

LYNDONVILLE ELECTRIC DEPARTMENT
YEAR END REPORT

To the Board of Trustees and the citizens of the Village of Lyndonville, Vermont.

With the passing of 2015, the Lyndonville Electric Department (LED) has completed its 119th year of providing electric energy and maintaining electric service to Lyndonville residences and businesses. It seems like only yesterday that we were putting the finishing touches on last year's report and lo and behold, it is time to take pen (keyboard) in hand and reflect back on last year.

I would like to begin this year's and also my final Village report with the same subject I began it with last year and that being the refurbishing of the small 400 kW generating unit at Vail Hydro Plant ("Vail"). First I'd like to give you a brief history about Vail and demonstrate how it has been a valuable asset to the Lyndon and Lyndonville area for over a century. Vail was originally built by Theodore N. Vail for purposes of supplying his Speedwell Estate and Vail's Agricultural School with electric power. It originally consisted of, "water privileges with land adjoining both sides of river, a cement dam for impounding the water, a power house equipped with two Holyoke turbine water wheels which developed about 100 horse power, two dynamos and other equipment and a small cottage for the use of superintendent of lights". A 100 horse power output is equivalent to about 74 kW and that represents about 18.5 percent of Vail's current output of 400 kW.

In 1921, Vail, then owned by Lyndon Institute, Inc., was sold to LED for \$10,000 plus electrical service to Lyndon Institute for ten years at 5 cents per kilowatt-hour. During April 1948 one of the first things that the new manager Leland Gray did was to bring to a special village meeting a proposal for a \$200,000 bond issue for the purposes of in part covering the costs of constructing a new hydroelectric generating plant to replace the existing one. The bond issue passed and Vail was closed for several months in mid-1949 and at the same time two 12,470 volt substations were constructed, one adjacent to Great Falls Hydro and one on Hill Street in Lyndon. Vail as it is today and both substations were commissioned and put into operation on October 23, 1949. Vail ran for over sixty years with no major equipment replacements or rebuilds and has been a very efficient and reliable low head hydro unit. I would like to give credit to Dr. Venila L. Shores, "Lyndon – Gem in the Green" for the bulk of the preceding historical information.

Last year I went into detail about the efforts made to get estimates for the repair of Vail, the process used to select the winning proposal and how Vail and Great Falls might be operated in the future. Because this type of work and repair is so specialized, there aren't that many qualified contractors/fabricators out there to pick from and when you do, you're dependent on them finding a slot of time to do your project. We were finally able to work out a schedule with Powerhouse Systems that would begin the disassembly of Vail's generator/turbine/governor during the fall of 2015. It also stipulated that any parts that needed to be repaired or fabricated off site would be removed and the work to be done over the 2015/2016 winter period. It was agreed that the targeted re-assembly of the unit and projected back on-line date of the unit would be prior to the 2016 spring runoff. Powerhouse Systems subcontracted with EnerServ, Inc. to do the hands on repair/fabrication work and they began the disassembly during the latter part of October. We have received several progress reports from EnerServ and the project is proceeding as scheduled and there have been no cost related surprises and things are going according to schedule.

On December 21, 2015, the Vermont Public Service Board issued an "Order Authorizing Debt Issuance" in Docket No. 8664 authorizing; "The issuance by the Village of Lyndonville Electric Department ("Lyndonville") of a ten year note (in a principal amount of up to \$400,000 at a fixed interest rate not to exceed 4%) to finance capital improvements to the Vail hydroelectric generation facility, as described in

the findings and as proposed and set forth in Lyndonville's amended petition, will be consistent with the general good of the State of Vermont". It goes on to say in part that, "1.) The Department (LED) reports that the Vail Facility, after repairs, is expected to have a useful life of 30 years, and 2.) Lyndonville anticipates that the refurbishment project will increase its revenues by \$72,000 a year starting in 2017". That means that the expected revenue producing credit will outweigh its operating expenses by \$72,000 beginning in 2017.

On the grand scale of hydro facilities, Vail and its dam would be considered small by comparison. The estimated average annual output of Vail is 1,600,000 kilowatt hours. This is based on a twenty five year period from 1979 to 2004 when Vail was running well. To get an idea of what the output of Vail is worth to LED you can take the 1,600,000 kilowatt hours and multiply it by LED's current residential rate (1,600,000 KWH X 14.9 cents) and it would result in a value of \$238,400. It is true that the fuel costs for a hydro plant are fairly low as long as there is an adequate supply of water, but there are other costs associated with the generation. If you factor in the labor costs, fuel to heat the building, general building and dam maintenance and debt service for the first 10 years, we have about a \$72,000 net gain in revenues.

In closing I would like to say that LED has decided to operate both hydro facilities the same as it has in the past and that is by keeping our own Hydro Station Operator/Mechanic position within the Department. We moved Ray Bailey from his Lineman's position to our Station Operator/Mechanic 1st position during the early part of 2015. He has been a quick study in finding and fixing problems that existed at Great Falls and has gained a wealth of knowledge from the rebuilding going on at Vail. I can report that the future generation at both hydro facilities looks good.

Last year I also devoted a substantial portion of my report to Net Metering. There was quite a bit of activity related to Net Metering in LED's service territory during 2015. Certificates of Public Good (CPG's) were issued by the Vermont Public Service Board to two 500 kW solar projects and an application for a third was filed with them. All three projects are located north of Lyndonville along the Rte 5 corridor south of West Burke. There was also some activity surrounding a fairly large Standard Offer solar project at the old Northeast Tool site on Pudding Hill, but it appears to have fizzled. There are only two LED customers that I'm aware of who will be taking solar credits from at least two of the 500 kW solar projects that I've mentioned and they are Lyndon State College and Lyndon Institute.

At a Trustees' meeting held during early summer, I advised the Trustees that I was aware that at least one solar contractor was actively soliciting interest from LED for solar credits and asked if the Village might be interested in taking a look. Village Trustees gave me the nod to look into the possibility of the Village taking advantage of a larger Solar Net Metering Projects financial incentive. The surge to get these larger sized projects installed did not take place until last year and we then had several projects out there being considered. After meeting with several of the contractors/vendors and asking them point blank what are the risks to a consumer when entering into one of these projects where the contractors foots all of the bills and the consumer merely signs an agreement to take the energy output, I have been told "none".

So if it sounds like it's too good to be true, well, you know how that goes. I told the Trustees that there is no question that these larger sized 500 kW projects are coming and that it might be wise for the Village to get on the bandwagon with the others. They agreed and I told them that I'd put a Request for Proposal (RFP) out and keep them advised. I also told them that if the output from a project exceeds the required Kilo-Watt-Hour (KWH) requirements of the Village, that I'd approach the Town and include them in the RFP. I met with Justin Smith and Dawn Dwyer and explained to them basically how the Net Metering works and they said to move ahead. I told them that I'd meet with the Selectmen and advise them also how Net Metering works at a date when asked to. I explained that this RFP will not commit anyone to anything until the results are obtained and then decisions will have to be made.

A 500 kW solar project will produce about 650,000 KWH's annually. Solar's capacity factor is only about 15% in this region, which means only about 15% on the projects name plate value will be produced during one year ($500 \text{ kW} \times 24 \text{ Hrs} \times 365 \text{ Days} \times 15\% = 657,000 \text{ KWH's}$). The Villages KWH consumption is about one half of that and the Village and Town combined are a little over one million KWH's. So combined, the Village and Town could take the total solar KWH credits from a 500 kW installation and apply them to the municipal accounts they choose. The Solar credit for projects over 150 kW is 19 cents. You would receive a 19 cent credit for each KWH generated and that would offset the normal KWH that we'd charge you.

Net Metering is a fairly complicated subject and I'm not going to spend a lot of time trying to explain it now. The RFP which I sent out asked the responders to quote us prices using two different scenarios. The first is that they do all of the work, take all of the risks and spend all of the money to do a project and you just sign on the dotted line that you'll take the output of the project. The second is that you will find a site for the project to be located and that you might also put up part or all of the money. Why would you want to do that? Well, you'd capture more of the solar output credit because you have an investment in it. The first scenario would net you the difference between the 19 cents and what the contractor sets as their best KWH selling price to you. The second factors part or all of their costs out and then you reap the benefit rather than them. But you also take the risk.

I sent a copy of the RFP to the Trustees and also provided a copy to Justin. The RFP asked the contractors/vendors to advise us of their intent to submit a proposal by July 1st, to have the proposal to us by July 8th and that targeted July 17th as the award date. I quickly received several replies by e-mail and phone from several of the solar contractors/vendors who expressed interest and an intent to submit a proposal in response to the RFP that I sent out.

At this point it might be helpful to put the total amount of potential solar net metering hanging out there into perspective as it relates to the 15% Cap. The current 15% Net Metering Cap now governs the amount of Net Metering a distribution utility like LED has to allow on their system. LED's system peak for 2014 was about 13,500 kilowatts. The law reads that a utility's 15% cap is based on either its system peak in 1996 or its most current, whichever is larger. Our peak in 1996 was 11,491 kW. So the 2014 peak governs and 15% of that is 1,996 kW. From 1996 to now, LED has put on about 50-60 small Net Metering projects and they amount to about 300 kW total. If you back out the 300 kW existing from the 1,996 kW, you have 1,696 kW remaining before the cap is met. That would allow three 500 kW installations to be built and then LED's Net Metering commitment would be maxed out.

There is currently one solar contractor/vendor, Green Lantern, who has received two CPG's from the PSB for two 500 kW solar arrays along Rte 5 and one contractor/vendor, AEGIS, with an application pending before the PSB for a third array just south of the first two. All three of these projects will connect onto our Line #4, a three phase line that originates out of our No #2 substation on Hill Street. LED has done System Reliability and Impact Studies on all three of these projects and has determined that they will have minimal effect on the voltage and current characteristic of L#4 and will not affect the electric service to customers connected to that line.

As I mentioned earlier, I put together the RFP for the Village and Town and made it clear to the contractors/vendors that I was only the facilitator and not representing LED. We received several proposals and we met with the Trustees and Selectmen to review them and let them know the pros and cons of each. The Trustees and Selectmen both decided not to pursue Net Metering at that time and took no action. It was left that they might pursue it at a future date.

So there you have a quick overview of what happened in 2015 pertaining to Net Metering. I have been fairly vocal in the past about my discontent with these net metering projects because they do not contribute towards a utilities distribution and transmission expenses to backup their own facilities and I continue to feel that way. I would like to also mention that I've learned and am learning a lot about Net Metering as I move ahead on these projects in LED's territory, but by no means proclaim myself an expert "yet". So if I've misspoken anywhere, please know that it wasn't intentional and allow me a little slack.

Each year I include the summary sheet from the LED's Operational Budget approved by the Trustees in my Village Report. The budget lays out the operational expenses and revenues that we foresee for the upcoming year by category and Federal Energy Regulatory Commission (FERC) account. The budget also breaks down this expense based on whether or not they are related to being Transmission, Distribution or Generation expenses. Each year LED's Financial Manager Clay Bailey provides a MEMO to the Trustees along with our operating budget that explains the highlights and interesting parts of the budget. Rather than importing this information into my Report to you, I will insert his MEMO into my report as written for your review.

Memorandum

To: Village Trustees
CC: Ken Mason
From: Clay Bailey
Date: 3/4/2016
Re: 2016 Budget

Comments: 2015, operational wise was a very good year for Lyndonville Electric. We ended the year with a net income of \$654,492 with sales over budget \$221,032 and purchase power for the year was under budget, \$84,413. Increases in the operating expenses will be discussed in my 2016 budget notes.

I have been putting the 2016 budget together for the last month while completing my audit and have reviewed it and read it over a number of times and today I feel ready to present it to you. As is true of any of my presentations if you review it and have any questions please call me or e-mail me and I will find you an answer.

2016 BUDGET NOTES

- **Sales were increased by 1% for two reasons, hopefully an increase in the Burke Mt load (no snow, new lodge) and the possibility of a "Canadian Firm" coming into the Industrial Park. With that being said I do have concerns with one of our other industries in the park but I have nothing concrete regarding their status beyond the rumor mill. Mother Nature is also decreasing our sales with a very comfortable winter, January sales were \$31,814 less than 2015. It still is very hard for me to**

believe that February and March will not be winter like, this is Vermont. Taking on these factors into consideration I decided to go with the 1% increase in 2016.

- Purchase Power in 2016 is \$177,968 greater than the 2015 budget number and \$262,381 greater than 2015 actual. Main reasons for the increase are as follows:

1) VPPSA is projecting a 2% increase in load growth, most of that being attributed to the estimated load of the Burke hotel.

2) Project 10 cost is going to be greater in 2016. In 2016, P10 will increase by \$166,000. This is largely due to the Forward Reserve Market clearing at lower prices than last year for the winter months and with the net cost credit we received last year decreasing by \$86,000.

3) Increase in transmission cost due mainly to an increase in the ISO rate.

4) A number of other items go both ways-Velco Transmission cost go down; our Great Falls and Vail hydro stations are expected to generate more credits.

- For your information in for the next 3 years projected power cost are: 2017-\$6,140,189, 2018-\$6,198,949, 2019-\$6,395,013.

All labor cost were increased by 3% according to the Union contract.

- Hydro –kept it high compared to prior years so that we can do any maintenance work necessary at Great Falls station. Most of the work being done at Vail will be capital cost. This year it is my intent to get an accurate accounting for expenses at Vail and Great Falls, the separation in the past has always been questionable.
- Transmission and Distribution are very close to last year's budgeted numbers and again account 593 (line trouble) has been less than prior years. We also did about \$40,000 less in tree trimming in 2015 than in 2014.
- Customer Accounts-in 2015 we spend a great deal of time in collections and making it possible for our customer to pay their bill electronically. In 2015 we received over \$1,300,000 by ACH or charge card payment electronically. In 2016 I feel the cost associated with this account should decrease and in my 2016 budget it is less than 2015.
- Administrative-slight increase here mainly due to a \$10,000 increase in worker's comp.

I have used the General Ledger history journal and looked at each account number, decreased where I could, took into account lower fuel cost and after many reviews came up with the numbers for the 2016 budget. When all was finished I am showing a net income of \$416,805 in 2016.

I would also like to complement the outstanding work done by our office staff. Our auditors were very pleased with the diligent work done in collections and the decrease in accts receivable.

If you have any questions regarding the 2016 budget please e-mail me. I will come in this weekend to check my e-mails and if you have any questions I will try to answer them at that time.

Thanks for your support in 2015, hopefully 2016 will be another banner year.

Clay

2015 was a good year for LED weather wise. We received no storms during the year that we would consider a "Major Storm". The worst storm that we experienced during the 2014/2015 winter season was experienced during the first week of 2014 and compared to other parts of the state, LED was very lucky. Other parts of the state received up to 20 inches of heavy wet snow and their systems were devastated. Some utilities had customers out of electric service for up to a week and a half. We sent crews to assist the Hardwick Electric Department and the Washington Electric Co-Op for as long as they had customers out of service. I received a thank you from both utilities Manager's and was told they'd welcome our crews back to assist them any time.

LED also made several major purchases in 2015 of equipment and vehicles to replace items that had served their purposes and reached the end of their useful life. We purchased a 2015 International 4300 diesel truck with a 55' Telelect bucket for \$198,812. It replaced a 1997 International 4300 diesel truck with a 45' Telelect bucket. The old truck was sold at bid for \$2,519.00 to Reg Lussier. We purchased a new Sauber 1570-B wire trailer for \$55,706.00 and it replaced an antiquated A frame structure that we had to mount on the back of a pickup truck or place on the back of a line vehicle. We also purchased two new Dell servers that replace our two old 2008 Dell servers. One server is located at our business office and one is located at our operations garage on Grove Street. Both servers are connected in parallel where each one backs the other up and if one were to fail, both locations would still have server service.

In 2015 LED's load requirements in the New England markets were 65,224,650 kWh's and it reached a peak system demand of 12,270 kW on 1-07-15 at the hour of 6 pm. Since 2011, LED's load has fluctuated in a downwards trend, with the highest being 72,642,830 kWh's in 2011. LED's energy needs are projected into the future based on past load trends, weather, and known customer changes. LED's projected energy requirements for the period 2016 to 2020 tend to remain relatively flat within a band width of +/- 1% after an initial projected increase in 2016 of 2.2%. In 2020, energy requirements are projected to be 65,905,677, a 1% increase over our actual in 2015.

The State of Vermont's average retail rates as reported by the Department of Energy's Energy Information Administration (EIA) remain lower than the New England average (most recent release for November 2015). Vermont's decision not to deregulate its electric industry has helped insulate against substantial rate increases due to short term price volatility that has been seen throughout New England since 2004. Customers in Vermont and of LED have historically received significant portions of their power from long-term stably-priced contracts whereas customers in the rest of New England are more exposed to wholesale market price changes and shifts. LED and eleven other Vermont municipals are member systems of the Vermont Public Power Supply Authority (VPPSA) and one of VPPSA's core responsibilities is to do power planning and power source acquisitions for its members. One of VPPSA's philosophies over the past several years has been to enter into smaller, shorter in duration and more numerous purchased power contracts on an individual basis per member. This approach has rendered more diversification to its members power supply and lessened the possibility of buying the majority of your resources at periodically higher prices. This approach has worked out quite well for LED and has stabilized our purchased power costs for at least the next five years.

LED's power supply portfolio is made up of generation resources, long-term contracts and short term contracts. Our diversified portfolio acts as means to financially hedge the cost of serving load at the Vermont Zone in the ISO-NE market system. LED's current supply mix is summarized in the following table.

<u>RESOURCE</u>	<u>KW OUTPUT</u>	<u>TOTAL KW'S</u>	<u>TYPE</u>	<u>FUEL</u>	<u>EXPIRATION</u>
McNeil	1,620	8,495,808	Wood Unit	Wood	Life of Unit
NYPA	735	4,853,531	ATC	Hydro	Varies
VEPPI	709	3,318,209	PURPA Units	Wood/Hydro	Varies
Stoneybrook	1,558	942,063	Peaker	Gas/Oil	Life of Unit
Hydro Quebec	3,643	22,669,474	Hydro	Hydro	2015 - 2038
LED Hydro	2,030	3,802,633	Hydro	Hydro	Life of Unit
Fitchburg Landfill	744	6,517,440	Landfill Gas	Landfill Gas	2026
Yarmouth	204	0	Peaker	Gas/Oil	Life of Unit
P10	7,840	177,885	Peaker	Oil	Life of Unit
Standard Offer	660	1,052,008	Varies	Renewable	Varies
Market Contracts	N/A	15,427,727	Daily	System Mix	2009-2017
WMA Chester Solar	1,423	2,200,743	Daily	Solar	2039

LED and VPPSA are constantly looking at the power supply markets for good deals and seeking resources to replace expiring resources. At this time VPPSA has negotiated for the purchase of output from several power projects that are in the planning and development stages as well as for other long-term contractual obligations. Recently, LED participated in a transaction to purchase power in the years 2018 - 2022. The contract provides energy at low, flat pricing for a five year term. VPPSA is currently investigating several avenues to offer its member systems an opportunity to participate in solar units both in Vermont and outside the state. Solar generation may help VPPSA's member systems cover daily load profiles well and promote the development of renewable generation in New England. VPPSA is also in discussions with the owners of several small hydroelectric generators in New England. Should acceptable terms be reached, VPPSA members will have the opportunity to purchase renewable energy from a diversified set of generators. All in all, LED's power supply future looks pretty good.

LED's line crews, maintenance and clerical personnel saw a busy 2015. The Department reconstructed single and three phase lines throughout its distribution and transmission system. There was one in particular that required an extra ordinary amount of work and effort to complete and that is a new section of three phase line that was built along VT Rte 114 north of East Burke. This new section of line replaced about ½ mile of cross country line that was notorious for usually failing when a major storm hit and its access was terrible and it was not one of our linemen's favorite spots. There are a lot of happier LED customers in East Haven as the result. At this point I'd like to acknowledge Steve Bennett who was LED Foreman for 24 years and an employee for 32. Steve was an excellent and dedicated employee during his tenure here at LED and instrumental in getting the rights-of-ways for the VT Rte 114 project and overseeing its construction. He left behind an outstanding memorial on his way out to freedom from being on-call.

LED added about 50 new customers to its customer base of about 5,650 electric meters. LED's crews were also responsible for the maintenance and general capital improvements to our five distribution substations and two hydro stations. The clerical staff is responsible for sending out about 66,990 individual electric bills and in the collection of our approximate \$10,342,516 of revenue. They are also our front lines at the business office for dealing with our customers about billing and electric disconnects. This is not an easy task and they certainly receive my admiration for the good job that they do.

Because of our work load and other services needed, the outside services of Neil Lefebvre Tree Works were used to assist us with our normal tree and brush cutting within our power line rights-of-ways. Since 2002 we have used a 10 man Work Camp trimming crew to trim and cut the ground brush and trees. We always have one of our employees working with the crew and we supply the chipper. LED line crews will do the trimming and cutting that has to be done with the assistance of a bucket truck. Kittell Branagan &

Sargent, Certified Public Accountants, conducted the annual audit of LED's accounts for the year 2015 and you can find it in its entirety following my report.

I wish to express my sincere appreciation to all employees of LED and the personnel of the other Village Departments for their assistance and excellent cooperation extended to me during the year. I would especially like to thank the Village Trustees for giving me and this Department excellent guidance and oversight throughout the year. The issues surrounding a regulated electric utility can be quite complicated and time consuming and our Village Trustees have always met the challenges presented to them. My hat is off to them.

I am closing this Village Report by advising you that this will be my last one. This Village Report will be the 36th that I've written since become LED's Manager in 1978. It has been an honor to have served the Village as its Manger and to have worked with over two dozen Village Trustees over that period. I would like to thank all current and past employees of LED for their service and dedication and for having made my life easy. 2016 will mark my over 40 years with LED and also my 70th birthday. As the great writer/philosopher for the Carol Burnett Show Gene Perret once said, "When you retire, you switch bosses - from the one who hired you to the one who married you" and we have already started negotiations. Again, thank you for putting up with me and allowing me to serve the Village.

Respectfully submitted
VILLAGE OF LYNDONVILLE
ELECTRIC DEPARTMENT
Kenneth C. Mason
LED Manager

2015 BUDGET/2015 ACTUAL/2016 BUDGET

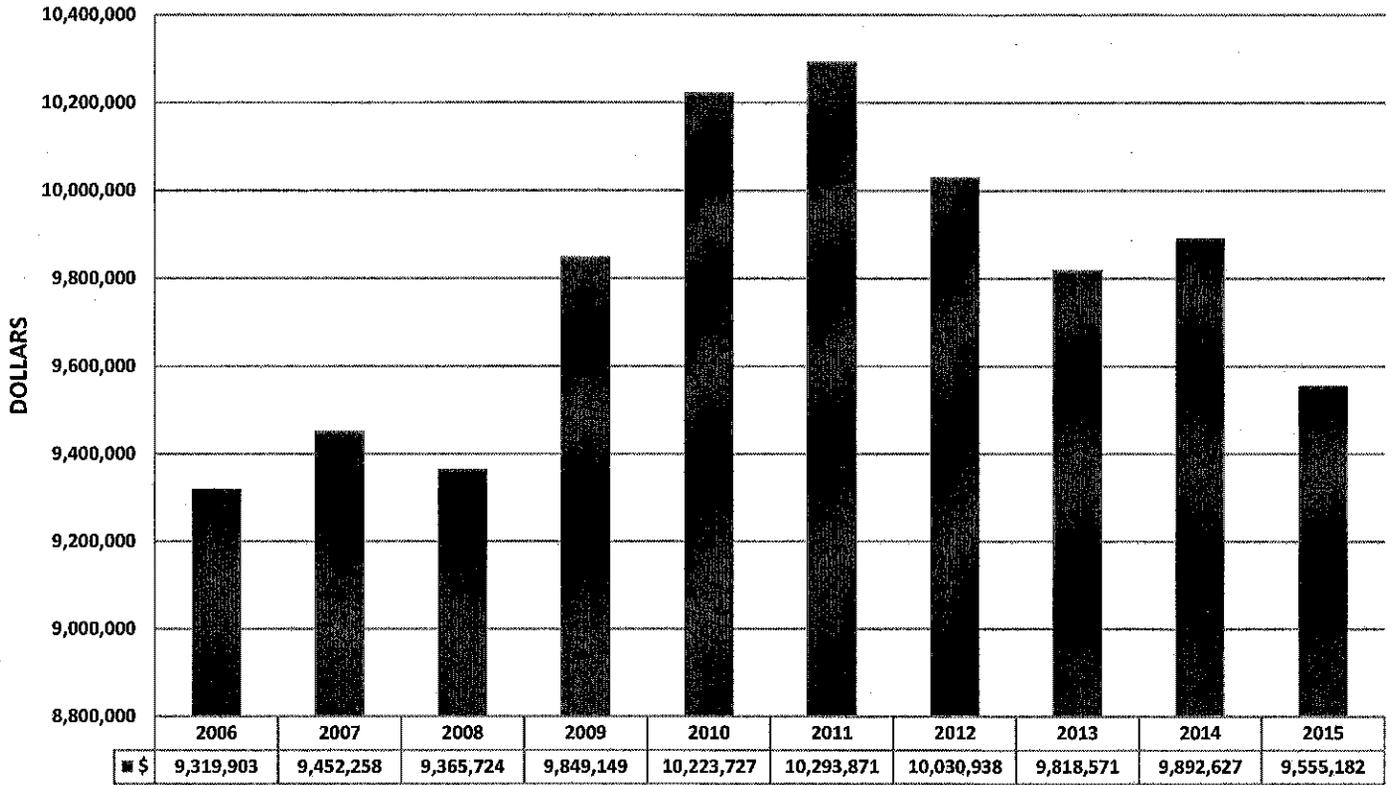
	2014 ACTUAL	2015 BUDGET	2015 ACTUAL	2016 BUDGET
OPERATING REVENUE				
SALE-ENERGY KWHS	9,892,627	9,334,150	9,555,182	9,608,153
OTHER OPERATING REVENUE				
MERCHANDISE SALES	87,001	80,000	70,598	65,000
INTEREST & DIVIDENDS	346,151	345,745	360,864	359,363
MISCELLANEOUS	295,723	290,000	342,221	300,000
UNBILLED REVENUE	<u>-44,289</u>	<u>10,000</u>	<u>-13,029</u>	<u>10,000</u>
TOTAL REVENUES	10,577,213	10,059,895	10,315,836	10,342,516
OPERATING EXPENSES				
POWER GENERATION	125,431	143,144	187,586	180,220
PURCHASE POWER	6,602,426	6,350,915	6,266,502	6,528,883
TRANSMISSION	14,967	27,380	24,913	25,065
DISTRIBUTION	730,401	830,639	732,101	729,165
CUSTOMER ACCTS	296,212	291,150	343,417	332,822
ADMINISTRATIVE	929,284	970,221	1,033,951	1,035,751
DEPRECIATION	510,006	488,775	476,745	485,298
TAXES-PROPERTY	347,930	350,000	373,791	380,000
TAXES-S/S	183,551	187,000	181,018	178,784
INTEREST	<u>42,983</u>	<u>43,000</u>	<u>41,320</u>	<u>49,723</u>
TOTAL EXPENSES	9,783,191	9,682,223	9,661,344	9,925,711
INCOME OR (LOSS)	794,022	377,672	654,492	416,805

COMPARISON OF ELECTRIC RATES
EFFECTIVE JANUARY 2016

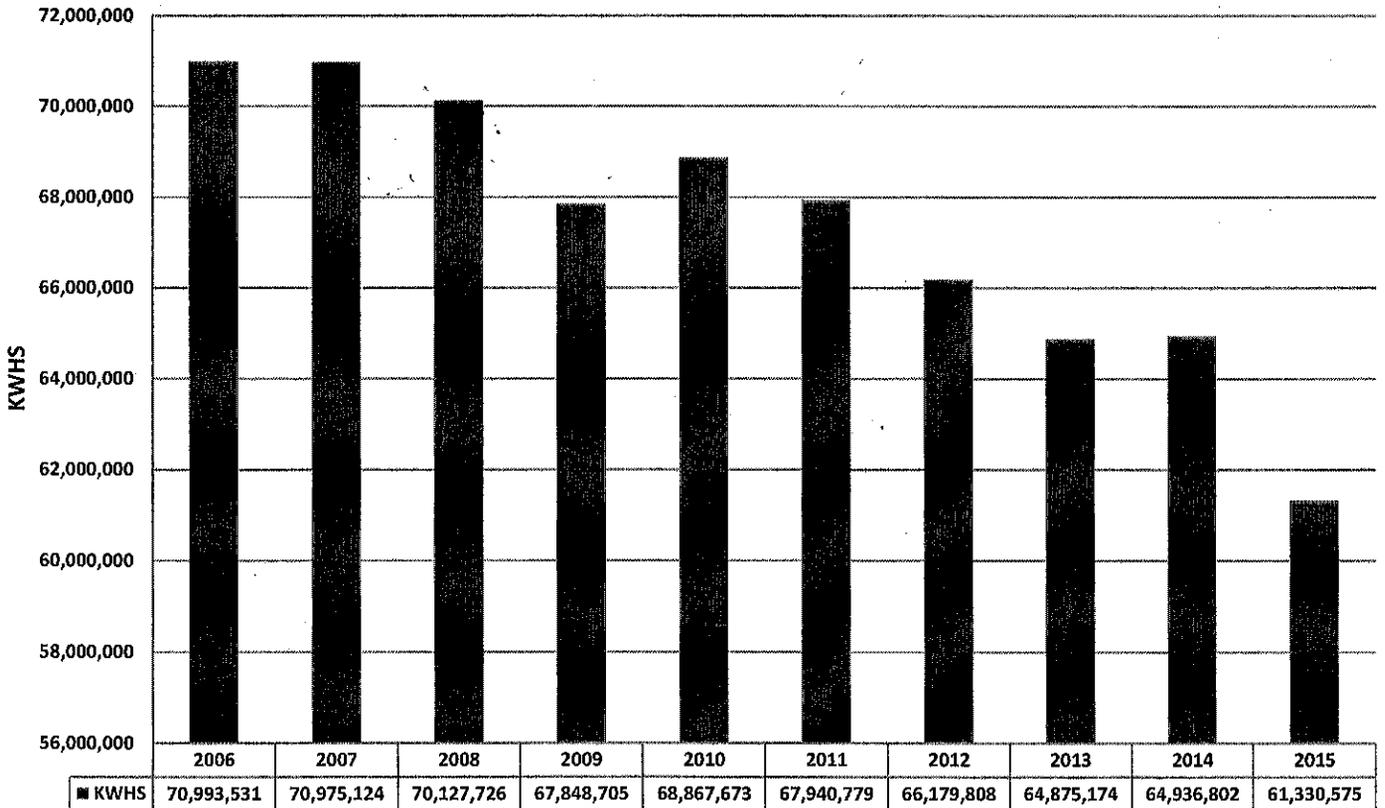
<u>UTILITY</u>	<u>200 KWH</u>	<u>600 KWH</u>	<u>1000 KWH</u>
WASHINGTON ELECTRIC COOPERATIVE	34.00	125.80	217.60
BARTON	41.74	124.90	208.06
VERMONT ELECTRIC COOPERATIVE	45.75	120.59	195.44
HARDWICK	38.18	114.09	189.99
HYDE PARK	42.65	113.92	185.18
STOWE	42.07	110.87	179.68
JOHNSON	41.04	110.21	179.37
GREEN MOUNTAIN POWER	44.77	108.14	171.52
JACKSONVILLE	28.33	107.05	185.77
ENOSBURG FALLS	34.16	102.43	170.70
BURLINGTON ELECTRIC	36.77	101.53	166.29
MORRISVILLE	34.55	100.35	166.14
LYNDONVILLE	35.67	99.85	164.02
NORTHFIELD	30.25	89.43	148.62
SWANTON	32.67	84.59	136.51
ORLEANS	31.55	83.65	135.75
LUDLOW	26.12	77.65	129.17

* In Order From Highest to Lowest Based on 600 KWHS Average Household Usage

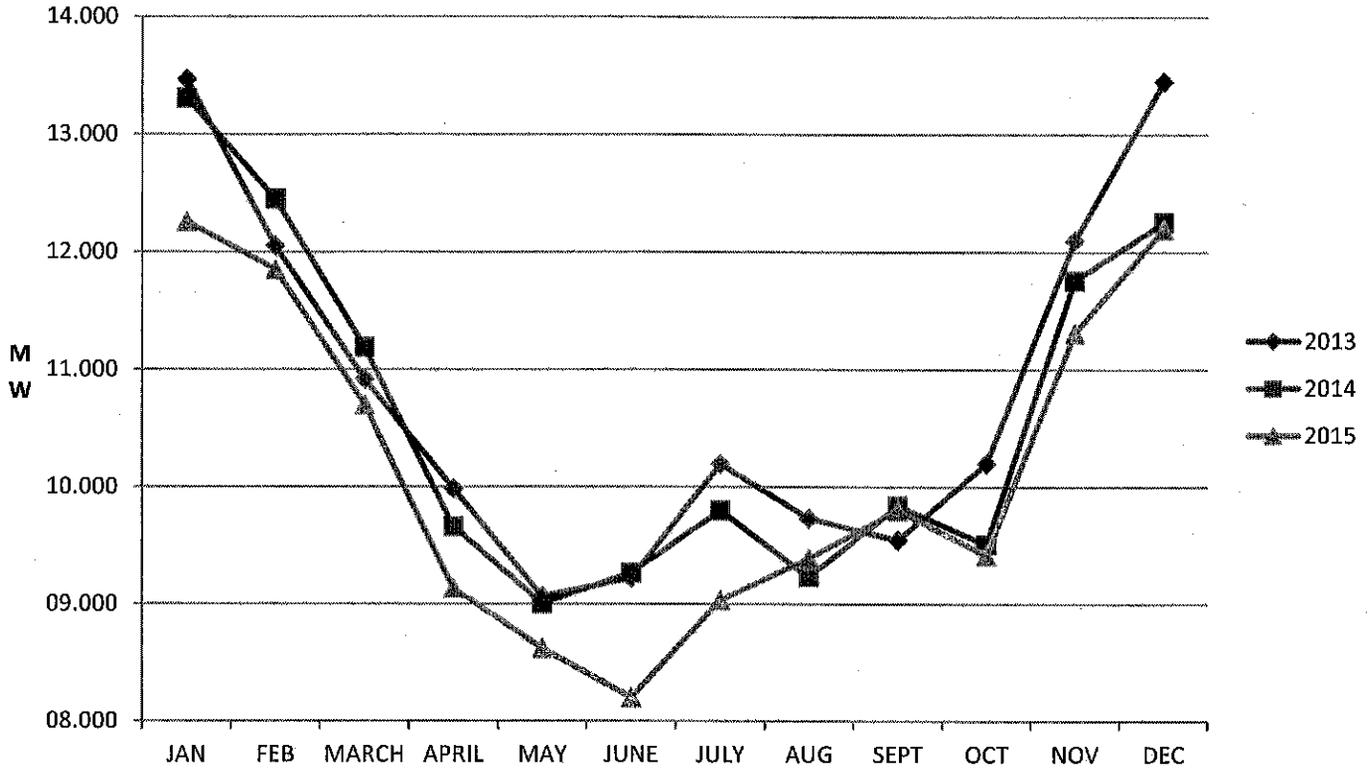
2006-2015 DOLLARS FOR SALE OF ELECTRICITY



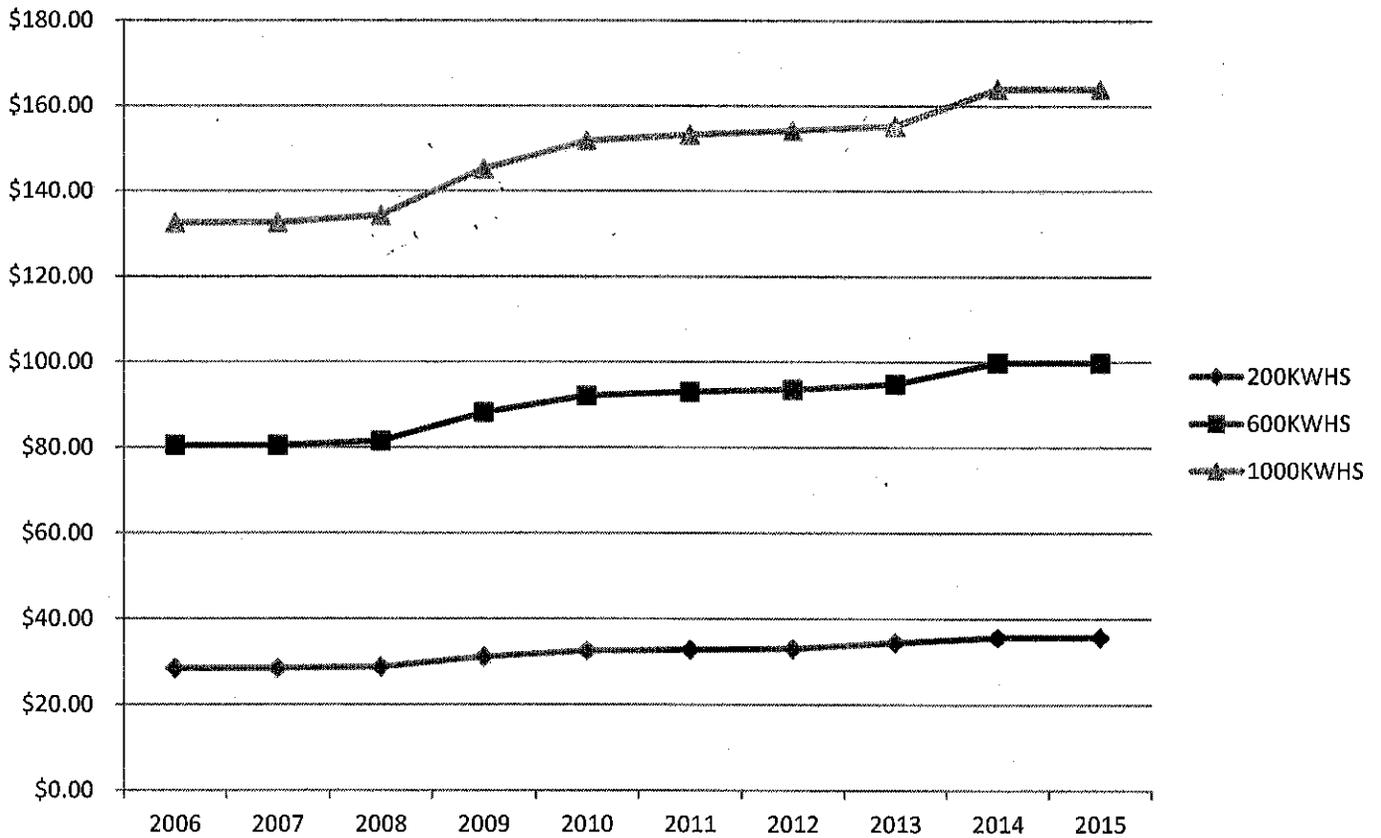
KWHS SOLD 2006-2015



LED SYSTEM PEAKS 2013-2015



LED 10 YR COMPARATIVE COST



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

FINANCIAL STATEMENTS

December 31, 2015

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 the business-type activities of the Village of Lyndonville Electric Department as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise Village of Lyndonville Electric Department's basic 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 opinions 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the the business-type activities of the Village of Lyndonville Electric Department, as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Change in Accounting Principle

As discussed in Note 6 to the financial statements, effective July 1, 2014, the Village of Lyndonville Electric Department adopted new accounting guidance, *CASB Statement No. 68, Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and Schedule of Proportionate Share of the Net Pension Liability - VMERS on page 25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Lyndonville Electric Department's basic financial statements. The schedule of operating expenses on page 26 is presented for purposes of additional analysis and is not a required part of the basic 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The schedule of operating expenses has 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 & Synt

Village of Lyndonville Electric Department
(A Component Unit of the Village of Lyndonville, Vermont)
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015

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, 2015 and 2014. 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, 2015 and 2014.

Financial Highlights

- Operating revenues in 2015 were \$9,934,993, a decrease of \$286,185 from 2014. The 2014 total operating revenues \$10,221,178 were \$90,022 more than 2013 total operating revenue.
- Total operating expenses were \$9,600,042 in 2015; a decrease of \$126,116 from 2014 operating expenses. Operating expenses in 2014 of \$9,726,158 were a decrease of \$725,569 over 2013 operating expenses.
- Total net position at December 31, 2015 was \$9,970,121, an increase of \$596,466 over 2014 which includes a decrease of \$58,028 resulting from GASB 68. Net position in 2014 was \$9,373,655 as compared to 2013 net position of \$8,465,822 an increase of \$907,833.
- Utility plant in service net of accumulated depreciation at December 31, 2015 was \$5,892,252 a \$30,580 increase from 2014. Utility plant in service net of accumulated depreciation in 2014 was \$5,861,672 a decrease of \$210,605 from 2013.

Net Position

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Capital assets, net	\$ 5,892,252	\$ 5,861,672	\$ 6,072,277
Current assets	3,676,452	3,372,196	2,706,026
Noncurrent assets	2,310,384	2,037,906	1,813,164
Deferred Outflows	<u>37,894</u>	<u>-</u>	<u>-</u>
 Total Assets	 <u>\$ 11,916,982</u>	 <u>\$ 11,271,774</u>	 <u>\$ 10,591,467</u>

Village of Lyndonville Electric Department
(A Component Unit of the Village of Lyndonville, Vermont)
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Current liabilities	\$ 722,597	\$ 678,119	\$ 820,645
Noncurrent liabilities	1,156,179	1,220,000	1,305,000
Deferred Inflows	<u>68,085</u>	<u>-</u>	<u>-</u>
 Total Liabilities	 <u>1,946,861</u>	 <u>1,898,119</u>	 <u>2,125,645</u>
 Invested in capital assets	 4,672,252	 4,556,673	 4,682,277
Restricted - future capital additions	292,640	291,568	290,848
Unrestricted	<u>5,005,229</u>	<u>4,525,414</u>	<u>3,492,697</u>
 Total Net Position	 <u>9,970,121</u>	 <u>9,373,655</u>	 <u>8,465,822</u>
 Total Net Position and Liabilities	 <u>\$ 11,916,982</u>	 <u>\$ 11,271,774</u>	 <u>\$ 10,591,467</u>

Financial Highlights and Analysis

For the year ending December 31, 2015 capital assets, also known as utility plant in service increased \$30,580. Current year additions of \$616,946 were offset by current year depreciation of \$476,745, capital contributions of \$124,638, retirements of \$63,426 and cost to retire of \$20,546. For the year ending December 31, 2014 capital assets 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.

Current assets in 2015 increased \$304,256 from 2014. In 2015 cash/cash equivalents increased \$470,837 and other current assets increased \$4,531. Gains in 2015 were offset by decreases in accounts receivable of \$118,666, materials and supplies \$11,846, prepaid \$27,572, and unbilled revenue \$13,028. 2014 showed current assets increasing \$666,170 from 2013 numbers. The 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 accounts receivable of \$21,605 and unbilled revenue of \$44,289.

Non-current assets increased \$272,478 from 2014. In 2015 LED had an investment of \$280,341 in Vermont Transco while customer deposit decreased \$8,935. 2014 non-current 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.

2015 current liabilities increased \$44,778, the result of an increase in accounts payable of \$53,413 and a decrease in customer deposits of \$8,935. Current liabilities in 2014 decreased \$142,526 from 2013. The decrease in 2014 was mainly the result of a decrease in accounts payable of \$156,612.

In 2015 non-current liabilities decreased \$63,821 due to a decrease in long term debt of \$85,000 and an entry for net pension liability for \$21,179 increasing the liability. Noncurrent liabilities decreased \$85,000 in 2014, which was the principal payment on the bond for our Velco substation.

Village of Lyndonville Electric Department
(A Component Unit of the Village of Lyndonville, Vermont)
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015

Net position may serve over time as a useful indicator of a government's financial position. The Department's net position totaled \$9,970,121 as of December 31, 2015, \$9,373,655 as of December 31, 2014, \$8,465,822 as of December 31, 2013. Included in the net position at December 31, 2015 and 2014 were restrictions of \$292,640 for 2015 and \$291,568 in 2014 for future capital additions, respectively.

Change in Net Position

The following table summarizes the changes in net position for the years ended December 31, 2015, 2014, and 2013:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Operating revenues	\$ 9,934,993	\$ 10,221,178	\$ 10,131,156
Operating expenses	9,600,042	9,726,158	10,451,727
Nonoperating revenue, net	319,543	299,002	291,053
Capital contributions	<u>-</u>	<u>113,811</u>	<u>112,807</u>
 Change in net position	 654,494	 907,833	 83,289
 Net position, beginning	 9,373,655	 8,465,822	 8,382,533
 GASB 68 Adjustment	 <u>(58,028)</u>	 <u>-</u>	 <u>-</u>
 Net position, ending	 <u>\$ 9,970,121</u>	 <u>\$ 9,373,655</u>	 <u>\$ 8,465,822</u>

2015 operating revenues in 2015 were \$9,934,993, a decrease of \$286,185 from 2014. The loss was the direct result of a loss in sales of \$306,185, plus an increase in uncollectible accounts of (\$5,930), both being offset by an increase in miscellaneous income of \$25,929. 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.

2015 operating expenses were \$9,600,042, a decrease of \$126,116 from 2014. Increases in hydro of \$62,155, transmission, \$9,946, distribution \$1,700, customer accounts \$47,205, administrative \$104,667 and taxes \$23,328 were offset by a decrease in purchase power of \$335,924, depreciation of \$33,261 and interest expense of \$1,663. 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.

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, 2015, 2014 and 2013 the Department received \$0, \$113,881 and \$112,807 in aid to construction, respectively. Beginning in 2015 the Department began recording capital contributions as a reduction of utility plant in service.

Village of Lyndonville Electric Department
(A Component Unit of the Village of Lyndonville, Vermont)
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015

Financial Information

Investments in Associated Company

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

	<u>Shares</u>	<u>Purchased</u>	<u>Value Per Share</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
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				<u>346,153</u>	<u>346,153</u>	<u>346,153</u>
Transco Class A & B Units - Assigned to VPPSA in 2014, 2013 and 2012:						
Non-Specific Facilities Units				1,473,791	1,193,450	983,513
Specific Facilities Units				<u>131,000</u>	<u>131,000</u>	<u>131,000</u>
				<u>1,604,791</u>	<u>1,324,450</u>	<u>1,114,513</u>
TOTAL INVESTMENTS				<u>\$ 1,950,944</u>	<u>\$ 1,670,603</u>	<u>\$ 1,460,666</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, 2015 and 2014 was \$40,484 and \$40,484 respectively.

Village of Lyndonville Electric Department
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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 2015, the Departments financial statements show an investment in others of \$1,473,791, 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, 2015:

	<u>A Units</u>	<u>B Units</u>	<u>Total</u>	<u>Value</u>
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 2015 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, 2015 the Department has recorded in its financial statements a direct investment of \$131,000 in Vermont Transco and an investment in other of \$1,473,791, which represents the Department's interest in the general Transco membership units owned by VPPSA. In 2015, 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 \$182,528.

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, 2015

Long term-debt

The following chart summarizes the Department's long-term debt for the years ended December 31, 2015, 2014, 2013:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Long term debt:			
2010 Series 5 Bond	\$ 1,220,000	\$ 1,305,000	\$ 1,390,000
Less: Current Portion	<u>(85,000)</u>	<u>(85,000)</u>	<u>(85,000)</u>
 Total Long-Term Debt	 <u>\$ 1,135,000</u>	 <u>\$ 1,220,000</u>	 <u>\$ 1,305,000</u>

Capital Assets

The following chart summarizes capital assets and accumulated depreciation for the years ended December 31, 2015, 2014, 2013:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Capital assets	\$ 15,888,535	\$ 15,463,179	\$ 15,222,991
Less accumulated depreciation	<u>9,996,283</u>	<u>9,601,507</u>	<u>9,150,714</u>
 Total capital assets, net	 <u>\$ 5,892,252</u>	 <u>\$ 5,861,672</u>	 <u>\$ 6,072,277</u>

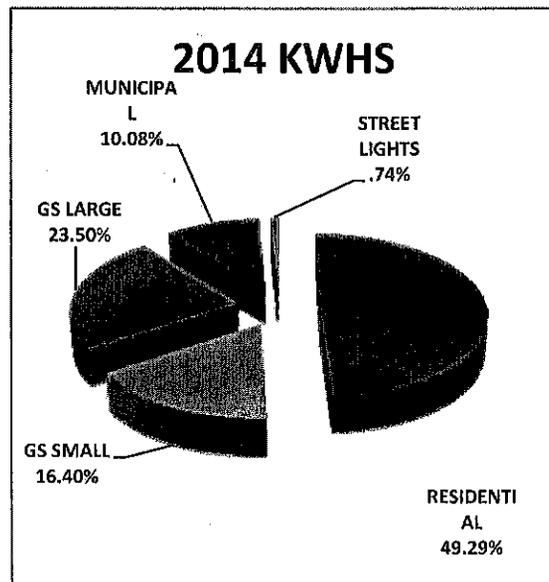
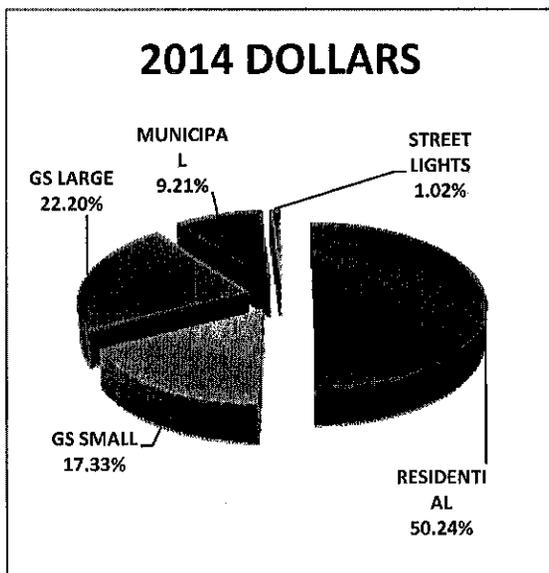
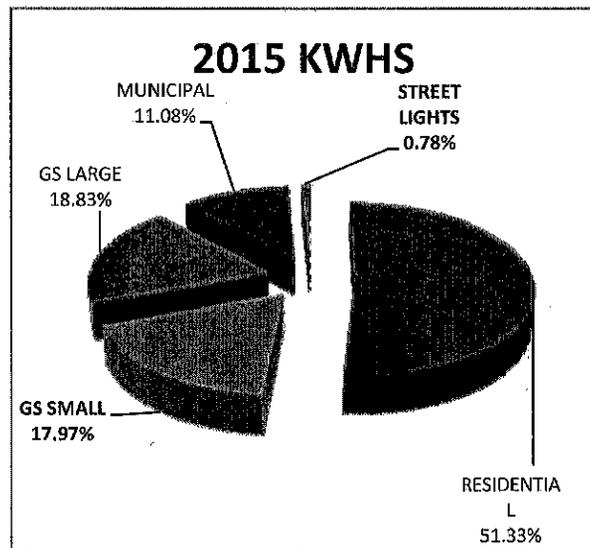
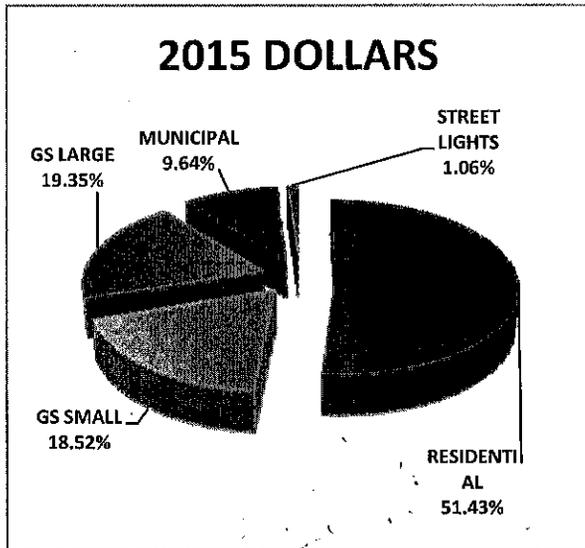
Revenue

The following charts represent a breakdown of sales by customer class for the years ended December 31, 2015, 2014 and 2013. 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.

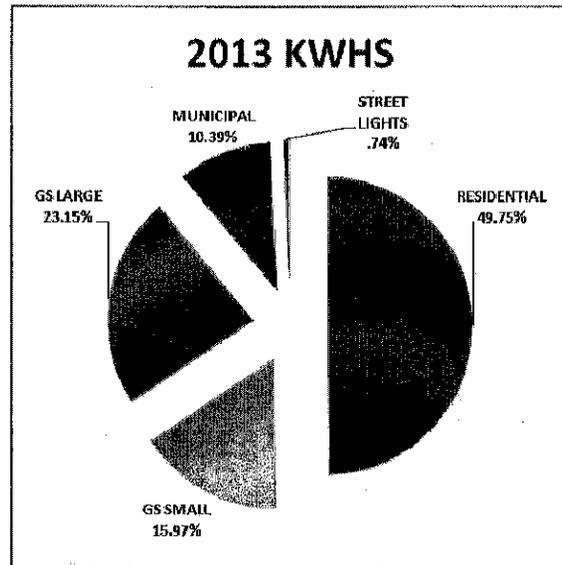
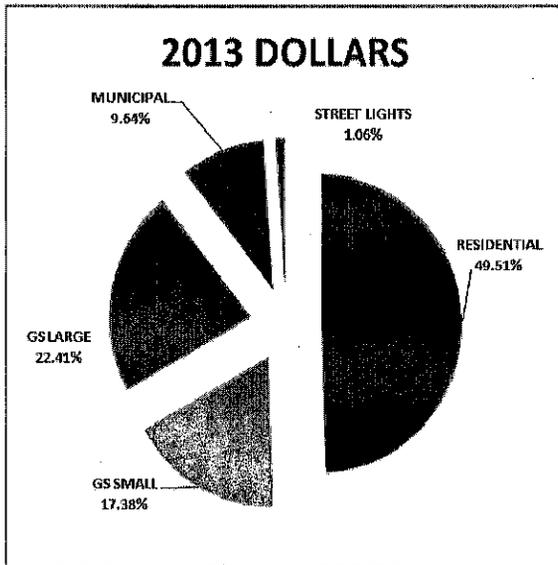
DOLLARS	<u>2015</u>	<u>%</u>	<u>2014</u>	<u>%</u>	<u>2013</u>	<u>%</u>
RESIDENTIAL	\$ 4,931,452	51.43%	\$ 4,982,025	50.24%	\$ 4,874,002	49.51%
GS SMALL	1,776,168	18.52%	1,718,228	17.33%	1,711,448	17.38%
GS LARGE	1,855,427	19.35%	2,201,497	22.20%	2,206,287	22.41%
MUNICIPAL	924,651	9.64%	913,704	9.21%	948,877	9.64%
STREET LIGHTS	101,873	1.06%	101,435	1.02%	104,471	1.06%
EXCESS GENERATION	(8,896)	0.00%	(7,054)	0.00%	(3,803)	0.00%
SOLAR CREDIT	(10,082)	0.00%	(7,195)	0.00%	(4,499)	0.00%
WINDMILL CREDIT	<u>(15,411)</u>	<u>0.00%</u>	<u>(10,013)</u>	<u>0.00%</u>	<u>(18,212)</u>	<u>0.00%</u>
 TOTAL	 <u>\$ 9,555,182</u>	 <u>100.00%</u>	 <u>\$ 9,892,627</u>	 <u>100.00%</u>	 <u>\$ 9,818,571</u>	 <u>100.00%</u>

Village of Lyndonville Electric Department
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MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015

KWHS	2015	%	2014	%	2013	%
RESIDENTIAL	31,668,165	51.33%	32,130,322	49.29%	32,404,412	49.75%
GS SMALL	11,086,950	17.97%	10,688,944	16.40%	10,399,510	15.97%
GS LARGE	11,619,589	18.83%	15,320,185	23.50%	15,076,737	23.15%
MUNICIPAL	6,838,159	11.08%	6,571,713	10.08%	6,764,331	10.39%
STREET LIGHTS	483,807	0.78%	481,699	0.74%	485,659	0.75%
EXCESS GENERATION	(59,868)	0.00%	(47,524)	0.00%	(25,601)	0.00%
SOLAR CREDIT	(174,185)	0.00%	(122,746)	0.00%	(76,750)	0.00%
WINDMILL CREDIT	(132,042)	0.00%	(85,791)	0.00%	(153,124)	0.00%
TOTAL	61,330,575	100.00%	64,936,802	100.00%	64,875,174	100.00%



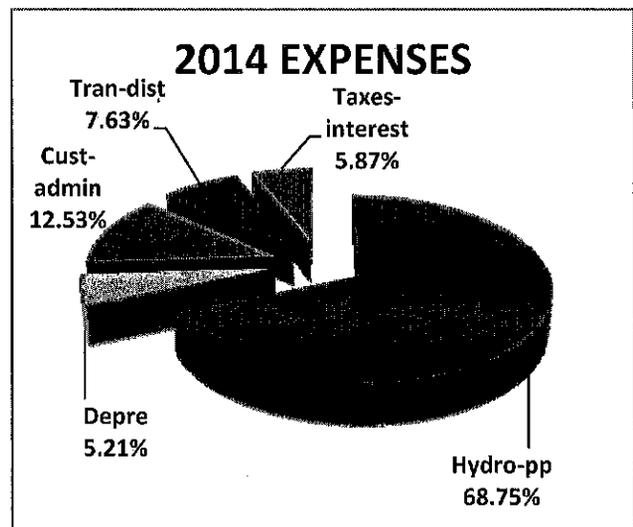
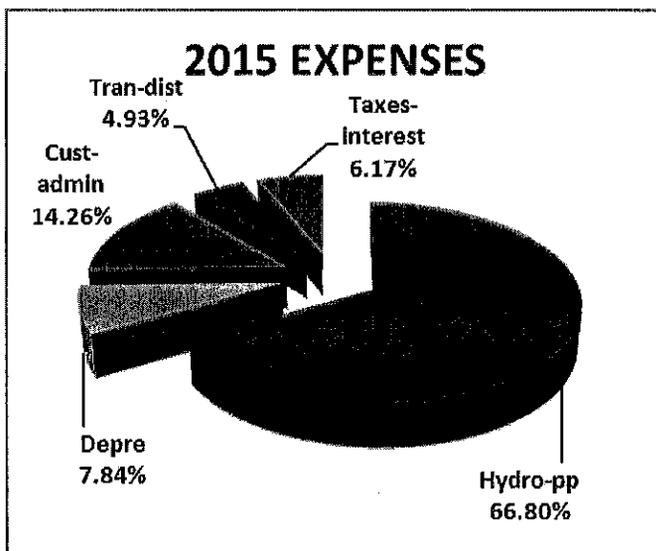
Village of Lyndonville Electric Department
 (A Component Unit of the Village of Lyndonville, Vermont)
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 December 31, 2015



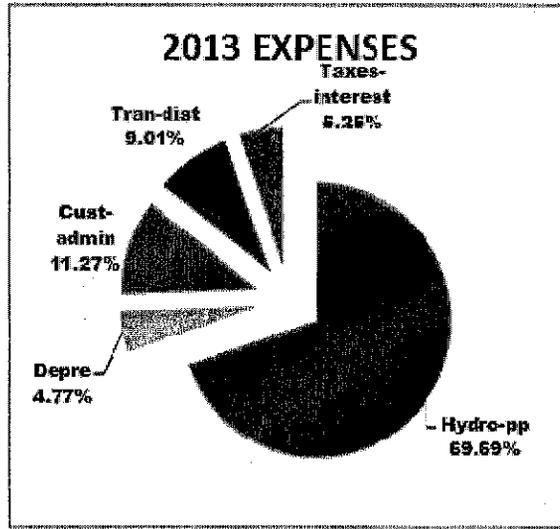
Expenses

The following chart summarizes the Department's expense for the years ended December 31, 2015, 2014 and 2013:

	2015	%	2014	%	2013	%
Hydro-purchase power	6,453,990	66.80%	6,726,403	68.75%	7,327,513	69.69%
Transmission distribution	757,111	7.84%	746,824	7.63%	947,638	9.01%
Customer accts-administrative	1,377,367	14.26%	1,225,494	12.53%	1,185,245	11.27%
Depreciation-administrative	476,745	4.93%	510,006	5.21%	501,791	4.77%
Taxes-interest	596,130	6.17%	574,464	5.87%	552,222	5.24%
	<u>\$ 9,661,343</u>	<u>100.00%</u>	<u>\$ 9,783,191</u>	<u>100.00%</u>	<u>\$ 10,514,409</u>	<u>100.00%</u>



Village of Lyndonville Electric Department
(A Component Unit of the Village of Lyndonville, Vermont)
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015



Village of Lyndonville Electric Department
(A Component Unit of the Village of Lyndonville, Vermont)
STATEMENT OF NET POSITION
Decmeber 31, 2015

ASSETS AND DEFERRED OUTFLOWS

CAPITAL ASSETS	
Net utility plant in service	\$ <u>5,892,252</u>
CURRENT ASSETS	
Cash and cash equivalents	1,729,595
Accounts receivable - net of allowance for doubtful accounts of \$40,000	872,295
Unbilled revenue	653,657
Materials, supplies and fuel stock	247,652
Prepaid expenses	156,425
Other current assets	<u>16,828</u>
TOTAL CURRENT ASSETS	<u>3,676,452</u>
NON-CURRENT ASSETS	
Investments in associated company	1,950,944
Restricted cash	292,640
Customer cash deposit	<u>66,800</u>
TOTAL NON-CURRENT ASSETS	<u>2,310,384</u>
DEFERRED OUTFLOWS	
	<u>37,894</u>
TOTAL ASSETS	<u>\$ 11,916,982</u>
<u>LIABILITIES, DEFERRED INFLOWS AND NET POSITION</u>	
CURRENT LIABILITIES	
Accounts payable	\$ 570,797
Current portion of long-term debt	85,000
Customer deposits	<u>66,800</u>
TOTAL CURRENT LIABILITIES	<u>722,597</u>
NON CURRENT LIABILITIES	
Long-term debt, excluding current installments	1,135,000
Net pension liability	<u>21,179</u>
TOTAL LONG-TERM LIABILITIES, net of current portion	<u>1,156,179</u>
DEFERRED INFLOWS	
	<u>68,085</u>
NET POSITION	
Invested in utility plant in service, net of related debt	4,672,252
Restricted - future capital additions	292,640
Unrestricted	<u>5,005,229</u>
TOTAL NET POSITION	<u>9,970,121</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 11,916,982</u>

See Accompanying Notes to Financial Statements.

Village of Lyndonville Electric Department
(A Component Unit of the Village of Lyndonville, Vermont)
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
For the Year Ended December 31, 2015

OPERATING REVENUES	
Electric sales to customers	\$ 9,542,153
Miscellaneous income	412,820
Less: provision for uncollectible accounts	<u>(19,980)</u>
TOTAL OPERATING REVENUES	<u>9,934,993</u>
OPERATING EXPENSES	
Operation, maintenance, and general and administrative expenses	8,568,488
Depreciation	476,745
Taxes	<u>554,809</u>
TOTAL OPERATING EXPENSES	<u>9,600,042</u>
INCOME FROM OPERATIONS	<u>334,951</u>
NON-OPERATING REVENUE (EXPENSE)	
Investment income	360,864
Interest expense	<u>(41,321)</u>
TOTAL NON-OPERATING REVENUE (EXPENSE)	<u>319,543</u>
CHANGE IN NET POSITION	654,494
NET POSITION, Beginning of Year	<u>9,315,627</u>
NET POSITION, End of Year	<u>\$ 9,970,121</u>

See Accompanying Notes to Financial Statements.

Village of Lyndonville Electric Department
(A Component Unit of the Village of Lyndonville, Vermont)
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts:

Electric sales to customers	\$ 9,665,713
Miscellaneous	435,861

Payments made for:

Power production, transmission, and purchase power	(6,989,333)
Outside services and other general expenses	(732,099)
Others and employees	<u>(1,364,045)</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,016,097</u>
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CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES

Capital expenditures, net	<u>(507,325)</u>
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CASH FLOWS FROM INVESTING ACTIVITIES

(Purchase) of investments	(280,341)
Investment income	<u>360,864</u>

NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>80,523</u>
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CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Principal payments	(85,000)
Interest paid	<u>(41,321)</u>

NET CASH (USED) BY NON-CAPITAL FINANCING	<u>(126,321)</u>
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NET INCREASE IN CASH	462,974
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CASH - Beginning of Year	<u>1,626,061</u>
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CASH - End of Year	<u>\$ 2,089,035</u>
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See Accompanying Notes to Financial Statements.

Village of Lyndonville Electric Department
(A Component Unit of the Village of Lyndonville, Vermont)
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2015

Reconciliation of operating income to net cash	
provided (used) by operating activities	
Operating income	\$ 334,951
Adjustments to reconcile net income to net cash provided by operations:	
Depreciation	476,745
(Increase) decrease in:	
Accounts receivable	118,666
Unbilled revenue	13,028
Materials, supplies, and fuel stock	11,846
Prepaid expenses	27,572
Other current assets	(4,531)
Deferred outflows	(7,961)
Increase (decrease) in:	
Accounts payable	53,413
Customer deposits liability	(8,935)
Net pension liability	(66,782)
Deferred inflows	68,085
Total adjustments	<u>681,146</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>\$ 1,016,097</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, 2015

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, 2015

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 2015 the Department reported \$124,638 of capital contributions as a reduction of utility plant in service.

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, 2015

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, 2015

NOTE 2 CAPITAL ASSETS – UTILITY PLANT IN SERVICE

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

	2014	Additions	Disposals	2015
Utility Plant in Service:				
Land - Non-depreciable	\$ 214,226	\$ 885	\$ -	\$ 215,111
CIP	-	118,018	-	118,018
Total	<u>214,226</u>	<u>118,903</u>	<u>-</u>	<u>333,129</u>
Production Plant	2,546,171	19,827	(4,912)	2,561,086
Transmission Plant	3,094,298	-	-	3,094,298
Distribution Plant	7,983,728	99,853	(29,631)	8,053,950
General Plant	<u>1,624,756</u>	<u>253,726</u>	<u>(32,410)</u>	<u>1,846,072</u>
Depreciable Operating	<u>15,248,953</u>	<u>373,406</u>	<u>(66,953)</u>	<u>15,555,406</u>
Total	<u>15,463,179</u>	<u>492,309</u>	<u>(66,953)</u>	<u>15,888,535</u>
Accumulated Depreciation:				
Production Plant	1,685,518	42,070	(4,912)	1,722,676
Transmission Plant	986,830	90,405	-	1,077,235
Distribution Plant	5,373,683	240,278	(44,557)	5,569,404
General Plant	<u>1,555,476</u>	<u>103,992</u>	<u>(32,500)</u>	<u>1,626,968</u>
Total	<u>9,601,507</u>	<u>476,745</u>	<u>(81,969)</u>	<u>9,996,283</u>
Net Utility Plant in Service	<u>\$ 5,861,672</u>	<u>\$ 15,564</u>	<u>\$ 15,016</u>	<u>\$ 5,892,252</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 \$2,250,000 by FHLB Boston. The bank deposits at December 31, 2015 were \$2,796,989, of which \$298,742 was exposed to custodial credit risk as uninsured and uncollateralized. The book deposits at December 31, 2015 were \$2,089,035, of which \$298,742 was exposed to custodial credit risk as uninsured and uncollateralized at December 31, 2015.

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, 2015

NOTE 3 CASH AND INVESTMENTS (continued)

The balance at December 31, 2015 was:

Velco Class C preferred stock - Net of Return Capital	\$ 1,653
Velco Class B common stock - 2,659 shares in 2015	259,900
Velco Class C common stock - 846 shares in 2015	<u>84,600</u>
 Total Velco Stock	 <u>346,153</u>
 Transco Class A & B Units - Assigned to VPPSA in 2015.	 <u>1,604,791</u>
 TOTAL INVESTMENTS	 <u>\$ 1,950,944</u>

NOTE 4 DEFINED BENEFIT PENSION PLAN

Information Required Under GASB Statement No. 68

Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions requires employers participating in a cost-sharing, multiple-employer defined benefit pension plan to recognize their proportional share of total pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense. The schedules below have been prepared to provide Village of Lyndonville Electric Department's proportional share of the overall amounts of the VMERS plan. Village of Lyndonville Electric Department's portion has been allocated based on Village of Lyndonville Electric Department's proportional share of employer contributions to the total contributions to VMERS during the fiscal year.

Reporting Date, Measurement Date, and Valuation Date

Net pension liabilities, deferred pension outflows of resources, deferred pension inflows of resources, and pension expense are all presented as of the Village of Lyndonville Electric Department's reporting date December 31, 2015 and for the Village of Lyndonville Electric Department's reporting period (the year ended December 31, 2015). These amounts are measured as of the measurement date and for the measurement period (the period between the prior and current measurement dates). GASB Statement No. 68 requires that the current measurement date be no earlier than 30 months prior to the employer's fiscal year. For the reporting date of Village of Lyndonville Electric Department, the State has chosen to use the end of the prior fiscal year (June 30, 2014) as the measurement date, and the year ended June 30, 2014 as the measurement period.

The total pension liability is determined by an actuarial valuation performed as of the measurement date, or by the use of update procedures to roll forward to the measurement date amounts from an actuarial valuation as of a date no more than 30 months and 1 day earlier than the employer's most recent fiscal year-end. The State has elected to apply update procedures to roll forward amounts from an actuarial valuation performed as of June 30, 2013, to the measurement date of June 30, 2014.

Village of Lyndonville Electric Department
(A Component Unit of the Village of Lyndonville, Vermont)
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 4 DEFINED BENEFIT PENSION PLAN (continued)

Schedule A – Employer Allocations as of June 30, 2013 and June 30, 2014

Fiscal Year Ended June 30, 2013		
Reported Contributions	Employer Proportion	Net Pension Liability
\$ 29,001.02	.2416%	\$ 87,961

Fiscal Year Ended June 30, 2014					
Reported Contributions	Employer Proportion	Proportionate Share of Total Contributions	Net Pension Liability	Net Pension Liability 1% Decrease	Net Pension Liability 1% Increase
\$ 29,933.41	.2321%	\$ 29,933	\$ 21,179	\$ 178,417	\$ (110,740)

Schedule B – Allocations of Pension Amounts as of June 30, 2014

Deferred Outflows of Resources						
Employer Proportion	Net Pension Liability	Difference Between Expected and Actual Experience	Changes in Assumptions	Changes in Benefits	Difference Between Projected and Actual Investment Earnings	Changes in Proportional Share of Contributions
.2321%	\$ 21,179	\$ -	\$ -	\$ -	\$ -	\$ -

Deferred Inflows of Resources					
Difference Between Expected and Actual Experience	Changes in Assumptions	Changes in Benefits	Difference Between Projected and Actual Investment Earnings	Changes in Proportional Share of Contributions	Difference Between Employer Contributions and Proportionate Share of Total Contributions
\$ -	\$ -	\$ -	\$ (65,306)	\$ (2,779)	\$ -

Village of Lyndonville Electric Department
(A Component Unit of the Village of Lyndonville, Vermont)
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 4 DEFINED BENEFIT PENSION PLAN (continued)

Pension Expense Recognized		
Proportionate Share of Pension Plan Expense	Change in Proportional Share of Contributions	Total
\$ 31,931	\$ (695)	\$ 31,236

Schedule C – Employers’ Proportionate Share of June 30, 2014 Deferred Outflows/Inflows

Fiscal Year Ending					Total
June 30, 2016	June 30, 2017	June 30, 2018	June 30, 2019	Thereafter	
\$ (17,693)	\$ (17,693)	\$ (17,693)	\$ -	\$ -	\$ (53,079)

The schedule of employer allocations and schedule of pension amounts by employer are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. The schedules present amounts that are elements of the financial statements of the Vermont Municipal Employees’ Retirement System (VMERS) or its participating employers. VMERS does not issue stand-alone financial reports, but instead are included as part of the State of Vermont’s Comprehensive Annual Financial Report (CAFR). The CAFR can be viewed on the State’s Department of Finance & Management website at:

<http://finance.vermont.gov/reports and publications/cafr>

Plan Description

The Vermont Municipal Employees’ Retirement System is a cost-sharing, multiple-employer defined benefit pension plan that is administered by the State Treasurer and its Board of Trustees. It is designed for school districts and other municipal employees that work on a regular basis and also includes employees of museums and libraries if at least half of that institution’s operating expenses are met by municipal funds. An employee of any employer that becomes affiliated with the system may join at that time or at any time thereafter. Any employee hired subsequent to the effective participation date of their employer who meets the minimum hourly requirements is required to join the system. During the year ended June 30, 2015, the retirement system consisted of 437 participating employers.

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

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

Village of Lyndonville Electric Department
(A Component Unit of the Village of Lyndonville, Vermont)
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 4 DEFINED BENEFIT PENSION PLAN (continued)

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

Summary of System Provisions

Membership	Full time employees of participating municipalities. Municipality elects coverage under Groups A, B, C or D provisions.
Creditable service	Service as a member plus purchased service.
Average Final Compensation (AFC)	Group A – average annual compensation during highest 5 consecutive years. Groups B and C – average annual compensation during highest 3 consecutive years. Group D – average annual compensation during highest 2 consecutive years.
Service Retirement Allowance	
Eligibility	Group A – The earlier of age 65 with 5 years of service or age 55 with 35 years of service. Group B – The earlier of age 62 with 5 years of service or age 55 with 30 years of service. Groups C and D – Age 55 with 5 years of service.
Amount	Group A – 1.4% of AFC x service Group B – 1.7% of AFC x service as Group B member plus percentage earned as Group A member x AFC Group C – 2.5% of AFC x service as a Group C member plus percentage earned as a Group A or B member x AFC Group D – 2.5% of AFC x service as a Group D member plus percentage earned as a Group A, B or C member x AFC Maximum benefit is 60% of AFC for Groups A and B and 50% of AFC for Groups C and D. The above amounts include the portion of the allowance provided by member contributions.

Village of Lyndonville Electric Department
(A Component Unit of the Village of Lyndonville, Vermont)
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 4 DEFINED BENEFIT PENSION PLAN (continued)

Early Retirement Allowance

Eligibility	Age 55 with 5 years of service for Groups A and B; age 50 with 20 years of service for Group D.
Amount	Normal allowance based on service and AFC at early retirement, reduced by 6% for each year commencement precedes Normal Retirement Age for Group A and B member, and payable without reduction to Group D members.

Vested Retirement Allowance

Eligibility	5 years of service.
Amount	Allowance beginning at normal retirement age based on AFC and service at termination. The AFC is to be adjusted annually by one-half of the percentage change in the Consumer Price Index, subject to the limits on "Post-Retirement Adjustments" described below.

Disability Retirement Allowance

Eligibility	5 years of service and disability as determined by Retirement Board.
Amount	Immediate allowance based on AFC and service to date of disability; children's benefit of 10% of AFC payable to up to three minor children (or children up to age 23 if enrolled in full-time studies) of a disabled Group D member.

Death Benefit

Eligibility	Death after 5 years of service.
Amount	For Groups A, B and C, reduced early retirement allowance under 100% survivor option commencing immediately or, if greater, survivor's benefit under disability annuity computed as a date of death. For Group D, 70% of the unreduced accrued benefit plus children's benefit.

Optional Benefit and Death
after Retirement

For Groups A, B and C, lifetime allowance or actuarially equivalent 50% or 100% joint or survivor allowance with refund of contribution guarantee. For Group D, lifetime allowance or 70% contingent annuitant option with no reduction.

Village of Lyndonville Electric Department
(A Component Unit of the Village of Lyndonville, Vermont)
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 4 DEFINED BENEFIT PENSION PLAN (continued)

Refund of Contribution	Upon termination, if the member so elects or if no other benefit is payable, the member's accumulated contributions are refunded.
Post-Retirement Adjustments	Allowance in payment for at least one year increased on each January 1 by one-half of the percentage increase in consumer price index but not more than 2% for Group A and 3% for Groups B, C and D.
Member Contributions	Group A – 2.5% effective July 1, 2000 (reduced from 3.0%). Group B – 4.75% effective July 1, 2014 (increased from 4.625%). Group C – 9.625% effective July 1, 2014 and 9.75% effective January 1, 2015 (increased from 9.5%). Group D – 11.25% effective July 1, 2014 (increased from 11.25%).
Employer Contributions	Group A – 4.0% Group B – 5.375% (changed from 5.125%) effective July 1, 2014 Group C – 6.875% from July 1, 2014 to December 31, 2014 (changed from 6.625% and then 7.0% effective January 1, 2015) Group D – 9.75% effective July 1, 2014 (increased from 9.625%)
Retirement Stipend	\$25 per month payable at the option of the Board of retirees.

Village of Lyndonville Electric Department
(A Component Unit of the Village of Lyndonville, Vermont)
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 4 **DEFINED BENEFIT PENSION PLAN (continued)**

Significant Actuarial Assumptions and Methods

Interest Rate: A select-and-ultimate interest rate set, specified below. The interest rate set is restarted every year;

Year 1: 6.25%	Year 10: 8.50%
Year 2: 6.75%	Year 11: 8.50%
Year 3: 7.00%	Year 12: 8.50%
Year 4: 7.50%	Year 13: 8.50%
Year 5: 7.75%	Year 14: 8.50%
Year 6: 8.25%	Year 15: 8.50%
Year 7: 8.25%	Year 16: 8.75%
Year 8: 8.25%	Year 17 and later: 9.00%
Year 9: 8.50%	

Salary Increases: 5% per year

Deaths:

Active participants – 50% of the probabilities in the 1995 Buck Mortality Tables for males and females

Non-disabled retirees and terminated vested participants - The 1995 Buck Mortality Tables with no set-back for males and one-year set-back for females

Disabled retirees – RP-2000 Disabled Life Tables

Beneficiaries – 1995 Buck Mortality Tables for males and females

Spouse's Age: Husbands are assumed to be three years older than their wives.

Cost-of-Living Adjustments to Benefits of Terminated Vested and Retired Participants: Assumed to occur at the rate of 1.5% per annum for Group A members and 1.8% per annum for members of Groups B, C and D.

Asset Valuation Method (for funding purposes): A smoothing method is used, under which the value of assets for actuarial purposes equals market value less a five-year phase-in of the differences between actual and assumed investment return. Then value of assets for actuarial purposes may not differ from the market value of assets by more than 20%.

Inflation: The separately stated assumptions for investment return, salary increases and cost of living adjustments are consistent with an expected annual inflation rate of 3.00% to 3.25% per year.

Village of Lyndonville Electric Department
(A Component Unit of the Village of Lyndonville, Vermont)
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 4 DEFINED BENEFIT PENSION PLAN (continued)

Long-term expected rate of return: The long-term expected rate of return on System investments was determined using best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) developed for each major asset class using an econometric model that forecasts a variety of economic environments and then calculates asset class returns based on functional relationships between the economic variable and the asset classes. These best estimate ranges were combined to produce forecasts of the short, intermediate, and longer term horizons by weighting the expected future nominal rates of return by the target asset allocation percentage. The various time horizons in the forecast are intended to capture more recent economic and capital market conditions as well as other plausible environments that could develop in the future over economic cycles. To reflect this in the rate-of-return assumption, a Select and Ultimate assumption setting approach, which is cited in Section 3.8.4 of Actuarial Standard of Practice No. 27 as an alternative to a single assumed rate of return, is employed.

Best estimates of arithmetic rates of return for each major asset class included in the target asset allocation as of June 30, 2014 are summarized in the following table:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Equity	31.50%	6.70%
Fixed Income	33.00%	2.94%
Alternatives	15.50%	6.26%
Multi-strategy	20.00%	5.98%

Nominal long-term expected rates of return for these asset classes are equal to the sum of the above expected long-term real rates and the expected long-term inflation rate of 3.0%

Discount rate

The discount rate used to measure the total pension liability was 8.23%. The projection of cash flows used to determine the discount rate assumed that contributions will continue to be made in accordance with the current funding policy. Based on these assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments to current System members. The assumed discount rate has been determined in accordance with the method prescribed by GASB 68.

The following presents the entity's proportionate share of the net pension liability calculated using the discount rate of 8.23 percent, as well as what the proportionate share would be if it were calculated using a discount rate that is one percent lower (7.23%) or one percent higher (9.23%):

1% Decrease (7.23%)	Discount Rate (8.23%)	1% Increase (9.23%)
\$ 178,417	\$ 21,179	\$ (110,740)

Village of Lyndonville Electric Department
(A Component Unit of the Village of Lyndonville, Vermont)
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 5 DEFINED CONTRIBUTION PLAN

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 year ended December 31, 2015 was \$34,529.

NOTE 6 CHANGE IN ACCOUNTING PRINCIPLE – RETROSPECTIVE APPLICATION

On January 1, 2015, the Lyndonville Electric Department changed its method of accounting for pension plans to conform with Government Accounting Standards that become effective for fiscal years beginning after June 15, 2014. The change was adopted retroactively. Under the new accounting method, the municipality must now report their prorated portion of the net pension liability and related deferred inflows and deferred outflows from their participation in the VMERS Plan. As a result, the cumulative effect of applying the new method, the following amounts increased/(decreased):

Net Position	\$	(58,028)
Deferred Outflows		<u>29,933</u>
 Net Pension Liability	 \$	 <u>87,961</u>

NOTE 7 LONG TERM DEBT

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	\$ 1,220,000
Less Current Portion:	<u>(85,000)</u>
	<u>\$ 1,135,000</u>

Village of Lyndonville Electric Department
(A Component Unit of the Village of Lyndonville, Vermont)
NOTES TO FINANCIAL STATEMENTS
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NOTE 7 LONG TERM DEBT (continued)

The annual debt service requirements to maturity, including principle and interest, for long-term as of December 31, 2015 are as follows:

For the years then ended	Principal	Interest	Total
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	80,000	29,012	109,012
2021-2025	400,000	109,315	509,315
2026-2030	400,000	42,557	442,557
	<u>\$ 1,220,000</u>	<u>\$ 317,837</u>	<u>\$ 1,537,837</u>

NOTE 8 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.

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. In 2015 about 5% of the energy was generated by the Electric Department, but most was provided by other sources through power purchase contracts. A summary of the major power agreements as of December 31, 2015 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

Village of Lyndonville Electric Department
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NOTES TO FINANCIAL STATEMENTS
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NOTE 8 COMMITMENTS (continued)

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.

In 2010 a new statewide Hydro Quebec contract was negotiated and executed. In 2012 energy deliveries began to slowly phase in, and in 2015 they began ramping up as existing VJO schedules expired. The Electric Departments entitlements under the new contract are as follows:

Time Period	Entitlement (kW)
Nov 1, 2012 - Oct 31, 2015	42
Nov 1, 2015 - Oct 31, 2016	511
Nov 1, 2016 - Oct 31, 2020	603
Nov 1, 2020 - Oct 31, 2030	603
Nov 1, 2030 - Oct 31, 2035	622
Nov 1, 2035 - Oct 31, 2038	153

The Electric Department owns and is entitled to 2,022 kW from the Great Falls/Vail Hydro (Lyndonville Hydro) facility, which made up about 5% of their total resource kilowatt-hours in 2015. The Electric Department owns the facility and utilizes all of the output. This “run-of-the-river” hydroelectric facility is located on the Passumpsic River in Lyndonville, Vermont

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 matured 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 3 MW for the first five years and 4.5 MW for the subsequent 15 years. The Electric Department’s share of the Fitchburg Contract in 2015 was 744 kW.

Lyndonville Electric Department has an agreement with VPPSA to purchase 29.8% of a 25-year contract for the unit contingent output of a 4.8 MW solar PV farm located in Chester, MA. In 2014, Lyndonville began receiving energy under the terms of this contract, and in June 2015 began receiving capacity. The Electric Department’s share of the Chester Solar Contract in 2015 was 1430 kW.

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.

Village of Lyndonville Electric Department
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NOTES TO FINANCIAL STATEMENTS
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NOTE 8 COMMITMENTS (continued)

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. The Electric Department's share of VEPPI power through October 31, 2015 was 1.15%. Beginning November 1, 2015 until October 31, 2016 the Electric Department's share is 1.17%.

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 through October 31, 2015 was 1.17%. Beginning November 1, 2015 until October 31, 2016 the Electric Department's share is 1.18%.

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 is 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
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NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 8 COMMITMENTS (continued)

The percentage of energy (MWH) acquired from the above sources for the year ended December 31, 2015 was as follows:

<u>Resource</u>	<u>mWh</u>	<u>Percent</u>	<u>Expiration</u>
Planned Purchase 6	20,194	29.62 %	9/30/2015
Planned Purchase 7	5,233	7.68 %	12/31/2015
Planned Purchase 8	143	0.21	12/31/2017
Monthly Market Contracts	(10,143)	-14.88 %	12/31/2015
Fitchburg Waste Management	6,517	9.56 %	12/31/1931
HQ Schedule B	13,275	19.47 %	10/31/2015
HQ Schedule C3	27	0.04 %	10/31/2015
HQ Schedule C4ab	7,661	11.24 %	10/31/2016
HQ US	706	1.04 %	10/31/1938
NYPA - Niagara	4,726	6.93 %	9/1/2025
NYPA - St. Lawrence	127	0.19 %	4/30/2017
McNeil	8,436	12.37 %	Life of Unit
Project 10	178	0.26 %	Life of Unit
Ryegate	1,900	2.79 %	10/31/2021
Stonybrook	942	1.38 %	Life of Unit
Yarmouth 4	-	0.00 %	Life of Unit
Standard Offer	1,052	1.54 %	Varies
WMA Chester Solar	2,202	3.23 %	6/30/1939
YEPII	<u>1,419</u>	<u>2.09 %</u>	Varies
Subtotal Resources	64,595	94.76 %	
Internal - Great Falls/Vail Hydro	<u>3,574</u>	<u>5.24 %</u>	
Total Resources Available	<u>68,169</u>	<u>100.00 %</u>	
Sold to Pool	(2,949)		
Used to Serve Load	65,220		

Village of Lyndonville Electric Department
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NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 8 COMMITMENTS (continued)

The cost of power from all power vendor sources for the year ended December 31, 2015 was as follows:

TOTAL SUPPLY COSTS:

Planned Purchase 6	\$ 1,381,281
Planned Purchase 7	346,567
Planned Purchase 8	10,828
Monthly Market Contracts	(717,378)
Fitchburg Waste Management	588,175
HQ Schedule B	879,732
HQ Schedule C3	1,866
HQ Schedule C4ab	526,401
HQ US	41,132
NYPA - Niagara	151,248
NYPA - St. Lawrence	4,154
McNeil	445,656
Project 10	801,928
Ryegate	198,681
Stonybrook	124,617
Yarmouth 4	6,242
Standard Offer	240,940
WMA Chester Solar	166,965
VEPPI	<u>168,050</u>
 Subtotal Power Supply	 <u>5,367,085</u>

TRANSMISSION COSTS:

Highgate PTF Credit	(69,825)
Highgate Transmission	77,395
Nepool/ISO Transmission	914,132
Phase 1	3,892
Velco '91	134,694
Velco Substation Participation	30,824
Velco Specific Facilities Charge	<u>389,894</u>
 Subtotal Transmission	 <u>1,481,006</u>

Village of Lyndonville Electric Department
(A Component Unit of the Village of Lyndonville, Vermont)
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 8 COMMITMENTS (continued)

VPPSA AND OTHER COSTS:

Resources Settlement Credits	(4,434,236)
Load Settlement Charges	3,031,180
Other Load and Market Charges/(Credits)	634,416
HQ Participants Charges	101
ISO Sched I,II,III	104,459
Renewable Energy Credit	(12,084)
VELCO Services	1,472
VPPSA Misc.	-
ISO Misc	3,674
Misc Resettlements	(3,390)
VPPSA CDA FEE	<u>92,819</u>
 Subtotal VPPSA & Other	 <u>(581,589)</u>

TOTAL POWER SUPPLY AND TRANSMISSION: \$ 6,266,502

Lyndonville has authorized the purchase of energy for delivery beginning January 2016 with multiple market counterparties. The contracts which have not begun delivery by 12/31/2015 and are not reflected in the 2015 Power Supply Note are summarized in the table below:

	2016	2017	2018	2019	2020
On-Peak kWh	5,992,885	1,482,510	12,281,729	15,606,032	15,606,032
Off-Peak kWh	8,819,120	2,242,289	14,976,171	13,141,417	13,141,417
Total kWh	14,812,005	3,724,799	27,257,900	28,747,449	28,747,449

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, 2015

NOTE 8 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, 2015 the investment in others is \$1,604,791.

NOTE 9 SUBSEQUENT EVENTS

In accordance with professional accounting standards, the Department has evaluated subsequent events through February 9, 2016, the date which the financial statements were available to be issued. All subsequent events requiring recognition as of December 31, 2015 have been incorporated into these financial statements herein.

REQUIRED SUPPLEMENTARY INFORMATION

Village of Lyndonville Electric Department
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 For the Year Ended December 31, 2015

	<u>2013</u>	<u>2014</u>
Department's proportion of the net pension liability (asset)	.2416%	.2321%
Department's proportionate share of the net pension liability (asset)	<u>\$ 87,961</u>	<u>\$ 21,179</u>
Department's covered-employee payroll	<u>\$ 726,617</u>	<u>\$ 683,875</u>
Department's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	12.11%	3.10%
Plan fiduciary net position as a percentage of the total pension liability	92.71%	98.32%

Significant Actuarial Assumptions and methods are described in Note 6 to the financial statements. There were no changes in methods or assumptions during the year ended December 31, 2015.

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, 2015

	<u>Operation</u>	<u>Maintenance</u>	<u>Total</u>
PRODUCTION EXPENSES			
Power Generation:			
Supervision and labor	\$ 54,898	\$ 2,600	\$ 57,498
Supplies and expense	47,386	82,604	129,990
Total Power Generation Expenses	\$ 102,284	\$ 85,204	187,488
Purchased Power			6,266,502
TOTAL PRODUCTION EXPENSES			6,453,990
TRANSMISSION SUPPLIES AND EXPENSE	\$ 11,700	\$ 13,312	\$ 25,012.00
DISTRIBUTION EXPENSES			
Supervision and labor	\$ 17,895	\$ 11,121	29,016
Line and station expense	189,261	304,750	494,011
Street lighting and signal system	599	7,912	8,511
Meter expense	32,041	243	32,284
Customer installation	782	-	782
Miscellaneous distribution expenses	135,124	-	135,124
Rent	32,371	-	32,371
TOTAL DISTRIBUTION EXPENSES	\$ 408,073	\$ 324,026	732,099
CUSTOMER ACCOUNTS EXPENSES			
Meter reading expense			90,453
Customer record and collection expense			187,445
Uncollectible accounts			37,948
Promotional expense			421
Miscellaneous expense			7,169
TOTAL CUSTOMER ACCOUTS EXPENSES			323,436
GENERAL AND ADMINISTRATIVE EXPENSES			
Salaries			77,862
Office supplies and expense			26,843
Outside services employed			313,668
Property insurance			55,847
Injuries and damages			71,229
Employee pension and benefits			325,568
Miscellaneous			162,934
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES			1,033,951
TOTAL OPERATION, MAINTENANCE AND GENERAL AND ADMINISTRATIVE EXPENSE			\$ 8,568,488