



**JOSEPH C. McNEIL GENERATING STATION**

Special-Purpose Financial Statements

June 30, 2018 and 2017

(With Independent Auditors' Report Thereon)

## JOSEPH C. McNEIL GENERATING STATION

### Table of Contents

	<b>Page(s)</b>
Independent Auditors' Report	1-2
Special-Purpose Financial Statements:	
Special-Purpose Statements of Assets, Owners' Equity, and Liabilities	3
Special-Purpose Statements of Changes in Owners' Equity	4
Special-Purpose Statements of Station Operating Expenses	5
Notes to Special-Purpose Financial Statements	6-7



KPMG LLP  
One Park Place  
463 Mountain View Drive, Suite 400  
Colchester, VT 05446-9909

## Independent Auditors' Report

The Joint Owners  
Joseph C. McNeil Generating Station:

We have audited the accompanying special-purpose financial statements of the Joseph C. McNeil Generating Station (the Station), as of and for the years ended June 30, 2018 and 2017, and the related notes to the special-purpose financial statements, which collectively comprise the Station's special-purpose financial statements as listed in the table of contents.

### Management's Responsibility for the Special-Purpose Financial Statements

Management is responsible for the preparation and fair presentation of these special-purpose financial statements in accordance with the joint owners' agreement. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of special-purpose financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these special-purpose 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 special-purpose financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the special-purpose financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the special-purpose financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the special-purpose 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 entity'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 special-purpose 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 special-purpose financial statements referred to above present fairly, in all material respects, the assets, owners' equity and liabilities of the Joseph C. McNeil Generating Station as of June 30, 2018 and 2017, and the related changes in owners' equity and Station operating expenses for the years then ended in accordance with the joint owners agreement.



**Basis of Accounting**

We draw attention to note 2 of the special-purpose financial statements, which describes the basis of accounting. The special-purpose financial statements are prepared by the Joseph C. McNeil Generating Station on the basis of the financial reporting provisions of the joint owners agreement, which is a basis of accounting other than U.S. generally, accepted accounting principles, to comply with the financial reporting provisions of the joint owners agreement referred to above. Our opinion is not modified with respect to this matter.

**Restriction on Use**

Our report is intended solely for the information and use of the Joseph C. McNeil Generating Station and its joint owners and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

Burlington, Vermont  
January 31, 2019

**JOSEPH C. McNEIL GENERATING STATION**

Special-Purpose Statements of Assets, Owners' Equity, and Liabilities

June 30, 2018 and 2017

<b>Assets</b>	<b>2018</b>	<b>2017</b>
Steam production plant, at cost:		
Land and land rights	\$ 276,599	276,599
Structures and improvements	20,220,553	20,146,392
Boiler plant equipment	57,789,820	57,393,911
Turbine generator	13,138,290	12,730,420
Accessory electrical equipment	2,208,905	2,159,296
Miscellaneous power plant equipment	1,732,025	1,369,658
Other steam production plant	1,095,921	1,077,774
Construction work in progress	—	545,732
Total steam production plant	<u>96,462,113</u>	<u>95,699,782</u>
Cash	1,326,767	401,814
Inventories, at average cost:		
Fuel	2,048,036	1,542,683
Materials and supplies	4,237,454	3,116,605
Other assets	266,481	524,011
Total assets	<u>\$ 104,340,851</u>	<u>101,284,895</u>
<b>Owners' Equity and Liabilities</b>		
Owners' equity:		
Burlington Electric Department	\$ 51,896,973	50,460,344
Vermont Public Power Supply Authority	19,578,476	19,033,393
Green Mountain Power Corporation	31,943,723	31,054,381
Total owners' equity	<u>103,419,172</u>	<u>100,548,118</u>
Liabilities:		
Accounts payable	780,279	598,184
Accrued liabilities	141,400	138,593
Total liabilities	<u>921,679</u>	<u>736,777</u>
Total owners' equity and liabilities	<u>\$ 104,340,851</u>	<u>101,284,895</u>

See accompanying notes to special-purpose financial statements.

## JOSEPH C. McNEIL GENERATING STATION

### Special-Purpose Statements of Changes in Owners' Equity

Years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Contributions by joint owners:		
Burlington Electric Department	\$ 12,494,729	11,857,475
Vermont Public Power Supply Authority	4,747,161	4,505,840
Green Mountain Power Corporation	<u>7,745,368</u>	<u>7,351,635</u>
	24,987,258	23,714,950
Property taxes paid by individual joint owners	<u>1,280,440</u>	<u>1,251,116</u>
Total contributions by joint owners	26,267,698	24,966,066
Less station operating expenses, net	<u>23,396,644</u>	<u>23,805,830</u>
Net increase in owners' equity	2,871,054	1,160,236
Owners' equity at beginning of year	<u>100,548,118</u>	<u>99,387,882</u>
Owners' equity at end of year	<u>\$ 103,419,172</u>	<u>100,548,118</u>

See accompanying notes to special-purpose financial statements.

## JOSEPH C. McNEIL GENERATING STATION

### Special-Purpose Statements of Station Operating Expenses

Years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operation expenses:		
Supervision and engineering	\$ 412,069	407,768
Fuel – oil	6,889	3,788
Fuel – wood	15,462,573	15,568,993
Fuel – gas	58,004	103,795
Steam	1,536,083	1,619,224
Electric	740,545	680,085
Miscellaneous steam power expense	588,828	608,518
Total operation expenses	<u>18,804,991</u>	<u>18,992,171</u>
Maintenance expenses:		
Supervision and engineering	118,432	131,777
Structures	108,231	40,575
Boiler plant	927,590	822,870
Electric plant	521,768	537,564
Miscellaneous steam power expense	29,735	19,338
Total maintenance expense	<u>1,705,756</u>	<u>1,552,124</u>
Transmission expenses	<u>61,309</u>	<u>38,590</u>
Total production expenses	20,572,056	20,582,885
Administrative and general expenses	<u>1,308,095</u>	<u>1,158,555</u>
Total operating expenses	21,880,151	21,741,440
Taxes, including payment in lieu of taxes to the City of Burlington, Vermont	1,280,604	1,252,128
Loss on sale of equipment	301,472	903,010
Other income	(63,508)	(88,868)
Interest income	(2,075)	(1,880)
Station operating expenses, net	<u>\$ 23,396,644</u>	<u>23,805,830</u>

See accompanying notes to special-purpose financial statements.

## JOSEPH C. McNEIL GENERATING STATION

### Notes to Special-Purpose Financial Statements

June 30, 2018 and 2017

#### (1) Station Organization

The Joseph C. McNeil Generating Station is a wood, natural gas, and oil fired, 50 megawatt steam generating unit located in the City of Burlington, Vermont. Under the Agreement for Joint Ownership, Construction and Operation of the Joseph C. McNeil Generating Station (the Station), dated May 14, 1982 as amended (the Agreement), the joint owners are tenants in common with undivided interest in the Station. Ownership percentages of the Station as of June 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Burlington Electric Department	50%	50%
Green Mountain Power	31	31
Vermont Public Power Supply Authority	19	19
	<u>100%</u>	<u>100%</u>

The City of Burlington, Vermont Electric Department (the Department) has sole responsibility for operation of the Station. The Station began commercial operations in 1984. The McNeil Plant capacity factor for the fiscal year 2018 was 60.3% compared to 61.4% in 2017, supplying 264,313 MWH and 269,077 MWH, respectively, of its energy production to the Joint Owners.

#### (2) Summary of Significant Accounting Policies

##### (a) Basis of Presentation

The accompanying special-purpose financial statements have been prepared in order to comply with the terms of the Agreement. They summarize certain financial transactions occurring as a result of the Agreement and, accordingly, they are not intended to be a presentation in conformity with U.S. generally accepted accounting principles. The significant differences from generally accepted accounting principles are as follows:

- A statement of cash flows is not presented.
- Station costs are classified in accordance with Federal Energy Regulatory Commission (FERC) guidelines and include all direct and indirect costs and expenses incurred with respect to the Station which are properly chargeable to the design, engineering, procurement, installation, construction, operation, maintenance, insuring, licensing, shutdown, demolition or disposal of the Station, taxation, and payments in lieu thereof, and all costs of keeping accounting and other records, of furnishing accounts, reports, and other information with respect to the Station and of audits pursuant to Section 15, including both financial and engineering audits. Each of the owners has financed its respective participation in station costs. Accordingly, an allowance for funds used during construction is not included in station costs. Other costs assessed directly to individual owners are not included in station costs except for property taxes. The Station incurred capital costs of \$1,231,801 and \$1,791,861, in 2018 and 2017, respectively, which are recorded as part of steam production plant.
- The notes to the special purpose financial statements are not compliant with U.S. generally accepted accounting principles.

## JOSEPH C. McNEIL GENERATING STATION

### Notes to Special-Purpose Financial Statements

June 30, 2018 and 2017

- No depreciation of station costs has been recorded in the special-purpose financial statements. Each owner records depreciation expense based on the total cost of its investment in the Station, its depreciation method, and its useful life for rate-making purposes. Major expenditures for steam production plant which are major improvements or extend the life of the asset are capitalized. Maintenance and repairs are expensed as incurred. When assets are replaced, the costs associated with such replacement are capitalized and the previously capitalized costs are removed from steam production plant.
- Significant costs of the Station, e.g., costs of financing construction, have been incurred by individual owners and are not recorded in these special-purpose financial statements.

#### **(b) Payment of Station Costs**

Owners advance funds to the Department on a monthly basis based on anticipated cash requirements. Excess cash funds are temporarily invested by the Department prior to use.

#### **(c) Fuel Inventories**

Fuel inventories comprised of fuel oil and wood chips are stated at lower of cost or market as determined using the average cost method.

#### **(d) Revenue and Transmission Expense**

Revenue from sales of electricity, net of related transmission expense, is credited to individual owners and owners' participants by the Vermont Electric Power Company (VELCO) and/or Independent System Operator-New England (ISO-NE).

#### **(e) Income Taxes**

The Station is an unincorporated organization that has elected, pursuant to Internal Revenue Code Section 761(a), not to be treated as a partnership. No provision is made for income taxes since such liability is the responsibility of the individual joint owners.

#### **(f) Use of Estimates**

The preparation of financial statements 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 changes in owners' equity during the reporting period. Actual results could differ from these estimates.

### **(3) Related-Party Transactions**

Station costs include \$19,920 and \$19,548 in 2018 and 2017, respectively, representing administrative and general expenses incurred by the Department acting in its capacity as manager of the Station.