NEW HAMPSHIRE ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY
PLYMOUTH, NEW HAMPSHIRE

FINANCIAL STATEMENTS AS OF DECEMBER 31, 2022 AND 2021 AND INDEPENDENT AUDITOR'S REPORT

NEW HAMPSHIRE ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

CONTENTS

McNair McLemore Middlebrooks & Co
Certified Public Accountants

389 Mulberry Street | Macon, Georgia 31201
Post Office Box One | Macon, Georgia 31202
478-746-6277 | mmmcpa.com

March 28, 2023

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of **New Hampshire Electric Cooperative, Inc. and Subsidiary**, which comprise the consolidated balance sheets as of December 31, 2022, and the related consolidated statements of operations, changes in members' equity, and cash flows for the year 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 financial position of New Hampshire Electric Cooperative, Inc. and Subsidiary as of December 31, 2022 and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our 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 New Hampshire Electric Cooperative, Inc. and Subsidiary 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 these 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 consolidated 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 New Hampshire Electric Cooperative, Inc. and Subsidiary's ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 judgement and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatements 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 New Hampshire Electric Cooperative, Inc. and Subsidiary'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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about New Hampshire Electric Cooperative, Inc. and Subsidiary'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.

Prior Period Financial Statements

The consolidated financial statements of New Hampshire Electric Cooperative, Inc. and Subsidiary for the year ended December 31, 2021 were audited by other auditors who expressed an unmodified opinion on those statements dated March 29, 2022.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, New Hampshire Electric Cooperative, Inc. and Subsidiary adopted *Accounting Standards Update 2016-02, Leases (ASC 842)* and changed the manner in which it accounts for leases effective January 1, 2022. Our opinion is not modified with respect to this matter.

McNair, McLemore, Middlebrooks & Co., LLC

McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC

NEW HAMPSHIRE ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
DECEMBER 31

ASSETS
(In Thousands)

	2022	2021
Utility Plant		
Utility Plant, at Cost	$ 430,803	$ 406,818
Construction Work in Progress	12,945	8,549
Gross Utility Plant	443,748	415,367
Accumulated Provision for Depreciation	(185,458)	(174,760)
	258,290	240,607
Other Property and Investments		
Investments in Associated Organizations	11,074	11,530
Nonutility Property, Net	3,692	102
Postretirement Benefits Other Than Pensions	-	1,277
Other	923	1,375
	15,689	14,284
Current Assets		
Cash and Cash Equivalents	1,944	110
Accounts Receivable (Net of Accumulated Provision for Uncollectibles of $401 and $416 in 2022 and 2021, Respectively)	28,140	22,445
Materials and Supplies	5,551	4,091
Other	2,490	2,873
	38,125	29,519
Deferred Debits	14,202	9,066
Total Assets	$ 326,306	$ 293,476

See accompanying notes which are an integral part of these financial statements.

NEW HAMPSHIRE ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
DECEMBER 31

EQUITIES AND LIABILITIES
(In Thousands)

	2022	2021
Equities		
Patronage Capital	$ 142,504	$ 140,097
Other Equities	300	300
	142,804	140,397
Long-Term Liabilities		
Long-Term Debt	107,056	89,862
Postretirement Healthcare Obligation	101	-
Long-Term Operating Lease Obligations	4,382	-
	111,539	89,862
Current Liabilities		
Current Maturities of Long-Term Debt	6,022	6,478
Current Maturities of Long-Term Operating Lease Obligations	381	-
Lines-of-Credit	8,136	11,765
Accounts Payable	23,322	16,442
Member Deposits	1,935	1,785
Other Current Liabilities	7,510	6,513
	47,306	42,983
Deferred Credits	24,657	20,234
Total Equities and Liabilities	$ 326,306	$ 293,476

See accompanying notes which are an integral part of these financial statements.

NEW HAMPSHIRE ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31
(In Thousands)

	2022	2021
Operating Revenues	**$ 185,930**	$ 155,000
Operating Expenses		
Cost of Power	**84,822**	54,896
Transmission Expense	**23,279**	25,897
Distribution Operations	**4,968**	5,221
Distribution Maintenance	**14,299**	13,507
Consumer Accounts	**2,403**	1,879
Consumer Service and Information	**115**	123
Administrative and General	**26,127**	28,013
Depreciation and Amortization	**12,901**	11,896
Operating Taxes	**8,433**	7,988
Total Operating Expenses	**177,347**	149,420
Operating Margins Before Interest Expense	**8,583**	5,580
Interest Expense	**4,394**	3,475
Operating Margins After Interest Expense	**4,189**	2,105
Nonoperating Margins	**143**	35
Other Capital Credits and Patronage Allocations	**324**	346
Net Margins	**$ 4,656**	$ 2,486

See accompanying notes which are an integral part of these financial statements.

NEW HAMPSHIRE ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(In Thousands)

	Patronage Capital	**Other Equities**	**Total Members' Equity**
Balance, December 31, 2020	$ 139,613	$ 300	$ 139,913
Net Margins	2,486	-	2,486
Patronage Capital Retirements	(2,002)	-	(2,002)
Balance, December 31, 2021	140,097	300	140,397
Net Margins	4,656	-	4,656
Patronage Capital Retirements	(2,249)	-	(2,249)
Balance, December 31, 2022	**$ 142,504**	**$ 300**	**$ 142,804**

See accompanying notes which are an integral part of these financial statements.

NEW HAMPSHIRE ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31
(In Thousands)

	2022	2021
Cash Flows from Operating Activities		
Net Income	**$ 4,656**	$ 2,486
Adjustments to Reconcile Net Margins to Net Cash		
Provided by Operating Activities		
Depreciation and Amortization	**14,725**	12,743
Patronage Capital from Associated Organizations	**(324)**	(346)
Accumulated Provision for Postretirement Benefits	**1,583**	(81)
Postretirement Benefit Contributions	**(205)**	(222)
Change in Deferred Credits	**(1,373)**	(819)
Change in Deferred Debits	**(5,136)**	(4,847)
Change In		
Accounts Receivable	**(5,695)**	(3,631)
Other Current Assets	**383**	(192)
Accounts Payable	**6,880**	4,732
Member Deposits	**150**	(85)
Other Current Liabilities	**997**	840
	16,641	10,578
Cash Flows from Investing Activities		
Extension and Replacement of Plant	**(39,987)**	(20,005)
Return of Equity from Associated Organizations	**780**	605
Materials and Supplies	**(1,460)**	(249)
Proceeds from Grants	**15,000**	-
Temporary Investments	**-**	900
	(25,667)	(18,749)
Cash Flows from Financing Activities		
Advances of Long-Term Debt	**23,643**	9,515
Principal Payments of Long-Term Debt	**(6,905)**	(6,042)
Lines-of-Credit	**(3,629)**	4,410
Retirement of Patronage Capital	**(2,249)**	(2,002)
	10,860	5,881
Net Increase (Decrease) in Cash and Cash Equivalents	**1,834**	(2,290)
Cash and Cash Equivalents - Beginning	**110**	2,400
Cash and Cash Equivalents - Ending	**$ 1,944**	$ 110

See accompanying notes which are an integral part of these financial statements.

(1) Nature of Operations

New Hampshire Electric Cooperative, Inc. and Subsidiary (the Corporation) provides electric and internet services to residential, businesses, governmental, and industrial customers in certain areas within the State of New Hampshire.

New Hampshire Electric Cooperative, Inc.

New Hampshire Electric Cooperative, Inc. (NHEC) is a member-owned, not-for-profit corporation organized to provide electric service to its members. NHEC operates as a cooperative whereby all monies in excess of the cost of providing electric service are capital, at the moment of receipt, and are credited to each member's capital account. NHEC is currently subject to limited regulation by the New Hampshire Public Utilities Commission (NHPUC). NHEC currently serves approximately 85,000 members throughout 118 communities in New Hampshire.

New Hampshire Broadband, LLC

New Hampshire Broadband, LLC (NHB), a wholly owned subsidiary of NHEC, offers retail broadband services to members and was organized for the purpose of providing fiber-to-the-home broadband access to the full spectrum of online resources, tools, and applications.

(2) Summary of Significant Accounting Policies

Accounting policies of the Corporation reflect practices appropriate to the electric utility industry, retail broadband industry, and generally accepted accounting principles of the United States of America (U.S. GAAP). The records of the Corporation are maintained in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission. The following describes the more significant of those policies.

Consolidation

The consolidated financial statements include the accounts and results of operations of NHEC and its wholly-owned subsidiary, NHB. All significant intercompany transactions have been eliminated in consolidation.

Regulated Operations

NHEC, in its rate-making capacity, has the ability to account for certain revenue and expense deferrals in accordance with *Accounting Standards Codification (ASC) 980.*

In accordance with New Hampshire statute, NHEC members have the option to vote to reduce the level of NHPUC regulation that affects the Corporation. The NHPUC retains limited regulatory jurisdiction for some aspects of NHEC'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.

(2) Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Long-Lived Assets

The Corporation evaluates long-lived assets for impairment when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The determination of whether an impairment has occurred is based on either a specific regulatory disallowance or an estimate of undiscounted future cash flows attributable to the assets, as compared with the carrying value of the assets. If an impairment has occurred, the amount of the impairment recognized is determined by estimating the fair value of the assets and recording a provision for loss if the carrying value is greater than the fair value. For assets identified as held for sale, the carrying value is compared to the estimated fair value less the cost to sell in order to determine if an impairment provision is required. Until the assets are disposed of, their estimated fair value is reevaluated when circumstances or events change.

U.S. GAAP requires the present value of the ultimate cost for an asset's future retirement be recorded in the period in which the liability is incurred. The cost should be capitalized as part of the related long-lived asset and depreciated over the asset's useful life. The Corporation has no legal retirement obligations related to its distribution facilities; therefore, a liability for the removal of these assets will not be recorded. Management believes the actual cost of removal, even though not a legal obligation, will be recovered through rates over the life of the distribution assets.

Utility Plant

Utility plant is capitalized at cost less related contributions in aid of construction. In general, utility plant is capitalized at the time it becomes part of an operating unit and has been energized. However, certain items of plant referred to as special equipment items (meters, oil circuit reclosers, etc.) are capitalized at the time of purchase along with related estimated cost of installation.

Non-Utility Plant

Non-utility plant is capitalized at cost less related contributions in aid of construction. In general, non-utility plant is capitalized at the time it becomes part of an operating unit and is ready to provide related services to members and customers.

(2) Summary of Significant Accounting Policies (Continued)

Leases

The Corporation determines if an arrangement is a lease at inception. Operating leases are included as a component of utility plant as right-of-use (ROU) assets, other current liabilities, and long-term liabilities on the consolidated balance sheets.

ROU assets represent the Corporation's right to use an underlying asset for the lease term, and lease liabilities represent the Corporation's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. As most of the Corporation's leases do not provide an implicit rate, the Corporation uses a risk-free rate based on the information available at the commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Corporation will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

The Corporation's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Depreciation and Maintenance

Depreciation of the capitalized cost is provided using composite rates. When property subject to depreciation is retired or otherwise disposed of in the normal course of business, its capitalized cost and its cost of removal less salvage are charged to the accumulated provision for depreciation.

Provision has been made for depreciation of distribution plant at a weighted average straight-line rate of 3.33 percent per annum, except automated metering equipment which is depreciated at 6.67 percent per annum.

Depreciation of general plant is provided on a straight-line basis over the estimated useful lives of the various assets. The rates range from 2.0 percent to 33.0 percent per annum.

The costs of maintenance, repairs, and replacements of minor items of property are charged to maintenance expense accounts.

Cash and Cash Equivalents

Cash equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less.

(2) Summary of Significant Accounting Policies (Continued)

Accounts Receivable and Credit Policies

Accounts receivable are stated at the amount billed to the consumer. Once an electric consumer's service is shut off and the account is deemed uncollectible, the Corporation writes off the associated accounts receivable. An allowance is made for doubtful accounts based on experience and other circumstances which may affect the ability of members to meet their obligations. Accounts considered uncollectible are charged against the allowance. Delinquent receivables are written off based on individual credit evaluations and specific circumstances of the members. Recoveries of accounts receivable previously written off are recorded against the allowance when received. Receivables are reported on the consolidated balance sheets net of such accumulated allowance.

Credit evaluations are performed on most potential members before accepting them for service. Depending upon the results of the credit evaluation, a deposit may be required. If a member does not pay its bill based on the terms of the Corporation's service agreement, the Corporation may require an additional deposit as a condition of continued service.

Materials and Supplies

Materials and supplies are generally used for construction and for operation and maintenance work and are not for resale. Cost is determined by the moving average method of inventory valuation. Materials and supplies are charged to construction or operations at moving average cost when used.

Patronage Capital and Margins

The Corporation is organized and operates under the cooperative form of organization. As such, patronage capital or margins are allocated to patrons on the basis of individual consumption of electric energy.

Under provisions of the long-term debt agreements, until the total equities and margins equal or exceed 20 percent of the total assets of the Corporation, the return to patrons of capital contributed by them is limited. The Corporation's equities were 43.76 percent and 47.84 percent of total assets as of December 31, 2022 and 2021, respectively.

Revenue Recognition

Electric and broadband revenues are generated from contracts (service agreements) with retail customers and are recognized in accordance with Accounting Standards Update (ASU) 2014-09*, Revenue from Contracts with Customers (Topic 606)*.

Electric revenue, generated from the integrated service to deliver electricity when and if called upon by the customer, is recognized as a single performance obligation satisfied over time and as electricity is delivered to the customer during the month. Unbilled revenue related to retail sales are accrued at the end of each fiscal year. Electric revenue includes patronage capital and is billed monthly to consumers on a cycle basis. Electric rates for NHEC include provisions to permit the board of directors to adjust billing rates for fluctuations in fuel costs, purchased power costs, and certain other costs.

Broadband services are billed monthly to customers on a cycle basis during the month as the service is provided. Unbilled revenue related to retail broadband sales are accrued at the end of each fiscal period.

(2) Summary of Significant Accounting Policies (Continued)

Cost of Purchased Power

NHEC's "Co-op Power" energy service rates reflect estimates of the cost of purchased power, including contract power costs, costs for renewable energy certificates, 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 NHEC 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 New Hampshire statutes.

Investments in Associated Organizations

Investments in associated organizations primarily include investments in other cooperative organizations. Investments in other cooperative organizations represent capital investments made primarily to obtain an economical source of supply, financing, product, or service. Investments in other cooperative organizations are carried at cost plus allocated equities in accordance with *ASC 905-325-30*.

Capital credit allocations from associated organizations are included on the consolidated statement of operations as other capital credits and patronage capital allocations.

Deferred Debits

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 as well as amounts related to postretirement benefits and renewable energy certificates.

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 State of New Hampshire 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 New Hampshire which administers the pooled funds of all jurisdictional utilities.

(2) Summary of Significant Accounting Policies (Continued)

Sales Tax

Certain portions of the Corporation's sales are subject to sales tax imposed by jurisdictions. When required, the Corporation collects sales tax from customers and remits it to applicable jurisdictions. The Corporation's accounting policy is to exclude the tax collected and remitted from revenues and cost of sales.

Income Taxes

NHEC is exempt from federal and state income taxes under Section 501(c)(12) of the Internal Revenue Code (IRC) which provides, in part, that NHEC derive at least 85 percent of its annual gross income from members to retain the exemption. NHEC expects to meet the requirement for the tax year ended December 31, 2022. Accordingly, no provision for income taxes has been made in the consolidated financial statements. Currently, the Corporation's federal information returns for calendar year 2019 and after are subject to examination by the Internal Revenue Service.

NHB is a wholly-owned subsidiary of NHEC and treated as a disregarded entity for tax purposes and the results of its operations are included in NHEC's information return.

Recent Adopted Accounting Pronouncement

In February 2016, the Financial Accounting Standards Board (FASB) issued guidance *ASC 842, Leases* to increase transparency and comparability among organizations by requiring the recognition of ROU assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Corporation adopted the standard effective January 1, 2022, and recognized and measured leases existing at, or entered into after, January 1, 2022 (the beginning of the period of adoption) through a cumulative effect adjustment, with certain practical expedients available. Lease disclosures for the year ended December 31, 2021, are made under prior lease guidance in *ASC 840*.

The Corporation elected the available practical expedients to account for existing capital leases and operating leases as finance leases and operating leases, respectively, under the new guidance without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of capital leases or operating lease would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct cost in the new guidance at lease commencement.

Reclassifications

Certain amounts included in the accompanying consolidated financial statements for the year ended December 31, 2021 have been reclassified from their original presentation to conform to the presentation for the year ended December 31, 2022. The reclassification had no effect on net margins for the year ended December 31, 2021.

(2) Summary of Significant Accounting Policies (Continued)

Subsequent Events

In preparing these consolidated financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through March 28, 2023, the date the consolidated financial statements were available to be issued.

(3) Accounts Receivable, Contract Assets, and Contract Liabilities

Billed receivables and contract assets and contract liabilities are as follows as of December 31, 2022 and 2021:

	(In Thousands)		
	2022	2021	2021
	End of Year	End of Year	Beginning of Year
Billed Receivables, Net of Allowance			
Electric Operations	**$ 23,286**	$ 18,033	$ 14,851
Broadband Operations	**66**	25	**-**
	$ 23,352	$ 18,058	$ 14,851
Contract Assets			
Unbilled Revenue			
Electric Operations	**$ 4,771**	$ 4,387	$ 4,002
Broadband Operations	**17**	-	-
Deferred Debits			
Underrecovery of Wholesale Power Cost	**6,568**	5,664	4,242
Braintree Electric Light Department Bond	**4,183**	-	-
BEA Grant Performance Bond	**970**	-	-
Underrecovery of Regional Access Fees	**-**	1,383	2,257
	$ 16,509	$ 11,434	$ 10,501
Contract Liabilities			
Overrecovery of Energy Efficiency	**$ 2,570**	$ 1,738	$ 1,602
Electric Renewable Portfolio Standard (RPS)	**1,001**	1,058	231
Social and Environmental Responsibilities	**504**	146	49
Overrecovery of Regional Access Fees	**650**	-	-
	$ 4,725	$ 2,942	$ 1,882

(4) Utility Plant

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

	(In Thousands)	
	2022	2021
Distribution Plant	**$ 374,248**	$ 359,997
Generation and Transmission Plant	**5,011**	5,011
Right-of-Use Assets - Financing Lease	**4,675**	-
General Plant	**46,869**	41,810
Electric Plant in Service	**430,803**	406,818
Construction Work in Progress	**12,945**	8,549
	$ 443,748	$ 415,367

(5) Investments in Associated Organizations

Investments in associated organizations consisted of the following as of December 31:

	(In Thousands)	
	2022	2021
National Rural Utilities Cooperative Finance Corporation		
Capital Term Certificates	**$ 3,507**	$ 3,628
Capital Credits	**6,944**	7,281
Other		
Capital Credits	**623**	621
	$ 11,074	$ 11,530

(6) Deferred Debits

Deferred debits are comprised of the following as of December 31:

	(In Thousands)	
	2022	2021
Underrecovery of Wholesale Power Cost	**$ 6,568**	$ 5,664
Braintree Electric Light Department Bond	**4,183**	-
BEA Grant Performance Bond	**970**	-
Voluntary Prepaid Pension Contribution	**283**	961
Storm Restoration - Winter Storm Elliot	**1,918**	-
Underrecovery of Regional Access Fees	-	1,383
Other	**280**	1,058
	$ 14,202	$ 9,066

(7) Deferred Credits

Deferred credits are comprised of the following as of December 31:

	(In Thousands)	
	2022	2021
Regulatory Liability - Postretirement Benefits	**$ -**	$ 1,390
Overrecovery of Tariff Rates	**4,725**	2,942
Deferred Grant CIAC	**5,796**	**-**
Regulatory Liability - Depreciation Study	**14,136**	15,902
	$ 24,657	$ 20,234

In 2018, NHEC revised its depreciation rates for certain utility plant based on the results of a depreciation rate study conducted. The revised depreciation rates reflect longer estimated useful lives and greater net salvage values. As a result of this depreciation rate study, the NHEC reduced accumulated depreciation and amortization and recognized a regulatory liability. The liability is being recognized as depreciation expense annually over a period of twelve years.

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 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.

(7) Deferred Credits (Continued)

During 2022, the New Hampshire Business and Economic Affairs (BEA) Agency entered into an agreement with NHEC for the planning, construction, and installation of all necessary broadband infrastructure and equipment for providing access to broadband for unserved properties in the state of New Hampshire funded by the Coronavirus Capital Projects Fund of the US Department of the Treasury in the amount of $50,000,000. Upon the approval of the agreement by the Governor and Executive Council of New Hampshire, the Corporation received $15,000,000 million. In accordance with practices appropriate to the utility industry, the Corporation applied the funds as contribution in aid of construction to related utility and non-utility plant. The grant funds received in excess of accumulated costs have been recorded as a component of deferred credits.

(8) Patronage Capital

Patronage capital is comprised of the following as of December 31:

	(In Thousands)	
	2022	2021
Assignable	**$ 1,579**	$ 2,486
Assigned	**145,176**	139,613
	146,755	142,099
Cumulative Retirements	**(4,251)**	(2,002)
	$ 142,504	$ 140,097

(9) Debt

Long-Term Debt

Long-term debt consists of mortgage notes payable to the National Rural Utilities Cooperative Finance Corporation (NRUCFC) and the Federal Agricultural Mortgage Corporation (Farmer Mac). The notes are secured by a mortgage agreement among the Corporation, NRUCFC and Farmer Mac. Substantially, all the assets of the Corporation are pledged as security for long-term debt of the Corporation. The notes generally have maturity periods ranging from 7 years to 35 years and are payable on a monthly and quarterly installment basis. The notes contain certain affirmative and negative covenants, including maintenance of certain financial ratios as defined in the agreement. At December 31, 2022 and 2021, the Corporation was in compliance with the covenants.

Holder of Note	Weighted Average Interest Rate as of December 31, 2022	(In Thousands) 2022	2021
NRUCFC - Electric	3.80%	**$ 90,537**	$ 82,733
NRUCFC - Broadband	5.76%	**9,923**	-
NRUCFC - Farmer Mac	4.04%	**12,618**	13,607
		113,078	96,340
Maturities Due Within One Year		**(6,022)**	(6,478)
		$ 107,056	$ 89,862

Principal maturities of long-term debt are as follows:

Year	(In Thousands) Amount
2023	$ 6,022
2024	6,208
2025	6,418
2026	6,647
2027	6,727
Thereafter	81,056
	$ 113,078

(9) Debt (Continued)

Long-Term Debt (Continued)

The Corporation has $115,042,000 in unadvanced loan funds on commitment from NRUCFC as of December 31, 2022. Availability of the funds is contingent on the Corporation's compliance with one or more preconditions set forth in the mortgage agreements.

Cash payments of interest totaled approximately $4,073,000 and $3,721,000 for the years ended December 31, 2022 and 2021, respectively.

Lines-of-Credit

The Corporation has an $20,000,000 unsecured perpetual revolving line-of-credit with NRUCFC at 5.75 percent with an outstanding balance of $4,396,000 and $7,511,000 at December 31, 2022 and 2021, respectively.

The Corporation has an $20,000,000 unsecured revolving line-of-credit with NRUCFC at 5.75 percent with an outstanding balance of $3,641,000 and $-0- at December 31, 2022 and 2021, respectively.

The Corporation also established an $20,000,000 unsecured revolving line-of-credit with NRUCFC at 5.75 percent with an outstanding balance of $99,000 and $4,254,000 at December 31, 2022 and 2021, respectively. The purpose is to provide interim financing for the construction of the broadband project.

Letters-of-Credits

Various NHEC's power supply contract counterparties rely on NHEC's for primary performance credit support. NHEC has executed agreements with NRUCFC for the issuance of letters-of-credit specifically for power supply agreements should primary or back-up collateral be demanded 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, 2022 and 2021, letters-of-credit outstanding under these facilities totaled $6,280,000 and $6,300,000, respectively. Annual fee expenses for the master facility and issuance of these letters approximated $88,000 and $92,000 for December 31, 2022 and 2021, respectively and are recovered through the members rates.

Allowance for Funds Under Construction

The allowance for funds used during constructions 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 Corporation capitalized $315,000 and $178,000 of interest December 31, 2022 and 2021, respectively.

(10) Leases

The Corporation has entered into various lease obligations for towers under direct financing leases. The leased towers have been recorded as right-of-use assets and are amortized on a straight-line basis of 2-15 years.

On January 1, 2022, the Corporation recognized a right-of-use (ROA) asset and lease liability of $6,685,000, which represented the present value of the remaining operating lease payments of $5,153,000, discounted using the risk-free rate of interest of 4.18 percent. There were no material unamortized initial direct costs recorded upon adoption. The $5,153,000 recognition was a non-cash acquisition of an asset obtained in exchange for an operating lease liability.

The lease standard had a material impact on the Corporation's consolidated balance sheet as of December 31, 2022 but did not have an impact on the consolidated statement of operations or statement of cash flows for the year then ended. The most significant impact was the recognition of the ROU asset and lease liability for operating leases.

The charge to rental expense under these leases totaled $578,000 and $481,000 for the years ended December 31, 2022 and 2021, respectively. The discount rate utilized was a risk-free rate of 4.18 percent.

The following is a schedule of future minimum payments required under the leases together with the present value as of December 31, 2022:

Year Ending	**(In Thousands) Amount**
2023	$ 559
2024	461
2025	473
2026	477
2027	492
Thereafter	3,680
Total Minimum Lease Payments	6,142
Less Amount Representing Interest	(1,379)
Present Value of Minimum Lease Payments	$ 4,763

(11) Retiree Benefits

Pension Plan (Defined Benefit)

Pension benefits for substantially all employees of the Corporation are provided through participation in the NRECA RS Plan, a defined benefit plan qualified under Section 401 and tax-exempt under 501(a) of the IRC. The plan sponsor's employer identification number is 53-0116145 and the plan number is 333.

A unique characteristic of a multiemployer 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.

The Corporation's annual contributions to the program represented less than 5 percent of total contributions made to the plan by all participating employers and are equal to the amounts recorded for pension cost. Contributions were $3,055,000 and $2,777,000 for the years ended December 31, 2022 and 2021, respectively.

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 between 65 percent and 80 percent funded at January 1, 2022 and 2021 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.

Pension Plan (Defined Contribution Plan)

The Corporation also provides additional employee benefits to substantially all employees through a sponsored defined contribution Savings Plan (401-k). In this defined contribution plan, the Corporation's contributory portion of costs of this plan totaled $844,000 and $805,000 for the years ended December 31, 2022 and 2021, respectively.

(11) Retiree Benefits (Continued)

Postretirement Healthcare Benefits

The Corporation provides healthcare benefits and life insurance to qualified retirees. The Corporation follows U.S. GAAP for postretirement benefits other than pensions. This standard requires cooperatives to recognize the estimated future cost of providing healthcare and any other postretirement benefits on an accrual basis.

The status of the Corporation's postretirement healthcare plan as of December 31 is detailed as follows:

	(In Thousands)	
	2022	2021
Accumulated Benefit Obligation - Beginning of Year	**$ (1,113)**	$ (1,267)
Service Cost	**(89)**	(40)
Interest Cost	**(76)**	(33)
Changes in Actuarial Assumptions	**(1,082)**	5
Benefits Paid	**205**	222
Accumulated Benefit Obligation - End of Year	**(2,155)**	(1,113)
Fair Value of Plan Assets - Beginning of Year	**2,390**	2,241
Actual Return on Plan Assets	**(336)**	149
Employer Contribution	**(205)**	(222)
Actual Distributions	**205**	222
Fair Value of Plan Assets - End of Year	**2,054**	2,390
Funded Status - End of Year	**$ (101)**	$ 1,277

Amounts recognized on the consolidated balance sheets consisted of the following as of December 31:

	(In Thousands)	
	2022	2021
Noncurrent Assets	**$ -**	$ 1,277
Noncurrent Liabilities	**101**	-
	$ (101)	$ 1,277

(11) Retiree Benefits (Continued)

Postretirement Healthcare Benefits (Continued)

Net postretirement benefit cost consisted of the following for the years ended December 31:

	(In Thousands)	
	2022	2021
Net Postretirement Benefit Cost		
Service Cost	**$ (89)**	$ (40)
Interest Cost	**(76)**	(33)
Amortization of Actuarial Assumptions	**(1,418)**	154
	$ (1,583)	$ 81

Amounts recognized as a component regulatory assets and liabilities:

	(In Thousands)	
	2022	2021
Deferred Actuarial Components - Beginning of Year	**$ 1,210**	$ 1,227
Amortization of Prior Service Cost	**(4)**	(4)
Amortization of Actuarial Gain	**-**	(75)
Actuarial Gain (Loss)	**(1,320)**	62
Deferred Actuarial Components - End of Year	**$ (114)**	$ 1,210

The Corporation's accumulated postretirement benefit obligation and net periodic postretirement benefit cost are calculated using various actuarial assumptions and methodologies. The assumptions include discount rates, medical trend rates, mortality rates, and other factors. Actuarial assumptions are reviewed on an annual basis.

The components of net periodic postretirement benefit cost, other than the service cost component, are included in the line item nonoperating margins for the years ended December 31, 2022 and 2021.

The Corporation has elected to recognize actuarial gains and losses and other changes in obligation as a component of regulatory assets and liabilities. As a result, the Corporation does not recognize other comprehensive income related to actuarial changes in assumptions.

The Corporation does not anticipate contributing funds to the plan during the year ended December 31, 2023, other than the current year amount paid for retirees and directors.

(11) Retiree Benefits (Continued)

Postretirement Healthcare Benefits (Continued)

The following table shows key assumptions used for the measurement of obligations for the plan as of December 31:

Description	2022	2021
Discount Rate on Net Postretirement Benefit Cost	**3.30%**	3.00%
Discount Rate on Net Postretirement Benefit Obligation	**5.50%**	3.30%
Expected Return on Plan Assets	**3.56%**	3.45%
Medical Trend Rate		
Initial	**9.98%**	6.40%
Ultimate	**5.00%**	5.00%
Fiscal Year Reached	**2028+**	2028

The following benefits are expected to be paid:

Year	Amount
2023	$ 328
2024	325
2025	245
2026	210
2027	218

The following tables sets forth the weighted-average asset allocations of the Corporation's postretirement healthcare benefits at December 31, 2022 and 2021.

Year	Cash	Bonds	Equities	Total
2022	**5.00%**	**56.00%**	**39.00%**	**100.00%**
2021	5.00%	55.00%	40.00%	100.00%

The Corporation employs a total-return investment approach whereby a mix of equities and fixed income investments is used to maximize the long-term return of plan assets for a prudent level of risk. The current asset allocation adheres to the Corporation's overall investment strategy for plan assets. Plan assets are measured at fair value (See Note 14).

(12) Commitments and Contingencies

Power Contracts

NHEC procures wholesale energy, capacity, ancillary services, and renewable energy certificates (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 Corporation, 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 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 Corporation 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.

NHEC 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 Certificates (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. Final REC transactions for 2022 are not required to be completed until June 15, 2023, as a function of relevant RPS rules, but the Corporation anticipates meeting its 2022 obligations through unit contracts and REC purchases.

Power Contracts (Continued)

The approximately 33 percent of 2022 RPS obligations that may not be met by REC purchases include Thermal RECs (5 percent) and Class III Biomass and Landfill Gas RECs (28 percent). 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 2022 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 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.

Fiber Network Assets

During 2020, the New Hampshire 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. NHEC was awarded two Grants to provide high-speed broadband internet service to certain unserved properties and received grant proceeds of $3,407,000 and $3,283,000 during 2020. The Corporation 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 $6,690,000 was received in Grants funds and the remaining costs to connect customers are expected to be funded by NHEC.

(12) Commitments and Contingencies (Continued)

Fiber Network Assets (Continued)

During 2022, the BEA Agency entered into an agreement with NHEC for the planning, construction, and installation of all necessary broadband infrastructure and equipment for providing access to broadband for unserved properties in the state of New Hampshire funded by the Coronavirus Capital Projects Fund of the US Department of the Treasury in the amount of $50,000,000. Accordingly, the corporation is responsible for the following:

1. A performance bond for the duration of the Grant Agreement and for 3 months following acceptance of the Project by the State ("Acceptance").
2. Broadband access to Unserved Properties in New Hampshire as identified by NHEC in their response to RFP proposal dated July 29, 2022.
3. Designed to deliver upon completion, service that reliably meets or exceeds symmetrical download and upload speeds of 100 Mbps.
4. Must be completed, including all financial reporting closeout documents as soon as possible, but no later than December 31, 2026.
5. Ongoing operations and maintenance of the system will be the sole responsibility of the NHEC.
6. Low-cost option offered at speeds that are sufficient for a household with multiple users to simultaneously telework and engage in remote learning. Any future, low-cost option mandated by the federal government would negate this requirement.
7. Project and Expenditure Report (P&E): A quarterly report to provide information on the Project funded, obligations, expenditures, project status, outputs, performance indicators, address list modifications, and other information.

Contingencies

NHEC is involved in various legal proceedings incidental to the conduct of its normal business operations. The NHEC is involved in a contract dispute in the amount of $8.7 million and $5.3 million which is included in accounts receivable in the 2022 and 2021 consolidated 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 Corporation.

(13) Concentrations of Credit Risk

Financial instruments that potentially subject the Corporation to concentrations of credit risk consist principally of cash and cash equivalents and consumer accounts receivable. The Corporation maintains its cash balances in financial institutions; cash balances throughout the year periodically exceed federally insured deposit limits of $250,000. At December 31, 2022, the amount exceeding insured limits totaled $2,426,000.

The Corporation serves consumers in the state of New Hampshire. The geographic concentration of the Corporation's consumers results in a concentration of credit risk with respect to the collection of accounts receivable. Credit evaluations are performed on most potential customers before accepting them for service. Depending upon the results of the credit evaluation, a deposit may be required.

(14) Fair Value of Financial Instruments

Fair Value Hierarchy

The Corporation records certain financial and nonfinancial assets using fair value measurements. The Corporation uses a hierarchical disclosure framework that prioritizes the level of market price observability to measure investments at fair value.

The guidance establishes a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value as follows:

- Level 1. Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Corporation has the ability to access.
- Level 2. Valuations based on quoted market prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities.
- Level 3. Valuations based on inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following valuation techniques are used to estimate the fair value of each class of financial instrument:

(1) *Market approach*. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities (including a business) and deriving fair value based on these inputs.

(2) *Income approach*. The income approach uses valuation techniques to convert future amounts (for example, cash flows or earnings) to a single present amount (discounted). The measurement is based on the value indicated by current market expectations about those future amounts.

(3) *Cost approach.* The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (often referred to as current replacement cost). This approach assumes that the fair value would not exceed what it would cost a market participant to acquire or construct a substitute asset or comparable utility, adjusted for obsolescence.

		(In Thousands)	
Description	**Level**	**December 31, 2022**	December 31, 2021
Postretirement Benefit Plan Assets	(1)		
Cash and Money Markets		**$ 96**	$ 128
Short-Term Bond Fund		**1,065**	1,195
Stock Index Fund		**254**	331
Value Fund		**101**	108
Small-Company Stock Fund		**326**	383
International Value Fund		**212**	245
		$ 2,054	$ 2,390

(15) Reclassifications

The following table sets forth the reclassifications made for the year ended December 31, 2021 from their original presentation:

	December 31, 2021 Orginal Presentation	Effect of Reclassification Entries	December 31, 2021 Comparable Presentation
Consolidated Statements of Operations Reclassification (In-Thousands)			
Operating Expenses	$ 149,357	$ (149,357)	$ -
Cost of Power	-	54,896	54,896
Transmission Expense	-	25,897	25,897
Distribution Operations	-	5,221	5,221
Distribution Maintenance	-	13,507	13,507
Consumer Accounts	-	1,879	1,879
Consumer Service and Information	-	123	123
Administrative and General	-	28,013	28,013
Depreciation and Amortization	-	11,896	11,896
Operating Taxes	-	7,988	7,988
Interest and Other Deductions	3,538	(63)	3,475
Total	**$ 152,895**	**$ -**	**$ 152,895**
Consolidated Statements of Cash Flows Reclassification (In-Thousands)			
Change in Deferred Debits	$ (5,150)	$ 303	$ (4,847)
Accumulated Provision for Postretirement Benefits	-	(81)	(81)
Postretirement Benefit Contributions	-	(222)	(222)
Total	**$ (5,150)**	**$ -**	**$ (5,150)**