

CENTRAL ELECTRIC COOPERATIVE, INC.

2010 Annual Report

Looking Out
for You



Central Electric Cooperative

A Touchstone Energy® Cooperative 

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President, and CEO & General Manager's Report "Looking Out for You"



by Margery S. Terwilliger
President



and Matthew P. Boshaw
CEO & General Manager

2010 was a good year to be a Central Electric Cooperative, Inc. (CEC) member:

- It was one of the best years on record in regard to reliability due to ongoing line maintenance and upgrading; and the moderate weather.
- Rates remained stable for the co-op's 25,000 members.
- Members received credits on their bills when the co-op retired \$1,103,000 in capital credits in December.

CEC continues to focus on providing reliable and quality service to members, at a reasonable rate.

Reliable Service

The year 2010 was a calm year in terms of outage-causing weather. There were no major outage events affecting the distribution system. As a result CEC averaged 3.09 hours outage time per consumer: close to the best year ever recorded.

While the co-op can't control the weather, it can continue to upgrade its distribution system with single-phase conductor change, resectionalizing and underground cable replacements. In 2010 CEC completed:

- Wire change: 65 miles of wire were replaced. Since beginning this program in 1993, approximately 777 line miles of old copperweld wire have been changed. This

project should be completed within two years.

- Pole inspection: 5,382 poles were inspected and treated, and 42 poles were replaced.
- Right-of-Way clearing: 343 line miles were cleared in 2010.

Now that these projects are nearing completion, the co-op is shifting its focus to maximize the benefit of new technologies such as the Geographic Information Systems (GIS), Two-Way Automatic Communications System (TWACS) and Supervisory Control and Data Acquisition (SCADA). They will be top priority and the next major steps in distribution system reliability improvement and load serving capability.



Quality Service

In 2010 CEC continued to look for ways to improve member satisfaction. Process improvement was a key for Central's success as it utilized new technology and motivated employees to look for new ways to create efficiencies. In 2010 CEC:

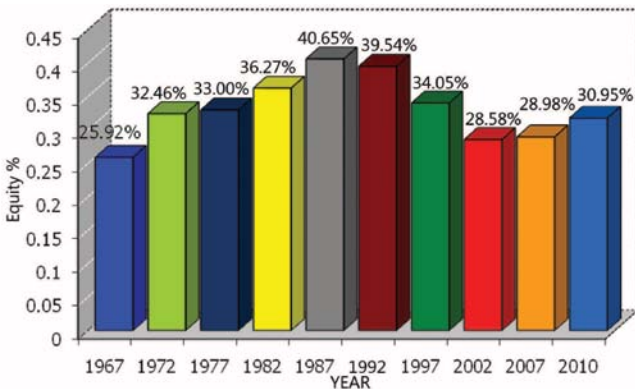
- Saved money for the co-op (and members) by migrating to a more efficient credit card processing system, and encouraged members to pay their electric bills online.
- Continued to implement its identity verification procedures for CEC's Identity Theft Program to keep members' information safe.
- Continued to offer services to members that they might otherwise not enjoy including high-speed Internet and a credit union. These services are done through partnerships with other organizations.

Rates

There were no rate changes in 2010, nor are there any expected for 2011. Central last increased retail rates April 1, 2009 by about 4.7 percent. CEC's previous increase was March 1, 2007, a 4 percent increase to Central's membership. The next rate change is expected to be January 1, 2012 when generation rates are expected to increase.

The Equity/Assets ratio increased slightly to

**Year-End Review -- 2010
Equity/Assets Ratios**



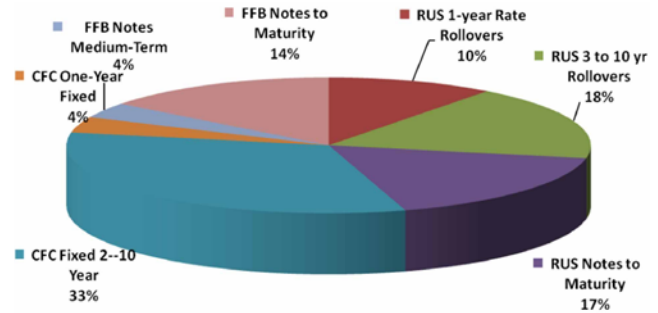
31 percent in 2010. This was accomplished while returning \$1,103,000 in patronage capital, the highest in co-op history. An equity plan was adopted by the board in 2001 to strive to maintain equity between 30 and 35 percent. With recent years' rate pressures and consequent lower margins, the cooperative's equity level declined from the high of 40.57 percent in 1990 to a low of 27.9 percent in 2006.

A margin of \$3,546,498 was achieved in 2010. This margin produced a Times Interest Earned Ratio (TIER) of 2.70, a Debt Service Coverage (DSC) of 2.31 and CFC's modified DSC of 2.15, which satisfies all of Rural Utility Service (RUS) and Cooperative Finance Corporation (CFC) mortgage requirements.

Central's Loan Portfolio

Oct. 31, 2010

\$54,906,920 @ 3.26% Avg. Interest Rate



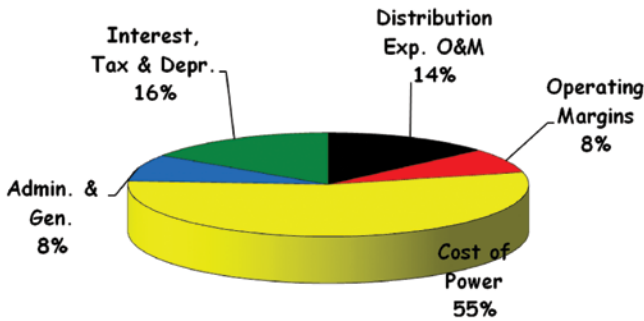
Central is finishing the current four-year work plan for the period April 2007 to April 2011, which amounts to \$18,609,160. Central received lower fixed rates than anticipated from Federal Financing Bank (FFB), in the 2.5 percent range. The four-year loan was \$17,000,000 (100 percent from FFB due to Congress not appropriating funding for the RUS Municipal Rate Loan Program). Plans for 2011 are to adopt a new four-year work plan and make application for a new four-year distribution system loan. Once again, CEC plans to borrow the majority of the work plan amount and use general funds for the new headquarter office building. This strategy will spread the long-term asset and cost over

Annual Report

current and future members in a fair manner at the best possible interest rate available.

Year-End Review -- 2010 [Total Operating Budget: \$33,390,225]

Where Your Electricity Dollar Went



Other

- Through the generosity of its members, contributions and unclaimed capital credits, CEC raised over \$26,000 to provide energy assistance to members having difficulty paying their electric bills.
- Over 1,700 members attended the co-op's 73rd Annual Meeting where the re-election of Marge Terwilliger of Armstrong County and election of William Eichner of Butler County took place.
- Central continued to support the community and last year was proud to award 15 Good Neighbor Scholarships (\$1,000 each) to

deserving high school seniors and a non-traditional student throughout its service territory.

As this report indicates, 2010 was a good year to be a CEC member. With upgrades to the co-op's distribution system, improvements in technology for better member satisfaction and no rate increases, it is evident to see that CEC is "Looking Out for You." We will continue to monitor these and other important issues to ensure that we continue our long tradition of meeting the service needs of our members and communities. 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 2010 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.



CENTRAL ELECTRIC COOPERATIVE, INC. MEMBERS' FINANCIAL REPORT FOR 2010

**STATEMENT OF REVENUE AND PATRONAGE CAPITAL
AND RETAINED EARNINGS**

For the years ended December 31,

	2010	2009
OPERATING REVENUES:		
Electric energy revenue	\$ 32,281,964	\$ 30,776,777
Customers' forfeited discounts and penalties	114,063	111,195
Rent from electric property	977,518	522,412
Miscellaneous service revenue	206,386	324,666
Miscellaneous electric revenue	16,680	15,615
TOTAL OPERATING REVENUES	33,596,611	31,750,665
OPERATING EXPENSES:		
Cost of power	17,587,469	16,161,586
Distribution - operations	1,552,591	1,424,440
Distribution - maintenance	2,918,802	2,972,356
Consumer accounts	1,040,136	1,254,593
Customer service and information	311,047	300,602
Sales	18,386	30,008
Administrative and general	2,675,892	2,383,337
Depreciation and amortization	2,894,915	2,785,271
Taxes	4,478	5,156
Interest - other	3,863	5,696
TOTAL OPERATING EXPENSES	29,007,579	27,323,045
OPERATING MARGINS BEFORE FIXED CHARGES	4,589,032	4,427,620
FIXED CHARGES:		
Interest on long-term debt	2,084,011	2,241,995
OPERATING MARGINS AFTER FIXED CHARGES	2,505,021	2,185,625
G & T AND OTHER CAPITAL CREDITS	911,402	841,496
NET OPERATING MARGINS	3,416,423	3,027,121
NON-OPERATING MARGINS:		
Interest income	136,235	158,380
Equity in earnings of subsidiary	1,468	746
Other	19,136	8,465
TOTAL NON-OPERATING MARGINS	156,839	167,591
NET MARGINS BEFORE TAXES ON INCOME	3,573,262	3,194,712
RECOVERY OF TAXES ON INCOME	(26,763)	--
NET MARGINS	3,546,499	3,194,712
PATRONAGE CAPITAL, at beginning of year:	24,912,646	22,515,246
PATRONAGE CAPITAL AND RETAINED EARNINGS, before reclassification of non-operating margins not allocated and retirement of capital credits:	28,459,145	25,709,958
PRIOR YEAR MARGINS NOT ALLOCATED	317,236	423,976
RETIREMENT OF CAPITAL CREDITS	1,130,187	373,336
PATRONAGE CAPITAL AND RETAINED EARNINGS, at end of year:	\$ 27,011,722	\$ 24,912,646

Annual Report

CENTRAL ELECTRIC COOPERATIVE, INC. MEMBERS' FINANCIAL REPORT FOR 2010

BALANCE SHEETS

As of December 31,

ASSETS	2010	2009
PROPERTY AND EQUIPMENT:		
Electric plant in service - at cost	\$ 104,281,203	\$ 98,226,384
Construction work in progress	504,413	1,710,252
	104,785,616	99,936,636
Less accumulated provisions for depreciation	28,520,509	26,939,345
TOTAL ELECTRIC PLANT	76,265,107	72,997,291
OTHER ASSETS AND INVESTMENTS:		
Non-utility property, at cost	3,180	3,180
Investments in associated organizations	8,425,743	7,898,688
TOTAL OTHER ASSETS AND INVESTMENTS	8,428,923	7,901,868
CURRENT ASSETS:		
Cash - general funds	3,167,743	1,847,310
Accounts and notes receivable:		
Trade (less accumulated provision for uncollectible accounts of \$129,853 and \$72,898 for 2010 and 2009 respectively)	3,222,261	3,234,813
Other	533,545	523,716
Materials and supplies (at average cost)	892,366	722,308
Other current and accrued assets	241,252	258,497
	8,057,167	6,586,644
TOTAL CURRENT ASSETS	--	25,000
DEFERRED CHARGES	\$ 92,751,197	\$ 87,510,803
EQUITIES AND LIABILITIES		
EQUITIES:		
Memberships	123,765	127,165
Patronage capital	27,011,722	24,912,646
Other equities	1,567,511	1,230,265
TOTAL EQUITIES	28,702,998	26,270,076
LONG-TERM DEBT:		
RUS mortgage notes, less current maturities	23,182,931	29,308,214
CFC mortgage notes, less current maturities	18,836,208	14,169,445
FFB mortgage notes, less current maturities	11,743,444	7,962,654
TOTAL LONG-TERM DEBT	53,762,583	51,440,313
NON-CURRENT LIABILITIES:		
Accumulated post retirement benefit obligation, less current portion	3,137,873	3,055,572
Accumulated provision for storms	300,000	300,000
Fixed cost recovery charge payable – purchased power	--	184,335
TOTAL NON-CURRENT LIABILITIES	3,437,873	3,539,907
CURRENT LIABILITIES:		
Current maturities of long-term debt	2,129,753	1,997,662
Accounts payable:		
Purchased power	1,508,904	1,365,898
Other trade payables	610,462	486,819
Consumer deposits and prepayments	846,833	822,233
Other current and accrued liabilities	1,166,906	1,071,650
TOTAL CURRENT LIABILITIES	6,262,858	5,744,262
TOTAL LIABILITIES	63,463,314	60,724,482
DEFERRED CREDITS	584,885	516,245
COMMITMENTS AND CONTINGENCIES	\$ 92,751,197	\$ 87,510,803