

Vermont Electric Cooperative, Inc.

FINANCIAL STATEMENTS

December 31, 2020

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 financial statements of Vermont Electric Cooperative, Inc. (a nonprofit member owned cooperative), which comprise the balance sheets as of December 31, 2020 and 2019, 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 audit. 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. 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, 2020 and 2019, and the changes in its equities and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 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 16, 2021, 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, Brannagan + Sargent*

St. Albans, Vermont  
March 16, 2021

Vermont Electric Cooperative, Inc.  
BALANCE SHEETS  
December 31,

ASSETS

	<u>2020</u>	<u>2019</u>
ELECTRIC PLANT, at cost	\$ 188,089,529	\$ 176,223,429
Less accumulated depreciation	<u>(57,534,435)</u>	<u>(53,184,609)</u>
Electric plant in service, net	130,555,094	123,038,820
Construction work in progress	<u>3,259,539</u>	<u>2,438,870</u>
TOTAL ELECTRIC PLANT, net	<u>133,814,633</u>	<u>125,477,690</u>
 CURRENT ASSETS		
Cash	451,022	700,955
Accounts receivable, net of allowance of \$260,032 and \$74,812 at December 31, 2020 and 2019, respectively	6,835,136	7,077,187
Unbilled revenue	5,223,098	4,955,045
Inventories	5,417,204	5,144,283
Prepaid expenses	<u>555,891</u>	<u>507,858</u>
TOTAL CURRENT ASSETS	<u>18,482,351</u>	<u>18,385,328</u>
 OTHER ASSETS		
Nonutility property	65,697	65,697
Other investments	<u>44,632,770</u>	<u>42,976,179</u>
TOTAL OTHER ASSETS	<u>44,698,467</u>	<u>43,041,876</u>
 TOTAL ASSETS	<u>\$ 196,995,451</u>	<u>\$ 186,904,894</u>

LIABILITIES AND EQUITY

EQUITIES		
Patronage capital assignable	\$ 83,657,906	\$ 80,417,770
Other equities	<u>1,679,232</u>	<u>1,569,955</u>
NET EQUITY	<u>85,337,138</u>	<u>81,987,725</u>
 LONG-TERM DEBT	<u>87,631,582</u>	<u>82,443,707</u>
 OBLIGATIONS UNDER CAPITAL LEASE	<u>110,919</u>	<u>134,742</u>
 DEFERRED COMPENSATION PLAN	<u>307,343</u>	<u>273,231</u>
 CURRENT LIABILITIES		
Current portion of long-term debt	5,935,033	4,629,904
Current portion of capital lease obligations	23,823	22,439
Revolving debt	3,400,000	3,950,878
Accounts payable	7,595,230	6,929,557
Customer deposits	1,862,177	1,723,522
Deferred credits	1,139,741	1,649,931
Deferred grant revenues	706,915	386,282
Other accrued expenses	<u>2,945,550</u>	<u>2,772,976</u>
TOTAL CURRENT LIABILITIES	<u>23,608,469</u>	<u>22,065,489</u>
 TOTAL LIABILITIES AND EQUITY	<u>\$ 196,995,451</u>	<u>\$ 186,904,894</u>

See Accompanying Notes to Financial Statements.

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

	<u>2020</u>	<u>2019</u>
OPERATING REVENUE	<u>\$ 79,377,526</u>	<u>\$ 77,145,301</u>
OPERATING EXPENSES		
Purchased power	36,113,236	35,560,277
Transmission:		
Operations	12,648,508	13,264,389
Maintenance	574,674	286,538
Distribution:		
Operations, including vehicle depreciation expense of \$433,458 and \$314,528 in 2020 and 2019, respectively	7,460,048	6,580,646
Maintenance	7,610,053	7,291,957
Customer accounts	2,613,860	2,573,871
Administrative and general	3,904,884	3,980,181
General plant maintenance	301,787	263,721
Depreciation	6,143,106	5,966,284
Taxes	796,987	761,504
Other deductions, net	15,119	75,280
TOTAL OPERATING EXPENSES	<u>78,182,262</u>	<u>76,604,648</u>
INCOME FROM OPERATIONS	<u>1,195,264</u>	<u>540,653</u>
OTHER INCOME		
Renewable energy credits	1,419,414	1,815,000
Gain (Loss) on sale of fixed assets	24,692	89,491
Other income	111,897	152,557
Interest and dividend income	5,026,725	4,989,882
Other capital credits & dividends	628,954	554,671
TOTAL OTHER INCOME	<u>7,211,682</u>	<u>7,601,601</u>
NET INCOME BEFORE INTEREST CHARGES	<u>8,406,946</u>	<u>8,142,254</u>
INTEREST CHARGES		
Interest on long-term debt	3,565,631	3,573,997
Other interest	127,992	183,195
TOTAL INTEREST CHARGES	<u>3,693,623</u>	<u>3,757,192</u>
NET INCOME	<u>\$ 4,713,323</u>	<u>\$ 4,385,062</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, 2018	\$ 77,352,136	\$ 958,431	\$ 214,645	\$ 73,949	\$ -	\$ 78,599,161
Net income for the year	-	-	-	-	4,385,062	4,385,062
Transfer to patronage capital assignable	4,385,062	-	-	-	(4,385,062)	-
Retirement of capital credits	<u>(1,319,428)</u>	<u>322,930</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(996,498)</u>
BALANCE, at December 31, 2019	80,417,770	1,281,361	214,645	73,949	-	81,987,725
Net income for the year	-	-	-	-	4,713,323	4,713,323
Transfer to patronage capital assignable	4,713,323	-	-	-	(4,713,323)	-
Retirement of capital credits	<u>(1,473,187)</u>	<u>109,277</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,363,910)</u>
BALANCE, at December 31, 2020	<u>\$ 83,657,906</u>	<u>\$ 1,390,638</u>	<u>\$ 214,645</u>	<u>\$ 73,949</u>	<u>\$ -</u>	<u>\$ 85,337,138</u>

See Accompanying Notes to Financial Statements

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

	<u>2020</u>	<u>2019</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 4,713,323	\$ 4,385,062
Noncash expenses (income) included in earnings:		
Depreciation	6,576,564	6,280,812
Amortization	34,308	34,308
(Gain)/Loss on sale of fixed assets	(24,692)	(89,491)
Hydro Quebec disallowance	(6,961)	(14,309)
Changes in assets and liabilities:		
Decrease in accounts receivable	(26,002)	(784,776)
Decrease (increase) in inventories	(272,921)	(189,433)
Decrease (increase) in prepaid expenses	(48,033)	(57,136)
Decrease in accounts payable	665,673	(658,630)
Increase in customer deposits	138,655	283,118
Decrease in accrued expenses	172,574	(649,832)
Decrease in deferred grant revenues	320,633	(192,116)
Decrease in deferred credits	<u>(510,190)</u>	<u>1,601,092</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>11,732,931</u>	<u>9,948,669</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to electric plant in service and construction work in progress	(14,911,612)	(11,603,191)
Proceeds from sale of electric plant in service	29,760	60,812
Return on capital investments	(258,541)	(292,705)
Purchase of investments	<u>(1,363,940)</u>	<u>(798,960)</u>
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<u>(16,504,333)</u>	<u>(12,634,044)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from long-term borrowings	11,088,600	7,500,000
Principal payments to creditors related to long-term borrowings	(4,629,904)	(4,375,915)
Net borrowing (payment) on line of credit	(550,878)	(749,122)
Patronage capital retired, net	(1,363,910)	(996,498)
Principal payments under capital lease obligations	<u>(22,439)</u>	<u>(21,135)</u>
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<u>4,521,469</u>	<u>1,357,330</u>
<b>NET DECREASE IN CASH</b>	(249,933)	(1,328,045)
<b>CASH - Beginning of Year</b>	<u>700,955</u>	<u>2,029,000</u>
<b>CASH - End of Year</b>	<u>\$ 451,022</u>	<u>\$ 700,955</u>

See Accompanying Notes to Financial Statements



Vermont Electric Cooperative, Inc.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020

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. 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, 2020 the Cooperative had cash balance at two local financial institutions in excess of the \$250,000 that is insured by the FDIC. At December 31, 2020 the total balance held by these financial institutions was fully insured by the FDIC.

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.

Inventories

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

Vermont Electric Cooperative, Inc.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 PUC. 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 2020 and 2019, the Cooperative received \$2,697,749 and \$1,948,376, 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, 2017, 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 2020 and 2019, the Cooperative paid \$3,749,695 and \$3,540,044 for property taxes, \$418,942 and \$397,104 for gross revenue taxes and \$378,046 and \$364,399, 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.

Vermont Electric Cooperative, Inc.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020

NOTE 2 ELECTRIC PLANT IN SERVICE

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

<u>December 31, 2020</u>	<u>Depreciable Life/Rate Per Year</u>	
Transmission Plant	2.75%	\$ 20,797,039
Distribution Plant	3.00%	142,779,627
Buildings and Structures	20-50	6,646,331
Transportation Equipment	5-10	4,020,728
General Plant	3-10	<u>13,845,804</u>
		<u>\$188,089,529</u>

  

<u>December 31, 2019</u>	<u>Depreciable Life/Rate Per Year</u>	
Transmission Plant	2.75%	\$ 18,335,391
Distribution Plant	3.00%	137,443,821
Buildings and Structures	20-50	4,231,078
Transportation Equipment	5-10	3,453,400
General Plant	3-10	12,766,700
Hydro Quebec Disallowance	17	<u>(6,961)</u>
		<u>\$176,223,429</u>

Depreciation of electric plant in service totaled \$6,576,564 and \$6,280,812 in 2020 and 2019, respectively.

- Reduction in power supply costs for 2020 and 2019 was \$6,961 and \$14,309, respectively. The disallowance was fully amortized in 2020 at the conclusion of the Hydro-Quebec Participation Agreement.

Vermont Electric Cooperative, Inc.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020

NOTE 3 OTHER INVESTMENTS

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

	<u>2020</u>	<u>2019</u>
Investments in associated organizations		
National Rural Utilities Cooperative Finance Corporation (CFC) membership	\$ 3,183,858	\$ 3,109,105
Southeastern Data Cooperative capital credit	1,635	1,635
CoBank Capital Credit	1,380,702	1,238,943
NISC Capital Credit	250,737	225,209
Cooperative Response Center	18,475	17,523
Federated Rural Electric Insurance Exchange	<u>73,207</u>	<u>60,700</u>
	<u>4,908,614</u>	<u>4,653,115</u>
Other investments		
Vermont Electric Power Company common stock	1,691,775	1,691,775
Vermont Transco, LLC Stock	37,283,825	35,919,885
New England Hydro-Transmission Corporation Common Stock	438,039	438,039
Other	<u>310,517</u>	<u>273,365</u>
	<u>39,724,156</u>	<u>38,323,064</u>
 TOTAL OTHER INVESTMENTS	 <u>\$ 44,632,770</u>	 <u>\$ 42,976,179</u>

NOTE 4 PATRONAGE CAPITAL & OTHER CAPITAL

Patronage capital at December 31, included:

	<u>2020</u>	<u>2019</u>
Assignable	\$ 4,713,323	\$ 4,385,062
Assigned to date	<u>86,909,240</u>	<u>82,524,178</u>
	91,622,563	86,909,240
Less: Retirements to date	<u>(7,964,657)</u>	<u>(6,491,470)</u>
	<u>\$ 83,657,906</u>	<u>\$ 80,417,770</u>

Vermont Electric Cooperative, Inc.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020

NOTE 4 PATRONAGE CAPITAL & OTHER CAPITAL (continued)

Other capital credits at December 31, included:

	<u>2020</u>	<u>2019</u>
Retired capital credits - gain	\$ 257,562	\$ 225,439
Retired capital credits - unlocated	1,092,028	1,022,003
Retired capital credits - no checks	<u>41,048</u>	<u>33,919</u>
	<u>\$ 1,390,638</u>	<u>\$ 1,281,361</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>2020</u>	<u>2019</u>
2002 Series A bonds, 5.70%, due through 2027	\$ 771,826	\$ 862,704
2003 Series A bonds, 6.64%, due through 2028	685,088	758,239
2003 Series B bonds, 6.60%, due through 2023	102,526	134,070
2004 Series A bonds, 4.25% - 6.70%, due through 2034	14,099,400	14,790,604
2005 Series A bonds, 2.84% - 6.90%, due through 2034	1,627,283	1,796,979
2006 Series A bonds, 4.85% - 6.85%, due through 2035	3,041,391	3,167,496
2008 Series A bonds, 3.26% - 5.69%, due through 2023	1,693,125	2,370,375
2008 Series B bonds, 2.09%, due through 2038	2,684,874	2,836,134
2009 Series A bonds, 3.10%, due through 2039	4,596,039	4,751,748
2010 Series A bonds, 1.25% - 4.58%, due through 2035	4,939,008	5,426,742
2012 Series A bonds, 3.41%, due through 2032	3,279,089	3,508,257
2012 Series B bonds, 3.26%, due through 2027	2,003,750	2,254,608
2013 Series A bonds, 4.10%, due through 2033	4,803,053	5,076,160
2014 Series A bonds, 3.95%, due through 2034	7,314,855	7,715,168
2016 Series A bonds, 2.81%, due through 2046	8,536,998	8,761,310
2016 Series B bonds, 4.45%, due through 2046	7,897,186	8,058,036
2017 Series A bonds, 4.30%, due through 2037	7,174,837	7,461,737
2019 Series A bonds, 3.40%, due through 2049	7,313,455	7,463,320

Vermont Electric Cooperative, Inc.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020

NOTE 5      LONG-TERM DEBT (continued)

	<u>2020</u>	<u>2019</u>
2020 Series A bonds, 1.86%, due through 2050	8,500,000	-
2020 PPP Loan, 1.00%, due through 2022 unless forgiven.	<u>2,588,600</u>	<u>-</u>
Total long-term debt before unamortized debt issuance costs	<u>93,652,383</u>	<u>87,193,687</u>
Unamortized debt issuance cost	<u>(85,768)</u>	<u>(120,076)</u>
Total long-term debt	93,566,615	87,073,611
Less: Current installments of long-term debt	<u>(5,935,033)</u>	<u>(4,629,904)</u>
<b>TOTAL LONG-TERM DEBT</b>	<b><u>\$87,631,582</u></b>	<b><u>\$82,443,707</u></b>

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, 2020, 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, 2020, 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 interest at 6.60% at December 31, 2020, with interest and principal payable quarterly.

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  
December 31, 2020

NOTE 5      LONG-TERM DEBT (continued)

	<u>2020</u>	<u>2019</u>
VT0079024002 - 4.41% Fixed 15 Years	\$ 2,764,864	\$ 2,904,947
VT0079024003 - 4.25% Fixed 19 Years	1,344,669	1,418,793
VT0079024004 - 4.65% Fixed 16 Years	2,760,201	2,907,750
VT0079024005 - 6.40% Fixed 25 Years	1,446,587	1,512,717
VT0079024006 - 6.45% Fixed 30 Years	2,899,745	3,031,778
VT0079024007 - 6.45% Fixed 25 Years	1,374,195	1,436,765
VT0079024008 - 6.70% Fixed 27 Years	<u>1,509,139</u>	<u>1,577,854</u>
	<u>\$14,099,400</u>	<u>\$14,790,604</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 2.84% to 6.90% at December 31, 2020.

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, 2020, 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 bear interest at 3.26% and 5.69% at December 31, 2020, with interest and principal payments payable quarterly.

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, 2020, 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, 2020, with interest and principal payments payable quarterly.

Vermont Electric Cooperative, Inc.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020

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 1.25% and 4.58% at December 31, 2020, 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, 2020 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, 2020 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 4.10% at December 31, 2020 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, 2020 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, 2020 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, 2020 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, 2020 with interest and principal payments payable quarterly.



Vermont Electric Cooperative, Inc.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020

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 plan additions. The bonds have 30 year terms and bear interest at a rate of 3.40% at December 31, 2020 with interest and principal payments payable quarterly.

2020 Paycheck Protection Program Loan (PPP)

On April 22, 2020 the Cooperative received \$2,588,600 for their application to the Federal PPP loan request. The Cooperative believes it has met all requirements for loan forgiveness and has applied for such. We are expecting forgiveness results from our application in early 2021.

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 plan additions. The bonds have 30 year terms and bear interest at a rate of 1.86% at December 31, 2020 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,	
2021	\$ 5,935,033
2022	6,835,572
2023	5,059,036
2024	4,858,952
2025	5,043,847
Thereafter	<u>65,919,943</u>
	<u><u>\$ 93,652,383</u></u>

The Cooperative's short term credit facility consists of a revolving line of credit agreement and security agreement that can provide for up to fifteen 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 \$3,400,000 and \$3,950,878, as of December 31, 2020 and 2019, respectively. Advances under this line of credit bear a variable rate of interest, which was 3.29% at December 31, 2020. The credit facilities have maturity date of December 31, 2022.

Vermont Electric Cooperative, Inc.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020

NOTE 6      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:

	<u>2020</u>	<u>2019</u>
General Plant	\$ 363,597	\$ 363,597
Less: Accumulated Amortization	<u>269,668</u>	<u>254,518</u>
	<u>\$ 93,929</u>	<u>\$ 109,079</u>

Future minimum lease payments under the capital lease, together with present value of the net minimum lease payments, as of December 31, 2020 are as follows:

<u>Year Ending December 31,:</u>	
2021	\$ 31,259
2022	31,259
2023	31,259
2024	31,259
2025	<u>31,259</u>
Total minimum lease payments	156,295
Less amount representing interest	<u>(21,553)</u>
Present value of the minimum lease payments	134,742
Less current installments	<u>(23,823)</u>
Capital lease obligations, excluding current installments	<u>\$ 110,919</u>

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:

<u>Year Ending December 31,</u>	
2021	\$ 146,586
2022	40,879
2023	40,879
2024	40,879
2025	13,626
Thereafter	<u>-</u>
	<u>\$ 282,849</u>

Total operating lease expense for 2020 and 2019 was \$255,130 and \$344,127, respectively.

Vermont Electric Cooperative, Inc.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020

NOTE 7 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 2020 and 2019 represent less than 5 percent of the total contributions made to the plan by all participating employers. At December 31, 2020 and 2019 The Cooperative made contributions to the plan of \$1,179,781 and \$1,129,814, respectively. There have been no significant changes that affect the comparability of 2020 and 2019 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, 2019 and over 80% funded on January 1, 2018, 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 has the option to make elective annual contributions to the plan on behalf of each participant. No such contributions were made in 2020 and 2019 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, 2020 and 2019 was \$307,343 and \$273,231, respectively.

Vermont Electric Cooperative, Inc.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020

NOTE 8      COMMITMENTS AND CONTINGENCIES

Power Contracts

In 2020 and 2019, the Cooperative has entered into contracts with Engie, Emera Energy and Hydro Quebec to replace expiring contracts covering from two to twenty years based on forecasted power usage.

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 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 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 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.

Vermont Electric Cooperative, Inc.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020

NOTE 8      COMMITMENTS AND CONTINGENCIES (continued)

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 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 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 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 2024.

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, 2020 and 2019, respectively.

NOTE 9      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, 2020.

Vermont Electric Cooperative, Inc.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020

NOTE 9 POSTRETIREMENT MEDICAL AND LIFE PLAN (continued)

Change in benefit obligation:

Benefit obligation at beginning of year	\$ 172,082
Interest Cost	-
Benefits paid	(18,902)
Actuarial loss	<u>-</u>
Benefit obligation at end of year	<u>\$ 153,180</u>

Change in plan assets:

Employer contribution	\$ 18,902
Benefits paid	<u>(18,902)</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:

2021	\$ 18,902
2022	16,466
2023	16,466
2024	14,030
2025	14,030
2026-2028	42,090

Assumptions

Weighted average assumptions used to determine the benefit obligation as of December 31, 2020 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 10 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.

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 \$31,736 and \$38,096, as of December 31, 2020 and 2019, respectively.

Vermont Electric Cooperative, Inc.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020

NOTE 11      SUPPLEMENTAL CASH FLOW INFORMATION

	<u>2020</u>	<u>2019</u>
Cash paid during the year for interest	<u>\$ 3,700,076</u>	<u>\$ 3,736,472</u>

NOTE 13      RISKS & UNCERTAINTIES

During the past year, a global pandemic was declared regarding COVID-19 Coronavirus. As a result of the spread of the virus, economic uncertainties have arisen which may cause a disruption to business operations. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and additional government actions to mitigate them. Accordingly, while management expects this matter to impact operating results, the related financial impact and duration cannot be reasonably estimated.

Due to these economic uncertainties the Cooperative applied for and received Federal support and aid funding through the Paycheck Protection Program (aka 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. The Cooperative has applied for forgiveness of debt. As of the issuance of this report the debt had not yet been forgiven however the potential for such an event exists.

NOTE 14      SUBSEQUENT EVENTS

The Cooperative received approval in 2020 from the Vermont Public Utilities Commission to issue a new \$36 million bond. The bond is expected to be available for draws in early 2<sup>nd</sup> quarter of 2021. The bond proceeds will be used to fund new capital infrastructure, purchase additional shares of Transco stock and fund other potential asset acquisitions.

In accordance with professional accounting standards, the Cooperative has evaluated subsequent events through March 16, 2021, the date which the financial statements were available to be issued. All subsequent events requiring recognition as of December 31, 2020 have been incorporated into these financial statements herein.

Vermont Electric Cooperative, Inc.

ADDITIONAL REPORTS REQUIRED BY  
THE SINGLE AUDIT ACT

December 31, 2020



Vermont Electric Cooperative, Inc.  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Year Ended December 31, 2020

Federal Grantor/ Pass-through Grantor/ Program Title	Grantor Pass-through Number	Federal CFDA Number	Expended	Expenditures to Subrecipients
US DEPARTMENT OF HOMELAND SECURITY				
Passed through State of Vermont				
Department of Public Safety				
FEMA - Public Assistance Grant - 2017	02140-84356-033	97.036	\$ 386,282	\$ -
FEMA - Public Assistance Grant - 2018	02140-84380-009	97.036	148,799	-
FEMA - Public Assistance Grant - 2019	02140-84474-053	97.036	<u>615,879</u>	<u>-</u>
TOTAL			<u>\$ 1,150,960</u>	<u>\$ -</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 2019 of \$615,879 but obligated and reimbursed by the Department of Homeland Security during 2020.



**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  
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 the governmental activities, each major fund, and the aggregate remaining fund information of Vermont Electric Cooperative, Inc., as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise Vermont Electric Cooperative, Inc.'s basic financial statements, and have issued our report thereon dated March 16, 2021.

**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.

A handwritten signature in dark ink that reads "Kittell, Brannan + Sargent". The signature is written in a cursive, flowing style. The word "Kittell," is followed by "Brannan +", which is followed by "Sargent". The plus sign is written as a simple cross. The signature ends with a long, horizontal flourish.

St. Albans, Vermont  
March 16, 2021



**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  
Johnson, Vermont

**Report on Compliance for Each Major Federal Program**

We have audited the 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 the Vermont Electric Cooperative, Inc.'s major federal programs for the year ended December 31, 2020. 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.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the 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 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). Those standards and the Uniform Guidance 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 the 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 the Vermont Electric Cooperative, Inc.'s compliance.



### **Opinion on Each Major Federal Program**

In our opinion, the 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, 2020.

### **Report on Internal Control over Compliance**

Management of the 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 the 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 the Uniform Guidance, 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 the 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



St. Albans, Vermont  
March 16, 2021

Vermont Electric Cooperative, Inc.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
December 31, 2020

**A. SUMMARY OF AUDIT RESULTS**

1. The auditor's report expresses an unmodified opinion on the financial statements 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 unmodified opinion.
6. There were no audit findings relative to the major federal award programs for Vermont Electric Cooperative, Inc..
7. The programs tested as major programs were:  

CFDA #97.036      FEMA – Public Assistance Grant
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.