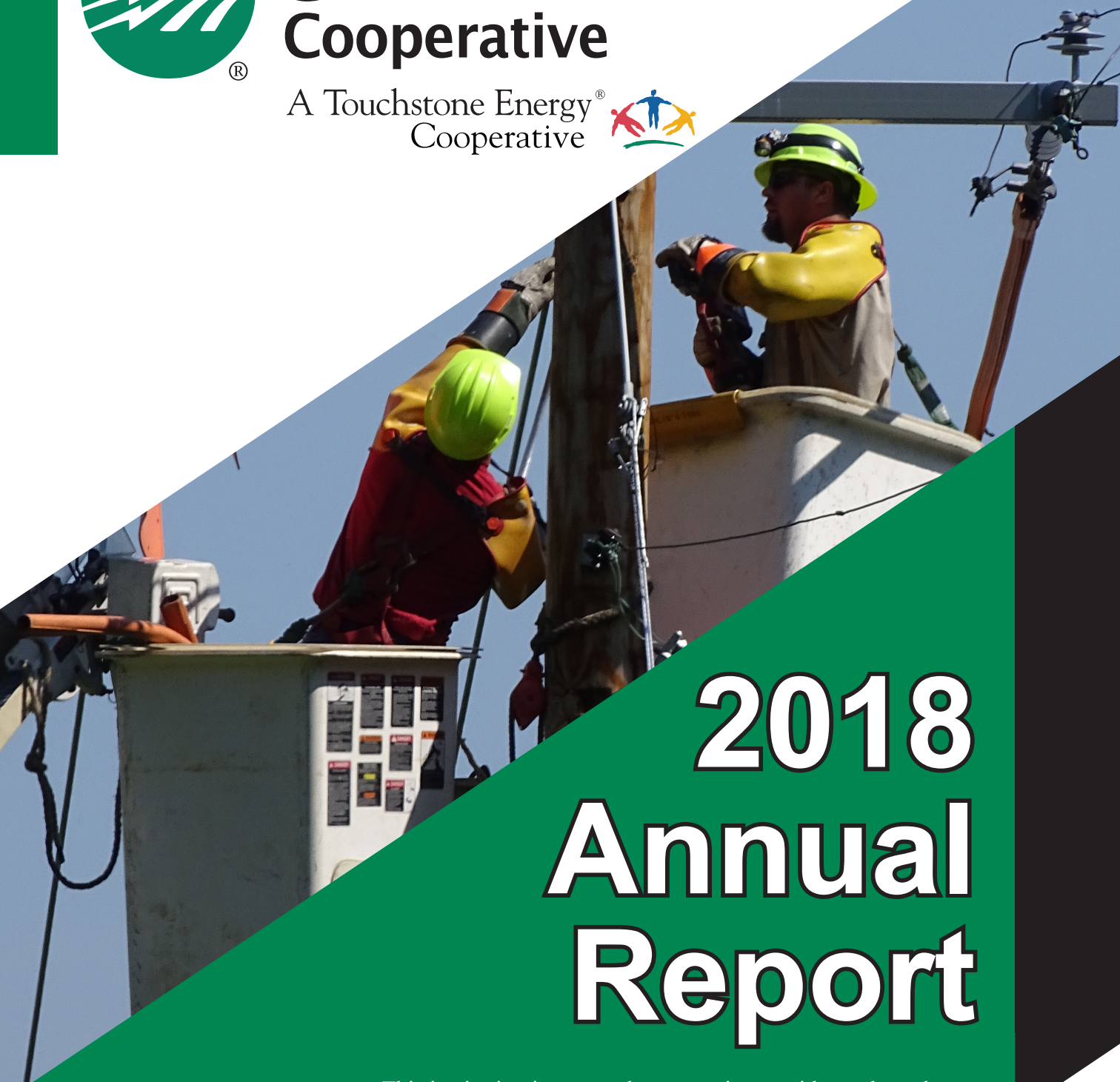




Central Electric Cooperative

A Touchstone Energy[®]
Cooperative 



2018 Annual Report

This institution is an equal opportunity provider and employer.

CEC is Focused on Better Serving You

Executive Report



Jody P. Weaver
President,
Board of
Directors

Matthew P. Boshaw
CEO &
General
Manager



Central Electric Cooperative (CEC) continued its commitment to continuous, incremental improvement in 2018. The implementation of previously defined plans has demonstrated improvement and identified areas where greater emphasis is necessary. These changes allowed for process improvements and put the organization in a strong position to continue improvement in the coming years. This report will provide a review of the progress and accomplishments in 2018.

CEC's three-year rolling strategic plan has provided a template which allows CEC to maintain the continuity required for our business model. As important as the strategic plan itself is, the process by which we create it, report on it, and utilize it throughout the year is equally important. CEC's board of directors receives an annual report discussing the progress made from the previous plan as well as an updated plan for the coming year. At mid-year, the board receives a plan specific, progress report. Periodically the board convenes a workshop designed to review and make any changes to the overall direction of the cooperative; the planning process; CEC's mission statement, vision statement, and strategic initiatives. This overall process has proven effective in providing clear direction from our board.

Key pieces of CEC's 2018-2020 Strategic Plan included the completion of the first full year of our newly defined financial planning efforts that saw improvement in all goal areas: plans, rates, patronage capital rotation, equity, and loan covenants. CEC received no rate increase from our Generation and Transmission Cooperative (Allegheny Electric Cooperative) and was able to offer no rate increase to members in 2018. Despite a major storm late in the year bringing significant cost, CEC was able to end the year with a

margin of \$2,672,316 and exceed our required loan covenants.

Highlights for last year include:

- Returning a record \$1,621,584 in patronage capital to our members in the form of Capital Credits.
- Distributing 311 Energy Star Appliance Rebates totaling almost \$13,000 to members.
- Helping 276 families in need pay electric bills during the heating season. The Family Fund program is funded entirely by member contributions, the roundup program, and unclaimed Capital Credits.

System Improvement Progress

Weather contributed to higher than average storm related outages in 2018. The largest single event was the late November ice, snow, and wind storm which was the largest single event in over 30 years at CEC. This event accounted for nearly 76 percent of our members' outage times in 2018. While this event was negative in many ways, it illustrated the dedication of our employees as well as the patience and graciousness of our membership in responding to the event. Removing this event's outage time from our 2018 total outage numbers allows for a year-over-year comparison which shows a 20 percent improvement over 2017. While these results do not meet our goals, they illustrate efforts we are making in reliability.

In 2018, CEC made some major

improvements across its territory which include:

- Completion of approximately 60 percent of a 9.8-mile upgrade which will tie Rockland and Fredericksburg Substations together to enable load transfer capabilities.
- Continuation of the electronic recloser and fuse cutout replacement projects.
- 610 poles were set; 7,530 poles were inspected;
- 16,253 trees trimmed; 12,225 trees removed.
- 255 miles of rights-of-ways cleared, and 278 miles sprayed.

Line Extension to ETC North East Pipeline, LLC.

The single largest undertaking of CEC's engineering and operations area, in 2018, was the line extension to ETC (a gas compressor station). This extension included almost seven miles of new, mostly underground 25 kilovolt line through northern Butler County. This project was completed and ETC was placed in service in June. This line has a capacity of 4.2 megawatt and it is anticipated that ETC will eventually become the largest single load on CEC's system.

Safety

Safety continues to be of the highest priority at CEC. In 2018, personal responsibility was a primary area of focus. We provided over 16 safety related trainings to all employees and continued our third-party inspections of crews and facilities. Our First Responders' Safety Training, high-voltage demonstration, and Safety City presentation were given to 1,575 people at 16 different events. We completed our on-site Rural Electric Safety Achievement Program (RESAP) inspection with an outstanding result illustrating the commitment of every employee to safety.

Quality Service

New technologies again played a big part in member satisfaction. In 2018 CEC:

- Made changes and enhancements to SmartHub, CEC's online account center.
- Increased electronic payment processing to 54 percent, which is convenient for members

and saves on processing costs.

- Processed and completed 9,100 member service orders.
- Installed 29 electric water heaters and 30 GenerLink™ units.

Community

CEC's commitment to the communities it serves continued in 2018:

- Sent five students on Youth Tour.
- Awarded 10 students the Good Neighbor Scholarship of \$2,000 each.
- Donated \$21,000 to non-profit organizations in our service territory through our Employee Directed Giving Program.
- Donated \$15,000 in community sponsorships for various organizations in our service territory.

Annual Meeting of the Members

At our 81st Annual Meeting, CEC members re-elected board of director Nancy Lendyak, representing Armstrong County; and William Eichner, representing Butler County. This event had 1,250 members and guests in attendance.

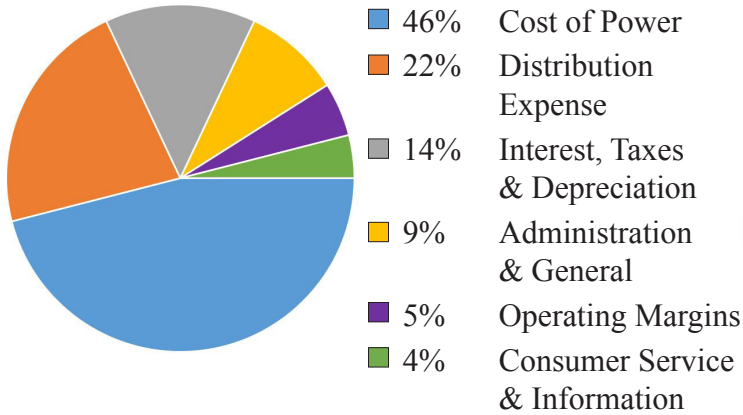
CEC encourages all members to attend this year's Annual Meeting of the Members on Friday, Aug. 23, 2019.

Tragically, shortly after his reelection Mr. Eichner passed away. Mr. Eichner had served as a member of CEC's board of directors since 2010. The board and staff at CEC would like to express our appreciation for his service and our condolences to his family.

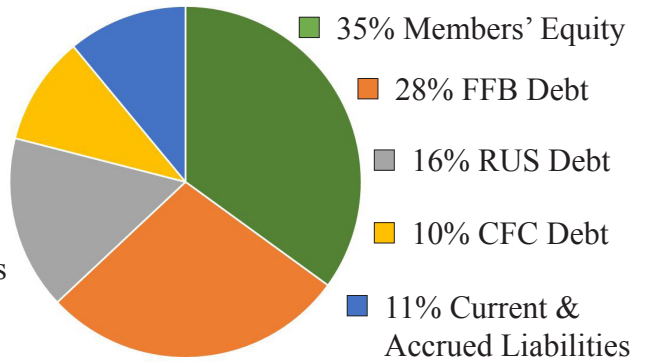
CEC staff is committed to providing service to our members. As the information detailed in this report indicates, service is much more than poles, wires, and meters to us. Our employees are talented and hardworking, with a wide variety of expertise. In addition to those attributes, our staff brings a member focus that makes our cooperative much more than an electric service provider — we are a part of all the communities we serve and are proud to be.

2018 Year-End Financial Review

Where Your Electric Dollar Went Total Operating Budget: \$41,419,905



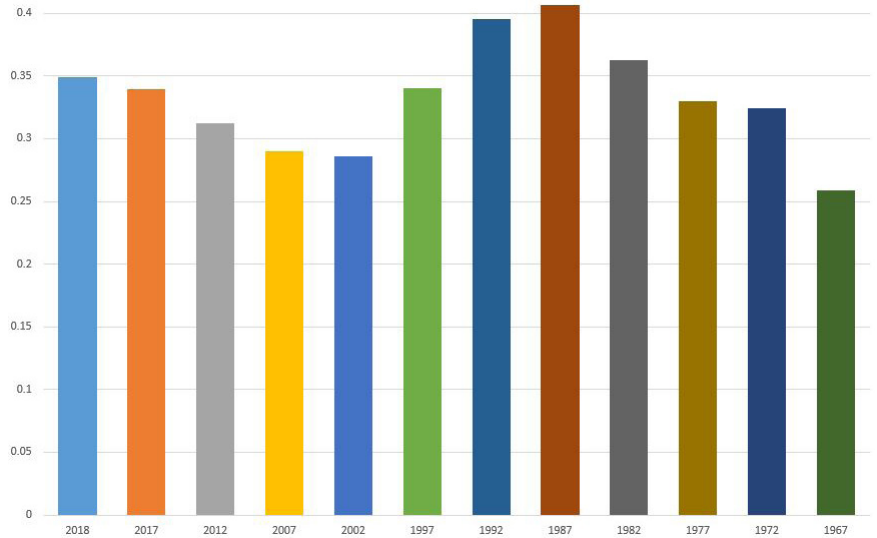
Equity to Debt Members' Ownership vs. Borrowed Capital Total Assets \$114,157,948



Equity/Assets Ratios

Year	Equity Percentage
2018	34.87%
2017	33.98%
2012	31.21%
2007	28.98%
2002	28.58%
1997	34.05%
1992	39.54%
1987	40.65%
1982	36.27%
1977	33%
1972	32.46%
1967	25.92%

Equity/Assets Ratios Chart



Members Working for Members: Meet Your Board of Directors!



Nancy Lendyak
Armstrong County



Kenneth Durrett
Butler County



Robert Smith
Butler County



Jody Weaver
Clarion County



Richard Weaver
Clarion County



Bette Walters
Forest County



Kenneth Etzel
Venango County



Althea Smith
Venango County

Statements of Income and Comprehensive Income

For the years ended Dec. 31,

OPERATING REVENUES:

Electric energy revenue	\$40,447,547	\$37,635,923
Customers' forfeited discounts and penalties	132,074	119,201
Rent from electric property	810,587	860,445
Miscellaneous service revenue	2,455	3,100
Miscellaneous electric revenue	27,242	26,339

TOTAL OPERATING REVENUES

41,419,905

38,645,008

OPERATING EXPENSES:

Cost of power	19,303,036	18,521,048
Distribution - operations	1,811,146	1,830,785
Distribution - maintenance	7,240,646	4,728,885
Consumer accounts	1,223,198	1,135,167
Customer service and information	421,393	399,835
Sales	- -	568
Administrative and general	3,575,515	3,552,470
Depreciation and amortization	4,028,851	3,954,296
Taxes	55,889	57,542
Interest - other	7,097	4,569

TOTAL OPERATING EXPENSES

37,666,771

34,185,165

OPERATING MARGINS BEFORE FIXED CHARGES

3,753,134

4,459,843

FIXED CHARGES:

Interest on long-term debt	1,902,447	1,907,733
----------------------------	-----------	-----------

OPERATING MARGINS AFTER FIXED CHARGES

1,850,687

2,552,110

G&T AND OTHER CAPITAL CREDITS

534,670

800,809

NET OPERATING MARGINS

2,385,357

3,352,919

NON-OPERATING MARGINS:

Interest income	83,933	177,484
Other	203,739	42,403

TOTAL NON-OPERATING MARGINS

287,672

219,887

NET MARGINS BEFORE PROVISION FOR TAXES ON INCOME

2,673,029

3,572,806

PROVISION FOR TAXES ON INCOME

709

729

NET MARGINS

2,672,320

3,572,077

OTHER COMPREHENSIVE LOSS

Unfunded postretirement benefit plans:		
Amortization of actuarial loss recognized in net margins	131,032	131,032

131,032

131,032

TOTAL OTHER COMPREHENSIVE GAIN (LOSS)

131,032

131,032

TOTAL COMPREHENSIVE INCOME

\$2,803,352

\$3,703,109

The financial report statements are compiled from the 2018 Audit Report as presented by the firm of Buffamante Whipple Buttafaro, P.C. A complete copy of the audit is available for examination at the CEC office during normal business hours.

Balance Sheets, As of Dec. 31,

ASSETS

PROPERTY AND EQUIPMENT:

Electric plant in service - at cost
Construction work in progress

2018
\$133,480,286
544,914
134,025,200

2017
\$131,223,409
582,432
131,805,841

LESS ACCUMULATED PROVISIONS FOR DEPRECIATION

TOTAL ELECTRIC PLANT

43,036,001
90,989,199

41,238,259
90,567,582

OTHER ASSETS AND INVESTMENTS:

RUS cushion of credit
Investments in associated organizations

89,263
10,617,697

2,331,734
10,401,326

TOTAL OTHER ASSETS AND INVESTMENTS

10,706,960

12,733,060

CURRENT ASSETS:

Cash - general funds
Accounts and notes receivable
Trade (less accumulated provision for uncollectible accounts
of \$147,160 and \$165,877 for 2018 and 2017 respectively)
Rental from electric property and other receivables

4,401,858

4,592,046
815,211

5,070,787

4,653,064
860,557

Materials and supplies (at average cost)

1,011,522

990,982

Other current and accrued assets

515,087

362,116

TOTAL CURRENT ASSETS

11,335,724

11,937,506

DEFERRED CHARGES

1,126,065

1,313,743

\$114,157,948

\$116,551,891

EQUITIES AND LIABILITIES

EQUITIES:

Memberships
Patronage capital
Other equities
Accumulated other comprehensive loss

99,080
33,001,522
7,678,511
(1,006,378)

101,865
32,854,759
6,796,883
(1,137,410)

TOTAL EQUITIES

39,772,735

38,616,097

LONG-TERM DEBT:

RUS notes, less current maturities
CFC notes, less current maturities
FFB notes, less current maturities

17,216,709
9,836,883
31,467,309

18,127,364
10,775,704
32,350,762

TOTAL LONG-TERM DEBT

58,520,901

61,253,830

NON-CURRENT LIABILITIES:

Accumulated post retirement benefit obligation, less current portion
Accumulated provision for storms

4,788,183
300,000

4,725,011
300,000

TOTAL NON-CURRENT LIABILITIES

5,088,183

5,025,011

CURRENT LIABILITIES:

Current maturities of long-term debt
Accounts payable:
Purchased power
Other trade payables
Consumer deposits and prepayments
Other current and accrued liabilities

2,741,684

1,713,919
1,498,623
1,483,200
1,188,493

2,917,470

1,817,075
1,163,117
1,471,075
1,441,495

TOTAL CURRENT LIABILITIES

8,625,919

8,810,232

TOTAL LIABILITIES

72,235,003

75,089,073

DEFERRED CREDITS

2,150,210

2,846,721

COMMITMENTS AND CONTINGENCIES

\$114,157,948

\$116,551,891