

Vermont Electric Cooperative, Inc.

FINANCIAL STATEMENTS

December 31, 2014

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

Report on the Financial Statements

We have audited the accompanying statement of financial position of Vermont Electric Cooperative, Inc. (a nonprofit organization) as of December 31, 2014 and 2013, and the related statements of operations, equities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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, 2014 and 2013, 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations 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 information 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 6, 2015 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Vermont Electric Cooperative, Inc.'s internal control over financial reporting and compliance.

Handwritten signature in cursive script that reads "Jeffrey Brownagar & Sargent".

St. Albans, Vermont
March 6, 2015

Vermont Electric Cooperative, Inc.

BALANCE SHEETS

December 31,

ASSETS

	<u>2014</u>	<u>2013</u>
ELECTRIC PLANT, at cost	\$141,261,279	\$132,022,620
Less accumulated depreciation	<u>(38,015,420)</u>	<u>(35,203,751)</u>
Electric plant in service, net	103,245,859	96,818,869
Construction work in progress	<u>2,925,812</u>	<u>4,525,817</u>
TOTAL ELECTRIC PLANT, net	<u>106,171,671</u>	<u>101,344,686</u>
CURRENT ASSETS		
Cash	876,647	1,542,086
Accounts receivable, net of allowance of \$91,537 and \$155,943 at December 31, 2014 and 2013, respectively	9,782,046	11,688,482
Unbilled revenue	5,218,621	5,157,330
Inventories	3,865,328	4,054,526
Prepaid expenses	<u>563,615</u>	<u>506,346</u>
TOTAL CURRENT ASSETS	<u>20,306,257</u>	<u>22,948,770</u>
OTHER ASSETS		
Nonutility property	65,697	65,697
Other investments	22,823,105	18,553,209
Deferred charges	<u>2,792,394</u>	<u>2,429,190</u>
TOTAL OTHER ASSETS	<u>25,681,196</u>	<u>21,048,096</u>
TOTAL ASSETS	<u>\$152,159,124</u>	<u>\$145,341,552</u>
	<u>LIABILITIES AND EQUITY</u>	
EQUITIES		
Patronage capital assignable	\$ 62,174,495	\$ 59,031,661
Other equities	<u>486,381</u>	<u>416,832</u>
NET EQUITY	<u>62,660,876</u>	<u>59,448,493</u>
LONG-TERM DEBT	<u>69,483,687</u>	<u>63,311,175</u>
OBLIGATIONS UNDER CAPITAL LEASE	<u>234,635</u>	<u>251,270</u>
DEFERRED COMPENSATION PLAN	<u>30,930</u>	<u>-</u>
CURRENT LIABILITIES		
Current portion of long-term debt	3,324,427	2,915,390
Current portion of capital lease obligations	16,635	15,669
Revolving debt	3,000,000	3,000,000
Accounts payable	9,654,763	12,385,227
Customer deposits	580,091	527,137
Deferred credits	215,570	217,508
Other accrued expenses	<u>2,957,510</u>	<u>3,269,683</u>
TOTAL CURRENT LIABILITIES	<u>19,748,996</u>	<u>22,330,614</u>
TOTAL LIABILITIES AND EQUITY	<u>\$152,159,124</u>	<u>\$145,341,552</u>

See Accompanying Notes to Financial Statements.

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

	<u>2014</u>	<u>2013</u>
OPERATING REVENUE	\$ 77,688,584	\$ 74,521,397
OPERATING EXPENSES		
Purchased power	43,105,573	39,388,853
Transmission:		
Operations	10,365,292	10,640,060
Maintenance	310,802	333,148
Distribution:		
Operations, including vehicle depreciation expense of \$125,024 and \$101,927 in 2014 and 2013, respectively	5,029,086	4,674,751
Maintenance	6,169,714	5,860,982
Customer accounts	2,404,650	2,284,278
Administrative and general	3,156,573	3,105,639
General plant maintenance	198,598	198,491
Depreciation	5,049,869	4,758,152
Amortization	34,308	34,308
Taxes	768,100	732,236
Other deductions, net	9,586	1,864
TOTAL OPERATING EXPENSES	<u>76,602,151</u>	<u>72,012,762</u>
INCOME FROM OPERATIONS	<u>1,086,433</u>	<u>2,508,635</u>
OTHER INCOME		
Renewable energy credits	2,747,367	1,461,442
Gain on sale of fixed assets	10,697	27,142
Other income	37,483	44,091
Interest and dividend income	2,598,982	2,121,257
Other capital credits & dividends	459,210	421,583
TOTAL OTHER INCOME	<u>5,853,739</u>	<u>4,075,515</u>
NET INCOME BEFORE INTEREST CHARGES	<u>6,940,172</u>	<u>6,584,150</u>
INTEREST CHARGES		
Interest on long-term debt	3,139,194	2,906,176
Other interest	129,565	99,369
TOTAL INTEREST CHARGES	<u>3,268,759</u>	<u>3,005,545</u>
NET INCOME	<u>\$ 3,671,413</u>	<u>\$ 3,578,605</u>

See Accompanying Notes to Financial Statements

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

	Other Equities (Deficits)					Total
	Capital Assignable	Retired Credits	Donated Capital	Postretirement Medical & Life Plan	Earnings (Losses)	
BALANCE, at December 31, 2012	\$ 56,319,340	\$ -	\$ 214,506	\$ 73,949	\$ -	\$ 56,607,795
Donated capital	-	-	38	-	-	38
Net income for the year	-	-	-	-	3,578,605	3,578,605
Transfer to patronage capital assignable	3,578,605	-	-	-	(3,578,605)	-
Retirement of capital credits	<u>(866,284)</u>	<u>128,339</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(737,945)</u>
BALANCE, at December 31, 2013	59,031,661	128,339	214,544	73,949	-	59,448,493
Donated capital	-	-	40	-	-	40
Net income for the year	-	-	-	-	3,671,413	3,671,413
Transfer to patronage capital assignable	3,671,413	-	-	-	(3,671,413)	-
Retirement of capital credits	<u>(528,579)</u>	<u>69,509</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(459,070)</u>
BALANCE, at December 31, 2014	<u>\$ 62,174,495</u>	<u>\$ 197,848</u>	<u>\$ 214,584</u>	<u>\$ 73,949</u>	<u>\$ -</u>	<u>\$ 62,660,876</u>

See Accompanying Notes to Financial Statements

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

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 3,671,413	\$ 3,578,605
Noncash expenses (income) included in earnings:		
Depreciation	5,174,893	4,860,079
Amortization	34,308	34,308
Gain on sale of fixed assets	(10,697)	(27,142)
Hydro Quebec disallowance	(58,704)	(74,542)
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	1,845,145	(4,689,236)
Decrease (increase) in inventories	189,198	(602,023)
Decrease in prepaid expenses	(57,269)	(36,813)
Decrease in deferred charges	(397,512)	(2,113,334)
Increase (decrease) in accounts payable	(2,730,464)	6,149,264
Increase in customer deposits	52,954	3,519
Increase in accrued expenses	(312,173)	212,390
Decrease in deferred credits	<u>(1,938)</u>	<u>(2,636)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>7,399,154</u>	<u>7,292,439</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to electric plant in service and construction work in progress	(9,944,729)	(10,477,827)
Proceeds from sale of electric plant in service	12,252	30,742
Return on capital investments	(143,967)	(111,522)
Purchase of investment:	<u>(4,094,999)</u>	<u>-</u>
NET CASH (USED) IN INVESTING ACTIVITIES	<u>(14,171,443)</u>	<u>(10,558,607)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term borrowings	9,650,000	6,500,000
Principal payments to creditors related to long-term borrowings	(3,068,451)	(2,624,127)
Net borrowing (payment) on line of credit	-	482,414
Additions to donated capital, net	40	38
Patronage capital retired, net	(459,070)	(737,945)
Principal payments under capital lease obligation	<u>(15,669)</u>	<u>(14,759)</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>6,106,850</u>	<u>3,605,621</u>
NET INCREASE (DECREASE) IN CASH	(665,439)	339,453
CASH - Beginning of Year	<u>1,542,086</u>	<u>1,202,633</u>
CASH - End of Year	<u>\$ 876,647</u>	<u>\$ 1,542,086</u>

See Accompanying Notes to Financial Statements

Vermont Electric Cooperative, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

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 Service Board (PSB). The PSB 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. 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. At December 31, 2014 the Cooperative had cash that was considered fully insured by the FDIC for amounts over \$250,000.

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, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Contributions in Aid of Construction

As explained in note 1 above, the Cooperative follows RUS accounting guidelines, except as otherwise prescribed or allowed by its state regulator, the PSB. In accordance with state regulatory requirements from 1973 through 2010, contributions in aid of construction were accounted for as a component of members' equity rather than as a reduction of electric plant in service. All contributions in aid of construction come from members of the Cooperative. During 2014 and 2013, the Cooperative received \$1,997,885 and \$959,267, respectively, in contributions in aid of construction.

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, 2011, remain open for potential examination by major tax jurisdictions, generally for three years after they were filed.

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 2014 and 2013, the Cooperative paid \$2,665,930 and \$2,478,521 for property taxes, \$396,052 and \$376,025 for gross revenue taxes and \$372,048 and \$356,211 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.

Presentation

Certain amounts have been reclassified in the 2013 financial statements in order to conform with the 2014 presentation.

Vermont Electric Cooperative, Inc.
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2014

NOTE 2 ELECTRIC PLANT IN SERVICE

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

<u>December 31, 2014</u>	<u>Depreciable Life/Rate Per Year</u>	
Transmission Plant	2.75%	\$ 15,896,583
Distribution Plant	3.00%	112,344,191
Buildings and Structures	20-50	3,742,318
Transportation Equipment	5-10	935,461
General Plant	3-10	8,507,649
Hydro Quebec Disallowance	17	(164,923)
		<u>\$ 141,261,279</u>

<u>December 31, 2013</u>	<u>Depreciable Life/Rate Per Year</u>	
Transmission Plant	2.75%	\$ 15,178,286
Distribution Plant	3.00%	105,220,213
Buildings and Structures	20-50	3,548,289
Transportation Equipment	5-10	767,537
General Plant	3-10	7,531,922
Hydro Quebec Disallowance	17	(223,627)
		<u>\$ 132,022,620</u>

Depreciation of electric plant in service totaled \$5,174,893 and \$4,860,079 in 2014 and 2013, respectively.

- Reduction in power supply costs for 2014 and 2013 was \$58,704 and \$74,542, respectively. The remaining disallowance will be amortized over the remaining life of the Hydro-Quebec Participation Agreement.

NOTE 3 OTHER INVESTMENTS

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

	<u>2014</u>	<u>2013</u>
Investments in associated organizations		
National Rural Utilities Cooperative Finance Corporation (CFC) membership	\$ 2,827,317	\$ 2,777,773

Vermont Electric Cooperative, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 3 OTHER INVESTMENTS (continued)

	<u>2014</u>	<u>2013</u>
Other investments		
Southeastern Data Cooperative capital credit	\$ 17,923	\$ 27,440
CoBank capital credit	640,041	561,877
Cooperative Response Center	10,000	10,000
Vermont Electric Power Company common stock	1,691,775	1,691,775
Vermont Transco, LLC Stock	17,332,498	13,237,500
New England Hydro-Transmission Corporation Common Stock	148,339	148,339
Other	<u>155,212</u>	<u>98,505</u>
	<u>19,995,788</u>	<u>15,775,436</u>
TOTAL OTHER INVESTMENTS	<u>\$ 22,823,105</u>	<u>\$ 18,553,209</u>

NOTE 4 DEFERRED CHARGES

Deferred charges at December 31, included:

	<u>2014</u>	<u>2013</u>
2008 Series A Debt Issuance Costs	\$ 291,616	\$ 325,924
December 2013 Ice Storm	1,521,736	2,086,621
December 2014 Winter Storm	835,335	-
Other deferred charges	<u>143,707</u>	<u>16,645</u>
	<u>\$ 2,792,394</u>	<u>\$ 2,429,190</u>

2008 Series A Debt Issuance Costs

Debt issuance costs were incurred to issue a series of first mortgage bonds in 2008 and are recoverable in rates through June 30, 2023. Amortization was \$34,308 and \$34,308 for the years ended December 31, 2014 and 2013.

December 2013 Ice Storm Costs

Beginning on December 20, 2013 and continuing for several days an ice storm entered VEC's service territory causing widespread damages to the VEC system. The ice storm resulted in 2013 storm restoration costs impacting the income statement of \$6,055,960 after adjusting for contracting levels included in rates for 2013. The storms impact on the state of Vermont was recognized by the Federal Emergency Management Agency (FEMA) as a national disaster and was declared for public assistance on January 29, 2014. On January 16, 2014 the Vermont Public Service Board issued an accounting order allowing for the deferral of the net ice storm income statement costs consisting of the \$6.1M from 2013 adjusted for reimbursements of \$4.6M. The net costs of \$1.5M are categorized as a deferred regulatory asset for future rate recovery and amortization.

Vermont Electric Cooperative, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 4 DEFERRED CHARGES (continued)

December 2014 Winter Storm Costs

Beginning on December 9, 2014 and continuing for several days a winter storm entered VEC's service territory causing widespread damages to the VEC system. The winter storm resulted in 2014 storm restoration costs impacting the income statement of \$2,386,671 after adjusting for contracting elvles included in current rates. The storms impact on the state of Vermont was recognized by the Federal Emergency Management Agency (FEMA) as a national disaster and was declared for public assistance on February 3, 2015. VEC's FEMA reimbursement of eligible expenses is estimated to be 75% of storm restoration expenses. VEC estimates that 65% of the total storm maintenance costs, \$1,551,336, will be reimbursed by FEMA for the ice storm. On February 13, 2015 the Vermont Public Service Board issued an accounting order allowing for the deferral of the net ice storm income statement costs consisting of the \$2.4M from 2014 adjusted for anticipated reimbursements of \$1.6M. The net costs of \$835,335 are categorized as a deferred regulatory asset for future rate recovery and amortization.

Other

These charges represent the costs of preliminary construction surveys that will be expensed or capitalized upon completion of studies. Also included are costs of plans developed that are recoverable through rates.

NOTE 5 PATRONAGE CAPITAL & OTHER CAPITAL

Patronage capital at December 31, included:

	<u>2014</u>	<u>2013</u>
Assignable	\$ 3,671,413	\$ 3,578,605
Assigned to date	<u>59,897,945</u>	<u>56,319,340</u>
	63,569,358	59,897,945
Less: Retirements to date	<u>(1,394,863)</u>	<u>(866,284)</u>
	<u>\$ 62,174,495</u>	<u>\$ 59,031,661</u>

Other capital credits at December 31, included:

	<u>2014</u>	<u>2013</u>
Retired capital credits - gain	\$ 9,981	\$ 2,830
Retired capital credits - unlocated	168,229	108,414
Retired capital credits - no checks	<u>19,638</u>	<u>17,095</u>
	<u>\$ 197,848</u>	<u>\$ 128,339</u>

Vermont Electric Cooperative, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 5 PATRONAGE CAPITAL & OTHER CAPITAL (continued)

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. Determined retirement cannot exceed twenty-five percent (25%) of the capital allocation for the preceding year. After such retirement, the Cooperative will have total equity equal to at least forty percent (40%) of total assets of the Cooperative.

NOTE 6 LONG-TERM DEBT

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

	<u>2014</u>	<u>2013</u>
2002 Series A bonds, 5.70%, due through 2027	\$ 1,240,334	\$ 1,309,606
2003 Series A bonds, 6.64%, due through 2028	1,066,431	1,123,796
2003 Series B bonds, 6.60%, due through 2023	267,895	292,986
2004 Series A bonds, as elected, due through 2034	17,674,834	18,125,792
2005 Series A bonds, as elected, due through 2034	2,613,575	2,770,757
2006 Series A bonds, as elected, due through 2035	3,699,356	3,779,595
2008 Series A bonds, as elected, due through 2023	5,756,625	6,433,875
2008 Series B bonds, 5.94%, due through 2038	3,592,437	3,743,697
2009 Series A bonds, 4.17%, due through 2039	5,440,371	5,561,770
2010 Series A bonds, as elected, due through 2035	7,643,171	8,045,931
2012 Series A bonds, as elected, due through 2032	4,544,316	4,731,244
2012 Series B bonds, as elected, due through 2027	3,393,687	3,600,141
2013 Series A bonds, as elected, due through 2033	6,286,414	6,500,000
2014 Series A bonds, as elected, due through 2034	9,496,940	-
Prior Service Cost, NRECA Retirement Loan, 6.45%, due through 2015	91,728	207,375
	72,808,114	66,226,565
Less: Current installments of long-term debt	(3,324,427)	(2,915,390)
 TOTAL LONG-TERM DEBT	 \$ 69,483,687	 \$ 63,311,175

2002 Bonds

On October 1, 2002, the Cooperative issued \$1,900,000 of First Mortgage Bonds, the proceeds of which were used to fund capital expenditures. The bonds have a term of 25 years and bear interest at 5.70%, with varying quarterly interest and principal payments.

2003 Bonds, Series A

On May 1, 2003, the Cooperative issued \$1,600,000 of First Mortgage Bonds, 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, 2014, with interest and principal payable quarterly.

Vermont Electric Cooperative, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 6 LONG-TERM DEBT (continued)

2003 Bonds, Series B

On November 1, 2003, the Cooperative issued \$500,000 of First Mortgage Bonds, the proceeds of which were used to fund a warehouse addition. The bonds have a term of 20 years and bear a variable rate of interest, which was 6.60% at December 31, 2014, with interest and principal payable quarterly.

2004 Bonds, Series A

On April 1, 2004 the Cooperative issued \$21,337,226 of First Mortgage Bonds, 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 2005 Bonds, Series A into six separate agreements with various variable and fixed rate options. The 2005 Bonds, Series A have a term of 30 years. The interest rates, fixed rate terms and debt consist of the following at December 31,:

	<u>2014</u>	<u>2013</u>
VT0079024008 - 6.70% Fixed 27 Years	\$ 1,860,582	\$ 1,906,704
VT0079024002 - 4.41% Fixed 15 Years	3,520,620	3,606,722
VT0079024003 - 5.50% Fixed 11 Years	1,741,360	1,789,648
VT0079024004 - 5.65% Fixed 14 Years	3,497,844	3,593,152
VT0079024005 - 6.40% Fixed 25 Years	1,785,189	1,829,707
VT0079024006 - 6.45% Fixed 30 Years	3,575,027	3,663,649
VT0079024007 - 6.45% Fixed 25 Years	<u>1,694,212</u>	<u>1,736,210</u>
	<u>\$ 17,674,834</u>	<u>\$ 18,125,792</u>

2005 Bonds Series A

On January 5, 2005, the Cooperative issued \$4,100,000 of First Mortgage Bonds, 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 2.62% to 6.90% at December 31, 2014.

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 of First Mortgage Bonds, 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%, with interest and principal payments payable quarterly.

2008 Series A Bonds

On June 30, 2008, the Cooperative issued \$10,158,750 of First Mortgage Bonds, the proceeds of which were to refinance the 1997 First Mortgage Bonds. The bonds have 15 year terms and bear interest at 5.69% and 3.52%, with interest and principal payments payable quarterly.

Vermont Electric Cooperative, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 6 LONG-TERM DEBT (continued)

2008 Series B Bonds

On December 1, 2008, the Cooperative issued \$4,500,000 of First Mortgage Bonds, 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 3.12%, with interest and principal payments payable quarterly.

2009 Series A Bonds

On October 1, 2009, the Cooperative issued \$6,000,000 of First Mortgage Bonds, 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 2.66%, with interest and principal payments payable quarterly.

2010 Series A Bonds

On November 1, 2010, the Cooperative issued \$9,000,000 of First Mortgage Bonds, 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 fixed rate of 4.58% and a variable rate of which was 1.26% for December 2014, with interest and principal payments payable semi-annually.

2012 Series A Bonds

On May 1, 2012, the Cooperative issued \$5,000,000 of First Mortgage Bonds, 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 fixed rate of 3.41% with interest and principal payments payable quarterly.

2012 Series B Bonds

On December 26, 2012 the Cooperative issued \$3,800,000 of First Mortgage Bonds, 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 fixed rate of 3.26% with interest and principal payments payable quarterly.

2013 Series A Bonds

On December 16, 2013 the Cooperative issued \$6,500,000 of First Mortgage Bonds, 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 fixed rate of 4.1% with interest and principal payments payable quarterly.

2014 Series A Bonds

On June 27, 2014 the Cooperative issued \$9,650,000 of First Mortgage Bonds, 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 fixed rate of 3.95% 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.

Vermont Electric Cooperative, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 6 LONG-TERM DEBT (continued)

NRECA Loans

NRECA Retirement & Security program loan represents amounts due for employee benefit prior service costs. The loans have a term of 10 years and bear interest at 6.45% with quarterly installments paid in March, June, September and December of each year.

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

Year Ending December,		
2015	\$	3,324,427
2016		3,330,904
2017		3,437,396
2018		3,547,333
2019		3,662,660
Thereafter		55,505,394
	\$	72,808,114

The Cooperative's short term credit facility consists of a revolving line of credit agreement and security agreement provide for a short term credit facility that can provide for up to twenty 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 ten million in aggregate. The short term credit facility is available from two Cooperative lenders. The Cooperative had drawn short term loans of \$3,000,000 and \$3,000,000, as of December 31, 2014 and 2013, respectively. Advances under this line of credit bear a variable rate of interest, which was 3.05% at December 31, 2014. The credit facilities have maturity dates of December 18, 2018 and February 21, 2018.

NOTE 7 LEASES

Capital Leases

Leases that meet the criteria of capital leases have been capitalized and the related assets are included in electric plant in service as follows:

	2014	2013
General Plant	\$ 363,597	\$ 363,597
Less: Accumulated Amortization	145,439	127,259
	\$ 218,158	\$ 254,518

Vermont Electric Cooperative, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 7 LEASES (continued)

Future minimum lease payments under the capital lease, together with present value of the net minimum lease payments, as of December 31, 2014 are as follows:

Year Ending December 31,:		
2015	\$	31,259
2016		31,259
2017		31,259
2018		31,259
2019		31,259
Thereafter		187,555
Total minimum lease payments		343,850
Less amount representing interest		(92,580)
Present value of the minimum lease payments		251,270
Less current installments		(16,635)
Capital lease obligations, excluding current installments	\$	234,635

Operating Leases

The Cooperative has several non-cancelable operating leases for vehicles and equipment. The future minimum lease payments under these non-cancelable operating leases as of December 31, are as follows:

Year Ending December 31,		
2015	\$	474,834
2016		342,855
2017		216,109
2018		170,783
2019		118,726
Thereafter		92,636
	\$	1,415,943

Total operating lease expense for 2014 and 2013 was \$524,028 and \$584,206, respectively.

Vermont Electric Cooperative, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 8 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. In this multi-employer plan, which is available to all member cooperatives of NRECA, the accumulated benefits and plan assets are not determined or allocated separately by individual employer. The plan sponsor's Employer Identification Number is 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 2014 and 2013 represent less than 5 percent of the total contributions made to the plan by all participating employers. At December 31, 2014 and 2013 The Cooperative made contributions to the plan of \$1,026,152 and \$1,080,286, respectively. There have been no significant changes that affect the comparability of 2014 and 2013 contributions. Pension expense for the prior service costs for December 31, 2014 and 2013 was \$26,338 and \$28,073, respectively.

In the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was over 80% funded on January 1, 2014 and over 80% funded on January 1, 2013, 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.

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 generally makes non-elective annual contributions to the plan on behalf of each participant. 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 were \$30,930 at December 31, 2014 and are reported in investments.

NOTE 9 COMMITMENTS AND CONTINGENCIES

Power Contracts

In 2014 and 2013, the Cooperative has entered into contracts with EDF Trading, Exelon, PSEG, NextEra and BP Energy to replace expiring contracts covering from one year to twenty years based on forecasted power usage.

Vermont Electric Cooperative, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 9 COMMITMENTS AND CONTINGENCIES (continued)

The Cooperative entered into a contract in the first quarter of 2009 with First Wind Energy for 20 MW of nameplate capacity for a wind farm to be 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 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.

The Cooperative entered into a contract for a peaking generating unit with Vermont Public Power Supply Authority (VPPSA) in the second quarter of 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 extend 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 utilities membership in 2012.

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. Agreements to sell the REC's have been executed with EDF Trading, PSEG and Energy America. The contracts are for REC's generated from 2013 through 2016.

All power contracts serve the entire load of the Cooperative, net of required purchases from independent power producers and the State of Vermont.

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 an 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, 2014 and 2013, respectively.

Vermont Electric Cooperative, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 10 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, 2014:

Change in benefit obligation:	
Benefit obligation at beginning of year	\$ 334,223
Benefits paid	<u>(33,265)</u>
Benefit obligation at end of year	<u>\$ 301,332</u>
Change in plan assets:	
Employer contribution	\$ 32,891
Benefits paid	<u>(32,891)</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 three years are as follows:

2015	\$ 32,890
2016	32,890
2017	29,170
2018	29,170
2019	29,170
2020-2023	88,742

Assumptions

Weighted average assumptions used to determine the benefit obligation as of December 31, 2014 and the periodic benefit cost for the fiscal year then ended are as follows:

Discount rate – beginning of year	3.50%
Discount rate – end of year	2.50%
Rate of compensation increase	N/A

NOTE 11 SALE-LEASE BACK AGREEMENT

On December 28, 2005, the Cooperative entered into a sale-leaseback agreement for a portion of a property sale of land and buildings. Under the agreement the Cooperative has conveyed title to the land and buildings, however, will leaseback a warehouse and the portion of land where the warehouse is located under a capital lease transaction.

Vermont Electric Cooperative, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 11 SALE-LEASE BACK AGREEMENT (continued)

The Cooperative will lease the warehouse facility for \$45,000 per year for a period of 20 years, which consists of an initial 5 year term and three subsequent 5 year renewal periods. The Cooperatives obligations are disclosed as part of the Note 6 – Leases.

The portion of the gain on sale of assets for the warehouse was deferred and is being amortized over the term of the lease agreement. The Cooperative had a deferred gain of \$69,896 and \$76,256, as of December 31, 2014 and 2013, respectively.

NOTE 12 SUPPLEMENTAL CASH FLOW INFORMATION

	<u>2014</u>	<u>2013</u>
Cash paid during the year for interest	<u>\$ 3,260,546</u>	<u>\$ 3,027,854</u>

NOTE 13 SUBSEQUENT EVENT

In accordance with professional accounting standards, the Cooperative has evaluated subsequent events through March 6, 2015, the date which the financial statements were available to be issued. All subsequent events requiring recognition as of December 31, 2014 have been incorporated into these financial statements herein.

Vermont Electric Cooperative, Inc.

ADDITIONAL REPORTS REQUIRED BY
THE SINGLE AUDIT ACT

December 31, 2014

Vermont Electric Cooperative, Inc.
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended December 31, 2014

Federal Grantor/ Pass-through Grantor/ Program Title	Grantor Pass-through Number	Federal CFDA Number	Expended
US DEPARTMENT OF ENERGY,			
Passed through Vermont Transco, LLC:			
Electricity Delivery and Energy Reliability, Research, Development and Analysis (ARRA)	DE-OE0000315	81.122	\$ 115,727
US DEPARTMENT OF COMMERCE			
Direct Assistance:			
Economic Development Administration Grant		11.307	419,968
US DEPARTMENT OF HOMELAND SECURITY			
Passed through State of Vermont			
Department of Public Safety FEMA - Public Assistance Grant	02140-84163-008	97.036	<u>4,379,091</u>
TOTAL			<u>\$ 4,914,786</u>

The Schedule of Expenditures of Federal Awards was prepared using the significant accounting policies outlined in Note 1 to the basic financial statements. The Schedule of Expenditures of Federal Awards includes expenses incurred in 2013 of \$3,969,340 but approved and reimbursed by the Department of Homeland Security during 2014.



Kittell Branagan & Sargent

Certified Public Accountants

Vermont License #167

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 Trustees of
Vermont Electric Cooperative, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Vermont Electric Cooperative, Inc., as of and for the year ended December 31, 2014, and the related statement of operations, equities and cash flows for the year then ended and notes to the financial statements, which collectively comprise Vermont Electric Cooperative, Inc.'s basic financial statements, and have issued our report thereon dated March 6, 2015.

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 opinions 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.

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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

 **Brasner & Sargent**

St. Albans, Vermont
March 6, 2015



Kittell Branagan & Sargent

Certified Public Accountants

Vermont License # 167

INDEPENDENT AUDITORS REPORT ON
COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND
REPORT ON THE SCHEDULE OF FEDERAL AWARDS
REQUIRED BY OMB CIRCULAR A-133

To the Board of Trustees of
Vermont Electric Cooperative, Inc.

Report on Compliance for Each Major Federal Program

We have audited Vermont Electric Cooperative, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 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, 2014. Vermont Electric Cooperative, Inc.'s major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Vermont Electric Cooperative, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Vermont Electric Cooperative, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Vermont Electric Cooperative, Inc.'s compliance.

Opinion on Each Major Federal Program

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, 2014.

Report on Internal Control Over Compliance

Management of Vermont Electric Cooperative, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Vermont Electric Cooperative, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Vermont Electric Cooperative, Inc.'s internal control over compliance.

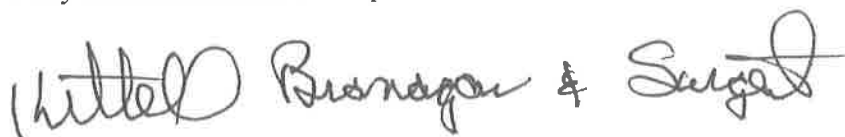
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of Vermont Electric Cooperative, Inc. as of and for the years ended December 31, 2014 and 2013, and have issued our report thereon dated March 6 2015, which contained an unmodified opinion on those financial statements. 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 is presented for purposes of additional analysis as required by OMB Circular A-133 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 expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.



Vermont Electric Cooperative, Inc.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2014

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Vermont Electric Cooperative, Inc..
2. There were no significant deficiencies disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of Vermont Electric Cooperative, Inc. were disclosed during the audit.
4. There were no significant deficiencies disclosed during the audit of the major federal award programs.
5. The auditor's report on compliance for the major federal award programs for Vermont Electric Cooperative, Inc. expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award programs for Vermont Electric Cooperative, Inc.
7. The programs tested as a major program were:
 - CFDA #11.307 Economic Development Administration Grant
 - CFDA #97.036 FEMA – Public Assistance Grant
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Vermont Electric Cooperative, Inc. was 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.