

**CONNECTICUT TRANSMISSION MUNICIPAL ELECTRIC ENERGY
COOPERATIVE DBA: TRANSCO
(A BLENDED COMPONENT UNIT OF CONNECTICUT
MUNICIPAL ELECTRIC ENERGY COOPERATIVE)**

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022



CPAs | CONSULTANTS | WEALTH ADVISORS

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**CONNECTICUT TRANSMISSION MUNICIPAL ELECTRIC ENERGY COOPERATIVE
DBA: TRANSCO
(A BLENDED COMPONENT UNIT OF CONNECTICUT MUNICIPAL
ELECTRIC ENERGY COOPERATIVE)
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2023 AND 2022**

INDEPENDENT AUDITORS' REPORT	1
BASIC FINANCIAL STATEMENTS	
STATEMENTS OF NET POSITION	4
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION	5
STATEMENTS OF CASH FLOWS	6
NOTES TO BASIC FINANCIAL STATEMENTS	7
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	17



INDEPENDENT AUDITORS' REPORT

Board of Directors and Members
Connecticut Transmission Municipal Electric
Energy Cooperative dba: Transco
Norwich, Connecticut

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Connecticut Transmission Municipal Electric Energy Cooperative dba: Transco (Transco), a component unit of Connecticut Municipal Electric Energy Cooperative, as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise Connecticut Transmission Municipal Electric Energy Cooperative dba: Transco'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 financial position of Transco as of December 31, 2023 and 2022, and the changes in financial position, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Transco 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 opinion.

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 Transco'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.

Auditors' 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 auditors' report that includes our opinion. 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 GAAS 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 GAAS 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 Transco'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 Transco'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.

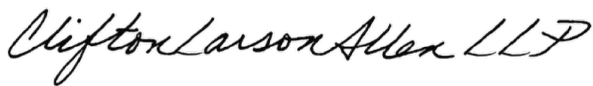
Required Supplementary Information

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

Board of Directors and Members
Connecticut Transmission Municipal Electric
Energy Cooperative dba: Transco

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2024, on our consideration of Transco'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 Transco'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 Transco's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

West Hartford, Connecticut
March 27, 2024

CONNECTICUT TRANSMISSION MUNICIPAL ELECTRIC ENERGY COOPERATIVE
DBA: TRANSCO
STATEMENTS OF NET POSITION
DECEMBER 31, 2023 AND 2022
(IN THOUSANDS)

	<u>2023</u>	<u>2022</u>
ASSETS		
UTILITY PLANT AND PROPERTY		
General Plant in Service	\$ 52,943	\$ 52,943
Less: Accumulated Depreciation and Amortization	<u>21,041</u>	<u>19,692</u>
Net Utility Plant and Property	31,902	33,251
CURRENT ASSETS		
Cash and Cash Equivalents	3,014	2,293
Short-Term Investments	1,562	1,194
Deposit for Current Debt Service	1,184	1,214
Accounts Receivable	24	27
Accounts Receivable from Related Parties	1,508	1,020
Other Current Assets	<u>399</u>	<u>408</u>
Total Current Assets	7,691	6,156
OTHER ASSETS		
Costs to be Recovered from Future Billings - Related	11,669	12,448
Debt Service Funds and Decommissioning Funds	<u>856</u>	<u>1,006</u>
Total Other Assets	<u>12,525</u>	<u>13,454</u>
Total Assets	52,118	52,861
DEFERRED OUTFLOWS OF RESOURCES		
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Charge on Refunding	<u>250</u>	<u>264</u>
Total Deferred Outflows of Resources	250	264
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	1,024	1,046
Accounts Payable	1,157	910
Accrued Liabilities	333	271
Accrued Interest on Long-Term Debt	<u>389</u>	<u>409</u>
Total Current Liabilities	2,903	2,636
LONG-TERM LIABILITIES		
Long-Term Debt, Net of Current Portion	<u>16,832</u>	<u>17,856</u>
Total Liabilities	19,735	20,492
NET POSITION		
Net Investment in Capital Assets	13,768	14,643
Restricted for:		
Debt Service	766	472
Unrestricted	<u>18,099</u>	<u>17,518</u>
Total Net Position	<u>32,633</u>	<u>32,633</u>
Total Liabilities and Net Position	<u>\$ 52,368</u>	<u>\$ 53,125</u>

See accompanying Notes to Basic Financial Statements.

CONNECTICUT TRANSMISSION MUNICIPAL ELECTRIC ENERGY COOPERATIVE
DBA: TRANSCO
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2023 AND 2022
(IN THOUSANDS)

	<u>2023</u>	<u>2022</u>
OPERATING REVENUES		
Electric Transmission Revenues	\$ 29,360	\$ 29,902
OPERATING EXPENSES		
Transmission Costs	26,704	32,094
Administrative and General	1,186	1,039
Depreciation and Amortization	1,349	1,349
Total Operating Expenses	<u>29,239</u>	<u>34,482</u>
NET OPERATING INCOME (LOSS)	121	(4,580)
NONOPERATING INCOME (EXPENSE)		
Interest and Investment Income	60	(22)
Interest Expense	(735)	(559)
Amortization of Debt Discount and Premium, Issuance Expense and Loss on Reacquisition of Debt	255	282
Change in Bond Expenses to be Recovered from Future Billings to Members	<u>299</u>	<u>4,879</u>
Net Other Income (Expense)	<u>(121)</u>	<u>4,580</u>
CHANGE IN NET POSITION	-	-
Net Position - Beginning of Year	<u>32,633</u>	<u>32,633</u>
NET POSITION - END OF YEAR	<u><u>\$ 32,633</u></u>	<u><u>\$ 32,633</u></u>

See accompanying Notes to Basic Financial Statements.

CONNECTICUT TRANSMISSION MUNICIPAL ELECTRIC ENERGY COOPERATIVE
DBA: TRANSCO
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2023 AND 2022
(IN THOUSANDS)

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers and Users	\$ 29,962	\$ 30,547
Cash Paid to Suppliers:		
Transmission Costs	(26,395)	(31,944)
Administrative and General	(1,186)	(1,039)
Net Cash Provided (Used) by Operating Activities	<u>2,381</u>	<u>(2,436)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal Payments on Long-Term Debt	(805)	-
Interest Paid	(741)	(412)
Net Cash Used by Capital and Related Financing Activities	<u>(1,546)</u>	<u>(412)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Contributions (to) from Special Funds	194	(946)
Net Sale of Short-Term Investments	(308)	5,155
Net Cash Provided (Used) by Investing Activities	<u>(114)</u>	<u>4,209</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	721	1,361
Cash and Cash Equivalents - Beginning of Year	<u>2,293</u>	<u>932</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 3,014</u></u>	<u><u>\$ 2,293</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating Income (Loss)	\$ 121	\$ (4,580)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	1,349	1,349
Change in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	(485)	(28)
(Increase) Decrease in Other Current Assets	9	(5)
(Increase) Decrease in Costs to be Recovered from Future Billings to Members	1,078	678
Increase (Decrease) in Accounts Payable and Accrued Liabilities	309	150
Total Adjustments	<u>2,260</u>	<u>2,144</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 2,381</u></u>	<u><u>\$ (2,436)</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Noncash Investing, Capital, and Financing Transactions:		
Amortization of Debt Discount and Premium and Issuance Expenses	\$ 255	\$ 282
Change in Bond Expenses to be Recovered through Future Billings	<u>299</u>	<u>4,879</u>
Net Noncash Investing, Capital and Financing Transactions	<u><u>\$ 554</u></u>	<u><u>\$ 5,161</u></u>

See accompanying Notes to Basic Financial Statements.

CONNECTICUT TRANSMISSION MUNICIPAL ELECTRIC ENERGY COOPERATIVE
DBA: TRANSCO
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022
(IN THOUSANDS)

NOTE 1 NATURE OF OPERATIONS

Organization

Connecticut Transmission Municipal Electric Energy Cooperative (Transco) was organized in 2009 as a public corporation under Connecticut Public Act 75-634, subsequently codified as Title 7-233, Chapter 101a of the General Statutes of Connecticut, as amended. It is empowered to undertake the transmission of electric power and energy for its member utilities (the Members) and others. The Members of Connecticut Municipal Electric Energy Cooperative (CMEEC) are Members of Transco.

Transco and CMEEC entered into a Comprehensive Management Service Agreement, which obligates CMEEC to pay all costs of Transco to provide transmission services for its transmission purchasers, and Transco to pay CMEEC the costs for comprehensive management services to prudently manage Transco and to achieve the provision of transmission services for the transmission purchasers. See Note 7 for further information on this arrangement.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

As the governing body of Transco consists of members appointed by various local governments, the accounting records of Transco are maintained using the standards established by the Governmental Accounting Standards Board (GASB), the Uniform System of Accounts of the Federal Energy Regulatory Commission (FERC), and accounting principles generally accepted in the United States of America (GAAP) using the economic resources measurement focus and the accrual basis of accounting.

The accounting policies of Transco conform to GAAP applicable to rate-regulated enterprises and reflect the effects of the ratemaking process in accordance with GAAP. Assuming a cost-of-service based regulatory structure, regulators may permit incurred costs, normally treated as expenses, to be deferred and recovered through future rates. Through their actions, regulators may also reduce or eliminate the value of an asset or create a liability. If any portion of Transco's operations were no longer subject to the provisions under GAAP as a result of a change in the cost-of-service based regulatory structure, Transco would be required to write off related regulatory assets and liabilities. Based on current regulation, Transco believes that its use of regulatory accounting remains appropriate.

Utility Plant and Property

Transco Project #1 plant and property is stated at Connecticut Light & Power (CL&P, prior owner) historical cost plus FERC allowable transaction costs and tax gross up and is defined as assets with an initial cost of more than \$25,000 and an estimated life of more than a year. Depreciation of transmission plant in service is computed on the straight-line method over the FERC approved lives of the assets ranging from 38 to 42 years. Costs related to plant not placed into service are classified as construction-in-process. Depreciation does not commence until the item is placed in service.

CONNECTICUT TRANSMISSION MUNICIPAL ELECTRIC ENERGY COOPERATIVE
DBA: TRANSCO
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022
(IN THOUSANDS)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Debt Service Funds and Decommissioning Funds

Proceeds from the sale of revenue bonds were deposited in these funds in accordance with the bond resolutions. Assets in the debt service funds are held by the trustee and invested until required for debt service payments in accordance with the provisions of bond resolutions.

Cash and Cash Equivalents

Cash equivalents consist of short-term highly liquid investments that are readily convertible to known amounts of cash and have original maturities of three months or less. Cash equivalents are stated at market value. Transco maintains its cash and cash equivalents in bank deposit accounts that, at times, may exceed federally insured limits. Transco has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Short-Term Investments

Investments consist of debt and equity securities and are reported at fair value per investment policy. Please see Note 4 for further information.

Accounts Receivable

Accounts receivable are recorded at net realizable value. Provision for credit losses on customer accounts is made in amounts required to maintain an adequate allowance to cover anticipated losses. No allowance was recorded as of December 31, 2023 and 2022.

Costs to be Recovered from Future Billings

Costs to be recovered from future billings include unamortized debt discount or premium. They are amortized based on the interest method over the lives of the respective bond issues. The excess of the reacquisition price over the net carrying amount of refunded bonds is included in costs to be recovered from future billings to the Members and is being amortized using the bonds-outstanding method. This method recovers costs in on the systematic basis as the bonds outstanding are recognized and paid over the life of the new issues. Additional costs may be agreed upon by the Members to be recovered through future billings.

Electric transmission revenues are made up of three types of revenue. Revenue for Transco Project #1 is the revenue realized by the ownership of the transmission lines owned by Transco Project #1 and Transco administrative costs. The revenue for MEU Transmission is revenue realized by Transco on behalf of the Municipal Electric Utilities (MEUs) who receive revenue for pool transmission facilities. Revenue for CMEEC Transmission is the revenue realized by Transco for the transmission charges incurred on behalf of CMEEC customers from Independent System Operator - New England (ISO-NE), and Local Network Services charges. This is in accordance with the Comprehensive Management Services Agreement between CMEEC and Transco. Costs to be recovered from future billings reflects the matching of expenses to realized revenue.

CONNECTICUT TRANSMISSION MUNICIPAL ELECTRIC ENERGY COOPERATIVE
DBA: TRANSCO
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022
(IN THOUSANDS)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net assets that applies to a future period or periods and so will not be recognized as an outflow of resources expenditure until then. Transco reports a deferred charge on refunding which results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Operating Items

Operating revenues and expenses are distinguished from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with Transco's principal ongoing operations. The principal operating revenues are charges to customers for services, and Regional and Local Network Transmission revenues. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to use estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. The key estimate in Transco's financial statements is depreciation on general plant in. Actual results could differ from those estimates.

Reclassifications

Certain amounts reported in the December 31, 2022 basic financial statements and notes were reclassified to conform with current year presentation.

NOTE 3 UTILITY PLANT AND PROPERTY

Utility plant and property activity for the year ended December 31, 2023, consisted of the following:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Utility Plant and Property:					
General Plant in Service	\$ 52,943	\$ -	\$ -	\$ -	\$ 52,943
Less: Accumulated Depreciation	19,692	1,349	-	-	21,041
Utility Plant and Property, Net	<u>\$ 33,251</u>	<u>\$ (1,349)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,902</u>

Depreciation expense related to utility plant and property was \$1,349 for the year ended December 31, 2023.

CONNECTICUT TRANSMISSION MUNICIPAL ELECTRIC ENERGY COOPERATIVE
DBA: TRANSCO
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022
(IN THOUSANDS)

NOTE 3 UTILITY PLANT AND PROPERTY (CONTINUED)

Utility plant and property activity for the year ended December 31, 2022, consisted of the following:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Utility Plant and Property:					
General Plant in Service	\$ 52,943	\$ -	\$ -	\$ -	\$ 52,943
Less: Accumulated Depreciation	18,343	1,349	-	-	19,692
Utility Plant and Property, Net	<u>\$ 34,600</u>	<u>\$ (1,349)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33,251</u>

Depreciation expense related to utility plant and property was \$1,349 for the year ended December 31, 2022.

NOTE 4 CASH, CASH EQUIVALENTS, AND INVESTMENTS

Deposits

Deposit Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, Transco's deposit will not be returned. Transco does not have a deposit policy for custodial credit risk.

Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, \$2,872 of Transco's bank balance of \$3,121 at December 31, 2023, was uninsured and uncollateralized.

Cash Equivalents

Cash equivalents and short-term, highly liquid investments that are both readily convertible to known amounts of cash and purchased within 90 days of maturity. At December 31, 2023, Transco's cash equivalents amounted to \$191. The following table provides summary of Transco's cash equivalents as rated by nationally recognized statistical rating organizations.

	Standard & Poor's
U.S. Bancorp	*

* Not Rated

Investments

Special funds and deposits for current debt service consist of U.S. Government securities, municipal bonds, federal agency obligation, and bank certificates of deposit in accordance with the provisions of bond resolutions, less any amounts considered to be cash or cash equivalents.

CONNECTICUT TRANSMISSION MUNICIPAL ELECTRIC ENERGY COOPERATIVE
DBA: TRANSCO
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022
(IN THOUSANDS)

NOTE 4 CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

Investments (Continued)

Management determines the proper classifications of investments in obligations with fixed maturities and marketable equity securities at the time of purchase and reevaluates such designations as of each balance sheet date.

As of December 31, 2023, Transco's investments consisted of the following:

	Fair Value	Maturity in Years		
		Less than 1	1 to 10	More than 10
Special Funds and Short-Term Investments:				
Interest-Bearing Investments:				
U.S. Government Securities	\$ 2,341	\$ 388	\$ 1,953	\$ -
Other Investments:				
Mutual Funds	1,261			
Total Investments	<u>\$ 3,602</u>			

As of December 31, 2022, Transco's investments consisted of the following:

	Fair Value	Maturity in Years		
		Less than 1	1 to 10	More than 10
Special Funds and Short-Term Investments				
Interest-Bearing Investments:				
U.S. Government Securities	\$ 2,749	\$ 1,025	\$ 1,724	\$ -
Other Investments:				
Mutual Funds	665			
Total Investments	<u>\$ 3,414</u>			

Presented below is the rating of investments for each debt instrument type at fair value as of December 31, 2023:

Average Rating	U.S. Government Securities
AAA	<u>\$ 2,341</u>

Presented below is the rating of investments for each debt instrument type at fair value as of December 31, 2022:

Average Rating	U.S. Government Securities
AAA	<u>\$ 2,749</u>

CONNECTICUT TRANSMISSION MUNICIPAL ELECTRIC ENERGY COOPERATIVE
DBA: TRANSCO
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022
(IN THOUSANDS)

NOTE 4 CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

Fair Value of Financial Instruments

Transco categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements); followed by quoted prices in inactive markets or for similar assets or with observable inputs (Level 2 measurements); and the lowest priority to unobservable inputs (Level 3 measurements).

Presented below are the recurring fair value measurements for each investment type as of December 31, 2023:

	December 31, 2023	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments by Fair Value Level:				
Debt Securities:				
U.S. Government Securities	\$ 2,341	\$ 2,341	\$ -	\$ -
Equity Securities:				
Mutual Funds	1,261	1,261	-	-
Total Investments by Fair Value Level	<u>\$ 3,602</u>	<u>\$ 3,602</u>	<u>\$ -</u>	<u>\$ -</u>

Presented below are the recurring fair value measurements for each investment type as of December 31, 2022:

	December 31, 2022	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments by Fair Value Level:				
Debt Securities:				
U.S. Government Securities	\$ 2,749	\$ 2,749	\$ -	\$ -
Equity Securities:				
Mutual Funds	665	665	-	-
Total Investments by Fair Value Level	<u>\$ 3,414</u>	<u>\$ 3,414</u>	<u>\$ -</u>	<u>\$ -</u>

Government and Agency Securities – U.S. Treasury bills, notes, and bonds are valued at the closing price reported in the active market in which the individual securities are traded. Other government and agency securities are valued based on yields currently available on comparable securities of issuers with similar durations and credit ratings.

Money Market and Mutual Funds – Money market and mutual funds are valued at the quoted price of shares held by Transco at year-end.

CONNECTICUT TRANSMISSION MUNICIPAL ELECTRIC ENERGY COOPERATIVE
DBA: TRANSCO
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022
(IN THOUSANDS)

NOTE 4 CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

Fair Value of Financial Instruments (Continued)

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Transco's investment policy addresses interest rate risk by defining the allowable investment terms, investments, and maximum allocation to each asset class.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Transco's investment policy addresses credit risk by defining the allowable investments and maximum allocation to each asset class.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of a counterparty, Transco will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Transco's investments are not exposed to custodial credit risk at December 31, 2023. Furthermore, Transco, as an issuer of tax-exempt obligations, must not engage in any arbitrage practice prohibited by the arbitrage regulations promulgated under Section 103(c) of the Internal Revenue Code. In no event should funds be invested in a manner that will violate the provision of Section 103(c). Transco's investment policy addresses custodial credit risk by defining the allowable investment terms, investments, and maximum allocation to each asset class.

Concentrations of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of investment with a single issuer. Transco's investment policy places limits on the percentage of investments that may be held with any one issuer and varies by investment type.

NOTE 5 COSTS TO BE RECOVERED FROM FUTURE BILLINGS

Costs to be recovered from future billings and deferred outflows and inflows related to refunding represent amounts that will be recovered by Transco through future rates as follows:

	2023	2022
Costs to be Recovered from Future Billings - Related	\$ 11,669	\$ 12,448
Deferred Charge on Refunding	250	264
Total	\$ 11,919	\$ 12,712

CONNECTICUT TRANSMISSION MUNICIPAL ELECTRIC ENERGY COOPERATIVE
DBA: TRANSCO
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022
(IN THOUSANDS)

NOTE 6 DEBT AND LONG-TERM LIABILITIES

Change in Long-Term Liabilities

The following is a summary of changes in nontaxable debt and long-term liabilities for the year ended December 31, 2023:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Bonds Payable - Direct Placement	\$ 16,360	\$ -	\$ 805	\$ 15,555	\$ 795
Bond Premium	2,542	-	241	2,301	229
Total Long-Term Liabilities	<u>\$ 18,902</u>	<u>\$ -</u>	<u>\$ 1,046</u>	<u>\$ 17,856</u>	<u>\$ 1,024</u>

The following is a summary of changes in nontaxable debt and long-term liabilities for the year ended December 31, 2022:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Bonds Payable - Direct Placement	\$ 16,360	\$ -	\$ -	\$ 16,360	\$ 805
Bond Premium	2,778	-	236	2,542	241
Total Long-Term Liabilities	<u>\$ 19,138</u>	<u>\$ -</u>	<u>\$ 236</u>	<u>\$ 18,902</u>	<u>\$ 1,046</u>

Bonds Payable

A schedule of bonds outstanding at December 31, 2023, is presented below:

Description	Date of Issue	Date of Maturity	Interest Rate (%)	Amount of Original Issue	Balance Outstanding 2023	Balance Outstanding 2022
Transmission System Revenue Bonds (2021 Series A)	10/5/21	1/1/42	5	16,360	<u>\$ 15,555</u>	<u>\$ 16,360</u>

The debt service requirements for Transco's nontaxable debt outstanding as of December 31, 2023, is as follows:

Year Ending December 31,	Principal	Interest	Total
2024	\$ 795	\$ 778	\$ 1,573
2025	795	738	1,533
2026	795	698	1,493
2027	785	659	1,444
2028	775	619	1,394
2029-2033	3,760	2,523	6,283
2034-2038	3,520	1,606	5,126
2039-2042	4,330	581	4,911
Total	<u>\$ 15,555</u>	<u>\$ 8,202</u>	<u>\$ 23,757</u>

CONNECTICUT TRANSMISSION MUNICIPAL ELECTRIC ENERGY COOPERATIVE
DBA: TRANSCO
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022
(IN THOUSANDS)

NOTE 6 DEBT AND LONG-TERM LIABILITIES (CONTINUED)

The premium amortization schedule is as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2024	\$ 229
2025	216
2026	204
2027	192
2028	180
Thereafter	1,280
Total	<u>\$ 2,301</u>

CMEEC is obligated by the Comprehensive Management Service Agreement to pay all costs of Transco in providing such transmission services, including the nontaxable debt service on the 2021 Series A Bonds.

The Transmission System Bond Resolution contains various restrictive covenants that require, among other things, that Transco establish rates each year sufficient to recover all operating costs, to recover 100% of debt service, and to maintain required amounts in the special funds.

NOTE 7 RELATED PARTY TRANSACTIONS

Related parties consist of CMEEC and the Member municipal utility departments that have representation on the Board of Directors of Transco and CMEEC.

Transco and CMEEC entered into a Comprehensive Management Service Agreement, which obligates CMEEC to pay all costs of Transco to provide transmission services for its transmission purchasers, and Transco to pay CMEEC the costs for comprehensive management services to prudently manage Transco and to achieve the provision of transmission services for the transmission purchasers.

NOTE 8 CONTRACTS

On December 16, 2010, Transco entered into an agreement with CL&P to purchase certain transmission facilities located within the Town of Wallingford (Transmission Project #1), and the two parties jointly filed at the FERC. The acquisition of these facilities was financed through a combination of CMEEC and Transco bond financing.

CONNECTICUT TRANSMISSION MUNICIPAL ELECTRIC ENERGY COOPERATIVE
DBA: TRANSCO
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022
(IN THOUSANDS)

NOTE 9 COMMITMENTS AND CONTINGENCIES

Legal Proceedings

Transco is subject to other claims that arise in the normal course of business. In the opinion of management, no such matters are expected to have a materially adverse effect on the Company's financial position or results of operations.



**INDEPENDENT AUDITORS' 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**

Board of Directors and Members
Connecticut Transmission Municipal Electric Energy Cooperative dba: Transco (Transco)
Norwich, Connecticut

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 Connecticut Transmission Municipal Electric Energy Cooperative dba: Transco (Transco), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise Transco's basic financial statements, and have issued our report thereon dated March 27, 2024.

Report on Internal Control Over Financial Reporting

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Transco's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

West Hartford, Connecticut
March 27, 2024