

VERMONT ELECTRIC COOPERATIVE, INC.
UNAUDITED FINANCIAL STATEMENTS
FOR THE MONTH AND SIX MONTHS ENDED:
JUNE 2008

Financial Highlights – June

	<u>Variance (K's)</u>	<u>YTD Variance (K's)</u>
June 2008 Net Income	(\$282)	(\$522)

Analysis:

- Operating Revenue**
(\$129)
(\$1,476)

Overall operating revenues were 3% worse than budget in June and 4% YTD. Sold KWH ran 4% and \$181k below expectations in June and 4% and \$1,473k YTD. Overall heating and cooling degree days are 8% below YTD normal levels. Revenues per KWH were 1% and \$35k better than budget for June but are .3% and \$91k below projections YTD. Miscellaneous service charges were better than budget by \$18k in June and are \$36k better YTD. Revenues were impacted by unbilled revenues in June that were \$4k worse than budget but are \$74k better YTD.

- Purchased Power Costs**
\$462
\$1,711

Power costs were 14% lower than plan in June and are 9% lower YTD. Purchases were 9% and \$288k less than expected in June and 5% and \$1,016k YTD less as a result of lower sales. Additionally, our overall costs/KWH were 6% and \$174k lower than budget in June and is 4% and 694k lower YTD. Approximately \$200k of the reduction in costs/KWH in June is related to congestion in NY and will be applied in July.

- Transmission Costs**
\$12
(\$36)

Costs for Velco transmission (Intrastate costs) were \$34k over budget in June and \$106k over YTD. NEPOOL OATT services (New England costs) were better than plan by \$40k in June and are \$12k better than budget YTD. Transmission trimming was \$5k lower than expected in June and is \$61k lower YTD.

- Distribution Operations/Mtce**
(\$111)
(\$535)

Overhead line maintenance was under budget by \$120k in June largely related to an adjustment for cutout installations (\$102k) that were incorrectly charged to mtce. YTD increased OH line mtce has resulted in a negative variance of \$103k YTD. Distribution trimming was \$20k over budget for June and is \$184k over YTD. Overall trimming budget (see transmission above) is \$123k YTD over budget. The March 8th and June 10th storms resulted in a negative variance of \$287k in June and \$469k YTD. On the positive side, mapping is under budget by \$7k in June and \$67k YTD for a sale of mapping pole coordinates and mapping project is ahead of schedule. Substation maintenance was \$9k under budget for June and \$67k better than budget YTD. This month also represented the first month of billing Fairpoint related to our MOU on vegetative mtce resulting in a positive variance to budget of \$79K for June & YTD.

- Customer Accounts**
(\$38)
(\$98)

Delays related to the implementation of AMR substation rollout have resulted in higher contracting and labor costs for meter reading of \$1k in June and \$46k YTD. A/R write offs have been worse than budget by \$26k in June and \$71k YTD. Customer care & SQRP administration were over budget in June by \$15k and are over budget YTD by \$48k. Labor savings have been recognized on member support related to commercial accounts of \$5k in June and \$67k YTD.

• **Administrative & General** (\$63) (\$181)

Outside services and BPRA (legal) resulted in negative variances of \$11k in June and \$64k YTD primarily from the Stowe project. Office Expenses were over budget by \$3k in June and \$14k YTD largely related to IT support. An error in budgeting A&G payroll for June created a negative variance of \$25k and YTD is now off budget by \$33k YTD. Regulatory related expenses were \$12k over budget in June and \$26k YTD primarily related to the State of Vt (DPS) Automated Meter Information study and system assessment internal costs. Directors Fees & Expenses were over budget by \$6k in June & \$19k YTD resulting from legal, training & VEC staff support variances. The account for strategic planning costs resulted in a \$54k negative variance YTD. The annual meeting was less expensive than expected resulting in YTD positive variance of \$19k.

• **Depreciation & Amortization** (\$433) \$2

VEC had planned to refinance our 1997 bond on May 1 resulting in a write off of the original debt issuance costs of \$440k. The timing on the refinance was delayed until June 30th. The variance YTD is now consistent with the budget. We received a waiver letter from our bond holders to exclude this cost from our TIER performance.

• **Capital Spending Plan** \$302 \$627

June capital (infrastructure investment) was significantly under budget. Several of the monthly positive variances were a result of timing differences with delays in projects. The delayed projects include the Rebuild and Relocation of Rte 2 in North and South Hero, North Hero City Beach, Tafts Corners in Williston, New Regulator Installations, Underground Rebuild and Fault Protection, Misc Reconductoring Projects, Rte 14 Rebuild, and Enosburg Tap. Collectively these projects were under budget by \$284k in June and \$1,644k YTD. Some projects are running over budget because of changes in priorities such as Highgate Springs Voltage Conversion, West Charleston, Fairfax & Irasburg Substations, Cutout Replacements, and Misc Ordinary Replacements. Collectively these projects were over budget by \$210k in June and \$702k YTD. Transformer purchases were under budget for the month by \$90k but are \$156k over budget YTD. Small generation projects (adjusted for contributions) were \$4k better than budget in June but are \$139k over budget YTD as the Boucher project was stopped & the contribution received in 2007 was refunded in 2008.

TIER and Debt Service Coverage

We are projecting a preliminary TIER performance of 1.51 if we performed to budgeted levels for the balance of the year which would be below our 2008 budget expectation of 1.7. Our Debt Service Coverage for 2008 is expected to be approximately \$4,974,603 (Principal of ~ \$2,083,424 & Interest of ~ \$2,891,179)

Cash Flow and Line of Credit

In June, we used up to \$4.5mm on our line of credit. For July, we are expecting to use up to \$4.5mm. We will likely need to term out S/T debt with a new bond by year end.

Balance Sheet

Our equity ratio declined in June to 37% largely related to the write off of financing costs for the 1997 bond. Our current ratio, a measure of liquidity, declined to .97 from last months .99.

BALANCE SHEETS (ASSETS)

	June 2008 Actual	May 2008 Actual	Variance Fav/(Unfav) \$	Variance Fav/(Unfav) %	June 2007 Actual	Variance Fav/(Unfav) \$	Variance Fav/(Unfav) %
Electric plant, at cost:							
Electric plant in service	90,532,438	90,213,207	319,231	0.35%	84,871,164	5,661,275	6.67%
Less accumulated depreciation	(25,881,836)	(25,645,282)	236,554	0.92%	(23,887,335)	1,994,501	8.35%
Net electric plant in service	64,650,602	64,567,925	82,677	0.13%	60,983,828	3,666,774	6.01%
Construction work in progress	2,571,484	2,334,383	237,102	10.16%	2,717,035	(145,551)	-5.36%
Net electric plant	67,222,086	66,902,307	319,779	0.48%	63,700,864	3,521,222	5.53%
Other assets:							
Non-utility property	65,697	65,697	-	0.00%	65,697	-	0.00%
Other investments	9,448,645	9,437,133	11,512	0.12%	8,797,622	651,023	7.40%
Deferred charges	(173,291)	(333,266)	159,975	-48.00%	(12,184)	(161,107)	1322.29%
Total other assets	9,341,051	9,169,563	171,487	1.87%	8,851,135	489,916	5.54%
Current assets:							
Cash	2,172,499	1,644,177	528,322	32.13%	3,437,452	(1,264,953)	-36.80%
Notes receivable (net)	12,186	13,113	(928)	-7.07%	40,167	(27,981)	-69.66%
Accounts receivable (net)	7,993,642	8,124,595	(130,952)	-1.61%	7,662,670	330,973	4.32%
Other receivables (net)	583,026	550,681	32,346	5.87%	357,506	225,520	63.08%
Inventories	2,489,004	2,213,572	275,432	12.44%	1,652,623	836,380	50.61%
Prepaid expenses	211,280	262,423	(51,143)	-19.49%	174,672	36,609	20.96%
Total current assets	13,461,638	12,808,561	653,077	5.10%	13,325,090	136,548	1.02%
Total assets	\$ 90,024,774	\$ 88,880,432	\$ 1,144,343	1.29%	\$ 85,877,089	\$ 4,147,686	4.83%

BALANCE SHEETS (LIABILITIES/EQUITY)

	June 2008 Actual	May 2008 Actual	Variance Fav/(Unfav) \$	%	June 2007 Actual	Variance Fav/(Unfav) \$	%
Equities:							
Memberships issued & subscribed	-	-	-	#DIV/0!	-	-	#DIV/0!
Patronage capital assignable	15,149,492	15,149,492	-	0.00%	12,605,038	2,544,454	16.80%
Other earnings	2,299,688	2,884,578	(584,890)	-25.43%	3,743,131	(1,443,443)	-62.77%
Contributions in aid of construction	15,541,565	15,468,431	73,134	0.47%	14,691,062	850,503	5.47%
Net equity	32,990,745	33,502,502	(511,757)	-1.55%	31,039,231	1,951,514	5.92%
Long-term debt	41,686,819	41,038,850	647,968	1.55%	42,863,548	(1,176,729)	-2.82%
Capital leases - non current	339,614	342,090	(2,475)	-0.73%	368,664	(29,049)	-8.55%
Current liabilities:							
Current portion of long-term debt	1,713,468	2,111,218	(397,750)	-23.21%	2,078,768	(365,300)	-21.32%
Line of Credit	4,530,054	3,600,000	930,054	20.53%	-	4,530,054	100.00%
Accounts payable	4,760,825	4,243,500	517,325	10.87%	5,151,668	(390,843)	-8.21%
Customer deposits	102,715	100,408	2,307	2.25%	99,782	2,933	2.86%
Other accrued expenses	2,820,568	2,849,203	(28,635)	-1.02%	2,820,143	425	0.02%
Total current liabilities	13,927,630	12,904,328	1,023,301	7.35%	10,150,361	3,777,269	27.12%
Deferred credits	1,079,967	1,092,662	(12,695)	-1.18%	1,455,286	(375,319)	-34.75%
Total liabilities and equity	\$ 90,024,774	\$ 88,880,432	\$ 1,144,343	1.29%	\$ 85,877,089	\$ 4,147,686	4.83%

STATEMENT OF OPERATIONS

MONTHLY

	June 2008 Actual	June 2008 Budget	June 2008 Actual- Budget Variance Fav (Unfav) \$	June 2008 Actual- Budget Variance Fav (Unfav) %	June 2007 Actual	June 2008 Actual - June 2007 Variance Fav (Unfav) \$	June 2008 Actual - June 2007 Variance Fav (Unfav) %
Revenue							
Operating Revenue	4,843,823	4,973,108	(129,285)	-2.6%	4,703,078	140,744	3.0%
Sales for Resale	618,953	8,689	610,264	7023.4%	218,658	400,295	-183.1%
Total revenues	\$ 5,462,776	\$ 4,981,797	\$ 480,979	9.7%	\$ 4,921,736	\$ 541,039	11.0%
Power supply cost							
Power Production Expense	(3,835)	(3,147)	(688)	-21.9%	-	(3,835)	2.7%
Purchased power cost	(2,822,311)	(3,284,774)	462,463	14.1%	(2,901,713)	79,402	-183.1%
Sales for Resale	(618,953)	(8,689)	(610,264)	-7023.4%	(218,658)	(400,295)	-31.9%
Transmission	(590,594)	(602,605)	12,010	2.0%	(447,744)	(142,851)	-13.1%
Total Power supply cost	(4,035,693)	(3,899,215)	(136,479)	-3.5%	(3,568,115)	(467,578)	-5.4%
Gross Margin	\$ 1,427,082	\$ 1,082,582	\$ 344,500	31.8%	\$ 1,353,621	\$ 73,461	-5.4%
Operating expenses							
Distribution: Operations & Mctc	(747,044)	(636,096)	(110,948)	-17.4%	(771,168)	24,125	3.1%
Customer accounts	(229,630)	(192,093)	(37,537)	-19.5%	(212,499)	(17,132)	-8.1%
Administrative & general	(221,194)	(158,416)	(62,778)	-39.6%	(190,163)	(31,031)	-16.3%
Total operating expenses	(1,197,868)	(986,605)	(211,263)	-21.4%	(1,173,830)	(24,038)	-2.0%
Depreciation & amortization	(736,855)	(304,270)	(432,585)	-142.2%	(320,795)	(416,060)	-129.7%
Gross revenue & receipts taxes	(50,068)	(51,433)	1,365	2.7%	(48,783)	(1,285)	-2.6%
Interest on long-term debt	(226,550)	(230,541)	3,991	1.7%	(224,920)	(1,629)	-0.7%
Other interest expenses	(14,134)	(7,656)	(6,478)	-84.6%	(2,395)	(11,740)	-490.3%
Other Deductions	(503)	(3,500)	2,997	85.6%	(500)	(3)	-0.6%
Total depreciation & other expenses	(1,028,110)	(597,400)	(430,709)	-72.1%	(597,392)	(430,718)	-72.1%
Income from operations	(798,895)	(501,423)	(297,472)	59.3%	(417,601)	(381,294)	-91.3%
Interest income	215,290	198,719	16,571	8.3%	206,332	8,958	4.3%
Other income (expenses)	(1,289)	(639)	(650)	101.9%	15,438	(16,727)	-108.3%
Other capital credits & dividends	-	-	-	N/A	-	-	N/A
Total non-operating margins	214,001	198,081	15,920	8.0%	221,770	(7,769)	-3.5%
Net income (loss)	(584,894)	(303,343)	(281,552)	92.8%	(195,831)	(389,063)	-198.7%
Extraordinary expenses	-	-	-	N/A	-	-	N/A
Total net income (loss)	\$ (584,894)	\$ (303,343)	\$ (281,552)	92.8%	\$ (195,831)	\$ (389,063)	-198.7%

QUARTERLY

STATEMENT OF OPERATIONS

	2Q 2008 Actual	2Q 2008 Budget	2Q 2008 Actual- Budget Variance Fav (Unfav) %	1Q 2008 Actual	2Q 2008 Actual - 1Q 2008 Variance Fav (Unfav) %
Revenue					
Operating Revenue	14,727,325	15,487,954	-4.9%	17,580,827	(2,853,502)
Sales for Resale	1,536,889	597,739	157.1%	888,210	648,679
Total revenues	\$ 16,264,214	\$ 16,085,693	1.1%	\$ 18,469,037	\$ (2,204,823)
Power supply cost					
Power Production Expense	(20,871)	(9,441)	-121.1%	(8,825)	(12,047)
Purchased power cost	(8,252,753)	(9,399,524)	12.2%	(10,388,681)	2,115,928
Sales for Resale	(1,536,889)	(997,739)	-157.1%	(888,210)	(648,679)
Transmission:	(1,743,479)	(1,793,435)	2.8%	(1,878,277)	134,798
Total Power supply cost	(11,553,992)	(11,800,139)	2.1%	(13,143,993)	1,590,001
Gross Margin	\$ 4,710,222	\$ 4,285,554	9.9%	\$ 5,325,045	\$ (614,823)
Operating expenses					
Distribution: Operations & Mtce	(1,888,965)	(1,578,218)	-19.7%	(2,127,091)	238,126
Customer accounts	(664,880)	(590,321)	-12.6%	(597,078)	(67,801)
Administrative & general	(698,600)	(639,571)	-9.2%	(778,871)	80,271
Total operating expenses	(3,252,444)	(2,808,110)	-15.8%	(3,503,041)	250,596
Depreciation & amortization	(1,339,740)	(1,349,463)	0.7%	(908,015)	(431,725)
Gross revenue & receipts taxes	(148,680)	(156,271)	4.9%	(172,941)	24,262
Interest on long-term debt	(715,111)	(708,233)	-1.0%	(735,842)	20,731
Other interest expenses	(34,048)	(22,992)	-48.1%	(18,115)	(15,933)
Other deductions	(503)	(11,000)	95.4%	(32)	(472)
Total depreciation & other expenses	(2,238,082)	(2,247,959)	0.4%	(1,834,945)	(403,137)
Income from operations	(780,304)	(770,515)	1.3%	(12,941)	(767,363)
Interest income	219,347	208,689	5.1%	239,820	(20,474)
Other income (expenses)	(43)	(1,714)	-97.5%	478	(521)
Other capital credits & dividends	-	-	N/A	60,008	(60,008)
Total non-operating margins	219,303	206,976	6.0%	300,306	(81,003)
Net income (loss)	(561,001)	(563,539)	-0.5%	287,366	(848,367)
Extraordinary expenses	-	-	N/A	-	-
Total net income (loss)	\$ (561,001)	\$ (563,539)	-0.5%	\$ 287,366	\$ (848,367)

YEAR-TO-DATE

STATEMENT OF OPERATIONS

	June 2008 Actual	June 2008 Budget	June 2008 Actual- Budget Variance Fav (Unfav) \$	June 2008 Actual- Budget Variance Fav (Unfav) %	June 2007 Actual	June 2008 Actual - June 2007 Variance Fav (Unfav) \$	June 2008 Actual - June 2007 Variance Fav (Unfav) %
Revenue							
Operating Revenue	32,308,153	33,784,205	(1,476,052)	-4.4%	32,718,076	(409,923)	-1.3%
Sales for Resale	2,425,099	1,163,406	1,261,693	108.4%	1,286,244	1,138,855	-88.5%
Total revenues	\$ 34,733,252	\$ 34,947,611	\$(214,359)	-0.6%	\$ 34,004,320	\$ 728,932	2.1%
Power supply cost							
Power Production Expense	(29,696)	(18,882)	(10,814)	-57.3%	-	(29,696)	N/A
Purchased power cost	(18,621,435)	(20,342,813)	1,721,378	8.5%	(19,209,796)	588,362	3.1%
Sales for Resale	(2,425,099)	(1,163,406)	(1,261,693)	-108.4%	(1,286,244)	(1,138,855)	-88.5%
Transmission:	(3,621,755)	(3,585,418)	(36,337)	-1.0%	(2,453,162)	(1,168,593)	-47.6%
Total Power supply cost	(24,697,985)	(25,110,519)	412,534	1.6%	(22,949,202)	(1,748,783)	-7.6%
Gross Margin	\$ 10,035,267	\$ 9,837,092	198,175	2.0%	\$ 11,055,118	\$ (1,019,850)	9.2%
Operating expenses							
Distribution: Operations & Mics	(4,016,056)	(3,480,907)	(535,149)	-15.4%	(4,091,523)	75,467	1.8%
Customer accounts	(1,261,958)	(1,164,455)	(97,503)	-8.4%	(1,222,907)	(39,050)	-3.2%
Administrative & general	(1,477,471)	(1,296,749)	(180,722)	-13.9%	(1,322,050)	(155,421)	-11.8%
Total operating expenses	(6,755,485)	(5,942,111)	(813,374)	-13.7%	(6,636,481)	(119,004)	-1.8%
Depreciation & amortization	(2,247,755)	(2,249,973)	2,218	0.1%	(1,920,028)	(327,727)	-17.1%
Gross revenue & receipts taxes	(321,621)	(337,175)	15,554	4.6%	(324,687)	3,066	0.9%
Interest on long-term debt	(1,450,953)	(1,453,709)	2,756	0.2%	(1,486,049)	35,095	2.4%
Other interest expenses	(52,163)	(37,056)	(15,107)	-40.8%	(13,930)	(38,233)	-274.5%
Other deductions	(535)	(21,500)	20,965	97.5%	(547)	12	2.2%
Total depreciation & other expenses	(4,073,028)	(4,099,413)	26,386	0.6%	(3,745,241)	(327,787)	-8.8%
Income from operations	(793,245)	(204,432)	(588,813)	288.0%	673,396	(1,466,642)	217.8%
Interest income	459,167	423,978	35,189	8.3%	478,169	(19,003)	-4.0%
Other income (expenses)	435	(6,480)	6,915	-106.7%	29,409	(28,975)	-98.5%
Other capital credits & dividends	60,008	35,500	24,508	69.0%	62,794	(2,786)	-4.4%
Total non-operating margins	519,610	452,998	66,612	14.7%	570,373	(50,763)	-8.9%
Net income (loss)	(273,636)	248,566	(522,201)	-210.1%	1,243,769	(1,517,405)	-122.0%
Extraordinary expenses	-	-	-	N/A	-	-	N/A
Total net income (loss)	\$ (273,636)	\$ 248,566	\$(522,201)	-210.1%	\$ 1,243,769	\$ (1,517,405)	-122.0%

STATEMENT OF CASH FLOWS

JUNE 2008

	Month		Year-to-date		Variance Fav (Unfav)	
	June 2008 Actual	June 2007 Actual	June 2008 Actual	June 2007 Actual	\$	%
Cash flows from operating activities:						
Net income	\$ (584,894)	\$ (195,831)	\$ (273,636)	\$ 1,243,769	(1,517,405)	-122.00%
Noncash expenses (income) included in earnings:						
Depreciation & amortization	857,845	415,078	3,160,197	2,431,720	728,477	29.96%
(Gain) loss on sale of investments	(530)	(10,530)	(4,840)	(20,905)	16,065	76.85%
Changes in assets and liabilities:						
Decrease (increase) in notes receivable	928	3,927	8,092	32,114	(24,023)	-74.80%
Decrease (increase) in accounts receivable	130,952	155,575	1,697,449	672,190	1,025,259	152.53%
Decrease (increase) in other receivable	(32,346)	22,715	(356,036)	262,478	(618,514)	235.64%
Decrease (increase) in inventories	(275,432)	(1,416)	(786,714)	96,822	(883,536)	-912.54%
Decrease (increase) in prepayments	51,143	34,352	98,196	(11,016)	109,212	991.36%
Decrease (increase) in deferred charges	(655,216)	(153,601)	(997,777)	(551,873)	(445,904)	-80.80%
Increase (decrease) in accounts payable	517,325	588,338	(245,578)	47,360	(292,939)	-618.53%
Increase (decrease) in customer deposits	2,307	(1,206)	(1,489)	(17,419)	15,929	91.45%
Increase (decrease) in accrued expenses	(28,635)	24,876	428,821	691,170	(262,349)	-37.96%
Increase (decrease) in deferred credits	(12,895)	73,252	(221,279)	(161,922)	(59,357)	36.66%
Net cash provided (used) by operating activities	(29,247)	945,529	2,505,404	4,714,488	(2,209,084)	-46.86%
Cash flows from investing activities:						
Additions to electric plant in service and construction work in progress	(666,321)	(1,422,582)	(5,021,587)	(3,951,448)	(1,070,139)	-27.08%
Proceeds from retirements of electric plant in service	(15,533)	(12,280)	637,866	65,004	772,862	1188.94%
Return on capital investments	(39,108)	(30,817)	(96,292)	(4,182)	(4,130)	4.46%
Proceeds (payments) from sale (purchase) of investments	27,556	11,802	27,596	17,527	10,070	57.45%
Net cash provided (used) in investing activities	(693,365)	(1,453,877)	(4,252,416)	(3,961,079)	(291,337)	-7.36%
Cash flows from financing activities:						
Proceeds from borrowings LOC	-	-	-	-	-	N/A
Proceeds from borrowings Long-Term	-	-	-	-	-	N/A
Payments to creditors LOC	930,054	-	3,130,220	(1,663,525)	3,130,220	#VALUE!
Payments to creditors Long-Term	247,743	(244,462)	(1,206,140)	332,946	457,384	27.49%
Increase in contributions in aid of construction	73,134	144,295	128,293	-	(204,655)	-61.47%
Memberships issued, net of refunds	-	-	-	19	(15)	N/A
Additions to donated capital, net	4	1	4	-	(15)	-60.26%
Net cash provided (used) by financing activities	1,250,934	(100,165)	2,052,377	(1,330,569)	3,382,936	254.25%
Net increase (decrease) in cash and equivalents	528,322	(608,513)	305,364	(577,150)	882,514	-152.91%
Cash & cash equivalents at beginning of period	1,644,177	4,045,965	1,867,135	4,014,602	(2,147,468)	-53.49%
Cash & cash equivalents at end of period	\$ 2,172,499	\$ 3,437,452	\$ 2,172,499	\$ 3,437,452	\$ (1,264,953)	-36.80%
Supplemental cash flow information:						
Cash paid during the period for interest	\$ (578,110)	\$ (482,666)	\$ (76,063)	\$ (82,636)	\$ 6,573	7.95%