2008 Lynches River Electric Cooperative annual report

Executive Report

IN 2008, your cooperative was faced with many challenges. A weakening economy and the rising cost of coal put a strain on our cooperative system and members' budgets. Guided by your democratically elected Board of Trustees, your cooperative weathered the economic crisis and remains financially strong.

Your cooperative took steps in 2008 and early 2009 to streamline operating efficiency and cut costs where possible; however, there are limitations to how much more we can reduce our operating budget.

Lynches River Electric Cooperative serves only seven customers per mile of power line. In contrast, Duke Energy and Progress Energy serve more than 30 customers per mile, therefore our power bills reflect any increases caused by wholesale power costs, our economy, or goods and supplies.

If you refer to the chart on page 5, you'll see the greatest portion of your cooperative's operating budget is the cost of wholesale power or about two-thirds of our total operating budget.

We purchase power from Santee Cooper, the state-owned public service authority, and are under contract with each other for financial obligations and the collaborated strength required to build generation and transmission facilities necessary to meet South Carolina's ever-growing demand for electricity.

Beyond Santee Cooper, we have additional financial obligations including the repayment of loans for the construction of substations and power lines, generation and sales taxes, plus franchise fees — doing business in towns throughout our service area, and more than three million ($3,000,000) in real property taxes to the counties and towns we serve.

The Board of Trustees sets the kilowatt-hour rates as required by the Rural Utility Services and our mortgage banker Cooperative Finance Corporation to ensure rates are sufficient to repay the interest and principal on these loans and to fulfill our other financial obligations.

Your electric bill has many fixed costs beyond the control of management. In fact, only one third of your bill can be attributed to any part of Lynches River's operations. And a majority of these costs are for capital improvements, like new substations, and required maintenance to keep outages down.

As a cooperative, any "profits" we make above operating expenses are returned to members as capital credits. This year, your Board of Trustees has approved returning $461,000 in capital credits to members on record in 1987.

Looking ahead at the issues facing Lynches River, our biggest concern is the pending climate-change legislation. While coal prices are declining, the potential for higher electric bills is likely once the climate-change bill is passed by Congress or mandated by the Environmental Protection Agency (EPA) under the Clean Air Act.

Robert G. Wannamaker
Interim Chief Executive Officer

Your cooperative has worked hard to help legislators understand how this legislation painfully affects our members. We have also worked tirelessly to make sure the bill allows us to deliver electric energy which is produced responsibly, reliably and affordably. We have serious concerns over the effects of this legislation to our members.

Scott Croxton
Chairman of the Board

For more than 70 years, we have strived to improve the quality of life of our members. We have done so by providing reliable electric energy and related services. We are pleased to provide this report on the state of the cooperative. If you have any questions, we invite your call.

Robert G. Wannamaker
Interim Chief Executive Officer

Scott Croxton
Chairman of the Board

Lynches River Electric Cooperative, Inc.

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Automated Outage System
675-LREC (5732) or
1-866-675-LREC (5732)

Financial statement

Balance sheets

December 31, 2008 and 2007

	2008	2007
Assets		
Utility plant		
Electric plant in service	$86,637,840	$83,226,488
Construction work in progress	1,789,473	475,622
	88,427,313	83,702,110
Less: Accumulated depreciation	(22,236,517)	(20,401,628)
	66,190,796	63,300,482
Other assets and investments		
Investments in associated organizations	3,594,226	3,326,683
Other investments	1,054,023	989,414
	4,648,249	4,316,097
Current assets		
Cash and cash equivalents	1,378,760	3,986,349
Accounts receivable — consumers (less allowance for uncollectible accounts of $49,049 in 2008 and $38,139 in 2007)	2,546,945	2,055,934
Interest receivable	7,614	9,137
Materials and supplies	579,873	711,191
Prepayments	222,683	218,331
	4,735,875	6,980,942
Deferred debits	1,900,739	2,184,177
Total assets	$77,475,659	$76,781,698

	2008	2007
Equities and liabilities		
Equities		
Memberships	$ 100,010	$ 99,720
Patronage capital	24,372,892	22,717,796
Other	156,931	(46,770)
	24,629,833	22,770,746
Long-term debt	44,628,600	46,066,518
Other non-current liabilities		
Accrued post-retirement benefit cost	1,916,000	1,675,318
Current and accrued liabilities		
Current maturities of long-term debt	1,382,000	1,301,000
Accumulated provision for postretirement benefits other than pensions — current	179,300	155,700
Accounts payable	2,586,040	2,744,735
Consumer deposits	1,805,729	1,732,515
Other current and accrued liabilities	340,228	327,007
	6,293,297	6,260,957
Deferred credits	7,929	8,159
Total equities and liabilities	$77,475,659	$76,781,698

Statement of revenue and patronage capital

For the years ended December 31, 2008 and 2007

	2008	2007
Operating revenues	$38,367,629	$35,494,759
Operating expenses		
Cost of power	23,565,138	21,068,872
Distribution — operations	2,486,289	2,366,645
Distribution — maintenance	1,614,546	2,211,721
Consumer accounts	1,261,670	1,315,184
Customer service and information	322,710	253,131
Sales	60,790	83,649
Administrative and general	2,190,983	2,158,473
Depreciation	2,428,309	2,356,594
Other	323,539	355,204
	34,253,974	32,169,473
Operating margins before interest charges	4,113,655	3,325,286
Interest expense	2,129,223	1,938,208
Operating margins after interest charges	1,984,432	1,387,078
Non-operating margins		
Interest income	153,575	150,908
G & T Cooperative capital credits	40,889	37,820
Other cooperative capital credits	333,072	613,783
Net margins for period	2,511,968	2,189,589
Patronage capital — beginning of year	22,717,796	21,179,643
Retirement of Capital Credits	(856,872)	(651,436)
Patronage capital — end of year	$24,372,892	$22,717,796

How your dollar was spent