

CENTRAL ELECTRIC COOPERATIVE, INC.

2009 Annual Report

*“Wired in the Past,
Grounded in the Present and
Energizing the Future”*



Central Electric Cooperative

A Touchstone Energy® Cooperative 

P.O. Box 329 • 716 Route 368 • Parker, PA 16049-0329

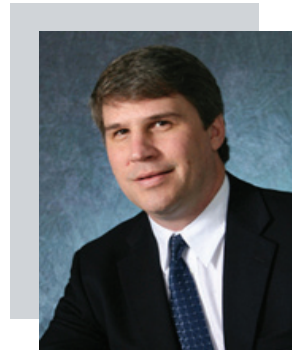
1-800-521-0570

www.central.coop

President, and CEO & General Manager's Report "Wired in the Past, Grounded in the Present and Energizing the Future"



by James M. Burd
President



and Matthew P. Boshaw
CEO & General Manager

The theme for this year's annual meeting is "Wired in the Past, Grounded in the Present and Energizing the Future." This reflects the make up of your cooperative amazingly well. Your board is made up of eight directors with tenures from as little as one year to as much as 34 years. CEC employees also have a wide range of experience and tenure with the cooperative. You have been member/owners from as little as one day to as many as 73 years. Throughout our 73 years attitudes have changed and opinions have come in and out of favor, but certain things have remained constant. Our members are consistently clear that our priority should be safe, reliable, quality service at a competitive, affordable rate. With that in mind let's review 2009.

Safe, Reliable Service

Upgrading our distribution system serves a dual purpose. Inspecting and replacing defective poles, cross arms and old, less-reliable wire types and maintaining rights-of-way, improves both our capacity and reliability. Clearing rights-of-way has the most obvious direct impact on reliability as trees are the largest cause of distribution outages on our system. Upgrading the distribution system with larger capacity wire and the poles and cross arms needed to support them often allows CEC to switch the source of supply, decreasing the

duration of an outage and allowing our employees to more safely repair the lines. The cooperative also expanded the use of the Geographic Information System (GIS) in 2009.

- Wire change: 71 miles of wire were replaced. Since beginning this program in 1993, approximately 712 line miles of old copperweld wire have been changed. We expect to complete this project within three years.
- Pole inspection: 6,269 poles were inspected and treated and 723 poles were replaced.
- Right-of-way clearing: 427 line miles were cleared in 2009. (Improvements in procedures have made this a much more efficient process.)

We monitor our reliability throughout the year, and have seen a steady improvement over the last several years. At year end the total average outage time per consumer was 8.06 hours. (This number is higher than we would like, but much better than the previous year's 19.25 which was inflated by Hurricane Ike.) Nearly three of those 8.06 hours were a result of power supply outages. Our engineering and operations personnel have planned for improvements and worked diligently to complete those plans. They show measurable improvement and take great pride in operating and maintaining the system.

Quality Service

Central Electric continued to work very hard to maintain the quality and variety of service that we provide to our consumers. In 2009 we:

- Began implementing the identity verification procedures from our Identity Theft Program. Our Call Center thoroughly screens callers to verify identity. In addition, Consumer Services created a new service order called “Third Party Authorization.” This order is issued when a member wants someone else to be permitted to discuss their electric account with the cooperative. A form is mailed to the member in order to obtain their signature to grant permission for another party to access their account information. This added step helps keep our member information safe.
- Developed the E-Member Program which offered an incentive to members who agreed to pay their electric bill by bank draft, receive their bill and Power Lines electronically and commit to the program for a 24-month period. Throughout the year, two promotions were held. During this time over 200 members enrolled. This saves the cooperative time and money on remittance costs.
- Partnered with other organizations to offer services to members that they might otherwise not enjoy including the GenerLink™ transfer switch program, water heater installations, high-speed internet and a credit union.
- Upgraded our E-Bill system offering more integration into the iVUE consumer information system from our consumer self serve area. Now when a member signs up through E-Bill for automatic bank draft or auto debit/credit card payment the record in iVUE is automatically created by the member. This is good for security purposes because the billing department is not handling the credit card or banking information. The data is

encrypted through the process and is Payment Cardholder Industry (PCI) compliant. This also eliminates the step of manually entering the data which creates efficiencies.

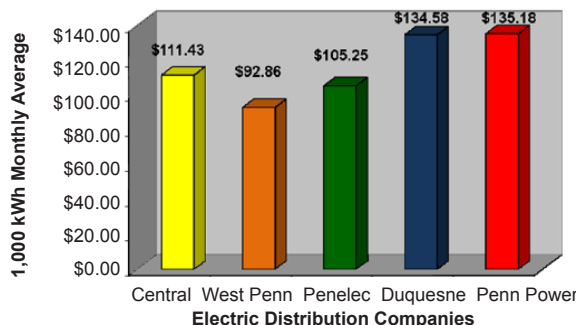
We attempt to stay on top of our members’ changing needs through input from our member–elected board of directors, the Member Aware Advisory Committee (MAAC) and the efforts of all our employees.

Rates

In March it was necessary to implement new electric rates that went into effect April 1. To aid longtime, low income, elderly members, CEC implemented its Low Income Assistance to the Elderly (LIFE) program to cover the rate increase for two years. Over 100 members applied and qualified for the credit.

Even with these new rates CEC was able to further close the gap between our rates and those

2010 Monthly Residential Rate Comparison

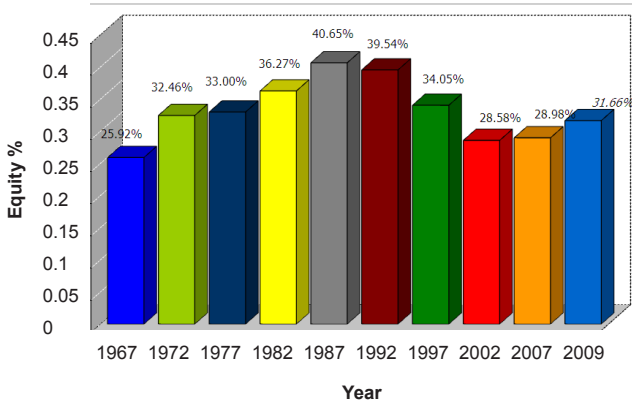


of our neighboring utilities whose rates were higher, or increase the difference when our rates were lower. In 2000, CEC’s rates trailed West Penn by 32 percent; at the end of 2009 we were down to a 12 percent difference. In short, we are managing costs better and our rate increases have been smaller because of it. The above chart illustrates our progress. The good news for our members is that we expect this trend to continue **3**

and our rates to draw even, or go below, the surrounding electric providers.

During 2009, we continued to build financial strength. Equity exceeded the targeted level of 30 percent reaching nearly 32 percent as shown in the following graphs. CEC's goal is to stabilize equity within a target range of 30 to 35 percent. Total patronage capital for our members was \$3,328,824.88, which is the highest level CEC has ever attained. Times Interest Earned Ratio (TIER) came in at 2.48 and Debt Service Coverage (DSC) at 2.12. Minimum ratio requirements from our lenders are 1.25 TIER (by RUS) and 1.35 (by CFC). The strong financial performance allowed Central's board to approve retiring patronage capital in December to the member/owners, distinguishing the cooperative from the neighboring investor-owned utilities. Retail rates to the members for 2010 will remain at 2009 levels.

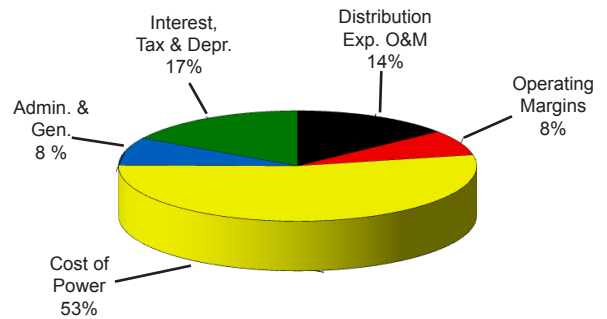
**Year-End Review -- 2009
Equity/Assets Ratios**



By far, the cost of purchasing power has the biggest impact on your bill. Fifty-three cents of every dollar on your electric bill goes toward the purchase of power. CEC's employees work diligently to keep our operational costs in check. As member/owners of Allegheny Electric Cooperative, we work with all Pennsylvania and New Jersey distribution cooperatives to manage our cost of power as well.

**Year-End Review -- 2009
[Total Operating Budget: \$31,604,729]**

Where Your Electricity Dollar Went



Past, Present and Future!

As this report indicates, we have seen measurable improvements in reliability, quality of service, and financial and rate stability over the past year. We recognize that this only comes through continued effort and diligence. The board and employees of CEC will continue to learn from, and build upon, our past; work harder and smarter in our present; and look to the future with our members to continue our long tradition of meeting the service needs of our communities. We will continue to monitor power costs, legislative issues, and any other issues that are important to you. Thank you for taking the time to read about your cooperative and please join us at the annual meeting on Aug. 27.

The statements on the following pages are compiled from the 2009 Audit Report as presented by the firm of Buffamante, Whipple Buttafaro, P.C. A complete copy of the audit is available for examination at Central Electric Cooperative, Inc. office during normal business hours.

Annual Report

CENTRAL ELECTRIC COOPERATIVE, INC. MEMBERS' FINANCIAL REPORT FOR 2009

STATEMENT OF REVENUE AND PATRONAGE CAPITAL AND RETAINED EARNINGS

For the years ended December 31,

	2009	2008
OPERATING REVENUES:		
Electric energy revenue	\$ 30,981,953	\$ 30,153,988
Customers' forfeited discounts and penalties	111,195	113,201
Rent from electric property	451,349	423,976
Miscellaneous service revenue	324,666	372,027
Miscellaneous electric revenue	15,615	15,013
TOTAL OPERATING REVENUES	31,884,778	31,078,205
OPERATING EXPENSES:		
Cost of power	16,161,586	16,840,418
Distribution - operations	1,424,440	1,883,057
Distribution - maintenance	2,972,356	3,441,484
Consumer accounts	1,254,593	1,031,142
Customer service and information	300,602	345,102
Sales	30,008	42,355
Administrative and general	2,383,337	2,309,566
Depreciation and amortization	2,785,271	2,656,585
Taxes	5,156	5,102
Interest - other	5,696	52,923
TOTAL OPERATING EXPENSES	27,323,045	28,607,734
OPERATING MARGINS BEFORE FIXED CHARGES	4,561,733	2,470,471
FIXED CHARGES:		
Interest on long-term debt	2,241,995	2,258,122
OPERATING MARGINS AFTER FIXED CHARGES	2,319,738	212,349
G & T AND OTHER CAPITAL CREDITS	841,496	1,168,712
NET OPERATING MARGINS	3,161,234	1,381,061
NON-OPERATING MARGINS:		
Interest income	158,380	105,852
Equity in earnings of subsidiary	746	14,519
Other	8,465	11,762
TOTAL NON-OPERATING MARGINS	167,591	132,133
NET MARGINS BEFORE TAXES ON INCOME	3,328,825	1,513,194
RECOVERY OF TAXES ON INCOME	--	10,000
NET MARGINS	3,328,825	1,523,194
PATRONAGE CAPITAL, at beginning of year:	22,515,246	21,470,460
PATRONAGE CAPITAL AND RETAINED EARNINGS, before reclassification of non-operating margins not allocated and retirement of capital credits:	25,844,071	22,993,654
PRIOR YEAR MARGINS NOT ALLOCATED	423,976	418,039
RETIREMENT OF CAPITAL CREDITS	373,336	60,369
PATRONAGE CAPITAL AND RETAINED EARNINGS, at end of year:	\$ 25,046,759	\$ 22,515,246

ANNUAL REPORT 2009

Annual Report

CENTRAL ELECTRIC COOPERATIVE, INC. MEMBERS' FINANCIAL REPORT FOR 2009

BALANCE SHEETS

As of December 31,

ASSETS	2009	2008
PROPERTY AND EQUIPMENT:		
Electric plant in service - at cost	\$ 98,226,384	\$ 93,943,898
Construction work in progress	1,710,252	937,521
	99,936,636	94,881,419
Less accumulated provisions for depreciation	26,939,345	25,391,194
TOTAL ELECTRIC PLANT	72,997,291	69,490,225
OTHER ASSETS AND INVESTMENTS:		
Non-utility property, at cost	3,180	3,180
Investments in associated organizations	7,898,688	6,986,894
Energy resource conservation loans	--	75
TOTAL OTHER ASSETS AND INVESTMENTS	7,901,868	6,990,149
CURRENT ASSETS:		
Cash - general funds	1,847,310	1,091,090
Temporary investments	--	1,130,000
Accounts and notes receivable:		
Trade (less accumulated provision for uncollectible accounts of \$72,898 and \$0 for 2009 and 2008 respectively)	5,855,883	6,117,274
Other	1,304	3,998
Materials and supplies (at average cost)	722,308	1,132,068
Other current and accrued assets	258,497	204,032
TOTAL CURRENT ASSETS	8,685,302	9,678,462
DEFERRED CHARGES	25,000	798,827
	\$ 89,609,461	\$ 86,957,663
EQUITIES AND LIABILITIES		
EQUITIES:		
Memberships	127,165	130,560
Patronage capital	25,046,759	22,515,246
Other equities	3,194,810	2,762,395
TOTAL EQUITIES	28,368,734	25,408,201
LONG-TERM DEBT:		
RUS mortgage notes, less current maturities	29,308,214	31,250,567
CFC mortgage notes, less current maturities	14,169,445	14,870,428
FFB mortgage notes, less current maturities	7,962,654	4,000,000
TOTAL LONG-TERM DEBT	51,440,313	50,120,995
NON-CURRENT LIABILITIES:		
Accumulated post retirement benefit obligation, less current portion	3,055,572	3,816,743
Accumulated provision for storms	300,000	--
Fixed cost recovery charge payable – purchased power	184,335	1,106,000
TOTAL NON-CURRENT LIABILITIES	3,539,907	4,922,743
CURRENT LIABILITIES:		
Current maturities of long-term debt	1,997,662	1,930,122
Accounts payable:		
Purchased power	1,365,898	1,456,514
Other trade payables	486,819	730,631
Consumer deposits and prepayments	822,233	799,223
Other current and accrued liabilities	1,071,650	1,045,867
TOTAL CURRENT LIABILITIES	5,744,262	5,962,357
TOTAL LIABILITIES	60,724,482	61,006,095
DEFERRED CREDITS	516,245	543,367
COMMITMENTS AND CONTINGENCIES	\$ 89,609,461	\$ 86,957,663

ANNUAL REPORT 2009