VCET

Vermont Seed Capital Fund, LP

Investing in Entrepreneurs since May 2010

FINANCIAL STATEMENTS
JUNE 30, 2023 and 2022

davis & hodgdon
CPAs

VERMONT SEED CAPITAL FUND, L.P.

FINANCIAL STATEMENTS

JUNE 30, 2023 and 2022

C O N T E N T S

	Page
INDEPENDENT AUDITOR'S REPORT	1 -2
FINANCIAL STATEMENTS	
Statements of Assets, Liabilities and Partners' Capital	3
Statements of Operations	4
Statements of Changes in Partners' Capital	5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 14

INDEPENDENT AUDITOR'S REPORT

To the General and Limited Partners of
Vermont Seed Capital Fund, L.P.
Burlington, Vermont

We have audited the accompanying financial statements of Vermont Seed Capital Fund, L.P. (a limited partnership) which comprise the statements of assets, liabilities, and partners' capital as of June 30, 2023 and 2022, and the related statements of operations, changes in partners' capital, and cash flows for the years then ended, and related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Vermont Seed Capital Fund, L.P. as of June 30, 2023 and 2022, and the results of its operations and its 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Vermont Seed Capital Fund, L.P. 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 financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Vermont Seed Capital Fund, L.P.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements 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.

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Vermont Seed Capital Fund, L.P.'s internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Vermont Seed Capital Fund, L.P.'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.

Davis & Hodgdon Associates CPAs, PLC

Williston, Vermont
September 5, 2023

VERMONT SEED CAPITAL FUND, L.P.

STATEMENTS OF ASSETS, LIABILITIES AND PARTNERS' CAPITAL
June 30, 2023 and 2022

	2023	2022
ASSETS		
CURRENT ASSETS		
Cash	$ 834,043	$ 557,796
Prepaid expenses	10,126	8,006
Total current assets	844,169	565,802
OTHER ASSETS		
Investments in portfolio securities, at fair value	7,949,156	8,594,548
Accrued interest, convertible notes	33,289	37,710
Total other assets	7,982,445	8,632,258
Total assets	$ 8,826,614	$ 9,198,060
LIABILITIES AND PARTNERS' CAPITAL		
CURRENT LIABILITIES		
Due to related parties	$ 11,578	$ --
Total liabilities	11,578	--
PARTNERS' CAPITAL	8,815,036	9,198,060
Total liabilities and partners' capital	$ 8,826,614	$ 9,198,060

See Independent Auditor’s Report and Notes to Financial Statements.

VERMONT SEED CAPITAL FUND, L.P.

STATEMENTS OF OPERATIONS
For the Years Ended June 30, 2023 and 2022

	2023	2022
INVESTMENT INCOME		
Interest income	$ 50,254	$ 9,708
Realized investment gain (loss)	1,065,952	--
Total investment income	1,116,206	9,708
EXPENSES		
Management fees	121,601	121,601
Insurance	10,835	10,263
Professional fees	10,619	14,660
Franchise tax	250	250
Bank service fees	105	--
Total expenses	143,410	146,774
Net investment income (loss) before unrealized gain (loss)	972,796	(137,066)
OTHER INCOME (LOSS)		
Unrealized investment gain (loss) arising during the current period	(1,357,196)	4,305,674
Net investment income (loss)	$ (384,400)	$ 4,168,608

See Independent Auditor’s Report and Notes to Financial Statements.

VERMONT SEED CAPITAL FUND, L.P.

STATEMENTS OF CHANGES IN PARTNERS' CAPITAL
For the Years Ended June 30, 2023 and 2022

	General Partner	Limited Partners		
	VCET Capital Corporation	VCET Capital Investors, Inc.	VEDA Capital Investors, LLC	Total
BALANCE, July 1, 2021	$ --	$ 811,410	$ 3,318,042	$ 4,129,452
Capital contributions	--	900,000	--	900,000
Net investment gain (loss)	--	1,303,941	2,864,667	4,168,608
BALANCE, June 30, 2022	$ --	$ 3,015,351	$ 6,182,709	$ 9,198,060
BALANCE, July 1, 2022	$ --	$ 3,015,351	$ 6,182,709	$ 9,198,060
Capital contributions	--	--	1,376	1,376
Net investment gain (loss)	--	(120,240)	(264,160)	(384,400)
BALANCE, June 30, 2023	$ --	$ 2,895,111	$ 5,919,925	$ 8,815,036

See Independent Auditor’s Report and Notes to Financial Statements.

VERMONT SEED CAPITAL FUND, L.P.

STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net investment gain (loss)	$ (384,400)	$ 4,168,608
Adjustments to reconcile change in investment gain (loss) to net cash provided by operating activities		
Realized and unrealized (gain) loss on investments	291,244	(4,305,674)
Changes in:		
Accounts receivable	--	2,492
Prepaid expenses	(2,000)	(752)
Investments in portfolio securities	354,148	(631,043)
Accrued interest	4,421	(8,209)
Due to related parties	11,458	2,011
Net cash provided (used) by operating activities	274,871	(772,567)
CASH FLOWS FROM FINANCING ACTIVITIES		
Limited Partner capital contributions	1,376	900,000
Net cash provided by financing activities	1,376	900,000
Net change in cash and cash equivalents	276,247	127,433
Cash and cash equivalents, beginning of year	557,796	430,363
Cash and cash equivalents, end of year	$ 834,043	$ 557,796

See Independent Auditor’s Report and Notes to Financial Statements.

Note 1. Nature of Operations and Summary of Significant Accounting Policies

Nature of operations

Vermont Seed Capital Fund, L.P. (the Partnership), is a limited partnership formed under the laws of Vermont on March 11, 2010. The General Partner of Vermont Seed Capital Fund, L.P., is VCET Capital Corporation (the General Partner).

The Partnership is organized: (1) to increase the amount of investment capital provided to firms within the State of Vermont and to support job creation and preservation in the State of Vermont; (2) to acquire, directly or indirectly, hold for investment, convert and distribute or otherwise dispose of Portfolio Investments and other Securities in accordance with the Entrepreneurs' Seed Capital Fund as set for in the Fund Act promulgated by the Vermont legislature; (3) to provide favorable investment returns to the Partners; and (4) carry on any other activities necessary in connection with or incident to the foregoing.

Key partnership performance objectives include: (1) generating a sufficient market financial return in order to revolve the fund, after expenses and any distributions; (2) creating jobs and positive payroll impact in the Vermont business community; (3) adequately leveraging the Fund's capital; and (4) creating positive synergies with Vermont businesses, the State's economy, Vermont colleges and universities, and other venture capital firms looking to invest in Vermont businesses.

The Partnership Agreement states that the Partnership shall terminate on December 31, 2060, unless otherwise extended or terminated earlier by the General Partner with consent of a majority-in-interest of the limited partners, as defined.

Advisory board and investment committee

Prior to making its first investment, the Partnership created an advisory board consisting of five members: two appointed by the Limited Partners, two members appointed by the General Partner, and one member appointed jointly by the Limited and General Partners. The Advisory Board provides non-binding advice and recommendations and represents the economic interests of the State of Vermont with respect to the management of the Partnership. The Partnership advises the Advisory Board of investments made and provides access to all information held by the Partnership with respect to investments. The General Partner also appoints an investment committee of at least three people qualified to make investment decisions on behalf the General Partner and the Partnership. A majority approval of investment committee members is required for any investment to be made with Partnership assets.

A summary of significant accounting policies follows:

Basis of accounting

The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under the accrual basis of accounting, revenues are recorded as earned and expenses are recorded at the time liabilities are incurred.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Recently adopted accounting standards

In August 2018, the FASB issued Accounting Standards Update (ASU 2018-13), Fair Value Measurements (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement (ASU 2018-13). This standard no longer requires the disclosure of the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy. For investments in certain entities that calculate net asset value, the requirement to disclose the estimated period of time over which the underlying assets might be liquidated is modified to only require disclosure if the investee has communicated the timing to the Organization or announced the timing publicly. Effective July 1, 2020, the Organization adopted the standard. The adoption of the standard did not have a material impact on the Organization’s financial statements. There was no cumulative effect of adoption of the standard.

In February 2016, FASB issued Accounting Standards Update (ASU) 2016-02, Leases (Topic 842). The standard provides that non-profit entities recognize lease assets and lease liabilities on the balance sheet and disclose key information about leasing arrangements. Effective July 1, 2022, the Organization will be required to record lease assets and offsetting lease liabilities for all leasing arrangements with a term of more than twelve months. The adoption of the standard is not expected to have a material impact on the Organization’s financial statements.

Cash and cash equivalents

The Organization considers all investments with an original maturity of three months or less to be cash and cash equivalents.

Income taxes

The company files its income tax returns as a partnership for federal and state income tax purposes, and thus no income tax expense has been recorded in the statements. Each member separately accounts for their pro-rata shares of the Partnership’s items of income, deduction, loss and credits.

Accounting for uncertain tax positions

The Partnership files income tax returns in the U.S. Federal jurisdiction and the State of Vermont. The Company is no longer subject to U.S. Federal income tax examination by authorities for the years prior to June 30, 2020. With respect to the State of Vermont, with limited exceptions, the Partnership is no longer subject to examination by authorities prior to June 30, 2020. In the normal course of business, the Partnership is subject to examination by various taxing authorities. Although the outcome of tax examinations is always uncertain, the Partnership believes that there are no significant unrecognized tax liabilities at June 30, 2023.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Allocation of profits and losses

In accordance with the Partnership agreement, the general rule (subject to modification, as defined) is that net income (and items thereof) and net loss (and items thereof) for any fiscal year shall be allocated among the Partners in a manner such that the capital account of each Partner, immediately after giving effect to such allocation, is, as nearly as possible, equal (proportionately) to the amount equal to the distributions that would be made to such Partner during such fiscal year, as defined, if (1) the Partnership were dissolved and terminated; (2) its affairs were wound up and each Partnership asset was sold for cash equal to its book value; (3) all Partnership liabilities were satisfied; and (4) the net assets of the Partnership were distributed to the Partners immediately after giving effect to such allocation. For purposes of this calculation, the Partnership will assume that the net assets are distributed and not reinvested in the Partnership. The General Partner may, in its discretion, make such other assumptions (whether or not consistent with the above assumptions) as it deems necessary or appropriate in order to effectuate the intended economic arrangement of the Partners so that capital accounts are maintained in accordance with Section 704(b) of the Internal Revenue Code.

Distributions

The General Partner, at its sole discretion, can make distributions of distributable cash, as defined, to the partners in a priority of (1) return of capital to the Limited Partners, (2) return of capital to the General Partner, (3) carried ownership interest of the Limited Partners and the General Partner, all as computed and defined in the partnership agreement. Certain distributions require reinvestments in the partnership as additional capital contributions, as defined.

Fair value measurements

Professional literature defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The guidance states that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions market participants would use in pricing the asset or liability under current market conditions at the measurement date. As a basis for considering market participant assumptions in fair value measurements, the guidance establishes a fair value hierarchy that is based on the subjectivity of inputs.

It distinguishes between observable inputs (Levels 1 and 2) which are either observable form market data or corroborated by observable market data and those that are unobservable (Level 3).

Three levels of inputs that may be used to measure fair value are as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities that are traded in an active exchange market.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Fair value measurements (continued)

Level 2 – Inputs other than quoted prices included in Level 1 that are observable, either directly or indirectly. Such inputs may include quoted prices for similar assets, observable inputs include quoted prices (interest rates, yield curves, etc.) or inputs derived principally from or corroborated by observable market data by correlation or other means. This category generally includes certain U.S. Government and agency mortgage-backed debt securities and alternative investments using net asset value (NAV) per share for which the Partnership has the ability to redeem its investment at or close to the measurement date.

Level 3 – Inputs are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. The inputs reflect the Partnership's assumptions based on the best information available in the circumstances. This category generally includes certain private debt and equity instruments, alternative investments where the investee at NAV per share or the redemption date is not close to the measurement date. This category also includes investments held in trust where the Partnership is not the trustee and the beneficial interest is in perpetual trust.

All long term investments (see Note 3.) have been valued in accordance with the definition of Level 3 inputs as described above.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair value. Furthermore, although the Partnership believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Use of estimates

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

Subsequent events

Subsequent events have been evaluated through September 5, 2023, which is the date the financial statements were issued.

Note 2. Investments

Investments are stated at fair value and consisted of the following at:

	Cost	Unrealized Gain (Loss)	Market Value
June 30, 2023			
Equity Investments	$ 2,003,379	$ 5,020,777	$ 7,024,156
Convertible Notes	925,000	--	925,000
Total investments	$ 2,928,379	$ 5,020,777	$ 7,949,156
June 30, 2022			
Equity Investments	$ 1,827,818	$ 6,391,730	$ 8,219,548
Convertible Notes	375,000	--	375,000
Total investments	$ 2,202,818	$ 6,391,730	$ 8,594,548

All of the Partnership's investments in portfolio securities are illiquid interests in early stage, high risk, U.S companies mainly located in the state of Vermont. Investments consist of equity investments (including common and preferred stock and other equity investments) and four convertible promissory notes with interest rates of 6% and 7%.

The following schedule summarizes the net return on investments reported in the Statement of Operations for the years ended June 30:

	2023	2022
Realized investment gain	$ 1,065,952	$ --
Unrealized investment gain (loss)	(1,357,196)	4,305,674
Interest accrued and received on portfolio securities	50,254	9,708
Net return on investments	$ (240,990)	$ 4,315,382

Note 3. Fair Value Measurements – Investments

The table below segregates all financial assets and liabilities as of June 30, 2023 and 2022 that are measured at fair value on a recurring basis (at least annually) into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date: (Level 3 as described in Note 1.)

	2023	2022
Equity Investments	$ 7,024,156	$ 8,219,548
Convertible Notes	925,000	375,000
Total investments	$ 7,949,156	$ 8,594,548

In addition to quoted market prices in active markets, valuation techniques for Level 3 inputs included:

Level 3 investments were valued by the General Partner utilizing valuation metrics specific to the investment and the industry in which it operates. The Partnership's investment has been classified within Level 3 as it has unobservable inputs, as they trade infrequently or not at all. The Level 3 investments currently include convertible notes, common and preferred stock, warrants for common stock and equity interests in limited liability companies. When observable prices are not available for these securities, the General Partner uses one or more valuation techniques (e.g., the market approach, the income approach or, the cost approach) for which sufficient and reliable data is available. Within Level 3, the use of the market approach generally consists of using comparable market transactions, while the use of the income approach generally consists of the net present value of estimated future cash flows, adjusted as appropriate for liquidity, credit, market, and/or other risk factors.

The inputs used by the General Partner in estimating the value of Level 3 investments include the original transaction price, recent transactions in the same or similar instruments, completed or pending third-party transactions in the underlying investment or comparable issuers, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity or debt capital markets, and changes in financial ratios or cash flows. Level 3 investments may also be adjusted to reflect illiquidity and/or non-transferability, with the amount of such discount estimated by the General Partner in the absence of market information.

The fair value measurement of Level 3 investments does not include transaction costs that may have been capitalized as part of the security's cost basis. Assumptions used by the General Partner due to the lack of observable inputs may significantly impact the resulting fair value and therefore the Partnership's results of operations.

The General Partner, along with an independent investment committee, meet semi-annually to conduct an investment review whereby the fair value methodology is applied and investments are adjusted.

Note 3. Fair Value Measurements – Investments (continued)

The table below sets forth a summary of changes in the fair value of the Partnership's Level 3 investment assets for the year ended June 30:

	2023	2022
Beginning balance	$ 8,594,548	$ 3,657,831
Realized and unrealized gain (loss) on investments	(291,244)	4,305,674
Purchases	1,117,927	631,043
Return of capital received	(1,472,075)	--
Ending balance	$ 7,949,156	$ 8,594,548

Note 4. Management Fee and Other Partnership Expenses

The Partnership Agreement provides for the payment of a quarterly management fee to the General Partner of 2% of the aggregate capital contributions to the Partnership, including any reinvestments of distributable cash to the Partnership.

As manager, the General Partner bears all normal operating costs and expenses incurred in connection with the management of the Partnership; the Partnership bears all costs and expenses incurred in the purchase, holding, sale or exchange of securities, as well as interest on indebtedness incurred by the Partnership, certain legal and accounting fees and other expenses which are specifically defined in the Partnership Agreement.

Note 5. Related Party Transactions

Pursuant to the Partnership Agreement the Partnership incurred management fees for services provided by the General Partner in the amount of $121,601 for each of the years ended June 30, 2023 and 2022, respectively. There were no outstanding management fees due to the General partner at June 30, 2023 and 2022.

Occasionally the Partnership will advance funds to or borrow funds from related parties. The amount outstanding due from VEDA at June 30, 2023 was $1,376, while there was no amount owed at June 30, 2022. The amount outstanding due to VCET at June 30, 2023 was $12,954, while there was no amount owed at June 30, 2022.

Note 6. Concentration of Credit Risk

Bank balances are insured by the Federal Deposit Insurance Corporation (FDIC). At various times during the year Vermont Seed Capital Fund, L.P. may maintain its balance with one financial institution in excess of the federally insured limit.

Note 7. Reclassifications

Certain amounts for the year ended June 30, 2022 have been reclassified for comparative purposes to conform to the presentation used in the June 30, 2023 financial statements. The reclassifications have no effect on partners' capital for the year ended June 30, 2022.

Note 8. Financial Highlights

The Partnership is required to disclose certain financial highlights for the common interest in the Partnership (i.e., the Limited Partners' interest). These financial highlights consist of the operating expenses and net investment loss ratios for the period ended June 30, 2023 and the Internal Rate of Return since inception (IRR) of the Limited Partners, net of all fees and profit allocations (carried interest) to the General Partner, through June 30, 2023. The following summarizes the Limited Partners' financial highlights:

	2023	2022
Net investment income (loss) ratio	-4.27%	62.56%
Operating expense ratio	1.59%	2.20%
Cumulative IRR	3.33%	4.07%

The net investment loss and operating expense ratios are computed as a percentage of average partners' capital. The IRR was computed based on the actual dates of cash inflows (capital contributions), outflows (cash distributions), and the balance at the end of the year (residual value) of the Limited Partners' capital account as of the measurement date.

These financial highlights might not be indicative of the future performance of the Partnership. An individual partner's return may vary from this calculated return based on the timing of capital transactions.

Note 9. Subsequent Events

Subsequent to June 30, 2023 year end, an investment holding currently carried at no FMV has experienced a market financing transaction which will have significant positive unrealized gain impacts on the Fund in its current fiscal year.