Vermont Public Power Supply Authority

Financial Statements

December 31, 2018 and 2017

(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, 2018 and 2017, 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, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 2 through 13 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's financial statements taken as a whole. The supplementary schedules presented on pages 51 through 58 have been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Graham + Graham, PC

Graham & Graham, P.C.
Barre, Vermont
March 13, 2019
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, 2018 and 2017.

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, 2018 is as follows:

- Change in Net Position – Increased $ 3,826,143
- Net Capital Assets - Decreased - $ 1,336,760
- 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: $ 3,558,117
- Investment in Hometown Connections, Inc. - $265,000

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 is 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.

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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, 2018, and 2017.

		2018		2017
Capital Assets, net	$	17,227,323	$	18,564,083
Current Assets				
Cash & Cash Equivalents		9,303,099		8,621,268
Accounts Receivables		6,360,837		6,077,444
Other Current Assets		2,763,603		2,562,100
Total Current Assets		18,427,539		17,260,812
Long-Term Assets				
Investments		44,000,468		42,499,466
Other Long-Term Assets		460,064		507,428
Total Long-Term Assets		44,460,532		43,006,895
Deferred Outflow of Resources		433,436		1,176,470
TOTAL ASSETS & DEFERRED OUFLOWS OF RESOURCES	$	80,548,830	$	80,008,259

(Continued)

		2018		2017
Current Liabilities				
Accounts Payable		3,085,663		3,017,872
Short-term Debt		-		-
Current Portion-Bonds & LTD		12,104,388		3,558,116
Other		1,684,923		1,647,303
Total Current Liabilities		16,874,975		8,223,291
Long-term liabilities				
Bonds		14,450,000		15,590,000
Long-Term Debt		19,692,168		29,408,836
Other		89,297		76,127
Total Long-Term Liabilities		34,231,464		45,074,963
Deferred Inflows of Resources		651,613		1,745,371
TOTAL LIABILITIES & DEFERRED INFLOWS OF RESOURCES	$	51,758,053	$	55,043,625
Net Position		28,790,777		24,964,634
TOTAL LIABILITIES AND NET POSITION	$	80,548,830	$	80,008,259

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, 2018 and 2017:

		2018	2017
Capital assets	$	47,849,332	47,592,498
Less accumulated depreciation		30,622,009	29,028,415
Total capital assets, net	$	17,227,323	18,564,083

In 2018 net capital assets decreased by $1.3M and decreased $3.4M in 2017. In 2018 the decrease was the result of capital improvements at the Authority's facility in Waterbury, routine capital improvements at the McNeil Generating station and the Swanton Peaker Project, offset by annual depreciation on all capital assets in service. 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.

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 2018, current assets increased by $1.2M or 6.8% and increased by $1.2M or 7.3% in 2017. In 2018, the increase was primarily related to an increase in cash and cash equivalents due to revenues collected from project participants for future capital expenditures ($.7M), as well as a slight increase in accounts receivable ($.3M) and inventories on hand ($.2M).

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 in other current assets of $.2M or 8% (inventories, accrued distributions, due from members).

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 three types of investments – those related to project bond funds (debt service accounts), the Authority's purchase of membership units in Vermont Transco, LLC and the Authority's investment in Hometown Connections, Inc..

<u>Bond Funds:</u>

In 2018 and 2017, the Authority invested bond funds held, but not required for immediate expenditure, using several different instruments such as Certificates of Deposit, Treasury bills, Treasury notes and other Federal Agency Obligations. In 2018 bond fund investments decreased less than $12K or .6% and in 2017 bond fund investments decreased less than $.1M or 3.8%. The decrease in 2018 is primarily related to the increase in the value of the unrealized loss on the investment held (due to market volatility) and 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.

Vermont Transco Membership Units:

In 2018 and 2017, the Authority purchased an additional 124,772 and 407,867 membership units in Vt. Transco, LLC at a value of $1,247,720 and $4,078,670, respectively. As of December 31, 2018, the Authority owns a total of 4,188,878 member units with a total value of $41,888,780.

Hometown Connections, Inc.:

In 2018, the Authority partnered with four (4) other agencies to establish a non-profit entity that will provide consulting and technology services, as well as advance metering programs to public power utilities across the United States. This investment will bring greater value to the public power industry (including the Authority's members) by combining resources and allowing power utilities of all sizes to obtain the products and services they need to keep their electric systems robust and to preserve the benefits of community-owned, not-for-profit service. The Authority contributed $265,000 to the new company and obtained a 20% equity in the organization.

Other Long-Term Assets:

Other long-term assets decreased in 2018 by less than $48K or 9.3% and decreased in 2017 by less than $8K or 1.5%. The decreases in both 2018 and 2017 are due to 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. Specific to the Authority, this includes the amortization of the loss on reacquired debt related to the Project #10 Bond refunding in 2017.

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 2018 current liabilities increased $8.7M or 105% and increased $.7M or 9.7% in 2017. The increases in 2018 and 2017 are primarily due to the changes in the current portion of bonds and long-term debt. In 2018 the current portion of bonds and long-term debt increased due to the addition of two (2) notes related to the purchase of membership units in Vt. Transco, LLC and the maturity of one (1) note in 2019 in the amount of $8.7M (all moved to current). In 2017 the increase was 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.

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.

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The Authority's primary long-term liabilities at December 31, 2018, consist of one outstanding bond issue and nine (9) long-term debt obligations (seven LTD obligations at December 31, 2017). 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 2017, the 2009 Series bonds that were used to facilitate the construction of the Authority's Swanton Peaker Project #10 located in Swanton, Vermont were advance refunded, with the 2009 Series being defeased with the issue of the 2017 Series bonds. As a result, bonds payable decreased $1.1M or 7.3 % in 2018 and $1.8M or 10.4 % in 2017. These reductions were the result of the refunding and the repayment of principal on bonds outstanding during these years.

In both 2018 and 2017, the Authority maintained nine (9) long-term debt facilities. In 2018, all nine (9) of the facilities were to facilitate purchases of membership units in VT TRANSCO for the benefit of certain of the Authority's members. In 2017, seven (7) of the facilities were related to purchases of membership units in Vt. TRANSCO and two (2) of the facilities were related to the funding of specific construction projects related to the Authority's ownership in the Highgate and Project 10 facilities. The two (2) notes related to the Highgate and Project 10 construction projects were paid in full in 2017.

In 2018 long-term debt facilities decreased by $9.7M or 33% and increased by $.6M or 1.9% in 2017. In 2018 and 2017, the changes were attributed to the addition of long-term facilities utilized to facilitate the purchase of membership units in Vt. Transco, LLC. In 2018 this consisted of two (2) new facilities in the amounts of $1.2M and $76K and in 2017 consisted of the addition of two (2) facilities in the amount of $1.6M and $2.0M. The additions in 2018 were offset by current year amounts transferred to current maturity on LTD – primarily the maturity of a facility related to the Lamoille County Transco Purchase in the amount of $8.7M that matures in September 2019. The 2017 increase was slightly offset by the full payment of two existing facilities – the Project 10 facility and the Highgate Convertor facility, and each year was offset by the ongoing principal repayments on the remaining existing obligations.

Other long-term liabilities include accrued vacation payable to Authority employees. The value of the accrued benefit to Authority employees is $89,297 and $76,127 for 2018 and 2017, 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 the Authority include the derivative liability related to one (1) interest rate swap in 2018 and three (3) interest rate swaps in 2017 and the amortization of the premium related to the Project #10 Bond refunding that occurred in 2017.

The mark-to-market valuation of the interest rate swap(s) result in a liability of $46K and $101K at December 31, 2018 and 2017, 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 of the interest rate swaps were eliminated during 2017 due to the maturity of the two notes related to the construction of Project #10 and construction upgrades at the Highgate converter station.

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, and the Swanton Peaker Project #10, less the debt service related to the Projects.

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

The restricted project assets include 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 consist 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 $3,826,143 in 2018 and $1,905,856 in 2017. 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 one (1) interest rate swap 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, 2018 and 2017.

		2018		2017
Electric Sales For Resale	$	31,330,602	$	30,039,747
McNeil Project Revenue		5,328,260		3,648,996
Highgate Project Reveune		-		430,187
Swanton (P10) Revenue		3,296,106		3,673,557
Other Revenues		3,970,305		3,449,073
Total Operating Revenues	$	43,925,273	$	41,241,560
Power Production and Other Expenses		4,214,504		4,200,053
Transmission Expenses		11,373,120		10,438,992
Purchased Power		21,865,058		19,883,797
Regional Market Expenses		5,517		5,642
Administration & General Expenses		2,652,713		2,458,006
Taxes		284,880		302,994
Depreciation & Amortization		1,642,531		1,703,665
Total Operating Expenses	$	42,038,322	$	38,993,149
Net Operating Income(Loss)		**1,886,951**		**2,248,411**
Transco Income/Expenses (net)		3,572,273		2,715,683
Interest Income/Expenses (net)		(1,993,107)		(2,100,707)
Amortizations (net)		284,565		(220,309)
Proceeds/Expenses Related to Insurance Claim (net)		-		19,120
Other Non-Operating Income/Expenses (net)		31,980		341,484
Total Non-Operating Expenses, Net	$	1,895,711	$	755,270
Change in Net Assets		**3,782,662**		**3,003,681**
Other Comprehensive Income		43,481		96,012
Transco Investment Return		$ -		$ -
UnAppropriated Earnings Distributed		$ -		$ (1,193,836)
Net Assets at Beginning of Year		24,964,634		23,058,778
Net Assets at End of Year	**$**	**28,790,777**	**$**	**24,964,634**

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.

<u>Electric Sales for Resale</u> - 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 2018 Electric Sales for Resale increased by $1.3M or 4%, whereas, in 2017 Electric Sales for Resale increased by $.2M or 1%, Purchased power and transmission expenses increased $2.9M or 9.6% in 2018, and increased $.7M or 2.5% in 2017.

In 2018, Sales for Resale increased $1.3M. This increase was primarily due to the corresponding increase in purchase power and transmission costs ($2.9M) that are passed through to the Authority's members and non-members. This amount was offset by additional REC revenues ($.4M) and additional market credits ($1M) related to Project #10. Both REC revenues and Project #10 credits are credited to the Authority's members and non-members and reduce the overall cost to Sales for Resale.

In 2017, the increase in Sales for Resale 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).

In 2018, purchase power and transmission expenses increased by $2.9M or 9.6% and in 2017 purchase power and transmission costs increased by $.8M or 2.7%. The increase in 2018 represents an increase in purchase power of approximately $.9M and an increase in transmission cost of just under $2M.

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 $1.7M or 46% in 2018, and $.9M or 31% in 2017.

The increases in both 2018 and 2017 are 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.

In 2018, REC revenues related to the McNeil project increased by approximately $.5M and decreased by approximately $.9M in 2017.

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 2018 and 2017 by $23K or 1% and $684K or 15% respectively. These variances are generally related to changes in operational costs, some of which result from changes in the capacity output of the McNeil station and varying fuel costs.

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

Year	Capacity Factor	Availability Factor	Year	Capacity Factor	Availability Factor
2018	56.1%	77.1%	2013	72.9%	89.7%
2017	61.4%	74.6%	2012	51.3%	83.8%
2016	69.7%	96.3%	2011	51.9%	84.9%
2015	66.3%	82.3%	2010	62.1%	89.7%
2014	65.7%	82.5%	2009	50.8%	89.3%

Highgate Project # 3 - The Highgate Project revenue reflects payments from the Highgate Project participants for monthly transmission costs and debt service obligations in accordance with the Member Services Agreement with project participants. Revenues decreased $430K or 100% in 2018 and $122K or 22% in 2017. The decrease in both 2018 and 2017 is due to the sale of the asset that occurred in May of 2017.

(Continued)

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 2018 project revenues decreased $.4M or 10% and in 2017 revenues decreased $.2M or 6%.

The primary reason for the decrease in both 2018 and 2017 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 $5.7M in 2018 and $4.7M in 2017. 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 increased in 2018 by approximately $37K or 10% and decreased by approximately $86K or 18% in 2017. The increase in 2018 and the decrease in 2017 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 eight years:

Year	Capacity Factor	Availability Factor
2018	0.144%	99%
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%

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 Sales for Resale. The value of REC's sold for that last nine years were:

Year	Value	Year	Value
2018	$2.3M	2013	$2.0M
2017	$1.9M	2012	$1.5M
2016	$2.7M	2011	$1.5M
2015	$2.4M	2010	$1.3M
2014	$2.8M		

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 include:

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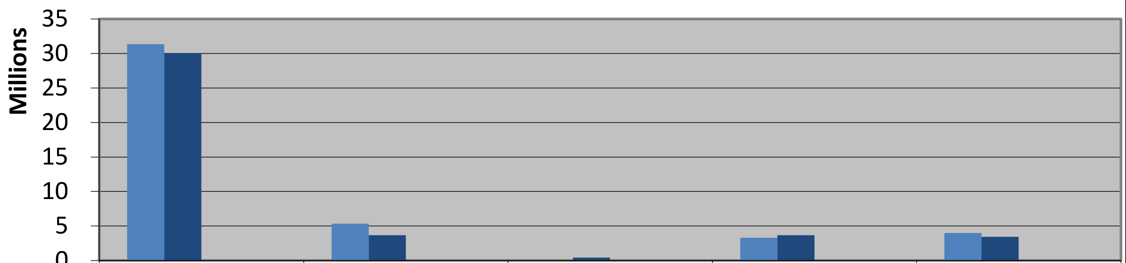
Year	Value	Year	Value
2018	$0.9M	2015	$1.5M
2017	$1.1M	2014	$1.1M
2016	$1.1M	2013	$1.1M

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 2018 and 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 2018 and 2017.



	Electric sales for resale	McNeil project revenue	Highgate project reveune	Swanton (P10) revenue	Other revenue
2018	31,330,602	5,328,260	0	3,296,106	3,970,305
2017	30,039,747	3,648,996	430,187	3,673,557	3,449,073
% Change	4%	46%	-100%	-10%	15%
2018 % of Total	71.3%	12.1%	0.0%	7.5%	9.0%

Non-Operating Activities

Changes in non-operating activities for 2018 and 2017 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 Member Units and 4) revenues and/or expenses related to other misc. non-operating activities.

<u>Interest Earned and Interest Expense</u> - In both 2018 and 2017 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 increased in 2018 and decreased in 2017. The changes in both 2018 and 2017 are primarily due to the P10 bond advance refunding (in Dec 2017) and the ongoing reduction of principal on bonds and loans outstanding, slightly offset by the addition of two new debt facilities in 2017.

These variances include the following:

- An increase in interest earned on deposits and investments of $145K or 390% in 2018, compared to a 12K or 50% in 2017.
- An increase in interest expense of $37K or 4.6% in 2018 and a decrease of $811K or 28% in 2017. Of these amounts, there was a decrease in expense related to interest rate swaps of $44K in 2018 and a decrease of $181K in 2017.

Distribution Income and Distribution Expense - The Authority currently holds a total of 4,188,878 TRANSCO membership units valued at $41,888,780. In 2018 distribution income increased by $.9M or 17% whereas in 2017 distribution income decreased by $335K or 6.2 %. The increase in 2018 was related to earnings from the additional member units purchased in 2017 coupled with additional distributions earned from Vt. TRANSCO's non-utility operations. The decrease in 2017 was primarily due to the sale of member units to Vt. Electric Cooperative, offset by the purchase of additional membership units for certain of the Authority's members in 2016.

Subsequent Events

There have been no subsequent events that have occurred subsequent to December 31, 2018.

Request for Information

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

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

(Continued)

VERMONT PUBLIC POWER SUPPLY AUTHORITY
STATEMENTS OF NET POSITION
FOR THE YEARS ENDING DECEMBER 31, 2018 and 2017

ASSETS	***2018***	***2017***
CAPITAL ASSETS, net	$ 17,227,323	$ 18,564,083
UNRESTRICTED ASSETS		
CURRENT:		
Cash and Cash Equivalents	2,141,615	2,704,816
Accounts Receivable	5,598,525	5,377,475
Due from Members	81,730	102,601
Other Current Assets	81,258	76,304
TOTAL CURRENT ASSETS	$ 7,903,127	$ 8,261,197
LONG TERM:		
Investments	265,000	-
Other Long-Term Assets	-	-
TOTAL LONG TERM ASSETS	265,000	-
TOTAL UNRESTRICTED ASSETS	8,168,127	8,261,197
RESTRICTED ASSETS		
CURRENT:		
Cash and Cash Equivalents	7,161,484	5,916,451
Cash Advances - Projects	-	-
Accounts Receivable	762,312	699,969
Due From Members	5,680	10,683
Fuel Inventories-McNeil & P10	1,275,576	1,143,873
Interest/Distribution Receivable	1,276,707	1,206,273
Other Current Restricted Assets	42,653	22,366
TOTAL RESTRICTED CURRENT ASSETS	10,524,412	8,999,614
LONG TERM:		
Due from Members	325,215	371,064
Investments - Bond Funds	1,846,688	1,858,406
Investment in VT Transco, LLC - Restricted	30,656,556	31,501,952
Investment In VT Transco, LLC - Restricted - Eligible for Release	11,232,224	9,139,108
Other Long-Term Assets	134,849	136,364
TOTAL RESTRICTED LONG TERM ASSETS	44,195,532	43,006,895
TOTAL RESTRICTED ASSETS	54,719,943	52,006,509
DEFERRED OUTFLOWS:		
Derivatives Instrument Asset	-	-
Unamortized Loss on Reacquired Debt	433,436	1,176,470
TOTAL DEFERRED OUTFLOW OF RESOURCES	433,436	1,176,470
TOTAL ASSETS & DEF OUTFLOW OF RESOURCES	$ **80,548,830**	$ **80,008,259**

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, 2018 and 2017

LIABILITIES	***2018***	***2017***
CURRENT LIABILITIES		
Accounts Payable	2,797,438	2,753,376
Amounts Due to Members	849,783	1,069,106
Other Current Liabilities	42,170	38,242
TOTAL CURRENT LIABILITIES	$ 3,689,392	$ 3,860,723
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Bonds Payable, Current Portion	1,140,000	1,465,000
Current Installments on Long - Term Debt	10,964,388	2,093,116
Amounts Due Members	361,947	413,906
Accounts Payable	288,225	264,496
Accrued Interest Payable	431,023	126,050
TOTAL CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:	13,185,583	4,362,568
LONG-TERM LIABILITIES		
Bonds Payable from Restricted Assets, (excl. current installments)	14,450,000	15,590,000
Long-Term Debt Payable from Restricted Assets (excl. current installments)	19,692,168	29,408,836
Other Long-Term Liabilities	89,297	76,127
TOTAL LONG-TERM LIABILITIES:	34,231,464	45,074,963
DEFERRED INFLOWS OF RESOURCES:		
Derivative Instrument Liability	45,788	100,987
Unamortized Premium - Bond Refunding	605,826	1,644,384
TOTAL DEFERRED INFLOW OF RESOURCES	651,613	1,745,371
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	51,758,053	55,043,625
NET POSITION		
Invested in Capital Assets, Net of Related Debt	1,464,934	1,041,169
Restricted for McNeil Project #2	3,769,310	2,989,585
Restricted for Swanton Peaker - Project #10	6,834,830	6,444,637
Restricted for Highgate - Project #3	-	-
Restricted - Investment in Transco, LLC - Pledged - Eligible for Release	11,232,224	9,139,108
Restricted - Investment in Transco, LLC, net of related debt	1,169,277	1,138,505
Other Comprehensive Income - Restricted	(69,237)	(112,718)
Unrestricted	4,389,439	4,324,347
TOTAL NET POSITION	$ 28,790,777	$ 24,964,634
TOTAL LIABILITIES, INFLOWS OF RESOURCES & NET POSITION	$ **80,548,830**	$ **80,008,259**

See Independent Auditors Report and accompanying notes to financial statements

VERMONT PUBLIC POWER SUPPLY AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDING DECEMBER 31, 2018 and 2017

	2018	2017
REVENUES		
Electric Sales for Resale	31,330,602	30,039,747
McNeil Project Revenue	5,328,260	3,648,996
Highgate Project Revenue	-	430,187
Swanton (P10) Project Revenue	3,296,106	3,673,557
Renewable Energy Certificates	3,531,694	3,246,835
Other Service Revenue	438,611	202,238
TOTAL REVENUES	$ 43,925,273	$ 41,241,560
OPERATING EXPENSES		
Purchased Power	21,865,058	19,883,797
Transmission Expenses	11,373,120	10,438,992
Power Production Expenses	4,214,504	4,200,053
Regional Market Expense	5,517	5,642
Administrative & General Expenses	2,310,460	2,177,883
Outside Services	342,253	280,123
Payment in Lieu of Taxes	284,880	302,994
Amortization	67	-
Depreciation	1,642,464	1,703,665
TOTAL OPERATING EXPENSES	42,038,322	38,993,149
OPERATING INCOME FROM CONTINUING OPERATIONS	1,886,951	2,248,411
NON-OPERATING REVENUE (EXPENSE)		
Distribution Income - Vt Transco, LLC	5,528,271	4,634,664
Net Settlement Expense - Vt Transco LLC	(1,955,998)	(1,918,981)
Interest Expense - Vt Transco, LLC LTD	(1,399,036)	(1,522,639)
Interest Expense - Vt Transco, LLC Swaps	(55,199)	(58,233)
Interest Expense -Short-Term Debt	(6,268)	-
Interest Expense - Long-Term Debt	(714,550)	(532,269)
Interest Expense - LTD Swaps	-	(24,661)
Amortization of LTD Discount, Premium & Issuance Exp	1,027,599	(158,389)
Amortization of Loss on Reacquired Debt	(743,034)	(61,919)
Interest Earned on Accounts	181,946	37,094
Gain/(Loss) on Disposition of Plant Asset	31,920	2,442
Realized Gain/(Loss) on Investments	-	(34,358)
Net Proceeds related to Insurance Claim	-	19,120
Other Non-Operating Revenue (Expense)	60	373,400
TOTAL NON-OPERATING REVENUE (EXPENSE)	1,895,711	755,270
CHANGE IN NET POSITION	3,782,662	3,003,681
Other Comprehensive Income-Interest Swaps	55,199	83,632
Other Comprehensive Income-Unrealized Gains/Losses	(11,719)	12,380
Appropriated Earnings-Transco Investment Return		
UnAppropriated Earnings Distributed	-	(1,193,836)
TOTAL NET POSITION - BEGINNING	24,964,634	23,058,778
TOTAL NET POSITION - ENDING	$ **28,790,777**	$ **24,964,634**

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, 2018 and 2017

CASH FLOWS FROM OPERATING ACTIVITIES	***2018***	***2017***
Receipts:		
Electric sales for resales	31,582,713	29,728,530
McNeil project revenue	5,284,527	3,281,208
Highgate project revenue	-	477,784
Swanton Peaker project revenue	3,277,496	3,673,557
RES Project Revenue	382,057	64,063
Net Metering Project Revenue	84,189	-
Renewable Energy Certificates	3,322,875	3,342,343
Other Revenues	122,046	148,992
Payments made for:		
Purchased power	(22,770,537)	(19,307,067)
Transmission expense	(11,284,390)	(10,601,763)
Power production expense	(3,583,823)	(4,125,327)
Regional Markets Expense	(5,766)	(5,608)
Others, employees, benefits, and employee and employer payroll taxes	(1,559,079)	(1,557,807)
Outside services and other general and administrative expenses	(1,241,553)	(1,109,202)
Taxes	(270,624)	(294,697)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 3,340,129	$ 3,715,005
CASH FLOWS FROM NON-OPERATING ACTIVITIES		
Receipts:		
Member Reimbursements	19,133	14,367
Insurance Settlements	-	19,120
Misc Sales/Income	60	2,519
Payments made for:		
Member Purchases	(15,083)	(15,115)
NET CASH PROVIDED BY NON-OPERATING ACTIVITIES	$ 4,110	$ 20,891
NET CASH PROVIDED BY OPERATING & NON-OPERATING ACTIVITIES	$ 3,344,239	$ 3,735,896
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Repayment of LTD Financing of Vt. Transco, LLC Units	(2,093,116)	(5,055,185)
Repayment of Interest on LTD - Vt. Transco, LLC	(1,384,591)	(1,496,182)
Repayment of Interest on LTD Swap Agreements - Vt. Transco LLC	(65,358)	(70,700)
Payment of Fees Related to Transco Financing	(2,686)	(25,368)
Proceeds Related to Repayment of Financing Costs	23,432	3,935
Proceeds of LTD Financing of Vt. Transco, LLC Units	1,247,720	7,520,758
Payment of Interest on Line-of-Credit Advances	(6,268)	-
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	$ (2,280,866)	$ 877,258
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Repayment of Bonds Payable	(1,465,000)	(18,440,000)
Payments of Interest Expense on Bonds Payable	(417,562)	(982,675)
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)
Payment of Interest Expense on Long-Term Notes Payable	-	(28,620)
Payment of Interest Expense on LTD-Swap Agreements	-	(26,923)
NET CASH USED IN CAPITAL AND FINANCING ACTIVITIES	$ (1,882,562)	$ (3,981,441)

	2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Capital Additions	(345,089)	(281,501)
(Acquistion) Sale of Capital Assets	-	1,847,329
(Acquistion) Sale of Investements	(265,000)	-
Equity Distributions to Members	-	(553,563)
Interest Income	177,226	39,241
Distributions Earned on Transco Investment	5,462,171	4,572,628
Net Settlement Distributions to Members/Non-members	(2,280,566)	(1,645,818)
Gain (Loss) on Bond Investment Funds	-	(34,358)
Purchase of Bond Fund Investments	-	(1,870,137)
Sale of Bond Fund Investments	-	1,955,309
(Purchase) Sale of VT Transco, LLC Member Units	(1,247,720)	(4,078,670)
NET CASH USED IN INVESTING ACTIVITIES	$ 1,501,021	$ (49,538)
NET INCREASE (DECREASE) IN CASH	681,832	582,174
CASH BALANCE, BEGINNING OF YEAR	8,621,267	8,039,093
CASH BALANCE, END OF YEAR	$ 9,303,099	$ 8,621,267

	2018	2017
RECONCILIATION OF OPERATING INCOME		
TO NET CASH PROVIDED OPERATING ACTIVITIES		
Operating income from continuing operations	1,886,952	2,248,411
Adjustments to reconcile net operating income to net cash provided by operating activities		
Depreciation and amortization	1,642,531	1,703,665
Change in assets and liabilities:		
(Increase) decrease in Accounts Receivable	(48,529)	175,932
(Increase) decrease in Amounts Due from Members	22,578	(22,578)
(Increase) decrease in Inventories	(131,703)	(33,384)
(Increase) decrease in Other Assets	20,418	(82,779)
Increase (decrease) in Accounts Payable	(23,216)	(345,402)
Increase (decrease) in Amounts Due to Members	(123,777)	65,713
Increase (decrease) in Other Liabilities	94,876	5,427
Total adjustments	$ 1,453,178	$ 1,466,595
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 3,340,129	$ 3,715,006

VERMONT PUBLIC POWER SUPPLY AUTHORITY
STATEMENTS OF CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2018 and 2017

		Invested In Capital Assets	Restricted Net Assets	UnRestricted Net Assets	Other Comprehensive Income	Total
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	-	1,809,845
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
Current Year Change in Net Assets		423,765	3,293,806	65,091	-	3,782,662
Interest Rate Swap		-	-	-	43,481	43,481
Unrealized Gains/Losses		-	-	-	-	-
Balance at December 31, 2017	$	1,464,934	23,005,641	4,389,439	(69,236)	28,790,777

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 address practice issues that have been identified during implementation and application of certain GASB Statements and addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment 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 and does not maintain a pension plan or provide its employees participation in other postemployment benefits (OPEB) and has therefore determined that GASB Statement No. 85 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 by providing guidance for transactions in which cash and other monetary assets acquired only with existing resources (other than sourced from refunding debt). GASB Statement No. 86 is effective for financial reporting periods beginning after June 15, 2017. The Authority periodically refinances or pays off in full existing loans, a process which may include other funds being set aside for debt reduction and has therefore determined that GASB Statement No. 86 is applicable to the Authority. The provisions of this statement will be applied to any future applicable transactions.

The Authority has completed the process of evaluating the impact of GASB Statement No. 87, *Leases.* The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments.

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

(a) New Accounting Pronouncements (cont.)

GASB Statement No. 87 is effective for financial reporting periods beginning after December 15, 2019. The Authority has determined that this statement does apply to its operations as of the effective date of the standard's implementation, however it has no significant lease obligations and has therefore determined that GASB Statement No. 87 will have no impact on its current financial position, results of operations and cash flows.

The Authority has completed the process of evaluating the impact of GASB Statement No. 88, *Certain Disclosures Related to debt, including Direct Borrowings and Direct Placements.* The objective of this statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. GASB Statement No. 88 is effective for financial reporting periods beginning after June 15, 2018. The Authority carries debt to which the provisions of this statement apply. The Authority will implement the provisions of this statement as of the effective date of the statement.

The Authority has completed the process of evaluating the impact of GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period.* This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. GASB Statement No. 89 is effective for financial reporting periods beginning after December 15, 2019. The Authority generally does not engage in construction activities, and therefore has determined that GASB Statement No. 89 will have no impact on its financial position, results of operations and cash flows. The Authority will implement and apply the provisions of this statement to any future construction projects in which the Authority materially participates in.

The Authority has completed the process of evaluating the impact of GASB Statement No. 90, *Majority Equity Interests – an Amendment of GASB Statements No. 14 and No. 61.* The objective of this statement is to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. GASB Statement No. 90 is effective for financial reporting periods beginning after December 15, 2018. The Authority generally does not invest in equity securities of other organizations. The Authority has acquired certain membership units in Vermont Transco, LLC, a company whose primary activity is the operation of the State of Vermont's electric transmission infrastructure, for the benefit of the VPPSA members and it has acquired a 20% ownership in Hometown Connections, Inc. (HCI) a non-profit entity providing consulting and technology services nationwide. The Authority will implement the provisions of this statement and apply it to its acquisition of Transco membership units and its ownership in HCI, to the extent such provisions are applicable.

(b) Use of Estimates

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

(Continued)

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

(c) Capital Assets

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

The Authority's capitalization policy is as follows:

- The combined cost to put a unit in service comes to more than $5,000, and the unit's estimated life is at least three (3) years; or
- When an existing asset is partially replaced or improved in a way that a) substantially extends the life of the asset or b) substantially improves the asset's utility or;
- The asset is initiated, controlled and tracked as property under a Joint Participation Agreement. The Authority will capitalize the property, even if it falls under the dollar limit above, if the Authority's share of the property is designated as a capital item by the billing agent for the project.
- This policy shall not apply to amounts spent on ordinary maintenance of VPPSA property.

The depreciable lives of capital assets are as follows:

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

(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.

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

(d) Impairment of Long-Lived Assets (cont.)

Impairment would be determined based upon the undiscounted future operating cash flows to be generated during the remaining life of the asset's carrying value. An impairment loss would be measured by the amount that an asset's carrying amount exceeds its fair value.

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

(e) Unrestricted and Restricted Cash and Cash Equivalents

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

(f) Restricted Investments

Restricted investments reflect bond proceeds invested by the trustee in short-term and long-term duration investments allowable under the Authority's General Bond Resolutions and are held within the applicable bond fund accounts. In accordance with GASB Statement No. 72, these investments are considered available for sale as such investments have a determinable fair market value and can be matured at any time 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.

(Continued)

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

(g) Fair Value of Investments (cont.)

Unobservable inputs are inputs that reflect the reporting entity's own analysis about those assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy that categorizes and prioritizes inputs used to estimate fair value are as follows:

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

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

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

(h) Revenue and Purchased Power

The power supply and transmission products that the Authority obtains on behalf of its participating members 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% (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) Fuel Inventory

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

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

(j) Restricted Investment in VT Transco, LLC

In accordance GASB Statement No. 72, the Authority considers all its investments in VT Transco, LLC (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.

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, the distribution income for Class A and Class B membership units is recognized when earned and applied to the appropriate debt service requirements when paid and will continue until the related debt is paid in full. The difference between the distributions received and the debt service paid is recorded as "net settlement expense". This amount is credited to each member's purchase power and transmission invoice in accordance with each member's interest in TRANSCO equity owned by the Authority.

All TRANSCO membership units owned directly by the Authority that were purchased with funds financed with a financial lender are recorded as a restricted investment. As the debt obligation related to those membership units are paid for and have yet to be released from pledge under the loan agreement, those units are recorded as a Restricted Investment-Eligible for Release.

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", or the "Supplement to TRANSCO Equity agreement" that 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) Investment in Hometown Connections, Inc.

In accordance GASB Statement No. 72, the Authority considers its unrestricted investment in Hometown Connections, Inc. (HCI) as level 3 inputs and is reported at cost, which is management estimate of fair market value as no quotable market is available.

(Continued)

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

(k) Investment in Hometown Connections, Inc. (cont.)

The Authority's holds a 20% ownership interest in HCI a non-profit entity that was created to provide greater value to public power utilities by offering a variety of consulting and technology services, as well as advanced metering programs. By combining resources through this organization, HCI will help public power utilities of all sizes (including the VPPSA members) obtain the products and services they need to keep their electric systems robust and to preserve the benefits of community-owned, not-for-profit service.

(l) 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. The Authority has previously 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, 2018 and 2017, the Authority has recorded the one remaining swap agreement as a hedging derivative 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.

(m) 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 $284,880 and $302,994 for the years ended December 31, 2018 and 2017, respectively.

(n) 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:

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

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

• 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.

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, grant expenses, and expenses related to, bankruptcy and/or insurance claims.

(o) 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.

(Continued)

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

(o) Equity Classifications (cont.)

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".

(p) Subsequent events

In preparing the financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through March 13, 2019, 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.

The Authority's restricted deposits related to 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, 2018 and 2017, 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:

	2018	2017
Cash and Cash Equivalents – McNeil Project	1,909,500	1,289,060
Cash and Cash Equivalents – Project 10	4,895,504	4,289,138
Cash – Amounts Due Members	356,480	338,253
Total Restricted Cash and Cash Equivalents	$7,161,484	$ 5,916,451

(Continued)

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, 2018 and 2017 are as follows:

	December 31, 2017	Additions	Retirements	December 31, 2018
INTANGIBLE PLANT				
Intangible plant-VEV	14,917	-	-	14,917
Intangible plant - VPPSA	15,000	-	-	15,000
Intangible plant - McNeil	144,106	675	-	144,781
Less: Accumulated Amortization	(174,023)	(67)	-	(174,091)
Net Intangible Plant	(0)	607	-	607
PRODUCTION PLANT				
Land – non depreciable	79,274	-	-	79,274
CWIP-Non Depreciable	29,343	268,009	(292,689)	4,664
Structures and Improvements	8,494,675	6,851	(898)	8,500,628
Equipment	35,814,333	200,370	(30,154)	35,984,549
Depreciable Production Plant	44,309,008	207,221	(31,052)	44,485,177
Less Accumulated Depreciation for:				
Structures and Improvements	(5,729,210)	(122,461)	898	(5,850,773)
Equipment	(21,390,279)	(1,395,802)	30,154	(22,755,928)
Accumulated Depreciation	(27,119,489)	(1,518,263)	31,052	(28,606,700)
Net Depreciable Production Plant	17,189,519	(1,311,042)	-	15,878,477
TRANSMISSION PLANT				
Land – Non Depreciable	-	-	-	-
Structures & Improvements	-	-	-	-
Equipment	1,415,872	41,428	-	1,457,300
Depreciable Transmission Plant	1,415,872	41,428	-	1,457,300
Less Accumulated Depreciation for:				
Structures	-	-	-	-
Equipment	(447,311)	(71,484)	-	(518,796)
Accumulated Depreciation	(447,311)	(71,484)	-	(518,796)
Net Depreciable Transmission Plant	968,560	(30,056)	-	938,504
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	(133,808)	(3,040)	-	(136,848)
Communication Equipment	(19,074)	-	-	(19,074)
Accumulated Depreciation	(152,882)	(3,040)	-	(155,922)
Net Depreciable RTM Plant	4,560	(3,040)	-	1,520

(Continued)

GENERAL PLANT				
Land – non depreciable	141,099	-	-	141,099
Structures & Improvements	605,942	61,621	-	667,563
Equipment	680,495	19,506	(17,885)	682,116
Depreciable General Plant	1,286,438	81,127	(17,885)	1,349,680
Less Accumulated Depreciation for:				
Structures	(514,117)	(27,546)	-	(541,664)
Equipment	(620,592)	(22,131)	17,885	(624,837)
Accumulated Depreciation	(1,134,709)	(49,677)	17,885	(1,166,501)
Net Depreciable General Plant	151,729	31,450	-	183,179
Net Capital Assets	**18,564,083**	**(1,044,071)**	**(292,689)**	**17,227,323**

(Continued)

	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**

Total depreciation expense for the years ending December 31, 2018 and 2017 is $1,642,464 and $1,703,665, 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, 2018, the Authority recorded the following amounts due from Members:

Internal Project Expenses (RES)	$ 4,130
Stonybrook Advances	$ 17,925
Standard Offer Solar Projects	$ 59,675
Transco Activities	$ 5,680
McNeil Advances	$ 325,215
Total Amounts Due from Members	**$ 412,625**

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, 2018 are as follows:

	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
Federal Home Ln Mtg Corp	$ 1,770,396		($ 22,198)	$ 1,748,198
Federal Home Ln Mtg Corp	$ 99,741		($ 1,251)	$ 99,490
Total	$ 1,870,137	-	($ 23,449)	$ 1,846,688

(Continued)

Note 6 – Restricted Investments (cont.)

Cost and estimated fair value of restricted fixed maturity securities at December 31, 2018 by contractual maturity, are as follows:

Maturity	Cost	Fair Market Value
In 2018	$ -	$ -
2019 to 2021	$ 1,870,137	$ 1,846,688
Totals	$ 1,870,137	$ 1,846,688

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, 2018.

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, 2017 and 2018.

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, 2018, and 2017, 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.

(Continued)

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.

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

Members

During the period from 2007 - 2018, 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, 2018, the Authority owns a total of 2,988,653 membership units with a total value of $29,886,530 for the benefit of those certain members (excludes specific facility member units described below). 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 – 2018, time period. In 2011, the Authority filed with the Vt. Public Utilities Commission and subsequently received approval 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 to enter into long-term financing related to purchases of Transco membership units for the benefit of certain Authority members. On December 23, 2014, the Authority entered into a loan arrangement with a local financial institution for an amount of $4,586,768.67 for a period of seven years, at a fixed interest rate of 4.28%. 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 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 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.

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

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%.

In 2018, the Authority filed with the Vt. Public Utilities Commission and subsequently received approval to enter into long-term financings related to purchases of Transco membership units for the benefit of certain Authority members and the Authority directly.

On December 20, 2018, the Authority entered into long-term loan arrangements with a local financial institution for an amount of $1,172,140 and $75,580 for period of ten (10) years at a fixed interest rate of 4.35%.

During 2018 and 2017 the Authority earned total distribution income from the units held for the benefit of its members' of $4,025,688 and $3,239,786, respectively.

The 2018 distribution income earned of $4,025,688 for the units held for the benefit of its members paid down: principal on membership units previously acquired and financed in the amount of $2,008,562, interest expense on the Authority's debt of $605,659 an additional $ 10,959 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 $1,400,508.

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.

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.

(Continued)

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

At December 31, 2018 and 2017, 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 2018 and 2017, 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 2018 and 2017, paid down actual interest expense paid on the Authority's debt of $546,656 for each year. The remaining $547,356 for each year was recorded as distribution (net settlement) expense and credited to the LCP-members.

VELCO/Lyndonville Substation Project – Member

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

At December 31, 2018 and 2017 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 2018 and 2017, the Authority earned distribution income from the units held for the benefit of LED of $274,425 for each respective year. In 2018, the distribution income paid down actual interest expense of $159,495 and $159,495 in 2017, as well as costs of debt service in the amount of $896 for each year. The remaining $114,034 for both 2018 and 2017, 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 (and subsequently the Authority's members). In 2018 the Authority purchased a total of 7,558 member units valued at $75,580 and in 2017, the Authority purchased a total of 98,617 member units valued at $986,170. The Authority's total ownership at December 31, 2018 is valued at $1,061,750. In 2018 and 2017 the Authority earned distributions of $134,145 and $26,440 respectively. In 2018 the distribution paid interest expense of $28,539, principal payments of $ 84,554, and the remaining $21,052 was used by the Authority to reduce operating costs to its members. In 2017 the 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. The Authority's 2017 purchase is an unrestricted investment; whereas, the 2018 purchase is restricted due to the outstanding debt related to the purchase.

(Continued)

Note 8 – Investment in Hometown Connections, Inc.

As stated in Note 2 (k), the Authority holds a 20% ownership in Hometown Connections, Inc. (HCI), a not-for-profit entity. The Authority partnered with American Municipal Power, Inc., Missouri Public Utility Alliance, Northern California Power Agency and Alabama Municipal Electric Authority to create the entity in May 2018. The Authority invested \$265,000 for the 1/5th equity ownership in the company. Each member has one (1) Director on the HCI Board of Directors and each member has equal voting authority.

Note 9 – 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.

The facility incurs a commitment fee in the amount of .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, 2018 and 2017 there were no outstanding borrowings against the facility.

The operating 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 10 – Project Lines of Credit/Short-Term Notes Payable

As of December 31, 2018 and 2017, there were no outstanding lines of credit for the funding of construction projects and there were no outstanding short-term notes.

Note 11 – Bonds Payable

Outstanding revenue bonds payable consist of the following at December 31, 2018 and 2017:

Note 11 – Bonds Payable (cont.)

		December 31, 2017	Increases	Payments and reductions	December 31, 2018	Current Portion
SWANTON PEAKER PROJ #10:						
Revenue Bonds –2009 Series A maturing July 1, 2011 through 2029 – Interest ranges from 3% to 5.25%- Refunded in 2017		-	-	-	-	-
Revenue Bonds –2017 Series A maturing July 1, 2011 through 2029 – Interest ranges from 3% to 5.00%		16,115,000		1,385,000	13,655,000	
Current portion of bonds payable			-	-		1,075,000
TOTAL PROJECT 10 - SERIES A		16,115,000	-	1,385,000	13,655,000	1,075,000
SWANTON PEAKER PROJ #10:						
Revenue Bonds – 2009 Series B maturing July 1, 2011 through 2029-Refunded in 2017		-	-	-	-	
Revenue Bonds – 2017 Series B maturing July 1, 2011 through 2029		940,000	-	80,000	795,000	
Current portion of bonds payable			-	-	-	65,000
TOTAL PROJECT 10 - SERIES B		940,000	-	80,000	795,000	65,000
Total outstanding bonds payable	$	**17,055,000**	-	**1,465,000**	**14,450,000**	**1,140,000**

		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**

Note 11 – Bonds Payable (cont.)

At December 31, 2018 and 2017, total interest expense on the Project #10 Series A Revenue Bonds was \$679,675 and \$474,819 and Project #10 Series B Revenue Bonds interest expense was \$34,875 and \$32,703.

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, 2018:

	Principal	Interest	Total
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	$ 1,330,000	$ 500,013	$ 1,830,013
2024-2025	$ 2,860,000	$ 799,613	$ 3,659,613
2026-2027	$ 3,155,000	$ 510,269	$ 3,665,269
Thereafter	$ 3,460,000	$ 191,263	$ 3,651,263
Total	$ 15,590,000	$ 4,523,800	$ 20,113,800

The Authority's management believes it is in compliance with all bond covenants related to the Project #10 Bond resolution as of December 31, 2018 and 2017.

(Continued)

Note 12 – Amounts Due to Members from Restricted Assets

Citizens Utilities

On December 26, 2000, the Authority received $688,626 on behalf of three members pursuant to a settlement agreement with Citizens Communication Company. As the settlement remained unresolved, the members elected to have the Authority retain the funds in the event the amount would have to be refunded to Citizens Communication Company. The amount was placed in an interest bearing account. Upon settlement in November 2002, two of the members involved were paid their settlement allocations; however, one chose to leave the funds with the Authority.

The remaining proceeds have been recorded as a liability in Amounts Due to Members – payable from restricted assets. The outstanding balance of $29,449 remained at December 31, 2018 and 2017.

A summary of amounts due members - payable from restricted cash and cash equivalents as of December 31, 2018 and 2017 is as follows:

	2018	2017
Citizens Utilities settlement	$ 29,449	$ 29,449
Orleans Transmission line	$ 150,311	$ 132,311
NEGT settlement funds due Orleans	$ 165,609	$ 165,609
Orleans accumulated interest	$ 14,111	$ 13,884
McNeil-Accrued Liabilities	$ 2,467	$ 72,653
	$ 361,947	$ 413,906

Note 13 – Long-Term Debt

Long-term debt related to the financing of VT TRANSCO, LLC membership units for the benefit of the Authority, certain Authority's 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 13 – Long-Term Debt (cont.)

	2018	2017
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 $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.*	10,179,364	11,310,404

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.*	3,560,479	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.*	1,520,290	1,730,290
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.*	1,432,305	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.*	1,775,898	1,973,220

(Continued)

Note 13 – Long-Term Debt (cont.)

	2018	2017
Note payable of $1,172,140 to TD Bank, N.A. dated December 20, 2018 with a maturity date of December 20, 2028 at a fixed interest rate of 4.35%. Principal and interest are to be paid quarterly beginning February 10, 2019 with quarterly principal payments of $29,303.50. *Note is collateralized by a security pledge agreement of 51,573 of Class A and 65,641 of Class B VT TRANSCO, LLC membership units acquired in 2018 for the benefit of certain VPPSA members and the assignment of rights to all distribution income from ownership of the investment.*	1,172,140	
Note payable of $75,580 to TD Bank, N.A. dated December 20, 2018 with a maturity date of December 20, 2028 at a fixed interest rate of 4.35%. Principal and interest are to be paid quarterly beginning February 10, 2019 with quarterly principal payments of $1,889.50. *Note is collateralized by a security pledge agreement of 3,326 of Class A and 4,232 of Class B VT TRANSCO, LLC membership units acquired in 2018 for the benefit of all VPPSA members and the assignment of rights to all distribution income from ownership of the investment.*	75,580	
Total	30,656,556	31,501,952
Less: current portion due on outstanding long term debt as of December 31, payable from restricted assets	(10,964,388)	(2,093,116)
	$ 19,692,168	$ 29,408,836

The future annual maturities of principal and estimated interest on long-term debt consist of the following as of December 31, 2018:

	Principal	Interest	Total
2018	$ -	$ -	$ -
2019	$ 10,964,388	$ 1,393,195	$ 12,357,583
2020	$ 4,411,888	$ 805,321	$ 5,217,209
2021	$ 2,217,888	$ 559,743	$ 2,777,632
2022	$ 2,217,888	$ 474,097	$ 2,691,985
2023	$ 2,217,888	$ 388,484	$ 2,606,372
2024-2025	$ 4,435,776	$ 519,974	$ 4,955,750
2026-2027	$ 4,066,066	$ 189,777	$ 4,255,843
Thereafter	$ 124,772	$ 3,411	$ 128,183
	$ 30,656,556	$ 4,334,002	$ 34,990,558

At December 31, 2018 and 2017, total interest expense on the above borrowings was $1,454,235 and $1,630,280.

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, 2018 and 2017, no membership units being held have been released as pledged security.

(Continued)

Note 13 – Long-Term Debt (cont.)

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

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

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

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

The Authority believes it is in compliance with all debt covenants related to the above loan agreements at December 31, 2018 and 2017.

Note 14 - Interest Rate Swap Agreements

On February 29, 2008, the Authority signed an International Swap and Derivative Association, Inc. (“ISDA”) master agreement with KeyBank National Association for the purpose of entering into a "pay fixed", countered by a "receive variable" interest rate swap. The interest rate swap terminated in 2008 and the ISDA was not utilized in 2009.

On October 13, 2010 the Authority signed a First Amendment to the ISDA master agreement for the purpose of entering into a "pay fixed," countered by a "receive variable" interest rate swap related to the P10 long-term debt with Keybank, N.A. On January 30, 2012 (and further amended on April 8, 2013), the Authority entered into a “pay fixed,” countered by a “receive variable” interest rate swap to effectively fix the interest rate related to the long-term debt to facilitate the capital improvements at the Highgate Converter station. ***Both of these swaps were terminated in 2017 and the Authority no longer has exposure associated with these transactions.***

(Continued)

Note 14 - Interest Rate Swap Agreements (cont.)

In June 2009, the Authority signed an International Swap and Derivative Association, Inc. (“ISDA”) master agreement with TD Bank to provide the option of entering into a "pay fixed", countered by a "receive variable" interest rate swap with the lender. Given this option, the Authority confirmed 1) a “pay fixed,” countered by the “receive variable” interest rate swap 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 rate increases, the Authority’s net payment on the swap decreases, and alternatively, if the LIBOR rate decreases the Authority’s net payment on the swap increases.

At December 31, 2018, 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	12/31/2018	$2,194,000	01/04/2011	12/17/2020	($45,788)
Total derivative liability					**($45,788)**

Note 15 – Pension Plan

The Authority has a noncontributory defined contribution pension plan covering all employees. The money purchase plan was adopted October 1, 1978 and restated October 1, 1989 and February 10, 2000.

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

The plan is administered by a third-party administrator. Employer contributions to this plan for the years ended December 31, 2018 and 2017 were $90,330 and $90,549, respectively, amounting to approximately 8% of covered payroll.

(Continued)

Note 16 – 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 carried into the future year shall not exceed 45 days and upon termination of the employee all accrued sick time is surrendered.

At December 31, 2018 and 2017, the Authority's liability of accrued vacation under the current compensated absences policy is $89,297 and $76,127 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, 2018, and 2017, there was an accrued liability related to employee's health flexible spending accounts in the amount of $656 and $1,460, respectively.

Note 17 – Commitments, Contingencies, Uncertainties

At December 31, 2018, the Authority has no outstanding contractual commitments.

<u>Insurance</u>

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; environmental contamination and natural disasters.

Note 17 – Commitments, Contingencies, Uncertainties (cont.)

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 2018 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, 2018, the repairs were complete.

In 2018 and 2017, 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.

<u>Consulting Agreement</u>

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. This consulting portion of the contract obligation was fulfilled in 2016; however, the Authority remains obligated to provide health insurance coverage under the plan currently maintained by the Authority and supplemental Medicare coverage to both the Consultant and his spouse during their remaining life.

<u>Collateral Commitments</u>

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 of the counterparties. If at any time the threshold limits (both for the buyer and/or seller) are exceeded, the buyer or seller (depending on the threshold that was exceeded) may require the other party to post collateral. The collateral protects the requesting party in the event the contract is not honored. As the market prices decline, the Authority's exposure typically increases and as the market prices increase, the Authority's exposure typically decreases. Due to the nature of the organization and the thresholds that are generally established, it is not common practice for the Authority to request or require collateral as security on the power supply contracts. During both 2018 and 2017, the Authority did not request any counterparty to post collateral, nor did any counterparty request the Authority to post collateral.

<u>Environmental Risks</u>

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

Note 17 – Commitments, Contingencies, Uncertainties (cont.)

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 18 – 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 non-member 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 twenty 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, 2018 and 2017 they were:

MEMBERS	2018 kWh	%		2017 kWh	%
Chester Solar	6,213,411	1.71%		9,278,949	2.47%
Diesel	0	0.00%		14,240,690	3.79%
Fitchburg	37,460,749	10.28%		6,396,909	1.70%
HQ	14,229,995	3.91%		0	0.00%
Hydro	73,786,407	20.26%		35,458,007	9.44%
Market Purchases	33,135,322	9.10%		0	0.00%
McNeil	39,291,030	10.79%		64,293,581	17.13%
NYPA	28,404,996	7.80%		152,265,771	40.56%
Project 10	469,675	0.13%		11,310,397	3.01%
Ribbon Energy	0	0.00%		6,126,234	1.63%
Ryegate	11,172,928	3.07%		42,596,885	11.35%

(Continued)

Note 18 – Power Supply Settlement Commitments (cont.)

Seabrook	107,492,744	29.51%		0	0.00%
Standard Offer	5,997,460	1.65%		537,766	0.14%
Stonybrook	2,277,940	0.63%		3,160	0.00%
VEPPI	3,393,909	0.93%		30,755,595	8.19%
Waterhouse Solar	894,965	0.25%		0	0.00%
Yarmouth	43,340	0.01%		2,161,660	0.58%
	364,264,871	**100%**		**375,425,604**	**100%**

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, 2018 and 2017, they were:

NON-MEMBERS	2018	Percent of kWHs		2017	Percent of kWHs
Coventry Clean Energy Corp	53,357,219	44.78%		52,963,961	45.92%
Fox Island Diesel	2,519	0.00%		2,598	0.00%
Fox Island Wind	14,008,053	11.76%		10,029,952	8.70%
GMP System	0	0.00%		0	0.00%
HQ	0	0.00%		0	0.00%
Market Contracts	8,760,000	7.35%		24,443,544	21.19%
NYPA	11,014,596	9.24%		11,816,028	10.25%
Ryegate	2,254,973	1.89%		2,237,003	1.94%
Seabrook	18,031,920	15.13%		0	0.00%
VEPPI	680,535	0.57%		1,832,228	1.59%
Vermont Wind	8,526,147	7.16%		9,144,771	7.93%
Wrightsville Hydro	2,512,159	2.11%		2,864,338	2.48%
	119,148,122	**100%**		**115,334,423**	**100%**

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.

TOTAL	2018	Percent of kWHs		2017	Percent of kWHs
Members	364,264,871	75.35%		375,425,604	76.50%
Non-Members	119,148,122	24.65%		115,334,423	23.50%
Total	**483,412,993**	**100%**		**490,760,028**	**100%**

(Continued)

Note 19 – Concentration of Risks

The J. C. McNeil Generating Station Project #2 contributed approximately 12.1% for 2018 and 8.8% for 2017 to annual gross revenues for the Authority.

The Swanton Peaker Project #10 contributed approximately 7.5% for 2018 and 8.9% for 2017 to annual gross revenues for the Authority.

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

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

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

(Continued)

VERMONT PUBLIC POWER SUPPLY AUTHORITY
COMBINING SCHEDULE OF ASSETS, LIABILITIES & NET POSITION
FOR THE YEAR ENDING DECEMBER 31, 2018

		2018				
		Swanton Project #10	**McNeil Project #2**	**Highgate Project #3**	**VPPSA**	**Total**
ASSETS						
Capital Assets (Net):	$	14,294,151	2,628,463	-	304,709	17,227,323
Current:						
Cash & Cash Equivalents		4,895,504	1,909,500	-	2,498,095	9,303,099
Accounts Receivable		18,611	740,702	-	5,601,525	6,360,837
Other Current Assets		255,961	1,068,128	-	1,439,514	2,763,603
Total Current Assets		5,170,076	3,718,329	-	9,539,134	18,427,539
Long-Term:						
Investments		1,846,688	-	-	42,153,780	44,000,468
Other Long-Term Assets		134,849	325,215	-	-	460,064
Total Long-Term Assets		1,981,536	325,215	-	42,153,780	44,460,532
Deferred Outflow of Resources		433,436	-	-	-	433,436
TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES		**21,879,199**	**6,672,008**	**-**	**51,997,623**	**80,548,830**
LIABILITIES:						
Current:						
Accounts Payable		16,457	271,768	-	2,797,438	3,085,663
Short-Term Debt		-	-	-	-	-
Bonds & LTD (current)		1,140,000	-	-	10,964,388	12,104,388
Other		346,112	2,467	-	1,336,344	1,684,923
Total Current Liabilities		1,502,570	274,234	-	15,098,171	16,874,975
Long-Term:						
Bonds (net of amortizations)		14,450,000	-	-	-	14,450,000
Long-Term Debt		-	-	-	19,692,168	19,692,168
Other		-	-		89,297	89,297
Total Long-Term Liabilities		14,450,000	-	-	19,781,464	34,231,464
Deferred Inflow of Resources		605,826	-	-	45,788	651,613
TOTAL LONG-TERM LIABILITIES & INFLOWS OF RESOURCES		16,558,395	274,234	-	34,925,423	51,758,053
Net Position		5,320,804	6,397,773	0	17,072,200	28,790,777
TOTAL LIABILITIES AND NET POSITION	$	**21,879,199**	**6,672,008**	**0**	**51,997,623**	**80,548,830**

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		1,176,470	-	-	-	1,176,470
TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES		**23,051,128**	**6,214,522**	**0**	**50,742,609**	**80,008,259**
LIABILITIES:						
Current:						
Accounts Payable		12,370	252,126	-	2,753,376	3,017,872
Short-Term Debt						-
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		15,590,000	-	-	-	15,590,000
Long-Term Debt		-	-	-	29,408,836	29,408,836
Other		-	-		76,127	76,127
Total Long-Term Liabilities		15,590,000	-	-	29,484,963	45,074,963
Deferred Inflow of Resources		1,644,384	-	-	100,987	1,745,371
TOTAL LONG-TERM LIABILITIES & INFLOWS OF RESOURCES		18,760,879	324,779	-	35,957,967	55,043,625
Net Position		4,290,250	5,889,742	0	14,784,642	24,964,634
TOTAL LIABILITIES AND NET POSITION	$	**23,051,128**	**6,214,522**	**0**	**50,742,609**	**80,008,259**

See Independent Auditors Report on Supplementary Information.

VERMONT PUBLIC POWER SUPPLY AUTHORITY
COMBINING SCHEDULE OF REVENUES AND EXPENSES
FOR THE YEAR ENDING DECEMBER 31, 2018

		2018				
		Swanton Project #10	**McNeil Project #2**	**Highgate Project #3**	**VPPSA**	**Total**
OPERATING REVENUE:						
Electric sales for resale	$	-	-	-	31,330,602	31,330,602
McNeil project revenue		-	5,328,260	-	-	5,328,260
Highgate project revenue		-	-	-	-	-
Swanton (P10) project revenue		3,296,106	-	-	-	3,296,106
Renewable Energy Certificates		-	-	-	3,531,694	3,531,694
Other Service revenue		-	-	-	438,611	438,611
Total operating revenue		3,296,106	5,328,260	-	35,300,907	43,925,273
OPERATING EXPENSES:						
Power production expenses		418,469	3,796,035	-	-	4,214,504
Transmission expenses		27,009	5,127	-	11,340,984	11,373,120
Purchased power		8,474	6,895	-	21,849,689	21,865,058
Regional Market expense		5,517	-	-	-	5,517
Administrative & General expenses		297,275	309,761	-	1,703,425	2,310,460
Outside services		36,388	41,438	-	264,427	342,253
Payments in lieu of taxes		20,604	250,020	-	14,256	284,880
Amortization		-	67	-	-	67
Depreciation		1,129,534	472,349	-	40,581	1,642,464
Total operating expenses		1,943,268	4,881,692	-	35,213,362	42,038,322
Operating income		1,352,838	446,567	-	87,545	1,886,951
NONOPERATING REVENUE (EXPENSES):						
Distribution income - VT Transco, LLC.		-	-	-	5,528,271	5,528,271
Net Settlement expense - VT Transco, LLC.		-	-	-	(1,955,998)	(1,955,998)
Net interest income (expense) swaps		-	-	-	(38,521)	(38,521)
Interest expense		(714,550)	-	-	(1,421,982)	(2,136,532)
Amortization of LTD discount, premium and issuance exp		1,038,558	-	-	(10,959)	1,027,599
Amortization of loss on reacquired debt		(743,034)	-	-	-	(743,034)
Interest earned on deposits/investments		108,460	29,543	-	43,942	181,946
Net Proceeds related to Insurance Claim		-	-	-	-	-
Gain/(Loss) on Disposition of Plant Assets		-	31,920	-	-	31,920
Net Realized Gain/(Loss) on Investments		-	-	-	-	-
Misc. Non-operating revenue (expense)		-	-	-	60	60
Total Non-Operating Revenue (Expenses)		(310,565)	61,463	-	2,144,813	1,895,711
CHANGE IN NET POSITION		1,042,273	508,031	-	2,232,358	3,782,662
						-
Other Comprehensive Income - Interest Swaps		-	-	-	55,199	55,199
Other Comprehensive Income - Unrealized Gains/Losses		(11,719)	-	-	-	(11,719)
Appropriated Earnings - Transco Member Return		-	-	-	-	-
Unappropriated Earnings Distributed				-		-
NET POSITION, beginning of year		4,290,250	5,889,740	(1)	14,784,647	24,964,634
NET POSITION, end of year	$	5,320,804	6,397,771	(1)	17,072,204	28,790,777

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
Total Non-Operating Revenue (Expenses)		(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 **Supplementary Schedule 5**

RESTRICTED ASSETS SCHEDULE - CASH - MCNEIL

FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017

	Debt Service Interest	Debt Service Principal	Debt Service Reserve Fund	Reserve and Contingency	Revenue Funds	Temp Investments	Total
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
Realized Gain on Investment	-	-	-	-	-	-	-
Unrealized Gain on investment	-	-	-	-	-	-	-
Deduct:							
Operating expenditures	-	-	-	-	(4,962,085)	-	(4,962,085)
Debt service payments	-	-	-	-	-	-	-
Capital Improvements	-	-	-	-	-	(340,454)	(340,454)
Transfers	-	-	-	-	(708,000)	-	(708,000)
Realized Loss on Investment	-	-	-	-	-	-	-
Unrealized Loss on investment	-	-	-	-	-	-	-
Balance at December 31, 2017	0	(0)	0	0	(50,159)	1,339,218	1,289,059
Add:							
Interest Income	-	-	-	-	-	29,129	29,129
Receipts of revenue	-	-	-	-	5,518,567	-	5,518,567
Transfers	-	-	-	-	-	918,984	918,984
Realized Gain on Investment	-	-	-	-	-	-	-
Unrealized Gain on investment	-	-	-	-	-	-	-
Deduct:							-
Operating expenditures	-	-	-	-	(4,693,215)	-	(4,693,215)
Debt service payments	-	-	-	-	-	-	-
Capital Improvements	-	-	-	-	-	(234,040)	(234,040)
Transfers	-	-	-	-	(918,984)	-	(918,984)
Realized Loss on Investment	-	-	-	-	-	-	-
Unrealized Loss on investment	-	-	-	-	-	-	-
Balance at December 31, 2018	0	(0)	0	0	(143,791)	2,053,290	1,909,500

See Independent Auditors Report on Supplementary Information.

Supplementary Schedule 6

VERMONT PUBLIC POWER SUPPLY AUTHORITY
RESTRICTED ASSETS SCHEDULE - CASH - PROJECT 10
FOR THE YEAR ENDED DECEMBER 31, 2018 and 2017

	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, 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
Realized Gain on Investment									-
Unrealized Gain on investment			38,422						38,422
Deduct:									-
Operating expenditures					(714,117)				(714,117)
Capital Improvements									-
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
Add:									
Interest/Dividend Income	4,218	10,375	35,437	2,250	2	51,845	-	-	104,126
Receipts of revenue	-	-	-	-	3,277,949	-	-	-	3,277,949
Transfers	405,907	1,430,126	-	92,660	-	582,066	-	-	2,510,759
Realized Gain on Investment	-	-	-	-	-	-	-	-	-
Unrealized Gain on investment	-	-	44,981	-	-	-	-	-	44,981
Deduct:									-
Operating expenditures	-	-	-	-	(742,301)	-	-	-	(742,301)
Capital Improvements	-	-	-	-	(52,019)	-	-	-	(52,019)
Debt service payments	(417,562)	(1,465,000)	-	-	(1,895,626)	-	-	-	(3,778,188)
Transfers	(26,467)	-	(6,107)	(97,556)	(583,337)	-	(493)	-	(713,960)
Realized Loss on investment	-	-	-	-	-	-	-	-	-
Unrealized Loss on investment	-	-	(56,700)	-	-	-	-	-	(56,700)
Balance at December 31, 2018	$ 405,877	669,616	1,886,186	194,910	206,615	3,378,987	(0)	(0)	6,742,190

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, 2018 and 2017

	Total A Units	% of Total A Units	Total B Units	% of Total B Units	Total Units	% of Total	TOTAL VALUE
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
Purchases	54,899	21.91%	69,873	21.91%	124,772	21.91%	1,247,720
Sales	-	0.00%	-	0.00%	-	0.00%	-
Total	54,899	21.91%	69,873	21.91%	124,772	21.91%	$ 1,247,720
Balance at December 31, 2018	1,843,106		2,345,772		4,188,878		$ 41,888,780

VERMONT PUBLIC POWER SUPPLY AUTHORITY
INVESTMENT IN VT TRANSCO, LLC
ALLOCATION BY VPPSA AND MEMBERS
FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017

ALLOCATION OF UNITS FOR THE BENEFIT OF MEMBERS AND NON-MEMBERS

	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

	Total A Units	% of Total A Units	Total B Units	% of Total B Units	Total Units	% of Total	TOTAL VALUE
Members:							
Barton	70,739	8.4980%	90,030	8.4979%	160,769	8.4979%	$ 1,607,690
Enosburg	107,272	12.8868%	136,530	12.8870%	243,802	12.8869%	2,438,020
Hardwick	164,442	19.7547%	209,291	19.7549%	373,733	19.7548%	3,737,330
Hyde Park	26,335	3.1637%	33,516	3.1636%	59,851	3.1636%	598,510
Jacksonville	21,129	2.5383%	26,893	2.5384%	48,022	2.5384%	480,220
Johnson	63,700	7.6524%	81,076	7.6527%	144,776	7.6526%	1,447,760
Ludlow	116,348	13.9771%	148,078	13.9770%	264,426	13.9771%	2,644,260
Lyndonville	316,639	38.0385%	402,997	38.0387%	719,636	38.0386%	7,196,360
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	45,393	5.4531%	57,770	5.4529%	103,163	5.4530%	1,031,630
Swanton	220,994	26.5484%	281,265	26.5485%	502,259	26.5485%	5,022,590
Total Members	1,315,006	157.97%	1,673,647	157.97%	2,988,653	157.97%	$ 29,886,530
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	46,718		59,457		106,175		1,061,750
Balance at December 31, 2018	1,843,106		2,345,772		4,188,878		41,888,780