



New Hampshire Electric Cooperative, Inc. and Subsidiary

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

With Independent Auditor's Report





INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Members
New Hampshire Electric Cooperative, Inc. and Subsidiary

Opinion

We have audited the accompanying consolidated financial statements of New Hampshire Electric Cooperative, Inc. and subsidiary (the Cooperative), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of operations, changes in equities, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Cooperative as of December 31, 2021 and 2020, and the consolidated results of its operations and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Cooperative's ability to continue as a going concern for a period of one year after the date the financial statements are available for issuance.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Berry Dunn McNeil & Parker, LLC

Portland, Maine
March 29, 2022

NEW HAMPSHIRE ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

Consolidated Balance Sheets

December 31, 2021 and 2020

ASSETS

	<u>2021</u> <u>(000s)</u>	<u>2020</u> <u>(000s)</u>
Utility plant		
Distribution and transmission	\$ 365,008	\$ 351,929
General and other	41,810	39,498
Construction work in progress	<u>8,549</u>	<u>8,783</u>
Total utility plant	415,367	400,210
Less accumulated depreciation and amortization	<u>174,760</u>	<u>165,390</u>
Net utility plant	<u>240,607</u>	<u>234,820</u>
Other assets		
Temporary investments	-	900
Intangible assets	1,375	1,375
Non-utility property, net	102	108
Investment in associated organizations, at cost	<u>11,530</u>	<u>11,789</u>
Total other assets	<u>13,007</u>	<u>14,172</u>
Current assets		
Cash and cash investments	110	2,400
Receivables from members – energy sales, net of allowance for doubtful accounts of \$377 in 2021 and \$1,126 in 2020	14,461	13,010
Other receivables, net of allowance for doubtful accounts of \$39 in 2021 and \$40 in 2020	7,984	5,804
Materials and supplies	4,091	3,842
Prepayments and other current assets	<u>2,873</u>	<u>2,681</u>
Total current assets	<u>29,519</u>	<u>27,737</u>
Deferred debits and other assets	<u>10,343</u>	<u>5,030</u>
	<u>\$ 293,476</u>	<u>\$ 281,759</u>

The accompanying notes are an integral part of these consolidated financial statements.

LIABILITIES AND EQUITIES

	<u>2021</u> <u>(000s)</u>	<u>2020</u> <u>(000s)</u>
Equities		
Patronage capital		
Assigned	\$ 137,611	\$ 135,002
Assignable	2,486	4,611
Other capital	<u>300</u>	<u>300</u>
Total equities	<u>140,397</u>	<u>139,913</u>
Current liabilities		
Lines of credit	11,765	7,355
Accounts payable	16,442	11,424
Accrued liabilities	6,513	5,673
Member deposits	1,785	1,870
Current portion of long-term obligations	<u>6,478</u>	<u>6,029</u>
Total current liabilities	<u>42,983</u>	<u>32,351</u>
Long-term obligations, excluding current portion	<u>89,862</u>	<u>86,838</u>
Deferred credits and other liabilities	<u>20,234</u>	<u>22,657</u>
	<u>\$ 293,476</u>	<u>\$ 281,759</u>

NEW HAMPSHIRE ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

Consolidated Statements of Operations

Years Ended December 31, 2021 and 2020

	<u>2021</u> <u>(000s)</u>	<u>2020</u> <u>(000s)</u>
Operating revenues	\$ 155,000	\$ 141,483
Operating expenses	<u>149,357</u>	<u>133,612</u>
Operating margins before interest and other deductions	5,643	7,871
Interest and other deductions, net	<u>3,538</u>	<u>3,772</u>
Net operating margins	<u>2,105</u>	<u>4,099</u>
Nonoperating margins		
Interest and patronage dividends	289	417
Other	<u>92</u>	<u>95</u>
Net nonoperating margins	<u>381</u>	<u>512</u>
Net margins	<u><u>\$ 2,486</u></u>	<u><u>\$ 4,611</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

NEW HAMPSHIRE ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

Consolidated Statements of Changes in Equities

Years Ended December 31, 2021 and 2020

	<u>Patronage Capital</u>		<u>Other</u>	<u>Total</u>
	<u>Assigned</u>	<u>Assignable</u>	<u>Capital</u>	<u>Equities</u>
	<u>(000s)</u>	<u>(000s)</u>	<u>(000s)</u>	<u>(000s)</u>
December 31, 2019	\$ 127,956	\$ 7,046	\$ 300	\$ 135,302
2019 patronage capital assigned	7,046	(7,046)	-	-
Net operating margins	-	4,099	-	4,099
Net nonoperating margins	<u>-</u>	<u>512</u>	<u>-</u>	<u>512</u>
December 31, 2020	135,002	4,611	300	139,913
2020 patronage capital assigned	4,611	(4,611)	-	-
Patronage capital retirements, net	(2,002)	-	-	(2,002)
Net operating margins	-	2,105	-	2,105
Net nonoperating margins	<u>-</u>	<u>381</u>	<u>-</u>	<u>381</u>
December 31, 2021	<u>\$ 137,611</u>	<u>\$ 2,486</u>	<u>\$ 300</u>	<u>\$ 140,397</u>

The accompanying notes are an integral part of these consolidated financial statements.

NEW HAMPSHIRE ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

Years Ended December 31, 2021 and 2020

	<u>2021</u> <u>(000s)</u>	<u>2020</u> <u>(000s)</u>
Cash flows from operating activities		
Net margins	\$ 2,486	\$ 4,611
Adjustments to reconcile net margins to net cash provided by operating activities		
Depreciation and amortization	12,743	12,423
Noncash patronage capital dividends	(346)	(340)
Change in deferred credits	(819)	159
Change in deferred debits	(5,150)	(1,362)
Decrease (increase) in		
Member and other accounts receivable	(3,631)	(2,471)
Materials and supplies	(249)	(568)
Prepayments and other current assets	(192)	46
Increase (decrease) in		
Accounts payable	4,732	(1,166)
Accrued liabilities	840	1,839
Member deposits	(85)	111
Net cash provided by operating activities	<u>10,329</u>	<u>13,282</u>
Cash flows from investing activities		
Retirement of capital certificates	605	318
Construction and acquisition of plant	(18,341)	(23,241)
Proceeds from sales of utility plant and non-utility property	74	39
Removal costs of retirements, net of materials salvaged	(1,738)	(1,107)
Proceeds from grants	-	6,690
Net transfer of temporary investments to cash investments	900	1,400
Net cash used by investing activities	<u>(18,500)</u>	<u>(15,901)</u>
Cash flows from financing activities		
Net advances on lines of credit	4,410	3,710
Principal payments of long-term obligations	(6,042)	(5,800)
Proceeds from issuance of long-term obligations	9,515	-
Retirements of patronage capital, net	(2,002)	-
Net cash provided (used) by financing activities	<u>5,881</u>	<u>(2,090)</u>
Net decrease in cash and cash investments	(2,290)	(4,709)
Cash and cash investments, beginning of year	<u>2,400</u>	<u>7,109</u>
Cash and cash investments, end of year	\$ <u>110</u>	\$ <u>2,400</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest, net of capitalized interest	\$ <u>3,882</u>	\$ <u>3,988</u>
Construction and acquisition of plant included in accounts payable	\$ <u>695</u>	\$ <u>409</u>

The accompanying notes are an integral part of these consolidated financial statements.

NEW HAMPSHIRE ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Organization and Purpose

New Hampshire Electric Cooperative, Inc. (NHEC or the Cooperative) is a rural electric cooperative utility established under the laws of the state of New Hampshire (NH). The Cooperative is currently subject to limited regulation by the NH Public Utilities Commission (NHPUC). NHEC is a distribution cooperative, providing electric power to its members in certain areas of NH. NHEC serves approximately 83,000 accounts throughout nine of NH's ten counties.

In December 2020, NHEC began offering broadband service to certain members in Lempster, Clarksville, Colebrook and Stewartstown. During 2021, NHEC started construction of its fiber optic network to the towns of Sandwich and Acworth and will continue expansion to other parts of its service territory in 2022. These projects represents NHEC's steps toward its goal of ensuring all its members have access to high speed internet service. The construction of fiber optic networks allow for approximately 1,200 NHEC members to have access to high-speed Internet.

1. Significant Accounting Policies

Principles of Consolidation

In 2021, NHEC established a new subsidiary, NH Broadband, LLC. The consolidated financial statements include the accounts of the Cooperative and its subsidiary. All material intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

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

Regulatory Accounting

The Cooperative follows the accounting prescribed by the Federal Energy Regulatory Commission's (FERC) Uniform System of Accounts, the NHPUC, and Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic (ASC) 980, *Regulated Operations*, for its regulated services. This accounting recognizes the economic effects of rate regulation by recording costs and a return on investment, as such amounts are recovered through rates authorized by regulating authorities. The Cooperative annually reviews the continued applicability of ASC 980 based on the current regulatory and competitive environment.

In accordance with NH statute, the Cooperative's members have the option to vote to reduce the level of NHPUC regulation that affects the Cooperative. The option to reduce NHPUC regulation was passed by a vote of the Cooperative's membership at its June 2000 annual meeting. Additional legislation became law during 2001 that further reduced the NHPUC's regulatory authority over the Cooperative such that its energy service (also known as "Co-op Power") is not

NEW HAMPSHIRE ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

subject to NHPUC regulation. The NHPUC retains limited regulatory jurisdiction for some aspects of the Cooperative's operations that pertain to the restructuring of the electric industry. All regulatory assets and liabilities associated with energy efficiency, energy assistance and some aspects of restructuring continue to be regulated by the NHPUC. The Cooperative's Board of Directors regulates its other rate components.

Utility Plant and Depreciation

Utility plant is stated at cost including an allowance for funds used during construction. Proceeds from grants for utility plant are treated as contributions in aid of construction, which reduce the costs of additions. The provision for depreciation and amortization is computed on a straight-line method at rates based upon the estimated service lives of the assets. Utility plant depreciation was approximately \$14,530,000 in 2021 and \$14,184,000 in 2020, a portion of which is capitalized.

Maintenance and repairs of utility plant are charged to operations as incurred. Replacements and betterments are capitalized. At the time units of utility plant are retired, the cost of the property retired and costs of removal, less salvage, are charged to the allowance for depreciation.

Effective December 31, 2018, the Cooperative revised its depreciation rates for certain utility plant based on the results of a depreciation rate study conducted in 2018. The revised depreciation rates reflect longer estimated useful lives and greater net salvage values. As a result of this depreciation rate study, the Cooperative reduced accumulated depreciation and amortization and recognized a regulatory liability (Note 6), which is being amortized against depreciation expense annually over a period of twelve years.

During 2020, the NH Governor's Office of Strategic Initiative issued Broadband Expansion Program Grants (Grants) funded by the Coronavirus Aid, Relief, and Economic Security Act Coronavirus Relief Fund. The Cooperative was awarded two Grants to provide high-speed broadband internet service to certain unserved properties and received grant proceeds of \$3,406,628 and \$3,283,111 during 2020. The Cooperative is subject to certain requirements, including establishing individual property connections to connect customers, for a period of five years after the completion of the projects. The total estimated cost of the Project is \$9,500,000, of which \$6,689,739 was received in Grants funds and the remaining costs to connect customers are expected to be funded by the Cooperative.

Allowance for Funds Used During Construction

The allowance for funds used during construction represents the cost of borrowed funds used for construction of utility plant. The allowance is capitalized as a component of the cost of utility plant. The Cooperative capitalized \$178,000 and \$125,000 of interest in 2021 and 2020, respectively.

Intangible Assets

Intangible assets consists of radio frequency licenses. As licenses do not have a term and the technology continues to be used in the marketplace, the Cooperative believes that these licenses qualify as indefinite life intangibles. Radio frequency licenses are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the radio frequency licenses may be impaired.

NEW HAMPSHIRE ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Cash and Cash Investments

NHEC considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents, which are reported as cash investments. The Cooperative maintains cash in bank deposit accounts which may exceed federally insured limits. The Cooperative has not experienced losses in such accounts, and management does not believe that it is exposed to any significant risk on cash and cash investments.

From time to time the Cooperative has outstanding checks in excess of funds on deposit. At December 31, 2021, the Cooperative has approximately \$314,000 in outstanding checks in excess of funds on deposit and, accordingly, has classified this amount as a current liability in the 2021 balance sheet.

Receivables

Receivables are stated at the amount management expects to collect on outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to an allowance for doubtful accounts (allowance) based on its assessment of the collectibility of outstanding accounts. Individual accounts that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance and a reduction in accounts receivable. The Cooperative extends credit to its members at standard terms after appropriate review. Credit may be extended without collateral. The Cooperative typically invoices customers in the month following when the service is provided. Member invoices are generally due 30 days after issuance. Accounts receivable balances related to contracts with members were approximately \$14,461,000, \$13,010,000 and \$13,315,000 at December 31, 2021, 2020 and 2019, respectively.

Other receivables include amounts due for goods or services that are not related to delivery of electricity. Other receivables are generally billed in advance for services not related to delivery of electricity and at the point of sale for all others. Customer invoices are generally due 30 days after issuance.

Materials and Supplies

Inventories of materials and supplies are stated at average cost.

Deferred Debits and Other Assets

NHEC establishes deferred debits for costs associated with the under-recovery of certain tariff rates that are deferred and collected from members through periodic rate adjustments. Deferred debits are regulatory in nature and are approved by either the Board of Directors or the NHPUC. Deferred debits also include amounts related to the National Rural Electric Cooperative Association (NRECA) Retirement Security Program (RS Plan) that are amortized over a defined period established at the inception of the debit. Other assets include amounts related to postretirement benefits and renewable energy credits.

NEW HAMPSHIRE ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Patronage Capital

The bylaws of the Cooperative provide that operating revenues from the furnishing of electric energy in excess of operating costs and expenses, referred to as operating margins, shall be allocated as patronage capital. All other amounts received in excess of other expenses, referred to as non-operating margins, shall be used to offset any losses incurred during the current or any prior fiscal year and, to the extent not needed for that purpose, allocated to its patrons on the basis of their patronage, and any amount so allocated shall be included as part of the capital credited to the accounts of patrons.

NHEC may refund patronage capital within parameters set in the master loan agreement from National Rural Utilities Cooperative Finance Corporation (CFC), its lender. In the event of the dissolution or liquidation of NHEC, after all outstanding indebtedness has been paid, outstanding capital credits shall be retired without priority on a pro rata basis.

Patronage capital retirements of approximately \$3,979,000 were distributed to members during 2021, of which approximately \$1,977,000 were unclaimed as of December 31, 2021.

Purchased Power Costs

NHEC's "Co-op Power" energy service rates reflect estimates of the cost of purchased power, including contract power costs, costs for renewable energy credits, Independent System Operator of New England (ISO-NE) administered wholesale market costs for energy, capacity costs, ancillary services, and related administrative costs. Retail members who purchase their energy from the Cooperative are billed through a seasonally adjusted "Co-op Power" rate that is based on projected data for the cost of wholesale power. NHEC's "Regional Access Charge" rates include estimates of ISO-NE regional transmission related costs, local transmission services, and distribution interconnection service costs. These rates also reflect estimates of costs associated with services and administration necessary for members to access energy services from NHEC or competitive suppliers. To the extent that actual costs incurred for a rate period differ from estimates used in setting rates for the period, the differences are deferred and refunded or charged to members in subsequent periods through the periodic rate adjustments as approved by NHEC's Board of Directors in accordance with NH Statutes.

Derivative Instruments

NHEC evaluates purchase power contracts, used to manage power costs over various periods, using guidance issued in FASB ASC 815, *Derivatives and Hedging*. Power contracts that are determined to be derivatives that do not meet the normal purchase and normal sales exclusion of FASB ASC 815, if any, are recorded at fair value. At December 31, 2021 and 2020, the Cooperative determined that all significant power contracts meet the normal purchase and normal sales exclusion and therefore are not recorded at fair value.

Deferred Credits and Other Liabilities

NHEC establishes deferred credits for costs associated with the over-recovery of certain tariff rates that are deferred and refunded to members through periodic rate adjustments. Deferred credits are

NEW HAMPSHIRE ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

regulatory in nature and are approved by either the Board of Directors or the NHPUC. Deferred credits also include amounts related to postretirement benefits and regulatory liabilities that are amortized over a defined period established at the inception of the credit.

Operating Revenues

NHEC recognizes revenues in accordance with FASB ASC 606, *Revenue from Contracts with Customers*. Operating revenues are primarily based on rates, most of which are authorized by the NHEC Board of Directors and the remainder of which are authorized by the NHPUC. The rates are applied to members' utilization of electricity, which NHEC bills to its members on a cycle basis throughout the month. Revenues are recognized in the amount to which NHEC has the right to invoice, over the period of time the services are rendered.

Other Regulated Rates

NHEC's tariff rates include an Energy Efficiency System Benefit Charge (EE SBC) and an Energy Assistance Program System Benefit Charge (EAP SBC) at rates set by the NHPUC for all NH jurisdictional utilities. The EE SBC recovers the costs of those NHEC energy efficiency program services that are subject to NHPUC approval. The funds collected through NHEC's EAP SBC are reconciled to the benefits provided to NHEC's income qualified members and any under- or over-recovery of benefits paid to members is received from or submitted to, respectively, the State of NH which administers the pooled funds of all jurisdictional utilities.

Income Tax Status

NHEC is exempt from United States income taxes pursuant to Section 501(c)(12) of the Internal Revenue Code, which requires that at least 85% of a cooperative's income be collected from its members.

The Cooperative follows guidance for uncertainty in income taxes which is part of FASB ASC 740, *Income Taxes*. The guidance prescribes a recognition threshold and measurement attributes for financial statement recognition of a tax position taken or expected to be taken on a tax return.

Postretirement Benefit Plan

The Cooperative sponsors a defined benefit postretirement medical plan through NRECA that covers substantially all of its employees. The Cooperative applies FASB ASC 715, *Compensation-Retirement Benefits*, that requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its balance sheet and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. The Cooperative recognizes changes in the funded status using a regulatory liability or regulatory asset as allowed under ASC 980, because the changes in funded status will be recognized in future regulated rates.

NEW HAMPSHIRE ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Environmental Laws

The Cooperative has continuing requirements that must be met under environmental laws. Management believes that the Cooperative is in compliance with applicable laws in all material respects.

Taxes Collected from Consumers and Remitted to Taxing Authorities

The Cooperative reports certain taxes, such as taxes collected from consumers and remitted to taxing authorities, as a liability when billed to consumers and excluded from revenue and expenses.

Subsequent Events

For purposes of the preparation of these financial statements in conformity with U.S. generally accepted accounting principles, the Cooperative has considered transactions or events occurring through March 29, 2022, which was the date that the financial statements were available to be issued.

2. Investment in Associated Organizations

Investment in associated organizations is carried at cost subject to adjustments for any observable market transactions on the same or similar instruments. At December 31, investments in associated organizations consisted of the following:

	<u>2021</u> (000s)	<u>2020</u> (000s)
Capital term certificates – CFC	\$ 3,628	\$ 3,726
Patronage capital credits – CFC	7,281	7,486
Other	<u>621</u>	<u>577</u>
Total	<u>\$ 11,530</u>	<u>\$ 11,789</u>

These assets are considered for impairment annually. There are no identified events or changes in circumstances that may have a significant adverse effect on fair value.

3. Deferred Debits and Other Assets

As of December 31, deferred debits and other assets were as follows:

	<u>2021</u> (000s)	<u>2020</u> (000s)
Deferred debits		
Deferred Recoveries (Note 1)	\$ 7,057	\$ 2,260
RS Plan Prepayment (Note 7)	961	1,640
Other assets	<u>2,325</u>	<u>1,130</u>
Total	<u>\$ 10,343</u>	<u>\$ 5,030</u>

NEW HAMPSHIRE ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

4. Long-Term Obligations

As of December 31, long-term obligations were as follows:

	<u>2021</u> <u>(000s)</u>	<u>2020</u> <u>(000s)</u>
General debt		
3.65% - 4.65% notes payable to CFC, payable in quarterly installments, including interest, through October 2022	\$ 1,797	\$ 3,527
2.57% notes payable to CFC, payable in monthly installments, including interest, through November 2028	4,588	5,117
3.50% - 4.05% notes payable to CFC, payable in quarterly installments, including interest, through July 2030	7,677	8,405
3.01% - 4.65% notes payable to CFC, payable in quarterly installments, including interest, through January 2034	5,526	5,886
6.20% notes payable to CFC, payable in quarterly installments, including interest, through April 2035	4,224	4,418
6.75% notes payable to CFC, payable in quarterly installments, including interest, through October 2038	6,120	6,306
3.74% - 4.75% notes payable to CFC, payable in quarterly installments, including interest, through October 2039	15,448	16,009
4.20% notes payable to CFC, payable in quarterly installments, including interest, through July 2042	4,192	4,394
4.35% notes payable to CFC, payable in quarterly installments, including interest, through October 2044	6,965	7,138
4.10% notes payable to CFC, payable in quarterly installments, including interest, through January 2046	12,333	12,625
3.42% notes payable to CFC, payable in quarterly installments, including interest, through April 2048	4,348	4,447
4.01% notes payable to CFC, payable in quarterly installments, including interest, through July 2051	9,515	-

NEW HAMPSHIRE ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

	<u>2021</u> <u>(000s)</u>	<u>2020</u> <u>(000s)</u>
Loans under CFC management		
3.99% notes payable to Federal Agricultural Mortgage Corporation (Farmer Mac) payable in semi-annual installments, including interest, through May 2034	7,121	7,691
4.09% notes payable to Farmer Mac, payable in semi-annual installments, including interest, through May 2037	<u>6,486</u>	<u>6,904</u>
Total long-term obligations	96,340	92,867
Less current portion	<u>6,478</u>	<u>6,029</u>
Total long-term obligations, excluding current portion	<u>\$ 89,862</u>	<u>\$ 86,838</u>

The mortgage agreements provide that all outstanding obligations to CFC and Farmer Mac are collateralized by substantially all assets and the rents, income, revenues, proceeds and benefits derived, received or had for any and all such assets.

Interest expense for long-term debt approximated \$3,721,000 in 2021 and \$3,904,000 in 2020.

The Cooperative must also comply with certain covenants which include restrictions on the Cooperative's ability to borrow additional monies, enter into specified transactions or pay dividends or distribute patronage capital without first seeking the mortgagee's approval. Additional covenants address insurance coverage, the sale of assets and other nonfinancial matters. CFC mortgage notes are subject to repricing periodically to reflect current market interest rates.

In December 2012, NHEC signed an agreement with CFC for a five-year work plan loan of approximately \$50,000,000. The interest rate is to be determined based on the CFC market rate at the time of each advance and principal is to be paid over a period not to exceed 40 years through December 18, 2052. The Cooperative has \$13,685,000 of remaining availability as of December 31, 2021.

As a cooperative, CFC may pay capital dividends to its borrowers for their patronage. The total capital dividends NHEC received from CFC were \$281,000 during 2021 and \$315,000 in 2020, of which \$140,000 for 2021 and \$157,000 for 2020 was paid in cash with the remainder being patronage capital certificates in CFC to be retired at a later date.

The Cooperative has an unsecured perpetual revolving \$20,000,000 line of credit from CFC. The amount outstanding at December 31, 2021 was \$7,511,010 (interest rate at 2.45%) and at December 31, 2020 was \$4,755,035 (interest rate at 2.45%).

The Cooperative also has an unsecured revolving \$20,000,000 line of credit from CFC, which expires September 4, 2023. The amount outstanding at December 31, 2020 was \$2,600,000 (interest rate at 2.45%). There were no amounts outstanding at December 31, 2021.

NEW HAMPSHIRE ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

During 2021, the Cooperative established an unsecured revolving \$20,000,000 line of credit from CFC, which expires November 10, 2024. The purpose is to provide interim financing for the construction of the broadband project. The amount outstanding at December 31, 2021 was \$4,254,053 (interest rate at 2.45%).

Scheduled maturities on long-term obligations for the next five years, based on agreements currently in place, are as follows:

	<u>(000s)</u>
2022	\$ 6,478
2023	4,821
2024	4,946
2025	5,093
2026	5,254

5. Long-Term Power Supply and Sale Agreements

NHEC procures wholesale energy, capacity, ancillary services and renewable energy credits (together, "bundled energy service") from a variety of resources in New England's deregulated competitive wholesale capacity, energy, ancillary services, and renewable attributes markets to meet the needs of its members who elect, or default to, NHEC's "Co-op Power" bundled energy service option rather than choosing to purchase bundled energy service from retail competitive suppliers.

NHEC's wholesale procurement arrangements include bilateral purchase agreements of various term lengths, with various suppliers, for various products or combinations of products. Current resource portfolio contract terms are from one month up to 20 years. The longest remaining contract term ends in 2038. These products may include daily, weekly, monthly, seasonal, or annual, on-peak and off-peak fixed volume or load following energy. Bilateral contract pricing may be fixed or indexed, and may include optionality. NHEC may also meet a portion of its wholesale requirements through contract arrangements tied to the output of specific generating plants or demand resources and may engage in ownership of such resources. NHEC uses competitive bidding and direct negotiation to establish terms, conditions and pricing of its bilateral wholesale procurements. NHEC may participate with other entities in joint or group procurement.

To the extent NHEC's wholesale requirements are not fully met through bilateral contract arrangements or ownership, they are met through NHEC's participation in the New England Power Pool markets administered by ISO-NE, such as the day-ahead and real-time energy markets and the forward capacity market that imposes an obligation on load serving entities to provide or make payments for capacity.

Should a significant number of NHEC's members choose to purchase competitively supplied power instead of purchasing Co-op Power from the Cooperative, NHEC would still have the obligation to purchase the power contracted for bilaterally. If such contracted volumes exceed NHEC's needs, NHEC would sell any excess contracted power into the marketplace. However, management does

NEW HAMPSHIRE ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

not anticipate the likelihood of this happening and if so, such an event is not expected to be long in duration, as the volume of members who do not purchase Co-op Power from the Cooperative has been relatively limited and consistent, and NHEC manages its bilateral procurements taking into account members' use of competitive suppliers as it changes over time.

The Cooperative is subject to New Hampshire Statute RSA Chapter 362 F, an "Electric Renewable Portfolio Standard" (RPS). The law requires providers of electricity, including utilities and competitive providers, to acquire Renewable Energy Credits (RECs) equal to a specified percentage of their energy from four classes of state qualified resources. By statute, some of the percentages increase over time. RSA Chapter 362F establishes guidelines for resource qualification for the creation of RECs allowing for the trading of these renewable attributes to meet annual RPS obligations by mid-June of the following year. Finally, the law establishes standards and prices for alternative compliance payments (ACP) made by electricity providers in lieu of REC acquisition in certain circumstances. The Cooperative met 89% of its 2020 RPS obligations through long-term unit contracts and other purchases. Final REC transactions for 2021 are not required to be completed until June 15, 2022, as a function of relevant RPS rules, but the Cooperative anticipates meeting 67% of its 2021 obligations through unit contracts and REC purchases.

The approximately 33% of 2021 RPS obligations that may not be met by REC purchases include Thermal RECs (5%) and Class III Biomass and Landfill Gas RECs (28%). Thermal RECs are obtained from renewable energy resources that do not produce electricity, but produce useful thermal energy. NHEC is currently determining if the Thermal REC and Class III markets can provide the volume of RECs NHEC requires to meet these 2021 obligations. In addition, the NHPUC is conducting an investigation beginning in March 2022 to consider if the Class III REC obligation should be reduced due to unavailability of those RECs. Should the markets have a shortfall and NHEC is not able to satisfy its obligations through unit contracts and REC purchases, NHEC expects to make ACP payments to meet its obligations.

To deliver energy from the New England regional wholesale markets to NHEC's retail distribution network, it settles Regional Network transmission services from multiple providers through ISO-NE, and Local Network transmission service is provided by Eversource Energy (formerly Northeast Utilities), Vermont Electric Power Company, Green Mountain Power, and National Grid. Interconnection and delivery service is provided by Eversource Energy pursuant to FERC regulated contracts and tariffs.

NHEC has a Standard and Poor's Rating issuer credit rating of A with an outlook of stable. Some of NHEC's power supply contract counterparties rely on NHEC's investment grade rating as primary performance credit support. NHEC has also executed agreements with CFC for the issuance by CFC of letters of credit specifically to benefit power supply agreements should primary or back-up collateral be needed to meet the performance requirements for some power supply and other agreements. The total authority under these facilities is \$30,000,000. As of December 31, 2021 and 2020, letters of credit outstanding under these facilities totaled \$6,300,000 and \$3,000,000, respectively. Annual fee expenses for the master facility and issuance of these letters approximated \$92,000 for 2021 and \$68,000 for 2020, and are recovered through the Co-op Power rate.

NEW HAMPSHIRE ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

6. Deferred Credits and Other Liabilities

As of December 31, deferred credits and other liabilities were as follows:

	<u>2021</u> <u>(000s)</u>	<u>2020</u> <u>(000s)</u>
Deferred credits		
Regulatory liability - postretirement benefits (Note 8)	\$ 1,390	\$ 1,227
Other deferred credits and recoveries (Note 1)	2,942	3,761
Regulatory liability - depreciation study (Note 1)	<u>15,902</u>	<u>17,669</u>
Total	<u>\$ 20,234</u>	<u>\$ 22,657</u>

7. Pension and 401(k) Savings Plan

The RS Plan, sponsored by the NRECA is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is a multi-employer plan under the accounting standards. The RS Plan covers all employees, including those employees subject to the provisions of the Cooperative's Collective Bargaining agreements.

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

Information related to the RS Plan is as follows:

Pension Fund	Employer Identification Number	Pension Plan Number	Pension Protection Act Zone Status		FIP/RP Status Pending or Implemented	Contributions		Surcharge Imposed	Expiration Date of Collective Bargaining Agreement
			2018	2017		2021	2020		
RS Plan	53-0116145	333	N/A	N/A	N/A	\$2,777,000	\$2,734,000	N/A	9/30/2024

N/A = not applicable FIP/RP = funding implement plan/rehabilitation plan

The Cooperative's contributions to the RS Plan in 2021 and 2020 represented less than 5% of the total contributions made to the plan by all participating employers.

For 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 Retirement Security Plan was over 80% funded at January 1, 2021 and 2020 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, rehabilitation 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.

NEW HAMPSHIRE ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

At the December 2012 meeting of the Insurance and Financial Services 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 typically equaled 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 was 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 experiences different from expected, plan assumption changes and other factors may have an impact on the differential in billing rates and the 15-year period.

In 2013, the Cooperative made a lump-sum prepayment of \$6,786,000 to the NRECA RS Plan to reduce future required contributions. The Cooperative is amortizing this amount over ten years. The amount amortized to pension costs was approximately \$678,000 for both 2021 and 2020.

The Cooperative has established a tax qualified 401(k) savings plan (Plan) for the benefit of its employees and their beneficiaries. The Cooperative matches contributions of annual base pay for participating employees. Employees who were part of the collective bargaining unit, International Brotherhood of Electrical Workers Local 1837 have a match of up to 4.5% in 2021 and up to 3% in 2020. Employees who participated in the Plan and are not part of the collective bargaining unit have a match of up to 4.5%. The Cooperative's contribution was approximately \$805,000 and \$675,000 for 2021 and 2020, respectively.

8. Postretirement Benefit Plan

The Cooperative sponsors a defined benefit postretirement medical and life insurance plan. The plan is contributory, with contributions set as a percent of benefit costs plus deductibles and coinsurance. Retiree contributions were not material in 2021 and 2020. The Cooperative established an irrevocable trust to fund the plan as was required by the NHPUC. At this time, the Cooperative plans to fund future pay-as-you go expenses (benefits paid) from this trust and not provide additional funds to the trust. The Cooperative expects the pay-as-you go expenses will be approximately equal to the income from the trust for the next several years.

ASC 715 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan, measured as the difference between plan assets at fair value and the benefit obligation, as an asset or liability in its balance sheet and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. As allowed by ASC 980, the Cooperative reports the accumulated change as a regulatory liability or regulatory asset. For a postretirement benefit plan, the benefit obligation is the accumulated postretirement benefit obligation.

NEW HAMPSHIRE ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

The following sets forth the plan's funded status and amounts reported in the Cooperative's financial statements at December 31, 2021 and 2020, and for the years then ended:

	<u>2021</u> <u>(000s)</u>	<u>2020</u> <u>(000s)</u>
<u>Benefit obligation and funded status</u>		
Benefit obligation at December 31	\$ (1,113)	\$ (1,267)
Fair value of plan assets at December 31	<u>2,390</u>	<u>2,241</u>
Funded status of the plans	<u>\$ 1,277</u>	<u>\$ 974</u>
<u>Amounts recognized in the balance sheet</u>		
Postretirement assets in other assets	\$ 1,277	\$ 974
Regulatory liability-postretirement benefits	<u>(1,390)</u>	<u>(1,227)</u>

The regulatory liability postretirement benefits were comprised of approximately \$1,390,000 and \$1,227,000 of actuarial gains at December 31, 2021 and 2020, respectively. The Cooperative expects to amortize \$78,673 of the actuarial gain in the regulatory liability in 2022.

	<u>2021</u> <u>(000s)</u>	<u>2020</u> <u>(000s)</u>
Benefit cost	\$ 40	\$ 42
Benefits paid	\$ 222	\$ 96

Weighted-average assumptions as of and for the years ended December 31:

	<u>2021</u>	<u>2020</u>
Discount rate to determine net periodic benefit costs	3.00 %	3.65 %
Discount rate to determine benefit obligation	3.30 %	3.00 %
Expected return on plan assets	3.45 %	4.09 %

Estimated future benefit payments for the next ten years are as follows:

	<u>(000s)</u>
2022	\$ 151
2023	116
2024	119
2025	97
2026	99
2027 - 2031	323

For measurement purposes, a 6.4% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 2022. The rate was assumed to decrease gradually to 5.0% by 2028 and remain level thereafter.

NEW HAMPSHIRE ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Plan Assets

Fund assets are managed in a manner which seeks to achieve the following long-term investment objectives:

- Exceed Inflation – Achieve investment returns that average in excess of the annualized inflation rate, defined as the average annualized compound rate of the Consumer Price Index.
- Meet Actuarial Assumptions – Realize a long-term rate of return that meets or exceeds the assumed actuarial rate as stated in the plan's actuarial report.
- Perform in Line with Benchmark Returns – Realize a long-term rate of return that is in line with appropriate benchmark returns on a risk-adjusted basis for each of the asset classes/funds.
- Fund Plan Operating Needs – Provide sufficient income and liquidity to pay monthly retiree benefits and other liquidity needs.

To develop the expected long-term rate of return on assets assumption, the Cooperative considered the current level of expected returns on risk-free investments, the historical level of risk premium associated with the other asset classes in which the portfolio is invested, and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocations to develop the expected long-term rate of return on assets assumption for the portfolio.

Asset allocation as of December 31 is as follows:

	<u>2021</u>	<u>2020</u>
Bond funds, cash and money market accounts	60 %	56 %
Stock funds	40	44

Investment Strategy

The Trustees of NHEC's postretirement plan assets meet semi-annually to review the performance of the funds. The overall objective is to maintain a balance of 60% in bond funds and 40% in stock funds with investments in a high quality portfolio which:

- Preserves the principal value of the investment portfolio
- Maintains liquidity to meet anticipated cash flows
- Achieves the best available yields consistent with capital preservation and liquidity requirements
- Avoids inappropriate concentrations of investments through diversification

NEW HAMPSHIRE ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

ASC 820, *Fair Value Measurement*, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.
- Level 3: Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Assets that are measured at fair value on a recurring basis are summarized below:

	<u>Fair Value Measurements at December 31, 2021, Using:</u>	
	<u>2021</u>	<u>(Level 1)</u>
	(000s)	(000s)
Postretirement plan assets:		
Cash and Money Market Accounts (a)	\$ 128	\$ 128
Bond Funds:		
Short-term Bond Funds (b)	1,195	1,195
Value Fund (c)	108	108
Stock Funds:		
Stock Index Fund (d)	331	331
Stock Fund (e)	383	383
International Value Fund (f)	<u>245</u>	<u>245</u>
Total	\$ <u>2,390</u>	\$ <u>2,390</u>

NEW HAMPSHIRE ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

	<u>Fair Value Measurements at December 31, 2020, Using:</u>	
	<u>2020</u>	<u>(Level 1)</u>
	(000s)	(000s)
Postretirement plan assets:		
Cash and Money Market Accounts (a)	\$ 37	\$ 37
Bond Funds:		
Short-term Bond Fund (b)	1,107	1,107
Value Fund (c)	108	108
Stock Funds:		
Stock Index Fund (d)	345	345
Stock Fund (e)	363	363
International Value Fund (f)	<u>281</u>	<u>281</u>
 Total	 <u>\$ 2,241</u>	 <u>\$ 2,241</u>

All of the funds listed are managed by Edward Jones.

- (a) Assets in this category are invested in Cash and Money Market (Bloomberg Barclays U.S. Treasury 3-months).
- (b) Assets are invested in U.S. and international high-yield and investment-grade bonds.
- (c) This fund seeks appreciation through a diversified portfolio of U.S. and non-U.S. fixed income securities.
- (d) These funds invest in index funds based on large-cap U.S. equities.
- (e) These funds invest in mid-cap stocks, real estate and U.S. large-cap stocks.
- (f) These funds seek long-term capital appreciation by investing primarily in equity securities traded principally on markets outside the U.S.

9. Operating Leases

The Company primarily leases towers under noncancelable operating leases expiring on various dates through July 2036. The following is a schedule of future minimum lease payments required under the operating leases:

2022	\$ 540,000
2023	545,000
2024	457,000
2025	470,000
2026	474,000
Thereafter	<u>3,965,000</u>
 Total	 <u>\$ 6,451,000</u>

Rent expense under these leases totaled \$490,000 in 2021 and \$470,000 in 2020.

NEW HAMPSHIRE ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

In February 2016, FASB issued Accounting Standards Update No. 2016 02, Leases (Topic 842), requiring an entity to recognize assets and liabilities arising from leases, classified as operating leases under current U.S. GAAP, on the consolidated balance sheets. The updated standard will be effective for annual reporting periods beginning after December 15, 2021. Upon adoption, a modified retrospective approach will be applied. The Company is currently evaluating the effect that the updated standard will have on its consolidated financial statements.

10. Commitments and Contingencies

The Cooperative is involved in various legal proceedings incidental to the conduct of its normal business operations. The Cooperative is involved in a contract dispute in the amount of \$5.3 million and \$2.9 million which is included in other receivables in the 2021 and 2020 balance sheets, respectively. In the opinion of management, these proceedings are not expected to have a material adverse impact on the financial condition of the Cooperative.

NHEC participated in Phase I of the FCC's Rural Digital Opportunity Fund (RDOF) auction as part of the National Rural Telecommunications Cooperative (NRTC) Phase I RDOF Consortium to further expand its broadband services in the State of NH. The NRTC Phase I RDOF Consortium was formed by NHEC and other electric distribution cooperatives in order to participate in the RDOF Auction. The purpose of Phase I of RDOF is to provide funds to connect rural homes and businesses to high-speed broadband networks in unserved areas. Approximately \$9.2 billion was awarded nationwide in Phase I of RDOF through a reverse auction process, of which NHEC was awarded \$6.5 million in December 2020. As of December 31, 2021, the Cooperative has a letter of credit in the amount of approximately \$653,000 in accordance with the RDOF requirement. RDOF funding requires additional investment in plant and equipment to reach target broadband speeds and covered locations. NHEC is to receive universal service funds of approximately \$6.5 million over the program's ten-year support term and expects to fund its fiber-based network build-out over a six-year period. The RDOF auction rules establish construction milestones for the build-out utilizing RDOF funding. Failure to meet those milestones could subject NHEC to financial penalties. The Cooperative would record the effect of changes to RDOF funding support, if applicable, upon notification of such adjustments. The Cooperative expects to comply with the milestones. The Cooperative began receiving monthly funding amounts of approximately \$54,000 in January 2022.

In December of 2021, CFC approved a request for a new loan in the amount of \$75,000,000 for capital construction investment, which can be advanced over a period of five years. The Board of Directors authorized management to enter into this agreement and the Cooperative is currently in the process of executing the loan agreement. No amounts had been advanced as of March 29, 2022.

NEW HAMPSHIRE ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Uncertainty

Most industries are experiencing disruption to business operations due to the global pandemic, COVID-19. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and any government actions to mitigate them. While management cannot quantify the financial and other impact to the Company as of March 29, 2022, management does not believe it will have a material impact on the 2022 financial results of operations.