

EXECUTIVE REPORT



To be successful in any endeavor, one must have a plan—a defined course of action with vision, objectives, priorities and strategies to reach a desired goal. Your cooperative operates under a comprehensive, evolving Strategic Plan that is the basis of all the operations at Central Alabama Electric Cooperative (CAEC), taking into account the needs of its membership and future of the industry.

Our Strategic Plan, set by the Board of Trustees, who are members themselves, is built upon a key set of values: community commitment, integrity, safety, innovation and accountability. As you will see throughout the pages of this 2016 Annual Report, these are more than just words, they are enduring, passionate and distinctive core beliefs that serve as the guiding principles of our strategic plan.

Because we are owned by the members we serve, electric cooperatives have a strong commitment to our local communities. In addition to making sure safe, reliable and affordable power is delivered, we are involved in local community development programs and projects.

Programs we support include funding creative teaching techniques, scholarships for members' children and economic development efforts for our communities. Learn more about our efforts on the next page.

Essential to our value of community commitment is facilitating member engagement. Making sure our members are informed about issues relevant to them and providing opportunities to make their voices heard is all a part of the process. In 2016, CAEC and electric cooperatives across America took part in the Co-ops Vote campaign—a non-partisan effort aimed at boosting voter turnout in rural areas of the country—to help elect officials who will take up the banner for rural issues, such as broadband internet access. The program was a rousing success, with an additional 527,680 rural voters from National Rural Electric Cooperative Association (NRECA) counties going to the polls. Now, almost a year later, we find ourselves continuing to work with those on Capitol Hill with an even stronger, grassroots voice on rural issues.

While value means more than just a dollar amount, we do know that being wise stewards of your money and looking for ways to help you save on your home's budget are also top priorities. In 2016, we issued \$1.2 million in capital credit reimbursements and were also able to return an additional \$3 million to our membership in the form of a Power Cost Adjustment. Other energy savings are offered through a variety of programs. Last year, we conducted 43 home energy audits, issued 244 heat pump and 273 electric hot water heater rebates and 14 home efficiency loans to aid in saving your energy dollars. Another program many members have found beneficial to their budget is the Co-op Connections Card program. This free service for our members gives access to a variety of discounts with national and local retailers, including vision, dental, chiropractic, hearing and lab services as well as helping our members save more than \$600,000 on prescriptions.

It's easy to see that being a part of a cooperative comes with many benefits—but perhaps the most valuable is democratic member control. Cooperatives are unique businesses because they are owned by you, the member, giving you a voice in the way the co-op is governed through your participation in the election process of fellow members to serve on your board of trustees. We invite you to exercise this exclusive cooperative right by attending Annual Meeting on Friday, August 11.

As we look at the past and plan our future, we do so with our core values in mind. Our purpose statement is to “Add value to life...through energy” and by doing so, we strive to provide a truly cooperative member experience.

Tom Stackhouse
President/CEO

Terry Mitchell
Chairman, Board of Trustees

2016 ANNUAL REPORT

Community Commitment

What makes up a community? It's more than just people living in a geographic location; it's a network of individuals coming together with a common goal to make the place they live better by sharing ideas, information and resources. For CAEC, this goes beyond the wires, poles and infrastructure needed to deliver power—it also involves helping our friends and neighbors have a better quality of life.

In 2016, CAEC continued to invest in community programs geared toward the youth in our area. The long-standing Bright Ideas Grant program began in 1998 and awards grants to teachers for innovative classroom projects. We awarded \$16,000 in grants to 21 teachers—impacting more than 4,600 students. Also last year, nine high school juniors participated in our Youth Tour program and two high school seniors were awarded \$3,000 in college scholarships. These programs, in addition to numerous safety presentations, energy efficiency demonstrations and career days, helped give our future leaders a solid foundation to build upon.

CAEC's commitment to community partnerships has attracted investments in our local economies. In the past year, several announcements have set the stage for future job opportunities. James Hardie, a global supplier for construction companies, made the decision to invest one hundred million dollars and create 250 jobs in the Prattville South Industrial Park in Autauga County. GKN expanded in Elmore County and Merchants Foodservice continued to add jobs in Chilton County. Retail announcements were made in Lowndes, Chilton, Elmore and Autauga Counties as well, including a Piggly Wiggly grocery store in Pine Level community. Along the I-65 corridor, convenience stores and fast food establishments continue to open.

Tourism events and infrastructure create economic development dividends as well. From golf and fishing tournaments to recreational activities on the lakes in our service territory, many people are visiting Alabama and our communities. Coosa County is partnering with several state organizations to create and develop more miles of hiking trails and outdoor activities geared to attracting investments to the area. In 2016, the City of Millbrook helped expand business and industrial product options by opening a new business park, located minutes from Interstate 65.

Working together with established partners, our communities are growing stronger through concerted economic development initiatives designed to provide a better quality of life for our members.

Commitment to community also extends beyond our borders by helping those who do not have access to electricity and the conveniences it affords. Two CAEC employees traveled to Caracol, Haiti, through the National Rural Electric Association International Program, which seeks to help build and expand electric distribution systems in rural areas of Third World countries. During their three-week assignment, our employees helped build a new 3-phase line to an area that did not have electricity, and they helped provide training to Haitian electric co-op workers on safety and equipment operations.



Value: the regard with which something is held

Integrity

Although there are more than 29,000 different cooperatives across America, we share one common thread: we are organized for the benefit of our members, not single owners or stockholders. This relationship between co-op and member is grounded in trust and honesty.

There may be no better example of this integrity than the unique electric cooperative value of dispersing capital credits. As a not-for-profit entity, CAEC returns margins that are above the amount required by our lenders to our members by way of credits in each member's capital credits account. Under this structure, when the capital—in the form of system infrastructure—is retired after its normal lifespan of approximately 30 years, then the members receive a check for those capital credits. In 2016, the Board of Trustees approved the return of \$1.2 million in capital credits, bringing the total retirement to our members to more than \$14 million.

In 2016, we also gave members a \$3 million reduction in rates through our Power Cost Adjustment (PCA). Prior to the start of each year, we project our wholesale power rates based on weather trends, projected fuel costs and usage. When there are changes to these projections, we can modify our rates by changing the PCA. With a mild winter in 2015 and lower fuel costs, we passed this savings on to our members by reducing our PCA from 0.0000 to -0.01576 from October through December 2016.

Additionally, CAEC undergoes an annual fiscal audit by an external auditor and again, our cooperative received an unmodified opinion in 2016—the highest opinion given. These audits ensure that we comply with auditing standards generally accepted by the United States of America and the Government Auditing Standards issued by the Comptroller General of the United States.

Value: a person's principles or standards of behavior; one's judgment of what is important in life



Safety

A principal value of CAEC's culture is safety—both for our employees and the general public. We spend a great deal of time conducting safety education with our workforce, whether they're working in the field or in the office. Emergency response training, such as CPR and first aid or pole-top rescue exercises, is critical to our curriculum; however, teaching preventative methods is a primary goal. In 2016, CAEC employees underwent 2,494 training hours to better prepare them to do their jobs safely and efficiently. In addition, we have an employee based safety review board who analyzes all work-related accidents or near-miss incidences to determine ways to prevent future occurrences and increase workplace safety.

As part of our safety program, our employees give safety presentations to schools and community groups throughout the year to help remind everyone that safety is no accident. Whether it's knowing what to do if you see a downed power line or how to safely use a generator, safety around electricity is important for everyone.



Innovation

Finding ways to make doing business with us convenient for our members is one of the main reasons innovation is one of our values. We strive to add value for our members by making improvements and introducing new programs and services.

In order to improve service in the Lowndes County area of our service territory, on Nov. 9, 2016, we energized our Burkville substation. Previously, these members were being served from our Prattville Substation located in Autauga County. The former line crossed the Alabama River, presenting occasional challenges with outage restoration. The new substation helps increase efficiency for our Lowndes County members, particularly during restoration efforts.

As renewable technology becomes more prevalent, our members need access to accurate information before making purchasing decisions. We want to be a trusted energy information resource for our members. To help achieve that goal, last year we installed a 6.36kW solar array (approximately 24 panels on three posts) behind our Prattville Headquarters. This solar demonstration allows us to gather the energy production data to help educate our employees and members.



Accountability

Legendary Tennessee Women's Basketball Coach Pat Summitt once said, "Responsibility equals accountability equals ownership. And a sense of ownership is the most powerful weapon a team or organization can have." This quote demonstrates what makes cooperatives so unique: we are accountable to those we serve because we are owned by them.

No practice provides a better demonstration of accountability than the annual, democratic election of your Board of Trustees. In fact, 3,454 exercised their right to vote in the 2016 election. Trustees, who are members themselves, set long-term strategy and goals to focus policies and rates - balancing the day-to-day operations of CAEC, while positioning the cooperative to be a viable business for future members.

We also use feedback from our members to hold us accountable by measuring how well we're doing and identifying areas for improvement. We do this monthly by surveying members who have had interaction with us. We appreciate your feedback and are proud to say our 2016 American Customer Satisfaction Index (ACSI) score of 85 was well above the investor owned utility national average of 74.



Value: have a high opinion of; to consider to be important

STATEMENT OF FINANCIAL CONDITION

as of Dec. 31, 2016

Assets

Total Utility Plant	\$234,183,193
Less Accumulated Depreciation	<u>(52,317,214)</u>
Net Utility Plant Value	181,865,979
Equity in Associated Organizations	41,839,530
Cash	1,364,959
Temporary Investments	213,545
Accounts Receivable	8,913,631
Prepayments	536,431
Material in Inventory	960,047
Other Current and Accrued Assets	9,880
Deferred Charges	<u>4,033,564</u>
Total Assets	<u><u>\$239,737,566</u></u>

Liabilities and Member Equity

Membership, Equities and Deposits	\$98,494,021
Long-term Debt	119,333,256
Non-current Liabilities	2,191,775
Notes and Accounts Payable	11,391,251
Other Current & Accrued Liabilities	8,155,506
Deferred Credits	<u>171,757</u>
Total Liabilities and Member Equity	<u><u>\$239,737,566</u></u>

Statement of Operations

Revenue

Electric Revenue	\$85,208,890
Other Operating Revenue	<u>2,350,183</u>
Total Revenue	<u><u>\$87,559,073</u></u>

Expenses

Cost of Purchased Power	\$52,252,980
Distribution & Operation Maintenance	9,299,081
Consumer Accounting, Service & Sales	6,164,936
Administrative and General	<u>5,818,531</u>
Total Operations & Maintenance Expense	\$73,535,528
Depreciation Expense	6,554,167
Interest Expense	4,710,054
Other Deductions	<u>19,801</u>
Total Cost of Electric Service	<u><u>\$84,819,550</u></u>
Total Operating Income	\$2,739,523
Interest Income	481,532
Income from Equity Investments	402,361
Capital Credits from Associated Org.	1,461,005
Patronage Capital	<u><u>\$5,084,421</u></u>

Note: These unaudited figures came from the close of CAEC's 2016 books. The Official Audit Report for fiscal year ending April 30, 2017, will be available for review after the Annual Meeting.



BOARD OF TRUSTEES

(Pictured from Left to Right)

Jimmie Harrison Jr., Maplesville; Patsy M. Holmes, Wetumpka; Chase Riddle, Prattville; David Kelley Sr., Rockford;
Mark S. Presnell Sr., Secretary/Treasurer, Wetumpka; Terry Mitchell, Chairman, Stewartville; Charles Byrd, Vice-Chairman, Deatsville;
C. Milton Johnson, Statesville; Van Smith, Billingsley; Mark Gray, Clanton

MANAGEMENT TEAM

(Not Pictured)

Tom Stackhouse, President/CEO

Julie Young, Vice President, Business and Administrative Services; Chuck Billings, Vice President, Customer and Energy Services;
Jimmy Gray, Vice President, Engineering and Operations; Damali Clark, Vice President, Corporate and Financial Services