

Innovation, Development & Growth



2012

Central Electric
Membership Corporation

Your Local Touchstone Energy Cooperative



Executive Message



CEO Morris McClellion and Board President
Rebecca G. Cogan

At Central Electric, providing a reliable and efficient product to our members is our highest priority. That's why we work hard to maintain and update our facilities and services every year. We believe embracing innovation, development and growth will bring economic opportunities to the communities we serve.

With an eye on development and growth, the Central Electric Board of Directors approved a new Three-Year Construction Work Plan. The plan places an emphasis on maintaining or improving service reliability while minimizing the impact on electric rates. The total cost of the work plan will be an estimated \$26 million dollars. This money will be used to serve new members, rebuild and upgrade power lines, and facilities. Plus it will go towards the installment of security lights and equipment to improve the consistency of our electric system. To better serve our member-base, we plan to build approximately 1,800 new electric services, and anticipate installing more than 60 miles of overhead and underground power lines. Through proper planning, Central Electric has developed a quality construction work plan and an effective maintenance program that will result in providing trustworthy, cost efficient electric service to our members both now and in the future.

Construction is ongoing in the housing development of Lexington Plantation – a community located just inside Harnett County and convenient to Fort Bragg and Fayetteville. The community, which will include approximately 3,000 homes and plans for multiple condominiums, will have electricity supplied by Central Electric. As of today, we have installed underground electrical lines to approximately 700 homes within Lexington Plantation. We are currently working in sections that will add 125 additional homes before the end of 2013.

Capital Credits

The distribution of capital credits is one of the ways that Central Electric continues to give back to its members. Capital credit is money that rolls over at the end of each year after operating costs are paid. In a for-profit business, the company keeps the profit. As a not-for-profit cooperative, Central Electric assigns (allocates) this leftover money 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 determines it is a financially sound decision, capital credits are retired and members receive a check or credit for their portion.



In November 2012, capital credits were distributed to those members who were with Central Electric between 1989-1992. The general retirement represented a return of equity to our members of more than two million dollars. For the past four years, Central Electric retired approximately five million, seven hundred thousand dollars, thus helping us maintain the cooperative model of re-distribution of capital to our members.

Annual Meeting

As a cooperative, Central Electric is member-controlled and locally-operated. A ten-member board of directors that you elect governs the cooperative. By attending the annual meeting, you participate in decision-making and celebrating the success of your cooperative. This is an opportunity to gain valuable information on the direction of the cooperative, plus voice your opinion.

Copper Theft

Over the last few years copper theft has become a growing problem in North Carolina. In 2011 alone, total damages to our state's electric grid facilities reached more than one million dollars, thus sparking a desire from the cooperatives to step in. After months of phone calls, emails and face-to-face meetings with legislators, the cooperative team effort finally paid off. In October of 2012, a new law went into effect requiring people to have a permit in order to buy copper. Also buyers must take a photograph of the seller, record his or her vehicle information and report incidents of copper theft to police. Plus, buyers can no longer give cash for salvage of the metal. The adoption of this law was a huge victory not only for North Carolina's 26 cooperatives but also for the communities we serve.

Copper theft is a serious issue in the electric utility industry and in our community. It jeopardizes public safety, potentially causing serious injury or death. It's also costly, resulting in thousands of dollars in repair. Central Electric believes this new law will help keep the public and our employees' safe, as well as save our members' money. Plus, we look forward to working with law enforcement to apprehend and prosecute the thieves. Previously, criminals faced misdemeanor larceny charges for whatever they stole. Now, if they cause damage to the property they steal from, they also could face felony charges.



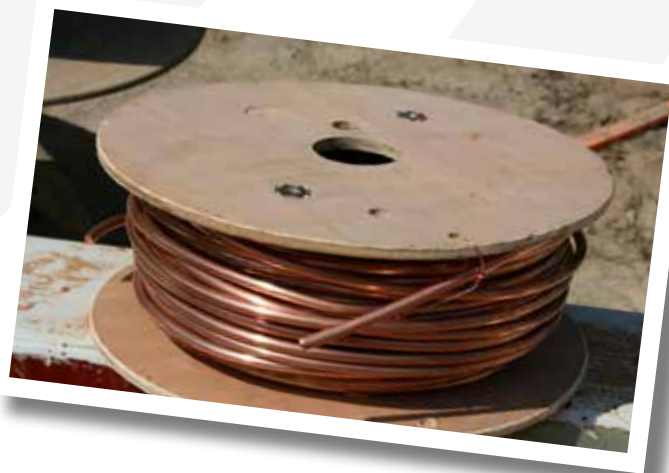
Central EMC feels this new measure will help eliminate copper theft, but we still need your help. Stay on the lookout for suspicious activity around our facilities, including substations, poles and transformers. Call 911 if you see any suspicious activity.

Rebecca G. Cogan
President, Board of Directors

Rebecca G. Cogan

Morris McClellion
CEO, Central EMC

Morris McClellion





Financials

Treasurer's Report

To assist your review of our financial condition we have published a simplified Balance Sheet and Statement of Operations in this report for the 2012 and 2011 calendar years.

The accounting firm of Dixon Hughes Goodman LLP completed its audit of the Cooperative in March 2012. Copies of the report will be available at the Annual Member Meeting, as well as at 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 \$4.8 million during 2012, raising the value of assets to more than \$81 million. Central Electric's membership fees, patronage capital and other equities total \$32,811,647. This member-furnished capital represents 40.08 percent 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 1.50 percent over 2011. The total cost of supplying electric service decreased 1.55 percent over 2011. Wholesale power, our largest expense item, represented 63.1 percent 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 2012 operating margins were 0.88 percent compared to 4.09 in 2011.

The average number of consumers served increased from January 1, 2012 to December 31, 2012 by 1.77 percent as compared with 1.68 percent in 2011. The 2012 monthly average residential kilowatt hours (kWh) sold was 1,269 kWh.

HOW YOUR REVENUE DOLLAR WAS SPENT IN 2012

Cost of Purchased Power

\$0.63

Depreciation

\$0.07

Interest Expense

\$0.04

Total Operating Margins

\$0.01

Taxes

\$0.03

Operations Expense

\$0.22

\$1.00

Balance Sheet as of December 31	2012	2011
Assets:		
Electric Plant at Original Cost	\$95,701,554	\$90,235,264
Construction Work in Progress	907,916	464,707
Less Depreciation	(29,848,004)	(27,939,791)
Investments/Association Organizations	7,875,957	6,206,528
Cash	488,767	420,049
Temporary Investments	1,481,275	1,799,058
Notes Receivable	119,108	161,726
Accounts Receivable	2,617,575	2,501,476
Material and Supplies	1,030,184	921,540
Prepayments and Accrued Assets	108,597	121,485
Deferred Debits	1,378,810	2,123,647
Total	\$81,861,740	\$77,015,689
Liabilities:		
Long Term Debt: <i>RUS, FFB, CFC, NCEMC</i>	\$36,327,526	\$31,627,070
Consumer Deposits	1,607,817	1,474,528
Notes Payable	0	1,417,281
Accounts Payable	3,024,411	3,523,321
Accumulated Operating Provisions	5,089,899	4,484,900
Current Maturities Long Term Debt	1,192,357	1,031,198
Other Liabilities	1,808,083	1,563,037
Membership Fees	95,220	92,465
Patronage Capital & Other Equities	32,716,427	31,801,889
Total	\$81,861,740	\$77,015,689

Statement of Operations	2012	2011
Operating Revenue	\$42,278,838	\$42,957,289
Expenses:		
Cost of Purchased Power	26,435,518	26,539,881
Transmission Expense	3,696	3,745
Distribution Expense	2,692,192	2,458,694
-Operations		
Distribution Expense	1,870,344	1,647,533
-Maintenance		
Consumer Accounts	1,610,336	1,628,909
-Expense		
Consumer Service	488,550	457,830
- Information Expense		
Sales Expense	172,721	150,599
Administration	2,920,362	2,492,445
-General Expense		
Depreciation	2,881,619	2,689,893
-Amortization		
Taxes	1,353,655	1,375,087
Interest/ Long Term Debt	1,702,549	1,600,126
Total Cost of Electric Service:	\$41,908,731	\$41,267,553
Our Margins:		
Operating Margins	\$370,107	\$1,689,736
Non-Operating Margins	2,837,627	1,992,672
Total Margins	\$3,207,735	\$3,682,408

Comparative Operating Statistics

At Year Ending:	'12	'11	'10	'09
Miles of Energized Line	2,427	2,402	2,379	2,351
Number of Served Consumers	21,219	20,850	20,505	20,039
Average Residential kWh Used/Month	1,269	1,365	1,456	1,321



James B. Brooks
Secretary-Treasurer

Engineering & Operations



So much work has been done in years past that for year 2012 those things that we did may not seem quite as great, still they represent significant enhancements to the system.

One project for which a portion is still underway was to upgrade the overhead lines running along Tingen Road in Harnett County that extends into the Carolina Lakes area and back to the Spout Springs substation. That line was upgraded to heavier conductor that will allow us to take care of our growing loads in that area. This line was used to transfer existing loads from Spout Springs to the Docs Road station.

Early in 2012 an upgrade was finished on the Siler City Substation. That work was began in 2011 and we were able incorporate new technology into this station. When the station was built and put into service in the late 70's, the technology incorporated then represented the established technology for the time. Since then newer equipment has become available, along with changes in operations that allowed us to upgrade this station, including the addition of a second transformer. This is the same arrangement used in all CEMC stations now.

During the spring of 2012 we worked with Progress Energy to do a voltage conversion for the line feeding from the Sanford Metering Point. For years the lines out of that station were operated at 7200 volts and Progress had a small transformer within their larger substation that provided power for us. We had been in conversations with them regarding a possible move to their normal substation voltage of 13,800 volts and to remove that small transformer.

Progress was very interested since removal of that equipment would improve future work planned for this location We made the necessary changes to our system getting ready and the week after the Thanksgiving holidays made the conversion. Conversion of this type to higher voltage level gives us improved ability to serve existing and future loads. Indeed, with Cloverleaf Cold Storage making additions to their existing load on our system, this conversion was timely as the Progress transformer feeding us at 7200 would have been undersized for the additional load.

We continue to rebuild and increase conductor sizes across our system to improve the ability to maintain the existing system as well make preparations for future growth. Work has been done looking at incorporating the proposed Solar Project at Pittsboro into our system. Work for this project will continue into the summer of 2014.



Member Services & Marketing Operations



Lots happened within the Member Services & Marketing Department during 2012. One of the biggest things involved a transition from ENERGY STAR to the HERO program which stands for High Efficiency Residential Option. Central Electric members who build or purchase a new HERO built home will qualify for a rebate of \$200-\$600. Additionally, these energy efficiency improvements can save homeowners about \$115 per year on their utility bills. HERO built homes will replace those built to ENERGY STAR guidelines, as houses built under the HERO criteria tend to be 30 percent more energy efficient than homes built to the state's current code.

Also in 2012 our cooperative focused on the future. Since 1942, Central Electric has made it a top priority to uphold the cooperative principle of concern for community. Through Bright Ideas Grants, Scholarship programs, and the Adopt a School Program, Central Electric continues to help improve the quality and availability of education to our members and the community.

In 2012, six Bright Ideas Grants totaling \$9,000 dollars were awarded to teachers who created innovative teaching projects not funded by traditional school funding.

Central Electric also aided East Lee Middle School through the "Adopt a School Program." This unique opportunity enabled Central Electric to provide classroom supplies for teachers in need. Our cooperative's generous assistance extended to college students as well. Several pupils who live in homes served by the Cooperative and Central Carolina or Sandhills Community Colleges each received \$2000.

Finally, in tradition with the holiday spirit, in December of 2012, Central Electric partnered with Christians United Outreach Center of Lee County to help collect food to be distributed to families in need.

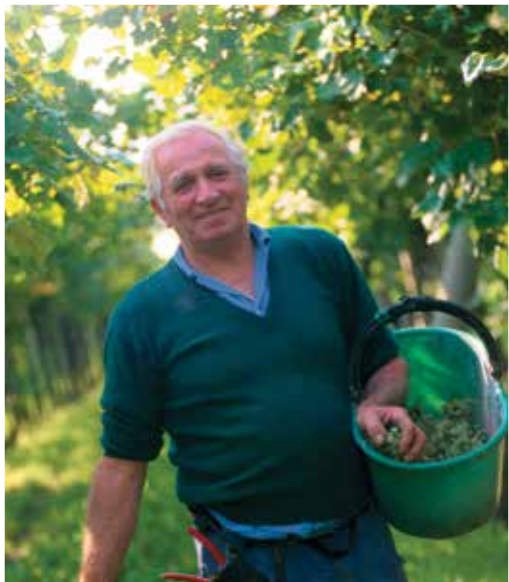
Central Electric knows that by strengthening education and helping those less fortunate we are working to make our community and the world a better place.

Programs & Services for Members



- Rebates for HERO-built homes.
- Compact Fluorescent Light Replacement Program
- Flex-Pay Program
- Energy Audits to locate potential savings for members
- Energy conservation workshops for members
- Fridge and Freezer Farewell Program
- Low-interest loans on energy-efficient heat pumps, insulation, and windows.
- Web Based energy efficiency tools at www.cemcpower.com and togetherwesave.com





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