

Vermont Electric Cooperative, Inc.

FINANCIAL STATEMENTS

December 31, 2023

Vermont Electric Cooperative, Inc.
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Kittell Branagan & Sargent

Certified Public Accountants

Vermont License # 167

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Vermont Electric Cooperative, Inc.
Johnson, Vermont

Opinion

We have audited the accompanying financial statements of Vermont Electric Cooperative, Inc. (a nonprofit member owned cooperative), which comprise the balance sheets as of December 31, 2023 and 2022, and the related statements of operations, equities and cash flows for the years then ended, and the 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 Electric Cooperative, Inc. as of December 31, 2023 and 2022, and the changes in its net assets and its 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 audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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 Electric Cooperative, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 Electric Cooperative, Inc.'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, including omissions, 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 generally accepted auditing standards and Government 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 Electric Cooperative, Inc.'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 Electric Cooperative, Inc.'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.

Other Matters – Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2024, on our consideration of Vermont Electric Cooperative, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Vermont Electric Cooperative, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Vermont Electric Cooperative, Inc.'s internal control over financial reporting and compliance.

Kittell, Branagan + Sargent

St. Albans, Vermont
March 15, 2024

Vermont Electric Cooperative, Inc.
BALANCE SHEETS
December 31,

<u>ASSETS</u>	<u>2023</u>	<u>2022</u>
ELECTRIC PLANT, at cost	\$ 209,086,416	\$ 203,457,949
Less accumulated depreciation	<u>(70,267,023)</u>	<u>(65,662,829)</u>
Electric plant in service, net	138,819,393	137,795,120
Construction work in progress	<u>5,771,762</u>	<u>3,295,238</u>
TOTAL ELECTRIC PLANT, net	<u>144,591,155</u>	<u>141,090,358</u>
 CURRENT ASSETS		
Cash	1,114,944	170,654
Accounts receivable, net of allowance of \$90,607 and \$28,003 at December 31, 2023 and 2022, respectively	11,872,103	10,274,856
Unbilled revenue	5,903,176	5,609,559
Inventories	7,331,544	6,278,912
Prepaid expenses	<u>1,200,925</u>	<u>862,742</u>
TOTAL CURRENT ASSETS	<u>27,422,692</u>	<u>23,196,723</u>
 OTHER ASSETS		
Nonutility property	65,697	65,697
Other investments	<u>49,652,519</u>	<u>47,212,356</u>
TOTAL OTHER ASSETS	<u>49,718,216</u>	<u>47,278,053</u>
 TOTAL ASSETS	 <u>\$ 221,732,063</u>	 <u>\$ 211,565,134</u>
	 <u>LIABILITIES AND EQUITY</u>	
 EQUITIES		
Patronage capital assignable	\$ 91,193,164	\$ 88,041,883
Other equities	<u>2,863,627</u>	<u>2,568,266</u>
NET EQUITY	<u>94,056,791</u>	<u>90,610,149</u>
 LONG-TERM DEBT	 <u>93,758,532</u>	 <u>87,376,121</u>
 DEFERRED COMPENSATION PLAN	 <u>417,243</u>	 <u>346,344</u>
 CURRENT LIABILITIES		
Current portion of long-term debt	5,411,331	5,305,714
Revolving debt	12,405,952	11,000,000
Accounts payable	11,071,817	9,502,368
Customer deposits	1,753,584	1,913,765
Deferred credits	6,894	372,519
Other regulatory liabilities	-	1,388,600
Deferred grant revenues	-	301,404
Other accrued expenses	<u>2,849,919</u>	<u>3,448,150</u>
TOTAL CURRENT LIABILITIES	<u>33,499,497</u>	<u>33,232,520</u>
 TOTAL LIABILITIES AND EQUITY	 <u>\$ 221,732,063</u>	 <u>\$ 211,565,134</u>

See Accompanying Notes to Financial Statements.

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

	<u>2023</u>	<u>2022</u>
OPERATING REVENUE	\$ <u>93,940,820</u>	\$ <u>86,211,396</u>
OPERATING EXPENSES		
Purchased power	45,398,845	43,234,173
Transmission:		
Operations	15,136,980	13,890,842
Maintenance	316,647	552,934
Distribution:		
Operations	7,484,542	7,472,336
Maintenance	8,877,763	7,948,583
Customer accounts	2,959,641	2,642,415
Administrative and general	4,944,711	4,531,906
General plant maintenance	331,765	322,356
Depreciation	6,547,439	6,499,618
Taxes	911,876	835,137
Other deductions, net	-	18,932
TOTAL OPERATING EXPENSES	<u>92,910,209</u>	<u>87,949,232</u>
INCOME (LOSS) FROM OPERATIONS	<u>1,030,611</u>	<u>(1,737,836)</u>
OTHER INCOME		
Gain on sale of fixed assets	1,700	1,000
Other income	50,043	116,456
PPP loan income	1,388,600	1,200,000
Interest and dividend income	5,470,973	5,490,013
Other capital credits & dividends	628,343	672,506
TOTAL OTHER INCOME	<u>7,539,659</u>	<u>7,479,975</u>
NET INCOME BEFORE INTEREST CHARGES	<u>8,570,270</u>	<u>5,742,139</u>
INTEREST CHARGES		
Interest on long-term debt	4,127,698	3,582,537
Other interest	310,066	244,803
TOTAL INTEREST CHARGES	<u>4,437,764</u>	<u>3,827,340</u>
NET INCOME	<u>\$ 4,132,506</u>	<u>\$ 1,914,799</u>

See Accompanying Notes to Financial Statements

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

	Other Equities					Total
	Capital Assignable	Retired Credits	Donated Capital	Postretirement Medical & Life Plan	Earnings (Losses)	
BALANCE, at December 31, 2021	\$ 87,995,992	\$ 1,764,162	\$ 214,645	\$ 73,949	\$ -	\$ 90,048,748
Net income for the year	-	-	-	-	1,914,799	1,914,799
Transfer to patronage capital assignable	1,914,799	-	-	-	(1,914,799)	-
Retirement of capital credits	<u>(1,868,908)</u>	<u>515,510</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,353,398)</u>
BALANCE, at December 31, 2022	88,041,883	2,279,672	214,645	73,949	-	90,610,149
Net income for the year	-	-	-	-	4,132,506	4,132,506
Transfer to patronage capital assignable	4,132,506	-	-	-	(4,132,506)	-
Retirement of capital credits	<u>(981,225)</u>	<u>295,361</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(685,864)</u>
BALANCE, at December 31, 2023	<u>\$ 91,193,164</u>	<u>\$ 2,575,033</u>	<u>\$ 214,645</u>	<u>\$ 73,949</u>	<u>\$ -</u>	<u>\$ 94,056,791</u>

See Accompanying Notes to Financial Statements

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

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 4,132,506	\$ 1,914,799
Noncash expenses (income) included in earnings:		
Depreciation	6,823,908	7,029,221
Amortization	17,152	34,308
Gain on sale of fixed assets	(1,700)	(1,000)
Changes in assets and liabilities:		
Increase in accounts receivable	(1,890,864)	(3,642,485)
Increase in inventories	(1,052,632)	(543,913)
Increase in prepaid expenses	(338,183)	(165,323)
Increase in accounts payable	1,569,449	1,233,449
Decrease in customer deposits	(160,181)	(16,244)
(Decrease)/Increase in accrued expenses	(598,231)	426,952
(Decrease) in deferred grant revenues	(301,404)	-
(Decrease) in other regulatory liabilities	(1,388,600)	(1,200,000)
(Decrease) in deferred credits	<u>(365,625)</u>	<u>(366,494)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>6,445,595</u>	<u>4,703,270</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to electric plant in service and construction work in progress	(10,323,805)	(10,309,846)
Proceeds from sale of electric plant in service	800	1,000
Return on capital investments	(241,994)	(272,764)
Purchase of investments	<u>(2,127,270)</u>	<u>927,740</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(12,692,269)</u>	<u>(9,653,870)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term borrowings	12,000,000	12,000,000
Principal payments to creditors related to long-term borrowings	(5,529,124)	(5,294,786)
Net borrowing (payment) on line of credit	1,405,952	(636,007)
Patronage capital retired, net	<u>(685,864)</u>	<u>(1,353,398)</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>7,190,964</u>	<u>4,715,809</u>
NET INCREASE (DECREASE) IN CASH	944,290	(234,791)
CASH - Beginning of Year	<u>170,654</u>	<u>405,445</u>
CASH - End of Year	<u>\$ 1,114,944</u>	<u>\$ 170,654</u>

See Accompanying Notes to Financial Statements

Vermont Electric Cooperative, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2023

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Vermont Electric Cooperative, Inc. (VEC or the Cooperative) is a rural electric cooperative utility established under the laws of the state of Vermont (VT). The Cooperative is subject to regulation by the Federal Energy Regulatory Commission (FERC) and its operations are under the jurisdiction of the Vermont Public Utility Commission (PUC). The PUC has the primary responsibility of regulating the Cooperative's rates. VEC is a distribution cooperative, providing residential and commercial electrical service to members in the State of Vermont.

Regulatory Accounting

The Cooperative utilizes the Uniform System of Accounts established by the Rural Utilities Service (RUS), except where the PSB has prescribed other treatment. In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 980, *Regulated Operations*, the Cooperative records certain assets and liabilities in accordance with the economic effects of the rate making process.

Revenue Recognition

The Cooperative recognizes revenue for electric service in the month that service is rendered. This method of recognizing operating revenue is consistent with industry practice.

Unbilled Revenue

The Cooperative records unbilled revenue for the amount of electricity consumed from the last meter reading date to the last day of the year.

Electric Plant

Electric plant is stated at cost. Proceeds from members, developers, and grant sources for electric plant are treated as contributions in aid of construction, which reduce the cost of the additions. During 2023 and 2022, the Cooperative received \$4,816,820 and \$3,197,995, respectively, in contributions in aid of construction.

The Cooperative employs the straight-line and straight-line composite methods for determining the annual charge for depreciation. Under RUS accounting, a portion of depreciation expense on transportation equipment is allocated to transmission and distribution expense.

Maintenance and repairs are charged to expense as incurred. When assets are retired or otherwise disposed of, the costs are removed from plant, and such costs, plus removal costs, less salvage, are charged to accumulated depreciation.

Cash and Cash Equivalents

The Cooperative considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. During the years ended December 31, 2023 and 2022 the Cooperative had cash balances at two local financial institutions. The FDIC insures up to \$250,000 held at each of these institutions and in both years any excess of the \$250,000 was covered in full by a repurchase agreement.

Investments

Investments in stock of associated companies and other investments are stated at cost. Because these investments are not publicly traded, market values are not readily determinable.

Vermont Electric Cooperative, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2023

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Receivables and Credit Policies

Accounts receivable consist primarily of noninterest-bearing amounts due from energy sales with members. The Cooperative determines the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. The Cooperative has historically allowed for the greater of unpaid balances over 90 days or .1% of electric sales revenues. The Cooperative also considers an allowance for any balances in other accounts receivable however many of the amounts with exception for REC sales and interest and dividends from Transco, are related to contribution in aid of construction, and if these are not collected, they would increase the cost of a depreciable assets instead of considered a bad debt expense. Accounts receivables are written off when deemed uncollectable. The allowance for doubtful accounts is \$90,607 and \$28,003 at December 31, 2023 and 2022, respectively. Receivables from member energy sales are reported as accounts receivable, net in the accompanying statement of financial position.

Adoption of FASB ASU 2016-13 and Related Standards

On January 1, 2023 the Cooperative adopted FASB ASU 2016-03, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, as amended, which modifies the measurement of expected credit losses on certain financial instruments. The Cooperative adopted this new guidance utilizing the modified retrospective transition method. The adoption of this Standard did not have a material impact of the Cooperative’s financial statements but did change how the allowance for doubtful accounts and credit losses is determined.

Inventories

Inventories are stated at the lower of cost or market, cost is determined on a rolling average basis.

Amortization

The Cooperative follows the policy of charging to operating expenses annual amounts of amortization which allocate the cost of various deferred charges over periods established by management for rate-making purposes. The Cooperative employs the straight-line method for determining the annual charge for amortization.

Corporate Structure and Income Taxes

The Cooperative is a nonprofit and non-stock membership corporation organized under provisions of the Electric Cooperative Act of Vermont. The Cooperative is an organization described in Section 501 (c)(12) of the Internal Revenue Code and has been recognized by the Internal Revenue Service as an organization exempt from taxes on related income under Section 501(a).

Consideration has been given to uncertain tax positions. The federal income tax returns for the years ended after December 31, 2020, remain open for potential examination by major tax jurisdictions, generally for three years after they were filed.

Vermont Electric Cooperative, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2023

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxes

The Cooperative pays property, gross revenue and gross receipts taxes on a yearly basis. Gross revenue taxes are paid to the State of Vermont annually. During December 31, 2023 and 2022, the Cooperative paid \$3,914,724 and \$3,759,504 for property taxes, \$486,573 and \$440,687 for gross revenue taxes and \$425,303 and \$394,450, respectively, for gross receipt taxes. In accordance with RUS accounting guidelines, the property tax payments are allocated to various other accounts. Gross receipts taxes are paid to the State of Vermont on a quarterly basis as a percentage of sales.

Use of Estimates

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

NOTE 2 ELECTRIC PLANT IN SERVICE

An analysis of electric plant in service at is as follows:

<u>December 31, 2023</u>	Depreciable Life/Rate Per Year	
Transmission Plant	2.75%	\$ 22,160,137
Distribution Plant	3.00%	159,142,477
Buildings and Structures	20-50	6,969,572
Transportation Equipment	5-10	5,539,172
General Plant	3-10	<u>15,275,058</u>
		<u>\$ 209,086,416</u>

<u>December 31, 2022</u>	Depreciable Life/Rate Per Year	
Transmission Plant	2.75%	\$ 22,116,595
Distribution Plant	3.00%	154,693,389
Buildings and Structures	20-50	6,893,881
Transportation Equipment	5-10	4,948,124
General Plant	3-10	<u>14,805,960</u>
		<u>\$ 203,457,949</u>

Depreciation of electric plant in service totaled \$7,117,659 and \$7,029,221 in December 31, 2023 and 2022, respectively.

Vermont Electric Cooperative, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2023

NOTE 3 OTHER INVESTMENTS

Other investments for which there is no active market and stated at cost are as follows December 31,:

	<u>2023</u>	<u>2022</u>
Investments in associated organizations		
National Rural Utilities Cooperative Finance Corporation (CFC) membership	\$ 3,401,876	\$ 3,322,446
Southeastern Data Cooperative capital credit	63	1,697
CoBank Capital Credit	1,819,261	1,669,546
NISC Capital Credit	261,661	256,233
Cooperative Response Center	19,869	19,869
National Rural Telecommunications Council	7,577	7,577
Federated Rural Electric Insurance Exchange	148,336	139,281
United Utility Supply Cooperative	3,824	3,824
	<u>5,662,467</u>	<u>5,420,473</u>
Other investments		
Vermont Electric Power Company common stock	1,691,775	1,691,775
Vermont Transco, LLC Stock	41,442,995	39,315,725
New England Hydro-Transmission Corporation Common Stock	438,039	438,039
Other	417,243	346,344
	<u>43,990,052</u>	<u>41,791,883</u>
TOTAL OTHER INVESTMENTS	<u>\$ 49,652,519</u>	<u>\$ 47,212,356</u>

NOTE 4 PATRONAGE CAPITAL & OTHER CAPITAL

Patronage capital at December 31, included:

	<u>2023</u>	<u>2022</u>
Assignable	\$ 4,132,506	\$ 1,914,799
Assigned to date	99,613,993	97,699,194
	<u>103,746,499</u>	<u>99,613,993</u>
Less: Retirements to date	<u>(12,553,335)</u>	<u>(11,572,110)</u>
	<u>\$ 91,193,164</u>	<u>\$ 88,041,883</u>

Vermont Electric Cooperative, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2023

NOTE 4 PATRONAGE CAPITAL & OTHER CAPITAL (continued)

Other capital credits at December 31, included:

	<u>2023</u>	<u>2022</u>
Retired capital credits - gain	\$ 459,945	428,159
Retired capital credits - unlocated	2,069,558	1,806,393
Retired capital credits - no checks	<u>45,530</u>	<u>45,120</u>
	<u>\$ 2,575,033</u>	<u>\$ 2,279,672</u>

The Cooperative is obligated to allocate credits to a capital account to each patron for all amounts in excess of annual operating costs and expenses. Capital credited to patrons' accounts can be retired in full or in part by determination of The Board of Directors. After such retirement, the Cooperative will have total equity equal to at least forty percent (40%) of total assets of the Cooperative.

NOTE 5 LONG-TERM DEBT

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

	<u>2023</u>	<u>2022</u>
2002 Series A bonds, 5.70%, due through 2027	\$ 471,964	\$ 576,673
2003 Series A bonds, 6.64%, due through 2028	446,133	529,175
2003 Series B bonds, 6.60%, due through 2023	-	35,543
2004 Series A bonds, 4.25% - 6.70%, due through 2034	11,782,293	12,597,612
2005 Series A bonds, 6.06% - 6.90%, due through 2034	1,253,432	1,414,276
2006 Series A bonds, 4.85% - 6.85%, due through 2035	2,615,961	2,766,103
2008 Series A bonds, 3.26% - 5.69%, due through 2023	-	338,625
2008 Series B bonds, 2.09%, due through 2038	2,231,092	2,382,353
2009 Series A bonds, 3.10%, due through 2039	4,088,211	4,264,556
2010 Series A bonds, 4.58% - 6.56%, due through 2035	3,375,664	3,914,150
2012 Series A bonds, 3.41%, due through 2032	2,542,992	2,796,735
2012 Series B bonds, 3.26%, due through 2027	1,200,403	1,476,925
2013 Series A bonds, 2.92%, due through 2033	3,871,279	4,199,316
2014 Series A bonds, 4.57%, due through 2034	6,010,872	6,462,965
2016 Series A bonds, 2.81%, due through 2046	7,822,429	8,067,410
2016 Series B bonds, 4.45%, due through 2046	7,369,634	7,553,322
2017 Series A bonds, 4.30%, due through 2037	6,236,705	6,562,882
2019 Series A bonds, 3.40%, due through 2049	6,832,178	6,998,064

Vermont Electric Cooperative, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2023

NOTE 5 LONG-TERM DEBT (continued)

	<u>2023</u>	<u>2022</u>
2020 Series A bonds, 1.86%, due through 2050	7,649,995	7,933,330
2022 Series A bonds, 3.87%, due through 2053	5,810,000	5,920,626
2022 Series B bonds, 3.21%, due through 2053	5,782,672	5,908,346
2023 Series A bonds, 4.47% - 5.43%, due through 2054	<u>11,775,954</u>	<u>-</u>
 Total long-term debt before unamortized debt issuance costs	 99,169,863	 92,698,987
Unamortized debt issuance cost	<u>-</u>	<u>(17,152)</u>
 Total long-term debt	 99,169,863	 92,681,835
Less: Current installments of long-term debt	<u>(5,411,331)</u>	<u>(5,305,714)</u>
 TOTAL LONG-TERM DEBT	 <u>\$ 93,758,532</u>	 <u>\$ 87,376,121</u>

2002 Bonds

On October 1, 2002, the Cooperative issued \$1,900,000 from VEC's Supplemental Mortgage Indenture, the proceeds of which were used to fund capital expenditures. The bonds have a term of 25 years and bear interest at 5.70% at December 31, 2023, with interest and principal payable quarterly.

2003 Bonds, Series A

On May 1, 2003, the Cooperative issued \$1,600,000 from VEC's Supplemental Mortgage Indenture, the proceeds of which were used to fund capital expenditures. The bonds have a term of 25 years and bear interest at 6.64% at December 31, 2023, with interest and principal payable quarterly.

2003 Bonds, Series B

On November 1, 2003, the Cooperative issued \$500,000 from VEC's Supplemental Mortgage Indenture, the proceeds of which were used to fund a warehouse addition. The bonds have a term of 20 years and were paid off during 2023.

2004 Bonds, Series A

On April 1, 2004 the Cooperative issued \$21,337,226 from VEC's Supplemental Mortgage Indenture, the proceeds were used to purchase the Vermont assets of Citizens Communication Corporation (Vermont Electric Division). The bonds were advanced in various denominations, management has elected to group the 2004 Bonds, Series A into seven separate agreements with various variable and fixed rate options. The 2004 Bonds, Series A have a term of 30 years. The interest rates, fixed rate terms and debt consist of the following at December 31,:

Vermont Electric Cooperative, Inc.
NOTES TO FINANCIAL STATEMENTS
12/31/2023

NOTE 5 LONG-TERM DEBT (continued)

	<u>2023</u>	<u>2022</u>
VT0079024002 - 4.41% Fixed 15 Years	\$ 2,306,033	\$ 2,465,682
VT0079024003 - 4.25% Fixed 19 Years	1,102,537	1,186,683
VT0079024004 - 4.65% Fixed 16 Years	2,274,326	2,443,827
VT0079024005 - 6.40% Fixed 25 Years	1,219,898	1,300,496
VT0079024006 - 6.45% Fixed 30 Years	2,446,683	2,607,842
VT0079024007 - 6.45% Fixed 25 Years	1,159,468	1,235,861
VT0079024008 - 6.70% Fixed 27 Years	<u>1,273,348</u>	<u>1,357,221</u>
	<u>\$ 11,782,293</u>	<u>\$ 12,597,612</u>

2005 Bonds Series A

On January 5, 2005, the Cooperative issued \$4,100,000 from VEC's Supplemental Mortgage Indenture, the proceeds of which were used to refinance the line of credit. The bonds have a term of 30 years at various fixed rate options, paying from 1.53% to 6.42% at December 31, 2023.

The loan agreements allow management the ability to set the terms of the fixed rate bonds (Conversion Request). At the end of each fixed rate period management needs to convert to a new term and reprice the fixed rate or the bond will revert to the Variable Rate Option. The interest rate will be paid in accordance with the interest rate options for Fixed and Variable Rates as outlined in the loan agreements.

2006 Series A Bonds

On January 1, 2006, the Cooperative issued \$4,250,000 from VEC's Supplemental Mortgage Indenture, the proceeds of which were to refinance the line of credit and fund the Cooperative's plant additions. The bonds have 30 year terms and bear interest at 4.85% and 6.85% at December 31, 2023, with interest and principal payments payable quarterly.

2008 Series A Bonds

On June 30, 2008, the Cooperative issued \$10,158,750 from VEC's Supplemental Mortgage Indenture, the proceeds of which were to refinance the 1997 First Mortgage Bonds. The bonds have 15 year terms and were paid off during 2023.

2008 Series B Bonds

On December 1, 2008, the Cooperative issued \$4,500,000 from VEC's Supplemental Mortgage Indenture, the proceeds of which were to refinance the line of credit and fund the Cooperative's plant additions. The bonds have 30 year terms and bear interest at 2.09% at December 31, 2023, with interest and principal payments payable quarterly.

2009 Series A Bonds

On October 1, 2009, the Cooperative issued \$6,000,000 from VEC's Supplemental Mortgage Indenture, the proceeds of which were to refinance the line of credit and fund the Cooperative's plant additions. The bonds have 30 year terms and bear interest at 3.10% at December 31, 2023, with interest and principal payments payable quarterly.

Vermont Electric Cooperative, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2023

NOTE 5 LONG-TERM DEBT (continued)

2010 Series A Bonds

On November 1, 2010, the Cooperative issued \$9,000,000 from VEC's Supplemental Mortgage Indenture, the proceeds of which were to refinance the line of credit and fund the Cooperative's plant additions. The bonds have 15 and 25 year terms and bear interest at a rate of 1.18% and 4.58% at December 31, 2023, with interest and principal payments payable semi-annually.

2012 Series A Bonds

On May 1, 2012, the Cooperative issued \$5,000,000 from VEC's Supplemental Mortgage Indenture, the proceeds of which were to refinance the line of credit and fund the Cooperative's plant additions. The bonds have 20 year terms and bear interest at a rate of 3.41% at December 31, 2023 with interest and principal payments payable quarterly.

2012 Series B Bonds

On December 26, 2012 the Cooperative issued \$3,800,000 from VEC's Supplemental Mortgage Indenture, the proceeds of which were to refinance the line of credit and fund the Cooperative's plant additions. The bonds have 15 year terms and bear interest at a rate of 3.26% at December 31, 2023 with interest and principal payments payable quarterly.

2013 Series A Bonds

On December 16, 2013 the Cooperative issued \$6,500,000 from VEC's Supplemental Mortgage Indenture, the proceeds of which were to refinance the line of credit and fund the Cooperative's plant additions. The bonds have 20 year terms and bear interest at a rate of 2.92% at December 31, 2023 with interest and principal payments payable quarterly.

2014 Series A Bonds

On June 27, 2014, the Cooperative issued \$9,650,000 from VEC's Supplemental Mortgage Indenture, the proceeds of which were to refinance the line of credit and fund the Cooperative's plant additions. The bonds have 20 year terms and bear interest at a rate of 3.95% at December 31, 2023 with interest and principal payments payable quarterly.

2016 Series A Bonds

On June 13, 2016 the Cooperative issued \$9,500,000 from VEC's Supplemental Mortgage Indenture, the proceeds of which were to refinance the line of credit and fund the Cooperative's plant additions. The bonds have 30 year terms and bear interest at a rate of 2.81% at December 31, 2023 with interest and principal payments payable quarterly.

2016 Series B Bonds

On December 28, 2016 the Cooperative issued \$8,500,000 from VEC's Supplemental Mortgage Indenture, the proceeds of which were to refinance the line of credit and fund the Cooperative's plant additions. The bonds have 30 year terms and bear interest at a rate of 4.45% at December 31, 2023 with interest and principal payments payable quarterly.

2017 Series A Bonds

On December 28, 2017 the Cooperative issued \$8,000,000 from VEC's Supplemental Mortgage Indenture, the proceeds of which were to refinance the line of credit and fund the Cooperative's plant additions. The bonds have 30 year terms and bear interest at a rate of 4.30% at December 31, 2023 with interest and principal payments payable quarterly.

Vermont Electric Cooperative, Inc.
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2023

NOTE 5 LONG-TERM DEBT (continued)

2019 Series A Bonds

On September 26, 2019 the Cooperative issued \$7,500,000 from VEC's Supplemental Mortgage Indenture, the proceeds of which were to refinance the line of credit and fund the Cooperative's plant additions. The bonds have 30 year terms and bear interest at a rate of 3.40% at December 31, 2023 with interest and principal payments payable quarterly.

2020 Series A Bonds

On December 1, 2020 the Cooperative issued \$8,500,000 from VEC's Supplemental Mortgage Indenture, the proceeds of which were to refinance the line of credit and fund the Cooperative's plant additions. The bonds have 30 year terms and bear interest at a rate of 1.86% at December 31, 2023 with interest and principal payments payable quarterly.

2022 Series A Bonds

On March 30, 2022 the Cooperative issued \$6,000,000 from VEC's Supplemental Mortgage Indenture, the proceeds of which were to refinance the line of credit and fund the Cooperative's plant additions. The bonds have 30 year terms and bear interest at a rate of 3.87% at December 31, 2023 with interest and principal payments payable quarterly.

2022 Series B Bonds

On March 30, 2022 the Cooperative issued \$6,000,000 from VEC's Supplemental Mortgage Indenture, the proceeds of which were to refinance the line of credit and fund the Cooperative's plant additions. The bonds have 30 year terms and bear interest at a rate of 3.21% at December 31, 2023 with interest and principal payments payable quarterly.

2023 Series A Bonds

On January 24, 2023 the Cooperative issued \$12,000,000 from VEC's Supplemental Mortgage Indenture, the proceeds of which were to refinance the line of credit and fund the Cooperative's plant additions. The bonds have 30 year terms and bear interest at rates of 4.47% - 5.43% at December 31, 2023 with interest and principal payments payable quarterly.

Security for First Mortgage Bonds

As security for the mortgage bonds, the Cooperative has pledged substantially all net electric plant assets. In addition, the Mortgage Indentures obligate the Cooperative to meet certain rate and financial covenants. Additionally, the Cooperative must achieve and sustain various equity levels per loan agreement.

The maturities of long-term debt for the next five years and thereafter are as follows:

Year Ending December,	
2024	\$ 5,411,331
2025	5,606,328
2026	5,291,344
2027	5,605,767
2028	5,321,679
Thereafter	71,933,414
	\$ 99,169,863

Vermont Electric Cooperative, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2023

NOTE 5 LONG-TERM DEBT (continued)

The Cooperative's short term credit facility consists of a revolving line of credit agreement and security agreement that can provide for up to eighteen million in short term loans or issuance of letters of credit on VEC's behalf as long as the total outstanding principal short term loan does not exceed twenty million in aggregate. The short term credit facility is available from two Cooperative lenders. The Cooperative had drawn short term loans of \$12,405,952 and \$11,000,000, as of December 31, 2023 and 2022, respectively. Advances under this line of credit bear a variable rate of interest, which was 6.91% at December 31, 2023. The credit facilities have a maturity a date of December 31, 2026.

NOTE 6 PENSION PLAN

Multiemployer Retirement Security Plan

All eligible employees of the Cooperative participate in the NRECA Retirement and Security Program, a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is considered a multi-employer plan under the accounting standards. The plan sponsor's Employer Identification Number is 03-0164375 and the Plan Number is 01-46007-001.

A unique characteristic of multiemployer plans compared to a single employer plan is that all plan assets are available to pay benefits to any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

The Cooperatives contributions to the RS Plan in 2023 and 2022 represent less than 5 percent of the total contributions made to the plan by all participating employers. At December 31, 2023 and 2022 The Cooperative made contributions to the plan of \$1,107,658 and \$1,200,919, respectively. There have been no significant changes that affect the comparability of December 31, 2023 and 2022 contributions.

In the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was over 80% funded on January 1, 2023 and over 80% funded on January 1, 2022, based on the PPA funding target and the actuarial value of assets at those dates.

Because of 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.

Vermont Electric Cooperative, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2023

NOTE 6 PENSION PLAN (continued)

Section 457(b) Deferred Compensation Plan

The Cooperative has an executive retirement plan that is designed in accordance with Section 457(b) of the Internal Revenue Code. The plan became effective on June 1, 2014 and is administered by NRECA. The plan is available to highly compensated employees who are not a current participant in the RS plan. The Cooperative has the option to make elective annual contributions to the plan on behalf of each participant. No such contributions were made in December 31, 2023 and 2022 by the Cooperative. The Board of Directors is responsible for determining the investment fund or funds into which the participants account is invested. The funds remain assets of the Cooperative until such time as the participant, or the participant's beneficiary, withdraws the funds in accordance with plan provisions. Assets held for this plan and reported in investments for December 31, 2023 and 2022 was \$417,243 and \$346,344, respectively.

NOTE 7 COMMITMENTS AND CONTINGENCIES

Power Contracts

The Cooperative entered into a contract in 2009 with First Wind Energy for 20 MW of nameplate capacity for a wind farm located in Sheffield, Vermont. The project was placed into service in 2011. The contract covers a period of twenty years and includes a portion of the MW at a predetermined fixed price and a portion at a variable market rate.

The Cooperative entered into a contract for a peaking generating unit with Vermont Public Power Supply Authority (VPPSA) in 2009 to provide for some peaking energy, capacity and ancillary services over the life of the facility estimated to be twenty years. The project was placed into service in 2010.

As a result of the acquisition of Citizens Vermont Electric Division, power supply contracts serving the Citizens customers were assigned to Vermont Electric Cooperative, Inc. These contracts included a long term power supply agreement with Hydro Quebec. In 2010, VEC participated in a joint utility negotiation to replace the Hydro Quebec contract on terms and prices that were approved by the Vermont Public Service Board. The new contract began in 2012.

In 2011, VEC participated in a joint utility negotiation with NextEra Energy Resources for a unit contingent contract for output from the Seabrook nuclear plant for a term of twenty years. The contract is for 10 MW including capacity and energy beginning in 2015 at a fixed price with a known fixed escalating adjustment each year. The contract was approved by the Vermont Public Service Board and the Cooperative's membership in 2012.

The Cooperative entered into a purchase power agreement from Green Mountain Power Corporation for 8 MW of nameplate capacity for a wind farm located in Lowell, Vermont. The agreement covers a period of twenty-five years at a price shared between the two utilities. The project was placed into service in 2012.

Vermont Electric Cooperative, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2023

NOTE 7 COMMITMENTS AND CONTINGENCIES (continued)

The Cooperative entered into a purchase power agreement with BDE Grand Isle Solar, LLC in 2015 for 5 MW of nameplate capacity for a solar farm to be located in Grand Isle, Vermont. The agreement covers a period of twenty-five years. The project was placed in service in 2017.

The Cooperative entered into a purchase power agreement with SoCore Vt Alburgh, LLC in 2016 for 1 MW of nameplate capacity for a solar farm to be located in Alburgh, Vermont. The agreement covers a period of twenty-five years. The project was placed into service in 2016.

The Cooperative entered into a purchase power agreement with SoCore Vt Magee Hill, LLC in 2016 for 1.26MW of nameplate capacity for a solar farm to be located in Hinesburg, Vermont. The agreement covers a period of twenty-five years. The project was placed in service in 2017.

The Cooperative entered into a 7-year agreement with The Newport Hydroelectric Project in 2017 to purchase all of its energy output. The agreement is from September 2017 – August 2024. An amendment was signed in 2023 to extend the agreement through August 2034. Through the amended agreement the Cooperative also purchases all renewable energy certificates (RECS) generated by the facility beginning in January 2026.

The Cooperative entered into an energy storage service agreement with Viridity Energy Solutions, Inc. in 2018 for coincident peak load reduction services. The agreement allows for a discharge of up to 1MW of capacity for up to four hours per day. The agreement covers a period of ten years. The project was placed in service in 2019.

The Cooperative entered into a purchase power agreement with ER Jericho Landfill Solar, LLC, in 2019 for 1.65MW of nameplate capacity for a solar farm to be located in Jericho, Vermont. The agreement covers a period of twenty-five years. The project was placed in service in 2020.

The Cooperative entered into a purchase power agreement with ER Jericho Gravel Solar, LLC, in 2019 for 1.5MW of nameplate capacity for a solar farm to be located in Jericho, Vermont. The agreement covers a period of twenty-five years. The project was placed in service in 2021.

The Cooperative entered into an agreement with NextEra in 2021 to purchase 187,000 MWh of energy from December 2021 to December 2025. The deal was designed to meet expected shortfalls on contracted resources for the period.

The Cooperative entered into a 5-year agreement with a wind farm, Tenaska Power Services, in 2022. The agreement is from 2023-2027. The agreement is for 22 MW of nameplate capacity.

The Cooperative entered into an energy storage service agreements with Vermont Electric Power Company in 2022 for coincident peak load reduction services. The agreements allows for a discharge of up to 0.250 MW of capacity for up to four hours per day. The agreement covers a period of ten years for the commencement of commercial operation. The projects are expected to reach commercial operation by the end of June 2024.

Vermont Electric Cooperative, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2023

NOTE 7 COMMITMENTS AND CONTINGENCIES (continued)

The Cooperative entered into an agreement with Green Mountain Power in 2022 to develop a 3.0 MW/12.0 MWh energy storage project in North Troy, VT. The project will be used for peak shaving purchases, participating in ISO-NE Regulation market and capturing and dispatching renewable energy that would otherwise be curtailed due to transmission constraints on the electrical grid. The project is expected to reach commercial operation by the end of May 2024. VEC is a 50% owner in the project.

The Cooperative has entered into agreements to sell the environmental attributes, renewable energy credits (REC's), from the two wind farms in Sheffield and Lowell and other smaller renewable generation projects and purchase environmental attributes when needed. Agreements to sell and purchase the REC's have been executed for REC's generated from 2018 through 2025.

Power purchased in excess of usage is resold on the spot market and power purchased through the contracts that is less than usage requires the Cooperative to purchase the difference on the spot market.

Other Legal and Regulatory Matters

The Cooperative is exposed to various risks of loss related to torts; theft of, damage to a destruction of assets; errors and omissions; injuries to employees; stray voltage and natural disasters. The Cooperative manages these risks through commercial insurance packages purchased in the name of the Cooperative. The Cooperative has transferred the risk of loss to the commercial insurance carrier. Insurance settlements have not exceeded insurance coverage for any of the past five fiscal years.

Letter of Credit

The Cooperative can issue letters of credit through National Rural Utilities Cooperative Finance Corporation and CoBank, ACB using the short term credit facility. The purpose of letters of credit is to allow the availability of credit for power suppliers and other vendors. The Cooperative had used \$1,500,000 and \$1,500,000 of the total letter of credit at December 31, 2023 and 2022, respectively.

NOTE 8 POSTRETIREMENT MEDICAL AND LIFE PLAN

The plan was acquired on April 1, 2004 as part of the acquisition of Citizens Communication Corporation (Vermont Electric Division).

The table below presents in accordance with professional accounting standards and details about the Cooperatives Plan, including its funded status, components of net periodic benefit cost, and certain assumptions used in determining the funded status and cost at December 31, 2023.

Vermont Electric Cooperative, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2023

NOTE 8 POSTRETIREMENT MEDICAL AND LIFE PLAN (continued)

Change in benefit obligation:	
Benefit obligation at beginning of year	\$ 120,443
Interest Cost	-
Benefits paid	(14,573)
Actuarial loss	<u>-</u>
Benefit obligation at end of year	<u>\$ 105,870</u>
Change in plan assets:	
Employer contribution	\$ 14,573
Benefits paid	<u>(14,573)</u>
Fair value of plan assets at end of year	<u>\$ -</u>

Expected future benefit payments for each of the next five fiscal years and in the aggregate for the following five years are as follows:

2024	\$ 9,839
2025	9,839
2026	8,339
2027	8,339
2028	8,339
2029-2033	41,695

Assumptions

Weighted average assumptions used to determine the benefit obligation as of December 31, 2023 and the periodic benefit cost for the fiscal year then ended are as follows:

Discount rate – beginning of year	2.00%
Discount rate – end of year	2.50%
Rate of compensation increase	N/A

NOTE 9 SUPPLEMENTAL CASH FLOW INFORMATION

	<u>2023</u>	<u>2022</u>
Cash paid during the year for interest	<u>\$ 4,411,399</u>	<u>\$ 3,737,349</u>

Vermont Electric Cooperative, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2023

NOTE 10 PAYROLL PROTECTION PROGRAM ACCOUNTING ORDER

Due to the economic uncertainties related to the global pandemic in 2020, the Cooperative applied for and received Federal support and aid funding through the Paycheck Protection Program (PPP), which was implemented as part of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). These proceeds, which amounted to \$2,588,600, were used to cover payroll & related, rent and utility costs. As of December 31, 2020 the proceeds received were expended in full on these specific purposes. During the year ending December 31, 2021, the Cooperative applied for and received full forgiveness of the outstanding debt. In addition, the Cooperative requested and received approval from the Public Utility Commission to defer the recognition of these funds to 2022 and 2023. As of December 31, 2023 the remaining \$1,388,600 had been recognized as income and there is no longer a deferral of these funds.

NOTE 11 SUBSEQUENT EVENTS

In accordance with professional accounting standards, the Cooperative has evaluated subsequent events through March 15, 2024, the date which the financial statements were available to be issued. All subsequent events requiring recognition as of December 31, 2023 have been incorporated into these financial statements herein.

Vermont Electric Cooperative, Inc.

ADDITIONAL REPORTS REQUIRED BY
THE SINGLE AUDIT ACT

December 31, 2023

Vermont Electric Cooperative, Inc.
 Schedule of Expenditures of Federal Awards
 For the Year Ended December 31, 2023

Award Information	AL/other	Pass-Through Entity Name	Pass-Through Entity	Federal Expenditures
Other Programs (Treated individually for major program determination)				
Department of Homeland Security				
Assistance (Presidentially				
Disaster Grants - Public Assistance (Presidentially Declared Disasters) -2018	97.036	State of Vermont, Department of Public Safety	02140-84380-009	280,410
Disaster Grants - Public Assistance (Presidentially Declared Disasters) - 2019	97.036	State of Vermont, Department of Public Safety	02140-84474-053	248,740
Disaster Grants - Public Assistance (Presidentially Declared Disasters) - 2022	97.036	State of Vermont, Department of Public Safety		<u>247,411</u>
Total Disaster Grants - Public Assistance (Presidentially Declared Disasters)				<u>776,561</u>
<i>Total Department of Homeland Security</i>				<u>776,561</u>
Total Other Programs (Treated individually for major program determination)				<u>776,561</u>
Total Expenditures of Federal Awards				<u>776,561</u>

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of federal awards includes the federal award activity of Vermont Electric Cooperative, Inc. under programs of the federal government for the year ended December 31, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Vermont Electric Cooperative, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Vermont Electric Cooperative, Inc.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 FEMA - PUBLIC ASSISTANCE GRANTS

The Schedule of Expenditures of Federal Awards includes expenses incurred in 2022 of \$247,411 but obligated by the Department of Homeland Security during 2023.



Kittell Branagan & Sargent

Certified Public Accountants

Vermont License # 167

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

To the Board of Directors
Vermont Electric Cooperative, Inc.
Johnson, Vermont

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Vermont Electric Cooperative, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2023, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 15, 2024.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

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

Kittell, Brennan + Sargent

St. Albans, Vermont
March 15, 2024



Kittell Branagan & Sargent

Certified Public Accountants

Vermont License # 167

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Vermont Electric Cooperative, Inc.
Johnson, Vermont

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Vermont Electric Cooperative, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Vermont Electric Cooperative, Inc.'s major federal programs for the year ended December 31, 2023. Vermont Electric Cooperative, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Vermont Electric Cooperative, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Vermont Electric Cooperative, Inc. and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Vermont Electric Cooperative, Inc.'s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Vermont Electric Cooperative, Inc.'s federal programs.

Auditor's Responsibility for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Vermont Electric Cooperative, Inc.'s compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Vermont Electric Cooperative, Inc.'s compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Vermont Electric Cooperative, Inc.'s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Vermont Electric Cooperative, Inc.'s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Vermont Electric Cooperative, Inc.'s internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Kittle, Branagan + Sargent" followed by a long horizontal flourish.

St. Albans, Vermont
March 15, 2024

Vermont Electric Cooperative, Inc.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2023

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements of the Vermont Electric Cooperative, Inc.
2. There were no significant deficiencies disclosed during the audit of the financial statements of Vermont Electric Cooperative, Inc.
3. No instances of noncompliance material to the financial statements of the Vermont Electric Cooperative, Inc. were disclosed during the audit.
4. There were no significant deficiencies disclosed during the audit of major federal award programs.
5. The auditor's report on compliance for the major federal award programs for the Vermont Electric Cooperative, Inc. expresses an unmodified opinion.
6. There were no audit findings relative to the major federal award programs for Vermont Electric Cooperative, Inc.
7. The program tested as a major program was 97.036 – FEMA – Public Assistance Grants
8. The threshold for distinguishing Types A and B programs was \$750,000.
9. Vermont Electric Cooperative, Inc. was not determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

There were no findings related to the financial statements audit.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

There were no findings or questioned costs related to the major federal award programs.