



RECEIVED

2014 APR 10 P 2:01

A Touchstone Energy® Cooperative 

April 7, 2014

AT CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission
DOCKETED

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

ORIGINAL

APR 10 2014

DOCKETED BY 

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 2013 Audited Financials December 31, 2013 Compliance Report Decision No. 70399, and a copy of the final year-end audit report.

Trico is filing this report to comply with Decision No. 70399 to show that Trico meets the required TIER and DSC ratios following 2013’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 2.08 Operating TIER for year-end 2013. Trico also met the required Operating DSC requirement of 1.25 by earning a 1.91 Operating DSC for year-end 2013.

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

Trico Electric Cooperative
RUS FORM 7 2013 Audited Financials
December 31, 2013
Compliance Report Decision No. 70399

| | | 2013 |
|---|-----------|-------------------|
| REVENUE | | |
| 1 Operating Revenue and Patronage Capital | \$ | 87,083,256 |
| COST OF POWER | | |
| 2 Cost of Purchased Power-Energy | \$ | 42,615,315 |
| 3 Cost of Purchased Power-Transmission | \$ | 9,341,693 |
| 4 Power Production | \$ | (5,243) |
| 5 Total Fuel Costs | \$ | 51,951,765 |
| 6 Gross Margin (Revenue-Fuel Costs) | \$ | 35,131,491 |
| TRICO DISTRIBUTION COSTS | | |
| 7 Distribution Expense - Operations | \$ | 7,676,894 |
| 8 Distribution Expense - Maintenance | \$ | 1,769,326 |
| 9 Customer Accounts Expense | \$ | 2,580,887 |
| 10 Customer Service & Information Expense | \$ | 347,232 |
| 11 Sales Expense | \$ | 338,825 |
| 12 Administrative & General Expense | \$ | 5,009,460 |
| 13 Total Trico Variable Operating Expenses | \$ | 17,722,624 |
| FIXED OPERATING EXPENSES | | |
| 14 Depreciation & Amortization Expense | \$ | 6,503,112 |
| 15 Tax Expense - Property & Gross Receipts | \$ | - |
| 16 Tax Expense - Other | \$ | (38) |
| 17 Interest on Long-Term Debt | \$ | 5,154,823 |
| 18 Interest Charged to Construction - Credit | \$ | - |
| 19 Interest Expense - Other | \$ | 3,182 |
| 20 Other Deductions | \$ | 205,320 |
| 21 Total Fixed Operating Expenses | \$ | 11,866,399 |
| 22 Total Costs of Electric Service | \$ | 81,540,788 |
| 23 Patronage Capital & Operating Margins | \$ | 5,542,468 |
| 24 Non-Operating Margins - Interest | \$ | 163,339 |
| 25 Allowance for Funds Used During Construction | \$ | - |
| 26 Income (Loss) from Equity Investments | \$ | - |
| 27 Non-Operating Margins - Other | \$ | 80,069 |
| 28 Generation and Transmission Capital Credits | \$ | 3,044,663 |
| 29 Other Capital Credits & Patronage Dividends | \$ | 259,992 |
| 30 Patronage Capital or Margins | \$ | 9,090,531 |
| 31 Operating TIER Ratio | | 2.08 |
| 32 Non Operating TIER Ratio | | 2.76 |
| 33 Operating DSC | | 1.91 |

Trico Electric Cooperative, Inc.
Auditor's Reports and Financial Statements
December 31, 2013 and 2012



Trico Electric Cooperative, Inc.
December 31, 2013 and 2012

Contents

Independent Auditor's Report..... 1

Financial Statements

Balance Sheets..... 3
Statements of Margins and Patronage Capital..... 4
Statements of Cash Flows 5
Notes to Financial Statements 6

**Independent Auditor's Report on
Supplementary Information** 16

Supplementary Information

Electric Plant (Year Ended December 31, 2013)..... 17
Accumulated Provision for Depreciation and Amortization
(Year Ended December 31, 2013)..... 18
Investments (December 31, 2013 and 2012)..... 19
Patronage Capital (Year Ended December 31, 2013)..... 20
RUS, FFB and NRUCFC Mortgage Notes (December 31, 2013)..... 21
Administrative and General Expenses (Years Ended December 31, 2013 and 2012) 22
Five-Year Comparative Data (Years Ended December 31, 2009 through 2013)..... 23

**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**..... 24
Schedule of Findings and Responses 26

Independent Auditor's Report

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, 2013 and 2012, 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, 2013 and 2012, 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 12, 2014, 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 12, 2014

Trico Electric Cooperative, Inc.

Balance Sheets

December 31, 2013 and 2012

Assets

| | 2013 | 2012 |
|--|----------------|----------------|
| Utility Plant, at Cost | | |
| Electric plant in service | \$ 222,785,251 | \$ 218,822,552 |
| Electric plant held for future use | 166,341 | 166,341 |
| Construction work in progress | 7,358,854 | 6,027,327 |
| | 230,310,446 | 225,016,220 |
| Less accumulated appreciation and amortization | 64,337,090 | 58,590,962 |
| | 165,973,356 | 166,425,258 |
| Investments, at Cost | | |
| Investments in associated enterprises | 32,977,014 | 29,841,382 |
| Other investments | 115,653 | 125,541 |
| | 33,092,667 | 29,966,923 |
| Current Assets | | |
| Cash | 5,563,480 | 6,851,719 |
| Temporary cash investments | 3,000,000 | - |
| Cash and cash equivalents | 8,563,480 | 6,851,719 |
| Accounts receivable, net of allowance; 2013 – \$797,973; 2012 – \$603,144 | 4,341,257 | 4,669,920 |
| Power cost adjustment – underbilled | 55,770 | 371,147 |
| Materials and supplies | 2,992,647 | 3,026,965 |
| Other current and accrued assets | 989,215 | 1,076,051 |
| | 16,942,369 | 15,995,802 |
| Deferred Charges and Other | | |
| Deferred charges | 359,731 | 344,964 |
| Pension prepayment | 4,746,379 | - |
| | 5,106,110 | 344,964 |
| Total assets | \$ 221,114,502 | \$ 212,732,947 |

See Notes to Financial Statements

Equities and Liabilities

| | <u>2013</u> | <u>2012</u> |
|---|-----------------------|-----------------------|
| Equities | | |
| Patronage capital | \$ 74,190,419 | \$ 66,826,546 |
| Other equities | <u>6,829,851</u> | <u>6,797,658</u> |
| | <u>81,020,270</u> | <u>73,624,204</u> |
| Long-Term Debt | | |
| RUS mortgage notes, less current maturities | 18,661,240 | 23,998,584 |
| FFB mortgage notes, less current maturities | 46,421,184 | 39,339,035 |
| NRUCFC mortgage notes, less current maturities | 31,106,923 | 32,062,534 |
| CoBank mortgage notes, less current maturities | <u>23,485,298</u> | <u>24,038,979</u> |
| | <u>119,674,645</u> | <u>119,439,132</u> |
| Current Liabilities | | |
| Current maturities of long-term debt | 4,199,773 | 3,605,676 |
| Accounts payable – purchased power | 4,176,629 | 3,815,671 |
| Accounts payable – other | 1,223,723 | 1,429,242 |
| Consumer deposits | 1,615,883 | 1,582,303 |
| Accrued taxes | 1,727,201 | 1,642,121 |
| Accrued interest | 143,040 | 152,696 |
| Accrued employee compensated absences | 1,375,770 | 1,373,103 |
| Other current and accrued liabilities | <u>477,160</u> | <u>385,368</u> |
| | <u>14,939,179</u> | <u>13,986,180</u> |
| Deferred Credits | <u>5,384,809</u> | <u>5,577,621</u> |
| Pension Reserves – Deferred Compensation | <u>95,599</u> | <u>105,810</u> |
| Total equities and liabilities | <u>\$ 221,114,502</u> | <u>\$ 212,732,947</u> |

Trico Electric Cooperative, Inc.
Statements of Margins and Patronage Capital
Years Ended December 31, 2013 and 2012

| | Years Ended December 31, | | | | |
|---|--------------------------|--------------|----------------------|--------------|------------------------|
| | 2013 | | 2012 | | Increase (Decrease) |
| | Amount | % | Amount | % | |
| Operating Revenues | | | | | |
| Residential | \$ 58,461,099 | 67.1 | \$ 51,963,391 | 66.3 | \$ 6,497,708 |
| Irrigation | 90,141 | 0.1 | 80,696 | 0.1 | 9,445 |
| Commercial and industrial | 27,161,622 | 31.2 | 24,175,244 | 30.8 | 2,986,378 |
| Public buildings and other authorities | 90,610 | 0.1 | 83,204 | 0.1 | 7,406 |
| Sales for resale | 91,713 | 0.1 | 60,710 | 0.1 | 31,003 |
| Power cost adjustment | (315,378) | -0.4 | 522,782 | 0.7 | (838,160) |
| Rent from electric property | 281,290 | 0.3 | 209,744 | 0.3 | 71,546 |
| Other electric revenue | 1,222,161 | 1.4 | 1,320,311 | 1.7 | (98,150) |
| Total operating revenues | 87,083,258 | 100.0 | 78,416,082 | 100.0 | 8,667,176 |
| Operating Expenses | | | | | |
| Purchased power and transmission | 51,951,764 | 59.7 | 43,939,074 | 56.1 | 8,012,690 |
| Distribution – operation | 7,676,895 | 8.8 | 6,658,911 | 8.5 | 1,017,984 |
| Distribution – maintenance | 1,769,325 | 2.0 | 1,666,986 | 2.0 | 102,339 |
| Customer accounts | 2,580,889 | 3.0 | 2,727,348 | 3.5 | (146,459) |
| Customer service and information | 686,057 | 0.8 | 652,673 | 0.8 | 33,384 |
| Administrative and general | 5,009,458 | 5.8 | 4,829,979 | 6.2 | 179,479 |
| Depreciation | 6,503,111 | 7.5 | 6,507,489 | 8.3 | (4,378) |
| Other deductions | 208,464 | 0.2 | 388,639 | 0.5 | (180,175) |
| Total operating expenses | 76,385,963 | 87.7 | 67,371,099 | 85.9 | 9,014,864 |
| Operating Margins Before Fixed Charges | 10,697,295 | 12.3 | 11,044,983 | 14.1 | (347,688) |
| Fixed Charges | | | | | |
| Interest on long-term debt | 5,154,823 | 5.9 | 5,713,480 | 7.3 | (558,657) |
| Operating Margins After Fixed Charges | 5,542,472 | 6.4 | 5,331,503 | 6.8 | 210,969 |
| Capital credits | 3,304,655 | 3.8 | 2,026,384 | 2.6 | 1,278,271 |
| Net Operating Margins | 8,847,127 | 10.2 | 7,357,887 | 9.4 | 1,489,240 |
| Nonoperating Margins | | | | | |
| Interest income | 163,339 | 0.2 | 121,311 | 0.2 | 42,028 |
| Other nonoperating income | 80,069 | 0.1 | 563,801 | 0.7 | (483,732) |
| | 243,408 | 0.3 | 685,112 | 0.2 | (441,704) |
| Net Margins | 9,090,535 | 10.4 | 8,042,999 | 10.3 | \$ 1,047,536 |
| Patronage Capital, Beginning of Year | | | | | |
| Patronage capital retired | (1,726,662) | | (1,523,150) | | |
| Patronage Capital, End of Year | \$ 74,190,419 | | \$ 66,826,546 | | |

Trico Electric Cooperative, Inc.
Statements of Cash Flows
Years Ended December 31, 2013 and 2012

| | 2013 | 2012 |
|--|--------------|--------------|
| Operating Activities | | |
| Net margins | \$ 9,090,535 | \$ 8,042,999 |
| Items not requiring (providing) cash | | |
| Depreciation | 6,869,577 | 6,712,755 |
| Capital credits | (3,228,569) | (2,026,384) |
| Changes in | | |
| Accounts receivable, net | 328,663 | 1,337,802 |
| Deferred charges | (261,146) | (14,070) |
| Deferred credits | (203,023) | (1,112,287) |
| Inventories and other current assets | 121,154 | 657,379 |
| Payables and accrued expenses | 661,046 | (397,247) |
| Net cash provided by operating activities | 13,378,237 | 13,200,947 |
| Investing Activities | | |
| Additions to utility plant | (6,861,385) | (4,628,953) |
| Salvage value of retirements and other credits | 632,217 | 17,433 |
| Utility plant removal costs | (175,274) | (858,802) |
| Other property and investments | 102,825 | 173,484 |
| Net cash used in investing activities | (6,301,617) | (5,296,838) |
| Financing Activities | | |
| Advances on long-term debt from FFB | 4,350,000 | 5,000,000 |
| 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 | (5,303,621) | (56,683,592) |
| Principal payments on long-term debt to FFB | (1,255,236) | (827,790) |
| Principal payments on long-term debt to NRUCFC | (934,802) | (588,428) |
| Principal payments on long-term debt to CoBank | (526,731) | (125,068) |
| Retirement of patronage capital | (1,726,662) | (1,523,150) |
| Other equities | 32,193 | 10,537 |
| Net cash used in financing activities | (5,364,859) | (4,801,714) |
| Increase in Cash and Cash Equivalents | 1,711,761 | 3,102,395 |
| Cash and Cash Equivalents, Beginning of Year | 6,851,719 | 3,749,324 |
| Cash and Cash Equivalents, End of Year | \$ 8,563,480 | \$ 6,851,719 |
| Supplemental Cash Flows Information | | |
| Interest paid | \$ 5,164,479 | \$ 5,649,444 |
| Utility plant purchases included in accounts payable | \$ 532,284 | \$ 519,051 |
| Pension prepayment financed with FFB | \$ 4,500,000 | \$ - |

Trico Electric Cooperative, Inc.

Notes to Financial Statements

December 31, 2013 and 2012

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 accompanying 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. Cash equivalents consisted of interest bearing deposits held by Arizona Electric Power Cooperative, Inc.

At December 31, 2013, the Cooperative's cash accounts exceed the Federal Deposit Insurance Corporation (FDIC) insurance limits by approximately \$6,095,000.

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, 2013 and 2012

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>2013</u> | <u>2012</u> |
|-------------------------------------|---------------------|---------------------|
| Construction materials and supplies | \$ 2,916,748 | \$ 2,948,941 |
| Transportation supplies | 5,566 | 12,076 |
| Fuel | <u>70,333</u> | <u>65,948</u> |
| | <u>\$ 2,992,647</u> | <u>\$ 3,026,965</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, 2013 and 2012, was approximately \$3,377,000 and \$3,448,000, respectively.

Trico Electric Cooperative, Inc.

Notes to Financial Statements

December 31, 2013 and 2012

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 2010.

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.

Reclassifications

Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 financial statement presentation. These reclassifications had no effect on net margins.

Subsequent Events

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

Trico Electric Cooperative, Inc.

Notes to Financial Statements

December 31, 2013 and 2012

Note 2: Electric Plant

The major classes of electric plant are as follows:

| | 2013 | 2012 |
|------------------------------------|----------------|----------------|
| Intangible plant | \$ 1,180 | \$ 1,180 |
| Other production plant | 265,847 | 257,567 |
| Transmission plant | 3,724,399 | 3,702,860 |
| Distribution plant | 197,009,031 | 193,626,400 |
| General plant | 21,784,794 | 21,234,545 |
| Total electric plant in service | 222,785,251 | 218,822,552 |
| Electric plant held for future use | 166,341 | 166,341 |
| Construction work in progress | 7,358,854 | 6,027,327 |
| Total electric plant | \$ 230,310,446 | \$ 225,016,220 |

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

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, 2013 and 2012, was \$6,869,577 and \$6,712,755, respectively, of which \$6,503,111 and \$6,507,489, respectively, was charged to depreciation expense, and \$366,466 and \$205,266, respectively, was allocated to other accounts.

Trico Electric Cooperative, Inc.

Notes to Financial Statements

December 31, 2013 and 2012

Note 3: Investments in Associated Enterprises

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

| | <u>2013</u> | <u>2012</u> |
|--|----------------------|----------------------|
| NRUCFC | | |
| Capital-term certificates | \$ 1,131,820 | \$ 1,140,411 |
| Patronage capital | 497,118 | 440,588 |
| Membership | 1,000 | 1,000 |
| Arizona Electric Power Cooperative, Inc. | | |
| Patronage capital | 25,966,330 | 25,055,123 |
| Southwest Transmission Cooperative, Inc. | | |
| Patronage capital | 4,838,896 | 2,705,440 |
| Other | <u>541,850</u> | <u>498,820</u> |
| | <u>\$ 32,977,014</u> | <u>\$ 29,841,382</u> |

Note 4: Deferred Charges

Deferred charges consisted of the following at December 31:

| | <u>2013</u> | <u>2012</u> |
|--|-------------------|-------------------|
| Deferred debits | | |
| Preliminary survey and investigation charges | \$ 331,042 | \$ 317,903 |
| Other | <u>28,689</u> | <u>27,061</u> |
| | <u>\$ 359,731</u> | <u>\$ 344,964</u> |

Note 5: Patronage Capital

Patronage capital consisted of the following at December 31:

| | <u>2013</u> | <u>2012</u> |
|------------|----------------------|----------------------|
| Assigned | \$ 65,099,884 | \$ 58,783,547 |
| Assignable | <u>9,090,535</u> | <u>8,042,999</u> |
| Balance | <u>\$ 74,190,419</u> | <u>\$ 66,826,546</u> |

Trico Electric Cooperative, Inc.

Notes to Financial Statements

December 31, 2013 and 2012

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, 2013 and 2012. The Cooperative retired \$1,726,662 and \$1,523,150 of patronage capital during 2013 and 2012, respectively.

Note 6: Other Equities

| | 2013 | 2012 |
|--------------------------------|--------------|--------------|
| Retired capital credits – gain | \$ 262,185 | \$ 229,992 |
| Donated capital | 4,484,682 | 4,484,682 |
| Gain on sale of property | 2,082,984 | 2,082,984 |
| | \$ 6,829,851 | \$ 6,797,658 |

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:

| | 2013 | 2012 |
|-------------------------|----------------|----------------|
| FFB – 1.45% to 4.36% | \$ 47,981,617 | \$ 40,386,853 |
| NRUCFC – 2.50% to 6.26% | 32,058,570 | 32,993,372 |
| RUS – 4.63% to 5.75% | 19,795,253 | 25,098,874 |
| CoBank – 4.22% | 24,038,978 | 24,565,709 |
| | 123,874,418 | 123,044,808 |
| Less current maturities | (4,199,773) | (3,605,676) |
| | \$ 119,674,645 | \$ 119,439,132 |

Trico Electric Cooperative, Inc.
Notes to Financial Statements
December 31, 2013 and 2012

Aggregate annual maturities of long-term debt at December 31, 2013, are as follows:

| | |
|------------|-----------------------|
| 2014 | \$ 4,199,773 |
| 2015 | 4,292,299 |
| 2016 | 4,230,092 |
| 2017 | 4,432,243 |
| 2018 | 4,626,808 |
| Thereafter | <u>102,093,203</u> |
| | <u>\$ 123,874,418</u> |

At December 31, 2013, the Cooperative has \$2,000,000 invested in the RUS cushion of credit program. The balance is used to reduce future principal payments on RUS debt. The balance reduced the total amount debt outstanding at December 31, 2013.

As of December 31, 2013, the Cooperative has approximately \$33,629,000 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 expires in August 9, 2014 and March 1, 2014, respectively. The lines are collateralized by substantially all of the Cooperative's assets. At December 31, 2013 and 2012, the interest rate was 2.90%. At December 31, 2013 and 2012, there was \$0 borrowed against these lines.

Note 9: Deferred Credits

Deferred credits consisted of the following at December 31:

| | <u>2013</u> | <u>2012</u> |
|---|---------------------|---------------------|
| Advances for construction | \$ 2,914,148 | \$ 4,319,345 |
| Unclaimed patronage capital retirements | 580,044 | 512,478 |
| Renewable energy surcharge | 1,645,425 | 728,374 |
| Other | <u>245,192</u> | <u>17,424</u> |
| | <u>\$ 5,384,809</u> | <u>\$ 5,577,621</u> |

Trico Electric Cooperative, Inc.
Notes to Financial Statements
December 31, 2013 and 2012

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 2013 and 2012 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 approximately \$1,821,000 and \$1,648,000 in 2013 and 2012, respectively. There have been no significant changes that affect the comparability of 2013 and 2012 contributions.

In the RS Plan, a "zone status" determination is not required, and therefore, not determined under the *Pension Protection Act of 2006* (PPA). In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employers. In total, the RS Plan was over 80% funded at January 1, 2013, and between 65% and 80% funded at January 1, 2012, 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.

During 2013, the Cooperative voluntarily prepaid contributions of \$4,746,379 to the RS Plan. The prepayment was the equivalent of approximately 2.5 times the 2013 annual required contribution and will result in an approximate 25% reduction in the required contributions beginning in 2014. The reduced contributions (relative to the contributions that otherwise would have been payable had the Cooperative not made the prepayment) are expected to continue for approximately 10 years. In accordance with the guidance provided by the RUS to its borrowers, the Cooperative recorded the contribution as a prepaid asset and is amortizing it over 10 years.

Trico Electric Cooperative, Inc.
Notes to Financial Statements
December 31, 2013 and 2012

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 \$336,000 and \$331,000 to the Plan for the years ended December 31, 2013 and 2012, respectively.

Note 11: Related-Party Transactions

The Cooperative is a member (and, therefore, part owner) of Arizona Electric Power Cooperative, Inc. (AEPCO). The Cooperative purchases a portion of electrical power from AEPCO. Investments in associated enterprises include \$25,966,330 and \$25,055,123 of patronage capital in AEPCO at December 31, 2013 and 2012, respectively. During 2011, the Cooperative changed from an all-power requirements contract with AEPCO 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 \$4,838,896 and \$2,705,440 of patronage capital in STC at December 31, 2013 and 2012, 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 \$497,118 and \$440,588 of patronage capital in NRUCFC at December 31, 2013 and 2012, respectively. In addition, investments in associated enterprises include \$1,131,820 and \$1,140,411 of capital-term certificates at December 31, 2013 and 2012, 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.

Trico Electric Cooperative, Inc.

Notes to Financial Statements

December 31, 2013 and 2012

Materials Supply

The Cooperative is a party to a materials stock purchase agreement with Border States Electric Supply until 2014. Under the agreement, the Cooperative receives discounted pricing if it purchases a minimum of \$1,250,000 in materials per year.

Labor Agreement

Certain employees are covered by a collective bargaining agreement with the IBEW 1116. The collective bargaining agreement covers approximately 61% of the employees and will expire at year-end 2014.

AEPCO

Regional Haze

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 cost to install these additional environmental controls is estimated to be as high as \$200,000,000. Following discussions with the EPA, the Arizona Department of Environmental Quality (ADEQ) has released for public comment a proposed revision to its state implementation plan for the regional haze requirements for the Apache station. The revision, if approved by the EPA, would amend the control strategy for the Apache Station to require the installation of significantly less expensive controls, along with the conversion of one of Apache Station's Coal units to operate on natural gas. The cost of such controls is estimated to be approximately \$30 million.

Mercury Controls

In addition to the aforementioned environmental capital expenditures, AEPCO is projecting an increase in operating expenses of approximately \$4 million to \$6 million annually associated with mercury controls beginning in 2016.

The Cooperative could see significant future increases in the cost of power as a result of the foregoing capital and operating expenses by AEPCO.

Power Sale Agreements

The Cooperative is allocated approximately 75 MW of power capacity under power purchase agreements maintained by AEPCO. Those agreements expire in 2014. The Cooperative will need to replace that capacity through short-term market purchases or new long-term power purchase agreements.

Trico Electric Cooperative, Inc.

Notes to Financial Statements

December 31, 2013 and 2012

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 were 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
Supplementary Information**

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

Our audits were 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 2013 and 2012 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 2013 and 2012 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, 2009 and 2013, on page 23, is presented for purposes of additional analysis and is not a required part of the financial statements. The 2009 through 2011 information has not been subjected to the auditing procedures applied in the audit of the 2013 and 2012 financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

March 12, 2014

Trico Electric Cooperative, Inc.
Electric Plant
Year Ended December 31, 2013

| | Balance January 1, 2013 | Additions | Retirements | Adjustments and Transfers | Balance December 31, 2013 |
|---|-------------------------------|---------------------|-----------------------|---------------------------------|---------------------------------|
| Intangible Plant | | | | | |
| Organization | \$ 1,180 | \$ - | \$ - | \$ - | \$ 1,180 |
| Other Production Plant | | | | | |
| Land and land rights | 32,631 | - | - | - | 32,631 |
| Power plant equipment | 224,936 | 8,280 | - | - | 233,216 |
| | <u>257,567</u> | <u>8,280</u> | <u>-</u> | <u>-</u> | <u>265,847</u> |
| Transmission Plant | | | | | |
| Land and land rights | 532,578 | - | - | - | 532,578 |
| Station equipment | 119,354 | - | - | - | 119,354 |
| Poles and fixtures | 1,912,614 | 23,498 | (1,393) | (888) | 1,933,831 |
| Overhead conductors and devices | 1,138,314 | 322 | - | - | 1,138,636 |
| Total | <u>3,702,860</u> | <u>23,820</u> | <u>(1,393)</u> | <u>(888)</u> | <u>3,724,399</u> |
| Distribution Plant | | | | | |
| Land and land rights | 101,005 | - | - | - | 101,005 |
| Station equipment | 15,019,302 | 657,919 | (24,500) | - | 15,652,721 |
| Poles, towers and fixtures | 22,654,391 | 254,025 | (70,015) | (72,106) | 22,766,295 |
| Overhead conductors and devices | 23,365,150 | 271,952 | (161,460) | (130,703) | 23,344,939 |
| Underground conduit | 5,391,728 | 399,980 | (444) | - | 5,791,264 |
| Underground conductors and devices | 81,847,896 | 1,691,220 | (423,296) | (12,914) | 83,102,906 |
| Line transformers | 26,254,872 | 901,840 | (169,585) | 288,942 | 27,276,069 |
| Services | 7,294,549 | 38,770 | (11,727) | (315) | 7,321,277 |
| Meters | 11,376,100 | 236,559 | (282,146) | - | 11,330,513 |
| Installations on customers' premises | 319,846 | 4,320 | (3,682) | - | 320,484 |
| Street lights | 1,561 | - | - | (3) | 1,558 |
| Total | <u>193,626,400</u> | <u>4,456,585</u> | <u>(1,146,855)</u> | <u>72,901</u> | <u>197,009,031</u> |
| General Plant | | | | | |
| Land and land rights | 734,514 | - | - | - | 734,514 |
| Structures and improvements | 10,647,258 | 19,152 | (3,000) | - | 10,663,410 |
| Office furniture and equipment | 1,490,580 | 94,431 | (58,514) | - | 1,526,497 |
| Transportation equipment | 5,109,921 | 513,287 | (328,171) | - | 5,295,037 |
| Store equipment | 294,044 | 82,395 | - | - | 376,439 |
| Tools, shop and garage equipment | 613,973 | 104,237 | (24,506) | - | 693,704 |
| Laboratory equipment | 893,082 | 35,341 | - | - | 928,423 |
| Power-operated equipment | 773,787 | 85,899 | - | - | 859,686 |
| Communications equipment | 504,377 | 16,162 | (2,911) | - | 517,628 |
| Miscellaneous equipment | 173,009 | 31,489 | (15,042) | - | 189,456 |
| Total | <u>21,234,545</u> | <u>982,393</u> | <u>(432,144)</u> | <u>-</u> | <u>21,784,794</u> |
| Total Classified Electric Plant in Service | 218,822,552 | 5,471,078 | (1,580,392) | 72,013 | 222,785,251 |
| Electric Plant Held for Future Use | 166,341 | - | - | - | 166,341 |
| Construction Work in Progress | 6,027,327 | - | - | 1,331,527 | 7,358,854 |
| Total utility plant | <u>\$ 225,016,220</u> | <u>\$ 5,471,078</u> | <u>\$ (1,580,392)</u> | <u>\$ 1,403,540</u> | <u>\$ 230,310,446</u> |

Trico Electric Cooperative, Inc.
Accumulated Provision for Depreciation and Amortization
Year Ended December 31, 2013

| | Balance January 1, 2013 | Depreciation and Amortization Accruals | Retirements and Other Adjustments | Balance December 31, 2013 |
|---|-------------------------------|---|---|---------------------------------|
| Other Production Plant | \$ 12,281 | \$ 11,685 | \$ - | \$ 23,966 |
| Transmission Plant | 1,048,419 | 87,245 | 1,766 | 1,133,898 |
| Distribution Plant | 48,613,612 | 5,879,616 | 652,562 | 53,840,666 |
| General Plant | <u>8,979,374</u> | <u>891,031</u> | <u>396,034</u> | <u>9,474,371</u> |
| Total Classified Electric Plant in Service | 58,653,686 | 6,869,577 | 1,050,362 | 64,472,901 |
| Retirement Work in Progress | <u>(62,724)</u> | <u>-</u> | <u>73,087</u> | <u>(135,811)</u> |
| | <u>\$ 58,590,962</u> | <u>\$ 6,869,577</u> (1) | <u>\$ 1,123,449</u> (2) | <u>\$ 64,337,090</u> |

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

\$ 6,503,111
366,466
\$ 6,869,577

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

\$ 1,580,392
175,274
(632,217)

Loss due to retirement

\$ 1,123,449

Trico Electric Cooperative, Inc.

Investments

December 31, 2013 and 2012

| | <u>2013</u> | <u>2012</u> |
|--|----------------------|----------------------|
| Investments in Associated Enterprises | | |
| 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 | 1,000 |
| Patronage capital | | |
| Arizona Electric Power Cooperative, Inc. | 25,966,330 | 25,055,123 |
| Southwest Transmission Cooperative | 4,838,896 | 2,705,440 |
| National Rural Utilities Cooperative Finance Corporation | 497,118 | 440,588 |
| National Information Systems Cooperative | 154,621 | 126,277 |
| National Rural Telecommunications Cooperative | 27,044 | 31,713 |
| CoBank | 19,021 | - |
| Capital-term certificates | | |
| National Rural Utilities Cooperative Finance Corporation | 1,131,819 | 1,140,411 |
| Capital stock | | |
| Federated Rural Electric Insurance Corporation – Preferred E Stock | 180,620 | 173,776 |
| Statewide organizations | | |
| Grand Canyon State Electric building fund | <u>158,110</u> | <u>164,619</u> |
| Total investments in associated organizations | <u>32,977,014</u> | <u>29,841,382</u> |
| Other Investments | | |
| Cash value annuities | 95,599 | 105,810 |
| Fuel deposits and state compensation deposit | 12,054 | 11,731 |
| Other | <u>8,000</u> | <u>8,000</u> |
| | <u>115,653</u> | <u>125,541</u> |
| Total investments | <u>\$ 33,092,667</u> | <u>\$ 29,966,923</u> |

Trico Electric Cooperative, Inc.
Patronage Capital
Year Ended December 31, 2013

| Year | Assignable | AEP Assigned | Cooperative Assigned | Balance |
|------|---------------------|----------------------|-------------------------|----------------------|
| 1989 | \$ - | \$ - | \$ 351,921 | \$ 351,921 |
| 1990 | - | - | 409,041 | 409,041 |
| 1991 | - | - | 182,989 | 182,989 |
| 1992 | - | - | 634,846 | 634,846 |
| 1993 | - | - | 973,247 | 973,247 |
| 1994 | - | - | 526,412 | 526,412 |
| 1995 | - | - | 1,225,410 | 1,225,410 |
| 1996 | - | - | 916,050 | 916,050 |
| 1997 | - | - | 752,846 | 752,846 |
| 1998 | - | - | 1,987,552 | 1,987,552 |
| 1999 | - | - | 2,255,019 | 2,255,019 |
| 2000 | - | - | 2,222,096 | 2,222,096 |
| 2001 | - | 1,396,117 | 2,172,005 | 3,568,122 |
| 2002 | - | 2,460,668 | 1,257,560 | 3,718,228 |
| 2003 | - | 1,365,747 | 937,696 | 2,303,443 |
| 2004 | - | 473,638 | 380,023 | 853,661 |
| 2005 | - | 310,317 | 1,341,031 | 1,651,348 |
| 2006 | - | 637,376 | 2,537,771 | 3,175,147 |
| 2007 | - | 1,935,293 | 563,292 | 2,498,585 |
| 2008 | - | 5,567,262 | 442,182 | 6,009,444 |
| 2009 | - | 6,219,706 | 1,731,682 | 7,951,388 |
| 2010 | - | 2,357,667 | 3,669,000 | 6,026,667 |
| 2011 | - | 2,953,950 | 3,919,002 | 6,872,952 |
| 2012 | - | 1,927,433 | 6,106,037 | 8,033,470 |
| 2013 | 9,090,535 | - | - | 9,090,535 |
| | <u>\$ 9,090,535</u> | <u>\$ 27,605,174</u> | <u>\$ 37,494,710</u> | <u>\$ 74,190,419</u> |

Trico Electric Cooperative, Inc.
RUS, FFB and NRUCFC Mortgage Notes
December 31, 2013

| Note Number | Date of Note | Interest Rate | Principal Amount | Deferred Interest | Amount Unadvanced | Principal Repayments | Net Obligation |
|------------------------------|---------------------|----------------------|-------------------------|--------------------------|--------------------------|-----------------------------|-----------------------|
| RUS Mortgage Notes | | | | | | | |
| Notes paid in full | | | \$ 41,624,986 | \$ - | \$ - | \$ 41,624,986 | \$ - |
| 1B280 | 11/10/1980 | 5.000% | 1,673,000 | - | - | 1,502,113 | 170,887 |
| 1B282 | 11/10/1980 | 5.000% | 1,673,000 | - | - | 1,502,113 | 170,887 |
| 1B290 | 3/25/1986 | 5.000% | 1,562,000 | - | - | 988,794 | 573,206 |
| 1B292 | 3/25/1986 | 5.000% | 1,562,000 | - | - | 988,794 | 573,206 |
| 1B300 | 8/25/1989 | 5.000% | 2,933,500 | - | - | 1,455,229 | 1,478,271 |
| 1B302 | 8/25/1989 | 5.000% | 2,933,500 | - | - | 1,455,229 | 1,478,271 |
| 1B310 | 9/22/1992 | 5.000% | 2,698,000 | - | - | 1,055,419 | 1,642,581 |
| 1B315 | 9/22/1992 | 5.000% | 2,698,000 | - | - | 1,055,419 | 1,642,581 |
| 1B320 | 10/25/1994 | 5.750% | 1,966,000 | - | - | 595,305 | 1,370,695 |
| 1B325 | 10/25/1994 | 5.500% | 1,960,000 | - | - | 600,661 | 1,359,339 |
| 1B330 | 7/1/1997 | 5.125% | 3,955,000 | - | - | 985,466 | 2,969,534 |
| 1B335 | 7/1/1997 | 4.620% | 3,695,000 | - | - | 952,880 | 2,742,120 |
| 1B336 | 3/1/2001 | 5.500% | 260,000 | - | - | 57,878 | 202,122 |
| 1B663 | 8/2/2004 | 5.000% | 3,000,000 | - | - | 289,876 | 2,710,124 |
| 1B664 | 8/2/2004 | 5.000% | 3,000,000 | - | - | 288,571 | 2,711,429 |
| | | | <u>77,193,986</u> | <u>-</u> | <u>-</u> | <u>55,398,733</u> | <u>21,795,253</u> |
| Cushion of credit | | | - | - | - | - | (2,000,000) |
| Total RUS | | | <u>\$ 77,193,986</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 55,398,733</u> | <u>\$ 19,795,253</u> |
| FFB Mortgage Loans | | | | | | | |
| H0010 | 10/20/2008 | 4.360% | \$ 2,000,000 | \$ - | \$ - | \$ 105,617 | \$ 1,894,383 |
| H0015 | 1/21/2008 | 3.623% | 1,000,000 | - | - | 60,217 | 939,783 |
| H0020 | 3/23/2009 | 3.499% | 1,500,000 | - | - | 92,303 | 1,407,697 |
| H0025 | 5/19/2009 | 4.004% | 2,500,000 | - | - | 140,739 | 2,359,261 |
| H0030 | 7/17/2009 | 4.283% | 1,500,000 | - | - | 80,323 | 1,419,677 |
| H0035 | 7/22/2011 | 3.638% | 15,000,000 | - | - | 850,408 | 14,149,592 |
| H0040 | 9/1/2011 | 3.119% | 3,000,000 | - | - | 125,173 | 2,874,827 |
| H0045 | 11/10/2011 | 2.558% | 10,000,000 | - | - | 504,033 | 9,495,967 |
| H0050 | 11/16/2012 | 2.100% | 5,000,000 | - | - | 140,890 | 4,859,110 |
| H0055 | 1/22/2013 | 2.406% | 3,000,000 | - | - | 61,262 | 2,938,738 |
| H0060 | 6/17/2013 | 1.449% | 4,500,000 | - | - | 207,418 | 4,292,582 |
| F0065 | 11/26/2013 | 3.249% | 1,350,000 | - | - | - | 1,350,000 |
| Unadvanced | | | - | - | 33,629,000 | - | - |
| Total FFB | | | <u>\$ 50,350,000</u> | <u>\$ -</u> | <u>\$ 33,629,000</u> | <u>\$ 2,368,383</u> | <u>\$ 47,981,617</u> |
| NRUCFC Mortgage Notes | | | | | | | |
| Notes paid in full | | | \$ 6,969,657 | \$ - | \$ - | \$ 6,969,657 | \$ - |
| 9016 | 9/30/1990 | 6.040% | 1,509,000 | - | - | 1,329,079 | 179,921 |
| 9017 | 12/31/1985 | 6.180% | 1,380,412 | - | - | 832,579 | 547,833 |
| 9018 | 6/30/1989 | 6.220% | 2,618,750 | - | - | 1,187,307 | 1,431,443 |
| 9019 | 9/22/1992 | 6.260% | 2,409,375 | - | - | 941,066 | 1,468,309 |
| 9020 | 10/25/1994 | 6.260% | 1,685,000 | - | - | 504,174 | 1,180,826 |
| 9021 | 7/1/1997 | 6.250% | 3,390,000 | - | - | 754,629 | 2,635,371 |
| 9026001-9026028 | 8/23/2012 | 2.500% to 4.400% | 25,245,000 | - | - | 630,133 | 24,614,867 |
| Total NRUCFC | | | <u>\$ 45,207,194</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 13,148,624</u> | <u>\$ 32,058,570</u> |
| CoBank Mortgage Note | | | | | | | |
| R11064T01 | 8/23/2012 | 4.220% | \$ 24,690,777 | \$ - | \$ - | \$ 651,799 | \$ 24,038,978 |

Note: Net obligation includes \$4,253,156 due within one year and classified as a current liability on the accompanying balance sheet.

Trico Electric Cooperative, Inc.
Administrative and General Expenses
Years Ended December 31, 2013 and 2012

| | <u>2013</u> | <u>2012</u> | <u>Increase (Decrease)</u> |
|-------------------------------------|---------------------|---------------------|--------------------------------|
| Administrative and general salaries | \$ 2,074,787 | \$ 1,852,466 | \$ 222,321 |
| Office supplies and expenses | 601,149 | 716,016 | (114,867) |
| Outside services employed | 439,802 | 455,751 | (15,949) |
| Injuries and damages | 326,180 | 338,484 | (12,304) |
| Employee pensions and benefits | 133,644 | 105,898 | 27,746 |
| Annual meeting | 21,567 | 19,510 | 2,057 |
| Miscellaneous and general expenses | 676,886 | 637,429 | 39,457 |
| Regulatory commission expense | 164,685 | 174,207 | (9,522) |
| Maintenance of general plant | 570,758 | 530,218 | 40,540 |
| Total | <u>\$ 5,009,458</u> | <u>\$ 4,829,979</u> | <u>\$ 179,479</u> |

Trico Electric Cooperative, Inc.
Five-Year Comparative Data
Years Ended December 31, 2009 through 2013

| | Years Ended | | | | |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2013 | 2012 | 2011 | 2010 | 2009 |
| Operating Revenues | | | | | |
| Residential | \$ 58,461,099 | \$ 51,963,391 | \$ 58,470,799 | \$ 62,092,759 | \$ 58,436,925 |
| Irrigation | 90,141 | 80,696 | 107,425 | 127,732 | 181,276 |
| Commercial and industrial | 27,161,622 | 24,175,244 | 28,270,520 | 28,364,197 | 28,223,089 |
| Public buildings and other authorities | 90,610 | 83,204 | 90,048 | 74,945 | 51,219 |
| Sales for resale | 91,713 | 60,710 | 116,241 | 895 | 9,809 |
| (Over) under billed power cost | (315,378) | 522,782 | (716,703) | 681,924 | (1,202,540) |
| Rent from electric property | 281,290 | 209,744 | 291,082 | 353,125 | 325,457 |
| Other operating revenues | 1,222,161 | 1,320,311 | 1,204,244 | 1,090,678 | 1,094,360 |
| Total operating revenues | 87,083,258 | 78,416,082 | 87,833,656 | 92,786,255 | 87,119,595 |
| Operating Expenses | | | | | |
| Purchased power and transmission | 51,951,764 | 43,939,074 | 53,950,286 | 60,056,394 | 58,222,229 |
| Distribution – operation | 7,676,895 | 6,658,911 | 6,558,259 | 6,221,256 | 5,938,071 |
| Distribution – maintenance | 1,769,325 | 1,666,986 | 1,643,551 | 1,665,111 | 1,484,852 |
| Customer accounts | 2,580,889 | 2,727,348 | 2,669,470 | 2,838,200 | 2,722,526 |
| Customer service and information | 686,057 | 652,673 | 757,246 | 697,834 | 527,947 |
| Administrative and general | 5,009,458 | 4,829,979 | 5,026,377 | 4,640,301 | 3,793,060 |
| Depreciation and amortization | 6,503,111 | 6,507,489 | 6,383,401 | 6,445,508 | 6,023,242 |
| Taxes | - | 2,664 | (113) | (401) | 525 |
| Other interest | - | 2,958 | 31,490 | 4,778 | 32,707 |
| Other deductions | 208,464 | 383,017 | 891,065 | 255,761 | 161,383 |
| Total operating expenses | 76,385,963 | 67,371,099 | 77,911,032 | 82,824,742 | 78,906,542 |
| Operating Margins Before Fixed Charges | 10,697,295 | 11,044,983 | 9,922,624 | 9,961,513 | 8,213,053 |
| Fixed Charges | | | | | |
| Interest on long-term debt | 5,154,823 | 5,713,480 | 6,281,573 | 6,492,483 | 6,546,805 |
| Operating Margins After Fixed Charges | 5,542,472 | 5,331,503 | 3,641,051 | 3,469,030 | 1,666,248 |
| Capital credits | 3,304,655 | 2,026,384 | 3,061,081 | 2,461,716 | 6,307,832 |
| Net Operating Margins | 8,847,127 | 7,357,887 | 6,702,132 | 5,930,746 | 7,974,080 |
| Nonoperating Margins | | | | | |
| Interest income | 163,339 | 121,311 | 78,572 | 102,930 | 83,765 |
| Other nonoperating income | 80,069 | 563,801 | 121,444 | 70,879 | 59,594 |
| | 243,408 | 685,112 | 200,016 | 173,809 | 143,359 |
| Net Margins | \$ 9,090,535 | \$ 8,042,999 | \$ 6,902,148 | \$ 6,104,555 | \$ 8,117,439 |
| Miscellaneous statistics | | | | | |
| Customers at end of year * | 45,493 | 41,239 | 40,254 | 39,688 | 39,328 |
| MWH sales * | 662,065 | 661,213 | 647,788 | 619,772 | 632,532 |
| Times interest earned ratio | 2.76 | 2.41 | 2.10 | 1.94 | 2.24 |
| Debt service coverage | 2.29 | 2.23 | 1.88 | 2.03 | 2.22 |
| Equity to total assets | 36.63% | 34.64% | 31.89% | 29.78% | 27.67% |
| Equity to total capitalization | 40.35% | 38.07% | 34.67% | 32.63% | 30.28% |

* 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 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, the basic financial statements of Trico Electric Cooperative, Inc., which comprise the balance sheet as of December 31, 2013, and the related statements of margins and patronage capital and cash flows for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated March 12, 2014.

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 was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified. We identified a deficiency in internal control described in the accompanying schedule of findings and responses as item 13-01 that we consider to be a significant deficiency in internal control.

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 12, 2014.

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 and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Cooperative's internal control or compliance. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cooperative's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Oklahoma City, Oklahoma
March 12, 2014

Trico Electric Cooperative, Inc.
Schedule of Findings and Responses
Year Ended December 31, 2013

| Reference Number | Finding |
|-----------------------------|---|
| 13-01 | <p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – An individual in the accounting area has incompatible duties in the cash disbursements, cash receipts and payroll transactions cycles.</p> <p>Context – An individual has the ability to 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.</p> |