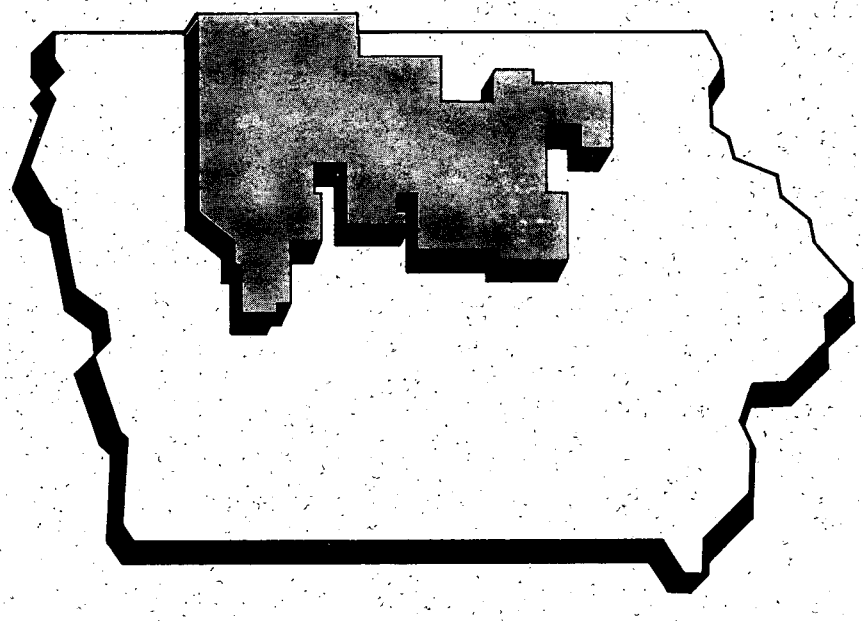
1988

CORN BELT POWER COOPERATIVE ANNUAL REPORT

An Electrifying Future



Corn Belt Power Cooperative, headquartered at Humboldt, Iowa, is a generation and transmission rural electric cooperative owned by its member systems. Corn Belt provides electric power to 12 member distribution rural electric cooperatives and one municipal electric cooperative (NIMECA). Electricity supplied by Corn Belt serves farm members, rural residences, small towns, and commercial and industrial members across 27 counties in north central Iowa.

CORN BELT 88

MEMBER SYSTEMS

MEMBER SYSTEMS

Boone Valley Electric Cooperative
Butler County Rural Electric Cooperative
Calhoun County Electric Cooperative Association
Franklin Rural Electric Cooperative
Glidden Rural Electric Cooperative
Grundy County Rural Electric Cooperative
Hancock County Rural Electric Cooperative
Hardin County Rural Electric Cooperative
Humboldt County Rural Electric Cooperative
Iowa Lakes Electric Cooperative
Sac County Rural Electric Cooperative
Wright County Rural Electric Cooperative
North Iowa Municipal Electric Cooperative Association (NIMECA)
Alta • Bancroft • Cedar Falls • Coon Rapids • Forest City • Graettinger • Grundy Center
Laurens • Milford • New Hampton • Spencer • Sumner • Waverly • Webster City • West Bend

BOARD OF DIRECTORS

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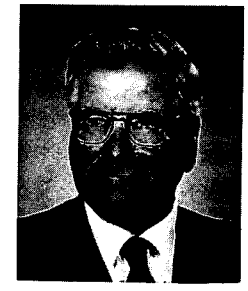
Eugene Drager
Humboldt

Vice President
Dennis Larson
Iowa Lakes

Secretary
Harold Taylor
Butler



Treasurer
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Hardin

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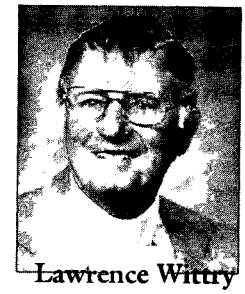
Paul Robertson
Grundy

Wilbur Harding
Calhoun

Roger Rust
Franklin

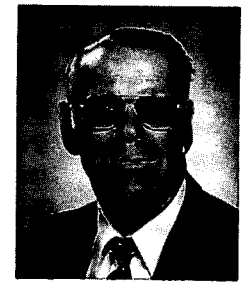


Lawrence Wittry
Glidden

Carrol Boehnke
Hancock

Ronald Deiber
NIMECA

Norman Kolbe
Sac



J. Terry McNiel
Wright

CORN BELT 88

PRESIDENT'S REPORT

Expecting an electrifying future

Eugene Drager, President of the Board

Every new year begins with expectations. Based on these expectations, we try to predict, as best we can, what the next 12 months will bring.

At Corn Belt, the weather, electric load and economic activity are a few of the factors we try to predict.

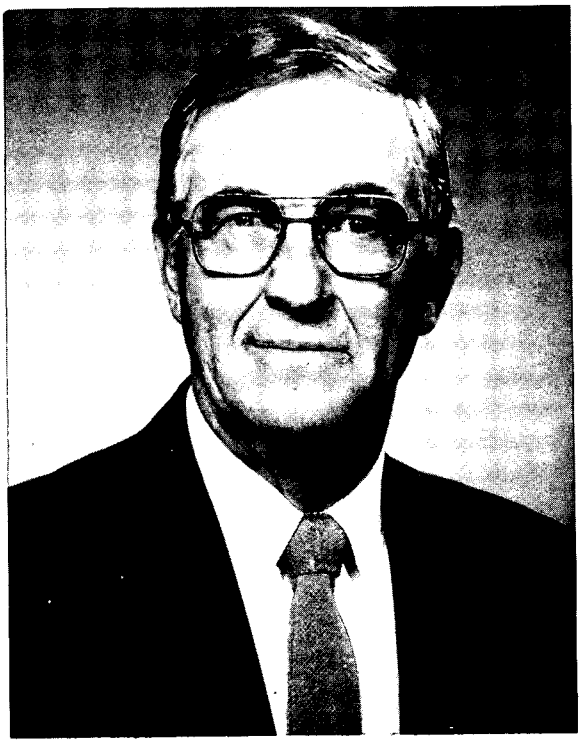
As we said hello to 1988, Corn Belt Power Cooperative was in a good financial position. We expected normal weather and a good fall for electric sales due to corn drying. Neither happened.

What *did* happen (and what was *not* predicted by Corn Belt and many others) was an unusually hot, dry summer. The hot, dry weather helped our cooperative in terms of load—more kilowatt-hours to keep cool—but also affected power supply because there was less water for the cooling of power plants and the generation of hydro power.

In the fall of 1988, Corn Belt looked to other sources of power while all of our major power plants were down for repairs and maintenance. The Western Area Power Administration assisted in part of this needed power supply, although Western was itself limited in the amount of power it could produce due to the drought conditions.

We are fortunate for the long term positive relationship Corn Belt has with Western which enables us to continue to receive the most economically priced hydro power possible.

Another positive factor at Corn Belt is our System Control Center which keeps us up to date on power needs and sales opportunities 24 hours a day. Through our relationship with other utilities in the Mid-Continent Area Power Pool (MAPP), our management knows where to obtain power



most economically and where to sell power to Corn Belt's advantage. This allowed us to purchase additional power from Basin Electric Power Cooperative to help us get through the fall with no power interruptions, although all our major units were off line.

Even though Iowa continues to experience a decline in its rural population, Corn Belt's REC kilowatt-hour sales were up in 1988. This was partially due to the hot summer. But in addition, many of our member RECs added new industrial loads or had old industries start up again—all helping to increase our system sales.

In 1988, we saw definite success in our economic development efforts. With this success, however, comes the responsibility

for us as board members to be diligent in working with our management to encourage the expansion of existing industries and the attraction of new industries to our service area.

In 1988, Corn Belt established several new programs to encourage economic development. Through the financing of speculative buildings and business expansions, joint funding of industrial sites and wholesale power discounts for new or expanding loads, Corn Belt is working with its member systems to secure future industrial growth. Corn Belt is doing its part to contribute to the improvement of Iowa's economy and growth.

An important development in 1988 which will significantly affect Corn Belt's future was the completion of a long term generation and transmission agreement between Corn Belt and NIMECA, the North Iowa Municipal Electric Cooperative Association. This is a major agreement that combines generation capabilities for 20 years and transmission lines for the life of the facilities.

The diversity in load, availability of additional generation resources for future needs, and opportunities for other shared activities are but a few of the benefits of this agreement for both parties.

By looking ahead with a positive attitude, the Corn Belt board, management and employees can combine their skills and proven track record to help our cooperative compete effectively as an energy supplier. We have established a positive relationship among the board members and employees which will enable us to successfully address future needs and changes.

Through our board committee structure, information is reviewed and studied, enabling the board to better evaluate complex and important issues. This helps our board make better decisions, and makes Corn Belt a stronger cooperative.

With our management team, we receive full information and recommendations to deal with problems and situations we face. We can, together, generate new ideas about things to come and how to best assure Corn Belt's continued success.

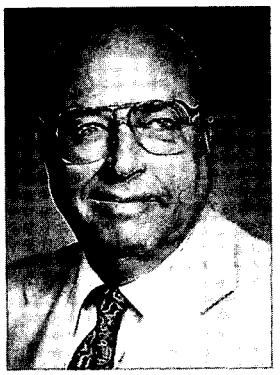
As president of the Corn Belt Board of Directors, I wish to express my thanks to our board members, management and employees for their skills, energy and enthusiasm directed toward the good of our cooperative. Each person plays an important role in helping us meet the challenges ahead in a unified, committed way.

As we reflect upon Corn Belt's accomplishments and make plans for what is ahead, we can set our expectations high for a truly "electrifying future."

CORN BELT 88

MANAGER'S REPORT

George W. Toyne, General Manager



Nineteen eighty-eight was the beginning of a new era for Corn Belt and for Iowa. Some past trends continued, but others changed—some rather dramatically.

During this past year, no new distribution substations were added or under construction, and no transmission line was built.

However, energy sales were up, following a time of little or no growth. Sales to REC members in 1988 increased over eight percent compared to 1987. In addition, planning began for the construction of new lines needed due to industrial load expansion.

The increase in kilowatt-hour sales was due in large part to the weather. We had colder winter months than in the previous year, and an unusually hot summer. The drought, however, reduced crop yields and our typical fall corn drying load.

Some of the increase in sales is certainly due to the continuing emphasis on marketing and economic development. Jack Bailey and his staff at the Iowa Area Development Group again led the way, working with Corn Belt and our member systems to expand existing businesses and attract new business.

IADG also has been active in economic development education for community leaders. The series, "Training Your Team for Economic Development" was presented with the cooperation of five Corn Belt cooperatives for community leaders from over 20 towns in the Corn Belt area.

In 1988, revenues increased more than costs, which allowed us to reduce rates for the third consecutive year. Wholesale power rates were reduced to levels last seen in 1984.

Even with reduced rates, substantial margins were achieved, with $750,000 allocated back to Corn Belt's member systems in 1988. Checks totalling $200,000 were presented to our member systems at the last annual meeting, completing deferred patronage payment for 1976.

In 1988, we again realized the value of the Corn Belt's interconnected transmission system and its participation in the Mid-Continent Area Power Pool (MAPP). For several weeks during the fall and winter, Corn Belt's three major jointly owned generating units were out of service at the same time. Our members experienced no change in service reliability, and we purchased extra power from the Western Area Power Administration and Basin Electric Power Cooperative during this time.

Through our dispatch arrangement with Iowa Public Service Company, together with these purchases from Western and Basin Electric, Corn Belt was able to keep its costs at a reasonable level.

A major project nearly completed in 1988 was the long term agreement between Corn Belt and the North Iowa Municipal Electric Cooperative Association (NIMECA). Contracts covering transmission, generation, and dispatch services were approved by both boards.

Iowa's agricultural economy showed much improvement during 1988, accompanying renewed growth and development in the nonagricultural sector. Likewise, improved economic conditions were evident in the Corn Belt area. Grain prices were up, and the price of farmland started an upward trend after declines since 1982. Employment and revenue were also up in 1988.

We are seeing more positive attitudes about Iowa and our rural electric cooperatives than we have seen in many years. Positive attitudes provide motivation for the work we have ahead.

It will require much effort from all of us to continue these upward trends. It will also require commitment and leadership.

All of us at Corn Belt are dedicated to doing our part in making Iowa and Corn Belt continue to grow as part of an "electrifying future."

I wish to thank each of you who have had a part in making Corn Belt Power Cooperative the successful organization it is today.

Dale M. Arends, Assistant General Manager

Corn Belt took another step toward stabilizing future power supply and rates during 1988. Beginning in 1984, we started working with NIMECA to develop a joint agreement to take advantage of our combined strengths. Nineteen eighty-eight saw the completion of that endeavor. The agreement as signed will effectively combine our two systems.

NIMECA traditionally has its highest demand in the summer; Corn Belt has its in the winter. Combining the two systems takes advantage of this diversity and pushes back the need for generating capacity additions well past the year 2000. This will have a big impact on future power costs, as generating capacity is very expensive and any delay in adding generation will save money.

Transmission is another important part of this agreement. We share transmission systems. Both Corn Belt and NIMECA will contribute toward future transmission additions and both will share in operations and maintenance expenses. This, too, will save the members of Corn Belt many dollars now and into the future.

The generation sharing part of the agreement will last twenty years and the transmission sharing will last for the life of the transmission facilities.

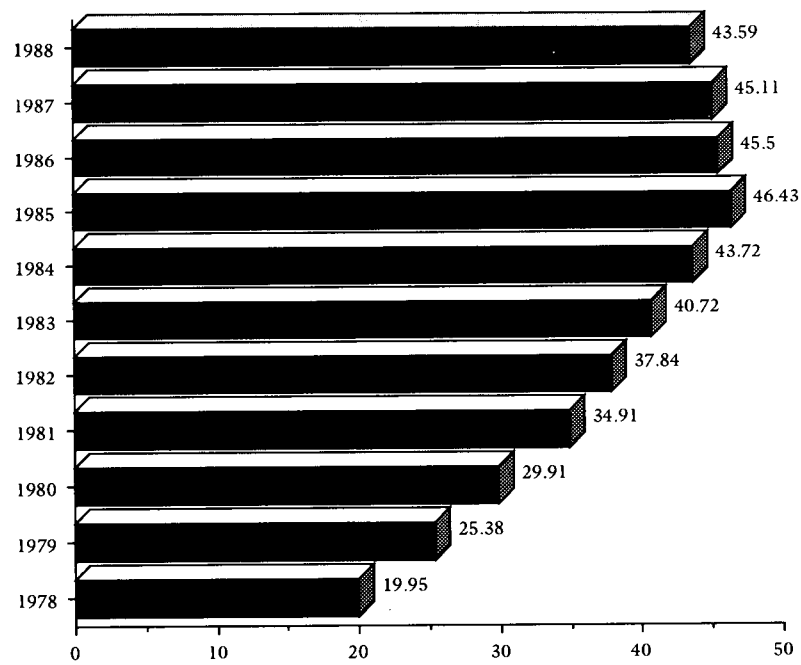
During the next year we will be working with Iowa Public Service (IPS) on developing a dispatching agreement combining the loads of Corn Belt and NIMECA with IPS. This will further help to hold down costs.

I think you can clearly see that Corn Belt is positioning itself for a long time into the future with reasonable power costs and an adequate power supply–all for the benefit of our members.

Expenses

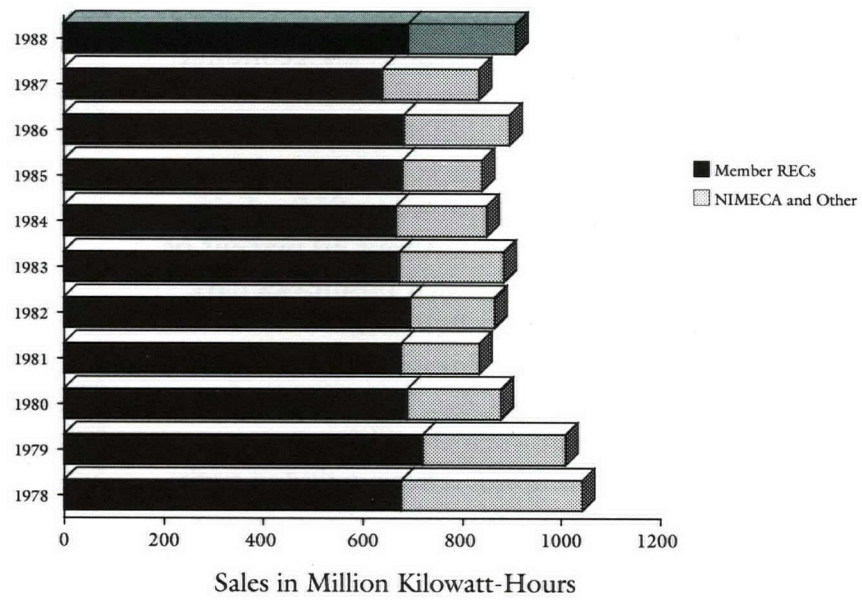
	1988		1987	
	Amount	Percent	Amount	Percent
Generation	$15,962,520	42.23	$14,029,399	37.67
Interest and Loan Expense	7,644,790	20.23	8,550,860	22.95
Depreciation & Decommissioning	6,168,298	16.32	5,432,546	14.59
Taxes	2,484,454	6.57	2,401,015	6.45
Administrative and General	2,629,147	6.96	2,459,965	6.61
Purchased Power	869,566	2.30	2,558,491	6.87
Transmission	1,810,826	4.79	1,620,435	4.35
Sales	225,767	.60	190,133	.51
TOTAL	$37,795,368	100.00	$37,242,844	100.00

Costs



REC Member Costs, including Substation Charge, in Mills/Kilowatt-Hour

Sales



Load Summary

Kilowatt-Hours

Sources of Energy	1988	1987
Duane Arnold Energy Center	316,320,468	252,331,273
Council Bluffs #3	147,319,000	138,920,000
Neal #4	361,071,000	336,432,000
Humboldt Station	4,935,453	3,209,995
Wisdom Station	32,370,100	23,183,900
Webster City	190,900	73,400
NIMECA/Other	2,717,422	7,538,235
Western Area Power Administration	186,510,000	228,238,000
Basin Electric Power Cooperative	138,950,000	
IPS Economic Dispatch	(235,700,000)	(104,091,000)
TOTAL SOURCES	954,684,343	885,835,803
Sales of Energy		
RECs	692,131,404	639,782,199
Webster City	98,005,572	88,024,123
NIMECA	120,078,220	105,828,083
TOTAL SALES	910,215,196	833,634,405
System Losses	44,469,147	55,201,398
TOTAL SALES & SYSTEM LOSSES	954,684,343	885,835,803

The Iowa Area Development Group continued its leadership in promoting economic development during 1988. Since its inception in 1985, IADG has been involved in the location of 53 new businesses and the expansion of 55 existing businesses in Iowa. About 40 percent of the new and expanded businesses have been in the Corn Belt area.

Four new businesses and ten expansions served by Corn Belt RECs or NIMECA municipal utilities were announced in 1988. These included such businesses as a poultry research facility, a waste recycling operation, a pallet manufacturer and others. All received significant IADG assistance.

IADG has been active in economic development education by assisting distribution cooperatives in sponsoring training programs for community leaders. During 1988, IADG helped encourage RECs to work with area business satellite directors at a seminar focusing on cooperation of RECs and state and local groups in development efforts.

At the December annual meeting of the Iowa Association of Electric Cooperatives, Iowa Governor Terry Branstad and IADG presented 12 "Venture Awards" to industries for their leadership in the development of Iowa's rural communities. Six of the 12 are located in the Corn Belt area.

Allen Collet joined IADG as manager, business development, in February 1988.

Workers from the Lundell Construction Company, Cherokee, install sewer pipe to serve a new building constructed by the CableX Co. in the Corn Belt industrial park at Spencer. Commercial and industrial development assisted Corn Belt sales in 1988.

As of December 31, almost 950 subscribers were enjoying Rural TV satellite television programming through members of the Northern Iowa Services Cooperative (NISCO). Nationally, there were about 25,000 Rural TV subscribers at year end.

NISCO was formed in 1987 as an organization through which member RECs could offer satellite television services (and in the future, other services) to REC members and nonmembers.

NISCO membership includes most of Corn Belt's distribution cooperatives, as

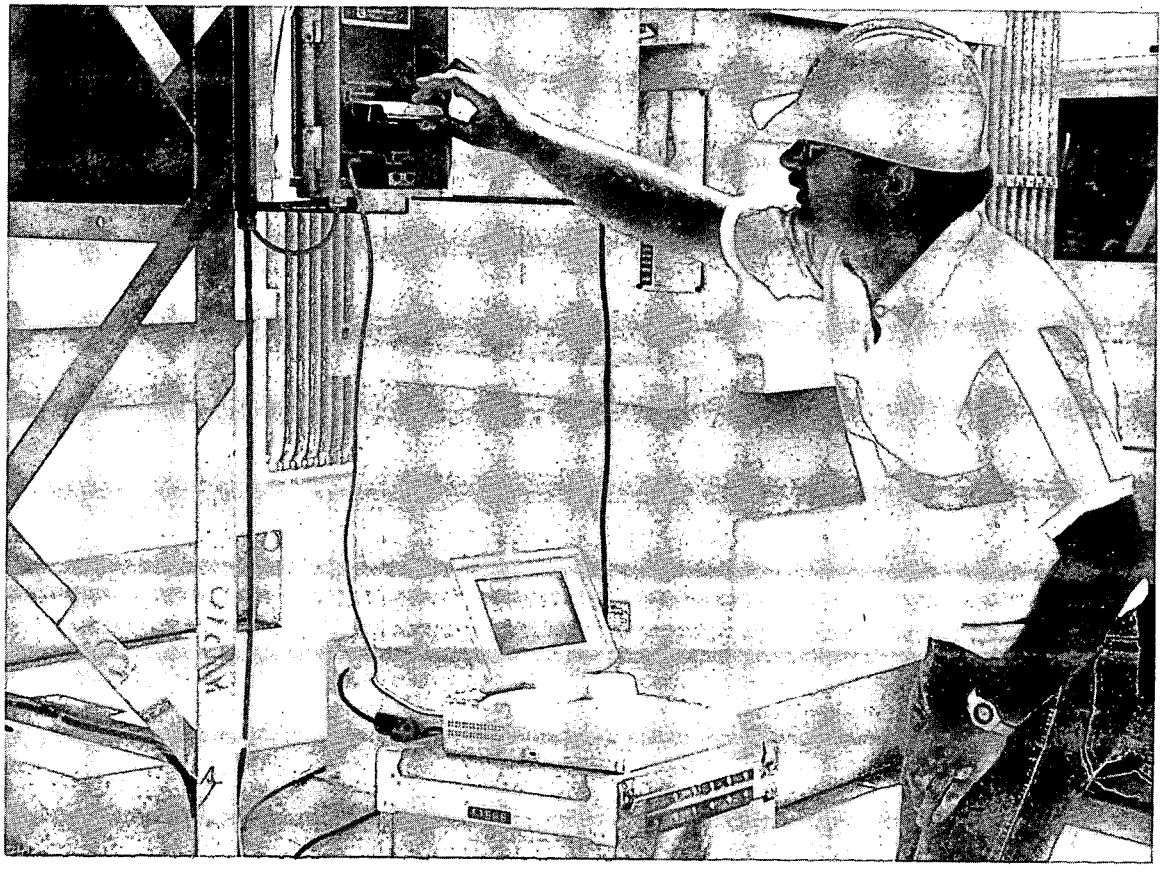
well as Allamakee-Clayton Electric Cooperative and Hawkeye Tri-County REC.

Several new channels were added to Rural TV programming during 1988.

In late 1988, obsolete magnetic recording devices located at each of Corn Belt's 110 distribution substations were replaced with new, high-tech electronic demand recorders by electrical maintenance personnel.

The new recorders make use of small, removable cartridges in which computer chips record electric demand and energy use. New computerized equipment was installed at the Corn Belt office which reads (or "translates") information stored on each cartridge for billing and other purposes.

Special computer software was developed for Corn Belt to be used in the translation process.

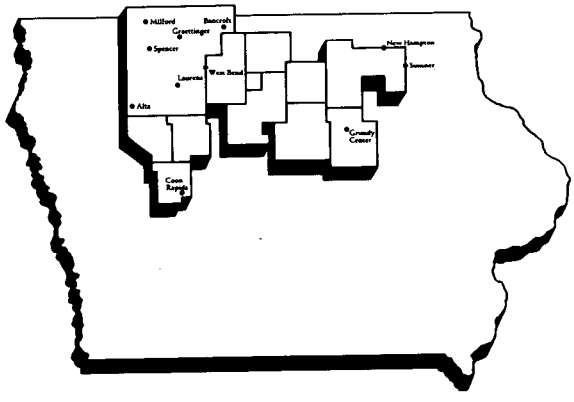


John Hatcher, Corn Belt assistant meter technician, checks data on a new electronic demand recorder installed at the Gilmore City substation.

Since 1969, directors, managers and employees of Corn Belt's distribution cooperatives and NIMECA municipal utilities have gone "back to school" once a year by attending the Corn Belt Member Information Meeting.

The Member Information Meeting provides its participants with the latest information about power supply, finance, electric use, rates, projections and other important issues.

Topics at the 1988 meeting, held December 1, included the Corn Belt-NIMECA agreement, electric terminology, the Mid-Continent Area Power Pool, the Western Area Power Administration, financial forecasts, environmental and marketing updates and economic development presentations.



NIMECA member municipal utilities which signed the long term agreement with Corn Belt.

At its board meeting December 30, the Corn Belt Board of Directors adopted a long term capacity sharing and transmission agreement with the North Iowa Municipal Electric Cooperative Association (NIMECA). NIMECA, an association of municipal electric cooperatives, has been a member of Corn Belt since 1966.

The agreement, which has been in development for about three years, provides for the sharing of both organizations' generation capacity for 20 years and the joint ownership of transmission for the life of the transmission systems.

Combined Corn Belt/NIMECA generation capacity is 399 megawatts. Corn Belt currently owns 1570 miles, and NIMECA owns 41 miles of high voltage transmission line.

On April 5, Corn Belt Power Cooperative held its 40th annual meeting. Approximately 250 persons attended the event, during which checks totaling $200,000 in deferred patronage dividends were distributed to Corn Belt's member systems (retired patronage allocated for 1976).

Norman Kolbe, Sac City, was elected to a one year term, replacing **Raymond Currie**, Schaller, who retired as Sac County REC's representative on the Corn Belt board.

Re-elected to three year terms were: **Paul Robertson**, Reinbeck (Grundy

County REC), **Clarence Lange**, Eldora (Hardin County REC), and **Ronald Deiber,** Alta (NIMECA).

Featured speaker at the meeting was Wayne Humphreys, farmer and humorist from Columbus Junction, Iowa. Cecelia Dilley, wellness coordinator at the Humboldt County Memorial Hospital, presented the spouses program.

Corn Belt and its member cooperatives joined RECs across Iowa in sponsoring a tent at the World Ag Expo held at Amana, Iowa, last fall. The Ag Expo featured the World Plowing Matches, demonstrations and displays from hundreds of ag-related businesses, vendors and organizations.

Coordinated through the Iowa Association of Electric Cooperatives, the REC tent included information about Rural TV, economic development, electric heating and cooling, microwave cooking and electrical safety. Tent visitors heard live music and received free popcorn and ice water.

Show officials estimate that 350,000 people attended the Ag Expo, which is held each year at a different country.

Two thousand feet of copper pipe and 23 individual heat pump units were installed in 1988 as Corn Belt replaced its office heating and cooling system with a new ground water heat pump (earth energy) system.

Workers prepare for the placement of suspended units which are part of Corn Belt's new office heating and cooling system installed in 1988. The new system uses groundwater as an efficient energy source.

Kinseth Plumbing and Heating, Inc., Belmond, served as contractor for the $133,000 project.

The new system uses groundwater from a new well to provide heating in the winter or cooling in the summer. Each of the 23 individual units is operated by an independent thermostat and serves two offices.

New ceilings were installed in the board room and hallways as part of the project. Much of the office received a new coat of paint in December, adding final touches to the renovation.

Marv Prins, Hardin County REC, and Steve Long, Humboldt County REC, set up a satellite TV descrambler at the REC World Ag Expo tent. The Ag Expo drew thousands of visitors to Iowa in the fall.

Dual fuel, interruptible electric heating/cooling, earth energy systems and electric water heaters continued to be major electric products promoted in the residential marketing program last year.

In 1988, almost 140 dual fuel systems and over 130 interruptible systems were installed by members of Corn Belt cooperatives (compared to 169 dual fuel and 105 interruptible installations in 1987). Over 30 percent of the 1988 dual fuel installations were new (conversions from nonelectric heating).

Increased efforts were made in promoting earth energy systems (ground

water heat pumps) in 1988, with 35 units installed during the year by distribution cooperative members.

Over 580 new electric water heaters were installed in 1988, bringing the total to over 3100 since the water heater replacement program began in mid-1984.

Hot, dry conditions and major maintenance on generation stations affected Corn Belt's power supply in 1988.

Hydro power from the Western Area Power Administration was curtailed throughout the year due to low water levels. Coal and nuclear power plants showed declines in generation in the summer due to the lack of adequate cooling water.

Corn Belt's Wisdom and Humboldt Stations were called upon periodically in summer months to provide electricity for increased cooling loads of its own systems and for power needs of other utilities in the MAPP area.

The Humboldt Station, cooled by water from the Des Moines River, had to be monitored closely due to high temperatures and unusually low river levels.

In late summer, 15,000 tons of coal were trucked from the Humboldt Station to the Wisdom Station to be used during the fall maintenance outage of the three major jointly owned units.

During September-November, Corn Belt purchased power from the Western Area Power Administration and Basin Electric Power Cooperative while scheduled maintenance was carried out on the Duane Arnold Energy Center and the Neal #4 and Council Bluffs #3 generating stations.

Corn Belt initiated new programs last year to encourage the expansion of business and industry served by its member cooperatives.

Wholesale power discounts offered on a five year sliding scale were established for existing industries that expand operations or new industries that begin operations.

A plan of cooperative participation between Corn Belt and the local REC was adopted which assists in the purchase of industrial sites to be located on member systems' lines.

In addition, a program was initiated through which member cooperatives may borrow a portion of their deferred patronage allocation to build speculative buildings or provide new/expanding business loans.

These programs require a high level of commitment and involvement at the local REC level, working with community development groups.

BALANCE SHEETS

December 31, 1988 and 1987

ASSETS

	1988	1987
ELECTRIC PLANT (Notes 2 and 6):		
In service	$182,078,294	$179,514,356
Less-Accumulated depreciation	69,040,458	63,548,899
	113,037,836	115,965,457
Construction work in progress	4,261,473	2,390,540
Nuclear fuel, net of amortization (Note 2)	9,213,575	4,648,577
	126,512,884	123,004,574
OTHER PROPERTY AND INVESTMENTS:		
Nonutility property	426,050	388,094
Investment in the National Rural Utilities Cooperative Finance Corporation	2,600,583	2,606,001
Land held for future generating site (Note 8)	3,856,509	3,856,509
Decommissioning fund (Note 2)	1,086,350	1,003,803
Other investments and receivables	765,882	1,311,911
	8,735,374	9,166,318
CURRENT ASSETS:		
General fund cash and temporary cash investments	1,889,274	4,992,158
Special construction fund cash and temporary cash investments	392,445	47,340
Working capital advances	504,209	161,617
Member accounts receivable	3,663,352	3,666,936
Other receivables	764,246	783,370
Inventories -		
Fuel, primarily coal, at last-in first-out cost	3,597,450	4,747,162
Materials and supplies, at average cost	1,861,540	1,482,931
Prepayments	657,315	713,442
	13,329,831	16,594,956
DEFERRED CHARGES:		
Deferred spent nuclear fuel disposal costs (Note 9)	1,521,672	1,681,848
Deferred refueling costs (Note 2)	1,831,803	1,031,022
Other (Note 7)	73,887	115,708
	3,427,362	2,828,578
	$152,005,451	$151,594,426

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

BALANCE SHEETS

December 31, 1988 and 1987

MEMBERSHIP CAPITAL AND LIABILITIES

	1988	1987
MEMBERSHIP CAPITAL:		
Memberships, at $100 per membership	$ 1,400	$ 1,400
Deferred patronage dividends, per accompanying statements (payment restricted as indicated in Note 3)	4,867,255	4,317,255
Other equities, per accompanying statements	9,953,166	8,737,172
	14,821,821	13,055,827
LONG-TERM DEBT (Note 4):		
Rural Electrification Administration	54,303,178	56,419,282
Federal Financing Bank	65,289,262	54,695,858
Capital lease obligations (Note 2)	5,707,762	17,595,171
Pollution control revenue bonds	3,285,000	3,385,000
	128,585,202	132,095,311
Less - Current maturities of long-term debt	3,749,487	3,381,072
	124,835,715	128,714,239
OTHER LONG-TERM LIABILITIES:		
Deferred compensation	,362,805	,357,928
	362,805	,357,928
CURRENT LIABILITIES:		
Current maturities of long-term debt	3,749,487	3,381,072
Accounts payable	4,957,419	2,074,905
Accrued property and other taxes	2,320,660	2,288,895
Other	,421,393	,463,253
	11,448,959	8,208,125
DEFERRED CREDITS:		
Deferred settlement credit (Note 10)	526,457	1,108,447
Other (Note 7)	, 9,694	,149,860
	536,151	1,258,307
	$152,005,451	$151,594,426

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

STATEMENTS OF REVENUES AND EXPENSES

For the Years Ended December 31, 1988 and 1987

	1988	1987
OPERATING REVENUES:		
Sales of electric energy	$ 36,561,194	$ 35,095,532
Other	2,617,604	2,466,900
	39,178,798	37,562,432
OPERATING EXPENSES:		
Operation -		
Steam and other power generation	12,620,279	11,385,450
Purchased power	869,566	2,558,491
Transmission	1,162,449	1,128,935
Sales	225,767	190,133
Administrative and general	2,593,314	2,427,791
Maintenance -		
Steam and other power generation	3,342,241	2,643,949
Transmission	648,377	491,500
General plant	35,833	32,174
Depreciation and decommissioning (Note 2)	6,168,298	5,432,546
Property and other taxes	2,484,454	2,401,015
	30,150,578	28,691,984
Net Operating Revenues	9,028,220	8,870,448
INTEREST AND OTHER DEDUCTIONS:		
Interest on long-term debt	8,386,596	8,732,161
Other interest (Note 2)	(257,980)	—
Interest during construction (Note 2)	(505,969)	(204,708)
Amortization of loan expense	22,143	23,407
	7,644,790	8,550,860
NET OPERATING MARGIN	1,383,430	319,588
NON-OPERATING MARGIN:		
Interest income	432,994	434,123
Other, net	130,070	80,619
	563,064	514,742
NET MARGIN	$ 1,946,494	$ 834,330

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

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 1988 and 1987 (Note 2)

	1988	1987
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net margin	$ 1,946,494	$ 834,330
Adjustments to reconcile net margin to cash provided by (used in) operations:		
Depreciation and decommissioning	6,429,735	6,174,254
Amortization of nuclear fuel	1,600,068	1,283,596
Amortization of deferred refueling costs	1,031,022	504,132
Amortization of nuclear fuel disposal costs	160,176	160,176
Reduction in long-term obligation (Note 2)	(264,423)	—
Deferred settlement credit (Note 10)	(581,990)	(779,941)
Changes in current assets and liabilities:		
Accounts receivable	22,708	109,016
Inventories	771,103	617,390
Prepayments	56,127	(96,769)
Accounts payable	2,882,514	(720,944)
Accrued property and other taxes	31,765	(86,708)
Other liabilities	(41,860)	114,198
Increase in deferred compensation	4,877	27,562
Freight refund receipts (Note 10)	696,405	649,894
Other	(98,345)	391,541
Net cash provided by operating activities	14,646,376	9,181,727
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term obligations	196,000	5,600,000
Repayment of long-term obligations	(3,441,686)	(3,823,186)
Deferred patronage dividends paid	(200,000)	(200,000)
Net cash provided by (used in) financing activities	(3,445,686)	1,576,814
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to electric plant, net	(5,373,047)	(5,860,380)
Additions to nuclear fuel	(6,165,066)	(242,832)
Additions to deferred refueling costs	(1,831,803)	(1,535,154)
Additions to nonutility property	(37,956)	—
Decommissioning fund	(82,547)	(1,003,803)
Other investments	(125,458)	(29,375)
Net cash used in investing activities	(13,615,877)	(8,671,544)
Net increase (decrease) in cash and cash equivalents	(2,415,187)	2,086,997
CASH AND CASH EQUIVALENTS AT:		
Beginning of year	5,201,115	3,114,118
End of year	$ 2,785,928	$ 5,201,115

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

STATEMENTS OF DEFERRED PATRONAGE DIVIDENDS AND OTHER EQUITIES

For the Years Ended December 31, 1988 and 1987 (Note 3)

	1988	1987
DEFERRED PATRONAGE DIVIDENDS:		
Balance Assigned Beginning of Year	$ 4,317,255	$ 4,017,255
Net margin	1,946,494	834,330
Lease revenue deferred patronage dividends	19,500	14,100
	6,283,249	4,865,685
Patronage dividends paid	(200,000)	(200,000)
Appropriation of margin -		
Reserve for contingent losses	(965,994)	(248,430)
Statutory surplus	(250,000)	(100,000)
Balance Assigned End of Year	$ 4,867,255	$ 4,317,255

OTHER EQUITIES:
(Appropriated Margins)

	Statutory Surplus	Reserve for Contingent Losses	Total
Balance December 31, 1986	$ 1,249,484	$ 7,139,258	$ 8,388,742
Appropriation of margin	100,000	248,430	348,430
Balance December 31, 1987	1,349,484	7,387,688	8,737,172
Appropriation of margin	250,000	965,994	1 215,994
Balance December 31, 1988	$ 1,599,484	$ 8,353,682	$ 9,953,166

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

NOTES TO FINANCIAL STATEMENTS

December 31, 1988 and 1987

(1) ORGANIZATION:

Corn Belt Power Cooperative (the Cooperative) is a Rural Electrification Administration (REA) financed generation and transmission cooperative created and owned by twelve distribution cooperatives and one municipal cooperative association.

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

(2) SIGNIFICANT ACCOUNTING POLICIES:

The Cooperative maintains its accounting records in accordance with the Uniform System of Accounts as prescribed by the REA. The significant accounting policies are described below.

A. Electric Plant -

Electric plant is stated at original cost which includes certain pension costs, sales and use taxes, payroll 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 REA prescribed lives. These provisions, excluding nuclear facilities, were equivalent to a composite depreciation rate on gross plant of 3.23% and 2.73% for 1988 and 1987, respectively. A 1987 life change was not approved, thus the 1988 depreciation expense includes additional depreciation of $311,140 for 1987.

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 (2010). The composite depreciation rate on gross plant for DAEC was 3.14% and 3.16% for 1988 and 1987, respectively.

A site-specific estimate of the decommissioning costs of DAEC was prepared in 1985. This report estimated the Cooperative's share of the decommissioning costs of DAEC to be approximately $15,400,000 (in 1985 dollars). The Cooperative is providing for nuclear decommissioning costs based upon a straight-line constant dollar method designed to accumulate a decommissioning reserve sufficient to cover the Cooperative's share of DAEC decommissioning costs by the year 2010. The decommissioning provision was $514,416 and $475,267 for 1988 and 1987, respectively.

The Cooperative has funded $1,086,350 of the accumulated decommissioning reserve by establishing an internally managed decommissioning fund. The fund's assets are United States government securities.

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 $1,600,068 and $1,283,596 for 1988 and 1987, respectively.

D. 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 $1,031,022 and $504,132 for 1988 and 1987, respectively. The Cooperative deferred $1,831,803 of extraordinary operation and maintenance expenses in 1988.

E. Interest During Construction -

Interest during construction represents the cost of funds used for construction and nuclear fuel refinement. The average rate was 6.6% and 6.9% for 1988 and 1987, respectively, and is based on the Cooperative's levels and costs of financing.

F. 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.

The Cooperative had a capital lease for generating and transmission facilities with Northwest Iowa Power Cooperative (NIPCO). On January 1, 1988, the Cooperative terminated its lease and exercised its option to purchase this 25 MW of Neal Unit #4 capacity. The purchase price of $11,150,000 for this capacity was $264,423 less than the capital lease obligation which has been reflected as a reduction in 1988 other interest expense.

G. Income Taxes -

The Cooperative is exempt from federal and state income taxes under section 501(c) (12) of the Internal Revenue Code.

H. Statements of Cash Flows -

The Cooperative has adopted the statement of cash flows presentation and has restated the prior year presentation for comparative purposes. For purposes of reporting cash flows, the Cooperative considers temporary cash investments purchased with a maturity of three months or less to be cash equivalents as follows:

	1988	1987
General fund cash and temporary cash investments	$1,889,274	$4,992,158
Special construction fund cash and temporary cash investments	392,445	47,340
Working capital advances	504,209	161,617
	$2,785,928	$5,201,115

Cash paid for interest, net of interest capitalized, was $6,613,020 and $8,158,406 for 1988 and 1987, respectively. In a noncash transaction, the Cooperative acquired additional Neal Unit #4 capacity as mentioned above.

(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 equity. No additions can be made to statutory surplus whenever it exceeds 50% of total equity. The Board of Directors appropriated $250,000 of the 1988 net margin 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 $965,994 of the 1988 net margin 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 of the 1988 net margin 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 REA and the National Rural Utilities Cooperative Finance Corporation (CFC) unless the remaining equity meets certain tests. The Cooperative does not meet these tests at December 31, 1988. However, the Cooperative received permission and retired $200,000 of the 1976 patronage dividends during 1988 and plans to request permission to retire $250,000 of the 1977 deferred patronage dividends during 1989.

(4) LONG-TERM DEBT:

Long-term debt consists of mortgage notes payable to the United States of America acting through the REA and the Federal Financing Bank (FFB), capital lease obligations, and notes issued in conjunction with the issuance of pollution control revenue bonds. 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:

	1988	1987
Mortgage notes due in quarterly installments -		
REA 2%, due 1989-2008	$ 24,130,981	$ 25,664,179
REA 5%, due 1989-2019	30,172,197	30,755,103
FFB 7.3%-13.5%, due 1989-2019	65,289,262	54,695,858
	119,592,440	111,115,140
Capital lease obligations -		
Webster City Revenue Bonds 4.7%-7.5%, due 1989-1997	5,707,762	6,180,748
NIPCO 8.3%, due 1989-2012 (Note 2)	—	11,414,423
	5,707,762	17,595,171
Pollution control revenue bonds - 5%-6.25%, due serially 1989-1997 and term due 2007	3,285,000	3,385,000
	$128,585,202	$132,095,311

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

Year	Maturity
1989	$ 3,749,487
1990	3,784,328
1991	3,939,084
1992	4,053,086
1993	4,138,061

In connection with the mortgage notes, the Cooperative had available at December 31, 1988, $14,701,000 of loan funds from FFB, $5,269,000 from REA and $3,882,000 from CFC to meet future borrowing needs. The Cooperative has approximately $6,000,000 of unreimbursed capital additions which they anticipate will be funded by these sources in 1989. The Cooperative had available at December 31, 1988, an unused $12,000,000 line of credit with CFC of which $1,000,000 is available ouly in the event of disaster at DAEC.

(5) CONSTRUCTION COMMITMENTS:

Total construction expenditures for 1989, including expenditures for the jointly owned units, are estimated to be $7,116,000 of which $1,582,000 is for the purchase of nuclear fuel at DAEC.

(6) JOINT PLANT OWNERSHIP:

Under joint-ownership agreements with other Iowa utilities, the Cooperative had undivided interests at December 31, 1988 in three electric generating units as shown below:

	Neal Unit #4	Council Bluffs Unit #3	Duane Arnold Energy Center
Total electric plant	$43,878,135	$13,011,668	$54,379,142
Accumulated depreciation	$13,249,291	$ 4,035,067	$15,181,043
Unit accredited capacity - MW	600	675	550
Cooperative's share-percent	11.63%	3.8%	10.0%
Capital cost per KW	$ 629	$ 507	$ 989

The dollar amounts shown above represent the Cooperative's share in each jointly-owned unit. 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.

(7) **PENSION PLAN:**

The Cooperative has a deposit administration defined benefit plan which covers substantially all employees. The plan is funded jointly by contributions from the Cooperative and all participants. Assets are held on deposit by an insurance company in its general account.

Benefits paid to retired employees are equal to 2-1/4% of the average monthly earnings multiplied by the years of service since January 1, 1973.

The Cooperative has recorded pension expense equal to its funding contribution in its Statements of Revenues and Expenses consistent with the rate treatment afforded this cost.

Net periodic pension cost for 1988 and 1987 includes the following components:

	1988	1987
Service cost-benefits earned during the period	$ 302,359	$ 336,300
Interest cost on projected benefit obligation	269,077	266,323
Reduction in pension cost from actual return on assets	(574,167)	(239,066)
Net amortization and deferral	259,758	(71,766)
Net periodic pension cost - employees	(77,108)	(87,537)
Net periodic pension cost - employer	179,919	204,254
Change in expenses due to rate regulation	36,335	(43,121)
Total pension cost	$ 216,254	$ 161,133
Assumptions used were:		
Discount rate	6.74%	6.75%
Rate of increase in compensation levels	6.00%	6.00%
Expected long-term rate of return on assets	8.00%	8.00%

The following table presents the plan's funding status and amounts recognized in the Cooperative's balance sheets as of December 31:

	1988	1987
Actuarial present value of benefit obligations:		
Vested benefit obligation	$3,213,622	$2,513,134
Nonvested benefit obligation	241,041	253,763
Accumulated benefit obligation	3,454,663	2,766,897
Provision for future pay increases	1,185,957	1,219,423
Projected benefit obligation	4,640,620	3,986,320
Plan assets at fair value	4,750,172	4,212,934
Projected benefit obligation less than plan assets	109,552	226,614
Unrecognized net gain	(117,442)	(308,698)
Unrecognized prior service cost	(2,799)	19,368
Unrecognized net transition obligation	995	1,115
Accrued pension cost recognized in the balance sheets	$ (9,694)	$ (61,601)

In April, 1987, the Board of Directors approved an amendment to the Plan which increased benefits to the employees. The approximate effect of this plan amendment increased the actuarial present value of accumulated plan benefits by $800,000 and is included in the accumulated plan benefit amounts above. The Cooperative does not anticipate making a funding contribution in 1989.

In 1989, the Cooperative established a 401(k) plan which is available to all employees with the Cooperative matching 50% of the employees' contribution up to 4% of the employees' wages.

(8) LAND HELD FOR FUTURE GENERATING SITE:

The Cooperative is a participant in Allied Power Cooperative of Iowa (Allied). Allied was organized for the purpose of building a generation plant and related transmission facilities to provide for the future power needs of its member cooperatives. During 1980, Allied determined that the estimated future power needs of its member cooperatives had declined and that the continued development of its plant site was not feasible. It is contemplated that the plant site will be developed in the future as the needs for power increase.

(9) LIABILITY FOR SPENT NUCLEAR FUEL DISPOSAL COSTS:

The Nuclear Waste Disposal Act of 1982 gave approval to the federal government to construct a repository for the nation's civilian spent nuclear fuel. The Act stated that funding for this repository would be provided by assessing nuclear generating unit owners a one-time fee for spent nuclear fuel being stored on-site at each nuclear facility in April 1983, and by assessing all future energy generated by nuclear facilities at a rate of 1.0 mil per kilowatt hour. The Cooperative is paying the post 1983 fees on a current basis and such fees are being charged to steam and other power generation expenses. The Cooperative has previously paid the one-time fee and is amortizing it to expense over a thirteen year period ending in 1998 which corresponds with the period the Cooperative is recovering these costs in its rates. In both 1988 and 1987, $160,176 was amortized to steam and other power generation expenses.

(10) DEFERRED SETTLEMENT CREDIT:

The Cooperative, as a participant in jointly-owned generating stations, was involved in several legal actions regarding coal transportation which were settled in 1986. Refunds received are being used to reduce steam and other power generation expenses over a four-year period which began in 1986 in accordance with the period the Cooperative is recovering these costs in its rates.

(11) SUBSEQUENT EVENT:

In 1989, the Cooperative and one of its members, North Iowa Municipal Electric Cooperative Association (NIMECA), entered into a joint transmission agreement which allows NIMECA an individual undivided ownership interest in and access to the Cooperative's transmission system. The agreement will result in the Cooperative recording a sale of approximately $6,200,000 of electric plant and recognizing a gain of approximately $996,000. The Cooperative will continue to operate and maintain the system. NIMECA will reimburse the Cooperative for the proportionate share of the operating expenses of the system and will contribute proportionately for all future capital additions of the system. Additionally, the Cooperative and NIMECA entered into a capacity sharing agreement which provides for the sharing of generating resources for the next twenty years.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

TO THE BOARD OF DIRECTORS OF CORN BELT POWER COOPERATIVE:

We have audited the accompanying balance sheets of Corn Belt Power Cooperative (a cooperative association incorporated in Iowa) as of December 31, 1988 and 1987, and the related statements of revenues and expenses, cash flows and deferred patronage dividends and other equities for the years 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 audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 audits provide 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, 1988 and 1987, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Arthur Andersen & Co.

ARTHUR ANDERSEN & CO.

Chicago, Illinois,
February 21, 1989

CORN BELT
POWER COOPERATIVE

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