VERMONT PUBLIC POWER SUPPLY AUTHORITY

Financial Statements

December 31, 2016 and 2015

(With Independent Auditors' Report Thereon)

VERMONT PUBLIC POWER SUPPLY AUTHORITY

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Graham & Graham, P.C.
Certified Public Accountants
Business Advisors & Management Consultants
The Solution Group

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, 2016 and 2015, 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, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 2 through 13 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 58 have been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Graham & Graham, PC

Graham & Graham, P.C.
Barre, Vermont
March 10, 2017
Reg. # 92-0000282

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

This annual financial report consists of two parts: The Management's Discussion and Analysis (M D & A), and the independent auditor's report which includes the financial statements for the fiscal years that ended on December 31, 2016 and 2015.

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, 2016 is as follows:

- Change in Net Position – Increase of $ 2,249,090
    - Excludes changes to other comprehensive income and appropriated earnings
- Net Capital Assets - Decreased - $ 1,465,225
- 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: $ 4,926,751

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.

(Continued)

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

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

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

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

Financial Summary & Analysis

The table 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, 2016, and 2015.

		2016		2015
Capital Assets, net	$	21,964,851	$	23,430,077
Current Assets				
Cash & Cash Equivalents		8,039,094		7,467,294
Accounts Receivables		5,677,176		5,726,105
Other Current Assets		2,369,896		2,724,556
Total Current Assets		16,086,165		15,917,955
Long-Term Assets				
Investments		38,493,589		42,526,285
Other Long-Term Assets		515,375		569,944
Total Long-Term Assets		39,008,964		43,096,229
Deferred Outflow of Resources		-		-
TOTAL ASSETS & DEFERRED OUFLOWS OF RESOURCES	$	77,059,981	$	82,444,261

(Continued)

	2016	2015
Current Liabilities		
Accounts Payable	3,274,220	3,612,374
Current Portion-Bonds & LTD	3,059,427	7,986,178
Other	1,164,163	1,184,893
Total Current Liabilities	7,497,810	12,783,444
Long-term liabilities		
Bonds	17,395,000	18,440,000
Long-Term Debt	28,850,077	28,924,214
Other	73,697	68,381
Total Long-Term Liabilities	46,318,774	47,432,594
Deferred Inflows of Resources	184,619	405,275
TOTAL LIABILITIES & DEFERRED INFLOWS OF RESOURCES	$ 54,001,203	$ 60,621,313
Net Position	23,058,778	21,822,948
TOTAL LIABILITIES AND NET POSITION	$ 77,059,981	$ 82,444,261

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:

- 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, 2016 and 2015:

		2016	2015
Capital assets	$	52,108,478	51,822,229
Less accumulated depreciation		30,143,627	28,392,152
Total capital assets, net	$	21,964,851	23,430,077

In 2016, net capital assets decreased by $1.5M and decreased by $1.6M in 2015. In both 2016 and 2015, 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 2016, current assets increased by $.2M or 1.1% and decreased $2.1M or 11.4% in 2015. The increase in 2016 was attributed to an increase in cash and cash equivalents of approximately $.6M, offset by a decrease of approximately $ .4M in accounts receivable, inventories and accrued distributions earned. The increase in cash and cash equivalents is primarily the result of amounts billed to project participants used to fund capital reserves.

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.

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 2016 and 2015, 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.

(Continued)

Bond Funds:

In 2016 bond fund investments increased approximately $.2M or 11.2% and in 2015 bond fund investments increased approximately $.2M or 14.9%.

The increases in 2016 and 2015 are due to additional investments related to the Project 10 debt service reserve fund that were purchased during the year and the accumulation of interest earned on those investments.

Vermont Transco Membership Units:

In 2016, the Authority purchased an additional 194,029 membership units in Vt. Transco, LLC at a value of $1,940,290. There were no additional purchases of membership units in Vt. Transco, LLC during 2015. In addition, the Authority sold a total of 616,784 member units on December 23, 2016 to Vt. Electric Cooperative at a value of $6,617,840.

As of December 31, 2016, the Authority owns a total of 3,656,239 member units with a total value of $36,562,390.

Other Long-Term Assets:

Other long-term assets decreased in 2016 by less than $55K or 9.6% and decreased in 2015 by $48K or 7.7%. The decreases in both 2016 and 2015 are due a slight decline in future revenues due from members related to the McNeil project.

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 2016 or 2015.

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 2016 current liabilities decreased $5.3M or 41.4% and increased $2.8M or 28.1% in 2015. Both the decrease in 2016 and the increase in 2015, is primarily due to the maturity of one note obligation with a balance just over $5M that was included in the current portion of bonds and long-term debt payable during 2015 and subsequently paid in 2016. The amount included in current maturities was slightly offset in 2015 by a decrease in current bond payments due to the maturity of the McNeil bonds in 2015.

(Continued)

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 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 2016, 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 2015, 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 2016, bonds payable decreased $1M or 5.7 % and $1M or 5.2% in 2015. These reductions were the result of the repayment of principal on bonds outstanding during these years.

In both 2016 and 2015, 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 Convertor 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 2016, these long-term debt facilities decreased by less than $75K or .3% and $7.1M or 19.7% in 2015. The decrease in 2016 is the result of ongoing principal repayments on the existing obligations, offset by the addition of a new facility in the amount of $1.9M utilized for the purpose of purchasing member units in Vt. Transco, LLC.

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.

Other long-term liabilities include accrued vacations payable to Authority employees. The value of the accrued benefit to Authority employees is $73,697 and $68,934 for 2016 and 2015, respectively.

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 three (3) interest rate swaps in 2016 and four (4) interest rate swaps in 2015.

The mark-to-market valuation of the interest rate swaps result in a liability of $.2M and $.4M at December 31, 2016 and 2015, respectively. The interest rate swaps effectively provide a variable to fixed interest rate for one note with one financial lender to facilitate purchases of membership units in VT TRANSCO (two notes in 2015), 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 2016 due to the maturity of both the note and the swap related to that note.

(Continued)

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 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 $1,235,830 in 2016 (current year increase of $2,249,090, offset by a decrease in other comprehensive income and appropriated earnings of $1,013,260) and $2,033,527 in 2015. 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 three (3) interest rate swaps the Authority entered into providing rate stability to the organization.

The following table summarizes the Authority's change in net position as of December 31, 2016 and 2015.

(Continued)

		2016		2015
Electric Sales For Resale	$	29,821,057	$	27,064,297
McNeil Project Revenue		2,789,245		3,085,007
Highgate Project Revenue		552,068		533,295
Swanton (P10) Revenue		3,901,411		4,105,573
Other Revenues		4,242,072		4,297,115
Total Operating Revenues	$	41,305,853	$	39,085,287
Power Production and Other Expenses		4,969,727		5,366,775
Transmission Expenses		10,493,241		10,051,375
Purchased Power		19,104,020		17,132,052
Regional Market Expenses		24,556		18,443
Administration & General Expenses		2,640,250		2,710,562
Taxes		336,752		339,715
Depreciation & Amortization		1,879,320		1,980,788
Total Operating Expenses	$	39,447,866	$	37,599,710
Net Operating Income(Loss)		**1,857,987**		**1,485,577**
Transco Income/Expenses (net)		3,318,087		3,510,114
Interest Income/Expenses (net)		(2,924,347)		(3,141,684)
Amortizations (net)		(11,416)		-
Proceeds/Expenses Related to Casualty Loss (net)		-		-
Other Non-Operating Income/Expenses (net)		8,779		25,925
Total Non-Operating Expenses, Net	$	391,103	$	394,355
Change in Net Assets		**2,249,090**		**1,879,932**
Other Comprehensive Income		217,658		153,595
Transco Investment Return		(1,230,918)		0
Net Assets at Beginning of Year		21,822,948		19,789,421
Net Assets at End of Year	**$**	**23,058,778**	**$**	**21,822,948**

(Continued)

Operating Revenues & Expenses

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

Electric Sales for Resale - Electric Sales for Resale includes amounts billed by the Authority to its members and non-members for purchased power and transmission expenses paid for on behalf of those members and non-members and excludes all McNeil Project #2, Highgate Project #3, and Swanton Project #10 sales. In 2016 Electric Sales for Resale increased by $2.7M or 10.2%, whereas, in 2015 revenues decreased by just over $.1M or .4%. Purchased power and transmission expenses increased $2.4M or 9% in 2016, and increased just under $.1M or .3% in 2015.

The increase in Sales for Resale in 2016 is attributed to several factors - an increase in member fees of ($200K), a reduction in REC revenues related to the Fitchburg facility ($400K), a reduction in market credits related to Swanton Peaker Project ($1M) and a general increase in power supply and/or transmission costs ($1M).

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).

In 2016 purchase power and transmission costs increased $2.4M or 9%. Similar to the increase in Sales for Resale, a portion of the increase in purchase power is related to a decrease in market credits related to the Swanton Peaker Project #10 ($1M) and a portion is due to changes in market contract prices. Transmission costs increased approximately $451K, primarily due to less revenue received from the region, that ultimately increases cost to Vermont distribution utilities.

In 2015 purchase power and transmission costs increased just under $.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. $.4M 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.

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 $.3M or 9.6% in 2016, and $1.1M or 26% in 2015.

The decreases in both 2016 and 2015 are primarily due to the final maturity of the project revenue bonds coupled with an increase in REC revenues (in 2016) related to the project. The final debt service (bond) payment related to the McNeil project was paid in full in July, 2015 with proceeds previously held in the project debt service reserve fund. Therefore, 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.

REC revenues are credited against current expenses; therefore, an increase in REC revenues correspondingly results in a decrease in Project sales revenue. In 2016, REC revenues related to the McNeil project increased by approximately $.3M and decreased approximately $.4M in 2015.

(Continued)

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 both 2016 and 2015 by $291K or 6% and $44K or 1%, respectively. 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:

Year	Capacity Factor	Availability Factor
2016	69.7%	96.3%
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%

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 project participants. Revenues increased $19K or 3.5% in 2016 as compared to a decrease of $10K or 2% in 2015. The increase in 2016 is due to capital costs of approximately $32K that were passed on to project participants, slightly offset by a decrease in O&M costs of approximately $10K. The decrease in 2015 is due to lower O&M costs billed to participants.

Swanton Project # 10 - The Swanton Project revenue reflects payments for monthly power costs and debt service obligations in accordance with the Project's Power Sales Agreements with project participants. In 2016 project revenues decreased $.2M or 5% and in 2015 revenues increased $.2M or 4.4%.

The primary reason for the decrease in 2016 and the increase in 2015 was the result of routine changes in O & M costs for the plant. 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 $4M in 2016 and $5.1M in 2015. These credits more than offset the cost invoiced to participants, providing the participants with a net benefit for both years.

The power production costs related to the operations of Project #10 decreased in 2016 by $.1M or 19% and increased by $.2M or 45% in 2015. The decrease in 2016 and the increase in 2015 are primarily the result of changes 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.

(Continued)

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

Year	Capacity Factor	Availability Factor
2016	0.275%	99%
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.

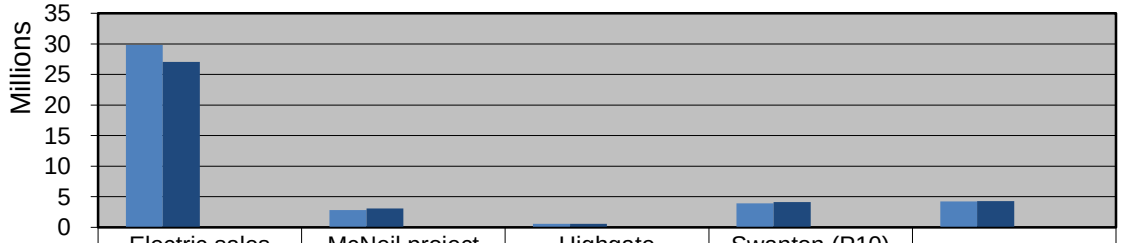
The McNeil REC sales are recorded as revenue and are used to offset current project expenses. In 2016 the value of the McNeil RECs sold were approximately $2.7M compared to $2.4M in 2015, $2.8 M in 2014, $2.0M in 2013, $1.5M in 2012, $1.2M in 2011 and $1.3M in 2010.

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 renewable energy credits realized from this resource totaled $1.1M in 2016, $1.5M in 2015, $1.1M in 2014, $1.1M in 2013, and $.5M in 2012.

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 2016 and 2015.



	Electric sales for resale	McNeil project revenue	Highgate project reveune	Swanton (P10) revenue	Other revenue
2016	29,821,057	2,789,245	552,068	3,901,411	4,242,072
2015	27,064,297	3,085,007	533,295	4,105,573	4,297,115
% Change	10%	-10%	4%	-5%	-1%
2016 % of Total	72.2%	6.8%	1.3%	9.4%	10.3%

Non-Operating Activities

Changes in non-operating activities for 2016 and 2015 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 2016 interest on deposits and investments increased as compared to a decrease in 2015. 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 2016 and 2015. 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 2016.

These variances include the following:

- A increase in interest earned on deposits and investments of $9K or 2.6% in 2016, compared to a decrease of $58K or 19.2% in 2015.
- A decrease in interest expense of $208K or 6.6% in 2016 and a decrease of $361K or 10.3% in 2015. Of these amounts, there was a decrease in expense related to interest rate swaps of $46K in 2016 and a decrease of $86K in 2015.

Distribution Income and Distribution Expense - The Authority currently holds a total of 3,656,239 TRANSCO membership units valued at $36,562,390. In 2016 distribution income decreased slightly. This was primarily due to the sale of member units to Vt. Electric Cooperative, offset by the purchase of additional membership units for certain of the Authority's members in 2016.

Subsequent Events

There have been no subsequent events that have occurred subsequent to December 31, 2016.

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
EMAIL: ccurrier@vppsa.com
Telephone: (802) 244-7678 Ext. 228
Direct Line: (802) 882-8501

(Continued)

VERMONT PUBLIC POWER SUPPLY AUTHORITY
STATEMENTS OF NET POSITION
FOR THE YEARS ENDING DECEMBER 31, 2016 and 2015

ASSETS	***2016***	***2015***
CAPITAL ASSETS, net	$ 21,964,851	$ 23,430,077
UNRESTRICTED ASSETS		
CURRENT:		
Cash and Cash Equivalents	1,888,796	2,004,159
Accounts Receivable	5,335,760	5,175,949
Due from Members	54,514	106,845
Other Current Assets	28,436	54,602
TOTAL CURRENT ASSETS	7,307,506	7,341,556
LONG TERM:		
Other Long-Term Assets	-	-
TOTAL LONG TERM ASSETS	-	-
TOTAL UNRESTRICTED ASSETS	7,307,506	7,341,556
RESTRICTED ASSETS		
CURRENT:		
Cash and Cash Equivalents	6,009,932	5,322,797
Cash Advances - Projects	140,366	140,338
Accounts Receivable	341,416	550,156
Fuel Inventories-McNeil & P10	1,110,489	1,245,614
Interest/Distribution Receivable	1,146,302	1,279,192
Other Current Restricted Assets	30,155	38,303
TOTAL RESTRICTED CURRENT ASSETS	8,778,659	8,576,399
LONG TERM:		
Due from Members	377,496	430,550
Investments - Bond Funds	1,931,199	1,736,345
Investment in VT Transco, LLC - Restricted	29,036,379	33,344,766
Investment In VT Transco, LLC - Restricted - Eligible for Release	7,526,011	7,445,174
Other Long-Term Assets	137,879	139,394
TOTAL RESTRICTED LONG TERM ASSETS	39,008,964	43,096,229
TOTAL RESTRICTED ASSETS	47,787,623	51,672,629
DEFERRED OUTFLOWS:		
Derivatives Instrument Asset	-	-
Unamortized Debt Issuance Costs	-	-
TOTAL DEFERRED OUTFLOW OF RESOURCES	-	-
TOTAL ASSETS & DEFERRED OUTFLOW OF RESOURCES	$ **77,059,981**	**$ 82,444,261**

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, 2016 and 2015

LIABILITIES	***2016***	***2015***
CURRENT LIABILITIES		
Accounts Payable	2,752,116	3,014,507
Amounts Due to Members	122,527	1,437
Other Current Liabilities	40,857	30,612
TOTAL CURRENT LIABILITIES	2,915,500	3,046,555
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Bonds Payable, Current Portion	1,045,000	1,005,000
Current Installments on Long - Term Debt	2,014,427	6,981,178
Amounts Due Members	479,932	609,660
Accounts Payable	522,103	597,867
Accrued Interest Payable	520,847	543,185
TOTAL CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:	4,582,310	9,736,888
LONG-TERM LIABILITIES		
Bonds Payable from Restricted Assets, (excl. current installments)	17,395,000	18,440,000
Long-Term Debt Payable from Restricted Assets (excl. current installments)	28,850,077	28,924,214
Other Long-Term Liabilities	73,697	68,381
TOTAL LONG-TERM LIABILITIES:	46,318,774	47,432,594
DEFERRED INFLOWS OF RESOURCES:		
Derivative Instrument Liability	184,619	405,275
TOTAL DEFERRED INFLOW OF RESOURCES	184,619	405,275
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	54,001,203	60,621,313
NET POSITION		
Invested in Capital Assets, Net of Related Debt	1,674,556	1,374,133
Restricted for McNeil Project #2	2,874,486	2,772,161
Restricted for Swanton Peaker - Project #10	5,529,840	4,936,401
Restricted for Highgate - Project #3	264,392	286,355
Restricted - Investment in Transco, LLC - Pledged - Eligible for Release	7,526,011	7,445,174
Restricted - Investment in Transco, LLC, net of related debt	1,079,915	1,208,491
Other Comprehensive Income - Restricted	(208,730)	(426,387)
Unrestricted	4,318,309	4,226,620
TOTAL NET POSITION	$ 23,058,778	$ 21,822,948
TOTAL LIABILITIES, INFLOWS OF RESOURCES & NET POSITION	**77,059,981**	**82,444,261**

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, 2016 and 2015

REVENUES	***2016***	***2015***
Electric Sales for Resale	$ 29,821,057	$ 27,064,297
McNeil Project Revenue	2,789,245	3,085,007
Highgate Project Revenue	552,068	533,295
Swanton (P10) Project Revenue	3,901,411	4,105,573
Renewable Energy Certificates	4,086,611	4,010,404
Other Service Revenue	155,461	286,711
TOTAL REVENUES	41,305,853	39,085,287
OPERATING EXPENSES		
Purchased Power	19,104,020	17,132,052
Transmission Expenses	10,493,241	10,051,375
Power Production Expenses	4,969,727	5,366,775
Regional Market Expense	24,556	18,443
Administrative & General Expenses	2,347,960	2,483,436
Outside Services	292,290	227,126
Payment in Lieu of Taxes	336,752	339,715
Amortization	-	-
Depreciation	1,879,320	1,980,788
TOTAL OPERATING EXPENSES	39,447,866	37,599,710
OPERATING INCOME FROM CONTINUING OPERATIONS	1,857,987	1,485,577
NON-OPERATING REVENUE (EXPENSE)		
Distribution Income - Vt Transco, LLC	4,969,215	5,102,006
Net Settlement Expense - Vt Transco LLC	(1,651,128)	(1,591,892)
Interest Expense - Vt Transco, LLC LTD	(1,691,920)	(1,744,397)
Interest Expense - Vt Transco, LLC Swaps	(230,077)	(257,753)
Interest Expense - Long-Term Debt	(993,134)	(1,103,065)
Interest Expense - LTD Swaps	(33,939)	(52,450)
Amortization of Debt Issuance Expenses	(11,416)	-
Interest Earned on Accounts	24,723	15,981
Gain/(Loss) on Disposition of Plant Asset	(116)	11,622
Realized Gain/(Loss) on Investments	8,691	13,315
Other Non-Operating Revenue (Expense)	203	989
TOTAL NON-OPERATING REVENUE (EXPENSE)	391,103	394,355
CHANGE IN NET POSITION	2,249,090	1,879,932
Other Comprehensive Income-Interest Swaps	220,656	171,658
Other Comprehensive Income-Unrealized Gains/Losses	(2,998)	(18,063)
Appropriated Earnings-Transco Investment Return	(1,230,918)	-
TOTAL NET POSITION - BEGINNING	21,822,948	19,789,421
TOTAL NET POSITION - ENDING	$ **23,058,778**	$ **21,822,948**

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, 2016 and 2015

CASH FLOWS FROM OPERATING ACTIVITIES	***2016***	***2015***
Receipts:		
Electric sales for resales	$ 29,438,150	$ 26,084,832
McNeil project revenue	2,970,885	2,699,867
Highgate project revenue	538,818	518,234
Swanton Peaker project revenue	3,901,411	4,105,899
Renewable Energy Certificates	4,185,055	4,052,298
Other Revenues	151,569	307,409
Payments made for:		
Purchased power	(19,919,675)	(16,778,697)
Transmission expense	(9,770,020)	(10,160,011)
Power production expense	(4,750,442)	(5,373,850)
Regional Markets Expense	(23,781)	(21,135)
Others, employees, benefits, and employee and employer payroll taxes	(1,644,672)	(1,500,013)
Outside services and other general and administrative expenses	(1,108,075)	(1,307,795)
Taxes	(322,945)	(316,591)
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,646,279	2,310,448
CASH FLOWS FROM NON-OPERATING ACTIVITIES		
Receipts:		
Member Reimbursements	20,765	5,766
Misc Sales/Income	185	3,064
Payments made for:		
Member Purchases	(19,143)	(7,634)
NET CASH PROVIDED BY NON-OPERATING ACTIVITIES	1,807	1,196
NET CASH PROVIDED BY OPERATING & NON-OPERATING ACTIVITIES	3,648,085	2,311,644
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Repayment of LTD Financing of Vt. Transco, LLC Units	(6,408,387)	(1,439,773)
Repayment of Interest on STD - Vt. Transco, LLC	(6,114)	-
Repayment of Interest on LTD - Vt. Transco, LLC	(1,689,530)	(1,743,796)
Repayment of Interest on LTD Swap Agreements - Vt. Transco LLC	(230,431)	(257,746)
Payment of Fees Related to Transco Financing	(11,416)	(3,388)
Proceeds Related to Repayment of Financing Costs	7,772	13,123
Proceeds of LTD Financing of Vt. Transco, LLC Units	2,100,000	-
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	(6,238,105)	(3,431,579)
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Repayment of Bonds Payable	(1,005,000)	(3,375,000)
Payments of Interest Expense on Bonds Payable	(953,369)	(1,114,894)
Repayments of Long-Term Notes Payable	(732,500)	(732,500)
Payment of Interest Expense on Long-Term Notes Payable	(58,941)	(69,306)
Payment of Interest Expense on LTD-Swap Agreements	(35,536)	(54,610)
NET CASH USED IN CAPITAL AND FINANCING ACTIVITIES	(2,785,346)	(5,346,310)

See Independent Auditors Report and accompanying notes to financial statements.

	2016	2015
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Capital Additions	(343,118)	(258,453)
Interest Income	24,784	14,801
Distributions Earned on Transco Investment	5,102,006	5,035,672
Net Settlement Distributions to Members/Non-members	(1,643,977)	(1,580,689)
Gain (Loss) on Bond Investment Funds	8,691	13,332
Purchase of Bond Fund Investments	(2,964,880)	(4,254,997)
Sale of Bond Fund Investments	2,767,027	4,645,856
(Purchase) Sale of VT Transco, LLC Member Units	2,996,632	-
NET CASH USED IN INVESTING ACTIVITIES	5,947,165	3,615,522
NET INCREASE (DECREASE) IN CASH	571,800	(2,850,723)
CASH BALANCE, BEGINNING OF YEAR	7,467,294	10,318,017
CASH BALANCE, END OF YEAR	$ 8,039,093	$ 7,467,294

	2016	2015
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED OPERATING ACTIVITIES		
Operating income from continuing operations	$ 1,857,987	$ 1,485,577
Adjustments to reconcile net operating income to net cash provided by operating activities		
Depreciation and amortization	1,879,380	1,980,788
Change in assets and liabilities:		
(Increase) decrease in Accounts Receivable	(94,422)	(1,337,124)
(Increase) decrease in Amounts Due from Members	-	(35,850)
(Increase) decrease in Inventories	135,125	82,586
(Increase) decrease in Other Assets	141,352	(21,814)
Increase (decrease) in Accounts Payable	(262,200)	206,040
Increase (decrease) in Amounts Due to Members	28,957	(62,651)
Increase (decrease) in Other Liabilities	(39,899)	12,897
Total adjustments	1,788,291	824,871
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 3,646,278	$ 2,310,448

See Independent Auditors Report and accompanying notes to financial statements.

VERMONT PUBLIC POWER SUPPLY AUTHORITY
STATEMENTS OF CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2016 and 2015

	Invested In Capital Assets	Restricted Net Assets	UnRestricted Net Assets	Other Comprehensive Income	Total
Balance at December 31, 2014	$ (1,167,100)	17,375,092	4,161,411	(579,982)	19,789,421
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	$ 1,374,133	16,648,582	4,226,620	(426,387)	21,822,948
Current Year Change in Net Assets	300,423	626,060	91,689	-	1,018,172
Interest Rate Swap	-	-	-	220,656	220,656
Unrealized Gains/Losses	-	-	-	(2,998)	(2,998)
Balance at December 31, 2016	$ 1,674,556	17,274,643	4,318,309	(208,729)	23,058,778

See Independent Auditors Report and accompanying notes to financial statements.

Note 1 – Nature of Business

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

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

Note 2 – Summary of Significant Accounting Policies

(a) New Accounting Pronouncements

The Authority has completed the process of evaluating the impact of GASB Statement No. 80, *Blending Requirements for Certain Component Units – an Amendment of GASB Statement No. 14.* The objective of this statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. GASB Statement No. 80 is effective for financial reporting periods beginning after June 15, 2016. The Authority does not have any controlling interest in any not-for-profit corporations and has therefore determined that GASB Statement No. 80 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. 81, *Irrevocable Split-Interest Agreements.* The objective of this statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. GASB Statement No. 81 is effective for financial reporting periods beginning after December 15, 2016. The Authority does not receive resources pursuant to irrevocable split-interest agreements and has therefore determined that GASB Statement No. 81 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. 82, *Pension Issues – An Amendment of GASB Statements No. 67, 68, 73.*

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

(a) New Accounting Pronouncements (cont.)

The objective of this statement is to address certain issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. GASB Statement No. 82 is effective for financial reporting periods beginning after June 15, 2016. The Authority is not a participating employer in a defined benefit pension plan and has therefore determined that GASB Statement No. 82 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. 83, *Certain Asset Retirement Obligations.* The objective of this statement is to address accounting and financial reporting for certain asset retirement obligations. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. GASB Statement No. 83 is effective for financial reporting periods beginning after June 15, 2018. The Authority owns interests in power generating plants for which future retirement obligations may be required. The Authority has not determined what impact on its financial position, results of operations and cash flows the future retirement obligations of such plants may have and therefore has not recognized an asset retirement obligation in these financial statements.

The Authority has completed the process of evaluating the impact of GASB Statement No. 84, *Fiduciary Activities.* This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. GASB Statement No. 84 is effective for financial reporting periods beginning after December 15, 2018. The Authority does not receive donations from the public and holds no funds for others in trust. Therefore, the Authority has determined that GASB Statement No. 84 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.

(Continued)

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

(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 replaced or improved in a way that a) substantially extends the life of the asset or b) substantially improves the asset's utility or;

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

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

The depreciable lives of capital assets are as follows:

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

(Continued)

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

(d) Impairment of Long-Lived Assets

In accordance with GASB Statement No. 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 asset's 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.

(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.

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

(g) Fair Value of Investments (cont.)

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.

(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.

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

(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.

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.

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

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

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.

As required under GASB 53, as of December 31, 2016 and 2015, 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 $336,752 and $339,715 for the years ended December 31, 2016 and 2015, respectively.

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

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

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

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

(Continued)

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

(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 10, 2017, 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.

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, 2016 and 2015, the Authority's restricted deposits were fully secured.

(Continued)

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

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

	2016	2015
Cash Advances – Highgate Project	$ 140,366	$ 140,338
Cash and Cash Equivalents - Highgate Project	95,932	111,418
Cash and Cash Equivalents – McNeil Project	1,757,092	1,379,285
Cash and Cash Equivalents – Project 10	3,722,721	3,301,436
Cash – Amounts Due Members	434,187	530,658
Total Restricted Cash and Cash Equivalents	$ 6,150,298	$ 5,463,135

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, 2016 and 2015 are as follows:

(Continued)

	December 31, 2015	Additions	Retirements	December 31, 2016
INTANGIBLE PLANT				
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	(0)	-	-	(0)
PRODUCTION PLANT				
Land – non depreciable	79,274	-	-	79,274
CWIP-Non Depreciable	7,247	382,552	(329,646)	60,153
Structures and Improvements	8,378,513	52,092	(1,383)	8,429,222
Equipment	35,453,714	265,665	(103,379)	35,616,000
Depreciable Production Plant	43,832,227	317,756	(104,762)	44,045,221
Less Accumulated Depreciation for:				
Structures and Improvements	(5,436,042)	(172,988)	1,383	(5,607,647)
Equipment	(18,778,664)	(1,431,233)	103,379	(20,106,519)
Accumulated Depreciation	(24,214,706)	(1,604,221)	104,762	(25,714,165)
Net Depreciable Production Plant	19,617,521	(1,286,465)	-	18,331,056
TRANSMISSION PLANT				
Land – Non Depreciable	68,497	-	-	68,497
Structures & Improvements	276,845	7,247	-	284,092
Equipment	5,731,075	-	(140)	5,730,935
Depreciable Transmission Plant	6,007,920	7,247	(140)	6,015,027
Less Accumulated Depreciation for:				
Structures	(197,898)	(4,319)	-	(202,216)
Equipment	(2,525,670)	(222,612)	25	(2,748,258)
Accumulated Depreciation	(2,723,568)	(226,930)	25	(2,950,474)
Net Depreciable Transmission Plant	3,284,352	(219,683)	(116)	3,064,553
REGIONAL TRANSM & MKT PLANT				
Land – non depreciable	-	-	-	-
Structures & Improvements	-	-	-	-
Computer Hardware & Software	138,368	-	-	138,368
Communication Equipment	19,074	-	-	19,074
Depreciable RTM Plant	157,442	-	-	157,442
Less Accumulated Depreciation for:				
Structures	-	-	-	-
Computer Hardware & Software	(127,729)	(3,040)	-	(130,768)
Communication Equipment	(19,074)	-	-	(19,074)
Accumulated Depreciation	(146,803)	(3,040)	-	(149,843)
Net Depreciable RTM Plant	10,639	(3,040)	-	7,599

(Continued)

GENERAL PLANT				
Land – non depreciable	141,099	-	-	141,099
Structures & Improvements	668,790	5,770	-	674,559
Equipment	685,711	30,531	(23,059)	693,183
Depreciable General Plant	1,354,500	36,301	(23,059)	1,367,742
Less Accumulated Depreciation for:				
Structures	(477,101)	(27,701)	-	(504,802)
Equipment	(655,952)	(17,427)	23,059	(650,320)
Accumulated Depreciation	(1,133,052)	(45,129)	23,059	(1,155,122)
Net Depreciable General Plant	221,448	(8,828)	-	212,620
Net Capital Assets	**23,430,077**	**(1,135,463)**	**(329,762)**	**21,964,852**

(Continued)

	December 31, 2014	Additions	Retirements	December 31, 2015
INTANGIBLE PLANT				
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	(0)	-	-	(0)
PRODUCTION PLANT				
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	43,539,758	379,448	(86,978)	43,832,227
Less Accumulated Depreciation for:				
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	(22,607,046)	(1,694,638)	86,978	(24,214,706)
Net Depreciable Production Plant	20,932,712	(1,315,190)	-	19,617,521
TRANSMISSION PLANT				
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	5,959,674	54,486	(6,241)	6,007,920
Less Accumulated Depreciation for:				
Structures	(194,700)	(3,970)	772	(197,898)
Equipment	(2,307,862)	(221,598)	3,790	(2,525,670)
Accumulated Depreciation	(2,502,562)	(225,568)	4,562	(2,723,568)
Net Depreciable Transmission Plant	3,457,112	(171,082)	(1,678)	3,284,352
REGIONAL TRANSM & MKT PLANT				
Land – non depreciable	-	-	-	-
Structures & Improvements	-	-	-	-
Computer Hardware & Software	138,368	-	-	138,368
Communication Equipment	19,074	-	-	19,074
Depreciable RTM Plant	157,442	-	-	157,442
Less Accumulated Depreciation for:				
Structures	-	-	-	-
Computer Hardware & Software	(112,372)	(15,357)	-	(127,729)
Communication Equipment	(17,167)	(1,907)	-	(19,074)
Accumulated Depreciation	(129,539)	(17,264)	-	(146,803)
Net Depreciable RTM Plant	27,903	(17,264)	-	10,639

(Continued)

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

(Continued)

Note 4 – Capital Assets (cont.)

Total depreciation expense for the years ending December 31, 2016 and 2015 is $1,879,320 and $1,980,788, respectively.

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, 2016 the Authority recorded the following amounts due from Members:

Stonybrook Advances	$ 29,489
Standard Offer Solar Project	$ 25,025
Total Amounts Due from Members	**$ 54,514**

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, 2016 are as follows:

	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
Federal Ntl Mtge Assoc.	$ 750,000		($ 5,505)	$ 744,495
Federal Home Ln Mtg Corp	$ 500,000		($ 8,605)	$ 491,395
U.S Treasury Notes	$ 505,172		($ 9,087)	$ 496,085
U.S Treasury Notes	$ 100,069		($ 457)	$ 99,612
U.S Treasury Notes	$ 100,069		($ 457)	$ 99,612
Total	$ 1,955,310	-	($ 24,111)	$ 1,931,199

Cost and estimated fair value of restricted fixed maturity securities at December 31, 2016 by contractual maturity, are as follows:

Maturity	Cost	Fair Market Value
In 2017	$ -	$ -
2018 to 2021	1,955,310	1,931,199
Totals	$ 1,955,310	$ 1,931,199

(Continued)

Note 6 – Restricted Investments (cont.)

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

The Authority's classes of securities, as noted above, are categorized as Level 1 inputs in accordance with GASB Statement No. 72, as of December 31, 2016.

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, 2016 and 2015, 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

(Continued)

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

ownership related to the Transco Equity purchases belong to the Authority, subject to transfer by sale at a price to be agreed upon after the tenth anniversary date of the date of the agreements.

These agreements provide that the Authority shall pay a fee to the non-member on a quarterly basis in exchange for the assignment of these Rights.

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

Members

During the period from 2007 - 2016, 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 31, 2016, the Authority owns a total of 3,656,239 membership units with a total value of $36,562,390 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 - 2016 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 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. 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%.

In 2016, 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 October 30, 2016, the Authority entered into a long-term loan arrangement with a local financial institution for an amount of $2,100,000 for period of ten (10) years at a fixed interest rate of 2.82%.

During 2016 and 2015 the Authority earned total distribution income from the units held for the benefit of its members' of $3,022,172 and $2,962,095, respectively.

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

The 2016 distribution income earned of $3,022,172 for the units held for the benefit of its members paid down: principal on membership units previously acquired and financed in the amount of $1,145,068, interest expense on the Authority's debt of $870,854 an additional $14,454 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 $991,796.

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.

Non-Member Cooperative

At December 31, 2015, the 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 member units valued at $6,167,840. On December 23, 2016 the non-member purchased the 616,784 member units from the Authority and the corresponding debt was paid in full.

These units and distribution income were pledged as security under a pledge and security agreement against the related long-term debt obligation until such time the debt was paid.

During 2016 and 2015, the Authority earned a total distribution income from the units held for the benefit of a non-member of $578,605 and $771,473 respectively.

In addition to the 2016 distribution income earned of $578,605 for the units held for the benefit of a non-member, the authority received a payment from the non-member in the amount of $5,037,576. The total income of $5,616,181 paid down: principal in the amount of $5,103,609, interest expense paid on the Authority's debt of $348,632, costs of debt service of $3,229 and the Authority's administrative fee of $61,678. The remaining $99,033 was recorded as distribution (net settlement) expense and paid to the non-member.

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.

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.

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

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, 2016 and 2015, 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 obligation.

During 2016 and 2015, 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 2016 and 2015, 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.

<u>VELCO/Lyndonville Substation Project – Member</u>

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, 2016 and 2015 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 obligation.

During both 2016 and 2015, the Authority earned distribution income from the units held for the benefit of LED of $274,425 for each respective year. In 2016, the distribution income paid down actual interest expense of $159,932 and $159,495 in 2015, as well as costs of debt service in the amount of $896 for each year. The remaining $113,597 and $114,034 for 2016 and 2015 respectively, was recorded as distribution (net settlement) expense and credited to LED.

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.

Note 8 – Operating Line of Credit (cont.)

Through April 1, 2016 the facility incurred a commitment fee of .15% of the unused facility per annum payable on the last day of each calendar quarter. On April 1, 2016, the loan arrangement was amended to reflect a reduction in the commitment fee to .10% of the unused facility per annum. 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, 2016 and 2015 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, 2016 and 2015, there were no outstanding lines of credit for the funding of construction projects and there were no outstanding short-term notes.

Note 10 – Bonds Payable

Outstanding revenue bonds payable consist of the following at December 31, 2016 and 2015:

		December 31, 2015	Increases	Payments and reductions	December 31, 2016	Current Portion
SWANTON PEAKER PROJ #10:						
Revenue Bonds –Series A maturing July 1, 2011 through 2029 – Interest ranges from 3% to 5.25%		18,540,000	-	965,000	17,575,000	-
Current portion of bonds payable		-	-	-	(1,000,000)	1,000,000
TOTAL PROJECT 10 - SERIES A		18,540,000	-	965,000	16,575,000	1,000,000
SWANTON PEAKER PROJ #10:						
Revenue Bonds – Series B maturing July 1, 2011 through 2029		905,000	-	40,000	865,000	
Current portion of bonds payable		-	-	-	(45,000)	45,000
TOTAL PROJECT 10 - SERIES B		905,000	-	40,000	820,000	45,000
Total outstanding bonds payable	$	**19,445,000**	**-**	**1,005,000**	**17,395,000**	**1,045,000**

(Continued)

Note 10 – Bonds Payable (cont.)

		December 31, 2014	Increases	Payments and reductions	December 31, 2015	Current Portion
MCNEIL PROJECT #2:						
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	-	-
SWANTON PEAKER PROJ #10:						
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
SWANTON PEAKER PROJ #10:						
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**

At December 31, 2016 and 2015, total interest expense on the McNeil Project #2 Revenue Bonds was $0 and $63,263. 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 July 2, 2015.

At December 31, 2016 and 2015, total interest expense on the Project #10 Series A Revenue Bonds was $873,131 and $906,294 and Project #10 Series B Revenue Bonds interest expense was $61,950 and $64,575.

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.

Note 10 – Bonds Payable (cont.)

The future annual maturities of principal and interest on bonds payable consists of the following as of December 31, 2016:

	Principal	Interest	Total
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	$ 1,265,000	$ 656,319	$ 1,921,319
2022-2023	$ 2,720,000	$ 1,126,350	$ 3,846,350
2024-2025	$ 3,005,000	$ 834,094	$ 3,839,094
Thereafter	$ 6,960,000	$ 698,036	$ 7,658,036
Total	$ 18,440,000	$ 6,539,075	$ 24,979,075

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, 2016 and 2015.

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 $144,969 remained at December 31, 2016 and 2015.

A summary of amounts due members - payable from restricted cash and cash equivalents as of December 31, 2016 and 2015 is as follows:

	2016	**2015**
Citizens Utilities settlement	$ 144,969	$ 256,539
Orleans Transmission line	114,311	96,311
NEGT settlement funds due Orleans	165,609	165,609
Orleans accumulated interest	13,798	13,699
Highgate-Participant Credit Balance	2,436	5,862
McNeil-Accrued Liabilities	38,809	71,639
	$ 479,932	$ 609,659

(Continued)

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:

	2016	**2015**
Note payable of $6,167,840 to TD Bank, NA dated December 23, 2009, with a maturity date of December 23, 2016 at a variable rate of 3.25% above the London-Interbank offered rate (LIBOR) as set on the 29th day of each month. Interest is to be paid monthly, beginning July 29, 2010 and continue monthly thereafter, with initial principal payment of $29,295 beginning August 29, 2010 and continue quarterly thereafter. As of January 13, 2010 the fixed interest rate was set at 6.83% based upon the ISDA interest rate swap. *Note is collateralized by a security pledge agreement of 271,385 of Class A and 345,399 of Class B VT TRANSCO, LLC membership units acquired in 2009 for the benefit of non-member and the assignment of rights to all distribution income from ownership of the investment.*	-	5,103,609
Private placement note payable to United of Omaha Life Insurance Company, dated November 30, 2009, with a maturity of entire principal on November 30, 2019 at fixed rate of 6.25%. *Note is collateralized by a security pledge agreement of 384,846 of Lamoille County Project (LCP) - Class A and 489,804 of Lamoille County Project(LCP) Class B VT TRANSCO, LLC membership units and the assignment of rights to all distribution income from ownership of the investment.*	8,746,500	8,746,500
Note payable of $3,500,000 to KeyBank National Association dated October 20, 2010, with a maturity date of October 1, 2017 at a fixed interest rate of 3.93% based upon the ISDA interest rate swap dated October 20, 2010. Principal and interest are to be paid monthly, beginning November 1, 2010 and continue monthly thereafter, with a monthly principal payments of $41,667. *Note is collateralized by a security pledge agreement of all revenues, receipts, and rights received by or on behalf of the Borrower under the Power Sales Agreements and all revenues from Project 10.*	375,000	875,000
Note Payable of $2,194,000 to TD Bank, NA dated December 17, 2010, with a maturity date of December 17, 2020 at a fixed interest rate set at 7.17% based on the ISDA interest rate swap dated January 17, 2011. Interest is to be paid monthly, beginning January 17, 2011 and continue monthly thereafter. This is a non-amortizing loan with the principal due at maturity. *Note is collateralized by a security pledge agreement of 96,536 of Class A and 122,864 of Class B VT TRANSCO, LLC membership units acquired in 2010 for the benefit of the Village of Lyndonville, a VPPSA member and the assignment of rights to all distribution income from ownership of the investment.*	2,194,000	2,194,000

(Continued)

Note 12 – Long-Term Debt (cont.)

	2016	2015
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. *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.*	12,027,497	12,943,227
Note payable of $2,325,000 to Keybank, N.A. dated August 12, 2011 and further amended on April 1, 2013, with a maturity date of April 1, 2023 at a fixed interest rate of 4.1% based upon the ISDA interest rate swap dated April 1, 2013. Principal and interest are to be paid monthly, beginning May 1, 2013 and continue monthly thereafter, with a monthly principal payments of $19,375. *Note is collateralized by a security pledge agreement of all revenues, receipts, and rights received by or on behalf of the Borrower under the Highgate Transmission Service Agreements.*	1,453,125	1,685,625
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. *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.*	4,128,092	4,357,430
Note payable of $2,100,000 to TD Bank, N.A. dated October 3, 2016 with a maturity date of September 3, 2026 at a fixed interest rate of 2.82%. Principal is to be paid quarterly beginning January 4, 2017 with quarterly principal payments of $52,500. Interest is to be paid monthly, beginning November 4, 2016. *Note is collateralized by a security pledge agreement of 85,373 of Class A and 108,656 of Class B VT TRANSCO, LLC membership units acquired in 2016 for the benefit of certain VPPSA members and the assignment of rights to all distribution income from ownership of the investment.*	1,940,290	-
Total	30,864,504	35,905,391
Less: current portion due on outstanding long term debt as of December 31, payable from restricted assets	(2,014,427)	(6,981,178)
	$ 28,850,077	$ 28,924,213

The future annual maturities of principal and estimated interest on long-term debt consist of the following as of December 31, 2016:

	Principal	Interest	Total
2017	$ 2,014,427	$ 1,619,111	$ 3,633,538
2018	$ 1,692,140	$ 1,533,221	$ 3,225,362
2019	$ 10,494,225	$ 1,452,015	$ 11,946,241
2020	$ 3,998,973	$ 823,081	$ 4,822,055
2021	$ 11,483,823	$ 386,626	$ 11,870,449
2022-2023	$ 710,625	$ 48,426	$ 759,051
2024-2025	$ 420,000	$ 16,414	$ 436,414
Thereafter	$ 50,290	$ 362	$ 50,652
	$ 30,864,504	$ 5,879,257	$ 36,743,761

(Continued)

Note 12 – Long-Term Debt (cont.)

At December 31, 2016 and 2015, total interest expense on the above borrowings was $2,013,989 and $2,123,534.

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, 2016 and 2015, 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, 2016 and 2015.

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.

(Continued)

Note 13 - Interest rate Swap Agreements (cont.)

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.

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 for a outstanding long-term note with TD Bank in January 2010 and 2) a "pay fixed," countered by the "receive variable" interest rate swap on a second outstanding long-term note with TD Bank in January 2011.

The "pay fixed", countered by the "receive variable" interest rate swap entered into in January 2010 matured on December 23, 2016 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 agreement. 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, 2016, the interest rate swap agreements have been recorded as follows:

Description	Valuation Date	Notional Amount	Date of Agreement	Maturity Date	Change in fair market value of Swap Gain (Loss)
Pay fixed/ receive variable interest rate swap agreement	12/31/2016	$2,194,000	01/04/2011	12/17/2020	($162,448)
Pay fixed/ receive variable interest rate swap agreement	12/31/2016	$416,666	10/20/2010	10/01/2017	($1,697)
Pay fixed/ receive variable interest rate swap agreement	12/31/2016	$1,472,500	01/30/2012	04/01/2023	($20,474)
Total derivative liability					**($184,619)**

Note 14 – Pension Plan

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

(Continued)

Note 15 – Compensated Employee Absences/Employee Cafeteria Plan

The plan is administered by a third party administrator. Employer contributions to this plan for the years ended December 31, 2016 and 2015 were $97,137 and $84,620, respectively, amounting to approximately 8% of covered payroll.

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 previously earned 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, 2016 and 2015, the Authority's liability of accrued vacation under the current compensated absences policy is $73,697 and $68,381, and accrued sick leave under the previous compensated absences policy is $8,328 and $8,327. 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. As of December 31, 2016 and 2015, there was an accrued liability related to employee's health flexible spending accounts in the amount of $1,623 and $0, respectively.

(Continued)

Note 16 – Commitments, Contingencies, Uncertainties

At December 31, 2016, 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.

In 2016 and 2015, 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.

This contract obligation was 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 specific to each counterparty. 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 that the Authority either requests, nor is required to post collateral.

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

During 2016, the Authority did not request any counterparty to post collateral, nor did any counterparty request the Authority to post collateral.

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.

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.

Authority Project Assets

As previously noted in Note #4, the Authority owns 100% of the Swanton Peaker Project #10 and holds a 9.36% Joint ownership in the Highgate Converter Station and a 19% Joint ownership in the McNeil Generating Facility. As these assets are owned by the Authority, it is the Authority's responsibility to continuously monitor the assets to determine the value that they provide. Rules and regulations within the industry and environmental changes have an impact on the viability of any project and the ultimate benefit that is gained from those project assets. At this time, the Authority believes the current project assets continue to provide value to the Authority and its project participants.

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, 2016 and 2015 they were:

(Continued)

Note 17 – Power Supply Settlement Commitments (cont.)

RESOURCE ENTITLEMENTS: MEMBERS	2016	Percent of kWHs		2015	Percent of kWHs	Expiration date
Fitchburg	26,352,000	6.78%		26,280,000	6.71%	2032
HQ	22,407,150	5.77%		69,660,420	17.79%	Varies - 2016 & 2038
HYDRO	61,766,147	15.90%		65,105,581	16.63%	Life of Unit
DIESEL	0	0.00%		186	0.00%	Life of Unit
McNeil	49,691,012	12.79%		44,992,584	11.49%	Life of Unit
NYPA	28,945,297	7.45%		27,345,050	6.98%	4/30/2017 & 9/1/2025
Ryegate	10,552,486	2.72%		10,479,198	2.68%	10/31/2021
VEPPI	7,532,786	1.94%		7,820,772	2.00%	2015-2020-varies
Standard Offer	6,571,855	1.69%		5,805,010	1.48%	Varies
Stonybrook	2,343,987	0.60%		4,710,918	1.20%	Life of Unit
Project 10	882,031	0.23%		827,349	0.21%	Life of Unit
Ribbon Energy	47,130	0.01%		64,090	0.02%	Life of Unit
Yarmouth	0	0.00%		0	0.00%	Life of Unit
Chester Solar	7,367,144	1.90%		7,385,043	1.89%	06/30/2039
Market Purchases	164,032,683	42.22%		121,112,300	30.93%	Varies
	388,491,708	**100.00%**		**391,588,501**	**100.00%**	

The Non-Member total mWh resource entitlements are shown as a percentage of the Non-Members' portfolio of resources available to meet their load obligations. For the years ending December 31, 2016 and 2015, they were:

RESOURCE ENTITLEMENTS: NON-MEMBERS	2016	Percent of kWHs		2015	Percent of kWHs	Expiration date
Coventry Clean Energy Corporation	53,156,866	46.70%		56,325,531	44.50%	Life of Unit
HQ	0	0.00%		14,097,420	11.14%	Varies - 2015 & 2038
NYPA	11,113,213	9.76%		10,400,498	8.22%	4/30/2017 & 9/1/2025
VEPPI	1,480,464	1.30%		1,521,412	1.20%	2013-2020-varies
Ryegate	2,074,254	1.82%		2,037,104	1.61%	10/31/2021
Wrightsville Hydro	2,238,304	1.97%		2,569,569	2.03%	Life of Unit
GMP System	272,100	0.24%		534,300	0.42%	Life of Unit
Vermont Wind	8,156,011	7.17%		8,751,614	6.91%	Life of Unit
Fox Island Diesel	4,269	0.00%		3,042	0.00%	Life of Unit
Fox Island Wind	10,359,769	9.10%		10,488,187	8.29%	Life of Unit
Market Contracts	24,966,200	21.93%		19,839,000	15.67%	Varies
	113,821,450	**100.00%**		**126,567,677**	**100.00%**	

(Continued)

Note 17 – Power Supply Settlement Commitments (cont.)

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

RESOURCE ENTITLEMENTS: TOTAL	2016	Percent of MWHs		2015	Percent of MWHs
Members	388,491,708	77.34%		391,588,501	75.57%
Non-Members	113,821,450	22.66%		126,567,677	24.43%
Total	**502,313,158**	**100%**		**518,156,178**	**100%**

Note 18 – Concentration of Risks

The J. C. McNeil Generating Station Project #2 contributed approximately 6.8% for 2016 and 7.9% for 2015 to annual gross revenues for the Authority. Revenues from participants coupled with REC revenues received from the project contribute approximately 13% and 14% of total sales for 2016 and 2015, respectively.

The Swanton Peaker Project #10 contributed approximately 9.4% for 2016 and 10.2% for 2015 to annual gross revenues for the Authority.

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

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

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

(Continued)

Supplementary Schedule 1

VERMONT PUBLIC POWER SUPPLY AUTHORITY
COMBINING SCHEDULE OF ASSETS, LIABILITIES & NET POSITION
FOR THE YEAR ENDING DECEMBER 31, 2016

		2016				
		Swanton Project #10	McNeil Project #2	Highgate Project #3	VPPSA	Total
ASSETS						
Capital Assets (Net):	$	16,509,100	2,993,604	2,181,707	280,441	21,964,851
Current:						
Cash & Cash Equivalents		3,722,721	1,757,092	236,298	2,322,983	8,039,094
Accounts Receivable			326,842	10,074	5,340,260	5,677,176
Other Current Assets		227,662	1,293,931		1,225,799	2,747,392
Total Current Assets		3,950,383	3,377,865	246,372	8,889,042	16,463,661
Long-Term:						
Investments		1,931,199	-	-	36,562,390	38,493,589
Other Long-Term Assets		137,879	-	-	-	137,879
Total Long-Term Assets		2,069,078	-	-	36,562,390	38,631,468
Deferred Outflow of Resources		-	-	-	-	-
TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES		**22,528,561**	**6,371,468**	**2,428,079**	**45,731,873**	**77,059,981**
LIABILITIES:						
Current:						
Accounts Payable		57,351	464,570	183	2,752,116	3,274,220
Short-Term Debt						-
Bonds & LTD (current)		1,420,000	-	232,500	1,406,927	3,059,427
Other		458,079	38,809	2,271	665,005	1,164,163
Total Current Liabilities		1,935,429	503,379	234,954	4,824,049	7,497,810
Long-Term:						
Bonds		17,395,000	-	-	-	17,395,000
Long-Term Debt		-	-	1,220,625	27,629,452	28,850,077
Other		-	-		73,697	73,697
Total Long-Term Liabilities		17,395,000	-	1,220,625	27,703,149	46,318,774
Deferred Inflow of Resources		1,697	-	20,474	162,448	184,619
TOTAL LONG-TERM LIABILITIES & INFLOWS OF RESOURCES		19,332,126	503,379	1,476,052	32,689,646	54,001,203
Net Position		3,196,434	5,868,090	952,027	13,042,227	23,058,778
TOTAL LIABILITIES AND NET POSITION	$	**22,528,561**	**6,371,468**	**2,428,079**	**45,731,873**	**77,059,981**

See Independent Auditors Report on Supplementary Information.

Supplementary Schedule 2

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						
Capital Assets (Net):	$	17,637,943	3,205,485	2,311,103	275,546	23,430,077
Current:						
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
Long-Term:						
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:						
Current:						
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
Long-Term:						
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**

See Independent Auditors Report on Supplementary Information.

Supplementary Schedule 3

VERMONT PUBLIC POWER SUPPLY AUTHORITY
COMBINING SCHEDULE OF REVENUES AND EXPENSES
FOR THE YEAR ENDING DECEMBER 31, 2016

		2016				
		Swanton Project #10	McNeil Project #2	Highgate Project #3	VPPSA	Total
OPERATING REVENUE:						
Electric sales for resale	$	-	-	-	29,821,057	29,821,057
McNeil project revenue		-	2,789,245	-	-	2,789,245
Highgate project revenue		-	-	552,068	-	552,068
Swanton (P10) project revenue		3,901,411	-	-	-	3,901,411
Renewable Energy Certificates		-	2,720,610	-	1,366,001	4,086,611
Other Service revenue		-	-	-	155,461	155,461
Total operating revenue		3,901,411	5,509,855	552,068	31,342,519	41,305,853
OPERATING EXPENSES:						
Power production expenses		466,709	4,503,018	-	-	4,969,727
Transmission expenses		28,077	7,335	54,368	10,403,461	10,493,241
Purchased power		6,631	7,501	-	19,089,888	19,104,020
Regional Market expense		24,556	-	-	-	24,556
Administrative & General expenses		294,402	269,686	80,712	1,703,160	2,347,960
Outside services		20,500	36,924	17,623	217,244	292,290
Payments in lieu of taxes		19,343	235,310	68,252	13,846	336,752
Amortization		-	-	-	-	-
Depreciation		1,128,843	560,441	162,467	27,569	1,879,320
Total operating expenses		1,989,061	5,620,215	383,421	31,455,169	39,447,866
Operating income		1,912,350	(110,360)	168,647	(112,650)	1,857,987
NONOPERATING REVENUE (EXPENSES):						
Distribution income - VT Transco, LLC.		-	-	-	4,969,215	4,969,215
Net Settlement expense - VT Transco, LLC.		-	-	-	(1,651,128)	(1,651,128)
Net interest income (expense) swaps		(7,934)	-	(26,005)	(230,077)	(264,016)
Interest expense		(952,929)	-	(40,206)	(1,691,920)	(2,685,054)
Amortization of LTD discount, premium and issuance exp		-	-	-	(11,416)	(11,416)
Amortization of loss on reacquired debt		-	-	-	-	-
Interest earned on deposits/investments		16,356	600	28	7,740	24,723
Gain/(Loss) on Disposition of Plant Assets		-	-	(116)	-	(116)
Net Realized Gain/(Loss) on Investments		8,691	-	-	-	8,691
Misc. Non-operating revenue (expense)		-	203	-	-	203
		(935,815)	803	(66,298)	1,392,414	391,103
CHANGE IN NET POSITION		976,535	(109,557)	102,349	1,279,763	2,249,090
						-
Other Comprehensive Income - Interest Swaps		6,939	-	21,209	192,508	220,656
Other Comprehensive Income - Unrealized Gains/Losses		(2,998)	-	-	-	(2,998)
Appropriated Earnings - Transco Member Return					(1,230,918)	(1,230,918)
NET POSITION, beginning of year		2,215,958	5,977,645	828,467	12,800,879	21,822,948
NET POSITION, end of year	$	3,196,434	5,868,088	952,025	13,042,232	23,058,778

See Independent Auditors Report on Supplementary Information.

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	(718,913)	67,796	1,545,831	1,879,932
						-
Other Comprehensive Income - Interest Swaps		12,273	-	392	158,993	171,658
Other Comprehensive Income - Unrealized Gains/Losses		(15,438)	(2,625)	-	-	(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

See Independent Auditors Report on Supplementary Information.

VERMONT PUBLIC POWER SUPPLY AUTHORITY

Supplementary Schedule 5

RESTRICTED ASSETS SCHEDULE - CASH - MCNEIL

FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015

	Debt Service Interest	Debt Service Principal	Debt Service Reserve Fund	Reserve and Contingency	Revenue Funds	Temp Investments	Total
Balance at December 31, 2014	2,471	12,622	2,548,965	591,880	1,012,717	501,112	4,669,768
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	0	(0)	0	0	282,076	1,097,208	1,379,285
Add:							
Interest Income	-	-	-	-	366	214	580
Receipts of revenue	-	-	-	-	5,693,490	89,081	5,782,571
Transfers	-	-	-	-	252,000	151,000	403,000
Realized Gain on Investment	-	-	-	-	-	-	-
Unrealized Gain on investment	-	-	-	-	-	-	-
Deduct:							
Operating expenditures	-	-	-	-	(5,316,263)	-	(5,316,263)
Debt service payments	-	-	-	-	-	-	-
Capital Improvements	-	-	-	-	-	(366,081)	(366,081)
Transfers	-	-	-	-	(126,000)	-	(126,000)
Realized Loss on Investment	-	-	-	-	-	-	-
Unrealized Loss on investment	-	-	-	-	-	-	-
Balance at December 31, 2016	0	(0)	0	0	785,670	971,422	1,757,092

See Independent Auditors Report on Supplementary Information.

VERMONT PUBLIC POWER SUPPLY AUTHORITY

Supplementary Schedule 6

RESTRICTED ASSETS SCHEDULE - CASH - PROJECT 10

FOR THE YEAR ENDED DECEMBER 31, 2016 and 2015

	Debt Service Interest	Debt Service Principal	Debt Service Reserve Fund	Reserve and Contingency	Revenue Funds	Reserve Fund	Construction Funds	Total
Balance at December 31, 2014	$ 580,020	563,618	1,978,062	197,764	177,092	811,765	(0)	4,308,321
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	$ 559,604	586,952	1,958,513	100,000	163,836	1,668,877	(0)	5,037,781
Add:								
Interest Income	-	-	16,068	-	1	386	-	16,455
Receipts of revenue	-	-	-	-	3,940,299	-	-	3,940,299
Transfers	932,033	1,028,333	7,231	98,018	-	528,420	-	2,594,036
Realized Gain on Investment	-	-	8,691	-	-	-	-	8,691
Unrealized Gain on investment	-	-	31,447	-	-	-	-	31,447
Deduct:								
Operating expenditures	-	-	-	-	(733,007)	-	-	(733,007)
Capital Improvements	-	-	-	-	-	-	-	-
Debt service payments	(953,369)	(1,005,000)		-	(2,593,090)	-	-	(4,551,458)
Transfers	-	-	(39,345)	-	(616,992)	-	-	(656,337)
Realized Loss on investment	-	-	-	-	-	-	-	-
Unrealized Loss on investment	-	-	(33,989)	-	-	-	-	(33,989)
Balance at December 31, 2016	$ 538,268	610,285	1,948,618	198,018	161,048	2,197,683	(0)	5,653,919

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, 2016 and 2015

	Total A Units	% of Total A Units	Total B Units	% of Total B Units	Total Units	% of Total	TOTAL VALUE
Balance at December 31, 2014	1,794,757		2,284,237		4,078,994		40,789,940
Purchases	-	0.00%	-	0.00%	-	0.00%	-
Sales	-	0.00%	-	0.00%	-	0.00%	-
Total	-	0.00%	-	0.00%	-	0.00%	$ -
Balance at December 31, 2015	1,794,757		2,284,237		4,078,994		40,789,940
Purchases	85,373	34.08%	108,656	34.08%	194,029	34.08%	1,940,290
Sales	(271,385)	-108.32%	(345,399)	-108.32%	(616,784)	-108.32%	(6,167,840)
Total	(186,012)	-74.25%	(236,743)	-74.25%	(422,755)	-74.25%	$ (4,227,550)
Balance at December 31, 2016	1,608,745		2,047,494		3,656,239		36,562,390

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, 2016 and 2015

ALLOCATION OF UNITS FOR THE BENEFIT OF MEMBERS AND NONMBERS

	Total A Units	% of Total A Units	Total B Units	% of Total B Units	Total Units	% of Total	TOTAL VALUE
Members:							
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
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
Non-Members:							
Vermont Electric Cooperative	271,385		345,399		616,784		$ 6,167,840
Specific Facilities							
LCP-Hardwick	85,932		109,368		195,300		1,953,000
LCP-Hyde Park	43,428		55,272		98,700		987,000
LCP-Johnson	51,590		65,660		117,250		1,172,500
LCP-Morrisville	203,896		259,504		463,400		4,634,000
Lyndonville Substation	96,536		122,864		219,400		2,194,000
	481,382		612,668		1,094,050		10,940,500
Balance at December 31, 2015	1,794,757		2,284,237		4,078,994		40,789,940

	Total A Units	% of Total A Units	Total B Units	% of Total B Units	Total Units	% of Total	TOTAL VALUE
Members:							
Barton	57,363	6.8911%	73,006	6.8910%	130,369	6.8911%	$ 1,303,690
Enosburg	86,455	10.3860%	110,035	10.3862%	196,490	10.3861%	1,964,900
Hardwick	133,406	16.0263%	169,790	16.0264%	303,196	16.0264%	3,031,960
Hyde Park	26,335	3.1637%	33,516	3.1636%	59,851	3.1636%	598,510
Jacksonville	19,890	2.3894%	25,315	2.3895%	45,205	2.3895%	452,050
Johnson	55,257	6.6381%	70,330	6.6384%	125,587	6.6383%	1,255,870
Ludlow	116,348	13.9771%	148,078	13.9770%	264,426	13.9771%	2,644,260
Lyndonville	263,684	31.6769%	335,599	31.6770%	599,283	31.6770%	5,992,830
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
Swanton	174,959	21.0182%	222,675	21.0182%	397,634	21.0182%	3,976,340
Total Members	1,127,363	135.43%	1,434,826	135.43%	2,562,189	135.43%	$ 25,621,890
Non-Members:							
Vermont Electric Cooperative	-		-		-		$ -
Specific Facilities							
LCP-Hardwick	85,932		109,368		195,300		1,953,000
LCP-Hyde Park	43,428		55,272		98,700		987,000
LCP-Johnson	51,590		65,660		117,250		1,172,500
LCP-Morrisville	203,896		259,504		463,400		4,634,000
Lyndonville Substation	96,536		122,864		219,400		2,194,000
	481,382		612,668		1,094,050		10,940,500
Balance at December 31, 2016	1,608,745		2,047,494		3,656,239		36,562,390