

1995 Annual Report

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Introduction

Soyland Power Coopera-

tive is a member-owned, not-for-profit electric generation and transmission cooperative which produces and supplies electricity to 21 member distribution cooperatives. These distribution cooperatives provide retail electric service to approximately one-half million member consumers within their local service territories. Soyland is one of more than 60 generation and transmission (G&T) cooperatives that supply wholesale electric power to rural utilities in the United States.

Soyland was organized by six distribution cooperatives in September, 1963, under the General Not-For-Profit Corporation Act of the State of Illinois. Leaders of those cooperatives saw Soyland as a way to gain energy independence and control over electric power costs. In 1975, nine additional cooperatives joined the original six (two have since merged), and plans were launched to develop a reliable and economical power supply system. Western Illinois Power Cooperative, with seven member distribution cooperative systems, merged into Soyland in March, 1989, to form the cooperative federation that today supplies the electric power needs of nearly two-thirds of the land mass of the State of Illinois.

Applied Energy Systems of Illinois, Inc., the parent company of WaterFurnace Midwest, is a wholly owned for profit subsidiary of Soyland Power Cooperative. WaterFurnace Midwest markets and sells geothermal heating, cooling and hot water

equipment through a trained and certified dealer network. This network extends throughout Illinois, the eastern half of Missouri and eastern third of Iowa. Applied Energy Systems is pursuing other business opportunities to assist Soyland's members meet the needs of the consumers they serve.

Soyland and its 21 member distribution cooperatives are united through a common purpose of making rural Illinois a better place in which to live. We remain committed to enhancing community and economic development opportunities in rural areas.

Since its inception in 1963, Soyland's goal has been to provide a dependable source of wholesale electric power to its member systems at a competitive cost. Today, through its unique blend of fuels and generating plants, Soyland has built a stable base from which to meet the electric energy requirements of its member systems.



Soyland's main headquarters are located at 788 North Sunnyside Road in Decatur, Illinois.

Executive Report

Cooperative men and women have historically been the motivators of change. In the 1940s, the landscape and lives of rural America were forever altered by those men and women united and working together for a better future. With deregulation of the electric utility industry on the horizon, and the constant threat of federal budget cuts to eliminate or reduce programs, now, more than at any time since our humble beginnings, electric cooperatives are pushing towards rapid change.

In 1995, the twenty-one members of

Rural
Electric
Coopera-

cept the challenge of the changing utility industry. As part of Soyland's financial planning, we explored ways to cut costs and encourage development of our members. Soyland's Board and staff took a hard look at day to day operations, streamlining costs wherever possible and pursuing every avenue to increase our competitive edge. Together, we continue to evaluate alternatives for the future of Soyland.

In 1995, the twenty-one members of Soyland Power continued their commitment to have control over the destiny of their cooperative. Together, we continue to evaluate alternatives for the future of Soyland.

Knowing the success of Soyland depends upon the success of our member cooperatives, Soyland implemented a new rate in 1995 to encourage economic development and help our member cooperatives retain "at risk" loads. The benefit of this large load incentive rate (LL rider) was realized within a short period of time with the application of the LL rider to retain a 5-MW load for one mem-



EXECUTIVE COMMITTEE (left to right): Robert Smith, Vice Chairman; Jim Coleman, Secretary; Joe Firlit, President and CEO; Steven Schertz, Assistant Secretary; Eldon Moore, Assistant Treasurer; Ed Gant, Treasurer. Not pictured: Jim Hinman, Chairman; and Jeff Reeves, Immediate Past Chairman.

Soyland Power continued their commitment to have control over the destiny of their cooperative. Soyland and its members remain united to ac-

cept the challenge of the changing utility industry. As part of Soyland's financial planning, we explored ways to cut costs and encourage development of our members. Soyland's Board and staff took a hard look at day to day operations, streamlining costs wherever possible and pursuing every avenue to increase our competitive edge. Together, we continue to evaluate alternatives for the future of Soyland.

of mergers or sharing of services among local cooperatives.

While the Soyland board worked on accepting the challenges of the changing industry, Soyland's staff continued the business of being a generation and transmission cooperative for its twenty-one members. Severe spring flooding and an extended heat wave resulted in record temperatures. Soyland's coincident peak demand of 634 MW surpassed the previous peak set in 1991 by nearly 11%. The Soyland integrated system handled the peak loads even with a June fire at the Winchester 34 kv substation that caused substantial damage. Soyland's record energy sales of 2,751,000 MWh was attributable to the severe weather of 1995.

Negotiations for coal supply resulted in a contract which will provide Soyland with a quality source of coal until the end of the century. Soyland also addressed the concerns of planning for the decommissioning of the nuclear Clinton Power Station by entering into a new investment agreement which is anticipated to earn a higher return and enable the trust to grow at an increased rate to fund the eventual decommissioning of the plant. Soyland also took advantage of an economical source of energy available from newly organizing power marketing firms. Soyland purchased nearly 352,000 MWh, or 12% of our energy needs, from the power marketing firms of LG&E Power Marketing and Enron Power Marketing. Soyland will continue to avail itself of these cost-efficient energy sources.

Providing support and assistance for

member cooperatives in the areas of marketing, economic development and engineering was a major emphasis of Soyland staff in 1995. Soyland developed a new and comprehensive marketing program in conjunction with member-cooperatives which focuses on marketing and sales of electric technology. Soyland conducted a seminar in November showcasing energy efficient construction practices and electric technologies. This seminar promoted the geothermal technology adopted by many member cooperatives. Applied Energy Systems of Illinois, Inc., dba

WaterFurnace Midwest, a wholly owned subsidiary of Soyland, was a co-sponsor of the program. Promotion of geothermal heating and cooling systems resulted in 285 system installations on Soyland member distribution system lines in 1995 and increased WaterFurnace Midwest's market share from 78% to 82%.

Our continued commitment to develop our rural areas resulted in the adoption of a community and economic development business plan with five major areas of concentration. Those include community development, community development corpo-



EXECUTIVE STAFF (left to right): Alice Clark, Director of Human Resources/Attorney; Ken Kammeier, Vice President/Finance & Marketing; Jeannie Rade, Administrative Assistant; and Bob Harbour, Vice President/Engineering & Operations.

rations, advertising, economic development network and new program development. Soyland's support of economic development was recognized this year by the National Rural Electric Development Association for the leadership we provided to RURAL PARTNERS, the Illinois Private-Public Partnership for Rural Community Development.

Sweeping changes in the electric utility industry have been initiated in 1995. On a national level, the Federal Energy Regulatory Commission put forth its MegaNOPR covering the regulation of wholesale power transactions with the goal of providing open transmission access, allowing a transition from regulated to market-based generation transactions. On the state level, a study was begun into the concept of retail wheeling which will allow for various levels of customer choice for power supply. Soyland, along with its national and

state cooperative associations, is an active participant in these developments as we strive to protect the interests of our members, and to pursue any opportunities which may result from the changing regulatory environment.

1995 has been a year of change, activity and unity for Soyland and Soyland members. When Board Chairman James Hinman became ill mid-year, the board was unified and supported Vice Chair Robert Smith. The strength of our organization lies in our ability to control the destiny of our cooperative, rather than to allow outside forces to control it for us. The Soyland board and staff are committed to making the necessary decisions to adapt our cooperative to meet the challenges which face us. It is with this determination that we look forward to the opportunities that will be presented to us in 1996.



James E. Hinman

*James E. Hinman
Chairman*



Robert D. Smith

*Robert D. Smith
Vice Chairman*



Joseph F. Firlit

*Joseph F. Firlit
President and CEO*

Soyland

Engineering and Operations



Engineering and Operations

Soyland has a broad mix of generating capacity to meet its twenty-one member cooperatives' power supply needs. Soyland owns 13.21% of the Clinton Nuclear Power Station, which is operated by Illinois Power (IP), owner of the balance of the plant. This 123 MW of nuclear capacity was 17% of the available Soyland generating capacity in 1995. Clinton provided 806,617 MWh or 28% of Soyland's total energy requirement. The fifth refueling since Clinton began commercial operation in 1987 was completed on April 29, 1995 after the plant's best ever outage duration of only 49 days. The plant achieved high performance levels in 1995 with an equivalent

The Soyland-owned system, comprising about 600 miles of transmission lines and nearly 100 substations, performed outstandingly through severe floods, tornadoes, ice storms and record electrical demand.

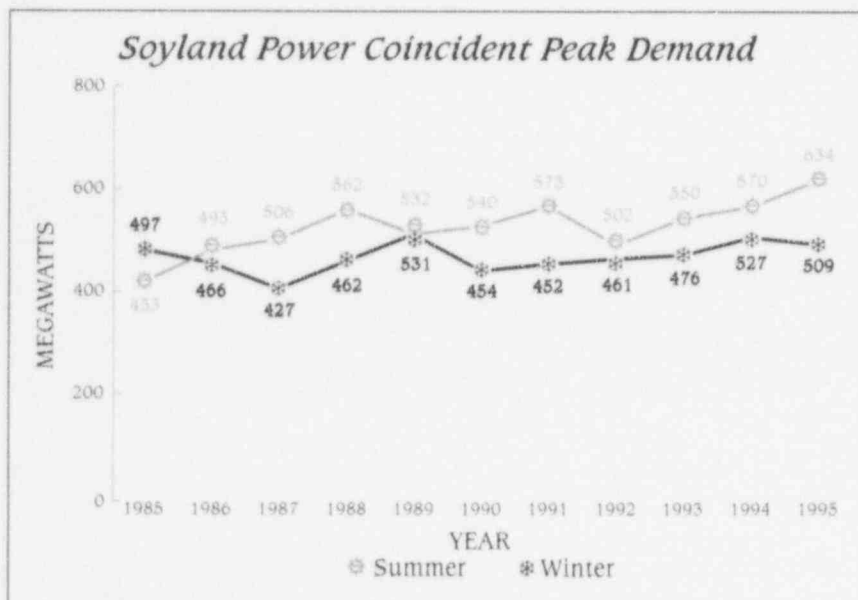
availability of 81.5% and a capacity factor of 74.7%. These continuing improvements are the result of

concerted joint efforts between Soyland and Illinois Power for improving plant performance. Total operation and maintenance expenses were on budget and capital improvements were under budget for the 1995 year. Staffing level reductions to 840 positions at year end are indicative of the man-

agement goal at both IP and Soyland to reduce costs while improving operational efficiencies.

The 22 MW Pearl station coal fired plant provided nearly 117,092 MW hours toward meeting Soyland's energy requirement. Operating at 66% capacity factor, the unit had an equivalent availability of 70% during the year, despite record flooding levels on the Illinois River which

covered the coal storage area and disrupted the trucked coal supply to the plant in May and June. The 22 MW combustion turbine, which is also located at the Pearl station, is available to provide support during system emergencies or for power pool use, if necessary. The combustion turbine and the Pittsfield diesels were called upon during the summer to provide generation when the extreme heat and humidity across much of the eastern two-thirds of the United States created record electrical demand. Soyland set a record coincident peak de-

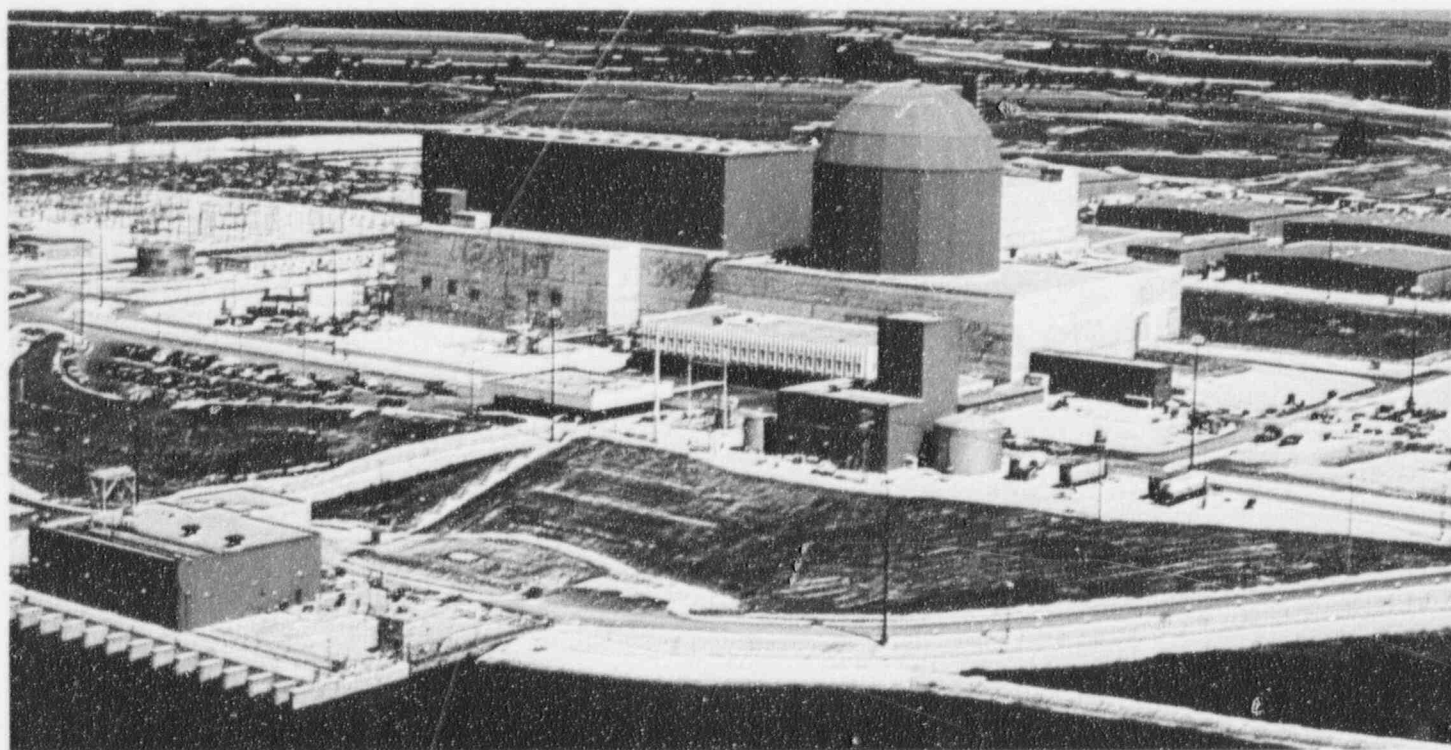


mand of 634 MW, surpassing the previous peak set in 1991 by nearly 11%. During the peak hour of the IP/Soyland pool, Soyland's demand was 545 MW, taking advantage of Soyland's diversity with its pool partners and load curtailed by its members due to Soyland peak warning.

In addition to the Clinton and Pearl plants, Soyland has long term power supply contracts with Illinois Power and Central Illinois Public Service Company (CIPS) for use of their fossil fuel capacity and transmission systems on a fully allocated, cost of service basis. The Soyland percentage share of the IP fossil plants increased 50% in 1995, from 8% to 12%, due to contractual changes. Approximately 1,336,000 MWh, which is 46% of Soyland energy, was provided by the IP fossil generation and ap-



POWER SUPPLY COMMITTEE (seated, left to right): Tim Christensen, Chairman; and Doug Aelits, Vice Chairman. (Standing, left to right): Joe Welsh; Don Gleiber and Ken Heinzman.



The 950-megawatt Clinton Power Station, near Clinton, Illinois.

proximately 352,000 MWh, equaling 10% of Soyland energy, was provided by CIPS' fossil generation. In addition, Soyland purchased approximately 352,000 MWh, or 12% of its energy, from the power marketing firms LG&E Power Marketing and Enron Power Marketing.

The Soyland-owned system is comprised of approximately 600 miles of transmission lines and nearly 100 substations. The Soyland Operations Department performed in outstanding fashion operating and maintaining the system this year, battling severe floods, tornadoes, winter ice storms, and record electrical demand, and rebuilt a 34kv substation at Winchester, Illinois, which sustained substantial fire damage. Clean up and repair of the damage required approximately one month. The crews also constructed two distribution

substations, approximately five miles of transmission lines, and provided countless hours of construction and maintenance support to the member systems. With the design projects in process and the need to replace and upgrade transformation capacity to handle expected summer distribution substation loading, 1996 will be a challenging construction year.

Design assistance was also provided by the Engineering Department to member systems. This included 19 miles of 69kv and 34.5kv transmission line, two distribution substations, and two capacitor bank installations, in addition to providing routine technical support. Projects under way for 1996 include four distribution substations, and approximately 15 miles of 69kv transmission line.



The 22-megawatt Pearl Station, located on the Illinois River.

Sovland

Marketing

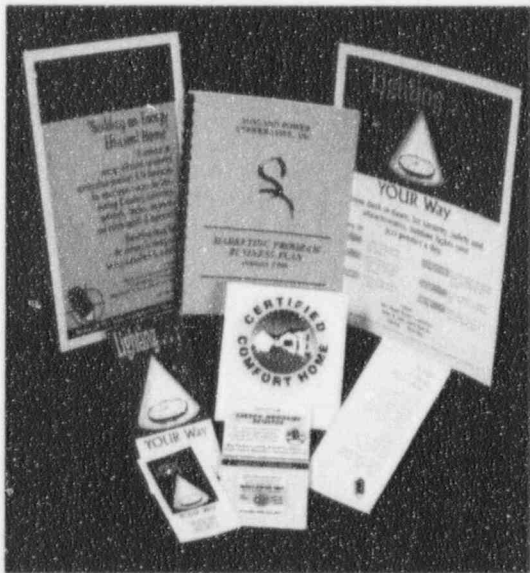


Marketing Programs

Soyland took an aggressive posture to marketing in 1995 with the development of an aggressive marketing program. The function of marketing electric technologies was separated from economic development activities.

The mission of the marketing program is defined as "to increase the short and long term financial integrity of Soyland and its member cooperatives through the increased sale of electricity and/or energy services." An integral step in the development and implementation of the Marketing Program was the formation of an Advisory Market-

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The 1995 marketing program included brochures and posters distributed through targeted mailings or as bill stuffers and handouts by the member cooperatives.

were implemented in 1995 by Soyland and its member cooperatives. Another key focus of these committees was the development of a 1996 Marketing Program Business Plan for Soyland and its member cooperatives.

Major marketing activities completed in 1995 included continuation of the Matching Grant Ad Program and System GT Rebates, in addition to implementation

of a "Designing for Energy Efficiency Seminar," "Wholesale/Retail Rate Seminar," Night Light Promotional Blitz, CO Detectors Program and a Marketing & Sales Survey of member cooperatives' marketing activities and programs. Over \$100,000 in Matching Grant Ad monies were distributed to member cooperatives to support marketing initiatives including technology adver-

tising, rebates, development of marketing brochures, homebuilders' events and trade shows, and geothermal open houses. The program leveraged over \$237,000 for marketing materials and activities which increased member and trade ally awareness of the benefits of electric technologies.

System:GT rebates for member purchases of geothermal heating and cooling systems and the increased sales efforts of member cooperatives related to geothermal technology resulted in 285 geothermal system installations in the Soyland member

distribution system in 1995. While these sales fell just short of 1994 system sales of 290 units, the sale of WaterFurnace units increased by 3% and market share increased from 78% to 82%.

WaterFurnace Midwest, Soyland and its member cooperatives also hosted their first energy efficiency seminar in 1995 to promote geothermal technology and strengthen trade ally relationships. The "Designing for Energy Efficiency Seminar" conducted in November, drew nearly 200 trade allies representing builders, HVAC dealers, bankers, realtors, architects and new home owners to Decatur. Nationally known energy consultant and architect, Doug Rye, informed and entertained the audience on energy efficient construction practices and electric technologies. The Seminar reinforced the Certified Comfort Home Program adopted by member cooperatives and promoted geothermal technology. The Seminar generated inquiries regarding geothermal and other heat pump systems, cellulose insulation, energy effi-

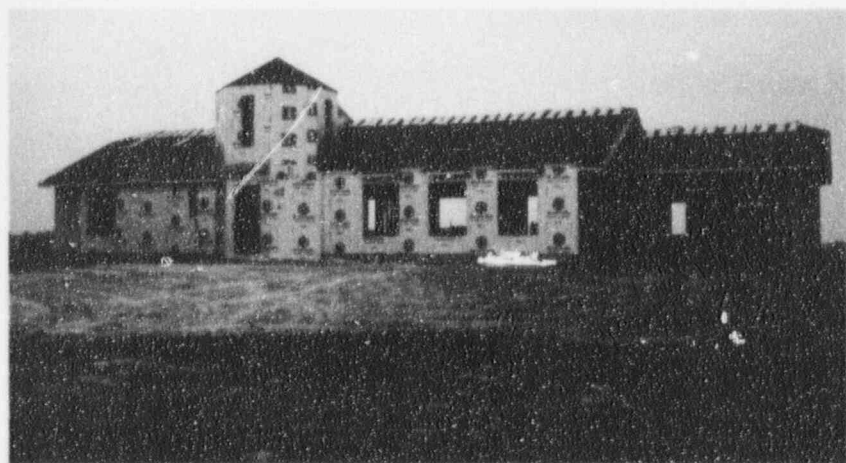


MARKETING COMMITTEE (seated, left to right): Dennis Keiser, Chairman; Dave Champion, Vice Chairman; and David White. (Standing, left to right): Jim Campbell, Dave Bergland and Stuart Yagow.

cient mortgages and dealer opportunities. Attendees' evaluations of the Seminar were excellent, providing Soyland and its member cooperatives with very positive recognition as energy experts among trade allies and members. Co-sponsors for the

Seminar included Nu Wool Company, First of America Bank, Illinois Power Company and WaterFurnace Midwest.

A "Wholesale/Retail Rate Seminar" conducted in December, provided cooperative staff and di-



Several Soyland marketing programs encourage people to avoid high electric bills by building energy-efficient homes.

rectors with an overview of rate philosophies, structures, changing pricing strategies and an outlook on deregulation of the electric utility industry in the future.

To assist in the development of a 1996 Marketing Program Business Plan, Soyland conducted a Marketing Survey of member cooperatives in the fall of 1995. The Survey was intended to identify cooperatives' marketing personnel, programs, interests and successes. The results of the Survey suggested the need for expanding technol-

ogy rebates to other technologies beyond geothermal heating and cooling systems, the need for technology financing programs to assist in member purchases of electric technologies, more formalized marketing, sales and technology training, additional market research, cooperative advertising, and further emphasis on trade ally development efforts. These suggestions and others have been incorporated into Soyland's 1996 Marketing Program.



The "Designing for Energy Efficiency Seminar" hosted by nationally-known consultant Doug Rye, was very well attended in November. Repeat performances are planned in 1996.

Soyland

Economic Development



Economic Development

During 1995, Soyland continued to pursue an aggressive position in its community and economic development program. During the past several years, Soyland has laid a solid foundation on which future load growth will continue to develop. In today's competitive environment, Soyland and its 21 member distribution cooperatives are prepared to meet the challenges that face utilities. The cooperatives have become actively involved in such activities as Community Development Corporations, RURAL PARTNERS, assumed positions of responsibility in economic devel-

Soyland and its 21 member distribution cooperatives are prepared to meet the challenges that face utilities.

opment organizations, identified industrial sites and numerous other activities that represent the groundwork for economic development.

In 1995 Soyland developed a Community and Economic Development Business Plan that emphasizes five major areas of concentration. These areas include: Community Development, building the infrastructure for future economic development

activities; Community Development Corporations, regional financial entities which identify and assist in funding economic development projects; Advertising, focused on national and statewide projects to promote business development in cooperative service

territories; Economic Development Network, utilizes the professional network to facilitate every aspect of retaining, expanding and attracting electric load to cooperative service area's; and New Program Development, identifying new initiatives to enhance both life and economic growth in rural Illinois. All these components represent opportunities for distribution cooperatives to interact in the economic development processes.

As in the past, 1995 had several significant accomplishments despite the potential deregulation of the utility industry. Soyland's participation in community development was recognized nationally by the National Rural Eco-

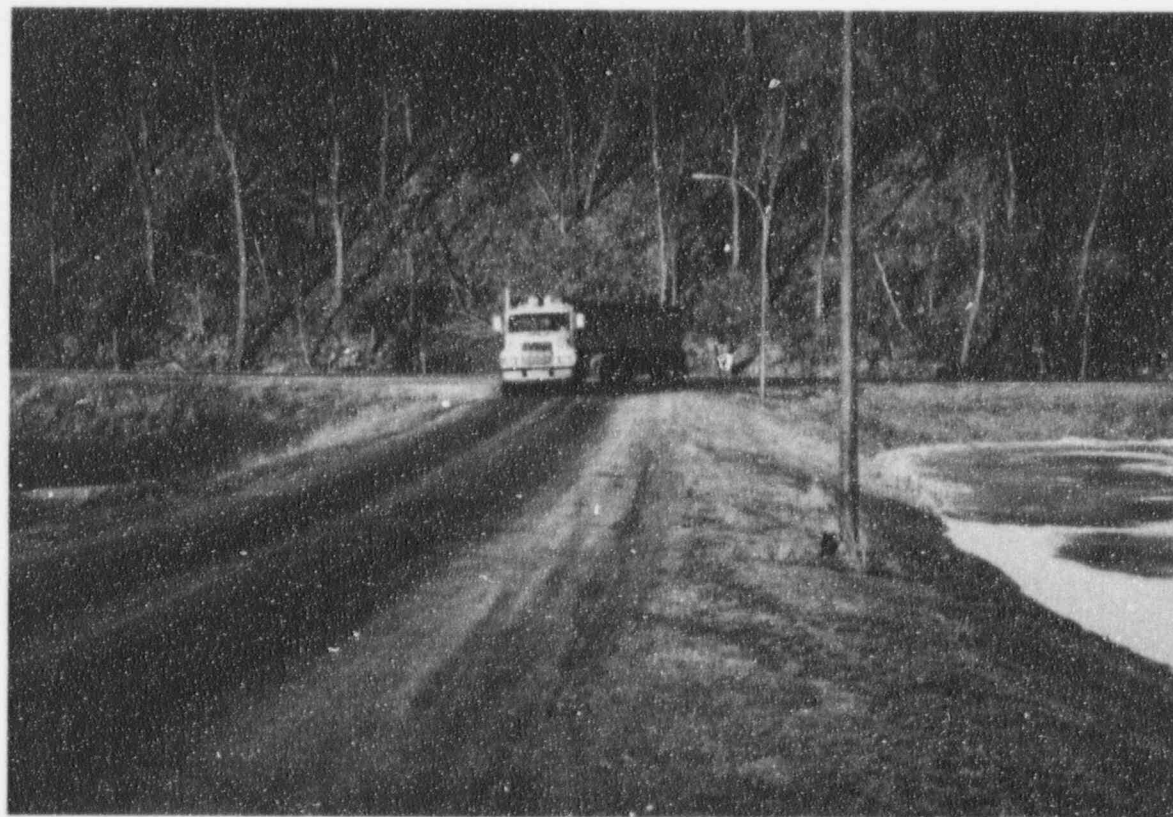


LEGAL COMMITTEE (seated, left to right): Dorland Smith, Chairman; Joe Fellin, Vice Chairman; and French Fraker, Attorney. (Standing, left to right): Irv Stanford, Alan Libbra and Tom Hentz.

conomic Development Association. An award was presented to Soyland at the NREDA's annual meeting in Austin, Texas, for Soyland's leadership role in the innovative and creative RURAL PARTNERS/Kellogg Foundation "Helping Prepare Rural Communities For Economic Development Program." This ten-county demonstration project extended over four years and cost in excess of \$1.5 million.

Around the state many cooperatives were successful with both attraction and expansion of businesses in their service areas. Yale South Haven Company, a rubber resin facility located in Carmi, employs 50 people and utilizes approximately 3 megawatts of energy from Wayne-White

Electric Cooperative. Heartland Pork Enterprises, a pork production facility, located east of Paris in Eastern Illinois employs 60 people. Another new 70,000 square foot facility was built for Paper Production in Martinsville, a company that supplies coin wrappers to several industries. This company employs 65 individuals and uses approximately 1.6 megawatts of energy from Edgar Electric. Two pork production facilities became operative in Western Illinois namely: Hanor Industries and Land of Lakes. These companies made capital investments exceeding \$4-million and will be in full operation in early 1997 on Illinois Rural Electric Co.'s and Menard Electric Cooperative's lines. In central Illinois, Nor-



Loaded with coal from the mines of Illinois, a truck arrives with fuel for Soyland's Pearl Plant.

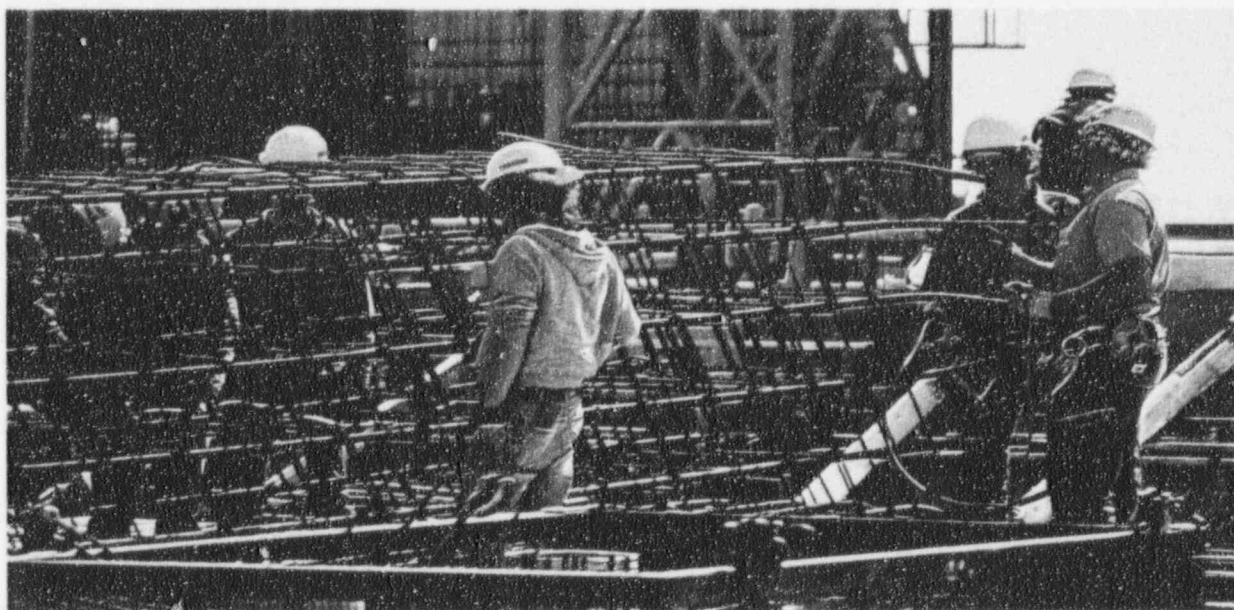
mal Community West High School came on-line and Vuquetec Industrial, a supplier for Diamond Star Motors, expanded for the third time. These projects accounted for 45 new jobs and 450 KVA on Corn Belt Electric Cooperative's system. Several commercial companies came on line this past year in Mt. Vernon providing employment for 55 individuals and requiring 850 KVA of electrical energy from Tri-County Electric Cooperative.

Several new economic development initiatives were developed in 1995 and will be aggressively continued during 1996. Soyland submitted an application to the Rural Utilities Service (RUS) for funding a Statewide Revolving Loan Program. This project will provide Soyland with \$400,000 to be utilized for assisting new and expanding businesses in cooperative territory.

Another new initiative in 1996 will be

Soyland's Spec Building Program that will capitalize on the critical shortage of quality industrial facilities throughout the State of Illinois. Utilizing a competitive and systematic approach, Soyland will select no more than three distribution cooperatives to participate in this program. Soyland and the distribution cooperatives will be minority participants that will share their expertise and experience with other investors and developers to construct economical and quality facilities at strategic locations for potential new or expanding businesses.

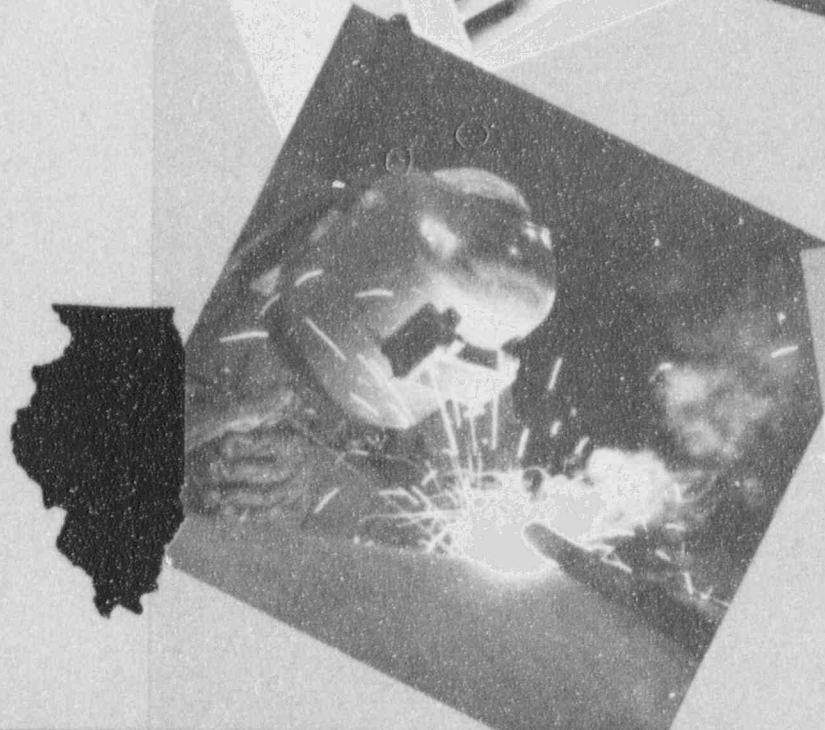
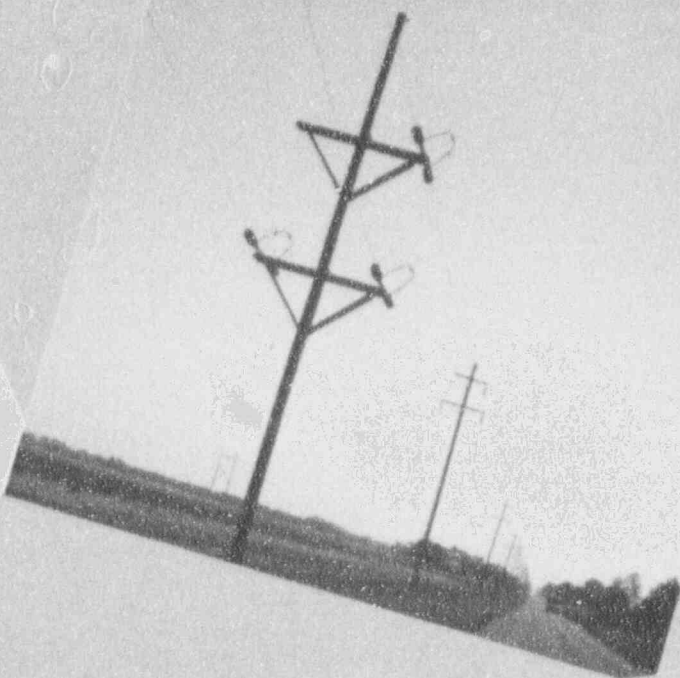
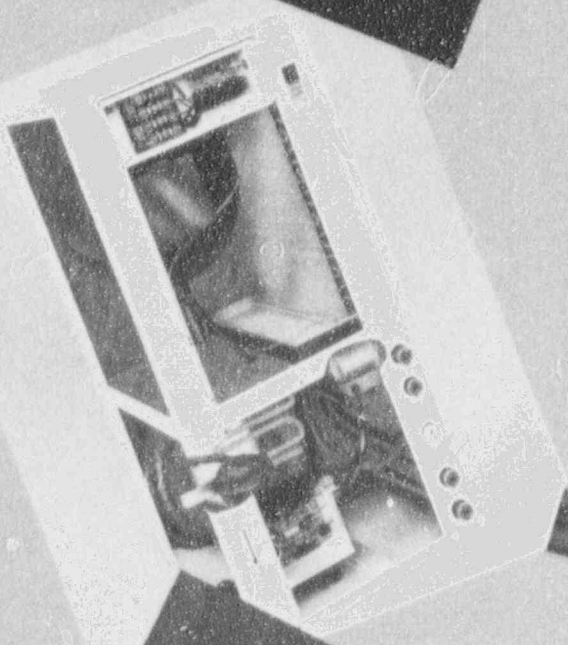
Overall 1995 has been successful for Soyland and many of the distribution cooperatives. The attraction and expansion of businesses, the RURAL PARTNERS Award and new initiatives in 1996 will serve as the building blocks for continued future Economic Development in the rural areas of Illinois.



New commercial construction and expansion was visible throughout the Soyland service area in 1995.

Soyland

Cooperative Information



Cooperative Information

Sales of electric energy increased last year throughout Soyland's market area in 1995 as 17 of 21 member electric distribution cooperatives experienced load growth. The increase was due in part to the extreme weather of 1995 but also to the marketing efforts of member-systems and the attraction of new development to their service areas.

Providing their consumers with different electric rate structures is an important element in the electric distribution cooperatives' marketing programs. All 21 distribution cooperatives offer a variety of rate schedules to their members. These rate schedules include:

Soyland's member-cooperatives are fulfilling their promise of being the primary rural utility service provider in their service areas.

interruptable rates, all electric rates, electric heat rates, energy credits for controls on electric appliances and equipment and off-peak rates for residential consumers. These rates are designed to encourage customers to utilize electricity and to utilize it efficiently by providing control incentives.

For the commercial and industrial user, member-cooperatives offer a variety of time sensitive commercial rates along with cus-

tom rates tailored to shape and manage loads while meeting the energy needs of the individual user. In order to assist members in attracting and retaining industry, Soyland introduced a large load incentive rate in 1995 for loads of 250 kilowatts or larger. This rate has been utilized by

two member-systems to help expand or retain approximately 23 megawatts of electric load among existing customers.

Numerous member-cooperatives are actively looking at ways to market electricity and to encourage its efficient use by consumers in their homes and businesses. Marketing strategies include the promotion of geothermal heating and cooling systems, air-to-air heat pumps and other electric heat systems, electric water heating, electric technology demonstration



POLICY COMMITTEE (seated, left to right): Joe Danielson, Jim Riddle, Chairman; and Dale Warren, Vice Chairman. (Standing, left to right): Bill Griswold, Dick Dunsworth and Paul Dion.

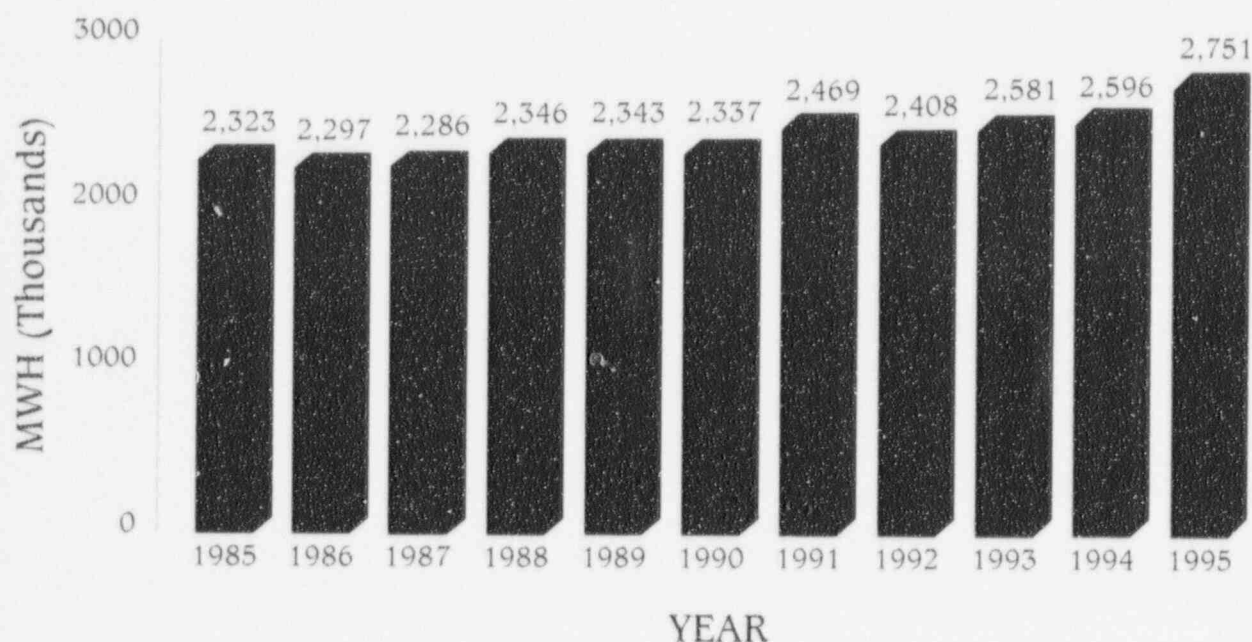
projects, geothermal subdivision development, customer education seminars, community development and new business development. These strategies are all employed by distribution cooperatives to increase energy sales and help Soyland Power achieve its financial objectives.

The goal of the rural electrification program has always been to improve the quality of life in the electric cooperatives' service territories. In recent years that goal has lead many cooperatives into exploring propane gas sales, rural television satellite systems, mobile communications, rural water systems and other ventures that will assist rural farms, homes and businesses. By diversifying into other services, Soyland's member-cooperatives are fulfilling their promise of being the primary ru-



FARM COMMITTEE (seated, left to right): Gene Warmbir, Chairman; Haven Vaughn, Vice Chairman; and Cliff Cammon. (Standing, left to right): Bill Pollock and David Collins.

Soyland Annual Energy Sales



ral utility service provider in their service areas. Soyland's member-cooperatives and Soyland Power Cooperative are united in meeting the ever-changing requirements of

our rural service territories and are poised to meet the coming challenges of the electric utility industry.



Severe spring flooding again took its toll on rural Illinois as evidenced at this substation near Kampsville. The water was to rise another two feet shortly after this photograph was taken in early June.

Soyland

Applied Energy Systems



Applied Energy Systems

Applied Energy Systems of Illinois, Inc. d/b/a WaterFurnace Midwest, the wholly-owned subsidiary of Soyland, finished 1995 with strong sales. The year started very strong but sales were hampered in mid-year by heavy rain followed by a hot dry summer. There were a total of 743 units sold in 1995 with sales of \$2,980,000 and a net margin of \$102,000. Units sold were slightly below the record 770 units sold in 1994.



FINANCE COMMITTEE (front row, left to right): Ed Gant, Chairman; Bob Delp, Vice Chairman; Del England and Norm Wetzel. (Back row, left to right): Mike Carls and Curtis Endsley. Not pictured: Bob Primmer.

Our continued goal is to increase the sales of our dealers and to offer more assistance/incentives to all of our dealers. We will also be pursuing the establishment of new dealers in areas where there are none.

The network of authorized dealers continues to grow throughout Illinois, eastern Missouri and eastern Iowa. There are approximately 90 authorized dealers with over two-thirds

of them being active WaterFurnace installers. Our continued goal is to increase the sales of our dealers and to offer more assistance/incentives to all of our dealers. We will also be pursuing the establishment of new dealers in areas where there are none.

Our training facility in Greenville continues to play an important role for our dealer network. There were several service/installation schools provided during 1995

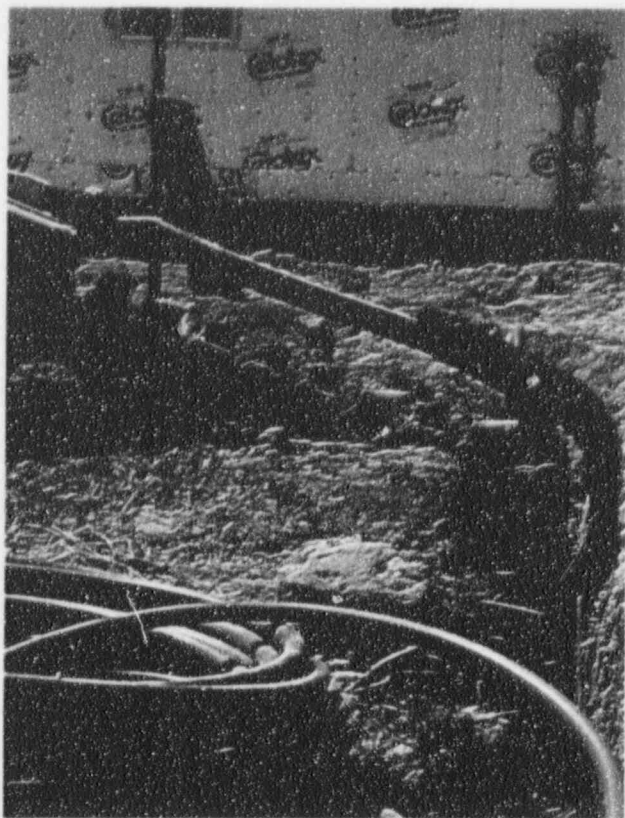
with over 40 technicians taking part. WaterFurnace Midwest has one of the lowest percentages of warranty claims and installation problems compared to any other WaterFurnace distribution area, which is a testimony to the training provided.

Local and regional home shows have proven to be an excellent source for leads. Another source has been the Field Days/

Open Houses which was utilized by ten Soyland distribution cooperatives in 1995. There were also three energy seminars featuring Doug Rye, a noted energy expert, during the year that were well attended.

Soyland distribution cooperatives had an increase in WaterFurnace sales over the previous year with 226 in 1994 and 233 in 1995.

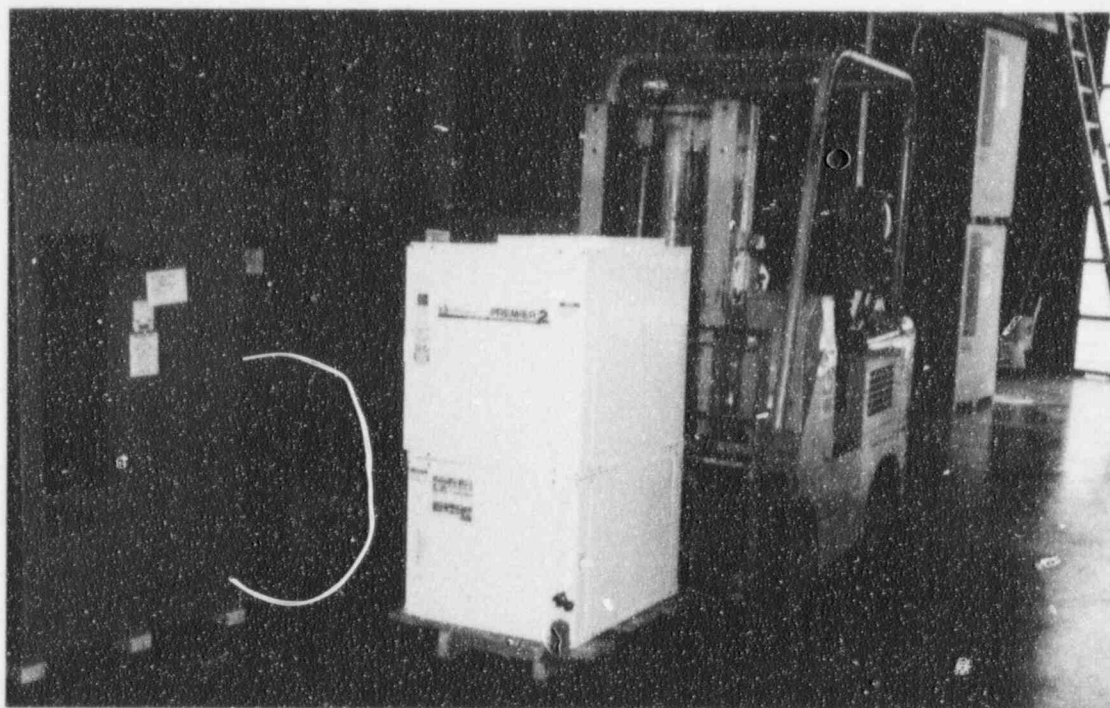
In 1996 we will enhance our marketing efforts to our authorized dealers and contractors and, coupled with the Soyland marketing plan, we will provide enhanced



marketing strategies. Sales incentives will also be implemented and the outlook for 1996 is that total units sold will increase about 20 percent.

Our authorized dealers will be assisted by our staff in establishing a detailed marketing plan for 1996 that will give direction and be a source for additional leads.

WaterFurnace installations were strong once again in 1995, despite nature's interference.



Unit sales are expected to increase by 20 percent in 1996.

| STATEMENT OF OPERATIONS: (In \$1,000) | Adams | Clay | Clinton County | Coles- Moultrie |
|--|----------|---------|-------------------|--------------------|
| <i>Operating Revenue</i> | \$10,028 | \$4,095 | \$8,906 | \$13,845 |
| Purchased Power | \$6,539 | \$2,711 | \$6,700 | \$9,527 |
| Operating Expenses | 1,871 | 841 | 1,327 | 2,600 |
| Depreciation Expenses | 587 | 307 | 357 | 684 |
| Tax Expense | 160 | 68 | 92 | 190 |
| Interest | 707 | 210 | 286 | 401 |
| <i>Total Cost—Electric Service</i> | \$9,864 | \$4,137 | \$8,762 | \$13,402 |
| Operating Margins | \$164 | \$(42) | \$144 | \$443 |
| Non-Operating Margins & Capital Credits | 188 | 36 | 142 | 74 |
| <i>Total Patronage Capital or Margins</i> | \$352 | \$(6) | \$286 | \$517 |

ASSETS & OTHER DEBITS

| | | | | |
|--|----------|----------|----------|----------|
| Total Utility Plant | \$22,942 | \$10,841 | \$12,656 | \$23,852 |
| Accumulated Provision for Depreciation & Amortization | 5,971 | 3,266 | 4,329 | 6,940 |
| <i>Net Utility Plant</i> | \$16,971 | \$7,575 | \$8,327 | \$16,912 |
| Total Other Property & Investments | \$1,544 | \$409 | \$1,971 | \$1,364 |
| Current & Accrued Assets | 1,980 | 828 | 1,070 | 3,007 |
| Deferred Debits | 601 | 15 | 122 | -0- |
| <i>Total Assets</i> | \$21,096 | \$8,827 | \$11,490 | \$21,283 |

LIABILITIES & OTHER CREDITS

| | | | | |
|-------------------------------------|----------|---------|----------|----------|
| Margins & Equities | \$6,926 | \$3,926 | \$4,603 | \$10,466 |
| Long-Term Debt | 12,863 | 4,041 | 5,142 | 7,141 |
| Current & Accrued Liabilities | 1,155 | 853 | 501 | 2,841 |
| Deferred Credits | 152 | 7 | 1,244 | 835 |
| <i>Total Liabilities</i> | \$21,096 | \$8,827 | \$11,490 | \$21,283 |

OTHER STATISTICS

| | | | | |
|-------------------------------------|--------|--------|--------|---------|
| Miles of Line | 2,099 | 929 | 974 | 1,799 |
| Consumers Served | 7,110 | 2,971 | 5,088 | 8,081 |
| Consumers Per Mile | 3.39 | 3.20 | 5.22 | 4.49 |
| KWH Sold Per Consumer | 12,694 | 10,779 | 19,061 | 16,952 |
| Total MWH Sales | 90,251 | 32,023 | 96,983 | 136,989 |
| Annual Revenue Per Consumer | 1,410 | 1,378 | 1,750 | 1,713 |
| Plant Investment Per Consumer | 3,227 | 3,649 | 2,487 | 2,952 |

Member Cooperatives 1995 Operating Statistics

Soyland

| Corn Belt | Eastern Illini | Edgar | Farmers | Illinois Rural | Illinois Valley | McDonough | M.J.M. |
|-----------|----------------|----------|---------|----------------|-----------------|-----------|----------|
| \$25,222 | \$20,119 | \$7,262 | \$1,896 | \$13,166 | \$9,100 | \$6,645 | \$10,356 |
| \$15,499 | \$12,813 | \$4,583 | \$1,373 | \$8,249 | \$4,965 | \$5,009 | \$7,460 |
| 3,858 | 4,164 | 1,931 | 284 | 2,303 | 1,762 | 1,316 | 1,730 |
| 1,413 | 1,491 | 358 | 101 | 632 | 473 | 272 | 509 |
| 530 | 173 | 106 | 29 | 180 | 135 | 63 | 160 |
| 1,699 | 1,384 | 429 | 79 | 774 | 1,570 | 93 | 386 |
| \$22,999 | \$20,025 | \$7,407 | \$1,866 | \$12,138 | \$8,905 | \$6,753 | \$10,245 |
| \$2,223 | \$94 | \$(145) | \$30 | \$1,028 | \$195 | \$(108) | \$111 |
| 436 | (449) | 189 | 18 | 132 | 395 | 125 | 130 |
| \$2,659 | \$(355) | \$44 | \$48 | \$1,160 | \$590 | \$17 | \$241 |
| \$54,308 | \$52,793 | \$16,012 | \$4,093 | \$27,173 | \$22,017 | \$9,868 | \$19,090 |
| 13,564 | 13,610 | 4,399 | 1,460 | 8,180 | 1,666 | 4,562 | 5,929 |
| \$40,744 | \$39,183 | \$11,613 | \$2,633 | \$18,993 | \$20,351 | \$5,306 | \$13,161 |
| \$2,106 | \$2,544 | \$1,446 | \$241 | \$1,566 | \$945 | \$445 | \$1,277 |
| 9,083 | 2,670 | 1,256 | 142 | 3,207 | 2,068 | 1,962 | 1,938 |
| 35 | 1,319 | 880 | 17 | 427 | 24 | -0- | 40 |
| \$51,968 | \$45,716 | \$15,195 | \$3,033 | \$24,193 | \$23,388 | \$7,713 | \$16,416 |
| \$19,067 | \$15,407 | \$6,310 | \$1,372 | \$8,292 | \$1,008 | \$5,564 | \$7,398 |
| 28,935 | 25,967 | 6,460 | 1,503 | 14,728 | 21,220 | 1,758 | 7,564 |
| 2,466 | 2,975 | 1,981 | 146 | 1,188 | 770 | 115 | 803 |
| 1,500 | 1,367 | 444 | 12 | (15) | 390 | 276 | 651 |
| \$51,968 | \$45,716 | \$15,195 | \$3,033 | \$24,193 | \$23,388 | \$7,713 | \$16,416 |
| 2,961 | 4,489 | 1,488 | 342 | 2,833 | 1,769 | 1,368 | 1,722 |
| 15,911 | 12,884 | 5,014 | 1,321 | 9,890 | 5,913 | 4,708 | 7,874 |
| 5.37 | 2.87 | 3.37 | 3.86 | 3.49 | 3.34 | 3.44 | 4.57 |
| 14,212 | 14,007 | 12,298 | 11,528 | 10,585 | 11,951 | 13,388 | 11,630 |
| 226,120 | 180,465 | 61,662 | 15,228 | 104,685 | 70,667 | 63,033 | 91,571 |
| 1,585 | 1,562 | 1,448 | 1,435 | 1,331 | 1,539 | 1,411 | 1,315 |
| 3,413 | 4,098 | 3,193 | 3,098 | 2,748 | 3,723 | 2,096 | 2,424 |

| STATEMENT OF OPERATIONS: (In \$1,000) | Menard | Monroe | Rural Electric | Shelby |
|--|----------|---------|-------------------|----------|
| <i>Operating Revenue</i> | \$14,244 | \$7,779 | \$8,748 | \$16,785 |
| Purchased Power | \$9,636 | \$5,308 | \$5,959 | \$12,066 |
| Operating Expenses | 2,533 | 1,043 | 1,812 | 2,787 |
| Depreciation Expenses | 867 | 458 | 446 | 951 |
| Tax Expense | 164 | 89 | 113 | 695 |
| Interest | 592 | 528 | 303 | 457 |
| <i>Total Cost—Electric Service</i> | \$13,792 | \$7,426 | \$8,633 | \$16,956 |
| Operating Margins | \$452 | \$353 | \$115 | \$(171) |
| Non-Operating Margins & Capital Credits | 105 | 65 | 46 | 311 |
| <i>Total Patronage Capital or Margins</i> | \$557 | \$418 | \$161 | \$140 |

ASSETS & OTHER DEBITS

| | | | | |
|--|----------|----------|----------|----------|
| Total Utility Plant | \$26,708 | \$17,407 | \$16,752 | \$26,872 |
| Accumulated Provision for Depreciation & Amortization | 6,793 | 4,685 | 5,599 | 10,500 |
| <i>Net Utility Plant</i> | \$19,915 | \$12,722 | \$11,153 | \$16,372 |
| Total Other Property & Investments | \$1,539 | \$540 | \$583 | \$2,221 |
| Current & Accrued Assets | 2,382 | 2,379 | 1,396 | 1,411 |
| Deferred Debits | 18 | 44 | 128 | -0- |
| <i>Total Assets</i> | \$23,854 | \$15,685 | \$13,260 | \$20,004 |

LIABILITIES & OTHER CREDITS

| | | | | |
|-------------------------------------|----------|----------|----------|----------|
| Margins & Equities | \$8,966 | \$4,429 | \$4,462 | \$11,834 |
| Long-Term Debt | 12,943 | 10,455 | 7,546 | 7,128 |
| Current & Accrued Liabilities | 1,376 | 706 | 1,066 | 898 |
| Deferred Credits | 569 | 95 | 186 | 144 |
| <i>Total Liabilities</i> | \$23,854 | \$15,685 | \$13,260 | \$20,004 |

OTHER STATISTICS

| | | | | |
|-------------------------------------|---------|--------|--------|---------|
| Miles of Line | 2,473 | 1,061 | 1,296 | 2,129 |
| Consumers Served | 8,990 | 5,188 | 5,158 | 8,833 |
| Consumers Per Mile | 3.64 | 4.89 | 3.98 | 4.15 |
| KWH Sold Per Consumer | 15,903 | 13,459 | 15,051 | 20,327 |
| Total MWH Sales | 142,970 | 69,826 | 77,632 | 179,546 |
| Annual Revenue Per Consumer | 1,584 | 1,499 | 1,696 | 1,900 |
| Plant Investment Per Consumer | 2,971 | 3,355 | 3,248 | 3,042 |

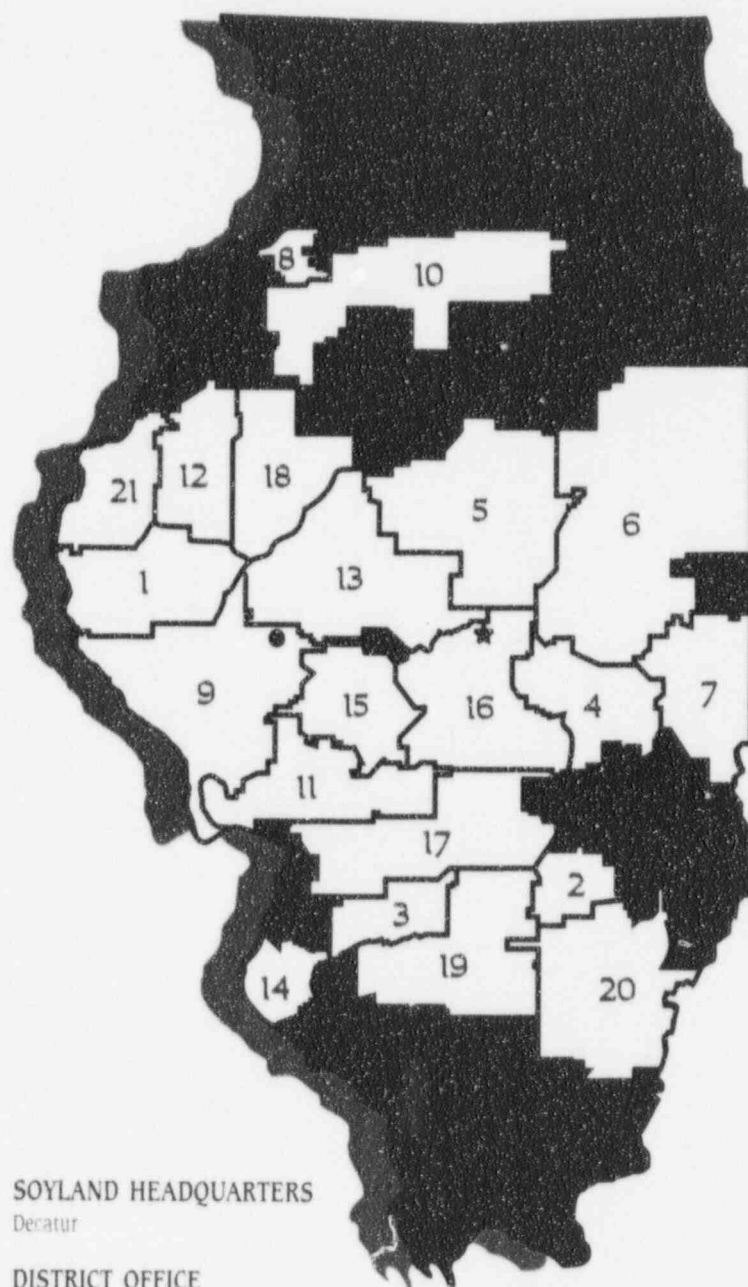
Member Cooperatives 1995 Operating Statistics

Soyland

| South-western | Spoon River | Tri-County | Wayne-White | Western | Total | Average |
|---------------|-------------|------------|-------------|----------|-----------|----------|
| \$25,748 | \$5,576 | \$24,793 | \$22,569 | \$4,519 | \$261,401 | \$12,448 |
| \$17,754 | \$3,531 | \$17,632 | \$16,765 | \$2,820 | \$176,899 | \$8,424 |
| 3,784 | 1,176 | 3,946 | 3,058 | 826 | 44,952 | 2,141 |
| 1,363 | 369 | 1,314 | 1,148 | 316 | 14,416 | 686 |
| 382 | 113 | 278 | 209 | 84 | 4,013 | 191 |
| 1,565 | 339 | 1,541 | 872 | 343 | 14,558 | 693 |
| \$24,848 | \$5,528 | \$24,711 | \$22,052 | \$4,359 | \$254,838 | \$12,135 |
| \$900 | \$48 | \$82 | \$517 | \$130 | \$6,563 | \$313 |
| (46) | 133 | 267 | 140 | 111 | 2,548 | 121 |
| \$854 | \$181 | \$349 | \$657 | \$241 | \$9,111 | \$434 |
| \$55,063 | \$14,187 | \$46,289 | \$40,034 | \$11,284 | \$530,241 | \$25,250 |
| 14,759 | 4,133 | 11,425 | 12,664 | 3,264 | 147,698 | 7,034 |
| \$40,304 | \$10,054 | \$34,864 | \$27,370 | \$8,020 | \$382,543 | \$18,216 |
| \$1,870 | \$1,875 | \$2,918 | \$1,883 | \$710 | \$29,997 | \$1,428 |
| 7,180 | 1,089 | 752 | 4,359 | 2,073 | 52,232 | 2,488 |
| 722 | -0- | 150 | 31 | 29 | 4,602 | 219 |
| \$50,076 | \$13,018 | \$38,684 | \$33,643 | \$10,832 | \$469,374 | \$22,351 |
| \$16,473 | \$4,867 | \$10,880 | \$15,217 | \$3,816 | \$171,283 | \$8,156 |
| 29,026 | 6,111 | 25,782 | 16,010 | 6,567 | 258,890 | 12,328 |
| 2,238 | 638 | 1,654 | 1,151 | 449 | 25,970 | 1,237 |
| 2,339 | 1,402 | 368 | 1,265 | -0- | 13,231 | 630 |
| \$50,076 | \$13,018 | \$38,684 | \$33,643 | \$10,832 | \$469,374 | \$22,351 |
| 3,140 | 1,189 | 2,807 | 3,229 | 1,177 | 41,274 | 1,965 |
| 15,688 | 4,203 | 13,866 | 13,330 | 3,298 | 165,319 | 7,872 |
| 5.00 | 3.53 | 4.94 | 4.13 | 2.80 | -0- | 4.01 |
| 16,296 | 11,261 | 18,587 | 22,601 | 10,755 | -0- | 15,347 |
| 255,648 | 47,329 | 257,723 | 301,271 | 35,471 | 2,537,093 | 120,814 |
| 1,641 | 1,327 | 1,788 | 1,693 | 1,370 | -0- | 1,581 |
| 3,510 | 3,375 | 3,338 | 3,003 | 3,421 | -0- | 3,207 |

Soyland Member Cooperatives And Board of Directors

1. ADAMS ELECTRICAL CO-OPERATIVE
P.O. Box 247, Camp Point 62320
Douglas Aeilts, Manager, Director; Robert D. Smith, Director
2. CLAY ELECTRIC CO-OPERATIVE, INC.
P.O. Box 517, Flora 62839
James E. Campbell, Manager, Director; H. Clifford Cammon, Director
3. CLINTON COUNTY ELECTRIC COOPERATIVE, INC.
P.O. Box 40, Breese 62230
James B. Riddle, Manager, Director; Kenneth G. Heinzmann, Director
4. COLES-MOULTRIE ELECTRIC COOPERATIVE
P.O. Box 709, Mattoon 61938-0709
David Collins, Director; Norman Wetzel, Director; David G. Findley, Manager
5. CORN BELT ELECTRIC COOPERATIVE INC.
P.O. Box 816, Bloomington 61702-0816
Jeffery D. Reeves, Manager, Director; Stephen Schertz, Director
6. EASTERN ILLINI ELECTRIC COOPERATIVE
P.O. Box 96, Paxton 60957
Wm. David Champion, Jr. Manager, Director; Gene P Warmbit, Director
7. EDGAR ELECTRIC CO-OPERATIVE ASSOCIATION
P.O. Box 190, Paris 61944
Thomas J. Hentz, Manager, Director; Joe Welsh, Director
8. FARMERS MUTUAL ELECTRIC COMPANY
P.O. Box 43, Geneseo 61254-0043
Robert L. Delp, Manager, Director
9. ILLINOIS RURAL ELECTRIC CO.
2-12 South Main Street, P.O. Box 80, Winchester 62694
Robert "Ed" Gant, Manager, Director; William Griswold, Director
10. ILLINOIS VALLEY ELECTRIC COOPERATIVE, INC.
P.O. Box 70, Princeton 61356
T.L. "Kris" Christensen, Manager, Director; Joe Danielson, Director
11. M.J.M. ELECTRIC COOPERATIVE, INC.
P.O. Box 80, Carlinville 62626
Dennis A. Keiser, Manager, Director; Eldon E. Moore, Director
12. MCDONOUGH POWER COOPERATIVE
P.O. Box 352, Macomb 61455-0352
Dickson Dunsworth, Manager, Director; William Follock, Director
13. MENARD ELECTRIC COOPERATIVE
P.O. Box 200, Petersburg 62675-0200
Dorland W. Smith, Manager, Director; Michael E. Carls, Director
14. MONROE COUNTY ELECTRIC CO-OPERATIVE, INC.
P.O. Box 128, Waterloo 62298
Joseph J. Fellin, Manager, Director; Donald L. Gleiber, Director
15. RURAL ELECTRIC CONVENIENCE COOPERATIVE CO.
P.O. Box 19, Auburn 62615
Del England, Manager, Director; David E. White, Director
16. SHELBY ELECTRIC COOPERATIVE
P.O. Box 560, Shelbyville 62565
James E. Coleman, Manager, Director; Robert H. Primmer, Director
17. SOUTHWESTERN ELECTRIC COOPERATIVE, INC.
P.O. Box 409, Greenville 62246
Alan G. Libbra, Director; Stuart Yagow, Director; Gary Wobler, Manager
18. SPOON RIVER ELECTRIC CO-OPERATIVE, INC.
P.O. Box 340, Canton 61520
W. Edward Cox, Manager, Director; David M. Bergland, Director



★ SOYLAND HEADQUARTERS

Decatur

● DISTRICT OFFICE

Jacksonville

19. TRI-COUNTY ELECTRIC COOPERATIVE, INC.
P.O. Box 309, Mt. Vernon 62864-0309
James E. Hinman, Manager, Director; Irvin Stanford, Director
20. WAYNE-WHITE COUNTIES ELECTRIC COOPERATIVE
P.O. Drawer E, Fairfield 62837
Dale Warren, Manager, Director; Curtis Endsley, Director
21. WESTERN ILLINOIS ELECTRICAL COOP.
P.O. Box 338, Carthage 62321
Paul M. Dion, Manager, Director; Haven D. Vaughn, Director



INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Soyland Power
Cooperative, Inc. and Subsidiary
Decatur, Illinois

We have audited the accompanying consolidated balance sheets of Soyland Power Cooperative, Inc. and subsidiary (the "Cooperative") as of December 31, 1995 and 1994, and the related consolidated statements of revenues and expenses, of members' equities (deficit) and of cash flows for the years then ended. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and *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 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, such consolidated financial statements present fairly, in all material respects, the financial position of the Cooperative as of December 31, 1995 and 1994, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

The accompanying consolidated financial statements for the year ended December 31, 1995 have been prepared assuming the Cooperative will continue as a going concern. As discussed in Note 1A. to the consolidated financial statements, the Board of Directors and management of the Cooperative have determined the Cooperative cannot operate on a long-term basis pursuant to the Superseding Debt Restructuring Agreement (see Note 5) and that wholesale power rates being charged by the Cooperative to its members must be reduced to a competitive level, which raises substantial doubt about the ability of the Cooperative to continue as a going concern. Management's plan with regard to this matter is also discussed in Note 1A. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 29, 1996 on our consideration of Soyland Power Cooperative, Inc.'s internal control structure and a report dated February 29, 1996 on its compliance with laws and regulations.

Deloitte & Touche LLP

February 29, 1996

| |
|-----------------------------|
| Consolidated Balance Sheets |
|-----------------------------|

| | December 31, | |
|---|------------------------------|------------------------------|
| | 1995 | 1994 |
| ASSETS (Note 5) | | |
| ELECTRIC UTILITY PLANT, AT COST (Note 2): | | |
| In service | \$ 1,015,215,079 | \$ 1,013,874,229 |
| Less accumulated depreciation | <u>215,076,942</u> | <u>189,376,951</u> |
| Total | 800,138,137 | 824,497,278 |
| Construction work in progress | 5,609,639 | 2,969,254 |
| Nuclear fuel, at cost (less accumulated amortization - 1995, \$43,929,805; 1994, \$38,683,194) | 13,075,274 | 14,521,536 |
| Plant site held for future use | <u>7,271,619</u> | <u>7,262,285</u> |
| Net electric utility plant | <u>826,094,669</u> | <u>849,250,353</u> |
| INVESTMENTS: | | |
| Investment in associated organizations, at cost (Note 3) | 10,044,185 | 8,746,446 |
| Marketable securities - decommissioning trust (Note 4) | 4,543,015 | 3,161,302 |
| Note receivable (Note 8) | <u>6,000,000</u> | <u> </u> |
| Total | <u>20,587,200</u> | <u>11,907,748</u> |
| CURRENT ASSETS: | | |
| Cash | 195,918 | 173,251 |
| Temporary investments | 8,069,414 | 2,548,508 |
| Accounts receivable, members | 15,886,622 | 16,334,198 |
| Other receivables | 645,608 | 499,431 |
| Inventories | 8,666,379 | 9,417,819 |
| Prepayments and other assets | <u>289,791</u> | <u>312,680</u> |
| Total | <u>33,753,732</u> | <u>29,285,887</u> |
| DEFERRED CHARGES: | | |
| Deferred DOE assessment (Note 1) | 967,995 | 1,067,650 |
| Deferred interest (Note 5) | <u>44,610,440</u> | <u>45,962,236</u> |
| Total | <u>45,578,435</u> | <u>47,029,886</u> |
| TOTAL | <u>\$ 926,014,036</u> | <u>\$ 937,473,874</u> |

See notes to consolidated financial statements.

| |
|-----------------------------|
| Consolidated Balance Sheets |
|-----------------------------|

December 31,

1995

1994

MEMBERS' EQUITIES (DEFICIT) AND LIABILITIES

MEMBERS' EQUITIES (DEFICIT):

| | | |
|---|-----------------------------|-----------------------------|
| Membership fees | \$ 1,675 | \$ 1,675 |
| Patronage capital | 2,779,263 | 2,779,263 |
| Other equity | 191,929 | 191,929 |
| Unrealized holding gains (losses) on securities | 358,760 | (58,113) |
| Deficit | (91,678,420) | (86,371,584) |
| Total members' deficit | <u>(88,346,793)</u> | <u>(83,456,830)</u> |
| LONG-TERM DEBT (Note 5) | <u>947,964,715</u> | <u>954,577,366</u> |
| CURRENT LIABILITIES: | | |
| Current installments of long-term debt (Note 5) | 26,487,572 | 19,368,607 |
| Line of credit (Note 5) | | 12,656,252 |
| Accounts payable | 13,749,220 | 17,011,641 |
| Member prepayments | 2,386,242 | 9,145,570 |
| Accrued interest (Note 5) | 11,164,561 | 1,178,557 |
| Accrued expenses | 7,207,488 | 3,381,806 |
| Excess recoverable energy costs (Note 1) | <u>677,735</u> | |
| Total current liabilities | <u>61,672,818</u> | <u>62,742,433</u> |
| DECOMMISSIONING LIABILITY (Note 4) | 4,435,086 | 3,219,414 |
| DEFERRED REVENUE (Note 1) | 288,210 | 397,491 |
| COMMITMENTS AND CONTINGENCIES (Notes 8 and 9) | <u> </u> | <u> </u> |
| TOTAL | <u>\$ 926,014,036</u> | <u>\$ 937,473,874</u> |

See notes to consolidated financial statements.

| |
|--|
| Consolidated Statements of Revenues and Expenses |
|--|

Years ended December 31,

| | 1995 | 1994 |
|---|-----------------------|-----------------------|
| OPERATING REVENUES: | | |
| Electric energy sales | \$ 178,086,890 | \$ 177,084,239 |
| Sales of ground source heat pumps, net | 2,979,842 | 2,899,519 |
| Distribution revenue | 859,801 | 882,402 |
| Rent of electric property | 53,580 | 54,801 |
| Total | <u>181,980,113</u> | <u>180,920,961</u> |
| OPERATING EXPENSES: | | |
| Operations: | | |
| Purchased capacity (Note 8) | 47,862,668 | 45,417,282 |
| Energy costs (Note 8) | 45,914,485 | 45,663,407 |
| Production - other | 8,729,149 | 11,273,161 |
| Transmission | 2,287,114 | 2,210,927 |
| Distribution | 302,722 | 316,493 |
| Total | 105,096,138 | 104,881,270 |
| Cost of ground source heat pumps sold | 2,130,682 | 2,053,440 |
| Maintenance | 4,741,081 | 2,821,426 |
| Administrative and general (Note 6) | 4,108,895 | 4,079,249 |
| Depreciation and amortization (Note 5) | 26,987,328 | 26,928,565 |
| Property and other taxes (Note 7) | 3,014,674 | 2,926,591 |
| Decommissioning provision | 1,215,672 | 916,517 |
| Total | <u>147,294,470</u> | <u>144,607,058</u> |
| NET OPERATING MARGIN | <u>34,685,643</u> | <u>36,313,903</u> |
| OTHER REVENUE: | | |
| Interest and other patronage capital income | 3,313,781 | 2,339,446 |
| Other | | 178,757 |
| Total | <u>3,313,781</u> | <u>2,518,203</u> |
| NET MARGIN BEFORE INTEREST CHARGES | <u>37,999,424</u> | <u>38,832,106</u> |
| INTEREST CHARGES: | | |
| Interest on long-term debt (Note 5) | 43,164,995 | 42,034,783 |
| Other | 1,322,750 | 1,336,720 |
| Allowance for borrowed funds used during construction | (428,824) | (275,171) |
| Interest allocated to nuclear fuel expense | (752,661) | (741,165) |
| Total | <u>43,306,260</u> | <u>42,355,167</u> |
| NET (DEFICIT) | <u>\$ (5,306,836)</u> | <u>\$ (3,523,061)</u> |

See notes to consolidated financial statements.

| |
|--|
| Consolidated Statements of Members' Equities (Deficit) |
|--|

Years ended December 31, 1995 and 1994

| | Membership fees | Patronage capital | Other equity | Unrealized holding Gains(Losses) on securities | Deficit | Total members' (deficit) |
|--|--------------------|----------------------|-------------------|---|-----------------------|--------------------------------|
| Balances, January 1, 1994 | \$ 1,675 | \$2,779,263 | \$ 191,929 | | \$(82,848,523) | \$(79,875,656) |
| Cumulative effect of adopting SFAS No. 115 (Note 1) | | | | \$ 35,501 | | 35,501 |
| Change in net unrealized holding (losses) | | | | (93,614) | | (93,614) |
| Net (deficit) | | | | | (3,523,061) | (3,523,061) |
| Balances, December 31, 1994 | 1,675 | 2,779,263 | 191,929 | (58,113) | (86,371,584) | (83,456,830) |
| Change in net unrealized holding gains | | | | 416,873 | | 416,873 |
| Net (deficit) | | | | | (5,306,836) | (5,306,836) |
| Balances, December 31, 1995 | <u>\$ 1,675</u> | <u>\$2,779,263</u> | <u>\$ 191,929</u> | <u>\$ 358,760</u> | <u>\$(91,678,420)</u> | <u>\$(88,346,793)</u> |

See notes to consolidated financial statements.

| |
|------------------------------------|
| Consolidated Statements Cash Flows |
|------------------------------------|

| | Years ended December 31 | |
|---|-------------------------|---------------------|
| | 1995 | 1994 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net deficit | \$ (5,306,836) | \$ (3,523,061) |
| Adjustments to reconcile net deficit to net cash flows from operating activities: | | |
| Depreciation and amortization of electric utility plant | 25,635,532 | 25,576,770 |
| Amortization of deferred interest | 1,351,796 | 1,351,795 |
| Amortization of nuclear fuel and deferred DOE assessment | 5,346,266 | 6,414,216 |
| Decommissioning provision | 1,215,672 | 916,517 |
| Patronage capital allocations not received in cash | (111,108) | (157,367) |
| Allowance for funds used during construction | (428,824) | (275,171) |
| Interest allocated to nuclear fuel expense | (752,661) | (741,165) |
| Gain on sales of securities | | (454) |
| Loss on sales of securities | | 116,267 |
| Change in assets and liabilities: | | |
| Accounts and other receivables | 301,399 | 369,607 |
| Inventories | 751,440 | 75,776 |
| Prepayments and other assets | 22,889 | (86,027) |
| Investments in associated organizations | (40,331) | 552,727 |
| Recoverable energy costs | 677,735 | 3,085,746 |
| Accounts payable and accrued liabilities | 11,932,218 | (465,161) |
| Deferred revenue | (103,281) | (108,509) |
| NET CASH FLOWS FROM OPERATING ACTIVITIES | <u>40,491,906</u> | <u>33,102,506</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Additions to electric utility plant, net | (3,722,002) | (3,397,670) |
| Additions to investments in associated organizations | (271,300) | (24,500) |
| Purchases of securities - decommissioning trust, net | (964,840) | (1,032,330) |
| Purchases of nuclear fuel | (5,080,926) | (1,424,169) |
| Additions to note receivable | <u>(6,000,000)</u> | |
| NET CASH FLOWS FROM INVESTING ACTIVITIES | <u>(16,039,068)</u> | <u>(5,878,669)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from capital addition loans | 15,300,000 | |
| Payments on line of credit borrowing, net | (12,656,252) | (5,843,748) |
| Principal payments on long-term debt | (14,793,685) | (21,129,810) |
| Increase (decrease) in member prepayments | <u>(6,759,328)</u> | <u>1,473,327</u> |
| NET CASH FLOWS FROM FINANCING ACTIVITIES | <u>(18,909,265)</u> | <u>(25,500,231)</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 5,543,573 | 1,723,606 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>2,721,759</u> | <u>998,153</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$8,265,332</u> | <u>\$ 2,721,759</u> |

Supplemental disclosure:

The Cooperative made interest payments totalling \$33,178,991 and \$42,735,423 in 1995 and 1994, respectively.
The Cooperative's subsidiary made income tax payments of \$188,741 and \$38,000 in 1995 and 1994, respectively.

See notes to consolidated financial statements.

| |
|---|
| <i>Notes to Consolidated Financial Statements</i> |
|---|

Years ended December 31, 1995 and 1994

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

- A. *Organization* - The consolidated financial statements reflect the accounts of Soyland Power Cooperative, Inc. and its wholly-owned subsidiary, Applied Energy Systems of Illinois, Inc., ("the Cooperative"). The subsidiary was created in 1987 for the purpose of selling ground source heat pumps to rural consumers. All significant intercompany transactions have been eliminated in consolidation.

The Cooperative is a nonprofit organization engaged primarily in the generation and transmission of wholesale electric service to its twenty-one members located in central and southern Illinois. The Cooperative has entered into wholesale power agreements with each of its members which require the members to buy and receive from the Cooperative all of their power and energy requirements and require the Cooperative to sell and deliver power and energy in satisfaction of such requirements. The wholesale power agreements with the members extend to various dates from years 2015 to 2017.

The Cooperative's rates are established by the Board of Directors and are subject to approval by the Rural Utilities Service ("RUS"). Wholesale power rates charged to members are determined based on cash requirements, including debt service requirements. The Cooperative is not subject to the regulatory authority of the Illinois Commerce Commission.

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 December 31, 1995 and 1994 and the reported amounts of revenues and expenses during the years then ended. Actual results could differ from those estimates.

Basis of Presentation - The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Board of Directors and management believe the effect of deregulation and retail wheeling in the utility industry will significantly increase competition between the Cooperative and its competitors. The Board of Directors and management of the Cooperative have determined the Cooperative cannot operate on a long-term basis pursuant to the Superseding Debt Restructuring Agreement (see Note 5) and that wholesale power rates being charged by the Cooperative to its members must be reduced to a competitive level. The Cooperative is considering various alternatives in order to achieve competitive rates. These alternatives include the sale of all or a portion of the Cooperative's assets, renegotiation of power supply contracts, reorganization pursuant to Chapter 11 of the U. S. Bankruptcy Code, restructuring of debt and buy-out of existing debt. The Board of Directors and management believe that without a competitive rate charged to its members the Cooperative will be unable to compete for a new load or maintain its existing load and, therefore, will have difficulty in generating sufficient cash flow to meet debt service requirements and sustain operations. This difficulty, if not relieved by one or a combination of the aforementioned alternatives being considered, raises substantial doubt about the Cooperative's ability to continue as a going concern.

All of the above alternatives are currently being considered by the Board of Directors and management as possible solutions. Implementation of any of the alternatives will have an impact on the Cooperative's financial statements.

Management of the Cooperative has asserted that the Cooperative has sufficient cash flows for the 1996 fiscal year to meet operating expenses and debt service requirements. Management has also asserted that the current wholesale power rates required under the terms of the Superseding Debt Restructuring Agreement will remain in effect pending the outcome of alternatives being considered.

The accompanying consolidated financial statements do not include any adjustments relating to the recoverability and classification

of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Cooperative be unable to continue as a going concern.

- B. *Basis of Accounting* - The accounting records of the Cooperative are maintained in accordance with the Uniform System of Accounts prescribed by RUS.
- C. *Electric Utility Plant* - Depreciation of electric utility plant in service is provided over the estimated useful lives of the respective assets on the straight-line basis at rates as follows:

| | |
|------------------------|-------------|
| Production plant: | |
| Nuclear | 2.5% |
| Steam | 3.1% - 4.0% |
| Gas turbine and diesel | 2.0% |
| Transmission plant | 2.75% |
| Distribution plant | 3.0% |
| General plant | 2.5% - 20% |

Based upon guidelines provided by the Nuclear Regulatory Commission ("NRC"), which establish a minimum funding level, and in conjunction with Illinois Power (principal owner and operator of the Clinton nuclear generating facility - see Note 2), the Cooperative estimates that its portion of the costs to decommission the Clinton facility, which will not begin until the year 2027, will be approximately \$57,200,000 (in 1995 dollars). A site-specific study to estimate the cost of dismantling, removing and disposing of the Clinton generating facility is nearing completion. This study is expected to result in projected decommissioning costs higher than the NRC-specified funding level. The future decommissioning costs are being recovered over the life of the facility using the sinking fund method.

In 1996, the Financial Accounting Standards Board ("FASB") issued an exposure draft on accounting for liabilities related to closure and removal of long-lived assets. This exposure draft would change the way the Cooperative accounts for nuclear decommissioning costs and fossil plant dismantling. The exposure draft calls for recording as a liability the present value of estimated future cash flows to decommission nuclear power plants and dismantle fossil plants.

Maintenance and repair of property and replacements and renewals of items determined to be less than units of property are charged to expense. Replacement and renewals of items considered to be units of property are charged to the property accounts. At the time properties are disposed of, the original cost, plus cost of removal less salvage of such property, is charged to accumulated depreciation.

- D. *Allowance for Borrowed Funds Used During Construction* - The allowance for borrowed funds used during the period of construction represents the estimated interest cost of borrowed funds used for construction purposes. The composite rate used to calculate the allowance approximated 6.7% and 5.2% for 1995 and 1994, respectively.
- E. *Nuclear Fuel* - The cost of nuclear fuel, including capitalized interest and overhead, is being amortized to fuel expense on the basis of the number of units of thermal energy produced in relation to the total thermal units expected to be produced over the life of the fuel.

Nuclear fuel expense includes a provision for estimated spent nuclear fuel disposal cost which is being collected currently from members and remitted to the U. S. Department of Energy ("DOE"), which is responsible for the disposal of the spent nuclear fuel.

The Energy Policy Act of 1992 established a fund to pay for the decontamination and decommissioning of three nuclear enrichment facilities operated by DOE. A portion of the fund is to be collected from electric utilities that have purchased enrichment services from DOE. Each utility is being assessed an annual fee for a period of 15 years beginning in 1994. The Cooperative recorded a regulatory asset and a liability representing an estimate of its total required contribution to this fund, as determined by DOE, related to the nuclear fuel used in the Clinton nuclear generating facility (See Notes 2 and 5). The regulatory asset is being

amortized to nuclear fuel expense and collected in rates charged to members.

- F. *Marketable Securities - Decommissioning Trust* - In May 1993, the FASB issued Statement of Financial Accounting Standards No. 115 "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS No. 115"). This statement requires that debt and equity securities be classified into one of three categories: held-to-maturity, available-for-sale, or trading. The Cooperative adopted SFAS No. 115 effective January 1, 1994. In accordance with the provisions of this statement, prior years' financial statements have not been restated. At January 1, 1994, the adoption of SFAS No. 115 resulted in a \$35,501 net unrealized holding gain being recorded in members' equities.

All marketable debt and equity securities have been classified as available-for-sale based on the Cooperative's intent and ability to sell the securities in response to changes in interest rates, investment risk and the availability of and yield on alternative investments. In accordance with SFAS No. 115, these securities are carried at fair value, with the net unrealized holding gains and losses excluded from earnings and reported as a net amount in a separate component of members' equities, until realized. The average cost method is used to compute realized gains or losses on the sale of securities.

- G. *Temporary Investments* - Temporary investments consist of an interest bearing sweep account and are stated at cost which approximates market. The Cooperative considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The Cooperative's banking arrangements require the maintenance of a \$100,000 compensating balance.
- H. *Inventories* - Inventories consist of fuel (including SO₂ allowances) and materials and supplies and are stated at moving average cost.
- I. *Member Prepayments* - Member prepayments represent cash advances from members. The Cooperative uses these advances to pay down line-of-credit borrowings. The Cooperative pays interest on member advances at a rate lower than that on the line-of-credit. Such interest payments on member advances totalled approximately \$769,000 and \$688,000 for the years ended December 31, 1995 and 1994, respectively.
- J. *Power Supply Payments* - Payments made under power supply agreements (see Note 8) are classified as purchased capacity, energy costs and transmission expense in the consolidated statements of revenues and expenses.
- K. *Deferred Revenue* - Deferred revenue consists of discounted advanced interest payments received on the Cooperative's National Rural Utilities Cooperative Finance Corporation ("CFC") capital term certificates. Such payment was made by CFC to the Cooperative pursuant to the terms of the Superseding Debt Restructuring Agreement (see Notes 3 and 5). The amount of this deferred revenue will be amortized over the period during which it would have been earned (1995 through 1999).
- L. *Presentation* - Certain amounts reported for 1994 have been reclassified to conform to the 1995 presentation.

2. ELECTRIC UTILITY PLANT IN SERVICE

The major classes of electric utility plant in service at December 31, 1995 and 1994, are as follows:

| | 1995 | 1994 |
|--------------------------------------|-------------------------|-------------------------|
| Nuclear plant and related facilities | \$ 970,955,231 | \$ 969,929,730 |
| Steam and other production plant | 13,285,388 | 13,273,770 |
| Transmission plant | 17,334,718 | 17,231,036 |
| Distribution plant | 7,697,290 | 7,668,123 |
| General plant | <u>5,942,452</u> | <u>5,771,570</u> |
| Total | <u>\$ 1,015,215,079</u> | <u>\$ 1,013,874,229</u> |

The Cooperative has a 13.21% interest in the 950 megawatt Clinton nuclear generating facility ("Clinton") located in Clinton, Illinois which was completed and placed in service in 1987. The Cooperative's share of operating expenses associated with this facility is included with the appropriate operating expenses in the consolidated statements of revenues and expenses.

3. INVESTMENTS IN ASSOCIATED ORGANIZATIONS

Investments in associated organizations consisted of the following at December 31:

| | 1995 | 1994 |
|---|----------------------|---------------------|
| CFC: | | |
| Membership fees | \$ 2,000 | \$ 2,000 |
| Patronage capital | 3,630,459 | 3,479,020 |
| Capital term certificates | 5,047,654 | 5,047,654 |
| Loan capital term certificates | <u>1,050,000</u> | <u> </u> |
| Total | 9,730,113 | 8,528,674 |
| Other associated organizations | <u>2,272</u> | <u>2,272</u> |
| Total | 9,732,385 | 8,530,946 |
| Investments in economic development organizations | <u>311,800</u> | <u>215,500</u> |
| TOTAL | <u>\$ 10,044,185</u> | <u>\$ 8,746,446</u> |

Loan capital term certificates mature in the year 2022 and do not bear interest.

Capital term certificates at December 31, 1995 bear interest at 5% and mature at various dates from years 2070 to 2080. Interest on CFC capital term certificates for the period from 1995 through 1999 has been prepaid, at a discount, by CFC and recorded as deferred revenue (see Note 1).

4. MARKETABLE SECURITIES - DECOMMISSIONING TRUST

Marketable debt and equity securities have been classified as available-for-sale in 1995 according to management's intent. The amortized cost and estimated fair values as of December 31, 1995 are as follows:

| | AMORTIZED COST | GROSS GAINS | UNREALIZED GROSS LOSSES | ESTIMATED FAIR VALUE |
|--|---------------------|-------------------|-------------------------------|----------------------------|
| U.S. Treasury debt securities | \$ 531,506 | \$ 7,947 | \$ 27,843 | \$ 511,610 |
| Corporate debt securities | 50,787 | | 479 | 50,308 |
| Convertible equity securities | 102,026 | 12,701 | | 114,727 |
| Equity securities | <u>2,761,690</u> | <u>387,128</u> | <u>20,694</u> | <u>3,128,124</u> |
| Total | <u>\$ 3,446,009</u> | <u>\$ 407,776</u> | <u>\$ 49,016</u> | 3,804,769 |
| Cash and non-debt/equity securities, at cost | | | | <u>738,246</u> |
| TOTAL | | | | <u>\$ 4,543,015</u> |

The amortized cost and estimated fair values as of December 31, 1994 are as follows:

| | AMORTIZED COST | GROSS GAINS | UNREALIZED GROSS LOSSES | ESTIMATED FAIR VALUE |
|--|---------------------|------------------|-------------------------------|----------------------------|
| U.S. Treasury debt securities | \$ 1,703,582 | \$ 921 | \$ 31,902 | \$ 1,672,601 |
| Corporate debt securities | 164,746 | | 8,447 | 156,299 |
| Debt securities issued by foreign governments | 18,300 | 600 | | 18,900 |
| Convertible debt securities | 176,545 | 5,306 | 7,876 | 173,975 |
| Convertible equity securities | 96,412 | 629 | 5,841 | 91,200 |
| Equity securities | <u>796,583</u> | <u>25,088</u> | <u>36,591</u> | <u>785,080</u> |
| Total | <u>\$ 2,956,168</u> | <u>\$ 32,544</u> | <u>\$ 90,657</u> | 2,898,055 |
| Cash and non-debt/equity securities, at cost | | | | <u>263,247</u> |
| TOTAL | | | | <u>\$ 3,161,302</u> |

The amortized cost and estimated fair value of debt securities at December 31, 1995 and 1994 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

| | 1995 | | 1994 | |
|--|-------------------|----------------------------|-------------------|----------------------------|
| | Amortized Cost | Estimated Fair Value | Amortized Cost | Estimated Fair Value |
| Due in one year or less | \$ 278,912 | \$ 250,590 | \$ 1,121,101 | \$ 1,121,567 |
| Due after one year through five years | 303,381 | 311,328 | 784,877 | 745,620 |
| Due after five years through ten years | | | 157,195 | 154,588 |

5. DEBT AND DEBT RESTRUCTURING

Long-term debt at December 31, 1995 and 1994, consists of the following:

| | 1995 | 1994 |
|---|-----------------------|-----------------------|
| Superseding Restructured Debt- | | |
| imputed interest at 4.2%, due in | | |
| quarterly installments through 2018 | \$ 893,095,255 | \$ 906,836,968 |
| CFC - variable rate (6.2% at December 31, 1995) | | |
| mortgage notes payable, due in various quarterly | | |
| installments through 2006 | 49,387,640 | 49,387,640 |
| RUS - 2% and 5% notes payable, due in quarterly | | |
| installments through 2018 | 15,753,424 | 16,732,500 |
| CFC - variable rate (6.2% at December 31, 1995) | | |
| capital addition loan notes payable, due in quarterly | | |
| installments through 2022 | 14,947,853 | |
| U. S. Department of Energy - Decommissioning and | | |
| Decontamination Fund, due in equal annual | | |
| installments through 2008 | 971,890 | 988,865 |
| Federal Financing Bank - 7.674% note payable, due | | |
| in quarterly installments through 2017 | <u>296,225</u> | <u></u> |
| Total long-term debt | 974,452,287 | 973,945,973 |
| Less current installments | <u>26,487,572</u> | <u>19,368,607</u> |
| Long-term debt, excluding current installments | <u>\$ 947,964,715</u> | <u>\$ 954,577,366</u> |

On December 15, 1993 the Cooperative entered into a Superseding Debt Restructuring Agreement ("the Agreement") with the United States of America (acting through the Administrator of RUS and CFC) effective as of January 1, 1993. The Agreement related to approximately \$944,756,000 of recorded, outstanding debt (including related accrued interest and certain interest credits) on various loans and previously restructured debt guaranteed by RUS. The loans and previously restructured debt were originally obtained to finance construction costs relating to the Clinton nuclear generating facility. Under the agreement, the debt was restructured into two notes payable to RUS: Note A for \$730,596,406 and Note B for \$363,982,707. Note A bears interest at 7.5% and is due in quarterly installments through 2018.

Note B bears interest at 7.5% and requires the Cooperative to make annual Energy Sales Payments and Power Cost Savings Payments (for principal and interest) through 2029. The amount of the Energy Sales Payment is based on a load growth formula (as determined by the Agreement) which will result in a payment if, and only if, future load growth is achieved. The amount of the Power Cost Savings Payment is based on a cost savings formula (as determined by the Agreement) and will result in payments if, and only if, power cost savings occur. To the extent that interest on Note B for any calendar year is not required to be paid, such unpaid interest is added to the unpaid principal balance of Note B. The amount of Note B not repaid by April 30, 2029 will be forgiven. Management of the Cooperative projects stable growth and stable power costs in future years and therefore anticipates that payments under Note B will be minimal. At December 31, 1995 and 1994, the Cooperative has accrued and charged to interest expense approximately \$1,360,000 and \$700,000, respectively, for Energy Sales Payments due April 30, 1996 and 1995, respectively. There have been no Power Cost Savings Payments made, nor are there any due.

The Cooperative has accounted for the restructuring in its financial statements in accordance with the provisions of Statement of Financial Accounting Standards No. 15, *Accounting by Debtors and Creditors for Troubled Debt Restructuring* ("SFAS 15"), as a

modification of terms. Under a modification of terms, the carrying value of the debt at the time of restructuring is not changed unless it exceeds the future cash payments, excluding amounts contingently payable, specified by the new terms. Future minimum cash payments required under the terms of the Agreement totalled \$1,586,205,000, excluding amounts contingently payable. Because of the contingent nature of the Cooperative's obligation to make principal and interest payments on Note B, only the required principal and interest payments on Note A were used at the date of the restructuring to impute the interest rate (4.2%) on the restructured debt.

In accordance with SFAS 15, unpaid interest on Note B is added to the unpaid principal balance of Note B and not recorded in the accompanying financial statements. The amounts due on Note A and Note B, including amounts contingently payable, according to the terms of the debt restructuring plan discussed above, total \$1,136,642,750 (Note A, \$708,584,808, and Note B, \$428,057,942, including unpaid interest) at December 31, 1995.

As part of a previous debt restructuring, dated March 29, 1989, the Cooperative recorded \$107,366,810 of prior period unpaid interest on that restructured debt. The Cooperative included \$53,294,999 of this amount in electric plant (relating to the period the plant was under construction) and \$54,071,811 as deferred interest. The deferred interest will be amortized and collected through rates over the life of the related debt restructured by the Agreement.

Annual maturities of long-term debt for each of the five years subsequent to December 31, 1995, are as follows: 1996, \$26,487,572; 1997, \$30,237,294; 1998, \$26,655,808; 1999, \$26,194,968; 2000, \$34,691,319.

The Cooperative had \$15,000,000 of unadvanced funds available at December 31, 1995 from long-term loans approved by CFC for capital additions and a \$30,000,000 operating line of credit approved by CFC, of which \$12,656,252 had been drawn down at December 31, 1994. The interest rate on the CFC line of credit fluctuates monthly based on CFC's Intermediate-term Interest Rate (6.5% at December 31, 1994).

All assets of the Cooperative are pledged to secure the long-term debt to RUS and CFC.

The Cooperative has not completed the management audit required by the "Management Consultant" provision of Section 5.01(q) of the Agreement and has not received a written waiver of the requirement from RUS. The Cooperative has received written notice from RUS that RUS will not take action under the enforcement provisions contained in Section 2.10 of the Agreement through February 28, 1996. Management expects to complete the management audit and believes no enforcement action will occur.

6. PENSION PLANS

The Cooperative participates in a multi-employer defined benefit pension plan and a 401(K) defined contribution plan which covers substantially all employees. The Cooperative makes annual contributions to the plans equal to the amount accrued for pension expense. Total pension expense for both plans amounted to \$156,166 and \$197,801 for the years ended December 31, 1995 and 1994, respectively.

7. INCOME TAX STATUS

The Cooperative is a nonprofit corporation organized under the Statutes of the State of Illinois and is exempt from Federal and state income taxes under applicable tax regulations. Applied Energy Systems of Illinois, Inc. is subject to corporate income taxes. Income tax expense recorded by Applied Energy Systems of Illinois, Inc. for the years ended December 31, 1995 and 1994 totalled approximately \$79,000 and \$114,000, respectively.

8. COMMITMENTS

The Cooperative anticipates that the Clinton nuclear generating facility will furnish approximately 30% of its energy requirements. The current and additional long-term energy requirements will be furnished through power supply agreements with Illinois Power Company ("IP") and Central Illinois Public Service Company ("CIPS") as discussed below.

The Cooperative's share of nuclear fuel commitments for Clinton is approximately \$3.4 million for uranium concentrates through 1998, \$.9 million for conversion through 2002, \$.6 million for enrichment through 1999 and \$28.2 million for fabrication through 2017.

The Cooperative has contracted to purchase 435 MW of capacity annually from IP's fossil fueled generating plants through 2011. The Cooperative has committed to provide emission allowances related to its power supply agreement with IP. It is anticipated that all of these costs will be recoverable through rates charged to members.

The Cooperative has also contracted to purchase 102 MW of capacity annually from CIPS' fossil fueled units through 1999.

In addition, the Cooperative has purchased transmission capacity from IP through 2011 and from CIPS through 2014. The contract payments to IP and CIPS are determined on an "as if owned" basis and include capacity charges (consisting of production, operation and maintenance costs) and energy charges. The approximate fixed capacity charges and energy cost data under these contracts for the years ended December 31, 1995 and 1994 are as follows:

| Year | IP | | | CIPS | | |
|------|------------------------------------|------------------------------------|-----------------|------------------------------------|------------------------------------|-----------------|
| | Contracted Purchase Capacity | Total Fixed Capacity Charges | Energy Costs | Contracted Purchase Capacity | Total Fixed Capacity Charges | Energy Costs |
| 1995 | 435 | \$ 29,400,000 | \$18,700,000 | 102 | \$ 18,500,000 | \$ 7,000,000 |
| 1994 | 288 | 18,700,000 | 24,700,000 | 206 | 26,700,000 | 6,600,000 |

At December 31, 1995, the Cooperative had a 6.6% demand note receivable from IP for \$6,000,000 for working capital advances related to the fossil-fueled plants under the power supply agreement described above.

9. CONTINGENCIES

Under the Price-Anderson Act, as amended in 1988, all nuclear power station operators are subject to public liability for a nuclear incident (currently limited to \$8.9 billion per incident). Coverage of the first \$200 million is provided by private insurance with the balance provided by retrospective premium assessments against each licensed nuclear unit in the United States. As a joint owner of the Clinton nuclear facility, the Cooperative is a party to the insurance policies which are maintained by Illinois Power Company (86.79% owner and operator of Clinton) and is charged for its proportionate share of such insurance costs. In the event of an incident at any nuclear plant in the United States in excess of \$200 million, the Cooperative could be assessed a maximum of \$10,500,000 per incident, with a maximum assessment of \$1,300,000 per incident per year.

IP maintains insurance on behalf of IP and the Cooperative for certain losses related to the operation of Clinton. The insurance coverage limit for physical damage to the plant is \$1.6 billion effective December 15, 1994. This insurance includes a primary layer of \$500 million provided by nuclear insurance pools and an excess layer of \$ 1. 1 billion provided by an industry-owned mutual insurance company. In the event of an accident with an estimated cost of reactor stabilization and site decontamination exceeding \$100 million, NRC regulations require that insurance proceeds be dedicated and used first to return the reactor to, and maintain it in, a safe and stable condition. After providing for stabilization and decontamination, the insurers would then cover property damage up to a total payout of \$1.38 billion. Second, the NRC requires decontamination of the reactor station site in accordance with the plan approved by the NRC. The insurers would provide up to \$220 million to cover decommissioning costs in excess of funds already collected for decommissioning. In the event insurance limits are not exhausted, the excess will cover a portion of the value of the undamaged property. In addition, while the Cooperative has no reason to anticipate a serious nuclear accident at Clinton, if such an incident should occur, the claims for property damage and other costs would materially exceed the limit of current or available insurance coverage.

Multiple major losses, covered under the current property damage and business interruptions insurance coverage, involving Clinton would result in retrospective premium assessments of up to approximately \$13 million. IP would allocate this assessment between IP and the Cooperative based on their respective ownership interest in Clinton.

The Cooperative is a defendant in various claims and lawsuits arising in the ordinary course of business. Based on discussions with legal counsel, management believes that the final settlement of these actions will not have a material adverse effect on the Cooperative's financial position or results of operations.

During 1990, the U.S. Congress passed the Clean Air Act of 1990 (the "Clean Air Act") which, among other things, promulgated certain emission standards within the electric utility industry. The Clean Air Act requires reductions in sulfur dioxide and nitrogen oxide emissions from power plants and has two phases for compliance. Phase I, which took effect January 1, 1995, is not expected to have a significant impact on Cooperative operations related to Cooperative-owned plant. The impact of Phase II, which is effective January 1, 2000, has not been determined by Cooperative management. The impact of the Clean Air Act on purchased power could be significant. The Cooperative expects that any additional cost incurred will be recovered through rates charged to members.

10. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value amounts have been determined by the Cooperative, using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value.

Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Cooperative could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated value amounts.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Assets

- *Marketable securities - decommissioning trust* - Trust investments are carried at fair value based on quoted market prices for each specific investment instrument.
- *Investments* - The December 31, 1995 and 1994 investment balances comprise the following:

| | 1995 | 1994 |
|---|----------------------|---------------------|
| CFC capital term certificates (1): | | |
| Revenue certificates | \$ 2,252,049 | \$ 2,252,049 |
| Loan certificates | <u>3,845,605</u> | <u>2,795,605</u> |
| | <u>6,097,654</u> | <u>5,047,654</u> |
| Patronage capital certificates (1): | | |
| Refinancing patronage | 1,046,531 | 1,006,200 |
| Other patronage | <u>2,583,928</u> | <u>2,472,820</u> |
| | <u>3,630,459</u> | <u>3,479,020</u> |
| Memberships and miscellaneous patronage (2) | <u>4,272</u> | <u>4,272</u> |
| Other associated organizations (3) | <u>311,800</u> | <u>215,500</u> |
| Total | <u>\$ 10,044,185</u> | <u>\$ 8,746,446</u> |

Fair value for investments is estimated as follows:

1. The Cooperative considers CFC capital term certificates to be a condition of borrowing and patronage capital to be directly related to borrowing. As described below, Cooperative management believes the fair value of the related debt is not determinable and thus the fair value of the CFC capital term certificates is not determinable.
 2. The carrying amount of these items is a reasonable estimate of fair value.
 3. Management was not able to estimate the fair value of these investments which represent the Cooperative's investment in economic development companies.
- *Cash and Temporary Investments* - The carrying amounts of these items are a reasonable estimate of their fair value due to the short-term nature of the instruments.

Liabilities

- *Long-Term Debt* - Due to all long-term debt being either with or guaranteed by the United States Government and due to the unique nature of the debt instrument resulting from the debt restructuring, management believes the fair value of the Cooperative's debt is not determinable.

| | 1995 | | 1994 | |
|---|--------------------|----------------------------|--------------------|----------------------------|
| | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| Assets: | | | | |
| Marketable securities - decommissioning trust | \$ 4,543,015 | \$ 4,543,015 | \$ 3,161,302 | \$ 3,161,302 |
| Investments | 10,044,185 | (see above) | 8,746,446 | (see above) |
| Cash and temporary investments | 8,265,332 | 8,265,332 | 2,721,759 | 2,721,759 |
| Liabilities - Long-term debt | 947,964,715 | (see above) | 954,577,366 | (see above) |

Fair value estimates presented herein are based on pertinent information available to management as of December 31, 1995 and 1994. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date, and current estimates of fair value may differ significantly from the amounts presented herein.



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