

Financial Highlights – September, 2016

| | <u>Variance (K's)</u> | <u>YTD Variance (K's)</u> |
|-----------------------------|-----------------------|---------------------------|
| September Net Income | \$376 | \$275 |

Analysis:

- Operating Revenue**
\$125
(\$1,226)

KWH sales in September are \$276k better than budget for the month but \$227k less YTD. The average price/KWH sold is \$96k less than budget for the month and \$949k less for the year. Degree days for the year are 7% less than normal and 14% less than the previous year. Non-energy services, pole attachments, and wheeling revenues are \$33k better than budget for the month and \$217k better YTD. Unbilled revenues are \$16k less than budget for the month but \$55k better for the year. The sale of Renewable Energy Credits is under budget by \$67k for the month and \$325k under YTD.

- Purchased Power Costs**
\$24
\$1,509

Purchased KWH is over budget by \$19k for the month and \$10k for the year. Our overall costs/KWH is \$43k under budget for the month and \$1,519k under YTD.

- Transmission Costs**
\$86
(\$212)

Transmission support for substations and supervision is \$4k under budget for the month and \$62k under YTD. Transmission by Others is \$32k under budget for the month but is \$258k over YTD. Maintenance for SCADA and overhead lines is over budget by \$3k for month and \$56k for the year. Transmission vegetative maintenance is under budget by \$14k for the month and is on budget YTD.

- Distribution Operations/Mtce**
\$87
\$72

Major Storm costs are under budget by \$53k for the month and \$500k for the year. Meter/AMI Expense is \$7k over budget for the month and \$39k over for the year. Supervisory related costs are over budget by \$9k for the month and \$92k YTD. Overall Distribution Maintenance costs are over budget by \$28k for the month but under \$110k YTD. Miscellaneous Distribution and Customer Installation expenses are over \$15k YTD. Distribution vegetative maintenance program spending is under budget by \$79k for the month but is over \$391k YTD. The overall vegetative maintenance program (transmission + distribution) is \$92k under budget for the month but is \$391k over for the year.

- Customer Accounts**
(\$8)
(\$99)

Meter Reading & Disconnect Services are under budget by \$8k for the month and \$30k YTD. Member Services are under budget by \$13k for the month \$70k for the year. Uncollectible Accounts are over budget by \$37k for the month and \$211k over for the year. Patronage Capital expenses are \$5k under budget for the year. Communications and SQRP Costs are under budget by \$8k for the month and \$7k for the year.

- **Administrative & General** **\$25** **\$39**

Regulatory related expenses are over budget by \$6k for the month and \$25k YTD. Payroll and Benefits are under budget by \$41k for the month and \$63k YTD. Outside Services is under budget by \$2k for the month but is over \$30k YTD. Director Expenses are under budget \$3k for the month but are over \$12k YTD. Internal costs incurred for Community Solar and TIER 3 Projects are \$15k over budget for the month and \$60k over YTD. Expenses for Coop-life, Business Development, Dues, and Meeting expenses are over budget by \$2k for the month but are under and \$20k YTD. Safety, Office and Facility related expenses are under budget by \$2k for the month and \$82k YTD.

- **Total Depreciation & Other Exp** **(\$9)** **(\$123)**

Depreciation expense is over budget by \$12k for the month and \$131k YTD. Interest expense is under budget by \$8k for the month but is on budget for the year. Gross Receipt & Revenue Taxes are over budget by \$2k for the month but are under \$12k for the year. Other Expenses are \$4k over for the month and \$5k over YTD.

- **Total Non-Operating Margins** **\$46** **\$314**

Patronage Dividends from CFC, CoBank and NISC are better than budget by \$45k for the month and \$198k for the year. Interest Income is better than budget by \$115k YTD. Miscellaneous Jobbing Revenue and other expenses are on budget for the month and year.

- **Capital Spending Plan** **\$217** **(\$366)**

Transformers and increased capacity are over budget by \$29k for the month and \$296k for the year. Distribution line projects and Ordinary Replacements are \$40k under budget for the month but are over \$554k for the year. Pole Replacements are under budget by \$112k for the month but are \$5k over YTD. SCADA projects are under budget by \$4k for the month but are over \$49k YTD. New Services and Construction are over budget by \$93k for the month and \$94k the year. Facilities, Fleet and IT projects are under budget by \$144k for the month and \$499k for the year. Substation projects are over budget \$123k for the month but are under \$105k for the year. Security lights are under budget \$63k for the year. Meters and AMI are under budget \$127k for the month but over \$68k for the year. TIER 3 CAP Projects have a positive variance of \$32k for the month and YTD.

TIER and Debt Service Coverage

We expect the 2016 operating budget will be on target with our approved budgeted TIER of 2.18. Our Debt Service payments for 2016 are projected to be \$6.5 million.

Cash Flow and Line of Credit

In September, we used up to a peak of \$5.3M on our line of credit on September 30th. The October high for the line of credit is expected to be \$5M on October 20th.

Balance Sheet

Our equity ratio in September is 43% consistent with August. Our current ratio, a measure of liquidity, is 1.00, down slightly from August at 1.11. VEC's FFO ratio for 2016 YTD ("Funds from Operations/Capital Expenditures Ratio"; Target of 80% desirable) is 1.08, up from August at .88.

Vermont Electric Cooperative, Inc.
Statement of Operations
Month to Date

| | September, 2016 Actual | September, 2016 Budget | Actual- Budget Variance Fav (Unfav) | % | September, 2015 Actual | Prior Year Variance Fav (Unfav) | % |
|--|---------------------------|---------------------------|--|---------------|---------------------------|------------------------------------|---------------|
| Revenue | | | | | | | |
| Operating Revenue | 6,384,795 | 6,260,116 | 124,679 | 2.0% | 6,452,732 | (67,936) | -1.1% |
| Sales for Resale | 28,970 | 223,246 | (194,276) | -87.0% | 13,600 | 15,370 | -113.0% |
| Total revenues | \$ 6,413,765 | \$ 6,483,362 | \$(69,597) | -1.1% | \$ 6,466,332 | \$(52,566) | -0.8% |
| Power supply cost | | | | | | | |
| Purchased power cost | 2,644,670 | 2,668,447 | 23,777 | 0.9% | 2,904,602 | 259,932 | -8.9% |
| Sales for Resale | 28,970 | 223,246 | 194,276 | 87.0% | 13,600 | (15,370) | 113.0% |
| Transmission | 735,371 | 821,577 | 86,206 | 10.5% | 768,592 | 33,221 | -4.3% |
| Total Power supply cost | 3,409,011 | 3,713,270 | 304,259 | -8.2% | 3,686,794 | 277,784 | -7.5% |
| Gross Margin | \$ 3,004,755 | \$ 2,770,092 | \$ 234,663 | 8.5% | \$ 2,779,538 | \$ 225,217 | -8.1% |
| Operating expenses | | | | | | | |
| Distribution: Operations & Mtce | 998,308 | 1,085,131 | 86,823 | 8.0% | 933,408 | (64,900) | 7.0% |
| Customer accounts | 258,156 | 250,550 | (7,606) | -3.0% | 269,995 | 11,839 | -4.4% |
| Administrative & general | 299,151 | 323,991 | 24,840 | 7.7% | 284,519 | (14,632) | 5.1% |
| Total operating expenses | \$ 1,555,615 | \$ 1,659,672 | \$ 104,057 | 6.3% | \$ 1,487,922 | \$(67,693) | 4.5% |
| Depreciation & amortization | 481,561 | 469,771 | (11,790) | -2.5% | 457,207 | (24,355) | 5.3% |
| Gross revenue & receipts taxes | 63,816 | 62,240 | (1,576) | -2.5% | 64,509 | 693 | -1.1% |
| Interest on long-term debt | 258,296 | 246,586 | (11,710) | -4.7% | 248,698 | (9,597) | 3.9% |
| Other interest expenses | 6,626 | 26,400 | 19,774 | 74.9% | 10,359 | 3,733 | -36.0% |
| Other Deductions | 4,500 | 1,000 | (3,500) | -350.0% | 1,120 | (3,380) | 301.8% |
| Total depreciation & other expenses | 814,799 | 805,997 | \$(8,802) | 1.1% | 781,893 | \$(32,906) | 4.2% |
| Income from operations | \$ 634,341 | \$ 304,423 | \$ 329,918 | 108.4% | \$ 509,724 | \$ 124,618 | -24.4% |
| Interest income | 609,093 | 609,093 | 0 | 0.0% | 609,093 | - | 0.0% |
| Other income (expenses) | 3,093 | 2,154 | 939 | 43.6% | 19,285 | (16,192) | -84.0% |
| Other capital credits & dividends | 102,009 | 56,778 | 45,231 | 79.7% | 110,453 | (8,444) | -7.6% |
| Total non-operating margins | 714,196 | 668,025 | 46,171 | 6.9% | 738,832 | \$(24,636) | -3.3% |
| Net income (loss) | 1,348,537 | 972,448 | 376,089 | 38.7% | 1,248,555 | 99,982 | -8.0% |
| Extraordinary expenses | - | - | - | N/A | - | - | N/A |
| Total net income (loss) | \$ 1,348,537 | \$ 972,448 | \$ 376,089 | 38.7% | \$ 1,248,555 | \$ 99,982 | -8.0% |

Vermont Electric Cooperative, Inc.
Statement of Operations
Year to Date

| | September, 2016 Actual | September, 2016 Budget | September, 2016 Actual - Budget Variance Fav (Unfav) | September, 2015 Actual | September, 2015 Actual - Prior Year Variance Fav (Unfav) | |
|---|---------------------------|---------------------------|--|---------------------------|--|--------------|
| | \$ | \$ | % | \$ | \$ | % |
| Revenue | | | | | | |
| Operating Revenue | 59,065,701 | 60,291,684 | (1,225,983) | 59,941,946 | (876,244) | -1.5% |
| Sales for Resale | 453,286 | 4,366,018 | (3,912,732) | 947,410 | (494,124) | 52.2% |
| Total revenues | \$ 59,518,987 | \$ 64,657,702 | \$ (5,138,715) | \$ 60,889,356 | \$ (1,370,368) | -2.3% |
| Power supply cost | | | | | | |
| Purchased power cost | 27,571,974 | 29,081,469 | 1,509,495 | 29,352,232 | 1,780,258 | -6.1% |
| Sales for Resale | 453,286 | 4,366,018 | 3,912,732 | 947,410 | 494,124 | -52.2% |
| Transmission: | 8,529,347 | 8,317,475 | (211,872) | 7,937,044 | (592,303) | 7.5% |
| Total Power supply cost | 36,554,607 | 41,764,962 | 5,210,355 | 38,236,686 | 1,682,079 | -4.4% |
| Gross Margin | \$ 22,964,380 | \$ 22,892,740 | \$ 71,640 | \$ 22,652,670 | \$ 311,710 | -1.4% |
| Operating expenses | | | | | | |
| Distribution: Operations & Mtce | 9,759,822 | 9,831,781 | 71,959 | 8,828,491 | (931,330) | 10.5% |
| Customer accounts | 2,260,250 | 2,161,387 | (98,863) | 2,022,363 | (237,887) | 11.8% |
| Administrative & general | 2,693,025 | 2,731,866 | 38,841 | 2,792,894 | 99,869 | -3.6% |
| Total operating expenses | 14,713,097 | 14,725,034 | 11,937 | 13,643,749 | (1,069,349) | 7.8% |
| Depreciation & amortization | 4,297,638 | 4,167,121 | (130,517) | 4,049,735 | (247,903) | 6.1% |
| Gross revenue & receipts taxes | 573,394 | 585,662 | 12,268 | 582,509 | 9,114 | -1.6% |
| Interest on long-term debt | 2,316,226 | 2,263,093 | (53,133) | 2,341,134 | 24,908 | -1.1% |
| Other interest expenses | 123,214 | 177,004 | 53,790 | 87,524 | (35,690) | 40.8% |
| Other deductions | 14,147 | 9,000 | (5,147) | 7,528 | (6,619) | 87.9% |
| Total depreciation & other ext | 7,324,619 | 7,201,880 | (122,739) | 7,068,429 | (256,189) | 3.6% |
| Income from operations | 926,664 | 965,826 | (39,162) | 1,940,492 | (1,013,828) | 52.2% |
| Interest income | 2,212,310 | 2,096,957 | 115,353 | 2,173,720 | 38,590 | 1.8% |
| Other income (expenses) | 18,851 | 18,595 | 256 | (53,470) | 72,321 | -135.3% |
| Other capital credits & dividends | 579,833 | 381,378 | 198,455 | 562,895 | 16,938 | 3.0% |
| Total non-operating margins | 2,810,994 | 2,496,930 | 314,064 | 2,683,145 | 127,849 | 4.8% |
| Net income (loss) | 3,737,658 | 3,462,756 | 274,902 | 4,623,637 | (885,979) | 19.2% |
| Extraordinary expenses | - | - | - | - | - | N/A |
| Total net income (loss) | \$ 3,737,658 | \$ 3,462,756 | \$ 274,902 | \$ 4,623,637 | \$ (885,979) | 19.2% |

Vermont Electric Cooperative, Inc.
Balance Sheet (Assets)
September, 2016

| | September, 2016 Actual | August, 2016 Actual | Variance Fav/(Unfav) \$ | % | September, 2015 Actual | Variance Fav/(Unfav) \$ | % |
|--------------------------------------|---------------------------|------------------------|----------------------------|---------------|---------------------------|----------------------------|----------------|
| Electric plant, at cost: | | | | | | | |
| Electric plant in service | 155,158,497 | 154,714,651 | 443,847 | 0.29% | 144,890,003 | 10,268,494 | 7.09% |
| Less accumulated depreciation | (43,540,915) | (43,130,349) | 410,566 | 0.95% | (40,986,746) | 2,554,169 | 6.23% |
| Net electric plant in service | 111,617,582 | 111,584,302 | 33,281 | 0.03% | 103,903,257 | 7,714,326 | 7.42% |
| Construction work in progress | 4,773,332 | 4,892,295 | (118,964) | -2.43% | 7,774,192 | (3,000,860) | -38.60% |
| Net electric plant | 116,390,914 | 116,476,597 | (85,683) | -0.07% | 111,677,448 | 4,713,466 | 4.22% |
| Other assets: | | | | | | | |
| Non-utility property | 65,697 | 65,697 | - | 0.00% | 65,697 | - | 0.00% |
| Other investments | 25,268,794 | 23,205,664 | 2,063,131 | 8.89% | 23,031,918 | 2,236,876 | 9.71% |
| Deferred charges | 839,754 | 841,261 | (1,506) | -0.18% | 2,043,515 | (1,203,761) | -58.91% |
| Total other assets | 26,174,245 | 24,112,621 | 2,061,624 | 8.55% | 25,141,130 | 1,033,115 | 4.11% |
| Current assets: | | | | | | | |
| Cash | 1,484,504 | 552,375 | 932,130 | 168.75% | 846,710 | 637,794 | 75.33% |
| Notes receivable (net) | - | - | - | 0.00% | - | - | #DIV/0! |
| Accounts receivable (net) | 9,525,284 | 10,590,614 | - | -10.06% | 10,093,332 | (568,048) | -5.63% |
| Other receivables (net) | 2,417,882 | 2,093,359 | 324,523 | 15.50% | 1,684,790 | 733,092 | 43.51% |
| Inventories | 4,387,082 | 4,293,800 | 93,282 | 2.17% | 4,252,249 | 134,833 | 3.17% |
| Prepaid expenses | 780,512 | 938,938 | (158,426) | -16.87% | 823,579 | (43,068) | -5.23% |
| Total current assets | 18,595,263 | 18,469,084 | 1,191,509 | 0.68% | 17,700,660 | 894,603 | 5.05% |
| Total assets | \$ 161,160,422 | \$ 159,058,302 | \$ 3,167,450 | 1.32% | \$ 154,519,238 | \$ 6,641,184 | 4.30% |

Vermont Electric Cooperative, Inc.
Balance Sheet (Liabilities & Equity)
September, 2016

| | September, 2016 Actual | August, 2016 Actual | Variance Fav/(Unfav) \$ | Variance Fav/(Unfav) % | September, 2015 Actual | Variance Fav/(Unfav) \$ | Variance Fav/(Unfav) % |
|--------------------------------------|---------------------------|------------------------|----------------------------|---------------------------|---------------------------|----------------------------|---------------------------|
| Equities: | | | | | | | |
| Memberships issued & subscribed | - | - | - | 0.00% | - | - | 0.00% |
| Patronage capital assignable | (2) | (2) | - | 0.00% | (1) | (1) | 40.42% |
| Other earnings | 69,161,974 | 68,246,668 | 915,306 | 1.32% | 66,841,579 | 2,320,395 | 3.36% |
| Contributions in aid of construction | - | - | - | 0.00% | - | - | 0.00% |
| Net equity | 69,161,972 | 68,246,666 | 915,306 | 1.32% | 66,841,578 | 2,320,394 | 3.36% |
| Long-term debt | 72,818,458 | 73,440,092 | (621,634) | -0.85% | 66,829,269 | 5,989,189 | 8.22% |
| Capital leases - non current | 346,316 | 335,575 | 10,741 | 3.10% | 291,009 | 55,307 | 15.97% |
| Current liabilities: | | | | | | | |
| Current portion of long-term debt | 3,516,816 | 3,516,816 | - | 0.00% | 3,341,063 | 175,753 | 5.00% |
| Line of Credit | 5,264,796 | 1,790,979 | 3,473,817 | 65.98% | 5,107,147 | 157,649 | 2.99% |
| Accounts payable | 6,922,711 | 8,008,989 | (1,086,278) | -15.69% | 8,773,074 | (1,850,363) | -26.73% |
| Customer deposits | 599,216 | 600,720 | (1,504) | -0.25% | 600,911 | (1,695) | -0.28% |
| Other accrued expenses | 2,221,035 | 2,795,078 | (574,043) | -25.85% | 2,503,554 | (282,519) | -12.72% |
| Total current liabilities | 18,524,574 | 16,712,582 | 1,811,992 | 9.78% | 20,325,749 | (1,801,174) | -9.72% |
| Deferred credits | 309,102 | 323,387 | (14,285) | -4.62% | 231,634 | 77,468 | 25.06% |
| Total liabilities and equity | \$ 161,160,422 | \$ 159,058,302 | \$ 2,102,120 | 1.30% | \$ 154,519,238 | \$ 6,641,184 | 4.30% |

Vermont Electric Cooperative, Inc.
Statement of Cash Flows

| | Month | | Year-to-date | | Variance Fav (Unfav) |
|--|---------------------------|---------------------------|---------------------------|---------------------------|----------------------|
| | September, 2016 Actual | September, 2015 Actual | September, 2016 Actual | September, 2015 Actual | |
| Cash flows from operating activities: | | | | | |
| Net income | \$ 1,348,537 | \$ 1,248,555 | \$ 3,737,658 | \$ 4,623,637 | \$(885,979) |
| Noncash expenses (income) included in earnings: | | | | | |
| Depreciation & amortization | \$ 514,768 | \$ 586,863 | \$ 4,830,307 | \$ 4,482,733 | \$ 347,574 |
| (Gain) loss on sale of investments | \$ - | \$ - | \$ - | \$ - | \$ - |
| (Gain) loss on sale of fixed assets | \$ (530) | \$ (17,234) | \$ 474 | \$ 60,852 | \$(60,378) |
| Changes in assets and liabilities: | | | | | |
| Decrease (increase) in notes receivable | \$ - | \$ - | \$ - | \$ - | \$ - |
| Decrease (increase) in accounts receivable | \$ 1,065,330 | \$ 274,680 | \$ 660,480 | \$ 1,005,894 | \$(345,415) |
| Decrease (increase) in other receivable | \$ (324,523) | \$ 1,481,774 | \$ (206,658) | \$ 2,216,651 | \$(2,423,309) |
| Decrease (increase) in inventories | \$ (93,282) | \$ (232,005) | \$ (156,765) | \$ (386,921) | \$ 230,156 |
| Decrease (increase) in prepayments | \$ 158,426 | \$ 88,685 | \$ (310,060) | \$ (259,964) | \$(50,096) |
| Decrease (increase) in deferred charges | \$ 4,365 | \$ 29,318 | \$ 7,892 | \$ 609,686 | \$(601,794) |
| Increase (decrease) in accounts payable | \$ (1,086,278) | \$ (713,848) | \$ (94,602) | \$ (881,690) | \$ 787,087 |
| Increase (decrease) in customer deposits | \$ (1,504) | \$ 4,774 | \$ 11,933 | \$ 20,820 | \$(8,887) |
| Increase (decrease) in accrued expenses | \$ (574,043) | \$ (18,163) | \$ (628,697) | \$ (456,370) | \$(172,327) |
| Increase (decrease) in deferred credits | \$ (14,285) | \$ (13,413) | \$ 126,004 | \$ 16,064 | \$ 109,940 |
| Net cash provided (used) by operating activities | 996,982 | 2,719,986 | 7,977,965 | 11,051,393 | \$(3,073,427) |
| Cash flows from investing activities: | | | | | |
| Additions to electric plant in service and construction work in progress | \$ (2,556,173) | \$ (1,081,400) | \$ (11,276,475) | \$ (10,801,225) | \$(475,250) |
| Proceeds from retirements of electric plant in service | \$ 2,124,759 | \$ (23,547) | \$ 3,342,318 | \$ 891,055 | \$ 2,451,264 |
| Return on capital investments | \$ (50,892) | \$ (56,733) | \$ (165,554) | \$ (168,509) | \$ 2,955 |
| Proceeds (payments) from sale (purchase) of investments: | \$ (2,000,000) | \$ - | \$ (2,000,000) | \$ - | \$(2,000,000) |
| Net cash provided (used) in investing activities | (2,482,307) | (1,161,679) | (10,099,712) | (10,078,680) | \$(21,031) |
| Cash flows from financing activities: | | | | | |
| Proceeds from borrowings LOC | \$ - | \$ - | \$ - | \$ - | \$ - |
| Proceeds from borrowings Long-Term | \$ - | \$ - | \$ - | \$ - | \$ - |
| Payments to creditors LOC | \$ 3,473,817 | \$ (707,075) | \$ (3,935,204) | \$ 2,107,147 | \$(6,042,351) |
| Payments to creditors Long-Term | \$ (623,132) | \$ (230,523) | \$ 6,833,836 | \$ (2,666,863) | \$ 9,500,699 |
| Patronage Capital Retirements - Net | \$ (433,231) | \$ (435,499) | \$ (437,963) | \$ (442,970) | \$ 5,007 |
| Memberships issued, net of refunds | \$ - | \$ - | \$ - | \$ - | \$ - |
| Additions to donated capital, net | \$ - | \$ 14 | \$ 9 | \$ 37 | \$(28) |
| Net cash provided (used) by financing activities | 2,417,454 | (1,373,083) | 2,460,678 | (1,002,650) | \$ 3,463,327 |
| Net increase (decrease) in cash and equivalents | 932,130 | 185,224 | 338,932 | (29,937) | \$ 368,869 |
| Cash & cash equivalents at beginning of period | \$ 552,375 | \$ 661,486 | \$ 1,145,572 | \$ 876,647 | \$ 268,925 |
| Cash & cash equivalents at end of period | \$ 1,484,504 | \$ 846,710 | \$ 1,484,504 | \$ 846,710 | \$ 637,794 |