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**TOWN OF HARDWICK ELECTRIC DEPARTMENT
(A COMPONENT UNIT OF
THE TOWN OF HARDWICK, VERMONT)**

FINANCIAL STATEMENTS

December 31, 2024 and 2023



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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities of Town of Hardwick Electric Department (HED) as of and for the years ended December 31, 2024 and 2023, and the related notes to the financial statements, which collectively comprise HED's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of HED as of December 31, 2024 and 2023, and the respective 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Town of Hardwick Electric Department and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about HED's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of HED's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about HED's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of HED's Proportionate Share of the Net Pension Liability – VMERS, Schedule of HED's Contributions – VMERS, and Notes to Required Supplementary Information – VMERS be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2025 on our consideration of HED'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 HED'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 HED's internal control over financial reporting and compliance.

A.M. Peisch & Company, LLP

Saint Albans, Vermont

October 21, 2025

VT Reg. No. 92-0000102

TOWN OF HARDWICK ELECTRIC DEPARTMENT MANAGEMENT'S DISCUSSION AND ANALYSIS

Presented here is the Management Discussion & Analysis Report for the Town of Hardwick Electric Department (HED) for the year ended December 31, 2024. Responsibility for both the accuracy of the data and the completeness and fairness of this presentation (including all disclosures) rests with management. To the best of our knowledge and belief, the data contained herein is accurate in all material respects. This data is reported in a manner designed to fairly present the Department's financial position and the result of operations of the Department. All disclosures necessary to enable the reader to gain an accurate understanding of the Department financial activity have been included.

The Department's administration is responsible for establishing an accounting and internal control structure designed to ensure that the physical, data, informational, intellectual and human resource assets of the Department are protected from loss, theft, and misuse, and to ensure that adequate accounting information is maintained and reported in conformity with generally accepted and accounting principles (GAAP). Management also strives to ensure that these assets are put to good and effective use. The internal control structure is designed to provide reasonable assurances that these objectives are attained.

Overview of the Financial Statements:

This report consists of three parts:

- Management's Discussion and Analysis
- Required Financial Statements
- Notes to the Financial Statements

Management's Discussion and Analysis (this section) provides a narrative overview of the statements and comments on significant developments during the reporting period.

Financial Statements

The Statement of Net Position presents the financial position of HED by showing the assets owned by HED and how those assets were financed. Over time, increases and decreases in net position serve as a useful indicator of whether or not the financial position of the HED is improving.

HED adopts an annual budget which includes operation expenses, administrative expenses, and office expenses which include salaries and benefits, and equipment expenses.

The Statement of Revenues, Expenses, and Changes in Net Position shows the operating revenues and operating expenses for the year along with any non-operating revenues and expenses. The results of operations is the change in net position. This added to the prior year's net position is the new net position shown on both this statement and the Statement of Net Position.

The Statement of Cash Flows - outlines the cash flow resulting from operations, investments, and the financing activities of HED.

Notes to the Financial Statements

The Notes to the Financial Statements provide explanations of the accounting principles and key items in the statements.

Financial and Operating Highlights for 2024

HED expenses with regard to distribution operation and maintenance experienced a 113% increase in 2024 over budgeted amounts due to the use of contract crews as a result of diminished number of HED line crew staffing. Contract crews were used in the construction of capital jobs, as well as operation and maintenance of distribution lines. As a result of employee retirement, HED used more contract engineering services for capital projects which had been previously done by internal staff.

Also affected by retirement was Administrative & General expenses, which were 9.7% below budget.

HED expenses with regard to purchased power will continue to be higher than normal due to the HED's Wolcott hydro facility being out of service as a result of 2023 flooding damage. Repairs were in progress when additional damage was sustained due to 2024 flooding. The facility historically provides about 10% of our customers' energy needs. Specific plant damaged was the hydro building, building contents (including generator/turbine and electrical panel), penstock tubes, gravel road. Although the hydro plant was non-functioning during 2024, hydro maintenance work still had to be done to 1) maintain the facility in preparation for 2023 flood repair work, and 2) clean the facility after the 2024 flood.

Both the 2023 and 2024 flooding events were FEMA declared disasters, and HED continues to work with FEMA and appropriate regulators to make repairs and obtain financial reimbursement. In 2024 HED received \$601,695 from FEMA, and \$472,336 from VLCT insurance proceeds related to the 2023 flood.

The Statement of Net Position presents information on all of HED's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of HED is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position present information showing how HED's net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the event occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in these statements for some items that will result in cash flows in future fiscal periods.

The Statement of Cash Flows relates to the flows of cash and cash equivalents. Consequently, only transactions that affect HED's cash accounts are recorded in this statement. A reconciliation is provided at the bottom of the statement of cash flows to assist in the understanding of the difference between cash flows from operating activities and operating income or loss.

The largest portion of HED's net position reflects its investment in its land, buildings, equipment, and infrastructure, less accumulated depreciation and any debt outstanding. HED uses these capital assets to provide services to its customers. Therefore, these assets are not available for future spending.

The following table summarizes the Statement of Net Position:

	2024	2023	2022	Percentage change 2023-2024	Percentage change 2022-2023
Current assets	\$ 3,044,057	2,192,491	1,694,741	38.8%	29.4%
Investments	3,360,048	3,033,754	2,713,425	10.8%	11.8%
Property and equipment, net	6,524,894	4,838,305	5,777,263	34.9%	(16.3%)
Other noncurrent assets	449,145	512,930	112,966	(12.4%)	354.1%
Total assets	\$ 13,378,144	10,577,480	10,298,395	26.5%	2.7%
Deferred outflows of resources	\$ 189,741	287,387	394,107	(34.0%)	(27.1%)
Current liabilities	\$ 3,218,506	985,655	1,099,186	226.5%	(10.3%)
Long-term debt, net	275,950	60,000	199,352	359.9%	(69.9%)
Net pension liability	813,375	847,903	874,873	(4.1%)	(3.1%)
Total liabilities	\$ 4,307,831	1,893,558	2,173,411	127.5%	(12.9%)
Deferred inflows of resources	\$ 63,229	38,292	-	65.1%	100.0%
Net position:					
Net investment in capital assets	\$ 6,214,894	4,643,954	5,452,411	33.8%	(14.8%)
Unrestricted	2,981,931	4,289,063	3,066,680	(30.5%)	39.9%
Total net position	\$ 9,196,825	8,933,017	8,519,091	3.0%	4.9%

In the year ended December 31, 2024, HED's total assets increased by 26.5%, to \$13,378,144, and total liabilities increased by 127.5%, to \$4,307,831. HED's total net position increased \$263,808 in 2024, or 3.0% from the prior year. Although overall operating expenses were higher, \$601,695 was received in FEMA funds which resulted in an overall increase.

In 2024, capital expenditures totaled \$323,438. At December 31, 2024, HED had \$5,578,453 invested in utility plant in service, net of accumulated depreciation. Capital assets include a hydro-electric plant, a transmission plant, a distribution plant, a general plant, and vehicles. Major capital expenditures included upgrades to plants, poles, towers and fixtures.

In order to comply with GASB Statement No. 101 Compensated Absences, effective with Fiscal Year 2024, HED increased its liability for sick leave.

The following table summarizes the Statement of Revenues, Expenses, and Changes in Net Position:

	2024	2023	2022	Percentage change 2023-2024	Percentage change 2022-2023
Charges for services	\$ 7,177,042	\$ 6,725,460	\$ 6,346,283	6.7%	6.0%
Settlement income - Past revenue	-	505,834	-	(100.0%)	100.0%
FEMA	601,695	80,833	-	644.4%	100.0%
Insurance proceeds	472,336	-	-	100.0%	0.0%
Miscellaneous	205,358	188,938	133,261	8.7%	41.8%
Total operating revenue	8,456,431	7,501,065	6,479,544	12.7%	15.8%
Purchased power	4,462,151	4,102,015	4,048,035	8.8%	1.3%
Distribution - Operations	211,888	184,356	145,729	14.9%	26.5%
Distribution - Maintenance	1,067,961	610,824	501,927	74.8%	21.7%
Hydro production	154,718	35,703	70,645	333.3%	(49.5%)
Customer accounts	291,118	244,491	227,971	19.1%	7.2%
Administration and general	902,036	843,877	730,897	6.9%	15.5%
Depreciation	411,751	422,959	451,466	(2.6%)	(6.3%)
Taxes	732,728	572,402	599,544	28.0%	(4.5%)
Employee pension and benefits	496,250	572,841	646,285	(13.4%)	(11.4%)
Total operating expenses	8,730,601	7,589,468	7,422,499	15.0%	2.2%
Operating loss	(274,170)	(88,403)	(942,955)	210.1%	(90.6%)
Dividend income	209,147	176,252	172,044	18.7%	2.4%
Interest income	10,823	11,876	5,181	(8.9%)	129.2%
Gain on disposal of property and equipment	11,659	-	-	100.0%	0.0%
VT Transco investment income	326,294	320,329	320,166	1.9%	0.1%
Interest expense	(19,945)	(6,128)	(13,962)	225.5%	(56.1%)
Total other income	537,978	502,329	483,429	7.1%	3.9%
Change in net position	263,808	413,926	(459,526)	(36.3%)	(190.1%)
Net position at beginning of year	8,933,017	8,519,091	8,978,617	4.9%	(5.1%)
Net position at end of year	\$ 9,196,825	\$ 8,933,017	\$ 8,519,091	3.0%	4.9%

HED's total operating and non-operating revenues in 2024, were \$9,014,354 while operating and non-operating expenses totaled \$8,750,546. This resulted in net position increasing by \$263,808 for the year. This compares to the 2023 change in net position of \$413,926 from total revenues of \$8,009,522 and total expenses of \$7,595,596.

The principal operating revenues of HED are derived from electric energy sales. Major operating expenses include purchased power, distribution operations and maintenance expenses, administrative costs, and capital asset depreciation. Non-operating income includes FEMA income, insurance proceeds, interest and dividend income, and miscellaneous project income.

The following table summarizes capital assets, accumulated depreciation, and construction work in progress for the years ended 2024, 2023, and 2022:

	2024	2023	2022
Capital assets	\$ 15,197,369	14,855,931	14,782,759
Accumulated depreciation	<u>(9,618,916)</u>	<u>(9,440,104)</u>	<u>(9,123,530)</u>
Net capital assets	<u>\$ 5,578,453</u>	<u>5,415,827</u>	<u>5,659,229</u>
Construction work in progress, net of contributions in aid of construction	<u>\$ 946,441</u>	<u>(577,522)</u>	<u>118,034</u>

The following table summarizes long-term debt for the years ended 2024, 2023, and 2022:

	2024	2023	2022
Bonds payable	\$ 60,000	175,000	285,000
Notes payable	<u>250,000</u>	<u>19,351</u>	<u>39,852</u>
Total long-term debt	<u>\$ 310,000</u>	<u>194,351</u>	<u>324,852</u>

Requests for Information

This financial report is designed to provide a general overview of Town of Hardwick Electric Department's finances for all those with an interest in HED's finances. Questions concerning any of the information contained in this report or requests for additional information should be addressed by writing to: Hardwick Electric Department at 123 North Main Street, Hardwick, Vermont, 05843.

TOWN OF HARDWICK ELECTRIC DEPARTMENT

STATEMENTS OF NET POSITION

December 31, 2024 and 2023

	2024	2023
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,284,747	\$ 550,599
Accounts receivable, net of allowance	859,103	817,069
Unbilled revenue	491,128	432,822
Inventory	294,626	281,714
Current portion of long-term receivable	62,735	59,185
Prepayments	<u>51,718</u>	<u>51,102</u>
 Total current assets	 <u>3,044,057</u>	 <u>2,192,491</u>
 NONCURRENT ASSETS		
Investments	3,360,048	3,033,754
Long-term receivable, net of current portion	449,145	512,930
Property and equipment, net	5,578,453	5,415,827
Construction work in progress, net of nonrefundable payments for construction	<u>946,441</u>	<u>(577,522)</u>
 Total noncurrent assets	 <u>10,334,087</u>	 <u>8,384,989</u>
 Total assets	 <u>13,378,144</u>	 <u>10,577,480</u>
 DEFERRED OUTFLOWS OF RESOURCES		
Pension - VMERS	<u>\$ 189,741</u>	<u>\$ 287,387</u>

TOWN OF HARDWICK ELECTRIC DEPARTMENT

STATEMENTS OF NET POSITION (Continued)

December 31, 2024 and 2023

	2024	2023
CURRENT LIABILITIES		
Accounts payable	\$ 1,008,458	\$ 454,730
Accrued expenses	406,901	385,091
Customer deposits	12,097	11,483
Line of credit	200,000	-
Short term notes payable	1,557,000	-
Current portion of notes and bonds payable	<u>34,050</u>	<u>134,351</u>
 Total current liabilities	 <u>3,218,506</u>	 <u>985,655</u>
 LONG-TERM LIABILITIES		
Notes and bonds payable, net of current portion	275,950	60,000
Net pension liability	<u>813,375</u>	<u>847,903</u>
 Total long-term liabilities	 <u>1,089,325</u>	 <u>907,903</u>
 Total liabilities	 <u>4,307,831</u>	 <u>1,893,558</u>
 DEFERRED INFLOWS OF RESOURCES		
Pension - VMERS	<u>63,229</u>	<u>38,292</u>
 NET POSITION		
Net investment in capital assets	6,214,894	4,643,954
Unrestricted	<u>2,981,931</u>	<u>4,289,063</u>
 Total net position	 <u>\$ 9,196,825</u>	 <u>\$ 8,933,017</u>

See accompanying notes.

TOWN OF HARDWICK ELECTRIC DEPARTMENT

STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION

For the Years Ended December 31, 2024 and 2023

	2024	2023
OPERATING REVENUE		
Charges for services	\$ 7,177,042	\$ 6,725,460
Settlement income - Past revenue	-	505,834
FEMA	601,695	80,833
Insurance proceeds	472,336	-
Miscellaneous	<u>205,358</u>	<u>188,938</u>
Total operating revenue	<u>8,456,431</u>	<u>7,501,065</u>
OPERATING EXPENSES		
Purchased power	4,462,151	4,102,015
Distribution - Operations	211,888	184,356
Distribution - Maintenance	1,067,961	610,824
Hydro production	154,718	35,703
Customer accounts	291,118	244,491
Administration and general	902,036	843,877
Depreciation	411,751	422,959
Taxes	732,728	572,402
Employee pension and benefits	<u>496,250</u>	<u>572,841</u>
Total operating expenses	<u>8,730,601</u>	<u>7,589,468</u>
Operating loss	<u>(274,170)</u>	<u>(88,403)</u>
NON-OPERATING REVENUES (EXPENSES)		
Dividend income	209,147	176,252
Interest income	10,823	11,876
Gain on disposal of property and equipment	11,659	-
VT Transco investment income	326,294	320,329
Interest expense	<u>(19,945)</u>	<u>(6,128)</u>
Total non-operating revenues (expenses)	<u>537,978</u>	<u>502,329</u>
Change in net position	263,808	413,926
Net position, beginning of year	<u>8,933,017</u>	<u>8,519,091</u>
Net position, end of year	<u>\$ 9,196,825</u>	<u>\$ 8,933,017</u>

See accompanying notes.

TOWN OF HARDWICK ELECTRIC DEPARTMENT

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2024 and 2023

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 7,673,563	\$ 7,394,806
Cash received/(paid) for customer deposits	614	(2,926)
Cash received from other sources	682,528	-
Cash payments for taxes	(710,918)	(551,578)
Cash paid to employees including benefits	(1,584,045)	(1,532,613)
Cash paid to suppliers	<u>(5,373,822)</u>	<u>(5,122,673)</u>
 Net cash provided by operating activities	 <u>687,920</u>	 <u>185,016</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from notes and bonds payable	2,007,000	-
Payments on notes and bonds payable	(134,351)	(130,501)
Construction and acquisition of property and equipment	(417,937)	(137,316)
Construction and acquisition of property and equipment, in progress	(4,949,281)	(1,976,385)
Plant retired, in progress	3,425,318	2,663,606
Plant retired	(162,781)	(33,906)
Proceeds from sales or disposition of utility plant	18,000	-
Cash paid for interest expense	<u>(19,945)</u>	<u>(6,128)</u>
 Net cash provided (used) by financing activities	 <u>(233,977)</u>	 <u>379,370</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Dividends and interest received	219,970	188,128
Receipts (advances made) on notes receivable	<u>60,235</u>	<u>(447,149)</u>
 Net cash provided (used) by investing activities	 <u>280,205</u>	 <u>(259,021)</u>
 Net increase in cash and cash equivalents	 734,148	 305,365
Cash and cash equivalents, beginning of year	<u>550,599</u>	<u>245,234</u>
 Cash and cash equivalents, end of year	 <u>\$ 1,284,747</u>	 <u>\$ 550,599</u>

TOWN OF HARDWICK ELECTRIC DEPARTMENT

STATEMENTS OF CASH FLOWS (Continued)
For the Years Ended December 31, 2024 and 2023

	2024	2023
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating loss	\$ <u>(274,170)</u>	\$ <u>(88,403)</u>
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	411,751	422,959
(Increase) decrease in accounts receivable	(122,867)	(74,670)
(Increase) decrease in FEMA receivable	80,833	(80,833)
(Increase) decrease in unbilled revenue	(58,306)	49,244
(Increase) decrease in inventory	(12,912)	(4,636)
(Increase) decrease in prepayments	(616)	(34,305)
(Increase) decrease in deferred outflows of resources	97,646	106,720
Increase (decrease) in accounts payable	553,728	(140,280)
Increase (decrease) in accrued expenses	21,810	20,824
Increase (decrease) in customer deposits	614	(2,926)
Increase (decrease) in net pension liability	(34,528)	(26,970)
Increase (decrease) in deferred inflows of resources	<u>24,937</u>	<u>38,292</u>
Total adjustments	<u>962,090</u>	<u>273,419</u>
Net cash provided by operating activities	\$ <u><u>687,920</u></u>	\$ <u><u>185,016</u></u>
SCHEDULE OF NON CASH INVESTING AND FINANCING ACTIVITIES		
VT Transco investment income reinvested	\$ <u><u>326,294</u></u>	\$ <u><u>320,329</u></u>

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

The Town of Hardwick, Vermont (the Town) is a unit of local government organized under the statutes of the State of Vermont. The Hardwick Electric Department (HED) is a fund of the Town and is governed by a Board of Commissioners. HED provides retail electric power to the residents of the Town of Hardwick and nearby surrounding areas. HED is under the jurisdiction of the Federal Energy Regulatory Commission (FERC) and the Vermont Public Utility Commission (PUC) with respect to HED's retail electric rates and accounting practices.

A. Reporting entity

HED is a component unit of the Town of Hardwick, Vermont. It is categorized as a proprietary fund and these financial statements are not intended to present fairly the financial position and results of operations or the cash flows of all funds or all proprietary funds of the Town of Hardwick. As allowed by the town charter, the Select Board of the Town of Hardwick appoints the Board of Commissioners as the governing board of the HED. There are special accounting and reporting practices required by regulatory authorities.

The financial statements of HED have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) as applied to governmental units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The GASB periodically updates its codification of the existing *Governmental Accounting and Financial Reporting Standards* which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes U.S. GAAP for governmental units.

B. Basis of presentation

HED operates as a proprietary fund, which governmental accounting principles define as suitable for operations that are financed and operated in a manner similar to private business enterprises. As such, they are financed primarily through proceeds from their operations.

C. Measurement focus and basis of accounting

HED uses the economic resources measurement focus and accrual basis of accounting, whereby revenues are recorded when earned, and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flows.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Regulatory accounting

HED is a municipally owned utility. Operations, including accounting records, rates, operations and certain other practices of its electric utility business, are subject to the regulatory authority of the Federal Energy Regulatory Commission ("FERC") and Vermont Public Utility Commission ("PUC"). The Vermont Department of Public Service ("DPS") is the public advocate for utility customers. The accompanying financial statements conform to accounting principles generally accepted in the United States of America

Note 1. Summary of Significant Accounting Policies (Continued)

applicable to rate-regulated enterprises in accordance with ASC Topic 980, "Regulated Operation." Under ASC 980, HED accounts for certain transactions in accordance with permitted regulatory treatment. As such, regulators may permit incurred costs or benefits, typically treated as expenses or income by unregulated entities, to be deferred and expensed or benefited in future periods. Costs are deferred as regulatory assets when HED concludes that future revenue will be provided to permit recovery of the previously incurred cost. Revenue may also be deferred as regulatory liabilities that would be returned to customers by reducing future revenue requirements. HED analyzes the evidence supporting deferral, including provisions for recovery in regulatory orders, past regulatory precedent, other regulatory correspondence, and legal representations.

E. Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and deferred outflows/inflows of resources as well as disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures or expenses during the reporting period. Actual results could differ from those estimates.

F. Risk management

HED is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and others; environmental liability; and natural disasters. HED manages these risks through commercial insurance packages and participation in public entity risk pools covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to HED. There were no settlements in excess of the insurance coverage in any of the past three fiscal years.

G. Adoption on new accounting pronouncement

On January 1, 2024, HED adopted, with modified retrospective application, GASB Statement No. 101, *Compensated Absences*, which modifies the measurement of compensated absences. There were no changes that retrospectively impacted the financial statements for the year ended December 31, 2023.

H. Accounts receivable

These balances represent electric fees outstanding as of December 31, 2024 and 2023. HED has the legal right to force sale of property to recover delinquent electric fees. HED has established an allowance for credit losses of \$17,237 at December 31, 2024 and \$40,130 at December 31, 2023. The allowance for credit losses has been determined based on prior actual collections versus amounts billed and is estimated to be between five and ten percent of the outstanding accounts receivable balance.

I. Unbilled revenues

HED records electric revenues related to unbilled amounts based upon usage from the last reading dates of the calendar year to the end of the accounting period. Consumption usage for unbilled revenue for electric is recorded to the corresponding revenue accounts in the accounting period of usage.

Note 1. Summary of Significant Accounting Policies (Continued)

J. Inventory

Inventories are valued at moving average cost and are recorded as expenditures when consumed rather than when purchased.

K. Investments

U.S. GAAP requires classification of investments into three levels which relate to the method of valuation. Level 1 refers to investments traded in an active market; level 2 refers to investments not traded in an active market but for which observable market values of comparable investments are readily available; level 3 refers to investments not traded in an active market and for which no significant market values are available. HED's investments are classified as level 3 and are reported at cost, which is management's best estimate of fair value.

L. Capital assets

Capital assets, which include land, buildings, equipment, and vehicles, are reported at cost when purchased or fair value when acquired under capital lease. Capital assets are defined by HED as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of one year. Normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's life are not capitalized. Capital assets are depreciated using the straight-line method over the useful lives as follows:

	<u>Years</u>
Hydro-electric plant	40
Diesel plant	25
Transmission plant	5 - 40
Distribution plant	3 - 33
General plant	3 - 33
Transportation equipment	5 - 10

M. Deferred outflows/inflows of resources

In addition to assets and liabilities, deferred outflows of resources and deferred inflows of resources are reported as separate sections in the applicable statement of net position or balance sheet. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources in the current period. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources in the current period.

N. Compensated absences

It is HED's policy to permit employees to accumulate earned, but unused vacation and sick pay benefits based upon their length of employment (subject to certain carryover limitations and time restrictions). Unless terminated for cause, upon separation from HED employees are compensated for 100% of vacation time at their current rates of pay. Upon retirement, permanent disability, or death, employees are compensated for 50% of sick time at their current rates of pay. The accrued liability for compensated absences as of December 31, 2024 and 2023, is \$93,327 and \$115,428, respectively.

Note 1. Summary of Significant Accounting Policies (Continued)

O. Net position

Net position on the Statements of Net Position includes the following:

Net investment in capital assets - This is the cost of capital assets less accumulated depreciation and is also net of the outstanding balance of debt that is directly attributable to the acquisition, construction, or improvement of those capital assets.

Restricted net position - This consists of net position with constraints placed on the use of either by 1) external groups such as creditors, grants, or laws and regulations of other governments or 2) local law through constitutional provisions or enabling legislation. There was no restricted net position as of December 31, 2024 and 2023.

Unrestricted - This is the remaining portion of net position other than amounts reported as invested in capital assets or restricted net position.

Restrictions of net position in proprietary fund type financial statements represent amounts that cannot be appropriated or are legally restricted for a specific purpose by a grant, contract, or other binding agreement. When an expenditure is incurred for purposes for which both restricted and unrestricted retained earnings are available, HED considers restricted funds to be spent first.

Note 2. Cash and Cash Equivalents

HED considers all cash on hand, unrestricted bank deposits, and investments with original maturities of three months or less from the date of acquisition to be cash and cash equivalents.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, HED will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. HED does not have a policy for custodial credit risk. As of December 31, 2024, \$638,043 of HED's bank balance of \$1,234,493 was collateralized, but uninsured.

Note 3. Investments

Shares of Velco, Inc. and member units of Vermont Transco, LLC are held by HED or by Vermont Public Power Supply Authority (VPPSA) on behalf of HED. Distribution income from investments held by VPPSA for the benefit of HED is recognized as earned and applied by VPPSA to debt service requirements of related obligations held by VPPSA on behalf of members. The difference between the distribution income, debt service and fees paid is identified by VPPSA as a net settlement credit on HED's purchased power and transmission invoice. The net settlement credit is reported as investment income. The VPPSA debt service is reported as VT Transco investment income and a corresponding increase in the value of investments.

In addition to reported investment assets, VPPSA also holds unpaid Transco member units and units of specific facility equity related to the Lamoille County Specific Facilities for the benefit of HED. These are not reported as investment assets of HED.

Note 3. Investments (Continued)

Investments are stated at cost as described in Note 1. The investments at December 31, 2024 and 2023 consist of the following:

	<u>2024</u>	<u>2023</u>
Velco Class C preferred stock	\$ 64,400	\$ 64,400
Velco Class B common stock	114,300	114,300
Velco Class C common stock	64,300	64,300
Transco, LLC #1	3,069,112	2,742,818
Transco, LLC #2	17,890	17,890
Transco, LLC #3	<u>9,202</u>	<u>9,202</u>
Total Velco/Transco Stock	3,339,204	3,012,910
Cooperative Finance Corporation (CFC) - Capital Term Certificates	9,938	9,938
Land	<u>10,906</u>	<u>10,906</u>
Total Investments	<u>\$ 3,360,048</u>	<u>\$ 3,033,754</u>

Note 4. Property and Equipment

Capital asset activity for the year ended December 31, 2024 was as follows:

	Beginning Balance	Additions/ Completions	Retirements/ Adjustments	Ending Balance
Non-depreciable capital assets:				
Construction in Progress	\$ (577,522)	\$ 4,865,448	\$ (3,341,485)	\$ 946,441
Total capital assets not being depreciated	<u>\$ (577,522)</u>	<u>\$ 4,865,448</u>	<u>\$ (3,341,485)</u>	<u>\$ 946,441</u>
Capital assets, being depreciated				
Hydro-electric plant	\$ 2,398,734	\$ 158,051	\$ (1,916)	\$ 2,554,869
Diesel plant	142,217	-	-	142,217
Transmission plant	695,305	68,498	(3,210)	760,593
Distribution plant	9,611,479	49,572	(17,009)	9,644,042
General plant	1,118,663	15,911	(16,661)	1,117,913
Transportation equipment	<u>889,533</u>	<u>133,125</u>	<u>(44,923)</u>	<u>977,735</u>
Total capital assets being depreciated	<u>14,855,931</u>	<u>425,157</u>	<u>(83,719)</u>	<u>15,197,369</u>
Less accumulated depreciation for:				
Hydro-electric plant	(1,291,193)	(60,634)	1,916	(1,349,911)
Diesel plant	(135,416)	-	-	(135,416)
Transmission plant	(264,948)	(3,976)	3,210	(265,714)
Distribution plant	(6,126,325)	(83,887)	9,788	(6,200,424)
General plant	(932,032)	(36,377)	16,662	(951,747)
Transportation equipment	<u>(690,190)</u>	<u>(64,096)</u>	<u>38,582</u>	<u>(715,704)</u>
Total accumulated depreciation	<u>(9,440,104)</u>	<u>(248,970)</u>	<u>70,158</u>	<u>(9,618,916)</u>
Total capital assets being depreciated - Net	<u>\$ 5,415,827</u>	<u>\$ 176,187</u>	<u>\$ (13,561)</u>	<u>\$ 5,578,453</u>

Note 4. Property and Equipment (Continued)

Capital asset activity for the year ended December 31, 2023 was as follows:

	Beginning Balance	Additions/ Completions	Retirements/ Adjustments	Ending Balance
Non-depreciable Capital Assets:				
Construction in Progress	\$ 118,034	\$ 1,968,050	\$ (2,663,606)	\$ (577,522)
Total capital assets not being depreciated	<u>\$ 118,034</u>	<u>\$ 1,968,050</u>	<u>\$ (2,663,606)</u>	<u>\$ (577,522)</u>
Capital assets, being depreciated				
Hydro-electric plant	\$ 2,370,734	\$ 28,000	\$ -	\$ 2,398,734
Diesel plant	142,217	-	-	142,217
Transmission plant	695,305	-	-	695,305
Distribution plant	9,612,307	71,651	(72,479)	9,611,479
General plant	1,118,663	-	-	1,118,663
Transportation equipment	<u>843,533</u>	<u>46,000</u>	<u>-</u>	<u>889,533</u>
Total capital assets being depreciated	<u>14,782,759</u>	<u>145,651</u>	<u>(72,479)</u>	<u>14,855,931</u>
Less accumulated depreciation for:				
Hydro-electric plant	(1,229,761)	(61,432)	-	(1,291,193)
Diesel plant	(135,416)	-	-	(135,416)
Transmission plant	(245,813)	(19,135)	-	(264,948)
Distribution plant	(6,001,613)	(231,097)	106,385	(6,126,325)
General plant	(899,396)	(32,636)	-	(932,032)
Transportation equipment	<u>(611,531)</u>	<u>(78,659)</u>	<u>-</u>	<u>(690,190)</u>
Total accumulated depreciation	<u>(9,123,530)</u>	<u>(422,959)</u>	<u>106,385</u>	<u>(9,440,104)</u>
Total capital assets being depreciated - Net	<u>\$ 5,659,229</u>	<u>\$ (277,308)</u>	<u>\$ 33,906</u>	<u>\$ 5,415,827</u>

Depreciation expense was \$411,751 and \$422,959 for the years ended December 31, 2024 and 2023, respectively.

Note 5. Line of Credit and Short-Term Notes Payable

Line of credit and short-term notes payable consists of the following as of December 31, 2024 and 2023:

	2024	2023
Non-revolving line of credit, Union Bank, interest rate at 5.82% and a maturity date of June 2025	200,000	-
Note payable, Union Bank, payable in full on or before November 25, 2025, interest at 5.91%	300,000	-
Note payable, issued by Vermont Bond Bank, interest rate at 1.3%, interest and principal due in full on or before December 2025	<u>1,257,000</u>	<u>-</u>
Total	<u>\$ 1,757,000</u>	<u>\$ -</u>

Note 5. Line of Credit and Short-Term Notes Payable (Continued)

Summarized below is the activity in line of credit and short-term notes payable for the year ended December 31, 2024:

	Beginning		Ending	
	<u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u>
Line of Credit	\$ -	\$ 200,000	\$ -	\$ 200,000
Note Payable - 2023 Storm	-	1,257,000	-	1,257,000
Note Payable - Cash Expense	-	300,000	-	300,000
Total	<u>\$ -</u>	<u>\$ 1,757,000</u>	<u>\$ -</u>	<u>\$ 1,757,000</u>

The \$1,257,000 note was issued in 2024 in response to the flooding in 2023 for which reimbursement was needed. In the event HED was reimbursed for the emergency costs by FEMA after the note issuance, such portion of the note that is no less than 50% of such reimbursement is subject to repayment promptly, but in no event longer than 45 days following receipt of such funds. Because HED received FEMA proceeds of \$601,694 in 2024, \$300,847 was payable to Union Bank and due in January 2025.

Note 6. Long-Term Notes and Bonds Payable

Long-term notes and bonds payable consists of the following as of December 31, 2024 and 2023:

	2024	2023
2004 General Obligation Bonds issued by Vermont Municipal Bond Bank, interest varies from 4.65% - 5.09%, part of the 2012 series 3 refunding bonds which created an interest savings of \$73,386 from 2014 -2025, annual principal payments varies between \$80,000 - \$100,000, due December 2024.	\$ -	\$ 100,000
2008 General Obligation Bonds issued by Vermont Municipal Bond Bank, interest varies from 4.01% - 4.65%, part of the 2015 series 5 refunding bonds which created variable interest rates from 2% to 5% which created an interest savings of \$9,911 from 2016 -2028, annual principal payments are \$15,000, due December 2028.	60,000	75,000
Note payable Union Bank, payable in ten annual installments of principal and interest of \$33,822.01, interest at 5.91%, due December 2034	250,000	-
Note payable Union Bank, payable in annual principal payments of \$20,500 plus interest at 2.4%, secured by substation transformer with a net carrying value of \$138,828, due October 2024.	-	19,351
Subtotal	310,000	194,351
Less current portion	(34,050)	(134,351)
Total	<u>\$ 275,950</u>	<u>\$ 60,000</u>

Note 6. Long-Term Notes and Bonds Payable (Continued)

All of HED's notes and bonds payable are secured by the full faith and credit of the Town of Hardwick and HED.

Summarized below is the activity in long-term notes and bonds payable for the year ended December 31, 2024:

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	Ending <u>Balance</u>	Due Within <u>One Year</u>
2004 General Obligations Bonds	\$ 100,000	\$ -	\$ (100,000)	\$ -	\$ -
2008 General Obligations Bonds	75,000	-	(15,000)	60,000	15,000
Note Payable - Substation	19,351	-	(19,351)	-	-
Note Payable - Capital Improvement	<u>-</u>	<u>250,000</u>	<u>-</u>	<u>250,000</u>	<u>19,050</u>
Total	<u>\$ 194,351</u>	<u>\$ 250,000</u>	<u>\$ (134,351)</u>	<u>\$ 310,000</u>	<u>\$ 34,050</u>

Summarized below is the activity in long-term notes and bonds payable for the year ended December 31, 2023:

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	Ending <u>Balance</u>	Due Within <u>One Year</u>
2004 General Obligations Bonds	\$ 195,000	\$ -	\$ (95,000)	\$ 100,000	\$ 100,000
2008 General Obligations Bonds	90,000	-	(15,000)	75,000	15,000
Note Payable - Substation	<u>39,852</u>	<u>-</u>	<u>(20,501)</u>	<u>19,351</u>	<u>19,351</u>
Total	<u>\$ 324,852</u>	<u>\$ -</u>	<u>\$ (130,501)</u>	<u>\$ 194,351</u>	<u>\$ 134,351</u>

Long-term debt service requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Savings</u>	<u>Total</u>
2025	\$ 34,050	\$ 17,526	\$ (17,527)	\$ 34,049
2026	35,173	15,725	(865)	50,033
2027	36,365	13,048	(685)	48,728
2028	37,626	11,894	(349)	49,171
2029	23,967	9,855	-	33,822
Thereafter	<u>142,819</u>	<u>26,291</u>	<u>-</u>	<u>169,110</u>
Total	<u>\$ 310,000</u>	<u>\$ 94,339</u>	<u>\$ (19,426)</u>	<u>\$ 384,913</u>

Note 7. Related Party

HED pays annual amounts to the Town of Hardwick, Vermont as payments in lieu of taxes (PILOT). For the years ended December 31, 2024 and 2023, HED paid \$240,180 and \$139,629, respectively.

Note 8. Commitments

Electric Power Sources and Commitments - HED is a member of the Vermont Public Power Supply Authority (VPPSA). HED pays a proportionate share of VPPSA's operating costs and holds a seat on the VPPSA Board of Directors.

HED has entered into a Central Dispatch Agreement (CDA) with VPPSA for the economic dispatch of its generating sources. Under the CDA, HED authorizes VPPSA to act as its billing agent with regard to its generating sources and transmission providers. VPPSA continues to provide dispatch services to HED under the terms of the CDA between HED and VPPSA dated August 9, 2001.

The energy sold through HED is obtained from a combination of sources. The following section summarizes all of the major power agreements as of December 31, 2024.

HED has agreements with E.R. Billings Road Solar, LLC. to purchase 100% (1.60 MW) of the output of the solar farm located on Billings Road in Hardwick, VT. The 25 year contract started in 2021. The agreement includes unit contingent energy and renewable energy credits (RECs).

HED has an agreement to purchase a portion of the power produced by Brookfield Hydro 2023-2027. The contract entitles HED to purchase 1 MW of the total 8 MW on peak power and 1 MW of the total 7 MW off peak power. The agreement expires 12/31/27 and includes energy and renewable energy credits.

HED has an agreement with VPPSA to purchase 15.1% (725 KW) of the output of a 4.8 MW solar PV farm located in Chester, MA. The 25 year contract started in 2014 and includes unit contingent energy and capacity.

HED has an agreement with VPPSA to purchase 11.25% (506 KW) of the output of a landfill gas-fired generator located at the City of Fitchburg landfill in Westminster, MA. The 20 year contract started in 2012 and includes unit contingent energy, capacity, and RECs.

Market contracts - HED purchases system power from power marketing companies that included EDF, Maquarie, and NextEra. These purchases are typically delivered at the Massachusetts Hub. These contracts typically last less than five years, and are typically firm (not unit contingent), energy only products.

HED has agreements with VPPSA to purchase 1.474% (0.796 MW) of the power produced by the McNeil woodburning generating facility in Burlington, Vermont. The agreement is for the life of the unit, and includes unit contingent energy, capacity, and renewable energy credits (RECs).

The New York Power Authority (NYPA) provides power to utilities in Vermont under two contracts; Niagara and St Lawrence. HED's share of the Niagara hydro facility is 104.2 KW; the contract will be extended at the end of its term that expires in September 2025. HED's share of the St. Lawrence hydro facility is 13.0 KW; the contract will be extended at the end of its term that expires in April 2032. Both contracts include unit contingent energy, capacity, and RECs.

Note 8. Commitments (Continued)

HED has an agreement with VPPSA to purchase a portion of the power produced by Project 10, a peaking generating facility in Swanton, Vermont. Under the agreement, HED is obligated for a share of the costs of the facility. HED receives a 9.7% share of costs and benefits of the facility. The agreement is for the life of the unit, and includes energy, capacity, and reserves.

HED is required to purchase power from small Vermont-based renewable power producers, in accordance with PUC Rule #4.300. In 2024, HED's share of this power was 0.7073%. These contracts have varying expiration dates, and include unit contingent energy, capacity, and RECs.

In 2012, the State of Vermont contracted with the 20.5 MW Ryegate biomass facility in East Ryegate, Vermont. HED's share of the Ryegate contract in 2024 was 0.7%. The contract extends through October 2032, and includes unit contingent energy, capacity, and RECs.

HED has an agreement to purchase a portion of the power produced by Stetson Wind 2023-2027 57 MW facility in Maine. The contract entitles HED to purchase 4.88% of the power. The agreement expires December 31, 2027 and includes energy and renewable energy credits.

HED has a contract to purchase 0.528% (1.87 MW) of output from the Massachusetts Municipal Wholesale Electric Company's (MMWEC) 352 MW Stony Brook Intermediate Project. The facility is located in central Massachusetts. The agreement is for the life of the unit, and includes unit contingent energy, capacity, and reserves.

HED owns and is entitled to all of the output from its 0.815 MW "Run-Of-The-River" hydroelectric facility on the Lamoille River in Wolcott. The agreement is for the life of the unit, and includes unit contingent energy, capacity, and environmental attributes.

HED entered into a 20 year commitment to support the Phase I Transmission Facilities from Quebec to Vermont through the Vermont Support Agreement with the Vermont Electric Power Company (VELCO). HED's share of this power is 0.6634%. The contract ends October 2040 and includes transmission rights, capacity credits, and lease payments.

Note 8. Commitments (Continued)

The percentage of energy (MWH) acquired from the above sources for the year ended December 31, 2024 was as follows:

	<u>MWH</u>	<u>Percent</u>	<u>Expiration</u>
External Resource			
Brookfield 2023-2027	8,784	23.69%	12/31/2027
Billings Road Solar	2,378	6.41%	Life of Unit
Chester Solar	938	2.53%	6/30/2039
Fitchburg Landfill	3,591	9.69%	12/31/2039
McNeil	2,904	7.83%	Life of Unit
NYPA - Niagara	3,994	10.77%	9/1/2025
NYPA - St. Lawrence	137	0.37%	4/30/2032
Phase I/II Transmission Facilities	-	0.00%	Life of Unit
2019 Planned Purchase Product 1	1,616	4.36%	6/30/2024
2019 Planned Purchase Product 2	96	0.26%	6/30/2024
2019 Planned Purchase Product 2.1	182	0.49%	6/30/2024
2019 Planned Purchase Product 4	520	1.40%	6/30/2024
2019 Planned Purchase Product 5	125	0.34%	6/30/2024
Project 10	113	0.30%	Life of Unit
Ryegate	1,038	2.80%	10/31/2021
Short Term Coverage	3,318	8.95%	
Standard Offer Program	937	2.53%	Varies
Stetson Wind 2023-2027	5,893	15.89%	12/31/2027
Stony Brook	<u>217</u>	<u>0.59%</u>	Life of Unit
	36,781	99.20%	
Internal Resource			
Internal Purchase	<u>296</u>	<u>0.80%</u>	12/21/2019
	296	0.80%	
Total Resources Available	<u>37,077</u>	<u>100.00%</u>	

Note 8. Commitments (Continued)

The cost of power from all power vendor sources for the year ended December 31, 2024 is:

Power Supply Costs		Total
Resource		
Brookfield 2023-2027	\$	15,616
Billings Road Solar		215,226
Chester Solar		25,655
Fitchburg Landfill		30,824
Internal Purchase		3,034
McNeil		129,270
NYPA Niagara		(60,231)
NYPA St. Lawrence		(4,542)
Phase I/II Transmission Facilities		(8,382)
2019 Planned Purchase Product 1		4,849
2019 Planned Purchase Product 2		187
2019 Planned Purchase Product 2.1		(273)
2019 Planned Purchase Product 4		8,253
2019 Planned Purchase Product 5		1,564
Project 10		(4,407)
Ryegate		23,294
Short Term Coverage		10,063
Standard Offer Program		154,623
Stetson Wind 2023-2027		333,463
Stony Brook Station		2,479
Subtotal Power Supply Costs		<u>880,565</u>
Transmission Costs		
Open Access Transmission		1,006,341
1991 VTA - Common Facilities		215,424
GMP Transmission		163,487
VELCO & St. Lawrence Transmission		1,730
Subtotal Transmission Costs		<u>1,386,982</u>

Note 8. Commitments (Continued)

VPPSA & Other Costs	
Energy Market	1,719,684
Capacity Market	318,050
Reserve Market	23,391
NCPC	7,377
Regulation Services	5,926
Marginal Loss Revenues	(5,101)
Auction Revenue Rights	(9,079)
Other Load Settlement	(969)
VPPSA Fees - Power Supply	38,071
ISONE Self Funding Tariff	75,781
VELCO Tariff Allocation	1,658
VELCO Market Settlement	1,281
VELCO Service Fees	1,880
GIS Costs	401
Subtotal VPPSA & Other Costs	<u>2,178,351</u>
Total all costs	<u>\$ 4,445,898</u>

Note 9. Employee Retirement Plans

HED maintains two pension plans: a money purchase plan managed by a third-party vendor, and a cost-sharing, defined-benefit, multi-employer retirement system managed by the Vermont Municipal Employees Retirement System (VMERS).

Select RE Pension Plan

The select RE Pension Plan is a money purchase pension plan with a special 401(k) salary deferral feature. The plan administrator is the Retirement, Safety and Insurance Department of the National Rural Electric Cooperative Association. All Employees of HED are eligible to join the plan after six months of employment. Employer contributions are 1.5% of employee compensation and employee contributions are voluntary up to the limits imposed by the Internal Revenue Code. Employees are 100% vested in the Plan upon enrollment. HED's contribution to the plan were \$16,762 and \$16,891 for the years ended December 31, 2024 and 2023, respectively.

Vermont Municipal Employee Retirement System***Plan Description***

The Vermont Municipal Employees' Retirement System is a cost-sharing, multi-employer defined benefit pension plan that is administered by the State Treasurer and its Board of Trustees. It is designed for Departments and other municipal employees that work on a regular basis and also includes employees of museums and libraries if at least half of that institution's operating expenses are met by municipal funds. An employee of any employer that becomes affiliated with the system may join at that time or at any time thereafter.

Note 9. Employee Retirement Plans (Continued)

Any employee hired subsequent to the effective participation date of their employer who meets the minimum hourly requirements is required to join the system. During the years ended June 30, 2024 and 2023, the retirement system consisted of 362 and 357 participating employers, respectively.

The plan was established effective July 1, 1975, and is governed by Title 24, V.S.A. Chapter 125.

The general administration and responsibility for formulating administrative policy and procedures of the retirement system for its members and their beneficiaries is vested in the Board of Trustees consisting of five members. They are the State Treasurer, two employee representatives elected by the membership of the system, and two employer representatives—one elected by governing bodies of participating employers of the system, and one selected by the Governor from a list of four nominees. The list of four nominees is jointly submitted by the Vermont League of Cities and Towns and the Vermont School Boards Association.

All assets are held in a single trust and are available to pay retirement benefits to all members. Benefits available to each group are based on average final compensation (AFC) and years of creditable service.

Summary of System Provisions

There are four levels of contributions and benefits available under the system, Group A, Group B, Group C, and Group D. HED’s employees are covered under Group A, Group B, and Group C. The following is a summary of system provisions under Group A, Group B, and Group C.

Membership	Full time employees of participating municipalities. Municipality elects coverage under Groups A, B, or C provisions.
Creditable service	Service as a member plus purchased service.
Average Final Compensation (AFC)	Group A – average annual compensation during highest 5 consecutive years. Group B – average annual compensation during highest 3 consecutive years. Group C – average annual compensation during highest 3 consecutive years.
Service Retirement Allowance	
Eligibility:	Group A – The earlier of age 65 with 5 years of service or age 55 with 35 years of service. Group B – The earlier age of 62 with 5 years of service or age 55 with 30 years of service. Group C – Age 55 with 5 years of service.
Amount:	Group A – 1.4% of AFC x service. Group B – 1.7% of AFC x service as Group B Member plus percentage earned as Group A member x AFC. Group C – 2.5% of AFC x service as a Group C member plus percentage earned as a Group A or B member x AFC. Maximum benefit is 60% of AFC for Group A and B, maximum benefit is 50% of AFC for Group C. The above amounts include the portion of the allowance provided by member contributions.
Early Retirement Allowance	
Eligibility:	Age 55 with 5 years of service for Groups A and B.
Amount:	Normal allowance based on service and AFC at early retirement, reduced by 6% for each year commencement precedes Normal Retirement Age for Group A and B members.

Note 9. Employee Retirement Plans (Continued)

Vested Retirement Allowance

Eligibility: 5 years of service.

Amount: Allowance beginning at normal retirement age based on AFC and service at termination. The AFC is to be adjusted annually by one-half of the percentage change in the Consumer Price Index, subject to the limits on "Post-Retirement Adjustments" described below.

Disability Retirement Allowance

Eligibility: 5 years of service and disability as determined by Retirement Board.

Amount: Immediate allowance based on AFC and service to date of disability.

Death Benefit

Eligibility: Death after 5 years of service.

Amount: For Groups A, B, and C Reduced early retirement allowance under 100% survivor option commencing immediately or, if greater, survivor's benefit under disability annuity computed as of date of death.

Optional Benefit And Death after Retirement

For Groups A, B, and C, Lifetime allowance or actuarially equivalent 50% or 100% joint and survivor allowance with refund of contribution guarantee.

Refund of Contribution

Upon termination, if the member so elects or if no other benefit is payable, the member's accumulated contributions are refunded.

Post-Retirement Adjustments

Allowance in payment for at least one year increased on each January 1 by one-half of the percentage increase in Consumer Price Index but not more than 2% for Group A and 3% for Groups B and C.

Member Contributions

Group A – 4.00% effective 7/1/24, 3.75% for fiscal year ended 6/30/24
Group B – 6.375% effective 7/1/24, 6.125% for fiscal year ended 6/30/24
Group C – 11.50% effective 7/1/24, 11.25% for fiscal year ended 6/30/24

Employer Contributions

Group A – 5.50% effective 7/1/24, 5.25% for fiscal year ended 6/30/24
Group B – 7.00% effective 7/1/24, 6.75% for fiscal year ended 6/30/24
Group C – 8.75% effective 7/1/24, 8.50% for fiscal year ended 6/30/

Retirement Stipend

\$25 per month payable at the option of the Board of retirees.

Contributions

The contribution requirements of VMERS members and HED are established by the VMERS Board of Trustees. The contribution rates are reviewed annually by the VMERS Board as recommended by the actuary of the retirement system in order to achieve and preserve the financial integrity of the fund. The employees' contributions are deducted from the employee's wages or salary and remitted by HED to VMERS on a quarterly basis along with the employer's share of the contribution. The total current period employer contributions to the Plan were \$80,664, \$75,457, and \$72,153, for the years ended December 31, 2024, 2023, and 2022, respectively.

Note 9. Employee Retirement Plans (Continued)

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

At December 31, 2024 and 2023, HED reported liabilities of \$813,375 and \$847,903, respectively, for its proportionate share of the net pension liability. The net pension liabilities were measured as of June 30, 2024 and 2023, respectively, and the total pension liability used to calculate the net pension liabilities was determined by an actuarial valuation as of those dates. HED's proportionate share of the net pension liability was based on a projection of HED's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2024, HED's proportion was 0.24488%, which was a decrease of 0.01985% from its proportion of 0.26473% measured as of June 30, 2023.

For the year ended December 31, 2024, HED recognized pension expense of \$168,455.

At December 31, 2024, HED reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2024	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 88,091	\$ -
Difference between projected and actual investment earnings	20,064	-
Changes in assumptions	4,383	-
Changes in proportionate share of contributions	34,366	63,229
Department contributions subsequent to the measurement date	<u>42,837</u>	<u>-</u>
Total	<u>\$ 189,741</u>	<u>\$ 63,229</u>

The \$42,837 of deferred outflows of resources as of December 31, 2024, resulting from HED's contributions subsequent to the measurement date (contributions from July 1 to December 31), will be recognized as a reduction of the net pension liability in the year ended December 31, 2025.

For the year ended December 31, 2023, HED recognized pension expense of \$194,877.

Note 9. Employee Retirement Plans (Continued)

At December 31, 2023, HED reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2023	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 53,176	\$ -
Difference between projected and actual investment earnings	96,466	-
Changes in assumptions	27,637	-
Changes in proportionate share of contributions	67,006	38,292
Department contributions subsequent to the measurement date	<u>43,102</u>	<u>-</u>
Total	<u>\$ 287,387</u>	<u>\$ 38,292</u>

The \$43,102 of deferred outflows of resources as of December 31, 2023, resulting from HED's contributions subsequent to the measurement date (contributions from July 1 to December 31), will be recognized as a reduction of the net pension liability in the year ended December 31, 2024.

Amounts reported as deferred outflows of resources and deferred inflows of resources as of December 31, 2024 will be recognized in pension expense as follows:

Year ending December 31,	
2025	\$ 74,104
2026	72,947
2027	(7,379)
2028	(13,160)
Thereafter	<u>-</u>
Total	<u>\$ 126,512</u>

Significant Actuarial Assumptions and Methods

The total pension liability in the June 30, 2024 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return: 7.00% per annum, net of pension plan investment expenses, including inflation.

Note 9. Employee Retirement Plans (Continued)

Salary Increases: Varying service-based rates for years of service.

Mortality:

Pre-Retirement: Groups A and B – PubG-2010 General Employee Amount-Weighted Below-Median and 40% of PubG-2010 General Employee Amount-Weighted, with generational projection using Scale MP-2021. Group C – PubG-2010 General Employee Amount-Weighted, with generational projection using Scale MP-2021.

Healthy Post-retirement - Retirees: Groups A and B – PubG-2010 General Healthy Retiree Amount-Weighted Below-Median Table with credibility adjustments of 90% and 87% for the Male and Female tables, respectively, with generational projection using Scale MP-2021. Group C – PubG-2010 General Healthy Retiree Amount-Weighted Table with generational projection using Scale MP-2021.

Health Post-retirement – Beneficiaries: Group A, B, and C – Pub-2010 Contingent Survivor Amount-Weighted Below Median Table, with generational projection using scale MP-2021.

Disabled Post-retirement: Groups A, B, and C – PubNS-2010 Non-safety Disabled Retiree Amount-Weighted Table with generational projection using scale MP-2021.

Spouse's Age: Females three years younger than males.

Cost-of-Living Adjustments: 1.10% for Group A members and 1.20% for Groups B and C members. The January 2024 COLA is expected to be 1.10% for Groups A, B, and C. The January 1, 2023 COLAs were 2.00% for Group A members and 3.00% for Groups B and C members.

Actuarial Cost Method: Entry age actuarial cost method. Entry age is the age at date of employment or, if date is unknown, current age minus years of service. Normal cost and actuarial accrued liability are calculated on an individual basis and are allocated by salary, with normal cost determined using the plan of benefits applicable to each participant.

Assets: The valuation is based on the market value of assets as of the valuation date, as provided by the System. The System uses an “actuarial value of assets” that differs from market value to gradually reflect year-to-year changes in the market value of assets in determining the contribution requirements.

Inflation: 2.30%

Long-term expected rate of return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of June 30, 2024, is summarized in the following table.

Note 9. Employee Retirement Plans (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US Agg Fixed Income	19.00%	1.70%
TIPS	2.00%	1.70%
Large/Mid Cap US Equity	4.00%	4.20%
Small Cap US Equity	3.00%	4.70%
Developed Large/Mid Cap International Equity	5.00%	5.95%
Global Equity	32.00%	5.25%
Core Real Estate	3.00%	3.45%
Non-Core Real Estate	4.00%	5.70%
Private Credit	11.00%	5.70%
Private Equity	11.00%	7.45%
Private Core Infrastructure	4.00%	4.95%
Agriculture/Farmland	2.00%	3.95%
	100.00%	

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed plan member and employer contributions will be made at rates set by the Board (employers) and statute (employees). For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current plan members as of June 30, 2024. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following presents the net pension liability calculated using the discount rate of 7.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	Discount Rate	Department's proportionate share of net pension liability
1% decrease	6.00%	\$1,243,531
Current discount rate	7.00%	\$813,375
1% increase	8.00%	\$460,314

Detailed information about the plan's fiduciary net position is available in the separately issued State of Vermont Comprehensive Annual Financial Report. This report may be obtained by writing the State Auditor of Accounts, 132 State Street, Montpelier, VT 05602.

Note 10. Contingencies

HED is exposed to claims and legal actions arising in the normal course of business. The aggregate effect of this, in management's opinion, would not be material to the financial condition of HED.

Note 11. Reclassifications

Certain prior year amounts have been reclassified for consistency with the current year presentation.

Note 12. Subsequent Events

Subsequent to year end, HED entered into a commitment to purchase a new Altec AM55E bucket truck. The commitment is for an initial payment of \$253,385 in November 2025 and a final payment of \$65,000 in December 2025.

Subsequent to year end, HED entered into an agreement to refinance the remaining \$956,153 outstanding on the \$1,257,000 note issued in March 2024. The refinanced agreement requires semiannual payments of interest, at 1.3%, beginning March 2025 and principal payments beginning March 2026.

Subsequent to year end, HED entered into a loan agreement in the amount of \$368,000. The note requires semiannual payments of interest, at 1.3%, beginning September 2025 and principal repayment in full in March of 2026.

HED has evaluated subsequent events through October 21, 2025, the date which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF HARDWICK ELECTRIC DEPARTMENT
SCHEDULE OF THE DEPARTMENT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Vermont Municipal Employees Retirement System
Last 10 Fiscal years

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Department's proportion of the net pension liability	0.2449%	0.2647%	0.2884%	0.2630%	0.2175%	0.1893%	0.1879%	0.2014%	0.2227%	0.2472%
Department's proportionate share of the net pension liability	\$ 813,285	\$ 847,903	\$ 874,873	\$ 387,030	\$ 550,116	\$ 328,446	\$ 264,398	\$ 244,011	\$ 291,914	\$ 190,589
Department's covered-employee payroll	\$ 1,157,969	\$ 1,116,953	\$ 1,197,003	\$ 1,006,730	\$ 945,096	\$ 925,521	\$ 797,300	\$ 822,275	\$ 861,850	\$ 863,900
Department's portion of the net pension liability as a percentage of the covered-employee payroll	70.234%	75.912%	73.089%	38.444%	58.207%	35.488%	33.162%	29.675%	33.871%	22.061%
Plan fiduciary net position as a percentage of the total pension liability	75.220%	74.010%	73.600%	86.290%	74.520%	80.351%	82.601%	83.640%	80.954%	87.423%

SCHEDULE OF THE DEPARTMENT'S CONTRIBUTIONS
Vermont Municipal Employees Retirement System
Last 10 Fiscal years

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Statutorily required contribution	\$ 80,664	\$ 75,457	\$ 72,153	\$ 58,464	\$ 45,069	\$ 36,374	\$ 32,921	\$ 32,891	\$ 34,474	\$ 34,556
Contributions in relation to the statutorily required contribution	80,664	75,457	72,153	58,464	45,069	36,374	32,921	32,891	34,474	34,556
Annual contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the statutory required contribution as a percentage of the covered-employee payroll	6.966%	6.756%	6.028%	5.807%	4.769%	3.930%	4.129%	4.000%	4.000%	4.000%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLAN

The following changes were effective June 30, 2024:

Changes in plan provisions:

At the May 2024 Board meeting, the Board voted unanimously to authorize employer contribution rate increases of 0.25% each year for a period of four years, beginning July 1, 2026. Also in May 2024, the Legislature passed H.883, which included an increase in the member rate of 0.25% for each group for four years, beginning July 1, 2026.

Changes in actuarial assumptions and methods:

There have been no changes in actuarial assumptions and methods since the last measurement date.

October 21, 2025

Board of Commissioners
Town of Hardwick Electric Department
P O Box 516
Hardwick, VT 05843

We have audited the financial statements of the business-type activities of Town of Hardwick Electric Department (HED) for the year ended December 31, 2024. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 13, 2025. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by HED are described in Note 1 to the financial statements. As described in Note 1, HED implemented accounting policy ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial* as amended, which modifies the measurement of expected credit losses on certain financial instruments in 2024. We noted no transactions entered into by HED during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the HED's financial statements were:

<u>Accounting Estimate</u>	<u>Basis</u>
Depreciation	Estimated useful life using the straight-line method
Accounting and financial reporting for pensions	Actuarial assumptions and methods used to measure pension liabilities and costs

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

A.M. PEISCH & COMPANY, LLP

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 21, 2025.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to HED's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as HED's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the Schedule of HED's Proportionate Share of the Net Pension Liability, the Schedule of HED's Contributions, and Note to the Required Supplementary Information, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the information and use of the Board of Commissioners and management of HED and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

A.M. Peisch & Company, LLP

A.M. Peisch & Company, LLP

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

To Board of Commissioners
Town of Hardwick Electric Department

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Town of Hardwick Electric Department (HED), as of and for the year ended December 31, 2024, and the related notes to the financial statements, which collectively comprise HED's basic financial statements and have issued our report thereon dated October 21, 2025.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered HED's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of HED's internal control. Accordingly, we do not express an opinion on the effectiveness of HED'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. 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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether HED's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial 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.M. Peisch & Company, LLP

Saint Albans, Vermont

October 21, 2025

VT Reg. No. 92-0000102

October 21, 2025

To the Board of Commissioners
Town of Hardwick Electric Department

In planning and performing our audit of the financial statements of Town of Hardwick Electric Department for the year ended December 31, 2024, we considered the Department's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. We previously reported on the Department's internal control in our report dated October 21, 2025. This letter does not affect our report dated October 21, 2025, on the financial statements of Town of Hardwick Electric Department.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Organization personnel, and we will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

Form W-2 Pre-Tax Deductions

Forms W-2 for 2024 for HED reported employee bonuses as pre-tax deductions from gross wages.

We recommend that all employee bonuses be correctly reported as taxable wages to the employees.

Update of Prior Year Comments:

Documentation of Bank Statement Reconciliation Review

Monthly bank statement reconciliations are being performed, but are not being consistently initialed by the reviewer. Reviewer initials on the reconciliations provide documentation that the review was performed.

We recommend that all monthly bank statement reconciliations are initialed and dated by the reviewer at the time of the review.

This comment was corrected for 2024.

A.M. PEISCH & COMPANY, LLP

Vacation and Sick Pay Policy

According to the Personnel Policy, non-union employees are not paid for sick time accrued upon termination. According to the Union Contract, union employees are paid for 50% of sick time accrued upon termination. Fifty percent of sick time is accrued on the books for all union and non-union employees. From our discussion with management, it is the intent that office employees have the same benefits as union employees.

The Union Contract and Personnel Policy state the rates in which vacation accrues based on years of service. Employees are occasionally granted extra vacation hours by the general manager as incentives and rewards, such as promotions, new hires, and excess hours worked. In addition, we noted excess hours were accrued for an employee in error. This was subsequently corrected by management.

We recommend that the Personnel Policy be updated to reflect actual and intended practice. In addition, we recommend that at year end the vacation accrual be reviewed and initialed by the general manager to ensure that all deviations from the policy are approved.

This comment was corrected for 2024.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

We wish to thank the management of the Department for their support and assistance during our audit.

This report is intended solely for the information and use of the Board of Commissioners and management and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A.M. Peisch & Company, LLP

A.M. Peisch & Company, LLP
St. Albans, Vermont