

Vermont Electric Cooperative, Inc.

FINANCIAL STATEMENTS

December 31, 2022

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, 2022 and 2021, 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, 2022 and 2021, 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.

A handwritten signature in black ink that reads "K. Stoll Brannagan, CPA". The signature is written in a cursive style with a small "CPA" in the middle.

St. Albans, Vermont  
March 15, 2023

Vermont Electric Cooperative, Inc.  
BALANCE SHEETS  
December 31,

<u>ASSETS</u>	<u>2022</u>	<u>2021</u>
ELECTRIC PLANT, at cost	\$ 203,457,949	\$ 195,397,037
Less accumulated depreciation	<u>(65,662,829)</u>	<u>(61,028,609)</u>
Electric plant in service, net	137,795,120	134,368,428
Construction work in progress	<u>3,295,238</u>	<u>3,441,305</u>
TOTAL ELECTRIC PLANT, net	<u>141,090,358</u>	<u>137,809,733</u>
 CURRENT ASSETS		
Cash	170,654	405,445
Accounts receivable, net of allowance of \$28,003 and \$166,785 at December 31, 2022 and 2021, respectively	10,274,856	6,897,556
Unbilled revenue	5,609,559	5,344,374
Inventories	6,278,912	5,734,999
Prepaid expenses	<u>862,742</u>	<u>697,419</u>
TOTAL CURRENT ASSETS	<u>23,196,723</u>	<u>19,079,793</u>
 OTHER ASSETS		
Nonutility property	65,697	65,697
Other investments	<u>47,212,356</u>	<u>47,893,539</u>
TOTAL OTHER ASSETS	<u>47,278,053</u>	<u>47,959,236</u>
 TOTAL ASSETS	 <u>\$ 211,565,134</u>	 <u>\$ 204,848,762</u>
	 <u>LIABILITIES AND EQUITY</u>	
 EQUITIES		
Patronage capital assignable	\$ 88,041,883	\$ 87,995,992
Other equities	<u>2,568,266</u>	<u>2,052,756</u>
NET EQUITY	<u>90,610,149</u>	<u>90,048,748</u>
 LONG-TERM DEBT	 <u>87,376,121</u>	 <u>80,819,683</u>
 DEFERRED COMPENSATION PLAN	 <u>346,344</u>	 <u>372,553</u>
 CURRENT LIABILITIES		
Current portion of long-term debt	5,305,714	5,122,628
Revolving debt	11,000,000	11,636,007
Accounts payable	9,502,368	8,268,919
Customer deposits	1,913,765	1,930,009
Deferred credits	372,519	739,013
Other regulatory liabilities	1,388,600	2,588,600
Deferred grant revenues	301,404	301,404
Other accrued expenses	<u>3,448,150</u>	<u>3,021,198</u>
TOTAL CURRENT LIABILITIES	<u>33,232,520</u>	<u>33,607,778</u>
 TOTAL LIABILITIES AND EQUITY	 <u>\$ 211,565,134</u>	 <u>\$ 204,848,762</u>

See Accompanying Notes to Financial Statements.

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

	<u>2022</u>	<u>2021</u>
OPERATING REVENUE	\$ 84,592,105	\$ 79,655,749
OPERATING EXPENSES		
Purchased power	43,234,173	35,961,869
Transmission:		
Operations	13,890,842	12,634,071
Maintenance	552,934	630,469
Distribution:		
Operations	7,472,336	7,815,938
Maintenance	7,948,583	6,568,471
Customer accounts	2,642,415	2,503,268
Administrative and general	4,531,906	4,182,812
General plant maintenance	322,356	338,837
Depreciation	6,499,618	6,404,619
Taxes	835,137	804,605
Other deductions, net	<u>18,932</u>	<u>12,745</u>
TOTAL OPERATING EXPENSES	<u>87,949,232</u>	<u>77,857,704</u>
INCOME (LOSS) FROM OPERATIONS	<u>(3,357,127)</u>	<u>1,798,045</u>
OTHER INCOME		
Renewable energy credits	1,619,291	1,857,221
Gain on sale of fixed assets	1,000	67,658
Other income	116,456	97,795
PPP loan income	1,200,000	-
Interest and dividend income	5,490,013	5,182,381
Other capital credits & dividends	<u>672,506</u>	<u>610,134</u>
TOTAL OTHER INCOME	<u>9,099,266</u>	<u>7,815,189</u>
NET INCOME BEFORE INTEREST CHARGES	<u>5,742,139</u>	<u>9,613,234</u>
INTEREST CHARGES		
Interest on long-term debt	3,582,537	3,426,623
Other interest	<u>244,803</u>	<u>109,980</u>
TOTAL INTEREST CHARGES	<u>3,827,340</u>	<u>3,536,603</u>
NET INCOME	<u>\$ 1,914,799</u>	<u>\$ 6,076,631</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, 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	87,995,992	1,764,162	214,645	73,949	-	90,048,748
Net income for the year	-	-	-	-	1,914,799	1,914,799
Transfer to patronage capital assignable	1,914,799	-	-	-	(1,914,799)	-
Retirement of capital credits	<u>(1,868,908)</u>	<u>515,510</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,353,398)</u>
BALANCE, at December 31, 2022	<u>\$ 88,041,883</u>	<u>\$ 2,279,672</u>	<u>\$ 214,645</u>	<u>\$ 73,949</u>	<u>\$ -</u>	<u>\$ 90,610,149</u>

See Accompanying Notes to Financial Statements

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

	<u>2022</u>	<u>2021</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 1,914,799	\$ 6,076,631
Noncash expenses (income) included in earnings:		
Depreciation	7,029,221	6,908,369
Amortization	34,308	34,308
Loss on sale of fixed assets	(1,000)	(67,658)
Changes in assets and liabilities:		
(Decrease) in accounts receivable	(3,642,485)	(183,696)
(Decrease) in inventories	(543,913)	(317,795)
(Decrease) in prepaid expenses	(165,323)	(141,528)
Increase in accounts payable	1,233,449	673,689
Increase (Decrease) in customer deposits	(16,244)	67,832
Increase in accrued expenses	426,952	75,648
(Decrease) in deferred grant revenues	-	(405,511)
(Decrease) in other regulatory liabilities	(1,200,000)	-
(Decrease) in deferred credits	(366,494)	(400,728)
	<u>4,703,270</u>	<u>12,319,561</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to electric plant in service and construction work in progress	(10,309,846)	(10,976,198)
Proceeds from sale of electric plant in service	1,000	17,378
Return on capital investments	(272,764)	(235,919)
Purchase of investments	927,740	(2,959,640)
	<u>(9,653,870)</u>	<u>(14,154,379)</u>
<b>NET CASH USED BY INVESTING ACTIVITIES</b>		
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from long-term borrowings	12,000,000	-
Principal payments to creditors related to long-term borrowings	(5,294,786)	(5,070,012)
Net borrowing (payment) on line of credit	(636,007)	8,236,007
Patronage capital retired, net	(1,353,398)	(1,365,021)
Principal payments under capital lease obligations	-	(11,733)
	<u>4,715,809</u>	<u>1,789,241</u>
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>		
 <b>NET DECREASE IN CASH</b>	 (234,791)	 (45,577)
 <b>CASH - Beginning of Year</b>	 <u>405,445</u>	 <u>451,022</u>
 <b>CASH - End of Year</b>	 <u>\$ 170,654</u>	 <u>\$ 405,445</u>

See Accompanying Notes to Financial Statements



Vermont Electric Cooperative, Inc.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2022

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. Proceeds from members, developers, and grant sources for electric plant are treated as contributions in aid of construction, which reduce the cost of the additions. During 2022 and 2021, the Cooperative received \$3,197,995 and \$3,044,822, respectively, in contributions in aid of construction.

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. During the years ended December 31, 2022 and 2021 the Cooperative had cash balances at two local financial institutions. The FDIC insures up to \$250,000 held at each of these institutions and in both years any excess of the \$250,000 was covered in full by a repurchase agreement.

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.

Vermont Electric Cooperative, Inc.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

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

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.

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, 2019, 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 2022 and 2021, the Cooperative paid \$3,759,504 and \$4,050,388 for property taxes, \$440,687 and \$423,253 for gross revenue taxes and \$394,450 and \$381,351, 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, 2022

NOTE 2 ELECTRIC PLANT IN SERVICE

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

<u>December 31, 2022</u>	<u>Depreciable Life/Rate Per Year</u>	
Transmission Plant	2.75%	\$ 22,116,595
Distribution Plant	3.00%	154,693,389
Buildings and Structures	20-50	6,893,881
Transportation Equipment	5-10	4,948,124
General Plant	3-10	<u>14,805,960</u>
		<u>\$ 203,457,949</u>

<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>\$ 195,397,037</u>

Depreciation of electric plant in service totaled \$7,029,221 and \$6,908,369 in 2022 and 2021, respectively.

Vermont Electric Cooperative, Inc.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2022

NOTE 3 OTHER INVESTMENTS

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

	<u>2022</u>	<u>2021</u>
Investments in associated organizations		
National Rural Utilities Cooperative Finance Corporation (CFC) membership	\$ 3,322,446	\$ 3,255,810
Southeastern Data Cooperative capital credit	1,697	1,657
CoBank Capital Credit	1,669,546	1,516,848
NISC Capital Credit	256,233	241,240
Cooperative Response Center	19,869	19,222
National Rural Telecommunications Council	7,577	7,577
Federated Rural Electric Insurance Exchange	139,281	105,353
United Utility Supply Cooperative	3,824	-
	<u>5,420,473</u>	<u>5,147,707</u>
Other investments		
Vermont Electric Power Company common stock	1,691,775	1,691,775
Vermont Transco, LLC Stock	39,315,725	40,243,465
New England Hydro-Transmission Corporation Common Stock	438,039	438,039
Other	346,344	372,553
	<u>41,791,883</u>	<u>42,745,832</u>
TOTAL OTHER INVESTMENTS	<u>\$ 47,212,356</u>	<u>\$ 47,893,539</u>

NOTE 4 PATRONAGE CAPITAL & OTHER CAPITAL

Patronage capital at December 31, included:

	<u>2022</u>	<u>2021</u>
Assignable	\$ 1,914,799	\$ 6,076,631
Assigned to date	97,699,194	91,622,563
	<u>99,613,993</u>	<u>97,699,194</u>
Less: Retirements to date	(11,572,110)	(9,703,202)
	<u>\$ 88,041,883</u>	<u>\$ 87,995,992</u>

Vermont Electric Cooperative, Inc.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2022

NOTE 4 PATRONAGE CAPITAL & OTHER CAPITAL (continued)

Other capital credits at December 31, included:

	<u>2022</u>	<u>2021</u>
Retired capital credits - gain	\$ 428,159	\$ 327,671
Retired capital credits - unlocated	1,806,393	1,394,421
Retired capital credits - no checks	<u>45,120</u>	<u>42,070</u>
	<u>\$ 2,279,672</u>	<u>\$ 1,764,162</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>2022</u>	<u>2021</u>
2002 Series A bonds, 5.70%, due through 2027	\$ 576,673	\$ 676,553
2003 Series A bonds, 6.64%, due through 2028	529,175	608,779
2003 Series B bonds, 6.60%, due through 2023	35,543	69,701
2004 Series A bonds, 4.25% - 6.70%, due through 2034	12,597,612	13,369,168
2005 Series A bonds, 1.53% - 6.90%, due through 2034	1,414,276	1,456,642
2006 Series A bonds, 4.85% - 6.85%, due through 2035	2,766,103	2,907,748
2008 Series A bonds, 3.26% - 5.69%, due through 2023	338,625	1,015,875
2008 Series B bonds, 2.09%, due through 2038	2,382,353	2,533,613
2009 Series A bonds, 3.10%, due through 2039	4,264,556	4,433,735
2010 Series A bonds, 1.18% - 4.58%, due through 2035	3,914,150	4,435,033
2012 Series A bonds, 3.41%, due through 2032	2,796,735	3,042,006
2012 Series B bonds, 3.26%, due through 2027	1,476,925	1,744,613
2013 Series A bonds, 2.92%, due through 2033	4,199,316	4,517,818
2014 Series A bonds, 3.95%, due through 2034	6,462,965	6,897,396
2016 Series A bonds, 2.81%, due through 2046	8,067,410	8,305,537
2016 Series B bonds, 4.45%, due through 2046	7,553,322	7,729,058
2017 Series A bonds, 4.30%, due through 2037	6,562,882	6,875,402
2019 Series A bonds, 3.40%, due through 2049	6,998,064	7,158,429

Vermont Electric Cooperative, Inc.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2022

NOTE 5 LONG-TERM DEBT (continued)

	<u>2022</u>	<u>2021</u>
2020 Series A bonds, 1.86%, due through 2050	7,933,330	8,216,665
2022 Series A bonds, 3.87%, due through 2053	5,920,626	-
2022 Series B bonds, 3.21%, due through 2053	<u>5,908,346</u>	<u>-</u>
Total long-term debt before unamortized debt		
issuance costs	92,698,987	85,993,771
Unamortized debt issuance cost	<u>(17,152)</u>	<u>(51,460)</u>
Total long-term debt	92,681,835	85,942,311
Less: Current installments of long-term debt	<u>(5,305,714)</u>	<u>(5,122,628)</u>
TOTAL LONG-TERM DEBT	<u>\$ 87,376,121</u>	<u>\$ 80,819,683</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, 2022, 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, 2022, 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, 2022, 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, 2022

NOTE 5 LONG-TERM DEBT (continued)

	<u>2022</u>	<u>2021</u>
VT0079024002 - 4.41% Fixed 15 Years	\$ 2,465,682	\$ 2,618,535
VT0079024003 - 4.25% Fixed 19 Years	1,186,683	1,267,346
VT0079024004 - 4.65% Fixed 16 Years	2,443,827	2,605,670
VT0079024005 - 6.40% Fixed 25 Years	1,300,496	1,375,949
VT0079024006 - 6.45% Fixed 30 Years	2,607,842	2,758,640
VT0079024007 - 6.45% Fixed 25 Years	1,235,861	1,307,325
VT0079024008 - 6.70% Fixed 27 Years	<u>1,357,221</u>	<u>1,435,703</u>
	<u>\$ 12,597,612</u>	<u>\$ 13,369,168</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 6.42% at December 31, 2022.

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, 2022, 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, 2022, 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, 2022, 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, 2022, with interest and principal payments payable quarterly.

Vermont Electric Cooperative, Inc.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2022

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, 2022, 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, 2022 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, 2022 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, 2022 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, 2022 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, 2022 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, 2022 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, 2022 with interest and principal payments payable quarterly.



Vermont Electric Cooperative, Inc.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2022

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 plant additions. The bonds have 30 year terms and bear interest at a rate of 3.40% at December 31, 2022 with interest and principal payments payable quarterly.

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 plant additions. The bonds have 30 year terms and bear interest at a rate of 1.86% at December 31, 2022 with interest and principal payments payable quarterly.

2022 Series A Bonds

On March 30, 2022 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 a rate of 3.87% at December 31, 2022 with interest and principal payments payable quarterly.

2022 Series B Bonds

On March 30, 2022 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 a rate of 3.21% at December 31, 2022 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>Year Ending December,</u>	
2023	\$ 5,305,714
2024	5,109,867
2025	5,300,068
2026	4,980,027
2027	5,289,175
Thereafter	<u>66,714,136</u>
	<u>\$ 92,698,987</u>

Vermont Electric Cooperative, Inc.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2022

NOTE 5 LONG-TERM DEBT (continued)

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 \$11,000,000 and \$11,636,007, as of December 31, 2022 and 2021, respectively. Advances under this line of credit bear a variable rate of interest, which was 5.85% at December 31, 2022. The credit facilities have a maturity a date of December 31, 2026.

NOTE 6 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 2022 and 2021 represent less than 5 percent of the total contributions made to the plan by all participating employers. At December 31, 2022 and 2021 The Cooperative made contributions to the plan of \$1,200,919 and \$1,201,135, respectively. There have been no significant changes that affect the comparability of 2022 and 2021 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, 2022 and over 80% funded on January 1, 2021, 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.

Vermont Electric Cooperative, Inc.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2022

NOTE 6 PENSION PLAN (continued)

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 2022 and 2021 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, 2022 and 2021 was \$346,344 and \$372,553, respectively.

NOTE 7 COMMITMENTS AND CONTINGENCIES

Power Contracts

In 2022 and 2021, the Cooperative has entered into contracts with Nextera and a wind project in New York to replace expiring contracts covering from four to five 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.

Vermont Electric Cooperative, Inc.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2022

NOTE 7 COMMITMENTS AND CONTINGENCIES (continued)

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.

The Cooperative entered into a 5-year agreement with a wind farm located in New York in 2022. The agreement is from 2023-2027. The agreement is for 22 MW of nameplate capacity and the price escalates at a known rate for each of the five years.

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.

Vermont Electric Cooperative, Inc.  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 2022

NOTE 7 COMMITMENTS AND CONTINGENCIES (continued)

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, 2022 and 2021, respectively.

NOTE 8 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, 2022.

Change in benefit obligation:

Benefit obligation at beginning of year	\$ 136,810
Interest Cost	-
Benefits paid	(16,367)
Actuarial loss	<u>-</u>
Benefit obligation at end of year	<u>\$ 120,443</u>

Change in plan assets:

Employer contribution	\$ 16,367
Benefits paid	<u>(16,367)</u>
Fair value of plan assets at end of year	<u>\$ -</u>

Vermont Electric Cooperative, Inc.  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 2022

NOTE 8 POSTRETIREMENT MEDICAL AND LIFE PLAN (continued)

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

2023	\$	9,839
2024		9,839
2025		9,839
2026		8,339
2027		8,339
2028-2032		34,194

Assumptions

Weighted average assumptions used to determine the benefit obligation as of December 31, 2022 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 9 SUPPLEMENTAL CASH FLOW INFORMATION

	<u>2022</u>	<u>2021</u>
Cash paid during the year for interest	<u>\$ 3,737,349</u>	<u>\$ 3,523,101</u>

NOTE 10 PAYROLL PROTECTION PROGRAM ACCOUNTING ORDER

Due to the economic uncertainties related to the global pandemic in 2020, the Cooperative applied for and received Federal support and aid funding through the Paycheck Protection Program (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 and 2023. As of December 31, 2022, \$1,200,000 of the funds had been recognized as income and the remaining \$1,388,600 are being deferred for recognition in 2023.

NOTE 11 SUBSEQUENT EVENTS

In accordance with professional accounting standards, the Cooperative has evaluated subsequent events through March 15, 2023, the date which the financial statements were available to be issued. All subsequent events requiring recognition as of December 31, 2022 have been incorporated into these financial statements herein.