Washington Electric Cooperative, Inc.

FINANCIAL STATEMENTS

December 31, 2020

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KBS
Kittell Branagan & Sargent
Certified Public Accountants
Vermont License #167

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Washington Electric Cooperative, Inc.
East Montpelier, Vermont

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Washington Electric Cooperative, Inc. (a non-profit corporation), which comprise the consolidated statement of financial position as of December 31, 2020 and 2019, and the related consolidated statements of operations, equities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

154 North Main Street, St. Albans, Vermont 05478 | P 802.524.9531 | 800.499.9531 | F 802.524.9533
www.kbscpa.com

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

Opinions

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the respective financial position of Washington Electric Cooperative, Inc. as of December 31, 2020 and 2019, and the respective changes in its operations, equities and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the consolidated financial statements that collectively comprise the Washington Electric Cooperative Inc.'s basic consolidated financial statements. The consolidating balance sheet and consolidating statements of operations are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The consolidating balance sheet and consolidating statements of operations are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic consolidated financial statements or to the basic consolidate financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating balance sheet and consolidating statements of operations are fairly stated in all material respects in relation to the basic consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2021 on our consideration of Washington Electric Cooperative, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Washington Electric Cooperative, Inc.'s internal control over financial reporting and compliance.

Kittell Branagan & Sargent

St. Albans, Vermont
March 4, 2021

Washington Electric Cooperative, Inc.
BALANCE SHEETS
December 31,

ASSETS

	2020	2019
ELECTRIC PLANT, at cost	$ 83,670,560	$ 82,484,415
Less accumulated depreciation	(35,348,326)	(33,233,211)
Electric plant in service, net	48,322,234	49,251,204
Construction work in progress	548,255	494,164
TOTAL ELECTRIC PLANT, net	48,870,489	49,745,368
CURRENT ASSETS		
Cash	1,611,281	578,448
Restricted cash	842,725	-
Receivables -		
Notes, less allowance for doubtful accounts of $1,500 in 2020 and 2019	99	99
Accounts, less allowance for doubtful accounts of $159,500 and $32,500 in 2020 and 2019, respectively	1,447,193	1,433,036
Renewable energy certificate revenue	994,183	833,690
FEMA Receivable	-	195,356
Miscellaneous	447,764	421,145
Unbilled revenue	948,720	840,366
Inventories	293,818	325,036
Prepaid corporate taxes	5,736	8,965
Prepaid expenses	690,048	598,229
TOTAL CURRENT ASSETS	7,281,567	5,234,370
OTHER ASSETS		
Other investments	9,370,304	9,083,067
Deferred charges	668,641	820,654
TOTAL OTHER ASSETS	10,038,945	9,903,721
TOTAL ASSETS	$ 66,191,001	$ 64,883,459

See Accompanying Notes to Financial Statements

Washington Electric Cooperative, Inc.
BALANCE SHEETS
December 31,

LIABILITIES AND EQUITY

	2020	2019
EQUITIES		
Memberships issued and subscribed	$ 150,410	$ 146,865
Patronage capital assignable	1,720,571	959,235
Patronage capital credits	22,923,226	22,701,604
Donated capital	288,269	280,334
NET EQUITY	25,082,476	24,088,038
LONG-TERM DEBT	35,019,587	35,092,693
CURRENT LIABILITIES		
Current portion of long-term debt	2,482,245	2,431,476
CFC line of credit	-	425,232
Accounts payable	1,474,429	1,489,255
Customer deposits	201,470	213,689
Other accrued expenses	876,864	936,833
Deferred regulatory liabilities	842,725	-
TOTAL CURRENT LIABILITIES	5,877,733	5,496,485
DEFERRED CREDITS	211,205	206,243
TOTAL LIABILITIES AND EQUITY	$ 66,191,001	$ 64,883,459

See Accompanying Notes to Financial Statements

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

	2020	2019
OPERATING REVENUE		
Member revenue retail sales	$ 16,854,741	$ 15,537,555
Member revenue REC sales	1,911,743	2,034,666
Other	566,981	542,425
TOTAL OPERATING REVENUE	19,333,465	18,114,646
OPERATING EXPENSES		
Purchased power	4,558,873	4,756,109
Power generation	2,106,684	2,046,926
Transmission	103,783	118,879
Distribution:		
Operations, including vehicle depreciation expense of $235,801 and $219,854 in 2020 and 2019, respectively	2,185,089	2,028,701
Maintenance	2,771,893	2,747,971
Customer accounts	1,144,127	1,030,086
Administrative and general	1,902,982	1,604,020
Depreciation	2,445,668	2,416,900
Taxes	185,976	172,989
TOTAL OPERATING EXPENSES	17,405,075	16,922,581
MARGINS FROM OPERATIONS BEFORE INTEREST CHARGES	1,928,390	1,192,065
INTEREST CHARGES		
Interest on long-term debt	1,312,990	1,349,505
Other interest	7,818	5,352
TOTAL INTEREST CHARGES	1,320,808	1,354,857
MARGINS FROM OPERATIONS	607,582	(162,792)
OTHER INCOME (EXPENSE)		
Interest and dividend income	1,075,038	1,075,101
Other non-operating income	52,971	68,118
Other non-operating expense	(10,548)	(13,020)
Income taxes	(4,472)	(8,172)
TOTAL OTHER INCOME (EXPENSE)	1,112,989	1,122,027
NET MARGINS	$ 1,720,571	$ 959,235

See Accompanying Notes to Financial Statements

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

	Memberships Issued and Subscribed	Patronage Capital Assignable	Other Equities: Patronage Capital Credits	Other Equities: Donated Capital
BALANCE, at December 31, 2018	$ 142,505	$ 744,207	$ 22,658,142	$ 272,434
New memberships issued and subscribed for	12,260	-	-	-
Transfers to donated capital	(7,900)	-	-	7,900
Transfers to patronage capital credits	-	(744,207)	744,207	-
Patronage rebates	-	-	(700,745)	-
Net margins for the year	-	959,235	-	-
BALANCE, at December 31, 2019	146,865	959,235	22,701,604	280,334
New memberships issued and subscribed for	11,480	-	-	-
Transfers to donated capital	(7,935)	-	-	7,935
Transfers to patronage capital credits	-	(959,235)	959,235	-
Patronage rebates	-	-	(737,613)	-
Net margins for the year	-	1,720,571	-	-
BALANCE, at December 31, 2020	$ 150,410	$ 1,720,571	$ 22,923,226	$ 288,269

See Accompanying Notes to Financial Statements

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

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,720,571	$ 959,235
Noncash expenses (income) included in earnings:		
Depreciation	2,681,469	2,636,754
Amortization of deferred charges	117,757	114,998
Gain on sale of assets	-	(6,100)
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	154,580	(218,393)
Decrease (increase) in renewable energy certificate revenue receivable	(160,493)	(268,052)
Decrease (increase) in unbilled revenue	(108,354)	(15,254)
Decrease (increase) in inventories	31,218	(70,180)
Decrease (increase) in prepaid expenses	(88,590)	(220,733)
Decrease (increase) in deferred debits	-	(40,942)
Increase (decrease) in accounts payable	(14,826)	(82,343)
Increase (decrease) in customer deposits	(12,219)	2,842
Increase (decrease) in accrued expenses	(59,969)	37,203
Increase (decrease) in deferred credits	847,687	20,023
NET CASH PROVIDED BY OPERATING ACTIVITIES	5,108,831	2,849,058
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of assets	-	6,100
Additions to electric plant in service and construction work in progress	(1,764,489)	(2,215,565)
Return of capital	67,228	40,610
Purchase of investments	(354,465)	(236,217)
NET CASH (USED) BY INVESTING ACTIVITIES	(2,051,726)	(2,405,072)
CASH FLOWS FROM FINANCING ACTIVITIES		
Memberships issued, net of refunds	11,480	12,260
Patronage rebates	(737,613)	(700,745)
Deposits in restricted cash	(842,725)	-
Proceeds from short-term debt	1,051,758	983,609
Payments on short-term debt	(1,476,990)	(558,377)
Proceeds from long-term debt	2,401,600	1,991,000
Principal payments on long-term debt	(2,431,782)	(2,377,186)
NET CASH (USED) BY FINANCING ACTIVITIES	(2,024,272)	(649,439)
NET INCREASE (DECREASE) IN CASH	1,032,833	(205,453)
CASH - Beginning of Year	578,448	783,901
CASH - End of Year	$ 1,611,281	$ 578,448
SUPPLEMENTARY CASH FLOW INFORMATION		
Cash paid during the year for interest	$ 1,313,019	$ 1,348,448

See Accompanying Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Washington Electric Cooperative, Inc. ("the Cooperative") is a vertically integrated utility with monopoly franchise rights granted by the state of Vermont to provide residential and commercial electric service in its franchise service territory. Operating revenue is generated from sales of electric power and related activity to the Cooperative's patrons located primarily within the State of Vermont.

<u>Regulatory jurisdictions</u>
The Cooperative is under the jurisdiction of the Federal Energy Regulatory Commission (FERC), the Rural Utilities Service (RUS), formerly known as the Rural Electrification Administration (REA), the Vermont Public Utility Commission (PUC) (formerly known as the Public Service Board of Vermont (PSB)), and the Vermont Department of Public Service (DPS). The PUC has the primary responsibility for regulating the Cooperative's rates. The Cooperative utilizes the Uniform System of Accounts established by the RUS, except where the PUC has prescribed other treatment.

<u>Corporate structure and income taxes</u>
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).

Accounting Standards Codification 740, Income Taxes (formerly FASB Interpretation No. 48) requires the Cooperative to evaluate its income tax positions to determine if there are any positions that would require any adjustments to the financial statements. The Cooperative has determined that it has no uncertain income tax positions that need to be recorded or reported in the financial statements.

In July 2003, the Board of Directors authorized the creation of, and a $5,000 investment in, the Coventry Clean Energy Corporation (CCEC), a wholly-owned subsidiary. CCEC is a for profit corporation. Since its operations began in 2006, CCEC financial statements have been consolidated with the Cooperative's financial statements.

The tax years ending December 31, 2020, 2019, 2018 and 2017 are still open to audit for both federal and state purposes.

<u>Consolidation policy</u>
The consolidated financial statements include the accounts of the Cooperative and CCEC. All intercompany accounts and transactions are eliminated in consolidation.

<u>Electric plant and retirements</u>
Electric plant is stated at cost. The cost of additions to electric plant includes contracted work, direct labor and materials, and allocable overheads.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Listed below are the major classes of electric plant as of December 31:

	2020	2019
Intangible plant	$ 609	$ 609
Generation (hydro) plant	3,755,529	3,755,529
Generation (landfill gas) plant	13,291,957	13,206,414
Transmission plant	2,783,734	2,783,734
Distribution plant	57,753,350	56,879,746
General plant	6,085,381	5,858,383
	$ 83,670,560	$ 82,484,415

Depreciation and plant retirement
The Cooperative follows the policy of charging to operating expenses annual amounts of depreciation which allocate the cost of the electric plant over its estimated useful life. The Cooperative employs the straight-line and straight-line composite methods for determining the annual charge for depreciation. The estimated useful lives and rates for electric plant are as follows:

	Life in Years	Composite Rate
Generation plant	20-50	2-5%
Transmission plant	35	2.748%
Distribution plant	35	2.796%
Buildings and structures	10-50	2.50%
Transportation equipment	4-10	10-25%
General plant	5-15	6-20%

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.

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.

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.

Inventories
Inventories are stated at the lower of average cost or market, determined by the first-in, first-out method.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions in aid of construction

As explained above, the Cooperative follows RUS accounting guidelines, except as otherwise allowed or prescribed by its state regulator, the PUC. In accordance with state regulatory requirements, contributions in aid of construction prior to 2013 were accounted for as a component of patrons' equity rather than as a reduction of electric plant in service. Beginning in January, 2013 the Cooperative began netting all contributions in aid of construction received from its members with the fixed assets placed in service for all new line construction. All contributions in aid of construction come from patrons of the Cooperative. The Cooperative is allowed to recover its gross investment in plant in its rates.

Patronage Capital

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. Under the provisions of the Mortgage Agreement, until the equities and margins equal or exceed thirty percent of the total assets of the cooperative, the return to patrons of contributed capital is generally limited to twenty-five percent of the patronage capital or margins received by the cooperative in the prior calendar year. WEC Bylaws require capital of the Cooperative to equal at least thirty percent of total assets before a retirement can be made. The WEC Board of Directors is responsible to determine the method, basis, priority and order of retirement, if any, for all amounts furnished as capital. Any differences in patronage available and what is remaining below is unclaimed amounts or amounts below the Cooperatives threshold for payment, which is $20, both of which are included in retired below. The unclaimed and retired no check balances for the years ended December 31, 2020 and 2019 were $731,379 and $698,992, respectively.

	2020	2019
Assignable	$ 1,720,571	$ 959,235
Assigned to date	30,505,254	29,546,019
	32,225,825	30,505,254
Less: Retirements to date	8,313,407	7,543,407
	$ 23,912,418	$ 22,961,847

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities. These estimates are made at the date of the financial statements and are based on the reported amounts of revenues and expenses during the reporting period, and other factors. Actual results could differ from those estimates.

Revenue recognition

The Cooperative recognizes revenue for electric service in the month that service is rendered. The amount shown as unbilled revenue represents an estimate of the amounts used from the last meter reading through the end of the year.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments
Investments are recorded at cost. Because these investments are not publicly traded, market values are not readily determinable.

Deferred charges
The Cooperative established deferred charges for costs associated with the recovery of various expenses that are deferred and amortized over a specified number of years. These deferred charges are regulatory in nature and approved by the WEC Board of Directors, Vermont PUC and RUS.

NOTE 2 OTHER INVESTMENTS

Other investments include the following, at cost, at December 31,:

	2020	2019
Investments in associated organizations:		
National Rural Utilities Cooperative Finance Corporation (CFC) membership	$ 1,000	$ 1,000
CFC capital term certificates	393,548	428,712
CFC patronage capital certificates	320,868	303,598
Cooperative Response Center (CRC) membership	10,000	10,000
CRC patronage capital certificates	6,228	5,300
National Information Solutions Cooperative patronage capital certificates	118,491	117,042
Patronage capital certificates - other Cooperatives	14,679	14,725
Rural Electric Vermont Association membership	497	497
	865,311	880,874
Other Investments		
Vermont Electric Power Company - common stock, Class B	265,600	265,600
Vermont Electric Power Company - common stock, Class C	101,900	101,900
Vermont Electric Power Company - preferred stock, Class C	1,793	1,793
Vermont Transco LLC - Class A membership units	3,579,706	3,446,476
Vermont Transco LLC - Class B membership units	4,555,994	4,386,424
	8,504,993	8,202,193
TOTAL OTHER INVESTMENTS	$ 9,370,304	$ 9,083,067

NOTE 3 LONG-TERM DEBT

Long-term debt at December 31, 2020 and 2019 consists of the following:

	2020	2019
Mortgage notes payable, U.S. Department of Agriculture (RUS) 35-year terms at the following interest rates:		
4.125% mortgage notes, due January 2030	$ 3,694,797	$ 4,028,584
Mortgage notes payable, National Rural Utilities Cooperative Finance Corporation (CFC), 35-year terms due between 2020 and 2031 at the following rates of interest:		
Fixed rate mortgage notes, 6.1% to 6.45% due quarterly, variable dates through July 1, 2028.	618,063	746,063
Fixed rate mortgage notes, 2.15% to 4.35% due annually, through June 30, 2031.	8,520,099	9,395,632
Fixed rate mortgage note, 3.0% due annually matures June 30, 2024.	482,599	665,764
	9,620,761	10,807,459
CFC Clean Renewable Energy Bond, nominal interest rate 0.400% effective interest rate 1.497%, quarterly payments of $17,304 from March 2008 through December 2023.	226,157	301,542
CFC Clean Renewable Energy Bond, nominal interest rate 3.70% effective interest rate 0.859%, $115,926 due September 2031.	1,304,366	1,412,366
	1,530,523	1,713,908
Mortgage notes payable, Federal Financing Bank (FFB) at the following due dates and rates of interest (unadvanced loan funds as of December 31, 2020 and 2019 were $5,728,400 and $0, respectively):		
4.366% advances, matures December 31, 2033	1,771,956	1,908,261
4.472% advances, matures December 31, 2043	2,058,152	2,147,637
4.272% advances, matures December 31, 2043	833,576	869,818
3.707% advances, matures December 31, 2043	579,879	605,091
3.328% advances, matures December 31, 2043	444,667	464,000

NOTE 3 LONG-TERM DEBT (continued)

	2020	2019
4.193% advances, matures December 31, 2043	476,153	496,855
3.999% advances, matures December 31, 2043	877,209	915,349
3.134% advances, matures December 31, 2043	266,016	277,582
2.281% advances, matures December 31, 2046	393,939	409,091
2.418% advances, matures December 31, 2046	630,303	654,545
2.625% advances, matures December 31, 2046	393,939	409,091
2.633% advances, matures December 31, 2046	709,091	736,364
3.411% advances, matures December 31, 2046	787,879	818,182
3.258% advances, matures December 31, 2046	697,710	714,846
2.797% advances, matures December 31, 2046	741,887	761,414
2.655% advances, matures December 31, 2046	709,305	728,371
2.399% advances, matures December 31, 2046	223,074	229,301
2.044% advances, matures December 31, 2046	714,432	735,436
2.643% advances, matures December 31, 2046	182,420	187,118
2.927% advances, matures December 31, 2049	370,707	378,891
2.632% advances, matures December 31, 2049	463,793	474,548
2.622% advances, matures December 31, 2049	840,128	859,646
2.849% advances, matures December 31, 2049	848,947	867,936
3.258% advances, matures December 31, 2049	713,583	728,479
3.427% advances, matures December 31, 2049	865,463	883,016
3.140% advances, matures December 31, 2049	769,039	785,418
2.928% advances, matures December 31, 2049	822,972	841,138
2.553% advances, matures December 31, 2049	677,444	693,364
2.123% advances, matures December 31, 2049	427,665	438,451
1.220% advances, matures December 31, 2053	1,200,000	-
1.335% advances, matures December 31, 2053	1,201,600	-
	22,692,928	21,019,239
Total long-term debt before unamortized debt issuance costs	37,539,009	37,569,190
Unamortized debt issuance costs	(37,177)	(45,021)
Total long-term debt	37,501,832	37,524,169
Less current installments:	(2,482,245)	(2,431,476)
Long-term debt, excluding current installments	$ 35,019,587	$ 35,092,693

NOTE 3 LONG-TERM DEBT (continued)

The 2014-2017 Construction Work Plan (CWP) loan from the Federal Financing Bank (FFB) in the amount of $7,141,000 was fully drawn in September 2019. In March 2019, the Cooperative's Board of Directors authorized the submission of the financing application to RUS for an FFB loan in the amount of $8,130,000 to finance its 2019-2022 CWP. The Cooperative signed the loan documents on October 30, 2019 and received final approval on January 27, 2020. The last day for an advance is September 30, 2024.

For FFB loans, the interest rate of an advance is determined at the time of the advance. At the time of the advance, the Cooperative can select, subject to RUS approval, either a short-term maturity date or a long-term maturity date. Payments on the advances are to be made quarterly.

Following PUC approval in November 2012, the Cooperative refinanced $15,776,069 of its RUS debt in December 2012 with a promissory note and loan agreement from CFC. The terms of the Loan provide for multiple advances with varying interest rates between 1.95% and 4.35%. The Cooperative estimates approximately $4,200,000 in interest expense savings over the 19-year refinance period ending June 2031.

All of the assets of the Cooperative are pledged as security under the above-mentioned notes.

The following is a schedule of required principal payments on long-term debt in subsequent fiscal years from December 31, 2020:

2021	$ 2,482,245
2022	2,507,847
2023	2,387,536
2024	2,257,092
2025	2,322,123
Thereafter	25,582,166
	$ 37,539,009

Loan covenants

Under the terms of the loan agreements, the Cooperative must maintain at least a times interest earned ratio (TIER) of 1.25 with a debt service coverage (DSC) ratio of not less than 1.25, determined by averaging the two highest annual ratios during the three most recent calendar years. As required by the 1997 and subsequent RUS loan agreements, the Cooperative also must maintain an operating times interest earned ratio (OTIER) of 1.10 with an operating debt service coverage (ODSC) of 1.10, determined by averaging the two highest annual ratios during the three most recent calendar years. The Cooperative met these requirements in both 2020 and 2019.

NOTE 3 LONG-TERM DEBT (continued)

Under the terms of the loan agreements with CFC, the Cooperative must maintain a modified debt service coverage (MDSC) of not less than 1.35 determined by averaging the two highest annual ratios during the three most recent calendar years. The Cooperative did not meet this requirement in 2020 or 2019. WEC's average MDSC ratio was 1.34, and 1.22, for 2020 and 2019, respectively. WEC did not meet the CFC requirement but received waivers from CFC in both 2020 and 2019. The main reason for not meeting the MDSC ratio was significantly higher storm costs, a sharp decline in the REC market for 2019 and the loss of member revenues attributed to Net Metering.

NOTE 4 SHORT-TERM DEBT

Two separate line of credit agreements executed with CFC provide the Cooperative with access to a combined short-term loan in an amount up to $3,200,000. This short-term loan operates on a revolving basis for a period of twelve months to June 7, 2021. Interest rates on the advances are variable and not to exceed the prevailing bank prime rate as published in the Eastern edition of the *Wall Street Journal,* "Money Rates" column, plus one percent. The interest rate on the As-Offered Line of Credit at December 31, 2020 was 2.25%. The available balance on the note was $3,200,000 at year end.

NOTE 5 PENSION 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. In this multi-employer plan, which is available to all member cooperatives of NRECA, the accumulated benefits and plan assets are not determined or allocated separately by individual employer. The plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333.

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 Cooperative's contributions to the RS Plan in 2020 and 2019 represented less than 5 percent of the total contributions made to the RS plan by all participating employers. WEC made contributions to the RS Plan of $530,360 in 2020 and $524,546 in 2019. There have been no significant changes that affect the comparability of 2020 and 2019 contributions. Pension expense for the prior service costs was $4,730 in 2020 and 2019.

NOTE 5 PENSION PLAN (continued)

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 percent funded on January 1, 2020 and over 80 percent funded on January 1, 2019 based on the PPA funding target and PPA actuarial value of assets on those dates.

Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

At the December 2012 meeting of the I&FS Committee of the NRECA Board of Directors, the Committee approved an option to allow participating cooperatives in the RS Plan to make a contribution prepayment and reduce future required contributions. The prepayment amount is a cooperative's share, as of January 1, 2013, of future contributions required to fund the RS Plan's unfunded value of benefits earned to date using RS Plan actuarial valuation assumptions. The prepayment amount will typically equal approximately 2.5 times a cooperative's annual RS Plan required contribution as of January 1, 2013. After making the prepayment, for most cooperatives the billing rate is reduced by approximately 25%, retroactive to January 1, 2013. The 25% differential in billing rates is expected to continue for approximately 15 years. However, changes in interest rates, asset returns and other plan experience different from expected, plan assumption changes and other factors may have an impact on the amount and duration of the differential in billing rates. The prepayment, which is included in deferred charges on the balance sheet, was made by the Cooperative during 2013 for $1,694,453 and is being amortized over a 13-year period. On June 28, 2013, the Vermont PUC authorized the financing of the pension prepayment in Docket #8062.

NOTE 6 COMMITMENTS AND CONTINGENCIES

Rate Increases

The Cooperative filed with the Vermont Public Utility Commission (PUC) in May 2018 for an across the board increase in its retail rates in the amount of 3.72%. The PUC approved the order on June 29, 2018 and rates became effective on July 1, 2018. Due to a sharp decline in the Renewable Energy Certificate Market, the Cooperative filed for an additional across the board increase in retail rates in the amount of 5.49% in November 2018. The PUC approved the order on December 31, 2018 and rates became effective on January 1, 2019.

The Cooperative filed with the Vermont Public Utility Commission (PUC) in November 2019 for an across the board increase in its retail rates in the amount of 5.95%. Case No. 19-4576-TF was opened by the PUC to conduct an investigation into the proposed rate increase. The PUC approved the order on June 19, 2020 and the rates became effective on January 1, 2020.

Rate Design

In 2019 WEC filed with the PUC to modify its design of charges for electric service. When a utility proposes rate design changes, there is no change to the total amount of revenue that the utility is authorized to recover from its ratepayers. Rather, rate design changes may include adjustments to reallocate costs among rate classes (e.g., residential, commercial, and large-power) or among the components of charges (e.g., customer charge and energy rates per kWh), or both.

NOTE 6 COMMITMENTS AND CONTINGENCIES (continued)

The rates proposed by WEC were found by the PUC to be just and reasonable if the residential customer charge increase is phased in over two years and are therefore approved for implementation in two steps. WEC proposed (1) to increase the residential customer charge from $14.19 to $25.00 per month; (2) to reduce the low block of its inclining-block rate structure for Residential members from 200 kWh to 100 kWh; and (3) to reduce the kWh rates for the low block from $0.1135 to $0.0800 and for the tail block from $0.25341 to $0.19961. The proposal similarly increased the customer charges for Small Commercial and Large Power rate classes and reduces the energy rate for the small commercial class from $0.20747 to $0.19005. WEC did not propose any changes that would reallocate costs among the rate classes. The bill impacts of WEC's proposed changes would depend on each member's energy-usage level. Members in the Residential class using 500 kWh or more per month would see lower overall bills, and members using less than 500 kWh would see higher overall bills. WEC recognizes the adverse financial impacts of the proposed changes on its low-income members at low energy-usage levels and the PUC ordered WEC to explore a low income program. WEC's rate design is being phased in over 2 years and rates were updated to include an across the board rate increase of 5.95% which was approved on June 19, 2020.

Integrated Resource Plan

Pursuant to 30 V.S.A. §218c each Vermont regulated electric utility is required to prepare and implement a least cost integrated plan (also called an integrated resource plan or IRP) for provision of energy services to its Vermont customers. The Comprehensive Energy Plan and PUC Orders outline requirements that a distribution utility's IRP should meet in order to obtain DPS and PUC approval. The IRP process and the implementation of each Vermont utility's approved plan are intended to meet the public's need for energy services, after safety concerns are addressed, at the lowest present value life cycle cost, including environmental and economic costs, through a strategy combining investments and expenditures on energy supply, transmission and distribution capacity, transmission and distribution efficiency, and comprehensive energy efficiency programs. (30 V.S.A. §218c). The cost and benefit factors to be considered include both direct monetary costs and benefits, and indirect impacts such as environmental and other societal effects. The timing for filing a utility's IRP is based on a three-year statutory requirement.

The IRP projects the Cooperative's load, power supply requirements and electrical infrastructure needs. It is used to identify committed and preferred resource options for the future, including demand-side management resources and renewable sources of power such as increased Coventry Project power and Sheffield wind power. The IRP also includes information relative to WEC's transmission and distribution planning. It identifies where investments and upgrade work are needed on the WEC electric system for delivery of power to its members. WEC filed a new IRP on November 2, 2020 in case No. 20-3324-PET. In the IRP, WEC demonstrated it has sufficient sources of power from contracts and owned generation to meet its projected power supply needs for the next 20 years. WEC also noted that it is well positioned to meet various renewable energy goals and targets which are outlined in the State's Comprehensive Energy Plan, based on its current resource mix. The PUC has opened a proceeding to review the 2020 IRP and WEC expects to receive approval in 2021.

NOTE 6 COMMITMENTS AND CONTINGENCIES (continued)

Energy Efficiency Utility

In 1999, the PUC ordered the establishment of the Energy Efficiency Utility (EEU), which began operating in February 2000 under the name "Efficiency Vermont" ("EVT"). Most efficiency services for commercial, industrial, residential and multi-family housing are now operated by the EEU and are no longer directly provided by the Cooperative. The Cooperative continues to perform certain services associated with the "Residential New Construction Program" in coordination with the EEU. Pursuant to an order from the PUC, all Vermont utilities collect a monthly surcharge called the Energy Efficiency Charge (EEC) from customers. For December 31, 2020 and 2019 the total collected from the Cooperative's members was approximately $864,086 and $941,746, respectively. This amount is forwarded to a fiscal agent selected by the PUC and is not revenue to the Cooperative.

Power Contracts

The Cooperative, along with other Vermont utilities, petitioned the PUC in Docket No. 7670 to enter various agreements that would enable it to receive power from HQ Energy Services US (HQUS) beginning in November 2016. The agreements provide for delivery of primarily on-peak energy and associated environmental attributes seven days per week, 16 hours per day. There are no capacity credits or other ancillary market products other than renewable attributes included in the contract. The Cooperative obtains 4.0 MW of power through the Vermont Public Power Supply Authority (VPPSA). In addition, the Cooperative has entered into an agreement with the Vermont Electric Cooperative (VEC) to transfer its portion of HQUS power to VEC until a need exists in the Cooperative's power supply portfolio. Proceedings in front of the PUC were underway in 2010 and through 2011. The PUC issued its decision in 2011 and approved WEC's participation in the various agreements that enable it to obtain HQUS power. The contract went into effect in November 2016 and as of December 31, 2020 all power continues to be transferred to VEC. WEC does not project to have a need to take power from the contract in the upcoming year. Therefore, WEC will bill VEC for the power which effectively negates its use to serve WEC load in WEC's power supply mix.

Net Metering Act 99

The Vermont legislature passed sweeping changes to net metering laws through Act 99 in 2014. As part of the legislation, the PUC issued a draft rule in 2016 requiring all Vermont electric utilities to issue new net metering tariffs. The tariff changes affect existing net metering systems and new systems installed after January 1, 2017. The PUC issued an order in August 2016 summarizing changes to the net metering program as a result of the legislative directive from Act 99. WEC filed its Net Metering tariff in October 2016 to comply with the new net metering rules. It amended this filing in January 2017 based on feedback from the PUC to WEC's October filing. In its tariff WEC converted its Grid Service Fee plan participants (those members with net metered generation installed after July 2014) to its Legacy plan structure to comply with the PUC rule making. After 10 years of operation, all pre-existing systems (those installed prior to January 1, 2017) will be paid the statewide blended rate per the new PUC rules. Prior to this 10-year anniversary they will be paid at WEC's highest energy block rate in its retail rate design.

As of December 31, 2020, WEC had 595 members totaling 5,071 kW of generation capacity signed up under the existing net metering programs, which represents approximately 31% of WEC's 2020 peak load level. The amount of energy produced from net metered systems equals roughly 7.8 % of WEC's 2020 annual energy needs.

NOTE 6 COMMITMENTS AND CONTINGENCIES (continued)

Renewable Energy Standard Act 56

Act 56 was passed in 2015, and this legislation created a Renewable Energy Standard (RES) for Vermont electric utilities. The RES requires utilities to have renewable energy totaling 55% of retail electric sales in 2017, with that requirement growing 4% every three years to 75% in 2032 (Tier 1). Of these renewable resources, some (1% of retail sales in 2017, growing to 10% in 2032) are required to be new, small, distributed generators connected to Vermont's distribution grid (Tier 2). The Act also requires utilities to assist their customers in reducing fossil fuel consumption from non-electric related use (Tier 3).

WEC maintains a portfolio that is 100% renewable and therefore it has met the RES 55% renewable goals for 2019 and 2020 (Tier 1). More significantly, WEC has already exceeded the state goal of 75% renewable by 2032 with its existing (2020) mix of energy sources. WEC is a leader in renewable energy and one of only a few utilities in the nation that can boast a 100% renewable power supply mix. Therefore, WEC does not need to change or plan for new sources of power to meet the State's RES Tier 1 requirement.

In March 2016, WEC petitioned the PUC in Docket 8550 for a determination that it qualifies as a retail electricity provider meeting the conditions in 30 VSA 8005 (b)(1)(A) which allows it to satisfy the distributed generation requirement of Tier 2 by accepting net metering systems within its service territory. The PUC approved this petition and WEC was granted the determination that it qualified as a 100% renewable retail electric provider (Docket 8714). WEC files annually for approval of its renewable status and received PUC approval as a 100% renewable utility for 2020.

As noted above, Tier 2 requires electric providers to have distributed renewable generation comprising at least one percent of its annual retail sales for the year beginning January 1, 2017, and thereafter increasing by two-thirds percent each year for 10 years. For 2020 the Tier 2 requirement is equivalent to 2.8% of retail sales. WEC's renewable determination by the PUC enables WEC to satisfy Tier 2 requirements by accepting net metering systems within its service territory. Therefore, WEC is not exempt from offering net metering as a renewable energy provider. Rather, it must offer net metering, but its members are not required to achieve the annual energy targets set forth in Tier 2; WEC is relieved of the requirement to provide 2.8% of its annual sales from new net metering due to its 100% renewable status.

Tier 3, or what has been referred to as the energy transformation Tier, focuses on efforts that switch members away from fossil fuels in transportation and heating use to non-fossil fuel. All utilities were required to create a plan to meet their Tier 3 obligations. WEC's Annual Plan addresses its strategy to meet Tier 3 compliance obligation for 2020 and was filed with the PUC in November 2019. In 2019 and 2020 WEC offered a suite of energy transformation measures that have been screened and vetted through the Technical Advisory Group (TAG) screening process. A fundamental component of WEC's plan is to emphasize and match TAG screened measures with heightened weatherization efforts.

Implementation of the projects described in WEC's Annual Plan was closely coordinated with Vermont Energy Investment Corporation (VEIC) as the administrator of Efficiency Vermont, the statewide energy efficiency utility (EEU). In addition, coordination of data collection, management, reporting, and evaluation and verification activities was maximized to the extent possible with protocols and schedules already in place for WEC and Efficiency Vermont. In cases where entities other than VEIC and its subcontractors deliver WEC Tier 3 programs and services independently, WEC will ensure coordination of data collection and reporting to provide a single deliverable to regulators.

NOTE 6 COMMITMENTS AND CONTINGENCIES (continued)

WEC's plan includes the coordinated use of member and supply-side incentives, standards for measuring performance, and methods to allocate savings and reductions in fossil fuel consumption and greenhouse gas emissions among VEIC and WEC with a strong emphasis on weatherization. The foundation of WEC's Tier 3 program is found in statute, V.S.A. Title10 § 581. Vermont has an aggressive policy goal of weatherizing 80,000 existing residences by 2020; WEC's Tier 3 program is, in part, intended to assist members to reduce the fossil fuels used today, as well as increase comfort and indoor air quality through comprehensive thermal energy improvements.

Vermont's RES establishes a required amount for Tier 3 compliance of 2% of a utility's annual retail sales in 2017, increasing by two-thirds of a percent each year and reaching 12% in 2032. WEC achieved 1,942 MWh of savings in 2019 and therefore exceeded its annual target of 1,880 MWh. Excess MWh's from Tier 3 will be applied in subsequent years through a banking provision. The PUC issued an order indicating WEC met its 2019 RES requirements.

WEC's implementation program for 2020 is a continuation of incentives for existing measures with the addition of incentives for Electric Vehicles for low and moderate income members. WEC anticipates an affirmative order from the PUC that it met its 2020 Tier 3 requirements.

Risk Management

The Cooperative is exposed to various risks of loss related to torts; theft of, damage to and destruction of or misuse of assets; injuries to individuals; and natural disasters. In addition to a system of internal controls, the Cooperative manages these risks through commercial insurance packages purchased in the name of the Cooperative.

NOTE 7 COMMITMENTS AND CONTINGENCIES - POWER SUPPLY

Coventry Methane Generation Project

The Cooperative owns and CCEC operates a generating facility powered by landfill gas at the Coventry Landfill in northern Vermont. The plant first began generating in July 2005 and was subsequently expanded in 2007 and 2009, to a present generating nameplate capacity of 8 MW. A set of contractual agreements was executed in 2003 between CCEC and New England Waste Services of Vermont, Inc. (NEWSVT), a wholly owned subsidiary of Casella Waste Systems, Inc. which owns the Coventry Landfill. These agreements codify the relationship of the parties.

The initial project was financed by an RUS loan. The 2007 expansion was financed by CFC under their implementation of the Clean Renewable Energy Bond Program (CREB). The 2009 expansion was financed by an RUS-guaranteed FFB loan and by reallocating funds in the 2008-2011 CWP from distribution projects to generation assets.

NOTE 7 COMMITMENTS AND CONTINGENCIES - POWER SUPPLY (continued)

The summary of project costs and outstanding notes payable as of December 31, 2020 are:

	Plant Cost	Note Balance
Phase 1 - Initial Construction, Engines 1-3	$ 7,136,054	$ 3,694,797
Phase 2 - Engine 4	1,238,397	226,157
Phase 3 - Engine 5 plus building modifications	4,133,419	1,771,956
Siloxane Removal System (SRS)	2,182,483	1,304,366
Systems Upgrades financed with general funds	514,354	-
	$15,204,707	$ 6,997,276

Costs for each phase have been capitalized to both generation and transmission plant, with the majority in generation.

Of the $15,204,707 plant cost, $13,291,958 is capitalized to generation plant with the balance included in transmission plant.

In 2016, WEC added a new gas scrubbing system and related upgrades at the plant, referred to as a Siloxane Removal System (SRS). WEC filed for a Certificate of Public Good (CPG) for this work with the PUC pursuant to 30 V.S.A. § 248(j). The PUC issued an order in Docket 8721 approving the project in May 2016. Subsequent to receiving permission to build the project, WEC filed with the PUC for permission pursuant to 30 V.S.A. § 108 for approval to finance the project in the amount of $1,712,366 using United States Department of Treasury's New Clean Renewable Energy Bonds (NCREB). The PUC approved financing in August 2016. The SRS is intended to remove siloxanes, which reduces the concentration of contaminates in the landfill gas. The buildup of siloxane compounds within the engines causes destructive detonation and inefficient operation of the engines requiring additional maintenance and engine downtime. The removal of the siloxane compounds has improved engine availability and increased electricity production. The project was successfully completed and began operating in January 2017.

In 2020 the Coventry Project provided approximately 71% of the Cooperative's total power supply output which made up 75% of the Cooperative's load requirements as measured by the Independent System Operator of New England (ISO-NE).

CCEC has a Landfill Gas Project Agreement with Innovative Energy Systems, Inc. (IES), (a subsidiary of Aria Energy with corporate headquarters in Novi, Michigan). Services provided by Aria include day-to-day management, operation, maintenance, plant repair, monitoring and adjustment of the gas collection system. WEC and IES entered a revised O&M contract which was signed in December 2016. The new contract assures continuity of operations at the plant. The contract term is for 15 years, from May 2015 through May 2030. At December 31, 2020 and 2019 the contract amount included in expense was $1,353,706 and $1,274,557, respectively.

NOTE 7 COMMITMENTS AND CONTINGENCIES - POWER SUPPLY (continued)

Wrightsville Hydro

The Cooperative also owns and operates the Wrightsville Hydroelectric Generation Station in Montpelier, Vermont, a largely run-of-the-river project that has a nameplate capacity of 933 kW, though it provides significantly less average output because it is dependent on precipitation and weather conditions during the year. Operating costs were $117,438 and $138,925 at December 31, 2020 and 2019, respectively. Fixed costs were $94,482 and $93,680 over that same period, respectively. All debt associated with this station has been paid in full as of December 31, 2014.

In March 2016, WEC successfully converted the hydro unit's status at the ISO-NE from a generator to a load reducer. As a load reducer the production from Wrightsville goes directly toward lowering WEC's load with the ISO-NE. This change saves WEC in ancillary market costs, capacity costs, reserves and many other expenses assessed to load by the ISO-NE. We continue to record generation monthly for internal tracking and adjust load internally as if the generator were not a load reducer. This allows WEC to measure and track total member load for planning purposes.

The Wrightsville Hydro facility was issued a 40-year license by the Federal Energy Regulatory Commission (FERC) on November 23, 1982 (FERC No. 5124 also known as North Branch No. 3 Hydroelectric Project). At the time of the license, the Project was owned by the Montpelier Hydroelectric Company; it was later transferred to the Washington Electric Cooperative, Inc. (WEC) on June 30, 1983. The current license expires on October 31, 2022. As a result, WEC filed a Notice of Intent (NOI) and Pre-Application Document (PAD) on October 31, 2017. WEC is working with FERC and state agencies to address various water and aquatic study requirements as well as power plant improvements that may be needed to continue the facility's operation. FERC held public scoping meetings on January 24 and 25, 2019. No members from the public attended but various state agencies and WEC staff were in attendance at both meetings.

WEC has worked with the Vermont Agency of Natural Resources (VANR) to review the options to renew the license. As of January 2020, WEC and VANR have come to an agreement as to how the Wrightsville facility shall be operated going forward. The one remaining issue to be resolved is whether WEC will be required to conduct an archeological review of the impact area at an elevation below 635 feet. This area constitutes that part of the reservoir that is typically under water. A decision on this issue is pending from FERC.

In accordance with FERC regulations, WEC filed a final license application (FLA) for a new license with FERC before October 31, 2020. The Project consists of three fixed flow turbines. The proposed action described in the FLA is to relicense the Project but use flow from a minimum flow gate to fill the flow gap between the fixed flow turbines so as to maintain a more stable flow regime below the powerhouse. WEC made public portions of the FLA available to resource agencies, Indian Tribes, local governments, non-government organizations, and the public on the Project's distribution list. An electronic copy of the FLA is available on FERC's website using the following weblink: https://elibrary.ferc.gov/eLibrary/search, enter P-5124 in the docket number. A paper copy of the FLA can also be viewed during normal business hours at the Kellogg-Hubbard Library at 135 Main Street, Montpelier, VT 05602.

NOTE 7 COMMITMENTS AND CONTINGENCIES - POWER SUPPLY (continued)

Sheffield Wind Project

In May 2005, the Cooperative executed an Advance Purchase Fee Agreement with wind developer UPC Wind Vermont, LLC (UPC), which subsequently became Vermont Wind, LLC ("Vermont Wind") and was part of SunEdison, for up to a 4 MW share of the output of its proposed 40 MW project in Sheffield. The PUC awarded UPC the required Certificate of Public Good for the project in August 2007. In January 2009, the Vermont Supreme Court unequivocally upheld the PUC Order. The contract was filed by Vermont Wind with the PUC in June 2009 and the PUC approved it, in Docket No. 7156, in August 2009. The Cooperative finalized a long-term Purchased Power Agreement with Vermont Wind in September 2009. Vermont Wind began construction in 2010 and the project reached its commercial operation date on October 19, 2011. WEC began receiving power generated from the wind project at that time. Sheffield Wind accounted for 8% of WEC's total power supply in 2020 and served roughly 9% of WEC's load needs.

WEC is counterparty to a Purchase Power Agreement (as amended) with Vermont Wind, LLC. This contract was sold or assigned to TerraForm Power, Inc. (TERP) which is a subsidiary or yieldco of SunEdison Inc. In April 2016 TerraForm Power, Inc.'s parent company, SunEdison, Inc., filed for bankruptcy protection. TerraForm Power continued to perform as agreed under the PPA. The SunEdison bankruptcy was settled in July 2017. As part of the bankruptcy proceeding TerraForm Power was acquired and spun off as a separate entity and is now owned by large international renewable generation owner, Brookfield Renewable, with North American operations in Gatineau, Quebec. No interruptions in service occurred and TerraForm Power continues to perform according to contract terms.

NYPA

The Cooperative receives power from the Franklin D. Roosevelt-St. Lawrence and Niagara hydroelectric projects in New York, through the DPS, which contracts with the New York Power Authority (NYPA). NYPA power is currently being provided through the DPS under a long-term contract. The contract for St. Lawrence has been extended through April 30, 2032. The Niagara Contract has been extended through September 1, 2025.The Cooperative anticipates no reductions in NYPA power supply going forward under the latest agreements, except when low water conditions exist. When low water conditions do exist, NYPA makes available replacement energy at a higher cost, but purchase of such replacement power is optional. The Niagara project, the largest provider of NYPA power to the Cooperative, was recently relicensed. This relatively low-cost resource is expected to continue to be available to the Cooperative's residential customers far into the future, though some related costs have increased in recent years, particularly transmission. NYPA accounted for 15% of WEC's total power supply in 2019 and served roughly 16% of WEC's load.

Hydro-Quebec

On January 7, 1991, the PUC approved the Cooperative's purchase of 2.589 MW of Hydro-Quebec (HQ) Schedule B power for a term from September 23, 1995 through October 31, 2015. With the end of the HQ Vermont Joint Owners contract, WEC replaced the power with a new contract from HQ.

NOTE 7 COMMITMENTS AND CONTINGENCIES - POWER SUPPLY (continued)

WEC, along with other Vermont utilities, petitioned the Vermont Public Service Board in 2010 in Docket 7670 to approve various agreements related to obtaining power from H.Q. Energy Services (US) Inc. through a Purchase Power Agreement (HQUS PPA). WEC is participating as a buyer of power under the Vermont Public Power Supply Authority (VPPSA), through a sub-allocation arrangement. WEC will be allocated energy products from the HQUS PPA through VPPSA in the amount of 4 MW from November 1, 2016 through October 31, 2038.

The energy from this contract is delivered 7 days a week from hour ending 08:00 to hour ending 23:00 on a firm basis through an Internal Bilateral Transaction (IBT) settled through the ISO-NE markets. There is no capacity accompanying the energy, but environmental attributes will be delivered with a minimum guarantee that 90% of the power will come from hydro or other renewable resources.

WEC has a contract entitlement from this resource of up to 4 MW. Currently WEC assigns this power to Vermont Electric Cooperative (VEC) through a sleeve arrangement. Starting on November 1, 2016, WEC is contractually required to take back this power to meet its load if its other committed resources are insufficient. The amount of power WEC must take is specified by a formulaic process in the sleeve agreement. This agreement states:

- WEC must begin to take power back from VEC with a one-year notice period if its coverage ratio falls below 97% over the preceding 12-month period.
- The amount of power WEC takes back is defined by formula which includes a coverage band tied to the amount of power needed to bring WEC's coverage ratio to 100%.
- Once WEC takes power back, it must retain that power through the end of the contract term in 2038.
- WEC can temporarily take back power in the event of an unplanned outage from an existing resource.

Twelve months after the month the coverage ratio falls below 97%, WEC will begin to take back power up to the amount of the energy deficit for the current month, provided the desired amount of energy falls between the coverage ratio limits. If it falls outside these limits, then the amount WEC will take reflects the coverage band lower or upper bound. Once WEC takes back a certain amount of power, that amount will remain in the WEC resource portfolio.

NOTE 7 COMMITMENTS AND CONTINGENCIES – POWER SUPPLY (continued)

Small Power Producers

Vermont PUC Rule 4.100 requires all electric utilities to purchase power from Vermont's non-utility small power producers, on the basis of prior year energy sales as a share of total Vermont utility energy sales. The state purchasing agent, currently the Vermont Electric Power Producers Inc. (VEPPI), administers the contracts and allocates costs to the Vermont utilities. This obligation, which for the Cooperative amounts to approximately 1% of the total small power producers' output, was $260,457 in 2020 and $224,290 in 2019. The Cooperative's costs for VEPPI resources ended November 2020 and are not expected to be renewed in 2021. The contract for the largest VEPPI unit (Ryegate), which accounts for roughly half of the VEPPI power, expired in October 2012. However, in 2011 lawmakers through Act 471 mandated the establishment of a standard offer price for certain baseload renewable power. In an Order dated October 29, 2012, the PUC established a standard-offer price schedule for baseload renewable power (Ryegate biomass facility) that is represented by a levelized price of $0.10 per kWh and that included a fuel pass-through mechanism, by which the price will be adjusted to reflect changes in Ryegate's fuel costs. The new contract began November 2012 at the termination of Ryegate's Rule 4.100 contract. The new contract for Ryegate is in effect for ten years from November 2012 through October 2022. WEC is currently being allocated roughly 1.3% of the power from the Ryegate facility. The remaining Rule 4.100 contracts, which are hydro-based resources, expired in 2020.

Standard Offer Resources

Standard Offer is a feed-in like tariff program for developers, available under the auspices of the PUC, and authorized by the Vermont legislature, through various PUC dockets (#7523 and #7533). The Cooperative has two Standard Offer facilities on its distribution system, a 2.1 MW photovoltaic (PV) project in Williamstown, and a 1.5 MW PV system which is also in Williamstown. WEC does not take power from these facilities due to an exemption as a 100% renewable electric utility. Another 2.2 MW photovoltaic project was approved by the PUC and is interconnected to the Cooperative's sub-transmission line in Coventry.

WEC OATT

On July 10, 2017, WEC filed a petition for approval of a local Open Access Transmission Tariff ("OATT") to be effective August 25, 2017. The petition and OATT allows WEC to charge for wheeling services for generating plants connected to its sub-transmission line located in Coventry, Vermont. An investigation was opened by the PUC in proceeding case number 17-3552-TF. In an Order, the Vermont Public Utility Commission approved the OATT in August 2017. WEC began charging for this service immediately upon issuance of the order. The order required WEC to record the billings as a regulatory liability until its next rate case filing. The total regulated liability as of December 31, 2017 was $22,231. This amount was recognized in 2019 upon the approval of the May 2018 rate increase filing.

VELCO

The Cooperative has entered into contracts with the Vermont Electric Power Company, Inc. (VELCO), which operates Vermont's bulk transmission system, to participate in Phase I of the Hydro-Quebec Interconnection, a 450 kV HVDC transmission line directly connecting the HQ electric system with the New England Power Pool. Under these agreements, the Cooperative provided capital for the cost of construction through purchase of VELCO Class C preferred stock, and will provide support for the operation of its 0.1133% (.782 MW) interest in the line. The Cooperative is currently leasing this capacity to the Village of Stowe so that the Village can receive Hydro-Quebec/VJO Schedule C Purchased Power.

NOTE 7 COMMITMENTS AND CONTINGENCIES – POWER SUPPLY (continued)

Vermont Transco LLC was officially established on June 30, 2006. Vermont Transco LLC is a limited liability company formed by VELCO and Vermont's distribution company owners, including the Cooperative. Vermont Transco LLC is now the owner of Vermont's high-voltage electric transmission system. VELCO is the manager of the LLC and, in that capacity, operates and maintains Vermont's electric transmission system, as it has for over fifty years.

Under collateral call arrangements associated with the Cooperative's ownership in VELCO and Vermont Transco LLC, the Cooperative purchased $302,800 and $175,710 in Vermont Transco equity units in 2020 and 2019, respectively. Over the next four years, Vermont Transco LLC anticipates additional collateral calls. The Cooperative's estimated investment would be nearly $658,000 over this period.

ISO-NE

The Cooperative, like all other electric utilities in New England, relies upon the ISO-NE, operator of the New England regional bulk transmission system, to dispatch generation and settle load obligations in the New England power markets. The Cooperative relies upon the ISO-NE to maintain reliability of the bulk power system and to administer the electricity markets within New England.

Through its joint ownership in VELCO and under the Cooperative's participation in the Central Dispatch Agreement (CDA) with the Vermont Public Power Supply Authority (VPPSA), the Cooperative is a member of the New England Power Pool (NEPOOL). The Cooperative's power supply resources are combined in the CDA with other VPPSA participants, and settled as one entity with ISO-NE. The CDA is intended to provide savings to its members by taking advantage of economies of scale through sharing staff resources through VPPSA, where under the CDA supply sources and loads of all of its participants are aggregated into a single entity for the purpose of ISO-NE settlement calculations. The Cooperative became a member of the CDA effective July 1, 1998. The Cooperative can withdraw from the arrangement on a short-term notice (30 days including any additional time required by ISO-NE to reflect such a change).

Over the past decade, the ISO-NE market structure has continued to evolve. Spot markets for energy, capacity and ancillary power products were developed, upon which New England utilities such as the Cooperative depend to achieve reliability of the bulk power system. In recent years, significant investments in transmission in the ISO-NE region have contributed to increased transmission costs for the Cooperative and other utilities.

In 2020 the Cooperative's energy settlement load obligation with the ISO-NE plus internal generation was 77,651,116 kWh (this value represents the Cooperative's retail sales, distribution and transmission losses, unbilled accounts, and internal generation). To hedge its load obligation, the Cooperative's power sources in 2020 totaled 82,183,893 kWh. The following table summarizes the Cooperative's sources of power:

NOTE 7 COMMITMENTS AND CONTINGENCIES – POWER SUPPLY (continued)

	2020		2019	
	kWh	Percentage	kWh	Percentage
VDPS - NYPA	12,428,412	15.12 %	11,850,001	14.78 %
Small Power Producers & Ryegate	2,483,785	3.02 %	2,133,651	2.66 %
Wrightsville	2,155,843	2.62 %	2,711,324	3.38 %
Coventry Clean Energy Corporation	58,169,602	70.79 %	55,727,128	69.50 %
Sheffield Wind	6,946,251	8.45 %	7,761,950	9.68 %
Market Purchases	-	- %	-	- %
	82,183,893	100.00 %	80,184,054	100.00 %
Load Obligation	77,651,116		75,753,042	
Excess Resources	4,532,777		4,431,012	

The Cooperative's consumer owners installed 5,071 kW of net metered generation on the distribution lines generating 4,891,732 kWh of energy in 2020. Adding consumer owned generation to the Cooperative's sources of power results in an additional source of energy production which comes primarily from solar based systems. As a result, net metered systems produced 5.6% of the Cooperative's total energy sources in 2020. The Cooperative's net loss of revenue from these installations through the year ended 2020 totaled $735,717, adding to the Cooperative's pressure to increase rates. The 5.95% rate increase included projected losses from net metered systems coming onto its lines.

Beginning in 2004, bilateral and settlement markets for Renewable Energy Certificates (RECs) began operating in the ISO-New England region as a result of renewable portfolio standards (RPS) legislation passed in a number of New England states. The markets allow for the renewable attributes of a generation source to be sold separately from energy and other market products produced from a power plant. RECs are directly associated with the generation of electricity produced or purchased by the Cooperative from qualified resources, particularly the Coventry Project and the Sheffield wind project.

NOTE 8 RENEWABLE ENERGY CERTIFICATES

The Cooperative records proceeds from the sale of RECs in operating revenues. Proceeds for RECs sold are received in subsequent quarters due to the lag time required by the NEPOOL Generation Information System (GIS) and RECs market administrator to accurately account for the RECs generated. The Cooperative's Board has adopted a portfolio strategy for sale of RECs and RECs are being sold to multiple buyers for varying terms. RECs are subject to market volatility and the future values of these sales may fluctuate depending on supply and demand.

At December 31, 2020 and 2019 the Cooperative recorded REC revenue of $1,911,743 and $2,034,666, respectively. There was $994,183 and $833,690 in REC receivables at December 31, 2020 and 2019, respectively. WEC received approval in Docket No. 8877 to defer $400,000 of 2016 REC revenues. The Cooperative recognized the $400,000 in 2019 to help reduce the amount of rate increase needed in 2019.

NOTE 8 RENEWABLE ENERGY CERTIFICATES (continued)

WEC sells Class 1 RECs from various resources in its power portfolio, and therefore renewability attributes of those resources (such as wind and landfill gas) are transferred to buyers. In order to restore the renewable quality of its portfolio, WEC purchases lower cost RECs in various Class 2 markets in New England. This allows WEC to retain and claim renewability of the power mix to serve WEC load. WEC only purchases the number of RECs it needs to meet its retail load. WEC has more Class 1 RECs to sell than are needed for load, and therefore WEC purchases fewer Class 2 RECs than it sells in the Class 1 markets.

NOTE 9 BANK DEPOSITS IN EXCESS OF INSURED LIMITS

At December 31, 2020 the Cooperative had cash balances of $2,808,370 of which $622,642 is insured by FDIC, and $674,608 is insured by a repurchase agreement and $1,511,120 is offset by debt. The Cooperative mitigates the exposure of uninsured cash through the use of repurchase agreements with an area bank. The bank utilizes a sweep account arrangement. The target balance is $2,500. Amounts in excess of this are swept into the repurchase account whereby the bank invests the excess in U.S. Government Securities. These underlying U.S. Government Securities serve as collateral for the Cooperative based on this agreement.

NOTE 10 MAJOR STORM COSTS

WEC experienced several large weather events in 2018 and 2019, three of which met the criteria for federal disaster relief funding. In May 2018, a major windstorm spread across WEC's service territory causing widespread outages. In November 2018 winter storm Bruce caused extensive damage, and in October 2019, WEC was once again hit by another wind event. Each of these storms caused widespread outages throughout Vermont and significant infrastructure damage to WEC's electrical distribution system with loss of power to thousands of members. In each event it took several days to restore power to all members.

All three storms' impact on the state of Vermont was recognized by the Federal Emergency Management Agency (FEMA) as a natural disaster, however only the May 2018 and October 2019 events were declared eligible for federal storm assistance.

NOTE 11 RISKS & UNCERTAINTIES

In 2020, a global pandemic was declared, and the state of Vermont declared a state of emergency regarding COVID-19 Coronavirus. As a result of the spread of the virus, economic uncertainties have arisen which have caused a global disruption to businesses and their operations all across the world. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and additional government actions to mitigate the effects. Accordingly, while management expects this matter to impact operating results, the related financial impact and duration cannot be reasonably estimated.

NOTE 11 RISKS & UNCERTAINTIES (continued)

Due to these economic uncertainties, 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 Securities Act (CARES Act). WEC received a loan from Northfield Savings Bank in the amount of $842,725. WEC applied for and received approval for forgiveness for the full amount on December 16, 2020.

WEC requested and obtained an Accounting Order from the VT Public Utilities Commission (PUC) to defer the grant proceeds of up to $842,725 to be used to offset an anticipated rate increase needed in 2021. RUS also approved this plan. The cash is being held in a separate fund and will be desegregated as the revenue is recognized in 2021.

NOTE 12 SUBSEQUENT EVENTS

In accordance with professional accounting standards, the Cooperative has evaluated subsequent events through March 4, 2021, which is the date the financial statements were available to be issued. All subsequent events requiring recognition as of December 31, 2020, have been incorporated into the financial statements herein.

SUPPLEMENTARY INFORMATION

Washington Electric Cooperative Inc. and Affiliate
CONSOLIDATING BALANCE SHEETS
December 31, 2020

ASSETS

	WEC	CCEC	Eliminations	Total
ELECTRIC PLANT, at cost	$ 83,111,547	$ 559,013	$ -	$ 83,670,560
Less accumulated depreciation	(34,861,727)	(486,599)	-	(35,348,326)
Electric plant in service, net	48,249,820	72,414	-	48,322,234
Construction work in progress	548,255	-	-	548,255
TOTAL ELECTRIC PLANT, net	48,798,075	72,414	-	48,870,489
CURRENT ASSETS				
Cash	1,489,448	121,833	-	1,611,281
Restricted cash	842,725	-	-	842,725
Receivables -				
Notes, less allowance for doubtful accounts of $1,500 in 2020 and 2019	99	-	-	99
Accounts, less allowance for doubtful accounts of $159,500 and $32,500 in 2020 and 2019, respectively	1,486,517	172,454	(211,778)	1,447,193
Renewable energy certificate revenue	994,183	-	-	994,183
Miscellaneous	447,764	-	-	447,764
Unbilled revenue	948,720	-	-	948,720
Inventories	293,818	-	-	293,818
Prepaid corporate taxes	-	5,736	-	5,736
Prepaid expenses	690,048	-	-	690,048
TOTAL CURRENT ASSETS	7,193,322	300,023	(211,778)	7,281,567
OTHER ASSETS				
Other investments	9,703,416	-	(333,112)	9,370,304
Deferred charges	668,641	-	-	668,641
TOTAL OTHER ASSETS	10,372,057	-	(333,112)	10,038,945
TOTAL ASSETS	$ 66,363,454	$ 372,437	$ (544,890)	$ 66,191,001

See Accompanying Notes to Financial Statements

Washington Electric Cooperative Inc. and Affiliate
CONSOLIDATING BALANCE SHEETS
December 31, 2020

LIABILITIES AND EQUITY

	WEC	CCEC	Eliminations	Total
EQUITIES				
Memberships issued and subscribed	$ 150,410	$ -	$ -	$ 150,410
Patronage capital assignable	1,720,571	14,536	(14,536)	1,720,571
Patronage capital credits	22,923,226	313,576	(313,576)	22,923,226
Donated capital	288,269	5,000	(5,000)	288,269
NET EQUITY	25,082,476	333,112	(333,112)	25,082,476
LONG-TERM DEBT	35,019,587	-	-	35,019,587
CURRENT LIABILITIES				
Current portion of long-term debt	2,482,245	-	-	2,482,245
Accounts payable	1,646,882	39,325	(211,778)	1,474,429
Customer deposits	201,470	-	-	201,470
Other accrued expenses	876,864	-	-	876,864
Deferred regulatory liability and revenue	842,725	-	-	842,725
TOTAL CURRENT LIABILITIES	6,050,186	39,325	(211,778)	5,877,733
DEFERRED CREDITS	211,205	-	-	211,205
TOTAL LIABILITIES AND EQUITY	$ 66,363,454	$ 372,437	$ (544,890)	$ 66,191,001

See Accompanying Notes to Financial Statements

Washington Electric Cooperative Inc. and Affiliate
CONSOLIDATING STATEMENTS OF OPERATIONS
For the Year Ended December 31, 2020

	WEC	CCEC	Eliminations	Total
OPERATING REVENUE				
Member revenue retail sales	$ 16,854,741	$ 1,970,786	$ (1,970,786)	$ 16,854,741
Member revenue REC sales	1,911,743	-	-	1,911,743
Other	605,380	-	(38,399)	566,981
TOTAL OPERATING REVENUE	19,371,864	1,970,786	(2,009,185)	19,333,465
OPERATING EXPENSES				
Purchased power	6,529,659	-	(1,970,786)	4,558,873
Power generation	351,894	1,793,189	(38,399)	2,106,684
Transmission	103,783	-	-	103,783
Distribution:				
Operations, including vehicle depreciation expense of $235,801 and $219,854 in 2020 and 2019, respectively	2,185,089	-	-	2,185,089
Maintenance	2,771,893	-	-	2,771,893
Customer accounts	1,144,127	-	-	1,144,127
Administrative and general	1,781,095	121,887	-	1,902,982
Depreciation	2,408,966	36,702	-	2,445,668
Taxes	185,976	-	-	185,976
TOTAL OPERATING EXPENSES	17,462,482	1,951,778	(2,009,185)	17,405,075
MARGINS FROM OPERATIONS BEFORE INTEREST CHARGES	1,909,382	19,008	-	1,928,390
INTEREST CHARGES				
Interest on long-term debt	1,312,990	-	-	1,312,990
Other interest	7,818	-	-	7,818
TOTAL INTEREST CHARGES	1,320,808	-	-	1,320,808
MARGINS FROM OPERATIONS	588,574	19,008	-	607,582
OTHER INCOME (EXPENSE)				
Interest and dividend income	1,075,038	-	-	1,075,038
Other non-operating income	67,507	-	(14,536)	52,971
Other non-operating expense	(10,548)	-	-	(10,548)
Income taxes	-	(4,472)	-	(4,472)
TOTAL OTHER INCOME (EXPENSE)	1,131,997	(4,472)	(14,536)	1,112,989
NET MARGIN	$ 1,720,571	$ 14,536	$ (14,536)	$ 1,720,571

See Accompanying Notes to Financial Statements

ADDITIONAL REPORTS

Kittell Branagan & Sargent
Certified Public Accountants
Vermont License # 167

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Directors
Washington Electric Cooperative, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Washington Electric Cooperative, Inc., which comprise the statement of financial position as of December 31, 2020, and the related statements of operations, equities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 4, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Washington Electric Cooperative, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Washington Electric Cooperative, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Washington Electric Cooperative, Inc.'s internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Kittell Branagan & Sargent

St. Albans, Vermont
March 4, 2021