


**CENTRAL ELECTRIC COOPERATIVE, INC.**

# *2008 Annual Report*

*“Our Energy, Our Future”*



**Central Electric Cooperative, Inc.**

A Touchstone Energy® Cooperative 

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## President, and CEO & General Manager's Report "Our Energy, Our Future"



by **Richard L. Weaver**  
President



and **Larry S. Adams**  
CEO & General Manager

One word that describes the year 2008, for Central Electric Cooperative, Inc. and our members is, "challenging" as we faced one of the worst economic crises in our history. Gasoline and diesel prices skyrocketed, and fuel for cooperative vehicles costs \$100,000 more than in 2007. Metal prices also spiked and we experienced copper theft at our Nectarine substation, the resultant arcing cost Central almost \$16,000 worth of damage to substation equipment and caused a two-hour outage for members.

Despite these challenges we continued to focus on our goals of providing reliable and quality service to our members, at a reasonable rate.

### Reliable Service

To keep service reliability high, the cooperative works hard to aggressively replace defective poles, cross arms and old, less-reliable wire types; inspect and replace poles; and maintain rights-of-way.

- Wire change: 67 miles of wire were replaced in 2008. Since beginning this program in 1993, approximately 641 line miles of old copperweld wire have been changed. We expect to complete this project within four to five years.

- Pole inspection: 5,288 poles were inspected and treated; and 60 poles were replaced based on these inspections.
- Right-of-Way clearing: 336 line miles were cleared in 2008.

Throughout the year we were optimistic about our reliability record, which has steadily improved over the last several years. This record was challenged on September 14th when the remnants of Hurricane Ike hit the system. At the peak of this major storm event, there were an estimated 15,000 members without electricity. Total restoration required three and a half days, however we received many compliments from members on our quick and diligent response.



CEC's members showed their appreciation for restored power after the 2008 storm.

## Quality Service

Central continued to work very hard to maintain the quality of service that we provide to our consumers. In 2008 we:

- Made it easier for members to pay their electric bills, especially with Web-based products.
- Developed an Identity Theft Program to protect our members.

Through partnerships with other organizations, Central continued to offer services to members that they might otherwise not enjoy, including high-speed Internet and a credit union.

## Reasonable Rates & Secure Financial Principles

Central had a fair to good financial year in 2008. Power costs were lower than expected by \$300,578, which helped produce operating margins of \$545,450. Central experienced lower interest rates in 2008 than budgeted, which provided savings of about \$300,000 in 2008. Total cost of electric service per consumer was very close to budget, 0.12 percent over budget for 2008.

A positive statistic again this year was the line loss, which declined slightly to 7.28 percent after the record low of 7.27 percent in 2004. Another was the increase in generation and transmission patronage allocation to Central in the amount of \$976,150.

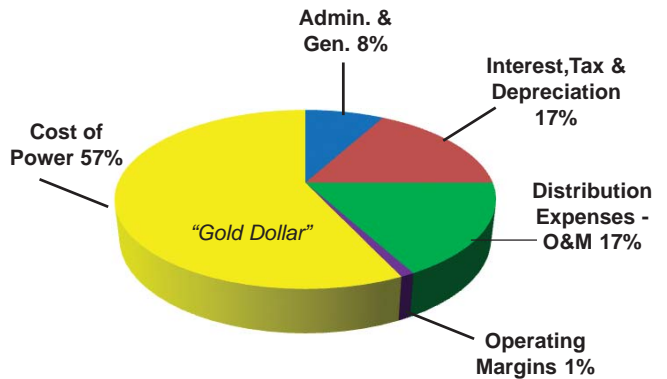
TIER came in at 1.67, DSC at 1.64 and Equity/Assets at 29.23 percent. Minimum ratio requirements are 1.25 TIER (by *Rural Utilities Service, RUS*); 1.35 DSC (by *Cooperative Finance Corporation, CFC*); and 30 percent for Equity (by *RUS to retire Capital Credits*). Central's goal is to stabilize equity

within a target range of 30 percent to 35 percent.

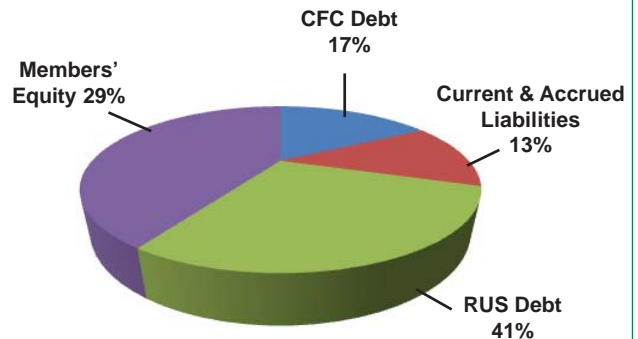
Central met all the financial thresholds set by its lenders, RUS and CFC.

To meet current and future operational needs, the board of directors approved updating the warehouse/garage. These additions will benefit members now, and in the future. Central's locally elected board of directors and their staff work diligently to keep the power on and to keep the rates as stable as possible.

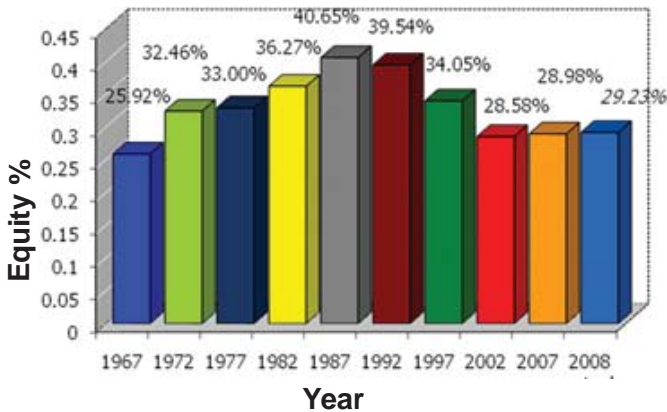
**Year-End Review - 2008**  
Total Operating Budget: \$30,765,203



**Equity to Debt**  
Member's Ownership vs. Borrowed Capital  
Total Assets of \$86,938,514  
12/31/2008



**Year-End Review - 2008  
Equity/Assets Ratio**



**Our Energy, Our Future**

I used the word “challenging” to describe factors that affected your co-op locally last year. However, we expect national events and issues that are occurring now to soon have an even larger impact on your energy bill. Due to supply issues and new legislation costs, your bills could be much higher, and service less reliable.

Higher prices are likely due to:

- The increased cost of fuel. Coal fuels over half of America’s power plants. This cost has doubled since last year. And if regulations being considered to curb greenhouse gases (Cap and Trade legislation) are adopted, these prices will skyrocket. Natural gas another common fuel and currently the only reasonable alternative is more expensive and volatile. Renewables are impractical in many parts of the country and often the most expensive of all forms of energy.
- The increase cost of building new generation.

- The cost of building new power generation is rising: a \$1 billion plant built in 2000 would cost \$2 billion today. And, while the cost for building new generation has increased substantially, funding for these investments has declined.

Reliability is at risk due to:

- Increased demand exceeding supply, resulting in shortages. America’s demand for electricity is expected to increase by 26 percent by the year 2030, however, generation is not being built at the same rate to meet this demand.

The economic downturn has made life challenging for many Americans and increased the number of people who cannot afford to pay their electric bills. And in the future, some people may find themselves in the unfortunate position of not being able to afford electricity or not having a reliable source.

Central operates with the present and future in mind. We stay involved with issues that will affect you and your family. This includes understanding the issues, communicating them to you, and working with our congressmen and representatives to work toward a future for our members that includes affordable and reliable energy.

**The statements on the following pages are compiled from the 2008 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 2008**

STATEMENT OF REVENUE AND PATRONAGE CAPITAL  
AND RETAINED EARNINGS

For the years ended December 31

	2008	2007
<b>OPERATING REVENUES:</b>		
Electric energy revenue	\$ 30,153,988	\$ 29,505,936
Customers' forfeited discounts and penalties	113,201	124,669
Rent from electric property	423,976	418,039
Miscellaneous service revenue	372,027	394,362
Miscellaneous electric revenue	15,013	12,165
<b>TOTAL OPERATING REVENUES</b>	<b>31,078,205</b>	<b>30,455,171</b>
<b>OPERATING EXPENSES:</b>		
Cost of power	16,840,418	16,477,163
Distribution - operations	1,883,057	2,132,056
Distribution - maintenance	3,441,484	2,817,851
Consumer accounts	1,031,142	987,970
Customer service and information	345,102	385,098
Sales	42,355	57,823
Administrative and general	2,309,566	2,164,868
Depreciation and amortization	2,656,585	2,720,981
Taxes	5,102	5,006
Interest - other	52,923	4,017
<b>TOTAL OPERATING EXPENSES</b>	<b>28,607,734</b>	<b>27,752,833</b>
<b>OPERATING MARGINS BEFORE FIXED CHARGES</b>	<b>2,470,471</b>	<b>2,702,338</b>
<b>FIXED CHARGES:</b>		
Interest on long-term debt	2,258,122	2,352,901
<b>OPERATING MARGINS AFTER FIXED CHARGES</b>	<b>212,349</b>	<b>349,437</b>
<b>G &amp; T AND OTHER CAPITAL CREDITS</b>	<b>1,168,712</b>	<b>1,374,135</b>
<b>NET OPERATING MARGINS</b>	<b>1,381,061</b>	<b>1,723,572</b>
<b>NON-OPERATING MARGINS:</b>		
Interest income	105,852	194,755
Equity in earnings of subsidiary	14,519	9,269
Other	11,762	9,207
<b>TOTAL NON-OPERATING MARGINS</b>	<b>132,133</b>	<b>213,231</b>
<b>NET MARGINS BEFORE TAXES ON INCOME</b>	<b>1,513,194</b>	<b>1,936,803</b>
<b>RECOVERY OF TAXES ON INCOME</b>	<b>10,000</b>	<b>1,163</b>
<b>NET MARGINS</b>	<b>1,523,194</b>	<b>1,937,966</b>
<b>PATRONAGE CAPITAL, at beginning of year</b>	<b>21,470,460</b>	<b>19,768,683</b>
<b>PATRONAGE CAPITAL AND RETAINED EARNINGS,</b> before reclassification of non-operating margins not allocated and retirement of capital credits	<b>22,993,654</b>	<b>21,706,649</b>
<b>PRIOR YEAR MARGINS NOT ALLOCATED</b>	<b>418,039</b>	<b>176,100</b>
<b>RETIREMENT OF CAPITAL CREDITS</b>	<b>60,369</b>	<b>60,089</b>
<b>PATRONAGE CAPITAL AND RETAINED EARNINGS,</b> at end of year	<b>\$ 22,515,246</b>	<b>\$ 21,470,460</b>

## Annual Report

### CENTRAL ELECTRIC COOPERATIVE, INC. MEMBERS' FINANCIAL REPORT FOR 2008

#### BALANCE SHEETS

As of December 31

ASSETS	2008	2007
<b>PROPERTY AND EQUIPMENT:</b>		
Electric plant in service - at cost	\$ 93,943,898	\$ 89,231,479
Construction work in progress	937,521	1,736,328
	94,881,419	90,967,807
Less accumulated provisions for depreciation	25,391,194	23,552,099
<b>TOTAL ELECTRIC PLANT</b>	<b>69,490,225</b>	<b>67,415,708</b>
<b>OTHER ASSETS AND INVESTMENTS:</b>		
Non-utility property, at cost	3,180	3,180
Investments in associated organizations	6,986,894	6,242,621
Energy resource conservation loans	75	4,099
<b>TOTAL OTHER ASSETS AND INVESTMENTS</b>	<b>6,990,149</b>	<b>6,249,900</b>
<b>CURRENT ASSETS:</b>		
Cash - general funds	1,091,090	587,266
Temporary investments	1,130,000	1,180,000
Accounts and notes receivable:		
Trade (less accumulated provision for uncollectible accounts of \$134,546 and \$98,088 for 2008 and 2007 respectively)	6,117,274	5,788,543
Other	3,998	30,340
Materials and supplies (at average cost)	1,132,068	845,156
Other current and accrued assets	204,032	125,682
<b>TOTAL CURRENT ASSETS</b>	<b>9,678,462</b>	<b>8,556,987</b>
<b>DEFERRED CHARGES</b>	<b>798,827</b>	<b>999,219</b>
	<b>\$ 86,957,663</b>	<b>\$ 83,221,814</b>
<b>EQUITIES AND LIABILITIES</b>		
<b>EQUITIES:</b>		
Memberships	130,560	135,230
Patronage capital	22,515,246	21,470,460
Other equities	2,762,395	2,325,053
<b>TOTAL EQUITIES</b>	<b>25,408,201</b>	<b>23,930,743</b>
<b>LONG-TERM DEBT:</b>		
RUS mortgage notes, less current maturities	31,250,567	32,226,193
CFC mortgage notes, less current maturities	14,870,428	15,528,761
FFB mortgage notes, less current maturities	4,000,000	--
<b>TOTAL LONG-TERM DEBT</b>	<b>50,120,995</b>	<b>47,754,954</b>
<b>NON-CURRENT LIABILITIES:</b>		
Accumulated post retirement benefit obligation	3,816,743	3,581,977
Deferred power costs	1,106,000	1,106,000
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>4,922,743</b>	<b>4,687,977</b>
<b>CURRENT LIABILITIES:</b>		
Demand notes payable	--	515,000
Current maturities of long-term debt	1,930,122	1,958,848
Accounts payable:		
Purchased power	1,456,514	1,327,126
Other trade payables	730,631	691,691
Consumer deposits and prepayments	799,223	779,513
Other current and accrued liabilities	1,045,867	1,004,545
<b>TOTAL CURRENT LIABILITIES</b>	<b>5,962,357</b>	<b>6,276,723</b>
<b>TOTAL LIABILITIES</b>	<b>61,006,095</b>	<b>58,719,654</b>
<b>DEFERRED CREDITS</b>	<b>543,367</b>	<b>571,417</b>
<b>COMMITMENTS AND CONTINGENCIES</b>	<b>\$ 86,957,663</b>	<b>\$ 83,221,814</b>

ANNUAL REPORT 2008