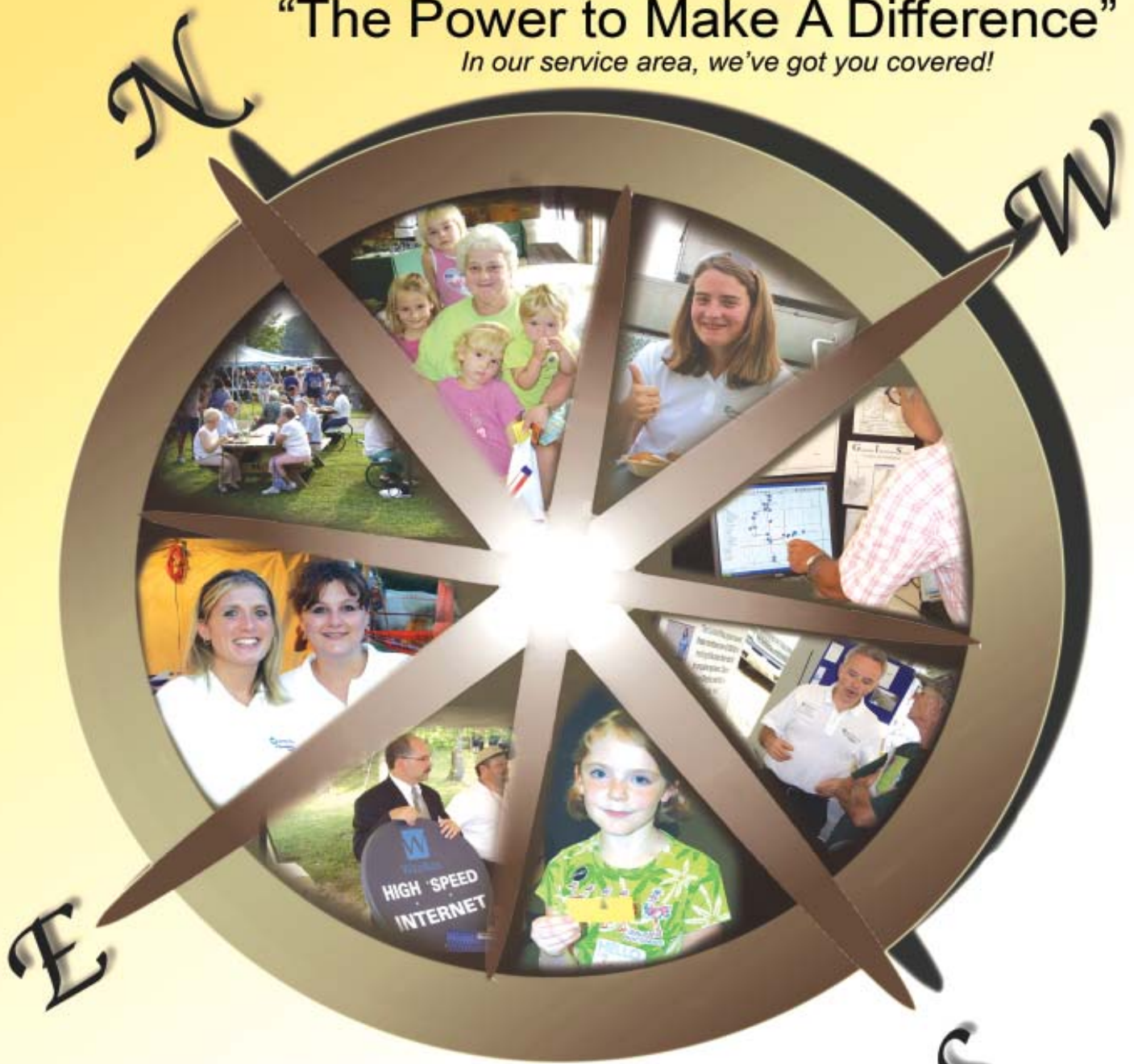


The 70th Annual Report

For the year ending December 31, 2007

"The Power to Make A Difference"

In our service area, we've got you covered!



Central Electric Cooperative, Inc.

A Touchstone Energy® Cooperative

The power of human connections

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by *Richard L. Weaver*
President

President and CEO & General Manager's Report

"THE POWER TO MAKE A DIFFERENCE"

and *Larry S. Adams*
CEO & General Manager



THE POWER TO MAKE A DIFFERENCE

We all have the "Power To Make A Difference" in both our own and other people's lives. At Central Electric Cooperative, during 2006 we attempted to do just that. As a Touchstone Energy Cooperative we adhere to four core values - Integrity, Accountability, Innovation and Commitment to Community.

Under these headings, your Cooperative always puts the member/consumer first. This means always being honest and dependable and doing what is best for the membership and the communities in which they live.

SERVICE RELIABILITY

One of the most notable accomplishments for CEC during the past year was its service reliability. The average outage time per consumer per year was the second lowest recorded outage time in CEC's 69 years of operation. While some of this can be attributed to a milder year with few major storms, it also reflects the positive gains Central Electric has made over the past several years as a result of old wire change out, pole and cross arm replacements and an aggressive right-of-way maintenance program. We invest in these and other system maintenance and renewal programs in order to maintain and improve service reliability.

Let's examine activities in some of these programs during 2006. Your Cooperative inspected 4,507 poles through the Osмосe Company, an independent contractor. We featured a detailed story on the Osмосe pole inspection and treatment program in the May 2007 issue of *Power Lines*. In addition to this, Co-op line crews set or changed out 862 electric poles and replaced over 60 miles of old electric wire throughout 2006. Since the beginning of our wire replacement program, your Co-op has replaced 503 line miles of the old 6A and 8A copper wire.

During 2006, the Cooperative worked at replacing old conductor in the Saxonburg, Cowansville and Rockland substation areas. Taking into account what has been replaced so far in 2007, about 335 line miles remain throughout CEC's territory. We plan on replacing the

remainder over the next several years. This work improves reliability and reduces system losses.

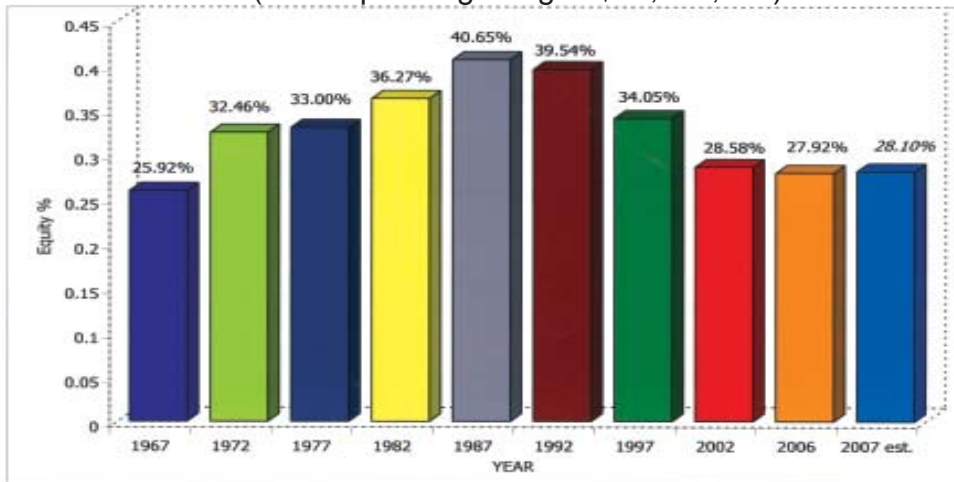
Approximately 26,209 trees were trimmed on CEC electric line rights-of-way and an additional 15,645 trees that were threatening power lines were removed completely to prevent future outages. Contracting crews cleared an additional 195 miles of site-specific electric distribution lines. Other major system improvement projects took place in the Co-op's Prospect, Rockland, Clearfield and Mineral substations ranging from replacement of underground wire to upgrading of transformers and regulators. Central Electric received high ratings from its membership regarding service reliability in 2006.

CEC HAD POOR FINANCIAL YEAR

Due to an unusually warm winter and cool summer during 2006, kilowatt-hour sales were down resulting in lower revenues than budgeted. Reduced revenues combined with other wholesale power costs that were almost \$600,000 higher than budgeted, resulted in a very poor financial year. As you will see from the financial statements included in the Annual Report, the Cooperative's margin was only \$86,374. That is far from sufficient for an organization of this size and will not meet our lender's requirements. Accordingly, the Board approved a rate change effective March 1 of this year.

Your Cooperative is proud of its history of working hard to keep distribution rates stable. Our last distribution rate change occurred in 1999. Your Co-op was able to keep distribution rates the same for the past eight years because inflation was moderate, interest rates were at historic lows, and through our efforts to control costs. However, since the last rate change early in 1999, the cost of the distribution business has steadily increased. The Cooperative needed to produce additional revenues to remain financially strong and to continue to provide you with the high level of service you have come to expect.

Year-End Review -- 2006
 (Total Operating Budget: \$27,959,773)



As a result, CEC announced a rate change effective on March 1 of this year. The rate change occurred in the members Cost of Service charge and was approximately 3.9% for residential members averaging 850 kWh's per month. The effect on other rate classifications varied but was similar and consistent with the Cooperative's most recent cost of service study.

ELECTRICITY STILL REMAINS A BARGAIN

Electricity *is* a bargain when you consider what all it does for you on a daily basis. A CEC member consuming 850 kilowatt hours of electricity a month will be powering his or her home for only \$3.14 a day. That's less than the cost of an average meal at a fast food restaurant. Over a 30-day period the price of that one month's electric bill would only fill your gas tank up a couple of times. While your electric bill did increase, the increase was less than other energy providers in the region. Keep in mind that your Co-op provides free home energy information and can help its members find ways to save energy and efficiently use the service it provides. For the larger energy user, CEC offers budget billing and can help members better manage their energy expenses by leveling payments over a 12-month period.

NEW TECHNOLOGIES HELP POWER THE WAY

The Cooperative continued to use technology during 2006 to improve service reliability, and efficiency of operations.

The Co-op's automated metering program plays a vital role in helping secure accurate readings and gathers other important information. While billing efficiencies are one advantage of automated meters, CEC also uses them to verify when power has been restored during an outage. They also help with blinking light problems so the Cooperative can respond more quickly in eliminating these

unpleasant occurrences. Another benefit is their ability to track daily usage in helping members identify why their usage may be higher during certain periods of the month. Through the use of this technology, CEC is able to secure meter readings through its electric distribution system or over area telephone lines. The automated meter reporting system installs onto the standard meter and reports the meter reading and other relevant information to a computer at CEC's headquarters. The reading is then immediately processed and the member is billed for his or her previous 30-day usage. At the end of 2006 CEC had 22,288 meters being read automatically.

The Cooperative made *significant* progress in its digitized mapping program during the past year. Several substations were completed, and the major project should be finished by the end of this year. Your Cooperative is converting its paper maps, which have been in use for the past 46 years, to a computerized graphical information system, which will be much easier to maintain and update. CEC linemen will use lap top computers located in their vehicles, enabling them to pinpoint trouble locations and gather better information about what's happening on the electric distribution system on a real time basis. It will enable them to operate more efficiently and accurately in their daily assignments as well as during power outages.

Central Electric continued its efforts to make it more convenient for you to do business with the Cooperative through the use of the Internet. We began offering online voting for the membership as part of the director election process. Each year two members are elected to the Cooperative's Board of Directors. Members such as you could vote by mail or you could attend the Annual Meeting and cast your ballot. During 2006 and again in 2007 the Cooperative gave the members the option of being able to vote electronically through use of the Internet. Central Electric is the first Cooperative in Pennsylvania to offer this form of voting to its members. We also continued to develop

new programs that allow member/owners to conduct business online in paying and accessing their bill, applying for new services or helping them to manage their energy more wisely through energy tips and an online energy audit. Many CEC members have embraced these new “e-Services” and use of these services continues to grow. Both Board and Management are of the belief that the more we can offer our members opportunities to do business with the Cooperative electronically, the greater the benefits to the overall membership in both cost and convenience.

COMMITMENT TO COMMUNITY

Central Electric is different from an Investor Owned Utility. CEC does not operate to generate profits for remote investors in far away cities. Any profits we earn, (referred to as margins) go back into the business and are eventually returned to the members who contributed them based on their use of service. During 2006 CEC returned \$627,000 to its members. Since its beginning, the Cooperative has refunded nearly \$13,000,000 to its membership. This money remains in the local communities where it is used to strengthen the local economy. Your Co-op has been retiring Capital Credits annually since 1981. Due to the poor financial performance of the past year, your Board of Directors decided it would not be prudent to refund capital credits to the membership during 2007. As it does each year, the Cooperative will evaluate its financial position at the end of 2007. We expect to be able to return to annual capital credit refunds in 2008 or shortly thereafter.

As part of its commitment to community during 2006, CEC was actively involved with the various economic development agencies located throughout its seven-county service area. Several hundred new jobs have been created over the past couple years through working closely with these various economic development groups.

Another major project underway approved by the Board of Directors during the spring of this year is our “Good Neighbor Programs.” Your Board passed a resolution at its March meeting to establish the “Good Neighbor Energy Assistance Program” and the “Good Neighbor Scholarship Fund.” These newly developed programs were established as a result of legislation that allows electric cooperatives throughout Pennsylvania to retain unclaimed capital credits for certain local uses. Act 187 states that all retained capital credits for Central Electric and the other PA electric cooperatives be used for one or more of three purposes which are home energy assistance, educational assistance and civic purposes. Because the Co-op is already involved in community development, the Board felt there was a greater need to concentrate on energy and educational assistance.

When you buy electricity from Central Electric Cooperative, you become a member/owner. You then have

a share in the capital that remains at the end of the years. After all expenses for furnishing its members with energy have been satisfied, money left over, called “margins,” is set aside for each member/owner in the form of capital credits. These credits are divided among all member, based on the amount and cost of electricity each purchased throughout the year. The members’ capital credits become the Cooperative’s equity, and make it possible for the Cooperative to secure loans and maintain facilities and services. When the equity level reaches a certain amount and the Cooperative’s financial position is strong, the Co-op Board of Directors authorizes capital credits to be refunded to the membership.

Over the years CEC has gone to great lengths to make sure every member who is entitled receives a capital credit refund. However there are instances when a member has left the system and failed to provide a valid forwarding address and their refund is returned to the Cooperative. In cases such as this, Pennsylvania law required CEC to escheat the unclaimed property to the State Treasury after five years. Because of Act 187, Central Electric is now able to retain these unclaimed Capital Credits, rather than escheating them to the State as long as the funds are used for specific, qualified purposes in the CEC service territory.

The initial program adopted by the board is the “Good Neighbor Energy Assistance Program.” In its first year of operation, approximately \$8,000 will be available to help less fortunate members pay their electric bills starting with the 2007-08 heating season. This money will be administered through the Cooperative’s “Family Fund” program and will help supplement the existing program. Central Electric will use the current Family Fund guidelines for member eligibility. The Good Neighbor Energy Assistance Program will be administered by the following agencies: Armstrong County Community Action Agency, Forest County Information and Referral Service and the Venango County Office of Economic Opportunity. Funding for the Good Neighbor Energy Assistance program will be evaluated annually.

The second program approved by the Board is known as the “Good Neighbor Scholarship Fund” and will consist of eighteen \$1,000 scholarships. Funds will be given in the form of one-time scholarships to selected students to attend an accredited post-secondary educational institution. To be eligible, Central Electric Cooperative, Inc., must serve the student or family member’s permanent residence. Eligible high schools are those that are located in Central Electric Cooperative’s service territory and have CEC members’ children or dependents enrolled.

The Cooperative will be responsible for coordinating the application process in accordance with eligibility guidelines set forth by CEC. A review committee appointed by the Board of Directors will be responsible for awarding the scholarships. The three main determining factors of eligibility will be based on the student’s community

involvement, academic standing and financial need. Selection of awardees will be final.

As a Touchstone Energy Cooperative, Central Electric has a strong commitment to its members and their well-being. We believe the passage of Act 187 is one of the most important pieces of legislative victories we've seen in many years. We owe a great deal of thanks to our State Legislature, State Senate and Governor for supporting the legislation. It will help many rural electric members throughout the Commonwealth with much needed financial assistance. That's the power of human connections.

MAKING A DIFFERENCE

Despite the daily challenges that go along with operating an electric utility, Central Electric Cooperative was able

to make a positive difference in the lives of its members by providing safe reliable energy and being a concerned member of the communities it serves. The Co-op was able to accomplish many positive programs during the past year through good planning, innovation, and hard work. CEC employees and directors worked hard to accomplish a great deal through the guidance of the Cooperative's strategic plan, with the ultimate goal of making a positive difference in the lives of others.

CEC's strategic objective is to provide its consumers with a high level of service, value for their energy dollar, and to adopt new technologies that allow the Cooperative to enhance both service and efficiency. We pledge to you that we will continue to follow these guidelines throughout the remainder of 2007 as we observe our 70th year of operation.



Joyce heard a powerful voice at the electric co-op meeting. Her own.

Only your local electric co-op makes every customer an owner of the business. Unlike other electric utilities, your co-op exists to make sure your needs are always met, not to make a profit. And since every electric co-op is locally owned and operated, your co-op is always there with you, reinvesting in your community. That's why in an electric co-op, the people have the power.

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CENTRAL ELECTRIC COOPERATIVE, INC. MEMBERS' FINANCIAL REPORT FOR 2006

STATEMENT OF REVENUE AND PATRONAGE CAPITAL

Year ended December 31	<u>2006</u>	<u>2005</u>
OPERATING REVENUES:		
Electric energy revenue	\$ 27,378,012	\$ 27,574,395
Customers' forfeited discounts and penalties	117,743	121,308
Rent from electric property	368,709	431,358
Miscellaneous service revenue	277,214	175,640
Miscellaneous electric revenue	<u>13,532</u>	<u>22,246</u>
TOTAL OPERATING REVENUES	<u>28,155,210</u>	<u>28,324,947</u>
OPERATING EXPENSES:		
Cost of power	\$ 16,779,679	\$ 16,321,206
Distribution - operations	1,492,416	1,239,430
Distribution - maintenance	2,689,348	2,621,182
Consumer accounts	920,316	1,071,559
Customer service and information	484,723	337,780
Sales	69,805	70,296
Administrative and general	2,023,213	1,893,954
Depreciation and amortization	2,410,948	2,414,015
Taxes	26,012	34,659
Interest - other	<u>40,147</u>	<u>54,658</u>
TOTAL OPERATING EXPENSES	<u>26,936,607</u>	<u>26,058,739</u>
Operating margins before fixed charges	1,218,603	2,266,208
FIXED CHARGES:		
Interest on long-term debt	2,063,808	1,439,146
Operating margins after fixed charges	<u>(845,205)</u>	<u>827,062</u>
G & T AND OTHER CAPITAL CREDITS:		
Net operating margins	<u>(258,996)</u>	<u>892,234</u>
NON-OPERATING MARGINS:		
Interest income	129,494	72,199
Refund of prior years PURTA Taxes	179,445	-
Equity in earnings of subsidiary	5,502	35,325
Gain on sale of assets	(100)	250,467
Other	<u>31,029</u>	<u>43,437</u>
Total nonoperating margins	<u>345,370</u>	<u>401,428</u>
NET MARGINS BEFORE TAXES ON INCOME:	86,374	1,293,662
TAXES ON INCOME:	-	(14,275)
NET MARGINS:	86,374	1,307,937
PATRONAGE CAPITAL, at beginning of year:	20,660,113	20,286,796
RETAINED EARNINGS, at beginning of year for subsidiary:	133,617	145,041
PATRONAGE CAPITAL AND RETAINED EARNINGS, before reclassification of non-operating margins not allocated and retirement of capital credits:	20,880,104	21,739,774
PRIOR YEAR MARGINS NOT ALLOCATED:	431,358	318,720
RETIREMENT OF CAPITAL CREDITS:	680,063	627,324
PATRONAGE CAPITAL AND RETAINED EARNINGS, at end of year:	<u>\$ 19,768,683</u>	<u>\$ 20,793,730</u>

BALANCE SHEETS

Year ended December 31	<u>2006</u>	<u>2005</u>
ASSETS		
PROPERTY AND EQUIPMENT:		
Electric plant in service - at cost	\$ 85,396,167	\$ 79,484,206
Non-utility plant	-	479,777
Construction work in progress	<u>559,933</u>	<u>1,988,211</u>
	85,956,100	81,952,194
Less accumulated provisions for depreciation	<u>21,545,731</u>	<u>20,106,571</u>
TOTAL ELECTRIC PLANT	<u>64,410,369</u>	<u>61,845,623</u>
OTHER ASSETS AND INVESTMENTS:		
Non-utility property, at cost	3,180	3,180
Deposits and pre-payments	-	3,863
Investments in associated organizations	5,315,447	5,098,051
Investments in economic development projects	22,221	66,666
Energy resource conservation loans	<u>11,152</u>	<u>11,152</u>
TOTAL OTHER ASSETS AND INVESTMENTS	<u>5,352,000</u>	<u>5,182,912</u>
CURRENT ASSETS:		
Cash - general funds	537,211	1,639,711
Temporary investments	2,030,000	50,000
Accounts and notes receivable:		
Trade (less accumulated provision for uncollectible accounts of \$34,571 and \$28,804 for 2006 and 2005, respectively)	5,418,815	5,503,084
Other	44,445	168,293
Materials and supplies (at average cost)	715,446	332,832
Other current and accrued assets	<u>116,535</u>	<u>212,179</u>
TOTAL CURRENT ASSETS	<u>8,862,452</u>	<u>7,906,099</u>
DEFERRED CHARGES:	<u>342,296</u>	<u>51,677</u>
	<u>\$ 78,967,117</u>	<u>\$ 74,986,311</u>
EQUITIES AND LIABILITIES		
EQUITIES:		
Memberships	\$ 140,170	\$ 145,530
Patronage capital	19,768,683	20,660,113
Retained earnings - subsidiary	-	133,617
Other equities	<u>2,128,710</u>	<u>1,678,048</u>
TOTAL EQUITIES	<u>22,037,563</u>	<u>22,617,308</u>
LONG-TERM DEBT:		
RUS mortgage notes, less current maturities	30,753,065	29,146,584
CFC mortgage notes, less current maturities	16,198,954	13,963,463
RUS economic development notes, less current maturities	22,221	66,666
Other, less current maturities	<u>-</u>	<u>563,333</u>
TOTAL LONG-TERM DEBT	<u>46,974,240</u>	<u>43,740,046</u>
NON-CURRENT LIABILITIES		
Accumulated post retirement benefit obligations	2,887,253	2,638,037
Deferred power costs	<u>1,106,000</u>	<u>-</u>
TOTAL NON-CURRENT LIABILITIES	<u>3,993,253</u>	<u>2,638,037</u>
CURRENT LIABILITIES:		
Demand notes payable	-	54,000
Current maturities of long-term debt	1,937,173	2,055,254
Accounts payable:		
Purchased power	1,532,885	1,565,971
Other trade payables	360,684	309,533
Consumer deposits and prepayments	766,364	767,073
Other current and accrued liabilities	<u>792,073</u>	<u>702,426</u>
TOTAL CURRENT LIABILITIES	<u>5,389,179</u>	<u>5,454,257</u>
TOTAL LIABILITIES	<u>56,356,672</u>	<u>51,832,340</u>
	<u>572,882</u>	<u>536,663</u>
DEFERRED CREDITS:		
	<u>\$ 78,967,117</u>	<u>\$ 74,986,311</u>
COMMITMENTS AND CONTINGENCIES:		

The above statements are compiled from the 2006 Audit Report as presented by the firm of Lloyd and Company. A complete copy of the audit is available for examination at the Cooperative's office during normal business hours.