Washington Electric Cooperative, Inc.

FINANCIAL STATEMENTS

December 31, 2014

Washington Electric Cooperative, Inc.
TABLE OF CONTENTS
December 31, 2014

KBS
Kittell Branagan & Sargent
Certified Public Accountants
Vermont License #167

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Washington Electric Cooperative, Inc.
East Montpelier, Vermont

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Washington Electric Cooperative, Inc. (a non-profit corporation), which comprise the consolidated statement of financial position as of December 31, 2014 and 2013, and the related consolidated 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 consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Washington Electric Cooperative, Inc. as of December 31, 2014 and 2013, and the changes in its operations, equities and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2015 on our consideration of Washington Electric Cooperative, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Washington Electric Cooperative, Inc.'s internal control over financial reporting and compliance.

Kittell Branagan & Sargent

St. Albans, Vermont
February 26, 2015

Washington Electric Cooperative, Inc.
BALANCE SHEETS
December 31,

ASSETS

	2014	2013
ELECTRIC PLANT, at cost	$ 73,915,896	$ 72,294,337
Less accumulated depreciation	(25,291,852)	(23,650,896)
Electric plant in service, net	48,624,044	48,643,441
Construction work in progress	349,104	394,739
TOTAL ELECTRIC PLANT, net	48,973,148	49,038,180
CURRENT ASSETS		
Cash	286,034	448,463
Receivables -		
Notes, less allowance for doubtful accounts of $1,500 and $1,500 in 2014 and 2013	99	99
Accounts, less allowance for doubtful accounts of $27,500 and $25,500 in 2014 and 2013	1,234,553	1,308,640
Renewable energy certificate revenue	829,795	741,220
FEMA receivable	225,300	-
Miscellaneous	235,358	248,354
Unbilled revenue	765,586	770,257
Inventories	271,931	273,770
Prepaid corporate taxes	-	10,928
Prepaid expenses	127,330	144,738
TOTAL CURRENT ASSETS	3,975,986	3,946,469
OTHER ASSETS		
Other investments	6,756,445	6,311,943
Deferred charges	1,905,898	1,926,882
TOTAL OTHER ASSETS	8,662,343	8,238,825
TOTAL ASSETS	$ 61,611,477	$ 61,223,474

LIABILITIES AND EQUITY

	2014	2013
EQUITIES		
Memberships issued and subscribed	$ 126,975	$ 124,020
Patronage capital assignable	1,295,102	1,055,253
Patronage capital credits	19,989,768	19,211,651
Donated capital	238,164	229,999
NET EQUITY	21,650,009	20,620,923
LONG-TERM DEBT	35,686,450	36,096,018
CURRENT LIABILITIES		
Current portion of long-term debt	2,052,503	2,026,172
CFC line of credit	61,981	443,850
Accounts payable	1,101,164	1,017,079
Customer deposits	194,678	204,007
Other accrued expenses	692,699	660,068
TOTAL CURRENT LIABILITIES	4,103,025	4,351,176
DEFERRED CREDITS	171,993	155,357
TOTAL LIABILITIES AND EQUITY	$ 61,611,477	$ 61,223,474

See Accompanying Notes to Financial Statements

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

	2014	2013
OPERATING REVENUE		
Member revenue retail sales	$ 13,565,655	$ 13,290,692
Member revenue REC sales	2,934,152	2,231,438
Other	462,297	448,423
TOTAL OPERATING REVENUE	16,962,104	15,970,553
OPERATING EXPENSES		
Purchased power	4,781,634	3,966,779
Power generation	1,783,269	1,796,866
Transmission	87,118	75,299
Distribution:		
Operations	1,620,868	1,606,125
Maintenance	2,001,198	2,154,306
Customer accounts	810,806	836,763
Administrative and general	1,445,827	1,534,793
Depreciation	2,190,058	2,088,778
Taxes	153,445	146,479
Other deductions, net	21,658	21,658
TOTAL OPERATING EXPENSES	14,895,881	14,227,846
MARGINS FROM OPERATIONS BEFORE INTEREST CHARGES	2,066,223	1,742,707
INTEREST CHARGES		
Interest on long-term debt	1,409,835	1,391,782
Other interest	7,680	12,681
TOTAL INTEREST CHARGES	1,417,515	1,404,463
MARGINS FROM OPERATIONS	648,708	338,244
OTHER INCOME (EXPENSE)		
Interest and dividend income	717,489	669,550
Other non-operating income	80,628	74,651
Other non-operating expense	(89,180)	(87,489)
Cumulative effect on prior years change in accounting principal	-	63,040
Income taxes	(62,543)	(2,743)
TOTAL OTHER INCOME (EXPENSE)	646,394	717,009
NET MARGINS	$ 1,295,102	$ 1,055,253

See Accompanying Notes to Financial Statements

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

	Memberships Issued and Subscribed	Patronage Capital Assignable	Other Equities: Patronage Capital Credits	Other Equities: Donated Capital
BALANCE, at December 31, 2012	$ 120,060	$ 893,293	$ 18,587,794	$ 221,979
New memberships issued and subscribed for	11,980	-	-	-
Transfers to donated capital	(8,020)	-	-	8,020
Transfers to patronage capital credits	-	(893,293)	893,293	-
Patronage rebates	-	-	(248,576)	-
Net margins for the year	-	1,055,253	-	-
Line construction contributed	-	-	(20,860)	-
BALANCE, at December 31, 2013	124,020	1,055,253	19,211,651	229,999
New memberships issued and subscribed for	11,120	-	-	-
Transfers to donated capital	(8,165)	-	-	8,165
Transfers to patronage capital credits	-	(1,055,253)	1,055,253	-
Patronage rebates	-	-	(277,136)	-
Net margins for the year	-	1,295,102	-	-
BALANCE, at December 31, 2014	$ 126,975	$ 1,295,102	$ 19,989,768	$ 238,164

See Accompanying Notes to Financial Statements

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

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,295,102	$ 1,055,253
Noncash expenses (income) included in earnings:		
Depreciation	2,190,058	2,088,778
Amortization of deferred charges	20,984	205,413
Gain on sale of assets	(6,200)	(20,682)
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	(138,217)	26,075
Decrease (increase) in renewable energy certificate revenue receivable	(88,575)	951
Decrease (increase) in unbilled revenue	4,671	18,039
Decrease (increase) in inventories	1,839	(8,121)
Decrease (increase) in prepaid expenses	28,336	(55,018)
Decrease (increase) in deferred debits	-	1,310
Increase (decrease) in accounts payable	84,085	164,811
Increase (decrease) in customer deposits	(9,329)	(11,689)
Increase (decrease) in accrued expenses	32,631	18,234
Increase (decrease) in deferred credit	16,636	(2,262)
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,432,021	3,481,092
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of assets	6,373	34,139
Additions to electric plant in service and construction work in progress	(2,125,198)	(2,755,265)
Return of capital	35,819	57,785
Purchase of investments	(480,321)	(467,996)
NET CASH (USED) IN INVESTING ACTIVITIES	(2,563,327)	(3,131,337)

See Accompanying Notes to Financial Statements

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

	2014	2013
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions in aid of construction	-	(20,860)
CIAOC from the American Recovery and Reinvestment Act Grant	-	261,688
Memberships issued, net of refunds	11,120	11,980
Patronage rebates	(277,136)	(248,576)
Proceeds from short-term debt	1,284,235	4,618,322
Payments on short-term debt	(1,666,105)	(5,087,602)
Proceeds from long-term debt	1,650,000	1,900,000
Principal payments on long-term deb	(2,033,237)	(2,047,472)
NET CASH (USED) BY FINANCING ACTIVITIES	(1,031,123)	(612,520)
NET (DECREASE) IN CASH	(162,429)	(262,765)
CASH - Beginning of Year	448,463	711,228
CASH - End of Year	$ 286,034	$ 448,463
SUPPLEMENTARY CASH FLOW INFORMATION		
Cash paid during the year for interest	$ 1,415,875	$ 1,402,055
Non-cash financing & operating activities	$ -	$ 1,694,453

See Accompanying Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Washington Electric Cooperative, Inc. ("the Cooperative") is a vertically integrated utility with monopoly franchise rights granted by the state of Vermont to provide residential and commercial electric service in its franchise service territory. Operating revenue is generated from sales of electric power and related activity to the Cooperative's patrons located primarily within the State of Vermont.

Regulatory jurisdictions

The Cooperative is under the jurisdiction of the Federal Energy Regulatory Commission (FERC), the Rural Utilities Service (RUS), formerly known as the Rural Electrification Administration (REA), the Public Service Board of Vermont (PSB), and the Vermont Department of Public Service (DPS). The PSB has the primary responsibility for regulating the Cooperative's rates. The Cooperative utilizes the Uniform System of Accounts established by the RUS, except where the PSB has prescribed other treatment.

Corporate structure and income taxes

The Cooperative is a nonprofit and nonstock 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).

Accounting Standards Codification 740, Income Taxes (formerly FASB Interpretation No. 48) requires the Cooperative to evaluate its income tax positions to determine if there are any positions that would require any adjustments to the financial statements. The Cooperative has determined that it has no uncertain income tax positions that need to be recorded or reported in the financial statements.

In July 2003, the Board of Directors authorized the creation of, and a $5,000 investment in, the Coventry Clean Energy Corporation (CCEC), a wholly-owned subsidiary. CCEC is a for profit corporation. Since its operations began in 2006, CCEC financial statements have been consolidated with the Cooperative's financial statements.

The tax years ending December 31, 2014, 2013, 2012 and 2011 are still open to audit for both federal and state purposes.

Consolidation policy

The consolidated financial statements include the accounts of the Cooperative and CCEC. All intercompany accounts and transactions are eliminated in consolidation.

Electric plant and retirements

Electric plant is stated at cost. The cost of additions to electric plant includes contracted work, direct labor and materials, and allocable overheads. Listed below are the major classes of electric plant as of December 31,:

	2014	2013
Intangible plant	$ 609	$ 609
Generation (hydro) plant	3,746,570	3,746,570
Generation (landfill gas) plant	12,379,065	12,299,794
Transmission plant	2,630,969	2,628,957
Distribution plant	49,817,164	48,283,589
General plant	5,341,519	5,334,818
	$ 73,915,896	$ 72,294,337

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation and plant retirement

The Cooperative follows the policy of charging to operating expenses annual amounts of depreciation which allocate the cost of the electric plant over its estimated useful life. The Cooperative employs the straight-line and straight-line composite methods for determining the annual charge for depreciation. The estimated useful lives and rates for electric plant are as follows:

	Life in Years	Composite Rate
Generation plant	20-50	2-5%
Transmission plant	35	2.748%
Distribution plant	35	2.796%
Buildings and structures	10-50	2.50%
Transportation equipment	4-10	10-25%
General plant	5-15	6-20%

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.

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.

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.

Inventories

Inventories are stated at the lower of average cost or market, determined by the first-in, first-out method.

Contributions in aid of construction

As explained above, the Cooperative follows RUS accounting guidelines, except as otherwise allowed or prescribed by its state regulator, the PSB. In accordance with state regulatory requirements, contributions in aid of construction prior to 2013 were accounted for as a component of patrons' equity rather than as a reduction of electric plant in service. Beginning in January, 2013 the Cooperative began netting all contributions in aid of construction received from its members with the fixed assets placed in service for all new line construction. All contributions in aid of construction come from patrons of the Cooperative. The Cooperative is allowed to recover its gross investment in plant in its rates.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities. These estimates are made at the date of the financial statements and are based on the reported amounts of revenues and expenses during the reporting period, and other factors. Actual results could differ from those estimates.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

The Cooperative recognizes revenue for electric service in the month that service is rendered. The amount shown as unbilled revenue represents an estimate of the amounts used from the last meter reading through the end of the year.

Investments

Investments are recorded at cost. Because these investments are not publicly traded, market values are not readily determinable.

Deferred charges

The Cooperative established deferred charges for costs associated with the recovery of various expenses that are deferred and amortized over a specified number of years. These deferred charges are regulatory in nature and approved by the Board of Directors and Public Service Board and RUS.

NOTE 2 OTHER INVESTMENTS

Other investments include the following, at cost, at December 31,:

	2014	2013
Investments in associated organizations:		
National Rural Utilities Cooperative Finance Corporation (CFC) membership	$ 1,000	$ 1,000
CFC capital term certificates	447,203	450,211
CFC patronage capital certificates	173,520	143,723
Cooperative Response Center (CRC)	10,000	-
National Information Solutions Cooperative patronage capital certificates	84,002	75,798
Patronage capital certificates - other Cooperatives	15,290	15,381
Rural Electric Vermont Association membership	497	497
	731,512	686,610
Other Investments		
Vermont Electric Power Company - common stock, Class B	265,600	265,600
Vermont Electric Power Company - common stock, Class C	101,900	101,900
Vermont Electric Power Company - preferred stock, Class C	1,793	1,793
Vermont Transco LLC - Class A membership units	2,488,490	2,312,670
Vermont Transco LLC - Class B membership units	3,167,150	2,943,370
	6,024,933	5,625,333
TOTAL OTHER INVESTMENTS	$ 6,756,445	$ 6,311,943

NOTE 3 LONG-TERM DEBT

Long-term debt at December 31, 2014 and 2013 consists of the following:

	2014	2013
Mortgage notes payable, U.S. Department of Agriculture (RUS) 35-year terms at the following interest rates:		
4.125% mortgage notes	$ 5,506,158	$ 5,766,884
Mortgage notes payable, National Rural Utilities Cooperative Finance Corporation (CFC), 35-year terms due between 2016 and 2031 at the following rates of interest:		
Fixed rate mortgage notes, 5.98% to 6.33% due quarterly, variable dates through July 1, 2028.	1,453,964	1,592,730
Fixed rate mortgage notes, 2.15% to 4.35% due annually, through June 30, 2031.	13,796,230	14,670,017
Fixed rate mortgage note, 3.0% due annually matures June 30, 2023.	1,503,794	1,656,889
	16,753,988	17,919,636
CFC Clean Renewable Energy Bond, nominal interest rate 0.400% effective interest rate 1.497%, quarterly payments of $17,304 from March 2008 through December 2023.	678,471	753,857
Mortgage notes payable, Federal Financing Bank (FFB) at the following due dates and rates of interest (unadvanced loan funds as of December 31, 2014 and 2013 were $2,050,000 and $3,700,000, respectively):		
4.287% to 8.335% advances, matures December 31, 2014	-	35,313
4.366% advances, matures December 31, 2033	2,589,783	2,726,087
4.472% advances, matures December 31, 2043	2,595,061	2,684,545
4.272% advances, matures December 31, 2043	1,051,030	1,087,272
3.707% advances, matures December 31, 2043	731,152	756,364
3.328% advances, matures December 31, 2043	560,667	580,000
4.193% advances, matures December 31, 2043	600,366	621,069
3.999% advances, matures December 31, 2043	1,106,047	1,144,186
3.134% advances, matures December 31, 2043	335,411	346,977
2.281% advances, matures December 31, 2046	484,848	500,000
2.418% advances, matures December 31, 2046	775,757	800,000
2.625% advances, matures December 31, 2046	484,848	500,000
2.633% advances, matures December 31, 2046	872,727	900,000

NOTE 3 LONG-TERM DEBT (continued)

	2014	2013
3.411% advances, matures December 31, 2046	969,697	1,000,000
3.258% advances, matures December 31, 2046	792,942	-
2.797% advances, matures December 31, 2046	850,000	-
	14,800,336	13,681,813
	37,738,953	38,122,190
Less current installments:	(2,052,503)	(2,026,172)
Long-term debt, excluding current installments	$ 35,686,450	$ 36,096,018

In June 2011, the Cooperative's Board of Directors approved the 2012-2015 CWP authorizing its submittal to RUS together with a financing application for an FFB loan in the amount of $7.4 million. On February 21, 2012, the Cooperative signed the loan documents. For this loan the first principal payment was due March 31, 2014. The last day for an advance is January 17, 2017 and the final maturity date is December 31, 2046.

For FFB loans, the interest rate of an advance is determined at the time of the advance. At the time of the advance, the Cooperative can select, subject to RUS approval, either a short-term maturity date or a long-term maturity date. Payments on the advances are to be made quarterly.

Following PSB approval in November 2012, the Cooperative refinanced $15,776,069 of its RUS debt in December 2012 with a promissory note and loan agreement from CFC. The terms of the Loan provide for multiple advances with varying interest rates between 1.95% and 4.35%. The Cooperative estimates approximately $4,200,000 in interest expense savings over the 19 year refinance period ending June 2031.

The non-interest bearing rural economic development loan from the RUS to the Cooperative was used to partially finance the construction of the Central Vermont Memorial Civic Center (CVMCC) in the City of Montpelier. As security, the Cooperative received a 14-year note for $600,000 and first mortgages on real estate and leasehold estates from CVMCC, and four Irrevocable Letters of Credit from various banks as security for the loan. This loan was paid in full as of October 2013.

All of the assets of the Cooperative are pledged as security under the above-mentioned notes.

The following is a schedule of required principal payments on long-term debt in subsequent fiscal years from December 31, 2014:

2015	$ 2,052,503
2016	2,072,502
2017	2,076,076
2018	2,108,017
2019	2,103,256
Thereafter	27,326,599
	$ 37,738,953

NOTE 3 LONG-TERM DEBT (continued)

Loan covenants

Under the terms of the loan agreements, the Cooperative must maintain at least a times interest earned ratio (TIER) of 1.25 with a debt service coverage (DSC) ratio of not less than 1.25, determined by averaging the two highest annual ratios during the three most recent calendar years. As required by the 1997 and subsequent RUS loan agreements, the Cooperative also must maintain an operating times interest earned ratio (OTIER) of 1.10 with an operating debt service coverage (ODSC) of 1.10, determined by averaging the two highest annual ratios during the three most recent calendar years. The Cooperative met these requirements in both 2014 and 2013.

Under the terms of the loan agreements with CFC, the Cooperative must maintain a modified debt service coverage (MDSC) of not less than 1.35 determined by averaging the two highest annual ratios during the three most recent calendar years. The Cooperative met this requirement in 2014 and 2013.

NOTE 4 SHORT-TERM DEBT

A line of credit agreement executed with CFC provides the Cooperative with a short-term loan in an amount up to $2,600,000. This short-term loan operates on a revolving basis for a period of twelve months to June 13, 2015. Interest rates on the advances are variable and not to exceed the prevailing bank prime rate as published in the Eastern edition of the *Wall Street Journal*, "Money Rates" column, plus one percent. The interest rate at December 31, 2014 was 2.9%. The available balance on the note was $2,538,019 at year end.

NOTE 5 PENSION PLAN

All eligible employees of the Cooperative participate in the NRECA Retirement and Security Program, a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. In this multi-employer plan, which is available to all member cooperatives of NRECA, the accumulated benefits and plan assets are not determined or allocated separately by individual employer. The plan sponsor’s Employer Identification Number is 53-0116145 and the Plan Number is 333.

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 Cooperative’s contributions to the RS Plan in 2014 and 2013 represent less than 5 percent of the total contributions made to the plan by all participating employers. At December 31, 2014 and 2013 the Cooperative made contributions to the plan of $463,177 and $2,208,293, respectively. Contributions in 2014 are significantly lower than those in 2013 due to the Cooperative electing to participate in the prepayment option offered to participating employers in 2013. See footnote description below for more information on the prepayment program. Pension expense for the prior service costs was $14,580 in both 2014 and 2013.

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 percent funded on January 1, 2014 and over 80 percent funded on January 1, 2013 based on the PPA funding target and PPA actuarial value of assets on those dates.

NOTE 5 PENSION PLAN (continued)

Because the 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.

At the December 2012 meeting of the I&FS Committee of the NRECA Board of Directors, the Committee approved an option to allow participating cooperatives in the RS Plan to make a contribution prepayment and reduce future required contributions. The prepayment amount is a cooperative's share, as of January 1, 2013, of future contributions required to fund the RS Plan's unfunded value of benefits earned to date using RS Plan actuarial valuation assumptions. The prepayment amount will typically equal approximately 2.5 times a cooperative's annual RS Plan required contribution as of January 1, 2013. After making the prepayment, for most cooperatives the billing rate is reduced by approximately 25%, retroactive to January 1, 2013. The 25% differential in billing rates is expected to continue for approximately 15 years. However, changes in interest rates, asset returns and other plan experience different from expected, plan assumption changes and other factors may have an impact on the amount and duration of the differential in billing rates. The prepayment, which is included in deferred charges on the balance sheet, was made by the Cooperative during 2013 for $1,694,453 and is being amortized over a 13 year period. On June 28, 2013, the Vermont Public Service Board authorized the financing of the pension prepayment in Docket #8062.

NOTE 6 COMMITMENTS AND CONTINGENCIES

<u>Regulatory matters</u>
The Cooperative has provided a portfolio of member energy services since 1992, in part due to regulatory requirements and Vermont law requiring all utilities to develop and file Integrated Resource Plans (IRPs). The timing for filing a utility's IRP is based on a three year statutory requirement.

The IRP projects the Cooperative's load, power supply requirements and electrical infrastructure needs. It is used to identify committed and preferred resource options for the future, including demand-side management resources and renewable sources of power such as increased Coventry Project power and Sheffield wind power. The IRP also includes information relative to WEC's transmission and distribution planning. It identifies where investments and upgrade work are needed on the WEC electric system for delivery of power to its members. The 2005 IRP supported the need for the Coventry (Methane Generation) Project, discussed below, which came online in July 2005.

The Cooperative filed an updated IRP on February 15, 2008. A stipulation regarding approval was entered with the DPS in August 2009; the plan and stipulation were approved by the PSB on December 13, 2012 in Docket No. 7432. In its Order, the PSB acknowledged its delay in approving the 2008 IRP and set December 6, 2013 as the filing date for the Cooperative's next IRP.

WEC filed a new IRP on December 6, 2013 and amended IRP on March 21, 2014 to comply with a memorandum of understanding reached with DPS. WEC's filed IRP was approved by the PSB in December 2014. In the IRP, WEC demonstrates that it is projected to have sufficient sources of power from contracts and owned generation to meet its projected power supply needs for the next 20 years. WEC also noted that it is well positioned to meet various renewable energy goals and targets which are outlined in the State's Comprehensive Energy Plan, based on its current resource mix.

NOTE 6 COMMITMENTS AND CONTINGENCIES (continued)

In 1999, the PSB ordered the establishment of the Energy Efficiency Utility (EEU), which began operating in February 2000 under the name "Efficiency Vermont" ("EVT"). Most efficiency services for commercial, industrial, residential and multi-family housing are now operated by the EEU and are no longer the responsibility of the Cooperative. The Cooperative continues to perform certain services associated with the "Residential New Construction Program" in coordination with the EEU. Pursuant to an order from the PSB, all Vermont utilities collect a monthly surcharge called the Energy Efficiency Charge (EEC) from customers. For December 31, 2014 and 2013 the total collected from the Cooperative's members was approximately $744,497 and $686,822, respectively. This amount is forwarded to a fiscal agent selected by the PSB and is not revenue to the Cooperative.

The Cooperative, along with other Vermont utilities, petitioned the PSB in Docket No. 7670 to enter various agreements that will enable it to receive power from HQ Energy Services US (HQUS) beginning in November 2016. The agreements provide for delivery of primarily on-peak energy and associated environmental attributes seven days per week, 16 hours per day. There are no capacity credits or other ancillary market products included in the contract. The Cooperative will obtain 4.0 MW of power through the Vermont Public Power Supply Authority (VPPSA). In addition, the Cooperative has entered into an agreement with the Vermont Electric Cooperative (VEC) to transfer its portion of HQUS power to VEC until a need exists in the Cooperative's power supply portfolio. Proceedings in front of the PSB were underway in 2010 and through 2011. The PSB issued its decision in 2011 and approved WEC's participation in the various agreements that enable it to obtain HQUS power.

<u>Contributions in Aid of Construction. PSB Docket No. 7554</u>
In 2009, the PSB opened Docket No. 7554 to consider whether or not to make regulatory changes in how electric cooperatives account for Contributions in Aid of Construction (CIAOC). In February 2011, the PSB issued a final order that required the Cooperative to make changes in how it accounts for CIAOC beginning in 2013. This resulted in changes in how CIAOC is currently accounted for, as described in Note 1, and it rescinded the previous PSB rulings on this matter. The Cooperative began following generally accepted accounting principles effective January 1, 2013 which reduces fixed assets constructed by the contribution toward the construction. The CIAOC in equity was allocated to active patrons in January 2014 based on their patronage for 2013.

<u>Risk Management</u>
The Cooperative is exposed to various risks of loss related to torts; theft of, damage to and destruction of or misuse of assets; injuries to individuals; and natural disasters. In addition to a system of internal controls, the Cooperative manages these risks through commercial insurance packages purchased in the name of the Cooperative.

NOTE 7 COMMITMENTS AND CONTINGENCIES - POWER SUPPLY

<u>Coventry Methane Generation Project</u>
The Cooperative owns and operates a generating facility powered by landfill gas at the Coventry Landfill in northern Vermont. The plant first began generating in July 2005 and was subsequently expanded in 2007 and 2009, to a present generating nameplate capacity of 8 MW. A set of contractual agreements was executed in 2003 between CCEC and New England Waste Services of Vermont, Inc. (NEWSVT), a wholly owned subsidiary of Casella Waste Systems, Inc. which owns the Coventry Landfill. These agreements codify the relationship of the parties.

NOTE 7 COMMITMENTS AND CONTINGENCIES - POWER SUPPLY (continued)

The initial project was financed by an RUS loan. The 2007 expansion was financed by CFC under their implementation of the Clean Renewable Energy Bond Program (CREB). The 2009 expansion was financed by an RUS-guaranteed FFB loan and by reallocating funds in the 2008-2011 CWP from distribution projects to generation assets.

The summary of project costs and outstanding notes payable as of December 31, 2014 are:

	Plant Cost	Note Balance
Phase 1 - Initial Construction, Engines 1-3	$ 8,502,732	$ 5,506,158
Phase 2 - Engine 4	1,238,397	678,471
Phase 3 - Engine 5 plus building modifications	4,133,419	2,589,783
Systems Upgrades financed with general funds	416,501	-
	$ 14,291,049	$ 8,774,412

Costs for each phase have been capitalized to both generation and transmission plant, with the majority in generation.

Of the $14,291,049 plant cost, $12,379,065 is capitalized to generation plant with the balance included in transmission plant.

In 2014 the Coventry Project provided approximately 53% of the Cooperative's total power supply output which made up 62% of the Cooperative's load requirements as measured by the Independent System Operator of New England (ISO-NE).

CCEC has a Landfill Gas Project Agreement with Innovative Energy Systems, Inc. (IES), (now Aria Energy with corporate headquarters in Novi, Michigan). The contract was effective on July 1, 2007. Services provided by Aria include day-to-day management, operation, maintenance, plant repair, monitoring and adjustment of the gas collection system. The contract is for nine years (July 2016) with a renewal option for eight years. Compensation to Aria is at the rate of 2.426 cents per kWh of electricity produced monthly, which is adjusted for inflation each year by the GDP-IPD index, the gross domestic product implicit price deflator index. At December 31, 2014 and 2013 the amount included in expense was $1,214,826 and $1,256,561, respectively.

Wrightsville Hydro

The Cooperative also owns and operates the Wrightsville Hydroelectric Generation Station in Montpelier, Vermont, a largely run-of-the-river project that has a nameplate capacity of 1,000 kW, though it provides significantly less average output because it is dependent on precipitation and weather conditions during the year. Operating costs were $118,153 and $107,482 at December 31, 2014 and 2013, respectively. Fixed costs were $109,994 and $111,524 over that same period, respectively. All debt associated with this station has been paid in full.

The remaining energy needs of the Cooperative are provided by other entities or generators through contractual obligations. A brief summary of the long-term financial obligations and the more significant sources of total energy, as of December 31, 2014, are as follows.

NOTE 7 COMMITMENTS AND CONTINGENCIES – POWER SUPPLY (continued)

Sheffield Wind Project
In May 2005, the Cooperative executed an Advance Purchase Fee Agreement with wind developer UPC Wind Vermont, LLC (UPC), which subsequently became Vermont Wind, LLC ("Vermont Wind") and is now part of SunEdison for up to a 4 MW share of the output of its proposed 40 MW project in Sheffield. The PSB awarded UPC the required Certificate of Public Good for the project in August 2007. In January 2009, the Vermont Supreme Court unequivocally upheld the PSB Order. The contract was filed by Vermont Wind with the PSB in June 2009 and the PSB approved it, in Docket No. 7156, in August 2009. The Cooperative finalized a long-term Purchased Power Agreement with Vermont Wind in September 2009. Vermont Wind began construction in 2010 and the project reached its commercial operation date on October 19, 2011. WEC began receiving power generated from the wind project at that time. Sheffield Wind accounted for 10% of WEC's total power supply in 2014 and served roughly 11% of WEC's load needs.

NYPA
The Cooperative receives power from the Franklin D. Roosevelt-St. Lawrence and Niagara hydroelectric projects in New York, through the DPS, which contracts with the New York Power Authority (NYPA). NYPA power is currently being provided through the DPS under a long-term contract in which an extension was executed in 2007 for the St. Lawrence portion. The Cooperative anticipates no reductions in NYPA power supply going forward under the latest agreements, except when low water conditions exist. When low water conditions do exist, NYPA makes available replacement energy at a higher cost, but purchase of such replacement power is optional. The Niagara project, the largest provider of NYPA power to the Cooperative, was recently relicensed. This relatively low-cost resource is expected to continue to be available to the Cooperative's residential customers far into the future, though some related costs have increased in recent years, particularly transmission. NYPA accounted for 11% of WEC's total power supply in 2014 and served roughly 12% of WEC's load.

Hydro Quebec - On January 7, 1991, the PSB conditionally approved the Cooperative's purchase of 2.589 MW of Hydro-Quebec (HQ) Schedule B power for a term from September 23, 1995 through October 31, 2015. The Cooperative purchases this power as an assignee of rights under the Vermont Joint Owners' (VJO) contract with HQ. Under Vermont Statutes, a required vote of the membership took place at a special membership meeting on March 26, 1991, authorizing the Cooperative's participation in Schedules A and B of the HQ contract. Schedule A power terminated in 1995. The membership also voted to approve the transfer of the Cooperative's entitlement to any Schedule C power to the Village of Stowe Electric Department at that time.

The remaining Schedule B power is must-take at a 75% annual capacity factor, subject to a limited number of annual options for adjustments by either party, all of which have been exercised at this time. If the power is not received by the Cooperative at the must-take level, then the Cooperative must pay a penalty equal to the difference between the must-take contract level and the actual level of contract power received. The Schedule B take or pay costs were $1,170,387 and $1,226,017 at December 31, 2014 and 2013, respectively.

The Cooperative contracted in 1996 for a sale of power to HQ, at Schedule B contract prices, and a purchase of the same amount of power from HQ at lower, market-based prices. This contract extended from November 1, 1995 to November 1, 1999, and has expired. However, under this sellback contract, HQ has the option, upon four years notice, of reducing its deliveries to the Cooperative by up to 30% for the duration of the Schedule B portion of the HQ contract. This option has remained unexercised. HQ Schedule B accounted for 19% of WEC's total power supply in 2014 and served roughly 22% of WEC's load needs.

NOTE 7 COMMITMENTS AND CONTINGENCIES – POWER SUPPLY (continued)

Highgate Converter Station (VPPSA)

The Cooperative has agreed to pay the Vermont Public Power Supply Authority (VPPSA) for its proportionate share of VPPSA's costs and obligations associated with the Highgate Converter, a transmission facility which allows interconnection with the HQ electric system. This arrangement allows the Cooperative access to wheeling transfer capability over Highgate and allows the Cooperative to import its share of power from HQ for the VJO contract. The Cooperative continues to pay for the operating and maintenance expenses of the Highgate converter. The total costs were $26,687 and $38,509 at December 31, 2014 and 2013, respectively. These amounts are included in the total cost above for the Schedule B take or pay costs.

Small Power Producers

Vermont PSB Rule 4.100 requires all electric utilities to purchase power from Vermont's non-utility small power producers, on the basis of prior year energy sales as a share of total Vermont utility energy sales. The state purchasing agent, currently the Vermont Electric Power Producers Inc. (VEPPI), administers the contracts and allocates costs to the Vermont utilities. This obligation, which for the Cooperative amounts to approximately 1% of the total small power producers' output, was $386,667 in 2014 and $412,934 in 2013. The Cooperative's costs are expected to decrease moderately through time for VEPPI resources as contracts expire. The contract for the largest VEPPI unit (Ryegate), which accounts for roughly half of the VEPPI power, expired in October 2012. However in 2011 lawmakers through Act 471 mandated the establishment of a standard offer price for certain baseload renewable power. In an Order dated October 29, 2012, the PSB established a standard-offer price schedule for baseload renewable power (Ryegate biomass facility) that is represented by a levelized price of $0.10 per kWh and that included a fuel pass-through mechanism, by which the price will be adjusted to reflect changes in Ryegate's fuel costs. The new contract began November2012 at the termination of Ryegate's Rule 4.100 contract. The new contract for Ryegate is in effect for ten years from November2012 through October2022. WEC is currently being allocated roughly 1.3% of the power from the Ryegate facility. The remaining Rule 4.100 contracts, which are hydro-based resources, are expected to expire fully by 2020.

Net Metering and Sustainably Priced Energy Enterprise Development (SPEED)

Since 1998, under Vermont's net metering statute, electric utilities must allow eligible forms of renewable energy generation "behind" the consumer/member's meter. Members must register with the PSB for installations of less than 10kw, or obtain a Certificate of Public Good (CPG) for capacity up to 500kw. The statute provides that a utility shall allow net metering up to 4% of its peak demand.

The Cooperative's net metered resources reached 4% of its peak demand during 2012. The Cooperative evaluated the impact on its system to account for the revenue effect and costs incurred to compensate net metering members for "net excess generation". In February 2013 the Cooperative notified the PSB of the fact that the 4% capacity level had been reached, and requested that the PSB take no immediate action. In August 2013, WEC notified the PSB that it had reached 6% of its peak from net metering installations, and thereby had exceeded the statutorily set cap of 4%. As a result of WEC's notification, the PSB requested that WEC file a revised tariff to its net metering program. WEC filed a revised tariff and sought to exceed the cap and to limit installations of 5kW and less. The filing was suspended by the PSB to consider threshold legal issues. Ultimately WEC withdrew the filing due to simultaneous efforts by Vermont law makers to change the net metering statute. New net metering laws were passed in 2014. Act 99 increased the limit to 15% of peak demand and provided WEC an opportunity through an "achievement provision" to introduce a separate net metering tariff.

NOTE 7 COMMITMENTS AND CONTINGENCIES – POWER SUPPLY (continued)

WEC filed a net metering tariff and received approval from the PSB to implement the new program in July 2014. As of December 31, 2014, WEC has 203 members totaling 1,391 kW participating under the original net metering plan (referred to internally as the legacy net metering program). In the new net metering program, WEC has 28 members totaling 178 kW participating. WEC's net metering programs combined include 231 members with installations or pending applications and equate to a total of 1,569 kW nameplate rated distributed generation systems.

SPEED is a feed-in tariff program for developers, available under the auspices of the PSB, and authorized by the Vermont legislature, through various PSB dockets (#7523 and #7533). The Cooperative has one such SPEED facility on its distribution system, a 2.1 MW photovoltaic (PV) project in Williamstown. WEC does not take power from this facility. Another 2.2 MW photovoltaic project was approved by the PSB and is now interconnected to the Cooperative's sub-transmission line in Coventry. WEC plans to institute an Open Access Transmission Tariff for wheeling power from projects connected to its sub-transmission lines to the VELCO grid and to charge for that service.

VELCO

The Cooperative has entered into contracts with the Vermont Electric Power Company, Inc. (VELCO), which operates Vermont's bulk transmission system, to participate in Phase I of the Hydro-Quebec Interconnection, a 450 kV HVDC transmission line directly connecting the HQ electric system with the New England Power Pool. Under these agreements, the Cooperative provided capital for the cost of construction through purchase of VELCO Class C preferred stock, and will provide support for the operation of its 0.1133% (.782 MW) interest in the line. The Cooperative is currently leasing this capacity to the Village of Stowe so that the Village can receive Hydro-Quebec/VJO Schedule C Purchased Power.

Vermont Transco LLC was officially established on June 30, 2006. Vermont Transco LLC is a limited liability company formed by VELCO and Vermont's distribution company owners, including the Cooperative. Vermont Transco LLC is now the owner of Vermont's high-voltage electric transmission system. VELCO is the manager of the LLC and, in that capacity, operates and maintains Vermont's electric transmission system, as it has for over fifty years.

Under collateral call arrangements associated with the Cooperative's ownership in VELCO and Vermont Transco LLC, the Cooperative purchased $399,600 and $419,700 in Vermont Transco equity units in 2014 and 2013, respectively.

In 2012 the PSB approved the merger of Central Vermont Public Service and Green Mountain Power. As part of its approval, the PSB ordered changes in the governance structure of VELCO to assure that the merged company would not control a majority of seats on its board. Consumer-owned utilities now appoint two additional independent directors, and a separate process was established for the appointment of three independent "public good" directors.

ISO-NE

The Cooperative, like all other utilities in New England, relies upon the ISO-NE, operator of the New England regional bulk transmission system, to dispatch generation and settle load obligations in the New England power markets. The Cooperative relies upon the ISO-NE to maintain reliability of the bulk power system and to administer the electricity markets within New England.

NOTE 7 COMMITMENTS AND CONTINGENCIES – POWER SUPPLY (continued)

Through its joint ownership in VELCO and under the Cooperative's participation in the Central Dispatch Agreement (CDA) with the Vermont Public Power Supply Authority (VPPSA), the Cooperative is a member of the New England Power Pool (NEPOOL). The Cooperative's power supply resources are combined in the CDA with other VPPSA participants, and settled as one entity with ISO-NE. The CDA is intended to provide pooling savings to its members by taking advantage of economies of scale through sharing staff resources through VPPSA, where under the CDA supply sources and loads of all of its participants are aggregated into a single entity for the purpose of ISO-NE settlement calculations. The Cooperative became a member of the CDA effective July 1, 1998. The Cooperative can withdraw from the arrangement on a short-term notice (30 days including any additional time required by ISO-NE to reflect such a change).

Over the past decade, the ISO-NE market structure has continued to evolve. Spot markets for energy, capacity and ancillary power products were developed, upon which New England utilities such as the Cooperative depend to achieve reliability of the bulk power system. In recent years, significant investments in transmission in the ISO-NE region have contributed to increased power costs for the Cooperative and other utilities.

In 2014 the Cooperative's energy settlement load obligation with the ISO-NE was 77,176,986 kWh (this value represents the Cooperative's retail sales, distribution and transmission losses, and uncollected accounts). To hedge its load obligation the Cooperative's power sources in 2014 totaled 89,284,805 kWh. The following table summarizes the Cooperative's sources of power:

	2014		2013	
	kWh	Percentage	kWh	Percentage
VDPS - NYPA	9,872,660	11.06%	9,424,095	10.02%
Hydro - Quebec	16,780,560	18.79%	18,024,130	19.17%
Small Power Producers & Ryegate	3,405,859	3.81%	3,720,376	3.96%
Wrightsville	2,301,693	2.58%	2,994,804	3.19%
GMP Rate W - Jones Brook	541,400	0.61%	564,900	0.60%
Coventry Clean Energy Corporation	47,524,264	53.23%	50,908,300	54.15%
Vermont Wind	8,858,369	9.92%	8,373,658	8.91%
	89,284,805	100.00%	94,010,263	100.00%
Load Obligation	77,176,986		77,729,681	
Excess Resources	12,107,819		16,280,582	

GMP Subtransmission Tariff

Following the approval by the PSB and the Federal Energy Regulatory Commission (FERC) of the merger of CVPS and GMP, the merged company filed an updated subtransmission tariff with FERC affecting all wholesale customers including the Cooperative. Seven of the Cooperative’s eight substations are served by GMP. The Cooperative intervened in the FERC case along with two other Vermont utilities, and sought to lessen the total impact of the increase and its implementation. The parties have been engaged in settlement discussions. The outcome of these discussions resulted in a 15 year phase in of costs and the litigation before FERC was completed in 2014.

NOTE 7 COMMITMENTS AND CONTINGENCIES – POWER SUPPLY (continued)

Beginning in 2004, bilateral and settlement markets for Renewable Energy Certificates (RECs) began operating in the ISO-New England region as a result of renewable portfolio standards (RPS) legislation passed in a number of New England states. The markets allow for the renewable attributes of a generation source to be sold separately from the energy itself. RECs are directly associated with the generation of electricity produced or purchased by the Cooperative from qualified resources, particularly the Coventry Project and Vermont Wind's Sheffield wind project. The Vermont Legislature is currently working on legislation to establish a Vermont RPS. Due to WEC's investments in renewable based power and purchase of RECs, WEC is not expecting the new Vermont RPS law will have a material impact on its finances. In addition, WEC supports creation of a Vermont RPS to clear up confusion and REC ownership concerns.. WEC believes a Vermont RPS will provide REC markets much needed certainty as Vermont moves away from a goal based standard to build renewable projects to a requirement to own and retire RECs.

NOTE 8 RENEWABLE ENERGY CERTIFICATES

The Cooperative records proceeds from the sale of RECs in operating revenues. Proceeds for RECs sold are received in subsequent quarters due to the lag time required by the NEPOOL Generation Information System (GIS) and RECs market administrator to accurately account for the RECs generated. In 2011, the Cooperative's Board adopted a portfolio strategy for sale of RECs for 2012 and beyond, and is selling RECs to multiple buyers for varying terms.

At December 31, 2014 and 2013 the Cooperative recorded REC revenue of $2,934,152 and $2,231,438, respectively. There was $829,795 and $741,220 in REC receivables at December 31, 2014 and 2013, respectively.

NOTE 9 BANK DEPOSITS IN EXCESS OF INSURED LIMITS

At December 31, 2014 the Cooperative had cash balances of $429,383 of which $252,829 is insured by FDIC and $176,548 is insured by a repurchase agreement. The Cooperative mitigates the exposure of uninsured cash through the use of repurchase agreements with an area bank. The bank utilizes a sweep account arrangement. The target balance is $2,500. Amounts in excess of this are swept into the repurchase account whereby the bank invests the excess in U.S. Government Securities. These underlying U.S. Government Securities serve as collateral for the Cooperative based on this agreement.

NOTE 10 AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA)

The Cooperative, along with other Vermont electric distribution utilities, and the state's transmission provider, Vermont Electric Power Company (VELCO), applied for and were awarded a Smart Grid Investment Grant (SGIG) from the Department of Energy (DOE) in December 2009. The total award was for $68.9 million dollars state-wide; the distribution utilities and VELCO were obligated to match the award amount; the total state-wide project amount was $137.8 million dollars. The Cooperative's original share of the award was $969,356, which obligated the Cooperative to provide matching funds from its Construction Work Plan in an equal amount over a period of three years. In January 2011 the Cooperative was notified that up to an additional $1,000,000 in ARRA grant funding would be made available to the Cooperative to implement its Advanced Metering Infrastructure (AMI) proposal. In 2012 the Cooperative was notified that an additional $250,000 was available for its AMI project.

NOTE 10 AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) (continued)

The Cooperative included AMI deployment in its current CWP, financing for which was approved by the PSB in 2011. The Cooperative submitted its AMI Plan for approval to the PSB, which approved the plan in early 2012. The Cooperative completed substantially full deployment by late 2013 and $1,125,000 of the amount available was drawn down by the Cooperative at the time of completion

NOTE 11 AMORTIZATION OF STRANDED METER COSTS

In 2012, the Cooperative had a net loss on the early retirement of its meters in the amount of $373,587. This loss was due to the fact that the Cooperative began replacing all of its existing meters with an Advanced Metering Infrastructure (AMI), and the old meters were not fully depreciated. The Cooperative received approval from RUS to amortize this loss over a five year period starting in 2012. The amortization of the loss was $74,900 and $72,859 in 2014 and 2013, respectively.

NOTE 12 DECEMBER 2014 STORM COSTS

The Cooperative was impacted by an unprecedented winter storm in December 2014. Heavy wet snow loading brought down trees and power lines. The conditions caused widespread outages, and some of the Cooperatives members suffered from multi-day long interruptions in service. Restoration efforts took over 10 days. Permanent repairs will continue into 2015.

The storm resulted in restoration costs impacting the income statement of $640,837. The storms impact on the state of Vermont was recognized by the Federal Emergency Management Agency (FEMA) as a national disaster and was declared for public assistance on February 3, 2015. The Cooperative's FEMA reimbursement of eligible expenses is estimated to be 75% of the storm restoration expenses but only for two out of the three counties the Cooperative serves. The Cooperative recorded an estimated receivable of $225,300 from FEMA.

On January 27, 2015 the Vermont Public Service Board issued an accounting order allowing for the deferral of storm costs of up to $526,067. The Cooperative's actual deferral will be offset with FEMA recoverable monies. The total amount deferred as of December 31, 2014, net of the receivable, is $225,767 and is categorized as a deferred regulatory asset for future rate recovery and amortization.

NOTE 13 CHANGE IN ACCOUNTING PRINCIPLE

In 2013, the Cooperative decided to begin recording unbilled revenue for small and large commercial customer accounts in the current period rather than the month subsequent to year end. By doing so the Cooperative is changing to a principle that is considered more acceptable than what had been consistently used in years past. For the years ended December 31, 2014 and 2013, there were unbilled commercial revenues of $65,602 and $61,704, respectively.

NOTE 14 SUBSEQUENT EVENTS

In accordance with professional accounting standards, the Cooperative has evaluated subsequent events through February 26, 2015, which is the date the financial statements were available to be issued. All subsequent events requiring recognition as of December 31, 2014, have been incorporated into the financial statements herein.

ADDITIONAL REPORTS

KBS
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

The Board of Directors
Washington Electric Cooperative, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Washington Electric Cooperative, Inc., which comprise the statement of financial position as of December 31, 2014, and the related statements of operations, equities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 26, 2015.

Internal Control Over Financial Reporting

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Washington Electric Cooperative, Inc.'s consolidated 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.

Kittell Branagan & Sargent

St. Albans, Vermont
February 26, 2015