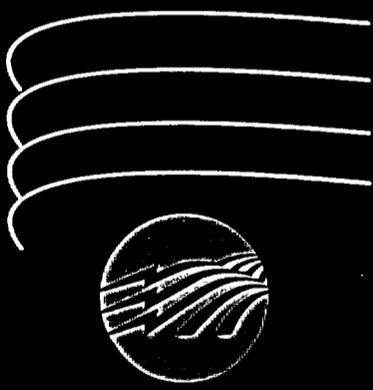


loyalty • quality of life • shared margins • representation • integrity • accountability • innovation • commitment to community • local control • ownership





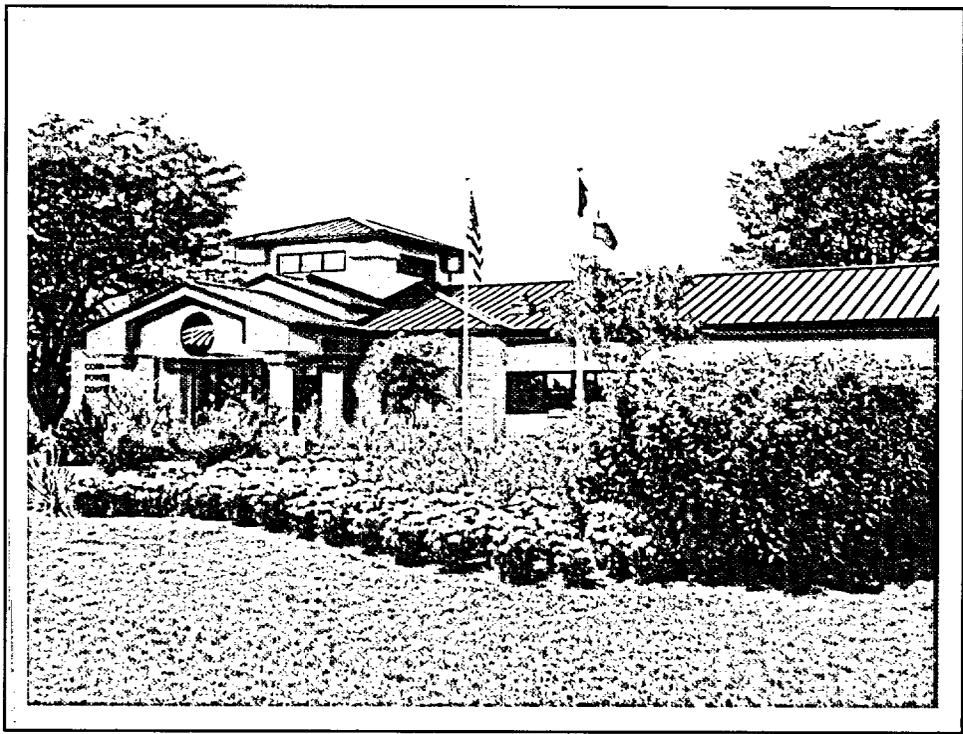
# THE PEOPLE HAVE THE POWER

ANNUAL REPORT 2002



Corn Belt  
Power Cooperative

A Touchstone Energy Cooperative 



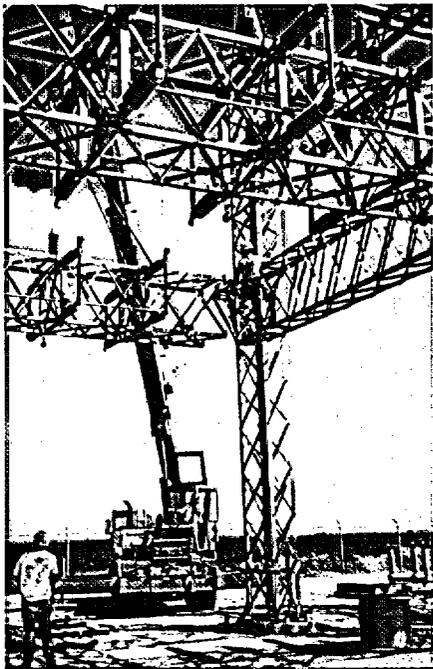
# THE PEOPLE HAVE THE POWER

Time and time again, consumer research shows that people like the idea.

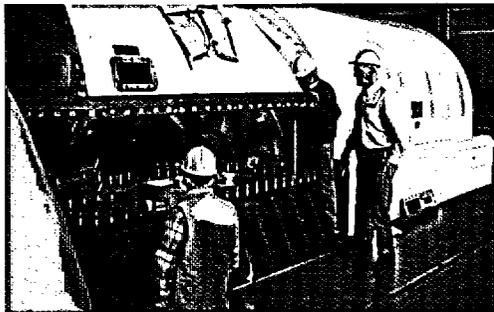
They like the idea of owning part of the company to which they pay their monthly bill. They respond positively to the concept of local control and decision-making. They give a thumbs-up to the philosophy of making decisions based on consumers' best interest, not on shareholders' profits. And they overwhelmingly support a mission that focuses on improving the quality of life in their community.

Indeed, amid the 2002 news of corporate scandals, hidden agendas and rampant greed, the cooperative way of doing business is more appealing now than ever before. The cooperative principles that foster one member one vote, return of excess margins, elected decision-makers, and ownership by members are being embraced and valued nationwide.

It's an idea that research proves consumers like:  
*The people have the power.*



Left, Corn Belt Power electrical maintenance and general maintenance employees build Buckner Switching Station, which will increase reliability.



Above, crews at Wisdom Generating Station lower the upper half of the turbine casing into place after a maintenance outage at the end of 2002.

# Executive Report

A few months ago, near Kalona, Iowa, travelers on Highway 22 witnessed 150 Amish men carrying the wooden framework of a turkey barn along the shoulder of the highway. Just a little earlier, at the original barn site, the men were positioned into their places and, after a foreman yelled, "One, two, three," they lifted the quarter section of the barn off the ground and began carrying it toward its new location one mile west.

One passerby watching the event on the highway commented, "It certainly shows what a lot of people can do together."

This event is an example of the value of cooperation and shows how, working together to reach a common goal, people truly have the power.

Electric cooperatives operate on the same principle. By offering local membership, support for communities, sharing of margins, democratic control and equal representation, electric cooperatives give the people who own them the power to make decisions and control their own destiny.

In 2002, events and decision-making at Corn Belt Power Cooperative also demonstrated how, with the cooperative form of doing business, the people have the power.

Board resolutions approved in 2002 will increase the cooperative's power supply by adding peaking power, renewable energy and base load generation.

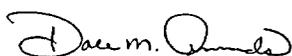
Throughout its history, Corn Belt Power has chosen to own its generation to assure that, when our member

cooperatives need power, it will be there. The desire to control our own destiny goes back to the very beginning of Corn Belt Power when we built our first plant, the Humboldt Generating Station.

Due to continuing load growth, the board of directors conducted a complete power supply study for the Corn Belt system. The results of this study showed the need for additional generating resources in the 2004 time frame and again in about 2007. In order to satisfy the growth of our members and the need for additional generation, the Corn Belt Power board decided to construct a combustion turbine for operation in 2004 and to participate with others in a large coal-fired plant in the 2007 time frame.

The new combustion turbine will be located at our existing Earl F. Wisdom Generating Station site. The advantages of this site include the fact that we already own the land, transmission and natural gas pipelines are in place, and we have the necessary manpower at the site. Contracts for construction have been let and work will begin on the turbine in the spring of 2003 with commercial operation expected in the early spring of 2004. Corn Belt Power's partner in the project is Basin Electric Power Cooperative, Bismarck, North Dakota.

In order to satisfy our generation needs in 2007, the Corn Belt Power board approved participation in MidAmerican Energy Company's Council Bluffs 4 generating station. This will be a large coal-fired plant and will be owned by MidAmerican Energy, Corn Belt Power and several other utilities in the area. This project continues the tradition that we



**Dale M. Arends**  
Executive Vice President  
& General Manager



**Donald Feldman**  
President, Corn Belt  
Power Cooperative  
Board of Directors

have followed for several plants – partnering with our neighbors to take advantage of economies of scale. MidAmerican Energy will be the operator of the plant.

A board resolution also approved a 20-year contract with FPL Energy to purchase wind power from a new wind energy center in Hancock County, Iowa. This purchase helps us prepare for the future should regulations require a renewable portfolio. The location of this project in particular couldn't be better, with Corn Belt Power transmission lines close and several electric cooperative members benefiting from leasing land for the project. The Corn Belt Power board also recognizes the positive aspects of being involved with new technology that's environmentally friendly.

Corn Belt Power experienced another year of considerable growth in 2002, setting a new sales record of 1,416 million kilowatt-hours. Increased commercial and industrial load was largely responsible for this sales growth, with new ethanol plants and additional value-added agricultural load coming on line. The addition of these and other economic development projects has helped pick up sales lost due to farm and residential load decline.

Although positive for spreading out fixed costs and keeping rates stable, expanded commercial and industrial sales also make us more vulnerable to how the industries fare. It will be important to continue with a strong key accounts program for our member cooperatives, helping them to help their members

use energy wisely and to build lasting relationships so they stay in business and grow.

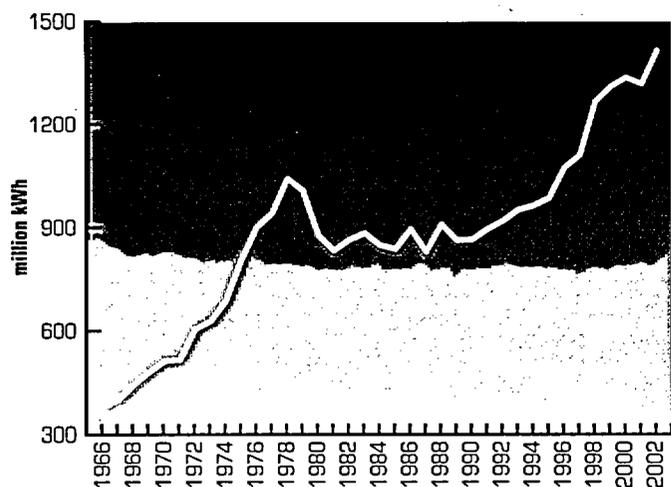
In 2002, Corn Belt Power conducted a risk management assessment to determine where we might be vulnerable to adversity. This process will help determine where we focus our priorities and will affect future decision-making. It will be important to implement and follow up on these findings.

Rates to Corn Belt Power member cooperatives remained stable in 2002. Factors in our immediate future such as new generation, transmission line and substation construction, higher gas costs and developing changes in dispatching agreements will likely affect our rates in the future. Energy prices are trending up nationally and it appears unlikely that Corn Belt Power will be isolated from that trend.

Compared to some others, Corn Belt Power is a small generation and transmission cooperative. However, that has not hindered our success. We see a bright future ahead. Our relationship with each of our member cooperatives remains strong. In addition, our member cooperatives recognize that their relationships with their members must be strong and that they must continue to pursue new growth opportunities where it is prudent. The many corporate scandals that came to light in 2002 reinforced our belief that the cooperative way of doing business is a very successful way of providing service to our members.

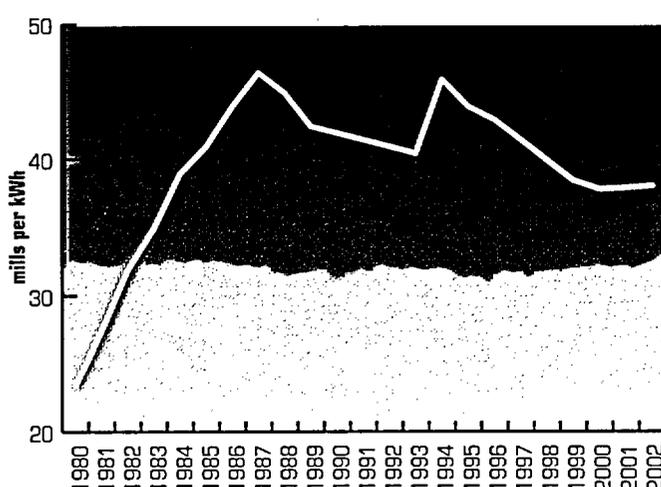
Indeed, we certainly show what a lot of people can do together.

### Total Sales



Includes RECs, NIMECA, Webster City and Sales to Others

### Member REC Rates



Average REC member system cost, including substation charge; calculated average REC rate reflects power sold to municipals and others served by RECs.

# Year in Review 2002

In 2002, Corn Belt Power Cooperative demonstrated that “The people have the power,” shown literally by the addition of new generation and transmission facilities, and figuratively by the cooperative way of doing business.

## 2002 Sales and Peak

Total sales in 2002 to member cooperatives, NIMECA, Webster City Municipal Utilities and others set a new record high of 1,416 million kilowatt-hours, surpassing the previous record of 1,339 million kilowatt-hours set in 2000.

Although January and February were warmer in 2002 than during the previous year, the last three months of 2002 were colder than in 2001. Overall, heating degree days were up just slightly for the year, but cooling degree days were roughly 16 percent higher than the previous year.

The Corn Belt Power system gained some new industrial loads during the year while experiencing strong sales to member co-ops' existing commercial and industrial members. Substantial corn drying sales in the fall also added to the record sales.

A new record peak for firm power sales was set on Oct. 21 at 8 p.m. when 253 megawatts of demand, including losses, was recorded. The previous peak was set in October 2001 at 247 megawatts. The new peak can be attributed to a combination of factors: its Monday evening time frame reflects a traditionally high-use day and household load; a mid-30s temperature and contributing wind chill; strong corn drying

loads; and large commercial and industrial loads that were on line at the time.

## Wisdom Unit 2

Responding to the anticipated future needs of its member cooperatives, Corn Belt Power Cooperative continued work toward adding new generation to its power supply resources.

For the Wisdom Unit 2 generating station under development, Corn Belt Power and partner Basin Electric Power Cooperative purchased a General Electric combustion turbine generator.

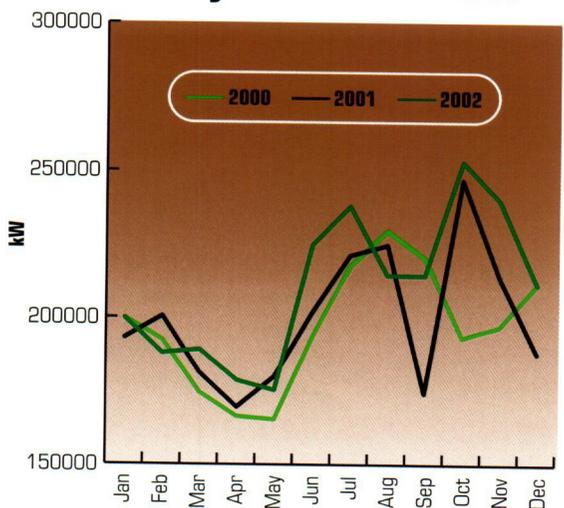
Surveying and “geotech” work, which included soil testing for the foundation, was conducted at the Wisdom Unit 2 site in the fall. Utility Engineering/TIC, Omaha, Nebraska, and Casper, Wyoming, was chosen for the engineering, procurement and construction contract in December 2002.

Wisdom Unit 2 will take approximately 11 months to construct. The first natural gas fire of the turbine is scheduled for Feb. 3, 2004. The unit is expected to be fully commercial by March 8, 2004.

## Wind Energy

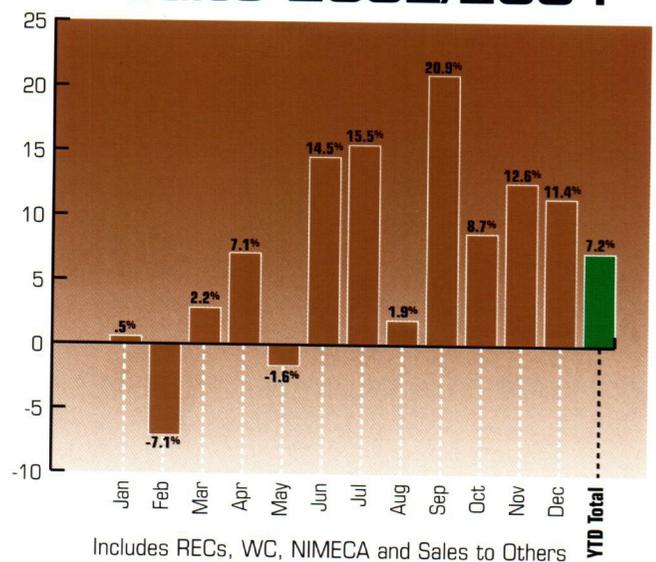
Demonstrating its support for wind energy as an environmentally friendly way to generate electricity, Corn Belt Power signed a 20-year purchase agreement with FPL Energy, the nation's largest producer of wind energy, to purchase power from the 98-megawatt wind energy project in Hancock County, Iowa, known as the Hancock County Wind Energy

## System Peak



Corn Belt system peak =  
(RECs + WC + Estherville) x 1.06 at time of  
CBPC/WC 60-minute system peak

## Percent Change in Monthly Sales 2002/2001



Includes RECs, WC, NIMECA and Sales to Others

CO2

Center. The 148 wind turbines are owned and operated by FPL Energy. Approximately 11 megawatts of the output will be sold to Corn Belt Power. Four megawatts of that capacity will go to the North Iowa Municipal Electric Cooperative Association (NIMECA) and the remaining seven megawatts will be purchased for Corn Belt Power's other members.

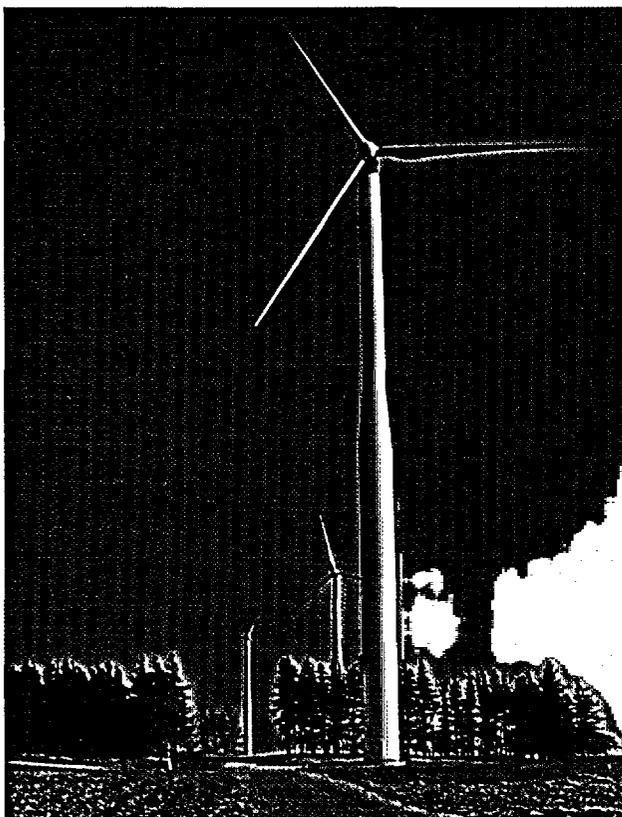
Located on electric cooperative members' farms, the wind energy center is interconnected with Corn Belt Power's transmission system. The purchase places additional renewable energy into Corn Belt Power's generation portfolio, which helps prepare for potential future renewable energy requirements. Corn Belt Power began receiving power from the wind turbines the end of December 2002.

#### Council Bluffs 4

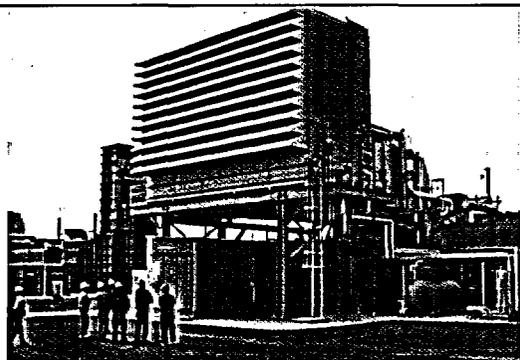
Also during 2002, the process for adding Council Bluffs 4, an approximately 750-megawatt coal-fired power plant, to the generation mix of several Iowa utilities actively continued with a targeted commercial operation date of June 2007.

With its approximately 60 percent share, Mid-American Energy Company will be the primary owner of the plant and will oversee construction and operation. Corn Belt Power will own approximately five percent of the base load unit.

Council Bluffs 4 will be fueled with low-sulfur Powder River Basin coal and will be equipped with the latest environmental controls. It will be located adjacent to the Council Bluffs 3 unit, south of Interstate 80 near Council Bluffs, Iowa.



These wind turbines are part of FPL Energy's Hancock County Wind Energy Center near Duncan, Iowa. In 2002, Corn Belt Power signed a 20-year contract with FPL Energy to receive up to 11 megawatts of power from the wind energy center.



Wisdom Station employees visit a combustion turbine in Minnesota that is similar to the one that will be constructed at the Wisdom site near Spencer.

## 2002 Cooperative Highlights

	2001	2002
Total Energy Sales	1,320,733,561 kWh	1,416,059,310 kWh
REC Peak Demand (no losses)	205,996 kW	211,039 kW
System Peak Demand	246,843 kW	253,113 kW
Miles of Transmission Line	1,620	1,638
Distribution Substations	131	134
Employees	87	91

### New Substations and Transmission Facilities

New commercial and industrial loads served by Corn Belt Power's member systems required extensive construction of transmission and substation facilities.

In 2002, three new substations and their 69 kV extensions were constructed in the Corn Belt Power system:

- **Tall Corn Substation** — to serve the Tall Corn Ethanol plant on Glidden REC's lines
- **Rembrandt Substation** — to serve a new egg laying plant on Iowa Lakes Electric Cooperative's lines
- **Gerled Substation** — to serve the Midwest Grain Processors (MGP) ethanol plant on Iowa Lakes Electric Cooperative's lines

Two new switching stations were also added to the Corn Belt Power system to increase reliability of service: the Willemssen Switching Station, southeast of Clarion, and the Buckner Switching Station, located between Webster City and Wellsburg.

New transmission line constructed in 2002 totaled almost 20 miles. The most extensive section was the Eagle-Armstrong line, approximately nine miles long.

A \$34.6 million dollar loan from the United States Department of Agriculture (USDA), guaranteed by the Rural Utilities Service (RUS), was approved in September and will cover transmission and substation

construction associated with new loads on member co-ops' lines and upgrades that will improve reliability by establishing loop feeds and reconductoring aging lines.

Additional construction projects in 2002 included a 10,200-square-foot cold storage building completed in mid-November that houses equipment and materials previously kept outside.

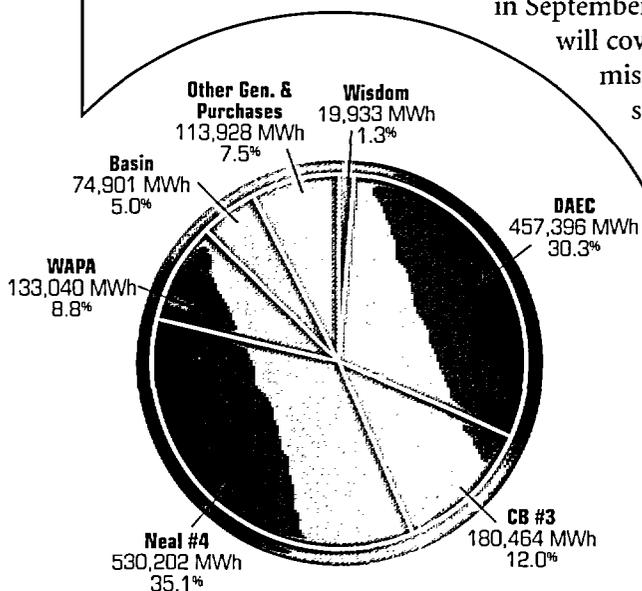
### New Microwave System

Also included in the approved USDA loan were funds for a new digital microwave system. In 2002, Corn Belt Power personnel oversaw installation of new towers, refurbished existing towers and made progress toward completion of the state-of-the-art communication system.

The new microwave system will replace aging 27-year-old analog equipment that does not have the capacity to handle high-speed data. Plans are for the east side of the new system to be operational in the late spring of 2003. Spring 2004 is the targeted completion time for phase two, which involves the west side of Corn Belt Power's system. Phase three will add redundancy to the east side of the system with completion expected at the end of 2004.

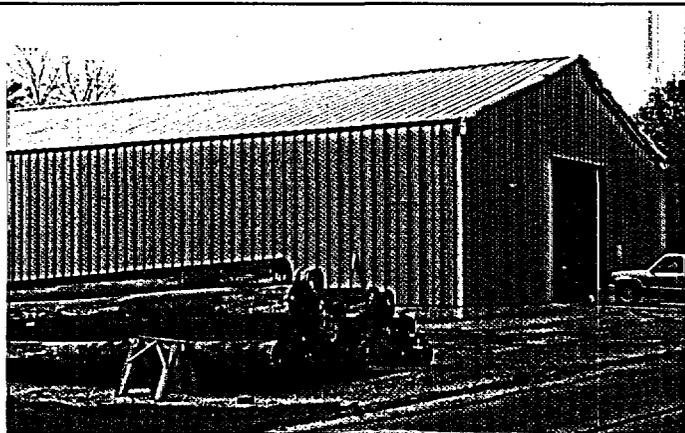
### TRANSLink

Corn Belt Power continued its participation in the TRANSLink Development Company in 2002. Formation documents for the independent transmission company have an anticipated signing time frame of mid-2003 with operation startup later in the year.



### 2002 Generation Summary

(represents input from major resources and 100% ownership shares)



Items previously stored outside are now housed in this new cold storage building on Corn Belt Power's headquarters property.

### Risk Management

Corn Belt Power conducted a risk analysis project in 2002, resulting in a systematic approach to managing the cooperative's risks.

Corn Belt Power's policy guidelines for managing risks include maintaining a list of action items, adding risk management to monthly department head and staff meetings, incorporating risk analysis in the project authorization process, and reassessing the process periodically.

### Generation Summary



At Wisdom Generating Station, crews finished a major turbine overhaul in January and the plant ran for system requirements reliably throughout the year.

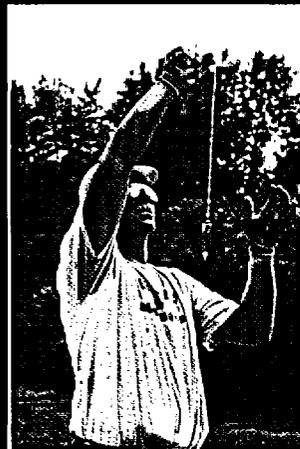
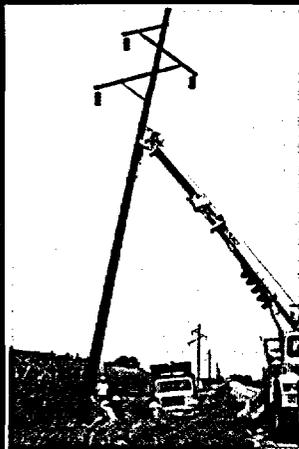
Council Bluffs 3 crews completed an outage in

the spring, which included adding a new high-pressure turbine. The new turbine made possible the increase in accreditation from 675 MW to 690 MW net.

Neal 4 and the Duane Arnold Energy Center continued to provide reliable base load energy during 2002.

A group of approximately 35 Corn Belt Power employees and spouses toured the Gavins Point Dam and Neal 4 power plants June 19, and 60 cooperative directors, employees and their guests toured the plants July 22-23, getting an up-close look at the generators that make the product their cooperatives provide to members.

## Step by Step: New Line Constructed



Corn Belt Power crews constructed almost 20 miles of new transmission line in 2002. The most extensive section was the Eagle-Armstrong line, approximately nine miles long.



MidAmerican Energy Company's plant technology specialist explains the operation of the turbine blades to co-op representatives touring the Neal 4 coal-fired plant near Sioux City in July.

	2002 kWh Billed by Corn Belt Power	Miles of Line	# of Meters Served	# of Employees
Boone Valley Electric Co-op	8,882,336	61.50	143	3
Butler County REC	147,202,219	1,793.03	6,723	34
Calhoun County REC	34,052,570	765.27	1,740	11
Franklin REC	55,998,917	824.69	2,046	14
Glidden REC	58,723,835	761.75	1,698	13
Grundy County REC	100,042,719	910.28	2,285	15
Humboldt County REC	55,535,161	943.00	1,849	14
Iowa Lakes Electric Co-op	285,955,235	4641.00*	11,737*	63
Midland Power Co-op	114,165,109	1183.20*	3,089*	35
Prairie Energy Co-op	213,060,759	2,010.00	4,656	37
Sac County REC	23,376,795	490.00	1,045	9

\*Corn Belt Power service territory only

## Corporate Relations and Marketing

Continuing to communicate the Touchstone Energy® brand and the value of doing business with cooperatives was a main focus of corporate relations and marketing efforts in 2002.

The 11th annual all-employee marketing training was held Jan. 14-18 with Dr. Caroline Fisher presenting "Choose to Lead," encouraging participants to see themselves as leaders and create a high-performing and positive work environment.

The Touchstone Energy "Living the Brand" training was presented to cooperative employees and directors in the fall, emphasizing the importance of superior customer service.

Touchstone Energy Cooperatives continued to demonstrate the core value of commitment to community by awarding local schools SchoolNet weather stations in partnership with KCCI-TV, Channel 8, Des Moines.

The Touchstone Energy Cooperatives of Iowa actively promoted Iowa's state parks in 2002. Named Green Touch, this unique partnership between Touchstone Energy Cooperatives of Iowa and the Iowa state park system sponsored a newly designed four-color brochure that lists parks and recreation areas in the state.

During the Iowa State Fair, the State Fair Web site, [www.iowastatefair.org](http://www.iowastatefair.org), featured links to Web cameras with live images of activities at the fair. Corn Belt Power and Central Iowa Power Co-op (CIPCO) sponsored two of the Web cameras — the famous

Butter Cow and the Varied Industries Building — at [www.touchstoneenergycams.com](http://www.touchstoneenergycams.com) on behalf of their Touchstone Energy member distribution cooperatives. Touchstone Energy Cooperatives of Iowa once again sponsored the Iowa State Fair tram that transported fairgoers free of charge throughout the fairgrounds.

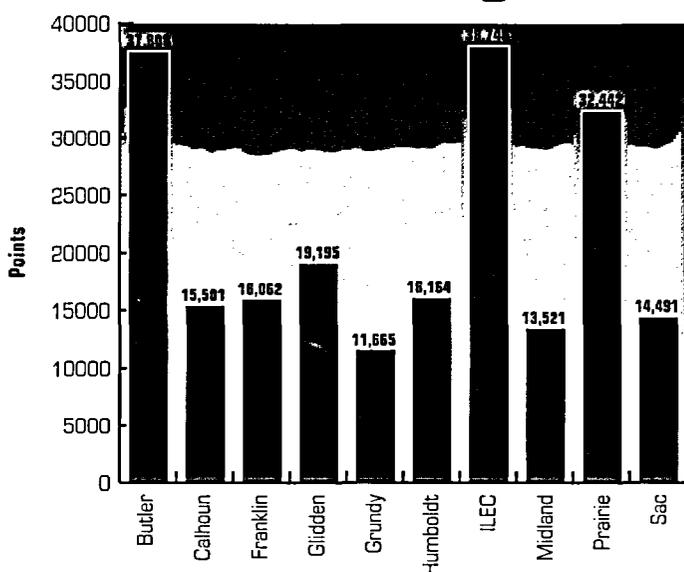
Throughout 2002, Corn Belt Power continued placing radio, print and television advertising for the Touchstone Energy Cooperatives it serves, fulfilling the objective of having the same ads run at the same time throughout the Corn Belt Power system. Three different ads on 21 billboards promoted the advantages of membership in the local Touchstone Energy Cooperative.

Corn Belt Power received a first-place Award of Excellence for having the best annual report in the G&T category from the Council of Rural Electric Communicators in its 2002 "Spotlight on Excellence."

Iowa's electric cooperatives hosted the 11th annual Momentum is Building conference for builders, electricians, plumbers and heating, ventilation and air conditioning professionals Feb. 13-14 in Des Moines. A record number of attendees were on hand to learn about energy efficient building techniques and electric technologies.

The 2002 Mid-Iowa Community Development Conference, co-sponsored by Corn Belt Power Cooperative and Iowa State University Cooperative Extension, was held March 21 in Fort Dodge, marking the 12th year of bringing together development groups and community leaders to share community improvement ideas.

## 2002 Touchstone Energy® Challenge

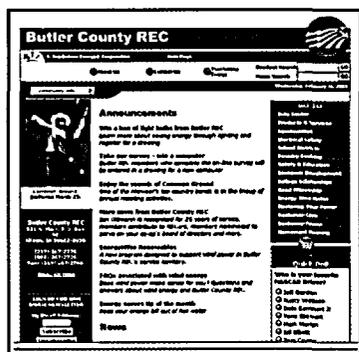


Dr. Caroline Fisher conducts the 2002 Touchstone Energy Challenge training titled, "Choose to Lead," attended by over 360 co-op employees and directors.

Energy efficient construction, air quality, ventilation and electric heating and cooling technology were among topics presented at five "Build-it-Right" workshops sponsored by Corn Belt Power and its member systems in November. About 250 participants attended.

Corn Belt Power and its member systems paid over \$650,000 for marketing installation incentives to members who installed electric space heating or water heating systems in 2002. Rate incentives of over \$1.3 million were paid to customers for almost 49 million kWh of electric heating and cooling used during the year.

Iowa Lakes Electric Cooperative took first-place honors in the Touchstone Energy Challenge with top points and growth awards. Employees and directors from all member systems and Corn Belt Power reported almost 20,000 hours of volunteer community service during the year.



Member systems increased their electronic marketing efforts through programs coordinated by Corn Belt Power. *Smart Choices*, an electronic newsletter, was sent throughout the year to members via email. In addition,

all member co-ops updated their Web sites using the common content and functionality of Corn Belt Power's Online REC Information Center.

New employees hired at Corn Belt Power in 2002 were Ryan Conlon, apprentice lineman; Jennifer Arndorfer, human resources specialist; Randal Weiskamp, apprentice lineman; Brian Gibson, communications technician; and Anita Erickson, electrical engineer. Service awards for 2002 were presented to Daniel Amato, control operator; Darcy Holland, administrative assistant; Stanton Schauff, control operator; and Jeremy Stattelman, journeyman lineman, all five years; Michael Finnegan, journeyman lineman; Craig Poulsen, operations and maintenance supervisor; and Kathy Taylor, vice president, corporate relations, all 10 years; Kathryn Saathoff, property accountant; and Eric Skow, journeyman electrician, both 15 years; Coleen Davis, accounts payable, 25 years; Lonnie Kirchoff, apprentice lineman; and Donald Larsen, line foreman, both 30 years; and Donald Routh, line foreman, 35 years.



Dan Huffman, right, member service director, Grundy County REC, attends the trade show at the 11th annual Momentum is Building conference. Held Feb. 13-14, the conference hosted a record number of attendees.



John McLaughlin, second from right, KCCI-TV meteorologist, interviews Mike Hagen, executive vice president and general manager, Prairie Energy Cooperative, during the SchoolNet broadcast at Webster City Middle School.

## 2002 Projects

### Franklin REC

- Groundbreaking for Northern Pipe Products with construction of a 45,000-square-foot manufacturing facility with anticipated load between 2.5 – 3 MW

### Glidden REC

- Tall Corn Ethanol open house and start-up – approximately 3.5 MW load
- Inter West, LC soy-diesel plant open house and start-up

### Grundy County REC

- Completion of the street and water project within the Grundy County Industrial Park and completion of a 20,000-square-foot speculative building
- Announcement of Bacon Veneer 45,000-square-foot expansion to be located in the Grundy Center Development Park

### Humboldt County REC

- Humboldt Controls and Fabricating open house and start-up
- 20,000-square-foot speculative building completed
- Groundbreaking for Willow Ridge housing development

### Iowa Lakes Electric Cooperative

- Completion of a 20,000-square-foot speculative building in the first phase of the new Spencer Technical Park South
- Rembrandt Enterprises constructed eight of 16 layer houses, including a feed mill and egg breaking facility – approximately 4.5 MW load
- Start-up of MGP Ethanol – approximately 3.5 MW load

### Midland Power Cooperative

- Development of the Southview Industrial Park in Iowa Falls

### Prairie Energy Cooperative

- Completion of the street project in the Touchstone Energy Park at Garner
- Groundbreaking and development of the new Clarion Industrial Park

## Business Development

At its annual meeting in April, Corn Belt Power received the IADG Policy Development System Award for its work in economic development.

Corn Belt Power was represented among leaders from 10 counties in north central Iowa who joined efforts in May to create a regional economic development organization called the Mid Iowa Development Corporation (MIDC). The organization will focus on growing business and industry in towns and rural areas in the region.

At the North Iowa Touchstone Energy Golf Invitational held July 30 at the Fort Dodge Country Club, over 100 co-op representatives and their guests received information about the key account services offered by their local Touchstone Energy Cooperatives.

The Iowa Area Development Group (IADG) honored two companies served by Corn Belt Power member cooperatives with 2002 Venture Awards — Vosberg Enterprises, served by Calhoun County REC, and Fairview Farms, a member of Humboldt County REC. West Central Soy, served by Glidden REC, was the 2002 “Value-Added Agriculture” Venture Award recipient. The 2002 “Outstanding Business of the Year” Venture Award was presented to Rembrandt Enterprises, an egg production and processing company served by Iowa Lakes Electric Cooperative.



The winning team from Glidden REC waits to tee off at the North Iowa Touchstone Energy Golf Invitational, held July 30 with over 100 co-op representatives and their guests in attendance.



Representatives cut the ribbon during a ceremony for the Grundy County Development Park, held June 17. Located six miles north of Grundy Center on Highway 14, the park has 20 acres for development.

**Government Relations**

Corn Belt Power representatives discussed issues of importance with state and federal legislators throughout 2002. Congressman Greg Ganske, who was running against Sen. Tom Harkin for the U.S. Senate, visited Corn Belt Power Jan. 8 on a campaign trip through north central Iowa.

Over 175 electric cooperative managers, directors and staff members attended REC Day on the Hill March 6 at the Iowa State Capitol.

A contingent of Iowa's rural electric cooperative leaders visited Washington, D.C., May 5-9 to update members of Congress on the status of Iowa's electric industry and to provide input on significant issues such as the national energy policy, creating a nuclear waste repository, taxes and the pending EchoStar/DirecTV merger.

With many of Iowa's 2003 state representatives and senators newly elected to office, the major message communicated by electric cooperative representatives at legislative meetings in November focused on how cooperatives operate differently from other electric utilities.

**Human Resources**

A new project called Cooperative On-Line Resourcing, also known as the COLR (pronounced "color") project, resulted in employees and directors of Corn Belt Power communicating with increased efficiency, speed and accuracy. Phase one of the project included purchase and installation of computers and creation of email addresses for directors and all employees.



L. Kirby Range, right, Corn Belt Power and Iowa Lakes Electric Cooperative director, discusses issues affecting electric cooperatives with Rep. Russ Eddie, Storm Lake, at the REC Day on the Hill March 6.

An Intranet site called the Power Page was created and will be developed further in 2003 to include a daily news page, printed publications, plans and manuals, company forms, employee calendars, board minutes and agendas, inventory records and human resources information.

In 2002, Corn Belt Power continued its study of corporate culture, holding employee information meetings to focus on the cooperative's purpose, mission and values. The following were identified as the cooperative's key values: positive attitude, trust, respect, commitment, integrity, innovation and accountability.



Rep. Greg Ganske, right, watches as Richard Hegna, chief system supervisor, shows how the Corn Belt Power transmission system is monitored and controlled. Rep. Ganske visited Corn Belt Power in January during his campaign for U.S. Senate.



Christian Nygaard, left, Humboldt County REC and Iowa Association of Electric Cooperatives director, meets with Rep. Jim Nussle during the Legislative Rally in Washington, D.C., in May.

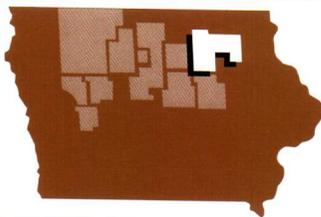
# Board of Directors



## Donald Feldman, Butler County REC

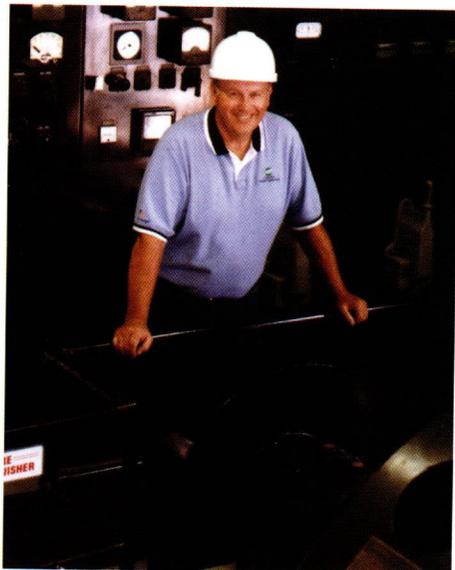
President, Corn Belt Power Cooperative Board of Directors

*"The biggest advantage of being a co-op member is having local control, which means if you are elected to the board you can make decisions that will enhance the service the other members receive. Why would people not want to send their monthly check to a place where they have membership and some influence on the way the business is operated?"*



### Butler County REC

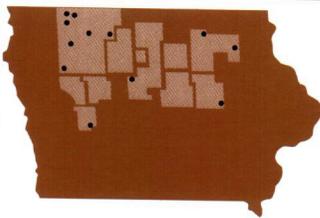
2002 kWh Billed by Corn Belt Power	147,202,219
Miles of Line	1,793.03
# of Meters Served	6,723
# of Employees	34



## Ronald Deiber, North Iowa Municipal Electric Cooperative Association (NIMECA)

Vice President, Corn Belt Power Cooperative Board of Directors

*"I value being an owner of the company I'm buying from. Local leadership is very important. That leadership can be right next-door and, as a co-op member, I can go and sit down with local leadership and get answers to my questions. Large companies in many cases have headquarters located outside of the state we live in and they provide no local contact."*



### North Iowa Municipal Electric Cooperative Association (NIMECA)

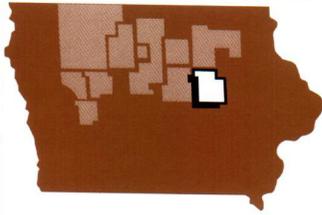
NIMECA includes the municipal electric utilities of Alta, Bancroft, Coon Rapids, Graettinger, Grundy Center, Laurens, Milford, New Hampton, Spencer, Sumner, Webster City and West Bend.



## Donald McLean, Grundy County REC

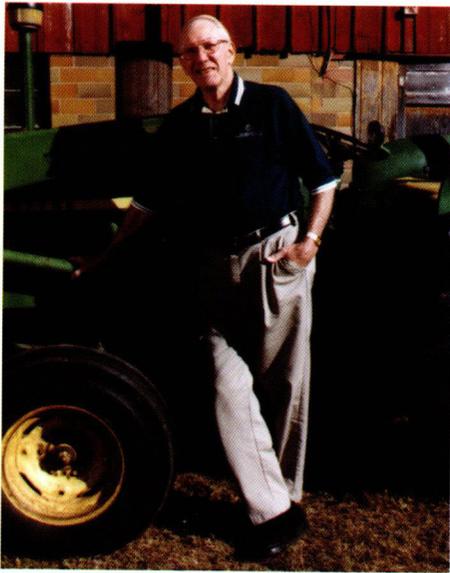
Secretary, Corn Belt Power Cooperative Board of Directors

*"When I think of what our electric cooperatives have to offer, I'm very proud. The most important thing is the support we give to the local communities that we are part of. This covers many things – volunteer work, contributing funds for local projects, etc. – but the most important to me is helping new businesses get established, and established companies grow and prosper."*



### Grundy County REC

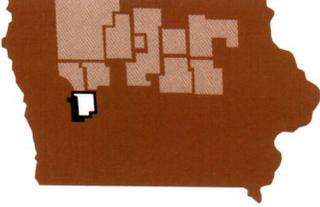
2002 kWh Billed by Corn Belt Power	100,042,719
Miles of Line	910.28
# of Meters Served	2,285
# of Employees	15



**John Schumacher, Glidden REC**

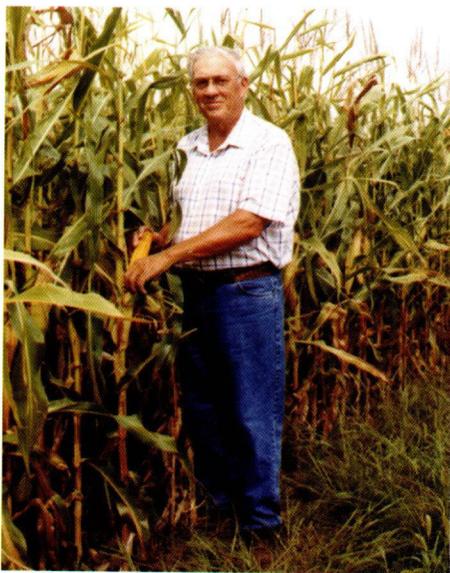
Director, Corn Belt Power Cooperative

*“Probably the greatest benefit or advantage I see in cooperative membership is the fact that I am served by an organization whose primary goal is to provide quality electric service to its members, not to generate profit. Also, if I were not served by an electric co-op, I would lose the political leverage that we now have both nationally and locally to defend the rights and benefits of the cooperative system and look after our best interests, at the same time being fair and considerate of the rights of others.”*



**Glidden REC**

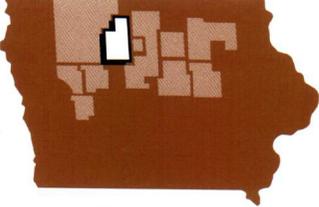
<b>2002 kWh Billed by Corn Belt Power</b>	58,723,835
<b>Miles of Line</b>	761.75
<b># of Meters Served</b>	1,698
<b># of Employees</b>	13



**LeRoy Weber, Humboldt County REC**

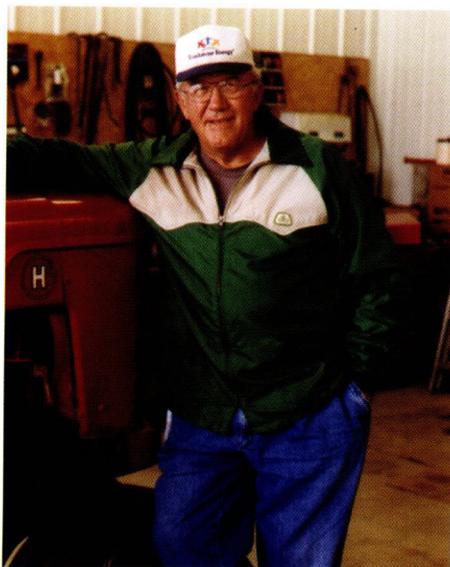
Director, Corn Belt Power Cooperative

*“Owners of electric cooperatives have personal contact with board members about any problems they may have. The co-op is more concerned with serving the member-customer.”*



**Humboldt County REC**

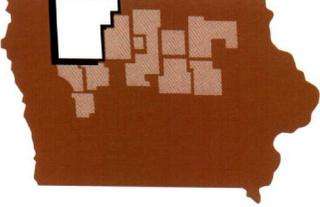
<b>2002 kWh Billed by Corn Belt Power</b>	55,535,161
<b>Miles of Line</b>	943
<b># of Meters Served</b>	1,849
<b># of Employees</b>	14



**L. Kirby Range, Iowa Lakes Electric Cooperative**

Director, Corn Belt Power Cooperative

*“Customer-ownership is the biggest advantage of being a member of a cooperative. Local leadership is the mainstay in electric co-ops; customer-members know and can talk with their directors.”*



**Iowa Lakes Electric Cooperative**

<b>2002 kWh Billed by Corn Belt Power</b>	285,955,235
<b>Miles of Line</b>	4641*
<b># of Meters Served</b>	11,737*
<b># of Employees</b>	63

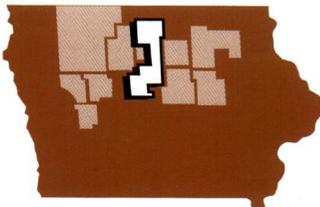
\*Corn Belt Power service territory only



**Carrol Boehnke, Prairie Energy Cooperative**

Treasurer, Corn Belt Power Cooperative Board of Directors

*“Maybe it’s because I’ve belonged to the cooperative system for so long, but I would have a problem with the lack of input I would have as a customer of any other type of utility. Belonging to the cooperative system, I’m assured the rates being paid do not include profits to stockholders or rates of return set by a government agency. Any monies remaining after expenses are subtracted from revenues are returned to the membership.”*



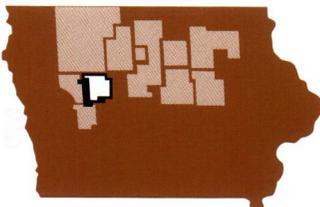
<b>Prairie Energy Cooperative</b>	
<b>2002 kWh Billed by Corn Belt Power</b>	213,060,759
<b>Miles of Line</b>	2,010
<b># of Meters Served</b>	4,656
<b># of Employees</b>	37



**Donald O'Tool, Calhoun County REC**

Assistant Secretary/Treasurer,  
Corn Belt Power Cooperative Board of Directors

*“As a person who has been with a co-op for a long time, I know that the co-op is concerned with the people in the country. I would tell anyone to choose the co-op, if choice were an option, because service is our strong point, while others have profit as their goal to satisfy shareholders and service is secondary. It has been a life-changing experience to have electricity on the farm.”*



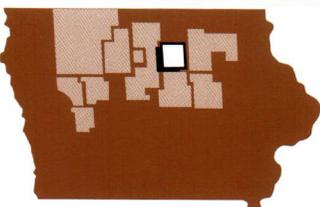
<b>Calhoun County REC</b>	
<b>2002 kWh Billed by Corn Belt Power</b>	34,052,570
<b>Miles of Line</b>	765.27
<b># of Meters Served</b>	1,740
<b># of Employees</b>	11



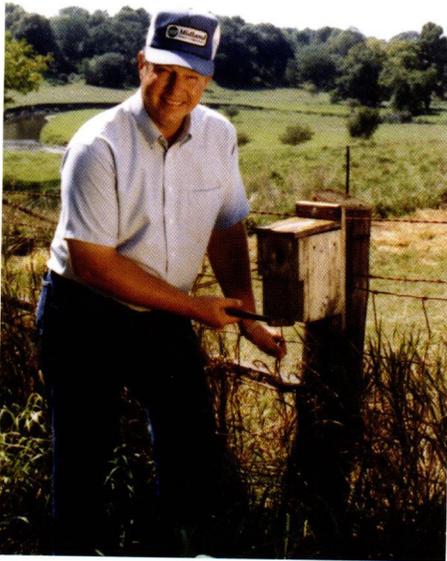
**Roger Rust, Franklin REC**

Director, Corn Belt Power Cooperative

*“A co-op has more stability than a stock company when times become turbulent. Member control makes the difference. Corn Belt Power is a very fine system and a good organization.”*



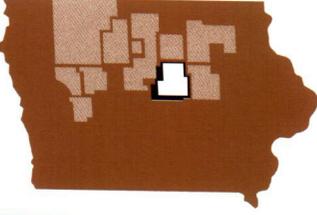
<b>Franklin REC</b>	
<b>2002 kWh Billed by Corn Belt Power</b>	55,998,917
<b>Miles of Line</b>	824.69
<b># of Meters Served</b>	2,046
<b># of Employees</b>	14



**Charles Gilbert,  
Midland Power Cooperative**

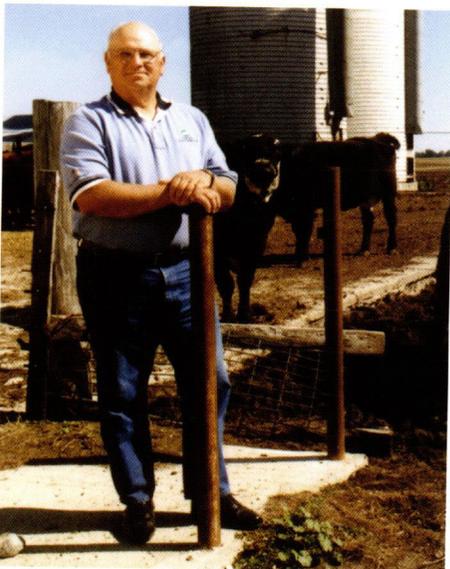
Director, Corn Belt Power Cooperative

*“While our rural electric co-ops came into existence to electrify rural America, the direct result has been and always will be improving the quality of life for our members. Rural electric co-ops strive to provide outstanding value to exceed our members’ needs.”*



<b>Midland Power Cooperative</b>	
<b>2002 kWh Billed by Corn Belt Power</b>	114,165,109
<b>Miles of Line</b>	1183.2*
<b># of Meters Served</b>	3,089*
<b># of Employees</b>	35

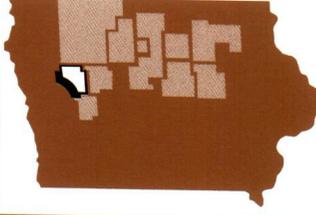
\*Corn Belt Power service territory only



**Norman Kolbe, Sac County REC**

Director, Corn Belt Power Cooperative

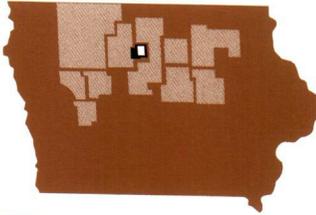
*“I value the good service that we have from our electric cooperative. Also, being a member-owner, I know that any excess margin will be returned in patronage.”*



<b>Sac County REC</b>	
<b>2002 kWh Billed by Corn Belt Power</b>	23,376,795
<b>Miles of Line</b>	490
<b># of Meters Served</b>	1,045
<b># of Employees</b>	9

**Boone Valley Electric Cooperative**

*Boone Valley Electric Cooperative is a non-voting member of Corn Belt Power Cooperative and, therefore, does not have a director serving on the Corn Belt Power board.*



<b>Boone Valley Electric Cooperative</b>	
<b>2002 kWh Billed by Corn Belt Power</b>	8,882,336
<b>Miles of Line</b>	61.5
<b># of Meters Served</b>	143
<b># of Employees</b>	3

# Balance Sheets

December 31, 2002 and 2001

## ASSETS

	<u>2002</u>	<u>2001</u>
<b>ELECTRIC PLANT (Notes 2 and 6):</b>		
In service.....	\$ 222,747,516	\$ 216,798,323
Less-accumulated depreciation .....	<u>127,167,745</u>	<u>121,895,992</u>
	95,579,771	94,902,331
Construction work in progress .....	11,800,568	4,398,148
Nuclear fuel, net of amortization (Note 2).....	<u>5,968,375</u>	<u>5,329,457</u>
	<u>113,348,714</u>	<u>104,629,936</u>
<b>OTHER PROPERTY AND INVESTMENTS:</b>		
Nonutility property .....	356,761	309,698
Investment in the National Rural Utilities Cooperative Finance Corporation (Note 2).....	2,514,836	2,514,836
Land held for future use (Note 2) .....	2,977,665	2,977,665
Decommissioning fund (Note 2) .....	17,884,979	19,327,548
Other investments (Note 2).....	1,346,126	1,102,541
Note receivables (Note 2).....	<u>3,995,580</u>	<u>3,562,377</u>
	<u>29,075,947</u>	<u>29,794,665</u>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents (Note 2) .....	1,722,520	8,506,969
Member accounts receivable .....	3,718,926	3,855,569
Other receivables .....	244,626	519,206
Inventories -		
Fuel, primarily coal, at last-in, first-out cost .....	1,941,321	1,719,294
Materials and supplies, at average cost .....	3,969,483	4,501,265
Prepayments .....	<u>277,403</u>	<u>245,761</u>
	<u>11,874,279</u>	<u>19,348,064</u>
<b>DEFERRED CHARGES:</b>		
Deferred Department of Energy decommissioning costs (Note 10).....	697,823	830,382
Deferred refueling costs (Note 2) .....	151,918	1,063,425
Other .....	<u>331</u>	<u>5,964</u>
	<u>850,072</u>	<u>1,899,771</u>
	<u>\$ 155,149,012</u>	<u>\$ 155,672,436</u>

The accompanying notes to the financial statements are an integral part of these statements.



# Balance Sheets

December 31, 2002 and 2001

## MEMBERSHIP CAPITAL AND LIABILITIES

	<u>2002</u>	<u>2001</u>
<b>MEMBERSHIP CAPITAL:</b>		
Memberships, at \$100 per membership.....	\$ 1,300	\$ 1,300
Deferred patronage dividends, per accompanying statements (payment restricted as indicated in Note 3).....	8,833,271	8,660,671
Other equities, per accompanying statements.....	27,139,161	25,606,299
Unrealized gain in market value of investments (Note 2).....	<u>206,063</u>	<u>1,022,663</u>
	<u>36,179,795</u>	<u>35,290,933</u>
<b>LONG-TERM DEBT (Note 4):</b>		
Rural Utilities Service .....	23,075,680	25,561,389
Federal Financing Bank .....	67,217,906	65,171,448
Capital lease obligations (Note 2) .....	0	555,707
Pollution control revenue bonds .....	1,245,000	1,450,000
NRUCFC .....	1,000,000	0
USDA Intermediary Relending Program.....	<u>880,000</u>	<u>880,000</u>
	93,418,586	93,618,544
Less - Current maturities of long-term debt.....	<u>6,645,928</u>	<u>6,696,769</u>
	<u>86,772,658</u>	<u>86,921,775</u>
<b>OTHER LONG-TERM LIABILITIES:</b>		
Deferred Department of Energy decommissioning costs (Note 10) .....	445,598	583,366
DAEC decommissioning liability (Note 2) .....	17,671,299	18,298,445
Other.....	<u>10,000</u>	<u>900,750</u>
	<u>18,126,897</u>	<u>19,782,561</u>
<b>CURRENT LIABILITIES:</b>		
Current maturities of long-term debt .....	6,645,928	6,696,769
Accounts payable.....	4,760,816	4,149,488
Accrued property and other taxes .....	1,993,216	2,106,518
Accrued interest and other .....	<u>669,702</u>	<u>724,392</u>
	<u>14,069,662</u>	<u>13,677,167</u>
	<u>\$ 155,149,012</u>	<u>\$ 155,672,436</u>

The accompanying notes to the financial statements are an integral part of these statements.

# Statements of Revenues and Expenses

For the Years Ended December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
<b>OPERATING REVENUES:</b>		
Sales of electric energy .....	\$ 49,964,446	\$ 45,962,337
Other .....	<u>3,846,448</u>	<u>3,761,117</u>
	<u>53,810,894</u>	<u>49,723,454</u>
<b>OPERATING EXPENSES:</b>		
Operation -		
Steam and other power generation .....	18,810,422	16,725,291
Purchased power, net .....	6,989,479	5,395,901
Transmission .....	2,720,172	2,987,310
Sales .....	2,353,344	2,716,145
Administrative and general .....	3,030,169	3,275,393
Maintenance -		
Steam and other power generation .....	3,937,350	3,967,806
Transmission .....	793,956	709,923
General plant .....	30,471	30,103
Depreciation and decommissioning (Note 2) .....	<u>7,683,327</u>	<u>7,274,573</u>
	<u>46,348,690</u>	<u>43,082,445</u>
Net Operating Revenues .....	<u>7,462,204</u>	<u>6,641,009</u>
<b>INTEREST AND OTHER DEDUCTIONS:</b>		
Interest on long-term debt .....	5,968,691	5,888,011
Interest during construction (Note 2) .....	(132,148)	(323,297)
Other interest and deductions .....	<u>11,842</u>	<u>17,735</u>
	<u>5,848,385</u>	<u>5,582,449</u>
NET OPERATING MARGIN .....	<u>1,613,819</u>	<u>1,058,560</u>
<b>NON-OPERATING MARGIN:</b>		
Interest and dividend income .....	339,095	631,496
Other, net (Note 2) .....	<u>259,350</u>	<u>133,218</u>
	<u>598,445</u>	<u>764,714</u>
NET MARGIN .....	<u>\$ 2,212,264</u>	<u>\$ 1,823,274</u>

The accompanying notes to the financial statements are an integral part of these statements.

# Statements of Cash Flow

For the Years Ended December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net margin .....	\$ 2,212,264	\$ 1,823,274
Adjustments to reconcile net margin to cash provided by operations:		
Depreciation and amortization .....	6,942,218	6,678,301
Amortization of nuclear fuel .....	2,108,224	1,787,375
Amortization of deferred refueling costs .....	911,507	921,164
Amortization of Department of Energy decommissioning costs .....	133,783	130,482
Changes in current assets and liabilities:		
Accounts receivable .....	411,223	(312,583)
Inventories .....	309,755	(2,045,798)
Prepayments.....	(31,642)	7,493
Accounts payable.....	611,328	(1,247,108)
Accrued property and other taxes .....	(113,302)	76,855
Accrued interest and other liabilities .....	(56,817)	(1,089,126)
Payment to Department of Energy for decommissioning .....	(135,584)	(133,183)
Other .....	<u>(885,117)</u>	<u>(157,326)</u>
Net cash provided by operating activities .....	<u>12,417,840</u>	<u>6,439,820</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from long-term debt .....	6,564,000	6,433,000
Repayment of long-term debt .....	(6,763,958)	(7,137,570)
Deferred patronage dividends paid .....	<u>(577,400)</u>	<u>(574,000)</u>
Net cash used in financing activities .....	<u>(777,358)</u>	<u>(1,278,570)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Additions to electric plant, net.....	(13,978,203)	(6,474,115)
Additions to nuclear fuel .....	(2,747,142)	(567,545)
Additions to deferred refueling costs.....	0	(1,612,574)
Sale of (additions to) non-utility plant, net .....	(47,063)	128,858
Additions to decommissioning fund .....	(1,045,052)	(848,718)
Change in other investments .....	<u>(607,471)</u>	<u>(921,549)</u>
Net cash used in investing activities.....	<u>(18,424,931)</u>	<u>(10,295,643)</u>
Net decrease in cash and cash equivalents .....	(6,784,449)	(5,134,393)
<b>CASH AND CASH EQUIVALENTS AT:</b>		
Beginning of year .....	<u>8,506,969</u>	<u>13,641,362</u>
End of year .....	<u>\$ 1,722,520</u>	<u>\$ 8,506,969</u>

The accompanying notes to the financial statements are an integral part of these statements.



# Statements of Deferred Patronage Dividends and Other Equities

For the Years Ended December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
<b>DEFERRED PATRONAGE DIVIDENDS:</b>		
Balance assigned beginning of year.....	\$ 8,660,671	\$ 8,609,671
Net margin .....	2,212,264	1,823,274
Revenue deferred patronage dividends.....	<u>70,598</u>	<u>50,929</u>
	10,943,533	10,483,874
 Patronage dividends paid.....	 (577,400)	 (574,000)
 Appropriation of margin -		
Reserve for contingent losses .....	(1,467,862)	(1,249,203)
Statutory surplus.....	<u>(65,000)</u>	<u>0</u>
Balance assigned end of year .....	<u>\$ 8,833,271</u>	<u>\$ 8,660,671</u>

**OTHER EQUITIES:**  
(Appropriated Margins)

	<u>Statutory Surplus</u>	<u>Reserve for Contingent Losses</u>	<u>Total</u>
Balance December 31, 2000	\$ 4,349,484	\$ 20,007,612	\$ 24,357,096
Appropriation of margin	<u>0</u>	<u>1,249,203</u>	<u>1,249,203</u>
Balance December 31, 2001	\$ 4,349,484	\$ 21,256,815	\$ 25,606,299
Appropriation of margin	<u>65,000</u>	<u>1,467,862</u>	<u>1,532,862</u>
Balance December 31, 2002	<u>\$ 4,414,484</u>	<u>\$ 22,724,677</u>	<u>\$ 27,139,161</u>

# Statements of Comprehensive Income

For the Years Ended December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Net margin .....	\$ 2,212,264	\$ 1,823,274
Change in unrealized gain in market value of investments .....	<u>(816,600)</u>	<u>397,848</u>
Comprehensive income .....	<u>\$ 1,395,664</u>	<u>\$ 2,221,122</u>

The accompanying notes to the financial statements are an integral part of these statements.

# Notes to Financial Statements

December 31, 2002 and 2001

## NOTE (1) ORGANIZATION:

Corn Belt Power Cooperative (the Cooperative) is a Rural Utilities Service (RUS) financed generation and transmission cooperative created and owned by 11 distribution cooperatives and one municipal cooperative association. Electricity supplied by the Cooperative serves farms, small towns and commercial and industrial businesses across 27 counties in north central Iowa.

The Cooperative's Board of Directors is comprised of one representative from each member cooperative and is responsible for, among other things, establishing rates charged to the member cooperatives.

## NOTE (2) SIGNIFICANT ACCOUNTING POLICIES:

The Cooperative maintains its accounting records in accordance with the Uniform System of Accounts as prescribed by the RUS. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The significant accounting policies are:

### A. Electric Plant -

Electric plant is stated at original cost which includes payroll and related benefits, sales and use taxes, property taxes and interest during the period of construction.

Costs in connection with repairs of properties and replacement of items less than a unit of property are charged to maintenance expense. Additions to and replacements of units of property are charged to electric plant accounts.

### B. Depreciation and Decommissioning -

Depreciation is provided using straight-line methods and RUS-prescribed lives. These provisions, excluding nuclear facilities, were equivalent to a composite depreciation rate on gross plant of 3.09% and 2.87% for 2002 and 2001, respectively.

Under a joint-ownership agreement, the Cooperative has a 10% undivided interest in the Duane Arnold Energy Center (DAEC), a nuclear-fueled generating station, which was placed in service in 1974. The Cooperative is depreciating its interest in the DAEC and each year's property additions subsequent to 1984 on a straight-line basis over the remaining term of the initial Nuclear Regulatory Commission license for DAEC (2014). The composite depreciation rate on gross plant for DAEC was 3.77% and 3.50% for 2002 and 2001, respectively.

A Nuclear Regulatory Commission estimate of the decommissioning costs of DAEC was updated in 2002. This report estimated the Cooperative's share of the decommissioning costs of DAEC to be approximately \$56,400,000 (in 2002 dollars). The Cooperative is providing for overall nuclear decommissioning costs using a funding method which assumes a 5% rate of inflation and 5% real rate of return. The method is designed to accumulate a decommissioning reserve sufficient to cover the Cooperative's share of decommissioning costs by the year 2014.

# Notes to Financial Statements

December 31, 2002 and 2001

Decommissioning costs are included in depreciation and decommissioning expense, in the Statements of Revenues and Expenses. Such costs were \$1,045,052 and \$848,718, for 2002 and 2001, respectively. These decommissioning costs are being recovered in rates.

The total market value of the decommissioning funds accumulated at December 31, 2002, were \$17,884,979, of which \$11,800,658 has been placed in a fund legally restricted for use in decommissioning DAEC. The remaining \$6,084,321, while not legally restricted, has been designated by the Cooperative for use in decommissioning DAEC. Furthermore, the dividends, interest and realized gains (losses) on the sale of decommissioning fund investments are recorded directly as increases (decreases) to the DAEC decommissioning liability in the amount of (\$1,672,198) and (\$1,031,886) for 2002 and 2001, respectively, in the accompanying balance sheets.

## C. Nuclear Fuel -

The cost of nuclear fuel is amortized to steam and other power generation expenses based on the quantity of heat produced for the generation of electric energy. Such amortization was \$2,108,224 and \$1,787,375 for 2002 and 2001, respectively.

## D. Land Held for Future Use -

The Cooperative owns land held for a potential generation plant and related transmission facilities to provide for future power needs.

## E. Deferred Refueling Costs -

The Cooperative defers extraordinary operation and maintenance expenses incurred during refueling outages of DAEC. These costs are being amortized to expense based on the expected generation of the next fuel cycle which corresponds with the period the Cooperative is recovering these costs in its rates. Such amortization was \$911,507 and \$921,164 for 2002 and 2001, respectively.

## F. Interest During Construction -

Interest during construction represents the cost of funds used for construction and nuclear fuel refinement. The average rate was 2.0% and 4.1% for 2002 and 2001, respectively, and is based on the Cooperative's costs of financing.

## G. Capital Lease -

The Cooperative has a long-term lease agreement with the City of Webster City (Webster City) under which Webster City has agreed to provide certain generation and transmission facilities to the Cooperative. In return, the Cooperative will pay a minimum charge which approximates the debt service on these facilities. The Cooperative has capitalized this lease and reflected it in electric plant and has reflected the related obligation as a capital lease obligation.

As of December 31, 2002, no additional debt is owed under the current capital lease. The Cooperative continues to operate certain Webster City generation and transmission assets and pay for the operation, maintenance, and capital additions associated with those assets. In the future, the Cooperative may request additional financing from Webster City for its share of capital additions to the combined system.

## H. Income Taxes -

The Cooperative believes that it is exempt from federal and state income taxes under section 501(c)(12) of the Internal Revenue Code. Accordingly, no provision for income taxes has been included in the Cooperative's financial statements.

## I. Statements of Cash Flows -

For the purpose of reporting cash flows, the Cooperative considers temporary cash investments purchased with a maturity of three months or less to be cash equivalents. Cash paid for interest, net of interest capitalized, was \$5,845,035 and \$6,710,593 for 2002 and 2001, respectively.

# Notes to Financial Statements

December 31, 2002 and 2001

## J. Cash and Investments -

The Cooperative has cash and investments in the following:

	<u>2002</u>	<u>2001</u>
Obligations of the U.S. government and its agencies	\$ 5,828,814	\$ 8,462,179
Corporate bonds	2,625,753	2,402,342
Common and preferred stock	7,787,117	7,720,679
National Rural Utilities Cooperative Finance Corporation commercial paper	1,400,000	7,446,220
Cash and CDs deposited with federally insured financial institutions	322,520	1,060,749
Funds held in trust	2,093,569	1,178,681
Other investments	<u>895,852</u>	<u>666,208</u>
	<u>\$ 20,953,625</u>	<u>\$ 28,937,058</u>

The above investments are included as follows in the accompanying balance sheets:

Decommissioning fund	\$ 17,884,979	\$ 19,327,548
Other investments	1,346,126	1,102,541
Cash and cash equivalents	<u>1,722,520</u>	<u>8,506,969</u>
	<u>\$ 20,953,625</u>	<u>\$ 28,937,058</u>

The carrying amounts of cash and cash equivalents and short-term investments of \$1,722,520 and \$8,506,969 at December 31, 2002 and 2001, respectively, approximate the fair value because of the short maturity of these investments. The Cooperative's decommissioning fund investments, which include marketable debt and equity securities, are reported at fair value with unrealized gains and losses reported as a net amount in a separate component of membership capital until realized.

The fair value of the Cooperative's other investments are based on quoted market prices for those or similar investments, where available. The carrying value of these investments approximate fair value as of December 31, 2002.

# Notes to Financial Statements

December 31, 2002 and 2001

The Cooperative has an investment of \$2,514,836 at December 31, 2002 and 2001, with the National Rural Utilities Cooperative Finance Corporation (CFC). This investment is required in order to allow the Cooperative to borrow funds from CFC. The investment earns interest of 5% on \$2,195,507 which matures between 2070 and 2080 and 3% on \$319,289 which matures between 2007 and 2025.

For investments in CFC, economic development loans and other associated organizations of \$4,851,091 and \$4,352,952 at December 31, 2002 and 2001, respectively, for which there were no quoted market prices, a reasonable estimate of fair value could not be made without incurring excessive costs.

## K. Note Receivables -

Note receivables consist of notes to member cooperatives and other businesses to assist in economic development of qualifying industrial sites, speculative buildings, rural housing and certain joint venture projects.

## L. Operating Revenues and Cost of Power -

The Cooperative recognizes sales of electric energy and the related cost of electric energy produced or purchased when energy is delivered to customers.

## NOTE (3) DEFERRED PATRONAGE DIVIDENDS AND OTHER EQUITIES:

In accordance with the Iowa Code, the Board of Directors is required to allocate a portion of the current year's net margin to statutory surplus until the statutory surplus equals 30% of total membership capital. No additions can be made to statutory surplus whenever it exceeds 50% of total membership capital. The Board of Directors appropriated \$65,000 of the 2002 net margins to statutory surplus.

The equity designated "Reserve for contingent losses" in the Statements of Deferred Patronage Dividends and Other Equities is an appropriation of equity by the Board of Directors. The Board of Directors appropriated \$1,467,862 and \$1,249,203 of the 2002 and 2001 net margins to reserve for contingent losses. There is no statutory restriction of this equity.

The Board of Directors is permitted by the Iowa Code to allocate the current year's net margin to deferred patronage dividends upon meeting certain requirements and is required to make such allocations if the net margin for the year exceeds specified maximums. The Board of Directors has appropriated \$750,000 and \$625,000 of the 2002 and 2001 net margins to deferred patronage dividends. Deferred patronage dividends are to be paid in the future as determined by the Board of Directors.

Under the conditions of the Cooperative's mortgages, deferred patronage dividends cannot be retired without approval of the RUS and the CFC unless the remaining equity meets certain tests. The Cooperative does not meet these tests at December 31, 2002. However, the Cooperative received permission and retired \$85,671 of the 1990 and \$491,729 of the 1991 patronage dividends during 2002. During 2001, \$159,671 of the 1989, and \$414,329 of the 1990 patronage dividends were retired.

# Notes to Financial Statements

December 31, 2002 and 2001

## NOTE (4) LONG-TERM DEBT:

Long-term debt consists of mortgage notes payable to the United States of America acting through the RUS and the Federal Financing Bank (FFB), capital lease obligations, notes issued in conjunction with the issuance of pollution control revenue bonds, and notes borrowed through the USDA Intermediary Relending Program "IRP Notes." The Cooperative applied for the IRP Notes in 1999 and 2000 and received the proceeds in 2000 and 2001. The proceeds of these IRP Notes are then relended to other eligible businesses within certain approved counties in the Cooperative service area. These IRP Notes are not secured by assets of the Cooperative. Substantially all the assets and all rent, income, revenue and net margin of the Cooperative are pledged as collateral for the long-term debt of the Cooperative. Long-term debt is comprised of:

	<u>2002</u>	<u>2001</u>
Mortgage notes due in quarterly installments:		
RUS 2%, due 2002-2008	\$ 4,871,056	\$ 6,123,470
RUS 5%, due 2002-2019	18,204,624	19,437,919
FFB 5.0%-10.7%, due 2002-2027	<u>67,217,906</u>	<u>65,171,448</u>
	<u>90,293,586</u>	<u>90,732,837</u>
Capital lease obligations -		
Webster City revenue bonds		
5.9%, due 2002	<u>0</u>	<u>555,707</u>
Pollution control revenue bonds -		
6.125%, due 2002-2007	<u>1,245,000</u>	<u>1,450,000</u>
CFC interim loan -		
3.4%, due 2006	<u>1,000,000</u>	<u>0</u>
USDA Intermediary Relending Program -		
1%, due 2003-2029	<u>880,000</u>	<u>880,000</u>
	<u>\$ 93,418,586</u>	<u>\$ 93,618,544</u>

Maturities of long-term debt for the next five years are as follows:

<u>Year</u>	<u>Maturity</u>
2003 .....	\$ 6,645,928
2004 .....	6,895,353
2005 .....	7,030,095
2006 .....	8,071,984
2007 .....	7,006,591
Thereafter .....	<u>57,768,635</u>
	<u>\$ 93,418,586</u>

The Cooperative had available at December 31, 2002, an unused \$12,000,000 line of credit with CFC of which \$1,000,000 is available only in the event of a nuclear incident. In 2002, the Cooperative entered into an interim loan agreement with CFC. The CFC interim loan allows the Cooperative to borrow up to \$17 million to fund construction commitments of which \$1,000,000 had been drawn as of December 31, 2002. It is expected this loan will be repaid upon receiving long-term financing from RUS.

Based on the borrowing rates currently available to the Cooperative for debt with similar terms and maturities, the fair value of the long-term debt was \$90,154,653 and \$92,300,614 at December 31, 2002 and 2001, respectively.

As of December 31, 2002, the Cooperative was in compliance with its covenants on long-term debt including financial ratios.



# Notes to Financial Statements

December 31, 2002 and 2001

**NOTE (5) COMMITMENTS:**

Total construction expenditures for 2003, including expenditures for the jointly-owned units, are estimated to be \$42,186,460, of which \$3,810,510 is for the purchase of nuclear fuel at DAEC.

In 2001, the Cooperative entered into a joint ownership agreement with Basin Electric Power Cooperative to construct an 80-megawatt, natural gas-fired peaking facility adjacent to the Cooperative's Wisdom Station. The Cooperative will have a 50% undivided interest in the plant. The Cooperative's cost to construct the plant is estimated to range from \$18,000,000 to \$23,000,000 depending on the outcome of certain proposed environmental regulations. As of December 31, 2002, approximately \$6,000,000 has been expended and is included in construction work in progress in the accompanying balance sheets. The plant is expected to be put in service during 2004.

In 2002, the Cooperative entered into a joint ownership agreement with several other utilities, cooperatives and municipals to construct a coal-fired facility with a planned capacity of at least 750 megawatts. The Cooperative is expected to have a 5.33% undivided interest in the plant. The Cooperative's cost to construct the plant is estimated to range from \$65,000,000 to \$72,000,000. As of December 31, 2002, approximately \$300,000 has been expended and is included in construction work in progress in the accompanying balance sheets. The plant is expected to be put in service during 2007.

In 2002, the Cooperative entered into a power purchase agreement to purchase 11.49% of the monthly generation from the Hancock County Wind Energy Center up to 11.22 megawatts. This agreement is effective through December 31, 2022, and rates are firm for the life of the contract.

**NOTE (6) JOINT PLANT OWNERSHIP:**

Under joint-ownership agreements with other Iowa utilities, the Cooperative had undivided interests at December 31, 2002, in three electric generating units as shown below:

	<u>Neal #4</u>	<u>Council Bluffs #3</u>	<u>DAEC</u>
Total electric plant .....	\$ 43,490,830	\$ 14,353,230	\$ 76,379,296
Accumulated depreciation .....	\$ 29,273,901	\$ 8,900,963	\$ 42,219,118
Unit accredited capacity (MW) .....	644	690	579
Cooperative's share (%) .....	11.3%	3.8%	10.0%

Each participant provided its own financing for its share of the unit. The Cooperative's share of direct expenses of the jointly owned units is included in the operating and maintenance expenses on the Statements of Revenues and Expenses.

During 1991, the Cooperative, one of its members, North Iowa Municipal Electric Cooperative Association (NIMECA), and the City of Grundy Center (the City), a NIMECA member, entered into a long-term lease agreement for the use by the City of two megawatts of the Cooperative's capacity in the Neal #4 generation facilities. The Cooperative will continue to act as the Neal #4 partner on behalf of the City. The above plant statistics have been reduced to reflect the agreement.



# Notes to Financial Statements

December 31, 2002 and 2001

## NOTE (7) BENEFIT PLANS:

The Cooperative participates in the National Rural Electric Cooperative Association (NRECA) Retirement & Security Program (the Program). The Program is a defined benefit pension plan qualified under Section 401 and tax exempt under Section 501 (a) of the Internal Revenue Code. The Cooperative recorded a total current period service cost to the Program of \$562,610 and \$517,232 for 2002 and 2001, respectively. In this multi-employer plan, which is available to all NRECA member cooperatives, the accumulated benefits and plan assets are not determined or allocated separately by individual employer. The Cooperative also provides a 401(k) plan, available to all employees, with the Cooperative matching 40% of the employees' contributions up to 5% of the employees' wages.

## NOTE (8) NIMECA COMBINED TRANSMISSION SYSTEM:

In 1989, the Cooperative and one of its members, NIMECA, entered into a joint transmission agreement which allows several members of NIMECA an individual undivided ownership interest in and access to the Cooperative's transmission system. The Cooperative will continue to operate and maintain the system. NIMECA members will reimburse the Cooperative for the proportionate share of operating expenses of the system and will contribute proportionately for all future capital additions of the system. The reimbursement of the 2002 and 2001 operating expenses were \$461,637 and \$466,357, respectively, and were recorded as other operating revenues. Additionally, the Cooperative and NIMECA entered into a capacity sharing agreement which provides for the sharing of generating resources through at least 2009.

## NOTE (9) CLEAN AIR ACT:

The Clean Air Act (Act), as amended, made significant changes in the nation's clean air laws. The Act's specific amendments to acid deposition control (acid rain) make significant reductions in the amounts of sulfur dioxide and nitrous oxide emissions allowed on an annual basis nationwide. The Cooperative's coal-fired generating stations are in compliance with the standards established by Phase I and Phase II of the Act. In January of 2002, the Cooperative submitted a final alternate emissions limit petition for nitrous oxide emissions for the Wisdom Generating Station.

## NOTE (10) NATIONAL ENERGY POLICY ACT:

The Federal National Energy Policy Act of 1992 requires owners of nuclear power plants to pay a special assessment into a "Uranium Enrichment Decontamination and Decommissioning Fund." The assessment is based upon prior nuclear fuel purchases and for the DAEC averages approximately \$1,209,741 annually through 2007, of which the Cooperative's 10% share is \$120,974. The Cooperative's total assessment of \$1,814,613, which will be recovered in rates, has been recorded as a liability, net of payments, in the balance sheets. This liability, totaling \$585,385 including its long- and short-term portion on December 31, 2002, has been recorded with a corresponding deferred charge amortized over a 15-year period, beginning in 1992.

# Notes to Financial Statements

December 31, 2002 and 2001

## NOTE (11) TRANSLINK LLC:

In 2001, the Cooperative entered into an agreement with several other regional utilities with the intent of pursuing, among other things, a program for compliance with Federal Energy Regulatory Commission ("FERC") Order No. 2000 which calls for owners and operators of transmission lines in the United States to join regional transmission organizations ("RTOs") on a voluntary basis. Once TRANSLink becomes operational, TRANSLink will exercise functional responsibility over certain transmission assets of the Cooperative. The Cooperative will be required to make payments to TRANSLink under a tariff agreement for its use of the transmission assets and will receive as compensation a monthly operating fee from TRANSLink. Furthermore, the Cooperative's participation in TRANSLink is contingent on pending tax legislation which would exclude income received or accrued by rural cooperatives from certain transactions that occur under electricity deregulation from the 85 percent test of member/non-member income. TRANSLink was not operational in 2002 and significant activity is not expected until late 2003.

## NOTE (12) NEW ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED:

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard (SFAS) No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 establishes accounting and disclosure for asset retirement costs, including the decommissioning of nuclear power plants. The Cooperative is currently evaluating the effects of the new standard. However, when current electric utility industry accounting practices for nuclear power plant decommissioning are changed in 2003, the annual provision for decommissioning could increase relative to 2002.

## NOTE (13) NUCLEAR INSURANCE PROGRAM:

The Cooperative, under the provisions of the Price-Anderson Amendments Act of 1988 (the 1988 Act), has the benefit of \$9.55 billion of public liability coverage. The coverage consists of \$300,000,000 of insurance and \$9.25 billion of potential retroactive assessments from the owners of each commercial nuclear power plant. Under the 1988 Act for losses relating to nuclear accidents in excess of \$300,000,000, each nuclear reactor may be assessed a maximum of \$88,100,000 per nuclear incident, payable in annual installments of not more than \$10,000,000. The Cooperative's assessment on its 10% ownership in DAEC may be up to \$8,810,000 per nuclear incident with a maximum of \$1,000,000 per year. These limits are subject to adjustments for inflation in future years. Existing nuclear power plants, including DAEC, are covered under the insurance system of the Act for the remainder of their operating lives. Extension or renewal of the Act applies only to new construction. Currently there is legislation in Congress that includes extensions of the Act, increasing the statutory limit for liability to the public for a single nuclear power plant incident and increasing the maximum annual assessment per incident.

Pursuant to provisions in various nuclear insurance policies, the Cooperative could be assessed retroactive premiums in connection with future accidents at a nuclear facility owned by a utility participating in the particular insurance plan. In addition, the Cooperative could be assessed annually \$890,000 related to coverages for excess property damage if the insurer's losses relating to an accident exceed its reserves. While assessment may also be made for losses in certain prior years, the Cooperative is not aware of any losses in such years that it believes are likely to result in an assessment.

In the unlikely event of a catastrophic loss at DAEC, the amount of insurance available may not be adequate to cover property damage, decontamination and premature decommissioning. Uninsured losses, to the extent not recovered through rates, would be borne by the Cooperative and could have a material adverse effect on the Cooperative's financial position and results of operations.

# Independent Auditor's Report

## TO THE BOARD OF DIRECTORS OF CORN BELT POWER COOPERATIVE:

We have audited the accompanying balance sheet of Corn Belt Power Cooperative (a cooperative association incorporated in Iowa) as of December 31, 2002, and the related statements of revenues and expenses, cash flows, deferred patronage dividends and other equities, and comprehensive income for the year then ended. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Corn Belt Power Cooperative as of December 31, 2001, and for the year then ended were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements in their report dated February 22, 2002.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

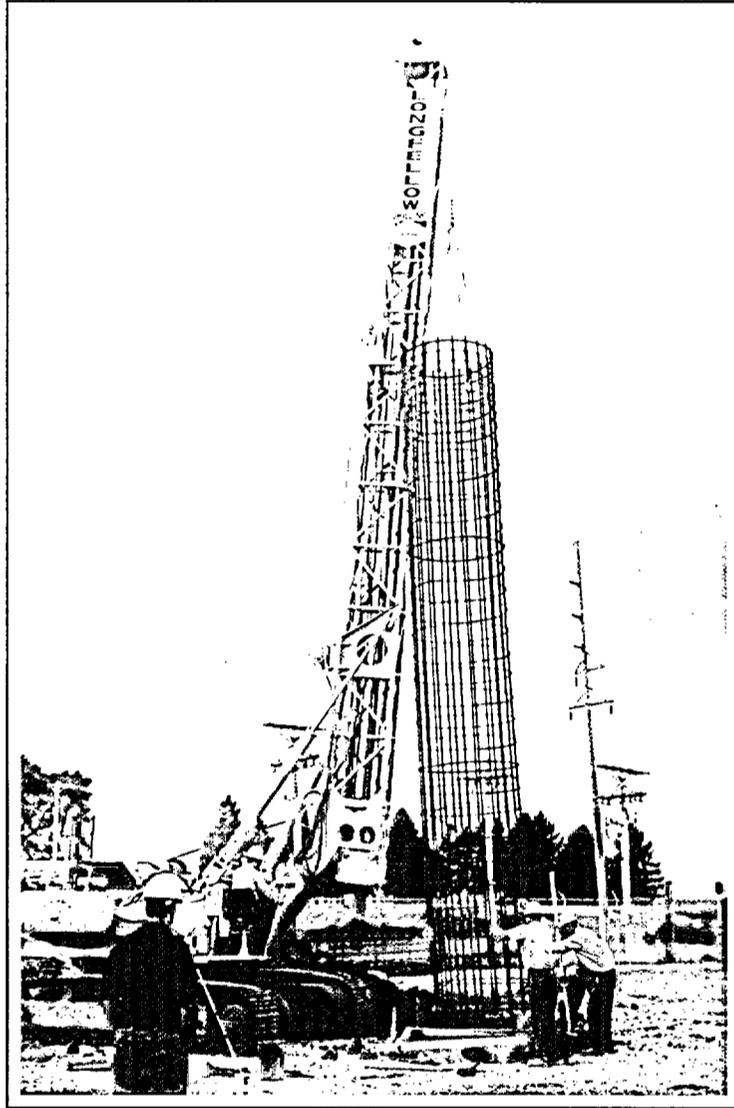
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Corn Belt Power Cooperative as of December 31, 2002, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Kansas City, Missouri

February 21, 2003







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