


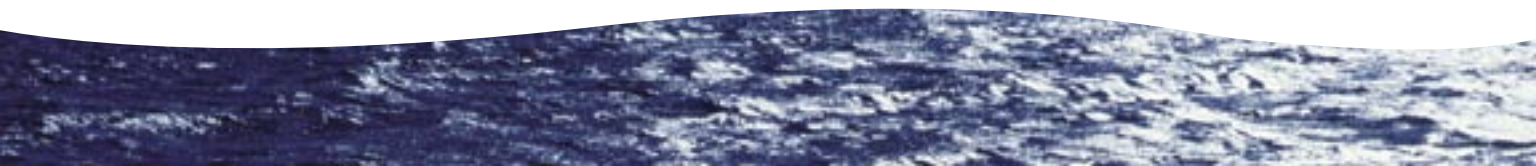


Investing in the Future



**Peace River Electric
Cooperative, Inc.**

Your Touchstone Energy® Cooperative 



Letter to Members



David Sessions
President

Bill Mulcay
General Manager

Dear Members:

Peace River Electric Cooperative (PRECO) is a locally-owned, locally-controlled electric distribution utility. PRECO operates as a not-for-profit cooperative, which means we are owned by the same people we serve — making this co-op a very special organization.

Every decision is made in the best interests of these members, whether it's providing reliable electricity or giving back to the community.

Because of this relationship between Peace River Electric and the people we serve, our members are at the center of everything we do. This is reflected in PRECO's Vision Statement: *Leadership FOCUSED on Reliability, Members and Community.*

Each year in our annual report, we take the opportunity to discuss the cooperative's accomplishments in the past year and share the direction we're headed for the future. This year, the theme of our annual report is *Investing in the Future.*

PRECO is experiencing a period of extraordinary growth in its membership. This unprecedented growth gives reason for PRECO to take the initiative in investing in the future for the growing demand for electricity and services.

Hiring and retaining qualified employees is a challenge to any company, but in the electric utility industry there is a shortage of line technicians. The cooperative solved this problem by offering a line technician training program through a partnership with the local college.

This program provides the technical and academic training so that in a period of four years, a new recruit has learned what they need to be a first-class or journeyman line technician. Employees receive all the technical information from the cooperative, and receive all the academic training from the community college. The end result is an associate of arts degree in line technology, that helps us recruit and maintain our line technicians.

Training and education opportunities are offered to all PRECO employees; an investment that provides us

with top-notch, dedicated and loyal employees whose decision-making is above average.

PRECO invests in members by addressing their need for reliable electric service. New substations are one way of providing even better reliability to members. The recent addition of substations improves reliability in many ways. One benefit is the reduction of "blinks" (temporary interruptions of power) on the lines. The new substations also give the cooperative the possibility of temporary "loop feeds." Customers fed by a loop system have the advantage of receiving power from another source in case of a problem.

Your board of directors works closely with management and staff to provide guidance and support in setting policies, objectives and financial controls. They are committed to taking a strong leadership role in the cooperative, and want to be your utility of choice, now and in the future.

PRECO has consistently returned profits, called *margins*, to members. As a cooperative, we do not pass on the profits of operations to stockholders. Instead, if the cooperative earns a margin above expenses, that margin is retained to keep borrowing costs – and electric rates – lower. In time, the margins are returned to members.

We call these retained margins *capital credits*. Each year, your board of directors determines the percentage of capital credits to retire and gives your cooperative the authority to write capital credit checks to the members. Checks are written and mailed in December.

Your cooperative had another good financial year, and we have continued to improve the overall reliability of our system by adding substations, upgrading lines, and adding new technologies. We hope you will take time to review the cooperative's financial statements found on pages six and seven of this annual report.

Finally, as the future unfolds and more members join Peace River Electric Cooperative, any investments will be in the members' best interest as we prepare for a very bright future.

Your Board of Directors



Leonard Crawley
District 1



Sam Rawls
*Assistant Secretary/Treasurer,
District 2*



Douglas Partin
District 3



Glen O. Douglas
Vice President, District 4



Maurice Henderson
District 5



David Sessions
President, District 6



George W. Miller
District 7



Harold Schatschneider
Secretary/Treasurer, District 8



A. Byron Newberry
District 9

The Board of Directors for Peace River Electric Cooperative is made up of members of the cooperative, who are elected by their fellow member-owners. The directors represent nine districts in our service territory and bring together a wealth of knowledge, business skills and personal experience that provide the expertise needed to make PRECO a successful organization. They are charged with creating vision, establishing the policies and overseeing financial decisions that are in the best interest of the member-owners of the cooperative.

A look at how your cooperative is

You need energy for your life. That's why Peace River Electric Cooperative (PRECO) is doing everything possible to ensure that when you flip the switch, power will be there — at a price you can afford.

PRECO's Board of Directors believes in investing in the future by putting resources into what's important to members. These needs are being addressed in many areas:

Reliability

Members need a reliable and dependable source of power to run homes and businesses. In response, your cooperative was very active in 2006 with the planning, design, and construction of needed substations.



In addition to these substations, with more on the way, crews are upgrading power lines and adding new technologies to make the electric system more reliable.

Another way the cooperative is working to increase reliability is through a tree trimming and hazard tree removal program. These efforts reduce blinks and prevent outages.



Service

Fueled by the growth your cooperative is experiencing, a new headquarters building is planned for completion in summer 2008. This facility will allow the PRECO team to better serve you in the future, as the Central Florida population continues to grow.

Price

Periodically, it becomes necessary for PRECO to adjust the rate you pay for electricity. In April 2007, rates will increase slightly, but will be offset by a decrease in the cost of power. As a result, members will see a decrease in their power bill.

Conservation

Our Web site, at www.preco.coop, offers many ways you can calculate how much energy your home is using. You'll also find tips on how to conserve electricity.



Community

PRECO believes the future lies in supporting the local community. The creation of the Peace River Electric Charitable Foundation and its Operation Round Up program is just one fulfillment of that belief.

PRECO's member/owners voluntarily make small, monthly donations into a fund used for the sole purpose of assisting needy individuals and



Investing in the Future

organizations in the communities served by the cooperative. Funds are designated to



provide for needs in six areas: food, shelter, clothing, medical, education, and the environment.

PRECO also serves the community by offering a *Safety City* presentation. Safety City provides a visual depiction of the dangers and hazards of power lines and equipment.



This life-saving presentation has been shared at numerous schools, county fairs, civic organizations, churches, and after-school programs.

PRECO's investment in the future also extends to the future citizens of your communities by supporting high school students. The cooperative recently joined a nationally-known program called *Youth Tour*.

For more than 40 years, electric cooperatives have sponsored high school students from across America to visit the nation's capital and meet their members of Congress through the Youth Tour program. PRECO will send four 11th grade students to join nearly 1,500 students from across the nation for a week-long, fun-filled trip to Washington, D.C.

Students on the tour will learn about electric cooperatives, American history and U.S. government. They will participate in National Youth Day, visit with their representatives in the House and the Senate, and explore the sights.



Commitment

Peace River Electric Cooperative's commitment to the community and the pursuit of reliable energy for the future is making a positive impact on the lives of the people we serve. That's *Investing in the Future*.



New substations, like this one in Manatee County, are needed to provide reliable power for existing members — and new ones moving into the area.

Balance Sheet

For the years ending December 31, 2005 & 2006

	2005	2006*
Assets & Other Debits		
Total Utility Plant in Service	\$ 114,827,606	\$ 129,353,528
Construction Work in Progress	7,356,182	17,734,692
Total Utility Plant	\$ 122,183,788	\$ 147,088,220
Accum. Provision for Depreciation and Amort.	23,778,955	25,587,236
Net Utility Plant	\$ 98,404,833	\$ 121,500,984
Non-Utility Property (Net)	21,000	21,000
Investments in Subsidiary Companies	1,150	1,150
Invest. in Assoc. Org. - Patronage Capital	3,644,729	4,438,853
Invest. in Assoc. Org. - Other - General Funds	59,947	60,947
Invest. in Assoc. Org. - Other - Nongeneral Funds	1,069,236	1,061,429
Other Investments	-	408,750
Total Other Property & Investments	\$ 4,796,062	\$ 5,992,129
Cash - General Funds	3,575,248	526,608
Cash - Construction Funds - Trustee	11	11
Special Deposits	321	1,709
Accounts Receivable - Sales of Energy (Net)	5,172,540	4,782,177
Accounts Receivable - Other (Net)	722,674	712,547
Materials and Supplies - Electric & Other	2,374,599	3,105,236
Prepayments	162,706	197,240
Other Current and Accrued Assets	37,443	577,843
Total Current and Accrued Assets	\$ 12,045,542	\$ 9,903,371
Other Deferred Debits	934,467	1,482,671
Total Assets and Other Debits	\$ 116,180,904	\$ 138,879,155
Liabilities and Credits		
Memberships	\$ 121,275	\$ 129,555
Patronage Capital	26,586,758	30,217,765
Operating Margins - Prior Years	18,962	18,962
Operating Margins - Current Year	3,880,203	3,570,364
Non-Operating Margins	869,542	1,154,455
Other Margins and Equities	562,531	723,416
Total Margins & Equities	\$ 32,039,271	\$ 35,814,517
Long-Term Debt - RUS	58,963,529	75,392,887
Long-Term Debt - CFC	9,302,584	9,257,584
Total Long-Term Debt	\$ 68,266,113	\$ 84,650,471
Accumulated Operating Provisions & Asset Retirement Obligations	\$ 1,503,592	\$ 969,592
Total Other Noncurrent Liabilities	1,503,592	969,592
Accounts Payable	6,144,757	5,000,000
Consumers Deposits	2,129,453	5,579,857
Current Maturities Long-Term Debt	1,947,027	2,174,412
Other Current and Accrued Liabilities	1,093,815	988,734
Total Current & Accrued Liabilities	\$ 11,315,052	\$ 13,743,003
Other Deferred Credits	3,056,876	3,701,572
Total Liabilities and Other Credits	\$ 116,180,904	\$ 138,879,155

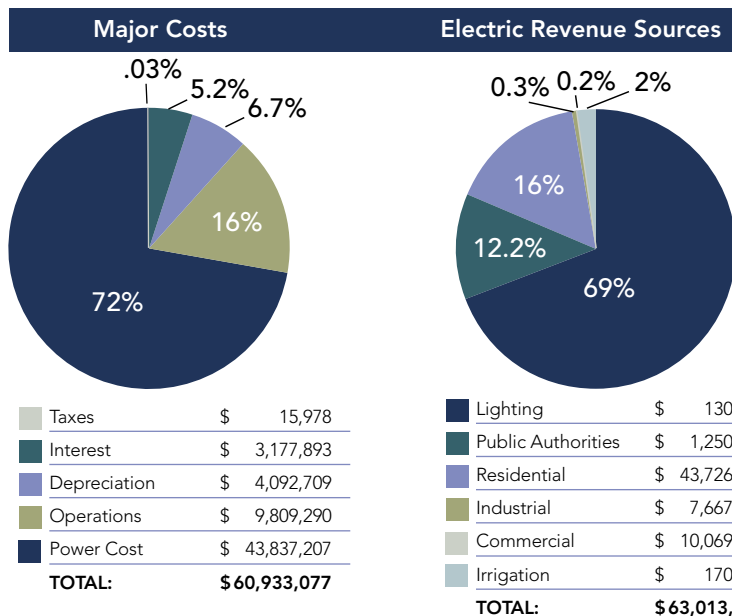
*unaudited

Statement of Revenue and Expense

For the years ending December 31, 2005 & 2006

	2005	2006*
Operating Revenues:		
Electric energy sales	\$ 52,622,651	\$ 63,005,063
Other electric revenues	1,356,418	1,565,747
Total operating revenues	\$ 53,979,069	\$ 64,570,810
Operating Expenses:		
Cost of purchased power	\$ 35,454,999	\$ 43,837,207
Transmission	397	-
Operations	1,888,573	1,969,217
Maintenance	1,737,894	2,523,173
Consumer Accounts	1,693,264	2,083,259
Consumer Service Information	312,918	383,785
Administrative and general	2,547,271	2,849,856
Total operating expenses	\$ 43,635,316	\$ 53,646,497
Depreciation and amortization	\$ 3,510,550	\$ 4,092,709
Property taxes	778	598
Tax expense - other	12,639	15,380
Interest on long-term debt	2,492,692	2,709,845
Interest expense - other	410,300	468,048
Other income deductions	36,590	67,369
Total cost of electric service	\$ 50,098,865	\$ 61,000,446
Operating margins	\$ 3,880,204	\$ 3,570,364
Non-operating margins	869,542	1,154,455
Total Margins	\$ 4,749,746	\$ 4,724,819

*unaudited



AVERAGE ACCOUNTS BILLED		AVERAGE KWH USE (residential)		MILES OF LINE		CONSUMERS PER MILE	
1986	15,481	1986	723	1986	2,173	1986	7.12
1996	20,984	1996	943	1996	2,572	1996	8.16
2006	31,949	2006	1,215	2006	3,208	2006	9.96

Operation Round Up

Operation Round Up continues to change lives in the community. It's not possible without the support of Peace River Electric members. Participating members agree to round up their monthly electric bills. The extra change, an average of 50 cents every month, goes to a special fund administered by an independent board of directors, made up of PRECO members.

Each month, this group of volunteers work very hard to thoroughly screen each application before making any decision to award funds. Funds are designated to provide for needs in six areas: food, shelter, clothing, medical, education, and the environment.

In 2006, Operation Round Up granted more than \$87,000 in assistance to individuals and organizations in its 10-county service territory:

College Scholarships	\$23,000
Group Homes	\$30,635
Community Charities	\$18,500
Needy Individuals	\$15,843
Total	\$87,978

Any individual interested in applying for Operation Round Up funds should contact Peace River Electric Cooperative by phone or should visit www.preco.coop.



1499 U.S. Highway 17 North
Wauchula, Florida 33873

Member Services:
1-800-282-3824

Outage Hotline:
1-877-282-3656

Visit us online at
www.preco.coop



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