# ECF HOLDING, LLC

FINANCIAL REPORT

DECEMBER 31, 2015

CONTENTS

## *INDEPENDENT AUDITOR'S REPORT*

To the Members
ECF Holding, LLC
Royalton, Vermont 05068

### *Report on the Financial Statements*

We have audited the accompanying financial statements of the business-type activities of ECF Holding, LLC, which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of revenue, expenses and changes in fund net position, and cash flows for the years then ended, and the related notes to the financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

ECF Holding, LLC's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

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

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

*Opinion*

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of ECF Holding, LLC as of December 31, 2015 and 2014, and the changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Emphasis of Matter*

As discussed in Note 8 to the financial statements, the beginning fund net position has been restated. Our opinion is not modified with respect to this matter.

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and Budgetary Comparison information on pages 3, 4, 5, 20 and 21 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 statement in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Nathan Wechsler & Company

Concord, New Hampshire
September 30, 2016

Vermont #L0028120

Within this section of ECF Holding, LLC's annual financial report, the Organization's management provides narrative discussion and analysis of the financial activities of the Organization for the year ended December 31, 2015. The Organization's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

2015 marked the fourth full year of operations for the Organization. During the year, the Organization achieved its goal of positive operating cash flow (before capital expenditures and debt service) by connecting customers on its existing routes and finishing build projects that were not completed in prior years due to make-ready delays.

On January 1, 2016, ECF Holding, LLC became Vermont's first Communications Union District, the East Central Vermont Telecommunications District ("the District"), as authorized by Act 41 last spring. This replaces the less formal "interlocal contract" form of organization, but it does not change the fact that the network is still owned by its 24 member towns nor the fact that local taxpayer funds cannot be used to subsidize the District's operations. The District succeeded to all of the assets and liabilities of ECF pursuant to the assignment and assumption agreement and a bill of sale and assignment effective January 1, 2016. The District will continue to market its services as ECFiber (See Note 9).

The District/ECFiber competes effectively by providing:

1. Reliable high Internet speeds, which are symmetrical (the same in each direction) and are not "up to" (that is, ECFiber strives to actually provide the speeds for which its customers are paying at all times).
2. Simple, stable pricing with no contracts, fine print, or data caps. Over the last two years ECFiber has increased its speeds but not its prices.
3. Local and personable customer service. Phones are answered by an employee during business hours without an automated queue.
4. Local ownership and control, as governing board members meet monthly to set policy and are actively involved in promoting ECFiber within the community.
5. Valued community services. For example, ECFiber offers over 25 community anchor institutions (schools, town facilities, and libraries) its highest level of service for its lowest monthly fee.

The Organization has continued its practice of raising speeds but not prices again in early 2016, by announcing that the District's tiers of service would now be set at 10/25/100/500 Mbps (versus 7/20/50/100/400). The District's product offerings have been simplified in the belief it can create the most value by offering a "big pipe" to each home and letting consumers choose widely available ancillary services (such as video streaming, data backup, email, etc.) from other service providers. This strategy has had the added benefit of reducing internal staffing requirements. Future additional service offerings (such as a small package of local, over-the-air network TV channels) will be considered if they generate sufficient cash flow and do not create a large quantity of service calls and tickets. The one exception to this policy has been VOIP landline telephone service, which is offered to remain competitive with an incumbent carrier.

ECFiber has relied on locally sourced finance since its inception. As a result, the District had nearly 500 local investors at the end of 2015. Financial closings in 2015 raised $845,000 for additional network expansion.

This locally-sourced financing has allowed ECFiber to expand its network in a step-by-step organic fashion, but it has made management of the operation and its expansion more difficult in several ways, including but not limited to the following issues:

1. Network- extensions were often very short (one to three miles) resulting in sub-optimal network design and limited redundancy.
2. Operational Scale- costs for equipment and design and build have been higher due to low volumes of internal build mileage (20-88 per year, averaging 40 miles per year).
3. Marketing- limited coverage in any given town has limited the opportunity for town-wide or regional marketing.

State assistance has greatly benefited ECFiber and the District. 116 miles of dark fiber being built by the state (expected to be completed in 2016) have allowed the District to directly connect nearly all its hub locations, facilitated the purchase of bandwidth more economically, and is expected to result in the organization having a presence in 21 of its 24 member towns by mid-2016. In the period 2011-2015, the District has been the recipient of state grants totaling over $300,000 to reach certain unserved locations.

In 2015, the Organization experienced steady growth, consistent with its average of 5 subscribers per mile of network to end the year at 1,201 customers, but it did not meet its subscriber goal of 1,400 due to make-ready delays on 80 miles of dark fiber routes. An additional 200 subscribers may have been connected except for make-ready delays on the 80 miles of dark fiber routes being constructed by the Department of Public Service, a state agency.

The District's business plan developed by ValleyNet has a primary goal of connecting more than 5 customers per mile, after two years from instituting service. As of December 31, 2015, the overall average was 5.2 per mile.

The Organization missed its 2015 recurring service revenue budget by approximately $50,000 (less than 5% of budget.) By the final quarter of the year, quarterly recurring revenues were at nearly $390,000, which is nearly 30% higher than the level a year ago.

ARPU was steady in 2015. Residential ARPU was between $102 and $106 per month in 2015 versus $96-106 in 2014. Business ARPU was between $146 and $153, which is similar to 2014.

Cost of goods sold (i.e., the direct inputs – bandwidth and telephone connections purchased to provide the services) was slightly higher than forecast, at $192,000 compared to $184,000 budgeted, but it was essentially unchanged from 2014.

ValleyNet's secondary financial goal for the District is to keep operating expense growth relatively flat. Operating expenses (primarily labor) for the year ended December 31, 2015 declined from 2014, since ValleyNet's employee headcount dedicated to ECFiber declined slightly.

EBITDA is calculated as gross revenues less all operating expenses and was significantly positive in 2015 as ECFiber was able to achieve some scale economies in its operations, meaning it was able to add more customers without increasing its operating expenses. ECFiber achieved significant positive EBITDA of nearly $700,000 in 2015, but some of that was due to one-time capital and operating grants. Recurring EBITDA was over $508,000 in 2015 versus a budget of $342,000, which was $166,000 higher than expected and $461,000 more than in 2014.

The Organization's fund net position is negative at December 31, 2015. The accumulated losses from the first five years of operations are characteristic of the early years of capital-intensive undertakings of this sort and are consistent with the long-term business model. Also, largely because of make-ready delays, it takes the Organization well over a year to deploy the funds raised through financial closings and to connect the customers that generate the revenue to repay the investments. This is why the Organization's outstanding debt includes an 18 month interest and principal payment holiday.

**ECF HOLDING, LLC**

**BALANCE SHEETS**
**December 31, 2015 and 2014**

*ASSETS*

| | | 2015 | | 2014 |
|---|---|---|---|---|
| **CURRENT ASSETS** | | | | |
| Cash | $ | 145,648 | $ | 668,414 |
| Accounts receivable, net of allowance for doubtful accounts 2015 $5,000 ; 2014 $2,500 | | 63,018 | | 48,398 |
| Due from ValleyNet, Inc. | | 95,850 | | - |
| *Total current assets* | | 304,516 | | 716,812 |
| **LOAN ORIGINATION FEES,** net of amortization | | - | | 3,580 |
| **PROPERTY AND EQUIPMENT,** net | | 5,983,247 | | 4,721,211 |
| *Total assets* | **$** | **6,287,763** | **$** | **5,441,603** |

*LIABILITIES AND FUND NET POSITION*

| | | 2015 | | 2014 |
|---|---|---|---|---|
| **CURRENT LIABILITIES** | | | | |
| Notes payable to investors | $ | 166,676 | $ | 88,151 |
| Due to ValleyNet, Inc. | | - | | 53,751 |
| Accrued liabilities | | 81,667 | | 50,000 |
| Accrued interest | | 40,670 | | 20,392 |
| Notes payable | | 36,970 | | 35,519 |
| *Total current liabilities* | | 325,983 | | 247,813 |
| **LONG TERM LIABILITIES** | | | | |
| Notes payable to investors, less current portion | | 7,371,278 | | 6,458,375 |
| Notes payable, less current portion | | 125,371 | | 162,341 |
| Accrued liabilities, less current portion | | 567,087 | | 648,754 |
| *Total long term liabilities* | | 8,063,736 | | 7,269,470 |
| **FUND NET POSITION** | | | | |
| Invested in capital assets | | 5,983,247 | | 4,721,211 |
| Unrestricted deficit | | (8,085,203) | | (6,796,891) |
| | | (2,101,956) | | (2,075,680) |
| *Total liabilities and fund net position* | **$** | **6,287,763** | **$** | **5,441,603** |

# ECF HOLDING, LLC

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
**Years Ended December 31, 2015 and 2014**

| | 2015 | 2014 |
|---|---|---|
| **OPERATING REVENUES:** | | |
| Service revenue | $ 1,403,055 | $ 963,394 |
| Installation and activation revenue | 111,231 | 126,075 |
| Grant income | 74,691 | 269,624 |
| Miscellaneous income | 3,942 | 8,585 |
| *Total operating revenue* | 1,592,919 | 1,367,678 |
| **OPERATING EXPENSES:** | | |
| Subcontract expense, ValleyNet, Inc. (Note 6) | 885,459 | 897,951 |
| Legal expense | 6,996 | 13,380 |
| Depreciation and amortization expense | 308,197 | 266,985 |
| Miscellaneous direct expenses | 5,190 | 4,683 |
| *Total operating expenses* | 1,205,842 | 1,182,999 |
| *Operating income* | 387,077 | 184,679 |
| **NONOPERATING INCOME (EXPENSE):** | | |
| Interest income | 184 | 109 |
| Forgiveness of debt | - | 270,476 |
| Loss on disposal of assets | - | (208,716) |
| Interest expense | (413,537) | (340,770) |
| *Decrease in fund net position* | (26,276) | (94,222) |
| Fund net position, beginning of year, as previously reported | (2,075,680) | (2,147,484) |
| Prior period adjustment (See Note 8) | - | 166,026 |
| Fund net position, end of year, as restated | **$ (2,101,956)** | **$ (2,075,680)** |

ECF HOLDING, LLC

## STATEMENTS OF CASH FLOWS
**Years Ended December 31, 2015 and 2014**

| | 2015 | 2014 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Cash received from customers and grants | $ 1,578,299 | $ 1,364,328 |
| Cash paid to suppliers and subcontractors | (947,645) | (943,240) |
| *Net cash provided by operating activities* | **630,654** | **421,088** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Proceeds from disposal of assets | - | 5,070 |
| Interest income | 184 | 109 |
| Purchase of property and equipment | (1,566,653) | (972,816) |
| *Net cash used in investing activities* | **(1,566,469)** | **(967,637)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Interest paid | (393,259) | (370,888) |
| Repayment on long-term debt | (35,519) | (61,338) |
| Increase in notes payable to investors | 991,428 | 1,709,499 |
| Decrease in due to ValleyNet, Inc. | (149,601) | (386,109) |
| *Net cash provided by financing activities* | **413,049** | **891,164** |
| *Net increase (decrease) in cash* | (522,766) | 344,615 |
| Cash, beginning of year | 668,414 | 323,799 |
| *Cash, end of year* | **$ 145,648** | **$ 668,414** |
| **RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES** | | |
| Operating income | $ 387,077 | $ 184,679 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation and amortization | 308,197 | 266,985 |
| Increase in accounts receivable | (14,620) | (10,126) |
| Decrease in accounts receivable, grant | - | 6,779 |
| Decrease in accounts payable and accrued liabilities | (50,000) | (27,229) |
| *Net cash provided by operating activities* | **$ 630,654** | **$ 421,088** |

ECF HOLDING, LLC

## STATEMENTS OF CASH FLOWS (CONTINUED)
Years Ended December 31, 2015 and 2014

| | 2015 | 2014 |
|---|---|---|
| **SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES** | | |
| Increase in notes payable to investors | $ 991,428 | $ 1,676,999 |
| Decrease in amount due from investors | - | 32,500 |
| *Cash received from investors for notes payable* | **$ 991,428** | **$ 1,709,499** |
| Decrease in due to ValleyNet, Inc. | $ (149,601) | $ (656,585) |
| Forgiveness of debt | - | 270,476 |
| *Cash repaid to ValleyNet, Inc.* | **$ (149,601)** | **$ (386,109)** |

## *Note 1. Nature of Activities*

ECF Holding, LLC ("the Organization") is a manager-managed Limited Liability Company established under the laws of the State of Vermont. The Organization is owned by a consortium of 24 municipalities seeking to build and operate a municipally-owned universal, open access, fiber optic telecommunications network throughout rural Vermont. The Organization's sole member, ECFiber is an unincorporated association of the towns that are signatories to an Interlocal contract signed September 8, 2008. The managers of the Organization are members of ECFiber's Executive Committee, ex officio.

On January 1, 2016, ECF Holding, LLC became Vermont's first Communications Union District, the East Central Vermont Telecommunications District ("the District"), as authorized by Act 41 last spring. Effective January 1, 2016, The District succeeded to all of the assets and liabilities of ECF pursuant to the assignment and assumption agreement and a bill of sale and assignment effective January 1, 2016. (See additional details in Note 9).

## *Note 2. Significant Accounting Policies*

**Basis of financial statements:** The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the *Governmental Accounting Standards Board* (GASB). The Organization follows the "business-type activities" reporting requirements of GASB Cod. Sp20.107. Accordingly, the Organization's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned, and expenses are recorded when an obligation has been incurred, regardless of the timing of related cash flows.

**Installation and service revenue:** The Organization offers two principal services: Several tiers of Internet connectivity and Internet Protocol (IP)-based voice telephone service. The Organization also offered ancillary services such as remotely managed anti-virus and data back-up which were discontinued in 2014. The Organization bills its customers monthly and recognizes revenue when earned.

**Estimates and assumptions:** Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accordingly, actual results could differ from those estimates.

**Cash and cash equivalents:** For purposes of reporting cash flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash and cash equivalents. At December 31, 2015 the Organization had no cash equivalents.

**Accounts receivable:** The Organization extends unsecured credit to their customers in the ordinary course of business but mitigates the associated risk by actively pursuing past due accounts. An allowance for uncollectible accounts has been established. Actual bad debt expense for the years ended December 31, 2015 and 2014 amounted to $3,599 and $3,310, respectively.

**Amortization:** Loan origination fees are amortized over the life of the related debt, five and seven years, using the straight-line method. The fees were written off during the year ended December 31, 2015 when the debt was assumed by East Central Vermont Telecommunications District (See note 5 and 9).

*(continued on next page)*

**Property and equipment:** Property and equipment are recorded at cost and are being depreciated using the straight-line method over estimated useful lives as follows:

| | Years |
|---|---|
| Central office: office equipment and software | 3-10 |
| Furniture and fixtures | 7 |
| Leasehold improvements | 10 |
| Vehicles | 5 |
| Telecommunications, fiber optic cable | 30 |
| Telecommunications, electronic equipment | 15 |

**Subcontract expense:** The Organization has entered into a design, build, and operate agreement with ValleyNet, Inc. to design, construct and operate one or more communication plants for the delivery of broadband communications services to and among the Organization's subscribers. The Organization is charged under this subcontract agreement, amounts that represent the cost of construction of the Organization's property and equipment as well as the operating expenses for the services provided.

**Income taxes:** The Organization is considered an instrumentality of municipalities and is therefore exempt from tax based on Rev Proc 63-20, IRC Section 103.

## *Note 3. Property and Equipment*

Property and equipment consisted of the following as of:

| December 31, | 2015 | 2014 |
|---|---|---|
| Central office | $ 158,595 | $ 151,595 |
| Office equipment | 28,542 | 27,167 |
| Software | 18,734 | 15,252 |
| Furniture and fixtures | 6,012 | 6,012 |
| Leasehold improvements | 5,845 | 5,845 |
| Vehicles | 88,833 | 88,833 |
| Telecommunications: | | |
| Fiber pass | 4,288,132 | 3,300,494 |
| Drops | 1,177,703 | 869,959 |
| Customer premise | 440,981 | 372,966 |
| Hubs | 365,828 | 181,143 |
| Other | 179,597 | 172,884 |
| *Total property and equipment* | 6,758,802 | 5,192,150 |
| Less accumulated depreciation | 775,555 | 470,939 |
| *Total property and equipment, net* | $ 5,983,247 | $ 4,721,211 |

The telephone switch was abandoned at the end of 2014, which resulted in a loss on disposal of assets of $208,716 that is reflected on the accompanying Statement of Revenues, Expenses, and Changes in Fund Net Position.

## *Note 4. Concentration of Credit Risk*

The Organization maintains cash accounts with two financial institutions. The Organization's accounts are insured up to $250,000, per depositor at each financial institution. The Organization had no amounts on deposit in excess of federally insured limits at December 31, 2015.

## *Note 5. Notes Payable*

The Organization's primary source of financing is through the issuance of tax-exempt notes. Note holders consist primarily of residents in rural Vermont that will benefit from the network established. The Series A Notes are senior to all other notes. The Series C Notes are subordinate to all other notes. The remaining notes fall in between the Series A and C Notes and are considered equally ranked.

Details of outstanding notes payable to investors are as follows as of:

| December 31, | | 2015 | | 2014 |
|---|---|---|---|---|
| Series A - 2011 notes payable to 14 note holders, with interest at 7.50%, interest begins to accrue September 1, 2012, semi-annual payments of interest only on March 1 and September 1 beginning March 1, 2013, due September 1, 2040. | $ | 162,000 | $ | 162,000 |
| Series C - 2011 notes payable to 5 note holders, with interest at 11.00%, interest begins to accrue September 1, 2012, semi-annual payments of interest only on March 1 and September 1 beginning March 1, 2013, due September 1, 2040. No interest has been paid on these notes as of December 31, 2015, Includes accrued interest of $322,050 at December 31, 2015. | | 1,072,050 | | 965,060 |
| Series 2011 notes payable to 21 note holders, with interest at 7.00%, interest begins to accrue December 1, 2012, semi-annual payments of principal and interest on June 1 and December 1 beginning June 1, 2013, due December 1, 2026. | | 199,601 | | 211,330 |
| Series 2011 notes payable to 18 note holders, with interest at 7.65%, interest begins to accrue December 1, 2011, principal and accrued interest due in one lump sum on December 1, 2021. Includes accrued interest of $42,167 at December 31, 2015. | | 159,667 | | 148,119 |
| Series 2012-04 notes payable to 87 note holders, with interest at 7.00%, interest begins to accrue April 1, 2013, semi-annual payments of principal and interest on April 1 and October 1 beginning October 1, 2013, due April 1, 2027. | | 477,445 | | 503,765 |
| Series 2012-04 notes payable to 76 note holders, with interest at 7.65%, interest begins to accrue April 1, 2012, principal and accrued interest due in one lump sum on April 1, 2022. Includes accrued interest of $172,452 at December 31, 2015. | | 702,452 | | 651,648 |

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| December 31, | 2015 | 2014 |
|---|---|---|
| Series 2012-08 notes payable to 20 note holders, with interest at 7.00%, interest begins to accrue August 1, 2013, semi-annual payments of principal and interest on February 1 and August 1 beginning February 1, 2014, due August 1, 2027. | $ 113,618 | $ 119,505 |
| Series 2012-08 notes payable to 24 note holders, with interest at 7.65%, interest begins to accrue August 1, 2012, principal and accrued interest due in one lump sum on August 1, 2022. Includes accrued interest of $38,759 at December 31, 2015. | 171,260 | 158,873 |
| Series 2012-12 notes payable to 18 note holders, with interest at 7.00%, interest begins to accrue December 1, 2013, semi-annual payments of principal and interest on June 1 and December 1 beginning June 1, 2014, due December 1, 2027. | 236,326 | 248,570 |
| Series 2012-12 notes payable to 24 note holders, with interest at 7.65%, interest begins to accrue December 1, 2012, principal and accrued interest due in one lump sum on December 1, 2022. Includes accrued interest of $29,316 at December 31, 2015. | 141,815 | 131,559 |
| Sayer Road notes payable, no stated interest, no stated maturity, repaid through a reduction in monthly/annual service costs. | 6,465 | 7,173 |
| Series 2013-05 notes payable to 28 note holders (see new Series 2013-05 terms as result of allonge below), with interest at 7.65%, interest begins to accrue on May 1, 2013, principal and accrued interest due in one lump sum on May 1, 2023. Includes accrued interest of $68,214 at December 31, 2015. | 375,714 | 348,540 |
| Series 2013-05 notes payable to 18 note holders, with interest at 6.65%, interest begins to accrue on November 1, 2014, semi-annual payments of principal and interest on May 1 and November 1, beginning May 1, 2015, due May 1, 2028. | 116,662 | 122,500 |
| Series 2013-07 notes payable to 26 note holders (see new Series 2013-07 terms as result of allonge below), with interest at 7.65%, interest begins to accrue on July 1, 2013, principal and accrued interest due in one lump sum on July 1, 2023. Includes accrued interest of $28,903 at December 31, 2015. | 168,903 | 156,687 |
| Series 2013-07 notes payable to 14 note holders, with interest at 6.65%, interest begins to accrue on January 1, 2015, semi-annual payments of principal and interest on July 1 and January 1 beginning July 1, 2015, due July 1, 2028. | 168,457 | 172,500 |

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| December 31, | | 2015 | | 2014 |
|---|---|---|---|---|
| Series 2013-10 notes payable to 5 note holders (see new Series 2013-10 terms as result of allonge below), with interest at 6.65%, interest begins to accrue April 1, 2015, semi-annual payments of principal and interest on April 1 and October 1 beginning October 1, 2015, due October 1, 2028. | $ | 534,666 | $ | 547,500 |
| Series 2013-10 notes payable to 4 note holders, with interest at 7.65%, interest begins to accrue on April 1, 2014, principal and accrued interest due in one lump sum on October 1, 2023. Includes accrued interest of $6,909 at December 31, 2015. | | 44,409 | | 41,197 |
| Series 2013-12 notes payable to 25 note holders, with interest at 6.65%, interest begins to accrue June 1, 2015, semi-annual payments of principal and interest on June 1 and December 1 beginning December 1, 2015, due December 1, 2028. | | 356,444 | | 365,000 |
| Series 2014-04 notes payable to 28 note holders, with interest at 6.65%, interest begins to accrue October 1, 2015, semi-annual payments of principal and interest on April 1 and October 1 beginning April 1, 2016, due April 1, 2029. | | 270,000 | | 270,000 |
| Series 2014-06 notes payable to 18 note holders, with interest at 6.65%, interest begins to accrue December 1, 2015, semi-annual payments of principal and interest on June 1 and December 1 beginning June 1, 2016, due June 1, 2029. | | 197,500 | | 197,500 |
| Series 2014-09 notes payable to 40 note holders, with interest at 6.65%, interest begins to accrue March 1, 2016, semi-annual payments of principal and interest on March 1 and September 1 beginning September 1, 2016, due September 1, 2029. | | 510,000 | | 510,000 |
| Series 2014-12 notes payable to 21 note holders, with interest at 6.65%, interest begins to accrue June 1, 2016, semi-annual payments of principal and interest on June 1 and December 1 beginning December 1, 2016, due December 1, 2029. | | 507,500 | | 507,500 |
| Series 2015-2 notes payable to 9 note holders, with interest at 6.65%, interest begins to accrue August 1, 2016, semi-annual payments of principal and interest on February 1 and August 1 beginning February 1, 2017, due February 1, 2030. | | 57,500 | | - |
| Series 2015-5 notes payable to 15 note holders, with interest at 6.65%, interest begins to accrue November 1, 2016, semi-annual payments of principal and interest on May 1 and November 1 beginning May 1, 2017, due May 1, 2030. | | 327,500 | | - |

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| December 31, | 2015 | 2014 |
|---|---|---|
| Series 2015-7 notes payable to 10 note holders, with interest at 6.65%, interest begins to accrue January 1, 2017, semi-annual payments of principal and interest on January 1 and July 1 beginning July 1, 2017, due July 1, 2030. | $ 137,500 | $ - |
| Series 2015-10 notes payable to 15 note holders, with interest at 6.65%, interest begins to accrue April 1, 2017, semi-annual payments of principal and interest on April 1 and October 1 beginning October 1, 2017, due October 1, 2030. | 120,000 | - |
| Series 2015-12 notes payable to 19 note holders, with interest at 6.65%, interest begins to accrue June 1, 2017, semi-annual payments of principal and interest on June 1 and December 1 beginning December 1, 2017, due December 1, 2030. | 202,500 | - |
| | 7,537,954 | 6,546,526 |
| Less amounts due within one year | **166,676** | **88,151** |
| *Notes payable to investors, long term* | **$ 7,371,278** | **$ 6,458,375** |

The above notes are eligible for prepayment at the option of the issuer. Under this scenario, the Organization would repay the full balance of the note due at the time of repayment plus interest in an amount equal to the stated interest rate per annum of the original face value for a period ranging from eighteen months to two years. For certain issuances, the holder may be eligible to receive an additional 2% of the total aggregate amount.

The notes payable above include amounts due to members of the governing board of the Organization amounting to $402,000 and $397,000 at December 31, 2015 and 2014, respectively. Accrued interest on these notes amounted to $5,189 and $7,821 at December 31, 2015 and 2014, respectively.

Details of other outstanding notes payable are as follows as of:

| December 31, | 2015 | 2014 |
|---|---|---|
| Note payable, collateralized by vehicle, with interest at 4.5%, monthly payments of principal and interest of approximately $1,259 | $ 36,773 | $ 49,909 |
| Note payable, collateralized by equipment, with interest at 3.8%, monthly payments of principal and interest of approximately $2,301 | 125,568 | 147,951 |
| | 162,341 | 197,860 |
| Less amounts due within one year | **36,970** | **35,519** |
| *Notes payable, long term* | **$ 125,371** | **$ 162,341** |

In December 2015, the East Central Vermont Telecommunications District voted to assume the above loans with an effective date of January 1, 2016.

*(continued on next page)*

Maturities of notes payable at December 31, 2015 are as follows:

| | Notes Payable to Investors | Notes Payable | Total |
|---|---|---|---|
| 2016 | $ 166,676 | $ 36,970 | $ 203,646 |
| 2017 | 231,889 | 38,518 | 270,407 |
| 2018 | 258,894 | 33,747 | 292,641 |
| 2019 | 276,599 | 26,051 | 302,650 |
| 2020 | 295,519 | 27,055 | 322,574 |
| Thereafter | 6,308,377 | - | 6,308,377 |
| | $ 7,537,954 | $ 162,341 | $ 7,700,295 |

## *Note 6. Concentration*

The Organization has a subcontract agreement with ValleyNet, Inc. to design, construct and operate one or more communication plants for the delivery of broadband communications services to and among the Organization's subscribers. The Organization is charged under this subcontract agreement, amounts that represent the cost of construction of the Organization's property and equipment as well as the operating expenses for the services provided. As a result of this subcontract agreement, nearly 77% of the Organization's total expenses are paid to ValleyNet, Inc.

Subcontract expense related to the ValleyNet, Inc. contract for the years ended December 31, 2015 and 2014 consisted of the following:

| December 31, | 2015 | 2014 |
|---|---|---|
| Cost of goods sold | $ 185,956 | $ 191,291 |
| Contracted labor and employee expenses | 420,749 | 487,666 |
| Pole/conduit & hub rental | 89,654 | 66,832 |
| Occupancy | 29,084 | 24,933 |
| Professional fees | 31,550 | 41,454 |
| Utilities | 31,794 | 18,753 |
| Insurance | 33,358 | 15,839 |
| Office supplies | 21,951 | 23,894 |
| Miscellaneous operating expense | 27,641 | 10,848 |
| Vehicle expenses | 13,722 | 16,441 |
| | $ 885,459 | $ 897,951 |

The Company also purchased property and equipment from ValleyNet, Inc. amounting to $1,566,653 and $972,816 for the years ended December 31, 2015 and 2014, respectively.

*(continued on next page)*

The amounts included in accrued liabilities include the following costs incurred by ValleyNet, Inc. and assumed by the Organization. At December 31, 2015 and 2014 the balances are comprised of the following:

| December 31, | 2015 | 2014 |
|---|---|---|
| Deferred compensation to former ValleyNet, Inc. employees | $ 361,882 | $ 411,882 |
| Independent contractors | 286,872 | 286,872 |
| | 648,754 | 698,754 |
| *Less current portion of accrued liabilities* | **81,667** | **50,000** |
| *Accrued liabilities, less current portion* | **$ 567,087** | **$ 648,754** |

Over the past several years, a number of firms and individuals advanced resources to ValleyNet, Inc. on behalf of the Organization on the condition that these would be repaid when the Organization becomes financially able to do so. These amounts have been included in the accrued liabilities listed above. During 2014, the Chief Financial Officer of ValleyNet, Inc. forgave the amount that was owed to him. This created the forgiveness of debt of $270,476 that is included on the accompanying Statement of Revenues, Expenses and Changes in Fund Net Position. Two other individuals that advanced resources to ValleyNet, Inc. have entered into repayment agreements effective January 1, 2014. The amount repaid to these two individuals during the years ended December 31, 2015 and 2014 was $50,000 and $25,000, respectively. The schedule of amounts to be paid to these individuals in future years is as follows:

| | |
|---|---|
| 2016 | $ 81,667 |
| 2017 | 96,000 |
| 2018 | 96,000 |
| 2019 | 88,215 |
| | $ 361,882 |

The above accrued liabilities are subordinate to all other debt of the project, in particular: Series 2010-A notes, Series 2011 notes, Series 2010-C notes; and to any other notes that ECF Holding, LLC may issue in the future that are pari passu with any of the aforementioned notes.

The members of the Organization are currently preparing a repayment policy for the remaining liabilities. Once adopted, this policy will be embedded in contracts with the relevant parties.

In 2014, the Vermont Telecommunications Authority (VTA) completed construction of the Orange County Fiber Connector (OCFC). Under an agreement entered into between Valley Net and the VTA on September 26, 2012, the Organization has an Indefeasible Right of Use (IRU) of 48 strands of fiber along the 36 road miles of the OCFC, which 36 miles have become a part of the Organization's network. This represents an asset available for its exclusive use which would have cost the organization approximately $700,000 were it to have built this network segment with its own funds.

## *Note 7. Reclassification*

Certain financial statement items for December 31, 2014 have been reclassified to conform with the December 31, 2015 financial statement presentation. Fund net position and decrease in fund net position are unchanged due to these reclassifications.

### *Note 8. Prior Period Adjustment*

The accompanying financial statements for the year ended December 31, 2014 have been restated to correct accrued liabilities related to deferred compensation payments. The effect of the restatement was to decrease the accrued liabilities by $166,026 and unrestricted deficit by $166,026 at December 31, 2014.

### *Note 9. Subsequent Events*

The Organization has evaluated subsequent events through September 30, 2016, the date which the financial statements were available to be issued, and have not evaluated subsequent events after that date.

Effective January 1, 2016, the Organization became Vermont's first Communications Union District, the East Central Vermont Telecommunications District ("the District"), as authorized by Act 41 last spring. This replaces the less formal "interlocal contract" form of organization, but it does not change the fact that the network is still owned by its 24 member towns nor the fact that local taxpayer funds cannot be used to subsidize the District's operations. The District continues under the tradename of ECFiber. A communication union district is empowered to operate or contract for construction, ownership, management, and operation of a communications plant and to provide communications services to members. A communications plant includes all parts of a communications system owned by a district including wires, cables, fiber optics, wireless or other technologies used to transport or store information, facilities, and equipment. A district includes all land and residents with the member municipalities and any others that may be subsequently admitted. Effective January 1, 2016, the District succeeded to all of the assets and liabilities of ECF pursuant to the assignment and assumption agreement and a bill of sale and assignment effective January 1, 2016. All other business relationships remain unchanged.

The District is authorized and empowered under the laws of Vermont to issue bonds for the purpose of constructing the fiber optic network in rural Vermont. The ability to raise capital in larger amounts should reduce some of the operational challenges experienced thus far. On April 15, 2016, the District announced that it had completed a $9 million offering of Series 2016A Bonds to refinance a portion of its debt, cover 2016 capital expenditures, and complete the design and make ready for 250 miles of construction in 2017. Approximately 4 million of notes payable to investors were repaid during May 2016.

The estimated sources and uses of the Series 2016A bond proceeds are as follows:

| | |
|---|---|
| **Sources of Funds:** | |
| Par amount of 2016A bond | $ 9,225,000 |
| Original issue discount | 211,389 |
| *Total Sources of Funds* | $ 9,013,611 |
| **Uses of Funds:** | |
| Capital improvements & equipment | $ 2,035,179 |
| Design and Make Ready for up to 250 miles | 1,500,000 |
| Refinance existing debt, with premiums & accrued interest | 4,838,058 |
| Administrative fee | 13,624 |
| Reserve contingency fund | 50,000 |
| Debt service reserve fund | 250,000 |
| Underwriter's discount | 276,750 |
| Other costs of issuance | 50,000 |
| *Total Uses of Funds* | $ 9,013,611 |

*(continued on next page)*

In addition, the Vermont Department of Public Service announced additional grants totaling $365,000 to be paid upon completion of coverage of designated census blocks in the municipalities of Royalton, Pittsfield, Randolph, and Norwich in 2016.

In the first quarter of 2016, $135,000 in capital was received from the Town of West Windsor under an interlocal contract to complete the Town's municipal network.

No other subsequent events were identified that would require disclosure in the financial statements for the year ended December 31, 2015.

## STATEMENT OF BUDGETARY COMPARISON
**Year Ended December 31, 2015**

| | Budget | Actual |
|---|---|---|
| **OPERATING REVENUES:** | | |
| Service revenue | $ 1,452,243 | $ 1,403,055 |
| Installation and activation revenue | 92,505 | 111,231 |
| Grant income | 38,000 | 74,691 |
| Miscellaneous income | 10,500 | 3,942 |
| | 1,593,248 | 1,592,919 |
| **OPERATING EXPENSES:** | | |
| Subcontractor expense | 1,085,926 | 885,459 |
| Legal expense | 20,000 | 6,996 |
| Depreciation expense | 245,191 | 308,197 |
| Miscellaneous direct expenses | 4,000 | 5,190 |
| *Total operating expenses* | 1,355,117 | 1,205,842 |
| *Operating income* | 238,131 | 387,077 |
| **NONOPERATING INCOME (EXPENSE):** | | |
| Interest income | - | 184 |
| Interest expense | (381,166) | (413,537) |
| *Decrease in fund net position* | $ (143,035) | $ **(26,276)** |

## STATEMENT OF BUDGETARY COMPARISON
**Year Ended December 31, 2014**

| | Budget | Actual |
|---|---|---|
| **OPERATING REVENUES:** | | |
| Service revenue | $ 979,722 | $ 963,394 |
| Installation and activation revenue | 43,155 | 126,075 |
| Grant income | 158,396 | 269,624 |
| Miscellaneous income | - | 8,585 |
| | 1,181,273 | 1,367,678 |
| **OPERATING EXPENSES:** | | |
| Subcontractor expense | 947,973 | 897,951 |
| Legal expense | 9,500 | 13,380 |
| Depreciation expense | 263,555 | 266,985 |
| Miscellaneous direct expenses | 5,400 | 4,683 |
| *Total operating expenses* | 1,226,428 | 1,182,999 |
| *Operating income (loss)* | (45,155) | 184,679 |
| **NONOPERATING INCOME (EXPENSE):** | | |
| Interest income | - | 109 |
| Forgiveness of debt | - | 270,476 |
| Loss on disposal of assets | - | (208,716) |
| Interest expense | (397,297) | (340,770) |
| *Decrease in fund net position* | $ (442,452) | $ **(94,222)** |