

Village of Lyndonville Electric Department  
(A Component Unit of the Village of Lyndonville, Vermont)

FINANCIAL STATEMENTS

December 31, 2014

Village of Lyndonville Electric Department  
(A Component Unit of the Village of Lyndonville, Vermont)  
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**Kittell Branagan & Sargent**

*Certified Public Accountants*

Vermont License #167

## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
Village of Lyndonville Electric Department  
(A Component Unit of the Village of Lyndonville, Vermont)  
Lyndonville, Vermont

We have audited the accompanying financial statements of Village of Lyndonville Electric Department of the Village of Lyndonville, Vermont, as of and for the years ended December 31, 2014 and 2013, 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.

As discussed in Note 1, the financial statements present only Village of Lyndonville Electric Department and do not purport to, and do not present fairly the financial position of the Village of Lyndonville, Vermont, as of December 31, 2014 and 2013, the changes in its financial position and cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Village of Lyndonville Electric Department, as of December 31, 2014 and 2013, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries to management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise of the Village of Lyndonville Electric Department financial statements as a whole. The introductory section and the schedules of operating expenses on pages 17 and 18 are presented for purposes of additional analysis and are not a required part of the financial statements. The financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section and the schedules of operating expenses have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

*Kittell Branagan & Sugent*

St. Albans, Vermont  
February 9, 2015

Village of Lyndonville Electric Department  
(A Component Unit of the Village of Lyndonville, Vermont)  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2014

The management of Village of Lyndonville Electric Department (the Department) offers readers of our financial statements the following narrative overview and analysis of our financial activities for the years ended December 31, 2014 and 2013. Please read it in conjunction with the Department's financial statements, which follow this section.

The Department maintains its accounting records in the manner prescribed by the Federal Energy Regulatory Commission (FERC). The Department is regulated to rates, accounting and other matters by the Public Service Board of Vermont (PSB). In accordance with Statement of Financial Accounting Standards No. 71, *Accounting for the Effects of Certain Types of Regulation*, the Department records certain assets and liabilities in accordance with the economic effects of the rate making process. The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Revenue is recorded in the year it was earned and expenses are recorded in the year they were incurred. The basic financial statements include the statements of net position, statements of revenues, expenses and changes in net position, and the statements of cash flows. Utility Plant in Service is stated at cost. Major expenditures for plant and those which substantially increase useful lives are capitalized. When assets are retired or otherwise disposed of, their costs are removed from plant, plus removal cost, less salvage.

This section of the Village of Lyndonville Electric Department's (the Department's) annual report presents a discussion and analysis of the Department's financial performance during the fiscal years that ended on December 31, 2014 and 2013.

Financial Highlights

- Operating revenues in 2014 were \$10,221,178, an increase of \$90,022 from 2013. The 2013 total operating revenues \$10,131,156 were \$120,346 less than 2012 total operating revenue.
- Total operating expenses were \$9,726,158 in 2014; a decrease of \$725,569 from 2013 operating expenses. Operating expenses in 2013 of \$10,451,727 were an increase of \$377,077 over 2012 operating expenses. .
- Total net position at December 31, 2014 was \$9,373,655, an increase of \$907,833 over 2013. Net position in 2013 was \$8,465,822 as compared to 2012 net position of \$8,382,533 an increase of \$83,289.
- Utility plant in service net of accumulated depreciation at December 31, 2014 was \$5,891,672, a \$210,605 decrease from 2013. Utility plant in service net of accumulated depreciation in 2013 was \$6,072,277; a decrease of \$269,306 from 2012.

Net Position

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Capital assets, net	\$ 5,861,672	\$ 6,072,277	\$ 6,341,583
Current assets	3,372,196	2,706,026	2,592,555
Noncurrent assets	<u>2,037,906</u>	<u>1,813,164</u>	<u>1,606,356</u>
 Total Assets	 <u>\$ 11,271,774</u>	 <u>\$ 10,591,467</u>	 <u>\$ 10,540,494</u>

Village of Lyndonville Electric Department  
(A Component Unit of the Village of Lyndonville, Vermont)  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2014

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current liabilities	\$ 678,119	\$ 820,645	\$ 767,961
Noncurrent liabilities	<u>1,220,000</u>	<u>1,305,000</u>	<u>1,390,000</u>
 Total Liabilities	 <u>1,898,119</u>	 <u>2,125,645</u>	 <u>2,157,961</u>
 Invested in capital assets	 4,556,672	 4,682,277	 4,866,583
Restricted - future capital additions	291,568	290,848	290,848
Unrestricted	<u>4,525,415</u>	<u>3,492,697</u>	<u>3,225,102</u>
 Total Net Position	 <u>9,373,655</u>	 <u>8,465,822</u>	 <u>8,382,533</u>
 Total Net Position and Liabilities	 <u>\$ 11,271,774</u>	 <u>\$ 10,591,467</u>	 <u>\$ 10,540,494</u>

Financial Highlights and Analysis

For the year ending December 31, 2014 capital assets, also known as utility plant in service decreased \$210,605. Current year additions of \$238,238 were offset by current year depreciation of \$510,006 and retirements of \$38,417 and a decrease in accumulated depreciation of \$20,795 for those assets retired during the year. For the year ending December 31, 2013 capital assets decreased \$269,306. Current year additions of \$241,684 were offset by current year depreciation of \$501,791 and retirements of \$24,966 and a decrease in accumulated depreciation of \$22,306 for those assets retired during the year.

2014 showed current assets increasing \$666,170 from 2013 numbers. Reason for the increase in 2014 was cash/cash equivalents were \$621,644 greater, materials \$38,864 and prepaid \$66,481 greater than 2013. The gains in 2014 were offset by decreases in accts receivable of \$21,605 and unbilled revenue of \$44,289. In 2013 current assets increased \$113,471 from 2012. The greatest increase was the direct result of cash and cash equivalents increasing \$13,729, accts receivable \$6,885, unbilled revenue \$29,747, materials \$29,577 and prepaid \$33,080 were all greater than 2012.

2014 noncurrent assets increased \$224,742, mainly due to our investment in Vermont Transco in 2014 in the amount of \$209,937 and an increase in customer deposits for \$14,085. 2013 shows noncurrent assets increased by \$206,808 from 2012. The increase in 2013 was due mainly to investment in Vermont Transco amounting to \$209,952.

Current liabilities in 2014 decreased \$142,526 from 2013. The decrease in 2014 was mainly the result of a decrease in accts payable of \$156,612. 2013 current liabilities were \$52,684 greater than 2012. The increase was due mainly to accounts payable coming in \$92,512 higher which was offset by a decrease in miscellaneous accrued liability of \$36,684.

In 2014 noncurrent liabilities decreased \$85,000 which was the principal payment on the bond payment for our Velco substation. Noncurrent liabilities decreased \$85,000 in 2013, which also dealt with the principal payment on the bond for our Velco substation.

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MANAGEMENT'S DISCUSSION AND ANALYSIS  
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Net position may serve over time as a useful indicator of a government's financial position. The Department's net position totaled \$9,373,655 as of December 31, 2014, \$8,465,822 as of December 31, 2013, \$8,382,533 as of December 31, 2012. Included in the net position at December 31, 2014 and 2013 were restrictions of \$291,568 and \$290,848 for future capital additions, respectively.

Change in Net Position

The following table summarizes the changes in net position for the years ended December 31, 2014, 2013, and 2012:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating revenues	\$ 10,221,178	\$ 10,131,156	\$ 10,251,502
Operating expenses	9,726,158	10,451,727	10,074,650
Nonoperating revenue, net	299,002	291,053	277,682
Capital contributions	<u>113,811</u>	<u>112,807</u>	<u>91,652</u>
 Change in net position	 907,833	 83,289	 546,186
 Net position, beginning	 <u>8,465,822</u>	 <u>8,382,533</u>	 <u>7,836,347</u>
 Net position, ending	 <u>\$ 9,373,655</u>	 <u>\$ 8,465,822</u>	 <u>\$ 8,382,533</u>

Operating Revenues in 2014 were \$10,221,178, an increase of \$90,022 over 2013. This was the result of sales coming in \$74,055 greater than 2013 and merchandise sales coming in \$40,034 higher. Operating Revenues in 2013 of \$10,131,156 were \$120,346 less than 2012. This was a direct result of sales coming in \$161,980 less than 2012 while miscellaneous income offset this loss with an increase of \$43,896,

Operating expenses in 2014 were \$9,726,158, a decrease of \$725,569 from 2013. The decrease was the direct result of purchase power \$773,920 and distribution \$188,842 less than 2013. This was offset by an increase in hydro, \$14,579, customer accts, \$24,009 and administrative \$23,400. 2013 operating expenses were \$10,451,727, an increase of \$377,077 from 2012. The increase was the result of a large increase in storm cost in the distribution account, \$156,803 from 2012 as well as storm damage at our hydros that increased cost by \$40,000. Purchase power also for the year was \$159,819 greater than 2012.

Capital contributions represent contributions in aid to construction that are paid by customers of the Department to construct additions to utility plant in service. For the years ended December 31, 2014, 2013 and 2012 the Department received \$113,881, \$112,807 and \$91,652 in aid to construction, respectively.

Village of Lyndonville Electric Department  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
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Financial Information

Investments in Associated Company

Investments at December 31, for which there is no active market, and stated at cost.

	Shares	Purchased	Value Per Share	2014	2013	2012
Velco Class B common stock	42	10/19/1972	\$100	\$ 4,200	\$ 4,200	\$ 4,200
	116	10/19/1972		11,600	11,600	11,600
	65	6/28/1979		6,500	6,500	6,500
	97	7/3/1979		9,700	9,700	9,700
	36	9/24/1984		3,600	3,600	3,600
	26	9/24/1984		2,600	2,600	2,600
	25	2/27/1987		2,500	2,500	2,500
	2,192	12/29/2004		219,200	219,200	219,200
				<u>259,900</u>	<u>259,900</u>	<u>259,900</u>
Velco Class C common stock	77	9/13/2002	\$100	7,700	7,700	7,700
	713	5/19/2004		71,300	71,300	71,300
	56	5/19/2004		5,600	5,600	5,600
				<u>84,600</u>	<u>84,600</u>	<u>84,600</u>
Velco Class C preferred stock - Net of Return of Capital	1,102	12/31/2006	\$100	<u>1,653</u>	<u>1,653</u>	<u>1,653</u>
Total Velco Stock				346,153	346,153	346,153
Transco Class A & B Units - Assigned to VPPSA in 2014, 2013 and 2012:						
Non-Specific Facilities Units				1,193,450	983,513	773,561
Specific Facilities Units				<u>131,000</u>	<u>131,000</u>	<u>131,000</u>
				<u>1,324,450</u>	<u>1,114,513</u>	<u>904,561</u>
TOTAL INVESTMENTS				<u>\$ 1,670,603</u>	<u>\$ 1,460,666</u>	<u>\$ 1,250,714</u>

Dividends in Velco Stock

The Department receives annual dividend payments on the Common and Preferred Stock investments. The dividend payment, for the years ended December 31, 2014 and 2013 was \$40,484 and \$40,561 respectively.



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MANAGEMENT'S DISCUSSION AND ANALYSIS  
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Interest in Transco

The Department's interests in Vermont Transco are units owned by VPPSA, held for the benefit of Lyndonville Electric Department. To date, this includes 541,211 general membership units in Vermont Transco valued at \$5,412,110. As the owner of the units, VPPSA receives a quarterly distribution from Transco related to the investment. VPPSA uses the funds to pay the related debt service on the financing obtained to facilitate the investment purchase, and returns the excess to its members. The Department records these funds received from VPPSA as distribution income in its financial statements and the principal payment made by VPPSA on the debt service is recorded as "Other Investment". In theory, as VPPSA pays down the related debt service, the Department is growing its investment. Once VPPSA has paid the debt service in full, the Department can request the corresponding investment to be transferred to the Village of Lyndonville Electric Department. As of 2014, the Departments financial statements show an investment in others of \$1,193,450, this amount represents the portion of VPPSA's investment that has been paid through quarterly distributions.

VPPSA's financing units with Vermont Transco are noted as follows at December 31, 2014:

	A Units	B Units	Total	Value
2006	33,017	42,022	75,039	750,390
2007	96,388	122,672	219,060	2,190,600
2008	2,056	2,617	4,673	46,730
2009	22,037	28,048	50,085	500,850
2010	28,745	36,586	65,331	653,310
2012	26,269	33,434	59,703	597,030
2014	<u>29,620</u>	<u>37,700</u>	<u>67,320</u>	<u>673,200</u>
	<u>238,132</u>	<u>303,079</u>	<u>541,211</u>	<u>5,412,110</u>

VPPSA also currently owns and holds 219,400 specific facilities units in Transco which are valued at \$2,194,000 for the benefit of the Department. These units are unique in that they were issued as a mechanism to assist the Department in paying for a specific facilities project that benefits its rate payers. The accounting for the specific facilities units is similar to the general units in that, VPPSA owns the units, receives the distribution on the investment, pays the related debt service in Transco (interest only) and then distributes the excess earnings to the Department to offset the cost that is incurring for the specific facilities project. However, the specific facilities units are slightly different in that there is no principal paid on the debt because VPPSA will only own the units for a period of 10 years and then the units will be repurchased by Vermont Transco. This ownership directly corresponds to the 10 year period that the Department is obligated to pay for the specific facilities cost of the project. The excess earnings paid to the Department related to the specific facilities investment in 2014 was \$114,034.

In addition to the specific facilities membership units owned by VPPSA, the Department owns 12,100 specific facilities membership units in Vermont Transco, related to the exclusive portion of the 115kv substation valued at \$131,000, which the Department receives as distribution income from VPPSA on a quarterly basis.

As of December 31, 2014 the Department has recorded in its financial statements a direct investment of \$131,000 in Vermont Transco and an investment in other of \$1,193,450, which represents the Department's interest in the general Transco membership units owned by VPPSA. In 2014, distribution income received related to the Departments direct investment was \$16,385 and excess earnings received from VPPSA related to the general membership units owned by VPPSA for the benefit of the Department totaled \$170,276.

Vermont Transco pays an average of 12.5% return on equity while the cost of financing these units mentioned above is just 6%.

Village of Lyndonville Electric Department  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2014

Long term-debt

The following chart summarizes the Department's long-term debt for the years ended December 31, 2014, 2013, 2012:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Long term debt:			
2010 Series 5 Bond	\$ 1,305,000	\$ 1,390,000	\$ 1,475,000
Less: Current Portion	<u>(85,000)</u>	<u>(85,000)</u>	<u>(85,000)</u>
Total Long-Term Debt	<u>\$ 1,220,000</u>	<u>\$ 1,305,000</u>	<u>\$ 1,390,000</u>

Capital Assets

The following chart summarizes capital assets and accumulated depreciation for the years ended December 31, 2014, 2013, 2012:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Capital assets	\$ 15,463,179	\$ 15,222,991	\$ 15,012,812
Less accumulated depreciation	<u>9,601,507</u>	<u>9,150,714</u>	<u>8,671,229</u>
Total capital assets, net	<u>\$ 5,861,672</u>	<u>\$ 6,072,277</u>	<u>\$ 6,341,583</u>

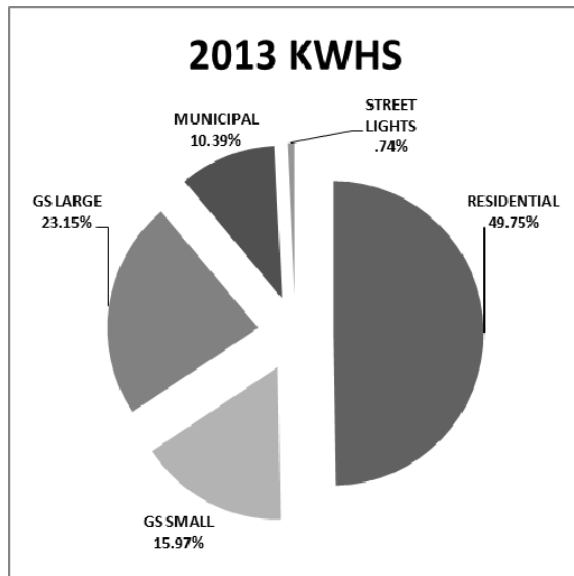
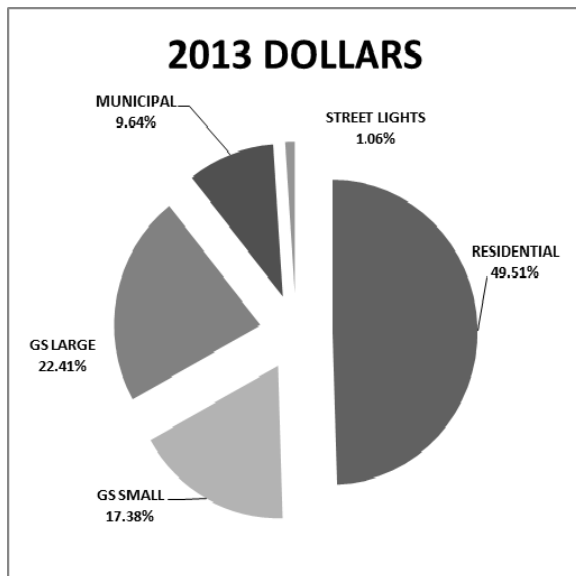
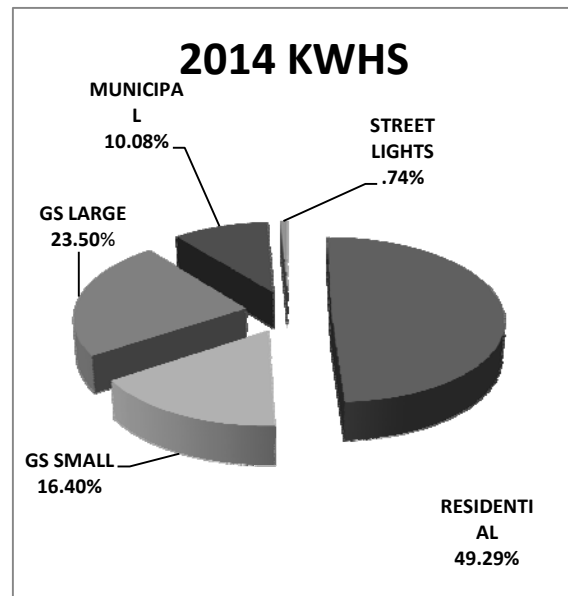
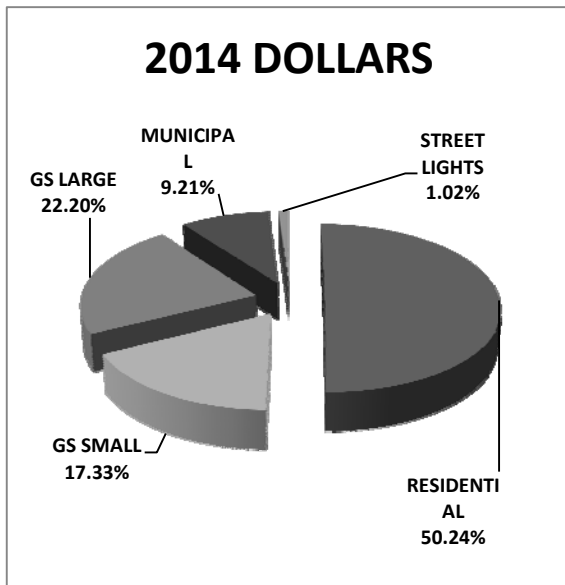
Revenue

The following charts represent a breakdown of sales by customer class for the years ended December 31, 2014, 2013 and 2012. The pie chart on the left shows dollar sales by customer class while the chart on the right side shows actual KWH's sold by customer class. Percentages on each class of service are calculated before credits.

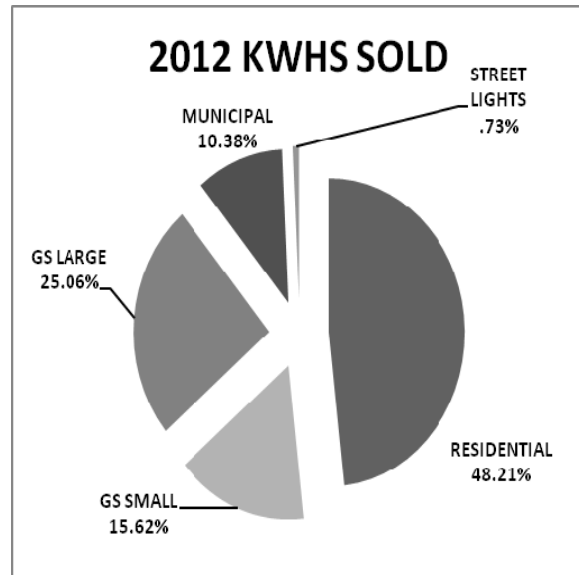
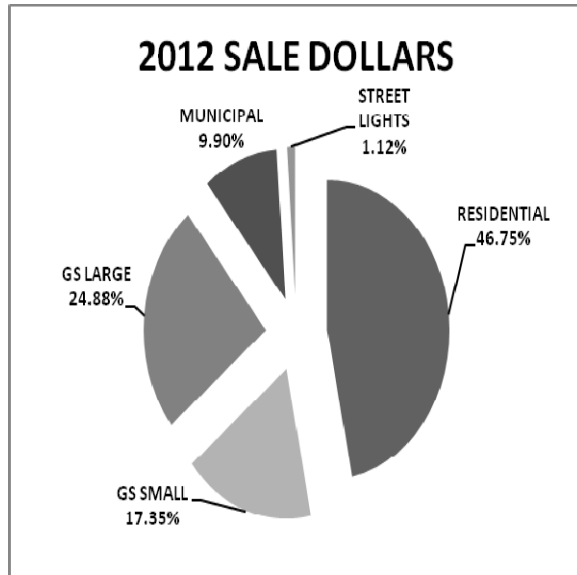
DOLLARS	<u>2014</u>	<u>%</u>	<u>2013</u>	<u>%</u>	<u>2012</u>	<u>%</u>
RESIDENTIAL	\$ 4,982,025	50.24%	\$ 4,874,002	49.51%	\$ 4,698,576	46.75%
GS SMALL	1,718,228	17.33%	1,711,448	17.38%	1,744,625	17.35%
GS LARGE	2,201,497	22.20%	2,206,287	22.41%	2,500,915	24.88%
MUNICIPAL	913,704	9.21%	948,877	9.64%	995,693	9.90%
STREET LIGHTS	101,435	1.02%	104,471	1.06%	112,970	1.12%
EXCESS GENERATION	(7,054)	0.00%	(3,803)	0.00%	(827)	0.00%
SOLAR CREDIT	(7,195)	0.00%	(4,499)	0.00%	(895)	0.00%
WINDMILL CREDIT	<u>(10,013)</u>	<u>0.00%</u>	<u>(18,212)</u>	<u>0.00%</u>	<u>(20,119)</u>	<u>0.00%</u>
TOTAL	<u>\$ 9,892,627</u>	<u>100.00%</u>	<u>\$ 9,818,571</u>	<u>100.00%</u>	<u>\$ 10,030,938</u>	<u>100.00%</u>

Village of Lyndonville Electric Department  
(A Component Unit of the Village of Lyndonville, Vermont)  
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KWHS	2014	%	2013	%	2012	%
RESIDENTIAL	32,130,322	49.29%	32,404,412	49.75%	31,995,894	48.21%
GS SMALL	10,688,944	16.40%	10,399,510	15.97%	10,365,666	15.62%
GS LARGE	15,320,185	23.50%	15,076,737	23.15%	16,630,126	25.06%
MUNICIPAL	6,571,713	10.08%	6,764,331	10.39%	6,890,761	10.38%
STREET LIGHTS	481,699	0.73%	485,659	0.74%	487,317	0.73%
EXCESS GENERATION	(47,524)	0.00%	(25,601)	0.00%	(5,852)	0.00%
SOLAR CREDIT	(122,746)	0.00%	(76,750)	0.00%	(15,276)	0.00%
WINDMILL CREDIT	(85,791)	0.00%	(153,124)	0.00%	(168,828)	0.00%
<b>TOTAL</b>	<b>64,936,802</b>	<b>100.00%</b>	<b>64,875,174</b>	<b>100.00%</b>	<b>66,179,808</b>	<b>100.00%</b>



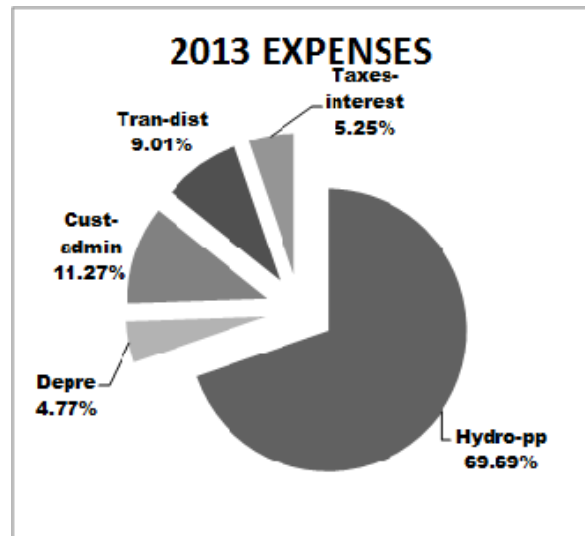
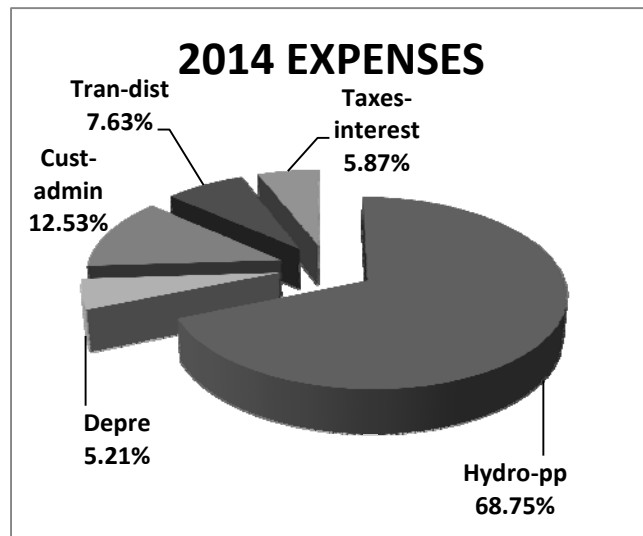
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December 31, 2014



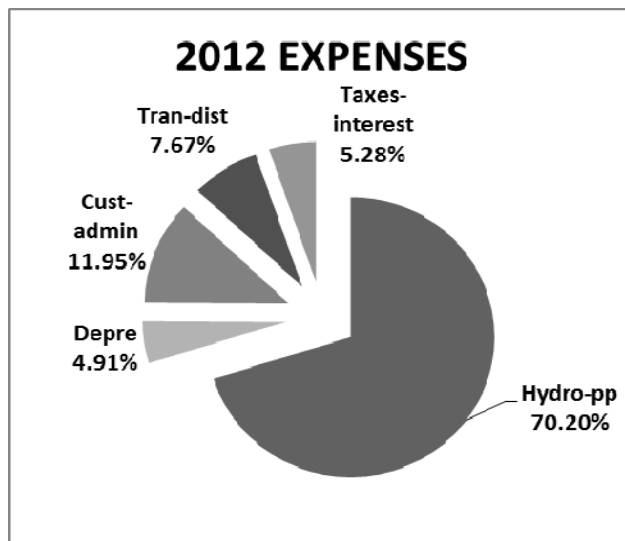
Expenses

The following chart summarizes the Department's expense for the years ended December 31, 2014, 2013 and 2012:

	2014	%	2013	%	2012	%
Hydro-purchase power	6,727,858	68.77%	7,327,513	69.69%	7,116,207	70.20%
Transmission distribution	745,369	7.62%	947,638	9.01%	777,646	7.67%
Customer accts-administrative	1,225,494	12.53%	1,185,245	11.27%	1,210,994	11.95%
Depreciation-administrative	510,006	5.21%	501,791	4.77%	497,720	4.91%
Taxes-interest	574,464	5.87%	552,222	5.25%	535,116	5.27%
	<u>\$ 9,783,191</u>	<u>100.00%</u>	<u>\$ 10,514,409</u>	<u>100.00%</u>	<u>\$ 10,137,683</u>	<u>100.00%</u>



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MANAGEMENT'S DISCUSSION AND ANALYSIS  
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Village of Lyndonville Electric Department  
(A Component Unit of the Village of Lyndonville, Vermont)

STATEMENTS OF NET POSITION

December 31,

ASSETS

	<u>2014</u>	<u>2013</u>
<b>CAPITAL ASSETS</b>		
Net Utility plant in service	\$ 5,861,672	\$ 6,072,277
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	1,258,758	637,302
Accounts receivable - net of allowance for doubtful accounts of \$40,000	990,961	1,012,565
Unbilled Revenue	666,685	710,974
Materials, supplies, and fuel stock	259,498	220,584
Prepaid Expenses	183,997	117,516
Other current assets	12,297	7,085
<b>TOTAL CURRENT ASSETS</b>	<u>3,372,196</u>	<u>2,706,026</u>
<b>NON-CURRENT ASSETS</b>		
Investments in associated company	1,670,603	1,460,666
Restricted cash	291,568	290,848
Customer cash deposit	75,735	61,650
<b>TOTAL NON-CURRENT ASSETS</b>	<u>2,037,906</u>	<u>1,813,164</u>
<b>TOTAL ASSETS</b>	<u>\$ 11,271,774</u>	<u>\$ 10,591,467</u>

LIABILITIES AND NET POSITION

<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 517,384	\$ 673,995
Current portion of long-term debt	85,000	85,000
Customer deposits	75,735	61,650
<b>TOTAL CURRENT LIABILITIES</b>	<u>678,119</u>	<u>820,645</u>
<b>NON CURRENT LIABILITIES</b>		
Long-term debt, excluding current installments	<u>1,220,000</u>	<u>1,305,000</u>
<b>NET POSITION</b>		
Invested in utility plant in service, net of related debt	4,556,672	4,682,277
Restricted - future capital additions	291,568	290,848
Unrestricted	4,525,415	3,492,697
<b>TOTAL NET POSITION</b>	<u>9,373,655</u>	<u>8,465,822</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 11,271,774</u>	<u>\$ 10,591,467</u>

See Accompanying Notes to Financial Statements.

Village of Lyndonville Electric Department  
(A Component Unit of the Village of Lyndonville, Vermont)  
**STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION**  
For the Years Ended December 31,

	<u>2014</u>	<u>2013</u>
<b>OPERATING REVENUES</b>		
Electric sales to customers	\$ 9,848,338	\$ 9,848,319
Miscellaneous income	386,890	300,712
Less: provision for uncollectible accounts	<u>(14,050)</u>	<u>(17,875)</u>
<b>TOTAL OPERATING REVENUES</b>	<u>10,221,178</u>	<u>10,131,156</u>
<b>OPERATING EXPENSES</b>		
Operation, maintenance, and general and administrative expenses	8,684,671	9,442,521
Depreciation	510,006	501,791
Taxes	<u>531,481</u>	<u>507,415</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>9,726,158</u>	<u>10,451,727</u>
<b>INCOME (LOSS) FROM OPERATIONS</b>	<u>495,020</u>	<u>(320,571)</u>
<b>NON-OPERATING REVENUE (EXPENSE)</b>		
Investment Income	346,151	335,860
Cancelled Projects	(4,166)	-
Interest Expense	<u>(42,983)</u>	<u>(44,807)</u>
<b>TOTAL NON-OPERATING REVENUE (EXPENSE)</b>	<u>299,002</u>	<u>291,053</u>
<b>NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS</b>	794,022	(29,518)
<b>CAPTIAL CONTRIBUTIONS</b>	<u>113,811</u>	<u>112,807</u>
<b>CHANGE IN NET POSITION</b>	907,833	83,289
<b>NET POSITION, Beginning of Year</b>	<u>8,465,822</u>	<u>8,382,533</u>
<b>NET POSITION, End of Year</b>	<u>\$ 9,373,655</u>	<u>\$ 8,465,822</u>

See Accompanying Notes to Financial Statements.

Village of Lyndonville Electric Department  
(A Component Unit of the Village of Lyndonville, Vermont)

STATEMENTS OF CASH FLOWS

For the Years Ended December 31,

	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts:		
Electric sales to customers	\$ 9,861,267	\$ 9,764,255
Miscellaneous	311,031	267,879
Payments made for:		
Power production, transmission, and purchase power	(7,416,832)	(7,810,639)
Outside services and other general expenses	(730,402)	(919,243)
Others and employees	<u>(1,211,444)</u>	<u>(1,167,370)</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>813,620</u>	 <u>134,882</u>
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital expenditures, net	(299,401)	(232,485)
Capital contributions	<u>113,811</u>	<u>112,807</u>
 NET CASH (USED) BY CAPITAL ACTIVITIES	 <u>(185,590)</u>	 <u>(119,678)</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
(Purchase) of investments	(209,937)	(209,952)
Investment income	<u>346,151</u>	<u>335,860</u>
 NET CASH PROVIDED BY INVESTING ACTIVITIES	 <u>136,214</u>	 <u>125,908</u>
 <b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Principal payments	(85,000)	(85,000)
Interest paid	<u>(42,983)</u>	<u>(44,807)</u>
 NET CASH (USED) BY NON-CAPITAL FINANCING	 <u>(127,983)</u>	 <u>(129,807)</u>
 NET INCREASE IN CASH	 636,261	 11,305
 CASH - Beginning of Year	 <u>989,800</u>	 <u>978,495</u>
 CASH - End of Year	 <u>\$ 1,626,061</u>	 <u>\$ 989,800</u>

See Accompanying Notes to Financial Statements.



Village of Lyndonville Electric Department  
(A Component Unit of the Village of Lyndonville, Vermont)  
**STATEMENTS OF CASH FLOWS**  
For the Years Ended December 31,

	<u>2014</u>	<u>2013</u>
Reconciliation of operating income to net cash provided (used) by operating activities		
Operating Income	\$ 495,020	\$ (320,571)
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	510,006	501,791
(Increase) decrease in:		
Accounts receivable	21,604	(6,885)
Unbilled revenue	44,289	(29,747)
Materials, supplies, and fuel stock	(38,914)	(29,557)
Prepaid expenses	(70,647)	(33,080)
Other current assets	(5,212)	247
Increase (decrease) in:		
Accounts payable	(156,611)	55,828
Customer deposits liability	<u>14,085</u>	<u>(3,144)</u>
Total adjustments	<u>318,600</u>	<u>455,453</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>\$ 813,620</u>	 <u>\$ 134,882</u>

See Accompanying Notes to Financial Statements.

Village of Lyndonville Electric Department  
(A Component Unit of the Village of Lyndonville, Vermont)  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Lyndonville Electric Department (the Department) is a municipal utility providing retail electric power to Lyndonville, Vermont and surrounding towns. The Department is a component unit of the Village of Lyndonville, Vermont (the Village) whose board of trustees oversees the operations of the Department, and the Village is liable for the debt of the Department. The Department maintains its accounting records in the manner prescribed by the Federal Energy Regulatory Commission (FERC). The Department is regulated as to rates, accounting, and other matters, by the Public Service Board of Vermont (PSB). In accordance with Statement of Financial Accounting Standards No. 71, *Accounting for the Effects of Certain Types of Regulation*, the Department records certain assets and liabilities in accordance with the economic effects of the rate making process.

In accordance with U.S. generally accepted accounting principles, the Department applies all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as all Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 to the extent these pronouncements do not conflict with GASB pronouncements.

Reporting Entity

The Electric Light Department is a fund of the Village of Lyndonville, 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 operations and the cash flows of the proprietary fund types of the Village of Lyndonville, Vermont. The primary criteria used in determining the separate nature of the Electric Light Department is its special accounting and report practices required by various regulatory authorities.

Basis of Presentation

The department's fund is an enterprise fund. 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.

Capital Assets and Depreciation

Capital assets or utility plant in service is stated at cost. Major expenditures for plant and those which substantially increase useful lives are capitalized. When assets are retired or otherwise disposed of, their costs are removed from plant, and such costs, plus removal cost, less salvage, are charged against accumulated depreciation.

The Department provides for depreciation of utility plant in service using annual rates to amortize the cost of depreciable assets over their estimated useful lives, which range from five to sixty-three years. The Department uses the straight-line method of depreciation. The depreciable lives of utility plant in service are as follows:

	<u>Lives</u>
Production plant	33 - 63 years
Transmission plant	33 - 44 years
Distribution plant	25 - 57 years
General plant	5 - 40 years

Village of Lyndonville Electric Department  
(A Component Unit of the Village of Lyndonville, Vermont)  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in Associated Company

The Department follows the cost method of accounting for its minority ownership interest in Vermont Electric Power Company, Inc. (VELCO). VELCO owns and operates a transmission system in the State of Vermont over which bulk power is delivered to all electric utilities in the State of Vermont. Under a Power Transmission Contract with the State of Vermont, VELCO bills all costs, including amortization of its debt and a fixed return on equity, to the State of Vermont and others using the system. In addition, the Department accounts for its share of Vt. Transco, LLC as described in Note 3.

Cash and Investments

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

Additional cash and investment disclosures are presented in Note 3.

Unbilled Revenue

The Department records revenue from sales of electricity in the month service is rendered. The Department records unbilled revenue for the amount of electricity used from the last meter reading date to the end of the year.

Materials, Supplies, and Fuel Stock

Materials, supplies, and fuel stock are valued at the lower of cost or market under the average cost method of valuation.

Capital Contributions

The Department follows FERC accounting guidelines, except as otherwise allowed or prescribed by its state regulator, the PSB. In accordance with state regulatory requirements, contributions in aid of construction are accounted for as capital contributions and consist of amounts paid by customers of the Department to construct additions to utility plant in service. These additions provide these customers with access to the Department's existing plant in service. During 2014 and 2013, the Department reported \$113,811 and \$112,807, respectively, of capital contributions in the statements of revenues, expenses and changes in net position.

Amortization

The Department follows the policy of charging to operating expenses annual amounts of amortization which allocate the cost of various deferred charges over periods established for ratemaking purposes. The Department employs the straight-line method for determining the annual charge for amortization.

Village of Lyndonville Electric Department  
(A Component Unit of the Village of Lyndonville, Vermont)  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014

NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxes

As a component unit of the Village, the Department is exempt from Federal income taxes on income pursuant to Section 115 of the Internal Revenue Code.

The Department pays both property and weatherization taxes each year. Property taxes represent amounts paid by the Department to towns based upon the assessed value of the land owned by the Department in each town the Department services. Weatherization taxes are paid directly to the State of Vermont on a quarterly basis as a percentage of sales to assist in weatherization needs of low income Vermonters.

Operating and Non-operating Revenues and Expenses

Operating revenues are defined as revenue received from the sale of electricity to retail customers. In addition, it includes fees for changing, connecting, or disconnecting service.

Operating expenses are defined as the ordinary costs and expenses of the Department for the operation, maintenance, and repair of the electric plant. Operating expenses include the cost of production by the Department's owned generating facilities, purchased power, system control and load dispatch, maintenance of transmission and distribution systems, customer accounting and service expenses, administrative and general expenses, and depreciation and amortization. All other expenses are considered non-operating.

Non-operating revenues are defined as revenue received from sources other than the sale of electricity. Non-operating revenues include investment income.

Revenues are billed monthly based on billing rates authorized by the PSB which are applied to customers' consumption of electricity.

Restricted Net Position

Net position is restricted when constraints are placed on them externally. When both restricted and non-restricted resources are available for use, it is the Department's policy to use unrestricted assets first with restricted resources utilized as needed.

Use of Estimates

The preparation of the financial statements in accordance with U.S. generally accepted accounting principles, requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant items subject to such estimates and assumptions include the valuation allowances for receivables and the valuation of unbilled revenue. Actual results could differ from those estimates.

Village of Lyndonville Electric Department  
(A Component Unit of the Village of Lyndonville, Vermont)  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014

NOTE 2 CAPITAL ASSETS – UTILITY PLANT IN SERVICE

An analysis of utility plant in service at December 31,:

	<u>2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>2014</u>
Utility Plant in Service:				
Land - Non-depreciable	\$ 213,325	\$ 901	\$ -	\$ 214,226
Production Plant	2,511,443	34,728	-	2,546,171
Transmission Plant	3,094,298	-	-	3,094,298
Distribution Plant	7,796,587	237,337	(50,196)	7,983,728
General Plant	<u>1,607,338</u>	<u>17,418</u>	<u>-</u>	<u>1,624,756</u>
Depreciable operating	<u>15,009,666</u>	<u>289,483</u>	<u>(50,196)</u>	<u>15,248,953</u>
Total	<u>15,222,991</u>	<u>290,384</u>	<u>(50,196)</u>	<u>15,463,179</u>
Accumulated Depreciation:				
Production Plant	1,631,523	53,995	-	1,685,518
Transmission Plant	896,425	90,405	-	986,830
Distribution Plant	5,198,304	234,592	(59,213)	5,373,683
General Plant	<u>1,424,462</u>	<u>131,014</u>	<u>-</u>	<u>1,555,476</u>
Total	<u>9,150,714</u>	<u>510,006</u>	<u>(59,213)</u>	<u>9,601,507</u>
Net Utility Plant in Service	<u>\$ 6,072,277</u>	<u>\$ (219,622)</u>	<u>\$ 9,017</u>	<u>\$ 5,861,672</u>

NOTE 3 CASH AND INVESTMENTS

The custodial credit risk for deposits is the risk that in the event of a bank failure, the Department's deposits may not be recovered. The deposits in Community National Bank which are in excess of the insured amount are collateralized up to \$1,500,000 by FHLB Boston. This collateralization agreement is dated to expire at the close of business on March 2, 2015. The bank deposits at December 31, 2014 were \$2,168,620, of which \$51,136 was exposed to custodial credit risk as uninsured and uncollateralized. The book deposits at December 31, 2014 were \$1,626,061, none of which were exposed to custodial credit risk as uninsured and uncollateralized at December 31, 2014.

Investments represent VELCO stock and VELCO, LLC units. The investments are carried at cost which is estimated fair market value. These investments are not publicly traded on an active market. VT, Transco, LLC units are held by VPPSA on behalf of the Department.

Village of Lyndonville Electric Department  
(A Component Unit of the Village of Lyndonville, Vermont)  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014

NOTE 3 CASH AND INVESTMENTS (continued)

The balance at December 31, 2014 and 2013 was:

	<u>2014</u>	<u>2013</u>
Velco Class C preferred stock - Net of Return Capital	\$ 1,653	\$ 1,653
Velco Class B common stock - 2,659 shares in 2014 and 2013	259,900	259,900
Velco Class C common stock - 846 shares in 2014 and 2013	<u>84,600</u>	<u>84,600</u>
 Total Velco Stock	 <u>346,153</u>	 <u>346,153</u>
 Transco Class A & B Units - Assigned to VPPSA in 2014 and 2013.	 <u>1,324,450</u>	 <u>1,114,513</u>
 TOTAL INVESTMENTS	 <u>\$ 1,670,603</u>	 <u>\$ 1,460,666</u>

NOTE 4 PENSION PLANS

All unionized electrical employees participate in the Vermont Municipal Employees' Retirement System (VMERS). VMERS is a cost sharing multiple-employer public employee's retirement system that is administered by the Treasurer of the State of Vermont and its Board of Trustees. Under this plan, unionized employees can participate in either a defined benefit retirement plan or a defined contribution retirement plan that is offered by VMERS. All of the employees of the Department are covered under Group B of the VMERS defined benefit plan. Under the defined benefit retirement plan, the contribution rate for the employer and the employee in Group B is 5.375% and 4.75%, respectively. All unionized electrical employees are eligible to participate in VMERS as of their hire date. The State of Vermont issues an audited financial report that includes financial statements and required disclosures. This report may be obtained by writing the State Auditor of Accounts, 132 State Street, Montpelier, VT 05602.

All non-unionized employees are eligible to participate in a money purchase retirement plan. Participants are eligible under this plan after 1 year of service and upon attaining age 21. The contribution rate for the employer under this plan is 10%, with no required contribution rate on behalf of the employee.

Pension expense which equaled the annual required contribution for the years ended December 31, was as follows:

<u>2014</u>	<u>Pension Expense</u>	<u>Employer Contribution Rate</u>
Plan covering unionized electrical workers (January 01, 2014 - December 31, 2014)	\$ 35,869	5.375%
Plan covering all nonunion Village employees	<u>34,529</u>	10.00%
	<u>\$ 70,398</u>	

Village of Lyndonville Electric Department  
(A Component Unit of the Village of Lyndonville, Vermont)  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014

NOTE 4 PENSION PLANS (continued)

2013

Plan covering unionized electrical workers (January 01, 2013- December 31, 2013)	\$ 36,879	5.00%
Plan covering all nonunion Village employees	<u>33,166</u>	10.00%
	<u>\$ 70,045</u>	

NOTE 5 LONG TERM DEBT

	<u>2014</u>	<u>2013</u>
2010 Vermont Municipal Bank Bond payable to US Bank, requiring annual principal repayments ranging from \$80,000 to \$85,000 plus interest rates per annum ranging from .777% to 3.546% over the 20 year life of the bond. Matures in December, 2030	\$ 1,305,000	\$ 1,390,000
Less Current Portion:	<u>(85,000)</u>	<u>(85,000)</u>
	<u>\$ 1,220,000</u>	<u>\$ 1,305,000</u>

The annual debt service requirements to maturity, including principle and interest, for long-term as of December 31, 2014 are as follows:

For the years then ended	Principal	Interest	Total
2015	\$ 85,000	\$ 38,429	\$ 123,429
2016	85,000	36,976	121,976
2017	85,000	35,313	120,313
2018	85,000	33,375	118,375
2019	85,000	31,287	116,287
2020-2024	400,000	121,495	521,495
2025-2029	400,000	56,553	456,553
2030	<u>80,000</u>	<u>2,837</u>	<u>82,837</u>
	<u>\$ 1,305,000</u>	<u>\$ 356,265</u>	<u>\$ 1,661,265</u>

NOTE 6 COMMITMENTS

Commitments

Village of Lyndonville Electric Department (the Electric Department) is a member of the Vermont Public Power Supply Authority ("VPPSA"). The Electric Department pays a proportionate share of VPPSA's operating costs and holds a seat on the VPPSA Board of Directors.

Village of Lyndonville Electric Department  
(A Component Unit of the Village of Lyndonville, Vermont)  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014

NOTE 6 COMMITMENTS (continued)

The Electric Department has entered into a Central Dispatch Agreement (CDA) with VPPSA for the economic dispatch of its generating sources. Under the CDA, the Electric Department authorizes VPPSA to act as its billing agent with regard to its generating sources and transmission providers. VPPSA continues to provide dispatch services to the Electric Department under the terms of the CDA between the Electric Department and VPPSA dated 8/9/2001.

In addition, the Electric Department is a participant in the Highgate Converter Project through which they receive transmission services. The Electric Department's annual commitment for its participating share of the Highgate Converter Project is included in the Department's purchased power costs.

The energy sold through the Electric Department is obtained from a combination of sources. While about 3% of the energy is generated by the Electric Department, most is provided by other sources through power purchase contracts. A summary of the major power agreements as of December 31, 2014 follows:

The Electric Department's entitlement in the Hydro-Quebec/Vermont Joint Owners' (HQ/VJO) contract is 3,601 kW. More specifically, the Electric Department's entitlements are summarized as follows:

HQ Schedule	Entitlement (kW)	End Date
B	2,438	2015
C3	5	2015
C4a	1,158	2016

Hydro Quebec's annual energy deliveries were set at a 75% capacity factor starting with the contract year beginning November 1, 2007 and will stay at that level for the remainder of the contract. Under the terms of the contract, monthly capacity factors can vary from 25% to 95%. However, in order to comply with ISO New England, Inc.'s Standard Market Design rules, the monthly capacity factor, for practical purposes, cannot be less than 47%, on average.

The Electric Department has agreements with VPPSA to purchase a portion of the power produced by the McNeil wood-burning generating facility. The Electric Department is committed to purchase and share in the costs for 3% of the total output of the 54 MW plant or 1620 kW's of output. Revenue bonds used to finance the project mature in 2015.

Lyndonville Electric Department has an agreement with VPPSA to purchase 24.80% of a contract for the output of a landfill gas-fired generator located at the City of Fitchburg landfill in Westminister, MA. In 2012, Lyndonville began receiving energy, capacity, and renewable energy credits under the terms of this contract. Contracted delivery is for three megawatts for the first five years and four and a half megawatts for the subsequent 15 years. The Electric Department's share of the Fitchburg Contract in 2014 was 744 kW.

Lyndonville Electric Department has an agreement with VPPSA to purchase 29.8% of a contract for the output of a solar farm located in Chester, MA. In 2014, Lyndonville began receiving energy under the terms of this contract, and expects to receive capacity beginning June, 2015. Contracted delivery is for the full output of the 4.8MW facility on a unit contingent basis for a term of 25 years. The Electric Department's share of the Chester Solar Contract in 2014 was 1430 kW.



Village of Lyndonville Electric Department  
(A Component Unit of the Village of Lyndonville, Vermont)  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014

NOTE 6      COMMITMENTS (continued)

The New York Power Authority ("NYPA") provides power to the utilities in Vermont under two contracts. The Electric Department's share of the first contract is a 37 kW entitlement to the Robert Moses Project (a.k.a. St. Lawrence). The contract for St. Lawrence extends through April 30, 2017. The second contract has been a 594 kW entitlement to the Niagara Project. Effective September 1, 2007, the Niagara contract was renewed through September 1, 2025.

The Electric Department is required to purchase power from small power producers through the Vermont Electric Power Producers, Inc. ("VEPPI"), in accordance with PSB Rule #4.100. Contracts between VEPPI and its constituent power producers began to terminate in 2008 while the last VEPPI contract is scheduled to end in 2020. The Electric Department's share of VEPPI power in 2014 was 1.21%.

The Electric Department is required to purchase power from small power producers through the Vermont Sustainably Priced Energy Development Standard Offer Program, in accordance with PSB Rule #4.300. The Electric Department's share of Standard Offer power in 2014 was 1.23%.

The Electric Department has an agreement with VPPSA to purchase a portion of the power produced by Project 10, a peaking generating facility located in Swanton, Vermont. Under this agreement, the Electric Department is obligated for a share of the costs of the facility. The Electric Department's share of Project 10 benefits and costs in 2014 was 19.6%.

Under contract, the Electric Department purchases 0.44% of the power from the Massachusetts Municipal Wholesale Electric Company's ("MMWEC") 352 megawatt Stony Brook Intermediate Project. The facility is located in Central Massachusetts. This facility has the capability of generating electricity from either natural gas or fuel oil, while natural gas is the primary source of fuel. The Stony Brook owners completed construction of a gas pipeline extension which enables the facility to operate multiple units on natural gas. However, during the winter the facility's generation is usually a mix of natural gas and oil. This is due to the fact that natural gas is not fully available during winter peak periods. The units predominately generate on natural gas. The Electric Department has a contingency commitment to make debt service payments whether or not the units are operating.

The Electric Department has entitlements to Yarmouth Unit No. 4 (a.k.a. William F. Wyman Unit No. 4) which is a fuel-oil-fired generating facility located in Yarmouth, Maine. The facility has a maximum generating capability of 619 mW. The Electric Department's entitlement is about 204 kW of the plant.

In addition to the above resources, the Electric Department purchases system power from various other entities under short-term (5 year or less) agreements.

Village of Lyndonville Electric Department  
(A Component Unit of the Village of Lyndonville, Vermont)  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014

NOTE 6 COMMITMENTS (continued)

The percentage of energy (MWH) acquired from the above sources for the year ended December 31, 2014 was as follows:

<u>Resource</u>	<u>mWh</u>	<u>Percent</u>	<u>Expiration</u>
Planned Purchase 6	6,529	10.62 %	1/1/2013
Planned Purchase 7	9,902	16.11 %	12/31/2015
Monthly Market Contracts	(4,923)	-8.01 %	12/31/2012
Fitchburg Waste Management	6,517	10.60 %	12/31/1931
HQ Schedule B	15,802	25.71 %	10/31/2015
HQ Schedule C3	32	0.05 %	10/31/2012
HQ Schedule C4ab	7,503	12.21 %	10/31/2012
HQ US	245	0.40 %	10/31/2020
McNeil	8,020	13.05 %	Life of Unit
NYPA - Niagara	4,527	7.37 %	8/31/2025
NYPA - St. Lawrence	129	0.21 %	8/31/2025
Project 10	47	0.08 %	Life of Unit
Ryegate	1,816	2.96 %	10/31/2021
Standard Offer	766	1.25 %	Varies
Stonybrook	868	1.41 %	Life of Unit
YEPPI	1,435	2.34 %	Varies
Yarmouth 4	-	0.00 %	Life of Unit
WMA Chester Solar	284	0.46 %	
Subtotal Resources	59,499	96.82 %	
Internal - Great Falls/Vail Hydro	1,956	3.18 %	
Total Resources Available	61,455	100.00 %	
Sold to Pool	7,133		
Used to Serve Load	68,588		

Village of Lyndonville Electric Department  
(A Component Unit of the Village of Lyndonville, Vermont)  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014

NOTE 6      COMMITMENTS (continued)

The cost of power from all power vendor sources for the year ended December 31, 2014 was as follows:

**TOTAL SUPPLY COSTS:**

Planned Purchase 6	\$ 418,015
Planned Purchase 7	633,660
Monthly Market Contracts	(597,658)
Fitchburg Waste Management	588,637
HQ Schedule B	1,076,054
HQ Schedule C3	2,213
HQ Schedule C4ab	516,671
HQ US	14,135
McNeil	617,171
NYPA - Niagara	196,290
NYPA - St. Lawrence	4,749
Project 10	768,232
Ryegate	198,223
Standard Offer	162,741
Stonybrook	147,414
VEPPI	170,906
Yarmouth 4	11,907
WMA Chester Solar	<u>37,156</u>

Subtotal Power Supply	<u>4,966,516</u>
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**TRANSMISSION COSTS:**

Highgate PTF Credit	(52,080)
Highgate Transmission	78,170
Nepool/ISO Transmission	938,043
Phase 1	2,902
Velco '91	130,015
Velco Substation Participation	30,772
Velco Specific Facilities Charge	<u>396,690</u>

Subtotal Transmission	<u>1,524,512</u>
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Village of Lyndonville Electric Department  
(A Component Unit of the Village of Lyndonville, Vermont)  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014

NOTE 6 COMMITMENTS (continued)

**VPPSA AND OTHER COSTS:**

Resources Settlement Credits	(5,748,369)
Load Settlement Charges	5,021,365
Other Load and Market Charges/(Credits)	627,873
HQ Participants Charges	99
ISO Sched I,II,III	102,758
Renewable Energy Credit	(13,571)
Metering Adjustment Credit	(3,939)
VELCO Services	1,235
ISO Misc	30,618
Misc Resettlements	(186)
VPPSA CDA FEE	<u>93,516</u>
Subtotal VPPSA & Other	<u>111,399</u>

**TOTAL POWER SUPPLY AND TRANSMISSION:** \$ 6,602,427

Lyndonville has authorized the purchase of energy for delivery from January 2015- December 2019 with multiple market counterparties. The contracts which have not begun delivery by 12/31/2014 and are not reflected in the 2014 Power Supply Note are summarized in the table below:

	2015	2016	2017	2018	2019
<b>Baseload kWh</b>	31,253,868	16,664,283	13,390,517	13,318,441	13,318,441
# of suppliers	3	3	2	2	2
<b>On-Peak kWh</b>	11,102,284	16,440,709	10,621,725	19,128,337	19,128,337
# of suppliers	5	3	2	2	2
<b>Off-Peak kWh</b>	13,261,993	13,483,229	9,894,284	13,141,440	13,141,440
# of suppliers	3	2	1	1	1
<b>Total kWh</b>	55,618,145	46,588,221	33,906,526	45,588,218	45,588,218

For many years, VELCO offered stock to the Vermont distribution companies when it undertook a financing. The distribution companies were encouraged to acquire VELCO stock for several reasons. First, the FERC-approved dividend rate substantially exceeds the cost of money used to purchase the stock. Second, as shareholders of VELCO, the municipalities have a voice in the operation of VELCO through the “municipal representative” director who has historically been elected to the VELCO Board. Finally, if each of VELCO’s Vermont customers own its’ load ratio share of stock, then VELCO and its customers can avoid disputes at FERC over the rate of return on equity of VELCO. In 2006, VELCO created Vt. Transco, a Limited Liability Company. Whereas VELCO previously offered stock, all future financings would be funded by the offer of membership units in Vt. Transco, LLC.

Village of Lyndonville Electric Department  
(A Component Unit of the Village of Lyndonville, Vermont)  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014

NOTE 6            COMMITMENTS (continued)

In 2007, Vt. Transco, LLC offered \$113.5 Million of equity in the form of membership units to the Vermont Distribution companies. At the time of the offer, each member had the opportunity to purchase Transco units. As an alternative to purchasing the equity itself, a member of the Vermont Public Power Supply Authority ("VPPSA") had the authority to elect to have VPPSA acquire the units as allowed by the Vt. Transco, LLC operating agreement and a separate TRANSCO equity agreement between the member and VPPSA. The latter agreement does not eliminate the municipality's right to purchase equity in Vt. Transco; it simply provides the option to have VPPSA purchase the units for the benefit of the member and defines the terms should it be advantageous to do so. During 2010 VPPSA purchased an additional \$500,850 of these units for the benefit of the Village of Lyndonville Electric Department. During 2012 VPPSA purchased an additional \$597,030 of these units for the benefit of the Lyndonville Electric Department. During 2014, VPPSA purchased an additional \$673,200 For the benefit of the Lyndonville Electric Department. This amount represents units valued at \$347,100 that were previously assigned to VELCO in 2013 and units valued at \$326,100 that were offered to the Village in 2014.

The units are owned by VPPSA, the associated debt is an obligation of VPPSA and VPPSA will receive the distributions related to the units. However, as outlined in the Transco Equity Agreement and further recognized by the Vt. Public Service Board in Docket 7340, the Village of Lyndonville Electric Department will receive all the benefits of the units related to their load share. The distributions received by VPPSA related to these units shall be used first, to cover VPPSA's debt service costs related to those units, and second, all net earnings from the investment will be recorded as investment income in the Village of Lyndonville Electric Department's financial statements. In addition, as principle payments are made on this debt, the member will record an investment in others with an offsetting credit to miscellaneous income. At December 31, 2014 the investment in others is \$1,324,450.

NOTE 7            SUBSEQUENT EVENTS

In accordance with professional accounting standards, the Department has evaluated subsequent events through February 9, 2015, the date which the financial statements were available to be issued. All subsequent events requiring recognition as of December 31, 2014 have been incorporated into these financial statements herein.

## SUPPLEMENTARY INFORMATION

Village of Lyndonville Electric Department  
(A Component Unit of the Village of Lyndonville, Vermont)  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF OPERATING EXPENSES  
For the Year Ended December 31, 2014

	<u>Operation</u>	<u>Maintenance</u>	<u>Total</u>
<b>PRODUCTION EXPENSES</b>			
Power Generation:			
Supervision and labor	\$ 40,633	\$ 3,438	\$ 44,071
Supplies and expense	69,509	11,851	81,360
Total Power Generation Expenses	<u>\$ 110,142</u>	<u>\$ 15,289</u>	125,431
Purchased Power			6,602,427
<b>TOTAL PRODUCTION EXPENSES</b>			<u>6,727,858</u>
 <b>TRANSMISSION SUPPLIES AND EXPENSE</b>	 <u>\$ 14,203</u>	 <u>\$ 764</u>	 <u>14,967</u>
 <b>DISTRIBUTION EXPENSES</b>			
Supervision and labor	\$ 25,557	\$ 12,103	37,660
Line and station expense	163,813	311,656	475,469
Street lighting and signal system	1,210	12,828	14,038
Meter expense	36,057	922	36,979
Customer installation	1,592	-	1,592
Miscellaneous distribution expenses	132,247	-	132,247
Rent	32,417	-	32,417
<b>TOTAL DISTRIBUTION EXPENSES</b>	<u>\$ 392,893</u>	<u>\$ 337,509</u>	<u>730,402</u>
 <b>CUSTOMER ACCOUNTS EXPENSES</b>			
Meter reading expense			80,881
Customer record and collection expense			166,363
Uncollectible accounts			27,858
Promotional expense			480
Miscellaneous expense			6,577
<b>TOTAL CUSTOMER ACCOUNTS EXPENSES</b>			<u>282,159</u>
 <b>GENERAL AND ADMINISTRATIVE EXPENSES</b>			
Salaries			71,552
Office supplies and expense			21,729
Outside services employed			293,718
Property insurance			55,906
Injuries and damages			39,851
Employee pension and benefits			305,324
Miscellaneous			141,205
<b>TOTAL GENERAL AND ADMINISTRATIVE EXPENSES</b>			<u>929,285</u>
 <b>TOTAL OPERATION, MAINTENANCE AND GENERAL AND ADMINISTRATIVE EXPENSE</b>			 <u>\$ 8,684,671</u>

Village of Lyndonville Electric Department  
(A Component Unit of the Village of Lyndonville, Vermont)

SUPPLEMENTARY INFORMATION  
SCHEDULE OF OPERATING EXPENSES  
For the Year Ended December 31, 2013

	<u>Operation</u>	<u>Maintenance</u>	<u>Total</u>
<b>PRODUCTION EXPENSES</b>			
Power Generation:			
Supervision and labor	\$ 45,375	\$ 1,892	\$ 47,267
Supplies and expense	<u>49,998</u>	<u>42,745</u>	<u>92,743</u>
Total Power Generation Expenses	<u>\$ 95,373</u>	<u>\$ 44,637</u>	140,010
Purchased power			<u>7,187,503</u>
TOTAL PRODUCTION EXPENSES			<u>7,327,513</u>
 TRANSMISSION SUPPLIES AND EXPENSE	 <u>\$ 20,403</u>	 <u>\$ 7,992</u>	 <u>28,395</u>
 DISTRIBUTION EXPENSES			
Supervision and labor	\$ 30,753	\$ 11,264	42,017
Line and station expense	202,631	483,453	686,084
Street lighting and signal system	1,271	7,325	8,596
Meter expense	23,526	2,316	25,842
Customer installation	2,578	-	2,578
Miscellaneous distribution expenses	122,926	-	122,926
Rent	<u>31,200</u>	<u>-</u>	<u>31,200</u>
TOTAL DISTRIBUTION EXPENSES	<u>\$ 414,885</u>	<u>\$ 504,358</u>	<u>919,243</u>
 CUSTOMER ACCOUNTS EXPENSES			
Meter reading expense			72,660
Customer record and collection expense			144,215
Uncollectible accounts			31,988
Promotional expense			396
Miscellaneous expense			<u>5,067</u>
TOTAL CUSTOMER ACCOUTS EXPENSES			<u>254,326</u>
 GENERAL AND ADMINISTRATIVE EXPENSES			
Salaries			70,564
Office supplies and expense			33,471
Outside services employed			262,224
Property insurance			55,568
Injuries and damages			26,651
Employee pension and benefits			317,066
Miscellaneous			<u>147,500</u>
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES			<u>913,044</u>
 TOTAL OPERATION, MAINTENANCE AND GENERAL AND ADMINISTRATIVE EXPENSES			 <u>\$ 9,442,521</u>