

A stylized world map in a light blue color, centered on the Atlantic Ocean, set against a dark blue background with a subtle grid pattern.

*Electric Cooperatives:
Building A Better World*

2011 Annual Report



Central Electric
Membership Corporation

Your Local Touchstone Energy Cooperative



Cooperatives:

Being committed to providing reliable and affordable power to our members is the guiding principle at Central Electric.

Though we had some challenges during 2011, the Cooperative was able to meet its commitments.

On April 16, 2011, an F-3 tornado swept through Lee and Harnett counties, stripping power to countless families and leaving behind a trail of destruction that will never be forgotten.

After this brief, but deadly storm, approximately 12,000 Central Electric members were without power.

In the wake of the worst natural disaster to hit the area since Hurricane Fran in 1996, line crews and employees from Central Electric

along with assistance from other co-operatives and contractors across the state rallied together and worked steadily to restore power to members.

On a more positive note, Central Electric member-consumers continued to see the Wholesale Power Cost

Adjustment as a credit on their energy bills. This was due to cost-saving measures and reductions in wholesale power costs. From January to December 2011, members saved \$2.57 per 1000 kilowatt-hours.

Capital Credits

In addition, many of you have received capital credits. Capital credits are monies that remain at the end of each year after all operating costs are paid.

In a for-profit business, the company keeps the profit. As a non-profit, Central Electric assigns the leftover monies to members based on the amount each paid for electricity during that year, and puts it into a capital credit account.

Later, when the Board of Directors determines it is a financially sound decision, the

capital credits are retired and members receive a check or credit for their portion.

In November 2011, capital credits were distributed to those who were members between 1987 and 1989.

The general retirement represents a return of equity to our members of approximately \$1.1 million.

For the past three years, Central Electric retired \$3.7 million. This maintains our co-op business model of giving back to our members.

Growth and Accounting

In a time when few electric cooperatives have added members, Central Electric's growth is one of the top five in North Carolina.

Due primarily to development in the Spout Springs and Johnsonville areas, during 2011 we added almost 700 new services with 20-plus miles of underground facilities.

We continue to participate in Sandhills Utility Services which operates and maintains the electric grid on Ft. Bragg. Central Electric recognizes and salutes the accomplishments our armed services provide to maintain freedom in our great country.

Once again, the Cooperative

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Executive Message...



CEO Morris McClellon and Board President
Rebecca G. Cogan

Building A Better World

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was committed to wise spending. In 2011:

- The largest share of each dollar, 62 %, was used to purchase wholesale power
- Operating costs, such as maintaining power lines and paying for rising fuel cost to operate our vehicles, was 21% of every dollar
- 3% of each dollar paid taxes including property, sales & use, and franchise taxes
- 6 % of every dollar went to depreciation, the decline in value of property or equipment over its life
- 4% paid for interest, the cost of borrowing money to continually build lines
- Total margins (the difference between revenue and cost of service)

represented 4% of every dollar. In 2011, operating margins were 4.09% compared to 3.53 in 2010.

Annual Meeting

Some of the guiding principles of the cooperative model are democratic member control and member economic control, as well as the belief that a cooperative should offer education and information for all members.

Central Electric follows these principles by being member-controlled and locally operated.

A 10-member board of directors elected by the members governs the Cooperative. By attending the annual meeting, you participate in reporting, discussing and celebrating the success of our Cooperative's business, as well as by electing your representatives on the Board of Directors.

Director James B. Brooks

For the last 50 years, James B. Brooks of Siler City has been a pillar on the Central Electric Board of Directors.

The retired mail carrier and dairy farmer began his service on the Cooperative's Board of Directors in 1961, and has won re-election to represent his district for 16 consecutive three-year terms.

Our Commitment

Being committed to our members and to the quality and cost of service every member receives are at the center of Central Electric's founding philosophy and at the core of the cooperative model.

It is important for us to continue to work together to make our energy cleaner and more affordable.

By monitoring your energy use at home and by taking steps to bring energy costs down, you can play a vital part in this process.

During the International Year of the Cooperative in 2012, our focus continues to be on preserving the legacy of the members who started Central Electric over 70 years ago.

And we will continue to do our part to help build a better world.

Rebecca G. Cogan

President, Board of Directors

Morris McClellion
CEO, Central EMC



(L-R) Retired General Manager Reid Harris, and Directors Carl H. Outz, R. G. Wadsworth, Jr., Dr. Nancy Holmes, Frank L. Comer, III, W. Phillip Thompson, President Rebecca Cogan, James B. Brooks, Edith C. Cox and Tommy Dalrymple were among those on hand for the dedication of the Jim Brooks Substation at Siler City.

Financials

| Balance Sheet as of December 31 | 2011 | 2010 |
|---------------------------------------|---------------------|---------------------|
| Assets: | | |
| Electric Plant at Original Cost | \$90,235,264 | \$83,041,652 |
| Construction Work in Progress | 464,707 | 4,035,682 |
| Less Depreciation | (27,939,791) | (25,896,713) |
| Investments/Association Organizations | 6,206,528 | 5,373,114 |
| Cash | 420,049 | 591,091 |
| Temporary Investments | 1,799,058 | 3,063,915 |
| Notes Receivable | 161,726 | 184,962 |
| Accounts Receivable | 2,501,476 | 2,944,529 |
| Material and Supplies | 921,540 | 684,276 |
| Prepayments and Accrued Assets | 121,485 | 96,712 |
| Deferred Debits | 2,123,647 | 340,383 |
| Total | \$77,015,689 | \$74,459,603 |

| | | |
|--------------------------------------|---------------------|---------------------|
| Liabilities: | | |
| Long Term Debt: RUS, FFB, CFC, NCEMC | \$31,627,070 | \$32,264,341 |
| Consumer Deposits | 1,474,528 | 1,403,378 |
| Notes Payable | 1,417,281 | 6,420 |
| Accounts Payable | 3,523,321 | 3,615,726 |
| Accumulated Operating Provisions | 4,484,900 | 3,477,022 |
| Current Maturities Long Term Debt | 1,031,198 | 1,131,255 |
| Other Liabilities | 1,563,037 | 2,436,595 |
| Membership Fees | 92,465 | 89,976 |
| Patronage Capital & Other Equities | 31,801,889 | 30,034,890 |
| Total | \$77,015,689 | \$74,459,603 |

Statement of Operations

| | 2011 | 2010 |
|--|---------------------|---------------------|
| Operating Revenue | \$42,957,289 | \$43,716,293 |
| Expenses: | | |
| Cost of Purchased Power | 26,539,881 | 27,608,733 |
| Transmission Expense | 3,745 | 4,074 |
| Distribution Expense-Operations | 2,458,694 | 2,570,019 |
| Distribution Expense-Maintenance | 1,870,344 | 1,605,623 |
| Consumer Accounts Expense | 1,628,909 | 1,651,842 |
| Consumer Service & Information Expense | 457,830 | 359,689 |
| Sales Expense | 150,599 | 150,005 |
| Administration & General Expense | 2,492,445 | 2,515,092 |
| Depreciation & Amortization | 2,689,893 | 2,677,570 |
| Taxes | 1,375,087 | 1,399,115 |
| Interest on Long Term Debt | 1,600,126 | 1,682,970 |
| Total Cost of Electric Service | \$41,267,553 | \$42,224,732 |
| Our Margins: | | |
| Operating Margins | \$1,689,736 | \$1,491,561 |
| Non-Operating Margins | 1,992,672 | 1,320,726 |
| Total Margins | \$3,682,408 | \$2,812,287 |

Report of the Treasurer



*James B. Brooks
Secretary-Treasurer*

To assist your review of our financial condition we have published a simplified Balance Sheet and Statement of Operations in this report for the 2011 and 2010 calendar years.

The accounting firm of Dixon Hughes Goodman LLP completed its audit of the Cooperative in March 2011. Copies of the report will be available at the Annual Member Meeting, as well as the Central Electric business office.

The report shows your Cooperative is financially sound.

On the Balance Sheet, you will note that total assets increased by more than \$2.5 million during 2011, raising the value of assets to more than \$77 million.

Central Electric's membership fees, patronage capital and other equities total \$31,894,354. This member-furnished capital represents 41.4% of Central Electric's assets. These funds are invested in Central Electric's utility plant (lines, transformers, poles, trucks, etc.).

The Statement of Operations shows operating revenue decreased 1.7% over 2010. The total cost of supplying electric service decreased 2.3% over 2010.

Wholesale power, our largest expense item, represented 64.3% of all expenses. As a Cooperative, our operating margins (difference between revenue and cost of service) are posted to each member's patronage capital account. In 2011 operating margins were 4.1% compared to 3.5 in 2010.

The average number of consumers served increased from January 1, 2010 to December 31, 2010 by 2.2% as compared with 2.3% in 2010. The 2011 monthly average residential kilowatt-hours (kWh) sold was 1,365 kWh.

How Your Dollar Was Used in 2011...



| | |
|-------------------------|--------|
| Cost of Purchased Power | \$0.62 |
| Depreciation | \$0.06 |
| Interest Expense | \$0.04 |
| Operating Margins | \$0.04 |
| Taxes | \$0.03 |
| Operations Expense | \$0.21 |

20,850 Member-Consumers Served



*Average
Residential
Use/Month:
1,365 kWh*



*2,402 Miles of
Energized Line*

Comparative Operating Statistics

| At Year Ending: | 2011 | 2010 | 2009 | 2008 |
|------------------------------------|--------|--------|--------|--------|
| Miles of Line Energized | 2,402 | 2,379 | 2,351 | 2,331 |
| Number of Consumers Served | 20,850 | 20,505 | 20,039 | 19,648 |
| Average Residential kWh Used/Month | 1,365 | 1,456 | 1,321 | 1,301 |

Cooperative Continues Growth with New Housing

In a time when few electric cooperatives have added members, Central Electric's growth is one of the top five in North Carolina.

Due primarily to development in the Spout Springs and Johnsonville areas, during 2011 we added 692 new services with more than 20 miles of underground facilities.

For the year 2011 the peak billing demand was 109.4 MW, but was not quite as large as the 2010 billing peak which had actually occurred the month before in December 2010.

The reason for this is temperature as it did not get quite as cold in January 2011 as it had been in December 2010.

At least 90% of all new services installed in 2011 were underground, which has proven much more resistant to inclement weather associated problems. Only 2.2 miles of new overhead line were built in 2011, while 20.3 miles of underground lines were constructed.

The majority of the new consumers continued to be in western Harnett County as well as eastern Moore and southeastern Lee counties.

Slower growth continues around Siler City, Pittsboro and Carthage, but tends to be one of every 10 in the southeastern portion of the Central Electric system.

The Siler City Substation was substantially rebuilt in 2011 with work beginning in late July of 2011.

The existing station went in service in 1978 and represented the technology of the time for substations that size.

With advancements in technology, the rebuild reflects current trends, engineering and operating practices.

During the rebuild, a second transformer was added at the Siler City substation, as well as newer switching apparatus and electronic relay protection equipment.

There were no major line rebuild projects in 2011. The majority of the work centered on construction for new consumers.

The Central Electric Board of Directors approved a new four-year Construction Work Plan beginning in 2012 which will be financed, in part, through the Rural Utilities



New housing developments contributed to the amount of underground service installed in 2011.

Service of the U.S. Department of Agriculture.

The Construction Work Plan places an emphasis on maintaining and improving service reliability while minimizing the impact on the electric rates.

The total cost of the new four-year Construction Work Plan is estimated to be \$26 million dollars. These monies will be used to establish service to new members, rebuild and upgrade lines, install security lights and install equipment to improve the reliability of the Cooperative's electric system.

The Construction Work Plan and ongoing maintenance program are essential to building and maintaining a reliable electric distribution system for our members now and into the future.

Making sure our facilities are in top shape is one way the Cooperative provides our members with the most reliable and cost efficient service possible.

Engineering & Operations



Crews worked around the clock to repair damage from the F-3 tornado that swept through the area April 16, 2011.

Member Services & Marketing

Building A Better World—Starting at ‘Home’

Increasing both the Cooperative’s energy efficiency as well as helping the member-consumers do the same is a critical part of Senate Bill 3.

Central Electric has a number of programs designed to help reduce energy use.

The Cooperative offers a FlexPay option which allows participating members to monitor their electricity use and buy it on an “as-need” basis, much like using a prepaid phone card.

Among the other programs offered during 2011, are:

- Rebates on new, energy efficient water heaters and heat pumps, as well as ENERGY STAR® homes

- Credit on electricity bills for the ongoing Compact Fluorescent Light (CFL) replacement program

- Low-interest loans for adding energy-efficient measures such as insulation, storm windows and doors, and efficient electric heat pumps

- Access to the website TogetherWeSave.com which provides energy saving techniques

- Energy conservation workshops for members.

- Energy audits by experienced specialists to locate potential savings for members

- Web-based energy efficiency tools through centralelectriconline.com

In 2011 Central Electric also intro-

duced The Fridge and Freezer Farewell program. The program offers free removal of the second refrigerators and freezers often found in basements, garages and outbuildings.

These units are typically older and less efficient than newer models and can result in up to \$200 per year in additional energy costs.

In addition to free removal, members receive a \$50 credit on their bills for each appliance removed up to two per year.

All of these programs help you manage energy while creating a cleaner environment.



Concern for community is one of the guiding principles of the cooperative model and Central Electric continues to look for

new ways to invest resources into building the local economy and strengthening relationships with our members.

The Cooperative recognizes local businesses play a vital role in the economic health of our community, and we continue to support the annual Small Business Expo.

Through Bright Idea Grants and scholarship programs, Central Electric works to improve the quality and availability of education to members and the community.

In 2011, eight grants totaling \$10,000 were awarded to innovative

teaching projects not funded by traditional school budgets.

College students also continued to receive assistance in the form of scholarship money.

These students, who are attending Central Carolina and Sandhills Community colleges, live in homes served by the Cooperative. Each received a \$2,000 scholarship—an increase of \$500 over recent years.

Middle school students were offered the opportunity to apply for scholarships through the Touchstone Energy Basketball Camps.

Central Electric continued the “Give Us an ‘A’ Program” in 2011 to recognize the academic achievements of our students. Four times during the school year, five students are randomly selected from submitted report cards to receive a \$25 gift card.

Among the other community activities the Cooperative’s employees participated in during 2011 were Relay for Life to raise donations for cancer research and area 4-H Clubs.

“Building A Better World”—starting at home...



As a major sponsor of the Small Business Expo, Central Electric used canned food donations as the cost of admission. The food was donated to the Christian United Outreach Center.



The Fridge & Freezer Program offers free removal of the second refrigerators and freezers often found in basements, garages and outbuildings.

Electric Cooperatives:



Building A Better World



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A Touchstone Energy Cooperative

