Washington Electric Cooperative, Inc.

FINANCIAL STATEMENTS

December 31, 2018

Washington Electric Cooperative, Inc.
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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, 2018 and 2017, 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.

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, 2018 and 2017, 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 February 25, 2019 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
February 25, 2019

Washington Electric Cooperative, Inc.
BALANCE SHEETS
December 31,

ASSETS

	2018	2017
ELECTRIC PLANT, at cost	$ 81,163,654	$ 79,009,350
Less accumulated depreciation	(31,125,132)	(29,082,808)
Electric plant in service, net	50,038,522	49,926,542
Construction work in progress	72,939	633,841
TOTAL ELECTRIC PLANT, net	50,111,461	50,560,383
CURRENT ASSETS		
Cash	783,901	620,054
Restricted cash	-	400,000
Receivables -		
Notes, less allowance for doubtful accounts of $1,500 in 2018 and 2017	99	99
Accounts, less allowance for doubtful accounts of $32,500 and $33,300 in 2018 and 2017	1,318,919	1,325,561
Renewable energy certificate revenue	565,638	589,015
FEMA Receivable	115,963	290,982
Miscellaneous	396,262	393,497
Unbilled revenue	825,112	854,224
Inventories	254,856	252,341
Prepaid corporate taxes	17,011	27,879
Prepaid expenses	369,450	311,254
TOTAL CURRENT ASSETS	4,647,211	5,064,906
OTHER ASSETS		
Other investments	8,887,460	8,707,357
Deferred charges	941,961	1,069,734
TOTAL OTHER ASSETS	9,829,421	9,777,091
TOTAL ASSETS	$ 64,588,093	$ 65,402,380

See Accompanying Notes to Financial Statements

Washington Electric Cooperative, Inc.
BALANCE SHEETS
December 31,

LIABILITIES AND EQUITY

	2018	2017
EQUITIES		
Memberships issued and subscribed	$ 142,505	$ 138,715
Patronage capital assignable	744,207	771,780
Patronage capital credits	22,658,142	22,579,428
Donated capital	272,434	264,264
NET EQUITY	23,817,288	23,754,187
LONG-TERM DEBT	35,543,403	34,565,030
CURRENT LIABILITIES		
Current portion of long-term debt	2,359,107	2,293,320
CFC line of credit	-	1,710,181
Accounts payable	1,571,598	1,448,127
Customer deposits	210,847	203,824
Other accrued expenses	899,630	810,061
Deferred regulatory liabilities	-	422,231
TOTAL CURRENT LIABILITIES	5,041,182	6,887,744
DEFERRED CREDITS	186,220	195,419
TOTAL LIABILITIES AND EQUITY	$ 64,588,093	$ 65,402,380

See Accompanying Notes to Financial Statements

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

	2018	2017
OPERATING REVENUE		
Member revenue retail sales	$ 14,958,151	$ 14,372,692
Member revenue REC sales	2,440,478	2,054,116
Other	558,318	467,945
TOTAL OPERATING REVENUE	17,956,947	16,894,753
OPERATING EXPENSES		
Purchased power	5,131,919	4,437,693
Power generation	1,795,275	2,093,208
Transmission	105,733	86,701
Distribution:		
Operations, including vehicle depreciation expense of $187,631 and $135,411 in 2018 and 2017, respectively	1,917,688	1,858,442
Maintenance	2,958,855	2,356,299
Customer accounts	1,000,069	909,854
Administrative and general	1,524,016	1,449,166
Depreciation	2,398,488	2,360,611
Taxes	162,762	156,519
TOTAL OPERATING EXPENSES	16,994,805	15,708,493
MARGINS FROM OPERATIONS BEFORE INTEREST CHARGES	962,142	1,186,260
INTEREST CHARGES		
Interest on long-term debt	1,336,552	1,339,174
Other interest	25,031	3,409
TOTAL INTEREST CHARGES	1,361,583	1,342,583
MARGINS FROM OPERATIONS	(399,441)	(156,323)
OTHER INCOME (EXPENSE)		
Interest and dividend income	1,100,615	884,524
Other non-operating income	70,304	70,035
Other non-operating expense	(16,403)	(18,224)
Income taxes	(10,868)	(8,232)
TOTAL OTHER INCOME (EXPENSE)	1,143,648	928,103
NET MARGINS	$ 744,207	$ 771,780

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, 2016	$ 135,435	$ 1,420,798	$ 21,834,028	$ 255,104
New memberships issued and subscribed for	12,440	-	-	-
Transfers to donated capital	(9,160)	-	-	9,160
Transfers to patronage capital credits	-	(1,420,798)	1,420,798	-
Patronage rebates	-	-	(675,398)	-
Net margins for the year	-	771,780	-	-
BALANCE, at December 31, 2017	138,715	771,780	22,579,428	264,264
New memberships issued and subscribed for	11,960	-	-	-
Transfers to donated capital	(8,170)	-	-	8,170
Transfers to patronage capital credits	-	(771,780)	771,780	-
Patronage rebates	-	-	(693,066)	-
Net margins for the year	-	744,207	-	-
BALANCE, at December 31, 2018	$ 142,505	$ 744,207	$ 22,658,142	$ 272,434

See Accompanying Notes to Financial Statements

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

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 744,207	$ 771,780
Noncash expenses (income) included in earnings:		
Depreciation	2,586,119	2,496,022
Amortization of deferred charges	116,765	109,543
Gain on sale of assets	-	198
Loss on abandonment	(386)	-
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	178,896	(444,532)
Decrease (increase) in renewable energy certificate revenue receivable	23,377	125,064
Decrease (increase) in unbilled revenue	29,112	(88,130)
Decrease (increase) in inventories	(2,515)	23,324
Decrease (increase) in prepaid expenses	(47,328)	(28,640)
Decrease (increase) in deferred debits	(14,004)	(12,810)
Increase (decrease) in accounts payable	123,471	(15,721)
Increase (decrease) in customer deposits	7,023	(9,328)
Increase (decrease) in accrued expenses	89,569	13,287
Increase (decrease) in deferred credits	(431,430)	51,622
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,402,876	2,991,679
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of assets	-	198
Additions to electric plant in service and construction work in progress	(2,103,955)	(2,609,833)
Return of capital	35,934	35,774
Purchase of investments	(216,036)	(1,175,617)
NET CASH (USED) IN INVESTING ACTIVITIES	(2,284,057)	(3,749,478)

See Accompanying Notes to Financial Statements

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

	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES		
Memberships issued, net of refunds	11,960	12,440
Patronage rebates	(693,066)	(675,398)
Proceeds from short-term debt	2,770,496	1,810,181
Payments on short-term debt	(4,480,677)	(100,000)
Proceeds from long-term debt	3,350,000	1,800,000
Principal payments on long-term debt	(2,313,685)	(2,232,670)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(1,354,972)	614,553
NET (DECREASE) IN CASH	(236,153)	(143,246)
CASH - Beginning of Year	1,020,054	1,163,300
CASH - End of Year	$ 783,901	$ 1,020,054
SUPPLEMENTARY CASH FLOW INFORMATION		
Cash paid during the year for interest	$ 1,352,827	$ 1,346,207

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.

Regulatory jurisdictions

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.

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).

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, 2018, 2017, 2016 and 2015 are still open to audit for both federal and state purposes.

Consolidation policy

The consolidated financial statements include the accounts of the Cooperative and CCEC. All intercompany accounts and transactions are eliminated in consolidation.

Electric plant and retirements

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:

	2018	2017
Intangible plant	$ 609	$ 609
Generation (hydro) plant	3,751,933	3,751,933
Generation (landfill gas) plant	12,814,262	12,814,262
Transmission plant	2,783,734	2,631,735
Distribution plant	55,885,216	54,339,698
General plant	5,927,900	5,471,113
	$81,163,654	$79,009,350

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.

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.

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,:

	2018	2017
Investments in associated organizations:		
National Rural Utilities Cooperative Finance Corporation (CFC) membership	$ 1,000	$ 1,000
CFC capital term certificates	433,084	436,955
CFC patronage capital certificates	284,863	256,410
Cooperative Response Center (CRC)	10,000	10,000
CRC patronage capital certificates	4,142	3,340

NOTE 2 OTHER INVESTMENTS (continued)

	2018	2017
National Information Solutions Cooperative patronage capital certificates	112,556	105,166
Patronage capital certificates - other Cooperatives	14,835	15,026
Rural Electric Vermont Association membership	497	497
	860,977	828,394
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	3,369,166	3,304,260
Vermont Transco LLC - Class B membership units	4,288,024	4,205,410
	8,026,483	7,878,963
TOTAL OTHER INVESTMENTS	$8,887,460	$8,707,357

NOTE 3 LONG-TERM DEBT

Long-term debt at December 31, 2018 and 2017 consists of the following:

	2018	2017
Mortgage notes payable, U.S. Department of Agriculture (RUS) 35-year terms at the following interest rates:		
4.125% mortgage notes, due January 2030	$ 4,348,936	$ 4,655,306
Mortgage notes payable, National Rural Utilities Cooperative Finance Corporation (CFC), 35-year terms due between 2018 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.	874,538	1,019,444
Fixed rate mortgage notes, 2.15% to 4.35% due annually, through June 30, 2031.	10,272,236	11,156,335
Fixed rate mortgage note, 3.0% due annually matures June 30, 2024.	843,535	1,016,072
	11,990,309	13,191,851

NOTE 3 LONG-TERM DEBT (continued)

	2018	2017
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.	376,928	452,314
CFC Clean Renewable Energy Bond, nominal interest rate 3.70% effective interest rate 0.859%, $115,926 due September 2031.	1,516,366	1,616,366
	1,893,294	2,068,680
Mortgage notes payable, Federal Financing Bank (FFB) at the following due dates and rates of interest (unadvanced loan funds as of December 31, 2018 and 2017 were $1,991,000 and $5,341,000, respectively):		
4.366% advances, matures December 31, 2033	2,044,565	2,180,869
4.472% advances, matures December 31, 2043	2,237,121	2,326,606
4.272% advances, matures December 31, 2043	906,061	942,303
3.707% advances, matures December 31, 2043	630,303	655,515
3.328% advances, matures December 31, 2043	483,333	502,667
4.193% advances, matures December 31, 2043	517,557	538,260
3.999% advances, matures December 31, 2043	953,488	991,628
3.134% advances, matures December 31, 2043	289,147	300,713
2.281% advances, matures December 31, 2046	424,242	439,394
2.418% advances, matures December 31, 2046	678,788	703,030
2.625% advances, matures December 31, 2046	424,242	439,394
2.633% advances, matures December 31, 2046	763,636	790,909
3.411% advances, matures December 31, 2046	848,485	878,788
3.258% advances, matures December 31, 2046	731,456	747,680
2.797% advances, matures December 31, 2046	780,427	799,054
2.655% advances, matures December 31, 2046	746,963	765,195
2.399% advances, matures December 31, 2046	235,389	241,369
2.044% advances, matures December 31, 2046	756,041	776,335
2.943% advances, matures December 31, 2046	191,685	196,156

NOTE 3 LONG-TERM DEBT (continued)

	2018	2017
2.927% advances, matures January 3, 2050	386,850	394,648
2.632% advances, matures January 3, 2050	485,040	495,338
2.622% advances, matures January 3, 2050	878,684	897,373
2.849% advances, matures January 3, 2050	886,417	-
3.258% advances, matures January 3, 2050	742,917	-
3.427% advances, matures January 3, 2050	900,000	-
3.140% advances, matures January 3, 2050	800,000	-
	19,722,837	17,003,224
Total long-term debt before unamortized debt issuance costs	37,955,376	36,919,061
Unamortized debt issuance costs	(52,866)	(60,711)
Total long-term debt	37,902,510	36,858,350
Less current installments:	(2,359,107)	(2,293,320)
Long-term debt, excluding current installments	$35,543,403	$34,565,030

The 2012-2015 Construction Work Plan (CWP) loan from the Federal Financing Bank (FFB) in the amount of $7.4 million was fully drawn in December 2016. In March 2014, the Cooperative's Board of Directors approved the 2014-2017 CWP. In August 2014, the Cooperative's Board of Directors authorized the submission of the financing application to RUS for an FFB loan in the amount of $7,141,000 to finance its 2014-2017 CWP. On June 2, 2015, the Cooperative signed the loan documents. The last day for an advance is April 1, 2020.

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.

NOTE 3 LONG-TERM DEBT (continued)

The following is a schedule of required principal payments on long-term debt in subsequent fiscal years from December 31, 2018:

2019	$ 2,359,107
2020	2,386,593
2021	2,405,699
2022	2,399,028
2023	2,276,862
Thereafter	26,128,087
	$ 37,955,376

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 2018 and 2017.

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 met this requirement in 2017. However, in 2018 WEC's MDSC ratio average was 1.33 meaning WEC did not meet the CFC requirement. The main reason for not meeting the MDSC ratio was significantly higher storm costs in 2018 due to increased frequency and severity of storms. The sharp decline of the REC market also was a driver in not meeting the MDSC value. The Cooperative alerted CFC staff about this issue well in advance of closing the year, and is working with CFC for a waiver for 2018. WEC expects CFC to issue the waiver.

NOTE 4 SHORT-TERM DEBT

A line of credit agreement executed with CFC provides the Cooperative with a short-term loan in an amount up to $2,600,000. This short-term loan operates on a revolving basis for a period of twelve months to June 9, 2019. 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 at December 31, 2018 was 3.35%. The available balance on the note was $2,600,000 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 2018 and 2017 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 $504,929 in 2018 and $542,031 in 2017. There have been no significant changes that affect the comparability of 2018 and 2017 contributions. Pension expense for the prior service costs was $4,730 in 2018 and 2017.

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, 2017 and over 80 percent funded on January 1, 2016 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 Increase & Revenue Deferral Request

The Cooperative filed with the Vermont Public Utility Commission (PUC) in November 2016 for an across the board increase in its retail rates in the amount of 6.52%. Docket No. 8877 was opened by the PUC and a decision was reached on July 28, 2017 to approve the rate increase but at a lower rate of 5.95%. The Cooperative is allowed to increase its rates 45 days after the filing, and therefore new rates went into effect as a temporary surcharge on January 1, 2017 reflecting the increase. The revenue attributable to the rate increase is billed separately until the PUC issues its final order. On February 6, 2017, the Cooperative filed for a modification to the existing rate increase filing, seeking an approval of the ability to defer approximately $400,000 in REC Revenues from 2016 into future rate years. These revenues are in excess of what was needed to meet lender ratio requirements in 2016. Coupled with this request, WEC agreed to reduce the current rate increase to 5.95%. The PUC approved the 5.95% increase and the $400,000 deferral on July 28, 2017. The Cooperative refunded to members the excess amounts collected in bills.

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 $400,000 that was previously deferred, was used in calendar year 2018 to help decrease the amount of the rate increases. This deferral account has been entirely depleted.

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.

NOTE 6 COMMITMENTS AND CONTINGENCIES (continued)

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 July 7, 2017 in case 17-3664-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. WEC reached an agreement with the Vermont Department of Public Service (DPS) in November 2017 and entered a memorandum of understanding (MOU). This MOU identifies items the DPS requests WEC address in its 2020 IRP. The DPS filed support of WEC's 2017 IRP filing with the PUC. In April 2018 the PUC issued an approval of WEC's 2017 IRP and MOU reached with the DPS. WEC's next IRP is due in July 2020.

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 the responsibility of 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, 2018 and 2017 the total collected from the Cooperative's members was approximately $989,857 and $947,566, 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 will obtain 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, 2018 all power is being 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.

NOTE 6 COMMITMENTS AND CONTINGENCIES (continued)

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, 2018, WEC had 476 members totaling 3,527 kW of generation capacity signed up under the existing net metering programs, which represents approximately 22% of WEC's 2018 retail peak load level. The amount of energy produced from net metered systems equals roughly 5.7 % of WEC's 2018 annual retail kWh sales.

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 2017 (Tier 1). More significantly, WEC has already exceeded the state goal of 75% renewable by 2032 with its existing (2018) 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).

NOTE 6 COMMITMENTS AND CONTINGENCIES (continued)

As noted above, Tier 2 requires electric providers to have distributive renewable generation comprising at least one percent of its annual retail sales for the year beginning January 1, 2017. 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 that 1% of its annual sales are provided by new net metering due to its 100% renewable status. Currently WEC has 3,527 kW of distributed generation system installed in its service territory. This equates to an amount of energy produced from net metered systems of roughly 5.7% of WEC's 2018 annual retail sales.

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 2018 and was filed with the PUC in November 2017. In 2017 and 2018 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. 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 met its first year compliance target of 1,376 MWH. In its Tier 3 Report, the Department recommended that the Commission approve 826 MWh of WEC's Tier 3 savings from energy transformation projects. Subsequent to the Tier 3 Report, in an August 24, 2018 Order, the Commission approved an additional 580 MWh of WEC's Tier 3 savings generated through weatherization projects. WEC applied these approved Tier 3 savings towards its Tier III obligation of 1,376 MWh of savings for 2017 and banked the remainder. Based upon the foregoing, the PUC issued an order indicating WEC met its 2017 RES requirements.

WEC's implementation plan for 2018 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 2018 Tier 3 requirements.

NOTE 6 COMMITMENTS AND CONTINGENCIES (continued)

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.

The summary of project costs and outstanding notes payable as of December 31, 2018 are:

	Plant Cost	Note Balance
Phase 1 - Initial Construction, Engines 1-3	$ 7,136,054	$ 4,348,936
Phase 2 - Engine 4	1,238,397	376,928
Phase 3 - Engine 5 plus building modifications	4,133,419	2,044,565
Siloxane Removal System (SRS)	1,789,219	1,516,366
Systems Upgrades financed with general funds	429,923	-
	$14,727,012	$ 8,286,795

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

Of the $14,727,012 plant cost, $12,814,262 is capitalized to generation plant with the balance included in transmission plant.

NOTE 7 COMMITMENTS AND CONTINGENCIES - POWER SUPPLY (continued)

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 will improve engine availability and increase electricity production. The amount listed under Restricted Cash on the Balance Sheet is associated with the CREBs financing for the SRS project. In accordance with the CREBs financing requirements, this restricted cash is committed to the SRS project. The project has been successfully installed and is operating as of January 2017.

In 2018 the Coventry Project provided approximately 68% of the Cooperative's total power supply output which made up 69% 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). 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. Services provided by Aria include day-to-day management, operation, maintenance, plant repair, monitoring and adjustment of the gas collection system. At December 31, 2018 and 2017 the amount included in expense was $1,207,376 and $1,386,771, respectively.

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 $114,406 and $114,967 at December 31, 2018 and 2017, respectively. Fixed costs were $93,111 and $93,204 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. The unit is no longer seen by the ISO-NE as a generator and is instead used to reduce WEC's load obligation. 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.

NOTE 7 COMMITMENTS AND CONTINGENCIES - POWER SUPPLY (continued)

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 must have filed its Notice of Intent (NOI) and Pre-Application Document (PAD) no later than October 31, 2017. WEC filed its 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, 2018. No members from the public attended but various state agencies and WEC staff were in attendance at both meetings.

WEC is exploring and researching the requirements and options to renew the license. A number of meetings have been held with Vermont Agency of Natural Resources (VANR). WEC is discussing plans and FERC requirements with technical experts to help guide WEC through the process. Based on initial discussions with and information from FERC and VANR, the license renewal process will be complex and entail many requirements and studies.

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 11% of WEC's total power supply in 2018 and served roughly 11% 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, however, WEC was concerned about the risk that TerraForm could fail to perform due to the bankruptcy and the potential adverse impact it may have on TERP's capability to meet its financial commitments under the Power Purchase Agreement. 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.

NOTE 7 COMMITMENTS AND CONTINGENCIES - POWER SUPPLY (continued)

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 14% of WEC's total power supply in 2018 and served roughly 14% 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.

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.

NOTE 7 COMMITMENTS AND CONTINGENCIES - POWER SUPPLY (continued)

- 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.

Highgate Converter Station (VPPSA)

The Cooperative sold its interests in the Highgate Converter Station in July 2017 as a participant with the Vermont Public Power Supply Authority (VPPSA) which held the direct ownership interest in the converter station facility. In the past WEC had paid through the Vermont Public Power Supply Authority (VPPSA) for its proportionate share of VPPSA's costs and obligations associated with the Highgate Converter, a transmission facility which allows interconnection with the HQ electric system. The facility had been used in the past by the Cooperative to access wheeling transfer capability over the Highgate Converter Station to import its share of power from HQ for the VJO contract. The Cooperative paid $3,365 for the operating and maintenance expenses of the Highgate converter as of December 31, 2017.

In 2017, Vermont Transco LLC (Transco) proposed to purchase VPPSA's and the other Highgate Joint Owners' interests in the Highgate facility at net book value and subsequently offer the former joint owners an opportunity to acquire additional equity in Transco. The sale took place in May 2017 and was approved by various boards including WEC and the Vermont PUC. WEC was paid $149,722 for its interest in the asset and WEC purchased $302,000 in additional equity shares offered by Transco as part of the sale.

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 $310,321 in 2018 and $421,327 in 2017. The Cooperative's costs are expected to decrease moderately through time for VEPPI resources as contracts expire. 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, are expected to expire fully by 2020.

NOTE 7 COMMITMENTS AND CONTINGENCIES – POWER SUPPLY (continued)

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 under construction 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. In 2017 WEC instituted an Open Access Transmission Tariff for wheeling power from projects connected to its sub-transmission lines to the VELCO grid, and it began charging for that service in August 2017.

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 2018 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.

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 $440,570 and $1,106,800 in Vermont Transco equity units in 2018 and 2017, respectively. Over the next four years, Vermont Transco LLC anticipates additional collateral calls. The Cooperative's estimated investment would be nearly $494,000 over this period.

NOTE 7 COMMITMENTS AND CONTINGENCIES – POWER SUPPLY (continued)

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 pooling 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 2018 the Cooperative's energy settlement load obligation with the ISO-NE was 77,848,531 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 2018 totaled 78,335,783 kWh. The following table summarizes the Cooperative's sources of power:

	2018			2017		
	kWh	Percentage		kWh	Percentage	
VDPS - NYPA	11,014,597	14.06	%	11,690,591	14.12	%
Small Power Producers & Ryegate	2,939,916	3.75	%	4,061,148	4.91	%
Wrightsville	2,502,475	3.19	%	2,852,391	3.45	%
Coventry Clean Energy Corporation	53,352,648	68.11	%	53,075,555	64.11	%
Sheffield Wind	8,526,147	10.89	%	9,144,771	11.05	%
Market Purchases	-	-	%	1,968,000	2.36	%
	78,335,783	100.00	%	82,792,456	100.00	%
Load Obligation	77,848,531			75,787,016		
Excess Resources	487,252			7,005,440		

NOTE 7 COMMITMENTS AND CONTINGENCIES – POWER SUPPLY (continued)

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.

At December 31, 2018 and 2017 the Cooperative recorded REC revenue of $2,440,478 and $2,054,116, respectively. There was $565,638 and $589,015 in REC receivables at December 31, 2018 and 2017, respectively. WEC received approval in Docket No. 8877 to defer $400,000 of 2016 REC revenues. These dollars are recorded as a regulatory liability in these financial statements and were held by the Cooperative in a segregated account at December 31, 2017. The Cooperative recognized the $400,000 in 2018 to help reduce the rate increase.

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, 2018 the Cooperative had cash balances of $950,563 of which $457,462 is insured by FDIC, and $493,101 is insured by a repurchase agreement. 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 storms throughout 2017 and 2018, and three of these storms triggered requests for federal disaster relief funding. In October 2017 high winds crippled Vermont and the Northeast, knocking out power to millions. In May 2018, WEC was hit by another serious wind event, and in November 2018 winter storm Bruce caused extensive damage. Each storm event knocked out power to thousands of members, and restoration was a multiday endeavor in each storm.

Both the October 2017 and May 2018 storms' impact on the state of Vermont was recognized by the Federal Emergency Management Agency (FEMA) as a natural disaster and both were declared eligible for federal storm assistance. In addition, the state of Vermont requested the November 2018 storm be declared eligible for FEMA funding. However, the state received a denial on this request and the full impact of this storm is reflected in these statements.

NOTE 11 SUBSEQUENT EVENTS

In accordance with professional accounting standards, the Cooperative has evaluated subsequent events through February 25, 2019, which is the date the financial statements were available to be issued. All subsequent events requiring recognition as of December 31, 2018, have been incorporated into the financial statements herein.

SUPPLEMENTARY INFORMATION

Washington Electric Cooperative Inc. and Affiliate
CONSOLIDATING BALANCE SHEETS
December 31, 2018

ASSETS

	WEC	CCEC	Eliminations	Total
ELECTRIC PLANT, at cost	$ 80,601,385	$ 562,269	$ -	$ 81,163,654
Less accumulated depreciation	(30,712,631)	(412,501)	-	(31,125,132)
Electric plant in service, net	49,888,754	149,768	-	50,038,522
Construction work in progress	72,939	-	-	72,939
TOTAL ELECTRIC PLANT, net	49,961,693	149,768	-	50,111,461
CURRENT ASSETS				
Cash	733,432	50,469	-	783,901
Receivables -				
Notes, less allowance for doubtful accounts of $1,500 in 2018 and 2017	99	-	-	99
Accounts, less allowance for doubtful accounts of $32,500 and $33,300 in 2018 and 2017	1,381,415	142,059	(204,555)	1,318,919
Renewable energy certificate revenue	565,638	-	-	565,638
FEMA Receivable	115,963	-	-	115,963
Miscellaneous	396,262	-	-	396,262
Unbilled revenue	825,112	-	-	825,112
Inventories	254,856	-	-	254,856
Prepaid corporate taxes	-	17,011	-	17,011
Prepaid expenses	369,450	-	-	369,450
TOTAL CURRENT ASSETS	4,642,227	209,539	(204,555)	4,647,211
OTHER ASSETS				
Other investments	9,184,271	-	(296,811)	8,887,460
Deferred charges	941,961	-	-	941,961
TOTAL OTHER ASSETS	10,126,232	-	(296,811)	9,829,421
TOTAL ASSETS	$ 64,730,152	$ 359,307	$ (501,366)	$ 64,588,093

See Accompanying Notes to Financial Statements

Washington Electric Cooperative Inc. and Affiliate
CONSOLIDATING BALANCE SHEETS
December 31, 2018

LIABILITIES AND EQUITY

	WEC	CCEC	Eliminations	Total
EQUITIES				
Memberships issued and subscribed	$ 142,505	$ -	$ -	$ 142,505
Patronage capital assignable	744,207	28,918	(28,918)	744,207
Patronage capital credits	22,658,142	262,893	(262,893)	22,658,142
Donated capital	272,434	5,000	(5,000)	272,434
NET EQUITY	23,817,288	296,811	(296,811)	23,817,288
LONG-TERM DEBT	35,543,403	-	-	35,543,403
CURRENT LIABILITIES				
Current portion of long-term debt	2,359,107	-	-	2,359,107
Accounts payable	1,713,657	62,496	(204,555)	1,571,598
Customer deposits	210,847	-	-	210,847
Other accrued expenses	899,630	-	-	899,630
TOTAL CURRENT LIABILITIES	5,183,241	62,496	(204,555)	5,041,182
DEFERRED CREDITS	186,220	-	-	186,220
TOTAL LIABILITIES AND EQUITY	$ 64,730,152	$ 359,307	$ (501,366)	$ 64,588,093

See Accompanying Notes to Financial Statements

Washington Electric Cooperative Inc. and Affiliate
CONSOLIDATING STATEMENTS OF OPERATIONS
For the Year Ended December 31, 2018

	WEC	CCEC	Eliminations	Total
OPERATING REVENUE				
Member revenue retail sales	$ 14,958,151	$ 1,805,454	$ (1,805,454)	$ 14,958,151
Member revenue REC sales	2,440,478	-	-	2,440,478
Other	595,510	-	(37,192)	558,318
TOTAL OPERATING REVENUE	17,994,139	1,805,454	(1,842,646)	17,956,947
OPERATING EXPENSES				
Purchased power	6,937,373	-	(1,805,454)	5,131,919
Power generation	240,520	1,591,947	(37,192)	1,795,275
Transmission	105,733	-	-	105,733
Distribution:				
Operations, including vehicle depreciation expense of $135,411 and $137,167 in 2017 and 2016, respectively	1,917,688	-	-	1,917,688
Maintenance	2,958,855	-	-	2,958,855
Customer accounts	1,000,069	-	-	1,000,069
Administrative and general	1,396,225	127,791	-	1,524,016
Depreciation	2,352,558	45,930	-	2,398,488
Taxes	162,762	-	-	162,762
TOTAL OPERATING EXPENSES	17,071,783	1,765,668	(1,842,646)	16,994,805
MARGINS FROM OPERATIONS BEFORE INTEREST CHARGES	922,356	39,786	-	962,142
INTEREST CHARGES				
Interest on long-term debt	1,336,552	-	-	1,336,552
Other interest	25,031	-	-	25,031
TOTAL INTEREST CHARGES	1,361,583	-	-	1,361,583
MARGINS FROM OPERATIONS	(439,227)	39,786	-	(399,441)
OTHER INCOME (EXPENSE)				
Interest and dividend income	1,100,615	-	-	1,100,615
Other non-operating income	99,222	-	(28,918)	70,304
Other non-operating expense	(16,403)	-	-	(16,403)
Income taxes	-	(10,868)	-	(10,868)
TOTAL OTHER INCOME (EXPENSE)	1,183,434	(10,868)	(28,918)	1,143,648
NET MARGIN	$ 744,207	$ 28,918	$ (28,918)	$ 744,207

See Accompanying Notes to Financial Statements

ADDITIONAL REPORTS

KBS
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, 2018, 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 February 25, 2019.

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
February 25, 2019