

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

JUNE 2007

Financial Highlights – June

June 2007 Net Income	Variance (K's) (\$308)	YTD Variance (K's) (\$532)
-----------------------------	---	---

Analysis:

- Operating Revenue**
(\$207)
(\$1,267)

Overall operating revenues were 4% worse than budget in June and YTD. There are a few factors that have negatively impacted revenue. A 7.15% increase was approved after the budget was completed (budget assumed 8.33%). This difference represents about \$57k in June and \$380k YTD. Secondly, Sold KWH ran 4.5% and \$231k below expectations in June and 2.9% and \$972k lower YTD. Lastly, the mix of sales has resulted in lower revenues/KWH of about 1.4% or an additional unfavorable variance of \$10k for June and \$475k YTD. Revenues were positively impacted by unbilled revenues in June that were \$91k better than budget and \$520k YTD.

- Purchased Power Costs**
\$195
\$994

Power costs were better than plan as a result of June purchases 3.5% less than expected for \$115k, with YTD 2.7% less than expected for \$575k. Additionally, our overall costs/KWH finished better than budget by 1.4% for a \$43k improvement to budget for June and 1.8% and \$371k YTD.

- Transmission Costs**
\$50
\$240

Transmission costs have been better than budget (\$16k in June and \$244k YTD) as a result of FERC reducing return on equity, VEC's peak now less costly, and the Velco real estate taxes better than expected because of delays in construction. Transmission tree trimming was \$38k lower than budget in the current month and is now \$5k lower YTD.

- Distribution Operations/Mtce**
(\$455)
(\$1,009)

Distribution tree trimming was over budget by \$463k for June and \$565k YTD. June's variance on trimming was significant since we pulled the trimming subsidy in April ahead of the June budget plan. We have spent about \$1,269k YTD on all trimming. We will be reducing trimming down to about \$26k/month to meet our target of \$1,424,000 for 2007. As a result of the Richford incident we conducted an investigation and the cost in June was \$1k with \$120k YTD which was not budgeted. The April 16th major storm cost VEC \$186k and was not planned as part of the budget process. We are in the process of pursuing FEMA for Lamoille and Essex counties. If successful we would receive approximately \$63k in FEMA money. Finally, overhead and substation maintenance has been more significant than anticipated resulting in negative variances to budget of \$156k YTD.

- Customer Accounts**
(\$14)
(\$69)

Delays related to the implementation of AMR substation rollout have resulted in higher contracting and labor costs for meter reading than expected resulting in a June variance of

\$12k and \$43k YTD. Major account representation and PR support has been higher than anticipated resulting in a \$27k YTD variance to budget.

• **Administrative & General** **\$56** **\$298**

A&G expenses were under budget for two items that were included in the settlement of the 2007 rate case. The IRP was \$34k under budget in June and \$202k YTD as external costs of about \$300k will be deferred through an accounting order. Additionally, the savings from the rate case being settled resulted in improvement to budget of \$11k in June and \$125k YTD. Additionally, A&G salaries produced a positive variance of \$14k in June and \$53k YTD as a result of changes in staff. Offsetting some of these positive variances, were the annual meeting that had a YTD variance of \$36k. Two safety trainings in April contributed to a YTD variance of \$25k. Finally, expenses related to employee separation resulted in a negative variance of \$11k in June and \$34k YTD.

• **Interest Expense** **\$41** **\$86**

VEC's financial performance over the past three years resulted in a 25 basis point discount from CFC on fixed rates from CZN acquisition debt. The planned refinance to the Farmer Mac program has positively impacted interest expense and management of cash flow from operations has positively impacted our use of short term credit facilities.

• **Non-operating Margins** **\$9** **\$104**

Investments contributed positive income over budget of \$31k YTD. Rent & option payments for the School Street property have contributed positive variances of \$5k in June and \$20k YTD. Asset dispositions have contributed positive income of \$10k in June and \$20k YTD. Lastly, patronage capital retirements have been more than expected by \$31k YTD.

TIER and Debt Service Coverage

We are currently projecting TIER performance to be less than expectations (1.71 forecast vs 1.91 budget). Our Debt Service Coverage for 2007 is expected to be approximately \$5,033,122 (Principal of ~ \$2,045,583 & Interest of ~ \$2,987,539)

Cash Flow and Line of Credit

We are expecting to use our line of credit for the first time in 2007 beginning in July.

Capital Spending Plan

The capital spending for June was significant. YTD is now over budget by \$411k. The bulk of our transformer order was received in June and resulted in a current month variance exceeding budget of \$670k, YTD the variance is \$608k. By year end this is expected to be within budget inclusive of the AMR meters. The Ethan Allen project resulted in current month and YTD variances of \$207k and \$345k. We are pursuing a number of alternatives to be compensated for the over spending.

Balance Sheet

Our equity ratio held at 36% in June. Our current ratio, a measure of liquidity, declined to 1.31 from last months 1.48.

BALANCE SHEETS (ASSETS)

VEC

	June 2007 Actual	May 2007 Actual	Variance Fav/(Unfav) \$	%	June 2006 Actual	Variance Fav/(Unfav) \$	%
Electric plant, at cost:							
Electric plant in service	84,871,164	83,877,896	993,268	1.18%	86,080,162	(1,208,999)	-1.40%
Less accumulated depreciation	(23,887,335)	(23,670,589)	216,746	0.92%	(23,690,174)	197,162	0.83%
Net electric plant in service	60,983,828	60,207,307	776,522	1.29%	62,389,989	(1,406,160)	-2.25%
Construction work in progress	2,717,035	2,368,036	349,000	14.74%	2,742,772	(25,737)	-0.94%
Net electric plant	63,700,864	62,575,342	1,125,522	1.80%	65,132,761	(1,431,897)	-2.20%
Other assets:							
Non-utility property	65,697	65,697	-	0.00%	119,211	(53,514)	-44.89%
Other investments	8,797,622	8,778,607	19,015	0.22%	5,922,853	2,874,768	48.54%
Deferred charges	(12,184)	(70,578)	58,394	-82.74%	323,599	(335,783)	-103.77%
Total other assets	8,851,135	8,773,726	77,409	0.88%	6,365,663	2,485,472	39.04%
Current assets:							
Cash	3,437,452	4,045,965	(608,513)	-15.04%	3,322,017	115,436	3.47%
Notes receivable (net)	40,167	44,094	(3,927)	-8.91%	127,880	(87,713)	-68.59%
Accounts receivable (net)	7,662,670	7,818,245	(155,575)	-1.99%	7,823,638	(160,969)	-2.06%
Other receivables (net)	357,506	380,221	(22,715)	-5.97%	273,847	83,659	30.55%
Inventories	1,652,623	1,641,208	11,416	0.70%	1,533,691	118,932	7.75%
Prepaid expenses	174,672	209,024	(34,352)	-16.43%	168,602	6,070	3.60%
Total current assets	13,325,090	14,138,756	(813,666)	-5.75%	13,249,675	75,415	0.57%
Total assets	\$ 85,877,089	\$ 85,487,825	\$ 389,264	0.46%	\$ 84,748,099	\$ 1,128,989	1.33%

BALANCE SHEETS (LIABILITIES/EQUITY)

	June 2007 Actual	May 2007 Actual	Variance Fav/(Unfav) \$	%	June 2006 Actual	Variance Fav/(Unfav) \$	%
Equities:							
Memberships issued & subscribed	-	-	-	#DIV/0!	-	-	#DIV/0!
Patronage capital assignable	12,605,038	12,605,038	-	0.00%	8,706,083	3,898,955	30.93%
Other earnings	3,743,131	3,938,961	(195,830)	-5.23%	6,204,503	(2,461,372)	-65.76%
Contributions in aid of construction	14,691,062	14,546,767	144,295	0.98%	13,410,302	1,280,761	8.72%
Net equity	31,039,231	31,090,766	(51,535)	-0.17%	28,320,888	2,718,344	8.76%
Long-term debt	42,863,548	43,105,834	(242,287)	-0.57%	44,904,021	(2,040,473)	-4.76%
Capital leases - non current	368,664	370,838	(2,175)	-0.59%	371,152	(2,488)	-0.67%
Current liabilities:							
Current portion of long-term debt	2,078,768	2,078,768	-	0.00%	2,087,304	(8,536)	-0.41%
Line of Credit	-	-	-	#DIV/0!	-	-	#DIV/0!
Accounts payable	5,151,668	4,563,329	588,338	11.42%	4,326,056	825,612	16.03%
Customer deposits	99,782	100,988	(1,206)	-1.21%	119,517	(19,736)	-19.78%
Other accrued expenses	2,820,143	2,795,267	24,876	0.88%	2,972,930	(152,787)	-5.42%
Total current liabilities	10,150,361	9,538,352	612,009	6.03%	9,505,807	644,554	6.35%
Deferred credits	1,455,286	1,382,034	73,252	5.03%	1,646,232	(190,946)	-13.12%
Total liabilities and equity	\$ 85,877,089	\$ 85,487,825	\$ 389,264	0.46%	\$ 84,748,099	\$ 1,128,989	1.33%

MONTHLY

STATEMENT OF OPERATIONS

VEC

	June 2007 Actual	June 2007 Budget	June 2007 Actual- Budget Variance Fav (Unfav) %	June 2006 Actual	June 2007 Actual - June 2006 Variance Fav (Unfav) %
Revenue					
Operating Revenue	4,703,078	4,909,606	-4.2%	4,579,220	123,858
Sales for Resale	218,658	182,823	19.6%	254,124	(35,466)
Total revenues	\$ 4,921,736	\$ 5,092,429	-3.4%	\$ 4,833,344	\$ 88,392
Power supply cost					
Purchased power cost	(2,901,713)	(3,096,621)	6.3%	(2,896,229)	(5,484)
Sales for Resale	(218,658)	(182,823)	-19.6%	(254,124)	35,466
Transmission	(447,744)	(497,632)	10.0%	(353,436)	(94,308)
Total Power supply cost	(3,568,115)	(3,777,076)	5.5%	(3,503,789)	(64,326)
Gross Margin	\$ 1,353,621	\$ 1,315,353	2.9%	\$ 1,329,556	\$ 24,065
Operating expenses					
Distribution: Operations & Mitce	(771,168)	(315,910)	-144.1%	(244,395)	(526,773)
Customer accounts	(212,499)	(198,624)	-7.0%	(214,658)	2,159
Administrative & general	(190,163)	(246,187)	22.8%	(215,695)	25,532
Total operating expenses	(1,173,830)	(760,721)	-54.3%	(674,747)	(499,082)
Depreciation & amortization	(320,795)	(334,851)	4.2%	(331,227)	10,433
Gross revenue & receipts taxes	(48,783)	(51,592)	5.4%	(48,446)	(337)
Interest on long-term debt	(224,920)	(259,475)	13.3%	(247,413)	22,493
Other interest expenses	(2,395)	(8,969)	73.3%	(2,438)	43
Other Deductions	(500)	(25)	-1900.0%	-	(500)
Total depreciation & other expenses	(597,392)	(654,912)	8.8%	(629,524)	32,132
Income from operations	(417,601)	(100,280)	316.4%	25,284	(442,885)
Interest income	206,332	211,398	-2.4%	82,217	124,114
Other income (expenses)	15,438	1,387	1013.1%	4,719	10,719
Other capital credits & dividends	-	-	N/A	-	-
Total non-operating margins	221,770	212,785	4.2%	86,936	134,834
Net income (loss)	(195,831)	112,505	-274.1%	112,220	(308,051)
Extraordinary expenses	-	-	N/A	-	-
Total net income (loss)	\$ (195,831)	\$ 112,505	-274.1%	\$ 112,220	\$ (308,051)

	2Q 2007 Actual	2Q 2007 Budget	2Q 2007 Actual - Budget Variance Fav (Unfav) \$	%	1Q 2007 Actual	2Q 2007 Actual - 1Q 2007 Variance Fav (Unfav) \$	%
Revenue	14,868,253	15,600,556	(732,303)	-4.7%	17,849,822	(2,981,569)	-16.7%
Operating Revenue	610,664	474,084	136,580	28.8%	675,580	(64,916)	-9.6%
Sales for Resale	\$ 15,478,917	\$ 16,074,640	\$(595,723)	-3.7%	\$ 18,525,402	\$ (3,046,485)	-16.4%
Total revenues							
Power supply cost	(8,981,596)	(9,292,109)	310,513	3.3%	(10,228,200)	1,246,605	12.2%
Purchased power cost	(610,664)	(474,084)	(136,580)	-28.8%	(675,580)	64,916	9.6%
Sales for Resale	(1,272,283)	(1,373,571)	101,288	7.4%	(1,180,879)	(91,405)	-7.7%
Transmission:	(10,864,543)	(11,139,764)	275,221	2.5%	(12,084,659)	1,220,116	10.1%
Total Power supply cost							
Gross Margin	\$ 4,614,374	\$ 4,934,876	\$(320,502)	-6.5%	\$ 6,440,743	\$ (1,826,369)	28.4%
Operating expenses	(2,056,832)	(1,434,332)	(622,499)	-43.4%	(2,034,692)	(22,140)	-1.1%
Distribution: Operations & Mtce	(633,425)	(590,174)	(43,251)	-7.3%	(589,482)	(43,942)	-7.5%
Customer accounts	(671,470)	(794,438)	122,968	15.5%	(650,580)	(20,889)	-3.2%
Administrative & general	(3,361,726)	(2,818,944)	(542,782)	-19.3%	(3,274,754)	(86,972)	-2.7%
Total operating expenses							
Depreciation & amortization	(958,995)	(1,001,553)	42,558	4.2%	(961,033)	2,037	0.2%
Gross revenue & receipts taxes	(149,995)	(156,273)	6,279	4.0%	(174,693)	24,698	14.1%
Interest on long-term debt	(729,146)	(785,636)	56,490	7.2%	(756,902)	27,756	3.7%
Other interest expenses	(7,192)	(17,919)	10,727	59.9%	(6,739)	(453)	-6.7%
Other deductions	(1,860)	(575)	(1,285)	-223.5%	1,314	(3,174)	241.6%
Total depreciation & other expenses	(1,847,188)	(1,961,956)	114,768	5.8%	(1,898,053)	50,865	2.7%
Income from operations	(594,540)	153,976	(748,516)	-486.1%	1,267,936	(1,862,476)	146.9%
Interest income	239,411	223,264	16,147	7.2%	238,758	653	0.3%
Other income (expenses)	16,295	(1,335)	17,630	-1320.6%	13,114	3,180	24.3%
Other capital credits & dividends	-	2,742	(2,742)	-100.0%	62,794	(62,794)	-100.0%
Total non-operating margins	255,706	224,671	31,035	13.8%	314,666	(58,960)	-18.7%
Net income (loss)	(338,834)	378,647	(717,480)	-189.5%	1,582,603	(1,921,436)	-121.4%
Extraordinary expenses	-	-	-	N/A	-	-	N/A
Total net income (loss)	\$ (338,834)	\$ 378,647	\$(717,480)	-189.5%	\$ 1,582,603	\$ (1,921,436)	-121.4%

YEAR-TO-DATE

STATEMENT OF OPERATIONS

VEC

	June 2007 Actual	June 2007 Budget	June 2007 Actual- Budget Variance Fav (Unfav) \$ %	June 2006 Actual	June 2007 Actual - June 2006 Variance Fav (Unfav) \$ %
Revenue					
Operating Revenue	32,718,076	33,984,588	(1,266,512) -3.7%	31,824,879	893,196 2.8%
Sales for Resale	1,286,244	1,216,479	69,765 5.7%	1,794,587	(508,343) 28.3%
Total revenues	\$ 34,004,320	\$ 35,201,067	(\$ 1,196,747) -3.4%	\$ 33,619,466	\$ 384,853 1.1%
Power supply cost					
Purchased power cost	(19,209,796)	(20,204,094)	994,298 4.9%	(16,691,635)	(2,518,161) -15.1%
Sales for Resale	(1,286,244)	(1,216,479)	(69,765) -5.7%	(1,794,587)	508,343 28.3%
Transmission:	(2,453,162)	(2,692,853)	239,691 8.9%	(2,601,870)	148,708 5.7%
Total Power supply cost	(22,949,202)	(24,113,426)	1,164,224 4.8%	(21,088,092)	(1,861,110) -8.8%
Gross Margin	\$ 11,055,118	\$ 11,087,641	(\$ 32,523) -0.3%	\$ 12,531,375	\$ (1,476,257) 11.8%
Operating expenses					
Distribution: Operations & Mtce	(4,091,523)	(3,082,743)	(1,008,780) -32.7%	(2,877,818)	(1,213,705) -42.2%
Customer accounts	(1,222,907)	(1,154,190)	(68,717) -6.0%	(1,179,398)	(43,509) -3.7%
Administrative & general	(1,322,050)	(1,619,561)	297,511 18.4%	(1,348,705)	26,655 2.0%
Total operating expenses	(6,636,481)	(5,856,494)	(779,987) -13.3%	(5,405,921)	(1,230,560) -22.8%
Depreciation & amortization	(1,920,028)	(1,994,106)	74,078 3.7%	(1,966,588)	48,560 2.5%
Gross revenue & receipts taxes	(324,687)	(341,177)	16,490 4.8%	(316,782)	(7,905) -2.5%
Interest on long-term debt	(1,486,049)	(1,554,530)	68,481 4.4%	(1,548,267)	62,219 4.0%
Other interest expenses	(13,930)	(31,374)	17,444 55.6%	(19,736)	5,806 29.4%
Other deductions	(547)	(650)	103 15.9%	(532)	(15) -2.8%
Total depreciation & other expenses	(3,745,241)	(3,921,837)	176,596 4.5%	(3,853,905)	108,664 2.8%
Income from operations	673,396	1,309,310	(635,914) -48.6%	3,271,549	(2,598,153) 79.4%
Interest income	478,169	446,528	31,641 7.1%	230,078	248,091 107.8%
Other income (expenses)	29,409	(12,166)	41,575 -341.7%	18,740	10,670 56.9%
Other capital credits & dividends	62,794	31,805	30,989 97.4%	184,817	(122,023) -66.0%
Total non-operating margins	570,373	466,167	104,206 22.4%	433,635	136,738 31.5%
Net income (loss)	1,243,769	1,775,477	(531,708) -29.9%	3,705,183	(2,461,415) -66.4%
Extraordinary expenses	-	-	-	-	-
Total net income (loss)	\$ 1,243,769	\$ 1,775,477	(\$ 531,708) -29.9%	\$ 3,705,183	\$ (2,461,415) -66.4%

STATEMENT OF CASH FLOWS

JUNE 2007

	Month		Year-to-date		Variance Fav (Unfav)	%
	June 2007	June 2006	June 2007	June 2006		
	Actual	Actual	Actual	Actual	\$	
Cash flows from operating activities:						
Net income	\$ (195,831)	\$ 112,220	\$ 1,243,789	\$ 3,705,183	(2,461,414)	-66.43%
Noncash expenses (income) included in earnings:						
Depreciation & amortization	415,076	446,813	2,431,720	2,639,179	(207,459)	-7.86%
(Gain) loss on sale of fixed assets	(10,530)	(530)	(20,905)	(11,280)	(9,625)	-85.33%
Changes in assets and liabilities:						
Decrease (Increase) in notes receivable	3,827	9,793	32,114	68,803	(36,689)	-53.32%
Decrease (Increase) in accounts receivable	155,575	283,047	672,190	512,857	159,333	31.07%
Decrease (Increase) in other receivable	22,715	(77,407)	262,478	166,123	96,355	-58.00%
Decrease (Increase) in inventories	(11,416)	(113,741)	96,822	(41,894)	138,516	-332.22%
Decrease (Increase) in prepayments	34,352	47,473	(11,016)	(26,109)	15,093	57.81%
Decrease (Increase) in deferred charges	(153,801)	(31,344)	(551,873)	(336,262)	(215,611)	-64.12%
Increase (decrease) in accounts payable	588,338	730,941	47,360	(245,794)	293,154	-119.27%
Increase (decrease) in customer deposits	(1,206)	4,669	(17,419)	3,770	(21,189)	562.00%
Increase (decrease) in accrued expenses	24,876	(59,790)	691,170	861,507	(170,337)	-19.77%
Increase (decrease) in deferred credits	73,252	(294,228)	(161,922)	(241,260)	79,338	-32.88%
Net cash provided (used) by operating activities	945,529	1,070,116	4,714,488	7,055,023	(2,340,535)	-33.18%
Cash flows from investing activities:						
Additions to electric plant in service and construction work in progress	(1,422,582)	(885,197)	(3,951,448)	(3,688,760)	(262,689)	-7.12%
Proceeds from retirements of electric plant in service	(12,280)	(13,011)	65,004	(151,144)	216,148	-143.01%
Return on capital investments	(30,817)	(31,158)	(92,162)	(213,667)	121,505	-56.87%
Proceeds (payments) from sale (purchase) of investments	11,802	(1,702,850)	17,527	(1,692,692)	1,710,218	-101.04%
Net cash provided (used) in investing activities	(1,453,877)	(2,532,216)	(3,961,079)	(5,746,262)	1,785,183	31.07%
Cash flows from financing activities:						
Proceeds from borrowings LOC	-	-	-	4,250,000	(4,250,000)	-100.00%
Proceeds from borrowings Long-Term	-	-	-	(4,000,000)	4,000,000	100.00%
Payments to creditors LOC	(244,462)	(231,892)	(1,663,525)	(1,627,987)	(35,538)	-2.18%
Payments to creditors Long-Term	144,295	211,075	332,946	555,293	(222,346)	-40.04%
Increase in contributions in aid of construction	-	-	-	-	-	N/A
Memberships issued, net of refunds	-	7	19	15	4	27.55%
Additions to donated capital, net	1	-	-	-	-	-
Net cash provided (used) by financing activities	(100,165)	(20,750)	(1,330,559)	(822,678)	(507,880)	-61.73%
Net Increase (decrease) in cash and equivalents	(608,513)	(1,582,850)	(577,150)	486,982	(1,063,232)	-218.74%
Cash & cash equivalents at beginning of period	4,045,965	4,904,867	4,014,602	2,835,935	1,178,668	41.56%
Cash & cash equivalents at end of period	\$ 3,437,452	\$ 3,322,017	\$ 3,437,452	\$ 3,322,017	\$ 115,436	3.47%
Supplemental cash flow information:						
Cash paid during the period for interest	\$ (482,666)	\$ (505,165)	\$ (62,636)	\$ (12,448)	(70,188)	-563.84%