Vermont Public Power Supply Authority

Financial Statements

December 31, 2017 and 2016

(With Independent Auditors' Report Thereon)

Putting the Public in Power.

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, 2017 and 2016, 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, 2017 and 2016, 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 50 through 57 have been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Graham + Graham, PC

Graham & Graham, P.C.
Barre, Vermont
March 19, 2018
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, 2017 and 2016.

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, 2017 is as follows:

- Change in Net Position – Increase of $ 3,003,681
- Net Capital Assets - Decreased - $ 3,400,769
- 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: $ 3,972,221 (excludes notes refinanced and bonds defeased)

Overview of the Financial Statements

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

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

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

(Continued)

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 (asset sold in 2017).
- 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, 2017, and 2016.

	2017	2016
Capital Assets, net	$ 18,564,083	$ 21,964,851
Current Assets		
Cash & Cash Equivalents	8,621,268	8,039,094
Accounts Receivables	6,077,444	5,677,176
Other Current Assets	2,562,100	2,369,896
Total Current Assets	17,250,128	16,086,165
Long-Term Assets		
Investments	42,499,466	38,493,589
Other Long-Term Assets	507,428	515,375
Total Long-Term Assets	43,017,578	39,008,964
Deferred Outflow of Resources	-	-
TOTAL ASSETS & DEFERRED OUFLOWS OF RESOURCES	$ 78,831,789	$ 77,059,981

(Continued)

		2017		2016
Current Liabilities				
Accounts Payable		3,017,872		3,274,220
Short-term Debt		-		-
Current Portion-Bonds & LTD		3,558,116		3,059,427
Other		1,647,303		1,164,163
Total Current Liabilities		8,223,291		7,497,810
Long-term liabilities				
Bonds		16,057,913		17,395,000
Long-Term Debt		29,408,836		28,850,077
Other		76,127		73,697
Total Long-Term Liabilities		45,542,876		46,318,774
Deferred Inflows of Resources		100,987		184,619
TOTAL LIABILITIES & DEFERRED INFLOWS OF RESOURCES	$	53,867,155	$	54,001,203
Net Position		24,964,634		23,058,778
TOTAL LIABILITIES AND NET POSITION	$	78,831,789	$	77,059,981

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 (asset sold in 2017).

The following chart summarizes the Authority's fixed assets and accumulated depreciation for the years ended December 31, 2017 and 2016:

		2017	2016
Capital assets	$	47,592,498	52,108,478
Less accumulated depreciation		29,028,415	30,143,627
Total capital assets, net	$	18,564,083	21,964,851

In 2017 net capital assets decreased by $3.4 and decreased $1.5M in 2016. In 2017 the decrease was primarily due to the sale of the Authority's ownership share in the Highgate Convertor. This sale resulted in a net decrease in assets of $2.1M and the remaining decrease was attributed to annual depreciation on remaining capital assets in service. The decrease in 2016 was 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 2017, current assets increased by $1.2M or 7.3% and increased by $.2M or 1.1% in 2016. The increase in 2017 was attributed to an increase in cash and cash equivalents of approximately $.6M, an increase in accounts receivable of approximately $.4M or 7.1% and an increase other current assets of $.2M or 8%. (inventories, accrued distributions, due from members). 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.

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 2017 and 2016, 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.

Bond Funds:

In 2017 bond fund investments decreased less than $.1M or 3.8% and in 2016 bond fund investments increased approximately $.2M or 11.2%. The decrease in 2017 is due to the advance refunding of the Project #10 bonds, reducing the required amount to be held in the debt service reserve fund and the increase in 2016 is 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.

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Vermont Transco Membership Units:

In 2017, the Authority purchased an additional 407,867 membership units in Vt. Transco, LLC, Vermont's Transmission provider, at a value of $4,078,670. In 2016, the Authority purchased an additional 194,029 membership units in Vt. Transco, LLC at a value of $1,940,290. 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, 2017, the Authority owns a total of 4,064,106 member units with a total value of $40,641,060.

Other Long-Term Assets:

Other long-term assets decreased in 2017 by less than $8K or 1.5% and decreased in 2016 by less than $55K or 9.6%. The decreases in both 2017 and 2016 are due a slight decline in future revenues due from members.

Deferred Outflows of Resources – Deferred Outflows of Resources are defined as a consumption of net assets that are applicable to a future reporting period. In simple terms, this generally includes transactions where resources (typically cash) are expended but the reporting (expensing) for that transaction would occur over a period of years. These types of transactions have a positive effect on a company's net position, similar to assets. Examples of this are derivative instruments that have a positive impact to the company, unamortized debt issuance costs, amounts resulting from the refunding of debt, loan origination costs, etc. Deferred outflows of resources did not change in 2017 or 2016.

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 2017 current liabilities increased $.7M or 9.7% and decreased $5.3M or 41.4% in 2016. Both the increase in 2017 and the decrease in 2016 are primarily due to the changes in the current portion of bonds and long-term debt. In 2017 the current portion of bonds and long-term debt increased due to the advance refunding of the Project #10 bonds, resulting in higher annual principal payments and the addition of two notes for the purchase of member units in Vt. Transco. In 2016 the current portion of LTD decreased due to one note obligation with a balance just over $5M that was included in the current portion of bonds and long-term debt payable and subsequently paid in 2016.

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 both 2017 and 2016, the Authority had one outstanding bond issue (2009 series) that was used to facilitate the construction of the Authority's Swanton Peaker Project #10 located in Swanton, Vermont.

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In 2017, the 2009 Series bonds were advance refunded, with the 2009 Series defeased with the issue of the 2017 Series bonds. As a result, bonds payable decreased $1.3M or 7.7 % and $1M or 5.7 % in 2016. These reductions were the result of the refunding and the repayment of principal on bonds outstanding during these years.

In both 2017 and 2016, the Authority maintained seven (7) long-term debt facilities. In 2017, all seven facilities were to facilitate purchases of membership units in Vt. TRANSCO for the benefit of certain of the Authority's members. In 2016, two facilities 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 2017 long-term debt facilities increased by $.6M or 1.9% and decreased less than $75K or .3% in 2016. In 2017 the increase was due to the addition of two facilities in the amount of $1.6M and $2.M utilized for the purpose of purchasing member units in Vt. Transco, LLC. These increases were slightly offset by the full payment of two existing facilities – the Project 10 facility and the Highgate Convertor facility, and the ongoing principal repayments on the remaining existing obligations.

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.

Other long-term liabilities include accrued vacations payable to Authority employees. The value of the accrued benefit to Authority employees is $76,127 and $73,697 for 2017 and 2016, 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 one (1) interest rate swap in 2017 and three (3) interest rate swaps in 2016.

The mark-to-market valuation of the interest rate swap(s) result in a liability of $.1M and $.2M at December 31, 2017 and 2016, 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 and 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.

Two interest rate swaps were eliminated during 2017 and one interest rate swap was eliminated in 2016 due to the maturity of both the notes and the swaps related to those notes.

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 (in 2016) and the Swanton Peaker Project #10, less the debt service related to the Projects.

(Continued)

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 $1,905,856 in 2017 and $1,235,830 in 2016. 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 one (1) interest rate swap in 2017 and three (3) interest rate swaps in 2016 that the Authority entered into providing rate stability to the organization.

(Continued)

The following table summarizes the Authority's change in net position as of December 31, 2017 and 2016.

		2017		2016
Electric Sales For Resale	$	30,039,747	$	29,821,057
McNeil Project Revenue		3,648,996		2,789,245
Highgate Project Reveune		430,187		552,068
Swanton (P10) Revenue		3,673,557		3,901,411
Other Revenues		3,449,073		4,242,072
Total Operating Revenues	$	41,241,560	$	41,305,853
Power Production and Other Expenses		4,200,053		4,969,727
Transmission Expenses		10,438,992		10,493,241
Purchased Power		19,883,797		19,104,020
Regional Market Expenses		5,642		24,556
Administration & General Expenses		2,458,006		2,640,250
Taxes		302,994		336,752
Depreciation & Amortization		1,703,665		1,879,320
Total Operating Expenses	$	38,993,149	$	39,447,866
Net Operating Income(Loss)		**2,248,411**		**1,857,987**
Transco Income/Expenses (net)		2,715,683		3,318,087
Interest Income/Expenses (net)		(2,100,707)		(2,924,347)
Amortizations (net)		(220,309)		(11,416)
Proceeds/Expenses Related to Insurance Claim (net)		19,120		-
Other Non-Operating Income/Expenses (net)		341,484		8,779
Total Non-Operating Expenses, Net	$	755,270	$	391,103
Change in Net Assets		**3,003,681**		**2,249,090**
Other Comprehensive Income		96,012		217,658
Transco Investment Return		-		(1,230,918)
UnAppropriated Earnings Distributed		(1,193,836)		
Net Assets at Beginning of Year		23,058,778		21,822,948
	$			
Net Assets at End of Year	**$**	**24,964,634**	**$**	**23,058,778**

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 2017 Electric Sales for Resale increased by $.2M or 1%, whereas, in 2016 Electric Sales for Resale increased by $2.7M or 10.2%, Purchased power and transmission expenses increased $.7M or 2.5% in 2017, and increased $2.4M or 9% in 2016.

The increase in Sales for Resale in 2017 was due to a combination of an increase in power supply costs ($.8M) and member fees ($.1M), offset by an increase in credits related to Project #10 ($.8M) and REC revenues from the McNeil facility ($.6M).

The increase in Sales for Resale in 2016 is attributed to several factors - an increase in member fees of ($.2M), a reduction in REC revenues related to the Fitchburg facility ($.4M), a reduction in market credits related to Swanton Peaker Project ($1M) and a general increase in power supply and/or transmission costs ($1M).

In 2017 purchase power and transmission costs increased by $.8M or 2.7%. Of this amount, approximately $2,500 was related to transmission costs. In 2016 purchase power and transmission costs increased $2.4M or 9%. Transmission costs increased approximately $451K, primarily due to less revenue received from the region, that ultimately increases cost to 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 increased by approximately $.9M or 31% in 2017, and decreased $.3M or 9.6% in 2016.

The increase in 2017 is primarily due to the methodology used for REC credits related to the facility.

In 2017, the Authority invoiced the project participants for the gross cost of the project and this amount is reflected in Project sales revenue. The REC revenues related to the project were previously credited to project participants net of Project sales revenue and in 2017 the REC credits were credited to Participants through the Authority's monthly power settlement process. The increase due to the methodology change in REC credits was offset slightly by an overall decrease in costs for the facility in 2017.

The decrease in 2016 was 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.

In 2016, REC revenues were credited against current expenses; therefore, an increase in REC revenues correspondingly results in a decrease in Project sales revenue.

In 2017, REC revenues related to the McNeil project decreased by approximately $.9M and increased approximately $.3M in 2016. Of the total REC revenues of $1.8M in 2017, $1.2M was credited against McNeil Project revenues and $.6M was credited to Participants through the Authority's monthly power settlement process.

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 2017 and 2016 by $684K or 15% and $291K or 6% 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.

(Continued)

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
2017	61.4%	74.6%
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%

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 decreased $122K or 22% in 2017 as compared to a increase of $19K or 3.5% in 2016. The decrease in 2017 is due to the sale of the asset that occurred in May of 2017 and 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.

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 2017 project revenues decreased $.2M or 6% and in 2016 revenues decreased $.2M or 5%.

The primary reason for the decrease in both 2017 and 2016 were 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 $4.7M in 2017 and $4M in 2016. 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 2017 by less than $.1M or 18% and decreased in 2016 by $.1M or 19%. The decrease in both 2017 and 2016 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 following chart represents the capacity and availability factors related to the Swanton Peaker Project for the last seven years:

Year	Capacity Factor	Availability Factor
2017	0.168%	99%
2016	0.275%	99%
2015	0.258%	99%
2014	0.064%	99%
2013	0.154%	99%
2012	0.091%	91%
2011	0.086%	98%

(Continued)

Other Revenues - Other revenues include the sale of Renewable Energy Certificates (RECs) generated from the J.C. McNeil Project #2, the Waste Management-Fitchburg Landfill facility, and several member's individual Hydro and or Solar units, as well as revenue related to the member's cost of meeting Renewable Energy Standards and computer-related service revenues.

The McNeil REC sales are recorded as revenue and were used to offset current project expenses in 2016 and were used to offset Sales for Resale in 2017. In 2017 the value of the McNeil RECs sold were approximately $1.8M as compared to $2.7M in 2016, $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.

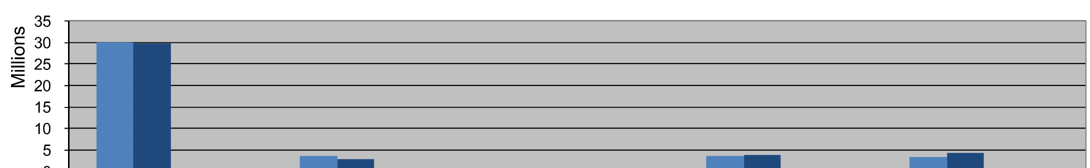
The Power Purchase Agreement between the Authority and the Waste Management-Fitchburg Landfill facility includes environmental attributes including the sale of renewable energy credits. These credits are recorded as revenue and netted against the cost of the power purchased per the power purchase agreement. The renewable energy credits realized from this resource totaled $1.1M in 2017, $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.

In 2017 the Authority purchased Renewable Energy Credits to meet certain Renewable Energy Standards for certain Authority members. The Authority billed out the cost of these charges and it is included in "other" revenues.

Revenues Summary

The following chart provides a snapshot the Authority's Revenues for 2017 and 2016.



	Electric sales for resale	McNeil project revenue	Highgate project reveune	Swanton (P10) revenue	Other revenue
2017	30,039,747	3,648,996	430,187	3,673,557	3,449,073
2016	29,821,057	2,789,245	552,068	3,901,411	4,242,072
% Change	1%	31%	-22%	-6%	-19%
2017 % of Total	72.8%	8.8%	1.0%	8.9%	8.4%

Non-Operating Activities

Changes in non-operating activities for 2017 and 2016 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 both 2017 and 2016 interest on deposits and investments increased. 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 2017 and 2016. The decrease in 2017 is primarily due to the P10 bond advance refunding and the ongoing reduction of principal on bonds and loans outstanding, slightly offset by the addition of one new debt facility in 2016. The decrease in 2016 is primarily due to the ongoing reduction of principal on bonds and loans outstanding.

These variances include the following:

- A increase in interest earned on deposits and investments of $12K or 3.6% in 2017, compared to a $9K or 2.6% in 2016.
- An decrease in interest expense of $811K or 28% in 2017 and a decrease of $208K or 6.6% in 2016. Of these amounts, there was a decrease in expense related to interest rate swaps of $181K in 2017 and a decrease of $$46K in 2016.

Distribution Income and Distribution Expense - The Authority currently holds a total of 4,064,106 TRANSCO membership units valued at $40,641,060. In 2017 distribution income decreased by $335K or 6.2 %. 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 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, 2017.

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

VERMONT PUBLIC POWER SUPPLY AUTHORITY
STATEMENTS OF NET POSITION
FOR THE YEARS ENDING DECEMBER 31, 2017 and 2016

ASSETS	***2017***	***2016***
CAPITAL ASSETS, net	$ 18,564,083	$ 21,964,851
UNRESTRICTED ASSETS		
CURRENT:		
Cash and Cash Equivalents	2,704,816	1,888,796
Accounts Receivable	5,377,475	5,335,760
Due from Members	102,601	54,514
Other Current Assets	76,304	28,436
TOTAL CURRENT ASSETS	$ 8,261,197	$ 7,307,506
LONG TERM:		
Other Long-Term Assets	-	-
TOTAL LONG TERM ASSETS	-	-
TOTAL UNRESTRICTED ASSETS	8,261,197	7,307,506
RESTRICTED ASSETS		
CURRENT:		
Cash and Cash Equivalents	5,916,451	6,009,932
Cash Advances - Projects	-	140,366
Accounts Receivable	699,969	341,416
Due From Members	10,683	-
Fuel Inventories-McNeil & P10	1,143,873	1,110,489
Interest/Distribution Receivable	1,206,273	1,146,302
Other Current Restricted Assets	22,366	30,155
TOTAL RESTRICTED CURRENT ASSETS	8,999,614	8,778,659
LONG TERM:		
Due from Members	371,064	377,496
Investments - Bond Funds	1,858,406	1,931,199
Investment in VT Transco, LLC - Restricted	31,501,952	29,036,379
Investment In VT Transco, LLC - Restricted - Eligible for Release	9,139,108	7,526,011
Other Long-Term Assets	136,364	137,879
TOTAL RESTRICTED LONG TERM ASSETS	43,006,895	39,008,964
TOTAL RESTRICTED ASSETS	52,006,509	47,787,623
DEFERRED OUTFLOWS:		
Derivatives Instrument Asset	-	-
Unamortized Debt Issuance Costs	-	-
TOTAL DEFERRED OUTFLOW OF RESOURCES	-	-
TOTAL ASSETS & DEFERRED OUTFLOW OF RESOURCES	$ **78,831,789**	**$ 77,059,981**

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, 2017 and 2016

LIABILITIES		***2017***		***2016***
CURRENT LIABILITIES				
Accounts Payable		2,753,376		2,752,116
Amounts Due to Members		1,069,106		122,527
Other Current Liabilities		38,242		40,857
TOTAL CURRENT LIABILITIES	$	3,860,723	$	2,915,500
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS				
Bonds Payable, Current Portion		1,465,000		1,045,000
Current Installments on Long - Term Debt		2,093,116		2,014,427
Amounts Due Members		413,906		479,932
Accounts Payable		264,496		522,103
Accrued Interest Payable		126,050		520,847
TOTAL CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		4,362,568		4,582,310
LONG-TERM LIABILITIES				
Bonds Payable from Restricted Assets, (excl. current installments)		16,057,913		17,395,000
Long-Term Debt Payable from Restricted Assets (excl. current installments)		29,408,836		28,850,077
Other Long-Term Liabilities		76,127		73,697
TOTAL LONG-TERM LIABILITIES:		45,542,876		46,318,774
DEFERRED INFLOWS OF RESOURCES:				
Derivative Instrument Liability		100,987		184,619
TOTAL DEFERRED INFLOW OF RESOURCES		100,987		184,619
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		53,867,155		54,001,203
NET POSITION				
Invested in Capital Assets, Net of Related Debt		1,041,169		1,674,556
Restricted for McNeil Project #2		2,989,585		2,874,486
Restricted for Swanton Peaker - Project #10		6,444,637		5,529,840
Restricted for Highgate - Project #3		-		264,392
Restricted - Investment in Transco, LLC - Pledged - Eligible for Release		9,139,108		7,526,011
Restricted - Investment in Transco, LLC, net of related debt		1,138,505		1,079,915
Other Comprehensive Income - Restricted		(112,718)		(208,730)
Unrestricted		4,324,347		4,318,309
TOTAL NET POSITION	$	24,964,634	$	23,058,778
TOTAL LIABILITIES, INFLOWS OF RESOURCES & NET POSITION	$	**78,831,789**	$	**77,059,981**

VERMONT PUBLIC POWER SUPPLY AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDING DECEMBER 31, 2017 and 2016

	2017	2016
REVENUES		
Electric Sales for Resale	30,039,747	29,821,057
McNeil Project Revenue	3,648,996	2,789,245
Highgate Project Revenue	430,187	552,068
Swanton (P10) Project Revenue	3,673,557	3,901,411
Renewable Energy Certificates	3,246,835	4,086,611
Other Service Revenue	202,238	155,461
TOTAL REVENUES	$ 41,241,560	$ 41,305,853
OPERATING EXPENSES		
Purchased Power	19,883,797	19,104,020
Transmission Expenses	10,438,992	10,493,241
Power Production Expenses	4,200,053	4,969,727
Regional Market Expense	5,642	24,556
Administrative & General Expenses	2,177,883	2,347,960
Outside Services	280,123	292,290
Payment in Lieu of Taxes	302,994	336,752
Depreciation	1,703,665	1,879,320
TOTAL OPERATING EXPENSES	38,993,149	39,447,866
OPERATING INCOME FROM CONTINUING OPERATIONS	2,248,411	1,857,987
NON-OPERATING REVENUE (EXPENSE)		
Distribution Income - Vt Transco, LLC	4,634,664	4,969,215
Net Settlement Expense - Vt Transco LLC	(1,918,981)	(1,651,128)
Interest Expense - Vt Transco, LLC LTD	(1,522,639)	(1,691,920)
Interest Expense - Vt Transco, LLC Swaps	(58,233)	(230,077)
Interest Expense - Long-Term Debt	(532,269)	(993,134)
Interest Expense - LTD Swaps	(24,661)	(33,939)
Amortization of LTD Discount, Premium & Issuance Exp	(158,389)	(11,416)
Amortization of Loss on Reacquired Debt	(61,919)	-
Interest Earned on Accounts	37,094	24,723
Gain/(Loss) on Disposition of Plant Asset	2,442	(116)
Realized Gain/(Loss) on Investments	(34,358)	8,691
Net Proceeds related to Insurance Claim	19,120	-
Other Non-Operating Revenue (Expense)	373,400	203
TOTAL NON-OPERATING REVENUE (EXPENSE)	755,270	391,103
CHANGE IN NET POSITION	3,003,681	2,249,090
Other Comprehensive Income-Interest Swaps	83,632	220,656
Other Comprehensive Income-Unrealized Gains/Losses	12,380	(2,998)
Appropriated Earnings-Transco Investment Return	-	(1,230,918)
UnAppropriated Earnings Distributed	(1,193,836)	-
TOTAL NET POSITION - BEGINNING	23,058,778	21,822,948
TOTAL NET POSITION - ENDING	$ **24,964,634**	$ **23,058,778**

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, 2017 and 2016

CASH FLOWS FROM OPERATING ACTIVITIES	***2017***	***2016***
Receipts:		
Electric sales for resales	29,728,530	29,438,150
McNeil project revenue	3,281,208	2,970,885
Highgate project revenue	477,784	538,818
Swanton Peaker project revenue	3,673,557	3,901,411
RES Project Revenue	64,063	-
Renewable Energy Certificates	3,342,343	4,185,055
Other Revenues	148,992	151,569
Payments made for:		
Purchased power	(19,307,067)	(19,919,675)
Transmission expense	(10,601,763)	(9,770,020)
Power production expense	(4,125,327)	(4,750,442)
Regional Markets Expense	(5,608)	(23,781)
Others, employees, benefits, and employee and employer payroll taxes	(1,557,807)	(1,644,672)
Outside services and other general and administrative expenses	(1,109,201.94)	(1,108,074.57)
Taxes	(294,697)	(322,945)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 3,715,005	$ 3,646,278
CASH FLOWS FROM NON-OPERATING ACTIVITIES		
Receipts:		
Member Reimbursements	14,367	20,765
Insurance Settlements	19,120	-
Misc Sales/Income	2,519	185
Payments made for:		
Member Purchases	(15,115)	(19,143)
NET CASH PROVIDED BY NON-OPERATING ACTIVITIES	$ 20,891	$ 1,807
NET CASH PROVIDED BY OPERATING & NON-OPERATING ACTIVITIES	$ 3,735,896	$ 3,648,085
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Repayment of LTD Financing of Vt. Transco, LLC Units	(5,055,185)	(6,408,387)
Repayment of Interest on STD - Vt. Transco, LLC	-	(6,114)
Repayment of Interest on LTD - Vt. Transco, LLC	(1,496,182)	(1,689,530)
Repayment of Interest on LTD Swap Agreements - Vt. Transco LLC	(70,700)	(230,431)
Payment of Fees Related to Transco Financing	(25,368)	(11,416)
Proceeds Related to Repayment of Financing Costs	3,935	7,772
Proceeds of LTD Financing of Vt. Transco, LLC Units	7,520,758	2,100,000
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	$ 877,258	$ (6,238,105)
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Repayment of Bonds Payable	(18,440,000)	(1,005,000)
Payments of Interest Expense on Bonds Payable	(982,675)	(953,369)
Proceeds of Bond Refunding	17,547,541	-
Payments of Fees (Cost of Issuance Related to Bond Refunding	(161,597)	-
Repayments of Long-Term Notes Payable	(1,889,166)	(732,500)
Payment of Interest Expense on Long-Term Notes Payable	(28,620)	(58,941)
Payment of Interest Expense on LTD-Swap Agreements	(26,923)	(35,536)
NET CASH USED IN CAPITAL AND FINANCING ACTIVITIES	$ (3,981,441)	$ (2,785,346)

		2017		2016
CASH FLOWS FROM INVESTING ACTIVITIES				
Net Capital Additions		(281,501)		(343,118)
(Acquistion) Sale of Capital Assets		1,847,329		-
Equity Distributions to Members		(553,563)		-
Interest Income		39,241		24,784
Distributions Earned on Transco Investment		4,572,628		5,102,006
Net Settlement Distributions to Members/Non-members		(1,645,818)		(1,643,977)
Gain (Loss) on Bond Investment Funds		(34,358)		8,691
Purchase of Bond Fund Investments		(1,870,137)		(2,964,880)
Sale of Bond Fund Investments		1,955,309		2,767,027
(Purchase) Sale of VT Transco, LLC Member Units		(4,078,670)		2,996,632
NET CASH USED IN INVESTING ACTIVITIES	$	(49,538)	$	5,947,165
NET INCREASE (DECREASE) IN CASH		582,174		571,799
CASH BALANCE, BEGINNING OF YEAR		8,039,093		7,467,294
CASH BALANCE, END OF YEAR	$	8,621,267	$	8,039,093

		2017		2016
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED OPERATING ACTIVITIES				
Operating income from continuing operations		2,248,411		1,857,987
Adjustments to reconcile net operating income to net cash provided by operating activities				
Depreciation and amortization		1,703,665		1,879,380
Change in assets and liabilities:				
(Increase) decrease in Accounts Receivable		175,932		(94,422)
(Increase) decrease in Amounts Due from Members		(22,578)		-
(Increase) decrease in Inventories		(33,384)		135,125
(Increase) decrease in Other Assets		(82,779)		141,352
Increase (decrease) in Accounts Payable		(345,402)		(262,200)
Increase (decrease) in Amounts Due to Members		65,713		28,957
Increase (decrease) in Other Liabilities		5,427		(39,899)
Total adjustments	$	1,466,595	$	1,788,291
NET CASH PROVIDED BY OPERATING ACTIVITIES	$	3,715,005	$	3,646,278

VERMONT PUBLIC POWER SUPPLY AUTHORITY
STATEMENTS OF CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2017 and 2016

	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
Current Year Change in Net Assets	(633,387)	2,437,192	6,039	-	1,809,844
Interest Rate Swap	-	-	-	83,632	83,632
Unrealized Gains/Losses	-	-	-	12,380	12,380
Balance at December 31, 2017	$ 1,041,169	19,711,835	4,324,347	(112,717)	24,964,634

See Independent Auditors Report and accompanying notes to financial statements.

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. 85, *Omnibus 2017.* The objective of this statement is to establish accounting and financial reporting requirements for blending component units, goodwill, fair value measurement and application, and post employment benefits (pensions and other postemployment benefits [OPEB]) GASB Statement No. 85 is effective for financial reporting periods beginning after June 15, 2017. The Authority does not have any component units, does not report goodwill, does not participate in OPEB plans for the benefit of its employees and is not affected by the fair value provisions of GASB No. 85 and has therefore determined that this statement 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. 86, *Certain Debt Extinguishment Issues.* The objective of this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt with only existing resources (resources other than proceeds of refunding debt). GASB Statement No. 86 is effective for financial reporting periods beginning after June 15, 2017. The Authority did not defease debt with existing resources placed in trust and has therefore determined that GASB Statement No. 86 will not have an impact on its financial position, results of operations and cash flows for the current reporting period.

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

(a) New Accounting Pronouncements (cont.)

The Authority has completed the process of evaluating the impact of GASB Statement No. 87, *Leases.* The objective of this statement is to establish a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. GASB Statement No. 87 is effective for financial reporting periods beginning after December 15, 2019. The Authority does not currently lease significant property or equipment from third parties. The Authority has determined that this statement will have no impact on its financial position, results of operations and cash flows for the current reporting period.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(c) Capital Assets

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

The Authority’s capitalization policy is as follows:

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

- When an existing asset is partially 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.

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

The depreciable lives of capital assets are as follows:

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

(d) Impairment of Long-Lived Assets

In accordance with 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.

(Continued)

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

(f) Restricted Investments

Restricted investments reflect bond proceeds invested by the trustee in short term and long term duration investments allowable under the Authority's General bond resolutions and are held within the applicable bond fund accounts. In accordance with GASB Statement No. 72, these investments are considered available for sale as such investments have a determinable fair market value and can be matured at anytime under the General Bond resolution. Such investments include certificates of deposit, corporate bonds, and fixed income securities. These amounts are held for future debt service payments on the associated bonds and are recorded at their fair market value as of the financial statement date. The unrealized gain or loss on such investments, are reported as of the statement of net position date, as other comprehensive income or loss.

(g) Fair Value of Investments

GASB Statement No. 72, *Fair Value Measurement and Application,* defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date". To increase consistency and comparability in fair value measurements and related disclosures, the fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels.

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). *Observable inputs* are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. *Unobservable inputs* are inputs that reflect the reporting entity's own analysis about those assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy that categorizes and prioritizes inputs used to estimate fair value are as follows:

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

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

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

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

(h) <u>Revenue and Purchased Power</u>

The power supply and transmission products that the Authority obtains on behalf of its participating members and non-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 and non-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% (in 2016, sold in 2017)

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

(i) <u>Fuel Inventory</u>

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) <u>Restricted Investment in VT Transco, LLC</u>

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.

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

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

On January 23, 2009, the Vermont Public Utilities Commission (formerly 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 Utilities Commission

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

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

Restricted Investment – Eligible for release – Assets held for the benefit of certain of its members or non-members and those membership units whereby the debt obligation related to those membership units at stated value, have been paid for and have yet to be released from pledge under the loan agreement, or transferred to certain of its members. The stated value of paid units have been recorded as restricted equity – eligible for release, until such time the pledge related to those units is released from the bank and the required consents and approval by TRANSCO occurs.

(k) Interest rate swap agreements

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

As required under GASB 53, as of December 31, 2017 and 2016, the Authority has recorded the remaining swap agreement as hedging derivatives and the value of the agreements' net present cash flows as of the statement of net position date have been recorded as a deferred outflow or deferred inflow and any unrealized gain or loss as other comprehensive income or loss in the statement of net position.

(Continued)

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

(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 $302,994 and $336,752 for the years ended December 31, 2017 and 2016, respectively.

(m) Operating and Non-Operating Revenues and Expenses

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

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

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

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

Operating revenues are defined as all income received from member and non-member 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.

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

Non-operating income is defined as income received from sources other than the income from the Authority’s members and non-member 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.

(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 19, 2018, 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.

In addition, a sweep account was established for those deposits held by Keybank, N.A. and amounts 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.

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

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, 2017 and 2016, the Authority's restricted deposits were fully secured.

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

	2017	2016
Cash Advances – Highgate Project	$ -	$ 140,366
Cash and Cash Equivalents - Highgate Project	-	95,932
Cash and Cash Equivalents – McNeil Project	1,289,060	1,757,092
Cash and Cash Equivalents – Project 10	4,289,138	3,722,721
Cash – Amounts Due Members	338,253	434,187
Total Restricted Cash and Cash Equivalents	$ 5,916,451	$ 6,150,298

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. In 2016 the Authority was 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; however, that facility was sold to Vt. Transco LLC and the Town of Stowe Electric Department on May 31, 2017. Capital assets and accumulated depreciation as of December 31, 2017 and 2016 are as follows:

	December 31, 2016	Additions	Retirements	December 31, 2017
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	60,153	408,530	(439,341)	29,343
Structures and Improvements	8,429,222	66,123	(669)	8,494,675
Equipment	35,616,000	316,130	(117,797)	35,814,333
Depreciable Production Plant	44,045,221	382,253	(118,467)	44,309,008
Less Accumulated Depreciation for:				
Structures and Improvements	(5,607,647)	(122,233)	669	(5,729,210)
Equipment	(20,106,519)	(1,401,558)	117,797	(21,390,279)
Accumulated Depreciation	(25,714,165)	(1,523,791)	118,467	(27,119,489)
Net Depreciable Production Plant	18,331,056	(1,141,538)	-	17,189,519
TRANSMISSION PLANT				
Land – Non Depreciable	68,497	-	(68,497)	-
Structures & Improvements	284,092	-	(284,092)	-
Equipment	5,730,935	-	(4,315,063)	1,415,872
Depreciable Transmission Plant	6,015,027	-	(4,599,155)	1,415,872
Less Accumulated Depreciation for:				
Structures	(202,216)	(1,837)	204,053	-
Equipment	(2,748,258)	(127,787)	2,428,734	(447,311)
Accumulated Depreciation	(2,950,474)	(129,624)	2,632,787	(447,311)
Net Depreciable Transmission Plant	3,064,553	(129,624)	(1,966,369)	968,560
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	(130,768)	(3,040)	-	(133,808)
Communication Equipment	(19,074)	-	-	(19,074)
Accumulated Depreciation	(149,843)	(3,040)	-	(152,882)
Net Depreciable RTM Plant	7,599	(3,040)	-	4,560

(Continued)

GENERAL PLANT				
Land – non depreciable	141,099	-	-	141,099
Structures & Improvements	674,559	-	(68,617)	605,942
Equipment	693,183	39,124	(51,812)	680,495
Depreciable General Plant	1,367,742	39,124	(120,429)	1,286,438
Less Accumulated Depreciation for:				
Structures	(504,802)	(25,978)	16,663	(514,117)
Equipment	(650,320)	(21,232)	50,960	(620,592)
Accumulated Depreciation	(1,155,122)	(47,211)	67,624	(1,134,709)
Net Depreciable General Plant	212,620	(8,087)	(52,805)	151,729
Net Capital Assets	**21,964,852**	**(873,758)**	**(2,527,011)**	**18,564,083**

(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**

Total depreciation expense for the years ending December 31, 2017 and 2016 is $1,703,665 and $1,879,320, 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, 2017 the Authority recorded the following amounts due from Members:

Power Contracts	$ 22,578
Stonybrook Advances	$ 11,724
Standard Offer Solar Projects	$ 68,300
Transco Activities	$ 10,683
McNeil Advances	$ 371,064
Total Amounts Due from Members	**$ 484,349**

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, 2017 are as follows:

	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
Federal Home Ln Mtg Corp	$ 1,770,396		($ 11,105)	$ 1,759,291
Federal Home Ln Mtg Corp	$ 99,741		($ 626)	$ 99,115
Total	$ 1,870,137	-	($ 11,731)	$ 1,858,406

(Continued)

Note 6 – Restricted Investments (cont.)

Cost and estimated fair value of restricted fixed maturity securities at December 31, 2017 by contractual maturity, are as follows:

Maturity	Cost	Fair Market Value
In 2017	$ -	$ -
2018 to 2021	1,870,137	1,858,406
Totals	$ 1,870,137	$ 1,858,406

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, 2017.

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, 2013 and 2017.

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, 2017, and 2016, 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.

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

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

On December 23, 2008 and August 31, 2009, a separate "Assignment of Rights to Purchase Transco Equity Agreements" was executed between a non-member and the Authority for the acquisition of membership units then offered to the non-member.

Under the terms of the Assignment of Rights to Purchase Transco Equity Agreements all revenues distributed to the Authority and rights of ownership related to the Transco Equity purchases belong to the Authority, subject to transfer by sale at a price to be agreed upon after the tenth anniversary date of the date of the agreements. These agreements provide that the Authority shall pay a fee to the non-member on a quarterly basis in exchange for the assignment of these Rights. The transaction between the non-member and the Authority was completed in 2016 and as of December 31, 2016 the Assignment Agreement is no longer in effect.

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

<u>Members</u>

During the period from 2007 - 2017, 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, 2017, the Authority owns a total of 3,965,489 membership units with a total value of $39,654,890 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 – 2017, time period. In 2011, the Authority filed with the Vt. Public Utilities Commission 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. On December 20, 2017 the note was refinanced with the same lender for a term of ten (10) years with a fixed interest rate of 4.06%.

In 2014, the Authority filed with the Vt. Public Utilities Commission 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.

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

On December 23, 2014, the Authority entered into a loan arrangement with a local financial institution for an amount of $4,586,768.67 for a period of seven years, at a fixed interest rate of 4.28%. This note was refinanced with the same lender on October 17, 2017 for a term of ten (10) years with a fixed interest rate of 3.52%.

In 2016, the Authority filed with the Vt. Public Utilities Commission 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%.

In 2017, the Authority filed with the Vt. Public Utilities Commission and subsequently received approval for authority to enter into two long-term financings related to purchases of Transco membership units for the benefit of certain Authority members and the Authority directly. On October 17, 2017, the Authority entered into a long-term loan arrangement with a local financial institution for an amount of $1,591,450 for period of ten (10) years at a fixed interest rate of 3.52% and on December 28, 2017, the Authority entered into a long-term loan arrangement with a local financial institution for an amount of $1,973,220 for period of ten (10) years at a fixed interest rate of 3.89%.

During 2017 and 2016 the Authority earned total distribution income from the units held for the benefit of its members' of $3,239,786 and $3,022,172, respectively.

The 2017 distribution income earned of $3,239,786 for the units held for the benefit of its members paid down: principal on membership units previously acquired and financed in the amount of $1,099,097, interest expense on the Authority's debt of $854,467 an additional $28,631 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 $1,257,591.

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.

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.

During 2016, the Authority earned a total distribution income from the units held for the benefit of a non-member of $578,605. In addition to this distribution income earned of $578,605, the authority received a payment from the non-member in the amount of $5,037,576.

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

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.

Lamoille County Project – Members

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

The distribution income related to the LCP member units is used to cover the amount of the interest costs to service the debt to purchase said LCP units by the Authority. The annual equity overbuy return is determined as the difference between the distribution income less the required annual interest costs, and each members allocated annual specific facilities charges for a period of ten years.

After the tenth anniversary date of the acquisition, the LCP units must be repurchased by VT Transco, LLC if not acquired by other members or substitute members. For a period of ten years, the total annual specific facility charges for the four members total $429,000 and are fixed in accordance with the settlement agreement. If the allocated annual equity over-buy return is less than zero, the allocated annual specific facility charge will be reduced by the amount of excess interest costs paid by the LCS member above its allocated portion of cash distribution received.

At December 31, 2017 and 2016, 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 2017 and 2016, 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 2017 and 2016, paid down actual interest expense paid on the Authority's debt of $546,656 for each year. The remaining $547,356 for each year was recorded as distribution (net settlement) expense and credited to the LCP-members.

VELCO/Lyndonville Substation Project – Member

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

(Continued)

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

At December 31, 2017 and 2016 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 2017 and 2016, the Authority earned distribution income from the units held for the benefit of LED of $274,425 for each respective year. In 2017, the distribution income paid down actual interest expense of $159,495 and $159,495 in 2016, as well as costs of debt service in the amount of $896 for each year. The remaining $114,034 for both 2017 and 2016, was recorded as distribution (net settlement) expense and credited to LED.

Authority – Direct Purchase

In 2017, the Transco Operating Agreement was amended with language that provides the Authority the ability under certain circumstances to purchase member units in Vt. Transco LLC directly for the benefit of the Authority. In 2017, the Authority purchased a total of 98,617 member units valued at $986,170. In 2017, the Authority earned a distribution of $26,440. This distribution paid interest expense of $6,264, financing costs of $2,905 and the remaining $17,271 was used by the Authority to reduce operating costs to its members.

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 30, 2017 for a term of three years, providing a maturity date of June 30, 2020.

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, 2017 and 2016 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, 2017 and 2016, there were no outstanding lines of credit for the funding of construction projects and there were no outstanding short-term notes.

(Continued)

Note 10 – Bonds Payable

Outstanding revenue bonds payable consist of the following at December 31, 2017 and 2016:

		December 31, 2016	Increases	Payments and reductions	December 31, 2017	Current Portion
SWANTON PEAKER PROJ #10:						
Revenue Bonds –2009 Series A maturing July 1, 2011 through 2029 – Interest ranges from 3% to 5.25%		17,575,00	-	17,565,000	-	-
Revenue Bonds –2017 Series A maturing July 1, 2011 through 2029 – Interest ranges from 3% to 5.00%			16,115,000		14,730,000	
Current portion of bonds payable			-	-		1,385,000
TOTAL PROJECT 10 - SERIES A		17,575,000	16,115,000	17,565,000	14,730,000	1,385,000
SWANTON PEAKER PROJ #10:						
Revenue Bonds – 2009 Series B maturing July 1, 2011 through 2029		865,000	-	865,000	-	
Revenue Bonds – 2017 Series B maturing July 1, 2011 through 2029			940,000		860,000	
Current portion of bonds payable			-	-	-	80,000
TOTAL PROJECT 10 - SERIES B		865,000	940,000	865,000	860,000	80,000
Total outstanding bonds payable	$	**18,440,000**	**17,055,000**	**18,440,000**	**15,590,000**	**1,465,000**

		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**

Note 10 – Bonds Payable (cont.)

At December 31, 2017 and 2016, total interest expense on the Project #10 Series A Revenue Bonds was $474,819 and $873,131 and Project #10 Series B Revenue Bonds interest expense was $32,703 and $61,950.

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 2009 Series A and B Revenue Bonds were insured by a municipal bond insurance policy issued by Assured Guaranty.

In 2017 the Authority advance refunded the 2009 Series A and Series B Bonds by issuing the 2017 Series A and Series B Refunding bonds. At December 31, 2017 the 2009 Series A and Series B bonds are considered defeased.

The future annual maturities of principal and interest on bonds payable consists of the following as of December 31, 2017:

	Principal	Interest	Total
2018	$1,465,000	$417,563	$1,882,563
2019	$1,140,000	$692,225	$1,832,225
2020	$1,170,000	$657,456	$1,827,456
2021	$1,215,000	$610,738	$1,825,738
2022	$1,260,000	$562,225	$1,822,225
2023-2024	$2,730,000	$934,369	$3,664,369
2025-2026	$3,000,000	$658,413	$3,658,413
Thereafter	$5,075,000	$408,375	$5,483,375
Total	$17,055,000	$4,941,364	$21,996,363

The Authority's management believes it is in compliance with all bond covenants related to the McNeil Bond resolution and Project #10 Bond resolutions as of December 31, 2017 and 2016.

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.

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

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 Amounts Due to Members – payable from restricted assets. The outstanding balance of $144,969 remained at December 31, 2017 and 2016.

A summary of amounts due members - payable from restricted cash and cash equivalents as of December 31, 2017 and 2016 is as follows:

	2017	2016
Citizens Utilities settlement	$ 29,449	$ 144,969
Orleans Transmission line	132,311	114,311
NEGT settlement funds due Orleans	165,609	165,609
Orleans accumulated interest	13,884	13,798
Highgate-Participant Credit Balance	0	2,436
McNeil-Accrued Liabilities	72,653	38,809
	$ 413,906	$ 479,932

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 the Authority, 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:

Note 12 – Long-Term Debt (cont.)

	2017	2016
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 $2,194,000 to TD Bank, NA dated December 17, 2010, with a maturity date of December 17, 2020 at a fixed interest rate set at 7.17% based on the ISDA interest rate swap dated January 17, 2011. Interest is to be paid monthly, beginning January 17, 2011 and continue monthly thereafter. This is a non-amortizing loan with the principal due at maturity. *Note is collateralized by a security pledge agreement of 96,536 of Class A and 122,864 of Class B VT TRANSCO, LLC membership units acquired in 2010 for the benefit of the Village of Lyndonville, a VPPSA member and the assignment of rights to all distribution income from ownership of the investment.*	2,194,000	2,194,000
Note payable of $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
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 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
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 refinanced in 2017 (see below) *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
Note payable of $11,310,404 to Community Bank dated December 20, 2017 with a maturity date of December 20, 2027. Interest payable at a fixed rate of 4.06%. Interest and principal are to be paid quarterly beginning March 15, 2018. *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.*	11,310,404	-
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 refinanced in 2017 (see below) *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

(Continued)

Note 12 – Long-Term Debt (cont.)

	2017	2016
Note payable of $3,956,088 to TD Bank, N.A. dated October 17, 2017 with a maturity date of October 17, 2027 at a fixed interest rate of 3.52%. Principal is to be paid quarterly beginning January 17, 2018 with quarterly principal payments of $98,902. Interest is to be paid monthly, beginning November, 17 2017. *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.*	3,956,088	-
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.*	1,730,290	1,940,290
Note payable of $1,591,450 to TD Bank, N.A. dated October 17, 2017 with a maturity date of October 17, 2027 at a fixed interest rate of 3.52%. Principal is to be paid quarterly beginning January 17, 2018 with quarterly principal payments of $39,786. Interest is to be paid monthly, beginning November 17, 2017. *Note is collateralized by a security pledge agreement of 86,452 of Class A and 110,030 of Class B VT TRANSCO, LLC membership units acquired in 2017 for the benefit of VPPSA and certain VPPSA members and the assignment of rights to all distribution income from ownership of the investment.*	1,591,450	-
Note payable of $1,973,220 to Community National Bank dated December 28, 2017 with a maturity date of December 28, 2027 at a fixed interest rate of 3.89%. Principal and interest are to be paid quarterly beginning March 1, 2018 with quarterly principal payments of $49,331. *Note is collateralized by a security pledge agreement of 86,8222 of Class A and 110,500 of Class B VT TRANSCO, LLC membership units acquired in 2017 for the benefit of certain VPPSA members and the assignment of rights to all distribution income from ownership of the investment.*	1,973,220	-
Total	31,501,952	30,864,504
Less: current portion due on outstanding long term debt as of December 31, payable from restricted assets	(2,093,116)	(2,014,427)
	$ 29,408,836	$ 28,850,077

The future annual maturities of principal and estimated interest on long-term debt consist of the following as of December 31, 2017:

	Principal	Interest	Total
2018	$ 2,093,116	$ 1,479,351	$ 3,572,467
2019	$ 10,839,616	$ 1,384,537	$ 12,224,153
2020	$ 4,287,116	$ 757,836	$ 5,044,952
2021	$ 2,093,116	$ 520,284	$ 2,613,400
2022	$ 2,093,116	$ 440,141	$ 2,533,257
2023-2024	$ 4,186,232	$ 639,885	$ 4,826,117
2025-2026	$ 4,026,522	$ 320,457	$ 4,346,980
Thereafter	$ 1,883,116	$ 46,039	$ 1,929,156
	$ 31,501,952	$ 5,588,530	$ 37,090,482

(Continued)

Note 12 – Long-Term Debt (cont.)

At December 31, 2017 and 2016, total interest expense on the above borrowings was $1,630,280 and $2,013,989.

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, 2017, and 2016, 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, 2017 and 2016.

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. ***Both of these swaps were terminated in 2017 and the Authority no longer has exposure associated with these transactions.***

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	12/31/2017	$2,194,000	01/04/2011	12/17/2020	($100,987)
Total derivative liability					**($100,987)**

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.

Note 14 – Pension Plan (cont.)

In addition, the employer will make an additional matching contribution of up to 3%, provided the employee provides evidence of a 3% contribution to a qualified retirement vehicle.

The plan is administered by a third-party administrator. Employer contributions to this plan for the years ended December 31, 2017 and 2016 were $90,549 and $97,137, respectively, amounting to approximately 8% of covered payroll.

Note 15 – Compensated Employee Absences/Employee Cafeteria Plan

Effective January 1, 2015, employees are eligible to accrue upon date of hire, paid vacation leave which is credited monthly. Full-time employees accrue vacation leave at a rate of 80 hours in year one and then an additional 8 hours for each year of service thereafter. Part-time employees accrue a prorated vacation leave based upon the employee's employment status. For those employees who 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. 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, 2017 and 2016, the Authority's liability of accrued vacation under the current compensated absences policy is $76,127 and $73,697 and accrued sick leave under the previous compensated absences policy is $8,330 and $8,328. 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, 2017, and 2016, there was an accrued liability related to employee's health flexible spending accounts in the amount of $1,460 and $1,623, respectively.

Note 16 – Commitments, Contingencies, Uncertainties

At December 31, 2017, 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 2017 the Authority incurred damage to the Authority's office building during a wind storm. The Authority received $19,120 related to the claim. As of December 31, 2017, the repairs were not complete.

In 2017 and 2016, 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 consulting portion of the 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 counter party. 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.

(Continued)

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

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 uncommon for the Authority to either request, or is required to, post collateral.

During both 2017 and 2016, the Authority did not request any counter party to post collateral, nor did any counter party request the Authority to post collateral.

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 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 kWH 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, 2017 and 2016 they were:

Note 17 – Power Supply Settlement Commitments (cont.)

RESOURCE ENTITLEMENTS: MEMBERS	2017	Percent of kWHs		2016	Percent of kWHs	Expiration date
Fitchburg	35,458,007	9.44%		26,352,000	6.78%	2032
HQ	14,240,690	3.79%		22,407,150	5.77%	Varies - 2016 & 2038
HYDRO	64,293,581	17.13%		61,766,147	15.90%	Life of Unit
DIESEL	0	0.00%		0	0.00%	Life of Unit
McNeil	42,596,885	11.35%		49,691,012	12.79%	Life of Unit
NYPA	30,755,595	8.19%		28,945,297	7.45%	4/30/2032 & 9/1/2025
Ryegate	11,310,397	3.01%		10,552,486	2.72%	10/31/2021
VEPPI	9,278,949	2.47%		7,532,786	1.94%	Varies thru 2020
Standard Offer	6,126,234	1.63%		6,571,855	1.69%	Varies
Stonybrook	2,161,660	0.58%		2,343,987	0.60%	Life of Unit
Project 10	537,766	0.14%		882,031	0.23%	Life of Unit
Ribbon Energy	3,160	0.00%		47,130	0.01%	Life of Unit
Yarmouth	0	0.00%		0	0.00%	Life of Unit
Chester Solar	6,396,909	1.70%		7,367,144	1.90%	06/30/2039
Market Purchases	152,265,771	40.56%		164,032,683	42.22%	Varies
	375,425,604	**100.00%**		**388,491,708**	**100.00%**	

The Non-Member total kWH 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, 2017 and 2016, they were:

RESOURCE ENTITLEMENTS: NON-MEMBERS	2017	Percent of kWHs		2016	Percent of kWHs	Expiration date
Coventry Clean Energy Corporation	52,963,961	45.92%		53,156,866	46.70%	Life of Unit
HQ	0	0.00%		0	0.00%	2038
NYPA	11,816,028	10.25%		11,113,213	9.76%	4/30/2017 & 9/1/2025
VEPPI	1,832,228	1.59%		1,480,464	1.30%	2013-2020-varies
Ryegate	2,237,003	1.94%		2,074,254	1.82%	10/31/2021
Wrightsville Hydro	2,864,338	2.48%		2,238,304	1.97%	Life of Unit
GMP System	0	0.00%		272,100	0.24%	Life of Unit
Vermont Wind	9,144,771	7.93%		8,156,011	7.17%	Life of Unit
Fox Island Diesel	2,598	0.00%		4,269	0.00%	Life of Unit
Fox Island Wind	10,029,952	8.70%		10,359,769	9.10%	Life of Unit
Market Contracts	24,443,544	21.19%		24,966,200	21.93%	Varies
	115,334,423	**100.00%**		**113,821,450**	**100.00%**	

Note 17 – Power Supply Settlement Commitments (cont.)

A summary of the total Member and Non-Members' total kWH 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	2017	Percent of kWHs		2016	Percent of kWHs
Members	375,425,604	76.50%		388,491,708	77.34%
Non-Members	115,334,423	23.50%		113,821,450	22.66%
Total	**490,760,028**	**100%**		**502,313,158**	**100%**

Note 18 – Concentration of Risks

The J. C. McNeil Generating Station Project #2 contributed approximately 8.8% for 2017 and 6.8% for 2016 to annual gross revenues for the Authority.

The Swanton Peaker Project #10 contributed approximately 8.9% for 2017 and 9.4% for 2016 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.

Supplementary Schedule 1

VERMONT PUBLIC POWER SUPPLY AUTHORITY
COMBINING SCHEDULE OF ASSETS, LIABILITIES & NET POSITION
FOR THE YEAR ENDING DECEMBER 31, 2017

	2017				
	Swanton Project #10	**McNeil Project #2**	**Highgate Project #3**	**VPPSA**	**Total**
ASSETS					
Capital Assets (Net):	$ 15,380,256	2,900,157	—	283,669	18,564,083
Current:					
Cash & Cash Equivalents	4,289,139	1,289,060	0	3,043,069	8,621,268
Accounts Receivable		696,969	-	5,380,475	6,077,444
Other Current Assets	210,493	957,272		1,394,335	2,562,100
Total Current Assets	4,499,632	2,943,300	0	9,817,880	17,260,812
Long-Term:					
Investments	1,858,406	-	-	40,641,060	42,499,466
Other Long-Term Assets	136,364	371,064	-	-	507,428
Total Long-Term Assets	1,994,770	371,064	-	40,641,060	43,006,895
Deferred Outflow of Resources	-	-	-	-	-
TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES	**21,874,658**	**6,214,522**	**0**	**50,742,609**	**78,831,789**
LIABILITIES:					
Current:					
Accounts Payable	12,370	252,126	-	2,753,376	3,017,872
Bonds & LTD (current)	1,465,000	-	-	2,093,116	3,558,116
Other	49,125	72,653	-	1,525,525	1,647,303
Total Current Liabilities	1,526,495	324,779	-	6,372,017	8,223,291
Long-Term:					
Bonds	16,057,913	-	-	-	16,057,913
Long-Term Debt	-	-	-	29,408,836	29,408,836
Other	-	-		76,127	76,127
Total Long-Term Liabilities	16,057,913	-	-	29,484,963	45,542,876
Deferred Inflow of Resources	-	-	-	100,987	100,987
TOTAL LONG-TERM LIABILITIES & INFLOWS OF RESOURCES	17,584,409	324,779	-	35,957,967	53,867,155
Net Position	4,290,250	5,889,742	0	14,784,642	24,964,634
TOTAL LIABILITIES AND NET POSITION	**$ 21,874,658**	**6,214,522**	**0**	**50,742,609**	**78,831,789**

See Independent Auditors Report on Supplementary Information.

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
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.

VERMONT PUBLIC POWER SUPPLY AUTHORITY
COMBINING SCHEDULE OF REVENUES AND EXPENSES
FOR THE YEAR ENDING DECEMBER 31, 2017

		2017				
		Swanton Project #10	**McNeil Project #2**	**Highgate Project #3**	**VPPSA**	**Total**
OPERATING REVENUE:						
Electric sales for resale	$	-	-	-	30,039,747	30,039,747
McNeil project revenue		-	3,648,996	-	-	3,648,996
Highgate project revenue		-	-	430,187	-	430,187
Swanton (P10) project revenue		3,673,557	-	-	-	3,673,557
Renewable Energy Certificates		-	1,214,626	-	2,032,209	3,246,835
Other Service revenue		-	-	-	202,238	202,238
Total operating revenue		3,673,557	4,863,622	430,187	32,274,194	41,241,560
OPERATING EXPENSES:						
Power production expenses		381,138	3,818,915	-	-	4,200,053
Transmission expenses		25,646	2,660	4,675	10,406,010	10,438,992
Purchased power		7,463	2,988	-	19,873,347	19,883,797
Regional Market expense		5,642	-	-	-	5,642
Administrative & General expenses		267,121	261,184	42,006	1,607,570	2,177,883
Outside services		26,334	39,376	27,900	186,513	280,123
Payments in lieu of taxes		19,488	240,498	29,250	13,757	302,994
Amortization		-	-	-	-	-
Depreciation		1,128,843	479,346	60,850	34,626	1,703,665
Total operating expenses		1,861,676	4,844,967	164,682	32,121,824	38,993,149
Operating income		1,811,881	18,655	265,506	152,370	2,248,411
NONOPERATING REVENUE (EXPENSES):						
Distribution income - VT Transco, LLC.		-	-	-	4,634,664	4,634,664
Net Settlement expense - VT Transco, LLC.		-	-	-	(1,918,981)	(1,918,981)
Net interest income (expense) swaps		(1,712)	-	(22,949)	(58,233)	(82,894)
Interest expense		(511,037)	-	(21,232)	(1,522,639)	(2,054,908)
Amortization of LTD discount, premium and issuance exp		(140,932)	-	-	(17,457)	(158,389)
Amortization of loss on reacquired debt		(61,919)	-	-	-	(61,919)
Interest earned on deposits/investments		17,815	557	11	18,711	37,094
Net Proceeds related to Insurance Claim		-	-	-	19,120	19,120
Gain/(Loss) on Disposition of Plant Assets		-	2,442	-	-	2,442
Net Realized Gain/(Loss) on Investments		(34,358)	-	-	-	(34,358)
Misc. Non-operating revenue (expense)		-	-	-	373,400	373,400
		(732,143)	2,998	(44,169)	1,528,584	755,270
CHANGE IN NET POSITION		1,079,738.06	21,652.84	221,336.41	1,680,953.71	3,003,681.02
						-
Other Comprehensive Income - Interest Swaps		1,697	-	20,474	61,461	83,632
Other Comprehensive Income - Unrealized Gains/Losses		12,380	-	-	-	12,380
Appropriated Earnings - Transco Member Return		-	-	-	-	-
Unappropriated Earnings Distributed				(1,193,836)		(1,193,836)
NET POSITION, beginning of year		3,196,434	5,868,088	952,025	13,042,232	23,058,778
NET POSITION, end of year	$	4,290,250	5,889,740	(1)	14,784,647	24,964,634

See Independent Auditors Report on Supplementary Information.

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	976,534.74	(109,557.01)	102,349.24	1,279,763.24	2,249,090.21
					-
Other Comprehensive Income - Interest Swaps	6,939.42	$ -	$ 21,208.67	$ 192,507.97	220,656.06
Other Comprehensive Income - Unrealized Gains/Losses	(2,998.35)	$ -	$ -	$ -	(2,998.35)
Appropriated Earnings - Transco Member Return				(1,230,918.00)	(1,230,918.00)
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
RESTRICTED ASSETS SCHEDULE - CASH - MCNEIL
FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

Supplementary Schedule 5

	Debt Service Interest	Debt Service Principal	Debt Service Reserve Fund	Reserve and Contingency	Revenue Funds	Temp Investments	Total
Balance at December 31, 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
Deduct:							
Operating expenditures	-	-	-	-	(5,316,263)	-	(5,316,263)
Capital Improvements	-	-	-	-	-	(366,081)	(366,081)
Transfers	-	-	-	-	(126,000)	-	(126,000)
Balance at December 31, 2016	0	(0)	0	0	785,670	971,422	1,757,092
Add:							
Interest Income	-	-	-	-	307	250	557
Receipts of revenue	-	-	-	-	4,493,495		4,493,495
Transfers	-	-	-	-	340,454	708,000	1,048,454
Operating expenditures	-	-	-	-	(4,962,085)		(4,962,085)
Capital Improvements	-	-	-	-		(340,454)	(340,454)
Transfers	-	-	-	-	(708,000)		(708,000)
Balance at December 31, 2017	0	(0)	0	0	(50,159)	1,339,218	1,289,059

See Independent Auditors Report on Supplementary Information.

VERMONT PUBLIC POWER SUPPLY AUTHORITY

RESTRICTED ASSETS SCHEDULE - CASH - PROJECT 10

FOR THE YEAR ENDED DECEMBER 31, 2017 and 2016

Supplementary Schedule 6

		Debt Service Interest	Debt Service Principal	Debt Service Reserve Fund	Reserve and Contingency	Revenue Funds	Reserve Fund	Cost of Issuance Fund	Construction Funds	Total
Balance at December 31, 2015	$	559,604	586,952	1,958,513	100,000	163,836	1,668,877	(0)	(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)
Debt service payments		(953,369)	(1,005,000)		-	(2,593,090)	-	-	-	(4,551,458)
Transfers		-	-	(39,345)	-	(616,992)	-	-	-	(656,337)
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)	(0)	5,653,919
Add:										
Interest Income				19,383		1	496			19,880
Receipts of revenue						3,673,557				3,673,557
Transfers		818,308	1,128,830	1,902,721	97,556	15,549	546,897	162,090		4,671,950
Unrealized Gain on investment				38,422						38,422
Deduct:										
Operating expenditures						(714,117)				(714,117)
Debt service payments		(916,794)	(1,045,000)			(2,485,211)		(161,597)		(4,608,602)
Transfers				(1,980,169)	(98,018)	(448,879)				(2,527,066)
Realized Loss on investment				(34,358)						(34,358)
Unrealized Loss on investment				(26,042)						(26,042)
Balance at December 31, 2017	$	439,782	694,115	1,868,575	197,556	201,948	2,745,076	492	(0)	6,147,544

See Independent Auditors Report on Supplementary Information.

VERMONT PUBLIC POWER SUPPLY AUTHORITY
INVESTMENT IN VT TRANSCO, LLC
SUMMARY OF UNITS HELD BY YEAR
FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

	Total A Units	% of Total A Units	Total B Units	% of Total B Units	Total Units	% of Total	TOTAL VALUE
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
Purchases	179,462	71.63%	228,405	71.63%	407,867	71.63%	4,078,670
Sales	-	0.00%	-	0.00%	-	0.00%	-
Total	179,462	71.63%	228,405	71.63%	407,867	71.63%	$ 4,078,670
Balance at December 31, 2017	1,788,207		2,275,899		4,064,106		$ 40,641,060

See Independent Auditors Report on Supplementary Information.

VERMONT PUBLIC POWER SUPPLY AUTHORITY
INVESTMENT IN VT TRANSCO, LLC
ALLOCATION BY VPPSA AND MEMBERS
FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

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	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
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

	Total A Units	% of Total A Units	Total B Units	% of Total B Units	Total Units	% of Total	TOTAL VALUE
Members:							
Barton	67,395	8.0963%	85,775	8.0963%	153,170	8.0963%	$ 1,531,700
Enosburg	101,187	12.1558%	128,785	12.1560%	229,972	12.1559%	2,299,720
Hardwick	155,975	18.7376%	198,514	18.7377%	354,489	18.7376%	3,544,890
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	60,679	7.2895%	77,230	7.2897%	137,909	7.2896%	1,379,090
Ludlow	116,348	13.9771%	148,078	13.9770%	264,426	13.9771%	2,644,260
Lyndonville	302,268	36.3120%	384,706	36.3122%	686,974	36.3122%	6,869,740
Morrisville	87,542	10.5166%	111,419	10.5168%	198,961	10.5167%	1,989,610
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	208,734	25.0756%	265,661	25.0756%	474,395	25.0756%	4,743,950
Total Members	1,263,433	151.78%	1,608,006	151.78%	2,871,439	151.78%	$ 28,714,390
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
VPPSA	43,392		55,225		98,617		986,170
Balance at December 31, 2017	1,788,207		2,275,899		4,064,106		40,641,060