

Town of Stowe Electric Department

FINANCIAL STATEMENTS

June 30, 2017

Town of Stowe Electric Department
TABLE OF CONTENTS
June 30, 2017

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



Kittell Branagan & Sargent

Certified Public Accountants

Vermont License # 167

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Town of Stowe Electric Department of Stowe, Vermont, as of and for the year ended June 30, 2017, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Town of Stowe Electric Department of Stowe, Vermont, as of June 30, 2017, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only SED and do not purport to, and do not present fairly the financial position of the Town of Stowe, Vermont, as of June 30, 2017 and 2016, the changes in its financial position and cash flows, where applicable, for the years then ended in the conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

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

A handwritten signature in cursive script that reads "Kittell Branagan & Sargent".

St. Albans, Vermont
September 8, 2017

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

ASSETS

	<u>2017</u>	<u>2016</u>
CURRENT ASSETS		
Cash	3,081,883	\$ 1,538,965
Accounts receivable	887,576	838,164
Unbilled revenue	945,199	906,040
Accrued interest receivable	130,052	129,101
Inventories	158,160	160,247
Prepaid expenses	<u>4,186</u>	<u>4,053</u>
TOTAL CURRENT ASSETS	5,207,056	3,576,570
 CASH - Restricted	 546,885	 2,595,952
 UTILITY PLANT, net	 9,998,415	 8,195,919
 INVESTMENTS	 23,171,202	 23,171,202
 DEFERRED CHARGES, net of amortization	 <u>17,890</u>	 <u>3,650</u>
 TOTAL ASSETS	 <u>\$ 38,941,448</u>	 <u>\$ 37,543,293</u>

LIABILITIES, DEFERRED INFLOWS AND NET POSITION

CURRENT LIABILITIES		
Accounts payable	\$ 989,017	\$ 995,814
Other accrued expenses	366,734	232,203
Construction Advance	21,994	162,134
Due to Town	112,404	75,633
Accrued interest payable	53,641	51,582
Current portion of notes payable	161,050	86,583
Current portion of general obligation bonds	<u>262,080</u>	<u>262,080</u>
TOTAL CURRENT LIABILITIES	<u>1,966,920</u>	<u>1,866,029</u>
 LONG-TERM LIABILITIES		
Notes payable (net of current portion)	21,250,755	20,612,146
General obligation bonds (net of current portion)	<u>5,842,840</u>	<u>6,104,920</u>
TOTAL LONG-TERM LIABILITIES	<u>27,093,595</u>	<u>26,717,066</u>
 TOTAL LIABILITIES	 <u>29,060,515</u>	 <u>28,583,095</u>
 DEFERRED INFLOWS OF RESOURCES		
Deferred contribution for fixed assets	220,000	295,000
Deferred gain on hedge sale	<u>44,919</u>	<u>74,995</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>264,919</u>	<u>369,995</u>
 NET POSITION		
Net investment in Capital Assets	4,527,409	3,992,052
Unrestricted	<u>5,088,605</u>	<u>4,598,151</u>
TOTAL NET POSITION	<u>9,616,014</u>	<u>8,590,203</u>
 TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	 <u>\$ 38,941,448</u>	 <u>\$ 37,543,293</u>

See Notes to Financial Statements.

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

	<u>2017</u>	<u>2016</u>
OPERATING REVENUE	\$ 11,949,548	\$ 11,829,465
OPERATING EXPENSES		
Purchased power	8,289,604	8,631,412
Distribution and transmission	1,207,164	1,349,444
Customer accounts	244,423	219,284
Administrative and general	1,341,624	1,132,189
Depreciation	522,538	385,067
Amortization	760	160
Taxes	<u>118,365</u>	<u>117,027</u>
TOTAL OPERATING EXPENSES	<u>11,724,478</u>	<u>11,834,583</u>
GAIN/(LOSS) FROM OPERATIONS	<u>225,070</u>	<u>(5,118)</u>
OTHER INCOME/(EXPENSES)		
Interest and dividend income	568,605	562,881
Other non-operating income	1,626,241	1,337,044
Loss on sale of asset	(13,039)	-
Interest expense	<u>(1,381,066)</u>	<u>(1,367,119)</u>
TOTAL OTHER INCOME/(EXPENSES)	<u>800,741</u>	<u>532,806</u>
CHANGES IN NET POSITION	1,025,811	527,688
NET POSITION, Beginning of Year	<u>8,590,203</u>	<u>8,062,515</u>
NET POSITION, End of Year	<u>\$ 9,616,014</u>	<u>\$ 8,590,203</u>

See Notes to Financial Statements.

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

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 11,860,977	\$ 11,761,118
Payments for purchased power	(8,289,604)	(8,644,317)
Payments to suppliers	(1,477,342)	(1,306,908)
Payments to employees	<u>(1,267,775)</u>	<u>(1,220,650)</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>826,256</u>	 <u>589,243</u>
 CASH FLOWS FROM NON-OPERATING ACTIVITIES		
Other receipts	<u>1,521,165</u>	<u>1,219,068</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(2,791,865)	(2,684,510)
Proceeds from sale of capital assets	313,653	12,900
Acquisition of bond financing fees	(15,000)	-
Interest payments on bonds payable	(179,902)	(148,022)
Interest payments on notes payable	(1,199,106)	(1,207,288)
Principal reduction of long-term debt	(349,004)	(217,094)
Proceeds from Issuance of long-term debt	<u>800,000</u>	<u>3,177,000</u>
 NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	 <u>(3,421,224)</u>	 <u>(1,067,014)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Receipt of dividend and interest income	<u>567,654</u>	<u>562,825</u>
 NET INCREASE/(DECREASE) IN CASH	 (506,149)	 1,304,122
 CASH - Beginning of Year	 <u>4,134,917</u>	 <u>2,830,795</u>
 CASH - End of Year	 <u>\$ 3,628,768</u>	 <u>\$ 4,134,917</u>

See Notes to Financial Statements.

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

	<u>2017</u>	<u>2016</u>
Reconciliation of operating income to net cash provided(used) by operating activities		
Operating Gain/(loss)	\$ 225,070	\$ (5,118)
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	523,298	385,227
(Increase) decrease in:		
Accounts receivable	(49,412)	(25,158)
Unbilled revenue	(39,159)	(43,189)
Inventories	2,087	16,395
Prepaid expenses	(133)	14,878
Increase (decrease) in:		
Accounts payable	(6,797)	186,337
Due to Town	36,771	57,677
Other accrued expenses	<u>134,531</u>	<u>2,194</u>
Net cash provided/(used) by operating activities	<u>\$ 826,256</u>	<u>\$ 589,243</u>

See Notes to Financial Statements.

Town of Stowe Electric Department
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Reporting Entity

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

Basis of Presentation

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

Measurement Focus and Basis of Accounting

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

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

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

Town of Stowe Electric Department
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Assets, Liabilities and Net Position

Cash and Cash Equivalents

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

Accounts Receivable

SED reads and bills one-half of the meters on the 6th of each month and the remainder of the meters on the 21st of each month. SED does not provide an allowance for doubtful accounts, but accounts are written off as they are determined to be uncollectible. Any recoveries of accounts written off are netted against current write-offs.

Unbilled Revenue

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

Inventories

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

Utility Plant

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

Investments

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

Compensated Absences

It is SED's policy to permit employees to accumulate earned but unused paid time off pay benefits. Employees may, depending on level and length of service, be paid for various amounts of their total accrued leave upon termination or retirement. SED accrues a liability for leave hours that meet the criteria for payment at the eligible employees' current rates of pay plus retirement benefits and employment taxes. The accrual for compensated absences was \$153,162 and \$124,276 at June 30, 2017 and 2016, respectively.

Town of Stowe Electric Department
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Long-term Obligations

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

Equity Classifications

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

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

Revenue Recognition

Customer meters are read by SED on a monthly basis. Revenues are recorded in the accounting period during which the meters are read. Accordingly, the revenues related to energy delivered from the meter reading date to the end of the accounting period are not significant and are recorded in the following period.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date to the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 CASH

As of June 30, 2017 and 2016, the carrying amount of SED's deposits with financial institutions was \$3,628,768 and \$4,134,917 and the bank balance was \$3,637,353 and \$4,983,323 respectively. The following table summarized the custodial credit risk coverage of the deposits:

Town of Stowe Electric Department
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2017

NOTE 2 CASH (continued)

	<u>2017</u>	<u>2016</u>
Federal Depository Insured	\$ 400,956	\$ 1,000,000
Collateralized	2,040,565	2,725,981
Off-set by Debt	<u>1,195,832</u>	<u>1,257,342</u>
	<u>\$ 3,637,353</u>	<u>\$ 4,983,323</u>

NOTE 3 CASH – RESTRICTED

During the year ended December 31, 2005 SED received \$750,000 from the Spruce Peak Realty Company in anticipation of the construction of a 115kV line. These funds may only be used for the costs of the new 115kV line. SED may spend the interest earned on these funds as they see fit.

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

In February 2016, SED received a \$3,177,000 bond from the Vermont Economic Development Authority to fund the Nebraska Valley Solar Farm Project. The interest earned can be used to cover interest expense.

Restricted cash balances were as follows at June 30,:

	<u>2017</u>	<u>2016</u>
Spruce Peak Realty Company - 115kV line project	\$ 150,000	\$ 300,000
2009 VMBB Bond Proceeds	396,885	794,747
2016 VT Economic Development Authority- Solar Projec	<u>-</u>	<u>1,501,205</u>
Total Restricted Cash	<u>\$ 546,885</u>	<u>\$ 2,595,952</u>

Town of Stowe Electric Department
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 4 INVESTMENTS

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

	<u>2017</u>		<u>2016</u>	
	<u>Shs/Units</u>	<u>Cost</u>	<u>Shs/Units</u>	<u>Cost</u>
VELCO				
Class C Preferred Stock	981	\$ 1,472	981	\$ 1,472
Class B Common Stock	2,078	207,800	2,078	207,800
Class C Common Stock	1,487	148,700	1,487	148,700
VT Transco, LLC				
Class A Membership Units	1,003,783	10,037,830	1,003,783	10,037,830
Class B Membership Units	1,277,540	<u>12,775,400</u>	1,255,129	<u>12,775,400</u>
TOTAL INVESTMENTS		<u><u>\$23,171,202</u></u>		<u><u>\$23,171,202</u></u>

NOTE 5 CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2017 was as follows:

	<u>Balance at</u>		<u>Increases</u>	<u>Decreases</u>	<u>Balance at</u>
	<u>6/30/16</u>				<u>6/30/17</u>
Capital assets, not being depreciated:					
Construction in progress	<u>\$2,215,730</u>	<u>\$ 2,563,360</u>	<u>\$ (3,819,912)</u>	<u>\$ 959,178</u>	
Capital assets, being depreciated:					
Land	60,634	-	-	60,634	
Buildings and improvements	273,429	-	-	273,429	
Equipment - general plant	1,749,287	344,331	(10,809)	2,082,809	
Improvements - distribution	671,822	19,089	-	690,911	
Infrastructure - distribution	2,775,837	-	-	2,775,837	
Infrastructure - transmission	<u>7,138,570</u>	<u>3,219,787</u>	<u>-</u>	<u>10,358,357</u>	
Total capital assets, being depreciated	<u>12,669,579</u>	<u>3,583,207</u>	<u>(10,809)</u>	<u>16,241,977</u>	

Town of Stowe Electric Department
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 5 CAPITAL ASSETS (continued)

	<u>Balance at</u> <u>6/30/16</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at</u> <u>6/30/17</u>
Less accumulated depreciation for:				
Land and land rights	(39,479)	(888)	-	(40,367)
Buildings and improvements	(182,490)	(4,061)	-	(186,551)
Equipment - general plant	(1,332,659)	(150,573)	9,188	(1,474,044)
Improvements - distribution	(192,720)	(56,167)	-	(248,887)
Infrastructure - distribution	(1,582,554)	(63,793)	-	(1,646,347)
Infrastructure - transmission	<u>(3,359,488)</u>	<u>(247,056)</u>	<u>-</u>	<u>(3,606,544)</u>
 Accumulated depreciation for capital assets	 <u>(6,689,390)</u>	 <u>(522,538)</u>	 <u>9,188</u>	 <u>(7,202,740)</u>
 CAPITAL ASSETS, net	 <u>\$8,195,919</u>	 <u>\$ 5,624,029</u>	 <u>\$ (3,821,533)</u>	 <u>\$ 9,998,415</u>

NOTE 6 DEFERRED CHARGES

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

	<u>2017</u>	<u>2016</u>
Deferred Bond Issuance Costs	\$ 19,795	\$ 4,795
Accumulated amortization	<u>(1,905)</u>	<u>(1,145)</u>
Net Bond Issuance Costs	<u>17,890</u>	<u>3,650</u>
 Total Deferred Charges	 <u>\$ 17,890</u>	 <u>\$ 3,650</u>

Town of Stowe Electric Department
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 7 DEBT

General obligation bonds consist of the following at June 30, 2017:

	<u>Amount Outstanding 6/30/16</u>	<u>Additions</u>	<u>Deletions</u>	<u>Amount Outstanding 6/30/17</u>	<u>Current</u>
Municipal bond issued by Vermont Municipal Bond Bank, due November 2039, interest is variable and due semi-annually, principal payments due annually.	\$ 3,190,000	\$ -	\$ (135,000)	\$ 3,055,000	\$ 135,000
4.2% bond payable to VT Economic Development Authority Bond, Issued by Union Bank, with 3.3% subsidy to off set interest. Annual principal payments of \$127,080 plus interest, due February 2041.	<u>3,177,000</u>	<u>-</u>	<u>(127,080)</u>	<u>3,049,920</u>	<u>127,080</u>
TOTAL BONDS PAYABLE	<u>\$ 6,367,000</u>	<u>\$ -</u>	<u>\$ (262,080)</u>	<u>\$ 6,104,920</u>	<u>\$ 262,080</u>

The annual requirements to amortize all general obligation bonds outstanding at June 30, 2017 are as follows:

<u>Obligation Bonds</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 262,080	\$ 169,104	\$ 431,184
2019	262,080	163,017	425,097
2020	262,080	156,680	418,760
2021	262,080	150,164	412,244
2022	262,080	143,272	405,352
2023-2027	1,310,400	607,975	1,918,375
2028-2032	1,310,400	417,130	1,727,530
2033-2037	1,310,400	229,191	1,539,591
2038-2042	<u>863,320</u>	<u>38,500</u>	<u>901,820</u>
	<u>\$ 6,104,920</u>	<u>\$ 2,075,033</u>	<u>\$ 8,179,953</u>

Town of Stowe Electric Department
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 7 DEBT (continued)

Notes payable consist of the following at June 30, 2017:

	Amount Outstanding 6/30/16	Additions	Deletions	Amount Outstanding 6/30/17	Current
5.70% note payable to KeyBank, quarterly interest only payments until 2018, note due December 2018	\$18,700,000	\$ -	\$ -	\$18,700,000	\$ -
6.5% note payable to Union Bank, quarterly principal and interest payments of \$20,525, due December 2020.	770,549	-	(32,938)	737,611	34,891
6.5% note payable to Union Bank, quarterly principal and interest payments of \$23,268, due February 2020.	843,812	-	(39,709)	804,103	42,105
4.1% note payable to Union Bank, quarterly principal and interest payments of \$7,439, due November 2024.	384,368	-	(14,277)	370,091	14,800
2.99% note payable to Union Bank, quarterly principal and interest payments of \$23,215, due May 2027.	-	800,000	-	800,000	69,254
TOTAL NOTES PAYABLE	\$20,698,729	\$ 800,000	\$ (86,924)	\$21,411,805	\$ 161,050

Town of Stowe Electric Department
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2017

NOTE 7 DEBT (continued)

The annual requirements to amortize all notes payable outstanding at June 30, 2017 are as follows:

<u>Notes Payable</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 161,050	\$ 1,203,037	\$ 1,364,087
2019	18,869,299	928,313	19,797,612
2020	846,697	109,823	956,520
2021	718,790	59,963	778,753
2022	385,574	51,761	437,335
2023-2027	<u>430,395</u>	<u>34,722</u>	<u>465,117</u>
	<u>\$21,411,805</u>	<u>\$2,387,619</u>	<u>\$23,799,424</u>

NOTE 8 LINE OF CREDIT

In October 2016, SED obtained a \$1,000,000 line of credit with Union Bank. The line matures October 31, 2017 with an interest rate at .85%. There was no outstanding balance due at June 20, 2017.

NOTE 9 PENSION PLAN

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

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

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

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

Town of Stowe Electric Department
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 9 PENSION PLAN (continued)

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

Total payroll covered for the pension contributions for the fiscal year ended June 30, 2017 and 2016 was \$1,267,775 and \$1,220,650, respectively. SED's pension contributions for the fiscal years ended June 30, 2017 and 2016 totaled \$130,020 and \$111,054 respectively and the total fees relating to the pension plan for the years ended June 30, 2017 and 2016 were \$500 and \$450, respectively.

NOTE 10 RELATED PARTY TRANSACTIONS

SED contributed to the general fund in lieu of taxes a total of \$42,000 and \$33,000 for the years ended June 30, 2017 and 2016, respectively.

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

The Town of Stowe, VT maintains insurance policies on the property of the municipal utility and also worker's compensation coverage for the department's employees. The department reimburses the Town of Stowe, VT for its portion of allocated costs related to insurance coverage. Total amounts paid to the Town of Stowe, VT for insurance purposes totaled \$63,934 and \$57,462 for the fiscal year ended June 30, 2017 and 2016, respectively.

On March 2, 2016 SED entered into a lease agreement with the Town of Stowe, VT. SED is leasing land for use of the Solar Project. Total lease expense at June 30, 2017 was \$13,125.

SED owed the Town of Stowe, VT \$112,404 and \$75,633 at June 30, 2017 and 2016, respectively.

NOTE 11 MAJOR CUSTOMER

The SED's largest customer represents approximately 23.3% and 26.8% of 2017 and 2016 operating revenue and, 14.5% and 9.6% of accounts receivable as of June 30, 2017 and 2016, respectively.

NOTE 12 COMMITMENTS

On May 1, 2010 SED moved its office building and secured a 24 month lease with monthly rent of \$4,000. SED continues to lease on a month to month basis with rents remaining at \$4,000 per month.

Town of Stowe Electric Department
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 13 DEFERRED CONTRIBUTIONS FOR FIXED ASSETS

On September 23, 2005, SED entered into an agreement with Spruce Peak Reality, LLC, in which Spruce Peak Reality, LLC committed to pay SED for a contribution of the transmission facility construction and update costs to ensure SED has the capacity available to reliably serve its Spruce Peak development project. The contribution term includes an initial payment of \$750,000 and 10 annual payments of \$135,000. The initial payment of \$750,000 is amortized over the 10 year term of the agreement. At June 30, 2017 there was \$220,000 of deferred contributions for fixed assets remaining.

NOTE 14 REGULATORY PROCEEDINGS

On August 22, 2008 the Federal Energy Regulatory Commission issued an order resolving issues associated with the cost allocation between participating utilities related to construction of the 115kV Lamoille County Project. The order provides SED with a fixed cap on its share of the specific facility project cost, requires the department to purchase and hold for ten years \$18,700,500 of VT Transco, LLC equity, and eliminates the department from any risk on the dividends to be paid on the equity which are to be applied to pay the debt service on the loan incurred to purchase the equity. Dividends in excess of the debt service requirements on the equity loan will be contributed to the project cost. The order requires the equity to be repurchased from the department, at par, in ten years. The loan to purchase the equity will be a non-amortizing loan due in full in ten years and will be paid with the proceeds from the equity sale at that time. The fixed annual charge to the department for the specific facility cost will be \$1,100,000 for the ten year period. On December 30, 2008, both the loan and the equity purchase took place and are reflected in these financial statements.

NOTE 15 PURCHASE POWER CONTRACTS AND SERVICES

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

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

A brief summary of the major power supply contracts as of June 30, 2017 held by SED is as follows:

Hydro Quebec Contract:

This contract is for energy only that began on November 1, 2012. The total contract with VT utilities calls for 218 MW. Stowe's portions vary during different periods, as shown below. The contract pricing will be flexible and competitive to the market price because it will follow the defined Energy Market index and the cost of power on the forward market. The pricing is based partly on market prices, partly on inflation, and carries limits on year-to-year price fluctuations. In addition to the price flexibility, this will continue to provide very low carbon energy to Stowe, helping it maintain a market price based green energy procurement strategy.

Town of Stowe Electric Department
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2017

NOTE 15 PURCHASE POWER CONTRACTS AND SERVICES (continued)

Schedule	Start Date	Final Delivery Date	Stowe Entitlement (MW)
Period 1	11/1/2012	10/31/2015	1.032
Period 2	11/1/2015	10/31/2016	2.884
Period 3	11/1/2016	10/31/2020	2.984
Period 4	11/1/2020	10/31/2030	2.984
Period 5	11/1/2030	10/31/2035	2.251
Period 6	11/1/2035	10/31/2038	0.399

New York Power Authority:

The New York Power Authority (“NYPA”) provides power to the utilities in Vermont under two contracts. SED’s share of the first contract is a 9 kW entitlement to the Robert Moses Project (aka St. Lawrence). The contract for St. Lawrence currently extends through April 30, 2017. SED's share of the second contract, the Niagara Project, has been an average of 480 kW. Effective September 1, 2007, the Niagara contract was renewed through September 1, 2025 with an entitlement of 481kW.

VEPPI (Vermont Electric Power Producers, Inc.):

Stowe receives power from a group of independent power producer projects (IPPs) under Order 4.100 of the Vermont PSB. The power is generated by a number of small hydroelectric facilities. There are 19 VEPPI units, as of December 31, 2016 ten have expired. VEPPI assigns the energy generated by these facilities to on a load ratio basis that compares Stowe’s electric sales to other utilities in Vermont annually. The VEPPI contracts have varying maturities; the last VEPPI contract is scheduled to end in 2020. Stowe’s current pro rata share of the VEPPI production is 1.3360%, which started November 1, 2016 and will run through October 31, 2017. The prior percent, which ran from November 1, 2015 through October 31, 2016, was 1.3364%. The VEPPI contracts are priced with relatively high-energy rates and modest fixed costs.

There was one wood-fired facility under VEPPI, that’s contract expired, and was renegotiated in 2012 for 10 years.

SPEED (Sustainable Prices Energy Enterprise Development):

SPEED Standard Offer is a program established under Vermont Public Service Board Rule 4.300. The program’s goal is to achieve renewable energy and long-term stably priced contacts. Vermont utilities will purchase power from the SPEED projects. These projects are behind the meter and each utility will have their percent share, (Stowe’s share for November 1, 2015 through October 31, 2016 was 1.3364% and decreased to 1.3360% for November 1, 2016 through October 31, 2017) of load reduced by the output of the generation. Stowe receives a modest capacity credit, and renewable energy credits for these resources. The cost paid to the SPEED projects are set based on the generation type. The SPEED began in the fourth quarter of 2010.

Town of Stowe Electric Department
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 15 PURCHASE POWER CONTRACTS AND SERVICES (continued)

Stony Brook:

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

McNeil Project:

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

SED has agreements with VPPSA to purchase a portion of the power produced by the facility. SED is committed to an ownership share of 15.8%.

McNeil was retrofitted in 2008 to make it eligible to generate Connecticut Class I Renewable Energy Certificates (RECs). McNeil RECs will qualify for SED's Renewable Energy Standard requirements, beginning in 2017.

Brown Bear II Hydro (Old Miller Hydro Contract)

Stowe had signed a purchase power agreement for 2.613% of the Worumbo (Miller Hydro) Project. The contract states that Stowe will receive their percent of the Miller hydro output per month. The contract price is for energy to be delivered to the Maine Zone, and capacity to be settled at the Maine location. The PPA terminated on May 1, 2016.

The Miller Hydro was purchased by Brown Bear Hydro and a PPA was renegotiated beginning on June 1, 2016. It is the same 2.613% of unit, but it is only for energy and renewable energy credits going forward. This will terminate on May 31, 2021.

Brown Bear Hydro is a run of river unit that has an average annual production of 90,000 MWH per year, over the past 3 to 5 years. This resource should equate to roughly 3% of Stowe's energy.

Saddleback Ridge Wind Project

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

Town of Stowe Electric Department
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 15 PURCHASE POWER CONTRACTS AND SERVICES (continued)

NextEra – Seabrook offtake

Beginning January 1, 2015 and going through December 31, 2034 Stowe will receive .16% (or a max of 2 MW), of around the clock, of the NextEra Seabrook Resource. This contract also provides Stowe with the same PPA percentage of capacity as well. The pricing of the product varies with the Gross Domestic Product-Implicit Price Deflator (GDP-IPD). This takes natural gas price volatility away from the contract price. Escalation is limited to between 1.6-4.9 % per year. The PPA will provide carbon-free generation that will help insulate Stowe from the potential for higher carbon prices in the future.

Phase 1 Hydro – Quebec Interconnection:

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

Beech Hill Solar – Nebraska Valley

Stowe has built a 1 MW AC ground mounted solar electric generation project. Estimated output is approximately 1,568 MWh per year. This is about 1-2% of Stowe's annual energy requirement. This project's large benefit is the ability to use the renewable energy credits towards Tier 2 of the Renewable Energy Standard. Other benefits are energy, capacity, and transmission due to the fact the generation is considered distributed generation, or behind the Stowe's meter. The project began operation in September 2016.

Highgate Project:

Under the Highgate Project Transmission Services Agreement as re-allocated in 1997, SED has agreed to purchase a 12.59% share of the capacity in VPPSA's share of Highgate Converter Facilities, located in Highgate, Vermont.

In 2017, SED will purchase additional ownership of the Converter. SED will purchase VPPSA's share and become a joint owner with VELCO.

Market Contracts:

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

Sources of Energy:

The percentages of energy (kWh) acquired for the year ended June 30, 2017, was as follows:

Town of Stowe Electric Department
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2017

NOTE 15 PURCHASE POWER CONTRACTS AND SERVICES (continued)

FY July 1, 2016 - June 30, 2017 - Total KWh's by Resource

Resource	FCM	Description	MWH	kWh's	% of Total	Fuel	Location	Termination Date
Niagara		Block	3,417	3,416,845	4.3%	Hydro	4011.0%	2025
St. Lawrence		Block	69	68,798	0.1%	Hydro	4011.0%	Life of Unit
Nebraska Valley (BTM)		Solar	1,119	1,119,101	1.4%	Solar	Behind the Meter	Life of Unit
VEPPI	0.33	PURPA	4,114	4,114,466	5.1%	Wood/Hydro	VT Nodes	Exp. Varies
VEPPI- SPEED		Load Reducer	-	-	0.0%	Hydro	4003.0%	Exp. Varies
HQ PPA Contract		ISO Bilateral	17,253	17,252,992	21.5%	Hydro	4013.0%	2038
McNeil	1.56	Wood Unit	8,072	8,072,055	10.1%	Wood	Essex	Life of Unit
Stony 1A/1B/1C	4.92	Dispatchable	1,906	1,905,641	2.4%	Natural Gas	1185/1186/1187%	Life of Unit
NextEra Seabrook	2	ISO Bilateral	15,983	15,983,074	20.0%	Nuclear	555.0%	2035
Miller Hydro Purch	0.21	Run of River	1,965	1,965,311	2.5%	Hydro	4.9%	2021
Saddleback Purc	0.02	Wind	2,220	2,219,876	2.8%	Wind	381.73%	2035
Bilateral Purchase-Mtn		ISO Bilateral	8,916	8,915,775	11.0%			2017
ISO Energy Net Interchange		ISO Bilateral	<u>15,044</u>	<u>15,043,624</u>	<u>18.8%</u>			
TOTALS			<u>80,078</u>	<u>80,077,558</u>	<u>100%</u>			

Future projects and State Renewable Energy Standard:

Solar Projects

Stowe is analyzing additional Solar projects built within either in Stowe, or a PPA for a solar projects generation. Stowe is addressing their Renewable Energy Standard Requirement (RES) by adding additional renewable energy and credits within their portfolio.

Hydro Project

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

Wind Project

Stowe knows a potential small wind project and will be in discussion with the developer once the project becomes viable.

Renewable Portfolio and upcoming Renewable Energy Standard (RES):

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

Town of Stowe Electric Department
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 15 PURCHASE POWER CONTRACTS AND SERVICES (continued)

There are three tiers to the RES program:

- Tier I : Meet a 75% by 2032 total renewable energy requirement (55% in 2017)
 - Any class of tradeable renewable attributes that are delivered in New England qualify
 - Approved Unit generations that will qualify towards compliance are McNeil, Hydro Quebec bilateral, and NYPA.
- Tier II: Meet 10% of sales with distributed generation in 2032 (1% in 2017)
 - New Vermont based unit that is 5 MWs or less or renewable generation
- Tier III: Meet 12% of sales with "energy transformation projects" in 2032 (2% in 2017)
 - Generation or project that reduces fossil fuel consumed by their customers and emission of greenhouse gases qualifies for compliance (MW conversion will be determined by the Board)

NOTE 16 DEFERRED GAIN ON HEDGE SALE

On March 1, 2011, SED refinanced their capital improvement note with KeyBank National Association. At the time of the refinance, the interest rate swap was terminated. As a result, SED received proceeds of \$239,136 which will be amortized over the remaining life of the note. Amortization at June 30, 2017 and 2016 was \$30,076.

NOTE 17 SUBSEQUENT EVENTS

In accordance with professional accounting standards, the Electric Department, has evaluated subsequent events through September 8, 2017, which is the date the financial statements were available to be issued. All subsequent events requiring recognition as of June 30, 2017, have been included in the financial statements herein.

On July 3, 2017, SED purchased a portion of Vermont Public Power Supply Authority's ownership of Highgate Converter Facilities, located in Highgate, Vermont for \$926,913 with the option to purchase more within the next 2 years. SED is now a joint owner with VELCO and Burlington Electric Department.