



A Touchstone Energy® Cooperative



March 27, 2013

Docket Control  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Re: TIER and DSC Report Per Docket: E-01461A-07-0433, Decision No. 70399

Please find the enclosed summary report titled Trico Electric Cooperative ("Trico") RUS FORM 7 2012 Audited Financials December 31, 2012 Compliance Report Decision No. 70399 and copies of the final year-end audit report.

Trico is filing this report to comply with Decision 70399 to show that Trico meets the required TIER and DSC ratios following 2012's debt issuance.

The summary report shows that Trico's Operating TIER meets the 1.25 ratio that the Commission required in its decision by earning a 1.93 Operating TIER for year-end 2012. Trico also met the required Operating DSC requirement of 1.25 by earning a 2.23 Operating DSC for year-end 2012.

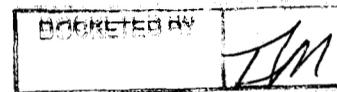
Please contact me at the information below if you have any questions.

Sincerely,

Caroline Gardiner  
Manager, Finance and Administration  
Trico Electric Cooperative, Inc.  
520-744-2944 x 1321

Arizona Corporation Commission  
**DOCKETED**

MAR 28 2013



Attachment

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AZ CORP COM  
10:00 AM

**Trico Electric Cooperative**  
**RUS FORM 7 2010 Audited Financials**  
**December 31, 2012**  
**Compliance Report Decision 70399**

	<b>2012</b>
<b>REVENUE</b>	
1 Operating Revenue and Patronage Capital	\$ 78,416,082
<b>COST OF POWER</b>	
2 Cost of Purchased Power-AEPCO	\$ 33,969,339
3 Cost of Purchased Power- SWT	\$ 9,912,720
<b>4 Total Fuel Costs</b>	<b>\$ 43,882,059</b>
<b>5 Gross Margin (Revenue-Fuel Costs)</b>	<b>\$ 34,534,023</b>
<b>TRICO DISTRIBUTION COSTS</b>	
6 Transmission Expense	\$ 57,015
7 Distribution Expense - Operations	\$ 6,658,911
8 Distribution Expense - Maintenance	\$ 1,666,986
9 Customer Accounts Expense	\$ 2,727,348
10 Customer Service & Information Expense	\$ 321,445
11 Sales Expense	\$ 331,228
12 Administrative & General Expense	\$ 4,829,979
<b>13 Total Trico Variable Operating Expenses</b>	<b>\$ 16,592,912</b>
<b>FIXED OPERATING EXPENSES</b>	
14 Depreciation & Amortization Expense	\$ 6,507,489
15 Tax Expense - Property & Gross Receipts	\$ -
16 Tax Expense - Other	\$ (63)
17 Interest on Long-Term Debt	\$ 5,713,480
18 Interest Charged to Construction - Credit	\$ -
19 Interest Expense - Other	\$ 2,958
20 Other Deductions	\$ 385,744
<b>21 Total Fixed Operating Expenses</b>	<b>\$ 12,609,608</b>
<b>22 Total Costs of Electric Service</b>	<b>\$ 73,084,579</b>
<b>23 Patronage Capital &amp; Operating Margins</b>	
24 Non-Operating Margins - Interest	\$ 121,311
25 Allowance for Funds Used During Construction	\$ -
26 Income (Loss) from Equity Investments	\$ -
27 Non-Operating Margins - Other	\$ 563,801
28 Generation and Transmission Capital Credits	\$ 1,927,761
29 Other Capital Credits & Patronage Dividends	\$ 98,623
30 Extraordinary Items	\$ -
<b>31 Patronage Capital or Margins</b>	<b>\$ 8,042,999</b>
<b>32 Operating TIER Ratio</b>	<b>1.93</b>
<b>33 Non Operating TIER Ratio</b>	<b>2.41</b>
<b>34 Operating DSC</b>	<b>2.23</b>

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9 Customer Accounts Expense	\$ 2,727,348
10 Customer Service & Information Expense	\$ 321,445
11 Sales Expense	\$ 331,228
12 Administrative & General Expense	\$ 4,829,979
<b>13 Total Trico Variable Operating Expenses</b>	<b>\$ 16,592,912</b>
<b>FIXED OPERATING EXPENSES</b>	
14 Depreciation & Amortization Expense	\$ 6,507,489
15 Tax Expense - Property & Gross Receipts	\$ -
16 Tax Expense - Other	\$ (63)
17 Interest on Long-Term Debt	\$ 5,713,480
18 Interest Charged to Construction - Credit	\$ -
19 Interest Expense - Other	\$ 2,958
20 Other Deductions	\$ 385,744
<b>21 Total Fixed Operating Expenses</b>	<b>\$ 12,609,608</b>
<b>22 Total Costs of Electric Service</b>	<b>\$ 73,084,579</b>
<b>23 Patronage Capital &amp; Operating Margins</b>	<b>\$ 5,331,503</b>
24 Non-Operating Margins - Interest	\$ 121,311
25 Allowance for Funds Used During Construction	\$ -
26 Income (Loss) from Equity Investments	\$ -
27 Non-Operating Margins - Other	\$ 563,801
28 Generation and Transmission Capital Credits	\$ 1,927,761
29 Other Capital Credits & Patronage Dividends	\$ 98,623
30 Extraordinary Items	\$ -
<b>31 Patronage Capital or Margins</b>	<b>\$ 8,042,999</b>
<b>32 Operating TIER Ratio</b>	<b>1.93</b>
<b>33 Non Operating TIER Ratio</b>	<b>2.41</b>
<b>34 Operating DSC</b>	<b>2.23</b>

**Trico Electric Cooperative**  
**RUS FORM 7 2010 Audited Financials**  
**December 31, 2012**  
**Compliance Report Decision 70399**

	<b>2012</b>
<b>REVENUE</b>	
1 Operating Revenue and Patronage Capital	\$ 78,416,082
<b>COST OF POWER</b>	
2 Cost of Purchased Power-AEPCO	\$ 33,969,339
3 Cost of Purchased Power- SWT	\$ 9,912,720
<b>4 Total Fuel Costs</b>	<b>\$ 43,882,059</b>
<b>5 Gross Margin (Revenue-Fuel Costs)</b>	<b>\$ 34,534,023</b>
<b>TRICO DISTRIBUTION COSTS</b>	
6 Transmission Expense	\$ 57,015
7 Distribution Expense - Operations	\$ 6,658,911
8 Distribution Expense - Maintenance	\$ 1,666,986
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**Trico Electric Cooperative**  
**RUS FORM 7 2010 Audited Financials**  
**December 31, 2012**  
**Compliance Report Decision 70399**

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**TRICO Electric Cooperative, Inc.**

Auditor's Reports and Financial Statements

December 31, 2012 and 2011



**TRICO Electric Cooperative, Inc.**  
**December 31, 2012 and 2011**

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## Independent Auditor's Report on Financial Statements

Board of Directors  
TRICO Electric Cooperative, Inc.  
Marana, Arizona

We have audited the accompanying financial statements of TRICO Electric Cooperative, Inc. (the Cooperative) which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of margins and patronage capital and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors  
TRICO Electric Cooperative, Inc.  
Page 2

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TRICO Electric Cooperative as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Other Legal and Regulatory Requirements**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2013, on our consideration of the Cooperative's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

**BKD, LLP**

Oklahoma City, Oklahoma  
March 21, 2013

# TRICO Electric Cooperative, Inc.

## Balance Sheets

December 31, 2012 and 2011

### Assets

	<u>2012</u>	<u>2011</u>
<b>Utility Plant, at Cost</b>		
Electric plant in service	\$ 218,822,552	\$ 213,745,576
Electric plant held for future use	166,341	166,341
Construction work in progress	<u>6,027,327</u>	<u>6,975,871</u>
	225,016,220	220,887,788
Less accumulated appreciation and amortization	<u>58,590,962</u>	<u>53,450,702</u>
	<u>166,425,258</u>	<u>167,437,086</u>
<b>Investments, at Cost</b>		
Investments in associated enterprises	29,841,382	27,975,577
Other investments	<u>125,541</u>	<u>138,446</u>
	<u>29,966,923</u>	<u>28,114,023</u>
<b>Current Assets</b>		
Cash	6,851,719	3,749,324
Accounts receivable, net of allowance; 2012 – \$603,144; 2011 – \$497,313	4,669,920	6,007,722
Power cost adjustment – underbilled	371,147	-
Materials and supplies	3,026,965	2,515,943
Other current and accrued assets	<u>1,076,051</u>	<u>2,244,452</u>
	<u>15,995,802</u>	<u>14,517,441</u>
<b>Deferred Charges</b>	<u>344,964</u>	<u>330,894</u>
Total assets	<u><u>\$ 212,732,947</u></u>	<u><u>\$ 210,399,444</u></u>

See Notes to Financial Statements

## Equities and Liabilities

	<u>2012</u>	<u>2011</u>
<b>Equities</b>		
Patronage capital	\$ 66,826,546	\$ 60,306,697
Other equities	<u>6,797,658</u>	<u>6,787,121</u>
	<u>73,624,204</u>	<u>67,093,818</u>
 <b>Long-Term Debt</b>		
RUS mortgage notes, less current maturities	23,998,584	79,752,130
FFB mortgage notes, less current maturities	39,339,035	35,386,852
NRUCFC mortgage notes, less current maturities	32,062,534	7,878,316
CoBank mortgage notes, less current maturities	<u>24,038,979</u>	<u>-</u>
	<u>119,439,132</u>	<u>123,017,298</u>
 <b>Current Liabilities</b>		
Current maturities of long-term debt	3,605,676	3,316,612
Accounts payable – purchased power	3,815,671	4,123,674
Accounts payable – other	1,429,242	1,177,008
Power cost adjustment – overbilled	-	151,635
Consumer deposits	1,582,303	1,390,898
Accrued taxes	1,642,121	1,523,259
Accrued interest	152,696	88,660
Accrued employee compensated absences	1,373,103	1,379,084
Other current and accrued liabilities	<u>385,368</u>	<u>341,780</u>
	<u>13,986,180</u>	<u>13,492,610</u>
 <b>Deferred Credits</b>	<u>5,577,621</u>	<u>6,676,402</u>
 <b>Pension Reserves – Deferred Compensation</b>	<u>105,810</u>	<u>119,316</u>
 Total equities and liabilities	<u><u>\$ 212,732,947</u></u>	<u><u>\$ 210,399,444</u></u>

**TRICO Electric Cooperative, Inc.**  
**Statements of Margins and Patronage Capital**  
**Years Ended December 31, 2012 and 2011**

	Years Ended December 31,					
	2012		2011		Increase (Decrease)	
	Amount	%	Amount	%		
<b>Operating Revenues</b>						
Residential	\$ 51,963,391	66.3	\$ 58,470,799	66.6	\$ (6,507,408)	
Irrigation	80,696	0.1	107,425	0.1	(26,729)	
Commercial and industrial	24,175,244	30.8	28,270,520	32.2	(4,095,276)	
Public buildings and other authorities	83,204	0.1	90,048	0.1	(6,844)	
Sales for resale	60,710	0.1	116,241	0.1	(55,531)	
Power cost adjustment	522,782	0.7	(716,703)	-0.8	1,239,485	
Rent from electric property	209,744	0.3	291,082	0.3	(81,338)	
Other electric revenue	1,320,311	1.7	1,204,244	1.4	116,067	
Total operating revenues	<u>78,416,082</u>	<u>100.0</u>	<u>87,833,656</u>	<u>100.0</u>	<u>(9,417,574)</u>	
<b>Operating Expenses</b>						
Purchased power	43,882,059	56.0	53,890,094	61.4	(10,008,035)	
Production power	7,877	0.0	14,479	0.0	(6,602)	
Transmission	49,138	0.1	45,713	0.1	3,425	
Distribution – operation	6,658,911	8.5	6,558,259	7.5	100,652	
Distribution – maintenance	1,666,986	2.1	1,643,551	1.8	23,435	
Customer accounts	2,727,348	3.5	2,669,470	3.0	57,878	
Customer service and information	652,673	0.8	757,246	0.9	(104,573)	
Administrative and general	4,829,979	6.2	5,026,377	5.7	(196,398)	
Depreciation	6,507,489	8.3	6,383,401	7.3	124,088	
Taxes	2,664	0.0	(113)	0.0	2,777	
Other interest	2,958	0.0	31,490	0.0	(28,532)	
Other deductions	383,017	0.5	891,065	1.0	(508,048)	
Total operating expenses	<u>67,371,099</u>	<u>85.9</u>	<u>77,911,032</u>	<u>88.7</u>	<u>(10,539,933)</u>	
<b>Operating Margins Before Fixed Charges</b>	11,044,983	14.1	9,922,624	11.3	1,122,359	
<b>Fixed Charges</b>						
Interest on long-term debt	5,713,480	7.3	6,281,573	7.2	(568,093)	
<b>Operating Margins After Fixed Charges</b>	5,331,503	6.8	3,641,051	4.1	1,690,452	
Capital credits	2,026,384	2.6	3,061,081	3.5	(1,034,697)	
<b>Net Operating Margins</b>	<u>7,357,887</u>	<u>9.4</u>	<u>6,702,132</u>	<u>7.6</u>	<u>655,755</u>	
<b>Nonoperating Margins</b>						
Interest income	121,311	0.2	78,572	0.1	42,739	
Other nonoperating income	563,801	0.7	121,444	0.1	442,357	
	<u>685,112</u>	<u>0.9</u>	<u>200,016</u>	<u>0.2</u>	<u>485,096</u>	
<b>Net Margins</b>	8,042,999	10.3	6,902,148	7.9	\$ 1,140,851	
<b>Patronage Capital, Beginning of Year</b>	60,306,697		54,925,734			
Patronage capital retired	(1,523,150)		(1,521,185)			
<b>Patronage Capital, End of Year</b>	<u>\$ 66,826,546</u>		<u>\$ 60,306,697</u>			

**TRICO Electric Cooperative, Inc.**  
**Statements of Cash Flows**  
**Years Ended December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>Cash Flows from Operating Activities</b>		
Net margins	\$ 8,042,999	\$ 6,902,148
Items not requiring (providing) cash		
Depreciation	6,712,755	7,310,161
Capital credits	(2,026,384)	(3,061,081)
Changes in		
Accounts receivable, net	1,337,802	(488,558)
Deferred charges	(14,070)	179,628
Deferred credits	(1,112,287)	(1,092,852)
Inventories and other current assets	657,379	(1,038,702)
Payables and accrued expenses	(397,247)	438,237
	<u>13,200,947</u>	<u>9,148,981</u>
Net cash provided by operating activities		
<b>Cash Flows from Investing Activities</b>		
Additions to utility plant	(4,628,953)	(8,136,300)
Salvage value of retirements and other credits	17,433	24,131
Utility plant removal costs	(858,802)	(317,546)
Other property and investments	173,484	(90,080)
	<u>(5,296,838)</u>	<u>(8,519,795)</u>
Net cash used in investing activities		
<b>Cash Flows from Financing Activities</b>		
Advances on long-term debt from FFB	5,000,000	28,000,000
Advances on long-term debt from NRUCFC	25,245,000	-
Advances on long-term debt from CoBank	24,690,777	-
Principal payments on long-term debt to RUS	(56,683,592)	(28,400,525)
Principal payments on long-term debt to FFB	(827,790)	(224,872)
Principal payments on long-term debt to NRUCFC	(588,428)	(456,686)
Principal payments on long-term debt to CoBank	(125,068)	-
Retirement of patronage capital	(1,523,150)	(1,521,185)
Other equities	10,537	9,962
	<u>(4,801,714)</u>	<u>(2,593,306)</u>
Net cash used in financing activities		
<b>Increase (decrease) in Cash and Cash Equivalents</b>	3,102,395	(1,964,120)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>3,749,324</u>	<u>5,713,444</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 6,851,719</u>	<u>\$ 3,749,324</u>
<b>Supplemental Cash Flows Information</b>		
Interest paid	\$ 5,713,480	\$ 6,281,573
Utility plant purchases included in accounts payable	\$ 519,051	\$ 288,446

**TRICO Electric Cooperative, Inc.**  
**Notes to Financial Statements**  
**December 31, 2012 and 2011**

**Note 1: Nature of Operations and Summary of Significant Accounting Policies**

***Nature of Operations***

TRICO Electric Cooperative, Inc. (the Cooperative) is a non-profit company organized to provide electric service at the retail level to primarily residential and commercial accounts in a designated service area. Any revenues earned in excess of costs incurred are allocated to members of the Cooperative and are reflected as patronage capital equity in the balance sheets. The Cooperative's operating revenues are under the jurisdiction of the Arizona Corporation Commission. The Cooperative extends unsecured credit to its members for a limited amount of time.

***System of Accounts***

The accounting records of the Cooperative are maintained substantially in accordance with the Uniform System of Accounts, as prescribed by the Federal Energy Regulatory Commission and modified for electric borrowers of the Rural Utilities Services (RUS), which does not differ materially from accounting principles generally accepted in the United States of America.

***Use of Estimates***

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

***Cash Equivalents***

The Cooperative considers all liquid investments with original maturities of three months or less to be cash equivalents.

Pursuant to legislation enacted in 2010, the FDIC fully insured all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012, at all FDIC-insured institutions. This legislation expired December 31, 2012. Beginning January 1, 2013, noninterest-bearing transaction accounts are subject to the \$250,000 limit on FDIC insurance per covered institution.

***Accounts and Notes Receivable***

Accounts receivable are stated at the amount billed to customers plus any accrued and unpaid interest. The Cooperative provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Accounts receivable are ordinarily due 15 days after the issuance of the invoice. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the member. The delinquent accounts deemed uncollectible are written off upon approval by the Board of the Directors.

# TRICO Electric Cooperative, Inc.

## Notes to Financial Statements

December 31, 2012 and 2011

### **Materials and Supplies**

Materials and supplies are valued at moving average cost, which includes freight-in.

Materials and supplies consisted of the following at December 31:

	<u>2012</u>	<u>2011</u>
Construction materials and supplies	\$ 2,948,941	\$ 2,439,219
Transportation supplies	12,076	29,334
Fuel	<u>65,948</u>	<u>47,390</u>
	<u>\$ 3,026,965</u>	<u>\$ 2,515,943</u>

### **Utility Plant, Maintenance and Depreciation**

Electric plant is stated at the original cost of construction, which includes the cost of contracted services, direct labor, materials and overhead items. Contributions from others toward the construction of electric plant are credited to the applicable plant accounts.

When property that represents a retirement unit is replaced or removed, the average cost of such property, as determined from the continuing property records, is credited to electric plant and such cost, together with cost of removal, less salvage, is charged to the accumulated provision for depreciation.

Maintenance and repairs, including the renewal of minor items of plant not comprising a retirement unit, are charged to the appropriate maintenance accounts, except repairs of transportation and service equipment, which are charged to clearing accounts and redistributed to operating expense and other accounts.

### **Investments**

Investments in associated enterprises/equities are carried at cost, plus the Cooperative's share of the allocated equities, less patronage refunds and allocations. Revenue is recognized from the investment when the Cooperative is notified of their patronage allocation. In addition, investments include the Cooperative's investments in capital-term certificates. These investments are stated at cost.

### **Revenue Recognition**

The Cooperative records electric revenues as billed to customers, based upon meter readings obtained throughout the month. Cost of power is recognized in the month incurred. Revenue is not accrued for energy delivered and not billed at the end of the fiscal year. Total unbilled revenue at December 31, 2012 and 2011, was approximately \$3,448,000 and \$3,340,000, respectively.

# TRICO Electric Cooperative, Inc.

## Notes to Financial Statements

December 31, 2012 and 2011

The Cooperative's tariffs for electric service include a power cost recovery factor under which electric rates charged to customers are adjusted to reflect changes in the cost of power. In order to match power cost and related revenues, power cost to be billed in subsequent periods is recognized as accounts receivable and power cost billed in advance is deferred as a current liability. These amounts appear as the power cost adjustment on the statements of margins and patronage capital.

### **Income Tax Status**

The Cooperative is exempt from federal income tax under IRS Section 501(c)(12). The state of Arizona recognizes this exemption for state income tax purposes.

The Cooperative files income tax returns in the federal and state jurisdictions. The Cooperative is no longer subject to federal and state income tax examinations by tax authorities for years before 2009.

### **Taxes Collected from Customers and Remitted to Governmental Authorities**

Taxes collected from customers and remitted to governmental authorities are presented in the accompanying statements of margins and patronage capital on a net basis.

### **Subsequent Events**

Subsequent events have been evaluated through the date of the Independent Auditor's Report on Financial Statements, which is the date the accompanying financial statements were available to be issued.

### **Note 2: Electric Plant**

The major classes of electric plant are as follows:

	<b>2012</b>	<b>2011</b>
Intangible plant	\$ 1,180	\$ 1,180
Other production plant	257,567	257,567
Transmission plant	3,702,860	3,607,750
Distribution plant	193,626,400	189,048,777
General plant	21,234,545	20,830,302
	<hr/>	<hr/>
Total electric plant in service	218,822,552	213,745,576
	<hr/>	<hr/>
Electric plant held for future use	166,341	166,341
Construction work in progress	6,027,327	6,975,871
	<hr/>	<hr/>
Total electric plant	\$ 225,016,220	\$ 220,887,788
	<hr/>	<hr/>

All assets are pledged as security for the long-term debt to National Rural Utilities Cooperative Finance Corporation (NRUCFC), Rural Utilities Services (RUS), CoBank and Federal Financing Bank (FFB) (see Note 7).

# TRICO Electric Cooperative, Inc.

## Notes to Financial Statements

December 31, 2012 and 2011

Provision for depreciation of electric plant is computed using straight-line rates as follows:

Transmission plant	2.75%
Distribution plant	3.00%
Structures and improvements	2.00%–7.00%
Office furniture and fixtures	5.00%–50.00%
Transportation equipment	3.30%–20.00%
Store equipment	5.00%–10.00%
Tools, shop and garage equipment	4.00%–33.33%
Laboratory equipment	5.00%–20.00%
Power-operated equipment	5.00%–33.00%
Communication equipment	5.00%–33.33%
Miscellaneous general plant	5.00%–20.00%

Depreciation for the years ended December 31, 2012 and 2011, was \$6,712,755 and \$7,310,161 respectively, of which \$6,507,489 and \$6,383,401 was charged to depreciation expense, and \$205,266 and \$926,760 was allocated to other accounts.

### Note 3: Investments in Associated Enterprises

Investments in associated enterprises consisted of the following as of December 31:

	2012	2011
NRUCFC		
Capital-term certificates	\$ 1,140,411	\$ 1,148,511
Patronage capital	440,588	418,221
Membership	1,000	1,000
Arizona Electric Power Cooperative, Inc.		
Patronage capital	25,055,123	24,642,362
Southwest Transmission Cooperative, Inc.		
Patronage capital	2,705,440	1,306,530
Other	498,820	458,953
	\$ 29,841,382	\$ 27,975,577

# TRICO Electric Cooperative, Inc.

## Notes to Financial Statements

December 31, 2012 and 2011

### Note 4: Deferred Charges

Deferred charges consisted of the following at December 31:

	<u>2012</u>	<u>2011</u>
Deferred debits		
Preliminary survey and investigation charges	\$ 317,903	\$ 245,211
Rate case	-	64,967
Other	<u>27,061</u>	<u>20,716</u>
	<u>\$ 344,964</u>	<u>\$ 330,894</u>

### Note 5: Patronage Capital

Patronage capital consisted of the following at December 31:

	<u>2012</u>	<u>2011</u>
Assigned	\$ 58,783,547	\$ 53,404,549
Assignable	<u>8,042,999</u>	<u>6,902,148</u>
Balance	<u>\$ 66,826,546</u>	<u>\$ 60,306,697</u>

The mortgages with NRUCFC, RUS and FFB contain provisions that must be met for the Cooperative to make patronage capital retirements. These provisions include minimum equity and debt-service ratios. The Cooperative is in compliance with these provisions at December 31, 2012 and 2011. The Cooperative retired \$1,523,150 and \$1,521,185 of patronage capital during 2012 and 2011, respectively.

### Note 6: Other Equities

	<u>2012</u>	<u>2011</u>
Retired capital credits – gain	\$ 229,992	\$ 219,455
Donated capital	4,484,682	4,484,682
Gain on sale of property	<u>2,082,984</u>	<u>2,082,984</u>
	<u>\$ 6,797,658</u>	<u>\$ 6,787,121</u>

**TRICO Electric Cooperative, Inc.**  
**Notes to Financial Statements**  
**December 31, 2012 and 2011**

**Note 7: Mortgage Notes – NRUCFC, RUS, CoBank and FFB**

Long-term debt due to NRUCFC, RUS, CoBank and FFB are represented by mortgage notes payable. Following is a summary of mortgage notes payable:

	<u>2012</u>	<u>2011</u>
FFB – 2.55% to 4.36%	\$ 40,386,853	\$ 36,214,643
NRUCFC – 4.95% to 6.26%	32,993,372	8,336,800
RUS – 5.00%	25,098,874	81,782,467
CoBank – 4.22%	<u>24,565,709</u>	<u>-</u>
	123,044,808	126,333,910
Less current maturities	<u>(3,605,676)</u>	<u>(3,316,612)</u>
	<u>\$ 119,439,132</u>	<u>\$ 123,017,298</u>

Aggregate annual maturities of long-term debt at December 31, 2012, are as follows:

2013	\$ 3,605,676
2014	3,764,302
2015	3,850,779
2016	3,783,024
2017	3,977,965
Thereafter	<u>104,063,062</u>
	<u>\$ 123,044,808</u>

As of December 31, 2012, the Cooperative has approximately \$42,479,000 in unadvanced loan funds with FFB.

Substantially all assets of the Cooperative are pledged as collateral to NRUCFC, RUS, CoBank and FFB.

**Note 8: Lines of Credit Agreements**

The Cooperative has a \$13,000,000 and a \$25,000,000 revolving line of credit for short-term financing with NRUCFC at a variable interest rate with interest payable quarterly, which expire in 2013 and 2014, respectively. The lines are collateralized by substantially all of the Cooperative's assets. At December 31, 2012 and 2011, the interest rate was 2.90% and 3.20%, respectively. At December 31, 2012 and 2011, there was \$0 borrowed against these lines.

**TRICO Electric Cooperative, Inc.**  
**Notes to Financial Statements**  
**December 31, 2012 and 2011**

**Note 9: Deferred Credits**

Deferred credits consisted of the following at December 31:

	2012	2011
Advances for construction	\$ 4,319,345	\$ 6,293,601
Unclaimed patronage capital retirements	512,478	335,857
Renewable energy surcharge	728,374	-
Other	17,424	46,944
	\$ 5,577,621	\$ 6,676,402

Advances for construction represent refundable advances paid by the members. This amount is refunded over 5 to 10 years, based on an agreement with the members. To the extent amounts remain after 5 to 10 years, these amounts are no longer refundable and are credited to construction work in progress.

**Note 10: Employee Benefit Plans**

***Pension Plan***

The National Rural Electric Association Retirement Security Plan (RS Plan) is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is a multiemployer plan under the accounting standards. The plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333.

A unique characteristic of a multiemployer plan compared to a single employer plan, is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

The Cooperative's contributions to the RS Plan in 2012 and 2011 represented less than 5% of the total contributions made to the RS Plan by all participating employers. The Cooperative made contributions to the RS Plan of \$1,648,000 and \$1,681,000 in 2012 and 2011, respectively. There have been no significant changes that affect the comparability of 2012 and 2011 contributions.

In the RS Plan, a "zone status" determination is not required, and therefore, not determined under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was between 65% and 80% funded at January 1, 2012 and January 1, 2011, based on the PPA funding target and PPA actuarial value of assets on those dates.

Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

# TRICO Electric Cooperative, Inc.

## Notes to Financial Statements

December 31, 2012 and 2011

### **401(k) Plan**

The Cooperative has a defined contribution 401(k) savings plan covering substantially all employees. Contributions to the plan plus investment earnings constitute retirement benefits. The Cooperative contributed approximately \$331,000 and \$316,000 to the plan for the years ended December 31, 2012 and 2011, respectively.

### **Note 11: Related-Party Transactions**

The Cooperative is a member (and, therefore, part owner) of Arizona Electric Power Cooperative, Inc. (AEPSCO). The Cooperative purchases a portion of electrical power from AEPSCO. Investments in associated enterprises include \$25,055,123 and \$24,642,362 of patronage capital in AEPSCO at December 31, 2012 and 2011, respectively. During 2011, the Cooperative changed from an all-power requirements contract with AEPSCO to a partial-power requirements contract which runs through 2035.

The Cooperative is a member (and, therefore, part owner) of Southwest Transmission Cooperative, Inc. (STC). The Cooperative purchases transmission services from STC. Investments in associated enterprises include \$2,705,440 and \$1,306,530 of patronage capital in STC at December 31, 2012 and 2011, respectively.

The Cooperative is also a member (and, therefore, part owner) of NRUCFC. The Cooperative finances utility plant additions (see *Note 2*) through NRUCFC. Investments in associated enterprises include \$440,588 and \$418,221 of patronage capital in NRUCFC at December 31, 2012 and 2011, respectively. In addition, investments in associated enterprises include \$1,140,411 and \$1,148,511 of capital-term certificates at December 31, 2012 and 2011, respectively.

### **Note 12: Significant Estimates and Concentrations**

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

#### ***General Litigation***

The Cooperative is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, results of operations and cash flows of the Cooperative.

#### ***Materials Supply***

The Cooperative is committed to purchase electric stock supply, at a minimum \$1,250,000, from Border States Electric Supply until 2014.

# **TRICO Electric Cooperative, Inc.**

## **Notes to Financial Statements**

**December 31, 2012 and 2011**

### ***Labor Agreement***

Substantially all of the Company's employees are covered by collective bargaining agreements. Collective bargaining agreements covering approximately 80% of these employees expire in 2014.

### ***AEPCO***

The United States Environmental Protection Agency has issued a ruling promulgating a Federal Implementation Plan in connection with the EPA's Regional Haze Rules under the Clean Air Act. The Federal Implementation Plan would require the installation of additional environmental controls to AEPCO's Apache Generating Station by the end of 2017. The estimated cost to install these additional environmental controls is estimated to be as high as \$200,000,000. AEPCO's Board of Directors and management are currently reviewing and investigating all alternatives, contingency plans and running cost estimates. Depending on the final course of action, the Cooperative could see significant future increases in cost of power.

## **Note 13: Fair Value of Financial Instruments**

### ***Investments in Associated Organizations***

Investments in other cooperatives' equities are carried at cost, plus the Cooperative's share of the allocated equities, less patronage refunds and allocations. There is no market for these investments, since the securities are redeemable only by the issuing cooperative at established contract value. Because of the lack of marketability, the Cooperative believes it is not practicable to estimate the fair value of investments in associated enterprises.

### ***Cash and Cash Equivalents***

The carrying amount approximates fair value.

### ***Accounts Receivable and Payable***

The carrying amount approximates fair value.

### ***Long-Term Debt and Line of Credit Agreements***

The Cooperative's long-term debt and line of credit agreements were obtained at below market rates with unique repayment terms through their association with NRUCFC, RUS, CoBank and FFB. Alternative lending programs with similar terms do not exist. Certain of the Cooperative's long-term debt was obtained through government-subsidized programs. Because of the lack of similar lending programs, the Cooperative believes it is not practicable to estimate the fair value of this debt.

### ***NRUCFC Capital Term Certificates***

The Cooperative believes it is not practicable to estimate fair value for these financial instruments given the lack of a market and their long holding period.

## **Supplementary Information**

## Independent Auditor's Report on Accompanying Supplementary Information

Board of Directors  
TRICO Electric Cooperative, Inc.  
Marana, Arizona

We have audited the financial statements of TRICO Electric Cooperative, Inc. (the Cooperative) as of and for the years ended December 31, 2012 and 2011, and have issued our report dated March 21, 2013, which contained an unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The 2012 and 2011 information, except for that portion marked unaudited, has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2012 and 2011 information, except for that portion marked unaudited, which we do not express an opinion on, is fairly stated in all material respects in relation to the financial statements as a whole.

The information included in the Five-Year Comparative Data for the years ended December 31, 2008 through 2010, on page 22, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the 2012 and 2011 financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

*BKD, LLP*

March 21, 2013

**TRICO Electric Cooperative, Inc.**  
**Electric Plant**  
**Year Ended December 31, 2012**

	Balance January 1, 2012	Additions	Retirements	Adjustments and Transfers	Balance December 31, 2012
<b>Intangible Plant</b>					
Organization	\$ 1,180	\$ -	\$ -	\$ -	\$ 1,180
<b>Other Production Plant</b>					
Land and land rights	32,631	-	-	-	32,631
Power plant equipment	224,936	-	-	-	224,936
	<u>257,567</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>257,567</u>
<b>Transmission Plant</b>					
Land and land rights	532,578	-	-	-	532,578
Station equipment	119,354	-	-	-	119,354
Poles and fixtures	1,817,504	95,110	-	-	1,912,614
Overhead conductors and devices	1,138,314	-	-	-	1,138,314
Total	<u>3,607,750</u>	<u>95,110</u>	<u>-</u>	<u>-</u>	<u>3,702,860</u>
<b>Distribution Plant</b>					
Land and land rights	101,005	-	-	-	101,005
Station equipment	14,948,947	70,355	-	-	15,019,302
Poles, towers and fixtures	21,085,536	1,905,526	(336,671)	-	22,654,391
Overhead conductors and devices	22,089,807	1,476,966	(248,002)	46,379	23,365,150
Underground conduit	5,306,754	85,088	(114)	-	5,391,728
Underground conductors and devices	82,357,981	-	(328,979)	(181,106)	81,847,896
Line transformers	25,873,814	569,828	(142,391)	(46,379)	26,254,872
Services	7,233,386	61,562	(399)	-	7,294,549
Meters	9,730,456	1,944,006	(298,362)	-	11,376,100
Installations on customers' premises	319,530	3,747	(3,430)	(1)	319,846
Street lights	1,561	-	-	-	1,561
Total	<u>189,048,777</u>	<u>6,117,078</u>	<u>(1,358,348)</u>	<u>(181,107)</u>	<u>193,626,400</u>
<b>General Plant</b>					
Land and land rights	734,514	-	-	-	734,514
Structures and improvements	10,555,248	92,010	-	-	10,647,258
Office furniture and equipment	1,575,344	70,383	(155,147)	-	1,490,580
Transportation equipment	4,746,279	525,351	(161,709)	-	5,109,921
Store equipment	294,044	-	-	-	294,044
Tools, shop and garage equipment	578,040	42,151	(6,218)	-	613,973
Laboratory equipment	778,423	114,659	-	-	893,082
Power-operated equipment	838,547	60,911	(125,671)	-	773,787
Communications equipment	560,589	-	(56,212)	-	504,377
Miscellaneous equipment	169,274	3,734	-	1	173,009
Total	<u>20,830,302</u>	<u>909,199</u>	<u>(504,957)</u>	<u>1</u>	<u>21,234,545</u>
<b>Total Classified Electric Plant in Service</b>	213,745,576	7,121,387	(1,863,305)	(181,106)	218,822,552
<b>Electric Plant Held for Future Use</b>	166,341	-	-	-	166,341
<b>Construction Work In Progress</b>	6,975,871	-	-	(948,544)	6,027,327
Total utility plant	<u>\$ 220,887,788</u>	<u>\$ 7,121,387</u>	<u>\$ (1,863,305)</u>	<u>\$ (1,129,650)</u>	<u>\$ 225,016,220</u>

**TRICO Electric Cooperative, Inc.**  
**Accumulated Provision for Depreciation and Amortization**  
**Year Ended December 31, 2012**

	Balance January 1, 2012	Depreciation and Amortization Accruals	Retirements	Balance December 31, 2012
<b>Other Production Plant</b>	\$ 945	\$ 11,336	\$ -	\$ 12,281
<b>Transmission Plant</b>	962,480	85,939	-	1,048,419
<b>Distribution Plant</b>	44,006,571	5,743,374	1,136,333	48,613,612
<b>General Plant</b>	<u>8,605,601</u>	<u>872,106</u>	<u>498,333</u>	<u>8,979,374</u>
<b>Total Classified Electric Plant in Service</b>	53,575,597	6,712,755	1,634,666	58,653,686
<b>Retirement Work in Progress</b>	<u>(124,895)</u>	<u>-</u>	<u>(62,171)</u>	<u>(62,724)</u>
	<u>\$ 53,450,702</u>	<u>\$ 6,712,755</u>	<u>\$ 1,572,495</u>	<u>\$ 58,590,962</u>

(1) Charged to depreciation and amortization expense  
Charged to clearing and other deductions

\$ 6,507,489  
205,266  
\$ 6,712,755

(2) Cost of units retired  
Add: Cost of removal  
Less: Salvage and other credits

\$ 731,126  
858,802  
(17,433)

Loss due to retirement

\$ 1,572,495

# TRICO Electric Cooperative, Inc.

## Investments

December 31, 2012 and 2011

	2012	2011
<b>Investments in Associated Enterprises</b>		
Memberships		
National Rural Utilities Cooperative Finance Corporation	\$ 1,000	\$ 1,000
National Rural Electric Cooperative Association	10	10
National Information Systems Cooperative	25	25
Grand Canyon State Electric	100	100
National Cooperative Service Corporation	100	100
National Rural Telecommunications Cooperative	1,000	1,000
Southwest Transmission Cooperative	100	100
Sierra Southwest Cooperative	100	100
CoBank	1,000	-
Patronage capital		
Arizona Electric Power Cooperative, Inc.	25,055,123	24,642,362
Southwest Transmission Cooperative	2,705,440	1,306,530
National Rural Utilities Cooperative Finance Corporation	440,588	418,221
National Information Systems Cooperative	126,277	103,635
National Rural Telecommunications Cooperative	31,713	31,941
Capital-term certificates		
National Rural Utilities Cooperative Finance Corporation	1,140,411	1,148,511
Capital Stock		
Federated Rural Electric Insurance Corporation – Preferred E Stock	173,776	157,323
Statewide Organizations		
Grand Canyon State Electric building fund	164,619	164,619
Total investments in associated organizations	29,841,382	27,975,577
<b>Other Investments</b>		
Cash value annuities	105,810	119,316
Fuel deposits and state compensation deposit	11,731	11,130
Other	8,000	8,000
	125,541	138,446
Total investments	\$ 29,966,923	\$ 28,114,023

**TRICO Electric Cooperative, Inc.**  
**Patronage Capital**  
**Year Ended December 31, 2012**

Year	Assignable	Assigned	Balance
1989	\$ -	\$ 474,627	\$ 474,627
1990	-	657,959	657,959
1991	-	339,560	339,560
1992	-	886,225	886,225
1993	-	1,202,722	1,202,722
1994	-	647,857	647,857
1995	-	1,513,311	1,513,311
1996	-	1,033,556	1,033,556
1997	-	853,976	853,976
1998	-	2,215,777	2,215,777
1999	-	2,444,787	2,444,787
2000	-	2,354,627	2,354,627
2001	-	3,830,104	3,830,104
2002	-	3,783,996	3,783,996
2003	-	2,383,350	2,383,350
2004	-	898,317	898,317
2005	-	1,805,844	1,805,844
2006	-	3,317,593	3,317,593
2007	-	2,535,658	2,535,658
2008	-	6,042,459	6,042,459
2009	-	8,086,766	8,086,766
2010	-	6,095,478	6,095,478
2011	-	5,378,998	5,378,998
2012	<u>8,042,999</u>	<u>-</u>	<u>8,042,999</u>
	<u>\$ 8,042,999</u>	<u>\$ 58,783,547</u>	<u>\$ 66,826,546</u>

**TRICO Electric Cooperative, Inc.**  
**RUS, FFB and NRUCFC Mortgage Notes**  
**December 31, 2012**

<b>Note Number</b>	<b>Date of Note</b>	<b>Interest Rate</b>	<b>Principal Amount</b>	<b>Deferred Interest</b>	<b>Amount Unadvanced</b>	<b>Principal Repayments</b>	<b>Net Obligation</b>
<b>RUS Mortgage Notes</b>							
Notes paid in full			\$ 38,124,986	\$ -	\$ -	\$ 38,124,986	\$ -
1B280	11/10/1980	5.000%	1,673,000	-	-	1,408,446	264,554
1B282	11/10/1980	5.000%	1,673,000	-	-	1,408,446	264,554
1B290	3/25/1986	5.000%	1,562,000	-	-	922,346	639,654
1B292	3/25/1986	5.000%	1,562,000	-	-	922,346	639,654
1B300	8/25/1989	5.000%	2,933,500	-	-	1,349,993	1,583,507
1B302	8/25/1989	5.000%	2,933,500	-	-	1,349,993	1,583,507
1B310	9/22/1992	5.000%	2,698,000	-	-	972,406	1,725,594
1B315	9/22/1992	5.000%	2,698,000	-	-	972,406	1,725,594
1B320	10/25/1994	5.750%	1,966,000	-	-	542,464	1,423,536
1B325	10/25/1994	5.500%	1,960,000	-	-	547,712	1,412,288
1B330	7/1/1997	5.120%	3,955,000	-	-	891,557	3,063,443
1B335	7/1/1997	4.620%	3,695,000	-	-	860,587	2,834,413
1B336	3/1/2001	5.500%	260,000	-	-	51,736	208,264
1B564	8/2/2004	5.000%	1,500,000	-	-	131,474	1,368,526
1B662	8/2/2004	5.000%	2,000,000	-	-	162,144	1,837,856
1B663	8/2/2004	5.000%	3,000,000	-	-	238,831	2,761,169
1B664	8/2/2004	5.000%	3,000,000	-	-	237,238	2,762,762
			77,193,986	-	-	51,095,112	26,098,874
Cushion of credit			-	-	-	-	(1,000,000)
<b>Total RUS</b>			<b>\$ 77,193,986</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 51,095,112</b>	<b>\$ 25,098,874</b>
<b>Total FFB Mortgage Loans</b>							
F0010	10/20/2008	4.360%	2,000,000	-	-	73,673	1,926,327
F0015	1/21/2008	3.623%	1,000,000	-	-	42,183	957,817
F0020	3/23/2009	3.499%	1,500,000	-	-	64,704	1,435,296
F0025	5/19/2009	4.004%	2,500,000	-	-	98,375	2,401,625
F0030	7/17/2009	4.283%	1,500,000	-	-	56,054	1,443,946
F0035	7/22/2011	3.638%	15,000,000	-	-	463,299	14,536,701
F0040	9/1/2011	3.119%	3,000,000	-	-	65,020	2,934,980
F0045	11/10/2011	2.558%	10,000,000	-	-	249,839	9,750,161
F0050	11/16/2012	2.100%	5,000,000	-	-	-	5,000,000
<b>Total FFB</b>			<b>\$ 41,500,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,113,147</b>	<b>\$ 40,386,853</b>
<b>NRUCFC Mortgage Notes</b>							
9012	6/30/1978	5.900%	6,861,000	-	-	6,861,000	-
9016	9/30/1990	6.040%	1,509,000	-	-	1,234,431	274,569
9017	12/31/1985	6.180%	1,380,412	-	-	771,800	608,612
9018	6/30/1989	6.220%	2,618,750	-	-	1,093,345	1,525,405
9019	9/22/1992	6.260%	2,409,375	-	-	873,718	1,535,657
9020	10/25/1994	6.260%	1,685,000	-	-	461,333	1,223,667
9021	7/1/1997	6.250%	3,390,000	-	-	680,911	2,709,089
9024009	8/21/2003	4.950%	97,873	-	-	97,873	-
9024010	8/21/2004	5.150%	10,784	-	-	9,466	1,318
9026001-9026028	8/23/2012	4.220%	25,245,000	-	-	129,944	25,115,056
<b>Total NRUCFC</b>			<b>\$ 45,207,194</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 12,213,821</b>	<b>\$ 32,993,373</b>
<b>CoBank Mortgage Notes</b>							
R11064T01	8/23/2012	4.220%	\$ 24,690,777	\$ -	\$ -	\$ 125,068	\$ 24,565,709

Note: Net obligation includes \$3,605,676 due within one year and classified as a current liability on the balance sheet.

**TRICO Electric Cooperative, Inc.**  
**Administrative and General Expenses**  
**Years Ended December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>
Administrative and general salaries	\$ 1,852,466	\$ 1,741,473	\$ 110,993
Office supplies and expenses	716,016	720,621	(4,605)
Outside services employed	455,751	813,618	(357,867)
Injuries and damages	338,484	285,157	53,327
Employee pensions and benefits	105,898	108,037	(2,139)
Annual meeting	19,510	8,050	11,460
Miscellaneous and general expenses	637,429	652,875	(15,446)
Regulatory commission expense	174,207	191,882	(17,675)
Maintenance of general plant	<u>530,218</u>	<u>504,664</u>	<u>25,554</u>
Total	<u>\$ 4,829,979</u>	<u>\$ 5,026,377</u>	<u>\$ (196,398)</u>

**TRICO Electric Cooperative, Inc.**  
**Five-Year Comparative Data**  
**Years Ended December 31, 2008 through 2012**

	Years Ended				
	2012	2011	2010	2009	2008
<b>Operating Revenues</b>					
Residential	\$ 51,963,391	\$ 58,470,799	\$ 62,092,759	\$ 58,436,925	\$ 51,015,245
Irrigation	80,696	107,425	127,732	181,276	172,888
Commercial and industrial	24,175,244	28,270,520	28,364,197	28,223,089	24,429,701
Public buildings and other authorities	83,204	90,048	74,945	51,219	44,947
Sales for resale	60,710	116,241	895	9,809	18,205
(Over) under billed power cost	522,782	(716,703)	681,924	(1,202,540)	1,251,944
Rent from electric property	209,744	291,082	353,125	325,457	307,961
Other operating revenues	1,320,311	1,204,244	1,090,678	1,094,360	1,115,843
<b>Total operating revenues</b>	<b>78,416,082</b>	<b>87,833,656</b>	<b>92,786,255</b>	<b>87,119,595</b>	<b>78,356,734</b>
<b>Operating Expenses</b>					
Purchased power	43,882,059	53,890,094	59,747,134	58,169,937	51,809,610
Production power	7,877	14,479	-	-	-
Transmission	49,138	45,713	309,260	59,292	39,496
Distribution – operation	6,658,911	6,558,259	6,221,256	5,938,071	5,725,857
Distribution – maintenance	1,666,986	1,643,551	1,665,111	1,484,852	1,752,675
Customer accounts	2,727,348	2,669,470	2,838,200	2,722,526	2,397,115
Customer service and information	652,673	757,246	697,834	527,947	526,881
Administrative and general	4,829,979	5,026,377	4,640,301	3,793,060	3,393,487
Depreciation and amortization	6,507,489	6,383,401	6,445,508	6,023,242	5,811,648
Taxes	2,664	(113)	(401)	525	138
Other interest	2,958	31,490	4,778	32,707	80,846
Other deductions	383,017	891,065	255,761	161,383	210,652
<b>Total operating expenses</b>	<b>67,371,099</b>	<b>77,911,032</b>	<b>82,824,742</b>	<b>78,913,542</b>	<b>71,748,405</b>
<b>Operating Margins Before Fixed Charges</b>	<b>11,044,983</b>	<b>9,922,624</b>	<b>9,961,513</b>	<b>8,206,053</b>	<b>6,608,329</b>
<b>Fixed Charges</b>					
Interest on long-term debt	5,713,480	6,281,573	6,492,483	6,546,805	6,366,174
<b>Operating Margins After Fixed Charges</b>	<b>5,331,503</b>	<b>3,641,051</b>	<b>3,469,030</b>	<b>1,659,248</b>	<b>242,155</b>
Capital credits	2,026,384	3,061,081	2,461,716	6,307,832	8,370,342
<b>Net Operating Margins</b>	<b>7,357,887</b>	<b>6,702,132</b>	<b>5,930,746</b>	<b>7,967,080</b>	<b>8,612,497</b>
<b>Nonoperating Margins</b>					
Interest income	121,311	78,572	102,930	83,765	117,995
Other nonoperating income	563,801	121,444	70,879	59,594	8,608
	685,112	200,016	173,809	143,359	126,603
<b>Net Margins</b>	<b>\$ 8,042,999</b>	<b>\$ 6,902,148</b>	<b>\$ 6,104,555</b>	<b>\$ 8,110,439</b>	<b>\$ 8,739,100</b>
<b>Miscellaneous statistics</b>					
Customers at end of year *	41,239	40,254	39,688	39,328	38,542
MWH sales *	661,213	647,788	619,772	632,532	622,867
Times interest earned ratio	2.39	2.10	1.94	2.24	2.37
Debt service coverage	2.23	1.88	2.03	2.22	2.31
Equity to total assets	34.64%	31.89%	29.78%	27.67%	25.07%
Equity to total capitalization	38.07%	34.67%	32.63%	30.28%	27.54%

\* Unaudited

**Independent Auditor's Report on Internal Control Over  
Financial Reporting and on Compliance and Other  
Matters Based on an Audit of the Financial Statements  
Performed in Accordance with  
Government Auditing Standards**

Board of Directors  
TRICO Electric Cooperative, Inc.  
Marana, Arizona

We have audited the financial statements of TRICO Electric Cooperative, Inc. (the Cooperative) as of and for the year ended December 31, 2012, and have issued our report thereon dated March 21, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Internal Control over Financial Reporting***

Management of the Cooperative is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Cooperative's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Cooperative's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified a deficiency in internal control over financial reporting described in the accompanying schedule of findings and responses as item 12-01 that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Board of Directors  
TRICO Electric Cooperative, Inc.

### **Compliance**

As part of obtaining reasonable assurance about whether the Cooperative's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Other Matters**

We noted certain matters we reported to the Cooperative's management in a separate letter dated March 21, 2013.

The Cooperative's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Cooperative's response and, accordingly, we express no opinion on it.

The purpose of this communication is solely to describe the scope of our testing of internal control over financial reporting and the results of that testing. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cooperative's internal control over financial reporting. Accordingly, this communication is not suitable for any other purpose.

**BKD, LLP**

Oklahoma City, Oklahoma  
March 21, 2013

**TRICO Electric Cooperative, Inc.**  
**Schedule of Findings and Responses**  
**Year Ended December 31, 2012**

<b>Reference Number</b>	<b>Finding</b>
12-01	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – Certain individuals in the accounting area have incompatible duties in the cash disbursements, cash receipts and payroll transactions cycles.</p> <p>Context – Certain individuals perform substantially all functions within the cash disbursements, cash receipts and payroll transactions cycles, including having access to assets, the ability to record transactions and the responsibility for reconciling and reviewing transactions, as well as the ability to enter nonstandard journal entries with no documented review of these journal entries.</p> <p>Effect – Potential material misstatements in the financial statements or material misappropriation of assets due to error or fraud could occur and not be detected and/or corrected in a timely manner.</p> <p>Cause – Duties in the cash disbursements, cash receipts and payroll transactions cycles are not adequately segregated and monitoring or compensating controls are insufficient or limited.</p> <p>Recommendation – Management should periodically evaluate the cost versus the benefit of further segregation of duties or the addition of other monitoring or compensating controls and implement those changes it deems appropriate.</p> <p>Views of Responsible Officials and Planned Corrective Actions – Management continually evaluates the cost effectiveness between concentrated job duties and the cost of hiring new employees or other mitigating controls. In late 2012, the Accounting Department hired a new position with the intent of segregating duties more effectively and implementing increased review processes.</p>