VPPSA

VERMONT PUBLIC POWER SUPPLY AUTHORITY

Financial Statements

December 31, 2013 and 2012

(With Independent Auditors' Report Thereon)

VERMONT PUBLIC POWER SUPPLY AUTHORITY

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Graham & Graham, P.C.
Certified Public Accountants
Business Advisors and Management Consultants

Independent Auditor's Report

Board of Directors
Vermont Public Power Supply Authority
Waterbury Center, Vermont

We have audited the accompanying financial statements of Vermont Public Power Supply Authority (the "Authority"), which comprise the statements of net position as of December 31, 2013 and 2012, and the related statements of revenues, expenditures, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 Authority'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 Authority'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 Vermont Public Power Supply Authority as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

As described in the accompanying notes to the financial statements, the Authority has a significant amount of debt service requirements that are contingent directly upon the financial stability of its members and non-members. Any deficiencies in the members and non-member revenues, operations, and net cash flows could have an adverse effect on the Authority's operations and debt service obligations.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 2 through 14 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's financial statements taken as a whole. The supplementary schedules presented on pages 52 through 57 have been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Graham + Graham, PC

Graham & Graham, P.C.
Barre, Vermont
February 19, 2014
Reg. # 92-0000282

Introduction to the Management's Discussion and Analysis (MD & A)

This annual financial report consists of two parts: The Management's Discussion and Analysis (M D & A), and the independent auditor's report which includes the financial statements for the fiscal years that ended on December 31, 2013 and 2012.

The purpose of this section of the Vermont Public Power Supply Authority's (the Authority) annual financial report (the M D & A) is to provide the reader with a summary of the Authority's financial performance and any significant events that occurred within the organization that may or may not have had an impact on that financial performance. The MD & A is intended to be a less comprehensive, reader-friendly synopsis that is understandable to all readers, not only those with a financial background.

The section following the MD & A provides a comprehensive look at the Authority's financial statements including the Authority's Statement of Net Position (formerly known as the Balance Sheet), Statement of Revenues, Expenses and Change in Net Position and Cash Flow Statements.

Together, the MD & A and financial statements illustrate the Authority's overall financial status and/or performance and should be read in conjunction with one another.

Financial Snapshot

A snapshot of the Authority's financial position as of December 31, 2013 is as follows:

- Change in Net Position - Increase of $2,506,336
- Net Capital Assets decreased - $ 1,684,490
- Moody's reaffirmed Project revenue bond ratings of A3 on the McNeil Project bonds and Baa1 on the Swanton Peaker Project #10 Project bonds
- No new debt issuances in 2013.
- Total repayments on outstanding long-term debt - $ 5,052,071
- Net Position reduced by the expense of all remaining debt issue expenses at 12/31/13 required by GASB Statement 65.

Overview of the Financial Statements

The financial statements included within this report include a summary of the Authority's Statement of Net Position (formerly known as the Balance Sheet), Statement of Revenues, Expenses and Change in Net Position and a Statement of Cash Flows. The Authority's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental enterprise funds (same basis of accounting as private-sector business enterprises) and employ an economic resources measurement focus and the accrual basis of accounting. Under this basis, 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 are recognized in the Statements of Revenues, Expenses, and Changes in Net Position. All resulting assets and liabilities associated with the operation of the Authority are included in the Statement of Net Position.

The Statement of Net Position presents information on the "assets and deferred outflows of resources" and the "liabilities and deferred inflows of resources", with the difference between the two groups reported as the company's "Net Position". The change in net position is one way to measure the Authority's financial health.

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The Statements of Revenues, Expenses, and Changes in Net Position report, provides the operating revenues and expenses and non-operating revenue and expenses of the Authority for the fiscal year, along with any capital grants to determine the change in net position for the fiscal year. That change, combined with last year's net position total, reconciles to the net position total at the end of this fiscal year.

The Statement of Cash Flows report, provides cash and cash equivalent activities for the fiscal year resulting from operating activities, non-operating activities, capital related financing activities, noncapital related financing activities and investing activities. The net result of these activities added to the cash balance from the beginning of the year reconciles to the cash and cash equivalent balance at the end of the current fiscal year.

The Authority's reported financial statements include its project ownership interests as follows:

- The Authority's 19% ownership of the J.C. McNeil Generating Station Project #2.
- The Authority's 9.36% ownership of the 225MW AC-DC-AC Highgate Converter Station Project #3.
- The Authority's 100% ownership of the 40 MW Swanton Peaker Project #10.

Financial Summary & Analysis

The table on the following page summarizes information related to the Authority's assets and deferred outflows of resources and liabilities and deferred inflows of resources. As stated above, the difference between the two groups is reported as the Authority's "net position". This information is provided for the years ending December 31, 2013 and 2012.

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		2013		2012
Capital Assets, net	$	26,800,982	$	28,485,472
Current Assets				
Cash & Cash Equivalents		8,293,770		6,905,665
Accounts Receivables		4,854,354		5,385,049
Other Current Assets		2,528,296		2,508,019
Total Current Assets		15,676,420		14,798,734
Long-Term Assets				
Investments		47,472,130		48,081,404
Other Long-Term Assets		576,240		632,978
Total Long-Term Assets		48,048,370		48,714,382
Deferred Outflow of Resources		-		916,679
TOTAL ASSETS & DEFERRED OUFLOWS OF RESOURCES	$	90,525,771	$	92,915,267
Current Liabilities				
Accounts Payable		3,165,809		2,942,155
Short-term Debt		-		2,250,000
Current Portion-Bonds & LTD		9,219,484		4,875,431
Other		1,359,518		1,545,346
Total Current Liabilities		13,744,811		11,612,932
Long-term liabilities				
Bonds		22,820,000		25,335,593
Long-Term Debt		35,863,882		39,700,005
Other		101,887		130,692
Total Long-Term Liabilities		58,785,768		65,166,291
Deferred Inflows of Resources		737,666		1,384,856
TOTAL LIABILITIES & DEFERRED INFLOWS OF RESOURCES	$	73,268,246	$	78,164,078
Net Position		17,257,525		14,751,189
TOTAL LIABILITIES AND NET POSITION	$	90,525,771	$	92,915,267

Changes in Assets and Deferred Outflow of Resources:

The Authority maintains fixed (or capital) assets, and categorizes current and long-term assets. Within each of these categories, some assets are classified as unrestricted and available to meet general operating needs and others are classified as restricted due to contractual obligations and/or other restraints that are placed on those assets. The primary restricted assets include those assets that are project-related, where the Authority is obligated to maintain a separate and distinct accounting for those project funds.

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Fixed Assets - Fixed assets (or capital assets) are stated at historical cost and include assets related to land, production plant, transmission plant and general plant. A portion of these capital assets relate to the Authority's joint ownership in the following jointly owned facilities:

- The Authority's 19% ownership of the J.C. McNeil Generating Station Project #2.
- The Authority's 9.36% ownership of the 225mW AC-DC-AC Highgate Converter Station Project #3.

The following chart summarizes the Authority's fixed assets and accumulated depreciation for the years ended December 31, 2013 and 2012:

		2013	2012
Capital assets	$	51,296,816	51,728,110
Less accumulated depreciation		24,495,834	23,242,638
Total capital assets, net	$	26,800,982	28,485,472

In 2013, net capital assets decreased by $1.7M and increased by $.2M in 2012. In 2013, the decrease was the result of routine capital improvements at the McNeil Generating station and the Highgate Converter facility, offset by annual depreciation on all capital assets in service. The increase in 2012 was due to the major facility upgrade at the Highgate converter, with the addition of capital assets slightly outweighing the annual depreciation on existing capital assets in service.

Current Assets - Current assets are generally defined as those assets that can be easily converted into cash within one year. The Authority's current assets are primarily comprised of cash and cash equivalents, short-term investments, accounts receivable, and inventories.

In 2013, current assets increased by $.9M or 5.9% and decreased $.6M or 4.0% in 2012. The increase in 2013 is primarily the result of an increase in cash and cash equivalents, offset by a decrease in accounts receivable. The increase in cash results from less funds invested and more funds received from members and/or non-members, which also contributes to the decrease in accounts receivable.

The decrease in 2012 is the result of a reduction in receivables and a reduction in cash, offset slightly by an increase in other current assets. The reduction in receivables is primarily due to lower costs billed to members and non-members during the year and the reduction in cash is due to the payment of capital expenditures related to the Highgate facility improvements, as well as the return of approximately $100K of amounts due to one member, and several prepayments paid in 2012 for 2013 expenditures.

Long-term Assets - Long-term assets are generally described as the value of a company's property, equipment and other capital assets that are expected to be usable for more than one year, less the accumulated depreciation recorded on these assets. Fixed (capital) assets were previously described above; therefore, this section includes "other" long-term assets or those that are long-term in nature but not related to the Authority's physical property and/or equipment. This includes long-term investments and other miscellaneous long-term assets such as amounts due from members and long-term prepayments. The investments classified as long-term are those that represent funds invested for periods longer than 90 days.

(Continued)

The Authority holds two types of investments – those related to project bond funds (debt service accounts) and the Authority's purchase of membership units in Vermont Transco, LLC. In 2013 and 2012, the Authority invested bond funds held, but not required for immediate expenditure, using several different instruments such as Certificates of Deposit, Treasury bills, Treasury notes and other Federal Agency Obligations.

In 2013 bond fund investments decreased approximately $.6M or 12.9% and in 2012 bond fund investments remained relatively neutral with only a minor (.06%) change in market value. The decrease in 2013 is primarily a timing difference between funds being invested as opposed to remaining in cash and cash equivalents.

The number of membership units in Vt. Transco LLC and the value of those investments did not change during 2013; however, in 2012, these investments increased from the prior year by approximately $2.7.M or 6.7% representing the value of 120,480 Class A and 153,342 Class B membership units of Vt. Transco, LLC purchased in 2012 for the direct benefit of certain of the Authority's members.

Other long-term assets decreased in both 2013 and 2012 by $57K or 9% and $.3M or 31% respectively. The decrease in 2013 is primarily due to a decrease in amounts due from members, both due to lower costs and the expense of outstanding fees related to the financing of Membership Units in Vt. Transco.

Deferred Outflows of Resources – Deferred Outflows of Resources are defined as a consumption of assets that are applicable to a future reporting period. In simple terms, this generally includes transactions where resources (typically cash) are expended but the reporting (expensing) for that transaction would occur over a period of years. These types of transactions have a positive effect on a company's net position, similar to assets. Examples of this are derivative instruments that have a positive impact to the company, unamortized debt issuance costs, amounts resulting from the refunding of debt, loan origination costs, etc. Deferred outflows of resources decreased by approximately $.9M and less than $.1M in 2013 and 2012, respectively. In prior years, debt issue expenses related to long-term debt obligations were amortized over the life of the debt obligation and recorded as "other long-term assets". Due to GASB statement No. 65, these debt issue expenses are now considered deferred outflows of resources and have been reclassified to this category for proper representation within the financial statements for both 2013 and 2012. In 2013 the remaining unamortized debt issuance expenses related to the McNeil and Project 10 bond issuances and the Transco long-term debt were fully expensed and/or amortized.

Changes in Liabilities and Deferred Inflows of Resources:

The Authority maintains several long-term debt obligations and records current and other long-term liabilities. Similar to how the Authority records its assets, some liabilities are classified as unrestricted and available to meet general operating needs and others are classified as restricted due to contractual obligations and/or other restraints that are placed on those liabilities. The primary restricted liabilities include those liabilities that are project-related, where the Authority is obligated to maintain a separate and distinct accounting for those project funds.

Current Liabilities - Current liabilities are generally defined as a company's debts or the sum of money owed to other parties, due and payable within one year. The Authority's current liabilities include accounts payable, amounts due to members, short-term debt obligations, the current year portion of long-term debt obligations, accrued interest payable and other miscellaneous short-term liabilities.

In 2013, current liabilities increased $2.1M or 18.4%, as compared to a increase of $1M or 9.9% in 2012. The increase in 2013 is primarily related to one debt obligation that matures in 2014; therefore, the entire balance of this obligation was moved from long-term debt to current year maturity. This increase was slightly offset by a decrease in short-term debt related to the Highgate Converter upgrade that was being funded through a line-of-credit. This line-of-credit was converted to long-term debt in 2013.

The increase in 2012 is attributed to an increase in short-term debt and an increase in the current portion of long-term debt; offset by a decrease in accounts payable and a decrease in other current liabilities. The increase in short-term debt is directly related to line-of-credit advances taken to pay for capital upgrades at the Highgate Converter station and the increase in current maturities of long-term debt is due to the new debt issuance to facilitate the 2012 purchase of membership units in Vt. Transco, LLC. The reductions to accounts payable are primarily related to less payables due; equally, payments related to the Highgate construction upgrade and several prepayments made in December that were for the 2013 CY.

Long-Term Liabilities- Long-term liabilities are generally those debt obligations such as bond payments, leases and other obligations that are due in more than one year. The Authority's primary long-term liabilities, consists of two outstanding bond issues and eight long-term debt obligations. Other long-term liabilities include accrued liabilities that are expected to be paid in a future period such as accrued vacations payable to employees.

The Authority has two outstanding bond issues that were used to 1) fund the Authority's 19% ownership share of construction cost of the McNeil Generating facility located in Burlington, Vermont and 2) to facilitate the construction of the Authority's Swanton Peaker Project #10 located in Swanton, Vermont. In 2013, bonds payable decreased \$2.5M or 9.9% and \$2.5M or 8.8% in 2012. These reductions were the result of the repayment of principal on bonds outstanding during these years.

In 2013 and 2012, the Authority maintained eight (8) long-term debt facilities. Two are directly related to construction projects, one for the Swanton Peaker Project #10 and the other at the Highgate Convertor and the remaining six (6) were used to facilitate purchases of membership units in Vt. TRANSCO for the benefit of certain of the Authority's members and one non-member. In 2013, these long-term debt facilities decreased by \$3.8M or 9.7% and increased by \$1M or 2.5% in 2012. The decrease in 2013 is a result of ongoing principal repayments on the existing obligations and the upcoming maturity of one note that moved the remaining balance of this obligation to the current portion of long-term debt. The increase in 2012 was the result of ongoing principal repayments on the existing obligations, offset by the new debt issuance to facilitate the purchase of membership units in Vt. TRANSCO.

Other long-term liabilities include the outstanding balance on the long-term portion of a consulting contract with the former General Manager and accrued vacations payable to Authority employees. The net present value of the consulting contract as of December 31, 2013 and 2012 was \$40,416 and \$66,332, respectively, and approximately \$61,470 and \$64,360, respectively, is related to accrued vacations due to Authority employees for 2013 and 2012.

Deferred Inflows of Resources - Deferred Inflows of Resources are defined as an acquisition of assets by the company that is applicable to a future reporting period. In simple terms, this generally includes transactions where resources (typically cash) are received but the reporting (income/revenue) for that transaction would occur in a future period. These types of transactions typically have a negative effect on a company's net position, similar to liabilities. Examples of this are credits resulting from the refunding of debt, premiums on debt issuances, loan origination fees, resources generated by current rates intended to recover costs expected to be incurred in the future, derivative instrument valuations that have a negative impact on a company's net position, etc. Transactions specific to VPPSA include the derivative liability related to five (5) interest rate swaps, bond premiums received from the McNeil and Project #10 bond issuances and the remaining unamortized loss on reacquired debt related to a prior McNeil bond refunding.

The mark-to-market valuation of the interest rate swaps result in a liability of \$.7M and \$1.4M at December 31, 2013 and 2012, respectively. The interest rate swaps effectively provide a variable to fixed interest rate for three notes with one financial lender to facilitate purchases of membership units in VT TRANSCO, one note with another financial lender for long-term debt related to the construction of Project #10 and long-term debt related to the construction upgrades at the Highgate converter station.

(Continued)

Both the derivative instrument valuations and the amortization of the bond premiums related to the McNeil and Project #10 bond issuances were previously recorded as other long-term liabilities and have been reclassified to reflect proper classification within the financial statements as the result of GASB Statement No. 65. In addition, the remaining unamortized premiums on prior debt issuances are recognized as income and fully amortized in 2013.

Changes in Net Position:

The difference between a company's assets, deferred outflows and its liabilities and deferred inflows is reported as its "net position". A company's net position is one way to measure the organization's net financial health.

Changes in the Net Position includes Invested in Capital Assets net of related debt, Restricted Assets, Unrestricted Assets and Other Comprehensive Income.

The Invested in Capital Assets balance, net of related debt, represents the Authority's investment in the McNeil Generating Project #2, the Highgate Project #3 and the Swanton Peaker Project #10, less the debt service related to the Projects. The deficit occurs because depreciation is calculated on a straight-line basis over the life of the plants, while debt repayment is structured to include more interest than principal in the early years and later payments include more principal than interest.

The restricted assets are comprised of assets restricted due to project obligations and special investments in Vt. Transco, LLC that directly benefit certain of the Authority's members and one non-member cooperative.

The restricted project assets include Highgate, McNeil, and Project 10 and are those investment assets that are reserved for future debt payments and those current assets associated with project operations. The restrictions on these assets arise from the terms of the General Bond Resolutions (if applicable) and Power Sales Agreements for each project.

The Authority's restricted Investment in VT Transco represents the investment held by VPPSA that is either pledged as collateral or is eligible for release from collateral and therefore eligible for transfer to the Authority's members. The restriction on these investments arises from the terms of the Transco Equity Agreement.

Unrestricted Assets consists of assets that do not meet the definition of "restricted" or "invested in capital assets net of related debt."

The total net position increased $2,506,336 in 2013 and $2,288,124 in 2012. These increases reflect the Authority's ability to bill and record revenue for debt principal under its billing structure. The accumulated net position results because currently the principal obligations on debt exceed depreciation and amortization.

The Other Comprehensive Income is related to the unrealized gains and/or losses on invested funds and the mark-to-market valuation of five (5) interest rate swaps the Authority entered into providing rate stability to the organization.

(Continued)

The following table summarizes the Authority's change in net position as of December 31, 2013 and 2012.

		2013		2012
Electric Sales For Resale	$	25,798,003	$	25,194,863
McNeil Project Revenue		6,200,405		5,585,832
Highgate Project Reveune		537,970		397,794
Swanton (P10) Revenue		3,429,732		3,373,509
Other Revenues		3,495,421		2,196,343
Total Operating Revenues	$	39,461,531	$	36,748,340
Power Production and Other Expenses		5,366,272		3,887,054
Transmission Expenses		9,144,518		7,532,508
Purchased Power		16,647,364		17,090,159
Regional Market Expenses		126,077		58,097
Administration & General Expenses		2,209,741		2,340,894
Taxes		300,858		276,158
Depreciation & Amortization		2,034,944		1,873,511
Total Operating Expenses	$	35,829,773	$	33,058,382
Net Operating Income(Loss)		**3,631,758**		**3,689,959**
Transco Income/Expenses (net)		3,783,897		3,505,736
Interest Income/Expenses (net)		(3,755,437)		(3,842,231)
Amortizations (net)		(1,688,582)		(760,552)
Proceeds/Expenses Related to Casualty Loss (net)		-		(156,296)
Other Non-Operating Income/Expenses (net)		14,450		(47,964)
Total Non-Operating Expenses, Net	$	(1,645,672)	$	(1,301,308)
Change in Net Position		**1,986,086**		**2,388,651**
Other Comprehensive Income		520,250		(100,526)
Net Position at Beginning of Year		14,751,189		12,463,064
Net Position at End of Year	**$**	**17,257,525**	**$**	**14,751,189**

(Continued)

Operating Revenues & Expenses

A portion of the Authority's operating results reflect income received from member municipal utilities, participating electric cooperatives and several non-member municipal utilities. The project expense and debt service obligations are billed out directly on an entitlement share or contractually agreed-upon method. The Authority's operating and administrative expenses are billed as either project costs or member fees and are recorded as sales for resale.

Electric Sales for Resale - Electric Sales for Resale includes amounts billed by the Authority to its members and non-members for purchased power and transmission expenses paid for on behalf of those members and non-members and excludes all McNeil Project #2, Highgate Project #3, and Swanton Project #10 sales. In 2013 Electric Sales for Resale increased by .6M or 2.4%, whereas, in 2012 revenues decreased $1.1M or 4.3%. Purchased power and transmission expenses increased approximately $1.2M or 4.7% in 2013, and decreased approximately $.5M or 1.8% in 2012.

The increase in Sales for Resale in 2013 is due to an increase in purchased power costs passed on to the members and/or non-members. This increase was offset by an increase in REC revenues of $.9M – REC revenues are credited against member invoices, reducing the amount recorded as Sales for Resale. The decrease in 2012 was primarily due to the increase in REC revenues and a reduction in transmission costs.

The 2013 increase in purchased power and transmission of $1.1M, is primarily driven by an increase in transmission costs of approximately $1.6M, offset by a decrease in purchase power cost of $.4M. Transmission costs in 2013 are more normalized than those seen in 2012 due to a number of unusual one-time credits that flowed in 2012 reducing the overall cost of transmission below levels normally seen in a given year. These credits were directly passed through to members by Vt. Transco, Vermont's Transmission provider. This attributes to the decrease in transmission cost of $.8M or 9.3% in 2012.

McNeil Project #2 - The McNeil Project revenue reflects payments for monthly power costs and debt service obligations in accordance with the McNeil Project's Power Sales Agreements with participating members. The McNeil Project revenues increased by approximately $.6M or 11% in 2013 and decreased by $.5M or 7.6% in 2012. The increase in 2013 is primarily due to an increased output of the facility. The facility produced 26% more kwh's than budgeted (12M kwh) and that contributed to higher fuel and maintenance costs that were billed to project participants. The higher O & M expenses were slightly offset by an increase in REC revenues of approximately $.4M that reduced amounts billed to participants. The decrease in revenues for 2012 was primarily due to an increase in REC revenues of $.4M.

Power production costs are the direct result of operations at the McNeil and Project #10 facilities. The portion of power production costs related to the McNeil operations increased by $1.3M or 34% in 2013 and decreased by $.5M or 11% in 2012. These variances are generally related to changes in operational costs, some of which result from changes in the capacity output of the McNeil station and varying fuel costs. As noted above, the McNeil facility produced 26% (or 12M) more kwh's than budgeted in 2013, resulting in higher fuel and maintenance costs which directly corresponds to the increase in production costs in 2013.

The chart on the following page represents the capacity and availability factors related to the McNeil Generating Station over the last ten years:

Year	Capacity Factor	Availability Factor
2013	72.9%	89.7%
2012	51.3%	83.8%
2011	51.9%	84.9%
2010	62.1%	89.7%
2009	50.8%	89.3%
2008	57.6%	91.9%
2007	64.6%	91.5%
2006	60.4%	92.8%
2005	53.8%	79.9%
2004	50.1%	93.2%
2003	53.8%	91.3%

Highgate Project # 3 - The Highgate Project revenue reflects payments from the Highgate Project participants for monthly transmission costs and debt service obligations in accordance with the Member Services Agreement with participating members. Revenues increased $140K or 35.2% in 2013 as compared to an increase of $56K or 16.4% in 2012. The increase in 2013 is primarily due to the major improvements installed at the Highgate facility. During construction, the improvement costs were funded through the use of a short-term line of credit. This line of credit was converted to a long-term debt facility in 2013 and project participants were billed for their share of those costs starting in April of 2013. In 2012, the increase in revenues was due to 1) the receipt of project revenues billed to one (1) project participant who chose to pay its share of project costs related to major facility improvements, rather than finance those costs with other project participants and; 2) the increase in interest costs related to the short-term financing implemented to fund the cost of those facility improvements billed to the other project participants.

Swanton Project # 10 - The Swanton Project revenue reflects payments for monthly power costs and debt service obligations in accordance with the Project's Power Sales Agreements with project participants. In 2013 project revenues increased $56K or 1.7% and in 2012 revenues increased $52K or 1.6%. The increases in both 2013 and 2012 are the result of general increases in O & M costs that were billed to project participants.

The power production costs related to the operations of Project #10 increased in 2013 by $.2M or 75% and by less than .1M or 30% in 2012. The increase in 2013 primarily results from an increase in fuel expense due to the units operating more than projected for the year. In 2012, the increase is primarily due to additional training and a supply of tools purchased to remain on site.

The following chart represents the capacity and availability factors related to the Swanton Peaker Project for the last three years:

Year	Capacity Factor	Availability Factor
2013	0.154%	96%
2012	0.091%	91%
2011	0.086%	98%

(Continued)

Other Revenues - Other revenues include the sale of Renewable Energy Certificates (RECs) generated from the J.C. McNeil Project #2, the Waste Management-Fitchburg Landfill facility, and several member's individual Hydro units.

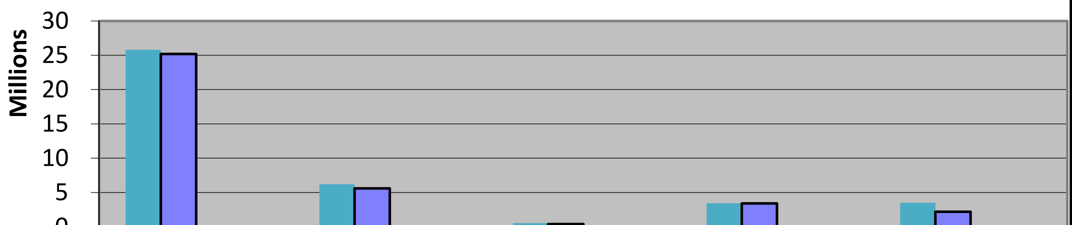
The McNeil REC sales are recorded as revenue and are used to offset current project expenses. In 2013, the value of the McNeil RECs sold were approximately $2.0M compared to $1.5M in 2012, $1.2M in 2011 and $1.3M in 2010.

The Power Purchase Agreement between the Authority and the Waste Management-Fitchburg Landfill facility includes environmental attributes including the sale of renewable energy credits. These credits are recorded as revenue and netted against the cost of the power purchased per the power purchase agreement. The credits realized from this resource totaled $1.1M in 2013, $.5M in 2012 and $0 in 2011.

REC revenues produced by the VPPSA members' individual hydro units and several State mandated projects are sold by the Authority on behalf of the members and credited to the member's account, reducing Sales for Resale.

Revenues Summary

The following chart summarizes the Authority's Revenues for 2013 and 2012.



	Electric sales for resale	McNeil project revenue	Highgate project reveune	Swanton (P10) revenue	Other revenue
2013	25,798,003	6,200,405	537,970	3,429,732	3,495,421
2012	25,194,863	5,585,832	397,794	3,373,509	2,196,343
% Change	2%	11%	35%	2%	59%
% of Total	65.4%	15.7%	1.4%	8.7%	8.9%

Non-Operating Activities

Changes in non-operating activities for 2013 and 2012 primarily include 1) interest earned on deposits and temporary investments; 2) interest expense related to the Authority's debt obligations, 3) distributions and expenses related to the investment of TRANSCO Units and 4) revenues and/or expenses related to other miscellaneous non-operating activities.

Interest Earned and Interest Expense - In 2013 interest on deposits and investments increased slightly and decreased in 2012. These changes are primarily related to the fluctuation in current interest rates, coupled with a change in the amount of funds invested during the period. Interest expense decreased in both 2013 and 2012. These decreases are primarily due to the ongoing reduction of principal on loans outstanding; however, the reduction in 2013 was slightly offset by additional interest expense related to new debt issued at the end of 2012

(Continued)

for the purpose of purchasing membership units in Vt. Transco and in 2013 to fund the facility upgrades at the Highgate Converter Project.

These variances include the following:

- An increase in interest earned on deposits and investments of $5K or 3.5% in 2013, compared to a decrease of $31K or 21% in 2012.
- A decrease in interest expense of $82K or 2.1% in 2013 and a decrease of $169K or 4.1% in 2012. Of these amounts there was a decrease in expense related to interest rate swaps of $21K in 2012 and an increase of $21K in 2013, resulting in the swaps remaining neutral for the two year period.

Distribution Income and Distribution Expense - The Authority currently holds a total of 4,335,723 TRANSCO membership units valued at $43,357,230. In 2013 distribution income increased slightly due to the additional membership units purchased at the end of 2012 and in 2012 distribution income remained relatively neutral. Likewise, distribution ("net settlement") expense increased in 2013 and decreased slightly in 2012.

Casualty Loss Income/Expense - The Swanton Peaker Project #10 experienced a casualty loss on January 6, 2010 when a fire significantly damaged Unit #2 of the project. While the vast majority (approximately 92%), of the costs of the physical repair were covered by insurance in 2010, the remaining increment of the repair claim, as well as the component of the claim relating to lost revenues from the fire, were completely resolved with the insurance carrier in 2012. The final proceeds and/or expenses related to this event are reflected in the 2012 financial results.

Grant Income/Expense

In 2008, the Authority was awarded a grant from the Department of Energy ("DOE") in the amount of $492,000 for the purpose of promoting and funding farm methane projects within Vermont. Over the last several years, Authority staff has worked with the DOE and the VPPSA member systems to locate viable farm methane projects. During the last two years, Authority staff was successful with one local farm and ultimately requested a portion of the grant award to assist the farm in funding an 80 Mw methane digester project. In 2012, the Authority received $260,314 from the Department of Energy. Of this amount, $218,732 was directly transferred to the local farm owner and the remaining $41,582 was retained by the Authority to recover administrative costs relative to the grant.

There were no revenue or expenses related to the Grant in 2013 and, due to a lack of viable participants, the Grant was closed in 2013.

Subsequent Events

Subsequent to December 31, 2013, the Authority has made two draws against its operating line-of-credit to meet general operating needs. The amount drawn as of the date of this report is $2.5M.

(Continued)

Request for Information

This report is designed to provide an overview of the Authority's finances. Questions concerning any of the information found in this report or requests for additional information should be directed to:

The Controller
Vermont Public Power Supply Authority
PO Box 126
5195 Waterbury-Stowe Road
Waterbury Center, Vermont 05677
Telephone: (802) 244-7678 Ext. 228
Direct Line: (802) 882-8501

(Continued)

VERMONT PUBLIC POWER SUPPLY AUTHORITY
STATEMENTS OF NET POSITION
FOR THE YEARS ENDING DECEMBER 31, 2013 and 2012

ASSETS	2013	2012
CAPITAL ASSETS, net	$ 26,800,982	$ 28,485,472
UNRESTRICTED ASSETS		
CURRENT:		
Cash and Cash Equivalents	2,129,960	1,541,897
Accounts Receivable	4,434,560	4,858,285
Due from Members	44,149	88,412
Other Current Assets	57,160	126,510
TOTAL CURRENT ASSETS	6,665,829	6,615,103
LONG TERM:		
Other Long-Term Assets	-	-
TOTAL LONG TERM ASSETS	-	-
TOTAL UNRESTRICTED ASSETS	6,665,829	6,615,103
RESTRICTED ASSETS		
CURRENT:		
Cash and Cash Equivalents	5,969,512	4,964,045
Cash Advances - Projects	194,298	399,724
Accounts Receivable	419,794	526,765
Fuel Inventories-McNeil & P10	1,034,502	975,742
Interest/Distribution Receivable	1,365,802	1,284,536
Other Current Restricted Assets	26,683	32,820
TOTAL RESTRICTED CURRENT ASSETS	9,010,591	8,183,631
LONG TERM:		
Due from Members	433,815	489,038
Investments - Bond Funds	4,114,900	4,724,174
Investment in VT Transco, LLC - Restricted	37,822,741	39,110,437
Investment In VT Transco, LLC - Restricted - Eligible for Release	5,534,489	4,246,793
Other Long-Term Assets	142,424	143,939
TOTAL RESTRICTED LONG TERM ASSETS	48,048,370	48,714,382
TOTAL RESTRICTED ASSETS	57,058,960	56,898,013
DEFERRED OUTFLOWS:		
Derivatives Instrument Asset	-	-
Unamortized Debt Issuance Costs	-	916,679
TOTAL DEFERRED OUTFLOW OF RESOURCES	0	916,679
TOTAL ASSETS & DEFERRED OUTFLOW OF RESOURCES	**$ 90,525,771**	**$ 92,915,267**

See Independent Auditors Report and accompanying notes to financial statements.

VERMONT PUBLIC POWER SUPPLY AUTHORITY
STATEMENTS OF NET POSITION
FOR THE YEARS ENDING DECEMBER 31, 2013 and 2012

LIABILITIES		2013		2012
CURRENT LIABILITIES				
Short-Term Debt	$	-	$	-
Accounts Payable		2,555,704		2,423,349
Amounts Due to Members		27,974		-
Other Current Liabilities		43,326		120,474
TOTAL CURRENT LIABILITIES		2,627,004		2,543,823
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS				
Bonds Payable, Current Portion		3,235,000		3,090,000
Short-Term Note Payable		-		2,250,000
Current Installments on Long - Term Debt		5,984,484		1,785,431
Amounts Due Members		601,987		658,919
Accounts Payable		610,105		518,806
Accrued Interest Payable		695,114		765,953
Other Current Liabilities		(8,883)		-
TOTAL CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		11,117,807		9,069,109
LONG-TERM LIABILITIES				
Bonds Payable from Restricted Assets, (excl. current installments)		22,820,000		25,335,593
Long-Term Debt Payable from Restricted Assets (excl. current installments)		35,863,882		39,700,005
Other Long-Term Liabilities		101,887		130,692
TOTAL LONG-TERM LIABILITIES:		58,785,768		65,166,291
DEFERRED INFLOWS OF RESOURCES:				
Derivative Instrument Liability		737,666		1,384,856
Other Inflows of Resources				
TOTAL DEFERRED INFLOW OF RESOURCES		737,666		1,384,856
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		73,268,246		78,164,078
NET POSITION				
Invested in Capital Assets, Net of Related Debt		(3,334,394)		(4,755,522)
Restricted for McNeil Project #2		6,719,485		6,332,290
Restricted for Swanton Peaker - Project #10		3,602,410		3,517,514
Restricted for Highgate - Project #3		313,614		619,882
Restricted - Investment in Transco, LLC - Pledged - Eligible for Release		5,534,488		4,246,793
Restricted - Investment in Transco, LLC, net of related debt		1,292,594		1,260,826
Other Comprehensive Income - Restricted		(807,611)		(1,327,861)
Unrestricted		3,936,939		4,857,268
TOTAL NET POSITION	$	17,257,525	$	14,751,189
TOTAL LIABILITIES, INFLOWS OF RESOURCES & NET POSITION		90,525,771		92,915,267

See Independent Auditors Report and accompanying notes to financial statements

VERMONT PUBLIC POWER SUPPLY AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDING DECEMBER 31, 2013 and 2012

REVENUES	2013	2012
Electric Sales for Resale	$ 25,798,003	$ 25,194,863
McNeil Project Revenue	6,200,405	5,585,832
Highgate Project Revenue	537,970	397,794
Swanton (P10) Project Revenue	3,429,732	3,373,509
Renewable Energy Certificates	3,325,974	2,038,193
Other Service Revenue	169,447	158,150
TOTAL REVENUES	39,461,531	36,748,340
OPERATING EXPENSES		
Purchased Power	16,647,364	17,090,159
Transmission Expenses	9,144,518	7,532,508
Power Production Expenses	5,366,272	3,887,054
Regional Market Expense	126,077	58,097
Administrative & General Expenses	1,959,849	1,900,777
Outside Services	249,892	440,118
Payment in Lieu of Taxes	300,858	276,158
Amortization	3,000	3,251
Depreciation	2,031,944	1,870,260
TOTAL OPERATING EXPENSES	35,829,773	33,058,382
OPERATING INCOME FROM CONTINUING OPERATIONS	3,631,758	3,689,959
NON-OPERATING REVENUE (EXPENSE)		
Distribution Income - Vt Transco, LLC	5,423,123	5,080,626
Net Settlement Expense - Vt Transco LLC	(1,639,225)	(1,574,890)
Interest Expense - Vt Transco, LLC LTD	(1,980,740)	(1,954,976)
Interest Expense - Vt Transco, LLC Swaps	(392,918)	(398,014)
Interest Expense -Short-Term Debt	(12,864)	(28,329)
Interest Expense - Long-Term Debt	(1,427,443)	(1,540,576)
Interest Expense - LTD Swaps	(65,210)	(38,797)
Amortization of Bond Discount, Premium and Issuance Expenses	(166,688)	34,660
Amortization of Loss on Reacquired Debt	(1,521,895)	(795,212)
Interest Earned on Accounts	123,738	118,461
Net Proceeds Related to Casualty Loss	-	(156,296)
Income from Grants	-	260,314
Expense related to Grant Activity	-	(260,314)
Gain/(Loss) on Disposition of Plant Asset	190	-
Realized Gain/(Loss) on Investments	(12,350)	(48,639)
Other Non-Operating Revenue (Expense)	26,610	675
TOTAL NON-OPERATING REVENUE (EXPENSE)	(1,645,672)	(1,301,308)
CHANGE IN NET POSITION	1,986,086	2,388,651
Other Comprehensive Income-Interest Swaps	647,190	(81,754)
Other Comprehensive Income-Unrealized Gains/Losses	(126,940)	(18,772)
TOTAL NET POSITION - BEGINNING	14,751,189	12,463,065
TOTAL NET POSITION - ENDING	$ 17,257,525	$ 14,751,189

See Independent Auditors Report and accompanying notes to financial statements.

VERMONT PUBLIC POWER SUPPLY AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDING DECEMBER 31, 2013 and 2012

CASH FLOWS FROM OPERATING ACTIVITIES		***2013***		***2012***
Receipts:				
Electric sales for resales	$	25,977,343	$	24,850,586
McNeil project revenue	$	6,388,675	$	5,716,937
Highgate project revenue	$	552,046	$	401,967
Swanton Peaker project revenue	$	3,429,732	$	3,373,509
Renewable Energy Certificates	$	3,233,701	$	2,038,193
Other Revenues	$	212,431	$	180,613
Payments made for:				
Purchased power	$	(17,257,487)	$	(18,184,814)
Transmission expense	$	(8,253,183)	$	(6,328,111)
Power production expense	$	(5,207,929)	$	(4,489,959)
Regional Markets Expense	$	(116,449)	$	(27,392)
Others, employees, benefits, and employee and employer payroll taxes	$	(1,402,846)	$	(1,202,942)
Outside services and other general and administrative expenses	$	(845,227)	$	(1,354,152)
Taxes	$	(296,413)	$	(260,277)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$	6,414,394	$	4,714,157
CASH FLOWS FROM NON-OPERATING ACTIVITIES				
Receipts:				
Member Reimbursements	$	7,755	$	15,438
Misc Sales/Income	$	1,992	$	-
Insurance Settlement	$	-	$	380,000
Department of Energy Grant	$	-	$	260,314
Payments made for:				
Member Reimbursements	$	(8,987)	$	(15,114)
Grant Expenses	$	-	$	(260,314)
NET CASH PROVIDED BY NON-OPERATING ACTIVITIES	$	760	$	380,324
NET CASH PROVIDED BY OPERATING & NON-OPERATING ACTIVITIES	$	6,415,154	$	5,094,481
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Repayment of LTD Financing of Vt. Transco, LLC Units	$	(1,295,157)	$	(1,031,338)
Repayment of Interest on LTD - Vt. Transco, LLC	$	(1,969,006)	$	(1,954,763)
Repayment of Interest on LTD Swap Agreements - Vt. Transco LLC	$	(395,832)	$	(401,186)
Payment of Fees Related to Letter-of-Credit Issuance	$	-	$	(23,045)
Payment of Fees Related to Transco Financing	$	(2,612)	$	(13,751)
Proceeds Related to Repayment of Financing Costs	$	12,864	$	8,380
Proceeds of LTD Financing of Vt. Transco, LLC Units	$	-	$	2,738,220
Other Miscellaneous Proceeds (Payments)	$	-	$	(97)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	$	(3,649,742)	$	(677,580)
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
Repayment of Bonds Payable	$	(3,090,000)	$	(2,950,000)
Payments of Interest Expense on Bonds Payable	$	(1,408,131)	$	(1,539,231)
Proceeds of LTD Financing	$	2,325,000	$	-
Repayments of Long-Term Notes Payable	$	(615,333)	$	(500,000)
Payment of Interest Expense on Long-Term Notes Payable	$	(122,514)	$	(74,290)
Payment of Interest Expense on LTD-Swap Agreements	$	(59,151)	$	(33,094)
Principal Advances on Line-of-Credits	$	70,816	$	1,400,000
Repayment of Short-Term Debt	$	(2,325,000)	$	-
Payment of Interest on Short-term Debt	$	(16,439)	$	(26,278)
Payment of Fees related to Financing Activities	$	(19,894)	$	-
NET CASH USED IN CAPITAL AND FINANCING ACTIVITIES	$	(5,260,647)	$	(3,722,893)

		2013		2012
CASH FLOWS FROM INVESTING ACTIVITIES				
Net Capital Additions	$	(431,502)	$	(2,299,125)
Interest Income	$	127,569	$	124,393
Distributions Earned on Transco Investment	$	5,337,498	$	5,080,626
Dividends Received on Velco Stock	$	(3,168)	$	10
Proceeds Received on Member Notes Receivable - Principal	$	4,649	$	18,112
Proceeds Received on Member Notes Receivable - Interest	$	49	$	681
Net Settlement Distributions to Members/Non-members	$	(1,623,011)	$	(1,574,886)
Gain (Loss) on Bond Investment Funds	$	(11,984)	$	(48,639)
Purchase of Bond Fund Investments	$	(4,488,308)	$	(3,999,845)
Sale of Bond Fund Investments	$	4,971,549	$	3,985,908
(Purchase) Sale of VT Transco, LLC Member Units	$	-	$	(2,738,220)
NET CASH USED IN INVESTING ACTIVITIES	$	3,883,341	$	(1,450,987)
NET INCREASE (DECREASE) IN CASH	$	1,388,105	$	(756,979)
CASH & RESTRICTED CASH BALANCE, BEGINNING OF YEAR	$	6,905,665	$	7,662,644
CASH & RESTRICTED CASH BALANCE, END OF YEAR	$	8,293,770	$	6,905,665

		2013		2012
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED OPERATING ACTIVITIES				
Operating income from continuing operations	$	3,673,471	$	3,689,958
Adjustments to reconcile net operating income to net cash provided by operating activities				
Depreciation and amortization	$	2,034,944	$	1,873,511
Change in assets and liabilities:				
(Increase) decrease in Accounts Receivable	$	441,711	$	(439,285)
(Increase) decrease in Amounts Due from Members	$	50,878	$	167,203
(Increase) decrease in Inventories	$	(58,760)	$	(123,904)
(Increase) decrease in Other Assets	$	77,001	$	(438,070)
Increase (decrease) in Accounts Payable	$	372,592	$	(10,947)
Increase (decrease) in Amounts Due to Members	$	(73,696)	$	(70,613)
Increase (decrease) in Other Liabilities	$	(103,748)	$	66,303
Total adjustments	$	2,740,922	$	1,024,199
NET CASH PROVIDED BY OPERATING ACTIVITIES	$	6,414,394	$	4,714,157

VERMONT PUBLIC POWER SUPPLY AUTHORITY
STATEMENTS OF CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2013 and 2012

		Invested In Capital Assets	Restricted Assets	UnRestricted Assets	Other Comprehensive Income	Total
Balance at December 31, 2011	$	(5,112,121)	13,748,869	5,053,652	(1,227,335)	12,463,065
Current Year Change in Net Position		356,599	2,228,436	(196,385)	-	2,388,650
Interest Rate Swap		-	-	-	(81,754)	(81,754)
Unrealized Gains/Losses		-	-	-	(18,772)	(18,772)
Balance at December 31, 2012	$	(4,755,522)	15,977,305	4,857,267	(1,327,861)	14,751,189
Current Year Change in Net Position		1,421,128	1,485,287	(920,329)	-	1,986,086
Interest Rate Swap		-	-	-	647,190	647,190
Unrealized Gains/Losses		-	-	-	(126,940)	(126,940)
Balance at December 31, 2013	$	(3,334,394)	17,462,591	3,936,939	(807,611)	17,257,525

See Independent Auditors Report and accompanying notes to financial statements.

Note 1 – Nature of Business

Vermont Public Power Supply Authority ("the Authority") is a joint action agency established by Chapter 84, Title 30 of the Vermont statutes. The Authority is a self-supported agency providing a variety of centralized services to municipal distribution utilities throughout the State of Vermont. Members of the Authority pay monthly administration fees and in return receive a variety of services including but not limited to: central dispatch participation, power supply planning, contract administration, rate and integrated resource planning, and technical support services.

The Authority employs the economic resources measurement focus and the accrual basis of accounting. Under this basis of accounting, revenues are recognized when earned and expenses are recorded when incurred, regardless of when cash is received or paid. The Authority is authorized to issue revenue bonds secured by power sales agreements with its members and other utilities to finance the construction and ownership of electric power facilities; however, the debt of the Authority is not secured by the full faith and credit of the State of Vermont. U.S. generally accepted accounting principles, (hereafter referred to as GAAP), require that the accompanying financial statements present the Authority (the primary government) and its component units. Component units are included in the Authority's reporting entity if their operational and financial relationships with the Authority are significant.

Note 2 – Summary of Significant Accounting Policies

(a) New Accounting Pronouncements

The Authority has completed the process of evaluating the impact of GASB Statement No. 67, *Financial Reporting for Pension Plans,* GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and related GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The objective of these statements is to improve financial reporting by state and local governments by establishing accounting and financial reporting standards related to pensions for governments whose employees are provided with pensions and for non-employer governments that have a legal obligation to contribute to such plans. GASB Statement No. 67 is effective for fiscal years beginning after June 15, 2013. GASB Statement No. 68 and GASB Statement 71 are effective for financial statements for periods beginning after June 15, 2014. Employees of the Authority do not participate in a defined benefit plan and have therefore determined that GASB Statement Numbers 67, 68 and 71 had no impact on its financial position, results of operations and cash flows and therefore are not applicable to its operation.

The Authority has completed the process of evaluating the impact of GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. The objective of this statement is to improve financial reporting by state and local governments by establishing accounting and financial reporting standards related to government combinations and disposals of government operations. GASB Statement No. 69 is effective for financial reporting periods beginning after December 15, 2013. The Authority has determined that GASB Statement No. 69 had no impact on its financial position, results of operations and cash flows and therefore is not applicable to its operation.

(Continued)

Note 2 – Summary of Significant Accounting Policies (cont.)

(a) New Accounting Pronouncements (cont.)

The Authority has completed the process of evaluating the impact of GASB Statement No. 70, *Accounting and Financial Reporting for Non-Exchange Financial Guarantees*. The objective of this statement is to improve accounting and financial reporting by state and local governments that extend and receive non-exchange financial guarantees. As used in this statement, a non-exchange financial guarantee is a guarantee of an obligation of a legally separate entity or individual, including a blended or discretely presented component unit, which requires the guarantor to indemnify a third-party obligation holder under specified conditions. GASB Statement No. 70 is effective for financial reporting periods beginning after June 15, 2013. The Authority has determined that GASB Statement No. 70 had no impact on its financial position, results of operations and cash flows and therefore is not applicable to its operation.

(b) Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles (GAAP) 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. Actual results could differ from those estimates.

(c) Capital Assets

Capital assets are stated at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. When assets are retired or otherwise disposed of, the costs are removed from plant, and such costs, plus removal costs, are charged to accumulated depreciation.

The Authority's capitalization policy is as follows:

- The combined cost to put a unit in service comes to more than $5,000, and the unit's estimated life is at least three (3) years; or

- When an existing asset is partially replace or improved in a way that a) substantially extends the life of the asset or b) substantially improves the asset's utility or;

- The asset is initiated, controlled and tracked as property under a Joint Participation Agreement, the Authority will capitalize the property, even if it falls under the dollar limit above, if the Authority's share of the property is designated as a capital item by the billing agent for the project.

- This policy shall not apply to amounts spent on ordinary maintenance of VPPSA property.

Note 2 – Summary of Significant Accounting Policies (cont.)

(c) Capital Assets (cont.)

The depreciable lives of capital assets are as follows:

	Lives
Electric Plant:	
Land	N/A
Structures and Improvements	30 years
Equipment	3 – 30 years
Meters	10 years
Station Equipment	10 – 30 years
General Plant:	
Land	N/A
Structures & Improvements	10 - 25 years
Equipment	3 - 10 years
Transportation Equipment	3 - 5years
Meters	10 years

(d) Impairment of Long-Lived Assets

In accordance with FASB ASC Topic 360-10-35 *Impairment or Disposal of Long-Lived Assets*; long lived assets, such as utility plant, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. Impairment would be determined based upon the undiscounted future operating cash flows to be generated during the remaining life of the assets carrying value. An impairment loss would be measured by the amount that an asset's carrying amount exceeds its fair value.

Assets no longer being depreciated and to be disposed of would be separately presented in the statements of net position and reported at the lower of the carrying amount or the fair value less the cost to sell the asset. As long as the cost of the Authority's long lived assets continue to be recovered through billings to its members, the Authority believes that such impairment is unlikely. Accordingly, no financial statement adjustments are presented in the asset structure of the Authority.

(e) Unrestricted and Restricted Cash and Cash Equivalents

Unrestricted cash is comprised of available cash to meet general operating needs. Restricted cash and cash equivalents reflect restrictions for a specified purpose for future payments related to debt service on bonds, current and long term debt, advances for project costs, and amounts to be returned to members. The Authority considers any short-term investments which have an original or remaining maturity of 90 days or less to be cash equivalents.

(Continued)

Note 2 – Summary of Significant Accounting Policies (cont.)

(f) Restricted Investments

Restricted investments reflect bond proceeds invested by the trustee in short term and long term duration investments allowable under the Authority's General bond resolutions and are held within the applicable bond fund accounts. In accordance with FASB ASC Topic 320-10-35, these investments are considered available for sale as such investments have a determinable fair market value and can be matured at anytime under the General Bond resolution. Such investments include certificates of deposit, corporate bonds, and fixed income securities. These amounts are held for future debt service payments on the associated bonds and are recorded at their fair market value as of the financial statement date. The unrealized gain or loss on such investments are reported as of the statement of net position date as other comprehensive income or loss.

(g) Fair Value of Investments

FASB ASC Topic 820, *Fair Value Measurements,* redefines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date". To increase consistency and comparability in fair value measurements and related disclosures, the fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). *Observable inputs* are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. *Unobservable inputs* are inputs that reflect the reporting entity's own analysis about those assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy that categorizes and prioritizes inputs used to estimate fair value are as follows:

Level 1 inputs - Are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. A quoted price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available.

Level 2 inputs - Are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. When market prices are not available, fair value is generally estimated using current market inputs for similar financial instruments with comparable terms and credit quality, commonly referred to as matrix pricing.

Level 3 inputs - Are unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. This involves management's estimation and judgment.

Note 2 – Summary of Significant Accounting Policies (cont.)

(h) Revenue and Purchased Power

The power supply and transmission products that the Authority obtains on behalf of its participating members are presented as purchased power and/or transmission. This power, delivered and billed to member and nonmember electric systems, is recorded as electric sales for resale. Other services provided to member systems are presented as service revenue.

In addition, the Authority holds undivided ownership interests which are audited by others as follows:

J. C. McNeil Generating Station Project # 2	19%
Highgate Converter Station Project #3	9.36%

Under the provisions of GASB No. 14, *Defining the Reporting Entity,* the assets, liabilities, revenues and expenses of these undivided ownership interests are included in the accompanying financial statements. Separate financial statements are available from the Authority for these jointly owned facilities.

(i) Unamortized Debt Issuance Costs

Prior to 2013, debt issuance costs incurred in connection with the issuance of bonds were amortized on a straight-line basis over the life of the related issues. Under the provisions of GASB Statement #65, all remaining unamortized balances of debt issuance costs were fully expensed in 2013. Amortization of debt issuance costs totaled $916,679 and $95,505 for the years ending December 31, 2013 and 2012. Unamortized balances of $0 and $916,679 remained at December 31, 2013 and 2012, respectively.

(j) Fuel Inventory

Fuel inventories reflect the Authority's 100% ownership interest in the Project #10 fuel oil on hand and the Authority's 19% ownership in the McNeil project's fuel oil and woodchips. The Project #10 fuel oil is stated using the average cost method and the McNeil inventories are stated at cost as determined by the Burlington Electric Department, the project manager, using the average cost method.

(k) Unamortized Debt Premium

Prior to 2013, debt premiums incurred in connection with the sale of revenue bonds were amortized on a straight-line basis over the life of the related bond issues. Under the provisions of GASB Statement #65, all remaining unamortized balances of debt premiums were recognized as revenue in 2013.

Series E - McNeil - Amortization of bond premium related to the Series E Bonds totaled $245,848 and $128,270 for 2013 and 2012, respectively. Unamortized balances of $0 and $245,848 remained at December 31, 2013 and 2012, respectively.

(Continued)

Note 2 – Summary of Significant Accounting Policies (cont.)

(k) Unamortized Debt Premium (cont.)

The Project #10 Series A and B – Project revenue bonds – In July 2009 upon issuance of the Series A & B bonds, the company paid a debt premium of $667,968. Amortization of bond premium related to the Series A&B Bonds totaled $556,640 for 2013 and $33,398 for the year ending December 31, 2012. Unamortized balances of $0 and $556,640 remained at December 31, 2013 and 2012, respectively.

(l) Unamortized Loss on Reacquired Debt

On November 14, 2002, the McNeil Series C Bonds were refunded with the Series E Bonds. Prior to 2013, losses incurred in connection with the refinancing of the Series C Bonds were amortized over the life of the Series E Bonds. Under the provisions of GASB Statement #65, all remaining unamortized balances related to the loss on reacquired debt were fully expensed in 2013. Amortization of the deferred loss on reacquired debt totaled $$1,521,895 for 2013 and $795,212 for the year ending December 31, 2012. An unamortized balance of $0 and $1,521,895 remained at December 31, 2013 and 2012, respectively.

(m) Restricted Investment in VT Transco, LLC

In accordance FASB ASC Topic 820, the Authority considers all its investments in TRANSCO membership units as level 3 inputs and is reported at cost, which is management estimate of fair market value as no quotable market is available. The Assignment of Rights to Purchase Transco Equity Agreements, as described in Note 7, provide that the Authority shall pay a fee to the non-member on a quarterly basis in exchange for the assignment of these Rights. The fee is determined as the amount of all dividends, distributions, payments or revenue on account of or paid with respect to the Transco Equity acquired, less the Authority's direct costs of borrowing; including principal, interest, fees, charges imputed interest rate, the Authority's administrative quarterly administrative fees, and any principal repayment of cash used by the Authority to acquire such units. If any distribution income is insufficient to cover the costs above, the Authority is not required to make a fee payment to the non-member. On the next distribution date of income, the Authority will apply such revenues to the outstanding Authority costs until such time there is a positive difference between the Authority's costs of debt service and administrative fees. The fee to the non-member will be then paid.

On January 23, 2009, the Vermont Public Service Board provided an accounting ruling related to the accounting treatment of the Authority's purchase of TRANSCO membership units for the benefit of the Authority's members and non-members. In accordance with the accounting order issued by the Vermont Public Service Board, the distribution income for Class A and Class B membership units is recognized when earned and applied to the appropriate debt service requirements when paid and will continue until the related debt is paid in full. The difference between the distributions received and the debt service paid is recorded as "net settlement expense". This amount is credited to each members purchase power and transmission invoice in accordance with each member's interest in TRANSCO equity owned by the Authority.

(Continued)

Note 2 – Summary of Significant Accounting Policies (cont.)

(m) Restricted Investment in VT Transco, LLC

All TRANSCO membership units owned by the Authority for the benefit of its members or those eligible to be a member have been recorded as a restricted investment. Below are the categories and definitions of those restricted investments:

Restricted Investment – Assets purchased by the Authority as allowed by the "TRANSCO Equity Agreement", the "Assignment of Rights to Purchase TRANSCO Equity Agreement" or the "Supplement to TRANSCO Equity agreement" and are pledged as collateral against the corresponding debt obligation.

Restricted Investment – Eligible for release – Assets held for the benefit of certain of its members or non-members and those membership units whereby the debt obligation related to those membership units at stated value, have been paid for and have yet to be released from pledge under the loan agreement, or transferred to certain of its members. The stated value of paid units have been recorded as restricted equity – eligible for release, until such time the pledge related to those units is released from the bank and the required consents and approval by TRANSCO occurs. As of December 31, 2013 and 2012, no membership units, other than those resold to the Town of Readsboro in 2011, have been released from pledge against the related debt.

(n) Interest rate swap agreements

The Governmental Accounting Standards Board (GASB) issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* which require that the fair value of financial arrangements called "derivatives" or "derivative instruments" be reported in the financial statements of state and local governments. If a derivative effectively hedges (significantly reduces) an identified risk of rising or falling cash flows or fair values, then its annual fair value changes are deferred until the hedged transaction occurs or the derivative ceases to be effective. On the other hand, the annual change in the fair value of *other* derivatives is reported immediately as investment income or loss. In 2010, 2011 and 2013 the Authority entered into various interest rate swap agreements with two lending institutions which reduce the exposure of volatility in interest rates on certain variable rate debt. As such, the Authority pays a variable rate of interest based upon a floating London Inter-Bank Offered Rate ("LIBOR"), on the outstanding debt plus the differential between its variable rate and the swap rate at the date of closing of the note. As required under GASB 53, as of December 31, 2013 and 2012, the Authority has recorded the swap agreements as hedging derivatives and the value of the agreements' net present cash flows as of the statement of net position date have been recorded as a deferred outflow or deferred inflow and any unrealized gain or loss as other comprehensive income or loss in the statement of net position.

(Continued)

Note 2 – Summary of Significant Accounting Policies (cont.)

(o) Taxes

The Authority is a governmental entity and as such is exempt from income taxes under Internal Revenue Code Section 115. Although it is also generally exempt from municipal property taxes, the Authority pays an amount in lieu of taxes to the Town of Waterbury, Vermont for the property where the Authority's office is located, the City of Burlington, Vermont for the McNeil Generating Facility located in Burlington, Vermont, the Town and Village of Swanton for the P10 Facility located in Swanton, Vermont, and the Vermont Electric Power Company for the Highgate Converter Project located in Highgate, Vermont. Such expenses amounted to $300,858 and $276,159 for the years ended December 31, 2013 and 2012, respectively.

(p) Operating and Non-Operating Revenues and Expenses

Under Title 30, Chapter 84 of the Vermont Statutes Annotated, the Authority may make and enforce rules and regulations which it deems necessary or desirable; as well as establish, levy and collect or may authorize by contract, franchise, lease, or otherwise, the establishment, levying and collection of rents, rates, and other charges:

- For the services afforded by the Authority, or afforded by or in connection with any project or properties which it may construct, erect, acquire, own, operate, or control, or with respect to which it may have any interest or any right to capacity thereof;

- For the sale of electric energy or of generation or transmission capacity or service as it may deem necessary, proper, desirable, and reasonable.

In addition, revenues collected as rents, rates, and other charges shall be at least sufficient to meet the expenses of the Authority, including operating and maintenance expenses, reasonable reserves, interest and principal payments, and other requirements of any trust agreements and/or resolutions securing bonds or notes.

Operating revenues are defined as all income received from member and affiliate municipals, cooperatives, and other customers for services rendered. Operating expenses are defined as the ordinary costs and expenses of the Authority and for the operation, maintenance and repair of electric plant by project. Operating expenses include the cost of power production through the Authority's direct and/or joint ownership and/or participation in generating facilities, purchased power, system control and load dispatch, maintenance of transmission facilities, customer accounting and service expenses, administration and general expenses, and depreciation.

Operating expenses do not include the interest on bonds, notes, or other indebtedness.

Non-operating income is defined as income received from sources other than the income from the Authority's members and affiliate municipals, cooperatives, and other customers for services rendered, as defined above. This includes, but is not limited to; interest income, distribution income, income related to direct purchases for the Authority's members, and bankruptcy and/or insurance settlements.

Note 2 – Summary of Significant Accounting Policies (cont.)

(p) Operating and Non-Operating Revenues and Expenses (cont.)

Non-operating expenses include distribution (net settlement) expense, the amortization of debt issuance expense, interest expense, expenses related to direct purchases for the Authority's members and expenses related to bankruptcy and/or insurance claims.

(r) Equity Classifications

Equity is classified as net position and displayed in three components;

Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. The unamortized bond issuance costs of $0 and $916,679 as December 31, 2013 and 2012 are included in unrestricted assets.

Restricted assets – Consists of assets with constraints placed on the use either by (1) external groups such as creditors, grantors, bond resolutions, contributors or laws or regulations of other governments; or (2) laws through constitutional provisions or enabling legislation. When both restricted and non-restricted resources are available for use, it is the Authority’s policy to use restricted assets first for those expenses directly related to restricted obligations and unrestricted resources utilized as needed.

Unrestricted assets – All other assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

(s) Subsequent events

In preparing the financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through February 19, 2014, the date that the financial statements were available to be issued. Subsequent to December 31, 2013, the Authority has made two draws against its operating line-of-credit to meet general operating needs. The amount drawn as of the date of this report is $2.5M.

Note 3 – Unrestricted and Restricted Cash and Cash Equivalents

The custodial credit risk for deposits is the risk that in the event of a bank failure, the Authority’s deposits may not be recovered. The Authority’s unrestricted and restricted deposits in the various banking institutions are insured under the FDIC insured amounts. Those deposits at KeyBank National Association are fully collateralized through a Tri-party agreement between the Authority and the bank for the periods ending December 31, 2013 and 2012.

The Authority’s restricted deposits related to the McNeil Revenue Bonds and Project #10 Revenue Bonds are held in mutual funds that invest in U.S. government obligations which have implied credit ratings of AAA. These investment securities have varying maturities and are allowed under the applicable General Bond Resolution. For the years ended December 31, 2013 and 2012, the Authority’s restricted deposits were fully secured.

Note 3 – Unrestricted and Restricted Cash and Cash Equivalents (cont.)

The Authority's restricted cash and cash equivalents are comprised of funding for the following specified purposes:

	2013	2012
Cash Advances – Highgate Project	$ 194,298	$ 399,724
Cash and Cash Equivalents - Highgate Project	112,897	71,558
Cash and Cash Equivalents – McNeil Project	1,153,126	855,517
Cash and Cash Equivalents – Project 10 - Current	510,752	399,966
Special Deposits - Counterparty Collateral	0	0
Cash – Amounts Due Members	558,792	631,781
Total Restricted Cash and Cash Equivalents	2,529,865	2,358,545
Cash and Cash Equivalents – McNeil Project – Long term	1,794,182	1,709,505
Cash and Cash Equivalents – Project 10 – Long term	1,839,763	1,295,718
Total Restricted Cash – Current and Long Term	$ 6,163,810	$ 5,363,768

Note 4 – Capital Assets

The Authority owns property in Waterbury, Vermont where its primary office is located, as well as the Project #10 generating facility located in Swanton, Vermont. In addition to the properties the Authority owns directly, the Authority is a 19% joint owner of the J.C. McNeil Generating Station, a wood and gas fired generating facility located in Burlington, Vermont and is a 9.36% joint owner of the 225 mW AC-DC-AC converter station which connects the US and Quebec electric grids at Highgate, Vermont. Capital assets and accumulated depreciation as of December 31, 2013 and 2012 are as follows:

(Continued)

	December 31, 2012	Additions	Retirements	December 31, 2013
INTANGIBLE PLANT				
Intangible plant-VEV	14,917	-	-	14,917
Intangible plant - VPPSA	15,000	-	-	15,000
Intangible plant - McNeil	143,736	-	-	143,736
Less: Accumulated Amortization	(169,153)	(3,000)	-	(172,153)
Net Intangible Plant	4,500	(3,000)	-	1,500
PRODUCTION PLANT				
Land – non depreciable	79,274	-	-	79,274
CWIP-Non Depreciable	2,043,402	433,491	(2,244,423)	232,469
Structures and Improvements	8,356,533	2,908	-	8,359,441
Equipment	35,002,824	29,153	-	35,031,978
Depreciable Production Plant	43,359,357	32,061	-	43,391,418
Less Accumulated Depreciation for:				
Structures and Improvements	(4,646,275)	(278,599)	-	(4,924,874)
Equipment	(14,463,873)	(1,474,980)	-	(15,938,853)
Accumulated Depreciation	(19,110,148)	(1,753,579)	-	(20,863,727)
Net Depreciable Production Plant	24,249,209	(1,721,518)	-	22,527,691
TRANSMISSION PLANT				
Land – Non Depreciable	69,484	-	(987)	68,497
Structures & Improvements	240,694	31,144	(6,706)	265,132
Equipment	4,149,443	2,077,367	(761,373)	5,465,437
Depreciable Transmission Plant	4,390,137	2,108,511	(768,079)	5,730,569
Less Accumulated Depreciation for:				
Structures	(190,978)	(3,795)	3,591	(191,182)
Equipment	(2,665,068)	(185,338)	753,014	(2,097,391)
Accumulated Depreciation	(2,856,046)	(189,133)	756,606	(2,288,573)
Net Depreciable Transmission Plant	1,534,092	1,919,378	(11,474)	3,441,996
REGIONAL TRANSM & MKT PLANT				
Land – non depreciable	-	-	-	-
Structures & Improvements	-	-	-	-
Computer Hardware & Software	123,169	-	-	123,169
Communication Equipment	19,074	-	-	19,074
Depreciable RTM Plant	142,243	-	-	142,243
Less Accumulated Depreciation for:				
Structures	-	-	-	-
Computer Hardware & Software	(61,584)	(24,634)	-	(86,218)
Communication Equipment	(9,537)	(3,815)	-	(13,352)
Accumulated Depreciation	(71,122)	(28,449)	-	(99,570)
Net Depreciable RTM Plant	71,122	(28,449)	-	42,673

(Continued)

GENERAL PLANT				
Land – non depreciable	141,099	-	-	141,099
Structures & Improvements	659,074	10,780	(3,014)	666,840
Equipment	670,387	10,034	(9,667)	670,753
Depreciable General Plant	1,329,461	20,814	(12,681)	1,337,594
Less Accumulated Depreciation for:				
Structures	(397,202)	(27,316)	2,194	(422,323)
Equipment	(638,969)	(19,450)	8,931	(649,488)
Accumulated Depreciation	(1,036,170)	(46,765)	11,125	(1,071,811)
Net Depreciable General Plant	293,291	(25,951)	(1,557)	265,783
Net Capital Assets	**28,485,472**	**573,951**	**(2,258,441)**	**26,800,982**

(Continued)

	2011	Additions	Retirements	2012
INTANGIBLE PLANT				
Intangible plant-VEV	14,917	-	-	14,917
Intangible plant - VPPSA	15,000	-	-	15,000
Intangible plant - McNeil	143,736	-	-	143,736
Less: Accumulated Amortization	(165,902)	(3,251)	-	(169,153)
Net Intangible Plant	7,751	(3,251)	-	4,500
PRODUCTION PLANT				
Land – non depreciable	79,274	-	-	79,274
Structures and Improvements	8,352,554	3,979	-	8,356,533
Equipment	34,311,399	691,425	-	35,002,824
	-			-
CWIP-Project 10 & McNeil	794,852	2,045,223	(796,673)	2,043,402
Depreciable Production Plant	43,458,806	2,740,626	(796,673)	45,402,759
Less Accumulated Depreciation for:				
Structures and Improvements	(4,367,790)	(278,485)	-	(4,646,275)
Equipment	(13,002,885)	(1,460,989)	(0)	(14,463,873)
Accumulated Depreciation	(17,370,675)	(1,739,473)	(0)	(19,110,148)
Net Depreciable Production Plant	26,088,131	1,001,153	(796,673)	26,292,611
TRANSMISSION PLANT				
Land – Non Depreciable	69,484	-	-	69,484
Structures & Improvements	237,382	3,313	-	240,694
Equipment	4,147,997	1,446	-	4,149,443
Depreciable Transmission Plant	4,385,379	4,759	-	4,390,137
Less Accumulated Depreciation for:				
Structures	(188,785)	(2,192)	-	(190,978)
Equipment	(2,609,947)	(55,121)	-	(2,665,068)
Accumulated Depreciation	(2,798,733)	(57,313)	-	(2,856,046)
Net Depreciable Transmission Plant	1,586,646	(52,554)	-	1,534,092
REGIONAL TRANSM & MKT PLANT				
Land – non depreciable	-	-	-	-
Structures & Improvements	-	-	-	-
Computer Hardware & Software	123,169	-	-	123,169
Communication Equipment	19,074	-	-	19,074
Depreciable RTM Plant	142,243	-	-	142,243
Less Accumulated Depreciation for:				
Structures	-	-	-	-
Computer Hardware & Software	(36,951)	(24,634)	-	(61,584)
Communication Equipment	(5,722)	(3,815)	-	(9,537)
Accumulated Depreciation	(42,673)	(28,449)	-	(71,122)
Net Depreciable RTM Plant	99,570	(28,449)	-	71,122

(Continued)

Note 4 – Capital Asset (cont.)

GENERAL PLANT				
Land – non depreciable	141,099	-	-	141,099
Structures & Improvements	603,186	55,888	-	659,074
Equipment	652,476	17,911	-	670,387
Depreciable General Plant	1,255,663	73,799	-	1,329,461
Less Accumulated Depreciation for:				
Structures	(372,373)	(24,829)	-	(397,202)
Equipment	(618,772)	(20,196)	-	(638,969)
Accumulated Depreciation	(991,145)	(45,025)	-	(1,036,170)
Net Depreciable General Plant	264,518	28,773	-	293,291
Net Capital Assets	**28,336,472**	**945,673**	**(796,673)**	**28,485,472**

Total depreciation expense for the years ending December 31, 2013 and 2012 is \$2,031,944 and \$1,870,260, respectively. Total amortization expense related to intangible assets for the year ending December 31, 2013 and 2012 was \$3,000 and \$3,251.

Note 5 – Due from Members

On April 1, 2008 the Authority entered into a five (5) year refinancing agreement with a member utility with a maturity of April 1, 2013. This note replaced the one (1) year agreement entered under which the Authority had funded the member's acquisition of Vermont Electric Power Company ("VELCO") stock. The principal balance refinanced was \$80,449. Under the agreement, the member was required to make quarterly payments of principal and interest at 4.25% over a period of five years with the first payment due June 30, 2008.

As of December 31, 2013 the amount recorded as due from a member related to the VELCO stock refinancing arrangement totaled \$0.

Note 6 – Restricted Investments

The following investments are held within the Series E, Series A, and Series B bond fund accounts which are allowed investments by the applicable General Bond Resolution. The cost, gross unrealized gains, gross unrealized losses, and fair market values of fixed maturity restricted short term and long term investments as of December 31, 2013 are as follows:

Note 6 – Restricted Investments (cont.)

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
U.S Treasury Notes	$ 2,572,176		($ 53,783)	$ 2,518,393
U.S. Government Oblig.	1,357,580		(16,162)	1,341,418
Certificate of deposit	255,089	-	-	255,089
Totals	$ 4,184,845	-	($ 69,945)	$ 4,114,900

Cost and estimated fair value of restricted fixed maturity securities at December 31, 2013 by contractual maturity, are as follows:

Maturity:	Cost	Fair Market Value
In 2014	$ 1,512,876	$ 1,454,140
2015 to 2022	2,671,969	2,660,760
Totals	$ 4,184,845	$ 4,114,900

The actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

The Authority's classes of securities, as noted above, are categorized as Level 1 inputs in accordance with FASB Topic 820, as of December 31, 2013.

Note 7 – Restricted Investment in VT Transco, LLC Membership Units

In June 2006, Vermont Electric Power Company, ("VELCO") created VT Transco, LLC ("TRANSCO"), a limited liability company whose primary activity is the operation of the State of Vermont's electric transmission infrastructure. VELCO acts as manager of TRANSCO. Effective July 31, 2006, an operating agreement, between TRANSCO and its member systems was executed which outlined the affairs of the relationship between the member systems. On May 5, 2007, November 11, 2008, April 10, 2010, September 20, 2010, and November 19, 2012, the operating agreement was further amended and restated.

Whereas prior to July 31, 2006 VELCO offered stock directly to the distribution utilities in Vermont to meet its equity needs, all future equity needs are funded by the offer of membership units in TRANSCO. The initial value of the Class A and Class B membership units per the TRANSCO operating agreement is $10.00 per unit and does not reflect market value. As of December 31, 2013 and 2012, the Class A units pay a return of 11.5% and Class B units a pay 13.3% return.

As an alternative to members or non-members purchasing the TRANSCO membership units themselves, a municipal or cooperative that is a member, or eligible to be a member, of the Vermont Public Power Supply Authority ("Authority"), has the option to assign its subscription right for the purchase of membership units to the Authority, as allowed by the TRANSCO Operating Agreement.

(Continued)

Note 7 – Restricted Investment in VT Transco, LLC Membership Units (cont.)

In 2007, the municipal members and the Authority executed a "TRANSCO Equity Agreement" ("TRANSCO Equity Agreement"). The agreement was entered into by twelve of the Authority's members and the Authority. These members determined it may at times, be mutually advantageous and to their benefit, for the Authority to purchase those member units offered by TRANSCO to the member system. In August 2009, the agreement was amended.

The TRANSCO Equity agreement does not eliminate the member and/or eligible member's rights to purchase equity in TRANSCO directly; it simply provides the option to allow the Authority to purchase the units for the benefit of the member and/or eligible member and defined the terms should the member and/or eligible member find it advantageous to do so.

It further provides that upon each equity offer, each member and/or eligible member shall provide to the Authority, within a reasonable time, its intent and to what extent it would want the Authority to acquire the membership units for the benefit of the member and/or eligible member. The TRANSCO Equity Agreement requires the Authority to arrange for any necessary financing and/or Regulatory approvals required for its acquisition of TRANSCO equity.

On December 23, 2008 and August 31, 2009, a separate "Assignment of Rights to Purchase Transco Equity Agreements" was executed between a non-member and the Authority for the acquisition of membership units then offered to the non-member. Under the terms of the Assignment of Rights to Purchase Transco Equity Agreements all revenues distributed to the Authority and rights of ownership related to the Transco Equity purchases belong to the Authority, subject to transfer by sale at a price to be agreed upon after the tenth anniversary date of the date of the agreements. These agreements provide that the Authority shall pay a fee to the non-member on a quarterly basis in exchange for the assignment of these Rights.

The Authority is not required to participate in future TRANSCO equity issues or acquire additional membership units for the benefit of its members or non-members.

<u>Members</u>

During the period from 2007 - 2012, certain of the Authority's members utilized the benefit of the TRANSCO Equity Agreement and assigned their respective subscription rights for the purchase of TRANSCO membership units to the Authority. As of December 2013, the Authority purchased a total of 2,165,679 membership units with a total value of $21,656,790 for the benefit of those certain members. In 2011, one member provided notice to the Authority of its intent to repurchase the membership units held by the Authority for that members' benefit. As a result, the Authority sold 9,651 member units at the original stated cost at a value of $96,510 to that member.

As of December 31, 2013 and 2012, the Authority owns a total of 2,156,028 membership units with a total value of $21,560,280 for the benefit of those certain members. The membership units and their related distribution income are pledged as security under a pledge and security agreement against the related debt obligations.

(Continued)

Note 7 – Restricted Investment in VT Transco, LLC Membership Units (cont.)

To facilitate the purchases of TRANSCO membership units, the Authority has entered into several financing arrangements over the 2007 - 2012 time periods. In 2011, the Authority filed with the Vt. Public Service Board and subsequently received approval for authority to enter into long-term financing related to the consolidation of the existing notes previously obtained to facilitate the purchases of TRANSCO membership units for the benefit of certain Authority members. On June 30, 2011, the Authority entered into a loan arrangement with a local financial institution for an amount of $16,677,516 for a period of ten years, at a fixed interest rate of 6.03%.

In 2012, the Authority filed with the Vt. Public Service Board and subsequently received approval for authority to enter into long-term financing related to purchases of Transco membership units for the benefit of certain Authority members. On December 24, 2012, the Authority entered into a loan arrangement with a local financial institution for an amount of $2,738,220 for a period of three years, at a variable interest based on the One-Month LIBOR rate and the lender's internal liquidity premium for loans with similar terms and amortizations. As of December 31, 2013, the rate was at 3.37%.

During 2013 and 2012 the Authority earned a total distribution income from the units held for the benefit of its members' of $2,696,760 and $2,354,263, respectively.

The 2013 distribution income earned of $2,696,760 for the units held for the benefit of its members paid down: principal on membership units previously acquired and financed in the amount of $955,766, interest expense on the Authority’s debt of $1,009,601, an additional $6,766 of reimbursed financing costs accruing, thus leaving a net credit to its member’s power costs recorded as distribution (net settlement) expense in the amount of $724,626.

The 2012 distribution income earned of $2,354,263 for the units held for the benefit of its members paid down: principal on membership units previously acquired and financed in the amount of $720,683, interest expense on the Authority’s debt of $969,569, an additional $1,312 of reimbursed financing costs accruing, thus leaving a net credit to its member’s power costs recorded as distribution (net settlement) expense in the amount of $662,699.

Non-Member Cooperative

At December 31, 2013 and 2012, the restricted investment in VT Transco, LLC owned for the benefit of a non-member was 477,684 of Class A units valued at $4,776,840 and 607,961 of Class B units valued at $6,079,610, or total units of 1,085,645 valued at $10,856,450. These units and distribution income are pledged as security under a pledge and security agreement against the related long-term debt obligation.

During 2013 and 2012, the Authority earned a total distribution income from the units held for the benefit of a non-member of $1,357,925 for each year.

(Continued)

Note 7 – Restricted Investment in VT Transco, LLC Membership Units (cont.)

The 2013 distribution income earned of $1,357,925 for the units held for the benefit of a non-member paid down: principal of $331,929 on membership units previously acquired, costs of debt service of $7,676, actual interest expense paid on the Authority’s debt of $656,547, and the Authority’s administrative fee of $108,564. The remaining $253,209 was recorded as distribution (net settlement) expense and paid to the non-member. At December 31, 2013 the total accrued distribution income receivable is $339,481.

The 2012 distribution income earned of $1,357,925 for the units held for the benefit of a non-member paid down: principal of $310,655 on membership units previously acquired, costs of debt service of $7,676, actual interest expense paid on the Authority’s debt of $679,784, and the Authority’s administrative fee of $108,565. The remaining $251,245 was recorded as distribution (net settlement) expense and paid to the non-member. At December 31, 2012 the total accrued distribution income receivable is $339,481.

<u>Lamoille County Project – Members</u>

During 2009, the Authority acquired 874,650 Lamoille County Project (“LCP”) member units for the benefit of four members at a total value of $8,746,500.

The distribution income related to the LCP member units is used to cover the amount of the interest costs to service the debt to purchase said LCP units by the Authority. The annual equity overbuy return is determined as the difference between the distribution income less the required annual interest costs, and each members allocated annual specific facilities charges for a period of ten years. After the tenth anniversary date of the acquisition, the LCP units must be repurchased by VT Transco, LLC if not acquired by other members or substitute members. For a period of ten years, the total annual specific facility charges for the four members total $429,000 and are fixed in accordance with the settlement agreement. If the allocated annual equity over-buy return is less than zero, the allocated annual specific facility charge will be reduced by the amount of excess interest costs paid by the LCS member above its allocated portion of cash distribution received.

At December 31, 2013 and 2012, the restricted investment in VT Transco LLC owned for the benefit of the Lamoille County Project – Members was 384,846 of Class A units valued at $3,848,460 and 489,804 of Class B units valued at $4,898,040, or total units of 874,650 valued at $8,746,500. These units and future distribution income are pledged as security under a pledge and security agreement against the related debt obligations.

During 2013 and 2012, the Authority earned a total distribution income from the units held for the benefit of the LC participants of $1,094,012 for each year.

The distribution income of $1,094,012 earned for the units held for the benefit of the LCP-members in 2013 and 2012, paid down actual interest expense paid on the Authority's debt of $546,656 for each year. The remaining $547,356 for each year was recorded as distribution (net settlement) expense and credited to the LCP-members.

Note 7 – Restricted Investment in VT Transco, LLC Membership Units (cont.)

VELCO/Lyndonville Substation Project – Member

On December 10, 2010, the Authority executed and filed a Subscription agreement, to acquire for the benefit of the Village of Lyndonville ("LED"), an Authority member, specific facilities equity as offered to LED in TRANSCO's November 12, 2010 private placement offering. As part of that filing, LED assigned the subscription rights so offered to the member to the Authority.

At December 31, 2013 and 2012 the restricted investment in VT Transco LLC owned for the benefit of the LED was 96,536 of Class A units valued at $965,360 and 122,864 of Class B units valued at $1,228,640, or total units valued at $2,194,000. These units and future distribution income are pledged as security under a pledge and security agreement against the related debt obligations.

During both 2013 and 2012, the Authority earned distribution income from the units held for the benefit of LED of $274,425 for each respective year. The distribution income paid down actual interest expense of $159,495 in 2013 and $159,940 in 2012, as well as costs of debt service in the amount of $896 for each year. The remaining $114,034 and $113,589 for 2013 and 2012 respectively, was recorded as distribution (net settlement) expense and credited to LED.

Note 8 – Operating Lines of Credit

The Authority maintains up to two credit facilities to meet the Authority's operating needs.

The primary facility allows for a maximum principal amount of $6,000,000 with a sublimit not to exceed $3,000,000 for letters of credit in the aggregate and $3,000,000 to be used for working operating needs, with a maturity date of June 27, 2014. The facility incurs a commitment fee at .15% of the unused facility per annum payable on the last day of each calendar quarter. Interest is payable monthly up to the date of maturity on said advances in accordance with the amended loan agreement. The interest rate accrues at (a) the adjusted prime rate, or (b) rates quoted by the bank to the Authority as the Adjusted Libor rate as it relates to LIBOR advances.

The secondary facility allows for a maximum principal amount of $4,000,000 and is a short-term facility that matured on April 16, 2013. The terms of the facility are the same as those listed above; however, the use of the proceeds are not limited for specific purposes. This facility was not renewed in 2013.

As of December 31, 2013 and 2012 there were no outstanding borrowings against either facility.

The above lines of credit are collateralized by the Authority's accounts, revenues, receipts and Power sales agreements not pledged as collateral against any other indebtedness.

Note 9 – Project Lines of Credit/Short-Term Notes Payable

As of December 31, 2013 and 2012, the outstanding lines of credit for the funding of construction for various projects consisted of:

Highgate Converter Project

	December 31, 2012	Additions	Payments	December 31, 2012
Highgate Convertor Project	$ 2,250,000	$ 75,000	$ 2,325,000	$ -
	-	-	-	-
Total construction lines of credit	$ 2,250,000	$ 75,000	$ 2,325,000	$ -

In February 2011, the Highgate Joint Owners authorized a significant capital upgrade that was implemented by VELCO, the project manager, in two phases. The smaller phase, consisting mainly of the addition of a warehouse, was completed in 2012 and the larger phase, including a significant replacement of the control system, is expected to be completed in early 2014.

The Authority is a 9.36% owner of the Highgate facility and is therefore responsible to its share of the project costs. To meet the obligation of the project, the Authority entered into loan agreement on August 12, 2011 with Keybank, N.A. for a facility that allowed for a short-term line of credit facility for an advance period of up to 23 months during which the Authority paid interest only on the outstanding balance. At December 31, 2012 the amount that had been drawn on the line of credit facility was $2,250,000 and the interest rate was 2.31%. During 2013, an additional $75,000 was drawn from the facility and then the entire balance of $2,325,000 was converted to long-term debt per the provisions of the loan agreement.

Ten members of the Authority, one non-member utility and one non-member electric cooperative have executed Transmission Service Agreements ("TSA's") which are pledged as security to repay the debt related to the Highgate Project.

Note 10 – Bonds Payable

Outstanding revenue bonds payable consist of the following at December 31, 2012 and 2011:

		December 31, 2012	Increases	Payments and reductions	December 31, 2013	Current Portion
MCNEIL PROJECT #2:						
Revenue Bonds-Series E 4% to 5.25% maturing July 1, 2008 through 2015	$	6,885,000		2,180,000	4,705,000	
Current portion of bonds payable					(2,295,000)	2,295,000
Unamortized debt premium		245,848	-	245,848	-	-
Unamortized loss on reacquired debt		(1,521,895)	-	1,521,895	-	-
TOTAL MCNEIL		5,608,953	-	903,953	2,410.000	2,295,000

(Continued)

SWANTON PEAKER PROJ #10: Revenue Bonds –Series A maturing July 1, 2011 through 2029 – Interest ranges from 3% to 5.25%	21,250,000	-	875,000	20,375,000	-
Current portion of bonds payable	-		-	(905,000)	905,000
Unamortized debt premium	556,641	-	556,641		
TOTAL PROJECT 10 - SERIES A	21,806,641	-	**1,431,641**	19,470,000	905,000
SWANTON PEAKER PROJ #10: Revenue Bonds – Series B maturing July 1, 2011 through 2029	1,010,000	-	35,000	975,000	
Current portion of bonds payable	-	-	-	(35,000)	35,000
TOTAL PROJECT 10 - SERIES B	1,010,000	-	35,000	940,000	35,000
Total outstanding bonds payable	$ **28,425,594**	**-**	**2,370,594**	**22,820,000**	**3,235,000**

	December 31, 2011	Increases	Payments and reductions	December 31, 2012	Current Portion
MCNEIL PROJECT #2: Revenue Bonds-Series E 4% to 5.25% maturing July 1, 2008 through 2015	$ 8,955,000		2,070,000	6,885,000	
Current portion of bonds payable	-	-	-	(2,180,000)	2,180,000
Unamortized debt premium	374,118	-	128,270	245,848	-
Unamortized loss on reacquired debt	(2,317,107)	-	(795,212)	(1,521,895)	-
TOTAL MCNEIL	7,012,011	-	1,403,058	3,428,953	2,180,000
SWANTON PEAKER PROJ #10: Revenue Bonds –Series A maturing July 1, 2011 through 2029 – Interest ranges from 3% to 5.25%	22,100,000	-	850,000	21,250,000	-
Current portion of bonds payable	-	-	-	(875,000)	875,000
Unamortized debt premium	590,039	-	33,398	556,641	
TOTAL PROJECT 10 - SERIES A	22,690,039	-	883,398	20,931,641	875,000
SWANTON PEAKER PROJ #10: Revenue Bonds – Series B maturing July 1, 2011 through 2029	1,040,000	-	30,000	1,010,000	
Current portion of bonds payable	-	-	-	(35,000)	35,000
TOTAL PROJECT 10 - SERIES B	1,040,000	-	30,000	975,000	35,000
Total outstanding bonds payable	$ **30,742,050**	**-**	**2,316,456**	**25,335,594**	**3,090,000**

(Continued)

Note 10 – Bonds Payable (cont.)

At December 31, 2013 and 2012, total interest expense on the McNeil Project #2 Revenue Bonds was $304,238 and $413,213. The McNeil Project #2 Revenue Bonds are secured by a pledge and assignment of (a) all project revenues, including participants' payments of monthly power costs, (b) the Power Sales Agreements with participating members, and any other revenue producing contract, and (c) all monies and securities in all funds and accounts created by the McNeil Project General Bond Resolution. Additionally, the Series D and E Revenue Bonds are secured by a municipal bond insurance policy issued by AMBAC Assurance Corporation and MBIA Insurance Corporation, respectively.

At December 31, 2013 and 2012, total interest expense on the Project #10 Series A Revenue Bonds was $962,844 and $988,719 and Project #10 Series B Revenue Bonds interest expense was $69,475 and $71,750.

The Project #10 Series A & Series B Revenue Bonds outstanding obligation are secured by a pledge and security interest of all the project revenues and income generated under the twelve participants Project #10 Power Sales Agreements and the associated funds and income generated by such funds held under the various bond resolution accounts. The Authority has agreed to collect such rates charges from participants as necessary to meet operating expenses of the project and debt service obligations of principal and interest, regardless of the in service date.

Additionally, the Project #10 Series A and B Revenue Bonds are insured by a municipal bond insurance policy issued by Assured Guaranty.

The future annual maturities of principal and interest on bonds payable consists of the following as of December 31, 2013:

	Principal	Interest	Total
2014	$ 3,235,000	$ 1,189,938	$ 4,424,938
2015	$ 3,375,000	$ 1,034,132	$ 4,409,132
2016	$ 1,005,000	$ 935,081	$ 1,940,081
2017	$ 1,045,000	$ 890,219	$ 1,935,219
2018	$ 1,090,000	$ 835,944	$ 1,925,944
2019-2020	$ 2,355,000	$ 1,498,113	$ 3,853,113
2021-2022	$ 2,595,000	$ 1,252,169	$ 3,847,169
Thereafter	$ 11,355,000	$ 2,062,630	$ 13,417,630
Total	**$ 26,055,000**	**$ 9,698,226**	**$ 35,753,226**

In prior years, the Authority defeased certain revenue bonds by placing the proceeds of new bond funds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority's financial statements. At December 31, 2006, $19,565,000 of bonds outstanding is considered defeased.

(Continued)

Note 10 – Bonds Payable (cont.)

The Authority's management believes it is in compliance with all bond covenants related to the McNeil Bond resolution and Project #10 Bond resolution as of December 31, 2013 and 2012.

Note 11 – Amounts Due to Members from Restricted Assets

Citizens Utilities

On December 26, 2000, the Authority received $688,626 on behalf of three members pursuant to a settlement agreement with Citizens Communication Company. As the settlement remained unresolved, the members elected to have the Authority retain the funds in the event the amount would have to be refunded to Citizens Communication Company. The amount was placed in an interest bearing account. Upon settlement in November 2002, two of the members involved were paid their settlement allocations; however, one chose to leave the funds with the Authority. The remaining proceeds have been recorded as a liability in due to Members – payable from restricted assets. The outstanding balance of $256,539 remained at December 31, 2013 and 2012.

Below is a summary of amounts due members - payable from restricted cash and cash equivalents as of December 31, 2013 and 2012:

	2013	2012
Citizens Utilities settlement	$ 256,539	$ 256,539
Orleans Transmission line	126,193	126,688
NEGT settlement funds due Orleans	165,609	238,809
Orleans accumulated interest	13,451	12,745
Highgate-Participant Credit Balance	3,512	0
McNeil-Accrued Liabilities	36,683	24,138
	$ 601,987	$ 658,919

Note 12 – Long-Term Debt

Long-term debt related to Highgate, Project #10 and the financing of VT TRANSCO, LLC membership units for the benefit of certain Authority's members, non-members, Lamoille County Project (LCP) – Members, and Lyndonville Substation – Member (LED) are identified in the following chart with corresponding balances as of December 31:

Note 12 – Long-Term Debt (cont.)

	2013	2012
Note payable of $4,660,466 to TD Bank, NA dated June 29, 2009 with a maturity date of June 29, 2014 at a variable rate of 3.25% above the London-Interbank offered rate (LIBOR) as set on the 29th day of each month. Interest is to be paid monthly, beginning July 29, 2010 and continue monthly thereafter, with initial principal payment of $29,295 beginning August 29, 2010 and continue quarterly thereafter. As of December 31, 2009 the fixed interest rate based upon the ISDA interest rate swap agreement was set at 6.35%. *Note is collateralized by a security pledge agreement of 206,299 of Class A and 262,562 of Class B VT TRANSCO, LLC membership units acquired in 2008 for the benefit of non-member and the assignment of rights to all distribution income from ownership of investment.*	4,055,602	4,205,206
Note payable of $6,167,840 to TD Bank, NA dated December 23, 2009, with a maturity date of December 23, 2016 at a variable rate of 3.25% above the London-Interbank offered rate (LIBOR) as set on the 29th day of each month. Interest is to be paid monthly, beginning July 29, 2010 and continue monthly thereafter, with initial principal payment of $29,295 beginning August 29, 2010 and continue quarterly thereafter. As of January 13, 2010 the fixed interest rate was set at 6.83% based upon the ISDA interest rate swap. *Note is collateralized by a security pledge agreement of 271,385 of Class A and 345,399 of Class B VT TRANSCO, LLC membership units acquired in 2009 for the benefit of non-member and the assignment of rights to all distribution income from ownership of the investment.*	5,508,203	5,690,528
Private placement note payable to United of Omaha Life Insurance Company, dated November 30, 2009, with a maturity of entire principal on November 30, 2019 at fixed rate of 6.25%. *Note is collateralized by a security pledge agreement of 384,846 of Lamoille County Project (LCP) - Class A and 489,804 of Lamoille County Project(LCP) Class B VT TRANSCO, LLC membership units and the assignment of rights to all distribution income from ownership of the investment.*	8,746,500	8,746,500
Note payable of $3,500,000 to KeyBank National Association dated October 20, 2010, with a maturity date of October 1, 2017 at a fixed interest rate of 3.93% based upon the ISDA interest rate swap dated October 20, 2010. Principal and interest are to be paid monthly, beginning November 1, 2010 and continue monthly thereafter, with a monthly principal payments of $41,667. *Note is collateralized by a security pledge agreement of all revenues, receipts, and rights received by or on behalf of the Borrower under the Power Sales Agreements and all revenues from Project 10.*	1,875,000	2,375,000
Note Payable of $2,194,000 to TD Bank, NA dated December 17, 2010, with a maturity date of December 17, 2020 at a fixed interest rate set at 7.17% based on the ISDA interest rate swap dated January 17, 2011. Interest is to be paid monthly, beginning January 17, 2011 and continue monthly thereafter. This is a non-amortizing loan with the principal due at maturity. *Note is collateralized by a security pledge agreement of 96,536 of Class A and 122,864 of Class B VT TRANSCO, LLC membership units acquired in 2010 for the benefit of the Village of Lyndonville, a VPPSA member and the assignment of rights to all distribution income from ownership of the investment.*	2,194,000	2,194,000
Note payable of $16,677,516 to Merchants Bank dated July 28, 2011 with a maturity date of June 30, 2021. Interest payable at a fixed rate of 6.03%. Interest and principal are to be paid quarterly beginning September 30, 2011. *Note is collateralized by a security pledge agreement of 828,172 of Class A and 1,054,034 of Class B VT TRANSCO, LLC membership units acquired for the benefit of members and the assignment of rights to all distribution income from ownership of investment.*	14,762,765	15,535,983

Note 12 – Long-Term Debt (cont.)

	2013	2012
Note payable of $2,738,220 to TD Bank, NA dated December 24, 2012, with a maturity date of December 20, 2015. Interest payable at a variable rate based on LIBOR plus a spread of 3.2%. Interest is paid monthly beginning in January, 2013 and principal is to be paid quarterly beginning in March, 2013. *Note is collateralized by a security pledge agreement of 120,480 of Class A and 153,342 of Class B VT TRANSCO, LLC membership units acquired in 2012 for the benefit of certain VPPSA members and the assignment of rights to all distribution income from ownership of the investment.*	2,555,672	2,738,220
Note payable of $2,325,000 to Keybank, N.A. dated August 12, 2011 and further amended on April 1, 2013, with a maturity date of April 1, 2023 at a fixed interest rate of 4.1% based upon the ISDA interest rate swap dated April 1, 2013. Principal and interest are to be paid monthly, beginning May 1, 2013 and continue monthly thereafter, with a monthly principal payments of $19,375. *Note is collateralized by a security pledge agreement of all revenues, receipts, and rights received by or on behalf of the Borrower under the Highgate Transmission Service Agreements.*	2,150,625	0
Total	41,848,367	41,485,437
Less: current portion due on outstanding long term debt as of December 31, payable from restricted assets	(5,984,484)	(1,785,432)
	$ 35,863,882	$ 39,700,005

The future annual maturities of principal and estimated interest on long-term debt consist of the following as of December 31, 2013:

		Principal	Interest	Total
2014	(included in current portion)	$ 5,984,484	$ 2,255,540	$ 8,240,024
2015		$ 4,183,876	$ 2,071,301	$ 6,255,177
2016		$ 6,714,767	$ 1,830,383	$ 8,545,150
2017		$ 1,628,514	$ 1,478,380	$ 3,106,895
2018		$ 1,272,251	$ 1,400,757	$ 2,673,008
2019-2020		$ 13,679,784	$ 2,031,165	$ 15,710,949
2021-2022		$ 3,030,040	$ 840,390	$ 3,870,430
2023-2026		$ 5,354,651	$ 618,532	$ 5,973,182
		$ 41,848,367	$ 12,526,447	$ 54,374,814

At December 31, 2013 and 2012, total interest expense on the above borrowings was $2,529,755 and $2,458,682.

Each individual long term debt obligation above related to TRANSCO activities is collateralized by a security and pledge agreement and rights to the distribution income received related to the allocated units acquired by such borrowing. As of December 31, 2013 and 2012, no membership units have been released as pledged security.

Note 12 – Long-Term Debt (cont.)

The future payment of the Authority’s debt service costs related to the acquisition of the TRANSCO membership units, LCP member units and LED SF Units, is contingent on the financial stability of TRANSCO and the continuance of an adequate rate of return or distribution income in excess of the Authority’s required debt service costs. VT Transco, LLC management can change its distribution rate in accordance with procedures in the TRANSCO Operating Agreement.

Any significant fluctuations in future cash flows of distribution income received from VT Transco, LLC could affect the Authority’s ability to pay the debt service requirements on the outstanding obligations related to the investment.

Management believes the future rate of return will continue to remain in excess of its debt obligations. Further, should the rate of return become inadequate to cover the Authority’s debt service costs, it is management’s intent to collect that deficiency from those certain members in accordance with the amount of Transco equity the Authority has acquired for the benefit of those members and non-members. The collection of debt service costs related to this obligation directly from its member and non-members is contingent upon the financial stability of such members and non-members. The member and non-members revenue stream is governed by its allowable regulatory rates and customary payments and any inability to provide sufficient cash flows and provide reliable and credit rating capacities for borrowing could adversely affect the Authority.

The debt for the 2009 acquisition of the Lamoille County Project (LCP) membership units on behalf of the four members contains a backstop provision in the executed uncontested settlement agreement with the parties that the LCP units would be purchased back after the tenth year anniversary from the date of acquisition, by VT Transco, LLC, if not acquired by other members or substitute members.
The application of principal and interest may vary depending upon timing of payments if different than the scheduled amortization of the outstanding debt.

The Authority believes it is in compliance with all debt covenants related to the above loan agreements at December 31, 2013 and 2012.

Note 13 - Interest rate Swap Agreements

On February 29, 2008, the Authority signed an International Swap and Derivative Association, Inc. (“ISDA”) master agreement with KeyBank National Association for the purpose of entering into a "pay fixed", countered by a "receive variable" interest rate swap. The interest rate swap terminated in 2008 and the ISDA was not utilized in 2009. On October 13, 2010 the Authority signed a First Amendment to the ISDA master agreement for the purpose of entering into a "pay fixed," countered by a "receive variable" interest rate swap related to the P10 long-term debt with Keybank, N.A. On January 30, 2012 (and further amended on April 8, 2013), the Authority entered into a “pay fixed,” countered by a “receive variable” interest rate swap to effectively fix the interest rate related to the long-term debt to facilitate the capital improvements at the Highgate Converter station.

Note 13 - Interest rate Swap Agreements (cont.)

In June 2009, the Authority signed an International Swap and Derivative Association, Inc. ("ISDA") master agreement with TD Bank to provide the option of entering into a "pay fixed", countered by a "receive variable" interest rate swap with the lender. Given this option, the Authority confirmed 1) a "pay fixed," countered by the "receive variable" interest rate swap on one outstanding long-term note with TD Bank in June 2009; 2) a "pay fixed," countered by the "receive variable" interest rate swap for a second outstanding long-term note with TD Bank in January 2010; and 3) a "pay fixed," countered by the "receive variable" interest rate swap on a third outstanding long-term note with TD Bank in January 2011. The swap agreements are valued based on readily observable prices of instruments traded in active markets with similar maturities and characteristics, interest rate yield curves and measures of interest rate volatility and are therefore classified within level 2 of FASB's fair value hierarchy.

The Authority is exposed to interest rate risk on interest rate swap agreements. As the LIBOR increases, the Authority's net payment on the swap decreases, and alternatively, if the LIBOR decreases the Authority's net payment on the swap increases.

At December 31, 2013, the interest rate swap agreements have been recorded as follows:

Description	Valuation Date	Notional Amount	Date of Agreement	Maturity Date	Change in fair market value of Swap Gain (Loss)
Pay fixed/ receive variable interest rate swap agreement	12/31/2013	$4,055,602	6/29/2009	6/29/2014	($58,030)
Pay fixed/ receive variable interest rate swap agreement	12/31/2013	$5,508,203	1/13/2010	12/23/2016	($435,503)
Pay fixed/ receive variable interest rate swap agreement	12/31/2013	$2,194,000	01/04/2011	12/17/2020	($189,383)
Pay fixed/ receive variable interest rate swap agreement	12/31/2013	$1,916,667	10/20/2010	10/01/2017	($39,825)
Pay fixed/ receive variable interest rate swap agreement	12/31/2013	$2,170,000	01/30/2012	04/01/2023	($14,925)
Total derivative liability					**($737,666)**

Note 14 – Pension Plan

The Authority has a noncontributory defined contribution pension plan covering all employees. The money purchase plan was adopted October 1, 1978 and restated October 1, 1989 and February 10, 2000. The pension plan was further amended January 1, 2007, restating it as a profit sharing plan, known as Vermont Public Power Supply Authority Retirement Plan. Employees are eligible immediately, are considered 100% vested, and the minimum employer non-elective contribution equals 5% of employee's gross wages provided the employee has met 1000 hours of service during the year. The employer's 5% contribution is subject to Board approval. In addition, the employer will make an additional matching contribution of up to 3%, provided the employee provides evidence of a 3% contribution to a qualified retirement vehicle.

(Continued)

Note 14 – Pension Plan (cont.)

The plan is administered by a third party administrator. Employer contributions to this plan for the years ended December 31, 2013 and 2012 were $80,549 and $75,979, respectively, amounting to approximately 8% of covered payroll.

Note 15 – Compensated Employee Absences

Effective September 13, 2007, full time employees are eligible to accrue upon date of hire, paid vacation leave which is credited monthly. Vacation leave time is granted based on years of service using the following schedule:

0 < 5 years	2 weeks vacation per year
5 < 10 years	3 weeks vacation per year
10 < 20 years	4 weeks vacation per year
20 years and over	5 weeks vacation per year

Employees may not carry over more than 30 days accrued vacation leave into the next calendar year without prior approval. Upon termination, voluntary leave, or retirement, employees are entitled to be compensated for all unused vacation leave up to the maximum amount allowed to accrue.

Full time employees are also entitled to paid sick leave. Sick leave accrues as of the date of hire at a rate of one day per month. The maximum sick day accrual shall not exceed 45 days at any time and upon termination of the employee all accrued sick time is surrendered.

At December 31, 2013 and 2012, the Authority's liability of accrued vacation under the current compensated absences policy is $61,470 and $64,360, and accrued sick leave under the previous compensated absences policy is $8,322 and $8,311. Accrued vacation is recorded as "other long-term liabilities and accrued sick leave is recorded as "other current liabilities".

Note 16 – Commitments, Contingencies, Uncertainties

At December 31, 2013, the Authority has no outstanding contractual commitments.

<u>Insurance</u>

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; environmental contamination and natural disasters. The Authority maintains commercial insurance coverage purchased in the name of the Authority covering each of those risks of loss, except for a portion of health insurance coverage related to retired employees, whereby the Authority fully reimburses those retirees for health related deductibles and/or co–pays. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Authority.

In 2013 and 2012, the Authority contributed $500 to the H.S.A. account of each employee who elected family coverage, and $250 to those employees who elected single coverage as participants in the Authority's High Deductible Health Plan ("HDHP").

Note 16 – Commitments, Contingencies, Uncertainties (cont.)

Insurance settlements have not exceeded insurance coverage for any of the past three fiscal years, nor have claims exceeded available insurance coverage for health claims for any of the past three fiscal years.

Consulting Agreement

In 2006, the Authority entered into a contract with a former General Manager ("Consultant") to provide consulting services for a period of ten (10) years. The contract commenced upon retirement of the General Manager which was effective July 7, 2006. In accordance with the contract, the Consultant will provide the Authority with a maximum of two hundred (200) hours per year of consulting services for which the Authority shall pay an annual fee of $30,000. The Authority is obligated to pay the annual consulting fee in full even if the Consultant is not requested to perform the entire 200 hours of consulting services. In addition, the Authority will provide health insurance coverage under the plan currently maintained by the Authority and supplemental Medicare coverage to both Consultant and his spouse during their remaining life.

As of December 31, 2013 and 2012 the net present value of the total outstanding under the terms of the agreement are $40,417 and $66,332, with $30,000 recorded as other current liabilities for both years.

Environmental Risks

The Swanton Peaker Project (Project 10) has multiple permits from the State of Vermont, and varies reporting requirements associated with those permits. The licensing and operation of Project 10 are dependent upon compliance with all permits such as its air permit, storm water runoff permit, and wetland construction permit. The reporting requirements of these permits have required installation of various monitoring devices that help minimize the environmental risk of the project.

Note 17 – Power Supply Settlement Commitments

The Authority has a Master Supply Agreement with its member systems and an Interim Agreement for CDA Services with its affiliate systems, for the settlement of their power supply resources and/or power supply arrangements that settle through the Authority's ISO-NE participant account. When combined, the optimized dispatch results in benefits from savings which accrue to each participant. The Authority acts as a billing agent for eight of the seventeen participants with regard to their payments to power suppliers and/or transmission providers.

The following table summarizes all power supply resources available to meet the members and the non-member's total load obligations for those entities that participate in the settlement process through the ISO-NE and the Authority. The list includes resources that may be owned directly by a member or non-member utility; however, the revenues from the ISO-NE flow through the Authority's settlement process. In addition, VPPSA makes bilateral purchases on behalf of its members and/or non-members and these transactions are also included in the list.

Note 17 – Power Supply Settlement Commitments (cont.)

The Members' total mWh resource entitlements are shown as a percentage of the Member's portfolio of resources available to meet the member's load obligations. For the years ending December 31, 2013 and 2012 they were:

RESOURCE ENTITLEMENTS: MEMBERS	2013	Percent of MWHs		2012	Percent of MWHs	Expiration date
Fitchburg	26,280,000	7.42%		24,119,232	6.91%	2032
HQ	83,631,800	23.60%		85,956,058	24.64%	2012-2020
HYDRO	65,652,896	18.52%		60,707,848	17.40%	Life of Unit
DIESEL	1,433	0.00%		3,117	0.00%	Life of Unit
McNeil	51,208,485	14.45%		36,071,789	10.34%	Life of Unit
NYPA	24,775,396	6.99%		25,711,802	7.37%	4/30/2017 & 9/1/2025
Ryegate	10,021,551	2.83%		0	0.00%	10/31/2021
VEPPI	9,109,694	2.57%		15,176,072	4.35%	2013-2020-varies
Standard Offer	2,915,544	0.82%		1,934,803	0.55%	Varies
Stonybrook	2,478,047	0.70%		2,643,672	0.76%	Life of Unit
Project 10	555,524	0.16%		290,956	0.08%	Life of Unit
Ribbon Energy	30	0.00%		40,011	0.01%	12/31/2012
Yarmouth	53,092	0.01%		20,290	0.01%	Life of Unit
VY	0	0.00%		2,640,703	0.76%	03/31/2012
Market Purchases	77,725,333	21.93%		93,588,944	26.82%	Varies
	354,408,825	**100.00%**		**348,905,298**	**100.00%**	

The Non-Member total mWh resource entitlements are shown as a percentage of the Non-Members' portfolio of resources available to meet their load obligations. For the years ending December 31, 2013 and 2012, they were:

RESOURCE ENTITLEMENTS: NON-MEMBERS	2013	Percent of MWHs		2012	Percent of MWHs	Expiration date
Coventry Clean Energy Corporation	50,908,300	40.51%		49,394,000	38.84%	Life of Unit
HQ	18,024,130	14.34%		16,079,870	12.64%	10/31/2015
NYPA	9,424,094	7.50%		9,775,600	7.69%	4/30/2017 & 9/1/2025
VEPPI	1,771,616	1.41%		2,758,165	2.17%	2013-2020-varies
Ryegate	1,948,759	1.55%		0	0.00%	10/31/2021
Wrightsville Hydro	3,043,679	2.42%		2,802,932	2.20%	Life of Unit
GMP System	564,900	0.45%		530,900	0.42%	Life of Unit
Vermont Wind	8,373,658	6.66%		9,730,203	7.65%	Life of Unit
Fox Island Diesel	6,679	0.01%		6,594	0.01%	Life of Unit
Fox Island Wind	10,739,986	8.55%		13,768,932	10.83%	Life of Unit
Market Contracts	20,869,700	16.61%		22,318,300	17.55%	Various
	125,675,501	**100.00%**		**127,165,495**	**100.00%**	

Note 17 – Power Supply Settlement Commitments (cont.)

A summary of the total Member and Non-Members' total mWh resource entitlements are shown as a percentage of the total Member and Non-Member resource entitlements that are included in the settlement process through the ISO-NE and the Authority.

RESOURCE ENTITLEMENTS: TOTAL	2013	Percent of MWHs		2012	Percent of MWHs
Members	354,408,825	73.82%		348,905,298	73.29%
Affiliates	125,675,501	26.18%		127,165,495	26.71%
Total	**480,084,326**	**100%**		**476,070,793**	**100%**

Note 18 – Concentration of Risks

The J. C. McNeil Generating Station Project #2 contributed approximately 15.7% for 2013 and 16.4% for 2012 to annual gross revenues for the Authority.

Power Supply sources contribute significantly to the ability of the Authority to operate under its current business model. Should supply interruptions, price changes, contract terminations, shut down in operations of the units occur, the Authority could experience adverse or beneficial operating results and these results could be material.

Members provide the Authority with outlets for supply and transmission revenues, as well as cash flows for debt service repayments of the Authority. Any material changes to volumes, or supply, or any cash flow irregularity of the members could have an impact on the Authority's ability to discharge its future financial obligations and access to current and future financing.

The Authority regularly contracts with various and diverse professional and electric utility contractors. Adverse changes in the availability or quality of these sources could impact the business operations of the Authority.

Note 19 – Insurance Recovery from Casualty Loss

On January 6, 2010 during the commissioning of the autovoltage regulator and static exciter for Turbine # No. 2 Generator at the Project 10 Swanton Peaker Project, a fire ignited within the generator enclosure. The fire protection system immediately detected the fire and activated the high pressure CO_2 system and extinguished the fire. Due to the immediate extinguishing of the fire, no damage was done to turbine #1 or #2, or any ancillary equipment. On January 22, 2010, the Authority requested services for repairing the generator. Immediately following the fire, the Authority filed an insurance claim for property damage loss.

The Authority incurred expenses of $1,677,113 to repair the generator. During 2010, the Authority received 90% of the claim related to the property damage from the insurance company and the unit was fully repaired and in-service on June 1, 2010. On May 15, 2012, the Authority settled the claim with the insurance company and received final payment related to the claim.

(Continued)

Supplementary Schedule 1

VERMONT PUBLIC POWER SUPPLY AUTHORITY
COMBINING SCHEDULE OF REVENUES AND EXPENSES
FOR THE YEAR ENDING DECEMBER 31, 2013

	2013				
	Swanton Project #10	McNeil Project #2	Highgate Project #3	VPPSA	Total
OPERATING REVENUE:					
Electric sales for resale	$ -	-	-	25,798,003	25,798,003
McNeil project revenue	-	6,200,405	-	-	6,200,405
Highgate project revenue	-	-	537,970	-	537,970
Swanton (P10) project revenue	3,429,732	-	-	-	3,429,732
Renewable Energy Certificates	-	1,969,446	-	1,356,528	3,325,974
Other Service revenue	-	-	-	169,447	169,447
Total operating revenue	3,429,732	8,169,850	537,970	27,323,978	39,461,531
OPERATING EXPENSES:					
Power production expenses	528,439	4,837,833	-	-	5,366,272
Transmission expenses	5,332	6,094	59,998	9,073,094	9,144,518
Purchased power	5,662	11,355	-	16,630,347	16,647,364
Regional Market expense	126,077	-	-	-	126,077
Administrative & General expenses	196,041	209,339	74,199	1,480,270	1,959,849
Outside services	17,923	35,729	23,582	172,658	249,892
Payments in lieu of taxes	9,019	212,254	66,830	12,754	300,858
Amortization	-	-	-	3,000	3,000
Depreciation	1,129,542	706,177	164,899	31,326	2,031,944
Total operating expenses	2,018,035	6,018,781	389,508	27,403,449	35,829,773
Operating income	1,411,697	2,151,069	148,462	(79,470)	3,631,758
NONOPERATING REVENUE (EXPENSES):					
Distribution income - VT Transco, LLC.	-	-	-	5,423,123	5,423,123
Net Settlement expense - VT Transco, LLC.	-	-	-	(1,639,225)	(1,639,225)
Net interest income (expense) swaps	(32,361)	-	(32,848)	(392,918)	(458,128)
Interest expense	(1,085,411)	(304,238)	(50,659)	(1,980,740)	(3,421,047)
Amortization of LTD discount, premium and issuance exp	(272,417)	158,226	-	(52,496)	(166,688)
Amortization of loss on reacquired debt	-	(1,521,895)	-	-	(1,521,895)
Interest earned on deposits/investments	43,810	76,363	337	3,229	123,738
Net Proceeds related to casualty loss	-	-	-	-	-
Grant Income	-	-	-	-	-
Grant Expenses	-	-	-	-	-
Gain/(Loss) on Disposition of Plant Assets	-	190	-	-	190
Net Realized Gain/(Loss) on Investments	10,489	(22,838)	-	-	(12,350)
Misc. Non-operating revenue (expense)	41,714	96	(15,187)	(13)	26,610
	(1,294,177)	(1,614,096)	(98,358)	1,360,958	(1,645,672)
CHANGE IN NET POSITION	117,520	536,973	50,105	1,281,488	1,986,086
Other Comprehensive Income - Interest Swaps	34,563	-	101,087	511,540	647,190
Other Comprehensive Income - Unrealized Gains/Losses	(85,240)	(41,700)	-	-	(126,940)
NET POSITION, beginning of year	129,132	5,462,188	541,306	8,618,564	14,751,189
NET POSITION, end of year	$ 195,974	5,957,462	692,498	10,411,592	17,257,525

See Independent Auditors Report on Supplementary Information.

VERMONT PUBLIC POWER SUPPLY AUTHORITY
COMBINING SCHEDULE OF REVENUES AND EXPENSES
FOR THE YEAR ENDING DECEMBER 31, 2012

		2012			
	Swanton Project #10	McNeil Project #2	Highgate Project #3	VPPSA	Total
OPERATING REVENUE:					
Electric sales for resale	$ -	-	-	25,194,863	25,194,863
McNeil project revenue	-	5,585,832	-	-	5,585,832
Highgate project revenue	-	-	397,794	-	397,794
Swanton (P10) project revenue	3,373,509	-	-	-	3,373,509
Renewable Energy Certificates	-	1,540,289	-	497,904	2,038,193
Other Service revenue	-	-	-	158,150	158,150
Total operating revenue	3,373,509	7,126,121	397,794	25,850,917	36,748,340
OPERATING EXPENSES:					
Power production expenses	393,972	3,493,082	-	-	3,887,054
Transmission expenses	67	4,981	40,152	7,487,309	7,532,508
Purchased power	5,457	388,147	-	16,696,555	17,090,159
Regional Market expense	58,097	-	-	-	58,097
Administrative & General expenses	254,611	227,155	98,737	1,320,274	1,900,777
Outside services	17,488	37,652	26,321	358,657	440,118
Payments in lieu of taxes	17,637	208,062	38,003	12,456	276,158
Amortization	-	251	-	3,000	3,251
Depreciation	1,122,209	698,695	13,033	36,324	1,870,260
Total operating expenses	1,869,538	5,058,023	216,245	25,914,575	33,058,382
Operating income	1,503,971	2,068,097	181,549	(63,659)	3,689,959
NONOPERATING REVENUE (EXPENSES):					
Distribution income - VT Transco, LLC.	-	-	-	5,080,625.64	5,080,626
Net Settlement expense - VT Transco, LLC.	-	-	-	(1,574,890.10)	(1,574,890)
Net interest income (expense) swaps	(38,797)	-	-	(398,014.35)	(436,811)
Interest expense	(1,127,363)	(413,213)	(28,232)	(1,955,072.75)	(3,523,881)
Amortization of LTD discount, premium and issuance exp	(16,345)	82,509	-	(31,504.25)	34,660
Amortization of loss on reacquired debt	-	(795,212)	-	-	(795,212)
Interest earned on deposits/investments	48,271	63,214	293	6,682.77	118,461
Net Proceeds related to casualty loss	(156,296)	-	-	-	(156,296)
Grant Income	-	-	-	260,314	260,314
Grant Expenses	-	-	-	(260,314)	(260,314)
Gain/(Loss) on Disposition of Plant Assets	-	-	-	-	-
Realized Gain/(Loss) on Investments	(3,145)	(45,494)	-	-	(48,639)
Misc. Non-operating revenue (expense)	-	675	-	-	675
	-	-	-	-	-
	(1,293,675)	(1,107,521)	(27,938)	1,127,827	(1,301,308)
CHANGE IN POSITION	210,295.76	960,576	153,611	1,064,168	2,388,651
Other Comprehensive Income - Interest Swaps	(3,177)		(116,013)	37,436	(81,754)
Other Comprehensive Income - Unrealized Gains/Losses	$ (17,996)	(776)	-	-	(18,772)
NET POSITION, beginning of year	(59,990)	4,502,388	503,708	7,516,960	12,463,065
NET POSITION, end of year	$ 129,132	5,462,188	541,306	8,618,564	14,751,189

See Independent Auditors Report on Supplementary Information.

VERMONT PUBLIC POWER SUPPLY AUTHORITY

Supplementary Schedule 3

RESTRICTED ASSETS SCHEDULE - CASH - MCNEIL

FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012

	Debt Service Interest	Debt Service Principal	Debt Service Reserve Fund	Reserve and Contingency	Revenue Funds	Temp Investments	Total
Balance at December 31, 2011	273,652	1,218,793	2,556,134.74	499,786.77	826,020	-	5,374,387
Add:							
Interest Income	32	344	66,766	1,981	341	423	69,887
Receipts of revenue	-	-	-		7,257,226		7,257,226
Transfers	523,165	3,697,877		507,692	357,494	500,000	5,586,228
Realized Gain on Investment	-	-	-				-
Unrealized Gain on investment	-	-	-	-			-
Deduct:							
Operating expenditures	-	-	-	-			-
Debt service payments	(464,963)	(2,070,000)	-	-	(4,481,902)		(7,016,864)
Capital Improvements					(311,456)		(311,456)
Transfers	(118,577)	(1,563,710)	(27,035)	(584,276)	(3,292,630)		(5,586,228)
Realized Loss on Investment	-	-	-				-
Unrealized Loss on investment	-	-	(46,270)				(46,270)
Balance at December 31, 2012	213,309	1,283,304	2,549,596	425,183	355,094	500,423	5,326,910
Add:							
Interest Income	10	20,368	53,881	1,294	-	574	76,127
Receipts of revenue	-	-	-	-	8,446,936	-	8,446,936
Transfers	294,700	2,247,083	-	254,178	6,194	-	2,802,156
Realized Gain on Investment	-	-	-	-	-	-	-
Unrealized Gain on investment	-	-	-	-	-	-	-
Deduct:							
Operating expenditures	-	-	-	-	(5,360,133)	-	(5,360,133)
Debt service payments	(361,463)	(2,180,000)	-	-	(2,795,962)	-	(5,337,424)
Capital Improvements	-	-	-	(152,423)	-	-	(152,423)
Transfers	-	-	(6,194)	(28,665)	-	-	(34,859)
Realized Loss on Investment	-	(19,672)	(3,167)	-	-	-	(22,838)
Unrealized Loss on investment	-	-	(41,700)	-	-	-	(41,700)
Balance at December 31, 2013	146,557	1,351,083	2,552,417	499,568	652,128	500,998	5,702,750

See Independent Auditors Report on Supplementary Information.

VERMONT PUBLIC POWER SUPPLY AUTHORITY

Supplementary Schedule 4

RESTRICTED ASSETS SCHEDULE - CASH - PROJECT 10
FOR THE YEAR ENDED DECEMBER 31, 2013 and 2012

		Debt Service Interest	Debt Service Principal	Debt Service Reserve Fund	Reserve and Contingency	Revenue Funds	Reserve Fund	Construction Funds	Total
Balance at December 31, 2011	$	630,053	513,562	1,983,111	97,773	379,052	-	(0)	3,603,550
Add:									
Interest Income		52	122	47,901	-	4	319	-	48,398
Receipts of revenue		-	-	-	-	3,373,509	380,000	-	3,753,509
Transfers		1,330,017	1,557,678	997,898	97,783	164,410		-	4,147,786
Unrealized Gain on investment		-	-	-	-	-		-	-
Deduct:									
Operating expenditures		-	-	-	-	(853,156)		-	(853,156)
Construction Costs		-	-	-	-	(293,335)		-	(293,335)
Debt service payments		(1,074,269)	(880,000)	-	-	(607,384)		-	(2,561,652)
Transfers		(271,848)	(660,178)	(1,021,927)	(68,581)	(2,053,452)	(90,000)	-	(4,165,986)
Unrealized Loss on investment		-	-	(21,141)	-	-		-	(21,141)
Balance at December 31, 2012	$	614,005	531,184	1,985,841	126,975	109,647	290,319	(0)	3,657,971
Add:									
Interest Income		-	8,387	39,280	-	3	214	-	47,884
Receipts of revenue		-	-	-	-	3,471,605	-	-	3,471,605
Transfers		1,029,927	927,500	6,714	97,871	337,043	61,714	-	2,460,769
Realized Gain on Investment		-	-	21,070					21,070
Unrealized Gain on investment		-	-	-	-	-	-	-	-
Deduct:									
Operating expenditures		-	-	-	-	(2,642,450)	-	-	(2,642,450)
Capital Improvements		-	-	-	(115,335)	-	-	-	(115,335)
Debt service payments		(1,046,669)	(910,000)	-	-	(848,915)	-	-	(2,805,584)
Transfers		-	-	(21,707)	-	(58,428)	(210,000)	-	(290,135)
Realized Loss on investment		-	(8,125)	(2,456)					(10,581)
Unrealized Loss on investment		-	-	(85,240)	-	-	-	-	(85,240)
Balance at December 31, 2013	$	597,263	548,946	1,943,501	109,511	368,505	142,247	(0)	3,709,973

See Independent Auditors Report on Supplementary Information.

VERMONT PUBLIC POWER SUPPLY AUTHORITY
RESTRICTED ASSETS SCHEDULE - INVESTMENT IN VT TRANSCO, LLC
SUMMARY OF UNITS HELD BY YEAR FOR BENEFIT OF MEMBERS AND NONMEMBERS
FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012

	Total A Units	% of Total A Units	Total B Units	% of Total B Units	Total Units	% of Total	TOTAL VALUE
Balance at December 31, 2011	1,787,238		2,274,663		4,061,901		40,619,010
Purchases	120,480	48.09%	153,342	48.09%	273,822	48.09%	2,738,220
Sales	-	0.00%	-	0.00%	-	0.00%	-
Total	120,480	48.09%	153,342	48.09%	273,822	48.09%	$ 2,738,220
Balance at December 31, 2012	1,907,718		2,428,005		4,335,723		43,357,230
Purchases	-	0.00%	-	0.00%	-	0.00%	-
Sales	-	0.00%	-	0.00%	-	0.00%	-
Total	-	0.00%	-	0.00%	-	0.00%	$ -
Balance at December 31, 2013	1,907,718		2,428,005		4,335,723		43,357,230

VERMONT PUBLIC POWER SUPPLY AUTHORITY
RESTRICTED ASSETS SCHEDULE - INVESTMENT IN VT TRANSCO, LLC
SCHEDULE OF ALLOCATION TO MEMBERS AND NONMEMBER
FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012

ALLOCATION OF UNITS FOR THE BENEFIT OF MEMBERS AND NONMBERS

AS OF DECEMBER 31, 2012	Total A Units	% of Total A Units	Total B Units	% of Total B Units	Total Units	% of Total	TOTAL VALUE
Members:							
Barton	43,958	5.2808%	55,945	5.2806%	99,903	5.2807%	$ 999,030
Enosburg	64,052	7.6947%	81,520	7.6946%	145,572	7.6947%	1,455,720
Hardwick	102,990	12.3724%	131,080	12.3726%	234,070	12.3725%	2,340,700
Hyde Park	20,118	2.4168%	25,603	2.4167%	45,721	2.4167%	457,210
Jacksonville	15,507	1.8629%	19,737	1.8630%	35,244	1.8629%	352,440
Johnson	43,979	5.2833%	55,978	5.2837%	99,957	5.2835%	999,570
Ludlow	116,348	13.9771%	148,078	13.9770%	264,426	13.9771%	2,644,260
Lyndonville	208,512	25.0490%	265,379	25.0490%	473,891	25.0490%	4,738,910
Morrisville	94,194	11.3157%	119,885	11.3159%	214,079	11.3158%	2,140,790
Northfield	67,754	8.1394%	86,231	8.1393%	153,985	8.1394%	1,539,850
Orleans	42,607	5.1185%	54,225	5.1183%	96,832	5.1184%	968,320
Readsboro	-	0.0000%	-	0.0000%	-	0.0000%	-
Swanton	128,633	15.4529%	163,715	15.4530%	292,348	15.4530%	2,923,480
Total Members	948,652	113.96%	1,207,376	113.96%	2,156,028	113.96%	$ 21,560,280
Non-Members:							
Vermont Electric Cooperative	477,684		607,961		1,085,645		$ 10,856,450
Specific Facilities							
LCP-Hardwick	85,932		109,368		195,300		1,953,000
LCP-Hyde Park	43,428		55,272		98,700		987,000
LCP-Johnson	51,590		65,660		117,250		1,172,500
LCP-Morrisville	203,896		259,504		463,400		4,634,000
Lyndonville Substation	96,536		122,864		219,400		2,194,000
	481,382		612,668		1,094,050		10,940,500
Balance at December 31, 2012	1,907,718		2,428,005		4,335,723		43,357,230

AS OF DECEMBER 31, 2013	Total A Units	% of Total A Units	Total B Units	% of Total B Units	Total Units	% of Total	TOTAL VALUE
Members:							
Barton	43,958	5.2808%	55,945	5.2806%	99,903	5.2807%	$ 999,030
Enosburg	64,052	7.6947%	81,520	7.6946%	145,572	7.6947%	1,455,720
Hardwick	102,990	12.3724%	131,080	12.3726%	234,070	12.3725%	2,340,700
Hyde Park	20,118	2.4168%	25,603	2.4167%	45,721	2.4167%	457,210
Jacksonville	15,507	1.8629%	19,737	1.8630%	35,244	1.8629%	352,440
Johnson	43,979	5.2833%	55,978	5.2837%	99,957	5.2835%	999,570
Ludlow	116,348	13.9771%	148,078	13.9770%	264,426	13.9771%	2,644,260
Lyndonville	208,512	25.0490%	265,379	25.0490%	473,891	25.0490%	4,738,910
Morrisville	94,194	11.3157%	119,885	11.3159%	214,079	11.3158%	2,140,790
Northfield	67,754	8.1394%	86,231	8.1393%	153,985	8.1394%	1,539,850
Orleans	42,607	5.1185%	54,225	5.1183%	96,832	5.1184%	968,320
Readsboro	-	0.0000%	-	0.0000%	-	0.0000%	-
Swanton	128,633	15.4529%	163,715	15.4530%	292,348	15.4530%	2,923,480
Total Members	948,652	113.96%	1,207,376	113.96%	2,156,028	113.96%	$ 21,560,280
Non-Members:							
Vermont Electric Cooperative	477,684		607,961		1,085,645		$ 10,856,450
Specific Facilities							
LCP-Hardwick	85,932		109,368		195,300		1,953,000
LCP-Hyde Park	43,428		55,272		98,700		987,000
LCP-Johnson	51,590		65,660		117,250		1,172,500
LCP-Morrisville	203,896		259,504		463,400		4,634,000
Lyndonville Substation	96,536		122,864		219,400		2,194,000
	481,382		612,668		1,094,050		10,940,500
Balance at December 31, 2013	1,907,718		2,428,005		4,335,723		43,357,230

See Independent Auditors Report on Supplementary Information.