

Financial Statements

Central Electric Power Cooperative, Inc.

*Years Ended December 31, 2007 and 2006
with Report of Independent Auditors*

Central Electric Power Cooperative, Inc.
Financial Statements
Years Ended December 31, 2007 and 2006

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Report of Independent Auditors

To the Board of Trustees
Central Electric Power Cooperative, Inc.

We have audited the accompanying balance sheet of Central Electric Power Cooperative, Inc. ("Central") as of December 31, 2007, and the related statements of margin, changes in equities, and cash flows for the year then ended. These financial statements are the responsibility of Central's management. Our responsibility is to express an opinion on these financial statements based on our audit. The accompanying 2006 financial statements were audited by other auditors whose report dated February 16, 2007, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States and 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2007 financial statements referred to above present fairly, in all material respects, the financial position of Central as of December 31, 2007 the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States.

Bauknight Pietras + Stormer, P.A.

February 13, 2008

CENTRAL ELECTRIC POWER COOPERATIVE, INC.
BALANCE SHEETS
DECEMBER 31, 2007 AND 2006

ASSETS

	<u>2007</u>	<u>2006</u>
ELECTRIC PLANT:		
Transmission	\$ 102,385,827	\$ 93,034,967
Distribution	8,208,219	8,202,136
General plant	2,418,688	2,390,419
	<u>113,012,734</u>	<u>103,627,522</u>
Accumulated depreciation	(34,052,672)	(31,945,136)
	<u>78,960,062</u>	<u>71,682,386</u>
Construction work in progress	15,905,575	12,949,746
	<u>94,865,637</u>	<u>84,632,132</u>
 INVESTMENTS AND OTHER ASSETS:		
Direct financing leases	7,982,808	10,545,774
Associated organizations	7,133,546	7,041,059
Restricted assets	2,041,517	2,328,315
	<u>17,157,871</u>	<u>19,915,148</u>
 CURRENT ASSETS:		
Cash and cash equivalents	2,944,019	9,949,619
Receivables:		
Energy sales to members, net	69,245,601	75,301,967
Other	920,556	766,761
Materials and supplies, at average cost	1,116,463	252,533
Direct financing leases, current portion	2,608,668	2,792,975
Prepaid expenses	136,596	144,702
	<u>76,971,903</u>	<u>89,208,557</u>
	<u>\$ 188,995,411</u>	<u>\$ 193,755,837</u>

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

CENTRAL ELECTRIC POWER COOPERATIVE, INC.
BALANCE SHEETS (CONTINUED)
DECEMBER 31, 2007 AND 2006

EQUITIES AND LIABILITIES

	<u>2007</u>	<u>2006</u>
EQUITIES:		
Membership fees	\$ 1,173	\$ 1,173
Patronage capital	20,380,253	19,158,378
Accumulated other comprehensive income	(541,868)	0
	<u>19,839,558</u>	<u>19,159,551</u>
LONG-TERM DEBT:		
Direct financing leases	7,982,808	10,545,774
Electric plant	84,085,367	80,318,950
	<u>92,068,175</u>	<u>90,864,724</u>
CURRENT LIABILITIES:		
Long-term debt due within one year:		
Direct financing leases	2,564,461	2,738,456
Electric plant	3,245,525	2,774,328
	<u>5,809,986</u>	<u>5,512,784</u>
Accounts payable:		
Purchased power	66,799,908	73,990,375
Other	1,489,573	1,456,394
Deferred energy sales to members	268,562	788,154
Accrued interest	163,766	170,710
Other	2,555,883	1,813,145
	<u>77,087,678</u>	<u>83,731,562</u>
	<u>\$ 188,995,411</u>	<u>\$ 193,755,837</u>

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

CENTRAL ELECTRIC POWER COOPERATIVE, INC.
STATEMENTS OF MARGIN
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
OPERATING REVENUE:		
Energy sales to members	\$ 777,792,160	\$ 774,749,232
Direct financing leases	586,365	704,963
	778,378,525	775,454,195
 OPERATING EXPENSES:		
Purchased power	758,018,190	757,175,155
Transmission	6,572,177	6,072,486
Administrative and general	5,260,438	4,559,546
Depreciation	2,153,461	2,078,944
Marketing	1,445,554	951,505
Load management	858,981	874,943
Taxes	133,904	120,538
	774,442,705	771,833,117
OPERATING MARGIN	3,935,820	3,621,078
 INTEREST EXPENSE:		
Electric plant	3,558,021	3,202,700
Direct financing leases	586,365	704,963
	4,144,386	3,907,663
 NON-OPERATING REVENUE:		
Interest income	1,109,159	1,214,398
Other	321,282	205,606
	1,430,441	1,420,004
NET MARGIN	\$ 1,221,875	\$ 1,133,419

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

CENTRAL ELECTRIC POWER COOPERATIVE, INC.
STATEMENTS OF CHANGES IN EQUITIES
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	Membership Fees	Patronage Capital	Accumulated Other Comprehensive Income	Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
BALANCES AT DECEMBER 31, 2005	\$ 1,173	\$ 18,024,959	\$ -	\$ 18,026,132
Net margin	<u>-</u>	<u>1,133,419</u>	<u>-</u>	<u>1,133,419</u>
BALANCES AT DECEMBER 31, 2006	1,173	19,158,378	-	19,159,551
Net margin	-	1,221,875	-	1,221,875
Adjustment for the adoption of SFAS 158	<u>-</u>	<u>-</u>	<u>(541,868)</u>	<u>(541,868)</u>
BALANCES AT DECEMBER 31, 2007	<u>\$ 1,173</u>	<u>\$ 20,380,253</u>	<u>\$ (541,868)</u>	<u>\$ 19,839,558</u>

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

CENTRAL ELECTRIC POWER COOPERATIVE, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net margin	\$ 1,221,875	\$ 1,133,419
Adjustments to reconcile net margin to cash provided by operating activities:		
Depreciation expense	2,153,461	2,078,944
Net loss on sale of general plant	11,521	6,394
Share of (gains) losses of associated organizations	(92,487)	(17,316)
Changes in assets and liabilities:		
Receivables	5,902,571	(16,225,549)
Prepaid expenses	8,106	(2,477)
Accounts payable	(6,888,255)	16,387,452
Deferred energy sales to members	(519,592)	(699,827)
Accrued interest and other liabilities	204,238	(106,258)
Net cash provided by operating activities	2,001,438	2,554,782
CASH FLOWS FROM INVESTING ACTIVITIES:		
Restricted assets	286,798	334,203
Materials and supplies	(863,930)	(235,601)
Proceeds from sale of general plant	23,575	6,000
Additions to electric plant	(12,691,095)	(9,009,451)
Net cash used in investing activities	(13,244,652)	(8,904,849)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Additions to long-term debt	7,012,000	9,404,000
Principal payments of long-term debt	(2,774,386)	(2,575,309)
Net cash provided by financing activities	4,237,614	6,828,691
NET CHANGE IN CASH AND CASH EQUIVALENTS	(7,005,600)	478,624
CASH AND CASH EQUIVALENTS:		
Beginning of year	9,949,619	9,470,995
End of year	\$ 2,944,019	\$ 9,949,619

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

Central Electric Power Cooperative, Inc.
Notes to Financial Statements
December 31, 2007 and 2006

1. Organization

Central Electric Power Cooperative, Inc. (“Central”) is an incorporated nonprofit membership generation and transmission (“G&T”) cooperative, organized and existing under the laws of the State of South Carolina, with its headquarters in Columbia, South Carolina. Central’s members consist of fifteen distribution cooperatives and one G&T cooperative. These members serve customers in all forty-six counties in South Carolina. Central’s Board of Trustees (the “Board”) is composed of two trustees from each member cooperative. Central’s rates are established by its Board subject to approval by the United States Department of Agriculture, Rural Utilities Service (“RUS”). Central’s rates are not regulated by the South Carolina Public Service Commission or the Federal Energy Regulatory Commission.

Central provides wholesale electric service to its distribution members through long-term, all requirements contracts. Central provides supplemental requirements to its G&T member through a wholesale power contract. Substantially all of Central’s purchased power is supplied by the South Carolina Public Service Authority (“SCPSA”) through a contractual purchased power arrangement.

2. Summary of Significant Accounting Policies

System of Accounts

Central maintains its accounting records in accordance with the “Uniform System of Accounts”, as prescribed by RUS.

Patronage Capital and Income Taxes

Central operates under Section 501(c)(12) of the Internal Revenue Code as a tax-exempt cooperative. Accordingly, no provision for income taxes has been made in the accompanying financial statements. As provided in its bylaws, all amounts received by Central in excess of operating costs and expenses are treated as patronage capital furnished by the members and are allocated to each member on the basis of the unit amount of its respective energy purchases during the year.

Electric Plant

Electric plant consists of transmission, distribution and general plant and is stated at original cost. Transmission and distribution assets include cost of contracted work, interest charged to construction, direct labor and materials, capitalized depreciation and allocable overhead incurred until the time the asset and any subsequent additions were first energized or placed in service. General plant acquisitions normally include only direct material costs.

Central Electric Power Cooperative, Inc.
Notes to Financial Statements
December 31, 2007 and 2006

Maintenance and repairs of plant and replacements and renewals of items determined to be less than units of property are charged to expense as incurred. Replacements and renewals of items considered to be units of property are capitalized in the plant accounts.

Transmission and distribution units retired or otherwise disposed of in the normal course of business, together with the cost of removal less salvage, are charged to accumulated depreciation. The cost and related accumulated depreciation for general plant assets are removed from the accounts upon disposition.

When events or circumstances indicate possible impairment, Central evaluates the recoverability of long-lived assets. When an evaluation indicates that the carrying amount of a long-lived asset is not recoverable from its undiscounted cash flows, the impairment is recognized. No impairment was identified in 2007 or 2006.

The fair value of an asset retirement obligation is recorded as a liability in the period in which Central incurs a legal obligation associated with the retirement of tangible long-lived assets. A corresponding asset is also recorded that is depreciated over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the liability will be adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. As of December 31, 2007 and 2006, no such obligations exist.

Depreciation

Depreciation is calculated on a straight-line basis over the estimated useful lives of electric plant assets. The provision is determined using the composite method for transmission and distribution assets and the unit method for general plant assets. The depreciation rates used in 2007 and 2006 were 2.75% for transmission plant assets, 4.75% to 14% for distribution plant assets and 2% to 25% for general plant assets. Annual depreciation provision, expressed as a percentage of average depreciable utility plant in service, for the years ended December 31, 2007 and 2006, was approximately 2.55% and 2.62%, respectively.

Interest Charged to Construction

Interest charged to construction represents interest for the period on funds used to finance construction work-in-progress and is capitalized in electric plant. The rates used for capitalization approximate the weighted average rate of borrowed funds. Amounts capitalized in 2007 and 2006 were \$589,828 and \$357,600, respectively.

Central Electric Power Cooperative, Inc.
Notes to Financial Statements
December 31, 2007 and 2006

Energy Sales and Purchased Power

Energy sales to members and the cost of purchased power are recorded at the end of each month based on power supply costs from Central's wholesale power sources covering the most recent billing period. The cost of purchased power from SCPSA is subject to annual adjustment based upon a retroactive cost study in accordance with the contract between Central and SCPSA. The study is usually completed during the calendar year following the actual year under study. Central records adjustments to the cost of purchased power as received from power suppliers. These adjustments are recorded as adjustments to purchased power and energy sales to members. As a result, Central received refunds from SCPSA of \$19,830,641 and \$3,286,656 in 2007 and 2006 respectively.

Energy sales to members are increased or decreased in order to achieve net margins as authorized by the Board of Trustees. Accrued or deferred amounts are included in the determination of Central's rates to members in the year following the year of accrual or deferral.

Statements of Cash Flows

For the purposes of the accompanying statements of cash flows, Central considers all unrestricted highly liquid investment instruments having original maturities of three months or less to be cash equivalents.

Cash paid for the years ended December 31, 2007 and 2006 for interest, net of amounts capitalized, was \$3,154,654 and \$3,183,220, respectively. Cash flows do not include payments made directly to RUS by SCPSA on direct financing lease loans. Amounts paid by SCPSA for lease loans for 2007 and 2006 were \$3,333,638 and \$3,388,186, respectively, including interest of \$596,677 for 2007 and \$714,893 for 2006.

Concentration of Credit Risk

Financial instruments that potentially subject Central to concentrations of credit risk consist principally of cash equivalents, investments in associated organizations and receivables arising from energy sales to members. Central places its temporary cash investments with high credit quality financial institutions and with the National Rural Utilities Cooperative Finance Corporation. Cash and cash equivalent balances may exceed FDIC insurance limits. Concentrations of credit risk with respect to receivables arising from energy sales to members are limited due to the large member customer base that represents Central's cooperative members' accounts receivable. Three of Central's member cooperatives each account for 10% or more of the total sales and these cooperatives account for approximately 36% of member receivables as of December 31, 2007 and 2006.

Central Electric Power Cooperative, Inc.
Notes to Financial Statements
December 31, 2007 and 2006

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Restricted Assets

Restricted assets represent cash restricted for electric plant construction.

Recent Accounting Pronouncements

In February 2007, the FASB issued Statement of Financial Accounting Standard (“SFAS”) No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115.” SFAS No. 159 permits all entities to choose to measure eligible items at fair value at specific election dates. This statement does not require any new fair value measurements. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. Central is currently assessing the impact of SFAS No. 159 on its financial statements.

3. Investments in Associated Organizations

At December 31 investments in associated organizations included the following:

	<u>2007</u>	<u>2006</u>
Capital Term Certificates	\$ 5,229,298	\$ 5,229,298
Stock in CoBank	1,307,878	1,340,430
CEE-US Patronage Capital	572,619	441,449
Other	<u>23,751</u>	<u>29,882</u>
	<u>\$ 7,133,546</u>	<u>\$ 7,041,059</u>

National Rural Utilities Cooperative Finance Corporation (“CFC”) Capital Term Certificates are carried at cost, with cost determined by specific identification, and bear interest at 5% per annum until maturity beginning in 2070. Transfer of Capital Term Certificates must be approved by CFC's Board of Directors. It is not practicable to estimate the fair value of the Capital Term Certificates due to the nature and maturity of these investments.

Central Electric Power Cooperative, Inc.
Notes to Financial Statements
December 31, 2007 and 2006

Central, along with other electric utility cooperatives, has investments in the Cooperative Electric Energy Utility Supply, Inc. (“CEE-US”). CEE-US is organized to provide the member cooperatives with the ability to purchase utility construction and repair materials and supplies on a combined basis. Central purchased \$3,213,942 and \$1,709,050 in CEE-US' fiscal years ending September 30, 2007 and 2006, respectively. Central's patronage capital in CEE-US represents approximately 2% of total CEE-US patronage capital.

CoBank, CEE-US and other investments in associated organizations are accounted for by the equity method and include capital credits which have been assigned to Central by the respective organizations but which are not currently receivable.

4. Direct Financing Leases

Direct financing leases relate to electric plant constructed by Central and leased to SCPSA. All lease payments are made by SCPSA directly to RUS in reduction of Central's related mortgage notes payable on the leased facilities.

The components of investment in direct financing leases at December 31 are as follows:

	<u>2007</u>		<u>2006</u>	
	<u>Current</u>	<u>Long-Term</u>	<u>Current</u>	<u>Long-Term</u>
Total minimum lease payments to be received	\$ 3,039,095	\$ 8,917,523	\$ 3,335,133	\$ 11,955,124
Less: Unearned lease income	<u>(430,427)</u>	<u>(934,715)</u>	<u>(542,158)</u>	<u>(1,409,350)</u>
Net investment	<u>\$ 2,608,668</u>	<u>\$ 7,982,808</u>	<u>\$ 2,792,975</u>	<u>\$ 10,545,774</u>

Future minimum lease payments to be received as of December 31, 2007 are as follows:

2008	\$ 3,039,095
2009	2,736,564
2010	1,933,874
2011	1,609,881
2012	1,343,491
Thereafter	<u>1,293,713</u>
	<u>\$ 11,956,618</u>

Central Electric Power Cooperative, Inc.
Notes to Financial Statements
December 31, 2007 and 2006

5. Long-Term Debt

Long-term debt consists of notes payable to RUS, CoBank and the Federal Financing Bank (“FFB”). Effective October 1, 2003, Central entered into an indenture agreement covering all of its outstanding debt. Concurrently, Central amended its loan contracts with RUS, CoBank and FFB. Under the new agreement, substantially all of Central’s assets are pledged as collateral under a trust agreement. Current and future creditors receive a proportionate share in the trust assets. The agreements had no effect on the principal and interest repayment terms of Central’s outstanding debt. The agreements contain various financial and operating covenants, the most restrictive of which require Central to receive permission from RUS prior to significant additions and disposals of property, plant and equipment and for certain other operational and financial decisions by Central and to establish rates sufficient to provide margins of at least 1.1 times interest expense.

Notes with FFB are guaranteed by RUS.

A revolving line of credit from CFC was available to Central totaling \$10,000,000 at December 31, 2007 and 2006. No amounts were outstanding under this agreement, which expires on March 8, 2008. Interest on borrowings under the agreement is determined by CFC at a rate not to exceed the bank’s prime rate plus one percent. Commitment by the bank generally expires two years from the date of the agreement and is generally renewed.

Central Electric Power Cooperative, Inc.
Notes to Financial Statements
December 31, 2007 and 2006

Notes payable terms and balances at December 31 are as follows:

	<u>2007</u>	<u>2006</u>
Direct financing leases		
RUS fixed rate notes:		
2% due in equal quarterly installments until 2008	\$ 228,690	\$ 743,198
5% due in equal quarterly installments until 2014	<u>10,318,579</u>	<u>12,541,032</u>
	10,547,269	13,284,230
Less: Principal due within one year	<u>(2,564,461)</u>	<u>(2,738,456)</u>
	<u>7,982,808</u>	<u>10,545,774</u>
Electric plant-related		
RUS fixed rate notes:		
5% due in equal quarterly and monthly installments until 2027	25,953,239	27,065,806
FFB fixed rate notes:		
4.335% to 5.562% at December 31, 2007 (4.335% to 5.562% at December 31, 2006) due in equal quarterly installments until 2030	15,701,776	16,324,241
FFB variable rate notes:		
3.12% to 4.678% at December 31, 2007 due in quarterly installments until 2013 (3.252% to 4.678% at December 31, 2006 due in quarterly installments until 2013)	33,914,165	27,507,437
CoBank variable rate notes:		
5.88% at December 31, 2007 (5.88% at December 31, 2006) due in variable installments until 2027	<u>11,761,712</u>	<u>12,195,794</u>
	87,330,892	83,093,278
Less: Principal due within one year	<u>(3,245,525)</u>	<u>(2,774,328)</u>
Total long-term notes payable	<u>84,085,367</u>	<u>80,318,950</u>
	<u>\$ 92,068,175</u>	<u>\$ 90,864,724</u>

Central Electric Power Cooperative, Inc.
Notes to Financial Statements
December 31, 2007 and 2006

Maturities of long-term debt after December 31, 2007 are as follows:

2008	\$	5,809,986
2009		5,805,880
2010		5,258,987
2011		5,212,340
2012		5,222,964
Thereafter		<u>70,568,004</u>
	\$	<u><u>97,878,161</u></u>

6. Fair Value of Financial Instruments

The carrying amounts of cash and short-term investments approximate fair value due to the short maturity of these instruments. The fair value of Central's electric plant long-term debt is estimated based upon current rates offered to the Cooperative for debt of similar maturity. Due to the nature of the direct financing lease loans, Central has not estimated the fair value of the asset and related obligation. The estimated fair value of Central's long-term debt as of December 31, 2007 and 2006 is \$86,184,361 and \$83,563,256, respectively, as compared to carrying values of \$87,330,892 and \$83,093,278.

7. Deferred (Accrued) Energy Sales to Members

Under the provisions of SFAS No. 71, *Accounting for the Effects of Certain Types of Regulation*, the Board of Trustees has approved a margin stabilization plan that, in effect, requires Central to adjust electric energy rates to members in order to achieve defined margins. The Board has established the required margin to achieve a Times Interest Earned Ratio ("TIER") of 1.1 plus the reimbursement of a portion of the costs incurred for land and right of way easements on transmission projects included in the year's energy sales. Interest costs for the TIER calculation exclude direct financing lease interest expense.

Central Electric Power Cooperative, Inc.
Notes to Financial Statements
December 31, 2007 and 2006

The following is a summary of the change in the deferred (accrued) margin account during the years ended December 31:

	Deferred (Accrued) Sales
Balance, December 31, 2005	\$ 1,487,981
Revenue adjustment, 2006	(1,487,981)
TIER adjustment, 2006	<u>788,154</u>
Balance, December 31, 2006	788,154
Revenue adjustment, 2007	(788,154)
TIER adjustment, 2007	<u>268,562</u>
Balance, December 31, 2007	<u><u>\$ 268,562</u></u>

8. Palmetto Economic Development Corporation

Central has a joint agreement (the “Agreement”) with SCPSA and Palmetto Economic Development Corporation (“PEDC”) whereby PEDC carries out an economic development program designed to benefit SCPSA, Central and the State of South Carolina as a whole.

The Agreement automatically renews annually for one-year terms. However, any party to the Agreement may terminate the Agreement by giving written notice to the other parties at least six months prior to the end of the current term. The Agreement requires that Central and SCPSA each pay to PEDC an amount sufficient to cover one-half of PEDC's costs of operations. Expenses incurred by Central in 2007 and 2006 were \$1,445,554 and \$951,505, respectively.

Central provides certain human resources and accounting services to PEDC. In 2007 and 2006 PEDC paid Central \$13,000 annually in return for these services.

9. Retirement Plans

Central participates in a multi-employer defined benefit noncontributory pension plan (the “pension plan”) covering substantially all employees. The cost of the pension plan is funded monthly by payments to the National Rural Electric Cooperative Association (“NRECA”) that has established a trusteed plan whereby annuities in amounts established by the plan will be available to participants effective upon their retirement. The pension plan is available to all member cooperatives of NRECA.

Central Electric Power Cooperative, Inc.
Notes to Financial Statements
December 31, 2007 and 2006

Accumulated benefits and plan assets are not determined or allocated separately by individual employer. Central's current period pension costs were \$682,269 in 2007 and \$606,919 in 2006.

Central also provides a 401(k) plan that allows all eligible employees to participate. Central contributes 1% of the employees' gross pay and matches the first 1% of the employees' contributions. During the years ended December 31, 2007 and 2006, Central contributed \$50,495 and \$46,420, respectively, to the 401(k) plan.

Central sponsors a medical and dental benefits plan (the "Medical Plan") for eligible retired employees and their dependents. In 2004, Central established an irrevocable trust to fund the Medical Plan in the future. The assets of the trust are invested in a variety of mutual funds with Homestead Funds, Inc. The trust seeks a balanced diversification strategy where approximately 40 to 50% of the plan assets are invested in stock-based funds, 30 to 35% in bond-based funds, and the remaining 15 to 25% in cash equivalents. As of December 31, the trust held the following investments:

	2007	2006
Money Market Funds	\$ 227,265	\$ 130,672
Short-term Government Securities Bond Fund	425,463	355,840
Short-term Bond Fund	502,384	480,183
Stock Index Fund	578,068	551,022
Value Fund	770,047	745,783
Small-company Stock Fund	296,205	292,239
	\$ 2,799,432	\$ 2,555,739

In 2007, Central adopted the funded status provisions of SFAS No. 158, "*Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)*" ("SFAS No. 158"). SFAS No. 158 requires an employer to recognize the over- or under-funded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity. SFAS No. 158 requires an entity to recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost pursuant to SFAS No. 87. SFAS No. 158 requires an entity to disclose in the notes to financial statements additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition asset or obligation.

Central Electric Power Cooperative, Inc.
Notes to Financial Statements
December 31, 2007 and 2006

At December 31, 2007, the accumulated benefit obligation and the funded status of the plan are as follows:

Accumulated postretirement benefit obligations	\$ 3,341,300
Fair value of plan assets	2,799,432
Funded status (underfunded)	<u>(541,868)</u>
Unrecognized loss (included in other comprehensive income)	770,968
Unrecognized prior service gain (included in other comprehensive income)	<u>(229,100)</u>
Accrued postretirement benefit cost	<u><u>\$ -</u></u>

The table below identifies significant changes to Central's financial statements upon implementing SFAS No. 158:

	<u>Before Adoption</u>	<u>Adoption of SFAS No. 158</u>	<u>Balance at December 31, 2007</u>
Liability for pension benefits (included in Other liabilities)	\$ -	\$ 541,868	\$ 541,868
Total liabilities	\$ 168,613,985	\$ 541,868	\$ 169,155,853
Accumulated other comprehensive income	\$ -	\$ 541,868	\$ 541,868
Total equity	\$ 20,381,426	\$ (541,868)	\$ 19,839,558

SFAS No. 158 also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. This requirement is effective for the fiscal years ending after December 15, 2008. Central does not expect the adoption of this aspect of SFAS No. 158 to impact its financial position, margins, and cash flows.

Central Electric Power Cooperative, Inc.
Notes to Financial Statements
December 31, 2007 and 2006

Weighted-average assumptions as of December 31 used in actuarial valuation of Central by the actuary, from NRECA:

	<u>2007</u>	<u>2006</u>
Discount rate	5.75%	5.60%
Return on plan assets	7.00%	7.00%

For measurement purposes, a 10% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2007. The rate was assumed to decrease gradually to 5.0% for 2015 and remain at that level thereafter. The return on plan assets was based on historical returns of similarly diversified portfolios.

	<u>2007</u>	<u>2006</u>
Benefit cost	\$ 188,400	\$ 299,600
Employer contributions	188,400	299,600
Benefits paid	47,009	42,091

Benefits expected to be paid in each of the next five years and in the aggregate for the five years thereafter are:

2008	\$ 60,400
2009	63,200
2010	71,400
2011	91,200
2012	112,200
2013-2017	<u>899,800</u>
	<u>\$ 1,298,200</u>

Central expects to contribute \$190,000 into the trust in 2008.

10. Commitments

At December 31, 2007, Central had remaining contractual commitments for the construction of electric plan assets totaling approximately \$2,439,000.