

VERMONT ELECTRIC COOPERATIVE, INC.
UNAUDITED FINANCIAL REPORTING
FOR THE MONTH AND TWELVE MONTHS ENDED:
DECEMBER, 2011

Financial Highlights – December, 2011

	<u>Variance (K's)</u>	<u>YTD Variance (K's)</u>
December Net Income	(\$161)	\$1,606

Analysis:

- **Operating Revenue**
(\$38)
\$992

Sold KWH in December was 3% better than budget for a positive variance of \$173k with YTD 2% and \$1.1M better than budget. Degree days for 2011 finished 8% lower than normal and 1% higher than 2010. The average price/KWH sold was 1% and \$68k lower than budget in December and finished the year within .3% and \$184k of budget. Non-energy services, pole attachments, and wheeling revenues contributed less revenue than expected of \$11k in December but contributed a positive variance of \$117k YTD. Unbilled revenues were \$130k lower than budget in December and \$73k lower than budget YTD.

- **Purchased Power Costs**
\$81
\$401

Purchased KWH was 1% and \$36k more than budget in December and 2% and \$609k higher YTD. On the positive side, our overall costs/KWH was 3% and \$116k better than budget in December and 3% and \$993k better YTD.

- **Transmission Costs**
(\$187)
(\$12)

Transmission by others costs was over budget by \$14k in December but under budget by \$264k YTD. Control center costs for transmission support resulted in a negative variance to budget of \$59k in December and \$76k YTD. Costs associated with overhead maintenance resulted in a negative variance to budget of \$114k in December and \$106k YTD. Transmission vegetative maintenance was \$8k under budget in December but is \$75k over budget YTD.

- **Distribution Operations/Mtce**
(\$7)
(\$241)

Supervisory costs for operations & maintenance were \$1k better than budget in December but were \$92k over budget YTD. Overhead and underground line maintenance costs were \$66k over budget in December and are \$650k over budget YTD. Substation maintenance costs were \$19k under budget in December but \$206k over budget YTD. Major storm expenses were better than budget by \$92k in December and by \$508k YTD. Miscellaneous distribution expenses were under budget by \$20K in December and \$179k YTD. Distribution vegetative maintenance program spending was over budget by \$63k in December but is under budget \$23k YTD. Vegetative maintenance program (transmission + distribution) is \$55k over budget for December and \$52k YTD.

- **Customer Accounts**
\$0
\$168

Meter reading & meter disconnects are \$17k better than budget in December and \$190k better YTD. Member services had a negative variance to budget by \$8k in December but are \$16K under budget YTD. The SQRP related costs are \$2k under budget in December but are \$28k over YTD.

- **Administrative & General**
(\$119)
(\$170)

Payroll & Benefits were over budget by \$43k in December and \$167k YTD. Payroll related expenses were partially offset by a positive variance in Outside Services of \$2k in

December and \$50k YTD. Regulatory related costs were over budget in December by \$40k but had a positive YTD variance of \$100k primarily due to lower rate case costs. Costs related to the Annual & Special Meetings contributed negative variances of \$13k in December and \$57k YTD. Facility Maintenance and Safety related programs were over budget by \$17k in December and by \$97k YTD.

• **Total Depreciation & Other Exp** **(\$28)** **\$131**

Depreciation expense is over budget by \$69k in December and \$111k YTD largely related to a December adjustment to depreciation on plant assets whose depreciable lives were inconsistent with the standard depreciation for this class of assets plus greater than expected general plant assets closed to plant in service in 2010 & into 2011 than expected. Interest expense was better than budget by \$37k in December and \$249k YTD largely resulting from very low rates on our variable debt (line of credit + 2010 bond).

• **Total Non-Operating Margins** **\$136** **\$337**

Dividend income is on budget in December. CFC, NISC & CoBank patronage dividends created positive variances of \$141k in December and \$287k YTD (however only the cash portion of patronage dividends counts towards TIER). After adjusting for non-cash dividends the positive impact on the budget for cash patronage dividends was \$42k YTD.

• **Capital Spending Plan** **(\$882)** **\$1,019**

Facility related project work was over budget in December by \$242k but is under budget by \$109k YTD due to temporary timing differences associated with the construction of the new Grand Isle facility. The majority of costs for this project have been posted to 2011 with some minor costs expected to carry over to 2012. The building was completed in January, 2012. The NEK project had a negative variance in December of \$1k but has a positive variance of \$1.9M YTD. DOE Smart Grid Projects were under budget by \$27k in December and \$21k YTD. The KCW project is over budget by \$244k in December and \$1.3M YTD. Construction of the KCW transmission line and substation are proceeding quicker than expected and therefore we are incurring costs in 2011 that were budgeted in 2012. The Jay Tap Switching Station project resulted in a negative variance to budget of \$608k in December and \$440k YTD. Pole replacement work is over budget by \$108k in December and by \$296k YTD. New Services and Line Changes had a negative impact to budget of \$94k in December and \$415k YTD. Partially offsetting negative variances are Transformers, Reconductoring, and new construction projects that were under budget in December by \$448k and by \$1.4M YTD.

TIER and Debt Service Coverage

VEC finished the year with a 2.72 TIER, ahead of our approved budget of a 2.18. Our Debt Service payments for 2011 were \$5.2 million.

Cash Flow and Line of Credit

In December, we used up to a peak of \$4.8M on our line of credit on December 29th. The January high for the line of credit was \$4.5M on January 25th.

Balance Sheet

Our equity ratio in December is 40.89% a decrease from November's 41.92%. Our current ratio, a measure of liquidity, is .94, a slight decrease from November at 1.04. VEC's FFO ratio for 2011 YTD ("Funds from Operations/Capital Expenditures Ratio"; Target of 80% desirable) is 1.09 down from November at 1.25.

MONTHLY

STATEMENT OF OPERATIONS

VEC

	December 2011 Actual	December 2011 Budget	December 2011 Actual- Budget Variance Fav (Unfav) %	December 2010 Actual	December 2011 Actual - December 2010 Variance Fav (Unfav) %	
Revenue						
Operating Revenue	5,992,501	6,030,194	-0.6%	6,289,832	(297,332)	-4.7%
Sales for Resale	115,017	240,576	-52.2%	67,283	47,734	-70.9%
Total revenues	\$ 6,107,518	\$ 6,270,770	-2.6%	\$ 6,357,115	\$ (249,598)	-3.9%
Power supply cost						
Purchased power cost	(3,414,372)	(3,495,576)	2.3%	(3,637,021)	222,649	6.1%
Sales for Resale	(115,017)	(240,576)	52.2%	(67,283)	(47,734)	-70.9%
Transmission	(1,042,054)	(854,563)	-21.9%	(574,266)	(467,788)	-81.5%
Total Power supply cost	(4,571,443)	(4,590,715)	0.4%	(4,278,571)	(292,872)	-6.8%
Gross Margin	\$ 1,536,074	\$ 1,680,055	-8.6%	\$ 2,078,544	\$ (542,470)	26.1%
Operating expenses						
Distribution: Operations & Mtce	(838,443)	(831,258)	-0.9%	(1,140,141)	301,698	26.5%
Customer accounts	(201,307)	(201,455)	0.1%	(178,518)	(22,789)	-12.8%
Administrative & general	(324,742)	(206,021)	-57.6%	(606,672)	281,929	46.5%
Total operating expenses	(1,364,493)	(1,238,734)	-10.2%	(1,925,330)	560,837	29.1%
Depreciation & amortization	(389,154)	(320,040)	-21.6%	(310,832)	(78,322)	-25.2%
Gross revenue & receipts taxes	(59,157)	(58,829)	-0.6%	(60,677)	1,521	2.5%
Interest on long-term debt	(236,770)	(264,969)	10.6%	(253,056)	16,287	6.4%
Other interest expenses	(7,740)	(16,382)	52.8%	(4,758)	(2,982)	-62.7%
Other Deductions	1,870	(3,100)	160.3%	(110,974)	112,844	101.7%
Total depreciation & other expenses	(690,950)	(663,320)	-4.2%	(740,297)	49,347	6.7%
Income from operations	(519,369)	(221,999)	134.0%	(587,083)	67,715	11.5%
Interest income	333,418	338,133	-1.4%	217,693	115,725	53.2%
Other income (expenses)	530	460	15.2%	(697)	1,227	-176.1%
Other capital credits & dividends	141,023	-	N/A	150,195	(9,172)	-6.1%
Total non-operating margins	474,971	338,593	40.3%	367,191	107,781	29.4%
Net income (loss)	(44,397)	116,594	-138.1%	(219,892)	175,495	79.8%
Extraordinary expenses	-	-	N/A	-	-	N/A
Total net income (loss)	\$ (44,397)	\$ 116,594	-138.1%	\$ (219,892)	\$ 175,495	79.8%

YEAR-TO-DATE

STATEMENT OF OPERATIONS

VEC

	December 2011 Actual	December 2011 Budget	December 2011 Actual- Budget Variance Fav (Unfav) %	December 2010 Actual	December 2011 Actual - December 2010 Variance Fav (Unfav) %	
Revenue						
Operating Revenue	71,722,946	70,731,212	1.4%	70,052,721	1,670,225	2.4%
Sales for Resale	1,134,344	1,254,037	-9.5%	1,112,062	22,282	-2.0%
Total revenues	\$ 72,857,290	\$ 71,985,249	1.2%	\$ 71,164,783	\$ 1,692,507	2.4%
Power supply cost						
Purchased power cost	(35,375,421)	(35,776,496)	1.1%	(36,104,636)	729,215	2.0%
Sales for Resale	(1,134,344)	(1,254,037)	9.5%	(1,112,062)	(22,282)	-2.0%
Transmission:	(8,980,496)	(8,968,843)	-0.1%	(7,341,663)	(1,638,833)	-22.3%
Total Power supply cost	(45,490,261)	(45,999,376)	1.1%	(44,558,361)	(931,900)	-2.1%
Gross Margin	\$ 27,367,029	\$ 25,985,873	5.3%	\$ 26,606,421	\$ 760,607	-2.9%
Operating expenses						
Distribution: Operations & Mtce	(10,435,156)	(10,194,016)	-2.4%	(10,485,467)	50,310	0.5%
Customer accounts	(2,360,102)	(2,528,374)	6.7%	(2,326,044)	(34,059)	-1.5%
Administrative & general	(3,483,189)	(3,312,820)	-5.1%	(3,387,360)	(95,828)	-2.8%
Total operating expenses	(16,278,447)	(16,035,211)	-1.5%	(16,198,871)	(79,576)	-0.5%
Depreciation & amortization	(3,811,145)	(3,700,494)	-3.0%	(3,601,338)	(209,807)	-5.8%
Gross revenue & receipts taxes	(707,170)	(697,703)	-1.4%	(690,623)	(16,547)	-2.4%
Interest on long-term debt	(2,981,163)	(3,201,501)	6.9%	(2,908,213)	(72,950)	-2.5%
Other interest expenses	(105,469)	(134,396)	21.5%	(164,157)	58,688	35.8%
Other deductions	(35,643)	(37,375)	4.6%	(541,651)	506,008	93.4%
Total depreciation & other expenses	(7,640,590)	(7,771,470)	1.7%	(7,905,982)	265,392	3.4%
Income from operations	3,447,992	2,179,193	58.2%	2,501,569	946,423	-37.8%
Interest income	1,611,771	1,605,574	0.4%	1,113,961	497,810	44.7%
Other income (expenses)	49,753	5,519	801.5%	19,611	30,142	153.7%
Other capital credits & dividends	446,261	159,266	180.2%	400,191	46,069	11.5%
Total non-operating margins	2,107,784	1,770,359	19.1%	1,533,763	574,022	37.4%
Net income (loss)	5,555,776	3,949,552	40.7%	4,035,331	1,520,445	37.7%
Extraordinary expenses	-	-	N/A	-	-	N/A
Total net income (loss)	\$ 5,555,776	\$ 3,949,552	40.7%	\$ 4,035,331	\$ 1,520,445	37.7%

DECEMBER 2011

BALANCE SHEETS (ASSETS)

VEC

	December 2011 Actual	November 2011 Actual	Variance Fav/(Unfav) \$	%	December 2010 Actual	Variance Fav/(Unfav) \$	%
Electric plant, at cost:							
Electric plant in service	115,321,822	113,705,268	1,616,554	1.42%	107,760,881	7,560,941	7.02%
Less accumulated depreciation	(30,664,149)	(30,621,116)	43,032	0.14%	(28,066,001)	2,598,148	9.26%
Net electric plant in service	84,657,673	83,084,151	1,573,522	1.89%	79,694,880	4,962,793	6.23%
Construction work in progress	6,264,704	6,799,746	(535,042)	-7.87%	5,415,350	849,355	15.68%
Net electric plant	90,922,378	89,883,897	1,038,480	1.16%	85,110,230	5,812,148	6.83%
Other assets:							
Non-utility property	65,697	65,697	-	0.00%	65,697	-	0.00%
Other investments	13,983,626	13,842,603	141,023	1.02%	13,781,505	202,121	1.47%
Deferred charges	(86,045)	(100,950)	14,905	-14.76%	(313,695)	227,650	-72.57%
Total other assets	13,963,278	13,807,350	155,928	1.13%	13,533,507	429,771	3.18%
Current assets:							
Cash	1,869,344	602,920	1,266,424	210.05%	214,456	1,654,888	771.67%
Notes receivable (net)	-	-	-	#DIV/0!	308	(308)	-100.00%
Accounts receivable (net)	10,266,311	9,099,349	1,166,962	12.82%	9,903,081	363,229	3.67%
Other receivables (net)	1,190,873	1,871,170	(680,297)	-36.36%	3,390,640	(2,199,767)	-64.88%
Inventories	2,849,401	2,806,241	43,160	1.54%	2,912,631	(63,230)	-2.17%
Prepaid expenses	250,158	358,001	(107,844)	-30.12%	264,973	(14,815)	-5.59%
Total current assets	16,426,087	14,737,681	1,688,405	11.46%	16,686,089	(260,003)	-1.56%
Total assets	\$ 121,311,742	\$ 118,428,929	\$ 2,882,813	2.43%	\$ 115,329,826	\$ 5,981,916	5.19%

	December 2011 Actual	November 2011 Actual	Variance Fav/(Unfav) \$	Variance Fav/(Unfav) %	December 2010 Actual	Variance Fav/(Unfav) \$	Variance Fav/(Unfav) %
Equities:							
Memberships issued & subscribed	-	-	-	-	-	-	#DIV/0!
Patronage capital assignable	41,472,857	41,472,857	-	0.00%	20,251,163	21,221,695	51.17%
Other earnings	8,129,254	8,173,651	(44,397)	-0.55%	6,608,720	1,520,534	18.70%
Contributions in aid of construction	-	-	-	-	17,186,363	(17,186,363)	
Net equity	49,602,111	49,646,508	(44,397)	-0.09%	44,046,246	5,555,865	11.20%
Long-term debt	53,638,761	54,066,274	(427,513)	-0.80%	55,820,961	(2,182,199)	-4.07%
Capital leases - non current	281,698	283,626	(1,929)	-0.68%	295,599	(13,901)	-4.93%
Current liabilities:							
Current portion of long-term debt	2,196,128	1,955,067	241,061	10.98%	2,239,351	(43,223)	-1.97%
Line of Credit	4,500,000	2,200,000	2,300,000	51.11%	2,000,000	2,500,000	55.56%
Accounts payable	7,243,655	6,773,522	470,133	6.49%	7,421,628	(177,973)	-2.46%
Customer deposits	507,818	502,155	5,662	1.12%	382,932	124,886	24.59%
Other accrued expenses	3,099,232	2,739,995	359,237	11.59%	2,876,215	223,018	7.20%
Total current liabilities	17,546,833	14,170,739	3,376,093	19.24%	14,920,125	2,626,708	14.97%
Deferred credits	242,340	261,781	(19,441)	-8.02%	246,896	(4,556)	-1.88%
Total liabilities and equity	\$ 121,311,742	\$ 118,428,929	\$ 2,882,813	2.43%	\$ 115,329,826	\$ 5,981,916	5.19%

	Month		December 2010 * Actual	December 2011 Actual	Year-to-date		Variance Fav (Unfav) \$ %
	December 2011 Actual	December 2010 * Actual			December 2010 * Actual		
Cash flows from operating activities:							
Net income	\$ (44,397)	\$ (219,892)	\$ 5,555,776	\$ 4,035,331	1,520,445	38%	
Noncash expenses (income) included in earnings:							
Depreciation & amortization	482,052	443,566	4,771,087	4,873,737	(102,650)	-2%	
(Gain) loss on sale of investments	(530)	397	(13,026)	(5,051)	(7,975)	N/A	
Changes in assets and liabilities:							
Decrease (increase) in notes receivable	-	64	308	1,607	(1,299)	-81%	
Decrease (increase) in accounts receivable	(1,166,962)	(677,603)	(363,229)	(577,444)	214,215	-37%	
Decrease (increase) in other receivable	680,297	(1,840,452)	2,199,767	(2,796,638)	4,996,305	179%	
Decrease (increase) in inventories	(43,160)	90,524	63,230	(313,400)	376,630	-120%	
Decrease (increase) in prepayments	107,844	(76,623)	14,815	75,202	(60,387)	80%	
Decrease (increase) in deferred charges	(17,764)	172,556	(261,958)	(221,940)	(40,018)	-18%	
Increase (decrease) in accounts payable	470,133	1,418,355	(177,973)	1,813,679	(1,991,652)	-110%	
Increase (decrease) in customer deposits	5,662	659	124,886	143,472	(18,586)	13%	
Increase (decrease) in accrued expenses	359,237	642,701	223,018	971,727	(748,710)	-77%	
Increase (decrease) in deferred credits	(19,441)	(37,499)	(4,556)	(72,914)	58,357	-94%	
Net cash provided (used) by operating activities	822,972	(63,248)	12,132,144	7,927,468	4,204,676	53%	
Cash flows from investing activities:							
Additions to electric plant in service and construction work in progress	(1,856,273)	(479,757)	(17,181,809)	(10,480,563)	(6,701,246)	-64%	
Proceeds from retirements of electric plant in service	331,128	190,972	6,645,908	112,511	6,533,397	5807%	
Return on capital investments	(141,023)	(150,195)	(237,612)	(227,283)	(10,378)	5%	
Proceeds (payments) from sale (purchase) of investments	-	(3,795,496)	35,491	(3,748,644)	3,784,135	-101%	
Net cash provided (used) in investing activities	(1,668,167)	(4,234,477)	(10,738,021)	(14,343,929)	3,605,908	25%	
Cash flows from financing activities:							
Proceeds from borrowings LOC	-	-	-	-	-	N/A	
Proceeds from borrowings Long-Term	-	-	-	-	-	N/A	
Payments to creditors LOC	2,300,000	(4,900,000)	2,500,000	(1,400,000)	3,900,000	279%	
Payments to creditors Long-Term	(188,381)	8,729,162	(2,239,323)	6,916,399	(9,155,722)	132%	
Increase in contributions in aid of construction	-	46,793	-	828,922	(828,922)	-100%	
Memberships issued, net of refunds	-	-	-	-	-	N/A	
Additions to donated capital, net	-	4	89	25	64	262%	
Net cash provided (used) by financing activities	2,111,619	3,875,959	260,766	6,345,346	(6,084,580)	96%	
Net increase (decrease) in cash and equivalents	1,266,424	(441,766)	1,654,888	(71,115)	1,726,004	-2427%	
Cash & cash equivalents at beginning of period	602,920	656,222	214,456	265,571	(71,115)	-26%	
Cash & cash equivalents at end of period	\$ 1,869,344	\$ 214,456	\$ 1,869,344	\$ 214,456	\$ 1,654,888	772%	
Supplemental cash flow information:							
Cash paid during the period for interest	\$ (394,806)	\$ (411,281)	\$ (446,912)	\$ (287,750)	\$ (159,161)	-55%	