



POWERING a bright future



Central Electric
Membership Corporation

A Touchstone Energy® Cooperative



Executive Message



Board President
Rebecca G.
Cogan and CEO
Morris McClellion
continually look
ahead to see how
best to power a
bright future.

Today, we expect electricity to be there around the clock, powering the things that improve our lives. Your cooperative also expects you, our member-owners, to be at the center of everything we do.

Maintaining and continually improving the reliability of our service is a key component of putting our member-owners first. Projects like the 5.5-mile Harnett County transmission line upgrade, completed last year, help ensure safe and reliable service for both current and future members. These types of upgrades play a vital role in keeping the 22,000 homes, farms and businesses across our five counties connected.

Your Cooperative also strives to stay current with modern technology to keep you connected. Our new mobile app and updated website provide you with on-the-

go and convenient ways to pay your bills, monitor outages and see information about your electricity use. The new outage texting service also gives you the ability to quickly report an outage and obtain information specific to the restoration efforts of your service.

Keeping costs down and rates competitive is also very important to the Cooperative and you, the member. Each year, the largest share of each revenue dollar – 62 cents in 2017 – goes toward purchasing wholesale power. In 2016, the actual cost of purchasing power was lower than budgeted. We were able to carry over wholesale power cost adjustment credits from December 2016 to January and February 2017 bills. Most residential consumers received credits totaling more than \$75 during those three months.

Helping keep rates affordable also means staying alert and responsive to changes that impact federal and state energy regulations. One example is how diligently we have worked to minimize the impact of costs handed down as a result of the North Carolina Coal Ash Management Act passed in 2014.

For decades, our members have benefited from the affordable and reliable production of coal-fired electricity. Since a portion of the electricity we provide comes from wholesale power agreements with Duke Energy, we took action when costs to comply with the act's requirements had a foreseeable impact on your bills. Although Central Electric does not own any coal-fired power plants, we were an indirect participant through our statewide organization, North Carolina Electric Membership Corporation, in discussions to help preserve environmental goals while also lowering consumer costs. As a result, we were able to minimize the impact of the Environmental Compliance Fee on bills issued after Jan. 1, 2018.

As a not-for-profit electric utility, your Cooperative also looks out for your budget by returning revenue left after paying expenses to you in the form of Capital Credits. In 2017, members who received service in 1998 received a combined total of \$1.1 million. Central is pleased to put money back into your pockets and into local communities.

This report highlights the many ways we're focused on serving you. Whether it's upgrading the system to provide reliable power for years to come, helping you lower your power bills, or supporting local communities, your Cooperative is working hard to power a brighter future.



1,800
mobile app
downloads since
last year's release



**More than
\$2 million**
returned to
members when
wholesale power
costs were lower
than anticipated

POWERING a bright future

Powering reliability and growth

In 2017, crews completed a year-long project in Harnett County to replace a 5.5-mile stretch of aging transmission line. Higher-capacity steel-reinforced transmission wires replaced smaller aluminum wires, and steel poles replaced 58 wooden poles. The upgrades provide our members with more reliable electricity and will support future growth in the southern portion of the service area.

The co-op has changed more than 3,700 residential outdoor and street lights to LED fixtures. LEDs are much more energy-efficient, saving money and energy, and they also don't need to be repaired or replaced as often, further improving their efficiency. Remaining lights will continue to be replaced over the next several years to allow for minimal cost impact to the co-op.

Crews replaced wooden poles with more durable steel ones as part of the Harnett County transmission line upgrade. Upgrades to the power delivery system help ensure reliable electric service.



Powering convenience



Today's consumers are busy. That's why Central Electric members now have more convenient ways to use our services, anytime, anywhere.

More than half of the people we serve who are frequently accessing our website and billing portal are doing so from mobile devices. They are finding it easier than ever thanks to a user-friendly mobile website and mobile app.

Members can quickly and securely view account information, pay bills, manage alerts and reminders and view an outage map 24/7. The free app can be downloaded from the App Store or Android Market.

Providing reliable service is a top priority. Yet, sometimes Mother Nature disrupts even the best laid-out plans. When severe weather causes outages, members can now report an outage and receive restoration updates through a new outage texting service. Users may opt-in to the texting service by texting "PWR" to 800-446-7752. Once opted-in (participants must only do this prior to their first use), they simply text "OUT" to report an outage. And better yet, when users text "STATUS," they receive restoration updates specific to their outage. Before taking advantage of this service, participants should visit the online billing portal to make sure their mobile number is correct.



You're Invited!

As a cooperative, the democratic process is essential. Come elect your Board of Directors during the Annual Member Meeting, starting at 5:00 p.m. on Oct. 5, 2018, at the Dennis A. Wicker Civic Center in Sanford. Enjoy music, fellowship and enter to win prizes!

Powering community and the future

Thanks to members who are volunteering to have their bills rounded up to the next dollar, Operation Round Up® contributed \$97,000 to more than 40 nonprofit organizations in our local communities. Organizations include the Boys & Girls Club of Central Carolina, the Moore County Special Olympics, the Chatham County 4-H and Helping Hands Clinic.

Bright Ideas impacted about 3,800 local students through \$15,000 in educational grants awarded to area educators. These teachers now have the funding to bring innovative projects to life in their classrooms. Three middle school students attended basketball camps at NC State and UNC-Chapel Hill through the Touchstone Energy Sports Camp program.

Five local seniors are attending Central Carolina Community College and Sandhills Community College with the help of scholarships.

Local high schooler Neida Figon developed her leadership skills in 2017 at Cooperative Leadership Camp. High school students

DaNasia Sneed and Amber Vaughn represented Central Electric in Washington, D.C., last year as part of the Electric Cooperative Youth Tour. While there, they toured historic monuments, met their elected representatives, and learned more about American history and electric cooperatives with 1,700 students from across the country.



Central Electric awards Bright Ideas grants that help educators offer broader learning experiences to students. Bright Ideas funds innovative projects not covered by school budgets.



As we continue to strive for excellence, we gauge our performance by what members have to say. Satisfaction surveys conducted last year show that providing safe, reliable and affordable electricity, 24/7 convenience and supporting programs and services that benefit our local communities are essential to Central Electric members. Members also rated the co-op 10 percent higher than other Touchstone

Energy electric cooperatives and 15 percent higher than investor-owned utilities.

Thank you for your input and willingness to take part in the direction of your cooperative, because you are more than a number and your opinion truly matters. By working together, we can energize the lives of our members and enrich our local communities for years to come.

FINANCIAL REPORTS

On the Balance Sheet, you will note that total assets increased by more than \$8.2 million during 2017, raising the value of assets to more than \$116 million. Central Electric's membership fees, patronage capital and other equities total \$47,314,442. This member furnished capital represents 40.67 percent of Central Electric's assets. These funds are invested in Central Electric's utility plant (lines, transformers, poles, trucks, etc.).

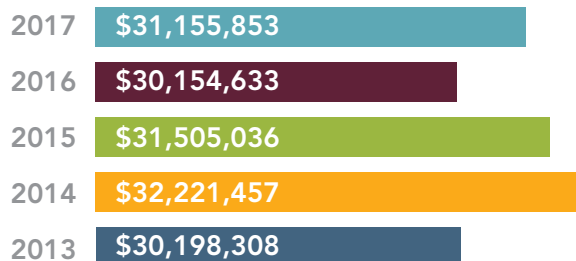
The Statement of Operations shows operating revenue increased 3.4 percent from 2016. The total cost of supplying electric service increased 1.7 percent from 2016. Wholesale power, our largest expense item, represented 64.48 percent of all expenses.

As a Cooperative, our operating margins (difference between revenue and cost of service)

are posted to each member's patronage capital account. In 2017 operating margins were 3.4 percent compared to 1.8 in 2016.

The average number of consumers served increased from January 1, 2017 to December 31, 2017 by 0.9 percent as compared with 1.0 percent in 2016. The 2017 monthly average residential kilowatt hours (kWh) sold was 1,268 kWh.

The Cost of Wholesale Power



Expenses in 2017



| | |
|---------------|-------------------------|
| \$0.62 | Cost of Purchased Power |
| \$0.24 | Operations Expense |
| \$0.07 | Depreciation |
| \$0.04 | Interest Expense |
| \$0.03 | Total Operating Margins |

Key Statistics

| At Year Ending: | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|--------|--------|--------|--------|--------|
| Miles of Line Energized | 2,517 | 2,503 | 2,489 | 2,475 | 2,450 |
| Number of Consumers Served | 22,681 | 22,443 | 22,205 | 22,051 | 21,777 |
| Average Residential kWh Used per Month | 1,268 | 1,310 | 1,352 | 1,385 | 1,293 |

To assist your review of our financial condition we have published a simplified Balance Sheet and Statement of Operations in this report for the 2017 and 2016 calendar years.

The accounting firm of Adams, Jenkins, and Cheatham completed its audit of the Cooperative in April 2018. 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.

Balance Sheet as of Dec. 31

| | 2017 | 2016 |
|---------------------------------------|----------------------|----------------------|
| Assets: | | |
| Electric Plant at Original Cost | \$114,780,963 | \$ 112,269,758 |
| Construction Work in Progress | 7,297,523 | 2,420,449 |
| Less Depreciation | (36,449,930) | (34,547,197) |
| Investments/Association Organizations | 14,133,897 | 13,365,364 |
| Cash | 903,852 | 851,620 |
| Temporary Investments | 330,183 | 280,168 |
| Notes Receivable | 158,596 | 144,133 |
| Accounts Receivable | 10,060,606 | 7,764,149 |
| Material and Supplies | 1,164,122 | 1,123,440 |
| Prepayments and Accrued Assets | 104,130 | 100,788 |
| Regulatory Assets | 2,570,429 | 2,713,231 |
| Deferred Debits | 1,292,614 | 1,588,085 |
| Total | \$116,346,985 | \$108,073,988 |
| Liabilities: | | |
| Long-Term Debt: RUS & CFC | \$ 41,856,039 | \$ 44,457,074 |
| Consumer Deposits | 1,602,754 | 1,623,259 |
| Notes Payable | 7,235,374 | 1,650,874 |
| Accounts Payable | 3,749,621 | 3,374,246 |
| Accumulated Operating Provisions | 6,835,255 | 6,463,500 |
| Current Maturities Long-Term Debt | 2,534,524 | 2,466,286 |
| Other Liabilities | 5,218,976 | 3,440,175 |
| Membership Fees | 99,165 | 98,080 |
| Patronage Capital & Other Equities | 47,215,277 | 44,500,494 |
| Total | \$116,346,985 | \$108,073,988 |

Statement of Operations as of Dec. 31

| | 2017 | 2016 |
|--|----------------------|----------------------|
| Operating Revenue: | \$ 50,045,952 | \$ 48,380,984 |
| Expenses: | | |
| Cost of Purchased Power | \$ 31,155,853 | \$ 30,154,633 |
| Transmission Expense | 3,977 | 8,951 |
| Distribution Expense-Operations | 3,162,124 | 3,612,130 |
| Distribution Expense-Maintenance | 2,291,824 | 2,631,760 |
| Consumer Accounts Expense | 1,676,719 | 1,819,654 |
| Consumer Service & Information Expense | 426,553 | 426,211 |
| Sales Expense | 146,044 | 150,200 |
| Administration & General Expense | 4,032,047 | 3,354,679 |
| Depreciation & Amortization | 3,442,541 | 3,389,285 |
| Taxes | 324 | 0 |
| Interest on Long-Term Debt | 1,983,785 | 1,962,569 |
| Total Cost of Electric Service: | \$ 48,321,791 | \$ 47,510,072 |
| Our Margins: | | |
| Operating Margins | \$ 1,724,160 | \$ 870,913 |
| Non-Operating Margins | 2,318,119 | 2,644,958 |
| Total Margins: | \$ 4,042,279 | \$ 3,515,871 |



CAPITAL CREDITS

As a member and an owner of Central Electric, you receive a unique benefit that you can “take to the bank.” Since we are a not-for-profit electric utility, a percentage of revenue left after paying expenses is returned to members in the form of Capital Credits. That means members get a share of what’s left over after expenses are paid and some funds are set aside for emergencies and the future. In 2017, Central returned \$1.1 million in Capital Credits to members, bringing the total returned to more than \$10 million since 2009.

Board of Directors



Rebecca G. Cogan
President



Tommy Dalrymple
Vice President



James B. Brooks
Secretary-Treasurer



W. Phillip Thompson
Assistant Secretary



L. Frank Comer, III



Edith C. Cox



Dr. Nancy Holmes



Henry Outz



Henry Randolph



Timothy Priest



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