest and principal payments payable quarterly.

Vermont Electric Cooperative, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

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 4.58% and 2.80% at December 31, 2019, 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, 2019 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, 2019 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 4.10% at December 31, 2019 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, 2019 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, 2019 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, 2019 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, 2019 with interest and principal payments payable quarterly.

Vermont Electric Cooperative, Inc.
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2019

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, 2019 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:

Year Ending December,	
2020	\$ 4,629,904
2021	4,788,771
2022	4,826,564
2023	4,775,700
2024	4,575,617
Thereafter	63,597,131
	\$ 87,193,687

The Cooperative's short term credit facility consists of a revolving line of credit agreement and security agreement that can provide for up to fifteen 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 \$3,950,878 and \$4,700,000, as of December 31, 2019 and 2018, respectively. Advances under this line of credit bear a variable rate of interest, which was 3.29% at December 31, 2019. The credit facilities have maturity date of December 31, 2022.

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>2019</u>	<u>2018</u>
General Plant	\$ 363,597	\$ 363,597
Less: Accumulated Amortization	254,518	239,368
	\$ 109,079	\$ 124,229

Vermont Electric Cooperative, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 6 LEASES (continued)

Future minimum lease payments under the capital lease, together with present value of the net minimum lease payments, as of December 31, 2019 are as follows:

Year Ending December 31,:		
2020	\$	31,259
2021		31,259
2022		31,259
2023		31,259
2024		31,259
Thereafter		31,259
Total minimum lease payments		187,554
Less amount representing interest		(30,373)
Present value of the minimum lease payments		157,181
Less current installments		(22,439)
Capital lease obligations, excluding current installments		\$ 134,742

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:

Year Ending December 31,		
2020	\$	251,735
2021		146,586
2022		40,879
2023		40,879
2024		40,879
Thereafter		13,626
		\$ 534,584

Total operating lease expense for 2019 and 2018 was \$344,127 and \$419,599, respectively.

Vermont Electric Cooperative, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

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.

The Cooperatives contributions to the RS Plan in 2019 and 2018 represent less than 5 percent of the total contributions made to the plan by all participating employers. At December 31, 2019 and 2018 The Cooperative made contributions to the plan of \$1,129,814 and \$922,395, respectively. There have been no significant changes that affect the comparability of 2019 and 2018 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, 2019 and over 80% funded on January 1, 2018, 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 2019 and 2018 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, withdrawals the funds in accordance with plan provisions. Assets held for this plan and reported in investments for December 31, 2019 and 2018 was \$273,231 and \$217,065, respectively.

Vermont Electric Cooperative, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 8 COMMITMENTS AND CONTINGENCIES

Power Contracts

In 2019 and 2018, the Cooperative has entered into contracts with Brookfield, Great Bay Hydro and Hydro Quebec to replace expiring contracts covering from five 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.

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.

Vermont Electric Cooperative, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 8 COMMITMENTS AND CONTINGENCIES (continued)

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 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 2017 through 2022.

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, 2019 and 2018, 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, 2019:

Vermont Electric Cooperative, Inc.
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2019

NOTE 9 POSTRETIREMENT MEDICAL AND LIFE PLAN (continued)

Change in benefit obligation:	
Benefit obligation at beginning of year	\$ 190,518
Interest Cost	-
Benefits paid	(18,436)
Actuarial loss	<u>-</u>
Benefit obligation at end of year	<u>\$ 172,082</u>
Change in plan assets:	
Employer contribution	\$ 18,436
Benefits paid	<u>(18,436)</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:

2020	\$ 18,436
2021	18,436
2022	15,382
2023	15,382
2024	15,382
2025-2028	61,528

Assumptions

Weighted average assumptions used to determine the benefit obligation as of December 31, 2019 and the periodic benefit cost for the fiscal year then ended are as follows:

Discount rate – beginning of year	2.50%
Discount rate – end of year	2.00%
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 \$38,096 and \$44,456, as of December 31, 2019 and 2018, respectively.

Vermont Electric Cooperative, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 11 SUPPLEMENTAL CASH FLOW INFORMATION

	<u>2019</u>	<u>2018</u>
Cash paid during the year for interest	<u>\$ 3,736,472</u>	<u>\$ 3,370,527</u>

NOTE 12 SUBSEQUENT EVENTS

In accordance with professional accounting standards, the Cooperative has evaluated subsequent events through March 17, 2020, the date which the financial statements were available to be issued. All subsequent events requiring recognition as of December 31, 2019 have been incorporated into these financial statements herein.