

VERMONT ELECTRIC COOPERATIVE, INC.  
UNAUDITED FINANCIAL REPORTING  
FOR THE MONTH AND SIX MONTHS ENDED:  
JUNE, 2010

## Financial Highlights – June

	<u>Variance (K's)</u>	<u>YTD Variance (K's)</u>
June 2009 Net Income	\$122	\$943

### Analysis:

- **Operating Revenue**
\$280
\$166

Overall operating revenues beat budget by 6% in June and are .5% better than budget YTD. Sold KWH in June was 5% better than budget for a positive variance of \$266k and YTD is right on plan with a small negative variance of 11K. Degree days through June are running about 16% below normal (13% below 2009). The average price/KWH sold was 1% less than budget resulting in a negative variance of \$39k in June with YTD .5% less than budget by \$169k. Non-energy services, pole attachments, and wheeling revenues contributed additional revenue from the updates to our non-energy services more than expected for a positive variance of \$53k in June and \$222k YTD. Unbilled revenues were \$2k better than budget in June and are ahead of budget by \$125k YTD.

- **Purchased Power Costs**
(\$270)
\$224

Power costs were 10% higher than budget in June but were 1% better than budget YTD. Purchases were 17% and \$450k higher than expected in June but are 1% and \$171k less YTD. Primary variance driver is a reserve of nearly \$300k booked in June to accrue for a potential metering load error. Our overall costs/KWH was 6% and \$154k lower than budget in June and are also .5% and \$54k lower YTD.

- **Transmission Costs**
\$85
\$302

Transmission labor costs are \$47k YTD better than budget as we had vacancies at beginning of year. Transmission costs are running better than budget by \$90k in June and \$203k YTD largely related to better than expected Velco charges and ISO-NE OATT charges. Overhead line maintenance of transmission is running over budget by \$3k in June and \$23k YTD largely related to timing of helicopter inspections and some failed insulators. Transmission vegetative maintenance is under budget by \$6k in June and \$93k YTD.

- **Distribution Operations/Mtce**
\$26
(\$93)

Overhead line maintenance costs were lower than budget by \$23k in June and is \$210k under budget YTD. Major storm expenses were below budget by \$29k in June but YTD exceed budget by \$530k. Make ready work was better than budget by \$12k in June and \$63k YTD as survey work has been less than planned. Substation maintenance work was over budget by \$5k in June but is \$19k under budget YTD. Distribution vegetative maintenance program spending was over budget by \$65k in June but is \$33k under budget YTD. Vegetative mtce program overall is \$59k over budget for June but is \$126k under budget YTD.

- **Customer Accounts**
\$13
\$136

Meter reading and collection activities have been less than expected largely from an open metering position and winter disconnect requirements for a positive variance of \$10k in June and \$91k YTD. Our SGRP performance and administration costs of the plan have been less than budget by \$4k in June and \$26k YTD. Bad debt is running \$12k better than budget YTD as bill payments have been better than expected.

• **Administrative & General** (\$24) \$110

Regulatory related costs were \$2k over budget in June but are \$82k under YTD largely as a result of the uncontested rate case. A&G salaries are \$85k under budget YTD. Outside services were under budget by \$11k in June and \$36k YTD. Both employee meetings and strategic planning contributed a combined positive variance of \$10k in June and \$27k YTD. There were a number of smaller individual items that had negative variances of \$39k in June and \$120k YTD that included safety, annual meeting, COOP Life, Director's Fees, NRECA dues and facility maintenance (some are timing related only).

• **Total Depreciation & Other Exp** \$2 (\$50)

Depreciation expense is \$6k higher than budget in June and \$50k YTD. Projects closed to plant in service from 2009 were greater than expected.

• **Non-Operating Margins** \$11 \$148

CoBank's 2009 patronage distribution included \$75k YTD of non-cash distributions that do not count towards TIER. An additional positive variance of \$20k YTD was the result of CoBank increasing cash patronage distributions from 50% to 65%. New England Hydro dividends were \$10k better than budget in June but are \$6k below budget YTD. TRANSCO stock assignment with VPPSA has returned \$27k more than expected YTD. Lastly, storm assistance has contributed YTD positive income of \$22k.

• **Capital Spending Plan** \$248 \$311

On the positive side for under spending to budget, the Jay/Troy Area consolidation is \$100k under budget YTD. The Sheldon C13 Breaker project is \$75k under budget YTD as the project is behind schedule. The Johnson substation automation & rebuild has been postponed with a savings to budget of \$125k in June and \$225k YTD. Transformer purchases have been less than expected because of the lack of new construction with a savings of \$51k in June and \$120k YTD. Jay Tap project is behind schedule with positive variances of \$328k in June and \$216k YTD. Lastly, the GSA 50% funded Rte 5 Upgrade will be postponed to 2011 for a savings of \$100k in June and \$300k YTD. The Richford switch project carried into 2010 creating a negative variance to budget of \$3k in June and \$116k YTD. Pole replacement work was over budget in June by \$65k and \$323k YTD. Distribution & transmission ordinary replacements were over budget by \$18k in June and are \$277k over budget YTD. NEK Connector was \$266k over budget in June and \$299k YTD. Lastly, we received a final bill from Velco for Williston completed in 2009 contributing a negative variance of \$102k YTD.

**TIER and Debt Service Coverage**

We are on track to meet or exceed our TIER budget of 2.18. Our Debt Service payments for 2010 are projected to be \$5.0 million.

**Cash Flow and Line of Credit**

In June, we used up to a peak of \$5.3M on our line of credit. July is expected to reach a level of \$5.7M on Friday 7/23.

**Balance Sheet**

Our equity ratio held steady in June at 39.5%. Our current ratio, a measure of liquidity, declined to .86 from last months .89. VEC's FFO ratio for 2010 YTD ("Funds from Operations/Capital Expenditures Ratio"; Target of 80% desirable) was .83 declining from the previous month of .86.

STATEMENT OF OPERATIONS

MONTHLY

	June 2010 Actual	June 2010 Budget	June 2010 Actual - Budget Variance Fav (Unfav)	%	June 2009 Actual	June 2010 Actual - June 2009 Variance Fav (Unfav)	%
Revenue	5,237,280	4,957,588	279,692	5.6%	4,963,506	273,775	5.5%
Operating Revenue	113,657	105,533	8,124	7.7%	177,991	(64,334)	36.1%
Sales for Resale							
Total revenues	\$ 5,350,937	\$ 5,063,121	\$ 287,816	5.7%	\$ 5,141,497	\$ 209,441	4.1%
Power supply cost	(2,950,248)	(2,680,228)	(270,020)	-10.1%	(2,757,742)	(192,506)	-7.0%
Purchased power cost	(113,657)	(105,533)	(8,124)	-7.7%	(177,991)	64,334	36.1%
Sales for Resale	(557,488)	(642,766)	85,278	13.3%	(621,535)	64,047	10.3%
Transmission	(3,621,393)	(3,428,527)	(192,866)	-5.6%	(3,557,268)	(64,125)	-1.8%
Total Power supply cost							
Gross Margin	\$ 1,729,544	\$ 1,634,594	\$ 94,950	5.8%	\$ 1,584,228	\$ 145,316	-9.2%
Operating expenses	(841,750)	(867,429)	25,678	3.0%	(842,027)	277	0.0%
Distribution: Operations & Mice	(193,792)	(206,761)	12,969	6.3%	(199,806)	6,013	3.0%
Customer accounts	(258,607)	(234,552)	(24,055)	-10.3%	(243,082)	(15,525)	-6.4%
Administrative & general							
Total operating expenses	(1,294,150)	(1,308,743)	14,593	1.1%	(1,284,915)	(9,235)	-0.7%
Depreciation & amortization	(299,393)	(293,571)	(5,822)	-2.0%	(273,743)	(25,650)	-9.4%
Gross revenue & receipts taxes	(53,444)	(50,897)	(2,547)	-5.0%	(50,409)	(3,036)	-6.0%
Interest on long-term debt	(232,881)	(243,797)	10,916	4.5%	(221,415)	(11,466)	-5.2%
Other interest expenses	(14,671)	(12,328)	(2,343)	-19.0%	(11,230)	(3,441)	-30.6%
Other Deductions	262	(1,212)	1,474	121.6%	-	262	N/A
Total depreciation & other expenses	(600,127)	(601,805)	1,678	0.3%	(556,797)	(43,330)	-7.8%
Income from operations	(164,733)	(275,953)	111,221	-40.3%	(257,483)	92,751	36.0%
Interest income	236,940	223,826	13,114	5.9%	233,997	2,943	1.3%
Other income (expenses)	(2,525)	(289)	(2,236)	772.9%	1,445	(3,971)	-274.7%
Other capital credits & dividends				N/A			N/A
Total non-operating margins	234,414	223,537	10,878	4.9%	235,442	(1,028)	-0.4%
Net income (loss)	69,682	(52,417)	122,099	-232.9%	(22,041)	91,723	416.1%
Extraordinary expenses							
Total net income (loss)	\$ 69,682	\$ (52,417)	\$ 122,099	-232.9%	\$ (22,041)	\$ 91,723	416.1%

STATEMENT OF OPERATIONS

YEAR-TO-DATE

	June 2010 Actual	June 2010 Budget	June 2010 Actual- Budget Variance Fav (Unfav) \$ %	June 2009 Actual	June 2010 Actual - June 2009 Variance Fav (Unfav) \$ %
Revenue					
Operating Revenue	34,816,840	34,650,430	166,209	34,301,348	515,292
Sales for Resale	690,611	369,003	321,608	1,497,635	(807,024)
Total revenues	\$ 35,507,251	\$ 35,019,433	\$ 487,817	\$ 35,798,983	\$ (291,732)
Power supply cost					
Purchased power cost	(17,428,499)	(17,652,499)	223,999	(19,019,413)	1,590,914
Sales for Resale	(690,611)	(369,003)	(321,608)	(1,497,635)	807,024
Transmission:	(4,047,565)	(4,349,732)	302,166	(3,777,878)	(269,687)
Total Power supply cost	(22,166,675)	(22,371,234)	204,558	(24,294,926)	2,128,250
Gross Margin	\$ 13,340,575	\$ 12,648,200	\$ 692,375	\$ 11,504,057	\$ 1,836,518
Operating expenses					
Distribution: Operations & Mice	(5,142,584)	(5,049,546)	(93,038)	(4,149,956)	(992,628)
Customer accounts	(1,119,813)	(1,256,106)	136,293	(1,189,556)	69,743
Administrative & general	(1,421,237)	(1,531,283)	110,046	(1,473,173)	51,936
Total operating expenses	(7,683,634)	(7,836,934)	153,300	(6,812,685)	(870,949)
Depreciation & amortization	(1,783,891)	(1,734,351)	(49,540)	(1,867,616)	83,725
Gross revenue & receipts taxes	(344,796)	(345,384)	586	(340,568)	(4,230)
Interest on long-term debt	(1,452,818)	(1,474,091)	21,273	(1,382,895)	(69,923)
Other interest expenses	(69,925)	(54,466)	(15,459)	(62,730)	(7,196)
Other deductions	(14,808)	(7,523)	(7,285)	(3,070)	(11,738)
Total depreciation & other expenses	(3,666,240)	(3,615,815)	(50,425)	(3,656,879)	(9,361)
Income from operations	1,990,701	1,195,451	795,251	1,034,494	956,208
Interest income	558,521	543,697	14,824	490,966	67,555
Other income (expenses)	17,696	(1,647)	19,343	20,516	(2,820)
Other capital credits & dividends	224,791	110,782	114,009	110,592	114,199
Total non-operating margins	801,007	652,832	148,175	622,074	178,933
Net income (loss)	2,791,708	1,848,283	943,425	1,656,567	1,135,141
Extraordinary expenses	-	-	-	-	-
Total net income (loss)	\$ 2,791,708	\$ 1,848,283	\$ 943,425	\$ 1,656,567	\$ 1,135,141

JUNE 2010

BALANCE SHEETS (ASSETS)

VEC

	June 2010 Actual	May 2010 Actual	Variance Fav/(Unfav) \$	%	June 2009 Actual	Variance Fav/(Unfav) \$	%
Electric plant, at cost:							
Electric plant in service	104,229,992	104,077,701	152,291	0.15%	95,530,415	8,699,577	9.11%
Less accumulated depreciation	(27,306,946)	(27,246,082)	60,864	0.22%	(25,944,533)	1,362,413	5.25%
Net electric plant in service	76,923,046	76,831,619	91,427	0.12%	69,585,882	7,337,164	10.54%
Construction work in progress	6,823,616	6,377,642	445,974	6.99%	5,206,777	1,616,839	31.05%
Net electric plant	83,746,662	83,209,262	537,401	0.65%	74,792,659	8,954,003	11.97%
Other assets:							
Non-utility property	65,697	65,697	-	0.00%	65,697	-	0.00%
Other investments	9,854,844	9,854,844	-	0.00%	9,692,755	162,089	1.67%
Deferred charges	(312,213)	(306,505)	(5,708)	1.86%	(458,574)	146,360	-31.92%
Total other assets	9,608,327	9,614,035	(5,708)	-0.06%	9,299,878	308,449	3.32%
Current assets:							
Cash	318,893	281,346	37,547	13.35%	1,429,877	(1,110,984)	-77.70%
Notes receivable (net)	773	906	(133)	-14.66%	3,630	(2,857)	-78.71%
Accounts receivable (net)	9,226,453	9,600,793	(374,339)	-3.90%	8,473,637	752,816	8.88%
Other receivables (net)	1,385,391	1,162,015	223,376	19.22%	298,935	1,086,456	363.44%
Inventories	2,829,906	2,444,324	385,582	15.77%	2,447,563	382,343	15.62%
Prepaid expenses	247,948	271,701	(23,753)	-8.74%	205,082	42,866	20.90%
Total current assets	14,009,364	13,761,084	248,280	1.80%	12,858,724	1,150,640	8.95%
Total assets	\$ 107,364,354	\$ 106,584,381	\$ 779,972	0.73%	\$ 96,951,261	\$ 10,413,093	10.74%

BALANCE SHEETS (LIABILITIES/EQUITY)

	June 2010 Actual	May 2010 Actual	Variance Fav/(Unfav) \$	%	#DIV/0!	June 2009 Actual	Variance Fav/(Unfav) \$	%	#DIV/0!
<b>Equities:</b>									
Memberships issued & subscribed	-	-	-			-	-		
Patronage capital assignable	20,251,163	20,251,163	-	0.00%		16,561,252	3,689,910	18.22%	
Other earnings	5,365,080	5,295,398	69,682	1.30%		4,229,919	1,135,161	21.16%	
Contributions in aid of construction	16,741,727	16,583,044	158,683	0.95%		15,863,508	878,219	5.25%	
<b>Net equity</b>	<b>42,357,970</b>	<b>42,129,604</b>	<b>228,365</b>	<b>0.54%</b>		<b>36,654,680</b>	<b>5,703,290</b>	<b>13.46%</b>	
<b>Long-term debt</b>	<b>48,022,753</b>	<b>48,284,031</b>	<b>(261,278)</b>	<b>-0.54%</b>		<b>44,172,827</b>	<b>3,849,926</b>	<b>8.02%</b>	
<b>Capital leases - non current</b>	<b>302,618</b>	<b>303,643</b>	<b>(1,025)</b>	<b>-0.34%</b>		<b>315,499</b>	<b>(12,881)</b>	<b>-4.26%</b>	
<b>Current liabilities:</b>									
Current portion of long-term debt	2,080,491	2,080,491	-	0.00%		1,926,230	154,261	7.41%	
Line of Credit	5,200,000	4,900,000	300,000	5.77%		4,998,666	201,334	3.87%	
Accounts payable	5,592,562	5,243,047	349,514	6.25%		5,369,428	223,134	3.99%	
Customer deposits	313,723	302,423	11,301	3.60%		118,947	194,776	62.08%	
Other accrued expenses	3,099,232	2,920,292	178,940	5.77%		3,007,062	92,170	2.97%	
<b>Total current liabilities</b>	<b>16,286,008</b>	<b>15,446,253</b>	<b>839,755</b>	<b>5.16%</b>		<b>15,420,333</b>	<b>865,676</b>	<b>5.32%</b>	
<b>Deferred credits</b>	<b>395,005</b>	<b>420,849</b>	<b>(25,845)</b>	<b>-6.54%</b>		<b>387,923</b>	<b>7,082</b>	<b>1.79%</b>	
<b>Total liabilities and equity</b>	<b>\$ 107,364,354</b>	<b>\$ 106,584,381</b>	<b>\$ 779,973</b>	<b>0.73%</b>		<b>\$ 96,951,261</b>	<b>\$ 10,413,093</b>	<b>10.74%</b>	

STATEMENT OF CASH FLOWS

	Month		Year-to-date		Variance Fav (Unfav)	%
	June 2010	June 2009	June 2010	June 2009		
	Actual	Actual	Actual	Actual	\$	
<b>Cash flows from operating activities:</b>						
Net income	\$ 69,682	\$ (22,041)	\$ 2,791,708	\$ 1,656,567	1,135,141	68.52%
Noncash expenses (income) included in earnings:						
Depreciation & amortization	348,999	336,017	2,434,982	2,347,884	87,098	3.71%
(Gain) loss on sale of fixed assets	(530)	(530)	(3,180)	(30,465)	27,285	N/A
Changes in assets and liabilities:						
Decrease (increase) in notes receivable	133	549	1,142	2,758	(1,616)	-58.60%
Decrease (increase) in accounts receivable	374,339	652,958	99,183	393,635	(294,451)	-74.80%
Decrease (increase) in other receivable	(223,376)	60,810	(791,289)	544,002	(1,335,290)	245.46%
Decrease (increase) in inventories	(385,582)	154,913	(230,674)	(104,289)	(126,385)	121.19%
Decrease (increase) in prepayments	23,753	50,849	92,227	(1,543)	93,769	6078.61%
Decrease (increase) in deferred charges	(9,626)	(40,674)	(131,415)	(133,023)	1,608	1.24%
Increase (decrease) in accounts payable	349,514	220,112	(15,387)	(54,671)	39,284	-71.86%
Increase (decrease) in customer deposits	11,301	820	74,263	15,588	58,675	-376.41%
Increase (decrease) in accrued expenses	178,940	192,863	1,194,744	669,320	525,425	78.50%
Increase (decrease) in deferred credits	(25,845)	(13,860)	75,195	(153,119)	228,314	-149.11%
<b>Net cash provided (used) by operating activities</b>	<b>711,702</b>	<b>1,592,785</b>	<b>5,591,500</b>	<b>5,152,643</b>	<b>438,857</b>	<b>8.52%</b>
<b>Cash flows from investing activities:</b>						
Additions to electric plant in service and construction work in progress	(712,696)	(1,643,262)	(6,179,911)	(6,436,989)	257,078	3.99%
Proceeds from retirements of electric plant in service	(157,839)	13,244	(479,697)	(113,960)	(365,737)	320.94%
Return on capital investments	-	(7,517)	(77,039)	(52,942)	(24,097)	45.52%
Proceeds (payments) from sale (purchase) of investments	-	-	27,822	-	27,822	N/A
<b>Net cash provided (used) in investing activities</b>	<b>(870,535)</b>	<b>(1,637,535)</b>	<b>(6,708,824)</b>	<b>(6,603,890)</b>	<b>(104,934)</b>	<b>-1.59%</b>
<b>Cash flows from financing activities:</b>						
Proceeds from borrowings LOC	-	-	-	-	-	N/A
Proceeds from borrowings Long-Term	-	-	-	-	-	N/A
Payments to creditors Long-Term	300,000	598,666	1,800,000	2,448,724	(648,724)	26.49%
Payments to creditors LOC	(262,303)	(249,380)	(1,033,649)	(957,109)	(76,540)	-8.00%
Increase in contributions in aid of construction	156,683	44,746	384,287	199,237	185,050	92.86%
Memberships issued, net of refunds	-	-	-	-	-	N/A
Additions to donated capital, net	-	5	8	18	(10)	-57.51%
<b>Net cash provided (used) by financing activities</b>	<b>196,380</b>	<b>394,037</b>	<b>1,150,645</b>	<b>1,690,871</b>	<b>(540,225)</b>	<b>31.95%</b>
<b>Net increase (decrease) in cash and equivalents</b>	<b>37,547</b>	<b>349,287</b>	<b>33,322</b>	<b>239,624</b>	<b>(206,302)</b>	<b>-86.09%</b>
<b>Cash &amp; cash equivalents at beginning of period</b>	<b>281,345</b>	<b>1,080,590</b>	<b>285,571</b>	<b>1,190,253</b>	<b>(904,682)</b>	<b>-76.01%</b>
<b>Cash &amp; cash equivalents at end of period</b>	<b>\$ 318,893</b>	<b>\$ 1,429,877</b>	<b>\$ 318,893</b>	<b>\$ 1,429,877</b>	<b>\$ (1,110,984)</b>	<b>-77.70%</b>
<b>Supplemental cash flow information:</b>						
Cash paid during the period for interest	\$ (406,472)	\$ (439,119)	\$ (543,893)	\$ (430,969)	(112,904)	-26.20%