



VERMONT PUBLIC POWER SUPPLY AUTHORITY

Financial Statements

December 31, 2015 and 2014

(With Independent Auditors' Report Thereon)

VERMONT PUBLIC POWER SUPPLY AUTHORITY

TABLE OF CONTENTS

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis (Unaudited)	2 – 14
Financial Statements	
Statements of Net Position	15 – 16
Statements of Revenues, Expenditures, and Changes in Net Position	17
Statements of Cash Flows	18 – 19
Statement of Changes in Net Position	20
Notes to Financial Statements	21 - 50
Supplementary Schedules	
1. Combining Schedule of Assets, Liabilities and Net Position - 2015	51
2. Combining Schedule of Assets, Liabilities and Net Position - 2014	52
3. Combining Schedule of Revenues and Expenses – 2015	53
4. Combining Schedule of Revenues and Expenses – 2014	54
5. Restricted Cash Schedule - McNeil	55
6. Restricted Cash Schedule – Swanton Peaker Project # 10	56
7. Restricted Investment in VT Transco, LLC – Summary of Units Held	57
8. Restricted Investment in VT Transco, LLC – Allocation of Units	58

Independent Auditors' 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, 2015 and 2014, 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, 2015 and 2014, 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.

Graham & Graham, P.C.

Certified Public Accountants

Business Advisors & Management Consultants

The Solution Group

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 51 through 56 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, P.C.

Graham & Graham, P.C.

Barre, Vermont

March 2, 2016

Reg. # 92-0000282

**VERMONT PUBLIC POWER SUPPLY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2015 AND 2014**

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, 2015 and 2014.

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, 2015 is as follows:

- Change in Net Position – Increase of \$ 2,033,527
- Net Capital Assets - Decreased - \$ 1,578,932
- Moody's reaffirmed VPPSA's Project #10 revenue bond rating for the Swanton Peaker Project at Baa1 with a stable outlook
- Total repayments on outstanding bonds and/or long-term debt: \$ 5,547,273

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.

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.

VERMONT PUBLIC POWER SUPPLY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2015 AND 2014

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 below summarizes information related to the Authority's assets and deferred outflows of resources and the table on the following page summarizes information related to the Authority's liabilities and deferred inflows of resources. As stated earlier, the difference between the two groups is reported as the Authority's "net position". This information is provided for the years ending December 31, 2015, and 2014.

	<u>2015</u>	<u>2014</u>
Capital Assets, net	\$ 23,430,077	\$ 25,009,009
<u>Current Assets</u>		
Cash & Cash Equivalents	7,467,294	10,951,467
Accounts Receivables	5,726,105	4,390,404
Other Current Assets	<u>2,724,556</u>	<u>2,634,215</u>
Total Current Assets	15,917,955	17,976,086
<u>Long-Term Assets</u>		
Investments	42,526,285	42,301,775
Other Long-Term Assets	<u>569,944</u>	<u>617,583</u>
Total Long-Term Assets	43,096,229	42,919,358
Deferred Outflow of Resources	<u>-</u>	<u>-</u>
TOTAL ASSETS & DEFERRED OUFLOWS OF RESOURCES	<u><u>\$ 82,444,261</u></u>	<u><u>\$ 85,904,453</u></u>

VERMONT PUBLIC POWER SUPPLY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<u>Current Liabilities</u>		
Accounts Payable	\$ 3,612,374	3,262,883
Short-term Debt	-	-
Current Portion-Bonds & LTD	7,986,178	5,415,090
Other	1,184,893	1,302,135
Total Current Liabilities	12,783,444	9,980,108
<u>Long-term liabilities</u>		
Bonds	18,440,000	19,445,000
Long-Term Debt	28,924,214	36,037,574
Other	68,381	75,416
Total Long-Term Liabilities	47,432,594	55,557,990
Deferred Inflows of Resources	405,275	576,934
TOTAL LIABILITIES & DEFERRED INFLOWS OF RESOURCES	\$ 60,621,313	\$ 66,115,032
Net Position	21,822,948	19,789,421
TOTAL LIABILITIES AND NET POSITION	\$ 82,444,261	\$ 85,904,453

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.

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:

VERMONT PUBLIC POWER SUPPLY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2015 AND 2014

- 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, 2015 and 2014:

		2015	2014
Capital assets	\$	51,822,229	51,523,616
Less accumulated depreciation		28,392,152	26,514,607
Total capital assets, net	\$	23,430,077	25,009,009

In 2015, net capital assets decreased by \$1.6M and decreased by \$1.8M in 2014. In both 2015 and 2014, the decreases were the result of routine capital improvements at the McNeil Generating station, the Highgate Converter facility and the Swanton Peaker Project, offset by annual depreciation on all 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 2015, current assets decreased by \$2.1M or 11.4% and increased \$2.3M or 14.7% in 2014. In 2015, the decrease in current assets results from a decrease in cash and cash equivalents due to the maturity of the McNeil bonds and the use of the debt service funds to pay the final bond installments; offset by an increase in accounts receivable, primarily due to an increase in McNeil costs and Sales for Resale for the months of November and December.

The increase in 2014 was primarily due to the transfer of McNeil debt service funds that were previously invested in long-term securities that were sold and transferred back to cash and cash equivalents due to the maturity of the McNeil bonds that was scheduled to occur in 2015.

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.

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 2015 and 2014, 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.

**VERMONT PUBLIC POWER SUPPLY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2015 AND 2014**

Bond Funds:

In 2015 bond fund investments increased approximately \$.2M or 14.9% and in 2014 bond fund investments decreased approximately \$2.6M or 63.3%. The increase in 2015 is due to additional investments related to the Project 10 debt service reserve fund that were purchased during the year.

The decrease in 2014 was primarily related to the transfer of debt service fund investments related to the McNeil Project that were sold and transferred to cash and cash equivalents in anticipation of the upcoming maturity of the McNeil bonds that occurred during 2015.

Vermont Transco Membership Units:

There were no additional purchases of membership units in Vt. Transco, LLC during 2015. In 2014, the number of membership units in Vt. Transco LLC increased by a total of 256,729 member units, increasing the value of Transco investments by \$2,567,290 to a total of \$40,789,940.

Other Long-Term Assets:

Other long-term assets decreased in 2015 by \$48K or 7.7% and increased in 2014 by \$41K or 7.2%. The decrease in 2015 is due to a slight decline in future revenues due from members related to the McNeil project and likewise, the increase in 2014 is primarily due to an increase in the McNeil project costs for the month of December due from members.

Deferred Outflows of Resources – Deferred Outflows of Resources are defined as a consumption of net 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 did not change in 2015 or 2014.

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 2015, current liabilities increased \$2.8M or 28.1%, as compared to a decrease of \$3.7M or 27.4% in 2014. The increase in 2015 is primarily due to an increase in the current portion of bonds and LTD debt payable in the coming year; specifically, the maturity of one note with a balance of just over \$5M at December 31, 2015. This is slightly offset by a decrease in current bond payments due to the maturity of the McNeil bonds in 2015.

**VERMONT PUBLIC POWER SUPPLY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2015 AND 2014**

The decrease in 2014 was attributed to the remaining portion of a long-term debt (held in current maturity) that was used to facilitate the purchase of membership units in Vt. Transco for a non-member. This debt matured and was paid in full during 2014.

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, consist of one outstanding bond issue (two bond issues in 2014), and seven 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.

In 2015, the Authority had one outstanding bond issue that was used to facilitate the construction of the Authority's Swanton Peaker Project #10 located in Swanton, Vermont. In 2014, the Authority had an additional outstanding bond issue related the construction of the McNeil Generating Facility and that bond was fully paid in July of 2015.

In 2015, bonds payable decreased \$1M or 5.2% and \$3.4M or 14.8% in 2014. These reductions were the result of the repayment of principal on bonds outstanding during these years.

In both 2015 and 2014, the Authority maintained seven (7) long-term debt facilities. Two are directly related to construction projects, one for the Swanton Peaker Project #10 and the other at the Highgate Converter and the remaining facilities 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 2015, these long-term debt facilities decreased by \$7.1M or 19.7% and increased by less than \$.2M or .5% in 2014. The decrease in 2015 is a result of ongoing principal repayments on the existing obligations and the transfer of approximately \$5.1M to current maturity. This amount is directly related to the 2016 maturity of a debt obligation used to facilitate the purchase of TRANSCO member units for the benefit of a non-member.

The increase in 2014 was the result of ongoing principal payments on existing notes, the issuance of one new debt facility that was used to facilitate purchases of membership units in Vt. Transco and full repayment of an existing facility that was refinanced with proceeds of the new facility.

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, 2015 and 2014 is \$0 and \$13,206, respectively and approximately \$68,934 and \$62,210 is related to accrued vacations due to Authority employees for 2015 and 2014.

Deferred Inflows of Resources - Deferred Inflows of Resources are defined as an acquisition of net 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 four (4) interest rate swaps.

The mark-to-market valuation of the interest rate swaps result in a liability of \$.4M and \$.6M at December 31, 2015 and 2014, respectively. The interest rate swaps effectively provide a variable to fixed interest rate for two notes with one financial lender to facilitate purchases of membership units in VT TRANSCO, two notes 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. One interest rate swap was eliminated during 2014 due to the maturity of both the note and the swap related to that note.

**VERMONT PUBLIC POWER SUPPLY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2015 AND 2014**

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

The total net position increased \$2,033,527 in 2015 and \$2,531,896 in 2014. 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 the four (4) interest rate swaps the Authority entered into providing rate stability to the organization.

VERMONT PUBLIC POWER SUPPLY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2015 AND 2014

The following table summarizes the Authority's change in net position as of December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Electric Sales For Resale	\$ 27,064,297	\$ 27,172,291
McNeil Project Revenue	3,085,007	4,147,698
Highgate Project Revenue	533,295	543,595
Swanton (P10) Revenue	4,105,573	3,933,612
Other Revenues	4,297,115	4,507,497
Total Operating Revenues	\$ 39,085,287	\$ 40,304,691
Power Production and Other Expenses	5,366,775	5,171,724
Transmission Expenses	10,051,375	9,650,403
Purchased Power	17,132,052	17,431,968
Regional Market Expenses	18,443	93,563
Administration & General Expenses	2,710,562	2,440,678
Taxes	339,715	322,440
Depreciation & Amortization	1,980,788	2,025,685
Total Operating Expenses	\$ 37,599,710	\$ 37,136,461
Net Operating Income(Loss)	1,485,577	3,168,230
Transco Income/Expenses (net)	3,510,114	3,381,763
Interest Income/Expenses (net)	(3,141,684)	(3,444,612)
Other Non-Operating Income/Expenses (net)	25,925	(82,521)
Total Non-Operating Expenses, Net	\$ 394,355	\$ (145,370)
Change in Net Assets	1,879,932	3,022,860
Other Comprehensive Income	153,595	227,629
Return of Investment Subsidiary	-	(718,593)
Net Assets at Beginning of Year	19,789,421	17,257,525
Net Assets at End of Year	\$ 21,822,948	\$ 19,789,421

VERMONT PUBLIC POWER SUPPLY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2015 AND 2014

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 2015 Electric Sales for Resale decreased by just over .1M or .4%, whereas, in 2014 revenues increased by 1.3M or 5.3%. Likewise, purchased power and transmission expenses increased just over \$.1M or .4% in 2015, and increased approximately \$1.3M or 5.0% in 2014.

The decrease in Sales for ReSale in 2015 is equally due to a reduction in member fees collected to cover the Authority's administrative costs (approx. \$58K) and a reduction in resales to the members and non-members (approx. \$49K).

The increase in sales for resale in 2014 is the result of increased energy and transmission costs that are passed on to members and non-members who participate in the Authority's power settlement process. These increased costs were offset by a slight increase in REC revenues and additional market credits received as a result of project ownership in the Swanton Peaker Project #10 that are passed through to participants in the settlement process.

In 2015 purchase power costs and transmission costs increased just over \$.1M. This is the result of a decrease in purchase power of approx. \$.3M or 1.7%, offset by an increase in transmission costs of approx. \$.5M or 4.2%. The increase in transmission is directly related to a change in the return on equity that is allowed by the region. This return decreased for a prior period resulting in a true-up for that period in the current year and those costs were passed on to the Vermont distribution utilities.

In 2014 purchase power costs increased approximately \$780K or 4.7% and transmission costs increased approximately \$480K or 5.3%. The increase in purchase power costs are primarily the result of higher energy and capacity costs and the increase in transmission costs are driven by less revenues received from the region that subsequently increases cost to Vermont distribution utilities as passed through to them from Vt. Transco, Vermont's Transmission provider.

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 decreased by approximately \$1.1M or 26% in 2015, and \$2.0M or 33% in 2014.

The decreases in both 2015 and 2014, are primarily due to the final maturity of the project revenue bonds coupled with an increase in REC revenues (in 2014) related to the project. Project participants are typically billed for debt service payments over the course of 12 months; therefore, debt service obligations for July 2015 typically begin in July 2014. However, when the project bonds were originally issued, a Debt Service Reserve fund was established as a safeguard for the bondholders in the event the debt could not be paid as required. Upon maturity of the bonds, the Debt Service Reserve fund is longer required. Therefore, the funds set aside in that fund were used to the make those final payments. For this reason, as of July 2014, the project participants were no longer invoiced for debt service principal and interest payments resulting in a reduction of revenues recorded as Sales for Resale during both years.

VERMONT PUBLIC POWER SUPPLY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2015 AND 2014

REC revenues are credited against current expenses; therefore, an increase in REC revenues correspondingly results in a decrease in Project sales revenue. In 2015 REC revenues related to the McNeil project decreased by approximately \$.4M and increased approximately \$.8M in 2014.

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, decreased in 2015 by \$44K or 1% and were essentially neutral in 2014. 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.

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

	Capacity	Availability
Year	Factor	Factor
2015	66.3%	82.3%
2014	65.7%	82.5%
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%

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 decreased \$10K or 2% in 2015 as compared to an increase of \$6K or 1% in 2014. The decrease in 2015 is due to lower capital and O&M costs billed to participants and the increase in 2014 was due to higher capital expenditures for that year.

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 2015 project revenues increased \$.2M or 4.4% and in 2014 revenues increased \$.5M or 14.7%.

The primary reason for the increase in both 2015 and 2014 was the result of additional amounts billed to project participants for the purpose of building up a project reserve fund. This amount increased project revenues but due to the nature of the project in several regional markets, the project participants received credits through the Authority's power settlement process of approximately \$5.1M. These credits more than offset the cost of increases as invoiced.

The power production costs related to the operations of Project #10 increased in 2015 by \$.2M or 45% and decreased by \$.2M or 37% in 2014. Both the increase in 2015 and the decrease in 2014 primarily results from the change in routine operating costs, primarily the cost of fuel oil that fluctuates based on the current market prices and the output of the facility. The facility experienced higher run-times in 2015 resulting in higher fuel cost for the year, slightly offset by a decline in fuel prices during the year.

VERMONT PUBLIC POWER SUPPLY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2015 AND 2014

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

Year	Capacity Factor	Availability Factor
2015	0.258%	99%
2014	0.064%	99%
2013	0.154%	99%
2012	0.091%	91%
2011	0.086%	98%

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 2015 the value of the McNeil RECs sold were approximately \$2.4M compared to \$2.8 M in 2014, \$2.0M in 2013, \$1.5M in 2012, \$1.2M in 2011 and \$1.3M in 2010.

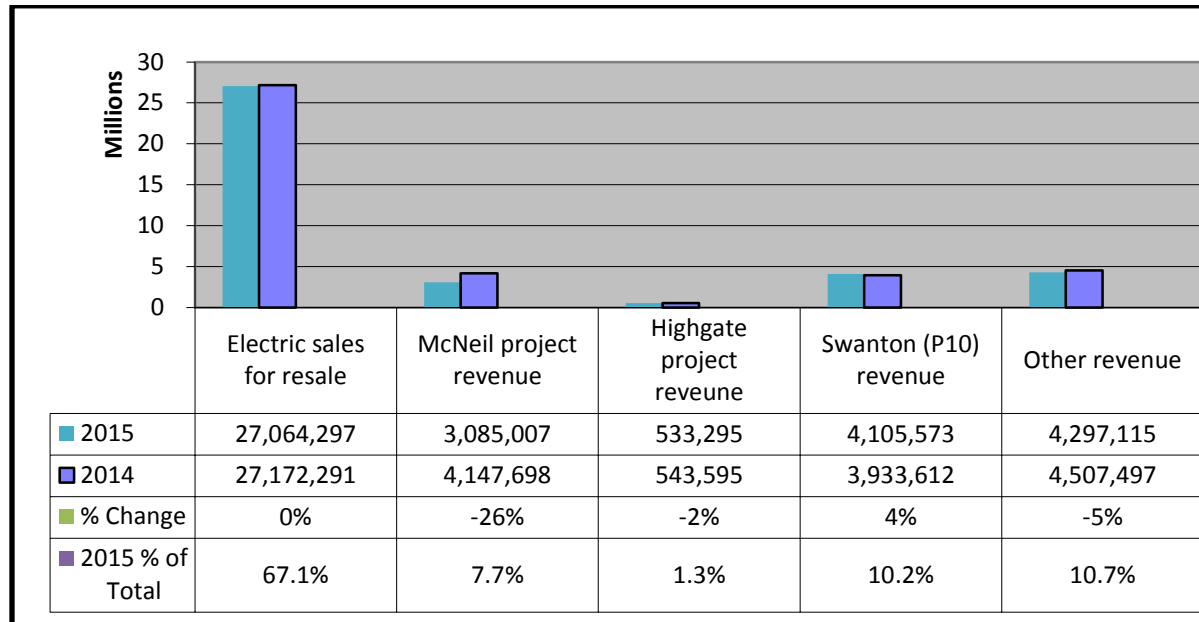
The Power Purchase Agreement between the Authority and the Waste Management-Fitchburg Landfill facility includes environmental attributes including the sale of renewable energy credits. These credits are recorded as revenue and netted against the cost of the power purchased per the power purchase agreement. The credits realized from this resource totaled \$1.5M in 2015, \$1.1M in 2014, \$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 provides a snapshot the Authority's Revenues for 2015 and 2014.

VERMONT PUBLIC POWER SUPPLY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2015 AND 2014



Non-Operating Activities

Changes in non-operating activities for 2015 and 2014 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 misc. non-operating activities.

Interest Earned and Interest Expense - In 2015 and 2014, interest on deposits and investments decreased. 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 2015 and 2014. The decreases are primarily due to the ongoing reduction of principal on loans outstanding, slightly offset by the addition of one new debt facility in 2014.

These variances include the following:

- A decrease in interest earned on deposits and investments of \$58K or 19.2% in 2015, compared to a decrease of \$50K or 16.7% in 2014.
- A decrease in interest expense of \$361K or 10.3% in 2015 and a decrease of \$361K or 9.3% in 2014. Of these amounts there was a decrease in expense related to interest rate swaps of \$86K in 2015 and a decrease of \$62K in 2014.

Distribution Income and Distribution Expense - The Authority currently holds a total of 4,078,994 TRANSCO membership units valued at \$40,789,940. In 2015 distribution income increased due to the purchase of additional membership units for certain of the Authority's members at the end of 2014. In 2014 distribution income decreased due to the sale of Transco member units to a non-member cooperative. Distribution ("net settlement") expense decreased in both 2015 and 2014. The decrease in 2015 was due to higher principal payments thus reducing the net amount returned to members.

**VERMONT PUBLIC POWER SUPPLY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2015 AND 2014**

Subsequent Events

There have been no subsequent events that have occurred subsequent to December 31, 2015.

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

VERMONT PUBLIC POWER SUPPLY AUTHORITY
STATEMENTS OF NET POSITION
FOR THE YEARS ENDING DECEMBER 31, 2015 and 2014

	<u>ASSETS</u>	<u>2015</u>	<u>2014</u>
CAPITAL ASSETS, net		\$ 23,430,077	\$ 25,009,009
<u>UNRESTRICTED ASSETS</u>			
<u>CURRENT:</u>			
Cash and Cash Equivalents		2,004,159	2,646,730
Accounts Receivable		5,175,949	4,222,258
Due from Members		106,845	24,871
Other Current Assets		54,602	51,473
TOTAL CURRENT ASSETS		7,341,556	6,945,333
<u>LONG TERM:</u>			
Other Long-Term Assets		-	-
TOTAL LONG TERM ASSETS		-	-
TOTAL UNRESTRICTED ASSETS		7,341,556	6,945,333
<u>RESTRICTED ASSETS</u>			
<u>CURRENT:</u>			
Cash and Cash Equivalents		5,322,797	7,524,617
Cash Advances - Projects		140,338	146,671
Accounts Receivable		550,156	168,146
Fuel Inventories-McNeil & P10		1,245,614	1,328,200
Short-Term Investments - Bond Funds		-	633,449
Interest/Distribution Receivable		1,279,192	1,211,568
Other Current Restricted Assets		38,303	18,102
TOTAL RESTRICTED CURRENT ASSETS		8,576,399	11,030,753
<u>LONG TERM:</u>			
Due from Members		430,550	476,673
Investments - Bond Funds		1,736,345	1,511,835
Investment in VT Transco, LLC - Restricted		33,344,766	34,784,539
Investment In VT Transco, LLC - Restricted - Eligible for Release		7,445,174	6,005,401
Other Long-Term Assets		139,394	140,909
TOTAL RESTRICTED LONG TERM ASSETS		43,096,229	42,919,358
TOTAL RESTRICTED ASSETS		51,672,629	53,950,111
<u>DEFERRED OUTFLOWS:</u>			
Derivatives Instrument Asset		-	-
Unamortized Debt Issuance Costs		-	-
TOTAL DEFERRED OUTFLOW OF RESOURCES		0	0
TOTAL ASSETS & DEFERRED OUTFLOW OF RESOURCES		\$ 82,444,261	\$ 85,904,453

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, 2015 and 2014

<u>LIABILITIES</u>	<u>2015</u>	<u>2014</u>
<u>CURRENT LIABILITIES</u>		
Accounts Payable	\$ 3,014,507	\$ 2,662,519
Amounts Due to Members	1,437	788
Other Current Liabilities	30,612	45,200
TOTAL CURRENT LIABILITIES	<u>3,046,555</u>	<u>2,708,506</u>
<u>CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS</u>		
Bonds Payable, Current Portion	1,005,000	3,375,000
Current Installments on Long - Term Debt	6,981,178	2,040,090
Amounts Due Members	609,660	641,718
Accounts Payable	597,867	600,365
Accrued Interest Payable	543,185	623,312
Other Current Liabilities	-	(8,883)
TOTAL CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:	<u>9,736,888</u>	<u>7,271,602</u>
<u>LONG-TERM LIABILITIES</u>		
Bonds Payable from Restricted Assets, (excl. current installments)	18,440,000	19,445,000
Long-Term Debt Payable from Restricted Assets (excl. current installments)	28,924,214	36,037,574
Other Long-Term Liabilities	68,381	75,416
TOTAL LONG-TERM LIABILITIES:	<u>47,432,594</u>	<u>55,557,990</u>
<u>DEFERRED INFLOWS OF RESOURCES:</u>		
Derivative Instrument Liability	405,275	576,934
TOTAL DEFERRED INFLOW OF RESOURCES	<u>405,275</u>	<u>576,934</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>60,621,313</u>	<u>66,115,032</u>
<u>NET POSITION</u>		
Invested in Capital Assets, Net of Related Debt	1,374,133	(1,167,100)
Restricted for McNeil Project #2	2,772,161	5,642,310
Restricted for Swanton Peaker - Project #10	4,936,401	4,291,507
Restricted for Highgate - Project #3	286,355	293,108
Restricted - Investment in Transco, LLC - Pledged - Eligible for Release	7,445,174	6,005,401
Restricted - Investment in Transco, LLC, net of related debt	1,208,491	1,142,766
Other Comprehensive Income - Restricted	(426,387)	(579,982)
Unrestricted	4,226,620	4,161,411
TOTAL NET POSITION	<u>\$ 21,822,948</u>	<u>\$ 19,789,421</u>
TOTAL LIABILITIES, INFLOWS OF RESOURCES & NET POSITION	<u><u>82,444,261</u></u>	<u><u>85,904,453</u></u>

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, 2015 and 2014**

<u>REVENUES</u>	<u>2015</u>	<u>2014</u>
Electric Sales for Resale	\$ 27,064,297	\$ 27,172,291
McNeil Project Revenue	3,085,007	4,147,698
Highgate Project Revenue	533,295	543,595
Swanton (P10) Project Revenue	4,105,573	3,933,612
Renewable Energy Certificates	4,010,404	4,193,622
Other Service Revenue	286,711	313,875
TOTAL REVENUES	39,085,287	40,304,691
<u>OPERATING EXPENSES</u>		
Purchased Power	17,132,052	17,431,968
Transmission Expenses	10,051,375	9,650,403
Power Production Expenses	5,366,775	5,171,724
Regional Market Expense	18,443	93,563
Administrative & General Expenses	2,483,436	2,171,949
Outside Services	227,126	268,730
Payment in Lieu of Taxes	339,715	322,440
Amortization	-	1,500
Depreciation	1,980,788	2,024,185
TOTAL OPERATING EXPENSES	37,599,710	37,136,461
OPERATING INCOME FROM CONTINUING OPERATIONS	1,485,577	3,168,230
<u>NON-OPERATING REVENUE (EXPENSE)</u>		
Distribution Income - Vt Transco, LLC	5,102,006	4,983,284
Net Settlement Expense - Vt Transco LLC	(1,591,892)	(1,601,521)
Interest Expense - Vt Transco, LLC LTD	(1,744,397)	(1,840,027)
Interest Expense - Vt Transco, LLC Swaps	(257,753)	(330,150)
Interest Expense -Short-Term Debt	-	(7,076)
Interest Expense - Long-Term Debt	(1,103,065)	(1,275,402)
Interest Expense - LTD Swaps	(52,450)	(65,715)
Interest Earned on Accounts	15,981	73,758
Gain/(Loss) on Disposition of Plant Asset	11,622	1,824
Realized Gain/(Loss) on Investments	13,315	(86,485)
Other Non-Operating Revenue (Expense)	989	2,140
TOTAL NON-OPERATING REVENUE (EXPENSE)	394,355	(145,370)
CHANGE IN NET POSITION	1,879,932	3,022,860
Other Comprehensive Income-Interest Swaps	171,658	160,732
Other Comprehensive Income-Unrealized Gains/Losses	(18,063)	66,896
Appropriated Earnings-Transco Investment Return	-	(718,593)
TOTAL NET POSITION - BEGINNING	19,789,421	17,257,525
TOTAL NET POSITION - ENDING	\$ 21,822,948	\$ 19,789,421

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, 2015 and 2014

CASH FLOWS FROM OPERATING ACTIVITIES

	<u>2015</u>	<u>2014</u>
<i>Receipts:</i>		
Electric sales for resales	\$ 26,084,832	\$ 26,777,587
McNeil project revenue	\$ 2,699,867	\$ 4,417,300
Highgate project revenue	\$ 518,234	\$ 564,844
Swanton Peaker project revenue	\$ 4,105,899	\$ 3,933,817
Renewable Energy Certificates	\$ 4,052,298	\$ 3,945,978
Other Revenues	\$ 307,409	\$ 366,012
<i>Payments made for:</i>		
Purchased power	\$ (16,778,697)	\$ (16,077,996)
Transmission expense	\$ (10,160,011)	\$ (10,138,226)
Power production expense	\$ (5,373,850)	\$ (5,446,590)
Regional Markets Expense	\$ (21,135)	\$ (99,029)
Others, employees, benefits, and employee and employer payroll taxes	\$ (1,500,013)	\$ (1,404,625)
Outside services and other general and administrative expenses	\$ (1,307,795)	\$ (1,099,395)
Taxes	\$ (316,591)	\$ (314,414)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 2,310,448	\$ 5,425,261

CASH FLOWS FROM NON-OPERATING ACTIVITIES

<i>Receipts:</i>		
Member Reimbursements	\$ 5,766	\$ 24,446
Misc Sales/Income	\$ 3,064	\$ 1,026
<i>Payments made for:</i>		
Member Purchases	\$ (7,634)	\$ (24,475)
NET CASH PROVIDED BY NON-OPERATING ACTIVITIES	\$ 1,196	\$ 996
NET CASH PROVIDED BY OPERATING & NON-OPERATING ACTIVITIES	\$ 2,311,644	\$ 5,426,257

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Repayment of LTD Financing of Vt. Transco, LLC Units	\$ (1,439,773)	\$ (5,206,210)
Repayment of Interest on LTD - Vt. Transco, LLC	\$ (1,743,796)	\$ (4,258,223)
Repayment of Interest on LTD Swap Agreements - Vt. Transco LLC	\$ (257,746)	\$ (327,500)
Payment of Fees Related to Letter-of-Credit Issuance	\$ -	\$ (697)
Payment of Fees Related to Transco Financing	\$ (3,388)	\$ (7,262)
Proceeds Related to Repayment of Financing Costs	\$ 13,123	\$ 16,558
Proceeds of LTD Financing of Vt. Transco, LLC Units	\$ -	\$ 4,586,769
Payment of Interest on Line-of-Credit Advances	\$ -	\$ (7,076)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	\$ (3,431,579)	\$ (5,203,640)

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Repayment of Bonds Payable	\$ (3,375,000)	\$ (3,235,000)
Payments of Interest Expense on Bonds Payable	\$ (1,114,894)	\$ (1,264,981)
Repayments of Long-Term Notes Payable	\$ (732,500)	\$ (732,500)
Payment of Interest Expense on Long-Term Notes Payable	\$ (69,306)	\$ (86,927)
Payment of Interest Expense on LTD-Swap Agreements	\$ (54,610)	\$ (66,713)
NET CASH USED IN CAPITAL AND FINANCING ACTIVITIES	\$ (5,346,310)	\$ (5,386,121)

	<u>2015</u>	<u>2014</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Net Capital Additions	\$ (258,453)	\$ (226,954)
Interest Income	\$ 14,801	\$ 74,507
Distributions Earned on Transco Investment	\$ 5,035,672	\$ 5,129,897
Net Settlement Distributions to Members/Non-members	\$ (1,580,689)	\$ (2,307,016)
Gain (Loss) on Bond Investment Funds	\$ 13,332	\$ (85,671)
Purchase of Bond Fund Investments	\$ (4,254,997)	\$ (1,627,820)
Sale of Bond Fund Investments	\$ 4,645,856	\$ 3,663,517
(Purchase) Sale of VT Transco, LLC Member Units	\$ -	\$ 2,567,290
NET CASH USED IN INVESTING ACTIVITIES	\$ 3,615,522	\$ 7,187,751
NET INCREASE (DECREASE) IN CASH	\$ (2,850,723)	\$ 2,024,248
CASH BALANCE, BEGINNING OF YEAR	\$ 10,318,017	\$ 8,293,770
CASH BALANCE, END OF YEAR	\$ 7,467,294	\$ 10,318,017

	<u>2015</u>	<u>2014</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED OPERATING ACTIVITIES		
Operating income from continuing operations	\$ 1,485,577	\$ 3,168,230
Adjustments to reconcile net operating income to net cash provided by operating activities		
Depreciation and amortization	\$ 1,980,788	\$ 2,025,667
Change in assets and liabilities:		
(Increase) decrease in Accounts Receivable	\$ (1,337,124)	\$ 169,195
(Increase) decrease in Amounts Due from Members	\$ (35,850)	\$ (23,057)
(Increase) decrease in Inventories	\$ 82,586	\$ (294,222)
(Increase) decrease in Other Assets	\$ (21,814)	\$ 15,783
Increase (decrease) in Accounts Payable	\$ 206,040	\$ 365,257
Increase (decrease) in Amounts Due to Members	\$ (62,651)	\$ 13,049
Increase (decrease) in Other Liabilities	\$ 12,897	\$ (14,642)
Total adjustments	\$ 824,871	\$ 2,257,031
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 2,310,448	\$ 5,425,261

VERMONT PUBLIC POWER SUPPLY AUTHORITY
STATEMENTS OF CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2015 and 2014

	Invested In Capital Assets	Restricted Net Assets	UnRestricted Net Assets	Other Comprehensive Income	Total
Balance at December 31, 2013	\$ <u>(3,334,394)</u>	<u>17,462,591</u>	<u>3,936,939</u>	<u>(807,611)</u>	<u>17,257,525</u>
Current Year Change in Net Assets	2,167,294	(87,499)	224,472	-	2,304,267
Interest Rate Swap	-	-	-	160,732	160,732
Unrealized Gains/Losses	-	-	-	66,896	66,896
Balance at December 31, 2014	\$ <u>(1,167,100)</u>	<u>17,375,092</u>	<u>4,161,411</u>	<u>(579,982)</u>	<u>19,789,421</u>
Current Year Change in Net Assets	2,541,233	(726,510)	65,209	-	1,879,932
Interest Rate Swap	-	-	-	171,658	171,658
Unrealized Gains/Losses	-	-	-	(18,063)	(18,063)
Balance at December 31, 2015	\$ <u>1,374,133</u>	<u>16,648,582</u>	<u>4,226,620</u>	<u>(426,387)</u>	<u>21,822,948</u>

See Independent Auditors Report and accompanying notes to financial statements.

VERMONT PUBLIC POWER SUPPLY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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. 72, *Fair Value Measurement and Application*. The objective of this statement is to improve financial reporting by state and local governments by establishing accounting and financial reporting standards fair value measurements. GASB Statement No. 72 is effective for fiscal years beginning after June 15, 2015, with early implementation encouraged. The Authority reports its investments at fair value in accordance with GASB Statement No. 72.

The Authority has completed the process of evaluating the impact of GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this statement is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (GAAP). GASB Statement No. 76 is effective for financial reporting periods beginning after June 15, 2015. The Authority has determined that implementation of GASB Statement No. 76 will not have any impact on its financial position, results of operations and cash flows.

The Authority has completed the process of evaluating the impact of GASB Statement No. 77, *Tax Abatement Disclosures*. The objective of this statement is to improve the disclosure of information related to tax abatement agreements. GASB Statement No. 77 is effective for financial reporting periods beginning after December 15, 2015. The Authority has determined that GASB Statement No. 77 will have no impact on its financial position, results of operations and cash flows and therefore is not applicable to its operation.

VERMONT PUBLIC POWER SUPPLY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. GASB Statement No. 78 is effective for financial reporting periods beginning after December 15, 2015. The Authority does not participate in a defined pension plan and has therefore determined that GASB Statement No. 78 will have no impact on its financial position, results of operations and cash flows and therefore is not applicable to its operation.

The Authority has completed the process of evaluating the impact of GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. The objective of this statement is to address accounting and financial reporting for certain external investment pools and pool participants. GASB Statement No. 79 is effective for financial reporting periods beginning after December 15, 2015. The Authority does not participate in any external investment pools covered by this Statement and has therefore determined that GASB Statement No. 79 will have 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.

VERMONT PUBLIC POWER SUPPLY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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

(c) Capital Assets (cont.)

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

The depreciable lives of capital assets are as follows:

	<u>Lives</u>
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 GASB 42 *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*; 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.

VERMONT PUBLIC POWER SUPPLY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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 GASB Statement No. 72, 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

GASB Statement No. 72, *Fair Value Measurement and Application*, defines 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.

VERMONT PUBLIC POWER SUPPLY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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) 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.

(j) Restricted Investment in VT Transco, LLC

In accordance GASB Statement No. 72, 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 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.

VERMONT PUBLIC POWER SUPPLY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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

(j) Restricted Investment in VT Transco, LLC (cont.)

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. 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.

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.

(k) 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.

VERMONT PUBLIC POWER SUPPLY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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

(k) Interest rate swap agreements (cont.)

As required under GASB 53, as of December 31, 2015 and 2014, 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.

(l) 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 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 \$339,715 and \$322,440 for the years ended December 31, 2015 and 2014, respectively.

(m) 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 municipalities, 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.

VERMONT PUBLIC POWER SUPPLY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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

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

Non-operating income is defined as income received from sources other than the income from the Authority's members and affiliate municipalities, 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.

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

(n) 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.

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".

(o) Subsequent events

In preparing the financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through March 2, 2016, the date that the financial statements were available to be issued.

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 were fully collateralized through a Tri-party agreement between the Authority and the bank for the periods ending June 30, 2015 and December 31, 2014.

VERMONT PUBLIC POWER SUPPLY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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

Subsequent to June 30, 2015, the Authority's deposits at Keybank N.A. are no longer collateralized due to changes implemented at the financial institution. A sweep account was established and deposits in excess of the FDIC insured limit in the Authority's primary operating account are transferred on a daily basis to a mutual fund investment account that invests in Federated Prime Obligations.

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, 2015 and 2014, the Authority's restricted deposits were fully secured.

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

	2015	2014
Cash Advances – Highgate Project	\$ 140,338	\$ 146,671
Cash and Cash Equivalents - Highgate Project	111,418	119,838
Cash and Cash Equivalents – McNeil Project	1,379,285	4,036,318
Cash and Cash Equivalents – Project 10	3,301,436	2,796,487
Cash – Amounts Due Members	530,658	571,974
Total Restricted Cash and Cash Equivalents	\$ 5,463,135	\$ 7,671,288

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, 2015 and 2014 are as follows:

VERMONT PUBLIC POWER SUPPLY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

	December 31, 2014	Additions	Retirements	December 31, 2015
<u>INTANGIBLE PLANT</u>				
Intangible plant-VEV	14,917	-	-	14,917
Intangible plant - VPPSA	15,000	-	-	15,000
Intangible plant - McNeil	144,106	-	-	144,106
Less: Accumulated Amortization	(174,023)	-	-	(174,023)
Net Intangible Plant	<u>(0)</u>	<u>-</u>	<u>-</u>	<u>(0)</u>
<u>PRODUCTION PLANT</u>				
Land – non depreciable	79,274	-	-	79,274
CWIP-Non Depreciable	59,914	397,973	(450,639)	7,247
Structures and Improvements	8,375,594	5,177	(2,258)	8,378,513
Equipment	35,164,164	374,270	(84,721)	35,453,714
Depreciable Production Plant	<u>43,539,758</u>	<u>379,448</u>	<u>(86,978)</u>	<u>43,832,227</u>
<u>Less Accumulated Depreciation for:</u>				
Structures and Improvements	(5,203,421)	(234,879)	2,258	(5,436,042)
Equipment	(17,403,626)	(1,459,759)	84,721	(18,778,664)
Accumulated Depreciation	<u>(22,607,046)</u>	<u>(1,694,638)</u>	<u>86,978</u>	<u>(24,214,706)</u>
Net Depreciable Production Plant	<u>20,932,712</u>	<u>(1,315,190)</u>	<u>-</u>	<u>19,617,521</u>
<u>TRANSMISSION PLANT</u>				
Land – Non Depreciable	68,497	-	-	68,497
Structures & Improvements	265,574	13,655	(2,384)	276,845
Equipment	5,694,101	40,831	(3,856)	5,731,075
Depreciable Transmission Plant	<u>5,959,674</u>	<u>54,486</u>	<u>(6,241)</u>	<u>6,007,920</u>
<u>Less Accumulated Depreciation for:</u>				
Structures	(194,700)	(3,970)	772	(197,898)
Equipment	(2,307,862)	(221,598)	3,790	(2,525,670)
Accumulated Depreciation	<u>(2,502,562)</u>	<u>(225,568)</u>	<u>4,562</u>	<u>(2,723,568)</u>
Net Depreciable Transmission Plant	<u>3,457,112</u>	<u>(171,082)</u>	<u>(1,678)</u>	<u>3,284,352</u>
<u>REGIONAL TRANSM & MKT PLANT</u>				
Land – non depreciable	-	-	-	-
Structures & Improvements	-	-	-	-
Computer Hardware & Software	138,368	-	-	138,368
Communication Equipment	19,074	-	-	19,074
Depreciable RTM Plant	<u>157,442</u>	<u>-</u>	<u>-</u>	<u>157,442</u>
<u>Less Accumulated Depreciation for:</u>				
Structures	-	-	-	-
Computer Hardware & Software	(112,372)	(15,357)	-	(127,729)
Communication Equipment	(17,167)	(1,907)	-	(19,074)
Accumulated Depreciation	<u>(129,539)</u>	<u>(17,264)</u>	<u>-</u>	<u>(146,803)</u>
Net Depreciable RTM Plant	<u>27,903</u>	<u>(17,264)</u>	<u>-</u>	<u>10,639</u>

VERMONT PUBLIC POWER SUPPLY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

GENERAL PLANT

Land – non depreciable	<u>141,099</u>	<u>-</u>	<u>-</u>	<u>141,099</u>
Structures & Improvements	668,790	-	-	668,790
Equipment	<u>675,145</u>	<u>22,267</u>	<u>(11,701)</u>	<u>685,711</u>
Depreciable General Plant	<u>1,343,935</u>	<u>22,267</u>	<u>(11,701)</u>	<u>1,354,500</u>
<u>Less Accumulated Depreciation for:</u>				
Structures	(449,688)	(27,413)	-	(477,101)
Equipment	<u>(651,748)</u>	<u>(15,905)</u>	<u>11,701</u>	<u>(655,952)</u>
Accumulated Depreciation	<u>(1,101,436)</u>	<u>(43,318)</u>	<u>11,701</u>	<u>(1,133,052)</u>
Net Depreciable General Plant	<u>242,499</u>	<u>(21,051)</u>	<u>-</u>	<u>221,448</u>
Net Capital Assets	<u>25,009,009</u>	<u>(1,126,614)</u>	<u>(452,318)</u>	<u>23,430,077</u>

VERMONT PUBLIC POWER SUPPLY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

	December 31, 2013	Additions	Retirements	December 31, 2014
<u>INTANGIBLE PLANT</u>				
Intangible plant-VEV	14,917	-	-	14,917
Intangible plant - VPPSA	15,000	-	-	15,000
Intangible plant - McNeil	143,736	-	371	144,106
Less: Accumulated Amortization	(172,153)	(1,500)	(371)	(174,023)
Net Intangible Plant	<u>1,500</u>	<u>(1,500)</u>	<u>-</u>	<u>(0)</u>
<u>PRODUCTION PLANT</u>				
Land – non depreciable	79,274	-	-	79,274
CWIP-Non Depreciable	<u>232,469</u>	<u>219,960</u>	<u>(392,516)</u>	<u>59,914</u>
Structures and Improvements	8,359,441	16,524	(371)	8,375,594
Equipment	<u>35,031,978</u>	<u>132,485</u>	<u>(299)</u>	<u>35,164,164</u>
Depreciable Production Plant	<u>43,391,418</u>	<u>149,009</u>	<u>(669)</u>	<u>43,539,758</u>
<u>Less Accumulated Depreciation for:</u>				
Structures and Improvements	(4,924,874)	(278,917)	371	(5,203,421)
Equipment	<u>(15,938,853)</u>	<u>(1,465,072)</u>	<u>299</u>	<u>(17,403,626)</u>
Accumulated Depreciation	<u>(20,863,727)</u>	<u>(1,743,989)</u>	<u>669</u>	<u>(22,607,046)</u>
Net Depreciable Production Plant	<u>22,527,691</u>	<u>(1,594,980)</u>	<u>-</u>	<u>20,932,712</u>
<u>TRANSMISSION PLANT</u>				
Land – Non Depreciable	<u>68,497</u>	<u>-</u>	<u>-</u>	<u>68,497</u>
Structures & Improvements	265,132	731	(290)	265,574
Equipment	<u>5,465,437</u>	<u>232,952</u>	<u>(4,289)</u>	<u>5,694,101</u>
Depreciable Transmission Plant	<u>5,730,569</u>	<u>233,683</u>	<u>(4,578)</u>	<u>5,959,674</u>
<u>Less Accumulated Depreciation for:</u>				
Structures	(191,182)	(3,808)	290	(194,700)
Equipment	<u>(2,097,391)</u>	<u>(214,759)</u>	<u>4,289</u>	<u>(2,307,862)</u>
Accumulated Depreciation	<u>(2,288,573)</u>	<u>(218,567)</u>	<u>4,578</u>	<u>(2,502,562)</u>
Net Depreciable Transmission Plant	<u>3,441,996</u>	<u>15,116</u>	<u>-</u>	<u>3,457,112</u>
<u>REGIONAL TRANSM & MKT PLANT</u>				
Land – non depreciable	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Structures & Improvements	-	-	-	-
Computer Hardware & Software	123,169	15,199	-	138,368
Communication Equipment	<u>19,074</u>	<u>-</u>	<u>-</u>	<u>19,074</u>
Depreciable RTM Plant	<u>142,243</u>	<u>15,199</u>	<u>-</u>	<u>157,442</u>
<u>Less Accumulated Depreciation for:</u>				
Structures	-	-	-	-
Computer Hardware & Software	<u>(86,218)</u>	<u>(26,154)</u>	<u>-</u>	<u>(112,372)</u>
Communication Equipment	<u>(13,352)</u>	<u>(3,815)</u>	<u>-</u>	<u>(17,167)</u>
Accumulated Depreciation	<u>(99,570)</u>	<u>(29,969)</u>	<u>-</u>	<u>(129,539)</u>
Net Depreciable RTM Plant	<u>42,673</u>	<u>(14,770)</u>	<u>-</u>	<u>27,903</u>

VERMONT PUBLIC POWER SUPPLY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

GENERAL PLANT

Land – non depreciable	<u>141,099</u>	<u>-</u>	<u>-</u>	<u>141,099</u>
Structures & Improvements	666,840	1,949	-	668,790
Equipment	<u>670,753</u>	<u>20,242</u>	<u>(15,850)</u>	<u>675,145</u>
Depreciable General Plant	<u>1,337,594</u>	<u>22,191</u>	<u>(15,850)</u>	<u>1,343,935</u>
<u>Less Accumulated Depreciation for:</u>				
Structures	(422,323)	(27,364)	-	(449,688)
Equipment	<u>(649,488)</u>	<u>(18,111)</u>	<u>15,850</u>	<u>(651,748)</u>
Accumulated Depreciation	<u>(1,071,811)</u>	<u>(45,475)</u>	<u>15,850</u>	<u>(1,101,436)</u>
Net Depreciable General Plant	<u>265,783</u>	<u>(23,284)</u>	<u>-</u>	<u>242,499</u>
Net Capital Assets	<u>26,800,982</u>	<u>(1,399,457)</u>	<u>(392,516)</u>	<u>25,009,009</u>

VERMONT PUBLIC POWER SUPPLY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 4 – Capital Assets (cont.)

Total depreciation expense for the years ending December 31, 2015 and 2014 is \$1,980,788 and \$2,024,185, respectively. Total amortization expense related to intangible assets for the year ending December 31, 2015 and 2014 was \$0 and \$1,500.

Note 5 – Due from Members

During the normal course of operations, the Authority occasionally incurs costs that may or may not be recovered from the Authority's members in the same time period. As of December 31, 2015 the Authority recorded the following amounts due from Members:

Stonybrook Advances	\$ 53,051
Unbilled Legal	\$ 307
Standard Offer Solar Project	\$ 25,025
Community Solar Project	\$ 28,462
Total Amounts Due from Members	\$106,845

Note 6 – Restricted Investments

The following investments are held within the 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, 2015 are as follows:

	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
U.S Treasury Notes	\$ 1,004,891	-	(\$ 17,451)	\$ 987,440
U.S Treasury Notes	752,566	-	(\$ 3,661)	\$ 748,905
Total	\$ 1,757,457	-	(\$ 21,112)	\$ 1,736,345

Cost and estimated fair value of restricted fixed maturity securities at December 31, 2015 by contractual maturity, are as follows:

<u>Maturity</u>	<u>Cost</u>	<u>Fair Market Value</u>
In 2015	\$ -	\$ -
2016 to 2022	\$ 1,757,457	\$ 1,736,345
Totals	\$ 1,757,457	\$ 1,736,345

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.

VERMONT PUBLIC POWER SUPPLY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 6 – Restricted Investments (cont.)

The Authority's classes of securities, as noted above, are categorized as Level 1 inputs in accordance with GASB Statement No. 72, as of December 31, 2015.

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. The operating agreement was further amended and restated in 2007, 2008, 2010, 2012 and 2013.

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, 2015 and 2014, 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.

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.

VERMONT PUBLIC POWER SUPPLY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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

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.

Members

During the period from 2007 - 2015, 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 2015, the Authority purchased a total of 3,511,879 membership units with a total value of \$35,118,790 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. In 2014, one member provided notice to the Authority of its intent to purchase a portion of the membership units held by the Authority for that members' benefit. As a result, the Authority sold 40,018 member units at the original state cost at a value of \$400,180 to that member.

As of December 31, 2015, the Authority owns a total of 3,462,210 membership units with a total value of \$34,622,100 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.

To facilitate the purchases of TRANSCO membership units, the Authority has entered into several financing arrangements over the 2007 - 2015 time period. 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%. On March 5, 2015 the financing institution amended the note to reflect a reduction in the interest rate to 5.34%, with all other terms remaining the same.

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 to borrow \$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%. This note was subsequently paid in full on December 23, 2014.

In 2014, 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.

VERMONT PUBLIC POWER SUPPLY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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

On December 23, 2014, the Authority entered into a loan arrangement with a local financial institution for an amount of \$4,586,768.67 for a period of seven years, at a fixed interest rate of 4.28%.

During 2015 and 2014 the Authority earned total distribution income from the units held for the benefit of its members' of \$2,962,095 and \$2,696,760, respectively.

The 2015 distribution income earned of \$2,962,095 for the units held for the benefit of its members paid down: principal on membership units previously acquired and financed in the amount of \$1,230,509, interest expense on the Authority's debt of \$932,852 an additional \$2,996 of reimbursed financing costs previously paid, thus leaving a net credit to its member's power costs recorded as distribution (net settlement) expense in the amount of \$795,738.

The 2014 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 \$955,278, interest expense on the Authority's debt of \$954,444, an additional \$12,221 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 \$774,817.

Non-Member Cooperative

At December 31, 2013, 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. During 2014, the non-member purchased 206,299 Class A units and 262,562 Class B units at the original state cost at a value of \$4,688,610. At December 31, 2014 the remaining restricted investment in VT Transco, LLC owned for the benefit of a non-member was 271,385 Class A units and 345,399 Class B units for a total of 616,784 members units valued at \$6,167,840.

These units and distribution income are pledged as security under a pledge and security agreement against the related long-term debt obligation.

During 2015 and 2014, the Authority earned a total distribution income from the units held for the benefit of a non-member of \$771,473 and \$918,086 respectively.

In 2015 the distribution income earned of \$771,473 paid down: principal in the amount of \$209,264, interest expense paid on the Authority's debt of \$362,538, costs of debt service of \$3,229 and the Authority's administrative fee of \$61,678. The remaining \$134,764 was recorded as distribution (net settlement) expense and paid to the non-member.

In addition to the 2014 distribution income earned of \$918,086 for the units held for the benefit of a non-member, the authority received a payment from the non-member in the amount of \$78,294. The total income of \$996,380 paid down: principal of \$234,227 on membership units previously acquired, costs of debt service of \$5,731, actual interest expense paid on the Authority's debt of \$506,366, and the Authority's administrative fee of \$84,742. The remaining \$165,314 was recorded as distribution (net settlement) expense and paid to the non-member.

VERMONT PUBLIC POWER SUPPLY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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

Lamoille County Project – Members

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, 2015 and 2014, 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 2015 and 2014, 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 2015 and 2014, 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.

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, 2015 and 2014 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 2015 and 2014, 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 2015 and \$159,495 in 2014, as well as costs of debt service in the amount of \$896 for each year. The remaining \$114,034 and \$114,034 for 2015 and 2014 respectively, was recorded as distribution (net settlement) expense and credited to LED.

VERMONT PUBLIC POWER SUPPLY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 8 – Operating Line of Credit

The Authority maintains a credit facility to meet the Authority's operating needs.

The facility allows for a maximum principal amount of \$6,000,000 to be used for working operating needs and/or the issuance of letters of credit. The facility was renewed on June 27, 2014 for a term of three years, providing a maturity date of June 30, 2017. 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.

As of December 31, 2015 and 2014 there were no outstanding borrowings against the facility.

The above line of credit is 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, 2015 and 2014, there were no outstanding lines of credit for the funding of construction projects or any short-term notes payable.

Note 10 – Bonds Payable

Outstanding revenue bonds payable consist of the following at December 31, 2015 and 2014:

	December 31, 2014	Increases	Payments and reductions	December 31, 2015	Current Portion
<u>MCNEIL PROJECT #2:</u>					
Revenue Bonds-Series E 4% to 5.25% maturing July 1, 2008 through 2015	\$ 2,410,000	-	2,410,000	-	
Current portion of bonds payable	-	-	-	-	-
TOTAL MCNEIL	2,410,000	-	2,410,000	-	-
<u>SWANTON PEAKER PROJ #10:</u>					
Revenue Bonds –Series A maturing July 1, 2011 through 2029 – Interest ranges from 3% to 5.25%	19,470,000	-	930,000	18,540,000	-
Current portion of bonds payable	-	-	-	(965,000)	965,000
TOTAL PROJECT 10 - SERIES A	19,470,000	-	930,000	17,575,000	965,000
<u>SWANTON PEAKER PROJ #10:</u>					
Revenue Bonds – Series B maturing July 1, 2011 through 2029	940,000	-	35,000	905,000	
Current portion of bonds payable	-	-	-	(40,000)	40,000
TOTAL PROJECT 10 - SERIES B	940,000	-	35,000	865,000	40,000
Total outstanding bonds payable	\$ 22,820,000	-	3,375,000	18,440,000	1,005,000

VERMONT PUBLIC POWER SUPPLY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 10 – Bonds Payable (cont.)

	December 31, 2013	Increases	Payments and reductions	December 31, 2014	Current Portion
<u>MCNEIL PROJECT #2:</u>					
Revenue Bonds-Series E 4% to 5.25% maturing July 1, 2008 through 2015	\$ 4,705,000		2,295,000	2,410,000	
Current portion of bonds payable	-	-	-	(2,410,000)	2,410,000
TOTAL MCNEIL	4,705,000	-	2,295,000	-	2,410,000
<u>SWANTON PEAKER PROJ #10:</u>					
Revenue Bonds –Series A maturing July 1, 2011 through 2029 – Interest ranges from 3% to 5.25%	20,375,000	-	905,000	19,470,000	-
Current portion of bonds payable	-	-	-	(930,000)	930,000
TOTAL PROJECT 10 - SERIES A	20,375,000	-	905,000	18,540,000	930,000
<u>SWANTON PEAKER PROJ #10:</u>					
Revenue Bonds – Series B maturing July 1, 2011 through 2029	975,000	-	35,000	940,000	
Current portion of bonds payable	-	-	-	(35,000)	35,000
TOTAL PROJECT 10 - SERIES B	975,000	-	35,000	905,000	35,000
Total outstanding bonds payable	\$ 26,055,000	-	3,235,000	19,445,000	3,375,000

At December 31, 2015 and 2014, total interest expense on the McNeil Project #2 Revenue Bonds was \$63,263 and \$186,769. The McNeil Project #2 Revenue Bonds were 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 and were secured by a municipal bond insurance policy issued by AMBAC Assurance Corporation and MBIA Insurance Corporation, respectively. The final payment on the bonds was paid on July 2, 2015.

At December 31, 2015 and 2014, total interest expense on the Project #10 Series A Revenue Bonds was \$906,294 and \$936,114 and Project #10 Series B Revenue Bonds interest expense was \$64,575 and \$67,025.

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.

VERMONT PUBLIC POWER SUPPLY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 10 – Bonds Payable (cont.)

The future annual maturities of principal and interest on bonds payable consists of the following as of December 31, 2015:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	\$ 1,150,000	\$ 778,994	\$ 1,928,994
2020	\$ 1,205,000	\$ 719,119	\$ 1,924,119
2021-2022	\$ 2,595,000	\$ 1,252,169	\$ 3,847,169
2023-2024	\$ 2,855,000	\$ 984,875	\$ 3,839,875
Thereafter	\$ 8,500,000	\$ 1,077,755	\$ 9,577,755
Total	\$ 19,445,000	\$ 7,474,156	\$ 26,919,156

In prior years, the Authority defeased certain revenue bonds related to the McNeil Generating Facility, 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 and at December 31, 2015 the McNeil revenue bonds have matured are paid in full.

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, 2015 and 2014.

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, 2015 and 2014.

A summary of amounts due members - payable from restricted cash and cash equivalents as of December 31, 2015 and 2014 is as follows:

VERMONT PUBLIC POWER SUPPLY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 11 – Amounts Due to Members from Restricted Assets (cont.)

	<u>2015</u>	<u>2014</u>
Citizens Utilities settlement	\$ 256,539	\$ 256,539
Orleans Transmission line	96,311	139,242
NEGT settlement funds due Orleans	165,609	165,609
Orleans accumulated interest	13,699	13,584
Highgate-Participant Credit Balance	5,862	21,550
McNeil-Accrued Liabilities	71,639	45,194
	<u>\$ 609,659</u>	<u>\$ 641,718</u>

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 charts, with corresponding balances as of December 31:

	<u>2015</u>	<u>2014</u>
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 29 th 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. <i>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.</i>	\$ 5,103,609	\$ 5,312,873
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%. <i>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.</i>	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. <i>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.</i>	875,000	1,375,000
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. <i>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.</i>	2,194,000	2,194,000

VERMONT PUBLIC POWER SUPPLY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 12 – Long-Term Debt (cont.)

	<u>2015</u>	<u>2014</u>
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% (amended to 5.34% as of 03/05/2015). Interest and principal are to be paid quarterly beginning September 30, 2011. <i>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.</i>	12,943,227	13,944,398
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. <i>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.</i>	1,685,625	1,918,125
Note payable of \$4,586,769 to TD Bank, N.A. dated December 23, 2014 with a maturity date of December 19, 2021 at a fixed interest rate of 4.28%. Principal is to be paid quarterly beginning March 19, 2015 with quarterly principal payments of \$57,335. Interest is to be paid monthly, beginning January 19, 2015. <i>Note is collateralized by a security pledge agreement of 213,818 of Class A and 272,136 of Class B VT TRANSCO, LLC membership units acquired in 2014 for the benefit of certain VPPSA members and the assignment of rights to all distribution income from ownership of the investment.</i>	4,357,430	4,586,769
Total	35,905,391	38,077,665
Less: current portion due on outstanding long term debt as of December 31, payable from restricted assets	<u>(6,981,178)</u>	<u>(2,040,090)</u>
	<u>\$ 28,924,213</u>	<u>\$ 36,037,575</u>

The future annual maturities of principal and estimated interest on long-term debt consist of the following as of December 31, 2015:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 6,981,178	\$ 1,921,197	\$ 8,902,375
2017	\$ 1,804,427	\$ 1,565,889	\$ 3,370,316
2018	\$ 1,482,140	\$ 1,486,003	\$ 2,968,144
2019	\$ 10,284,225	\$ 1,410,801	\$ 11,695,027
2020	\$ 3,788,973	\$ 787,773	\$ 4,576,746
2021-2022	\$ 11,506,323	\$ 365,051	\$ 11,871,374
2023-2024	\$ 58,125	\$ 397	\$ 58,522
Thereafter	\$ -	\$ -	\$ -
	\$ 35,905,391	\$ 7,537,111	\$ 43,442,503

At December 31, 2015 and 2014, total interest expense on the above borrowings was \$2,123,534 and \$2,321,357.

VERMONT PUBLIC POWER SUPPLY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 12 – Long-Term Debt (cont.)

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, 2015 and 2014, no membership units being held have been released as pledged security.

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, 2015 and 2014.

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.

VERMONT PUBLIC POWER SUPPLY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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 "pay fixed", countered by the "receive variable" interest rate swap entered into in June 2009 matured on June 29, 2014 and the Authority no longer has exposure associated with this transaction.

The Authority is exposed to interest rate risk on the existing 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, 2015, the interest rate swap agreements have been recorded as follows:

<u>Description</u>	<u>Valuation Date</u>	<u>Notional Amount</u>	<u>Date of Agreement</u>	<u>Maturity Date</u>	<u>Change in fair market value of Swap Gain (Loss)</u>
Pay fixed/ receive variable interest rate swap agreement	12/31/2015	\$5,103,609	1/13/2010	12/23/2016	(\$140,602)
Pay fixed/ receive variable interest rate swap agreement	12/31/2015	\$2,194,000	01/04/2011	12/17/2020	(\$214,354)
Pay fixed/ receive variable interest rate swap agreement	12/31/2015	\$916,666	10/20/2010	10/01/2017	(\$8,637)
Pay fixed/ receive variable interest rate swap agreement	12/31/2015	\$1,705,000	01/30/2012	04/01/2023	(\$41,682)
Total derivative liability					<u>(\$405,275)</u>

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.

The plan is administered by a third party administrator. Employer contributions to this plan for the years ended December 31, 2015 and 2014 were \$84,620 and \$82,070, respectively, amounting to approximately 8% of covered payroll.

VERMONT PUBLIC POWER SUPPLY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 15 – Compensated Employee Absences/Employee Cafeteria Plan

Effective January 1, 2015, employees are eligible to accrue upon date of hire, paid vacation leave which is credited monthly. Full-time employees accrue vacation leave at a rate of 80 hours in year one and then an additional 8 hours for each year of service thereafter. Part-time employees accrue a prorated vacation leave based upon the employee's employment status. For those employees who were earning more vacation hours under the prior vacation accrual methodology or who were granted more hours at the time of hire, the employee shall continue to maintain that level of accrual until such time the new methodology exceeds the prior accrual method that was 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.

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 for full-time employees and prorated for part-time employees based on the employee's employment status. 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, 2015 and 2014, the Authority's liability of accrued vacation under the current compensated absences policy is \$68,943 and \$62,210, and accrued sick leave under the previous compensated absences policy is \$8,327 and \$8,325. Accrued vacation is recorded as "other long-term liabilities and accrued sick leave is recorded as "other current liabilities".

On January 8, 2015, the Authority adopted a Cafeteria Plan with an effective date of February 1, 2015. The plan provides employees with the ability to capture tax savings by participating in the plan; specifically payroll deduction for deposits to a health savings account, health flexible spending account and/or a dependent care flexible spending account.

Note 16 – Commitments, Contingencies, Uncertainties

At December 31, 2015, the Authority has no outstanding contractual commitments.

Insurance

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.

VERMONT PUBLIC POWER SUPPLY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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

In 2015 and 2014, 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").

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, 2015 the total outstanding under the terms of the agreement is \$15,000. This amount is recorded as other current liabilities and the contract will be fulfilled in 2016.

Collateral Commitments

In the normal course of business, the Authority may from time to time, enter into ISDA agreements with its power supply counterparties. The terms of the ISDA agreements, including threshold limits, are set by and specific to each counterparty's agreement. If at any time the threshold limits (both for the buyer and/or seller) are exceeded, the buyer or seller (depending on the threshold that was exceeded) may require the other party to post collateral. The collateral protects the requesting party in the event the contract is not honored. As the market prices decline, the Authority's exposure typically increases and as the market prices increase, the Authority's exposure typically decreases. Due to the nature of the organization and the thresholds that are generally established, it is not common practice for the Authority to be required to, or to request, collateral under these agreements.

During 2015, the Authority did not request any counterparty to post collateral. However, the Authority was required to post collateral to one of the Authority's counterparties due to the mark-to-market valuation of that contract with that counterparty. The collateral was held for approximately 2 ½ months and then return to the Authority. This contract terminates at the end of 2016.

VERMONT PUBLIC POWER SUPPLY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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

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 Central Dispatch Services Agreement 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 tables summarize 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.

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, 2015 and 2014 they were:

RESOURCE ENTITLEMENTS: MEMBERS	2015	Percent of kWhs	2014	Percent of kWhs	Expiration date
Fitchburg	26,280,000	6.71%	26,277,000	7.22%	2032
HQ	69,660,420	17.79%	77,930,990	21.42%	Varies - 2015, 2016, & 2038
HYDRO	65,105,581	16.63%	59,195,478	16.27%	Life of Unit
DIESEL	186	0.00%	442	0.00%	Life of Unit
McNeil	44,992,584	11.49%	42,775,611	11.76%	Life of Unit
NYPA	27,345,050	6.98%	26,232,660	7.21%	4/30/2017 & 9/1/2025
Ryegate	10,479,198	2.68%	9,775,260	2.69%	10/31/2021
VEPPI	7,820,772	2.00%	7,720,591	2.12%	2013-2020-varies
Standard Offer	5,805,010	1.48%	4,117,656	1.13%	Varies
Stonybrook	4,710,918	1.20%	4,338,453	1.19%	Life of Unit
Project 10	827,349	0.21%	217,930	0.06%	Life of Unit
Ribbon Energy	64,090	0.02%	49,600	0.01%	Unknown
Yarmouth	0	0.00%	0	0.00%	Life of Unit
Chester Solar	7,385,043	1.89%	3,100,138	0.85%	06/30/2039
Market Purchases	121,112,300	30.93%	102,069,435	28.06%	Varies
	391,588,501	100.00%	363,801,244	100.00%	

VERMONT PUBLIC POWER SUPPLY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 17 – Power Supply Settlement Commitments (cont.)

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, 2015 and 2014, they were:

RESOURCE ENTITLEMENTS: NON-MEMBERS	2015	Percent of kWhs	2014	Percent of kWhs	Expiration date
Coventry Clean Energy Corporation	56,325,531	44.50%	47,706,664	38.37%	Life of Unit
HQ	14,097,420	11.14%	16,780,560	13.50%	Varies - 2015 & 2038
NYPA	10,400,498	8.22%	9,976,930	8.02%	4/30/2017 & 9/1/2025
VEPPI	1,521,412	1.20%	1,502,998	1.21%	2013-2020-varies
Ryegate	2,037,104	1.61%	1,902,863	1.53%	10/31/2021
Wrightsville Hydro	2,569,569	2.03%	2,310,241	1.86%	Life of Unit
GMP System	534,300	0.42%	541,400	0.44%	Life of Unit
Vermont Wind	8,751,614	6.91%	8,858,374	7.13%	Life of Unit
Fox Island Diesel	3,042	0.00%	26,377	0.02%	Life of Unit
Fox Island Wind	10,488,187	8.29%	11,517,914	9.26%	Life of Unit
Market Contracts	19,839,000	15.67%	23,201,300	18.66%	Varies
	126,567,677	100.00%	124,325,620	100.00%	

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

RESOURCE ENTITLEMENTS: TOTAL	2015	Percent of MWhs	2014	Percent of MWhs
Members	391,588,501	75.57%	363,801,244	74.53%
Non-Members	126,567,677	24.43%	124,325,620	25.47%
Total	518,156,178	100%	488,126,864	100%

Note 18 – Concentration of Risks

The J. C. McNeil Generating Station Project #2 contributed approximately 7.7% for 2015 and 10.3% for 2014 to annual gross revenues for the Authority. Revenues from participants coupled with REC revenues received from the project contribute approximately 14% and 16.1% of total sales for 2015 and 2014, respectively.

The Swanton Peaker Project #10 contributed approximately 10.2% for 2015 and 9.8% for 2014 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.

VERMONT PUBLIC POWER SUPPLY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 18 – Concentration of Risks (cont.)

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.

VERMONT PUBLIC POWER SUPPLY AUTHORITY
COMBINING SCHEDULE OF ASSETS, LIABILITIES & NET POSITION
FOR THE YEAR ENDING DECEMBER 31, 2015

	2015				
	Swanton Project #10	McNeil Project #2	Highgate Project #3	VPPSA	Total
ASSETS					
<u>Capital Assets (Net):</u>	\$ 17,637,943	3,205,485	2,311,103	275,546	23,430,077
<u>Current:</u>					
Cash & Cash Equivalents	3,301,436	1,379,285	251,756	2,534,817	7,467,294
Accounts Receivable	-	508,483	40,173	5,177,449	5,726,105
Other Current Assets	282,460	1,005,147		1,436,949	2,724,556
Total Current Assets	3,583,896	2,892,914	291,928	9,149,216	15,917,955
<u>Long-Term:</u>					
Investments	1,736,345			40,789,940	42,526,285
Other Long-Term Assets	139,394	430,550			569,944
Total Long-Term Assets	1,875,739	430,550	-	40,789,940	43,096,229
Deferred Outflow of Resources	-	-	-	-	-
TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES	23,097,578	6,528,950	2,603,032	50,214,701	82,444,261
LIABILITIES:					
<u>Current:</u>					
Accounts Payable	76,617	479,664	41,586	3,014,507	3,612,374
Short-Term Debt	-	-	-	-	-
Bonds & LTD (current)	1,505,000	-	232,500	6,248,677	7,986,178
Other	476,366	71,639	5,670	631,217	1,184,893
Total Current Liabilities	2,057,983	551,303	279,756	9,894,402	12,783,444
<u>Long-Term:</u>					
Bonds	18,440,000	-	-	-	18,440,000
Long-Term Debt	375,000	-	1,453,125	27,096,089	28,924,214
Other				68,381	68,381
Total Long-Term Liabilities	18,815,000	-	1,453,125	27,164,469	47,432,594
Deferred Inflow of Resources	8,637		41,682	354,956	405,275
TOTAL LONG-TERM LIABILITIES & INFLOWS OF RESOURCES	20,881,620	551,303	1,774,563	37,413,827	60,621,313
Net Position	2,215,959	5,977,647	828,469	12,800,874	21,822,948
TOTAL LIABILITIES AND NET POSITION	\$ 23,097,578	6,528,950	2,603,032	50,214,701	82,444,261

VERMONT PUBLIC POWER SUPPLY AUTHORITY
COMBINING SCHEDULE OF ASSETS, LIABILITIES & NET POSITION
FOR THE YEAR ENDING DECEMBER 31, 2014

	2014				
	Swanton Project #10	McNeil Project #2	Highgate Project #3	VPPSA	Total
ASSETS					
<u>Capital Assets (Net):</u>	\$ 18,774,893	3,464,249	2,469,445	300,422	25,009,009
<u>Current:</u>					
Cash & Cash Equivalents	2,796,487	4,669,768	266,509	3,218,704	10,951,467
Accounts Receivable	-	123,343	41,803	4,225,258	4,390,404
Other Current Assets	377,640	971,062	-	1,285,513	2,634,215
Total Current Assets	3,174,127	5,764,173	308,312	8,729,475	17,976,086
<u>Long-Term:</u>					
Investments	1,511,835	-	-	40,789,940	42,301,775
Other Long-Term Assets	140,909	476,673	-	-	617,583
Total Long-Term Assets	1,652,744	476,673	-	40,789,940	42,919,358
Deferred Outflow of Resources	-	-	-	-	-
TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES	23,601,764	9,705,095	2,777,757	49,819,837	85,904,453
LIABILITIES:					
<u>Current:</u>					
Accounts Payable	76,965	487,454	35,945	2,662,519	3,262,883
Short-Term Debt	-	-	-	-	-
Bonds & LTD (current)	1,465,000	2,410,000	232,500	1,307,590	5,415,090
Other	484,983	108,456	21,332	687,363	1,302,135
Total Current Liabilities	2,026,948	3,005,910	289,777	4,657,473	9,980,108
<u>Long-Term:</u>					
Bonds	19,445,000	-	-	-	19,445,000
Long-Term Debt	875,000	-	1,685,625	33,476,949	36,037,574
Other	-	-	-	75,416	75,416
Total Long-Term Liabilities	20,320,000	-	1,685,625	33,552,365	55,557,990
Deferred Inflow of Resources	20,910	-	42,074	513,950	576,934
TOTAL LONG-TERM LIABILITIES & INFLOWS OF RESOURCES	22,367,858	3,005,910	2,017,476	38,723,787	66,115,032
Net Position	1,233,906	6,699,185	760,281	11,096,049	19,789,421
TOTAL LIABILITIES AND NET POSITION	\$ 23,601,764	9,705,095	2,777,757	49,819,837	85,904,453

VERMONT PUBLIC POWER SUPPLY AUTHORITY
COMBINING SCHEDULE OF REVENUES AND EXPENSES
FOR THE YEAR ENDING DECEMBER 31, 2015

	2015				
	Swanton Project #10	McNeil Project #2	Highgate Project #3	VPPSA	Total
OPERATING REVENUE:					
Electric sales for resale	\$ -	-	-	27,064,297	27,064,297
McNeil project revenue	-	3,085,007	-	-	3,085,007
Highgate project revenue	-	-	533,295	-	533,295
Swanton (P10) project revenue	4,105,573	-	-	-	4,105,573
Renewable Energy Certificates	-	2,404,997	-	1,605,407	4,010,404
Other Service revenue	-	-	-	286,711	286,711
Total operating revenue	4,105,573	5,490,004	533,295	28,956,415	39,085,287
OPERATING EXPENSES:					
Power production expenses	573,142	4,793,632	-	-	5,366,775
Transmission expenses	22,512	7,006	67,129	9,954,728	10,051,375
Purchased power	18,088	13,788	-	17,100,177	17,132,052
Regional Market expense	18,443	-	-	-	18,443
Administrative & General expenses	302,207	421,458	71,068	1,688,703	2,483,436
Outside services	21,000	47,026	18,191	140,909	227,126
Payments in lieu of taxes	26,944	231,470	67,774	13,527	339,715
Amortization	-	-	-	-	-
Depreciation	1,142,511	649,489	163,911	24,876	1,980,788
Total operating expenses	2,124,848	6,163,868	388,074	28,922,920	37,599,710
Operating income	1,980,725	(673,864)	145,221	33,495	1,485,577
NONOPERATING REVENUE (EXPENSES):					
Distribution income - VT Transco, LLC.	-	-	-	5,102,006	5,102,006
Net Settlement expense - VT Transco, LLC.	-	-	-	(1,591,892)	(1,591,892)
Net interest income (expense) swaps	(17,336)	-	(35,114)	(257,753)	(310,203)
Interest expense	(999,146)	(63,263)	(40,657)	(1,744,397)	(2,847,462)
Amortization of LTD discount, premium and issuance exp	-	-	-	-	-
Amortization of loss on reacquired debt	-	-	-	-	-
Interest earned on deposits/investments	9,835	1,750	24	4,372	15,981
Gain/(Loss) on Disposition of Plant Assets	-	13,300	(1,678)	-	11,622
Net Realized Gain/(Loss) on Investments	11,139	2,176	-	-	13,315
Misc. Non-operating revenue (expense)	-	989	-	-	989
	(995,508)	(45,048)	(77,424)	1,512,336	394,355
CHANGE IN NET POSITION	985,217	(718,912.63)	67,796.30	1,545,831.15	1,879,932
Other Comprehensive Income - Interest Swaps	12,273	-	392	158,993.47	171,658
Other Comprehensive Income - Unrealized Gains/Losses	(15,438)	(2,625.37)	-	-	(18,063)
Appropriated Earnings - Transco Member Return	-	-	-	-	-
NET POSITION, beginning of year	1,233,906	6,699,183	760,279	11,096,054	19,789,421
NET POSITION, end of year	\$ 2,215,958	5,977,645	828,467	12,800,879	21,822,948

VERMONT PUBLIC POWER SUPPLY AUTHORITY
COMBINING SCHEDULE OF REVENUES AND EXPENSES
FOR THE YEAR ENDING DECEMBER 31, 2014

	2014				
	Swanton Project #10	McNeil Project #2	Highgate Project #3	VPPSA	Total
OPERATING REVENUE:					
Electric sales for resale	\$ -	-	-	27,172,291	27,172,291
McNeil project revenue	-	4,147,698	-	-	4,147,698
Highgate project revenue	-	-	543,595	-	543,595
Swanton (P10) project revenue	3,933,612	-	-	-	3,933,612
Renewable Energy Certificates	-	2,791,490	-	1,402,131	4,193,622
Other Service revenue	-	-	-	313,875	313,875
Total operating revenue	3,933,612	6,939,188	543,595	28,888,297	40,304,691
OPERATING EXPENSES:					
Power production expenses	334,206	4,837,519	-	-	5,171,724
Transmission expenses	36,795	3,182	55,596	9,554,831	9,650,403
Purchased power	5,799	14,155	-	17,412,013	17,431,968
Regional Market expense	93,563	-	-	-	93,563
Administrative & General expenses	229,937	221,120	70,286	1,650,606	2,171,949
Outside services	17,225	25,304	25,085	201,115	268,730
Payments in lieu of taxes	18,876	222,975	67,692	12,897	322,440
Amortization	-	-	-	1,500	1,500
Depreciation	1,154,660	696,564	144,402	28,560	2,024,185
Total operating expenses	1,891,059	6,020,819	363,061	28,861,522	37,136,461
Operating income	2,042,552	918,369	180,534	26,775	3,168,230
NONOPERATING REVENUE (EXPENSES):					
Distribution income - VT Transco, LLC.	-	-	-	4,983,284	4,983,284
Net Settlement expense - VT Transco, LLC.	-	-	-	(1,601,521)	(1,601,521)
Net interest income (expense) swaps	(25,423)	-	(40,292)	(330,150.32)	(395,865)
Interest expense	(1,043,283)	(186,769)	(45,350)	(1,847,102.53)	(3,122,504)
Amortization of LTD discount, premium and issuance exp	-	-	-	-	-
Amortization of loss on reacquired debt	-	-	-	-	-
Interest earned on deposits/investments	22,334	48,560	39	2,826	73,758
Gain/(Loss) on Disposition of Plant Assets	-	1,824	-	-	1,824
Net Realized Gain/(Loss) on Investments	12,371	(98,857)	-	-	(86,485)
Misc. Non-operating revenue (expense)	-	2,161	-	(21)	2,140
	(1,034,000)	(233,081)	(85,604)	1,207,315	(145,370)
CHANGE IN NET POSITION	1,008,551.91	685,288.69	94,930.01	1,234,089.31	3,022,860
Other Comprehensive Income - Interest Swaps	18,915.31	-	(27,148.47)	168,965.45	160,732
Other Comprehensive Income - Unrealized Gains/Losses	10,464.33	56,432.09	-	-	66,896
Appropriated Earnings - Transco Member Return				(718,593.15)	(718,593)
NET POSITION, beginning of year	195,974	5,957,462	692,498	10,411,592	17,257,525
NET POSITION, end of year	\$ 1,233,906	6,699,183	760,279	11,096,054	19,789,421

VERMONT PUBLIC POWER SUPPLY AUTHORITY
RESTRICTED ASSETS SCHEDULE - CASH - MCNEIL
FOR THE YEARS ENDED DECEMBER 31, 2015 and 2014

Supplementary Schedule 5

	Debt Service Interest	Debt Service Principal	Debt Service Reserve Fund	Reserve and Contingency	Revenue Funds	Temp Investments	Total
Balance at December 31, 2013	<u>146,557</u>	<u>1,351,083</u>	<u>2,552,417</u>	<u>499,568</u>	<u>652,128</u>	<u>500,998</u>	<u>5,702,750</u>
Add:							
Interest Income	5	290	54,528	801	-	115	55,739
Receipts of revenue	-	-	-	-	7,208,791	-	7,208,791
Transfers	102,922	956,250	-	253,881	177,925	-	1,490,979
Realized Gain on Investment	-	-	930	-	-	-	930
Unrealized Gain on investment	-	-	56,432	-	-	-	56,432
Deduct:							
Operating expenditures	-	-	-	-	(5,713,074)	-	(5,713,074)
Debt service payments	(247,013)	(2,295,000)	-	-	-	-	(2,542,013)
Capital Improvements	-	-	-	(162,370)	-	-	(162,370)
Transfers	-	-	(15,556)	-	(1,313,053)	-	(1,328,609)
Realized Loss on Investment	-	-	(99,787)	-	-	-	(99,787)
Unrealized Loss on investment	-	-	-	-	-	-	-
Balance at December 31, 2014	<u>2,471</u>	<u>12,622</u>	<u>2,548,965</u>	<u>591,880</u>	<u>1,012,717</u>	<u>501,112</u>	<u>4,669,768</u>
Add:							
Interest Income	0	1	1,319	31	-	160	1,511
Receipts of revenue	-	-	-	-	5,104,864	-	5,104,864
Transfers	60,791	-	710,223	105,689	940,068	1,193,536	3,010,307
Realized Gain on Investment	-	-	-	-	-	-	-
Unrealized Gain on investment	-	-	-	-	-	-	-
Deduct:							
Operating expenditures	-	-	-	-	(5,859,884)	-	(5,859,884)
Debt service payments	(63,263)	-	(2,473,263)	-	-	-	(2,536,525)
Capital Improvements	-	-	-	(341,536)	-	-	(341,536)
Transfers	-	(12,623)	(786,795)	(356,064)	(915,689)	(597,600)	(2,668,771)
Realized Loss on Investment	-	-	-	-	-	-	-
Unrealized Loss on investment	-	-	(449)	-	-	-	(449)
Balance at December 31, 2015	<u>0</u>	<u>(0)</u>	<u>0</u>	<u>0</u>	<u>282,076</u>	<u>1,097,208</u>	<u>1,379,285</u>

See Independent Auditors Report on Supplementary Information.

VERMONT PUBLIC POWER SUPPLY AUTHORITY
RESTRICTED ASSETS SCHEDULE - CASH - PROJECT 10
FOR THE YEAR ENDED DECEMBER 31, 2015 and 2014

Supplementary Schedule 6

	Debt Service Interest	Debt Service Principal	Debt Service Reserve Fund	Reserve and Contingency	Revenue Funds	Reserve Fund	Construction Funds	Total
Balance at December 31, 2013	<u>\$ 597,263</u>	<u>548,946</u>	<u>1,943,501</u>	<u>109,511</u>	<u>368,505</u>	<u>142,247</u>	<u>(0)</u>	<u>3,709,973</u>
Add:								
Interest Income	24	89	22,092	-	1	94	-	22,299
Receipts of revenue	-	-	-	-	3,933,612	-	-	3,933,612
Transfers	1,000,702	954,583	15,173	97,764	35,050	669,425	-	2,772,698
Realized Gain on Investment	-	-	13,186	-	-	-	-	13,186
Unrealized Gain on investment	-	-	55,713	-	-	-	-	55,713
Deduct:								
Operating expenditures	-	-	-	-	(855,206)	-	-	(855,206)
Capital Improvements	-	-	-	-	-	-	-	-
Debt service payments	(1,017,969)	(940,000)	-	-	(567,222)	-	-	(2,525,191)
Transfers	-	-	(25,539)	(9,511)	(2,737,647)	-	-	(2,772,698)
Realized Loss on investment	-	-	(814)	-	-	-	-	(814)
Unrealized Loss on investment	-	-	(45,248)	-	-	-	-	(45,248)
Balance at December 31, 2014	<u>\$ 580,020</u>	<u>563,618</u>	<u>1,978,062</u>	<u>197,764</u>	<u>177,092</u>	<u>811,765</u>	<u>(0)</u>	<u>4,308,321</u>
Add:								
Interest Income	-	-	8,005	-	1	242	-	8,247
Receipts of revenue	-	-	-	-	4,105,573	-	-	4,105,573
Transfers	967,952	988,333	-	97,814	218,834	856,870	-	3,129,804
Realized Gain on Investment	-	-	11,156	-	-	-	-	11,156
Unrealized Gain on investment	-	-	13,911	-	-	-	-	13,911
Deduct:								
Operating expenditures	-	-	-	-	(875,386)	-	-	(875,386)
Capital Improvements	-	-	-	(20,760)	-	-	-	(20,760)
Debt service payments	(988,369)	(965,000)	-	-	(547,306)	-	-	(2,500,675)
Transfers	-	-	(23,255)	(174,818)	(2,914,970)	-	-	(3,113,043)
Realized Loss on investment	-	-	(17)	-	-	-	-	(17)
Unrealized Loss on investment	-	-	(29,349)	-	-	-	-	(29,349)
Balance at December 31, 2015	<u>\$ 559,604</u>	<u>586,952</u>	<u>1,958,513</u>	<u>100,000</u>	<u>163,836</u>	<u>1,668,877</u>	<u>(0)</u>	<u>5,037,781</u>

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, 2015 and 2014

	<u>Total A Units</u>	<u>% of Total A Units</u>	<u>Total B Units</u>	<u>% of Total B Units</u>	<u>Total Units</u>	<u>% of Total</u>	<u>TOTAL VALUE</u>
Balance at December 31, 2013	<u>1,907,718</u>		<u>2,428,005</u>		<u>4,335,723</u>		<u>43,357,230</u>
Purchases	110,946	44.28%	141,204	44.28%	252,150	44.28%	2,521,500
Sales	<u>(223,907)</u>	-89.37%	<u>(284,972)</u>	-89.37%	<u>(508,879)</u>	-89.37%	<u>(5,088,790)</u>
Total	<u>(112,961)</u>	-45.09%	<u>(143,768)</u>	-45.09%	<u>(256,729)</u>	-45.09%	<u>\$ (2,567,290)</u>
Balance at December 31, 2014	<u>1,794,757</u>		<u>2,284,237</u>		<u>4,078,994</u>		<u>40,789,940</u>
Purchases	-	0.00%	-	0.00%	-	0.00%	-
Sales	<u>-</u>	0.00%	<u>-</u>	0.00%	<u>-</u>	0.00%	<u>-</u>
Total	<u>-</u>	0.00%	<u>-</u>	0.00%	<u>-</u>	0.00%	<u>\$ -</u>
Balance at December 31, 2015	<u>1,794,757</u>		<u>2,284,237</u>		<u>4,078,994</u>		<u>40,789,940</u>

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, 2015 and 2014

ALLOCATION OF UNITS FOR THE BENEFIT OF MEMBERS AND NONMEMBERS

<u>AS OF DECEMBER 31, 2014</u>	Total A Units	% of Total A Units	Total B Units	% of Total B Units	Total Units	% of Total	TOTAL VALUE
<u>Members:</u>							
Barton	51,165	6.1466%	65,118	6.1465%	116,283	6.1465%	\$ 1,162,830
Enosburg	76,050	9.1360%	96,792	9.1362%	172,842	9.1361%	1,728,420
Hardwick	119,121	14.3102%	151,609	14.3103%	270,730	14.3103%	2,707,300
Hyde Park	26,335	3.1637%	33,516	3.1636%	59,851	3.1636%	598,510
Jacksonville	17,923	2.1531%	22,811	2.1531%	40,734	2.1531%	407,340
Johnson	50,157	6.0255%	63,840	6.0258%	113,997	6.0257%	1,139,970
Ludlow	116,348	13.9771%	148,078	13.9770%	264,426	13.9771%	2,644,260
Lyndonville	238,132	28.6073%	303,079	28.6075%	541,211	28.6074%	5,412,110
Morrisville	76,586	9.2004%	97,475	9.2006%	174,061	9.2005%	1,740,610
Northfield	74,473	8.9466%	94,782	8.9464%	169,255	8.9465%	1,692,550
Orleans	42,607	5.1185%	54,225	5.1183%	96,832	5.1184%	968,320
Readsboro	-	0.0000%	-	0.0000%	-	0.0000%	-
Swanton	153,093	18.3914%	194,845	18.3913%	347,938	18.3913%	3,479,380
Total Members	1,041,990	125.18%	1,326,170	125.18%	2,368,160	125.18%	\$ 23,681,600
<u>Non-Members:</u>							
Vermont Electric Cooperative	271,385		345,399		616,784		\$ 6,167,840
<u>Specific Facilities</u>							
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, 2014	1,794,757		2,284,237		4,078,994		40,789,940
<u>Members:</u>							
Barton	51,165	6.1466%	65,118	6.1465%	116,283	6.1465%	\$ 1,162,830
Enosburg	76,050	9.1360%	96,792	9.1362%	172,842	9.1361%	1,728,420
Hardwick	119,121	14.3102%	151,609	14.3103%	270,730	14.3103%	2,707,300
Hyde Park	26,335	3.1637%	33,516	3.1636%	59,851	3.1636%	598,510
Jacksonville	17,923	2.1531%	22,811	2.1531%	40,734	2.1531%	407,340
Johnson	50,157	6.0255%	63,840	6.0258%	113,997	6.0257%	1,139,970
Ludlow	116,348	13.9771%	148,078	13.9770%	264,426	13.9771%	2,644,260
Lyndonville	238,132	28.6073%	303,079	28.6075%	541,211	28.6074%	5,412,110
Morrisville	76,586	9.2004%	97,475	9.2006%	174,061	9.2005%	1,740,610
Northfield	74,473	8.9466%	94,782	8.9464%	169,255	8.9465%	1,692,550
Orleans	42,607	5.1185%	54,225	5.1183%	96,832	5.1184%	968,320
Readsboro	-	0.0000%	-	0.0000%	-	0.0000%	-
Swanton	153,093	18.3914%	194,845	18.3913%	347,938	18.3913%	3,479,380
Total Members	1,041,990	125.18%	1,326,170	125.18%	2,368,160	125.18%	\$ 23,681,600
<u>Non-Members:</u>							
Vermont Electric Cooperative	271,385		345,399		616,784		\$ 6,167,840
<u>Specific Facilities</u>							
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, 2015	1,794,757		2,284,237		4,078,994		40,789,940