

Town of Stowe, VT Electric Department

FINANCIAL STATEMENTS

December 31, 2017

Town of Stowe, VT Electric Department  
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**Kittell Branagan & Sargent**

*Certified Public Accountants*

Vermont License # 167

## INDEPENDENT AUDITOR'S REPORT

To the Commissioner of SED  
Of the Town of Stowe, Vermont  
Stowe, Vermont

We have audited the accompanying financial statements of Town of Stowe Electric Department, as of and for the years ended December 31, 2017 and 2016, 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.

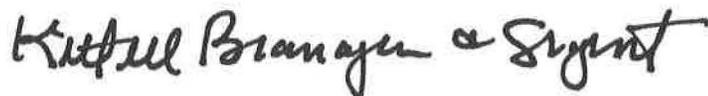
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## 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, as of December 31, 2017 and 2016, 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 the Town of Stowe Electric Department and do not purport to, and do not present fairly the financial position of the Town of Stowe, Vermont, as of December 31, 2017 and 2016, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

A handwritten signature in black ink that reads "Kathleen Branagan & Signet". The signature is written in a cursive, flowing style.

St. Albans, Vermont  
March 22, 2018

Town of Stowe, VT Electric Department  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2017

As management of the Stowe Electric Department (SED), an enterprise fund of the Town of Stowe, VT, we offer readers this narrative overview and analysis of the financial activities of SED for the calendar years ended December 31, 2017 and 2016.

Stowe Electric Department prepares its financial statements in compliance with *Governmental Accounting Standards Board (GASB) Statement 34*.

### **USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. As required by GASB Statement 34, the Statement of Net Assets and the Statement of Activities are presented, including the Statement of Cash flow. The Statement of Net Assets and the Statement of Activities provide information about the SED finances only, and not the entire Town of Stowe, VT government wide financial statements.

This report is exclusive of the operations of the Town of Stowe, Vermont municipality. The SED financial statements as of December 31, 2017 and 2016 start on page 1.

### **FINANCIAL HIGHLIGHTS**

The SED's net assets for calendar year ended 2017 increased by \$76,106 as a result of this year's operations as compared to an increase of \$1,145,487 in calendar year 2016 resulting in a year-over-year decrease of \$1,069,381. The major contributor was an increase in commercial and snowmaking revenues of \$426,981.

SED's retail power sales decreased 4.3% in 2017 with a combined decrease in commercial and snowmaking revenue of 5.8%. Residential sales also showed a decrease of approximately 1.3% as compared to 2016.

Because of our ability to purchase load following energy, SED was able to reduce the snowmaking power costs by \$485,365. Power costs related to snowmaking are a direct pass through and are reflected in the decreased revenue.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This management discussion and analysis is intended to serve as an introduction to Stowe Electric Department's (SED's), an enterprise fund of the Town of Stowe, VT, financial statements. SED's activities are comprised of fund financial statements and notes to financial statements. This report does not contain other supplementary information to the basic financial statements themselves nor to the primary government Town report.

### **STOWE ELECTRIC DEPARTMENT – AN ENTERPRISE FUND**

SED's net assets increased from a year ago by \$76,106 from current period operations. Our analysis below focuses on the Net Assets - *Table 1*, and two major items that effected the financial position of SED, Outstanding Debt – *Table 2* and Changes in Net Assets- *Table 3* of SED's business-type activities.

Town of Stowe, VT Electric Department  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2017

**Table 1- Net Assets:**

|   | <u>2017</u>             | <u>2016</u>             | <u>Change</u>        |
|---|-------------------------|-------------------------|----------------------|
| Cash & Cash Equivalents                         | \$ 1,280,574            | \$ 1,241,180            | \$ 39,394            |
| Restricted Cash                                 | 547,281                 | 1,291,279               | (743,998)            |
| Accounts Receivable & Unbilled Revenue          | 3,147,038               | 2,546,081               | 600,957              |
| Investments in Associated Companies             | 24,036,042              | 23,171,202              | 864,840              |
| Other Assets                                    | 324,786                 | 384,679                 | (59,893)             |
| Capital Assets, net of accumulated depreciation | <u>11,002,355</u>       | <u>10,090,791</u>       | <u>911,564</u>       |
| <br>TOTAL ASSETS                                | <br><u>40,338,076</u>   | <br><u>38,725,212</u>   | <br><u>1,612,864</u> |
| <br>Debt  | <br>28,108,172          | <br>26,869,913          | <br>1,238,259        |
| Accounts Payable                                | 1,611,480               | 1,352,953               | 258,527              |
| Other Liabilities                               | 588,586                 | 446,224                 | 142,362              |
| Deferred Revenue                                | <u>290,567</u>          | <u>392,957</u>          | <u>(102,390)</u>     |
| <br>TOTAL LIABILITIES                           | <br><u>30,598,805</u>   | <br><u>29,062,047</u>   | <br><u>1,536,758</u> |
| <br>NET ASSETS                                  | <br><u>\$ 9,739,271</u> | <br><u>\$ 9,663,165</u> | <br><u>\$ 76,106</u> |

Management closely monitors its cash flow to assure availability of funds to timely meet its debt service requirements, purchased power costs and capital asset purchase requirements in order to maximize its earning potential on available cash and minimize short term borrowing costs.

Below is a look at some of the major categories presented in Table 1 above, with additional details;

**CAPITAL ASSETS**

At the end of 2017, SED had, at historical cost, \$18,481,145 invested in a broad range of capital assets, including transportation equipment, land, buildings, electric utility infrastructure, and improvements. During 2017, capital assets acquired were \$1,448,634, the largest item being the acquisition of an additional 4.09% ownership interest in the Highgate converter (\$926,913). The remainder was related to normal equipment replacement, namely transformers and meters, the purchase of a new bucket truck and site development work in process for a new facility. Depreciation expense for the years ended December 31, 2017 and 2016 was \$546,257 and \$459,179 respectively.

**DEBT ADMINISTRATION**

At the end of 2017, SED had \$28,125,680 (net of unamortized bond costs) in bonds and notes outstanding versus \$26,888,183 at the end of 2016. The increase was the addition of an \$800,000 note related to equipment replacement and an \$825,000 note related to additional Transco equity purchased. Scheduled debt payments reduced the balance due by \$387,501. SED strives to consistently manage its debt load in connection with capital asset acquisitions to maintain service reliability to its customers and improve utilization of its capital assets for cost efficiency.

Town of Stowe, VT Electric Department  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2017

**Table 2 – Outstanding Debt:**

The chart below summarizes the debt of SED as December 31, 2017 and 2016.

|                   | <u>2017</u>                | <u>2016</u>                | <u>Change</u>              |
|-------------------|----------------------------|----------------------------|----------------------------|
| 2008 Bank Note    | \$ 18,700,000              | \$18,700,000               | \$ -                       |
| 2009 Bonds Issued | 2,920,000                  | 3,055,000                  | (135,000)                  |
| 2009 Bank Note    | 783,602                    | 824,394                    | (40,792)                   |
| 2010 Bank Note    | 720,635                    | 754,452                    | (33,817)                   |
| 2014 Bank Note    | 362,829                    | 377,337                    | (14,508)                   |
| 2016 Bank Note    | 3,049,920                  | 3,177,000                  | (127,080)                  |
| 2017 Bank Note    | 763,696                    | -                          | 763,696                    |
| 2017 Bank Note    | <u>825,000</u>             | <u>-</u>                   | <u>825,000</u>             |
| <b>TOTALS</b>     | <b><u>\$28,125,682</u></b> | <b><u>\$26,888,183</u></b> | <b><u>\$ 1,237,499</u></b> |

SED continues to meet its debt service payments in a timely manner.

**Table 3 -Changes in Net Assets**

|   | <u>2017</u>                | <u>2016</u>                |
|---|----------------------------|----------------------------|
| Net Assets - Beginning                          | \$ 9,663,165               | \$ 8,517,678               |
| Net Assets - Ending                             | <u>9,739,271</u>           | <u>9,663,165</u>           |
| <b>Change in Net Assets</b>                     | <b><u>\$ 76,106</u></b>    | <b><u>\$ 1,145,487</u></b> |
|   | <u>2017</u>                | <u>2016</u>                |
| Unrestricted Net Assets                         | \$ 4,864,630               | \$ 5,170,459               |
| Invested in Capital Assets, net of related debt | <u>4,874,641</u>           | <u>4,492,706</u>           |
| <b>TOTAL NET ASSETS</b>                         | <b><u>\$ 9,739,271</u></b> | <b><u>\$ 9,663,165</u></b> |

Unrestricted Net Assets of SED: (net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements), decreased by \$305,829. Invested in capital assets, net of related debt increased by \$381,935 with work in progress on two projects, both of which will be completed in early 2017.

Town of Stowe, VT Electric Department  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 December 31, 2017

**Revenues:**

A summary of SED customers and retail revenues by primary customer class for 2017 is as follows:

|                           | 2017      |            |                |            |
|---------------------------|-----------|------------|----------------|------------|
|                           | Customers |            | Retail Revenue |            |
|                           | Number    | Percentage | Dollars        | Percentage |
| Residential               | 3,449     | 81%        | \$ 3,987,526   | 35%        |
| Commercial and Snowmaking | 785       | 19%        | 7,562,069      | 65%        |
| Totals by Customer Class  | 4,234     | 100%       | \$11,549,595   | 100%       |

SED's 2017 total revenue for electric sales decreased by (\$518,699), approximately 4.3% over 2016. Residential revenues were down by approximately (1.3%), and commercial and snowmaking revenues were down approximately (5.8%). Snowmaking revenues showed the greatest decrease due to Stowe Electric's purchase of a market contract for the Mount Mansfield ski resort.

**Expenses:**

SED's 2017 total operating expenses, excluding purchase power, power transmission costs, and depreciation increased \$268,625, approximately 18% from 2016. The major drivers for this increase were professional fees, IT costs, salary and fringe benefit costs.

Purchase power and distribution & transmission costs comprise approximately 70% of recurring operating expenses and are the largest expense of SED. With the exception of snowmaking, purchased power costs decreased \$283,794 from 2016. SED's power portfolio was able to take advantage of a load following market contract for snowmaking which lowered market power costs.

**MAJOR PROJECTS AND INITIATIVES**

SED's management continues to look at ways of improving its reliability of service to ratepayers at the most reasonable rates while sustaining reliability and delivery of service to its customers.

With the approval of the new State Renewable Energy Standard ("RES") (Act 56, 2015), Vermont utilities will be required to meet certain renewable energy standards beginning in 2017. Part of that new RES requires utilities to either source a portion of their electricity from community-scale renewable energy projects or pay penalties to the State for not meeting the mandate. SED developed a solar project to help stabilize electric rates and comply with the new RES. The utility owned 1 megawatt Nebraska Valley Solar Farm ("NVSF") construction began in early 2016 and was completed in August 2016. The NVSF is expected to generate slightly more than 2% of SED's total usage. This generation will reduce approximately \$2.0MM of RES penalty payments over the 30-year life of the project. To aid in the cost of financing the project, SED applied for and received Federal Clean Renewable Energy Bonds ("CREBs") which will provide an interest subsidy of approximately \$1.34MM.

In February 2015, SED received a grant from VLITE to support Stowe's Electric Vehicle Tourism Initiative. The \$162,000 grant allowed SED to install 8 electric vehicle charging stations within the Town of Stowe. The vehicle charging stations were fully operational in August 2016.

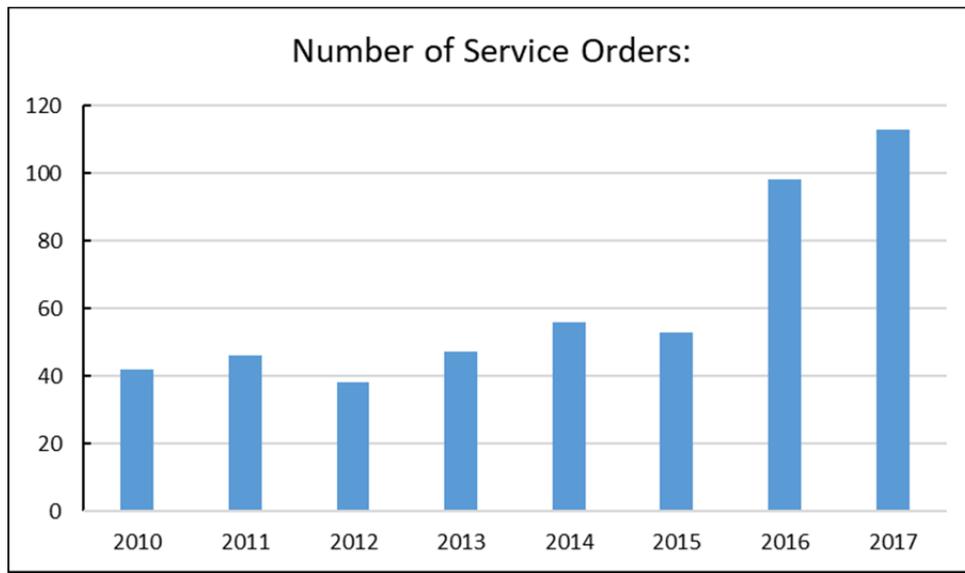
Town of Stowe, VT Electric Department  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2017

On October 29-30, 2017, SED experienced a devastating wind storm that left 80% of our ratepayers without power and our infrastructure substantially damaged. Shortly after, on January 2, 2018, President Trump declared the event a Major Disaster for the State of Vermont. This declaration, under the Robert T. Stafford Disaster Relief and Emergency Assistance Act, 42 U.S.C. 5121 et seq. (the "Stafford Act"), authorizes Public

Public Assistance and Hazard Mitigation relief to the affected areas. SED has applied for relief under this declaration and anticipates receiving approximately \$200,000.

During 2017, Stowe Electric Department made substantial progress toward constructing its own facility at Moscow Mill site. Environmental work was completed, the old building was demolished and removed and site preparations began. Work will continue during 2018 with a goal to complete the relocation of the Stowe Electric Department garage during 2018 and offices during 2019.

SED is constantly monitoring potential requirements from customers for new or expanded power needs. The number of service orders more than doubled from 53 in 2015 to 113 in 2017. Revenues from the increase in service orders relies on weather conditions and energy efficiency measures. SED believes its current system infrastructure is adequate to meet current known and projected needs.



**Purchase Power Contracts**

SED has traditionally purchased longer term power contracts to limit much of its market exposure from unexpected short term increases in power costs. SED continues to look for opportunities to address energy needs resulting from expiration of contracts at advantageous prices, while still supporting the renewable energy goals of Vermont. SED will continue to seek to purchase power from renewable resources at favorable prices when the opportunity presents.

**System Maintenance:**

In an effort to maintain system reliability, right-of-way clearing remains a continuing on-going initiative. System modifications continue to be made to provide greater flexibility in support of reliability.

Town of Stowe, VT Electric Department  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2017

*2018 ECONOMIC FACTORS, BUDGETS AND RATES*

The SED prepares its annual budget on a calendar year basis. The SED Board of Commissioners consider many factors when setting the budget, including the need for potential rate increases based upon current initiatives and cost of service.

While the outlook on purchase power costs currently is favorable, increases in transmission costs, which are becoming a significant component in the total cost of power in New England are expected to rise over the next several years as new transmission projects are built to assure the continued reliability of the New England power grid. Energy and fixed costs will be flat in 2018 with the exception of McNeil plant upgrade costs of \$240,000. Transmission costs are budgeted to increase \$371,094 (19%) in 2018 from 2017, overall purchased power costs are expected to remain flat.

SED continues to see stability in power market prices which comprise approximately 63% of projected 2018 expenses. The Board is very conscientious of these costs and makes every effort to keep from increasing electric rates. The financial position of the electric department continues to be monitored closely to determine if changes are needed. It is not currently anticipated that any increases in rates will be needed in 2018. Although it is not the Board's preference to raise electric rates, the Board must be financially responsible in the management of SED.

**CONTACTING STOWE ELECTRIC DEPARTMENT'S MANAGEMENT**

This financial report is designed to provide our citizens, ratepayers, customers, and creditors with a general overview of the Stowe Electric Department finances and to show the department's accountability for the money it receives for services rendered. If you have questions about this report or need additional financial information, contact the Stowe Electric Department at (802) 253-7215 or by writing to: Stowe Electric Department, Board of Commissioners, P.O. Box 190, Stowe, VT 05672.

Town of Stowe Electric Department  
STATEMENTS OF NET POSITION  
December 31,

ASSETS

|   | <u>2017</u>    | <u>2016</u>    |
|---|----------------|----------------|
| <b>CURRENT ASSETS</b>   |                |                |
| Cash  | \$ 1,280,574   | \$ 1,241,180   |
| Accounts receivable (net of allowance of \$16,500 in 2017 and 2016) | 1,257,508      | 1,098,591      |
| Grants and contracts receivable                                     | 451,383        | -              |
| Unbilled revenue  | 1,438,147      | 1,447,490      |
| Accrued interest receivable   | 129,179        | 129,902        |
| Inventories   | 195,607        | 158,160        |
| Due from Town of Stowe  | -              | 52,610         |
| Prepaid expenses  | -              | 44,007         |
| TOTAL CURRENT ASSETS  | 4,752,398      | 4,171,940      |
| <br>CASH - Restricted   | <br>547,281    | <br>1,291,279  |
| <br>UTILITY PLANT, at cost  | <br>11,002,355 | <br>10,090,791 |
| <br>INVESTMENTS   | <br>24,036,042 | <br>23,171,202 |
| TOTAL ASSETS  | \$ 40,338,076  | \$ 38,725,212  |

LIABILITIES, DEFERRED INFLOWS AND NET POSITION

|  |               |               |
|--|---------------|---------------|
| <b>CURRENT LIABILITIES</b>                           |               |               |
| Accounts payable                                     | \$ 1,611,480  | \$ 1,352,953  |
| Other accrued expenses                               | 414,146       | 329,228       |
| Due to Town of Stowe                                 | 77,097        | -             |
| Construction Advance                                 | -             | 21,994        |
| Accrued interest payable                             | 75,325        | 73,599        |
| Current portion of notes payable                     | 18,909,436    | 83,801        |
| Current portion of general obligation bonds          | 262,080       | 262,080       |
| TOTAL CURRENT LIABILITIES                            | 21,349,564    | 2,123,655     |
| <br><b>LONG-TERM LIABILITIES</b>                     |               |               |
| Notes payable (net of current portion)               | 3,246,326     | 20,572,382    |
| General obligation bonds (net of current portion)    | 5,707,840     | 5,969,920     |
| Deferred financing charges                           | (17,510)      | (18,270)      |
| TOTAL LONG-TERM LIABILITIES                          | 8,936,656     | 26,524,032    |
| TOTAL LIABILITIES                                    | 30,286,220    | 28,647,687    |
| <br><b>DEFERRED INFLOWS OF RESOURCES</b>             |               |               |
| Deferred gain on hedge sale                          | 40,567        | 67,957        |
| Deferred contribution for fixed assets               | 250,000       | 325,000       |
| Customer deposits                                    | 22,018        | 21,403        |
| TOTAL DEFERRED INFLOWS OF RESOURCES                  | 312,585       | 414,360       |
| <br><b>NET POSITION</b>                              |               |               |
| Invested in capital assets, net of related debt      | 4,874,641     | 4,492,706     |
| Unrestricted   | 4,864,630     | 5,170,459     |
| TOTAL NET POSITION                                   | 9,739,271     | 9,663,165     |
| TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION | \$ 40,338,076 | \$ 38,725,212 |

See Notes to Financial Statements.

Town of Stowe Electric Department  
 STATEMENTS OF ACTIVITIES  
 For the Years Ended December 31,

|                                 | <u>2017</u>          | <u>2016</u>          |
|---------------------------------|----------------------|----------------------|
| OPERATING REVENUE               | <u>\$ 11,739,423</u> | <u>\$ 12,212,467</u> |
| OPERATING EXPENSES              |                      |                      |
| Purchased power                 | 8,395,487            | 8,679,281            |
| Distribution and transmission   | 1,318,429            | 1,080,486            |
| Customer accounts               | 255,362              | 229,497              |
| Administrative and general      | 1,538,335            | 1,295,575            |
| Depreciation                    | 546,257              | 459,179              |
| Taxes                           | <u>115,920</u>       | <u>120,864</u>       |
| TOTAL OPERATING EXPENSES        | <u>12,169,790</u>    | <u>11,864,882</u>    |
| INCOME/(LOSS) FROM OPERATIONS   | <u>(430,367)</u>     | <u>347,585</u>       |
| OTHER INCOME (EXPENSES)         |                      |                      |
| Gain/(loss) on disposal         | 6,379                | (11,917)             |
| Interest and dividend income    | 565,243              | 564,127              |
| Other non-operating income      | 1,322,219            | 1,628,598            |
| Interest expense                | <u>(1,387,368)</u>   | <u>(1,382,906)</u>   |
| TOTAL OTHER INCOME (EXPENSES)   | <u>506,473</u>       | <u>797,902</u>       |
| CHANGES IN NET POSITION         | 76,106               | 1,145,487            |
| NET POSITION, Beginning of Year | <u>9,663,165</u>     | <u>8,517,678</u>     |
| NET POSITION, End of Year       | <u>\$ 9,739,271</u>  | <u>\$ 9,663,165</u>  |

See Notes to Financial Statements.

Town of Stowe Electric Department  
 STATEMENTS OF CASH FLOWS  
 For the Years Ended December 31,

|   | <u>2017</u>             | <u>2016</u>             |
|---|-------------------------|-------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                         |                         |                         |
| Receipts from customers   | \$ 11,138,466           | \$ 12,069,005           |
| Payments for purchased power, distribution and transmission         | (8,395,487)             | (8,679,281)             |
| Payments to suppliers   | (1,401,059)             | (1,643,632)             |
| Payments to employees   | <u>(1,374,050)</u>      | <u>(1,281,427)</u>      |
| <br>NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES                | <br><u>(32,130)</u>     | <br><u>464,665</u>      |
| <br><b>CASH FLOWS FROM NON-OPERATING ACTIVITIES</b>                 |                         |                         |
| Other receipts  | <u>1,247,219</u>        | <u>1,553,598</u>        |
| <br><b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b> |                         |                         |
| Acquisition and construction of capital assets                      | (1,481,436)             | (4,456,559)             |
| Acquisition of bond financing fees                                  | -                       | (15,000)                |
| Proceeds from sale of assets  | 8,000                   | 313,153                 |
| Interest payments on debt   | (1,384,882)             | (1,348,006)             |
| Proceeds from acquisition of debt                                   | 800,000                 | 3,177,000               |
| Principal reduction of long-term debt                               | <u>(387,501)</u>        | <u>(219,425)</u>        |
| <br>NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES     | <br><u>(2,445,819)</u>  | <br><u>(2,548,837)</u>  |
| <br><b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                     |                         |                         |
| Purchase of investments   | (39,840)                | -                       |
| Receipt of dividend and interest income                             | <u>565,966</u>          | <u>563,652</u>          |
| <br>NET CASH FLOWS PROVIDED BY INVESTING ACTIVITIES                 | <br><u>526,126</u>      | <br><u>563,652</u>      |
| <br>NET INCREASE/(DECREASE) IN CASH                                 | <br>(704,604)           | <br>33,078              |
| <br>CASH - Beginning of Year  | <br><u>2,532,459</u>    | <br><u>2,499,381</u>    |
| <br>CASH - End of Year  | <br><u>\$ 1,827,855</u> | <br><u>\$ 2,532,459</u> |

See Notes to Financial Statements.

Town of Stowe Electric Department  
 STATEMENTS OF CASH FLOWS  
 For the Years Ended December 31,

|  | <u>2017</u>        | <u>2016</u>       |
|--|--------------------|-------------------|
| Reconciliation of operating income to net cash provided (used) by operating activities |                    |                   |
| Operating Income/(loss)  | \$ (430,367)       | \$ 347,585        |
| Adjustments to reconcile net income (loss) to net cash provided by operations:         |                    |                   |
| Depreciation and amortization  | 546,257            | 459,179           |
| (Increase) decrease in:  |                    |                   |
| Accounts receivable  | (158,917)          | 51,228            |
| Grants and contracts receivable  | (451,383)          | -                 |
| Unbilled revenue   | 9,343              | (194,690)         |
| Inventories  | (37,447)           | 2,087             |
| Prepaid expenses   | 44,007             | (40,007)          |
| Increase (decrease) in:  |                    |                   |
| Accounts payable   | 258,527            | (182,845)         |
| Deferred revenue   | (27,390)           | (30,076)          |
| Due to Town of Stowe   | 129,707            | (91,416)          |
| Other accrued expenses   | <u>85,533</u>      | <u>143,620</u>    |
| Net cash provided/(used) by operating activities                                       | <u>\$ (32,130)</u> | <u>\$ 464,665</u> |
| <br>SUPPLEMENTAL INFORMATION   |                    |                   |
| Investments acquired through acquisition of debt                                       | <u>\$ 825,000</u>  | <u>\$ -</u>       |

See Notes to Financial Statements.

Town of Stowe, VT Electric Department  
NOTES TO FINANCIAL STATEMENTS  
December 31, 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, except where the Vermont Public Service Board (PSB) has prescribed other treatment. In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 980 *Regulated Operations*, SED records certain assets and liabilities in accordance with the economic effects of the rate making process. 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.

A. 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.

B. 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.

C. 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, VT Electric Department  
NOTES TO FINANCIAL STATEMENTS  
December 31, 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.

D. 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 around the 1<sup>st</sup> of each month and the remainder of the meters around the 15<sup>th</sup> of each month. Receivables are shown net of an allowance for uncollectible accounts for the estimated losses that will be incurred in the collection of the receivables. The estimated losses are based on the judgement of management and a review of the current status of existing receivables. 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 January for December 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.

Town of Stowe, VT Electric Department  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Loan origination fees are amortized by the straight-line method over the life of the loan. These fees are reported net of accumulated amortization. SED had accumulated amortization of \$2,285 and \$1,525 at December 31, 2017 and 2016, respectively. SED had amortization expense of \$760 and \$460 for the years ended December 31, 2017 and 2016, respectively. In accordance with ASU 2015-03, the amortization is reflected in interest expense.

Compensated Absences

It is SED's policy to permit employees to accumulate earned but unused vacation and sick 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 \$182,856 and \$152,909 at December 31, 2017 and 2016, respectively.

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.

Net Position Classifications

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

- a. Invested in capital assets, net of related debt – 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 assets – Consists of net assets 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 assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Changes in Accounting Policies

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

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

Town of Stowe, VT Electric Department  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Revenue Recognition

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 December 31, 2017 and 2016, the carrying amount of SED’s deposits with financial institutions was \$1,827,855 and 2,532,459 and the bank balance was \$1,797,421 and \$2,582,567. The remaining balance of \$300 is petty cash and is uninsured. The following table summarized the custodial credit risk coverage of the deposits:

|                            | <u>2017</u>         | <u>2016</u>         |
|----------------------------|---------------------|---------------------|
| Federal Depository Insured | \$ 402,437          | \$ 475,594          |
| Collateralized             | <u>1,394,984</u>    | <u>2,106,973</u>    |
|                            | <u>\$ 1,797,421</u> | <u>\$ 2,582,567</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.

Town of Stowe, VT Electric Department  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 2017

NOTE 3 CASH – RESTRICTED (Continued)

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. Unspent bond proceeds will be returned. The interest earned can be used to cover interest expense.

Restricted cash balances were as follows at December 31,:

|   | <u>2017</u>           | <u>2016</u>            |
|---|-----------------------|------------------------|
| Spruce Peak Realty Company - 115kV line project       | \$ 150,000            | \$ 225,000             |
| 2009 VMBB Bond Proceeds                               | 397,281               | 795,746                |
| 2015 VILITE Project                                   | -                     | 50,181                 |
| 2016 VT Economic Development Authority- Solar Project | <u>-</u>              | <u>220,352</u>         |
| <br>Total Restricted Cash                             | <br><u>\$ 547,281</u> | <br><u>\$1,291,279</u> |

NOTE 4 INVESTMENTS

Investments which are privately traded are stated at cost and consisted of the following as of December 31,:

|                         | <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 Unit | 1,041,836        | 10,418,360               | 1,003,783        | 10,037,830               |
| Class B Membership Unit | 1,325,971        | <u>13,259,710</u>        | 1,277,540        | <u>12,775,400</u>        |
| <br>TOTAL INVESTMENTS   |                  | <br><u>\$ 24,036,042</u> |                  | <br><u>\$ 23,171,202</u> |

Town of Stowe, VT Electric Department  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2017

NOTE 5 CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2017 was as follows:

|   | <u>Balance at<br/>12/31/16</u> | <u>Increases</u>           | <u>Decreases</u>           | <u>Balance at<br/>12/31/17</u> |
|---|--------------------------------|----------------------------|----------------------------|--------------------------------|
| Capital assets, not being depreciated:      |                                |                            |                            |                                |
| Construction in progress                    | \$ 1,124,262                   | \$ 404,613                 | \$ (271,251)               | \$ 1,257,624                   |
| Capital assets, being depreciated:          |                                |                            |                            |                                |
| Land and land rights                        | 60,634                         | -                          | -                          | 60,634                         |
| Buildings and improvements                  | 273,429                        | -                          | -                          | 273,429                        |
| Equipment - general plant                   | 1,807,914                      | 285,704                    | (10,809)                   | 2,082,809                      |
| Improvements - distribution                 | 683,822                        | 15,884                     | -                          | 699,706                        |
| Infrastructure - distribution               | 2,775,838                      | -                          | -                          | 2,775,838                      |
| Infrastructure - transmission               | 10,306,612                     | 1,024,492                  | -                          | 11,331,104                     |
| Total capital assets, being depreciated     | <u>15,908,249</u>              | <u>1,326,080</u>           | <u>(10,809)</u>            | <u>17,223,520</u>              |
| Accumulated depreciation for capital assets | <u>(6,941,720)</u>             | <u>(546,257)</u>           | <u>9,188</u>               | <u>(7,478,789)</u>             |
| <b>NET CAPITAL ASSETS</b>                   | <b><u>\$10,090,791</u></b>     | <b><u>\$ 1,184,436</u></b> | <b><u>\$ (272,872)</u></b> | <b><u>\$ 11,002,355</u></b>    |

NOTE 6 DEBT

General obligation bonds consist of the following at December 31, 2017:

|  | <u>Amount<br/>Outstanding<br/>12/31/16</u> | <u>Additions</u> | <u>Deletions</u> | <u>Amount<br/>Outstanding<br/>12/31/17</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.  | \$ 3,055,000                               | \$ -             | \$ (135,000)     | \$ 2,920,000                               | \$ 135,000     |
| 4.2% note 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> |

Town of Stowe, VT Electric Department  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2017

NOTE 6 DEBT (Continued)

|   | Amount<br>Outstanding<br>12/31/16 | Additions           | Deletions           | Amount<br>Outstanding<br>12/31/17 | Current           |
|---|-----------------------------------|---------------------|---------------------|-----------------------------------|-------------------|
| Total General Obligation Bonds  | 6,232,000                         | -                   | (262,080)           | 5,969,920                         | 262,080           |
| Less: Unamortized Deferred<br>Financing Costs   | <u>(18,270)</u>                   | <u>-</u>            | <u>760</u>          | <u>(17,510)</u>                   | <u>-</u>          |
| Total General Obligation Bonds  | <u>\$ 6,213,730</u>               | <u>\$ -</u>         | <u>\$ (261,320)</u> | <u>\$ 5,952,410</u>               | <u>\$ 262,080</u> |
| 5.70% note payable to KeyBank,<br>quarterly interest only payments<br>until 2018, note due December<br>2018         | \$18,700,000                      | \$ -                | \$ -                | \$ 18,700,000                     | \$ -              |
| 4.2% note payable to Union Bank,<br>quarterly principal and interest<br>payments of \$20,525, due<br>December 2020. | 754,452                           | -                   | (33,817)            | 720,635                           | 43,497            |
| 4.2% note payable to Union Bank,<br>quarterly principal and interest<br>payments of \$23,268, due<br>February 2020. | 824,394                           | -                   | (40,794)            | 783,600                           | 36,043            |
| 4.1% note payable to Union Bank,<br>quarterly principal and interest<br>payments of \$7,439, due<br>November 2024.  | 377,337                           | -                   | (14,508)            | 362,829                           | 15,105            |
| 2.99% note payable to Union<br>Bank, quarterly principal and<br>interest payments of \$23,215,<br>due May 2027.     | -                                 | 800,000             | (36,304)            | 763,696                           | 70,695            |
| 4.2% note payable to Union Bank,<br>quarterly principal and interest<br>payments of \$15,928, due<br>December 2027. | <u>-</u>                          | <u>825,000</u>      | <u>-</u>            | <u>825,000</u>                    | <u>35,206</u>     |
| TOTAL NOTES PAYABLE   | <u>\$ 20,656,183</u>              | <u>\$ 1,625,000</u> | <u>\$ (125,423)</u> | <u>\$ 22,155,760</u>              | <u>\$ 200,546</u> |

Town of Stowe, VT Electric Department  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2017

NOTE 6 DEBT (Continued)

Interest expense was \$1,387,368 and \$1,382,906 at December 31, 2017 and 2016, respectively. In accordance with ASU 2015-03, the amortization of debt issuance costs of \$760 and \$460 at December 31, 2017 and 2016, respectively, is reflected in interest expense. The remaining balance of \$1,386,608 and \$1,382,446 is interest related to the above debt for the years ended December 31, 2017 and 2016.

The annual requirements to amortize all debts outstanding at December 31, 2017 are as follows:

| General<br>Obligation Bonds | Principal           | Interest            | Total               |
|-----------------------------|---------------------|---------------------|---------------------|
| 2018                        | \$ 262,080          | \$ 166,747          | \$ 428,827          |
| 2019                        | 262,080             | 160,525             | 422,605             |
| 2020                        | 262,080             | 154,074             | 416,154             |
| 2021                        | 262,080             | 147,424             | 409,504             |
| 2022                        | 262,080             | 140,429             | 402,509             |
| 2023-2027                   | 1,310,400           | 592,582             | 1,902,982           |
| 2028-2032                   | 1,310,400           | 401,629             | 1,712,029           |
| 2033-2037                   | 1,310,400           | 211,867             | 1,522,267           |
| 2038-4042                   | <u>728,320</u>      | <u>28,894</u>       | <u>757,214</u>      |
| Total                       | <u>\$ 5,969,920</u> | <u>\$ 2,004,171</u> | <u>\$ 7,974,091</u> |

| Notes Payable | Principal            | Interest            | Total                |
|---------------|----------------------|---------------------|----------------------|
| 2018          | \$ 18,909,436        | \$ 1,372,981        | \$ 20,282,417        |
| 2019          | 898,665              | 124,795             | 1,023,460            |
| 2020          | 760,509              | 88,649              | 849,158              |
| 2021          | 128,137              | 58,191              | 186,328              |
| 2022          | 132,617              | 53,711              | 186,328              |
| 2023-2027     | <u>1,326,396</u>     | <u>168,992</u>      | <u>1,495,388</u>     |
| Total         | <u>\$ 22,155,760</u> | <u>\$ 1,867,319</u> | <u>\$ 24,023,079</u> |

NOTE 8 LINE OF CREDIT

In October 2017, SED obtained a \$1,500,000 line of credit with Union Bank. The line matures April 1, 2018 with interest at 1.19%. There was no outstanding balance due at December 31, 2017.

Town of Stowe, VT Electric Department  
NOTES TO FINANCIAL STATEMENTS  
December 31, 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.

Effective May 17, 2007, SED has contracted 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 \$265,000 annual compensation.

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

Total payroll covered for the pension contributions for the calendar year ended December 31, 2017 and 2016 was \$1,374,050 and \$1,281,427. SED's pension contributions for the calendar year ended December 31, 2017 and 2016 totaled \$146,485 and \$122,548.

NOTE 10 RELATED PARTY TRANSACTIONS

SED contributed to the general fund in lieu of taxes a total of \$46,500 and \$33,000 for the years ended December 31, 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 \$60,299 and \$65,742 for the calendar year ended December 31, 2017 and 2016.

Town of Stowe, VT Electric Department  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2017

NOTE 10 RELATED PARTY TRANSACTIONS (continued)

At December 31, 2017, SED owed the Town of Stowe, VT \$77,097 for water/sewer payments and other miscellaneous items. At December 31, 2016 the Town of Stowe owed SED \$52,610.

On March 2, 2016 SED entered into a lease agreement with the Town of Stowe, VT. SED is leasing land for the use of the Solar Project. Total lease expense at December 31, 2017 and 2016 was \$13,414 and \$13,125, respectively.

NOTE 11 MAJOR CUSTOMER

The SED's largest customer represents approximately 22.7% and 26.6% of 2017 and 2016 operating revenue and 17.1% and 33.7% of accounts receivable as of December 31, 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 at \$56,949 per year.

NOTE 13 DEFERRED CONTRIBUTIONS FOR FIXED ASSETS

On September 23, 2005, SED entered into an agreement with Spruce Peak Realty, LLC in which Spruce Peak Realty, LLC committed to pay SED for a contribution of the transmission facility construction and upgrade costs to assure 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 December 31, 2017 there was \$250,000 of deferred contributions for fixed assets remaining.

NOTE 14 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 December 31, 2017 held by SED is as follows:

Town of Stowe, VT Electric Department  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 2017

NOTE 14 PURCHASE POWER CONTRACTS AND SERVICES (continued)

**Hydro Quebec Contract:**

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

Table 1 - Contract based on 218 MV

| 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                  |

Highgate has finished the increase of transfer capability. The scheduled was approved by the ISO-NE; the MW's increased to 255 MW, with this adjustment the contract shifted to the second option of bilateral amounts on November 2016. Below Table 2 is the new portion for Stowe.

Table 2- Contract based on 255 MV

| Schedule | Start Date | Final Delivery Date | Stowe Entitlement (MW) |
|----------|------------|---------------------|------------------------|
| Period 1 | 11/1/2012  | 10/31/2015          | 1.238                  |
| Period 2 | 11/1/2015  | 10/31/2016          | 2.89                   |
| Period 3 | 11/1/2016  | 10/31/2020          | 2.99                   |
| Period 4 | 11/1/2020  | 10/31/2030          | 2.99                   |
| Period 5 | 11/1/2030  | 10/31/2035          | 2.135                  |
| Period 6 | 11/1/2035  | 10/31/2038          | 0.483                  |

Town of Stowe, VT Electric Department  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2017

NOTE 14 PURCHASE POWER CONTRACTS AND SERVICES (continued)

**New York Power Authority:**

The New York Power Authority (“NYPA”) provides power to the utilities in Vermont under two contracts. SED’s share of the first contract is a 9 kW entitlement to the Robert Moses Project (a.k.a St. Lawrence). The contract for St. Lawrence currently extends through April 30, 2032. 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.):**

4.100 of the Vermont PUC. The power is generated by a number of small hydroelectric facilities. There were 19 VEPPI units, as of December 31, 2016, 10 have expired, leaving 9 remaining. VEPPI assigns the energy generated by these facilities using a load ratio basis that compares Stowe’s electric sales to other utilities in Vermont on an annual basis. The VEPPI contracts have varying maturities, with the last VEPPI contract scheduled to end in 2020. Stowe’s current pro rata share of the VEPPI production is 1.4554%, which started November 1, 2017 and will run through October 31, 2018. The prior percent which ran from November 1, 2016 through October 31, 2017 was 1.3360%. The VEPPI contracts are priced with relatively high energy rates and modest fixed costs.

Note, the wood-fired Ryegate unit that was once within the VEPPI production expired on October 31, 2012. The utilities negotiated a 10-year contract for power. The contract now will terminate on November 1, 2022.

**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 contracts. 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, 2016 through October 31, 2017 was 1.3360% and increased to 1.4554% for November 1, 2017 through October 31, 2018) 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.

In May of 2009, as the SPEED Program progressed and implemented modifications, it changed into the Standard Offer program. This change began a feed-in-tariff to encourage the development of SPEED resources by making contracts long term and at fixed prices to qualified renewable energy projects. By May of 2012, the Vermont Energy Act of 2012 expanded the program to 127.5 MW over a 10-year span with a new pricing mechanism for qualified projects. The 2017 RFP for the Standard Offer Program within the Public Utility Commission Docket No. 8817 contained avoided cost price caps.

Town of Stowe, VT Electric Department  
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NOTE 14 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.

Stated in MMWEC's 2009 audited financials, the Stony Brook Intermediate Series A Bonds, where were paid in full as of July 1, 2008. This has helped reduce Stowe's fixed cost obligation for its entitlement.

**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.

McNeil's bonds were paid off in June 2015, fixed costs for the plant have decreased.

**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.

NOTE 14 PURCHASE POWER CONTRACTS AND SERVICES (continued)

**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.

**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.

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

**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. Stowe now owns 9.36% of the facility.

In 2017, SED purchased additional ownership of the Converter. Stowe Electric purchased the portion from VPPSA's share of 9.36% and became a joint owner with VELCO and Burlington Electric. Stowe now owns 9.36% of the facility. SED purchased VPPSA's share of 9.36% for \$926,913 and will purchase the remaining 4.09% in 2018.

**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.

Town of Stowe, VT Electric Department  
 NOTES TO FINANCIAL STATEMENTS  
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NOTE 14 PURCHASE POWER CONTRACTS AND SERVICES (continued)

**Sources of Energy:**

The percentages of energy (kWh) acquired for the fiscal year ended December 31, 2017, was as follows:

2017 TOTAL KWH'S BY RESOURCE

| Resource                      | FCM   | Description   | (MWH)                | kWh's                    | % of Total           | Fuel       | Location        | Termination  |
|-------------------------------|-------|---------------|----------------------|--------------------------|----------------------|------------|-----------------|--------------|
| Niagara                       | -     | Block         | 3,572                | 3,571,594                | 4.6%                 | Hydro      | Roseton         | 9/1/2025     |
| St. Lawrence                  |       | Block         | 80                   | 80,112                   | 0.1%                 | Hydro      | Roseton         | 4/30/2032    |
| VEPPI                         | .0328 | PURPA         | 4,474                | 4,474,138                | 5.7%                 | Wood/Hydro | VT Nodes        | Exp. Varies  |
| VEPPI- SPEED                  |       | Load Reducer  | -                    | -                        |                      |            | Behind Meter    | Life of Unit |
| HQ Contract                   |       | ISO Bilateral | 17,462               | 17,461,600               | 22.3%                | Hydro      | HQ Highgate 120 | 10/31/2038   |
| McNeil                        | 1.560 | Wood Unit     | 8,069                | 8,069,004                | 10.3%                | Wood       | Essex           | Life of Unit |
| Stony 1A/1B/1C                | 4.916 | Dispatchable  | 1,586                | 1,586,211                | 2.0%                 | Natural    | Stonybrk 115    | Life of Unit |
| Miller Hydro Purchase         | 0.21  | Run of River  | 2,254                | 2,253,933                | 2.9%                 | Hydro      | TomSham.Milr    | 5/31/2021    |
| Saddleback Wind               | 0.017 | Wind          | 2,141                | 2,141,032                | 2.7%                 | Wind       | LUDDN_LN        | Exp. 2035    |
| Market Contracts-ENE          |       | ISO Bilateral | -                    | -                        | 0.0%                 |            |                 |              |
| Seabrook Offtake              |       | ISO Bilateral | 15,984               | 15,983,732               | 20.5%                | Nuclear    | Seabrook 555    | Exp. 2034    |
| Market Contracts<br>ENE snow  |       | ISO Bilateral | 8,468                | 8,468,335                | 10.8%                |            | Mass hub        |              |
| ISO Energy Net<br>Interchange |       |               | <u>14,069</u>        | <u>14,069,091</u>        | <u>18.0%</u>         |            |                 |              |
| <b>TOTALS</b>                 |       |               | <u><b>78,159</b></u> | <u><b>78,158,782</b></u> | <u><b>100.0%</b></u> |            |                 |              |
| Nebraska Valley Solar Project |       | Load Reducer  | 1332                 | 1,331,806                | 1.7%                 | Hydro      | Behind Meter    | Life of Unit |

**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 known as "Irene". 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 is looking for a potential small wind project and will be in discussion with the developer once a 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.

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NOTE 14 PURCHASE POWER CONTRACTS AND SERVICES (continued)

There are three tiers to the RES program:

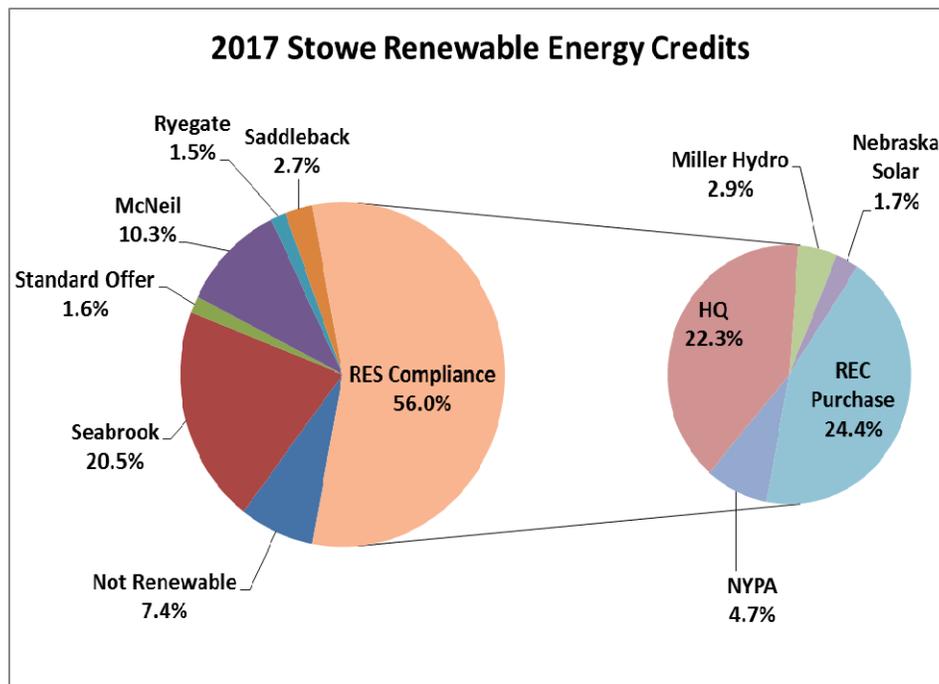
- Tier I: Meet a 75% by 2032 total renewable energy requirement (55% in 2017)
  - Any class of tradeable renewable attributes that are delivered in New England qualify
  - Approved Unit generations that will qualify towards compliance are McNeil, Hydro Quebec bilateral, and NYPA.
- Tier II: Meet 10% 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 10.66% of sales with "energy transformation projects" in 2032 (2% in 2019)
  - 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 Public Utility Commission)

**2017 RES Compliance:**

In July 2018, will be the close of the Renewable Energy Credit (REC) transfer year. Stowe will have obtained and retired all their compliance needs at REC year end. Stowe’s strategy will be to use REC arbitrage to their advantage when complying to Tier I. Within Act 56 of 2015, it states a Utility “may use renewable energy with environmental attributes attached or any class of tradeable renewable energy credits generated by any renewable energy plant whose energy is capable of delivery in New England.” Stowe will assess the market and if one REC class is more valuable they will sell high and rebuy another class REC for compliance.

Below in Figure 1 is an estimate of how Stowe will comply with Tier I and Tier II RES. The left pie chart represents Stowe’s REC portfolio. The right pie chart represents the RECs that will be used for RES compliance. Stowe will comply with RES Tier I and Tier II using RECs from Miller Hydro, Nebraska Valley Solar, NYPA, HQ, and additional REC purchases.

Figure 1 2017 REC and RES Compliance



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NOTE 15 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. Accumulated amortization at December 31, 2017 and 2016 was \$209,236 and \$179,179, respectively.

NOTE 16 SUBSEQUENT EVENTS

In accordance with professional accounting standards, the Electric Department has evaluated subsequent events through March 22, 2018, which is the date the financial statement was available to be issued. All subsequent events requiring recognition as of December 31, 2017, have been incorporated into the financial statement herein.