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CORN BELT POWER COOPERATIVE
1986 ANNUAL REPORT

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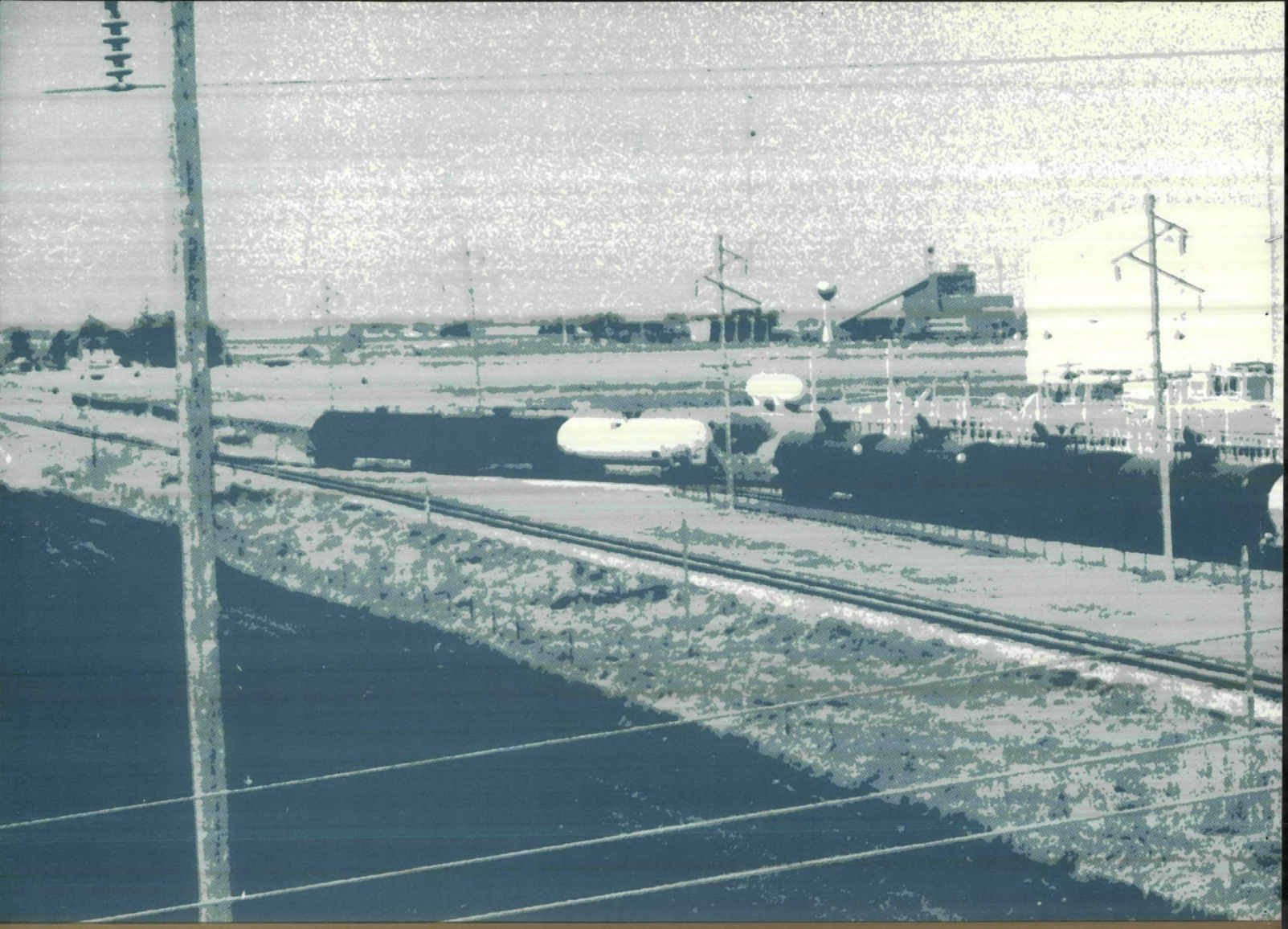

CORN BELT POWER COOPERATIVE, headquartered at Humboldt, Iowa, is a generation and transmission rural electric cooperative owned by its member systems. Corn Belt provides electric power to 12 member distribution rural electric cooperatives and one municipal electric cooperative (NIMECA). Electricity supplied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

THE COVER: CF Industries, a terminal for anhydrous ammonia transfer, is located on the lines of the Iowa Lakes Electric Cooperative. It is located west of Spencer and represents a significant commercial and industrial load.

Cooperative Highlights

	1986	1985
Energy Sales to RECs (Million kWh)	**682,347,123**	680,466,049
Total System Sales (Million kWh)	**896,545,489**	841,013,356
Net Operating Revenue	**$ 39,089,694**	$ 39,529,521
Net Operating Margin	**$ 162,178**	$ 1,069,948
Total Assets	**$150,465,155**	$148,780,290
Peak Demand—RECs (Thousand kW)	**173,496**	174,290

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PRESIDENT'S REPORT

Eugene Drager
President of the Board

The past year, 1986, was an eventful year for Corn Belt Power Cooperative.

At Corn Belt Power Cooperative, we were in the midst of several programs and activities during the year, some of which were new and others which had been continuing for several years.

First, we continued to operate jointly with CIPCO of Cedar Rapids as part of a pooling agreement which began in 1985.

After various studies and conferences, and many joint meetings, our board finally determined that it would be very difficult to merge two differently operated systems like Corn Belt and CIPCO, and agreed with CIPCO to terminate that agreement.

The pooling agreement was not a failure. Corn Belt has definitely gained a good deal from this experience.

For example, a marketing program was initiated, instituting dual fuel and other residential electric programs which have been beneficial to our members.

Economic development activities, organized through the Iowa Area Development Group, headed by Jack Bailey, gained momentum during 1986.

The IADG has experienced great success in its first full year of operation, working on a number of existing business expansions and over 30 new business projects.

We expect economic development efforts will benefit all of us–the G&T, the distribution co-op and the member-consumer.

We are looking for bigger and better things to come in the future. Development of new commercial and industrial loads will require diligent efforts by all of us working together. Let us keep working for a better future and a stronger base for our rural electric cooperatives.

Last year we saw the continuation of several successful long term Corn Belt programs.

At our Annual Meeting held in April, it was announced that Corn Belt had a margin of just over $1,468,000 for the previous year, 1985. The Corn Belt board announced its decision to allocate $1,000,000 as deferred patronage dividends for 1985.

The Annual Meeting featured Mr. John Chrystal, president of the Bankers Trust Company, Des Moines, as program speaker.

In late April, Corn Belt held a weekend high school "energy camp" at the Iowa 4-H Camping Center which provided young people with the opportunity to learn about RECs and cooperatives. This camp replaced the "Day at Corn Belt" youth program we have held for many years.

Because the energy camp was so successful, our board agreed to work with the IAEC in expanding the camp to be held on a statewide basis in July of 1987.

In December, we held our annual Member Information Meeting, which had an attendance of approximately 200. This meeting, held each year since 1969, gives the directors a good chance to learn more about the Corn Belt programs and operations.

We gave our 1986 Member Information Meeting the theme of "Extraordinary '86," due to the exceptionally unusual year we had in terms of our power plants.

The Council Bluffs #3 unit had suffered damage from a coal dust explosion on the last day of December in 1985, affecting its operation during early 1986.

The turbine in unit #3 at the Humboldt Station tripped off line and was damaged on March 12, 1986, due to a lack of oil in the lubrication system. Repairs on that unit continued into the summer.

Finally, on July 28, storms took their toll on two of our power plants–the Neal #4 generating plant, Sioux City, and the Wisdom Station, Spencer.

The Neal Station was hit directly by a tornado and was severely damaged. It is not expected to be back on line until mid-1987.

The Wisdom Station suffered severe damage to its roof and cooling towers due to high winds.

Corn Belt carried out a number of construction projects throughout 1986, many of which were done using our own employees. The cooperative has experienced, skilled personnel in both the Transmission and Electrical Departments. This means that the cooperative can save on the cost of maintenance and construction by directing and carrying out many activities on its own.

In 1986, as in the past, the Corn Belt Board and committees played an active role in keeping the cooperative running efficiently. Two new committees were established during the year to help plan for the future–the Telecommunications Committee and the Strategic Planning Committee.

Several of the committees include both Corn Belt board members and member distribution cooperative managers.

One committee especially active during the year was the Rate Committee. This committee worked at establishing a rate that will fit our changing times, be fair and acceptable to all the members, and be compatible with our marketing efforts.

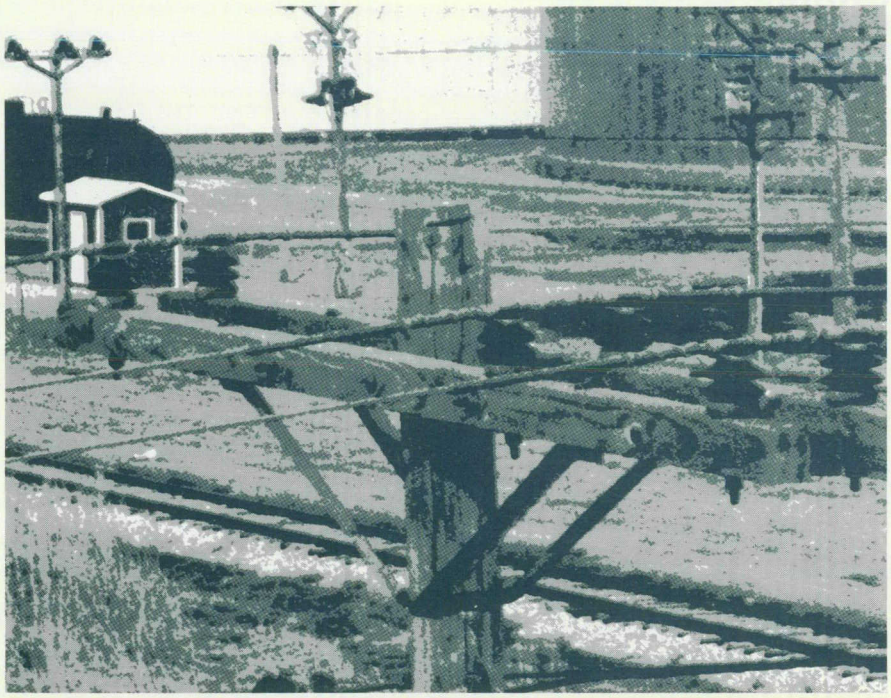
Corn Belt continued its discussions with NIMECA during the year in the development of a long term agreement which we expect will be mutually beneficial to both parties.

The future of Corn Belt looks very good. We will continue the successful programs developed in the last few years as well as our traditional programs designed to keep our cooperative strong and dependable.

As a rural electric cooperative, we continue to be very much part of the Iowa economy, which, as we all know, has struggled and undergone many changes. We do, however, see some signs of hope and some opportunities ahead.

We look forward to the future with a positive attitude.

I express my appreciation to the Corn Belt Board of Directors for its hard work and dedication throughout 1986. With the continued cooperation of our board and employees, we can all expect a very bright future.



GENERAL MANAGER'S REPORT

George W. Toyne
General Manager

Nineteen eighty six is history. Many things happened, including boiler explosions, tornadoes, increased sales, industrial development, and the economic situation – all which have had an effect on your cooperative. One result was a decrease in average rates to the member RECs. These items will be discussed more fully in this Annual Report.

At the beginning of the year we were continuing our pooling arrangement with Central Iowa Power Cooperative. However, as discussed in the President's Report, that agreement was terminated effective the end of 1985. Therefore, this Annual Report covers the operation of Corn Belt alone.

The economy in the Corn Belt area did not improve last year, but we did show a small increase in sales to our members. Some of this was due to increased crop drying and some was due to new loads added to the system.

Increased emphasis was placed on marketing, with improvement seen in sales of electric water heaters, dual fuel heat installations and ground water heat pumps.

Opportunities for new and expanded industries in the area got off to a running start in 1986 with the operation of the **Iowa Area Development Group** under the leadership of Jack Bailey and Craig Hamilton. The IADG works closely with local RECs and municipal utilities in the area. We are hopeful that commercial and industrial development will lead to more job opportunities in Iowa and increase load growth for the cooperative.

As discussed in more detail elsewhere in this report, we suffered considerable damage to various generating stations owned directly or partially by Corn Belt. Even though at one point in the year almost all of our generaiton was off the line at the same time, there was no loss of load. This is because of our transmission interconnections with other utilities and our membership in the Mid-Continent Area Power Pool (MAPP). Our participation in MAPP allows us to buy and sell power over our interconnections and makes available energy from other MAPP members.

Also, our dispatch arrangement with Iowa Public Service Company provides for the use of its larger, more efficient generating units which saves starting and running our own smaller, more costly generators.

Because of our interconnections with other utilities and our ability to purchase low cost power, our costs did not increase as might have been expected. Instead, we were able to show a decrease in average rates to our member cooperatives in 1986. The average firm rate dropped approximately two percent.

Highlights of Corn Belt operations and activities during 1986 include:

•The Wisdom and Humboldt generating stations were each operated for an extended period last year in order to reduce coal piles and to train operating personnel. These plants serve as our "spare tire," ready to run as needed.

•To further save costs in 1986, we purchased extra power from the Western Area Power Administration as it was available. Hydro power continues to be one of our lowest cost power sources.

•During the year, we changed the firm rate structure to be more cost-based. The rate to individual member cooperatives varies from the average, depending on peak time usage and load factors. The new rate structure is compatible with our marketing program and allows the promotion of off-peak loads and potentially controllable loads.

•We continued working with North Iowa Municipal Electric Cooperative Association this past year, and are near agreement on new methods of joint operations.

•Corn Belt completed a number of construction projects in 1986. Three new distribution substations and sixteen miles of 69-kV line were added. One of the substations and three miles of line were built by Corn Belt personnel. This not only saved money, but gave employees an opportunity to learn new skills.

•A major addition constructed during the year was the Hampton 161-kV Substation and three miles of 161-kV line.

•Several additions were made to Corn Belt's microwave equipment. These will help keep our communications system up to date and efficient, and allow us to control distant switches to maintain system reliability.

•Many Corn Belt and member system employees participated in computer training sessions offered during the year through the Iowa Association of Electric Cooperatives. This allowed them to learn new, more efficient operation of our computers. Also a statewide computer "bulletin board" has been established, giving a new method of communicating among RECs.

•Late in the year, we ordered an IBM System/36 mainframe computer to replace the older System/34 which has served us for several years. The new computer will allow greater efficiency and capabilities, particularly in our accounting activities.

We are hopeful that the economy and the weather will be more cooperative in the future. With help from the marketing and industrial development programs, we will have a chance of stabilizing rates for a period of time.

I would like to take this opportunity to express my appreciation for all the efforts of the board of directors, staff and employees of Corn Belt in helping the cooperative provide reliable, low-cost electric service to its members.

In 1987 we will recognize the golden anniversary of Corn Belt's predecessors, Federated Cooperative Power Association and Central Electric Federated Cooperative Association. We look forward to serving you in our 50th year as a power supplier.

Dale M. Arends
Assistant General Manager

Extraordinary 86 was the theme of our annual Member Information Meeting held in December. It certainly was appropriate. During 1986, Council Bluffs #3, Neal #4, Wisdom and Humboldt all experienced problems of a highly unusual nature. Reporting on events in 1986 would not be complete without reviewing what happened at these power plants.

Council Bluffs #3

A coal dust explosion occurred at the Council Bluffs #3 plant on December 31, 1985. This explosion caused considerable damage to a concrete floor and the coal conveying system. Also damaged in the explosion were the main building walls, windows and entrance doors. Original damage estimates were as high as four million dollars, but final figures showed the actual cost to be in the two million dollar range. The plant was covered by insurance so that Corn Belt's share of the repair costs were minimum.

Following the explosion, the plant was shut down for 24 hours while inspections were made for damage. Once the damage was assessed, the plant started up again and ran at approximately three quarters output until March when the conveyor system was repaired.

Final repairs to the plant were estimated to be completed in December, 1986.

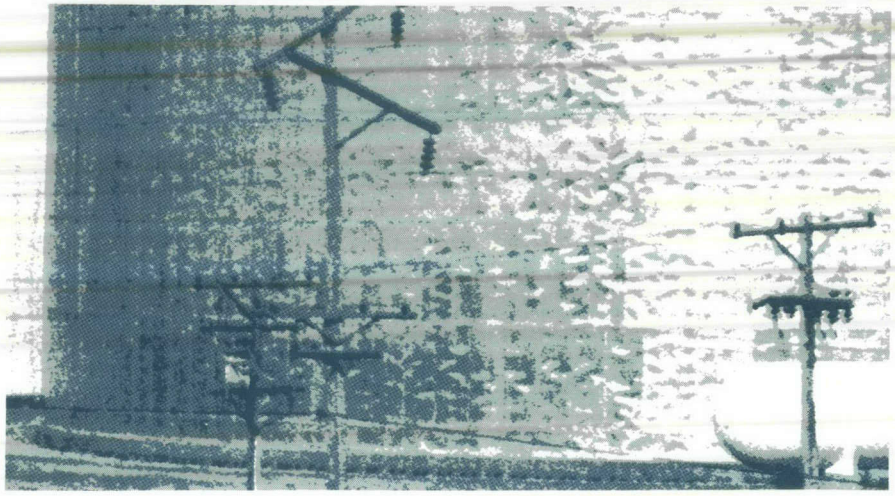
Humboldt Station #3

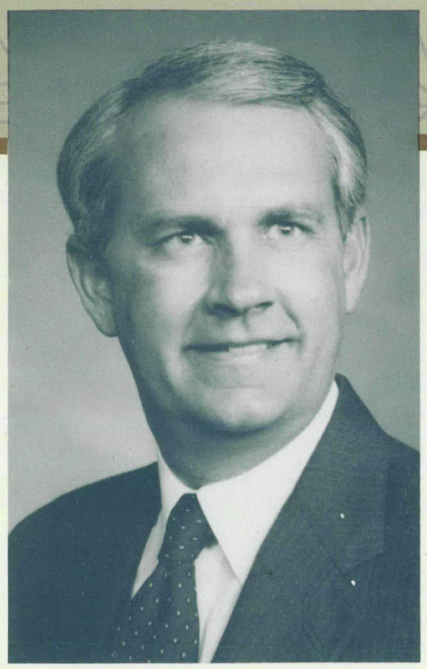
Corn Belt began a coal reduction plan at the Humboldt Station during 1986. Humboldt Unit #3 was running in March as part of this program. On March 12, a pipe ruptured in the oil cooling system, causing rapid loss of oil. There was extensive damage to turbine/generator journals, bearings and seals.

Most of the repair costs of the unit were covered by insurance. However, due to the extent of the damage, the unit did not get back into service until November.

Neal #4

During 1986, Neal #4 had two incidents that affected its operation. In March a steam pipe ruptured, causing extensive





damage to equipment in the vicinity of the rupture.

The other incident occurred on July 28, 1986. That evening a tornado hit the plant. Initial damage estimates ran as high as $50 million but were later revised to $25 million. Primary damage occurred to the coal handling system and the structures housing the administrative building and the turbine/generator. There was no major damage to the turbine/generator itself. It is estimated the repairs will take until May of 1987 to complete.

Repairs should essentially be covered by insurance, but the loss of a plant such as Neal #4 for such an extended period necessitates large purchases of power from others at a higher cost.

Wisdom Station

The same evening Neal #4 was hit by a tornado, our Wisdom Station at Spencer was also damaged by either strong winds or a tornado. Damage to the Wisdom plant included the loss of most of the roof and severe damage to two of the four cooling towers. Insurance will pay for most of the damage.

I wanted to relate these occurrences in the report for 1986, not to be negative, but to emphasize the strength of the Corn Belt system. While all these incidents were occurring and while repairs still are in progress, the service to the members of Corn Belt has not been interrupted.

This is evidence of the strong system that has been built by Corn Belt through working with the Mid-Continent Area Power Pool (MAPP) and by planning jointly with other utilities in our area.

Future

My report wouldn't be complete without a few comments about Corn Belt's future. You have already read in this report about the marketing and industrial development activities we have begun.

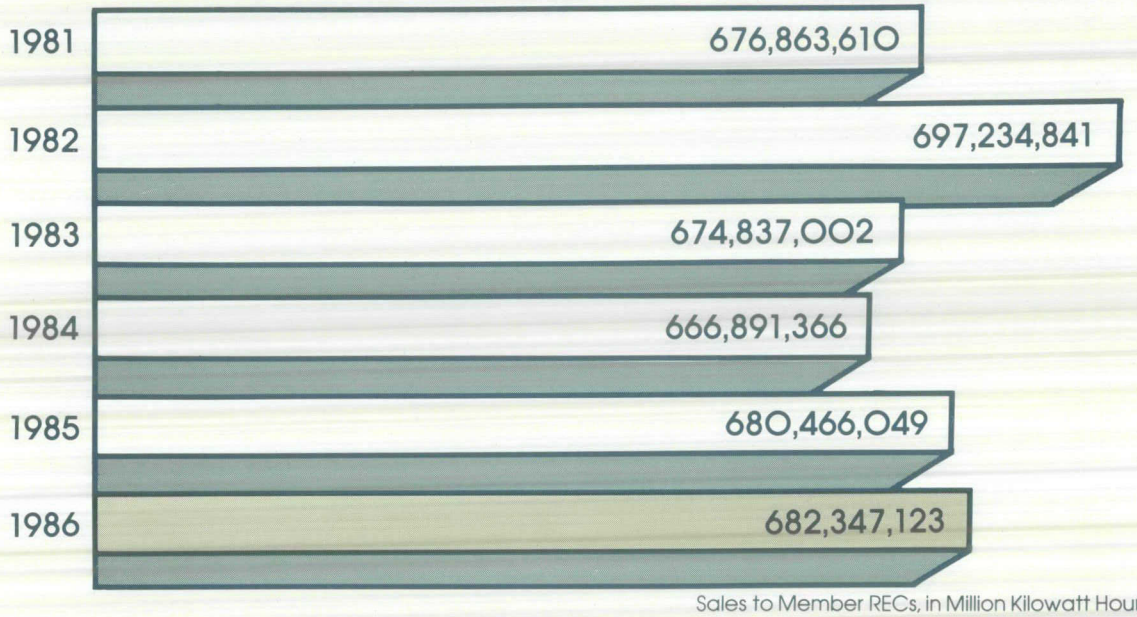
Corn Belt and North Iowa Municipal Electric Cooperative Association (NIMECA) have been working very hard during 1986 to develop agreements which will help both organizations well into the future. These agreements involve the sharing of transmission and generation resources. Hopefully during 1987 we will implement these agreements which will take advantage of both parties' strengths and hold costs down for both of us.

With the construction of large coal-fired power plants at a minimum, competition among coal companies and railroads to serve existing power plants has had a dramatic effect on coal prices and freight rates. These lower prices will have a definite impact on the future generation costs from our Neal #4 and Council Bluffs #3 units. The reduced coal prices and freight rates will help to hold down the cost of power from Corn Belt well into the 1990s.

I think 1986, more than any year in the recent past, has demonstrated the strengths that have been built into the overall Corn Belt system. We have suffered through unusual circumstances at our plants, yet the service has been maintained. We have been able to take advantage of lower coal and freight prices because of our investment in Neal #4 and Council Bluffs #3. Finally, we have been able to utilize our own capable employees to construct facilities that had been previously contracted to others.

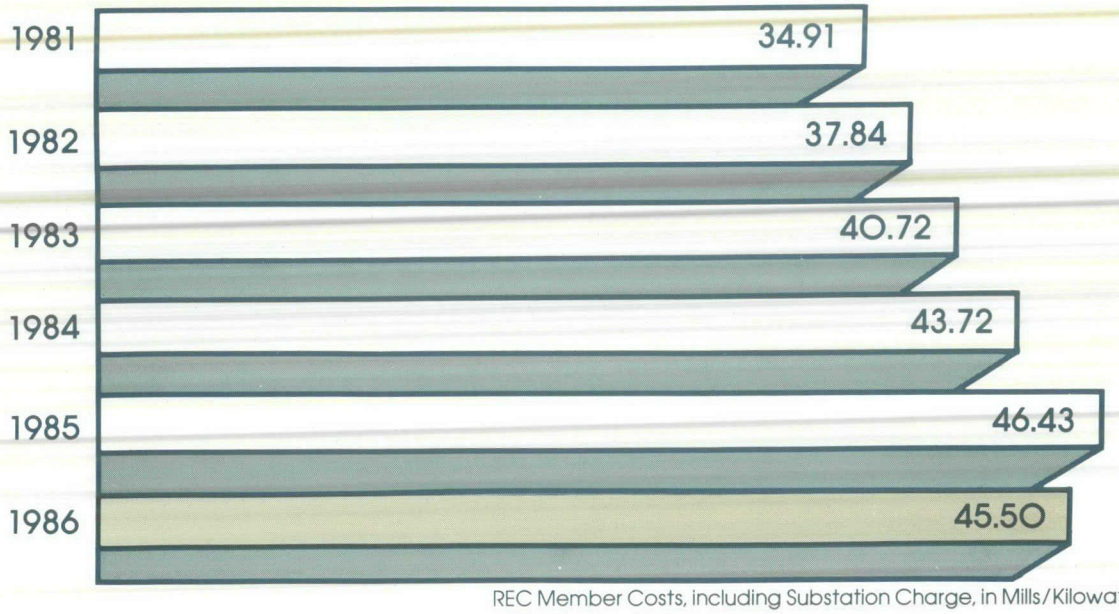
Corn Belt has built an excellent system over the past 39 years. This is reflected in our people, our plants and our lines. Each of the members should take pride in this system as it is theirs and it will carry them well past the turn of the century.

Kilowatt Hour Sales



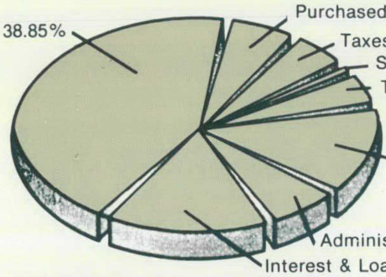
Sales to Member RECs, in Million Kilowatt Hours

Member Costs



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

Expense Dollar Distribution



	1986 Amount	1986 Percent	1985 Amount	1985 Percent
Generation	**$15,123,102**	**38.85**	$16,296,966	42.37
Interest and Loan Expense	**8,382,467**	**21.53**	8,479,850	22.05
Depreciation Costs	**5,387,481**	**13.84**	5,140,163	13.37
Taxes	**2,317,041**	**5.95**	2,527,696	6.57
Administrative and General	**2,253,539**	**5.79**	2,396,387	6.23
Purchased Power	**3,584,121**	**9.21**	1,874,675	4.87
Transmission	**1,652,093**	**4.24**	1,698,066	4.42
Sales	**227,672**	**.58**	45,770	.12
TOTAL	**$38,927,516**	**100.00**	$38,459,573	100.00

Load Summary – Kilowatt Hours

Sources of Energy

	1986	1985
D.A.E.C.	**299,333,484**	192,688,714
Council Bluffs #3	**146,262,000**	141,475,000
Neal #4	**210,722,000**	451,196,000
Humboldt	**16,512,668**	11,082,311
Wisdom	**19,717,700**	877,400
Webster City	**32,100**	(1,100)
NIMECA/Other	**3,758,297**	14,342,676
Western Area Power	**174,480,000**	258,020,000
IPS Economic Dispatch	**74,721,000**	(169,610,000)
NIPCO Neal #4	**—**	222,884,000
CIPCO Neal #4	**—**	(222,884,000)
TOTAL SOURCES	**945,539,249**	900,071,001

Sales of Energy

	1986	1985
RECs	**682,347,123**	680,466,049
Webster City	**86,984,808**	84,857,105
NIMECA	**127,213,558**	75,690,202
TOTAL SALES	**896,545,489**	841,013,356
System Losses	**48,993,760**	59,057,645
TOTAL SALES & SYSTEM LOSSES	**945,539,249**	900,071,001

Power Plant Damage

A number of problems occurred at Corn Belt's generating sources which affected operations during 1986. These were discussed in detail in the Assistant General Manager's Report.

In summary:

December 31, 1985–A coal dust explosion occurred at the Council Bluffs #3 generating station, located south of Council Bluffs. Corn Belt owns 26 megawatts of the 675-megawatt plant. The coal conveying system received major damage, and plant output was reduced until March, 1986.

March 12, 1986–A pipe ruptured in the oil cooling system for Humboldt Station Unit #3, resulting in loss of oil and damage to turbine bearings and associated parts. Repairs for the damage were completed in late 1986.

Units #3 and #4 of the plant are rated at 31 megawatts. Units #1 and #2 are in inactive reserve.

July 28, 1986–A tornado hit the 600-megawatt Neal #4 generating station, Sioux City, head-on, causing severe damage to the plant and coal handling system. Corn Belt owns 70 megawatts of the plant and has a lease for seven additional megawatts.

Repairs are expected to be completed in late spring, 1987.

July 28, 1986–High winds or a tornado tore large portions of the roof off the Wisdom Station, Spencer, during an evening storm. Two of the cooling towers also sustained severe damage. The capacity of the Wisdom Station is 38.5 megawatts.

AFTERMATH–The Neal #4 generating station and its coal handling system were severely damaged by a tornado that hit the facility near Sioux City at 7:50 p.m. Monday, July 28, 1986. Repairs on the 600-megawatt plant are expected to be completed in late spring, 1987.

Iowa Area Development Group

The Iowa Area Development Group, formed in December, 1985, was active during its first full year of economic development activities in 1986.

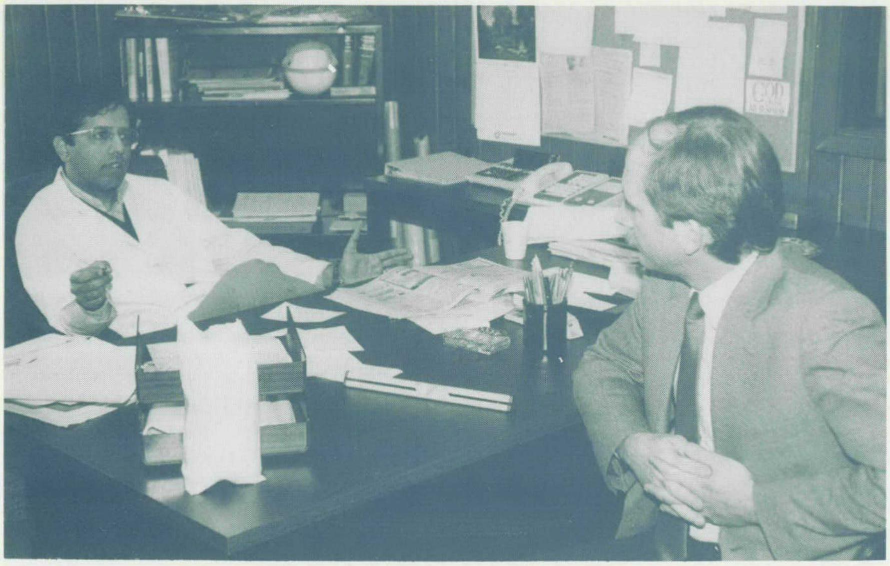
The IADG represents interests of rural electric cooperatives and municipal electric utilities across the state. IADG staff includes Jack Bailey, director, Craig Hamilton, manager, and Marna Lund, administrative assistant.

In 1986, IADG developed and assisted eight new businesses or industries which are to locate on the power lines of IADG member systems. New electrical load from these businesses is expected to be approximately 18 megawatts.

One of these businesses, Advanced Foods, Inc., a soy protein processor, will be located in the Corn Belt service area as a member of Hardin County REC. Other IADG-assisted businesses include auto parts manufacturing, vegetable and pork processing, metal fabrication and fresh egg production companies. IADG also developed six new businesses which eventually selected sites or buildings not located on the lines of IADG member systems.

Assistance in existing business expansion is a key part of Iowa Area Development Group efforts. At the end of 1986, almost 20 industries were relying upon expertise of IADG staff in exploring opportunities for future growth.

IADG has prepared a list of "targeted industries" for future development activities. Advertising will be concentrated in trade and industry publications of these targets.



ASSISTANCE TO EXISTING BUSINESS–Zaheer Baber, left, manager of the Land O'Lakes turkey processing plant, Ellsworth, visits with Craig Hamilton, IADG manager, in Baber's office. The town of Ellsworth is served by Hardin County REC. Hamilton made visits throughout 1986 to REC commercial and industrial members.

Residential Marketing Program

The year 1986 represented the first full year of the residential marketing program targeting electric heat. Both the **dual fuel** and the **interruptible** electric heat programs were established.

Corn Belt member systems reported 216 dual fuel and 136 interruptible installations signed up during 1986.

The water heater rebate program, initiated over 2½ years ago, showed continued success during 1986. A total of 612 water heaters were installed during the year by Corn Belt distribution cooperatives.

Rebates, which provide REC members with up-front financial savings on electric space heating and water heating installations, were financed on an equal basis between Corn Belt and participating distribution RECs. In 1986, Corn Belt's share of these rebates had accumulated to over $65,000.

Kilowatt hour credits given to member distribution cooperatives for their members' involvement in the dual fuel or interruptible electric heat programs totaled over $9,000 for 1986.

Leadership Changes

Due to the early 1986 formation of Iowa Lakes Electric Cooperative following the merger of Pocahontas REC, Buena Vista County REC and D.E.K. REC, Corn Belt adjusted the size of its board to reflect the new number of member distribution cooperatives.

Dennis Larson, Laurens, former board member from Pocahontas REC, became the Iowa Lakes representative on the Corn Belt Board of Directors.

Darwin Will, former director from D.E.K. REC, and **Albert Swart,** former director from Buena Vista County REC, retired from the Corn Belt board.

Ralph Classon, Corn Belt board member from Franklin REC, also retired from the board in 1986. Replacing him was **Roger Rust,** Sheffield.

One of Corn Belt's distribution cooperative managers retired from his position at the end of 1986. **Ken Wright,** manager at Grundy County REC since 1972, retired and was replaced in his position by **Larry Marske,** who joined Grundy County REC in 1976.

Marketing Training

Marketing consultant Mary Harding became familiar to many RECs in Iowa during 1986 as she traveled to a number of cooperatives, leading marketing training for employees and members of boards of directors.

Through a training program coordinated between Corn Belt and CIPCO, Harding led a series of spring and fall training seminars. Training was designed to help participants understand general marketing principles and specific facets of the REC's residential and industrial development programs.

In the fall, a special one-day training event on salesmanship was offered to REC member service and sales personnel. This training was led by staff from Marketing Sciences Corporation, Marion.

YOUR PART IN MARKETING–Marketing Consultant Mary Harding explains principles of marketing to a group of REC employees and directors who participated in one of several marketing training seminars held for RECs across Iowa in 1986.

Construction

A number of construction projects were completed in the Corn Belt area during 1986. Corn Belt personnel were responsible for two major projects–the Renwick Substation and the Lakota Tap.

Construction projects completed during the year include:

–**The Hampton 161-kV Substation,** located southwest of Hampton, completed by Keith Electric Co., Des Moines.

–The **Hampton 161-kV line**–three miles of single pole line connecting the new Hampton Substation with the existing Franklin-Emery line in Franklin County. This construction included the erection of a 110-foot steel pole on which radio-controlled switches were installed. Construction was done by Emblom Brothers Construction Co., Minnesota.

–The **Renwick Substation,** located northwest of Renwick, built by Corn Belt crews.

–Two 69-kV lines–the **Renwick to Boone Valley line,** and a line connecting Renwick to the Iowa

Public Service line near Luverne. Nelson Electric Co., Alta, constructed both these 69-kV lines, which totaled 13.5 miles in length.

–The **Oran Substation,** located along Iowa Highway 3, east of Waverly. This line was built by Keith Construction Co.

–The **Lakota Substation,** located in northern Kossuth County, built by Keith Construction Co.

–The **Lakota Tap,** 2.5 miles of 69-kV line connecting the new Lakota Substation with a line owned by Interstate Power Co. This line was built by Corn Belt personnel.

–Four new microwave towers, improving communications to the north and west parts of the Corn Belt system. Three of these new structures were built at substation sites–**Storm Lake, Osgood** and **Wallingford.** The fourth microwave tower was erected northeast of Ruthven.

Construction work continued late in the year due to mild weather conditions. Corn Belt personnel were responsible for all surveying, staking and inspection of the sites for new construction.

Annual Meeting

Corn Belt Power Cooperative held its 38th Annual Meeting April 1, 1986. Portions of the meeting were held in conjunction with Central Iowa Power Cooperative.

John Chrystal, president and chief executive officer of the Banker's Trust Company, Des Moines, spoke to the group of about 450 directors, managers, employees and spouses who attended the combined afternoon session of the meeting.

During the business portion of the meeting, Clarence Lange, Corn Belt treasurer, reported that the cooperative had a margin in 1985 of slightly over $1,468,000. Assistant Manager Dale Arends noted that the peak demand in 1985 was the second highest in Corn Belt history.

CONSTRUCTION–Corn Belt crews build the Lakota Tap, a 2.5 mile stretch of 69-kV line located in northern Kossuth County. Corn Belt personnel were responsible for a significant amount of construction in 1986.

Agreement Ended

A pooling agreement between Corn Belt Power Cooperative and Central Iowa Power Cooperative, Cedar Rapids, ended after a full year of operation, following decisions made by both cooperative's boards of directors early in 1986. Pooled operations began January 1, 1985.

The pooling agreement provided for combined power supply and mutual sharing of costs between the two cooperatives. Some staff responsibilities were also shared.

Reasons for discontinuing the agreement included differences in projected costs and differing philosophies in operating procedures and policies.

Combined marketing activities between both cooperatives continued until late in the year.

Energy Camp

Thirty youth and adults enjoyed energy education and recreation at Corn Belt's first rural electric energy camp held in April at the Iowa 4-H Camping Center near Boone. The camp was held on a trial basis instead of the "Day at Corn Belt" youth event which Corn Belt had hosted annually since the early 1970s.

Educational activities at the camp included presentations on economic development, marketing, electric safety, computer energy audits, electric terminology and rural electric history.

Because of the success of the camp, the Corn Belt Member Service Committee decided to work with the Iowa Association of Electric Cooperatives in developing a rural electric energy camp which could be offered on a statewide basis in 1987.

ENERGY EDUCATION–High school students at Corn Belt's 1986 energy camp learn about electric safety from REC and IAEC staff.

Loan Repaid

The final payment on a $550,000 loan to improve the railroad line between Humboldt and Eagle Grove was made to the Farmer's Home Administration (FmHA) during the summer of 1986.

Making the payment was the Humboldt Rail Improvement Corporation, HRIC, a coalition of Humboldt area businesses, including Corn Belt Power Cooperative.

The payment was part of $1.8 million spent to improve 26 miles of railroad line, including the six-mile-long spur from Humboldt to the Humboldt Station. Also sharing in the cost of the improvement were the Chicago and Northwestern Railway Company and the State of Iowa.

The ten-year, $550,000 loan borrowed from the FmHA was guaranteed by the HRIC members. Corn Belt's portion was $314,287 of the project.

SKYHIGH–The second of three switches is attached to the 110-foot steel pole in the new Hampton 161-kV line.

Member Information Meeting

Since the late 1960s, Corn Belt has hosted an annual Member Information Meeting in order to help its member distribution systems better understand Corn Belt operations and significant issues related to the generation and transmission of electricity.

The 1986 Member Information Meeting was held in early December, and was titled "Extraordinary '86"–to focus on the unusual year Corn Belt had experienced in terms of power plant damages.

Corn Belt General Manager George Toyne and Assistant General Manager Dale Arends discussed the status of generating units and factors which affect power supply and electric costs.

Jack Bailey and Craig Hamilton, IADG, and Don Severson, manager of Hardin County REC, spoke on progress in economic development. Jim Sayers, information specialist, summarized REC marketing activities, and Mary Harding, marketing consultant, discussed marketing training held for RECs during the year.

Assets

December 31, 1986 and 1985

	1986	1985
ELECTRIC PLANT (Notes 2 and 7):		
In Service	**$174,900,646**	$168,385,760
Less - Reserve for depreciation	**58,302,176**	52,970,429
	116,598,470	115,415,331
Construction work in progress	**2,071,401**	3,065,291
Nuclear fuel, net of amortization (Note 2)	**5,689,341**	5,265,858
	124,359,212	123,746,480
Nonutility property	**388,094**	375,594
Investment in the National Rural Utilities Cooperative Finance Corporation	**2,616,839**	2,644,031
Land held for future generating site (Note 9)	**3,856,509**	3,856,509
Other investments and receivables	**1,907,492**	511,013
	8,768,934	7,387,147
CURRENT ASSETS:		
General fund cash and temporary cash investments	**2,791,994**	36,234
Special construction fund cash and temporary cash investments	**193,614**	240,708
Working capital advances	**128,510**	346,583
Member accounts receivable	**3,715,645**	4,215,609
Other receivables	**843,677**	67,679
Inventories —		
Fuel, primarily coal, at last-in first-out cost	**5,214,775**	6,696,775
Materials and supplies, at average cost	**1,632,708**	2,129,143
Prepayments	**616,673**	474,839
	15,137,596	14,207,570
DEFERRED CHARGES:		
Deferred spent nuclear fuel costs (Note 10)	**1,842,024**	2,002,200
Deferred refueling costs (Note 2)	**—**	1,317,571
Other	**357,389**	119,322
	2,199,413	3,439,093
	$150,465,155	$148,780,290

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

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Membership Capital and Liabilities

December 31, 1986 and 1985

	1986	1985
MEMBERSHIP CAPITAL:		
Memberships, at $100 per membership	$ 1,400	$ 1,600
Deferred patronage dividends, per accompanying statement (payment restricted as indicated in Note 3)	4,017,255	3,867,255
Other equities, per accompanying statement	8,388,742	8,208,661
	12,407,397	12,077,516
LONG-TERM DEBT (Note 4):		
Rural Electrification Administration	55,593,148	56,454,883
Federal Financing Bank	52,379,203	49,951,077
National Rural Utilities Cooperative Finance Corporation (Note 9)	42,313	623,965
Capital lease obligations (Note 2)	18,833,833	20,048,838
Pollution control revenue bonds	3,470,000	3,550,000
	130,318,497	130,628,763
Less - Current maturities of long-term debt	3,789,241	4,281,250
	126,529,256	126,347,513
OTHER LONG-TERM LIABILITIES:		
Deferred compensation	330,366	278,965
	330,366	278,965
CURRENT LIABILITIES:		
Current maturities of long-term debt	3,789,241	4,281,250
Notes payable (Note 5)	—	50,000
Accounts payable	2,795,849	2,878,994
Accrued property and other taxes	2,375,603	2,488,632
Other	349,055	377,420
	9,309,748	10,076,296
DEFERRED CREDITS:		
Deferred settlement credit (Note 11)	1,888,388	—
	1,888,388	—
	$150,465,155	$148,780,290

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, 1986 and 1985

	1986	1985
OPERATING REVENUES:		
Sales of electric energy	**$36,612,166**	$36,978,847
Other	**2,477,528**	2,550,674
	39,089,694	39,529,521
OPERATING EXPENSES:		
Operation —		
Steam and other power generation	**11,974,715**	13,961,359
Purchased power	**3,584,121**	1,874,675
Transmission	**1,228,822**	1,140,974
Sales	**227,672**	45,770
Administrative and general	**2,224,784**	2,075,122
Maintenance —		
Steam and other power generation	**3,148,387**	2,335,607
Transmission	**423,271**	557,092
General plant	**28,755**	33,480
Depreciation and decommissioning costs (Note 2)	**5,387,481**	5,140,163
Amortization of plant development costs (Note 9)	**—**	287,785
Property and other taxes	**2,317,041**	2,527,696
	30,545,049	29,979,723
Net Revenues From Operations	**8,544,645**	9,549,798
INTEREST AND OTHER DEDUCTIONS:		
Interest on long-term debt	**8,767,601**	8,762,339
Other interest	**5,436**	136,336
Interest during construction (Note 2)	**(415,327)**	(443,290)
Amortization of loan expense	**24,757**	24,465
	8,382,467	8,479,850
NET OPERATING MARGIN	**162,178**	1,069,948
NON-OPERATING MARGIN:		
Interest income	**253,096**	242,558
Other, net	**105,952**	155,889
Non-operating Margin	**359,048**	398,447
NET MARGIN	**$ 521,226**	$ 1,468,395

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

Statements of Changes in Financial Position

For the Years Ended December 31, 1986 and 1985

	1986	1985
FUNDS WERE PROVIDED FROM:		
Operations —		
Net margin	**$ 521,226**	$ 1,468,395
Charges to operations not affecting working capital —		
Depreciation and decommissioning costs —		
Charged to expense	**5,387,481**	5,140,163
Charged to clearing and other accounts	**303,837**	312,379
Amortization of nuclear fuel	**1,563,989**	987,214
Amortization of plant development costs	**—**	287,785
Amortization of nuclear fuel disposal costs	**160,176**	80,088
Amortization of deferred refueling costs	**1,317,571**	694,669
Other	**24,557**	121,750
	9,278,837	9,092,443
Proceeds from long-term debt	**3,978,000**	5,529,000
Deferred settlement credit	**1,888,388**	—
Other	**357,869**	149,172
Changes in working capital —		
Cash and working capital advances	**(2,490,593)**	879,789
Accounts receivable	**(276,034)**	(645,833)
Inventories	**1,978,435**	(615,926)
Prepayments	**(141,834)**	91,925
Current maturities of long-term debt	**(492,009)**	(267,239)
Notes payable	**(50,000)**	50,000
Accounts payable	**(83,145)**	825,840
Accrued property and other taxes	**(113,029)**	209,501
Liability for spent nuclear fuel disposal costs	**—**	(2,364,292)
Other	**(28,365)**	59,361
	(1,696,574)	(1,776,874)
	$13,806,520	$12,993,741
FUNDS WERE USED FOR:		
Additions to electric plant, net	**$ 5,880,567**	$ 5,666,566
Additions to nuclear fuel	**1,987,472**	684,612
Retirements and current maturities of long-term debt	**3,796,257**	4,285,073
Deferred refueling costs	**—**	2,012,240
Investments and receivables	**1,641,237**	96,519
Deferred patronage dividends paid	**200,000**	200,000
Other	**300,987**	48,731
	$13,806,520	$12,993,741

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

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Statements of Deferred Patronage Dividends and Other Equities

For the Years Ended December 31, 1986 and 1985 (Note 3)

DEFERRED PATRONAGE DIVIDENDS:	1986	1985
Balance Assigned Beginning of Period	$3,867,255	$3,067,255
Net Margin	521,226	1,468,395
Lease revenue deferred patronage dividends	8,855	30,700
	4,397,336	4,566,350
Patronage dividends paid	(200,000)	(200,000)
Appropriation of margin —		
Reserve for contingent losses	(80,081)	(399,095)
Statutory surplus	(100,000)	(100,000)
Balance Assigned End of Period	$4,017,255	$3,867,255

OTHER EQUITIES:
(Appropriated Margins)

	Statutory Surplus	Reserve for Contingent Losses	Total
Balance December 31, 1984	$1,049,484	$6,660,082	$7,709,566
Appropriation of margin	100,000	399,095	499,095
Balance December 31, 1985	1,149,484	7,059,177	8,208,661
Appropriation of margin	100,000	80,081	180,081
Balance December 31, 1986	$1,249,484	$7,139,258	$8,388,742

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

Notes to Financial Statements

December 31, 1986 and 1985

(1) ORGANIZATION:

Corn Belt Power Cooperative (the Cooperative) is a Rural Electrification Administration (REA) financed generation and transmission cooperative created and owned by 12 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.

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(2) SIGNIFICANT ACCOUNTING POLICIES:

The Cooperative maintains its accounting records in accordance with the Uniform System of Accounts as prescribed by the REA. The more 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 replacement of units of property are charged to electric plant accounts.

B. Depreciation and Decommissioning Costs —

Depreciation is provided using a straight-line method and REA prescribed lives. These provisions, excluding nuclear facilities, were equivalent to an annual rate of 3.13% and 3.14% of the average depreciable plant for 1986 and 1985, 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 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 for DAEC was 4.02% and 3.92% for 1986 and 1985, respectively.

During 1985, a site-specific estimate of the decommissioning costs of DAEC was prepared. This report estimates the Cooperative's share of the decommissioning costs of DAEC will be approximately $15,400,000 (in 1985 dollars). Beginning in 1985, 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 $409,127 and $377,444 for 1986 and 1985, respectively.

C. Nuclear Fuel —

The cost of nuclear fuel is amortized to steam and other power generation expense based on the quantity of heat produced for the generation of electric energy. Such amortization was $1,563,989 and $987,214 for 1986 and 1985, respectively.

D. Deferred Refueling Costs —

Beginning in 1985, 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 $1,317,572 and $694,669 for 1986 and 1985, respectively.

E. Interest During Construction —

Interest during construction represents the cost of funds used for construction and nuclear fuel refinement. The average rate was 7.3% in 1986 and 8.9% in 1985 and is based on the Cooperative's levels and costs of financing during the year.

F. Capital Lease —

The Cooperative has long-term lease agreements with the City of Webster City (Webster City) and Northwest Iowa Power Cooperative (NIPCO) under which Webster City and NIPCO have 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 these leases and reflected them in electric plant and has reflected the related obligations as capital lease obligations.

G. Income Taxes —

The Cooperative has qualified for an exemption from federal and state income taxes under section 501 (c)(12) of the Internal Revenue Code.

(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 $100,000 of the 1986 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 $80,081 of the 1986 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 $350,000 of the 1986 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, 1986. However, the Cooperative received permission and retired $200,000 of the 1976 patronage dividends during 1986 and plans to request permission to retire $200,000 of the 1976 deferred patronage dividends during 1987.

(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), notes payable to CFC, capital lease obligations and notes issued in conjunction with the issuance of pollution control revenue bonds. Substantially all the assets and all rents, income, revenue and net margins of the Cooperative are pledged as collateral for the long-term debt of the Cooperative. Long-term debt is comprised of:

	1986	1985
Mortgage notes due in quarterly installments —		
REA 2%, due 1987-2008	$ 27,206,386	$ 28,839,157
REA 5%, due 1987-2019	28,386,762	27,615,726
FFB 7.3% - 13.5% due, 1987-2019	52,379,203	49,951,077
CFC 7.3 - 9.5%, due 1987 (Note 9)	42,313	623,965
	108,014,664	107,029,925
Capital lease obligations —		
Webster City Revenue Bonds 4.7-7.5%, due 1987-1997	6,629,704	7,054,955
Webster City Funds 5% due, 1987	236,071	472,142
NIPCO 11.1%, due 1987-2008	11,968,058	12,521,741
	18,833,833	20,048,838
Pollution control revenue bonds —		
5 - 6¼%, due serially 1987-1997 and term due 2007	3,470,000	3,550,000
	$130,318,497	$130,628,763

In connection with the mortgage notes, the Cooperative at December 31, 1986, has available $20,931,000 of loan funds from FFB, $8,345,000 from REA and $3,882,000 from CFC to meet future borrowing needs.

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

Year	Maturity
1987	$3,789,241
1988	3,632,409
1989	3,810,387
1990	3,977,422
1991	4,115,740

(5) NOTES PAYABLE:

At December 31, 1986 and 1985, the Cooperative had a line of credit with CFC as follows:

	1986	1985
Total line of credit	$12,000,000	$12,000,000
Related borrowings	-0-	50,000
Available line of credit	$12,000,000	$11,950,000
Interest rate at December 31	7.250%	9.125%

The interest rate is limited to the prime interest rate less 0.125%.

In addition to the line of credit described above, the Cooperative has $1,000,000 available in the event of disaster at DAEC and a $2,000,000 line of credit with a bank.

(6) CONSTRUCTION COMMITMENTS:

Total construction expenditures for 1987, including expenditures for the jointly owned units, are estimated to be $5,100,000.

(7) JOINT PLANT OWNERSHIP:

Under joint-ownership agreements with other Iowa utilities, the Cooperative had undivided interests at December 31, 1986 in three electric generating units as shown below:

	Neal Unit #4	Council Bluffs Unit #3	Duane Arnold Energy Center
Total electric plant	$42,807,883	$12,796,994	$47,650,868
Accumulated depreciation	$10,463,883	$ 3,213,188	$12,566,019
Unit accredited capacity - MW	600	700	550
Cooperative's share - percent	11.63%	3.8%	10.0%
Cost per KW	$ 613	$ 481	$ 866

The dollar amounts shown above represent the Cooperative's share in each jointly-owned unit. Each participant must provide 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 corresponding operating and maintenance expenses on the Statements of Revenues and Expenses.

In July 1986, a tornado damaged Neal Unit #4 located near Salix, Iowa. The Cooperative's ownership interest in the unit represents approximately 29% of the total adjusted net accredited generating capacity of Corn Belt. The Cooperative believes that substantially all of the Cooperative's share of the repair cost, estimated to be $2,900,000 will be covered by existing insurance policies. Member energy requirements will be supplied through alternative sources until the unit is back in service in May 1987.

(8) PENSION PLAN:

The Cooperative has a deposit administration defined benefit plan which covers substantially all employees and which provides for pension benefits. The plan is funded jointly by contributions from the Cooperative and all participants. Annual contributions by the Cooperative are equal to the amounts accrued for pension expense. Assets are held on deposit by an insurance company in its general account. The total pension costs for the years ended December 31, 1986 and 1985 were $137,119 and $132,789, respectively. Accumulated plan benefit information, as estimated by actuaries employed by the insurance company, and plan net assets are:

	December 31,	
	1985*	1984
Actuarial present value of vested benefits	$1,687,769	$1,724,333
Actuarial present value of nonvested benefits	19,819	21,043
	$1,707,588	$1,745,376
Net assets available for benefits	$3,555,571	$3,046,847

*Valuation information as of December 31, 1985, is the latest available.

The assumed rate of return used in determining the actuarial present values of vested and nonvested accumulated plan benefits was 6% for 1985 and 1984.

(9) 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.

The participants in Allied have received an equitable interest in the assets, primarily land, of Allied and assumed the debt of Allied in proportion to their respective ownership interests.

Costs associated with preliminary site studies and related engineering costs were reflected as Unamortized Plant Development Costs as authorized by the Board of Directors. These costs were amortized over a five-year period ending in 1985, which corresponded to the period during which they were recovered in the Cooperative's rates.

(10) LIABILITY FOR SPENT NUCLEAR FUEL DISPOSAL COSTS:

In 1982, Congress passed the Nuclear Waste Disposal Act which 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 1986 and 1985, $160,176 and $80,088 was amortized to expense, respectively.

(11) 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 operating expenses over a four-year period beginning in 1986 in accordance with the manner in which the refunds are being treated for ratemaking purposes.

ARTHUR ANDERSEN & CO.

OMAHA, NEBRASKA

TO THE BOARD OF DIRECTORS OF
CORN BELT POWER COOPERATIVE:

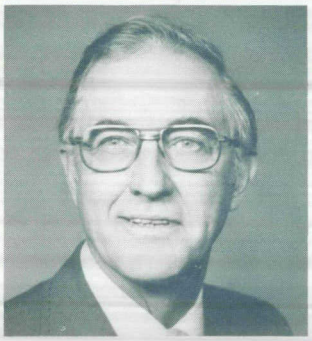
We have examined the balance sheets of CORN BELT POWER COOPERATIVE (a cooperative association incorporated in Iowa) as of December 31, 1986 and 1985, and the related statements of revenues and expenses, deferred patronage dividends and other equities and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Corn Belt Power Cooperative as of December 31, 1986 and 1985, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

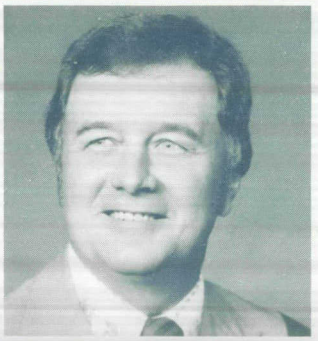
Omaha, Nebraska,
February 20, 1987.

ARTHUR ANDERSEN & CO.

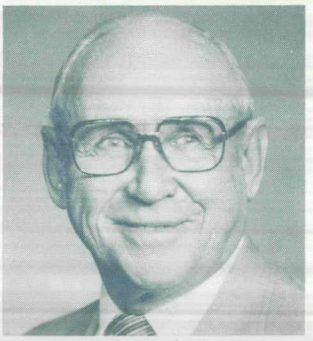
BOARD OF DIRECTORS



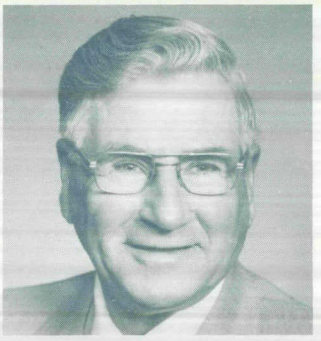
President
Eugene Drager
Humboldt



Vice President
Dennis Larson
Iowa Lakes

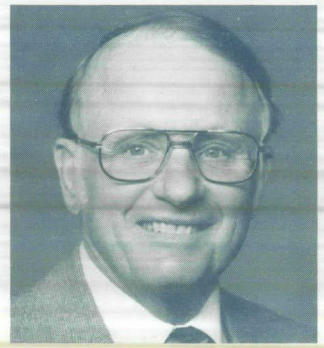


Secretary
Harold Taylor
Butler

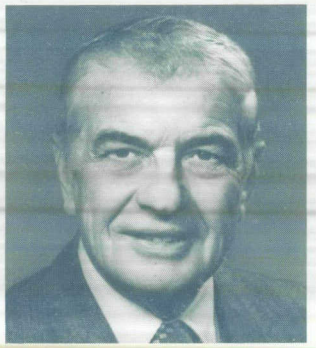


Treasurer
Clarence Lange
Hardin

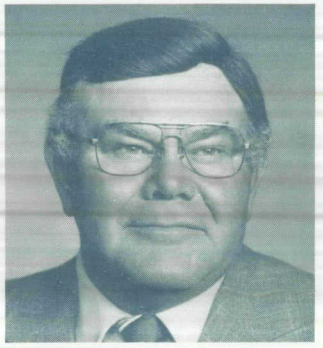
Ass't. Secretary/Treas.
Paul Robertson
Grundy



Wilbur Harding
Calhoun



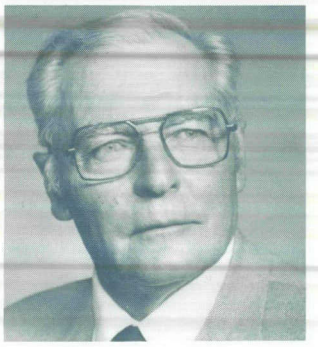
Roger Rust
Franklin



Lawrence Wittry
Glidden

Carrol Boehnke
Hancock

Ron Dieber
NIMECA



Raymond Currie
Sac

J. Terry McNiel
Wright

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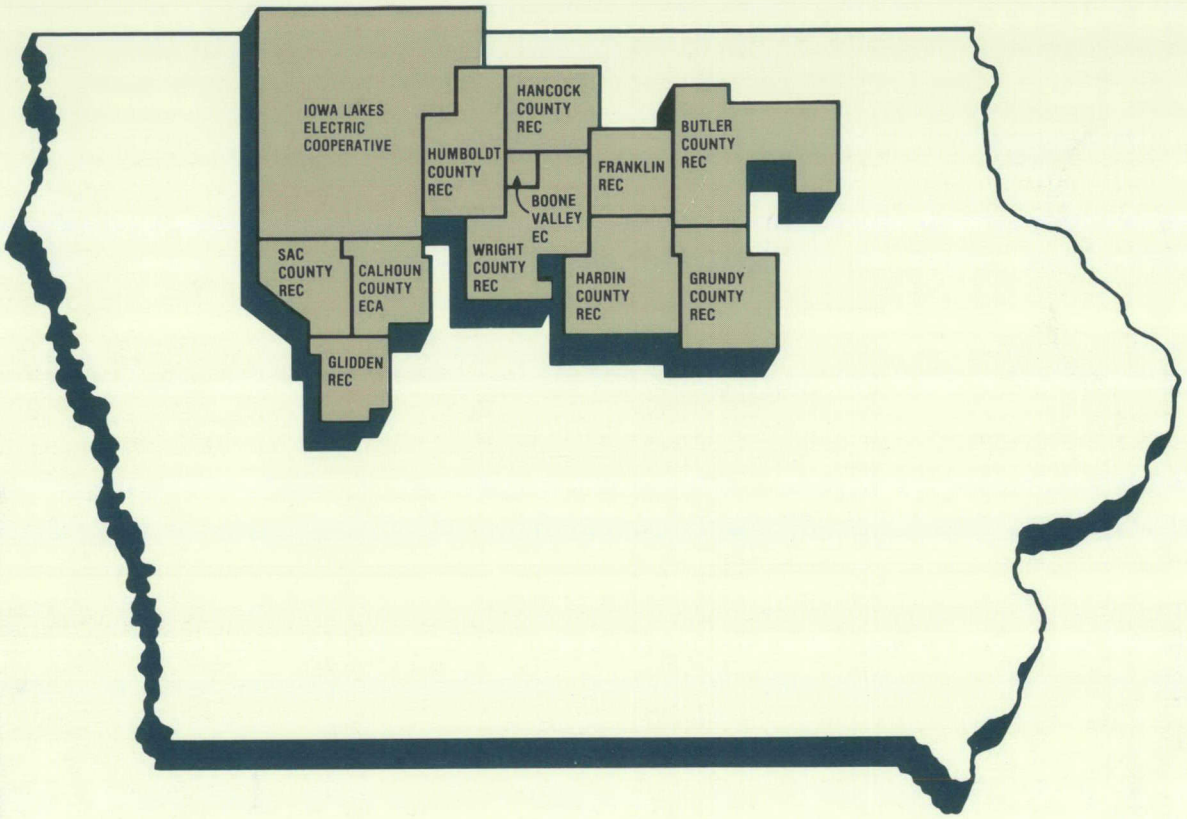
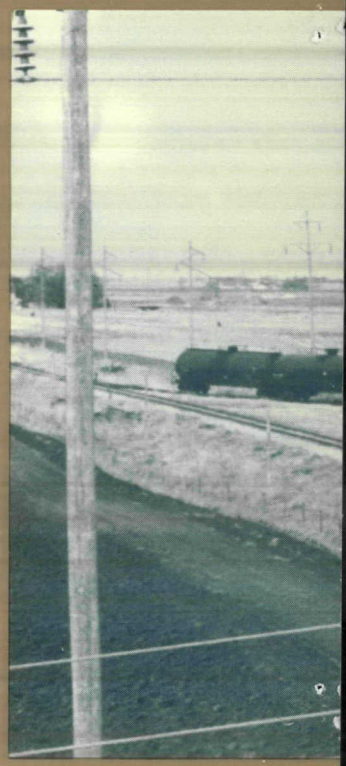


MEMBER DISTRIBUTION COOPERATIVES

- 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):
  Algona • Alta • Bancroft • Cedar Falls • Coon Rapids • Forest City • Graettinger
  Grundy Center • Laurens • Milford • New Hampton • Spencer • Sumner
  Waverly • Webster City • West Bend

CORN BELT
POWER COOPERATIVE

1300 Thirteenth Street North
Humboldt, Iowa 50548



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