# CITY OF BURLINGTON, VERMONT
# ELECTRIC DEPARTMENT

Financial Statements and
Required Supplementary Information

June 30, 2020 and 2019

(With Independent Auditors' Report Thereon)

**CITY OF BURLINGTON, VERMONT**
**ELECTRIC DEPARTMENT**

**Table of Contents**

KPMG LLP
One Park Place
463 Mountain View Drive, Suite 400
Colchester, VT 05446-9909

# Independent Auditors' Report

The Board of Electric Commissioners
City of Burlington, Vermont:

We have audited the accompanying financial statements of the City of Burlington, Vermont Electric Department (the Department), as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements for the years then ended 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 U.S. generally accepted accounting principles; 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.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department as of June 30, 2020 and 2019, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG

*Emphasis of Matter*

As discussed in note 1, the financial statements referred to above are intended to present the financial position, the changes in financial position, and cash flows that are attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the City of Burlington, Vermont as of June 30, 2020 and 2019, the changes in its financial position, or where applicable, its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

*Required Supplementary Information*

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3-12 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 audits 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.

KPMG LLP

Burlington, Vermont
October 28, 2020

This section of the City of Burlington, Vermont Electric Department's (the Department) annual financial report presents a discussion and analysis of the Department's financial performance during the fiscal years ended June 30, 2020 and 2019. Please read it in conjunction with the Department's financial statements, which follow this section.

### Overview of the Financial Statements

The financial section of this report consists of three parts: management's discussion and analysis (this section), the financial statements, which provide both long-term and short-term information about the Department's overall financial status, and the notes to the financial statements, which explain some of the information in the financial statements and provide more detailed data.

The Department's financial statements are prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental enterprise funds and employ the economic resources measurement focus and the accrual basis of accounting. Under this basis of accounting, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of capital assets is recognized in the Statements of Revenues, Expenses, and Changes in Net Position. All resulting assets and liabilities associated with the operations of the Department are included in the Statements of Net Position. The Department follows GAAP for external financial reporting and is subject, as to rates, accounting, and other matters, to the regulatory authority of the State of Vermont Public Utilities Commission (PUC) and the Federal Energy Regulatory Commission (FERC). In accordance with FASB ASC Topic 980, *Regulated Operations*, the Department records certain assets and liabilities in accordance with the economic effects of the rate making process.

The change in Net Position is one way to measure the Department's financial health or position.

The Statements of Revenues, Expenses, and Changes in Net Position report the operating revenues and expenses and nonoperating revenue and expenses of the Department for the fiscal year, with the difference – the change in Net Position – being combined with any capital grants to determine the net change in position for the fiscal year.

The Statements of Cash Flows report cash and cash equivalent activities for the fiscal year resulting from operating activities, capital and noncapital related financing activities, and investing activities.

### Financial Highlights

#### June 30, 2020

- Operating loss was $(981,403), an increase of $1,358,240 or 58% above 2019.
- Sales to Customers were $44,700,472, a decrease of $2,234,078 or 5% below 2019.
- Other Revenues (primarily sales of renewable energy credits) were $11,032,438, an increase of $212,407 or 2% above 2019.
- Total operating expenses were $56,568,149, a decrease of $3,334,051 or 6% below 2019.
- Total net position was $60,793,213, a decrease of $971,710 or 2% below 2019.
- Total capital assets (net of depreciation) were $94,591,008, a decrease of $1,141,316 or 1% below 2019.

- The McNeil Generating Station capacity factor for fiscal year 2020 was 55% compared to 49% in 2019, supplying 119,665 MWH and 106,488 MWH, respectively, of energy production to the Department.

**June 30, 2019**

- Operating loss was $(2,339,643), a decrease of $2,559,882 or 1162.3% below 2018.
- Sales to Customers were $46,934,550, or 1% higher than 2018 sales.
- Other Revenues (primarily sales of renewable energy credits) were $10,820,031, or 7% below 2018.
- Total operating expenses were $59,902,200 in 2019, a $1,881,868 or 3% increase in total operating expenses over 2018.
- Total net position at June 30, 2019 was $61,764,923, which was a decrease of $1,357,868 from the June 30, 2018 net position.
- Total capital assets (net of depreciation) were $95,732,324 at June 30, 2019, compared to $98,010,091 at June 30, 2018.
- The McNeil Generating Station capacity factor for fiscal year 2019 was 49% compared to 60% in 2018, supplying 106,488 MWH and 132,157 MWH, respectively, of its energy production to the Department.

## Financial Analysis of the Department

*Net Position*

The following summarizes the Department's overall financial position as of June 30, 2020, 2019 and 2018:

| | | 2020 | 2019 | 2018 | Percentage change 2019–2020 | Percentage change 2018–2019 | |
|---|---|---|---|---|---|---|---|
| Current assets – unrestricted | $ | 24,781,209 | 24,218,168 | 25,429,159 | 2.3 % | (4.8)% | (A) |
| Restricted assets | | 8,975,363 | 6,999,287 | 6,713,393 | 28.2 | 4.3 | (B) |
| Capital assets, net | | 94,591,008 | 95,732,324 | 98,010,091 | (1.2) | (2.3) | (C) |
| Other noncurrent assets | | 35,300,371 | 36,305,263 | 34,119,178 | (2.8) | 6.4 | (D) |
| Total assets | $ | 163,647,951 | 163,255,042 | 164,271,821 | 0.2 % | (0.6)% | |
| Deferred outflows of resources | $ | 2,952,322 | 3,255,410 | 5,773,368 | (9.3)% | (43.6)% | (E) |
| Current liabilities | $ | 12,086,986 | 10,438,437 | 9,891,589 | 15.8 % | 5.5 % | (F) |
| Current liabilities payable from restricted assets | | 438,438 | 467,772 | 506,683 | (6.3) | (7.7) | |
| Other noncurrent liabilities | | 1,413,318 | 1,152,984 | 1,178,418 | 22.6 | (2.2) | |
| Net OPEB liability | | 1,000,516 | 1,251,810 | 1,170,055 | (20.1) | 7.0 | |
| Net pension liability | | 15,004,757 | 13,727,447 | 16,182,193 | 9.3 | (15.2) | (E) |
| Long-term debt, net | | 69,399,185 | 71,033,445 | 72,490,380 | (2.3) | (2.0) | (G) |
| Total liabilities | $ | 99,343,200 | 98,071,895 | 101,419,318 | 1.3 % | (3.3)% | |
| Deferred inflows of resources | $ | 6,463,860 | 6,673,634 | 5,503,080 | (3.1)% | 21.3 % | |
| Net position: | | | | | | | |
| Net invested in capital assets | $ | 39,652,482 | 41,739,069 | 42,258,985 | (5.0)% | (1.2)% | |
| Restricted | | 5,410,980 | 6,531,515 | 6,206,710 | (17.2) | 5.2 | |
| Unrestricted | | 15,729,751 | 13,494,339 | 14,657,096 | 16.6 | (7.9) | |
| Total net position | $ | 60,793,213 | 61,764,923 | 63,122,791 | (1.6)% | (2.2)% | (H) |

(A) Current assets (unrestricted) at June 30, 2020 were $24,781,209, an increase of $563,041 compared to June 30, 2019 primarily due to an increase in cash resulting from decreased capital expenditures in FY2020 due in part to COVID-19. Current assets (unrestricted) at June 30, 2019 were $24,218,168, a decrease of $1,210,991 compared to June 30, 2018 primarily due to a decrease in cash related to expenditures for the McNeil Generating Station major turbine overhaul.

(B) Restricted assets at June 30, 2020 were $8,975,363, an increase of $1,976,076 compared to June 30, 2019 due to an increase of $3,125,945 of restricted cash as on January 1, 2020 the Department began to function as the fiscal agent for the energy efficiency utility ("EEU"), offset by withdrawals from the renewal and replacement fund. Restricted assets at June 30, 2019 were $6,999,287, an increase of $285,894 compared to June 30, 2018 due to an additional investment in the Renewal and Replacement Fund. See note 3(e) – Interest Rate Risk – Investments.

(C) Net capital assets at June 30, 2020 were $94,591,008, a decrease of $1,141,316 compared to June 30, 2019 due to capital additions offset by depreciation expense and disposals. Net capital assets at June 30, 2019 were $95,732,324, a decrease of $2,277,767 compared to June 30, 2018 due to sale of the Department's 7.7% ownership interest in the Highgate Transmission Plant and an increase in accumulated depreciation related to assets still in service.

(D) Other noncurrent assets at June 30, 2020 were $35,300,371, a decrease of $1,004,892 compared to June 30, 2019 due primarily to a reduction in equity interests in associated companies Vermont Electric Power Company, Inc. ("VELCO") and Vermont Transco LLC ("Transco").

Other noncurrent assets at June 30, 2019 were $36,305,263, an increase of $2,186,085 compared to June 30, 2018 due to additional equity interests in associated companies VELCO/Transco offset by a decrease in the unamortized balance at June 30, 2019 for costs related to the McNeil Generating Station turbine overhaul, Highgate Transmission Plant, and deferred retirement of meters. See note 4-Regulatory Assets and Regulatory Liabilities.

The Department records the difference between certain bond sinking fund requirements and the straight-line depreciation of the assets financed as deferred depreciation expense. This deferred depreciation is accumulated and reported in other noncurrent assets. In 2020, the balance of deferred depreciation was $1,476,137 after amortization of $105,438. In, 2019, the balance of deferred depreciation was $1,581,575 after amortization of $460,705, which included the remaining balance of $357,899 for deferred depreciation related to the Highgate Transmission Plant.

(E) Deferred outflows at June 30, 2020 were $2,952,322, a decrease of $303,088 compared to June 30, 2019 due to a decrease in payment after the measurement date, decreases in the difference between the projected and actual pension plan experience, and changes in assumptions related to inflation, salary increases, and the discount rate offset by the difference between actual and projected investment earnings. Deferred outflows at June 30, 2019 were $3,255,410, a decrease of $2,517,958 compared to June 30, 2018 due to a decrease in payment after the June 30, 2018 measurement date, decreases in the difference between the projected and actual pension plan experience and investment earnings, and changes in assumptions related to inflation, salary increases, and the discount rate.

The net pension liability at June 30, 2020 was $15,004,757, an increase of $1,277,310 compared to 2019 due to pension expense, increases in the difference between the projected and actual plan experience, investment earnings, and changes in assumptions related to inflation and salary increases, offset by pension contributions. See note 8 – Retirement Benefits.

(F) Current liabilities at June 30, 2020 were $12,086,986, an increase of $1,648,549 compared to June 30, 2019 due to energy efficiency utility deferred revenue of $2,939,017 as the Department began to function as the fiscal agent for EEU effective January 1, 2020. In addition, there was an increase in current maturities of debt offset by a decrease in accounts payable. Current liabilities at June 30, 2019 were $10,438,437, an increase of $546,848 compared to June 30, 2018 due to an increase in current maturities of debt and an increase in accounts payable.

(G) Long-term debt, net at June 30, 2020 was $69,399,185, a decrease of $1,634,260 compared to June 30, 2019 in accordance with current maturities schedules offset by new issuances of $11,130,000. Long-term debt, net at June 30, 2019 was $71,033,445, a decrease of $1,456,935 compared to June 30, 2018 in accordance with current maturities schedules offset by new issuance of $3,000,000.

(H) Net position at June 30, 2020 was $60,793,213, a decrease of $971,710 compared to June 30, 2019 primarily due to less operating revenues in 2020 driven by the COVID-19 pandemic. Net position at June 30, 2019 was $61,764,923, a decrease of $1,357,868 compared to June 30, 2018 primarily due to expenses related to the McNeil Generating Station major turbine overhaul in 2019.

*Changes in Net Position*

A summary of changes in net position for the fiscal years ended June 30, 2020, 2019 and 2018 follows:

| | 2020 | 2019 | 2018 | Percentage change 2019–2020 | Percentage change 2018–2019 | |
|---|---|---|---|---|---|---|
| Operating revenues: | | | | | | |
| Sales to ultimate customers | $ 44,700,472 | 46,934,550 | 46,702,347 | (4.8)% | 0.5 % | (A) |
| Other revenues | 11,032,438 | 10,820,031 | 11,658,623 | 2.0 | (7.2) | (B) |
| Less provision for uncollectible accounts | (146,164) | (192,024) | (120,399) | (23.9) | 59.5 | |
| Total operating revenues, net | 55,586,746 | 57,562,557 | 58,240,571 | (3.4) | (1.2) | |
| Operating expenses: | | | | | | |
| Production | 9,954,532 | 11,058,539 | 11,089,265 | (10.0)% | (0.3)% | (C) |
| Purchased power | 16,859,364 | 19,123,119 | 17,488,225 | (11.8) | 9.3 | (D) |
| Other power supply expenses | 1,398,112 | 1,226,502 | 1,157,223 | 14.0 | 6.0 | (D) |
| Transmission | 7,903,348 | 8,304,310 | 7,131,269 | (4.8) | 16.4 | (D) |
| Distribution | 3,568,667 | 3,516,117 | 3,374,453 | 1.5 | 4.2 | (E) |
| Customer accounting and service | 5,392,829 | 4,724,669 | 4,789,982 | 14.1 | (1.4) | (F) |
| Administration and general | 5,364,728 | 5,491,088 | 6,176,527 | (2.3) | (11.1) | (G) |
| Depreciation and amortization | 5,142,237 | 5,473,723 | 5,870,040 | (6.1) | (6.8) | (H) |
| Taxes | 984,332 | 984,133 | 943,348 | — | 4.3 | |
| Total operating expenses | 56,568,149 | 59,902,200 | 58,020,332 | (5.6) | 3.2 | |
| Operating (loss) income | (981,403) | (2,339,643) | 220,239 | (58.1)% | (1,162.3)% | |



(Continued)

| | 2020 | 2019 | 2018 | Percentage change 2019–2020 | Percentage change 2018–2019 | |
|---|---|---|---|---|---|---|
| Other income (expense): | | | | | | |
| Dividend income | $ 4,268,944 | 4,282,667 | 4,147,819 | (0.3)% | 3.3 % | (I) |
| Interest income | 221,362 | 219,497 | 148,986 | 0.8 | 47.3 | |
| Gain (loss) on sale of capital assets | (289,526) | 1,274,924 | (409,639) | (122.7) | (411.2) | (J) |
| Other | 24,164 | 174,252 | 111,608 | (86.1) | 56.1 | |
| Total other income | 4,224,944 | 5,951,340 | 3,998,774 | (29.0) | 48.8 | |
| Total finance charges | (2,581,344) | (2,817,045) | (2,795,980) | (8.4) | 0.8 | |
| Income before transfers and capital contributions | 662,197 | 794,652 | 1,423,033 | (16.7) | (44.2) | |
| Transfers to the City for payment: | | | | | | |
| In lieu of taxes | (2,602,202) | (2,469,340) | (2,294,893) | 5.4 | 7.6 | |
| Income (loss) before capital contributions | (1,940,005) | (1,674,688) | (871,860) | 15.8 | 92.1 | |
| Capital contributions | 968,295 | 316,820 | 852,308 | 205.6 | (62.8) | |
| Change in net position | (971,710) | (1,357,868) | (19,552) | (28.4) | 6,844.9 | |
| Net position at beginning of year | 61,764,923 | 63,122,791 | 63,142,343 * | (2.2) | — | |
| Net position at end of year | $ 60,793,213 | 61,764,923 | 63,122,791 | (1.6)% | (2.2)% | |

* Restated due to implementation of GASB 75.

(A) Sales to ultimate customers in 2020 of $44,700,472, decreased by $2,234,078 compared to 2019. 2020 reflected less usage compared to 2019 and had no changes in rates. The reduced usage in 2020 was driven by the COVID-19 pandemic. The Department experienced a decrease in commercial sales, partially offset by increased residential sales during the pandemic period of March 2020 through June 2020. Sales to ultimate customers reflected less usage in 2019 compared to 2018, and no changes in rates.

(B) Other operating revenues for 2020 of $11,032,438 increased by $212,407 compared to 2019, due to increased EEU Program Cost Reimbursements and an increase in the quantity and average price of Renewable Energy Credits ("RECs"). This is partially offset by a decrease in transmission revenue due to the sale of the Highgate asset. Other operating revenues for 2019 of $10,820,031, decreased by $838,592 compared to 2018, due to declining prices received for the sale of RECs and lower EEU Program Cost Reimbursements.

(C) Production expense for 2020 of $9,954,532, decreased by $1,104,007 compared to 2019, due to reduced maintenance expense on the McNeil Generating Station. Production expense for 2019 was in-line with 2018.

(D) Purchased power costs for 2020 of $16,859,364, decreased by $2,263,755 compared to 2019 due primarily to reduction in both price and volume, associated with the Vermont Wind contract and sales of excess energy from all resources to ISO-NE.

Purchased power costs for 2019 of $19,123,119, increased by $1,634,894 compared to 2018 due primarily to lower production at the McNeil Generating Station, requiring the Department to purchase more power from ISO-NE.

Other power supply expenses are based on ISO-NE administration charges for each of the comparative periods.

Transmission costs for 2020 of $7,903,348 decreased by $400,962 compared to 2019 primarily due to lower ISO-NE transmission costs for Regional Network Service driven by monthly peak loads that decreased from the prior year. Transmission costs for 2019 of $8,304,310 increased by $1,173,041 compared to 2018 primarily due to depreciation and property taxes on additional assets placed in service by VELCO.

(E) Distribution expense for 2020 of $3,568,667 was in line with 2019. The department experienced an increase in labor and overheads related to less time spent on capital work due to COVID-19 and obtained approval from the PUC to record a regulatory asset of $231,768 to offset the income statement impact. Distribution expense for 2019 of $3,516,117 increased by $141,664 compared to 2018 due to an increase in labor and overheads related to costs of living increases (COLA).

(F) Customer accounting, service and sales expense for 2020 of $5,392,829 increased by $668,160 compared to 2019 due to higher costs associated with billable energy efficiency and demand side management programs. Customer accounting, service and sales expense for 2019 of $4,724,669 decreased by $65,313 compared to 2018 due to lower costs associated with billable energy efficiency and demand side management programs.

(G) Administrative and general expense for 2020 of $5,364,728, decreased by $126,360 compared to 2019 due to a decrease in pension and benefit costs. Administrative and general expenses for 2019 of $5,491,088 decreased by $685,439 compared to 2018 due to decreased labor and overheads related to positions that were vacant in 2019, decreased outside services related to issue costs for Revenue Bond refinancing incurred in 2018, and lower pension costs.

(H) Depreciation and amortization, including deferred depreciation expense, for 2020 of $5,142,237 decreased by $331,486 compared to 2019 due to the full amortization of Highgate Transmission Plant assets. Depreciation and amortization, including deferred depreciation expense, in 2019 of $5,473,723 decreased by $396,317 compared to 2018 due to the full amortization of assets acquired under the Smart Grid/Meter project in 2012-2013.

(I) Dividend income in 2020 of $4,268,944 decreased by $13,723 compared to 2019 due to a reduction in equity interests in associated companies, VELCO/Transco. Dividend income of $4,282,667 in 2019 increased by $134,848 compared to 2018 due to additional equity interests in associated companies VELCO/Transco.

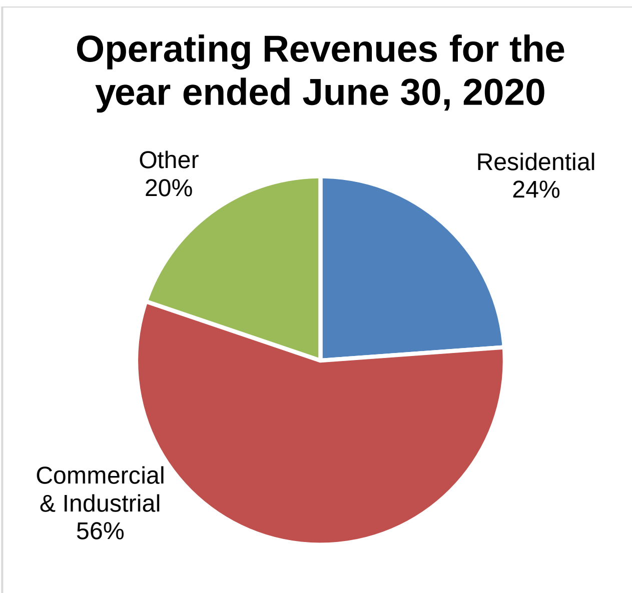


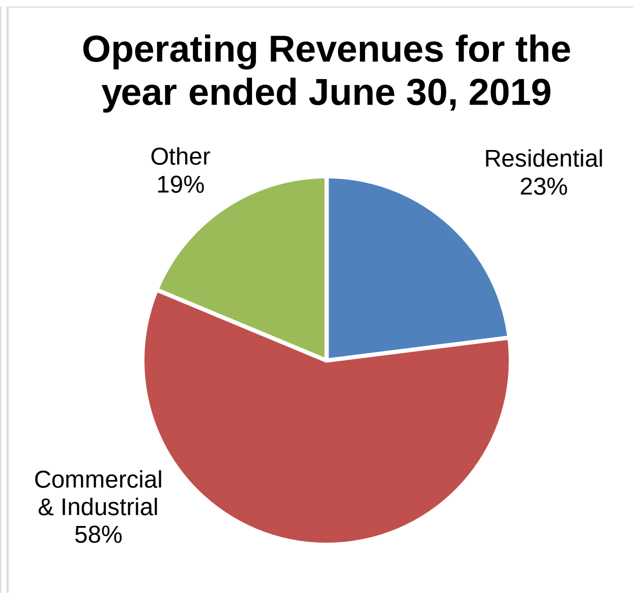
(Continued)

(J) Loss on sale of capital assets in 2020 of $289,526 compared to a gain on sale of capital assets of $1,274,924 in 2019 is due to the sale of the Department's 7.7 percent ownership interest in the Highgate Transmission Plant in 2019. Gain on sale of capital assets of $1,274,924 in 2019 compared to a loss on sale of capital assets of $409,639 in 2018 is due to the sale of the Department's 7.7 percent ownership interest in the Highgate Transmission Plant.

*Revenue*

The following charts show the major sources of operating revenues for the years ended June 30, 2020 and 2019:




*Long-Term Debt – Revenue and General Obligation Bonds*

The following table summarizes long-term debt related to revenue and general obligation bonds for the years ended June 30, 2020, 2019 and 2018:

| | | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| Revenue bonds, net of current installments | $ | 20,898,012 | 22,684,034 | 24,403,666 |
| General obligation bonds, net of current installments | | 48,501,173 | 48,349,411 | 48,086,714 |
| Total bonds, net | $ | 69,399,185 | 71,033,445 | 72,490,380 |

During the fiscal year ended June 30, 2020, the Department, through the City of Burlington, issued $3,000,000 in general obligation bonds, 2019 Series A, with an average coupon rate of 5.00%. These bonds were issued for use during fiscal year 2020 in accordance with the City Charter to cover annual capital improvements to the electric infrastructure of the Department. The Department, through the City of Burlington issued $8,130,000 in general obligation bonds, 2019 Series C, with an average coupon rate of 2.44%. These bonds were issued for the purpose of providing funds, together with other available funds, for the refunding of the maturities of prior bonds: Series 2011A, Series 2011B, Series 2012A, Series 2013B, and Series 2015A.

During the fiscal year ended June 30, 2019, the Department, through the City of Burlington, issued $3,000,000 in general obligation bonds, 2018 Series B, with an average coupon rate of 5.00%. These bonds were issued for use during fiscal year 2019 in accordance with the City Charter to cover annual capital improvements to the electric infrastructure of the Department.

During the fiscal year ended June 30, 2018, the Department, through the City of Burlington, issued $4,010,000 in Electric Revenue Refunding Bonds, 2017 Series A. This advance refunding relieved a portion of the City's callable 2011 Series A Revenue Bonds, and will mature in July, 2031 with an average coupon rate of 4.85%. The Department, through the City of Burlington, also issued $5,410,000 in Taxable Electric System Revenue Refunding Bonds, 2017 Series B. This issuance was for an advance refunding of 2011 Series A and Series B Revenue Bonds and will mature in July, 2031 with an average coupon rate of 3.40%. The Department is expecting a net savings on the 2017 Series A financing of $355,857 and a net savings on the 2017 Series B financing of $382,492.

*Capital Assets*

The following chart summarizes capital assets and accumulated depreciation for the years ended June 30, 2020, 2019 and 2018:

| | | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| Capital assets | $ | 195,680,462 | 194,294,572 | 194,357,319 |
| Accumulated depreciation/amortization | | 101,089,454 | 98,562,248 | 96,347,228 |
| Net capital assets | $ | 94,591,008 | 95,732,324 | 98,010,091 |

Capital assets are stated at historical cost and include assets related to land, production plant, transmission plant, distribution plant, general plant and other plant. Capital assets also include the Department's ownership interest in the following jointly owned facilities:

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| McNeil Generating Station | 50.0 % | 50.0 % | 50.0 % |
| Highgate Station | — | — | 7.7 |



(Continued)

On December 24, 2018, the Department sold for $3,570,000 its 7.7 percent ownership interest in the Highgate Transmission Plant. In addition, the Department received $100,000 nonrefundable to cover its expenses of the sale, which were $13,073. The net book value of the Highgate Transmission Plant was $2,086,024 and the gain on the sale was $1,570,903. The Department determined that joint ownership of the converter was no longer necessary to the operation of its Electric Plant and that receiving cash and other compensation for the sale of the facility best serves the Department's current needs. The proceeds from the sale were deposited in the operating account for the Department.

During 2020, net capital assets decreased $1,141,316 from 2019. Net capital asset additions amounted to $1,385,890 which included improvements to production plant, distribution and system upgrades. These capital asset additions were offset by depreciation expense of $5,199,961 and retired plant assets with a net carrying value of $2,672,755.

During 2019, net capital assets decreased $2,277,767. Net capital asset disposals amounted to $62,747 which included the sale of the Department's 7.7 percent ownership interest in the Highgate Transmission Plant, offset by improvements to production plant, distribution, and system upgrades. These capital asset disposals were offset by depreciation expense of $5,217,502 and retired plant assets with a net carrying value of $3,002,482.

*Requests for Information*

This financial report is intended to provide an overview of the finances of the Department for those with an interest in this organization. Questions concerning any information contained in this report may be directed to Andrea McNeil, CPA, MBA, Director of Finance.

**CITY OF BURLINGTON, VERMONT**
**ELECTRIC DEPARTMENT**

Statements of Net Position

June 30, 2020 and 2019

| **Assets and Deferred Outflows** | | **2020** | **2019** |
|---|---|---|---|
| Capital assets, net | $ | 94,591,008 | 95,732,324 |
| Current assets: | | | |
| Cash: | | | |
| Cash and cash equivalents | | 11,616,467 | 10,818,282 |
| Restricted cash – energy efficiency utility | | 3,125,945 | — |
| Total Cash | | 14,742,412 | 10,818,282 |
| Restricted investments – deposits with bond trustees and accrued interest receivable | | 438,438 | 467,772 |
| Accounts receivable, net of allowance for uncollectible accounts of $135,500 and $67,093, respectively | | 3,905,878 | 4,438,129 |
| Unbilled revenues | | 2,106,308 | 2,065,029 |
| Fuel and materials inventory, at average cost | | 5,725,406 | 5,344,141 |
| Other | | 1,427,150 | 1,552,587 |
| Total current assets | | 28,345,592 | 24,685,940 |
| Noncurrent assets: | | | |
| Restricted investments – deposits with bond trustees | | 5,410,980 | 6,531,515 |
| Regulatory assets | | 1,707,905 | 1,585,707 |
| Equity interests in associated companies | | 33,592,466 | 34,719,556 |
| Total noncurrent assets | | 40,711,351 | 42,836,778 |
| Total assets | | 163,647,951 | 163,255,042 |
| Deferred outflows of resources: | | | |
| Loss on advanced refunding | | 418,495 | 456,928 |
| Pension amounts | | 2,301,334 | 2,729,635 |
| OPEB amounts | | 232,493 | 68,847 |
| Total deferred outflows of resources | $ | 2,952,322 | 3,255,410 |



(Continued)

**CITY OF BURLINGTON, VERMONT**
**ELECTRIC DEPARTMENT**

Statements of Net Position

June 30, 2020 and 2019

| Liabilities and Deferred Inflows | 2020 | 2019 |
|---|---|---|
| Liabilities: | | |
| Current liabilities: | | |
| Current installments of long-term debt: | | |
| Revenue bonds | $ 1,745,000 | 1,680,000 |
| General obligation debt of the City of Burlington | 3,290,000 | 2,975,000 |
| Accounts payable | 2,864,825 | 3,810,391 |
| Other current liabilities | 1,248,144 | 1,973,046 |
| Restricted Deferred revenue – energy efficient utility | 2,939,017 | — |
| Liabilities payable from restricted assets – deposits with bond trustees | 438,438 | 467,772 |
| Total current liabilities | 12,525,424 | 10,906,209 |
| Noncurrent liabilities: | | |
| Long-term debt: | | |
| Revenue bonds | 20,898,012 | 22,684,034 |
| General obligation debt of the City of Burlington | 48,501,173 | 48,349,411 |
| Other noncurrent liabilities | 1,413,318 | 1,152,984 |
| Net pension liability | 15,004,757 | 13,727,447 |
| Other post-employment benefits | 1,000,516 | 1,251,810 |
| Total noncurrent liabilities | 86,817,776 | 87,165,686 |
| Total liabilities | 99,343,200 | 98,071,895 |
| Deferred inflows of resources: | | |
| Pension amounts | 1,232,353 | 1,886,290 |
| OPEB amounts | 476,463 | 72,783 |
| Regulatory deferral | 4,755,044 | 4,714,561 |
| Total deferred inflows of resources | $ 6,463,860 | 6,673,634 |
| **Net Position** | | |
| Net position: | | |
| Net investment in capital assets | $ 39,652,482 | 41,739,069 |
| Restricted: | | |
| Deposits with bond trustees | 5,410,980 | 6,531,515 |
| Unrestricted | 15,729,751 | 13,494,339 |
| Total net position | $ 60,793,213 | 61,764,923 |

See accompanying notes to financial statements.

**CITY OF BURLINGTON, VERMONT**
**ELECTRIC DEPARTMENT**

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2020 and 2019

| | | 2020 | 2019 |
|---|---|---|---|
| Operating revenues: | | | |
| Sales to ultimate customers | $ | 44,700,472 | 46,934,550 |
| Other revenues | | 11,032,438 | 10,820,031 |
| | | 55,732,910 | 57,754,581 |
| Less provision for uncollectible accounts | | 146,164 | 192,024 |
| Total operating revenues, net | | 55,586,746 | 57,562,557 |
| Operating expenses: | | | |
| Production | | 9,954,532 | 11,058,539 |
| Purchased power | | 16,859,364 | 19,123,119 |
| Other power supply expenses | | 1,398,112 | 1,226,502 |
| Transmission | | 7,903,348 | 8,304,310 |
| Distribution | | 3,568,667 | 3,516,117 |
| Customer accounting, service, and sales | | 5,392,829 | 4,724,669 |
| Administrative and general | | 5,364,728 | 5,491,088 |
| Depreciation and amortization | | 5,142,237 | 5,473,723 |
| Taxes | | 984,332 | 984,133 |
| Total operating expenses | | 56,568,149 | 59,902,200 |
| Operating loss | | (981,403) | (2,339,643) |
| Nonoperating revenue (expenses): | | | |
| Dividends from associated companies | | 4,268,944 | 4,282,667 |
| Interest income | | 221,362 | 219,497 |
| Other income, net | | 24,164 | 174,252 |
| Interest and amortization on long term debt | | (2,581,344) | (2,817,045) |
| Gain (loss) on sale of capital assets | | (289,526) | 1,274,924 |
| Total nonoperating revenue | | 1,643,600 | 3,134,295 |
| Income before transfers and capital contributions | | 662,197 | 794,652 |
| Transfers to the City of Burlington for payment in lieu of taxes | | (2,602,202) | (2,469,340) |
| Loss before capital contributions | | (1,940,005) | (1,674,688) |
| Capital contributions | | 968,295 | 316,820 |
| Decrease in net position | | (971,710) | (1,357,868) |
| Net position at beginning of year | | 61,764,923 | 63,122,791 |
| Net position at end of year | $ | 60,793,213 | 61,764,923 |

See accompanying notes to financial statements.

**CITY OF BURLINGTON, VERMONT**
**ELECTRIC DEPARTMENT**

Statements of Cash Flows

Years ended June 30, 2020 and 2019

| | | 2020 | 2019 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Receipts: | | | |
| From ultimate customers | $ | 44,741,249 | 47,260,760 |
| Miscellaneous electric revenues and rent of electric property | | 11,414,226 | 10,524,020 |
| Payments made for: | | | |
| Purchased power | | (16,914,614) | (18,838,753) |
| Power production expense | | (12,580,436) | (11,186,425) |
| Transmission expense | | (7,903,348) | (8,322,331) |
| Distribution expense | | (3,567,708) | (3,486,016) |
| Customer accounts and service expense | | (5,522,005) | (5,084,070) |
| Administration and general expense | | (4,829,972) | (4,716,164) |
| General taxes | | (977,757) | (985,731) |
| Net cash provided by operating activities | | 3,859,635 | 5,165,290 |
| Cash flows from capital and related financing activities: | | | |
| Acquisition and construction of capital assets | | (4,350,467) | (5,324,721) |
| Less capital contributions | | 968,295 | 316,820 |
| Proceeds from sale of Highgate Plant | | — | 3,670,000 |
| Costs associated with sale of Highgate Plant | | — | (13,073) |
| Proceeds from sale of capital assets | | 2,300 | 3,000 |
| Costs associated with bond issuance | | (290,700) | 327,886 |
| Principal paid on outstanding debt | | (4,655,000) | (4,495,000) |
| Proceeds from new debt issuance | | 11,130,000 | 3,000,000 |
| Refinanced from new debt issuance | | (7,205,714) | — |
| Interest paid on outstanding debt | | (2,827,469) | (2,963,508) |
| Net cash used in capital and related financing activities | | (7,228,755) | (5,478,596) |
| Cash flows from noncapital financing activities: | | | |
| Amounts paid in lieu of taxes | | (2,602,202) | (2,469,340) |
| Energy efficiency utility | | 2,939,017 | — |
| Other income | | 24,164 | 174,252 |
| Net cash provided by (used in) noncapital financing activities | | 360,979 | (2,295,088) |
| Cash flows from investing activities: | | | |
| Purchase of restricted investments | | (2,674,890) | (2,838,118) |
| Sale of restricted investments | | 3,686,210 | 2,584,455 |
| Purchase of equity interest in associated companies | | (569,290) | (2,696,230) |
| Sale of equity interest in associated companies | | 1,696,380 | |
| Interest and dividends on investments | | 4,793,861 | 4,255,976 |
| Net cash provided by investing activities | | 6,932,271 | 1,306,083 |
| Net increase (decrease) in cash and cash equivalents | | 3,924,130 | (1,302,311) |
| Cash and cash equivalents at beginning of year | | 10,818,282 | 12,120,593 |
| Cash and cash equivalents at end of year | $ | 14,742,412 | 10,818,282 |
| Reconciliation of cash from operating activities: | | | |
| Cash flows from operating activities: | | | |
| Operating loss | $ | (981,403) | (2,339,643) |
| Adjustments to reconcile operating loss to net cash provided by operating activities: | | | |
| Depreciation | | 4,723,049 | 4,748,074 |
| Deferred depreciation expense realized in current year | | 145,921 | 423,445 |
| Deferred projects amortization | | 476,910 | 469,410 |
| Changes in assets and liabilities: | | | |
| Change in accounts receivable | | 532,251 | (71,090) |
| Change in fuel and materials inventory | | (381,265) | 171,675 |
| Change in unbilled revenues | | (41,279) | (94,848) |
| Change in other deferred charges | | (227,636) | 49,441 |
| Change in other current assets | | (39,570) | 116,900 |
| Change in accounts payable | | (1,326,082) | 553,326 |
| Change in other current liabilities | | (322,007) | (175,225) |
| Change in net deferred inflow/outflow pension liability | | 1,051,674 | 1,253,434 |
| Change in net deferred inflow/outflow OPEB liability | | (11,260) | 85,824 |
| Change in other noncurrent liabilities | | 260,332 | (25,433) |
| Net cash provided by operating activities | $ | 3,859,635 | 5,165,290 |

See accompanying notes to financial statements.

## (1) Summary of Significant Accounting Policies

### *(a) Regulation and Operations*

The City of Burlington, Vermont Electric Department (the Department) is an enterprise fund of the City of Burlington, Vermont (the City). The City has overall financial accountability for the Department, its Council appoints the Commissioners of the Department who oversee its operations, and the City collateralizes the Department's general obligation debt. The Department is also subject as to rates, accounting, and other matters, to the regulatory authority of the State of Vermont Public Utilities Commission (PUC) and the Federal Energy Regulatory Commission (FERC). In accordance with GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30,1989 FASB and AICPA Pronouncements as amended*, the Department records certain assets and deferred inflows of resources in accordance with the economic effects of the rate making process.

The Department has been offering demand side management programs since 1989. Effective 1999 the Department became an Energy Efficiency Utility ("EEU"). The Public Utility Commission issued an Order of Appointment to the Department to serve as a Vermont Energy Efficiency Utility effective January 1, 2017 through December 31, 2027 within its service territory. The department is responsible for designing and implementing demand- side services and initiatives to comprehensively address cost-effective opportunities associated with electric and Thermal Energy and Process Fuels ("TEPF") efficiency. In addition, effective January 1, 2020 the Department began to function as the Fiscal Agent and fund administrator under 30 V.S.A Section 209(d)(3) for electric efficiency and TEPF activities.

### *(b) Capital Assets*

Capital assets are stated at historical cost. Provisions for depreciation of general capital assets are reported using the straight-line method at rates based upon the estimated service lives and salvage values of the several classes of property. Depreciation of capital assets of the McNeil Generating Station, and the Winooski One hydroelectric plant, are calculated using the straight-line method. However, a portion of the current depreciation expense is only recoverable through future rates. The difference is included in regulatory assets (calculated as the straight-line depreciation expense less the depreciation expense on a sinking fund basis) and will be recovered in future years. See note 4, Regulatory Assets and Regulatory Deferred Inflows of Resources.

Maintenance and repairs of capital assets are charged to maintenance expense. Replacements and betterments are capitalized to capital assets. When assets are retired or otherwise disposed of, the costs are removed from capital assets, and such costs, plus removal costs, net of salvage, are charged to accumulated depreciation.

The Department's capitalization policy considers four factors. Property will be capitalized when:

1. The combined cost to put a unit in service is more than $500 and

2. The unit's estimated life is at least three (3) years.

3. The unit is vital to the Department and must be controlled, and tracked, even if it falls under the dollar limit stated in (1) above. Watt-hour meters to record electric usage are the only unit in this category.

4. The PUC rules in a rate making decision that the Department will capitalize a cost that normally would not be capitalized based on the first three factors above. The Department does not have any assets in this category.

The depreciable lives of utility plant are as follows:

| | Depreciable lives |
|---|---|
| Production plant | 10–50 years |
| Transmission plant | 33–50 years |
| Distribution plant | 10–50 years |
| General plant | 5–50 years |
| Other plant | 5 years |

### (c) *Jointly Owned Facilities*

The Department has recorded its ownership interest in jointly owned facilities as capital assets. The Department's ownership interest in each of the jointly owned facilities is as follows:

| | 2020 | 2019 |
|---|---|---|
| McNeil Generating Station | 50.0 % | 50.0 % |

The Department is responsible for its proportionate share of the operating expenses of the jointly owned facilities which are billed to the Department on a monthly basis. The associated operating costs allocated to the Department are classified in their respective expense categories in the Statements of Revenues, Expenses, and Changes in Net Position. Separate financial statements are available from the Department for this jointly owned facility.

On December 24, 2018, the Department sold for $3,570,000 its 7.7 percent ownership interest in the Highgate Transmission Plant. The Department determined that joint ownership of the converter was no longer necessary to the operation of its Electric Plant and that receiving cash and other compensation for the sale of the facility best served the Department's current needs. The proceeds from the sale were deposited in the Department's operating cash account.

### (d) *Cash, Cash Equivalents, and Investments*

The Department considers unrestricted short-term investments, including money markets and certificates of deposit, that have an original maturity of 90 days or less, to be cash equivalents. The Department considers all restricted money market funds and certificates of deposit that have an original maturity of 90 days or more to be investments. Investments are carried at fair value.



(Continued)

### *(e) Equity Interests in Associated Companies*

The Department follows the cost method of accounting for its 6.38% Class B common stock, 1.97% Class C common stock and 7.69% Class C preferred stock equity interest in VELCO, and its 5.46% equity interest in Transco. Transco is an affiliated entity of 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.

During the year ended June 30, 2020, the Department purchased 25,049 Class A units and 31,880 Class B units in Transco for a cost of $569,290. During the year ended June 30, 2020, the Department sold 74,641 Class A units and 94,997 Class B units in Transco for a total of $1,696,380.

During the year ended June 30, 2019, the Department purchased 118,634 Class A units and 150,989 Class B units in Transco for a cost of $2,696,230. This purchase was financed with a cash disbursement of $1,296,230 from the Department’s operating account and a $1,400,000 loan from Transco. The interest rate per annum was equal to the interest rate charged Transco by TD Bank NA pursuant to the Revolving Line of Credit Agreement among VELCO, Transco, and TD Bank NA. The loan was for one year and was to mature December 29, 2019. On June 25, 2019, the loan was fully paid back by the Department.

**Schedule of Carrying Value in Associated Companies**

| | As of June 30, 2020 | As of June 30, 2019 |
|---|---|---|
| Velco, Class B common stock | $ 1,403,800 | 1,403,800 |
| Velco, Class C common stock | 39,200 | 39,200 |
| Velco, Class C preferred stock | 11,196 | 11,196 |
| VT Transco, LLC, A Units | 14,140,843 | 14,636,758 |
| VT Transco, LLC, B Units | 17,997,427 | 18,628,602 |
| | $ 33,592,466 | 34,719,556 |

### *(f) Restricted Investments – Deposits with Bond Trustees*

The Department has established certain funds required by the bond resolution pursuant to which the Electric System Revenue Bonds were issued (“General Bond Resolution”). Investment securities held in deposits with bond trustees are stated at fair value.

***(g) Restricted Cash – Energy Efficiency Utility***

Effective January 1, 2020 the Department began to function as the Fiscal Agent and fund administrator under 30 V.S.A Section 209(d)(3) for electric efficiency and TEPF. For the year ended June 30, 2020, $2,990,000 was transferred to the Department from the previous Fiscal Agent. The Department recorded these funds in restricted cash, with the offset in deferred revenue as they are only for the use of the energy efficiency utility. As the Department incurs expenses under the EEU, the restricted cash will be transferred to operations and the related revenue will be recorded in other revenues. These deposits are held in a TD Bank checking account.

***(h) Liabilities Payable from Restricted Assets with Bond Trustees***

This balance represents accrued interest expense associated with the Electric System Revenue Bonds. Deposits are made with the Bond Trustees as required by the bond resolution pursuant to which the Electric System Revenue Bonds were issued.

***(i) Operating and Nonoperating Revenues and Expenses***

Operating revenues are defined as income received from the sale of electricity to retail customers as well as to other entities for the purpose of resale. In addition, it includes rents from electric property, fees for changing, connecting, or disconnecting service, revenues from the transmission of electricity of others over transmission facilities of the utility, revenue from the sale of RECs and revenue received from requesting utilities to run generation facilities when not economically feasible due to normal market conditions.

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. Operating expenses do not include the principal and interest on bonds, notes, or other costs of indebtedness.

Nonoperating revenues are defined as income received from sources other than the sale of electricity or from rents and fees from electric property or services. Nonoperating revenues generally include interest and dividend income, services rendered to customers upon their request, sale of parts from inventory to contractors, and rental of nonutility property merchandise.

Revenues, including amounts billed to the City of Burlington, are billed monthly based on billing rates authorized by the PUC which are applied to customers’ consumption of electricity.

The fair value of donated capital assets is reported in the accompanying financial statements as capital contributions.

***(j) Estimated Unbilled Revenue***

The Department records unbilled revenue at the end of each accounting period based on estimates of electric services rendered but not yet billed to customers.

### *(k) Taxes and Fees*

The Department is exempt from Federal income taxes. Although it is also exempt from municipal property taxes, the Department pays an amount in lieu of taxes to the City of Burlington. The Department incurred payments in lieu of taxes totaling $2,620,942 and $2,487,458 for the years ended June 30, 2020 and 2019, respectively, with $18,740 and $18,118, respectively, being allocated to operating expenses.

In addition to the payments in lieu of taxes, the Department paid indirect costs of $327,229 and $325,094 in 2020 and 2019, respectively, for a prorated share of costs associated with general government, human resources and general accounting services as billed by the City of Burlington's Treasurer's Office.

The City of Burlington requires the Department to charge a franchise fee on its electric bills to its retail customers on behalf of the City of Burlington. The franchise fee for both 2020 and 2019 was 3.5%, of operating revenues and was charged separately to customers on electric bills and is therefore excluded from both operating revenues and expenses. The Department is not required to pay the City for franchise fee amounts billed to customers but not collected.

The Vermont Department of Taxes assesses a 6% sales and use tax on 31% of taxable purchases for the McNeil Generating Station. Due to a manufacturers' exemption clause, purchases of wood chips, oil, gas, and electricity were not subject to sales and use tax for the years ended June 30, 2020 and 2019. The City of Burlington imposed a 1% sales tax upon taxable sales within the City. The McNeil Generating Station is exempt from these sales taxes due to only being subject to use taxes.

### *(l) Inventories*

Inventories consist of fuel, materials, and supplies and are stated at the lower of cost or market. Cost is determined on a weighted average cost basis. Fuel is reported as inventory until it is used for power production, at which time it is expensed as a component of fuel expense. Wood fuel inventory consists of the cost of woodchips. As wood fuel inventory is used, it is expensed on a weighted average cost basis. Material and supplies inventory consists of items primarily used in the utility business for construction, operation and maintenance of poles, wires, and conduit.

### *(m) Deferred Loss on Refunded Debt*

The Department incurred various losses in prior years in connection with the refinancing of Electric System Revenue Bonds. A deferred loss on reacquired (refunded) debt is amortized over the life of the new debt. Unamortized balances are included as a deferred outflow of resources on the statements of net position.

### *(n) Unamortized Debt Premiums and Discounts*

Premiums and discounts incurred in connection with the sale of bonds are amortized over the terms of the related debt. Unamortized balances are included as a component of long-term debt.

### *(o) Restricted Net Position*

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

### *(p) Use of Estimates*

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the allowance for doubtful accounts and unbilled revenue and the valuation of the net pension liability. Actual results could differ from those estimates.

### *(q) Renewable Energy Credit Sales*

The Department received RECs based on the amount of energy produced by its resources in a year. These RECs have value (in terms of allowing the holder to demonstrate compliance with the Renewable Portfolio Standard (RPS) requirements of the various New England states). These RECs may be bought and sold, separate from the underlying energy production, and vary in value based on the amount of supply versus the demands created by the RPS, for that particular type of REC. The ability to claim energy renewability is transferred with the REC (either lost in the case of a REC sale or acquired in the case of a REC purchase).

The Department's resource planning staff monitors output levels from the REC producing units, REC commitments made, the markets for these RECs, and the State statutes and rules that govern the creation and sale of these RECs. With the advent of Vermont's Renewable Energy Standard ("RES") in 2017, the resource planning staff also monitor the Department's own need for RECs to comply with the RES. The Department has and will continue to involve itself in discussions/proceedings as needed, either in Vermont or elsewhere in New England, where such rules and statutes are the subject at hand.

The Department periodically sells RECs either through broker initiated transactions or through direct placement with entities that need the RECs to comply with various New England statutes. The Department enters into agreements to sell (or buy) RECs for prior, current, and future years' production. Any revenue or expenses related to such sales or purchases are recognized at the time RECs are actually delivered or received.

In 2008, the McNeil Generating Station ("McNeil") installed a Regenerative Selective Catalytic Reduction (RSCR) unit. The RSCR unit significantly reduces McNeil's Nitrous Oxide (NOx) emission levels which allows the station to qualify to sell Connecticut Class 1 RECs. The McNeil RECs are determined to be qualified for sale based on a review of emissions outputs submitted by McNeil. At the end of every quarter, an affidavit is signed stating whether or not McNeil's emissions meet the requirements needed to produce Connecticut Class 1 RECs. McNeil receives a certification from the State of Connecticut indicating that it met the standards for the quarter based on the statistics provided by McNeil.



(Continued)

Effective September 1, 2014, the Department became the 100% owner of the Winooski One hydroelectric facility. Until August 15, 2017, operations at the facility were managed through a contract with Northbrook Energy. Currently, operations are managed by employees of the Department. Winooski One is a Low Impact Hydro Institute (LIHI) certified generator and is qualified to produce Massachusetts Class 2 RECs (non waste-to-energy).

The Department receives RECs from the Vermont Wind Project in Sheffield (the Department is entitled to 40% of the output of the 40MW project), the Georgia Mountain Community Wind Farm (the Department is entitled to the full 10MW of output from the project), along with RECs from its entitlement to 13.5 MW of the 52 MW Hancock Wind Project. The RECs from all of these wind facilities are qualified for participation in most of the high value New England REC markets.

In February 2015, the Department commissioned a 500 KW AC solar array at the Burlington International Airport (and leases space on the parking garage roof under a long-term agreement between the Department and the Burlington International Airport). Following that, in October 2015, the Department commissioned a 107 KW AC solar array at the Department’s offices at 585 Pine Street. The Department owns 100% of these resources. Additionally, Burlington receives RECs from South Forty Solar, a 2.5 MW solar array, as well as several smaller solar arrays totaling 409 kW. All of these systems reside within the city limits. These solar arrays are designed to help reduce the Department’s peak demand and energy needs during high priced periods. Most of these facilities are qualified to produce Massachusetts Class 1 RECs. The Pine Street array and South Forty Solar project are also qualified as Vermont Tier 2 RECs, which can be applied to the Department’s Tier 3 obligation under the RES.

The Department no longer receives RECs from Vermont Standard Offer projects purchased by the Vermont Purchasing Agent. At the end of 2016, the Department’s status as a distribution utility that sources 100% of the load it serves from renewable sources exempted it from purchasing energy from these projects in 2017. The Department expects this exemption will continue through at least 2021.

The Department purchases ME Class II RECs to replace the Class I RECs that are sold in the market to maintain its ability to claim 100% renewability. The Department will continue to purchase RECs to replace the Class I RECs that are sold into the market on a voluntary basis. However, beginning in 2017 these ME Class II RECs are eligible as a VT Class I resource to satisfy the Department’s 100% renewability under Tier 1 of the RES.

Proceeds from REC sales are included in other revenue. For the fiscal year ended June 30, 2020, REC revenue for McNeil, wind resources, the Winooski One hydroelectric facility, and the solar arrays were $3,521,592, $3,025,853, $818,359, and $158,650 respectively. For the fiscal year ended June 30, 2019, REC revenue for McNeil, wind resources, and the Winooski One hydroelectric facility were $4,041,581, $2,670,884 and $647,350 respectively.

### *(r) Pollution Remediation Obligations*

The Department faces possible liability as a potentially responsible party (PRP) with respect to the cleanup of certain hazardous waste sites. The City is currently a PRP as a landowner of a hazardous waste superfund site in Burlington, Vermont that is the subject of a remediation investigation by the Environmental Protection Agency (the EPA). The Department has agreed to share on an equal basis all past and future costs incurred in connection with any and all settlements or actions resulting from the designation of the City as a PRP at this site. In light of the agreement between the City and the EPA concerning the remediation plan at the site, the Department believes that the likelihood of any liability material to the financial position of the Department is remote and as such no liability has been accrued as of June 30, 2020 and 2019.

The Department faces possible liability with respect to the J. Edward Moran Electric Generation Station ("Moran Station"). The Moran Station is a decommissioned coal-fired power plant that was controlled and operated by the Department from 1954 until 1990 when the Department entered into a memorandum of understanding ("MOU") with the City of Burlington transferring responsibility for the Moran Station to the City. The MOU transferred the Moran Station to the City in "as is" condition and held the Department harmless for any and all future liability and or responsibility for such Moran Station and property, excluding environmental remediation (if any) which shall be required in the future by a state or federal environmental regulatory agency, for conditions existing before the transfer. In 2009 the City conducted an assessment of activities at the Moran Station site and was engaged in a corrective action plan with the Vermont Department of Environmental Conservation. The City and the Department entered into a letter of agreement in December 2009 where it was agreed that the Department shall make a $100,000 payment to the City as settlement of the Department's liability for any and all environmental remediation costs associated with known environmental contamination at the Moran Station. In September 2019, the City began the efforts of creating a Site Resolution Plan and in February 2020, the City Council authorized the Mayor to execute a settlement agreement between the City and the Department to compensate the City for the costs of abating/remediating contaminants which have now been identified as requiring such abatement. As of June 30, 2020 no settlement has been finalized. The Department believes that any potential liability is unable to be reasonably estimated and as such no liability has been accrued as of June 30, 2020 and 2019.

The Department implemented GASB Statement No. 83, *Certain Asset Retirement Obligations*, for the fiscal year ended June 30, 2020. There have been no legally enforceable liabilities associated with the retirement of a tangible asset and as such no asset retirement obligation has been recorded.

### *(s) Pension Obligations – GASB 68*

In accordance with GASB Statement No. 68, Accounting and Reporting for Pensions and GASB No. 71, Pension Transitions for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68, employers report a net pension liability and related pension expense as determined by the plan under the requirements contained in GASB Statement No. 67. Disclosures required under GASB Statement No. 68 apply to the Department for its participation in the City of Burlington Employees Retirement System defined benefit plan.

### *(t) Postemployment Benefits other than Pensions*

The Department implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions,* for the fiscal year ended June 30, 2018. GASB Statement 75 replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions,* as amended, and No. 57, *OPEB Measurements by Agent Employers and Multiple-Employer Plans,* for OPEB. GASB Statement No. 75 established new accounting and financial reporting requirements for OPEB plans. This

Statement established standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses.

## (2) Capital Assets

| | Capital assets | | | |
|---|---|---|---|---|
| | June 30, 2019 | Additions | Disposals and transfers | June 30, 2020 |
| Operating: | | | | |
| Land – nondepreciable | $ 1,140,532 | — | — | 1,140,532 |
| Production plant | 17,971,290 | 735,732 | (29,525) | 18,736,547 |
| Transmission plant | 2,344,477 | 3,335 | (7,375) | 2,355,187 |
| Distribution plant | 85,090,093 | 2,361,512 | 2,379,954 | 85,071,651 |
| General plant | 12,704,904 | 140,586 | 57,309 | 12,788,181 |
| Other plant | 5,692,253 | 12,160 | 12,503 | 5,691,910 |
| Depreciable operating | 123,803,017 | 3,253,325 | 2,412,866 | 124,643,476 |
| Construction WIP | 3,042,812 | 3,454,036 | 2,824,968 | 3,671,880 |
| Total | 127,986,361 | 6,707,361 | 5,237,834 | 129,455,888 |
| McNeil 50%: | | | | |
| Land – nondepreciable | 138,299 | — | — | 138,299 |
| Production plant | 53,694,235 | 425,418 | 515,926 | 53,603,727 |
| General equipment | 171,259 | 751 | 1,483 | 170,527 |
| Other plant | 381,004 | 2,473 | — | 383,477 |
| Depreciable McNeil 50% | 54,246,498 | 428,642 | 517,409 | 54,157,731 |
| Total | 54,384,797 | 428,642 | 517,409 | 54,296,030 |
| Construction WIP | 672 | 433,772 | 428,642 | 5,802 |
| Total capital assets | 182,371,830 | 7,569,775 | 6,183,885 | 183,757,720 |
| Electric plant acquisition: | | | | |
| Adjustment: | | | | |
| Production Plant – Winooski One | 11,922,742 | — | — | 11,922,742 |
| Total capital assets and acquisition adjustment | $ 194,294,572 | 7,569,775 | 6,183,885 | 195,680,462 |

| | Capital assets | | | |
|---|---|---|---|---|
| | **June 30, 2018** | **Additions** | **Disposals and transfers** | **June 30, 2019** |
| Operating: | | | | |
| Land – nondepreciable | $ 1,140,532 | — | — | 1,140,532 |
| Production plant | 17,527,447 | 455,225 | 11,382 | 17,971,290 |
| Transmission plant | 2,310,907 | 33,570 | — | 2,344,477 |
| Distribution plant | 83,085,929 | 2,791,901 | 787,737 | 85,090,093 |
| General plant | 12,461,648 | 621,471 | 378,215 | 12,704,904 |
| Other plant | 5,687,636 | 75,132 | 70,515 | 5,692,253 |
| Depreciable operating | 121,073,567 | 3,977,299 | 1,247,849 | 123,803,017 |
| Construction WIP | 2,298,889 | 4,721,222 | 3,977,299 | 3,042,812 |
| Total | 124,512,988 | 8,698,521 | 5,225,148 | 127,986,361 |
| Highgate: | | | | |
| Land – nondepreciable | 56,690 | — | 56,690 | — |
| Transmission plant | 3,797,599 | 9,479 | 3,807,078 | — |
| General plant | 77,629 | — | 77,629 | — |
| Depreciable Highgate | 3,875,228 | 9,479 | 3,884,707 | — |
| Total | 3,931,918 | 9,479 | 3,941,397 | — |
| McNeil 50%: | | | | |
| Land – nondepreciable | 138,299 | — | — | 138,299 |
| Production plant | 53,301,928 | 474,022 | 81,715 | 53,694,235 |
| General equipment | 168,440 | 2,819 | — | 171,259 |
| Other plant | 381,004 | — | — | 381,004 |
| Depreciable McNeil 50% | 53,851,372 | 476,841 | 81,715 | 54,246,498 |
| Total | 53,989,671 | 476,841 | 81,715 | 54,384,797 |
| Construction WIP | — | 477,513 | 476,841 | 672 |
| Total capital assets | 182,434,577 | 9,662,354 | 9,725,101 | 182,371,830 |
| Electric plant acquisition: | | | | |
| Adjustment: | | | | |
| Production Plant – Winooski One | 11,922,742 | — | — | 11,922,742 |
| Total capital assets and acquisition adjustment | $ 194,357,319 | 9,662,354 | 9,725,101 | 194,294,572 |

| | Accumulated depreciation | | | |
|---|---|---|---|---|
| | **June 30, 2019** | **Depreciation** | **Deletions** | **June 30, 2020** |
| Operating: | | | | |
| Production plant | $ 8,181,228 | 593,513 | (8,193) | 8,782,934 |
| Transmission plant | 590,613 | 72,026 | (43) | 662,682 |
| Distribution plant | 33,584,283 | 2,530,455 | 2,200,070 | 33,914,668 |
| General plant | 7,101,814 | 652,804 | 48,813 | 7,705,805 |
| Other plant | 5,459,787 | 79,917 | 12,505 | 5,527,199 |
| Total | 54,917,725 | 3,928,715 | 2,253,152 | 56,593,288 |
| McNeil 50%: | | | | |
| Production plant | 41,117,093 | 774,424 | 419,603 | 41,471,914 |
| General equipment | 99,004 | 19,556 | — | 118,560 |
| Other plant | 379,582 | 356 | — | 379,938 |
| Total | 41,595,679 | 794,336 | 419,603 | 41,970,412 |
| Total accumulated depreciation | 96,513,404 | 4,723,051 | 2,672,755 | 98,563,700 |
| Electric plant acquisition Adjustment: | | | | |
| Accumulated amortization | 2,048,844 | 476,910 | — | 2,525,754 |
| | $ 98,562,248 | 5,199,961 | 2,672,755 | 101,089,454 |
| Net capital assets | $ 95,732,324 | 2,369,814 | 3,511,130 | 94,591,008 |



(Continued)

| | Accumulated depreciation | | | |
|---|---|---|---|---|
| | June 30, 2018 | Depreciation | Deletions | June 30, 2019 |
| Operating: | | | | |
| Production plant | $ 7,595,149 | 597,375 | 11,296 | 8,181,228 |
| Transmission plant | 520,817 | 69,796 | — | 590,613 |
| Distribution plant | 31,721,298 | 2,480,974 | 617,989 | 33,584,283 |
| General plant | 6,873,390 | 659,679 | 431,255 | 7,101,814 |
| Other plant | 5,374,693 | 96,736 | 11,642 | 5,459,787 |
| Total | 52,085,347 | 3,904,560 | 1,072,182 | 54,917,725 |
| Highgate: | | | | |
| Transmission plant | 1,781,871 | 55,812 | 1,837,683 | — |
| General plant | 16,541 | 1,149 | 17,690 | — |
| Total | 1,798,412 | 56,961 | 1,855,373 | — |
| McNeil 50%: | | | | |
| Production plant | 40,425,195 | 766,825 | 74,927 | 41,117,093 |
| General equipment | 79,613 | 19,391 | — | 99,004 |
| Other plant | 379,227 | 355 | — | 379,582 |
| Total | 40,884,035 | 786,571 | 74,927 | 41,595,679 |
| Total accumulated depreciation | 94,767,794 | 4,748,092 | 3,002,482 | 96,513,404 |
| Electric plant acquisition Adjustment: | | | | |
| Accumulated amortization | 1,579,434 | 469,410 | — | 2,048,844 |
| | $ 96,347,228 | 5,217,502 | 3,002,482 | 98,562,248 |
| Net capital assets | $ 98,010,091 | 4,444,852 | 6,722,619 | 95,732,324 |

During fiscal years 2020 and 2019, respectively, the Department allocated $203,643 and $167,205 of depreciation expense to other operating expense captions in the statements of revenues, expenses and changes in net position.

In August 2014, the Department acquired the Winooski One hydroelectric facility, an existing facility on the Winooski River between the Cities of Burlington and Winooski. The Department recorded the net book value of the station as received. The difference between the fair market value purchase price and the net book value has been recorded in the electric plant acquisition adjustment account and is being amortized over the life of the associated bond financing.

## (3) Cash and Cash Equivalents and Investments

### *(a) Custodial Credit Risk – Deposits*

The custodial credit risk for current operating deposits is the risk that in the event of a bank failure, the Department's deposits may not be recovered. The deposits in the bank in excess of the insured amount are uninsured and uncollateralized. Total deposits at June 30, 2020 were $14,326,020, of which $12,541,459 was exposed to custodial credit risk; however, the City of Burlington is insured with the Federal Home Loan Bank (FHLB), Pittsburgh under a letter of credit for $16,200,000, which would cover uninsured amounts over the FDIC limit of $250,000. Total deposits at June 30, 2019, were $11,564,047, of which $9,757,353 was exposed to custodial credit risk; however, the City of Burlington is insured with FHLB, Pittsburgh under a letter of credit for $14,600,000 which would cover uninsured amounts over the FDIC limit of $250,000.

### *(b) Fair Value Measurements*

GASB statement No. 72, *Fair Value Measurement and Application* (GASB 72), sets forth the framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used for measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for incidental assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under GASB 72 are described as follows:

**Level 1** – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Department has the ability to access.

**Level 2** – Input to valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

**Level 3** – Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs reflect the Department's own assumptions about the inputs market participants would use in the pricing of the asset or liability (including assumption of risk). Unobservable inputs are developed based on the best information available in circumstances and may include the Department's own data.

All the Department's investments, as of June 30, 2020 and 2019 are considered to be Level 1 under the fair value hierarchy.


(Continued)

***(c) Investments***

The Department has a formal investment policy and is authorized per Article 1, Section 1.1 of the General Bond Resolution to invest in obligations as follows:

(1) Direct obligations of the United States of America or obligations guaranteed by the United States of America.

(2) Bonds, notes or other evidences of indebtedness issued or guaranteed by the CoBank, Federal Intermediate Credit Banks, FHLB, FNMA, GNMA, Export-Import Bank of the United States, Federal Land Banks, U.S. Postal Service, Federal Financing Bank, or any agency or instrumentality of or corporation wholly owned by the United States of America.

(3) New Housing Authority Bonds issued by public agencies or municipalities and fully secured by a pledge of annual contributions under annual contributions contract with the United States of America, or Project Notes issued by public agencies or municipalities and fully secured by a requisition or payment agreement with the United States of America.

(4) Obligations of any state, commonwealth or territory of the United States of America, or the district of Columbia, or any political subdivision of the foregoing, with an investment grade rating not lower than the three highest categories by at least one nationally recognized debt rating service.

(5) Certificates of deposit and bankers acceptances issued by banks which are members of the FDIC and each of which has a combined capital and surplus of not less than ten million dollars, provided that the time deposits in and acceptances of any bank under the Resolution (a) do not exceed at any time twenty-five percent of the combined capital and surplus of the bank or (b) are fully secured by obligations described in items 1, 2, 3, and 4 of this paragraph.

(6) Repurchase contracts with banks which are described in item 5 of this paragraph, or with recognized primary dealers in government bonds, fully secured by obligations described in items 1, 2, 3, and 4 of this paragraph.

***(d) Concentration of Credit Risk – Investments***

Concentration of credit risk of investments is the risk of loss attributable to the magnitude of a Department's investment in a single issuer. The Department invests its current operating cash in money market accounts with TD Bank, KeyBank and Northfield Savings Bank, and its restricted funds in several money market accounts with its bond trustees (US Bank), which are approximately 15% of the total investment balance at June 30, 2020. The invested balance of money market funds reported within cash and cash equivalents on June 30, 2020 and 2019 was $1,456,568 and $1,374,466, respectively. The invested balance of noncurrent money market funds reported within restricted investments-deposits with bond trustees on June 30, 2020 and 2019 was $3,097,145 and $4,241,179, respectively. The invested balance of certificates of deposit reported within restricted investments on June 30, 2020 and 2019 was $0 and $2,619,557, respectively. The invested balance of U.S. Treasuries reported within restricted investments on June 30, 2020 and 2019 was $2,752,273 and $0, respectively.

### *(e) Interest Rate Risk – Investments*

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Department has minimized its risk exposure as its investments are limited to government securities and other high quality investments as outlined in the investment policy.

The money market funds held by the Department are not rated.

The Department's investments as of June 30, 2020 and 2019 are (all of which are restricted by bond resolution) presented below by investment type, and debt securities are presented by remaining maturity.

| | | Investment type | | | | Investment maturities (in years) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Year | | Money market | U.S Treasury bills | Certificates of deposit | Total fair value | Less than 1 | 1–2 | 2–3 | 3–4 | 4–5 |
| 2020 | $ | 3,097,145 | 2,752,273 | — | 5,849,418 | 3,548,295 | 2,752,273 | — | — | — |
| 2019 | | 4,241,179 | — | 2,619,557 | 6,860,736 | 6,419,661 | 441,075 | — | — | — |

The Department is required by its bond indenture to make monthly deposits into the renewal and replacement fund equal to 10% of the monthly revenue bond debt service funding requirements. Funds on deposit may be withdrawn from the renewal and replacement fund for expenses allowed by the bond covenant. Amounts in excess of $867,000 at June 30 may be returned to the revenue fund. A summary of deposits with bond trustees is as follows:

| | | June 30 | |
|---|---|---|---|
| | | 2020 | 2019 |
| Bond funds: | | | |
| Renewal and replacement fund | $ | 867,000 | 2,087,441 |
| Debt service fund | | 2,183,883 | 2,153,738 |
| Debt service reserve fund | | 2,798,535 | 2,619,557 |
| | | 5,849,418 | 6,860,736 |
| Accrued interest receivable | | — | 138,551 |
| | $ | 5,849,418 | 6,999,287 |

## (4) Regulatory Assets and Regulatory Deferred Inflows of Resources

Regulatory assets and regulatory deferred inflows of resources at June 30, 2020 and 2019 are comprised of the following:

| | | 2020 | 2019 |
|---|---|---|---|
| Deferred depreciation expense to be recovered in future years | $ | 1,476,137 | 1,581,575 |
| Deferred retirement of meters (b) | | — | 4,132 |
| COVID-19 Capitalized personnel costs (c) | | 231,768 | — |
| Total regulatory assets | $ | 1,707,905 | 1,585,707 |
| Deferred depreciation expense – McNeil Plant | $ | 3,141,277 | 3,287,408 |
| Deferred depreciation expense – Operating | | 1,613,767 | 1,427,153 |
| Total regulatory deferred inflows of resources | $ | 4,755,044 | 4,714,561 |

### *(a) Deferred Depreciation Expense to be Recovered in Future Years*

Provisions for depreciation of general capital assets are reported using the straight-line method at rates based upon the estimated service lives and salvage values of the several classes of property. Depreciation of capital assets of the McNeil Generating Station are calculated using the straight-line method. However, a portion of the current depreciation expense is only recoverable through future rates. The difference is included in deferred charges (calculated as the straight-line depreciation expense less the depreciation expense on a sinking fund basis) and will be recovered in future years. The Department recorded straight-line depreciation of $4,723,051 and $4,748,092 for the years ended June 30, 2020 and 2019, respectively. In 2020 and 2019, $145,921 and $65,546, respectively, of deferred depreciation expense was realized. Unamortized deferred depreciation of $1,476,137 and $1,581,575 remained at June 30, 2020 and 2019, respectively.

In 2019, deferred depreciation expense of $357,899 related to the Highgate Converter Station was expensed due to the Department's sale of its 7.7% ownership interest and will not be recoverable through future rates.

### *(b) Deferred Retirement of Meters*

Due to the Smart Grid project in 2012-2013, and under a Department of Public Service directive, the depreciated book value of certain retired meters has been deferred and will be amortized over a five-year period. Amortization expense related to the deferred write off was $4,132 and $49,440 for 2020 and 2019, respectively. The unamortized balance at June 30, 2020 and 2019 is $0 and $4,132, respectively.

### *(c) COVID-19 Capitalized Personnel Costs*

On July 31, 2020, the Department filed a request with the PUC for an accounting order, pursuant to 30 V.S.A. §221, that would allow the Department to capitalize certain costs by debiting FERC account 182.3 (other regulatory assets) instead of showing the costs as expenses on its income statements for the year ending June 30, 2020. The Department evaluated its budgeted capitalized labor and benefit expenses to identify which capital projects have been delayed specifically due to the COVID-19 pandemic for the year ending June 30, 2020. The Department proposed to capitalize and record as a regulatory asset instead of showing these expenses on its income statement for the year ending June 30, 2020. On September 17, 2020, the PUC issued the accounting order. This regulatory asset will be amortized over a 5 year period beginning in fiscal year 2023 or at a time concurrent with the effective date of the Department's next rate case filing, whichever comes first.

### *(d) Deferred Depreciation Expense to be Paid in Future Years*

Beginning in 2011, certain accumulated deferred depreciation balances became negative due to the fact that the financed assets were close to being fully depreciated when compared to the future debt sinking fund requirements. These accumulated amounts are displayed as deferred inflows of resources. Deferred depreciation expense of $4,755,044 and $4,714,561 remained at June 30, 2020 and 2019, respectively.

## (5) Long-Term Liabilities

Outstanding debt consists of the following at June 30, 2020 and 2019:

| | June 30, 2019 | Increases | Payments and reductions | June 30, 2020 | Current portion |
|---|---|---|---|---|---|
| Outstanding debt: | | | | | |
| Electric System Revenue Bonds: | | | | | |
| 5.24% 2011 Series A, due 2022 | $ 900,000 | — | (285,000) | 615,000 | 300,000 |
| 8.11% 2011 Series B, due 2022 | 405,000 | — | (125,000) | 280,000 | 135,000 |
| 3.78% 2014 Series A, due 2035 | 10,200,000 | — | (480,000) | 9,720,000 | 495,000 |
| 3.36% 2014 Series B, due 2025 | 3,695,000 | — | (570,000) | 3,125,000 | 590,000 |
| 4.85% 2017 Series A, due 2032 | 4,010,000 | — | — | 4,010,000 | — |
| Taxable 3.40% 2017 Series B, due 2032 | 5,200,000 | — | (220,000) | 4,980,000 | 225,000 |
| Total revenue bonds | 24,410,000 | — | (1,680,000) | 22,730,000 | 1,745,000 |
| Adjustments: | | | | | |
| Add unamortized premium | 457,862 | — | (41,022) | 416,840 | — |
| Less unamortized discount | (503,828) | — | — | (503,828) | — |
| Total revenue debt of the department | 24,364,034 | — | (1,721,022) | 22,643,012 | 1,745,000 |
| General obligation debt, repayable from the departments Resources: | | | | | |
| 3.77%, due 2021: CI#2011A | 735,000 | — | (690,000) | 45,000 | 45,000 |
| 3.73%, due 2032: CI#2011B | 730,000 | — | (45,000) | 685,000 | 45,000 |
| 5.00%, due 2023: CI#2012A1 | 1,590,000 | — | (1,325,000) | 265,000 | 80,000 |
| 5.00%, due 2023: CI#2012A2 | 1,395,000 | — | (1,160,000) | 235,000 | 75,000 |

| | June 30, 2019 | Increases | Payments and reductions | June 30, 2020 | Current portion |
|---|---|---|---|---|---|
| 6.00%, due 2033: | | | | | |
| CI#2012B | $ 1,015,000 | — | (50,000) | 965,000 | 50,000 |
| 6.30%, due 2020: | | | | | |
| CI#2013B | 1,960,714 | — | (1,960,714) | — | — |
| 2.78%, due 2035: | | | | | |
| CI#2014 | 2,400,000 | — | (150,000) | 2,250,000 | 150,000 |
| 5.0%, due 2023: | | | | | |
| CI#2015A | 2,720,000 | — | (2,375,000) | 345,000 | 110,000 |
| 4.82%, due 2030: | | | | | |
| CI#2016A | 9,630,000 | — | (810,000) | 8,820,000 | 830,000 |
| 4.62% due 2037: | | | | | |
| CI#2016B | 2,815,000 | — | (100,000) | 2,715,000 | 105,000 |
| 4.03% due 2030: | | | | | |
| CI#2016C | 7,785,000 | — | (595,000) | 7,190,000 | 605,000 |
| 2.76% due 2030: | | | | | |
| CI#2016D | 9,370,000 | — | (730,000) | 8,640,000 | 750,000 |
| 4.88% due 2038: | | | | | |
| CI#2017C | 2,900,000 | — | (100,000) | 2,800,000 | 105,000 |
| 5.00% due 2039: | | | | | |
| CI#2018B | 3,000,000 | — | (90,000) | 2,910,000 | 95,000 |
| 4.39% due 2040 | | | | | |
| CI#2019A | — | 3,000,000 | — | 3,000,000 | 85,000 |
| Taxable 2.59% due 2036 | | | | | |
| CI#2019C | — | 8,130,000 | — | 8,130,000 | 160,000 |
| Total general obligation bonds | 48,045,714 | 11,130,000 | (10,180,714) | 48,995,000 | 3,290,000 |
| Adjustments: | | | | | |
| Add unamortized premium | 4,060,479 | 551,292 | (710,316) | 3,901,455 | — |
| Deduct unamortized discount | (781,782) | 60,906 | (384,406) | (1,105,282) | — |
| Total general obligation debt | 51,324,411 | 11,742,198 | (11,275,436) | 51,791,173 | 3,290,000 |
| Total long-term debt | $ 75,688,445 | 11,742,198 | (12,996,458) | 74,434,185 | 5,035,000 |
| Other noncurrent liabilities: | | | | | |
| Accumulated provision for compensated absence | $ 761,214 | 261,572 | — | 1,022,786 | |
| Other post-employment benefit | 1,251,810 | 189,414 | (440,708) | 1,000,516 | |
| On-bill revolving loans | 391,770 | — | (1,238) | 390,532 | |
| Net pension liability | 13,727,447 | 3,586,032 | (2,308,722) | 15,004,757 | |
| Total other noncurrent liabilities | $ 16,132,241 | 4,037,018 | (2,750,668) | 17,418,591 | |



(Continued)

| | June 30, 2018 | Increases | Payments and reductions | June 30, 2019 | Current portion |
|---|---|---|---|---|---|
| Outstanding debt: | | | | | |
| Electric System Revenue Bonds: | | | | | |
| 5.24% 2011 Series A, due 2022 | $ 1,170,000 | — | (270,000) | 900,000 | 285,000 |
| 8.11% 2011 Series B, due 2022 | 520,000 | — | (115,000) | 405,000 | 125,000 |
| 3.78% 2014 Series A, due 2035 | 10,665,000 | — | (465,000) | 10,200,000 | 480,000 |
| 3.36% 2014 Series B, due 2025 | 4,245,000 | — | (550,000) | 3,695,000 | 570,000 |
| 4.85% 2017 Series A, due 2032 | 4,010,000 | — | — | 4,010,000 | — |
| Taxable 3.40% 2017 Series B, due 2032 | 5,410,000 | — | (210,000) | 5,200,000 | 220,000 |
| Total revenue bonds | 26,020,000 | — | (1,610,000) | 24,410,000 | 1,680,000 |
| Adjustments: | | | | | |
| Add unamortized premium | 497,494 | — | (39,632) | 457,862 | — |
| Deduct unamortized discount | (503,828) | — | — | (503,828) | — |
| Total revenue debt of the department | 26,013,666 | — | (1,649,632) | 24,364,034 | 1,680,000 |
| General obligation debt, repayable from the departments Resources: | | | | | |
| 3.77%, due 2031: CI#2011A | 780,000 | — | (45,000) | 735,000 | 45,000 |
| 3.73%, due 2031: CI#2011B | 775,000 | — | (45,000) | 730,000 | 45,000 |
| 5.00%, due 2032: CI#2012A1 | 1,670,000 | — | (80,000) | 1,590,000 | 80,000 |
| 5.00%, due 2032: CI#2012A2 | 1,460,000 | — | (65,000) | 1,395,000 | 75,000 |
| 6.00%, due 2032: CI#2012B | 1,060,000 | — | (45,000) | 1,015,000 | 50,000 |
| 6.30%, due 2033: CI#2013B | 1,960,714 | — | — | 1,960,714 | — |
| 2.78%, due 2034: CI#2014 | 2,550,000 | — | (150,000) | 2,400,000 | 150,000 |
| 5.0%, due 2035: CI#2015A | 2,820,000 | — | (100,000) | 2,720,000 | 105,000 |
| 4.82%, due 2029: CI#2016A | 9,915,000 | — | (285,000) | 9,630,000 | 810,000 |
| 4.62% due 2037: CI#2016B | 2,910,000 | — | (95,000) | 2,815,000 | 100,000 |
| 4.03% due 2030: CI#2016C | 7,785,000 | — | — | 7,785,000 | 595,000 |

| | June 30, 2018 | Increases | Payments and reductions | June 30, 2019 | Current portion |
|---|---|---|---|---|---|
| 2.76% due 2030: | | | | | |
| CI#2016D | $ 9,525,000 | — | (155,000) | 9,370,000 | 730,000 |
| 4.88% due 2038: | | | | | |
| CI#2017C | 3,000,000 | — | (100,000) | 2,900,000 | 100,000 |
| 5.00% due 2039: | | | | | |
| CI#2018B | — | 3,000,000 | — | 3,000,000 | 90,000 |
| Total general obligation bonds | 46,210,714 | 3,000,000 | (1,165,000) | 48,045,714 | 2,975,000 |
| Adjustments: | | | | | |
| Add unamortized premium | 3,835,714 | 327,887 | (103,122) | 4,060,479 | 275,796 |
| Deduct unamortized discount | (794,714) | 12,932 | — | (781,782) | (70,141) |
| Total general obligation debt | 49,251,714 | 3,340,819 | (1,268,122) | 51,324,411 | 3,180,655 |
| Total long-term debt | $ 75,265,380 | 3,340,819 | (2,917,754) | 75,688,445 | 4,860,655 |
| Other noncurrent liabilities: | | | | | |
| Accumulated provision for compensated absence | $ 786,648 | 4,212 | (29,646) | 761,214 | |
| Other post-employment benefit | 1,170,055 | 132,616 | (50,861) | 1,251,810 | |
| On-bill revolving loans | 391,770 | — | — | 391,770 | |
| Net pension liability | 16,182,193 | 2,552,997 | (5,007,743) | 13,727,447 | |
| Total other noncurrent liabilities | $ 18,530,666 | 2,689,825 | (5,088,250) | 16,132,241 | |

The Electric System Revenue Bonds have been issued pursuant to the General Bond Resolution and are collateralized by a pledge of the Department's operating revenues. Pursuant to the General Bond Resolution, revenues (as defined) means all rates, fees, charges or other income and includes rentals, proceeds of insurance or condemnation or other disposition of assets, proceeds of bonds or notes and earnings from the investment of revenues. On an annual basis, revenues must be sufficient after deducting operating expenses (as defined) to meet minimum debt service coverage requirements (as defined). If minimum debt service coverage requirements are not met, the Department must take timely corrective action. For the years ended June 30, 2020 and 2019, the Department met its debt service coverage requirements.

The Department has pledged future revenues, net of specified operating expenses, to repay the principal and interest on its Electric System Revenue Bonds issued in 2011, 2014 and 2017. The bonds are payable solely from revenues as defined and are payable through 2035. Annual principal and interest payments on the bonds are expected to require less than 50% of net revenues. The total principal and interest remaining to be paid on the bonds was $28,759,792 and $31,346,001 at June 30, 2020 and 2019, respectively. During 2020 and 2019, principal and interest paid, and net revenues available for debt service, were $2,586,210 and $8,445,774 and $2,584,455 and $7,898,746, respectively.

The general obligation bonds were issued to finance electric system improvements and are collateralized by the general revenue-raising power of the City of Burlington. Pursuant to the terms of a General Bond Resolution adopted by the City of Burlington on October 7, 1981, the claim on the revenues of the Department by the holders of revenue bonds under the General Bond Resolution is prior to any claim of the holders of general obligation bonds.

During the fiscal year ended June 30, 2020, the Department, through the City of Burlington, issued $3,000,000 in general obligation bonds, 2019 Series A, with an average coupon rate of 5.00%. These bonds were issued in accordance with the City Charter to cover annual capital improvements to the electric infrastructure of the Department for use during fiscal year 2020. The Department, through the City of Burlington issued $8,130,000 in general obligation bonds, 2019 Series C, with an average coupon rate of 2.44%. These bonds were issued for the purpose of providing funds, together with other available funds, for the refunding of the maturities of prior bonds: Series 2011A, Series 2011B, Series 2012A, Series 2013B, Series 2015A. The Department is expecting a net savings of $936,302 with a present value of $753,130.

During the fiscal year ended June 30, 2019, the Department, through the City of Burlington, issued $3,000,000 in general obligation bonds, 2018 Series B, with an average coupon rate of 5.00%. These bonds were issued in accordance with the City Charter to cover annual capital improvements to the electric infrastructure of the Department for use during fiscal year 2019.

Annual debt service requirements exclusive of unamortized premium or discount are as follows:

| | | Revenue debt | | General obligation debt | | |
|---|---|---|---|---|---|---|
| | | **Principal** | **Interest** | **Principal** | **Interest** | **Total** |
| Year ending June 30: | | | | | | |
| 2021 | $ | 1,745,000 | 846,033 | 3,290,000 | 1,839,246 | 7,720,279 |
| 2022 | | 1,810,000 | 784,163 | 3,420,000 | 1,730,658 | 7,744,821 |
| 2023 | | 1,850,000 | 723,984 | 3,495,000 | 1,611,003 | 7,679,987 |
| 2024 | | 1,935,000 | 655,429 | 3,655,000 | 1,477,970 | 7,723,399 |
| 2025–2029 | | 7,910,000 | 2,261,834 | 20,145,000 | 5,079,892 | 35,396,726 |
| 2030–2034 | | 6,645,000 | 741,649 | 10,705,000 | 1,764,999 | 19,856,648 |
| 2035–2040 | | 835,000 | 16,700 | 4,285,000 | 432,992 | 5,569,692 |
| | $ | 22,730,000 | 6,029,792 | 48,995,000 | 13,936,760 | 91,691,552 |

Section 7.8 of the General Bond Resolution requires the Department to file annual audited financial statements and accompanying CPA certificate within 120 days of the end of its fiscal year. The Department was late in making the required filing for the fiscal year ended June 30, 2018.

The Bond Trustee on January 23, 2019 notified Bondholders of the Department's default and that an Event of Default had occurred under the Resolution. The Department subsequently filed its audited financial statements and accompanying CPA certificate for the fiscal year ended June 30, 2018 on January 31, 2019. The City's Bond Counsel is working to cure the event of default. As of October 28, 2020, no Bondholder has indicated they intend to call the bonds and it is not probable that any Bondholders will call the bonds. As a result, the Department has reported the debt as a long-term obligation, net of the current amount due in fiscal year 2020.

## (6) Short Term Debt – Line of Credit

In February 2012, the City issued on behalf of the Department, a $5,000,000 General Obligation Revenue Anticipation Note (Line of Credit) with a local bank, placing the Line of Credit directly with the Department. On June 22, 2020, this Line of Credit was renewed for a two-year term to May 18, 2022. The Department had the entire Line of Credit balance of $5,000,000 available for use during both fiscal years 2020 and 2019 and there was no activity during the past two fiscal years.

## (7) Production Expenses

Production expenses are comprised of the following:

| | | Year ended June 30 | |
|---|---|---|---|
| | | 2020 | 2019 |
| McNeil Generating Station: | | | |
| Fuel | $ | 7,045,290 | 6,447,520 |
| Operations | | 1,582,374 | 1,656,976 |
| Maintenance | | 728,167 | 2,174,250 |
| | | 9,355,831 | 10,278,746 |
| Winooski One Hydro station: | | | |
| Operations | | 268,785 | 352,392 |
| Maintenance | | 191,020 | 96,475 |
| | | 459,805 | 448,867 |
| Gas turbine | | | |
| Fuel | | 46,574 | 89,174 |
| Operations | | 14,673 | 23,143 |
| Maintenance | | 60,236 | 191,661 |
| | | 121,483 | 303,978 |
| Solar: | | | |
| Operations | | 17,413 | 26,948 |
| Total production expenses | $ | 9,954,532 | 11,058,539 |

## (8) Retirement Benefits

The City maintains a single employer defined benefit pension plan and a deferred compensation retirement plan. The Department contributes to the defined benefit plan, the allocated required contribution as set forth by the City's actuary for its employees, together with a direct employee contribution of 5.51% (nonunion) and 4.67% and 5.51% (IBEW, depending on choice of plan) of gross wages. For the years ended June 30, 2020 and 2019, the Department made 100% of its required contributions which totaled $1,118,159 and $1,322,391, respectively. The Department, in addition to making 100% of its required contribution in 2020 and 2019, paid an Administrative Fee of $49,315 and $48,612, respectively. Participation in the deferred compensation plan is strictly voluntary, with no matching contribution from the Department.

### *(a) Defined Benefit Plan*

All full-time employees of the Department participate in the City of Burlington Employees' Retirement System (BERS Plan). The City's plan covers substantially all of its employees except elected officials, other than the mayor, and the majority of the public school teachers, who are eligible for the Vermont Teachers' Retirement System.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the BERS Plan and additions to/deductions from BERS Plan's fiduciary net position have been determined on the same basis as they are reported by the BERS Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Unaudited financial information for the BERS Plan is available from the City of Burlington, Burlington Vermont 05401.

#### *(i) Summary of BERS Plan*

All eligible Department union and nonunion employees vest 100% after 5 years of creditable service. Department employees who retire at 65 are entitled to a retirement benefit.

For employees hired prior to July 1, 2006: Age 65 and older, the retirement benefit is the greater of (i) 1.6% of average final compensation (AFC) (at age 65) times creditable service not in excess of 25 years plus 0.5% of AFC (at age 65) times creditable service in excess of 25 years or (ii) the actuarial equivalent of the benefit determined at age 65. This benefit will be increased by the Cost of living adjustment detailed below.

For employees hired after July 1, 2006: Age 65 and older, the retirement benefit is the greater of (i) 1.4% of AFC (at age 65) times creditable service not in excess of 25 years plus 0.5% of AFC (at age 65) times creditable service in excess of 25 years or (ii) the actuarial equivalent of the benefit determined at age 65. This benefit will be increased by the cost of living adjustment detailed below.

In lieu of this benefit, at the time of retirement, a member may choose (i) an accrual rate of 1.9% for all years of service prior to June 30, 2006 for the first 25 years, an accrual rate of 1.8% for all years of service commencing July 1, 2006 for the first 25 years, plus an accrual of 0.5% for creditable service in excess of 25 years, and a cost of living adjustment equal to one-half of the cost of living adjustment detailed below, or (ii) an accrual rate of 2.2% for all years of service prior to June 30, 2006 for the first 25 years, an accrual rate of 2.0% for all years of service commencing July 1, 2006 for the first 25 years, plus and accrual of 0.5% for creditable service in excess of 25 years, with no cost of living adjustment.

Except for employees detailed below, the above benefit based on AFC and creditable service at retirement is reduced by 2% for each year that retirement is between ages 60 and 64. For IBEW employees hired before May 1, 2008 who elect an additional contribution rate of 1% a reduction factor is applied of 2% for each year the retirement precedes age 65. For IBEW employees hired before May 1, 2008, who do not elect an additional contribution rate of 1%, the benefit is reduced by a factor which varies with age: factor of 1 at age 65 and a factor of 0.4 at age 55.

For IBEW employees hired after May 4, 2008, the benefit is reduced by a factor which varies by age: factor of 1 at age 65 and a factor of 0.356 at age 55.

*(ii) Cost of Living Adjustment*

Benefits increase annually by changes in the Consumer Price Index of more than 1%, to a maximum of 5%. This increase is not applicable to deferred vested benefit prior to commencement, survivor income benefit, disability benefit prior to normal retirement age, or participants who choose to have no cost of living adjustment. For all employees retiring after July 1, 2017, the maximum annual increase is 2.75%.

*(iii) Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*

The BERS Plan's net pension liability was measured as of June 30, 2019 (Measurement Date). As of the Measurement Date, BERS Plan reported a net pension liability of $83,437,732. The plan fiduciary net position as a percentage of the total pension liability is 70.00%.

At June 30, 2020 and 2019, the Department reported a liability of $15,004,757 and $13,727,447, respectively, for its proportionate share of the net pension liability. The net pension liability at June 30, 2020 was measured as of June 30, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Department's proportion of the net liability was based on a projection of the Department's long-term share of contributions relative to the projected contributions of all participating departments in the City, actuarially determined. At June 30, 2020, the Department's proportion was 17.98%, which was a decrease of 0.16% from its proportion measured as of June 30, 2019.

For the years ended June 30, 2020 and 2019, the Department recognized pension expense of $2,258,586 and $2,457,967, respectively. At June 30, 2020 and 2019, the Department reported its allocated proportionate share of deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | 2020 | |
|---|---|---|
| | **Deferred outflows of resources** | **Deferred inflows of resources** |
| Payment after the measurement date | $ 1,118,159 | — |
| Difference between actual and projected experience | 247,080 | 322,809 |
| Difference between actual and projected investment earnings | 120,896 | — |
| Changes in assumptions | 755,950 | 675,166 |
| Deferred change in proportion | 59,249 | 234,378 |
| | $ 2,301,334 | 1,232,353 |

| | 2019 | |
|---|---|---|
| | **Deferred outflows of resources** | **Deferred inflows of resources** |
| Payment after the measurement date | $ 1,322,391 | — |
| Difference between actual and projected experience | 310,715 | 585,233 |
| Difference between actual and projected investment earnings | 37,532 | — |
| Changes in assumptions | 940,500 | 1,021,432 |
| Deferred change in proportion | 118,497 | 279,625 |
| | $ 2,729,635 | 1,886,290 |

Deferred outflows of resources for payments made after the measurement date will be recognized as a reduction in the net pension liability in the next fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

| | | |
|---|---|---|
| Year ended June 30: | | |
| 2021 | $ | 237,959 |
| 2022 | | (631,875) |
| 2023 | | 183,898 |
| 2024 | | 160,840 |
| Total | $ | (49,178) |

*(iv)* *Actuarial Assumptions*

The actuarial assumptions used in the June 30, 2019 and 2018 valuations were based on results of an actuarial experience study for the period July 1, 2012 to June 30, 2017. As a result of the 2018 actuarial experience study, the mortality table and inflation factor were adjusted to better reflect anticipated experience. Salary increases were changed to be consistent with the lowering of the inflation factor.

| | |
|---|---|
| Valuation dates | June 30, 2019 and June 30, 2018 |
| Mortality tables | RP 2014 adjusted to 2006 total dataset mortality table, scale MP 2019, set forward 2 years (Non-Disabled) |
| | RP 2014 adjusted to 2006 disabled mortality table, scale MP 2019 (Disabled) |
| Inflation | 2.6% |
| Salary increases | 3.0% average, including inflation |
| Investment rate of return | Best estimate ranges of expected future real rates of return for each major asset class included in the target allocation as of June 30, 2019 and 2018. |



(Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| | Target allocation | 20 Year expected rate of return |
|---|---|---|
| Asset class: | | |
| Large cap core equity | 30.00 % | 7.50 % |
| SMID cap core equity | 18.00 | 10.20 |
| International equity | 10.00 | 5.50 |
| Emerging markets equity | 10.00 | 10.10 |
| Private equity | 2.00 | 10.90 |
| Real estate/timber | 10.00 | 8.40 |
| Core fixed income | 20.00 | 3.30 |

Discount rate 7.40%

The projection of cash flows used to determine the discount rate for financial reporting purposes assumed that contributions will continue to be made in accordance with the current funding policy. Based on those assumptions, the BERS Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Department's proportionate share of the net pension liability to changes in the discount rate*. The following presents the Department's proportionate share of the net pension liability calculated using the current discount rate of 7.40% for financial reporting purposes, as well as what the Department's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.40%) or 1-percentage-point higher (8.40%) than the current rate:

| | 2020 | | |
|---|---|---|---|
| | 1% Decrease (6.40%) | Current discount rate (7.40%) | 1% Increase (8.40%) |
| Department's proportionate share of the net pension liability | $ 20,183,128 | 15,004,757 | 10,587,675 |

| | | 2019 | | |
|---|---|---|---|---|
| | | 1% Decrease (6.50%) | Current discount rate (7.50%) | 1% Increase (8.50%) |
| Department's proportionate share of the net pension liability | $ | 18,778,808 | 13,727,447 | 9,426,364 |

### *(b) Deferred Compensation Plan*

The Department offers its employees a deferred compensation plan administered through the City, in accordance with Section 457 of the Internal Revenue Code. The plan permits employees to defer a portion of their salary until future years. The deferred compensation is not available to the employees until termination, retirement, death, or for "unforeseeable emergency" as defined by IRS guidelines. The assets of the plan are not included in the accompanying financial statements.

## (9) Other Post-Employment Benefits (OPEB)

The City maintains a single employer post-retirement benefits other than pension (OPEB) plan (the Plan). Plan costs relate to subsidized health care and life insurance for retirees during the period from retirement to the date of eligibility for social security benefits.

### *(a) OPEB Plan*

Post-employment benefits and Compensated Absences (below) are paid for by the applicable fund where the employee is charged. For the years ended June 30, 2020 and 2019, the Department's contribution was $37,028 and $10,653, respectively and is determined on a pay as you go basis.

For purposes of measuring OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense, information about the net position of the Plan and additions to/deductions from the Plan's net position have been determined on the same basis as they are reported by the Plan. The Plan is currently unfunded.

The Actuarial Valuation Report for the Plan is available from the City of Burlington, Burlington Vermont 05401.

#### *(i) Summary of OPEB Plan*

Department employees' normal retirement age is 65 with 5 years of service; early retirement is age 55 with 5 years of service. All members are eligible where permanently disabled.

Retired employees pay 100% of their post-retirement medical premium costs, which are based on COBRA rates for pre-65 coverage.

The City provides $2,000 in life insurance for retirees, except for members of AFSCME and IBEW unions who receive $10,000 in life insurance. Certain current retirees have $6,000 of life insurance in force.

Retired employees pay 100% of their dental costs. Dental coverage is generally available for up to 18 months. The City does not subsidize this benefit.

As of June 30, 2019 (Actuarial Valuation Report), the Department had 107 active participants and 148 retirees in the Plan.

*(ii) Total OPEB Liability, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs*

At June 30, 2020 and 2019, the Department reported a liability of $1,000,516 and $1,251,810, respectively, for its proportionate share of the total OPEB liability. The total OPEB liability was measured as of it's respective fiscal year end. The total OPEB liability was determined by an actuarial valuation as of June 30, 2019 rolled forward to the respective measurement dates. The total OPEB liability at June 30, 2019 was increased by service costs and interest and decreased by benefit payments to estimate the total OPEB liability at June 30, 2020. The Department's proportion of the total OPEB liability was based on a projection of the Department's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating departments in the City, actuarially determined. At June 30, 2020, the Department's proportion was 15.2% and at June 30, 2019, the Department's proportion was 23.46%.

For the years ended June 30, 2020 and 2019, the Department recognized OPEB expense of $25,768 and $96,477, respectively. At June 30, 2020 and 2019, The Department reported its allocated proportionate share of deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | 2020 | |
|---|---|---|
| | Deferred outflow of resources | Deferred inflow of resources |
| Difference between actual and projected experience | $ 14,002 | 84,137 |
| Changes in assumptions | 218,491 | 13,945 |
| Changes in proportion | — | 378,381 |
| | $ 232,493 | 476,463 |

| | 2019 | |
|---|---|---|
| | Deferred outflow of resources | Deferred inflow of resources |
| Difference between actual and projected experience | $ 27,164 | 45,729 |
| Changes in assumptions | 41,683 | 27,054 |
| | $ 68,847 | 72,783 |

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| | | |
|---|---|---|
| Year ended June 30: | | |
| 2021 | $ | (39,738) |
| 2022 | | (39,738) |
| 2023 | | (39,738) |
| 2024 | | (39,739) |
| 2025 | | (39,708) |
| Thereafter | | (45,309) |
| Total | $ | (243,970) |

(iii) *Actuarial Assumptions*:

The total OPEB liability in the June 30, 2020 and 2019 Measurement Date was determined using the following actuarial assumptions:

| | |
|---|---|
| Valuation date | 7/1/2019 |
| Mortality table | RP-2014 adjusted to 2006 total dataset mortality table, projected with Scale MP-2019 (prior RP-2000, scale BB) |
| Inflation | 2.60% |
| Payroll growth | 2.60% |
| Discount Rate | 2.21% as of 6/30/20 and 3.51% as of 6/30/19 |

Healthcare Cost Trend Rates: 6.50% in 2019, reducing by 0.2% each year to an ultimate rate of 4.60% per year rate for 2029 and later.

Healthcare cost trend rates reflect both the current and long term outlook for increases in healthcare costs. The short-term rates were based on recent industry surveys, plan experience, and near-term expectations. The long-term trend rate was based on the actuary’s general inflation assumption plus an adjustment to reflect expectations for long-term medical inflation.

Since the Plan is not funded, the selection of the discount rate is consistent with the GASB Statement No. 75 standards linking the discount rate to the 20-year AA municipal bond index for unfunded OPEB plans. The discount rate used for the Plan’s valuation is equal to the published Bond Buyer GO 20-Bond Municipal Index effective as of June 30, 2020. At June 30, 2020 and 2019, the discount rate was 2.21% and 3.51%, respectively.

*Sensitivity of the Department's proportionate share of the net OPEB liability to changes in the discount rate*. The following presents the Department's proportionate share of the net OPEB liability calculated using the current discount rate of 2.21%, as well as what the Department's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.21%) or 1-percentage-point higher (3.21%) than the current rate:

| | | 2020 | | |
|---|---|---|---|---|
| | | **1% Decrease (1.21%)** | **Current discount rate (2.21%)** | **1% Increase (3.21%)** |
| Department's proportionate share of the net OPEB liability | $ | 1,144,601 | 1,000,516 | 881,303 |

| | | 2019 | | |
|---|---|---|---|---|
| | | **1% Decrease (2.51%)** | **Current discount rate (3.51%)** | **1% Increase (4.51%)** |
| Department's proportionate share of the net OPEB liability | $ | 1,405,364 | 1,251,810 | 1,123,713 |

*Sensitivity of the Department's proportionate share of the net OPEB liability to changes in healthcare cost trend rates*. The following presents the Department's proportionate share of the net OPEB liability calculated using the current healthcare cost trend rate of 6.5% decreasing to 4.60%, as well as what the Department's proportionate share of the net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower (5.5% decreasing to 3.60%) or 1-percentage-point higher (7.5% decreasing to 5.60%) than the current rate.

| | | 2020 | | |
|---|---|---|---|---|
| | | **1% Decrease (5.5% decreasing to 3.60%)** | **Current healthcare cost trend rate (6.5% decreasing to 4.60%)** | **1% Increase (7.5% decreasing to 5.60%)** |
| Department's proportionate share of the net OPEB liability | $ | 907,376 | 1,000,516 | 1,114,009 |

| | | 2019 | | |
|---|---|---|---|---|
| | | 1% Decrease (6% decreasing to 3.6%) | Current healthcare cost trend rate (7% decreasing to 4.60%) | 1% Increase (8% decreasing to 5.60%) |
| Department's proportionate share of the net OPEB liability | $ | 1,152,002 | 1,251,810 | 1,370,339 |

## (10) Compensated Employee Absences

Vested vacation and nonexempt compensatory time are recorded under other noncurrent liabilities. Employees earn vacation leave based upon length of employment up to a maximum of 200 hours per year, but may accumulate no more than a maximum of 360 hours.

Employees also accrue sick leave credits based upon length of employment up to 144 hours per year. The Department has accrued a liability for a portion of accrued sick leave for eligible employees. At retirement, union employees can convert unused sick leave 2:1 up to 240 hours to 120 hours of pay. This conversion may not bring the sick leave balance below 240 hours. Nonunion employees hired prior to January 1, 2001, upon retirement can convert one-third (1/3) the number of days of accumulated unused sick leave up to a maximum payment of four (4) weeks or, upon resignation, can convert one-fourth (1/4) the number of days of accumulated unused sick leave up to a maximum payment of three (3) weeks.

At June 30, 2020 and 2019, the Department has reported accrued compensated employee absences of $1,022,786 and $761,214, respectively, in other noncurrent liabilities.

## (11) Commitments and Contingencies

(a) The Department receives output from generation of the McNeil Generating Station, the Burlington Gas Turbine, the Winooski One hydro facility, the Airport Solar array, and the Pine Street Solar array. Except for the McNeil Generating Station (for which the Department is the operator and 50% owner), the Department owns 100% of the remaining resources and is also responsible for their operation.

(b) In addition to energy provided by its owned generation, the Department purchases a portion of its electricity requirements pursuant to long-term (greater than one year in duration) contracts. During the fiscal years ended June 30, 2020 and 2019, long-term sources of purchased power included:

1. New York Power Authority (NYPA) power from hydro stations on the Niagara and St. Lawrence rivers under contracts through September 1, 2025 (Niagara) and through April 30, 2032 (St. Lawrence).

2. Vermont Electric Power Producers, Inc. (VEPPI) which is agent for hydro facilities located within Vermont (the remaining VEPPI contracts expire in 2020).

3. Deliveries pursuant to the original ten-year contract with Vermont Wind commenced in September 2011 (for test energy), with the official contract start date being October 19, 2011 when commercial energy production began. Under the contract and its five-year extension, the Department receives 16 MW (40%) of Vermont Wind's wind farm in northeast Vermont (Sheffield) through October 18, 2026. BED's 16 MW entitlement is expected to provide approximately 10% of BED's annual energy requirements.

4. The Department purchases energy from the Georgia Mountain Community Wind (GMCW) project with commercial operation on December 31, 2012. Pursuant to a 25-year contract, the Department receives 10MW (100%) entitlement from Georgia Mountain's wind farm in Milton/Georgia, Vermont. GMCW is expected to produce energy sufficient to meet approximately 9% of BED's annual energy needs.

5. Deliveries pursuant to a ten-year contract with Hancock Wind began in December 2016. Under the contract, the Department will receive 13.5 MW (26.5%) of Hancock's wind farm. It is expected to produce energy sufficient to meet approximately 11% of BED's annual energy needs.

6. Prior to 2017, BED had received energy from long term purchases from a number of small in-state resources under a state mandated feed-in tariff program (called Standard Offer resources). Effective January 1, 2017, BED was exempted from purchasing energy from these high-priced resources (in recognition of its 100% renewable energy purchases). BED expects this exemption to continue through at least 2021.

7. Purchase of the output from 6 small in-city solar projects under long term agreements.

8. The Burlington City Council, the Vermont Public Utility Commission, and the voters of Burlington have approved a 23-year energy-only contract with Hydro-Quebec. Deliveries began (for the Department) in November 2015. Under the contract, the Department will receive 5 MW of contract energy for the period November 1, 2015 to October 31, 2020 and a second (additional) 4 MW of contract energy for the period November 1, 2020 to October 31, 2038. BED's entitlement is expected to provide approximately 6-15% of BED's annual energy requirements depending on whether one or both contract entitlements are flowing in a particular year.

9. In 2013, BED entered a long-term power agreement to purchase the output of a 2.5 MW solar generating facility located in Burlington (South Forty Solar). This facility came online in January of 2018 and provides the Department with VT Class 2 RECs as well as energy and reduced capacity and transmission requirements.

10. In 2017, BED signed a two-year contract with Great River Hydro with deliveries beginning January 1, 2019. In 2019, this contract was extended for five additional years from 2021 through 2024. The Department receives 7.5 MW during 16 peak hours of each day, along with the associated RECs (that qualify as VT Class I). This contract is sourced from one or more hydro facilities in the State of Vermont.

Energy and Capacity payments under these long-term power supply contracts were $12,887,835 and $14,763,162 for the years ended June 30, 2020 and 2019, respectively, with the decrease from 2019 being largely due to decreased price from the Vermont Wind extension and lower actual deliveries under that contract. Budgeted commitments under these long-term contracts and long-term contracts approved and executed for future delivery periods total approximately $76,532,306 for the 5-year period from July 1, 2020 to June 30, 2024.

| | Budgeted commitment |
|---|---|
| Fiscal year: | |
| 2021 | $ 14,867,240 |
| 2022 | 15,361,581 |
| 2023 | 15,549,996 |
| 2024 | 15,827,446 |
| 2025 | 14,926,043 |
| | $ 76,532,306 |

The remainder of the Department's energy requirements (if any) are satisfied through short-term purchases including:

11. Short-term purchases from market counterparties if necessary.

12. Net exchange of energy through the Independent System Operator – New England power markets.

The costs of power purchased under these contracts are accounted for as purchased power expenses in the statements of revenues, expenses, and changes in net assets. The percentages of the Department's total energy sources were provided as follows:

| | 2020 | 2019 |
|---|---|---|
| McNeil Generating Station and Gas Turbine | 35 % | 32 % |
| Winooski One | 9 | 9 |
| New York Power Authority | 6 | 6 |
| Vermont Electric Power Producers | — | 1 |
| Standard Offer | 25 | — |
| Wind Production | 8 | 29 |
| Hydro-Quebec | 12 | 9 |
| NextEra | 4 | — |
| Great River Hydro | 1 | 14 |
| | 100 % | 100 % |

Note the percentages are relative to the Department's total sources rather than a percentage of requirements, and the Department sells RECs associated with much of the above generation and the above table should not be considered a representation of the Department's renewability. In both years, the sources of energy shown above exceed the Department's annual energy requirements.

## (12) Subsequent Events

On July 21, 2020, the Department, through the City of Burlington, entered into a $3,000,000, Series 2020, general obligation bond anticipation note maturing on October 21, 2021 and bearing interest at the fixed rate of 0.72%.

The spread of the novel coronavirus, causing increased cases of COVID-19, around the world in 2020 has caused significant volatility in U.S. and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies. At this time, the Department is not able to reliably estimate the length and severity of the COVID-19 public health crisis and, as such, cannot quantify its impact on the financial results, liquidity and capital resources and its operations in future periods.