

**East-Central Iowa
Rural Electric Cooperative**

**ANNUAL REPORT
2007**



**Looking Out
For Your Future**

**13th Annual Meeting
of the Members**

June 19, 2008

President & CEO Report

June 19, 2008



Harry Ruth
CEO



William Frazier
President



A Touchstone Energy® Cooperative

Looking Out For Your Future

What is The Cooperative Difference?

The primary concern of for-profit companies is the stockholders, the owners. The customers are secondary. But as a member of a cooperative, you are both an owner and customer of East-Central Iowa REC, and your well-being—your future—is important to us.

Affordable Electricity

Everyone is painfully aware how much the price of gasoline, propane, and fuel oil has risen in the past several years. Those same forces are pushing up the cost of electricity. ECI's wholesale cost of electricity has also been rising. Fortunately, elevated sales have enabled ECI REC to absorb some of those increases, but they will start to appear on your electric bill.

Not only are energy costs rising, but the costs of other materials associated with the distribution and the generation of electricity have also increased significantly. During the past four years the cost of copper has increased 400 percent, aluminum 300 percent, steel

60 percent, and concrete 30 percent. These costs are dramatically affecting the cost of building new electric generation plants. Walter Scott #4, the coal-fired generator in Council Bluffs that came on line last year, generates electricity for 4 cents a kilowatt-hour. The new coal-fired plant proposed for Marshalltown will generate electricity at more than 7 cents.

These pressures even affect other forms of electric generation. For example, several years ago, wind turbines could be installed for \$1,000 per kilowatt. Today the cost is \$2,200 per kilowatt, and that is rising rapidly.

A Balanced, Sensible Energy Policy

The other force that will affect your electric rates is the need to limit carbon emissions. Climate change is an issue that the public demands be addressed. While there is no silver bullet that can solve this problem, there are a number of steps that can and should be taken.

The first is to use energy more efficiently. Your Cooperative has been promoting energy efficiency for decades. Our rebate program encourages our members to buy energy-efficient water heaters, heating and cooling systems, appliances, lighting, and motors. It's making a difference, and we continue to elevate our efforts. For instance, two years ago we joined the ENERGY STAR® Change a Light, Change the World campaign, handing out thousands of energy-efficient compact fluorescent light bulbs.

The increased use of renewable sources of energy is another way to limit carbon emissions. Iowa is the fourth largest producer of wind energy in the country. Our supplier, Central Iowa Power Cooperative (CIPCO), currently purchases 2,000 kilowatts of electric power from the Hancock County Wind Farm in north-central Iowa. It is also negotiating a contract to purchase another 35,000 to 60,000 kilowatts from another Iowa wind farm.

We are optimistic that this country and this planet will successfully limit greenhouse gas emissions. It will take a large investment in new technologies—technologies that take time to develop. The ability to capture and store carbon dioxide is probably 10 to 15 years away. In the meantime we must make some hard decisions about what are the best sources to meet energy needs that are growing in spite of environmental concerns.

The Role of Coal

One decision confronting Iowans today is how to power a new “base load” generating plant that Iowa will need in the next six years. A base load plant is one that is designed to run 24 hours a day, 7 days a week. Because the wind does not blow all of the time, and the sun does not shine at night, the two practical fuel choices are coal and natural gas. Coal is the most abundant, least expensive domestic source of energy in the United States. Burning it also generates the most carbon dioxide of any fossil fuel. Natural gas emits less carbon dioxide when burned, but is increasingly imported from the same countries that produce oil.

The price of natural gas is also very volatile. Mid-American projects that the next natural gas-fired, base load plant it builds will produce electricity costing 10 cents a kilowatt-hour, two-and-a-half times more than the coal-fired plant at Council Bluffs.

CIPCO has committed to participate in ownership of the proposed Marshalltown coal-fired plant. If built, CIPCO will own 100 megawatts (100,000 kilowatts) of its output. We support CIPCO’s decision. This plant will use supercritical technology, have the latest pollution control equipment, and will be designed to burn renewable biomass. It will operate at very high pressures and temperatures, making it one of the most efficient coal-fired plants in the country. The plant will be built by Iowa workers and produce power for Iowans.

The Carbon Tax

In order to discourage the emission of greenhouse gases, Congress has been debating the imposition of some form of tax, or emission credits, on carbon dioxide. At the time this report was written, nothing has been voted upon. However, all indications are that some tax on carbon will pass, increasing the cost of electricity. The era of cheap energy is over, and we must all adjust to higher energy prices.

Energy and the Economy

ECI REC will still fight to keep your electric rates as low as possible. While there is a connection between energy and the environment, there is also a connection between energy and the economy. If energy prices rise too quickly, it will hurt the economy. Iowa was able to convince

Google to build a server farm in Council Bluffs only because we have a reliable, affordable supply of electricity. Climate change is a global problem. Iowa must not sacrifice its economy and your jobs in addressing this problem.

Reliable Power

Just as your Cooperative is fighting to keep electricity affordable and environmentally responsible, we are also trying to keep it reliable. The winter storm in February and March of 2007 showed us how vulnerable the older parts of our distribution system can be to the weather.

Most of the damage was to those poles and wires more than 40 years old. Today we build our single-phase circuits with larger poles spaced 250 feet apart, and the wire is aluminum, a durable metal. Fifty years ago, we used smaller poles spaced as much as 400 feet apart. The wire was brittle copper or steel.

Unfortunately, 1,000 of our 2,000 miles of overhead wire is this older vintage. With the help of the Federal Emergency Management Agency (FEMA), we are rebuilding 225 miles of the old system. We rebuilt 60 miles in 2007, and we will rebuild 165 miles in 2008 and 2009. Projects costs will total more than \$5.6 million.

We will not stop when the FEMA money runs out, however. The ECI REC budget accounts for the rebuilding of at least 25 miles of old, single-phase circuits each year going forward. We estimate that this will cost \$750,000 each year. This, too, will put upward pressure on rates, but relying on an outdated distribution system will eventually lead to costly repairs and more importantly, outages. ECI REC knows that first and foremost, you want the lights to stay on, and your Cooperative pledges to do its best to make that happen.

A Word of Thanks

Director Bill Harrison has decided not to run for re-election this year. Bill has been a valuable member of your Board of Directors for 21 years and he will be missed. We thank him for his years of dedicated service to ECI REC.

ECI REC Staff



Harry Ruth
CEO
4 years



Mike
Inventory/Maintenance Technician
10 years



Adam
Member Service Technician
8 years



Dave
Electric Service Person
13 years



John
Lineman
38 years



Doug
SCADA Technician
10 years



Dave
Line Foreman
21 years



Larissa
Office Assistant
4 years



Ann
Accounting Clerk
6 years



Holly
Consumer Services Representative
2 years



Molly
Consumer Services Representative
7 years



Eric
Inventory/Maintenance Technician
5 years



Ben
Lineman
4 years



Rod
Lineman
20 years



Teresa
Office Manager
16 years



Brian
Lineman
9 years



Lisa
Executive Assistant
6 years



Sam
Electric Service Person
33 years



Julie
Consumer Services Representative
5 years



Jennifer
Cost Records Administrator
12 years



Rick
Member Service Technician
24 years



Carl
Line Foreman
28 years



Nathan
Information Services Administrator
1 year



Anna May
Administrative Assistant
20 years



Pat
Lineman
18 years



Paul
Lineman
5 years



Gary
Operations Supervisor
33 years



Steve
Manager, Operations/
Engineering
27 years



Greg
Marketing & Economic
Development Director
15 years



Kelly
Consumer Services Coordinator
9 years



Travis
Lineman
6 years



Tom
Lineman
17 years



Teresa
Operations Assistant
29 years



John
Member Service Technician
14 years



Kevin
Lineman
12 years



Frank
Member Services Director
37 years

IT'S OUR TIME

It's our time to lead America in a national dialogue about America's climate change goals and energy challenge. It's time to raise awareness. Have the hard conversations with our elected officials. Empower people.

It's all of us. Together. It's about the energy to effect positive change. It's about the power of conversation. It's about the power in all of us, to find the right answers.

It's about our energy. Our future.

Productive dialogue begins by asking tough questions and requiring straight answers. Start by asking your elected officials these questions to get the dialogue headed in the right direction.

Q Experts say that our nation's growing electricity needs will soon go well beyond what renewables, conservation, and efficiency can provide. What is your plan to make sure we have the electricity we'll need in the future?

Q What are you doing to fully fund the research required to make emissions-free electric plants an affordable reality?

Q Balancing electricity needs and environmental goals will be difficult. How much is all this going to increase my electric bill and what will you do to make it affordable?

Let's get the conversation going. For more information visit www.ourenergy.coop.



Our Energy, Our Future
A Dialogue With America

ECI REC Directors & Service Territories



Jim Alberts

Director since 2007

Board District 23: Fremont, Harlan, and Oran Townships in Fayette County; Franklin Township in Bremer County; Lester, Barclay, and Fox Townships in Black Hawk County; Fairbank, Perry, Westburg, and Sumner (Sections 19-21 and 28-33) Townships in Buchanan County.



Steve Rau
Secretary/Treasurer

Director since 2005

Board District 26: Illyria, Smithfield, Fairfield, Jefferson, Scott, and Putnam Townships in Fayette County; Sperry and Cass Townships in Clayton County; Madison and Buffalo Townships in Buchanan County; Richland and Coffins Grove Townships in Delaware County.



Lloyd Bathen,
Assistant

Secretary/Treasurer

Director since 1994

Board District 24: Poyner, Big Creek (except Sections 31-36), and Spring Creek

(except Sections 31-32) Townships in Black Hawk County; Jefferson (less Section 34), Homer (less Sections 35-36) and Cono (less Sections 31-32) Townships in Buchanan County; Polk Township (Section 4) in Benton County; Grant Township (less Sections 5-8) in Linn County.

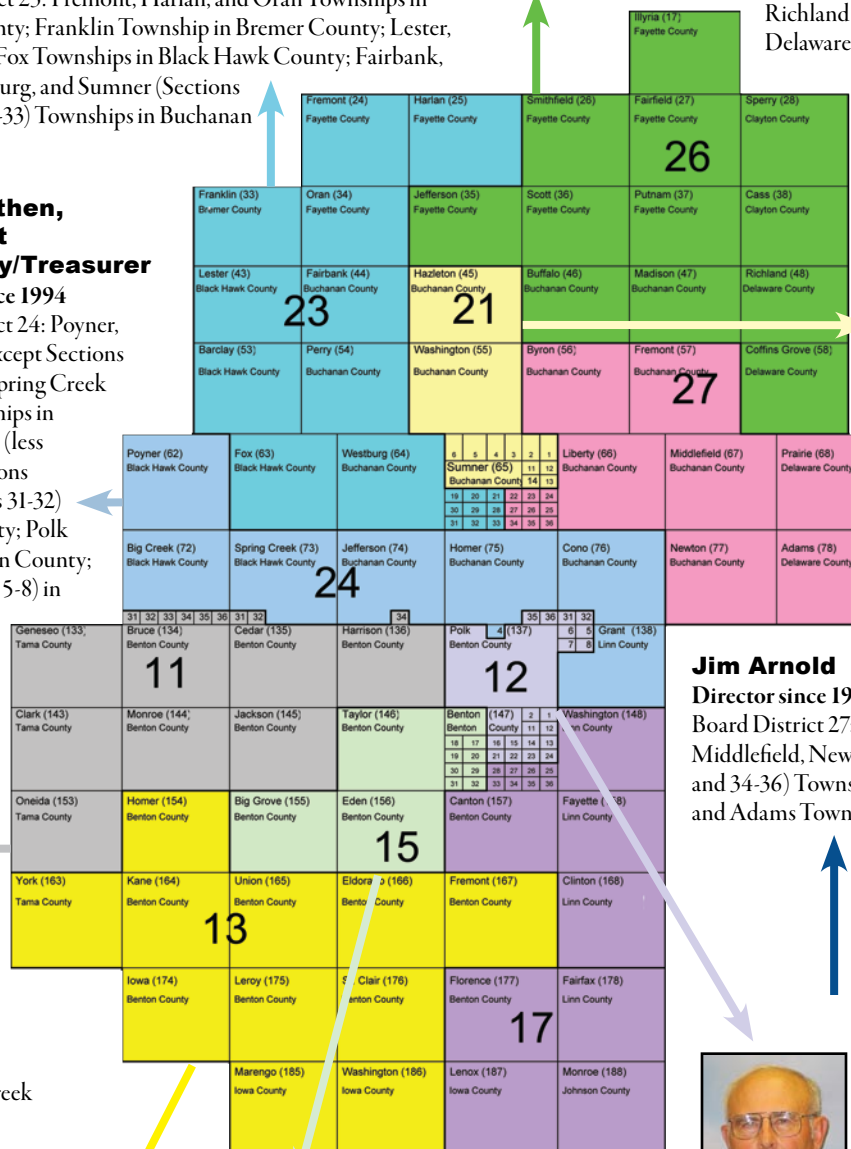


Donald Shonka

Director since 2006

Board District 21: Hazleton, Washington,

and Sumner (Sections 1-18) Townships in Buchanan County.



Geographic District 1 Vinton Area



Jeff Elliott,

Director since 1990

Board District 11: Big Creek (Sections 31-36) and Spring Creek (Sections 31-32) Townships in Black Hawk County; Jefferson (Section 34) Township in Buchanan County; Geneseo, Clark, and Oneida Townships in Tama County; Bruce, Cedar, Harrison, Monroe, and Jackson Townships in Benton County.

Jim Arnold

Director since 1985

Board District 27: Byron, Fremont, Liberty, Middlefield, Newton, and Sumner (Sections 22-27 and 34-36) Townships in Buchanan County; Prairie and Adams Townships in Delaware County.

Geographic District 2 Independence Area



William Harrison

Director since 1987

Board District 12: Cono (Sections 31-32) and Homer (Sections 35-36) Townships in Buchanan County; Polk (all Sections less Section 4) and

Benton (Sections 1-4, 9-16, and 21-24) Townships in Benton County; Grant (Sections 5-8) Township in Linn County.



William Frazier, President

Director since 1985

Board District 15: Taylor, Benton (Sections 5-8, 17-20, and 29-32), Big Grove, and Eden Townships in Benton County.



Allen Albers
Vice President

Director since 1985

Board District 13: York Township in Tama County; Homer, Kane, Union, Eldorado, Fremont, Iowa, Leroy, and St. Clair Townships in Benton County; Marengo and Washington Townships in Iowa County.



Burt Byers

Director since 2007

Board District 17: Benton (sections 25-28 and 33-36), Canton, and Florence Townships in Benton County; Washington, Fayette, Clinton, and Fairfax Townships in Linn County; Lenox Township in Iowa County; Monroe Township in Johnson County.

Auditor's Letter



Independent Auditor's Report

Board of Directors
East-Central Iowa Rural Electric Cooperative
Urbana, Iowa

We have audited the accompanying consolidated balance sheets of East-Central Iowa Rural Electric Cooperative and its subsidiary as of December 31, 2007 and 2006, and the related consolidated statements of operations, patronage capital and other equities, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the 2007 audit in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 the 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of East-Central Iowa Rural Electric Cooperative and its subsidiary as of December 31, 2007 and 2006, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2008, on our consideration of East-Central Iowa Rural Electric Cooperative and its subsidiary's internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements of East-Central Iowa Rural Electric Cooperative and its subsidiary taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

Clifton Gunderson LLP

Cedar Rapids, Iowa
April 28, 2008

Balance Sheet

For the Year Ending December 31, 2007		For the Year Ending December 31, 2006	
What We Own			
Assets		Assets	
Current Assets and Other Debits.....	\$12,045,903	Current Assets and Other Debits.....	\$9,209,285
Fixed Assets.....	\$30,673,159	Fixed Assets.....	\$27,705,129
Total Assets and Other Debits.....	\$42,719,062	Total Assets and Other Debits.....	\$36,914,414
What We Owe			
Liabilities		Liabilities	
Total Current and Accrued Liabilities	\$3,277,130	Total Current and Accrued Liabilities	\$2,811,874
Total Fixed Long Term Debt and Deferred Credits	\$18,841,920	Total Fixed Long Term Debt and Deferred Credits	\$14,924,398
Total Margins and Equities	\$20,600,012	Total Margins and Equities	\$19,178,142
Total Liabilities and Other Credits.....	\$42,719,062	Total Liabilities and Other Credits.....	\$36,914,414
Comparative Operating Statistics		Comparative Operating Statistics	
Miles of Line Energized.....	2,258	Miles of Line Energized.....	2,249
New Services Connected.....	143	New Services Connected.....	176
Total Services in Place.....	9,076	Total Services in Place.....	8,950
kWhs Purchased from CIPCO	196,952,619	kWhs Purchased from CIPCO	187,866,059
Cost of Power Purchased.....	\$11,585,494	Cost of Power Purchased.....	\$10,509,963
Percent of Line Loss	5.83%	Percent of Line Loss	6.00%
Operating Revenue \$17,270,714		Operating Revenue \$17,270,714	
Average kWhs Used per Month per Consumer	1,837	Average kWhs Used per Month per Consumer	1,771
Average Monthly Bill	\$180.46	Average Monthly Bill	\$172.63
Average Cost per kWh to Consumer.....	\$.0982	Average Cost per kWh to Consumer.....	\$.0975
Loan Funds		Loan Funds	
Our Loan from RUS is Being Paid Back with Interest We Owe RUS.....	\$11,769,822	Our Loan from RUS is Being Paid Back with Interest We Owe RUS.....	\$9,240,008
Our Loan from CFC is Being Paid Back with Interest We Owe CFC.....	\$6,525,483	Our Loan from CFC is Being Paid Back with Interest We Owe CFC.....	\$5,205,743

Statement of Revenue and Expense

2007 Statement of Revenue and Expense

Revenue

Operating Revenue and Patronage Capital .. \$18,243,502

Expense

Purchased Power \$11,587,493
 Distribution Expenses – Operations \$1,376,189
 Distribution Expenses – Maintenance..... \$732,736
 Consumer Accounts Expense..... \$443,164
 Customer Service and Information Expense \$281,535
 Administrative and General Expense \$1,020,664
 Depreciation..... \$1,251,302
 Taxes – Property and Other \$18,254
 Interest on Long Term Debt..... \$904,056
 Other Deductions and Interest Expense..... \$14,751
Total Expense \$17,630,144

Operating Margins\$613,358
 Non-Operating Margins \$188,604
 Generation and Transmission Capital Credits.... \$593,213
 Other Capital Credits..... \$67,035
Operating and Non-Operating Margins \$1,462,210

2006 Statement of Revenue and Expense

Revenue

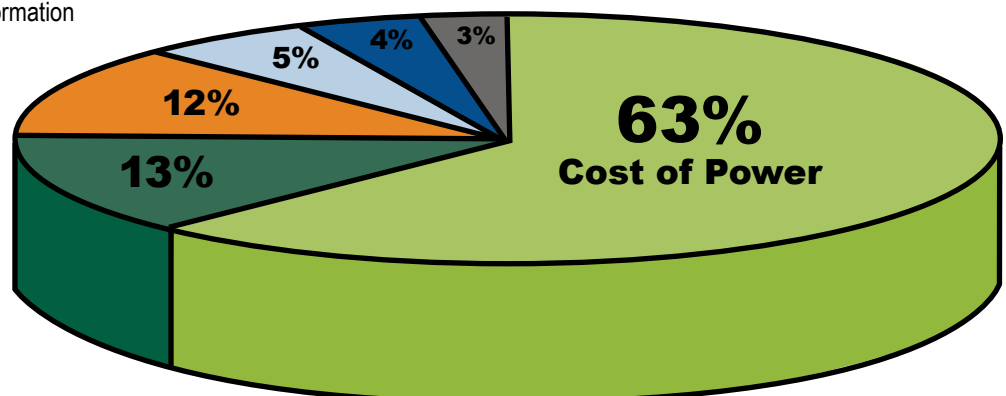
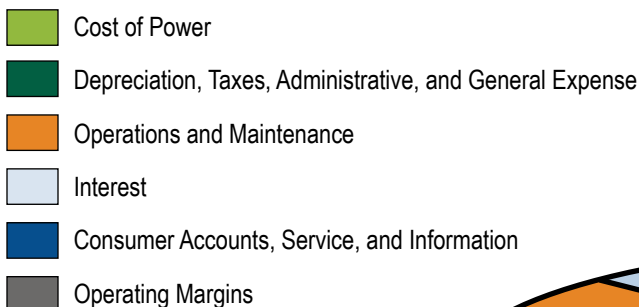
Operating Revenue and Patronage Capital ... \$17,270,714

Expense

Purchased Power \$10,511,597
 Distribution Expenses – Operations \$1,404,585
 Distribution Expenses – Maintenance..... \$505,914
 Consumer Accounts Expense..... \$498,288
 Customer Service and Information Expense \$270,988
 Administrative and General Expense \$1,039,822
 Depreciation..... \$1,220,215
 Taxes – Property and Other \$17,247
 Interest on Long Term Debt..... \$801,966
 Other Deductions and Interest Expense..... \$18,431
Total Expense \$16,289,053

Operating Margins\$981,661
 Non-Operating Margins \$225,319
 Generation and Transmission Capital Credits.... \$296,581
 Other Capital Credits..... \$64,909
Operating and Non-Operating Margins \$1,568,470

How Your REC Dollars Were Spent in 2007





ECI REC 2007 Highlights

The Cooperative Difference In Your Community

- L & M Radiator, Inc., of Independence received one of ten 2007 Venture awards presented by the Iowa Area Development Group. ECI REC nominated the radiator and heat-exchange manufacturing company because of the significant economic impact of its expansion in Independence.
- ECI REC sponsored two students who joined approximately 1,000 other students from across the nation on an expenses-paid Youth Tour to Washington, D.C.
- ECI REC opened its doors to high school students looking for real-world job experience by supporting both lineman and customer service internships.
- Twenty-one 2007 graduating seniors received scholarships from ECI REC. Two \$1,000 scholarships were presented to two young men enrolled in Northwest Iowa Community College's Power Line Program for prospective linemen, and 19 other scholarship winners were recipients of \$500 scholarships.
- Contributions to 33 other local organizations such as the Independence Library, and events such as post-proms, totaled \$25,818.
- Through the RECare program, 67 ECI members contributed \$3,573 to help 28 local low-income families pay for winter heating bills and home winterization.
- ECI REC sponsored two two-day Character Counts! sessions attended by 34 teachers.
- Through our revolving loan fund, ECI REC provided financial assistance of \$200,000 to the City of Vinton for the reconstruction and extension of 21st Street in front of the new Vinton-Shellsburg High School.
- The Cooperative assisted the Buchanan County Barn Quilt Project, an effort to redirect tourism back into our small communities. Thirteen new quilt designs were mounted on local barns in 2007.
- ECI REC helped extract and move playground equipment from Vinton's West and Lincoln school sites and relocated it to the elementary school's new location at Tilford.

Looking Out for You

- During the Iowa Legislature sessions, ECI REC diligently worked with other electric cooperatives to monitor bills introduced into the House or Senate in order to identify those that could impact cooperatives and their members. In Washington, D.C., the National Rural Electric Cooperative Association did the same.
- In March, ECI REC went to Des Moines for REC Day on the Hill. With about 32 other Iowa cooperatives, ECI REC also participated in a welcome back reception attended by 115 legislators.
- In 2007, your board of directors and ECI REC employees faithfully attended 10 legislative events, networking with the legislatures representing our members' service territories and surrounding communities. Events like these help ECI REC establish credibility with legislators.
- ECI REC prepared for the 2008 legislative session, which is sure to address the challenges of global warming and energy efficiency issues, by inviting Representatives Dawn Pettengill and Dan Rasmussen to a board meeting to exchange views on current and upcoming energy issues.
- Eight members of your board of directors continued their education toward obtaining the most recent National Rural Electric Cooperative Association Credentialed Cooperative Director and/or Board Leadership certificates.



Keeping the Lights On

- In 2007, ECI REC invested \$1,042,752 in additions and improvements to our distribution lines. In addition, eleven miles of transmission lines serving the Big Grove, Homer, and Van Horne substations received upgrades or were rebuilt.
- Inspectors tested 5,000 poles, and as a result, 58 of those poles were replaced.
- We invested approximately \$170,000 in tree trimming and vegetation control.
- ECI added a fast, safe, and free online payment option for members that provides financial and environmental benefits.
- A multiple-accounts bill consolidation option was introduced, with a potential cost savings of over \$7,400 per year.
- ECI REC hired contractors and part-time help throughout the year to make progress on damages sustained from the February 2007 ice storm.
- Your board of directors approved a new \$12.6-million work plan that outlines improvements the Cooperative will make to the distribution system over the next four years.

Watching Your Pennies by Keeping It Green

- ECI REC received Best Overall Participation awards for the effectiveness of our rebate incentives and marketing programs. ECI REC was a runner-up for Best Participation in ENERGY STAR®. Thank you to our members for your dedication and participation in these money-saving and environmentally-friendly initiatives!
- The energy savings realized as a result of our members who switched to energy-efficient appliances in 2007 will reduce greenhouse gases by nearly 1.8 million pounds over the lifetime of the equipment—the equivalent of preserving 311 acres of forest.
- These appliances also saved our members money by using less electricity and qualifying them for the following rebates:
 - ✓ \$66,250 for 269 energy-efficient electric water heaters
 - ✓ \$50,950 for 34 geothermal heating and cooling systems
 - ✓ \$54,025 for 82 air-source heat pumps
 - ✓ \$5,200 for 155 ENERGY STAR® appliances
 - ✓ \$18,372 for 9,151 indoor CFL fixtures
 - ✓ \$915 for 31 high-efficiency, outdoor light fixtures
 - ✓ \$2,600 for 25 high-efficiency, central-air conditioning systems
- Our special heat rate of \$.0395 per kWh saved 1,156 members \$512,409 in 2007.

Safety

- ECI REC technicians and representatives gave six safety presentations to almost 600 children and over 67 adults in and around the communities we serve.
- The Cooperative held monthly safety meetings attended by both field and office personnel.
- Pole-top rescue exercises, fire extinguisher handling, and CPR and first aid training were all reviewed in 2007.

Annual Meeting PROGRAM

10:30 a.m. - Registration

11:00 a.m. - Business Meeting

1. Call to Order - Bill Frazier, President
2. Invocation - Bill Frazier, President
3. Introduction of Directors - Bill Frazier, President
4. Reading of the Nominating Committee Minutes -
Dave Glime, Nominating Committee Member
5. Introduction of Attorney - Bill Frazier, President
6. Reading of the Notice of Annual Meeting -
Steve Rau, Secretary/Treasurer
7. Reading of Affidavit of Mailing of
Notice of Annual Meeting - Steve Rau,
Secretary/Treasurer
8. Minutes of last Annual Meeting - Steve Rau,
Secretary/Treasurer
9. Introduction of CEO - Bill Frazier, President
10. Drawings for Door Prizes - Bill Frazier, President
(must be present to win)

Adjournment of Business Meeting

East-Central Iowa Rural Electric Cooperative

Phone: 1-319-443-4343

Toll free: 1-877-850-4343

Fax: 1-319-443-4359

Email: ecirec@ecirec.coop

Web site: www.ecirec.coop