

 **Sam Houston**
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Permit No. 600
Houston, TX

SAM HOUSTON ELECTRIC COOPERATIVE
2006 ANNUAL REPORT

www.samhouston.net



FOCUS ON CONSERVATION

A LETTER FROM OUR CEO



Dear Members,

In a year when the lion's share of industry talk focused on the rising cost of energy, Sam Houston EC lowered the cost per kilowatt hour (kWh)—more than once. This news may seem an unlikely report for 2006. After all, along with the industry as a whole, we are taking action to address the ever increasing global demand for power, improvements to our country's utility infrastructure, fuel costs and legislative issues.

We recognize that additional generation facilities are crucial, and that upgrades to America's power grid are critical to maintain reliability. We're proactively dealing with transportation issues that continue to affect the price of coal. We accept that the price of natural gas will always be erratic and are thankful that it has stabilized for the time being. We have weathered one of the warmest summers and coldest winters in recent years, which in turn increased demand on our system. Finally, we have recovered from the devastation 2005's storm season left behind.

All of these things are reasons you might expect your energy costs to rise. And to be fair, we should mention that while we did lower our energy rate in 2006, Sam Houston EC adjusted our base rate in July to reflect today's costs of operating and maintaining an electric cooperative. This was our first adjustment since 1992. Fortunately, cost of fuels used to generate electricity came down during 2006, and we were able to pass those savings along to you. Sam Houston EC members saw four decreases in their energy costs over the course of the year. So, at year end Sam Houston EC members were paying less per kilowatt hour than they paid when the year began.

Sam Houston EC has maintained its status as one of the lowest cost energy providers in the State of Texas. Because we are a not-for-profit, member-owned Cooperative, we rely on innovation, technology and outstanding employees to help keep our costs low. We're proud the proactive planning our Board of Directors and managers have put in place is paying off. We will continue to work with East Texas Electric Cooperatives (ETEC) to develop low-cost sources of power and promote legislation that serves our members' best interests. We will continually work to purchase a cost-efficient fuel mix.

Sam Houston EC works tirelessly on our members' behalf to provide reliable power at the most reasonable cost. Still, no matter how much lower than other providers Sam Houston EC rates are (see energy comparison chart on page 2), or how little the cost of electricity has risen over time compared to a loaf of bread (see chart on page 2), we realize that the cost of electricity is a significant budget item for any household or business.

In 2006, Sam Houston EC launched the Do Watts Right™ conservation campaign. At the end of the day, we can't change the economy, but we can change our habits. So, while we're doing our part at Sam Houston EC to keep costs under control, we ask that our members do their part to conserve.

Saving energy and saving money go hand in hand. Small changes really can make a big difference. In fact, some members already have success stories to share as you will find in this report. So, with the education you will find on the following pages, we challenge you to "Do Watts Right™" in the coming year. See how it impacts your energy use and your budget.

Sincerely,

Kyle J. Kuntz, P.E.
CEO

THE COST OF POWER

Relatively speaking, the cost of power has risen far less than most other consumer goods over time. However, industry-wide costs have been on the rise in recent years causing electric consumers some concern. The good news is Sam Houston EC members continue to receive some of the lowest rates in Texas.

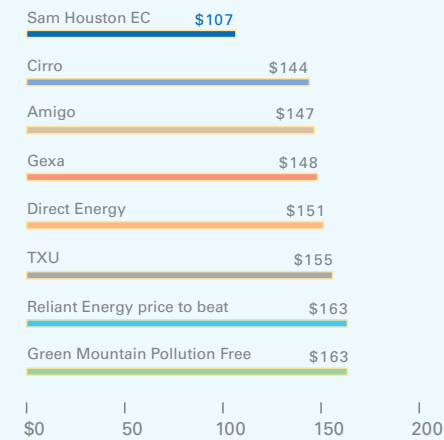
- In July, Sam Houston EC adjusted its base rate to reflect today's costs and the current market conditions. This was our first adjustment since 1992.
- In the summer of 2006, we decreased our per kWh rate to coincide with stabilized fuel costs. In November, we reduced our kWh rate again.
- Sam Houston EC has maintained its status as one of the lowest cost energy providers in the State of Texas. That's a reputation we are proud of and plan to keep.
- By year end, most Sam Houston EC members realized a decrease in their total energy costs depending on overall usage.

January 2007:		January 2006:	
(Based on 1,000 kWh)			
Base	\$12.75	Base	\$9.75
Energy	\$55.96	Energy	\$69.90
Delivery	\$33.40	PCRF	\$30.00
Total	\$102.11	Total Elec	\$109.65

Difference due to base charge:	\$3.00
Difference due to price per kWh:	-\$10.54
Total difference:	-\$7.54

SAM HOUSTON EC MEMBERS PAY LESS FOR ELECTRICITY

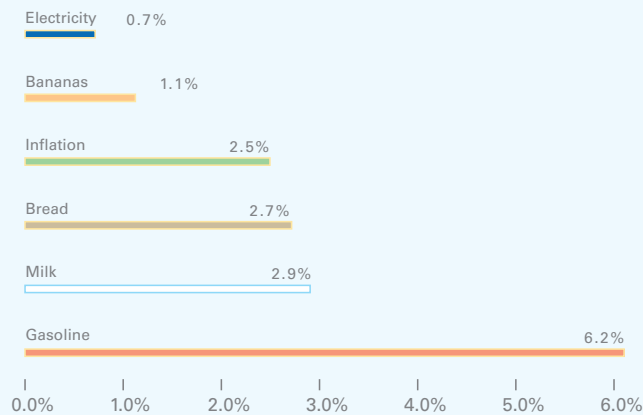
Based on use of 1,000 kWh. August 2006 - Houston Area Market.



Source: www.powertochoose.org, www.puc.state.tx.us

ELECTRICITY COSTS HAVE INCREASED LESS THAN OTHER CONSUMER GOODS

From 1994 to 2005



Source: Bureau of Labor Statistics; NRECA

THE CASE FOR CONSERVATION

Conserving energy can save hundreds of dollars annually. So why don't more people take advantage of energy-saving solutions? Our best guess is most people don't know exactly where to start. Or, they don't realize simple actions like changing a light bulb or unplugging an appliance can produce significant savings. We're talking dollars, not dimes!

That's where Do Watts Right™ comes in. The purpose of Sam Houston EC's conservation program is to inspire Co-op members to save money. Do Watts Right™ suggests easy and inexpensive ways to conserve energy.

Conservation can do more than save you a few bucks. If everyone makes an effort to conserve power, it can also reduce overall energy demand. Economically speaking, reduced demand would lead to reduced energy costs. Environmentally speaking, reduced demand would lead to reduced production and therefore help address environmental concerns.

So while the benefits are certainly noticeable at home, the positive impact of conservation can reach far and wide. That's why we call it the Do Watts Right™ program. It doesn't matter if you're motivated by the potential of personal savings or concern for the environment. Conservation is "watts right."





DO WATTS RIGHT.™ SAVE ENERGY. SAVE MONEY.

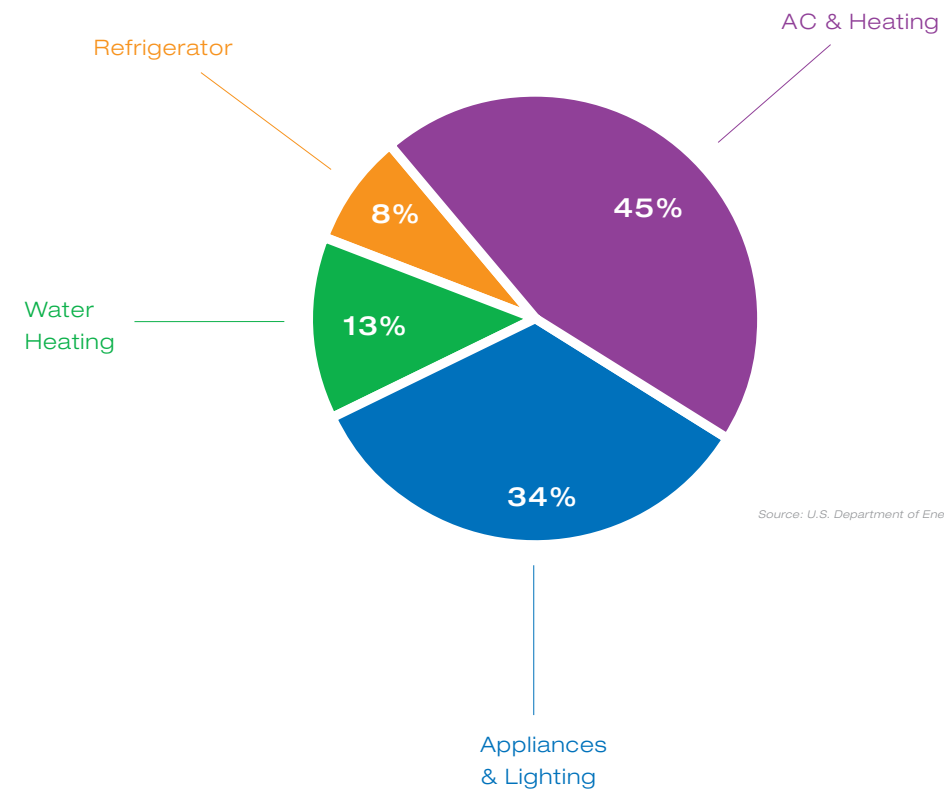
Through proactive measures to save energy, you could save up to 30 percent on your annual electric costs. For most households this savings equates to about \$370 a year.

If you're interested in that kind of savings, read on and learn about successes of other members and tips on how you can share in the savings.

To know how to save power, you need to know where you spend it. A good energy efficiency plan should address all the pieces of the pie to maximize savings. Look at ways to save on heating and cooling as well as appliances and lighting. Recognize that your heating and cooling system, water heater and refrigerator are your biggest energy users and take action to use them efficiently.



TYPICAL HOUSEHOLD ANNUAL ENERGY USAGE



Cooking Up Savings in the Kitchen

8% of household energy use can be traced back to your refrigerator. So use it efficiently.

In just 15 seconds, 15 percent of the fridge's cool air can escape costing you energy and ultimately money. So, decide what to eat before you open the door.

Make sure your refrigerator is out of direct sunlight and away from other heat sources like the dishwasher. It will cool more easily and will run less, thereby using less energy.

Allow hot foods to cool before putting them inside. (But be careful not to leave perishables unrefrigerated for more than two hours.) Your refrigerator won't have to work as hard to cool them.

For maximum efficiency, don't pack your fridge—it needs space to let the air circulate. But do pack your freezer—it works most efficiently that way.



Earning the ENERGY STAR

- ENERGY STAR qualified refrigerator models use high efficiency compressors, improved insulation and more precise temperature and defrost mechanisms to improve energy efficiency.
- ENERGY STAR qualified refrigerator models use at least 15 percent less energy than required by current federal standards and 40 percent less energy than the conventional models sold in 2001.

Your microwave uses 50% less energy than the oven or stove.

The energy produced in a microwave goes directly to heating food, which takes a lot less energy than heating an entire oven.

You can also save by heading outside to use the grill. Not only will you save on the energy the oven or stove would use, you'll also save on cooling costs by not heating up the kitchen.

www.energystar.gov

“ The kitchen is an easy place to save energy. We use the microwave or grill outside to save the electricity we would use on the stove or in the oven... And, just knowing how much energy the refrigerator uses will make you think twice about standing around in front of it with the door open deciding what to eat. Since we've adopted simple changes like this, I know we're saving a good amount of money. ”

Julie Wilson
Member since 1986



Heat and Cool Efficiently

Close to 50% of your electric bill goes toward heating and cooling costs.

Set your thermostat for efficiency. If it's 95 degrees outside, don't bother setting the thermostat at 72 degrees. Your AC works most efficiently set 20 degrees cooler than the outside temperature. Setting the thermostat any lower just wastes energy by causing your AC to run for longer periods of time. Using fans to circulate the air can help it feel cooler inside on days when your AC can't cool your home effectively.

Installing a programmable thermostat could save you as much as \$100 each year; it adjusts the temperature automatically, accommodating for times of day when you're home or away.

Change your AC air filter regularly. A dirty return air filter reduces airflow and forces the AC system to work overtime and use more energy.



Air conditioners work to remove humidity, so reserve moisture-making jobs like laundry, bathing and dishwashing for early morning or night when it's naturally cooler outside.

Keep the outdoor AC unit free of air flow obstructions. Trim back trees and shrubs at least two feet. If air flows to and from the unit freely, it can operate more efficiently.

A properly maintained air conditioning system will be more efficient. Have an expert take a look at your system twice a year. Many companies offer regular maintenance programs.

Use space heaters safely. Buy one with a thermostat to avoid energy waste and overheating a room. It's also important to select a heater that's the right size for the room it will be heating. And always turn space heaters off when you leave the room.

Weatherize & Insulate

Save up to 20% of your heating and cooling costs with proper insulation and weatherizing.

Weather-stripping doors and windows keeps warm air from seeping into your home during the summer and out of your home during the winter. Find trouble spots by holding a ribbon up against the edges of windows and doors. If the ribbon blows, air is getting through and that window or door needs to be better sealed. Weather stripping and sealants are inexpensive purchases and easy to apply.

Insulate for efficiency. Insulation in your attic, ceiling and walls helps keep cool air in and warm air out in the summer and vice versa in the winter. If you have less than seven inches of insulation in your attic, you might consider adding more. Insulation is measured in R-values. In our area, R-38 is recommended for attics and R-15 for walls.

Efficient windows can lower heating and cooling costs up to 30 percent. If your home has single pane windows, consider replacing them with "low-e" coated windows. Window coverings such as drapes and blinds reduce energy transfer between conditioned air in the home and the outside. Hardware stores also sell plastic film sheeting that's designed to reflect the sun and keep the house cooler.



Did You Know?

Under the Energy Policy Act of 2005, consumers and businesses can receive tax incentives for specific energy-efficiency upgrades to homes and buildings, such as home insulation and windows. For more information, visit www.energystar.gov.

When we were preparing to move, I wanted to be sure our new place was more efficient in terms of energy. At the advice of Sam Houston EC's Energy Usage Advisor we upgraded our insulation, windows and water heater. We also purchased the most efficient AC and heating unit for the size of our home. All total, it added about \$3,000 to the cost of our new home. But the results have been tremendous. It really surprised me when our electric bills were less—even though we are in a larger house.

James Dixon
Member since 1977

It's true that air conditioning systems draw a lot of electricity.

That's why using a system as efficiently as possible and having the right system is important. I have a customer that upgraded his system and saved \$1,900 in a year. Maybe that was an extreme case, but anyone can shave dollars off their electric bill by setting their thermostat for maximum efficiency. I recommend a setting of 78 degrees during the day in warm seasons.

Shane Moffett
Heating & Cooling Professional
Member since 1994



Hot Water 101

13% to 20% of the average electric bill goes toward heating water.

Installing a timer on an electric water heater can save 5 percent to 12 percent of the heater's overall energy use. Set the timer to turn the water heater off at night when you don't use hot water. A timer costs about \$60 and usually pays for itself in about a year's time.

Heat pump water heating systems are most efficient for our climate. A heat pump pulls heat from the air into the system. Therefore, it can be two to three times more energy efficient than conventional electric resistance water heaters that generate their own heat.

Laundry can use a lot of hot water, but it doesn't have to. Wash clothes in cold water whenever possible. Some brands of detergent even make special cold wash soaps.

APPLY SAVINGS WITH APPLIANCES

Don't buy power you're not using. Unplug electronics you use intermittently. Any small appliance that plugs into a wall outlet, such as computers, cell phone chargers, hairdryers, etc., draws power whether you're using it or not. In fact, up to 40 percent of electricity used by electronics is consumed while they are off!



Tankless water heaters heat water directly without the use of a storage tank. A tankless system uses a gas burner or electric element to immediately heat the water when the tap is turned on and provides a constant supply of hot water. Typical storage tank heaters take a lot of time and energy to heat water and lose heat (wasting energy) when not in use.

Investing in a water heater blanket is a good way to make tank water heaters more efficient. The \$20 you spend on a blanket will quickly be recouped. The blanket helps the water heater maintain its heat. Adding extra insulation to the first six feet of pipes connected to the water heater can also help the unit heat more efficiently.

Install low flow shower heads to cut back on the amount of hot water your shower uses. The water pressure will be just as good, but you'll use much less water.

Running the dishwasher can cause the water heater to work overtime. So be sure to start the unit only when it's full. And if your dishwasher has an energy saving option, use it.



Lighting Solutions That Make Cents

As much as a third of your energy bill goes to lighting. So, use these tips and save on lighting costs.

Make the switch. Compact fluorescent bulbs (CFLs) give off soft light like regular incandescent bulbs and they are far more efficient and last longer. Replacing just one 75 watt incandescent with an 18 watt CFL offers the same amount of light and a savings of about \$30* over the life of the bulb. CFL bulbs typically last 5,000-7,000 hours, which is about five times longer than regular incandescent light bulbs.

Let light in. During the day, let the sun light your home. Open the drapes and let the rays in for free illumination. That said, it may be more cost effective to keep the hot sun out and use lamplight instead when it's hot outside. You have to balance the cost to use lamplight versus the cost of cooling your home.



Did You Know?

If every U.S. household replaced just one incandescent bulb with a CFL, it's estimated that enough energy would be saved to light seven million homes and save \$600 million in utility bills.

*Savings based on a rate of 10.2 cents per kWh.

I heard I could save quite a bit of money by switching to those swirly light bulbs. So, we went out and bought a bunch. A six-pack costs about \$10 at the hardware store, but it feels good to know I am saving in the long run. I changed out a total of eight bulbs. I figure I am going to save about \$240 over the life of the bulbs. So, it's well worth the upfront cost. I am telling everyone I know they should do the same.

Crystal McBride
Member since 1998



Are You Wasting Energy And Money?

Saving begins at home. Take a few minutes to go through this checklist and see where you can make your home more energy efficient. You may find that little changes can result in big savings.

Want to save more? Sam Houston EC performs professional energy audits as a service to our members. Sam Houston EC energy audits identify areas of your home or business that use the most energy and determine how to reduce usage and costs. Following the audit, the Cooperative will provide you with a personalized, written report outlining actionable suggestions that can help you save energy and money.



“ Saving energy can be as simple as making a few adjustments around the house and changing some habits. Little things can make a big difference. There’s no secret to it. You just have to know where energy is used and look at how to be most efficient. ”

Kenneth Dillon
Sam Houston EC Energy Auditor & Member since 1970

Around the House	Questions to Ask
Appliances	Do you leave them plugged in even when they aren't in use? Are they more than 15 years old? Do you regularly clean them and ensure they're in good order?
Air Conditioning System	Are you setting your thermostat for efficiency? Are you asking the AC to do something it can't? Is your unit the appropriate size for your home? Do you regularly change out air filters?
Heating System	Are you overheating? Is ductwork efficient?
Insulation	Do your walls and ceiling have enough insulation?
Fireplace and Chimney	Is the damper open?
Landscaping	Is the west side of your home well shaded? Is your AC unit shaded by landscaping?
Lighting	Are there lights in your home you leave on all the time? Are you using proper wattage? Can you replace incandescent bulbs with CFLs? Do you leave lights on that aren't in use?
Water Heater	Is it set for efficiency?
Windows and Doors	Is air leaking in or out around or near these openings? Are your windows made for efficiency?

Answers and To Dos
Unplug your coffee pot, cell phone charger, toaster and the like. Items you leave plugged in when not in use draw power.
Older appliances are less efficient. In some cases it may be worth an upgrade to a more efficient and modern version. This is especially true for water heaters and refrigerators, the two major appliances that use the most electricity in your home.
Clean the coils on your refrigerator, drain your water heater once a year and clean behind and under the stove regularly to ensure these major appliances run as efficiently as possible.
If you don't have a programmable thermostat, it could be the best \$20 you spend. It's easy to install and makes saving a breeze. For maximum efficiency set the thermostat to 85 degrees when no one is home. And set it to go down to 78 in the evenings.
Remember, even the best AC system runs most efficiently at 20 degrees cooler than the outside temperature. So, if it's 95 degrees outside, set your thermostat to 75 or above so it won't run all day and waste energy.
Have a professional evaluate the size of your AC system for your home. A larger than needed unit draws more power and may not run as efficiently as a more appropriate sized unit, wasting energy and money.
A dirty air filter leads to inefficient cooling. Mark your calendar to change them out regularly as advised by the filter manufacturer.
Efficient thermostat settings are important for your heater, too. For maximum efficiency set the thermostat to 68 and wear a light sweater.
Check ductwork for air leaks to ensure warm air isn't escaping into your attic.
If you have less than seven inches of insulation in your attic, you might consider adding more. Insulation is measured in R-values. In our area, R-38 is recommended for attics and R-15 for walls. Consider traditional rolls of insulation or spray insulation.
A fireplace can lose as much heat as it produces. Be sure your damper is properly fitted and close it when it's not in use. Leaving the damper open is like leaving a window open all winter.
Consider plantings that could help shade your home's windows. Plantings on the west side of a home are particularly helpful because they shield your home from the hot setting sun. The same landscaping that shades in the summer and helps keep things cool also provides an insulating effect and keeps things warm in the winter.
First and foremost, turn the lights out when you're not using them. That is, turn off lamps when you leave the room and the porch light off at night.
Second, consider replacing incandescents with CFLs, either as they burn out or all at one time—whichever works best for you, as long as you're moving toward replacing all your incandescent bulbs.
Turn down the temperature to the warm setting (about 120 degrees). You'll save energy and avoid the risk of being burned by hot water. Add a water heater blanket to aid in heat retention and insulate water heater pipes.
Hold a ribbon up around these key areas. If it waves, air is moving through. Caulking and weather stripping are inexpensive and easy projects that save money. Be sure to check all four sides of every door and window in your home.
Keep drapes and blinds closed to help keep heat or cold out. You can also buy a reflective film at hardware stores to help insulate windows from outdoor temperatures.
If your windows are single paned, it is a good idea to put replacing windows on your long-term list of efficiency upgrades. Though it can be costly, having energy efficient windows makes a huge impact on energy savings in the long run.

SAM HOUSTON EC *Doing Watts Right* FOR OUR MEMBERS

Doing Watts Right extends beyond conservation. It's the mentality with which we at Sam Houston EC work on behalf of our members.

On the business end, Sam Houston EC is doing what's right by keeping costs low and reliability high by utilizing innovation, technology and employees who are second to none. We continually manage operations as efficiently as possible and take action to influence energy-related legislation that could impact consumers and our business.

On the service side, we work to take care of our customers by providing offerings that add convenience and value to your electric service, like energy audits and payment options. We also work to better our community. Sam Houston EC's service extends beyond electricity to creating opportunities for charitable action such as a blood drive or the helping hands program. We also promote education through our scholarship and safety education programs.

- In 2006, Sam Houston EC awarded \$50,000 in scholarships to 28 students seeking higher education in the State of Texas.
- Sam Houston has gathered 155 units of blood since the fourth quarter of 2005 in conjunction with the Gulf Coast Regional Blood Center. That's a total of 465 lives saved.
- The Helping Hands program has collected and distributed more than \$150,000 since 1992. Monies are allocated to members who cannot pay their bill due to financial crisis.

FINANCIAL STATEMENTS

BALANCE SHEETS

December 31, 2006 and 2005

	2006	2005
ASSETS		
Utility Plant:		
Electric plant in service	\$ 302 905 948	\$ 284 261 878
Construction in progress	12 214 979	10 689 873
	315 120 927	294 951 751
Less: accumulated depreciation	89 193 542	85 293 123
NET UTILITY PLANT	225 927 385	209 658 628
Investments, at Cost:		
Investments in associated organizations	18 058 787	15 643 864
Other investments	3 842	3 842
TOTAL INVESTMENTS	18 062 629	15 647 706
Current Assets:		
Cash and cash equivalents	2 432 197	1 956 983
Scholarship and economic development funds	1 098 377	1 029 375
Accounts receivable (less provision for doubtful accounts of \$158,667 in 2006 and \$267,629 in 2005)	14 055 812	16 895 418
FEMA receivable	6 342 246	27 665 873
Notes receivable	1 174	2 306
Materials and supplies (at average cost)	341 324	328 535
Other current assets	477 161	402 874
TOTAL CURRENT ASSETS	24 748 291	48 281 364
Deferred charges	180 360	6 006 148
TOTAL ASSETS	\$ 268 918 665	\$ 279 593 846
EQUITIES AND LIABILITIES		
Equities:		
Memberships	\$ 256 325	\$ 257 795
Patronage capital	100 008 138	89 654 310
Other equities	67 740	67 740
TOTAL EQUITIES	100 332 203	89 979 845
Long-term postretirement benefits liability	1 643 761	1 428 900
Long-term debt, less current maturities	133 807 360	150 755 006
Current Liabilities:		
Accounts payable and accrued liabilities	18 526 035	19 927 166
Accrual for hurricane restoration costs	1 618 833	7 742 475
Current maturities of long-term debt	4 940 603	4 395 432
Accrued interest payable	1 043 203	1 014 792
Patronage capital payable	201 065	219 862
Consumers' deposits	1 680 900	1 555 170
TOTAL CURRENT LIABILITIES	28 010 639	34 854 897
Deferred credits	5 124 702	2 575 198
TOTAL EQUITIES AND LIABILITIES	\$ 268 918 665	\$ 279 593 846

FINANCIAL STATEMENTS

STATEMENTS OF REVENUE AND PATRONAGE CAPITAL

For the Years Ended December 31, 2006 and 2005

	2006	2005
Operating Revenues:		
Sales of electricity and other operating revenues	\$ 111 410 116	\$ 106 986 772
TOTAL OPERATING REVENUES	111 410 116	106 986 772
Operating Expenses:		
Cost of power	68 166 323	65 857 927
Transmission expense	178 441	72 989
Distribution expense - Operation	3 716 451	2 927 395
Distribution expense - Maintenance	8 756 096	8 234 499
Consumer accounts expense	5 630 097	4 738 166
Administrative and general expense	3 342 455	3 590 090
Depreciation expense	10 773 566	9 893 210
Taxes other than income taxes	1 108 126	1 317 113
Hurricane restoration	-	7 186 551
OPERATING EXPENSES	101 671 555	103 817 940
OPERATING MARGINS BEFORE INTEREST EXPENSE AND FEMA REIMBURSEMENT		
	9 738 561	3 168 832
Interest on long-term debt and consumer deposits		
	8 375 567	6 752 923
FEMA reimbursement		
	(5 413 443)	-
OPERATING MARGIN (DEFICIT)		
	6 776 437	(3 584 091)
Generation and transmission capital credits		
	1 981 889	1 561 582
Patronage capital - Associated organizations		
	1 196 112	905 610
Non-operating Margins:		
Internet services - Net	(71 776)	(21 160)
Interest income	125 372	102 615
Other non-operating income (expense)	345 794	(57 552)
TOTAL NON-OPERATING MARGINS	399 390	23 903
NET MARGIN (DEFICIT)		
	10 353 828	(1 092 996)
Patronage capital - Beginning of year		
	89 654 310	90 747 306
PATRONAGE CAPITAL - END OF YEAR		
	\$ 100 008 138	\$ 89 654 310

FINANCIAL STATEMENTS

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2006 and 2005

	2006	2005
Cash Flows From Operating Activities:		
Net margin (deficit)	\$ 10 353 828	\$ (1 092 996)
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities:		
Depreciation expense	10 773 566	9 893 210
Capital credits - Non-cash	(3 222 736)	(2 569 171)
Provision for losses on accounts receivable	(108 962)	14 731
Accumulated provision for pensions and benefits (Gain) loss on dispositions of utility plant	214 861	172 800
(222 143)	121 102	
Cash Provided by (Used for) the Change in:		
Scholarship and economic development funds	(69 002)	(70 054)
Accounts receivable	2 948 568	(5 244 363)
FEMA receivable	21 323 627	(27 665 873)
Notes receivable	1 132	10 680
Materials and supplies	(12 789)	(52 388)
Other current assets	(74 287)	55 148
Deferred charges	5 825 788	(5 131 069)
Deferred credits	2 549 504	896 449
Accounts payable and accrued liabilities	(1 401 131)	7 039 495
Accrual for hurricane restoration	(6 123 642)	7 742 475
Accrued interest payable	28 411	330 396
Consumers' deposits	125 730	175 235
TOTAL ADJUSTMENTS	32 556 495	(14 281 197)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	42 910 323	(15 374 193)
Cash Flows From Investing Activities:		
Capital expenditures for utility plant, net of retirements	(27 390 554)	(18 150 005)
Proceeds from dispositions of utility plant	570 374	71 958
Proceeds from retirement of patronage capital credits	807 813	579 202
NET CASH USED IN INVESTING ACTIVITIES	(26 012 367)	(17 498 845)
Cash Flows From Financing Activities:		
Proceeds from long-term debt	9 000 000	25 000 000
Payments of long-term debt	(4 402 475)	(3 561 450)
Net activity on line of credit	(21 000 000)	13 000 000
Increase in memberships, net	(1 470)	(790)
Decrease in patronage capital payable	(18 797)	(3 315)
NET CASH (USED) PROVIDED BY FINANCING ACTIVITIES	(16 422 742)	34 434 445
INCREASE IN CASH AND CASH EQUIVALENTS		
	475 214	1 561 407
Cash and cash equivalents at beginning of year		
	1 956 983	395 576
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 2 432 197	\$ 1 956 983
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for interest expense, net of capitalized amounts	\$ 8 338 762	\$ 6 422 527

Income Statement Disclosure

Net margins in each period presented include amounts for matters that management has characterized as "special items." These amounts, because of their nature and significance, are separately identified to help explain the changes in Net margins between periods and to help distinguish the underlying trends for the Cooperative's core business.

In 2006, Net margins include a special item of approximately \$5.4 million related to FEMA reimbursements for Hurricane Rita damage. In 2005, Hurricane Restoration expense accrued approximated \$7.2 million. The impact of recognizing the majority of expense related to Hurricane Rita in 2005 and recognizing significant reimbursements in 2006 resulted in a significant fluctuation in Net margins from 2005 to 2006.

The special items recorded in 2005 and 2006 are not indicative of any future trends or events.

