

Town of Stowe Electric Department

FINANCIAL STATEMENTS

June 30, 2021

Town of Stowe Electric Department
TABLE OF CONTENTS
June 30, 2021

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	
FINANCIAL STATEMENTS	
Statements of Net Position	1
Statements of Revenues, Expenditures and Changes in Net Position	2
Statements of Cash Flows	3
Notes to Financial Statements	5
	<u>Report</u>
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 <i>Governmental Auditing Standards</i>	1



Kittell Branagan & Sargent

Certified Public Accountants

Vermont License # 167

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners,
Town of Stowe Electric Department
Stowe, Vermont

We have audited the accompanying financial statements of the Town of Stowe Electric Department, a fund of the Town of Stowe, Vermont, as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, as listed in the table of contents.

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 opinions 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Town of Stowe Electric Department, component unit of the Town of Stowe, Vermont, as of June 30, 2021 and 2020, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Town of Stowe, Vermont Electric Department and do not purport to, and do not present fairly the financial position of the Town of Stowe, Vermont, as of June 30, 2021 and 2020, the changes in its financial position and cash flows, where applicable, for the years then ended in the conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Management has omitted the management discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements of the Town of Stowe, Vermont Electric Department.

The financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such 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 financial statements are 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 October 22, 2021, on our consideration of the Town of Stowe, Vermont Electric Department'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 the Town of Stowe, Vermont Electric Department'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 the Town of Stowe, Vermont Electric Department's internal control over financial reporting and compliance.



St. Albans, Vermont
October 22, 2021

Town of Stowe Electric Department
STATEMENTS OF NET POSITION
June 30,

<u>ASSETS</u>	<u>2021</u>	<u>2020</u>
CURRENT ASSETS		
Cash	\$ 2,774,375	\$ 1,743,515
Accounts receivable, net of allowance	903,231	765,980
Unbilled revenue	993,666	950,369
Accrued interest receivable	176,750	168,137
Inventories	272,179	320,818
Prepaid expenses	82,060	73,364
TOTAL CURRENT ASSETS	5,202,261	4,022,183
CASH - Restricted	757,205	1,250,958
UTILITY PLANT, net	12,854,950	12,541,086
INVESTMENTS	5,735,542	5,735,542
DEFERRED CHARGES, net of amortization	14,877	15,505
TOTAL ASSETS	\$ 24,564,835	\$ 23,565,274
<u>LIABILITIES, DEFERRED INFLOWS AND NET POSITION</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 960,406	\$ 672,578
Other accrued expenses	610,141	528,028
Due to Town	150,354	202,659
Accrued interest payable	53,988	60,143
Current portion of notes payable	301,328	862,447
Current portion of general obligation bonds	262,080	262,080
TOTAL CURRENT LIABILITIES	2,338,297	2,587,935
LONG-TERM LIABILITIES		
Notes payable (net of current portion)	3,120,089	2,848,339
General obligation bonds (net of current portion)	4,794,520	5,056,600
TOTAL LONG-TERM LIABILITIES	7,914,609	7,904,939
TOTAL LIABILITIES	10,252,906	10,492,874
NET POSITION		
Net investment in Capital Assets	8,320,214	7,552,854
Restricted	609,754	606,718
Unrestricted	5,381,961	5,519,546
TOTAL NET POSITION	14,311,929	13,072,400
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	\$ 24,564,835	\$ 23,565,274

See Notes to Financial Statements.

Town of Stowe Electric Department
STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN NET POSITION
For the Years Ended June 30,

	<u>2021</u>	<u>2020</u>
OPERATING REVENUE	\$ 12,018,527	\$ 12,178,415
OPERATING EXPENSES		
Purchased power	7,157,726	7,930,836
Distribution and transmission	1,293,160	1,294,872
Customer accounts	574,637	413,369
Administrative and general	1,520,660	1,526,910
Depreciation	643,305	637,825
Amortization	628	972
Taxes	<u>117,772</u>	<u>125,738</u>
TOTAL OPERATING EXPENSES	<u>11,307,888</u>	<u>11,930,522</u>
GAIN FROM OPERATIONS	<u>710,639</u>	<u>247,893</u>
OTHER INCOME/(EXPENSES)		
Interest and dividend income	748,509	845,515
Other non-operating income	28,919	(550,925)
Gain on sale of asset	31,634	8,563
Interest expense	<u>(280,172)</u>	<u>(313,866)</u>
TOTAL OTHER INCOME/(EXPENSES)	<u>528,890</u>	<u>(10,713)</u>
CHANGES IN NET POSITION	1,239,529	237,180
NET POSITION, Beginning of Year	<u>13,072,400</u>	<u>12,835,220</u>
NET POSITION, End of Year	<u>\$ 14,311,929</u>	<u>\$ 13,072,400</u>

See Notes to Financial Statements.

Town of Stowe Electric Department
 STATEMENTS OF CASH FLOWS
 For the Years Ended June 30,

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 11,837,979	\$ 12,323,173
Payments for purchased power	(7,354,402)	(7,930,836)
Payments to suppliers	(1,539,778)	(2,487,966)
Payments to employees	<u>(1,412,196)</u>	<u>(1,382,376)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,531,603</u>	<u>521,995</u>
CASH FLOWS FROM NON-OPERATING ACTIVITIES		
Other receipts	<u>28,919</u>	<u>(620,925)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(957,167)	(649,021)
Proceeds from sale of capital assets	31,634	34,000
Interest payments on bonds payable	(146,878)	(161,284)
Interest payments on notes payable	(139,449)	(146,880)
Principal reduction of long-term debt	<u>(551,449)</u>	<u>(540,245)</u>
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(1,763,309)</u>	<u>(1,463,430)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipt of dividend and interest income	<u>739,896</u>	<u>879,549</u>
NET INCREASE/(DECREASE) IN CASH	537,109	(682,811)
CASH - Beginning of Year	<u>2,994,473</u>	<u>3,677,284</u>
CASH - End of Year	<u>\$ 3,531,580</u>	<u>\$ 2,994,473</u>

See Notes to Financial Statements.

Town of Stowe Electric Department
 STATEMENTS OF CASH FLOWS
 For the Years Ended June 30,

	<u>2021</u>	<u>2020</u>
Reconciliation of operating income to net cash provided(used) by operating activities		
Operating Gain	\$ 710,639	\$ 247,893
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	643,933	638,797
(Increase) decrease in:		
Accounts receivable	(137,251)	125,895
Unbilled revenue	(43,297)	18,863
Inventories	48,639	(86,917)
Prepaid expenses	(8,696)	(49,241)
Increase (decrease) in:		
Accounts payable	287,828	(578,888)
Due to Town	(52,305)	(21,165)
Other accrued expenses	<u>82,113</u>	<u>226,758</u>
Net cash provided by operating activities	<u>\$ 1,531,603</u>	<u>\$ 521,995</u>

See Notes to Financial Statements.

Town of Stowe Electric Department
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Stowe, Vermont - Electric Department (SED) is a municipally owned utility providing retail electric power to the residents of the Town of Stowe. SED is under the jurisdiction of the Federal Energy Regulatory Commission (FERC) and the Vermont Public Utility Commission with respect to their rates and accounting. For financial statement reporting purposes, the SED is presented on the accrual basis in accordance with the accounting requirements and ratemaking practices of the regulatory authority having jurisdiction.

The financial statements of SED have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. SED's significant accounting policies are described below.

Reporting Entity

SED is an enterprise fund of the Town of Stowe, Vermont. It is categorized as a separate proprietary fund and these financial statements are not intended to present fairly the financial position and results of its operations and the cash flows of the proprietary fund types of the Town of Stowe, Vermont. The primary criteria used in determining the separate nature of the SED is its special accounting and report practices required by various regulatory and statutory authorities.

Basis of Presentation

Enterprise funds are proprietary funds used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied.

Proprietary funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flow. All assets and liabilities (whether current or non-current) associated with their activities are reported. Proprietary fund equity is classified as net position.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

Town of Stowe Electric Department
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the SED's enterprise fund are charges to customers for sales and service. SED also recognizes as operating revenue the portion of fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Assets, Liabilities and Net Position

Cash and Cash Equivalents

For purposes of the statement of cash flows, SED considers all highly liquid investments, including restricted assets, with a maturity of three months or less when purchased to be cash equivalents.

Accounts Receivable

SED reads and bills one-half of the meters on the 6th of each month and the remainder of the meters on the 21st of each month. SED provides an allowance for uncollectible accounts for the estimated losses that will be incurred in the collection of all receivables. The estimated losses are based on the judgment of management and a review of the current status of existing receivables.

Unbilled Revenue

The amount shown as unbilled revenue represents the amounts billed to customers in July for June energy usage.

Inventories

Inventories, composed of various parts used in the electric system, are stated at cost.

Utility Plant

The utility plant of SED is stated at cost. SED follows the policy of charging to operating expenses annual amounts of depreciation, which allocate the cost of these assets over their estimated useful lives on a straight-line basis for periods of 5 - 50 years. Repairs and maintenance are expensed as incurred.

Investments

SED recognizes income from its affiliates in which it has ownership interests. This ownership includes investment in common and preferred stock of Vermont Electric Power Company, Inc. and membership units of VT Transco, LLC. These investments are recorded at cost because they are not publicly traded and market values are not readily determinable.

Compensated Absences

It is SED's policy to permit employees to accumulate earned but unused paid time off pay benefits. Employees may, depending on level and length of service, be paid for various amounts of their total accrued leave upon termination or retirement. SED accrues a liability for leave hours that meet the criteria for payment at the eligible employees' current rates of pay plus retirement benefits and employment taxes. The accrual for compensated absences was \$230,080 and \$203,768 at June 30, 2021 and 2020, respectively.

Town of Stowe Electric Department
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Long-term Obligations

Long-term debt and other long-term obligations are reported as liabilities in SED's balance sheets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as "other non-current assets" and amortized over the term of the related debt.

Equity Classifications

Equity is classified as net position and displayed in three components:

- a. Net investment in Capital Assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- b. Restricted net position – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments: or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position – All other net position that do not meet the definition of "restricted" or "Net investment in Capital Assets".

Deferred Inflows and Deferred Outflows of Resources

SED recognizes provisions of GASB 63, "Financial Reporting and Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position". This statement provides financial reporting guidance for deferred outflows and deferred inflows of resources.

Deferred outflow of resources- the current consumption of the net assets that is applicable to a future period.

Deferred inflows of resources- the current acquisition of net assets that is applicable to a future reporting period.

Net Position- the residual of assets, deferred outflows of resources, liabilities and deferred inflow of resources.

Revenue Recognition

Except for a few opt-out customers, SED meter reads are uploaded via Advanced Metering Infrastructure (AMI) technology on a monthly basis. Revenues are recorded in the accounting period during which the meters are read. Accordingly, the revenues related to energy delivered from the meter reading date to the end of the accounting period are not significant and are recorded in the following period.

Town of Stowe Electric Department
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 to the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 CASH

As of June 30, 2021 and 2020, the carrying amount of SED's deposits with financial institutions was \$3,531,580 and \$2,994,473 and the bank balance was \$3,426,502 and \$3,846,216 respectively. The following table summarized the custodial credit risk coverage of the deposits:

	<u>2021</u>	<u>2020</u>
Federal Depository Insured	\$ 250,000	\$ 250,000
Collateralized	3,176,502	3,500,000
Off-set by Debt	<u>-</u>	<u>96,216</u>
	<u>\$ 3,426,502</u>	<u>\$ 3,846,216</u>

NOTE 3 CASH – RESTRICTED

In May 2009, SED received a \$4,000,000 bond from Vermont Municipal Bond Bank for the purpose of funding infrastructure and exclusive facilities. Unspent bond proceeds and the interest earned are restricted and may only be used to pay down the bond.

In December 2018, SED sold their portion of the Highgate converter. The proceeds from the sale are restricted to the fund future capital projects including the construction of the new office building.

In May 2018, SED received a \$500,000 bond from Union Bank from upgrades of capital projects related to the cross country ski center and circuits #6 & 7.

Restricted cash balances were as follows at June 30,:

	<u>2021</u>	<u>2020</u>
2009 VMBB Bond Proceeds	\$ 147,451	\$ 401,232
Proceeds from sale of capital projects	609,754	606,718
2018 capital projects note	<u>-</u>	<u>243,008</u>
Total Restricted Cash	<u>\$ 757,205</u>	<u>\$ 1,250,958</u>

Town of Stowe Electric Department
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE 4 INVESTMENTS

Investments which are privately traded are stated at cost and consisted of the following as of June 30,:

	2021		2020	
	Shs/Units	Cost	Shs/Units	Cost
VELCO				
Class C Preferred Stock	981	\$ 1,472	981	\$ 1,472
Class B Common Stock	2,078	207,800	2,078	207,800
Class C Common Stock	1,487	148,700	1,487	148,700
VT Transco, LLC				
Class A Membership Units	236,614	2,366,140	236,614	2,366,140
Class B Membership Units	301,143	<u>3,011,430</u>	301,143	<u>3,011,430</u>
 TOTAL INVESTMENTS		 <u>\$ 5,735,542</u>		 <u>\$ 5,735,542</u>

NOTE 5 CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2021 was as follows:

	Balance at 6/30/20	Increases	Decreases	Balance at 6/30/21
Capital assets, not being depreciated:				
Construction in progress	\$ 101,087	\$ 237,053	\$ -	\$ 338,140
Capital assets, being depreciated:				
Land	241,795	-	-	241,795
Buildings and improvements	4,110,782	117,762	-	4,228,544
Equipment - general plant	2,307,841	334,304	(482,074)	2,160,071
Improvements - distribution	760,614	26,612	-	787,226
Infrastructure - distribution	3,101,351	2,989	-	3,104,340
Infrastructure - transmission	<u>10,783,393</u>	<u>238,447</u>	-	<u>11,021,840</u>
 Total capital assets, being depreciated	 <u>21,305,776</u>	 <u>720,114</u>	 <u>(482,074)</u>	 <u>21,543,816</u>

Town of Stowe Electric Department
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE 5 CAPITAL ASSETS (continued)

	<u>Balance at</u> <u>6/30/20</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at</u> <u>6/30/21</u>
Less accumulated depreciation for:				
Land and land rights	(48,181)	(6,435)	-	(54,616)
Buildings and improvements	(301,678)	(83,816)	-	(385,494)
Equipment - general plant	(1,876,751)	(152,240)	482,074	(1,546,917)
Improvements - distribution	(425,275)	(62,129)	-	(487,404)
Infrastructure - distribution	(1,838,975)	(74,368)	-	(1,913,343)
Infrastructure - transmission	(4,374,915)	(264,317)	-	(4,639,232)
Accumulated depreciation for capital assets	<u>(8,865,775)</u>	<u>(643,305)</u>	<u>482,074</u>	<u>(9,027,006)</u>
CAPITAL ASSETS, net	<u>\$12,541,088</u>	<u>\$ 313,862</u>	<u>\$ -</u>	<u>\$12,854,950</u>

NOTE 6 DEFERRED CHARGES

Loan origination fees are amortized by the straight-line method over the life of the loan.

The balances in deferred charges consisted of the following at June 30,:

	<u>2021</u>	<u>2020</u>
Deferred Bond Issuance Costs	\$ 19,795	\$ 19,795
Accumulated amortization	<u>(4,918)</u>	<u>(4,290)</u>
Net Bond Issuance Costs	<u>14,877</u>	<u>15,505</u>
Total Deferred Charges	<u>\$ 14,877</u>	<u>\$ 15,505</u>

SED had amortization expense of \$628 and \$972 for the years ended June 30, 2021 and 2020, respectively. In accordance with ASU 2015-03, the amortization is reflected in interest expense.

NOTE 7 ALLOWANCE FOR DOUBTFUL ACCOUNTS

The allowance for doubtful accounts is \$41,500 and \$41,500 for the years ended June 30, 2021 and 2020.

Town of Stowe Electric Department
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2021

NOTE 8 DEBT

General obligation bonds consist of the following at June 30, 2021:

	<u>Amount Outstanding 6/30/20</u>	<u>Additions</u>	<u>Deletions</u>	<u>Amount Outstanding 6/30/21</u>	<u>Current</u>
Municipal bond issued by Vermont Municipal Bond Bank, due November 2039, interest is variable and due semi-annually, principal payments due annually.	\$ 2,650,000	\$ -	\$ (135,000)	\$ 2,515,000	\$ 135,000
4.2% bond payable to VT Economic Development Authority Bond, Issued by Union Bank, with 3.3% subsidy to off set interest. Annual principal payments of \$127,080 plus interest, due February 2041.	<u>2,668,680</u>	<u>-</u>	<u>(127,080)</u>	<u>2,541,600</u>	<u>127,080</u>
TOTAL BONDS PAYABLE	<u>\$ 5,318,680</u>	<u>\$ -</u>	<u>\$ (262,080)</u>	<u>\$ 5,056,600</u>	<u>\$ 262,080</u>

The annual requirements to amortize all general obligation bonds outstanding at June 30, 2021 are as follows:

<u>Obligation Bonds</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 262,080	\$ 143,272	\$ 405,352
2023	262,080	136,253	398,333
2024	262,080	129,060	391,140
2025	262,080	121,775	383,855
2026	262,080	114,239	376,319
2027-2031	1,310,400	455,373	1,765,773
2032-2036	1,310,400	291,383	1,601,783
2037-2041	<u>1,125,400</u>	<u>44,712</u>	<u>1,170,112</u>
	<u>\$ 5,056,600</u>	<u>\$ 1,436,067</u>	<u>\$ 6,492,667</u>

Town of Stowe Electric Department
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE 8 DEBT (continued)

Notes payable consist of the following at June 30, 2021:

	Amount Outstanding 6/30/20	Additions	Deletions	Amount Outstanding 6/30/21	Current
4.2% note payable to Union Bank, quarterly principal and interest payments of \$20,773, due December 2029.	\$ 656,120	\$ -	\$ (57,020)	\$ 599,100	\$ 59,676
4.2% note payable to Union Bank, quarterly principal and interest payments of \$18,209 due November 2030.	615,335	-	(47,109)	568,226	49,914
4.1% note payable to Union Bank, quarterly principal and interest payments of \$7,439, due November 2024.	324,030	-	(16,674)	307,356	17,423
2.99% note payable to Union Bank, quarterly principal and interest payments of \$23,215, due May 2027.	583,994	-	(76,180)	507,814	78,484
4.2% note payable to Union Bank, principal and interest payments of \$15,928, due December 2027.	742,694	-	(32,913)	709,781	34,438

Town of Stowe Electric Department
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE 8 DEBT (continued)

	Amount Outstanding 6/30/20	Additions	Deletions	Amount Outstanding 6/30/21	Current
2.75% note payable to Union Bank, principal and interest payments of \$57,870, due May 2028.	409,825	-	(46,681)	363,144	47,882
4.95% note payable to Union Bank, principal and interest payments of \$7,845, due November 2028.	<u>378,788</u>	-	<u>(12,792)</u>	<u>365,996</u>	<u>13,511</u>
TOTAL NOTES PAYABLE	<u>\$ 3,710,786</u>	<u>\$ -</u>	<u>\$ (289,369)</u>	<u>\$ 3,421,417</u>	<u>\$ 301,328</u>

The annual requirements to amortize all notes payable outstanding at June 30, 2021 are as follows:

<u>Notes Payable</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 301,328	\$ 130,176	\$ 431,504
2023	312,498	118,995	431,493
2024	324,023	105,791	429,814
2025	569,338	87,814	657,152
2026	328,181	73,967	402,148
2027-2030	<u>1,586,049</u>	<u>141,959</u>	<u>1,728,008</u>
	<u>\$ 3,421,417</u>	<u>\$ 658,702</u>	<u>\$ 4,080,119</u>

NOTE 9 PENSION PLAN

SED created a retirement plan called "Town of Stowe Electric Department 457 (b) Retirement Plan", an eligible deferred compensation plan for employee contributions under Section 457 (b) of the IRC for its employees and beneficiaries. SED also created the Stowe Electric Retirement Plan, a profit sharing plan, which allows the department to contribute a percentage of its revenues to each employees plan account.

Under the profit sharing plan, employees are eligible to participate in the plan after completion of 1 year of service based upon the date the employee was hired and requires approval of the Chief Executive Officer of the plan sponsor. SED has elected to include one Town of Stowe, VT employee who was a participant in the predecessor plan as part of the plan.

Town of Stowe Electric Department
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE 9 PENSION PLAN (continued)

SED contracts with a third party administrator to administer the Profit Sharing and Deferred Compensation plans. SED Commissioners are also Plan Trustees. Under the agreement the third party administrator is responsible for employee eligibility determination, record keeping, reporting, and compliance with the plan requirements.

Once eligibility and participation requirements are met, the employee is eligible to receive an allocation of employer contributions based upon each employee's compensation up to a maximum of \$225,000 annual compensation.

Under the plan, employer contributions may be made to union employees at 10.6%, management at 11.6%, and General Manager at 15%, of annual compensation. All contributions are immediately vested at 100%. The plan allows all participants who had retirement account balances in another qualified plan to roll over those balances to the new plan.

Total payroll covered for the pension contributions for the fiscal year ended June 30, 2021 and 2020 was \$1,412,196 and \$1,382,376, respectively. SED's pension contributions for the fiscal years ended June 30, 2021 and 2020 totaled \$135,758 and \$126,036 respectively and the total fees relating to the pension plan for the years ended June 30, 2021 and 2020 were \$8,810 and \$850, respectively.

NOTE 10 RELATED PARTY TRANSACTIONS

SED contributed to the general fund in lieu of taxes a total of \$42,000 for the years ended June 30, 2021 and 2020.

SED provides administration and billing services for the Water and Sewer Funds of the Town of Stowe, VT. Annual compensation to SED by the Town of Stowe, VT for these services totaled \$16,000 for each fiscal year.

The Town of Stowe, VT maintains insurance policies on the property of the municipal utility and also worker's compensation coverage for the department's employees. The department reimburses the Town of Stowe, VT for its portion of allocated costs related to insurance coverage. Total amounts paid to the Town of Stowe, VT for insurance purposes totaled \$76,716 and \$73,712 for the fiscal year ended June 30, 2021 and 2020, respectively.

On March 2, 2016 SED entered into a lease agreement with the Town of Stowe, VT. SED is leasing land for use of the Solar Project. Total lease expense at June 30, 2021 and 2020 was \$14,578 and 11,481, respectively.

SED owed the Town of Stowe, VT \$150,354 and \$160,659 at June 30, 2021 and 2020, respectively.

Town of Stowe Electric Department
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2021

NOTE 11 MAJOR CUSTOMER

The SED's largest customer represents approximately 14.0% and 14.8% of 2021 and 2020 operating revenue and, 5.4% and 5.9% of accounts receivable as of June 30, 2021 and 2020, respectively.

NOTE 12 PURCHASE POWER CONTRACTS AND SERVICES

SED's energy and capacity requirements are provided through a variety of contract obligations.

In 2008, SED became a direct member of the ISO – New England power market. SED has also entered a service contract with Energy New England, LLC to administer and execute power contracts with the ISO – New England power market as SED's agent.

A summary of the major power supply contracts as of June 30, 2021, held by SED is as follows:

Hydro Quebec Contract:

This contract began on November 1, 2012, for energy and renewable credits. The contract began with 218 MWs; Stowe's portions vary during different periods, as shown below in Table 1. The contract pricing will be flexible and competitive to the market price because it will follow the defined Energy Market index and the cost of power on the forward market. The pricing is based partly on market prices, partly on inflation, and carries limits on year-to-year price fluctuations. Given the greater degree of market price volatility exhibited since the original Hydro Quebec contract was agreed, this pricing approach should be beneficial to Stowe as the contract will be limited to how "out of market" it might become for both Hydro Quebec and Stowe. This is an important contract quality in the current market environment, and it reduces potential rate pressure to Stowe. In addition to the price flexibility, this will continue to provide very low carbon energy to Stowe, helping it maintain a market price based green energy procurement strategy. Stowe also can include Hydro Quebec renewable attributes towards their annual Renewable Energy Standard (RES) obligation for Tier I.

Table 1 Contract Based on 255 MW

Schedule	Start Date	Final Delivery Date	Stowe Entitlement (MW)
Period 1	11/1/2012	10/31/2015	1.238
Period 2	11/1/2015	10/31/2016	2.890
Period 3	11/1/2016	10/31/2020	2.990
Period 4	11/1/2020	10/31/2030	2.990
Period 5	11/1/2030	10/31/2035	2.135
Period 6	11/1/2035	10/31/2038	0.483

Town of Stowe Electric Department
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE 12 PURCHASE POWER CONTRACTS AND SERVICES (continued)

New York Power Authority:

The New York Power Authority (“NYPA”) provides power to the utilities in Vermont under two contracts. SED’s share of the first contract is a 9-kW entitlement to the Robert Moses Project (a.k.a St. Lawrence). Effective December 23, 2017, this contract was renewed to extend through April 30, 2032. This renewal did not negotiate for the Environmental Attributes, and therefore SED cannot claim St. Lawrence towards RES compliance years 2017 through 2019. Beginning in compliance year 2020 SED is now able to claim all St. Lawrence renewable attributes toward Tier I. SED’s share of the second contract, the Niagara Project, has been an average of 481 kW. Effective September 1, 2007, the Niagara contract was renewed through September 1, 2025. SED can use Niagara environmental attributes towards RES Tier I compliance.

VEPPI (Vermont Electric Power Producers, Inc.):

4.100 of the Vermont PUC. The power is generated by several small hydroelectric facilities. There were 19 VEPPI units, as of June 30, 2021, 19 have expired. VEPPI assigned the energy generated by these facilities using a load ratio basis that compares Stowe’s electric sales to other utilities in Vermont on an annual basis. The VEPPI contracts had varying maturities, with the last VEPPI contract terminating on November 30, 2020. Stowe’s last pro rata share of the VEPPI production is 1.3836%.

Ryegate:

Ryegate is a 20 MW wood-fired unit that was once within the VEPPI 4.100 projects. The VEPPI contract expired on October 31, 2012. The VT utilities negotiated a 10-year contract for power through VEPP Inc. The contract is for both power and renewable energy credits. Stowe’s allocation for the November 1, 2020, through October 31, 2021, contract year is 1.4715% of unit generation. This contract will terminate on November 1, 2022.

Sustainably Priced Energy Enterprise Development Program “SPEED” or Standard Offer:

SPEED Standard Offer is a program established under Vermont Public Utility Commission Rule 4.300. The program’s goal is to achieve renewable energy and long-term stably priced contracts. Vermont utilities will purchase power from the SPEED projects. Projects within Standard Offer consist of behind the meter and ISO-NE settlement. Each utility will receive a percent share of each project. Stowe’s share for November 1, 2019, through October 31, 2020, was 1.4849% and increased to 1.5076% for November 1, 2020 through December 31, 2021. Stowe receives a modest capacity credit, and renewable energy credits for the resources. The rate per resource is based on fuel type. The SPEED program started in the fourth quarter of 2010.

Town of Stowe Electric Department
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE 12 PURCHASE POWER CONTRACTS AND SERVICES (continued)

In May of 2009, as the SPEED Program progressed and implemented modifications; it changed into the Standard Offer program. This change began with a feed-in-tariff to encourage the development of SPEED resources by contracting for longer terms with fixed prices that would qualify. By May of 2012, the Vermont Energy Act of 2012 expanded the program to 127.5 MW over a 10-year span with a new pricing mechanism for qualified projects. The 2020 RFP for the Standard Offer Program within the Public Utility Commission through Orders in Dockets 7523, 7533, 7780, 7873, 7874, 8817, Case 173935-INV, Case 18-2820-INV and most recently Case No. 19-4466-INV, included the avoided cost price caps. Price caps are subject to a location and fuel type.

Stony Brook:

SED has entered into a Power Sales Agreement with the Massachusetts Municipal Wholesale Electric Company (MMWEC) for 1.66% (approximately 5,832 kW) of MMWEC's Stony Brook Project, an operating fossil fuel plant, for life of the units' operation. MMWEC, a public corporation of Massachusetts, is a co-ordination and planning agency for the development of the bulk power supply requirements of its members and project participants. The Power Sales Agreement for the project requires each participant to pay its share of MMWEC's costs related to the project, which includes operation and maintenance, property taxes, administration, expenses, and capital. Lastly, MMWEC collects an operating reserve to finance the project. This is to be paid into a reserve and contingency fund.

Stated in MMWEC's 2021-22 Budget the operating reserve is used to help mitigate cost increases. The funds will be used for any unforeseen events or capital expenditures.

McNeil Project:

The McNeil wood-fired generating facility is in Burlington, Vermont. The facility has a normal generating capability of 50,000 kW and a maximum generating capability of 53,000 kW. SED's 15.8% entitlement to McNeil is provided through an agreement with the Vermont Public Power Supply Authority (VPPSA) and is expected to be available through the life of the unit. SED expects the generation to be mostly composed of wood, but gas and oil can be used to fuel the unit if available and if pricing is appropriately set. McNeil's bonds were paid off in June 2015, fixed costs for the plant have decreased.

McNeil was retrofitted in 2008 to make it eligible to generate Connecticut Class I Renewable Energy Certificates (RECs).

September 2021 McNeil was out of service for their routine overhaul of the Plant. The Plant suffered some steam gasket failures, but the set-back did not results in a long-term loss of service. McNeil was back online on October 2, 2020.

Town of Stowe Electric Department
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE 12 PURCHASE POWER CONTRACTS AND SERVICES (continued)

Brown Bear II Hydro (Old Miller Hydro Contract):

Stowe had signed a purchase power agreement for 2.613% of the Miller Hydro Project. The contract states that Stowe will receive their percent of the Miller hydro output per month. The contract price is for energy to be delivered to the Maine Zone. The first PPA terminated on May 31, 2016. The second extension of this contract terminated on May 31, 2021.

The Miller Hydro was purchased by Brown Bear Hydro and a PPA was renegotiated beginning on June 1, 2021. It is the same 2.613% of unit, but it is for energy and renewable energy credits going forward. This will terminate on November 30, 2025.

Brown Bear Hydro is a run of river unit that has an average annual production of 90,000 MWH per year, over the past 3 to 5 years. This resource should equate to roughly 3% of Stowe's energy. The RECs from this purchase qualify for Tier I RES compliance.

Saddleback Ridge Wind Project:

Stowe purchased 2.172% of the Saddleback Wind Project, a 33 MW project with a 20-year PPA. The project is in Carthage, ME. This generation is roughly 3% of Stowe's load. The project will allow Stowe to buy energy, capacity, and RECs. The project went full Commercial on September 2015.

NextEra – Seabrook offtake:

Beginning January 1, 2015, and going through December 31, 2034, Stowe will receive 0.16% (or a max of 2 MW) of around the clock, of the NextEra Seabrook Resource. This contract also provides Stowe with the same PPA percentage of capacity as well. The pricing of the product varies with the Gross Domestic Product-Implicit Price Deflator (GDP-IPD). This takes natural gas price volatility away from the contract price. Escalation is limited to between 1.6-4.9 % per year. The PPA will provide carbon-free generation that will help insulate Stowe from the potential for higher carbon prices in the future.

Stowe also receives the Emissions Free Energy Certificates ("EFECs").

Phase 1 Hydro-Quebec Interconnection:

SED has entered contracts with Vermont Electric Power Company (VELCO) to participate in .09619% of Phase I portion of the Hydro-Quebec interconnection, a 450 KVHVD transmission line directly connecting the Hydro-Quebec electric system with the ISO-NE system at the Comerford Generating Station. Under these agreements, SED provided capital for the cost of construction through purchase of VELCO Class C preferred stock and will provide support for the operation of the line. SED is entitled to a portion of the benefits and has an obligation for a corresponding portion of the costs associated with Phase I.

Town of Stowe Electric Department
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE 12 PURCHASE POWER CONTRACTS AND SERVICES (continued)

On November 14, 2014, Stowe contracted with Green Mountain Power (GMP) for a transfer of use rights agreement. GMP is now the interconnection rights holder and pays SED for that right. This contract terminated on October 31, 2020. Beginning in November 2020 SED has sold the HQ rights to Nalcor. Nalcor pays SED for that right until termination on December 31, 2023.

Nebraska Valley - Beech Hill Solar:

Stowe has built a 1 MW AC ground mounted solar electric generation project. Estimated output is approximately 1,568 MWh per year. This is about 1-2% of Stowe's annual energy requirement.

Stowe benefits from this project in the ability to use the renewable energy credits towards Tier 2 of the Renewable Energy Standard. The project is a distributed generation, or behind Stowe's meter, which provides additional benefits include energy, capacity, and transmission. The project started operation in August 2016.

FirstLight (Cabot/Turners Falls Hydro):

Beginning on January 1, 2021, Stowe will receive an estimated 2.6% of their load from a Purchase Power Agreement for a bilateral percentage amount from the Cabot and Turners Fall Hydro Plants. Stowe will also receive renewable energy credits that are Vermont Tier I qualified. This PPA will expire on December 31, 2030.

Market Contracts:

Stowe Electric's portfolio contains a market contract for the Mount Mansfield ski resort. Stowe has obtained a product which will follow the snow making load and will provide optimal supply flexibility for this load type.

Sources of Energy:

The percentages of energy (kWh) acquired for the fiscal year ended June 30, 2021, was as follows:

Town of Stowe Electric Department
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2021

NOTE 12 PURCHASE POWER CONTRACTS AND SERVICES (continued)

FY July 1, 2020 - June 30, 2021- Total KWh's by Resource

Resource	Description	MWH	kWh's	% of Total	Fuel	Location	Termination Date
NYPA- Niagara	ISO Bilateral	3,847	3,847,440	5.2%	Hydro	4011	2025
NYPA- St. Lawrence	ISO Bilateral	65	64,962	0.1%	Hydro	4011	2032
VEPPI 4.1	PURPA	92	91,571	0.1%	Hydro	VT Nodes	2020
Ryegate	PUC	2,355	2,354,687	3.2%	Wood	2433	2022
VEPPI- Standard Offer ISO Settlement	PUC	121	120,841	0.2%	Vary	VT Nodes	
HQ PPA Contract	ISO Bilateral	17,461	17,461,495	23.5%	Hydro	4013	2038
Cabot/Turners	ISO Bilateral	959	958,528	1.3%		4000	2030
McNeil	Wood Unit	8,110	8,109,910	10.9%	Wood	474	Life of Unit
Stonybrook 1A/1B/1C	Dispatchable	1,707	1,707,201	2.3%	Natural Gas/Oil	1185/1186/1187	Life of Unit
NextEra Seabrook	ISO Bilateral	17,519	17,518,676	23.6%	Nuclear	555	2035
Miller Hydro Purchase	Run of River	1,979	1,978,939	2.7%	Hydro	487	2025
Saddleback Wind	Wind	2,152	2,151,724	2.9%	Wind	38173	2035
Bilateral Purchase-Mtn	ISO Bilateral	7,517	7,517,080	10.1%		4000	2021
ISO Energy Net Interchange		<u>10,376</u>	<u>10,375,504</u>	14.0%			
TOTALS		<u>74,260</u>	<u>74,258,558</u>	<u>100%</u>			
Nebraska Valley (BTM)	Solar	1,298	1,297,646	1.7%	Solar	Behind the Meter Generation	Life of Unit
VEPPI Standard Offer BTM	PUC	1,516	1,516,113	2.0%	Vary	Behind the Meter Generation	

Future projects and State Renewable Energy Standard:

Solar Projects

Stowe is analyzing a Solar project built within Vermont. The project will be a PPA for the solar project's generation and environmental attributes.

Hydro Project

Stowe is also reviewing the option of refurbishing the old Moscow Mill Hydro Unit. This project was destroyed in the flood of 2011. This project would allow SED to reduce their load, because it would be behind the meter, and would qualify for the RES requirement.

Battery Project

Stowe is also reviewing the technology of energy storage.

Renewable Portfolio and upcoming Renewable Energy Standard (RES):

In July 2015, Act 56 (H. 40) was established using the 2011 Vermont Comprehensive Energy Plan to detail the states goals and place direction on how utilities will reach these goals. The RES requires utilities to buy or retain renewable energy credits and energy transformation projects. Each year has a percentage of retail sales that must be covered. In lieu of renewable credits or transformation project a utility can meet their obligation by paying an alternative compliance payment, at rates set by the State. The compliance rates will be adjusted annually for inflation using CPI.

Town of Stowe Electric Department
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE 12 PURCHASE POWER CONTRACTS AND SERVICES (continued)

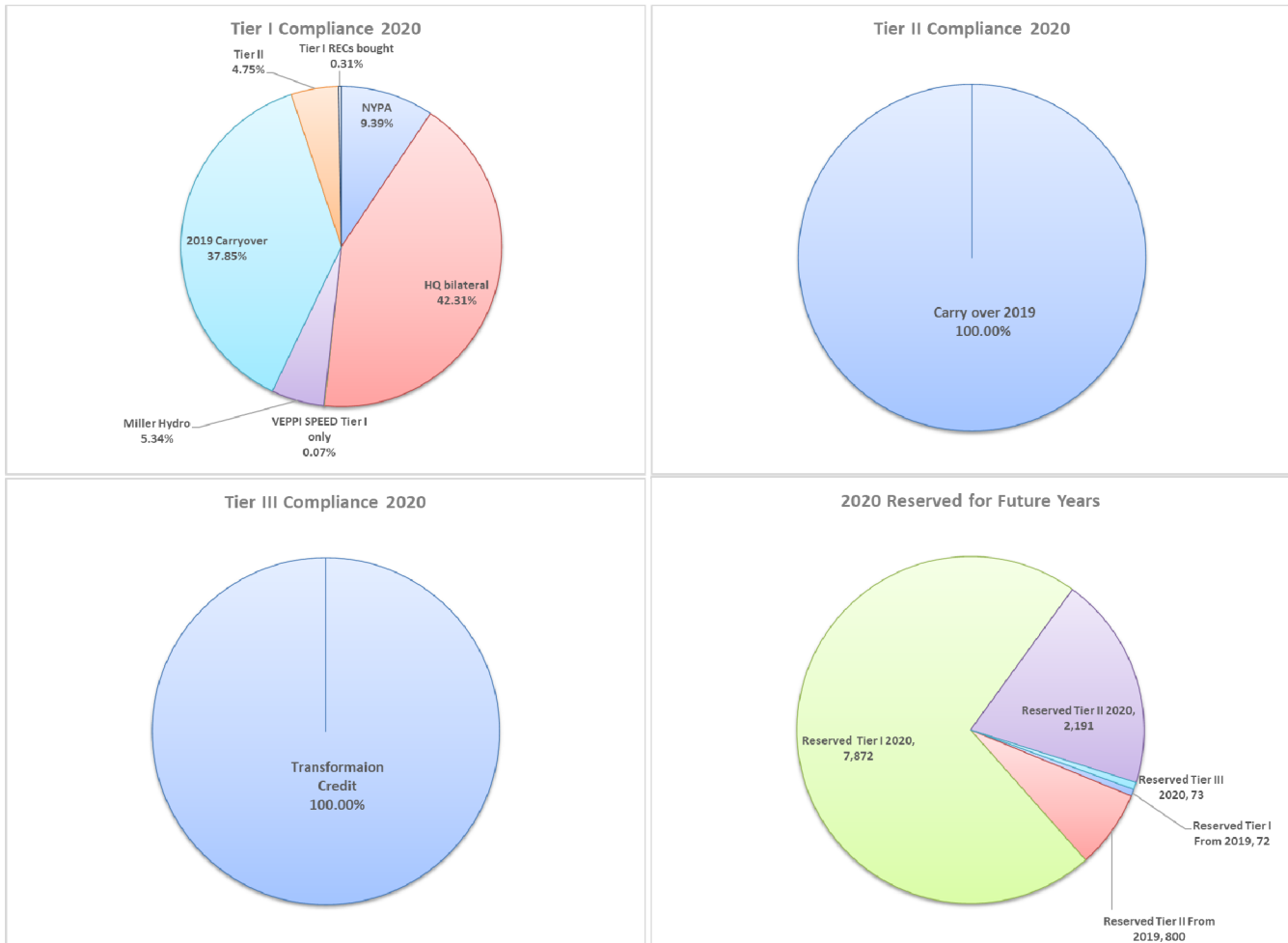
There are three tiers to the RES program:

- The Tier I category establishes renewable energy in Stowe's portfolio. Stowe can claim any class of REC that has a qualification of a renewable energy plant in New England.
 - Requirement to reach 75% of Tier I classification by 2032
 - Total renewable energy requirement started in 2017 at 55%
 - Requirements increase by 4% every three years
 - Other approved State units are the Hydro Quebec bilateral and NYPA Niagara contract
 - 2020 the compliance for SED was 41,383, SED retired 41,383 RECs
- The Tier II category is for distributed generation. Tier II helps support the reliability of the electric system and helps with transmission constraints. Resources must be 5 MW or less and directly connected to the Vermont utilities sub transmission or distribution system.
 - Requirement to reach 10% of Tier II classification by 2032
 - Total renewable energy requirement started in 2017 at 1%
 - Requirements increasing by three-fifths of a percent each year
 - New Vermont based unit that is 5 MWs or less of renewable generation
 - 2020 the compliance for SED was 1,964 RECs, SED retired 1,964 RECs
- The Tier III category is for energy transformation projects. Tier III encourages projects that will help reduce fossil fuel usage and greenhouse gas emissions. The Public Utility Commission approves a conversion methodology (developed by the Department of Public Service) that utilities can utilize the exchange of fossil fuel reduction into compliance MWHs of electric energy.
 - Requirements to reach 102/3% of Tier III classification by 2032
 - Total renewable energy requirements started in 2019 at 2%
 - Increasing by two-thirds of a percent each year
 - Excess Tier II-qualifying distributed generation qualifies for Tier III compliance
 - 2020 the compliance for SED was 1,866 RECs, SED retired 1,866 RECs

SED's 2020 100% Compliance is shown below:

Town of Stowe Electric Department
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2021

NOTE 12 PURCHASE POWER CONTRACTS AND SERVICES (continued)



NOTE 13 RISKS & UNCERTAINTIES

As a result of the spread of the COVID-19 Coronavirus, economic uncertainties have arisen which are likely to negatively impact net income. Other financial impact could occur though such potential impact and the duration cannot be reasonably estimated at this time. Possible effects may include, but are not limited to, disruption to the Utility's customers and revenue, absenteeism in the Utility's labor workforce, unavailability of products and supplies used in operations, and decline in value of assets held by the Utility, including receivables and property and equipment.

NOTE 14 SUBSEQUENT EVENTS

In accordance with professional accounting standards, the Electric Department, has evaluated subsequent events through October 22, 2021, which is the date the financial statements were available to be issued. All subsequent events requiring recognition as of June 30, 2021, have been included in the financial statements herein.



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 GOVERNMENTAL AUDITING STANDARDS

To the Board of Commissioners
Town of Stowe Electric Department
Stowe, 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 the business-type activities of the Town of Stowe Electric Department, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Town of Stowe Electric Department's basic financial statements, and have issued our report thereon dated October 22, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Stowe Electric Department's internal control over financial reporting (internal control) as a basis for designing 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 the Town of Stowe Electric Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Stowe Electric Department'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 the Town of Stowe Electric Department'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 financial statements. 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 black ink that reads "Kittell Brangan & Syant". The signature is written in a cursive, flowing style.

St. Albans, Vermont
October 22, 2021