CITY OF BURLINGTON, VERMONT
ELECTRIC DEPARTMENT

Financial Statements and
Required Supplementary Information

June 30, 2019 and 2018

(With Independent Auditors' Report Thereon)

CITY OF BURLINGTON, VERMONT
ELECTRIC DEPARTMENT

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KPMG LLP
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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, 2019 and 2018, 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, 2019 and 2018, 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.

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, 2019 and 2018, the changes in its financial position, or where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. 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 3-13 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, 2019

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, 2019 and 2018. 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 (the 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.

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 establishes new accounting and financial reporting requirements for OPEB plans.

This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. Implementation of these new reporting standards required that the Department restate its beginning net position as of July 1, 2016, for the cumulative effects of applying this statement. Disclosures required under GASB Statement No. 75 apply to the City of Burlington OPEB Plan for which the Department is required to fund its share of the net OPEB liability.

(Continued)

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 .5% higher than 2018 sales.
- Other Revenues (primarily sales of renewable energy credits) were $10,820,031 or 7.2% below 2018.
- Total operating expenses were $59,902,200 in 2019, a 1,881,868 or 3.2% 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 Plant capacity factor for fiscal year 2019 was 48.6% compared to 60.3% in 2018, supplying 106,488 MWH and 132,157 MWH, respectively, of its energy production to the Department.

June 30, 2018

- Operating income was $220,239 a decrease of $3,023,306 or 93% below 2017.
- Sales to Customers were $46,702,347 or 1.7% lower than 2017 sales.
- Other Revenues (primarily sales of renewable energy credits) were $11,658,623 or 8.8% below 2017.
- Total operating expenses were $58,020,332 in 2018, a $1,040,326 or 1.8% increase in total operating expenses over 2017.
- Total net position at June 30, 2018 was $63,122,791, which was a decrease of $19,552 from the restated June 30, 2017 net position.
- Total capital assets (net of depreciation) were $98,010,091 at June 30, 2018, compared to $99,807,006 at June 30, 2017.
- The McNeil Plant capacity factor for fiscal year 2018 was 60.3% compared to 61.4% in 2017, supplying 132,157 MWH and 134,539 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, 2019, 2018 and 2017:

	2019	2018	2017	Percentage change 2018–2019	Percentage change 2017–2018	
Current assets – unrestricted	$ 24,218,168	25,429,159	25,855,237	(4.8)%	(1.6)%	(A)
Restricted assets	6,999,287	6,713,393	6,329,441	4.3	6.1	(B)
Capital assets, net	95,732,324	98,010,091	99,807,006	(2.3)	(1.8)	(C)
Other noncurrent assets	36,305,263	34,119,178	31,432,206	6.4	8.5	(D)
Total assets	$ 163,255,042	164,271,821	163,423,890	(0.6)%	0.5 %	
Deferred outflows	$ 1,369,120	5,054,684	6,586,297	(72.9)%	(23.3)%	(E)
Current liabilities	$ 10,438,437	9,891,589	9,053,459	5.5	9.3	(F)
Current liabilities payable from restricted assets	467,772	506,683	606,206	(7.7)	(16.4)	
Other noncurrent liabilities	5,867,545	5,930,239	6,162,551	(1.1)	(3.8)	(D)
Net OPEB liability	1,251,810	1,170,055	1,167,694	7.0	0.2	
Net pension liability	13,727,447	16,182,193	16,198,638	(15.2)	(0.1)	(E)
Long-term debt, net	71,033,445	72,490,380	73,679,296	(2.0)	(1.6)	(G)
Total liabilities	$ 102,786,456	106,171,139	106,867,844	(3.2)%	(0.7)%	
Deferred inflows	$ 72,783	32,575	—	123.4	—	
Net position:						
Net invested in capital assets	$ 41,739,069	42,258,985	40,608,237	(1.2)	4.1	
Restricted	6,531,515	6,206,710	5,723,235	5.2	8.4	
Unrestricted	13,494,339	14,657,096	16,810,871	(7.9)	(12.8)	
Total net position	$ 61,764,923	63,122,791	63,142,343	(2.2)%	— %	(H)

(A) Current assets (unrestricted) at June 30, 2019, decreased $1,210,991 when compared to current assets at June 30, 2018 primarily due to a decrease in cash related to expenditures for the McNeil Plant major turbine overhaul. Current assets (unrestricted) at June 30, 2018, decreased $426,078 when compared to current assets at June 30, 2017 reflecting a decrease in cash from sales to ultimate Customers and sales of Renewable Energy Credits (RECs) at lower prices than the previous fiscal year.

(B) Restricted assets at June 30, 2019 and 2018 increased $285,894 and $383,952, respectively, due to additional investment in the Renewal and Replacement Fund. See note 3(e) – Interest Rate Risk – Investments.

(C) Net capital assets at June 30, 2019 decreased $2,277,767 when compared to net capital assets at 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. Net capital assets at June 30, 2018 decreased $1,796,915 when compared to net capital assets at June 30, 2017 due to retirements of equipment, vehicles, meters, computer software and streetlights and an increase in accumulated depreciation related to assets still in service.

(D) Other noncurrent assets at June 30, 2019 increased $2,186,085 when compared to other noncurrent assets at June 30, 2018 due to additional equity investments in associated companies, VELCO/Transco offset by a decrease in the unamortized balance at June 30, 2019 for costs related to the McNeil Station turbine overhaul, Highgate Transmission Plant and deferred retirement of meters. See note 4 – Regulatory Assets and Regulatory Liabilities.

The Department records as deferred depreciation expense the difference between certain bond sinking fund requirements and the straight-line depreciation of the assets financed. This deferred depreciation is accumulated and reported in other noncurrent assets. 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. In 2018, the balance of deferred depreciation was $2,042,280, after amortization of $80,393.

Beginning in 2011, based on these calculations, 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 noncurrent liabilities. In 2019, the balance of these deferred accounts decreased $37,260 to $4,714,561. In 2018, the balance of these deferred accounts decreased $91,433 to $4,751,821.

Other noncurrent assets at June 30, 2018 increased $2,686,972 when compared to other noncurrent assets at June 30, 2017 primarily due to additional equity investments in associated companies, VELCO/Transco. See note 4-Regulatory Assets and Regulatory Liabilities.

(E) The decrease in deferred outflows of $3,695,564 in 2019 when compared to 2018 is primarily 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, changes in assumptions related to inflation, salary increases and the discount rate. The decrease in deferred outflows of $1,531,613 in 2018 when compared to 2017 is due to a decrease in the difference between the projected and actual pension plan experience and investment earnings, offset by an increase due to changes in assumptions related to the discount rate.

The decrease in net pension liability of $2,454,746 in 2019 when compared to 2018 is primarily due to employer contributions, decreases in the difference between the projected and actual plan experience and investment earnings, changes in assumptions related to inflation and salary increases. See note 8 – Retirement Benefits.

(F) Current liabilities at June 30, 2019 increased $546,848 when compared to current liabilities at June 30, 2018 due to an increase in current maturities of debt and an increase in Accounts Payable. Current liabilities at June 30, 2018 increased $838,130 when compared to current liabilities at June 30, 2017 due to an increase in current maturities of debt and an increase in Accounts Payable.

(G) Long-term debt, net at June 30, 2019 decreased $1,456,935 when compared to long-term debt at June 30, 2018 in accordance with current maturities schedules offset by new issuance of $3,000,000. Long-term debt, net at June 30, 2018 decreased $1,188,916 when compared to long-term debt at June 30, 2017 in accordance with current maturities schedules offset by new issuance of $3,000,000 in General Obligation debt.

(H) Net position at June 30, 2019 decreased $1,357,868 when compared to net position at June 30, 2018 primarily due to expenses related to the McNeil Plant major turbine overhaul in 2019. Net position at June 30, 2018 decreased $19,552 when compared to net position at June 30, 2017 primarily due to lower costs in 2018 for production expenses related to the purchase of woodchips at the Joseph C. McNeil Generating Station.

Changes in Net Position

A summary of changes in net position for the fiscal years ended June 30, 2019, 2018 and 2017 follows:

	2019	2018	2017	Percentage change 2018–2019	Percentage change 2017–2018	
Operating revenues:						
Sales to ultimate customers	$ 46,934,550	46,702,347	47,529,289	0.5 %	(1.7)%	(A)
Other revenues	10,820,031	11,658,623	12,784,024	(7.2)	(8.8)	(B)
Less provision for uncollectible accounts	(192,024)	(120,399)	(89,762)	59.5	34.1	
Total operating revenues, net	57,562,557	58,240,571	60,223,551	(1.2)	(3.3)	
Operating expenses:						
Production	11,058,539	11,089,265	11,144,328	(0.3)%	(0.5)%	
Purchased power	19,123,119	17,488,225	17,304,532	9.3	1.1	(C)
Other power supply expenses	1,226,502	1,157,223	1,156,405	6.0	0.1	(C)
Transmission	8,304,310	7,131,269	7,225,283	16.4	(1.3)	(C)
Distribution	3,516,117	3,374,453	3,032,272	4.2	11.3	(D)
Customer accounting and service	4,724,669	4,789,982	4,479,246	(1.4)	6.9	(E)
Administration and general	5,491,088	6,176,527	5,667,958	(11.1)	9.0	(F)
Depreciation and amortization	5,473,723	5,870,040	5,914,766	(6.8)	(0.8)	(G)
Taxes	984,133	943,348	1,055,216	4.3	(10.6)	
Total operating expenses	59,902,200	58,020,332	56,980,006	3.2	1.8	
Operating income / (Loss)	(2,339,643)	220,239	3,243,545	(1,162.3)%	(93.2)%	

(Continued)

		2019	2018	2017	Percentage change 2018–2019	Percentage change 2017–2018	
Other income (expense):							
Dividend income	$	4,282,667	4,147,819	3,516,718	3.3	17.9	(H)
Interest income		219,497	148,986	126,468	47.3	17.8	
Gain (Loss) on sale of capital assets		1,274,924	(409,639)	(1,107,797)	(411.2)	(63.0)	(I)
Other		174,252	111,608	155,213	56.1	(28.1)	
Total other income		5,951,340	3,998,774	2,690,602	48.8	48.6	
Total finance charges		(2,817,045)	(2,795,980)	(3,100,176)	0.8	(9.8)	
Income before transfers and capital contributions		794,652	1,423,033	2,833,971	(44.2)	(49.8)	
Transfers to the City for payment: in lieu of taxes		(2,469,340)	(2,294,893)	(2,261,785)	7.6	1.5	
Income (loss) before capital contributions		(1,674,688)	(871,860)	572,186	92.1	(252.4)	
Capital contributions		316,820	852,308	531,453	(62.8)	60.4	
Change in net position		(1,357,868)	(19,552)	1,103,639	6,844.9	(101.8)	
Net position at beginning of year		63,122,791 *	63,142,343 *	62,038,704 *	—	1.8	
Net position at end of year	$	61,764,923	63,122,791	63,142,343	(2.2)%	— %	

* Restated due to implementation of GASB 75.

(A) Sales to ultimate customers reflects more usage in 2019 compared to 2018, and no changes in rates. Sales to ultimate customers reflects less usage in 2018 compared to 2017, and no changes in rates.

(B) Other operating revenues for 2019 decreased by $838,592 as compared to 2018, due to declining prices received for the sale of Renewable Energy Credits (REC) and lower Energy Efficiency Utility Program Cost Reimbursements. Other operating revenues for 2018 decreased by $1,125,401 as compared to 2017, primarily due to declining prices received for the sale of Renewable Energy Credits (REC).

(C) Purchased power costs for 2019 increased $1,634,894 when compared to 2018 primarily due to lower production at the McNeil Plant, requiring BED to purchase more power from the ISO New England Exchange.

Purchased power costs for 2018 increased $183,693 when compared to 2017 primarily due to lower production at the McNeil Plant, requiring BED to purchase more power from the ISO New England Exchange. The requirement to purchase more power from the ISO New England Exchange was mitigated by additional production due to the new Great River Hydro contract.

(Continued)

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

Transmission costs for 2019 increased $1,173,041 when compared to 2018 primarily due to depreciation and property taxes on additional assets placed in service by VELCO. Transmission costs for 2018 decreased $94,014 when compared to 2017.

(D) The increase in distribution expense of $141,664 in 2019 compared to 2018 reflects the increase in labor and overheads related to costs of living increases (COLA).The increase in distribution expense of $342,181 in 2018 compared to 2017 reflects the increase in labor and overheads related to positions filled in 2018 that were vacant in 2017.

(E) The decrease in customer accounting and services expense of $65,313 in 2019 compared to 2018 reflects lower costs associated with billable energy efficiency and demand side management programs during 2019 when compared to 2018 The increase in customer accounting and services expense of $310,696 in 2018 compared to 2017 reflects a reclassification of costs for a maintenance contract related to meters from administrative and general expenses, increased costs for informational advertising, costs for a technical study on how the McNeil Plant could accommodate district energy and an increase in costs to comply with Vermont's Renewable Energy Standard (30 V.S.A. 8005).

(F) The decrease in administrative and general expense of $685,439 in 2019 when compared to 2018 reflects the decrease in labor and overheads related to positions that were vacant in 2019, decrease in outside services related to issue costs for Revenue Bond refinancing incurred in 2018 and lower pension costs. The increase in administrative and general expense of $508,569 in 2018 when compared to 2017 is primarily due to an increase in pension expense.

(G) Depreciation and amortization, including deferred depreciation expense, decreased by $396,317 in 2019 when compared to 2018 due to the full amortization of assets acquired under the Smart Grid/Meter project in 2012-2013. Depreciation and amortization, including deferred depreciation expense, decreased by $44,726 in 2018 when compared to 2017 reflecting additional depreciation associated with capital additions.

(H) Dividend income increased $134,848 in 2019 when compared to 2018 due to additional equity investments in associated companies, VELCO/Transco. Dividend income increased $631,101 in 2018 when compared to 2017 due to additional equity investments in associated companies, VELCO/Transco.

(I) Gain on sale of capital assets of $1,274,924 in 2019 when 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. Loss on sale of capital assets decreased $698,158 in 2018 when compared to 2017 primarily due to the nonrecurring losses on retirement of McNeil Generation Station assets and retirements related to building renovations at the Pine Street facility.

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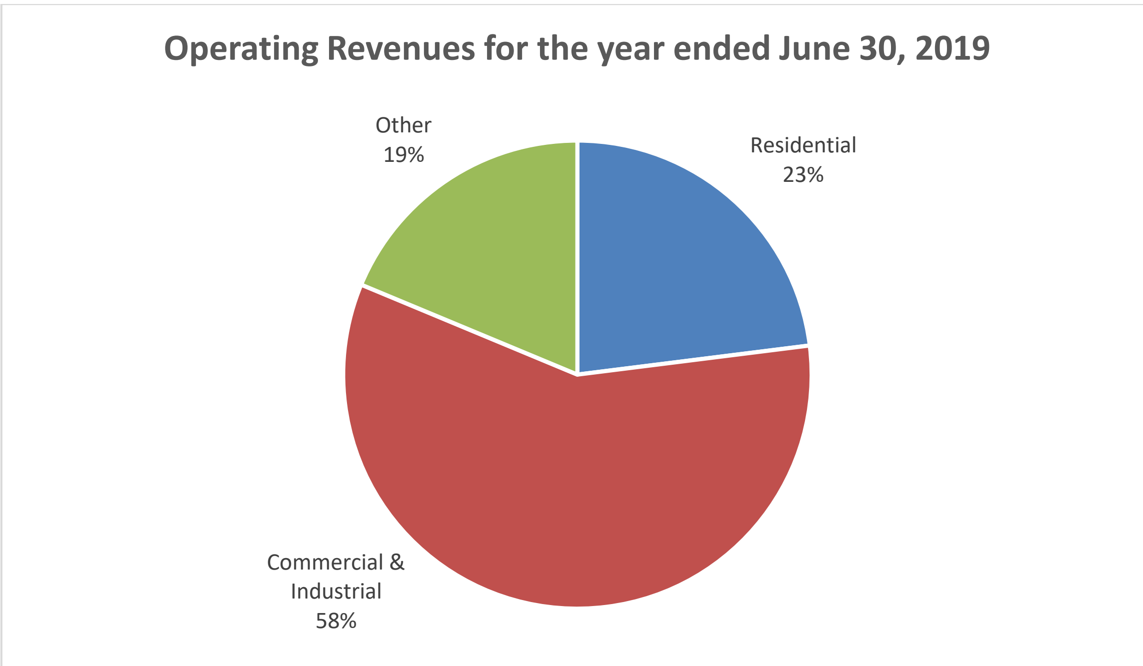
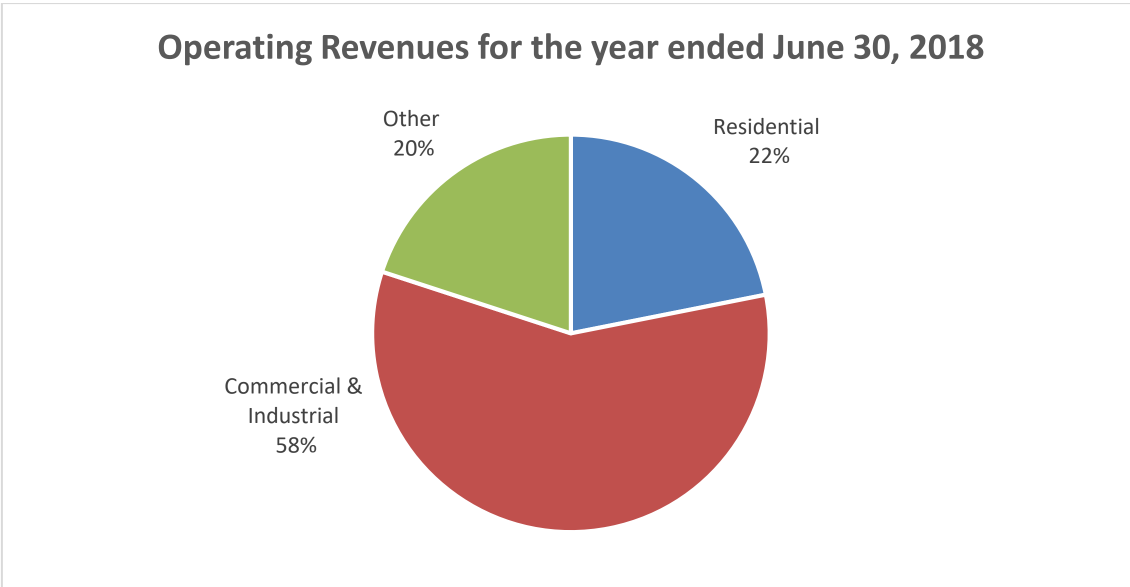
Revenue

The following charts show the major sources of operating revenues for the years ended June 30, 2019 and 2018:





Long-Term Debt – Revenue and General Obligation Bonds

The following chart summarizes long-term debt related to revenue and general obligation bonds for the years ended June 30, 2019, 2018 and 2017:

		2019	2018	2017
Revenue bonds, net of current installments	$	22,684,034	24,403,666	26,118,703
General obligation bonds, net of current installments		48,349,411	48,086,714	47,560,593
Total bonds, net	$	71,033,445	72,490,380	73,679,296

During the fiscal year ending 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 ending June 30, 2018, the Department, through the City of Burlington, issued $3,000,000 in general obligation bonds, 2017 Series C, with an average coupon rate of 4.88%. These bonds were issued for use during fiscal year 2018 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 while also anticipating 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, 2019, 2018 and 2017:

		2019	2018	2017
Capital assets	$	194,294,572	194,357,319	190,701,577
Accumulated depreciation/amortization		98,562,248	96,347,228	90,894,571
Net capital assets	$	95,732,324	98,010,091	99,807,006

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:

	2019	2018
McNeil Station	50.0 %	50.0 %
Highgate Station	—	7.7

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 is 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.

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During 2019, net capital assets decreased $2,277,767. Net capital asset deletions 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 deletions were offset by depreciation expense of $5,217,502 and retired plant assets with a net carrying value of $3,002,482.

During 2018, net capital assets decreased $1,796,915. Net capital asset additions amounted to $3,655,742 which included improvements to production plant, distribution and system upgrades. These capital asset additions were offset by depreciation expense of $6,052,053 and retired plant assets with a net carrying value of $599,396.

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 James Reardon, CPA, Director of Finance.

CITY OF BURLINGTON, VERMONT
ELECTRIC DEPARTMENT

Statements of Net Position

June 30, 2019 and 2018

Assets and Deferred Outflows		**2019**	**2018**
Capital assets, net	$	95,732,324	98,010,091
Current assets:			
Cash and cash equivalents		10,818,282	12,120,593
Restricted investments – deposit with bond trustees and accrued interest receivable		467,772	506,683
Accounts receivable, net of allowance for uncollectible accounts of $67,093 and $263,230, respectively		4,438,129	4,367,039
Unbilled revenues		2,065,029	1,970,182
Fuel and materials inventory, at average cost		5,344,141	5,515,816
Other		1,552,587	1,455,529
Total current assets		24,685,940	25,935,842
Noncurrent assets:			
Restricted investments – deposits with bond trustees		6,531,515	6,206,710
Regulatory assets		1,585,707	2,095,852
Investments in associated companies		34,719,556	32,023,326
Total noncurrent assets		42,836,778	40,325,888
Total assets	$	163,255,042	164,271,821
Deferred outflows:			
Deferred loss on advanced refunding	$	456,928	470,451
Deferred pension contribution and change in proportion		843,345	4,551,525
Deferred OPEB – Difference between actual and projected experience		68,847	32,708
Total deferred outflows	$	1,369,120	5,054,684

(Continued)

CITY OF BURLINGTON, VERMONT
ELECTRIC DEPARTMENT

Statements of Net Position

June 30, 2019 and 2018

Liabilities, Deferred Inflows and Net Position		2019	2018
Liabilities:			
Current liabilities:			
Current installments of long-term debt:			
Revenue bonds	$	1,680,000	1,610,000
General obligation debt of the City of Burlington		2,975,000	2,885,000
Accounts payable		3,810,391	3,257,065
Other current liabilities		1,973,046	2,139,524
Liabilities payable from restricted assets – deposits with bond trustees		467,772	506,683
Total current liabilities		10,906,209	10,398,272
Noncurrent liabilities:			
Long-term debt:			
Revenue bonds		22,684,034	24,403,666
General obligation debt of the City of Burlington		48,349,411	48,086,714
Other noncurrent liabilities		1,152,984	1,178,418
Net pension liability		13,727,447	16,182,193
Other post-employment benefits		1,251,810	1,170,055
Regulatory liabilities		4,714,561	4,751,821
Total noncurrent liabilities		91,880,247	95,772,867
Total liabilities	$	102,786,456	106,171,139
Deferred inflows:			
Deferred OPEB – Changes in assumptions	$	72,783	32,575
Total deferred inflows	$	72,783	32,575
Net position:			
Invested in capital assets, net of related debt	$	41,739,069	42,258,985
Restricted:			
Deposits with bond trustees		6,531,515	6,206,710
Unrestricted		13,494,339	14,657,096
Total net position	$	61,764,923	63,122,791

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, 2019 and 2018

		2019	2018
Operating revenues:			
Sales to ultimate customers	$	46,934,550	46,702,347
Other revenues		10,820,031	11,658,623
		57,754,581	58,360,970
Less provision for uncollectible accounts		192,024	120,399
Total operating revenues, net		57,562,557	58,240,571
Operating expenses:			
Production		11,058,539	11,089,265
Purchased power		19,123,119	17,488,225
Other power supply expenses		1,226,502	1,157,223
Transmission		8,304,310	7,131,269
Distribution		3,516,117	3,374,453
Customer accounting, service, and sales		4,724,669	4,789,982
Administrative and general		5,491,088	6,176,527
Depreciation and amortization		5,473,723	5,870,040
Taxes		984,133	943,348
Total operating expenses		59,902,200	58,020,332
Operating (loss) income		(2,339,643)	220,239
Nonoperating revenue (expenses):			
Dividends from associated companies		4,282,667	4,147,819
Interest income		219,497	148,986
Other income, net		174,252	111,608
Interest and amortization on long term debt		(2,817,045)	(2,795,980)
Gain / (Loss) on sale of capital assets		1,274,924	(409,639)
Total nonoperating expenses		3,134,295	1,202,794
Income before transfers and capital contributions		794,652	1,423,033
Transfers to the City of Burlington for payment in lieu of taxes		(2,469,340)	(2,294,893)
Loss before capital contributions		(1,674,688)	(871,860)
Capital contributions		316,820	852,308
Decrease in net position		(1,357,868)	(19,552)
Net position at beginning of year		63,122,791	63,142,343
Net position at end of year	$	61,764,923	63,122,791

See accompanying notes to financial statements.

CITY OF BURLINGTON, VERMONT
ELECTRIC DEPARTMENT

Statements of Cash Flows

Years ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Receipts:		
From ultimate customers	$ 47,260,760	46,928,824
Miscellaneous electric revenues and rent of electric property	10,524,020	11,951,022
Payments made for:		
Purchased power	(18,838,753)	(17,516,810)
Power production expense	(11,186,425)	(12,850,188)
Transmission expense	(8,322,331)	(7,127,441)
Distribution expense	(3,486,016)	(3,150,359)
Customer accounts and service expense	(5,084,070)	(5,023,611)
Administration and general expense	(4,716,164)	(4,269,779)
General taxes	(985,731)	(946,705)
Net cash provided by operating activities	5,165,290	7,994,953
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(5,324,721)	(4,756,826)
Less capital contributions	316,820	852,308
Proceeds from sale of Highgate Plant	3,670,000	—
Costs associated with sale of Highgate Plant	(13,073)	—
Proceeds from sale of capital assets	3,000	92,050
Costs associated with bond issuance	327,886	167,126
Premium realized on GO bonds issued	—	(169,780)
Principal paid on outstanding debt	(4,495,000)	(12,990,000)
Proceeds from new debt issuance	3,000,000	12,420,000
Interest paid on outstanding debt	(2,963,508)	(3,119,977)
Net cash used in capital and related financing activities	(5,478,596)	(7,505,099)
Cash flows from noncapital financing activities:		
Amounts paid in lieu of taxes	(2,469,340)	(2,328,924)
Other income	174,252	111,608
Net cash used in noncapital financing activities	(2,295,088)	(2,217,316)
Cash flows from investing activities:		
Deposits with bond trustees	(2,838,118)	(3,014,399)
Proceeds from deposits with bond trustees	2,584,455	2,662,519
Purchase of investment in associated companies	(2,696,230)	(3,020,460)
Interest and dividends on investments	4,255,976	4,166,569
Net cash provided by investing activities	1,306,083	794,229
Net decrease in cash and cash equivalents	(1,302,311)	(933,233)
Cash and cash equivalents at beginning of year	12,120,593	13,053,826
Cash and cash equivalents at end of year	$ 10,818,282	12,120,593
Reconciliation of cash from operating activities:		
Cash flows from operating activities:		
Operating income	$ (2,339,643)	220,239
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	4,748,074	5,587,642
Deferred depreciation expense realized in current year	423,445	(11,040)
Amortization expense of PSB deferred expense	—	133,567
Deferred projects amortization	469,410	464,410
Changes in assets and liabilities:		
Change in accounts receivable	(71,090)	380,517
Change in fuel and materials inventory	171,675	(747,517)
Change in unbilled revenues	(94,848)	101,936
Change in other deferred charges	13,302	119,528
Change in other current assets	116,900	(145,627)
Change in accounts payable	553,326	306,012
Change in other current liabilities	(175,225)	187,112
Change in net deferred inflow/outflow pension liability	1,293,642	1,539,054
Change in other noncurrent liabilities	56,322	(140,880)
Net cash provided by operating activities	$ 5,165,290	7,994,953

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) Regulation and Operations

The Burlington 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 which 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*, the Department records certain assets and liabilities in accordance with the economic effects of the rate making process.

(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 Station, the Highgate Converter Facility, 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 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. See note 4, Regulatory Assets and Regulatory Liabilities.

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 Public Utilities Commission (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 (3) factors above. The Department does not have any assets in this category.

(Continued)

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:

	2019	2018
McNeil Station	50.0 %	50.0 %
Highgate Station	—	7.7

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 operations. Separate financial statements are available from the Department for these jointly owned facilities.

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 is 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.

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

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

(e) *Investments 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 ownership interest in Vermont Electric Power Company, Inc. (VELCO), and its 5.46% ownership interest in Vermont Transco LLC (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, 2019, the Department purchased 118,634 Class A units and 150,989 Class B units in VT Transco LLC 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 VT Transco LLC. The interest rate per annum was equal to the interest rate charged VT Transco LLC by TD Bank NA pursuant to the Revolving Line of Credit Agreement among Vermont Electric Power Company, Inc., VT Transco LLC 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.

During the year ended June 30, 2018, the Department purchased 132,900 Class A units and 169,146 Class B units in VT Transco LLC for a cost of $3,020,460.

Schedule of Carrying Value in Associated Companies

		FY19	FY18
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		14,636,758	13,450,420
VT Transco, LLC, B Units		18,628,602	17,118,710
	$	34,719,556	32,023,326

(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. Investment securities held in deposits with bond trustees are stated at fair value.

(g) 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.

(h) 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.

(i) 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.

(j) 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 $2,487,458 and $2,328,924 for the years ended June 30, 2019 and 2018, respectively, with $18,118 and $34,031, respectively, being allocated to operating expenses.

In addition to the payments in lieu of taxes, the Department has paid indirect costs of $325,094 and $362,015 in 2019 and 2018, respectively, for a prorated share of costs associated with general government, human resources and general accounting 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 2019 and 2018 was 3.5% and 3.5%, respectively, 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 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, 2019 and 2018, respectively. The City of Burlington imposed a 1% sales tax upon taxable sales within the City. The McNeil Station is exempt from these sales taxes due to only being subject to use taxes.

(Continued)

(k) Inventories

Inventories are comprised 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.

(l) 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 terms of the related debt. Unamortized balances are included as a deferred outflow on the statements of net position.

(m) 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.

(n) 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 utilized as needed.

(o) 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.

(p) Renewable Energy Credit Sales

The Department received Renewable Energy Certificates (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).

(Continued)

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. 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 Renewable Energy Certificates (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 regulatory process for being able to issue RECs and output met the requirements needed to sell the RECs. McNeil receives a certification from the State of Connecticut indicating that they met the standards for the quarter based on the statistics provided by McNeil.

Effective September 1, 2014, the Department became the 100% owner of the Winooski One hydro facility. Until August 15, 2017, operations at the facility were managed through a contract with Northbrook Energy, from that date operations have become 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 has entitlement 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.

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. BED expects this exemption will continue through at least 2020.

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. BED 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 BED's Tier I obligation under Vermont's Renewable Energy Standard.

Proceeds from REC sales are included in Other Revenue. For the fiscal year ended June 30, 2019, REC revenue for McNeil, wind resources and the Winooski One hydro facility were $4,041,581, $2,670,884 and $647,350 respectively. For the fiscal year ended June 30, 2018, REC revenue for McNeil, wind resources and the Winooski One hydro facility were $4,328,353, $2,773,764 and $799,997 respectively. As of 2017, BED has retained RECs generated from its solar arrays and retired them to cover a portion of BED's Tier 3 obligation under Vermont's Renewable Energy Standard.

(q) 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, 2019 and 2018.

The Department implemented GASB Statement No. 83, *Certain Asset Retirement Obligations*, for the fiscal year ended June 30, 2019. 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.

(r) 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 (NPL) 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.

(s) 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 establishes new accounting and financial reporting requirements for OPEB plans. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses.

(Continued)

CITY OF BURLINGTON, VERMONT
ELECTRIC DEPARTMENT

Notes to Financial Statements

June 30, 2019 and 2018

(2) Capital Assets

	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 & acquisition adjustment	$ 194,357,319	9,662,354	9,725,101	194,294,572

	Capital assets			
	June 30, 2017	**Additions**	**Disposals and transfers**	**June 30, 2018**
Operating:				
Land – nondepreciable	$ 1,140,532	—	—	1,140,532
Production plant	16,923,987	603,460	—	17,527,447
Transmission plant	2,310,907	—	—	2,310,907
Distribution plant	80,411,320	2,919,834	245,225	83,085,929
General plant	12,435,827	453,278	427,457	12,461,648
Other plant	5,530,751	163,004	6,119	5,687,636
Depreciable operating	117,612,792	4,139,576	678,801	121,073,567
Construction WIP	2,490,570	3,288,155	3,479,836	2,298,889
Total	121,243,894	7,427,731	4,158,637	124,512,988
Highgate:				
Land – nondepreciable	56,690	—	—	56,690
Transmission plant	3,795,861	23,611	21,873	3,797,599
General plant	73,885	3,744	—	77,629
Depreciable Highgate	3,869,746	27,355	21,873	3,875,228
Total	3,926,436	27,355	21,873	3,931,918
McNeil 50%:				
Land – nondepreciable	138,299	—	—	138,299
Production plant	52,659,429	830,168	187,669	53,301,928
General equipment	159,659	55,847	47,066	168,440
Other plant	378,252	2,752	—	381,004
Depreciable McNeil 50%	53,197,340	888,767	234,735	53,851,372
Total	53,335,639	888,767	234,735	53,989,671
Construction WIP	272,866	615,901	888,767	—
Total capital assets	178,778,835	8,959,754	5,304,012	182,434,577
Electric Plant Acquisition Adjustment:				
Production Plant – Winooski One	11,922,742	—	—	11,922,742
Total capital assets & acquisition adjustment	$ 190,701,577	8,959,754	5,304,012	194,357,319

	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

	Accumulated depreciation			
	June 30, 2017	Depreciation	Deletions	June 30, 2018
Operating:				
Production plant	$ 6,919,326	675,823	—	7,595,149
Transmission plant	452,803	68,014	—	520,817
Distribution plant	29,487,483	2,397,581	163,766	31,721,298
General plant	6,567,175	674,248	368,033	6,873,390
Other plant	4,554,971	825,739	6,017	5,374,693
Total	47,981,758	4,641,405	537,816	52,085,347
Highgate:				
Transmission plant	1,674,677	111,730	4,536	1,781,871
General plant	14,374	2,167	—	16,541
Total	1,689,051	113,897	4,536	1,798,412
McNeil 50%:				
Production plant	39,631,720	807,741	14,266	40,425,195
General equipment	106,898	15,493	42,778	79,613
Other plant	370,120	9,107	—	379,227
Total	40,108,738	832,341	57,044	40,884,035
Total accumulated depreciation	89,779,547	5,587,643	599,396	94,767,794
Electric plant acquisition Adjustment:				
Accumulated amortization	1,115,024	464,410	—	1,579,434
	$ 90,894,571	6,052,053	599,396	96,347,228
Net capital assets	$ 99,807,006	2,907,701	4,704,616	98,010,091

During fiscal 2019 and 2018, respectively, the Department allocated $167,205 and $170,972 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. The 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 level of $250,000. The deposits at June 30, 2018, were $12,406,448 of which $10,609,300 was exposed to custodial credit risk; however, the City of Burlington is insured with FHLB, Pittsburgh under a letter of credit for $11,900,000 which would cover uninsured amounts over the FDIC level of $250,000.

(b) Fair Value Measurements

The Department has implemented GASB statement No. 72, *Fair Value Measurement and Application* (GASB 72), which 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 of the Department's investments, except investments in VELCO and VT TRANSCO, LLC as of June 30, 2019 and 2018 are considered to be Level 1 under the fair value hierarchy. See note 1 (e) Investments in Associated Companies.

(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, and its restricted funds in several money market accounts with its bond trustees (US Bank and Peoples United), which are approximately 13% of the total investment balance at June 30, 2019. The invested balance of money market funds reported within Cash and Cash Equivalents at June 30, 2019 and 2018 was $1,374,466 and $1,365,414, respectively. The invested balance of noncurrent money market funds reported within Restricted Investments-Deposits with Bond Trustees at June 30, 2019 and 2018 was $4,241,179 and $4,013,501, respectively. The invested balance of Certificates of Deposit reported within restricted investments at June 30, 2019 and 2018 was $2,619,557 and $2,593,574, 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, 2019 and 2018 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	Certificates of deposit	Total fair value	Less than 1	1–2	2–3	3–4	4–5
2019	$ 4,241,179	2,619,557	6,860,736	6,419,661	441,075	—	—	—
2018	4,013,501	2,593,574	6,607,075	4,458,399	1,714,000	434,676	—	—

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, 2019	June 30, 2018
Bond funds:		
Renewal and replacement fund	$ 2,087,441	1,747,947
Debt service fund	2,153,738	2,265,554
Debt service reserve fund	2,619,557	2,593,574
	6,860,736	6,607,075
Accrued interest receivable	138,551	106,318
	$ 6,999,287	6,713,393

(4) Regulatory Assets and Regulatory Liabilities

Regulatory assets and regulatory liabilities at June 30, 2019 and 2018 are comprised of the following:

		2019	2018
Deferred depreciation expense to be recovered in future years (a)	$	1,581,575	2,042,280
Deferred retirement of meters (b)		4,132	53,572
Total Regulatory assets	$	1,585,707	2,095,852
Deferred depreciation expense – McNeil Plant	$	3,287,408	3,443,200
Deferred depreciation expense – Operating		1,427,153	1,308,621
Total Regulatory liabilities	$	4,714,561	4,751,821

(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 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 $4,748,092 and $5,587,643 for the years ended June 30, 2019 and 2018, respectively. In 2019 and 2018, $65,546 and $11,040, respectively, of deferred depreciation expense was realized. Unamortized deferred depreciation of $1,581,575 and $2,042,280 remained at June 30, 2019 and 2018, respectively.

Deferred depreciation expense of $357,899 related to the Highgate Converter Station has been 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/Meter 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 $49,440 and $119,528 for 2019 and 2018, respectively. The unamortized balance at June 30, 2019 and 2018 is $4,132 and $53,572, respectively.

(c) 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 noncurrent liabilities. Deferred depreciation expense of $4,714,561 and $4,751,821 remained at June 30, 2019 and 2018, respectively.

(5) Long-Term Liabilities

Outstanding debt consists of the following at June 30, 2019 and 2018:

	June 30, 2018	Increases	Payments and reductions	June 30, 2019	Current portion
Outstanding debt:					
Electric System Revenue Bonds:					
5.24% 2011 Series A, due 2031	$ 1,170,000	—	(270,000)	900,000	285,000
8.11% 2011 Series B, due 2031	520,000	—	(115,000)	405,000	125,000
3.78% 2014 Series A, due 2025	10,665,000	—	(465,000)	10,200,000	480,000
3.36% 2014 Series B, due 2035	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

	June 30, 2018	Increases	Payments and reductions	June 30, 2019	Current portion
General obligation debt, repayable from the departments Resources:					
3.820%, due 2019 – CI#2009A	575,000	—	(575,000)	—	—
5.330%, due 2019 – CI#2009B	350,000	—	(350,000)	—	—
3.609%, due 2019 – CI#2009C1	595,000	—	(595,000)	—	—
5.912%, due 2019 – CI#2009D	200,000	—	(200,000)	—	—
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
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	47,930,714	3,000,000	(2,885,000)	48,045,714	2,975,000

	June 30, 2018	Increases	Payments and reductions	June 30, 2019	Current portion
Adjustments:					
Add unamortized premium	3,835,714	327,887	(103,122)	4,060,479	—
Deduct unamortized discount	(794,714)	12,932	—	(781,782)	—
Total general obligation debt	50,971,714	3,340,819	(2,988,122)	51,324,411	2,975,000
Total long-term debt	$ 76,985,380	3,340,819	(4,637,754)	75,688,445	4,655,000
Other noncurrent liabilities:					
Deferred Depreciation – McNeil	$ 3,443,200	260,858	416,650	3,287,408	
Deferred Depreciation – Operating	1,308,621	1,883,358	1,764,826	1,427,153	
Accumulated Provision for Compensated Absences	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	
Total Other noncurrent liabilities	$ 7,100,294	2,281,044	2,261,983	7,119,355	

	June 30, 2017	Increases	Payments and reductions	June 30, 2018	Current portion
Outstanding debt:					
Electric System Revenue Bonds:					
5.24% 2011 Series A, due 2031	$ 8,070,000	—	(6,900,000)	1,170,000	270,000
8.11% 2011 Series B, due 2031	2,940,000	—	(2,420,000)	520,000	115,000
3.78% 2014 Series A, due 2025	11,120,000	—	(455,000)	10,665,000	465,000
3.36% 2014 Series B, due 2035	4,785,000	—	(540,000)	4,245,000	550,000
4.85% 2017 Series A, due 2032	—	4,010,000	—	4,010,000	—
Taxable 3.40% 2017 Series B, due 2032	—	5,410,000	—	5,410,000	210,000
Total revenue bonds	26,915,000	9,420,000	(10,315,000)	26,020,000	1,610,000
Adjustments:					
Add unamortized premium	678,703	—	(181,209)	497,494	—
Deduct unamortized discount	—	(503,828)	—	(503,828)	—
Total revenue debt of the department	27,593,703	8,916,172	(10,496,209)	26,013,666	1,610,000
General obligation debt, repayable from the departments Resources:					
3.750%, due 2018 – CI#2007A	45,000	—	(45,000)	—	—
3.820%, due 2019 – CI#2009A	1,130,000	—	(555,000)	575,000	575,000
5.330%, due 2019 – CI#2009B	680,000	—	(330,000)	350,000	350,000
3.609%, due 2019 – CI#2009C1	1,165,000	—	(570,000)	595,000	595,000
5.912%, due 2019 – CI#2009D	390,000	—	(190,000)	200,000	200,000
3.77%, due 2031 – CI#2011A	820,000	—	(40,000)	780,000	45,000
3.73%, due 2031 – CI#2011B	815,000	—	(40,000)	775,000	45,000
5.00%, due 2032 – CI#2012A1	1,745,000	—	(75,000)	1,670,000	80,000

(Continued)

		June 30, 2017	Increases	Payments and reductions	June 30, 2018	Current portion
5.00%, due 2032 – CI#2012A2		1,525,000	—	(65,000)	1,460,000	65,000
6.00%, due 2032 – CI#2012B		1,105,000	—	(45,000)	1,060,000	45,000
6.30%, due 2033 – CI#2013B		1,960,714	—	—	1,960,714	—
2.78%, due 2034 – CI#2014		2,700,000	—	(150,000)	2,550,000	150,000
5.0%, due 2035 - CI#2015A		2,915,000	—	(95,000)	2,820,000	100,000
4.82%, due 2029 - CI#2016A		10,145,000	—	(230,000)	9,915,000	285,000
4.62% due 2037 CI#2016B		3,000,000	—	(90,000)	2,910,000	95,000
4.03% due 2030 CI#2016C		7,785,000	—	—	7,785,000	—
2.76% due 2030 CI#2016D		9,680,000	—	(155,000)	9,525,000	155,000
4.88% due 2038 CI#2017C		—	3,000,000	—	3,000,000	100,000
Total general obligation bonds		47,605,714	3,000,000	(2,675,000)	47,930,714	2,885,000
Adjustments:						
Add unamortized premium		3,438,383	473,345	(76,014)	3,835,714	—
Deduct unamortized discount		(808,504)	13,790	—	(794,714)	—
Total general obligation debt		50,235,593	3,487,135	(2,751,014)	50,971,714	2,885,000
Total long-term debt	$	77,829,296	12,403,307	(13,247,223)	76,985,380	4,495,000
Other noncurrent liabilities:						
Deferred Depreciation – McNeil	$	3,685,292	249,989	492,081	3,443,200	
Deferred Depreciation – Operating		1,157,961	1,994,495	1,843,835	1,308,621	
Accumulated Provision for Compensated Absences		930,906	26,544	170,802	786,648	
Other Post-Employment Benefit		261,213	908,842	—	1,170,055	
On-Bill Revolving Loans		388,392	3,378	—	391,770	
Total Other noncurrent liabilities	$	6,423,764	3,183,248	2,506,718	7,100,294	

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, 2019 and 2018, 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 is $31,346,001 and $33,930,456 at June 30, 2019 and 2018, respectively. During 2019 and 2018, principal and interest paid, and net revenues available for debt service, were $2,584,455 and $7,898,746 and $2,662,519 and $10,468,260, 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 General Bond Resolution), 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, 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.

During the fiscal year ended June 30, 2018, the Department, through the City of Burlington, issued $3,000,000 in general obligation bonds, 2017 Series C, with an average coupon rate of 4.88%. 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 2018.

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 while also anticipating a net savings on the 2017 Series B financing of $382,492. The portion of the 2011 Series A and 2011 Series B Revenue Bonds not refunded was $1,170,000 and $520,000, respectfully. The defeased but still outstanding portion of the 2011 Series A and 2011 Series B Revenue Bonds as of June 30, 2019 is $900,000 and $405,000, respectively.

(Continued)

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:					
2020	$ 1,680,000	906,209	2,975,000	1,980,306	7,541,515
2021	1,745,000	846,033	3,045,000	1,887,507	7,523,540
2022	1,810,000	784,163	3,140,000	1,784,900	7,519,063
2023	1,850,000	723,984	3,255,000	1,671,366	7,500,350
2024–2028	8,280,000	2,581,909	18,462,857	6,103,673	35,428,439
2029–2033	7,405,000	1,027,503	12,842,857	2,239,840	23,515,200
2034–2039	1,640,000	66,200	4,325,000	476,560	6,507,760
	$ 24,410,000	6,936,001	48,045,714	16,144,152	95,535,867

The City of Burlington, acting through the Department, adopted a general bond resolution October 7, 1981, which has been supplemented (as supplemented the Resolution). Section 7.8 of the 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 Department, through its Bond Counsel, is requesting a waiver from the Bondholders and expects to be successful in this effort. This can be achieved under 8.7 of the Bond Resolution with the consent of 66 2/3% of Bondholders.

As of October 28, 2019, no Bondholder has indicated they intend to call the bonds and it is not probable that any Bondholders will call the bonds. The Department has not violated any other bond covenant and cured the default when it filed its audited financial statements for the year ended June 30, 2018 on January 31, 2019. As a result, the Department has reported the debt as a long-term obligation, net of the current amount due in fiscal year 2019.

(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 May 18, 2019, this Line of Credit was renewed for a two year term to May 17, 2021. The Department had the entire Line of Credit balance of $5,000,000 available for use during fiscal years 2019 and 2018, respectively and there was no activity during the past two fiscal years.

(Continued)

(7) Production Expenses

Production expenses are comprised of the following:

		Year ended June 30	
		2019	**2018**
McNeil station:			
Fuel	$	6,447,520	7,763,735
Operations		1,656,976	1,638,769
Maintenance		2,174,250	986,446
		10,278,746	10,388,950
Winooski One Hydro station:			
Operations		352,392	322,286
Maintenance		96,475	86,461
		448,867	408,747
Gas turbine			
Fuel		89,174	118,272
Operations		23,143	35,208
Maintenance		191,661	117,687
		303,978	271,167
Solar:			
Operations		26,948	20,401
Total production expenses	$	11,058,539	11,089,265

(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 5.51% or 6.51% (IBEW, depending on choice of plan) of gross wages. For the years ended June 30, 2019 and 2018, the Department made 100% of its required contributions which totaled $1,322,391 and $1,686,537, respectively. The Department, in addition to making 100% of its required contribution in 2019 and 2018, paid an Administrative Fee of $48,612 and $38,017, 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 are 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, 2018 (Measurement Date). As of the Measurement Date, BERS Plan reported a net pension liability of $75,685,982. The plan fiduciary net position as a percentage of the total pension liability is 71.41%.

At June 30, 2019 and 2018, the Department reported a liability of $13,727,447 and $16,182,193, respectively, for its proportionate share of the net pension liability. The net pension liability at June 30, 2019 was measured as of June 30, 2018 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, 2018, the Department's proportion was 18.14%, which was a decrease of 0.39 from its proportion measured as of June 30, 2017.

For the years ended June 30, 2019 and 2018, the Department recognized pension expense of $2,457,967 and $3,261,517, respectively. At June 30, 2019 and 2018, the Department reported its allocated proportionate share of deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2019	
	Deferred outflows of resources	**Deferred inflows of resources**
Deferred outflow pension –		
Payment after the Measurement Date	$ 1,322,391	—
Difference between actual and projected experience	—	274,518
Difference between actual and projected investment earnings	37,532	—
Changes in assumptions	—	80,932
Deferred change in proportion	118,497	—
Deferred inflow pension (distribution and change in proportion)	—	279,625
	$ 1,478,420	635,075

	2018	
	Deferred outflows of resources	**Deferred inflows of resources**
Deferred outflow pension –		
Payment after the Measurement Date	$ 1,686,537	—
Difference between actual and projected experience	240,326	—
Difference between actual and projected investment earnings	967,395	—
Changes in assumptions	1,441,606	
Deferred change in proportion	340,434	—
Deferred inflow pension (distribution and change in proportion)	—	124,773
	$ 4,676,298	124,773

(Continued)

Other amounts reported as deferred outflows of resources and deferred inflows of resources excluding payments made after the measurement date related to pensions will be recognized in pension expense as follows:

Year ended June 30:		
2020	$	669,757
2021		(72,461)
2022		(949,245)
2023		(127,097)
Total	$	(479,046)

(iv) Actuarial Assumptions

The actuarial assumptions used in the June 30, 2018 valuation 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 was adjusted to better reflect anticipated experience. Salary increases was changed to be consistent with the lowering of the inflation factor.

Valuation date	6/30/2018 and 6/30/17
Mortality table	RP 2014 adjusted to 2006 total dataset mortality table, scale MP 2018, set forward 2 years (Non-Disabled) RP 2014 adjusted to 2006 disabled mortality table, scale MP 2018 (Disabled) (Prior: RP 2000, scale BB)
Inflation	2.6% (Prior: 3.0%)
Salary increases	3.0% average, including inflation (Prior: 3.5% average, including inflation)
Investment rate of return major asset	Best estimate ranges of expected future real rates of return for each class included in the target allocation as of June 30, 2018 and 2017.

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 %	7.00 %
SMID cap core equity	18.00	10.60
International equity	10.00	5.70
Emerging markets equity	10.00	12.00
Private equity	2.00	13.00
Real estate	8.00	8.80
Timber	2.00	6.50
Core fixed income	20.00	3.30

Discount rate 7.50% (Prior: 7.625% for financial reporting purposes, based on current funding policy)

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 7.50% 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 (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	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 (IRC). 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, 2019 and 2018, the Department's contribution was $10,653 and $90,503, 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, and 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 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, 2017 (Actuarial Valuation Report), the Department had 106 active participants and 83 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, 2019 and 2018, the Department reported a liability of $1,251,810 and $1,170,055, 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, 2017 rolled forward to the respective measurement dates. The total OPEB liability at June 30, 2018 was increased by service costs and interest and decreased by benefit payments to estimate the total OPEB liability at June 30, 2019. 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, 2019, the Department's proportion was 23.46%.

For the years ended June 30, 2019 and 2018, the Department recognized OPEB expense of $96,477 and $92,731, respectively. At June 30, 2019 and 2018, The Department reported its allocated proportionate share of deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2019	
	Deferred outflow of resources	**Deferred inflow of resources**
Deferred outflow OPEB – Difference between actual and projected experience	$ 27,164	45,729
Deferred inflow OPEB – Changes in Assumptions	41,683	27,054
	$ 68,847	72,783

	2018	
	Deferred outflow of resources	**Deferred inflow of resources**
Deferred outflow OPEB – Difference between actual and projected experience	$ 32,708	—
Deferred inflow OPEB – Changes in Assumptions	—	32,575
	$ 32,708	32,575

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

Year ended June 30:		
2020	$	(663)
2021		(663)
2022		(663)
2023		(663)
2024		(665)
Thereafter		(617)
Total	$	(3,934)

(iii) *Actuarial Assumptions*:

The total OPEB liability in the June 30, 2019 and 2018 Measurement Date was determined using the following actuarial assumptions:

Valuation date	6/30/17
Mortality table	RP 2000, scale BB
Inflation	2.60%
Payroll growth	2.60%
Discount Rate	3.51% as of 6/30/19 (Prior: 3.87%)

Healthcare Cost Trend Rates: 7.00% in 2017, reducing by 0.5% each year to an ultimate rate of 4.60% per year rate for 2022 and later.

Healthcare cost trend rates reflect both the current and long term outlook for increases in healthcare costs. The short term rates are based on recent industry surveys, plan experience and near-term expectations. The long term trend rate is 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, 2019. At June 30, 2019, the discount rate was 3.51% which represents a decrease from the June 30, 2018, discount rate of 3.87%.

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 3.51%, 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 (2.51%) or 1-percentage-point higher (4.51%) than the current rate:

	1% Decrease (2.51%)	Current discount rate (3.51%)	1% Decrease (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 7% 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 (6% decreasing to 3.60%) or 1-percentage-point higher (8% decreasing to 5.60%) than the current rate.

	1% Decrease (6% decreasing to 3.60%)	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, 2019 and 2018, the Department has reported accrued compensated employee absences of $761,214 and $786,648, respectively, in other noncurrent liabilities.

(11) Commitments and Contingencies

(a) The Department receives output from generation of the McNeil Station (of which the Department is the 50% owner and operator), the Burlington Gas Turbine, the Winooski One hydro facility, the Airport Solar array, and the Pine Street Solar array. Except for the McNeil station, the Department owns 100% of the remaining resources and is 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, 2019 and 2018, 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 (contracts expire in 2020).

3. Deliveries pursuant to a ten year contract with Vermont Wind commenced in September 2011 (for test energy), with the official ten year contract start date being October 19, 2011 when commercial energy production began. Under the contract, the Department receives 16 MW (40%) of Vermont Wind's wind farm in northeast Vermont (Sheffield). 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 8% 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 2020.

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

8. BED purchased energy and RECs from NextEra for a five year period beginning January 1, 2013. For calendar year 2013 and 2014, hourly energy was 10 MW, for the final three years (calendar 2015-2017) the volume was 5 MW per hour. The delivered energy was unit contingent on a portfolio of hydro facilities, and included RECs from those units equal in volume to the energy

purchased. This contract ended December 31, 2017 with the contract with Great River Hydro (see number 11).

9. The Burlington City Council, the Vermont Public Service Board, and the voters of Burlington have approved a 23 year energy-only contract with Hydro-Quebec. Deliveries began (for BED) 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.

10. In 2013, BED entered a long term power agreement to purchase the output of a proposed 2.5 MW solar generating facility to be 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.

11. In 2017, BED signed a two-year contract with Great River Hydro. The Department receives 7.5 MW during 16 peak hours of each day, along with the attributed RECs (that qualify as VT Class I). This contract was signed to replace the NextEra contract and is sourced from one or more hydro facility(ies) in the State of Vermont. This contract was extended, in 2019, through 2024

Payments under these long-term power supply contracts were $14,763,162 and $14,645,877 for the years ended June 30, 2019 and 2018, respectively, with the increase from 2018 being largely due to a contracted rate increases. Budgeted commitments under these long-term contracts and long-term contracts approved and executed for future delivery periods total approximately $76,093,649 for the 5 year period from July 1, 2019 to June 30, 2024.

Fiscal Year		Budgeted Commitment
2020	$	14,058,896
2021		14,909,623
2022		15,459,590
2023		15,680,845
2024		15,984,696
	$	76,093,650

The remainder of the Department's energy requirement is satisfied through short-term purchases including:

12. Short-term purchases from a number of market counterparties if necessary.

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 requirements were provided as follows:

	2019	2018
McNeil Generation and Gas Turbine	32 %	37 %
Winooski One	9	8
New York Power Authority	6	5
Vermont Electric Power Producers	1	2
Standard Offer	--	--
Wind Production	29	28
Hydro-Quebec	9	8
NextEra	--	6
Great River Hydro	14	6
	100 %	100 %

Note that the Department sells Renewable Energy Credits (RECs) associated with much of the above generation and the above table should not be considered a representation of the Department's renewability.