

FARMERS RURAL ELECTRIC  
COOPERATIVE CORPORATION  
GLASGOW, KENTUCKY

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REPORT ON AUDIT OF CONSOLIDATED  
FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION

For the Years Ended  
December 31, 2012 and 2011

CAMPBELL, MYERS & RUTLEDGE  
CERTIFIED PUBLIC ACCOUNTANTS

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**FARMERS RURAL ELECTRIC  
COOPERATIVE CORPORATION  
GLASGOW, KENTUCKY**

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### INDEPENDENT AUDITORS' REPORT

Board of Directors  
Farmers Rural Electric  
Cooperative Corporation  
Glasgow, Kentucky

#### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Farmers Rural Electric Cooperative Corporation and Subsidiary which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of revenue, comprehensive income, patronage capital and memberships, and cash flows, for the years then ended and 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 audits. We conducted our audits 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 that 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## ***Opinion***

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

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2013 on our consideration of the Cooperative's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Farmers Rural Electric Cooperative Corporation's internal control over financial reporting and compliance.

*Campbell, Myers, and Rutledge, PLLC*

Certified Public Accountants  
Glasgow, Kentucky

March 6, 2013

FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY  
BALANCE SHEETS  
December 31, 2012 and 2011

ASSETS

	<u>2012</u>	<u>2011</u>
Current assets:		
Cash and cash equivalents	\$ 909,821	\$ 764,903
Accounts and notes receivable, less allowance for doubtful accounts of \$81,126 in 2012 and \$66,925 in 2011	5,038,192	5,487,019
Materials and supplies, at average cost	431,990	455,319
Prepaid expenses	<u>206,294</u>	<u>193,069</u>
Total current assets	<u>6,586,297</u>	<u>6,900,310</u>
Other assets and investments:		
Investments in subsidiary companies	1,557,803	1,425,102
Investment in associated organizations	17,674,986	15,395,500
Deferred charges	<u>705,002</u>	<u>695,513</u>
Total other assets	<u>19,937,791</u>	<u>17,516,115</u>
Electric plant in service	74,773,080	72,895,115
Construction work in progress	<u>641,088</u>	<u>369,223</u>
	75,414,168	73,264,338
Less accumulated depreciation	<u>(22,470,247)</u>	<u>(21,096,657)</u>
Electric plant, net	<u>52,943,921</u>	<u>52,167,681</u>
Total assets	<u>\$ 79,468,009</u>	<u>\$ 76,584,106</u>

The accompanying notes are an integral  
part of the financial statements.

FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY  
BALANCE SHEETS  
December 31, 2012 and 2011

LIABILITIES AND MEMBERS' EQUITIES

	<u>2012</u>	<u>2011</u>
Current liabilities:		
Accounts payable	\$ 3,649,845	\$ 4,472,258
Accrued expenses	1,271,221	1,258,622
Customer deposits	971,823	910,411
Current portion of capital leases	29,358	29,045
Current portion of long-term debt	<u>1,440,000</u>	<u>1,289,000</u>
Total current liabilities	<u>7,362,247</u>	<u>7,959,336</u>
Long-term liabilities:		
Capital lease less current maturities	19,987	19,364
Long-term debt less current maturities	<u>40,763,583</u>	<u>39,952,592</u>
Total long-term liabilities	<u>40,783,570</u>	<u>39,971,956</u>
Noncurrent liabilities:		
Post retirement benefit obligations	548,701	339,138
Customer advances for construction	<u>405,652</u>	<u>360,170</u>
Total noncurrent liabilities	<u>954,353</u>	<u>699,308</u>
Members' equities:		
Memberships	532,005	534,535
Patronage capital	28,460,641	25,968,855
Accumulated other comprehensive income	(473,489)	(300,494)
Other equities	<u>1,471,017</u>	<u>1,405,564</u>
Total members' equities	<u>29,990,174</u>	<u>27,608,460</u>
Minority interests	<u>377,665</u>	<u>345,046</u>
Total equities	<u>\$ 30,367,839</u>	<u>\$ 27,953,506</u>
Total liabilities and equity	<u>\$ 79,468,009</u>	<u>\$ 76,584,106</u>

The accompanying notes are an integral  
part of the financial statements.

FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY  
STATEMENTS OF REVENUE

For the years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating revenue	\$ <u>47,550,989</u>	\$ <u>48,400,849</u>
Operating expenses:		
Cost of power	35,139,536	35,296,777
Distribution - operations	1,436,920	1,409,019
Distribution - maintenance	2,427,889	2,655,097
Consumer accounts	1,094,399	1,089,638
Customer services and informational expense	120,854	124,081
Administrative and general	2,129,588	2,123,266
Depreciation	2,355,944	2,298,810
Taxes	<u>595,398</u>	<u>617,501</u>
Total Operating expenses	<u>45,300,528</u>	<u>45,614,189</u>
Operating margins	2,250,461	2,786,660
Interest on long-term debt to RUS and CFC	<u>1,920,126</u>	<u>1,987,320</u>
Operating margins after fixed charges	330,335	799,340
G & T and other capital credits	<u>2,301,587</u>	<u>2,551,217</u>
Net operating margins	<u>2,631,922</u>	<u>3,350,557</u>
Nonoperating margins:		
Interest income, net of expenses of \$34,942 in 2012 and \$60,984 in 2011	23,454	21,894
Other net nonoperating income (loss)	<u>187,189</u>	<u>176,238</u>
	<u>210,643</u>	<u>198,132</u>
Net margins	<u>\$ 2,842,565</u>	<u>\$ 3,548,689</u>

The accompanying notes are an integral  
part of the financial statements.

FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY  
STATEMENTS OF COMPREHENSIVE INCOME  
For the years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Net margins	\$ 2,842,565	\$ 3,548,689
Defined benefit pension plans:		
Net gain (loss) during period	(177,343)	(125,422)
Amortization of net gain (loss)	(5,696)	(4,266)
Less: amortization of transition obligation	<u>10,044</u>	<u>10,044</u>
Other comprehensive income (loss)	(172,995)	(119,644)
Total comprehensive income	<u>\$ 2,669,570</u>	<u>\$ 3,429,045</u>

The accompanying notes are an integral  
part of the financial statements.

FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY  
 STATEMENTS OF PATRONAGE CAPITAL AND MEMBERSHIPS  
 For the years ended December 31, 2012 and 2011

	Memberships	Accumulated Other Comprehensive Income	Patronage Capital				Total	
			Unassigned	Assignable	Assigned	Retired		Distributed
Balances, January 1, 2011	\$ 534,690	\$ (180,850)	\$ (1,092,440)	\$ 4,581,074	\$ 31,392,621	\$ (433,300)	\$ (11,036,795)	\$ 23,411,160
Increase in memberships, net of terminations	(155)	-	-	-	-	-	-	-
Net margins for the year ended December 31, 2011	-	-	-	3,548,689	-	-	-	3,548,689
Assignment of patronage capital for the year ended December 31, 2011 and old unassigned margins	-	-	-	(4,581,074)	4,581,074	-	-	-
Retirement of patronage capital of estates of deceased members and adjustments	-	-	-	-	-	-	-	-
Other comprehensive income	-	(119,644)	-	-	-	-	-	-
Distributions of patronage capital	-	-	-	-	-	-	(990,994)	(990,994)
Balances, December 31, 2011	534,535	(300,494)	(1,092,440)	3,548,689	35,973,695	(433,300)	(12,027,789)	25,968,855
Increase in memberships, net of terminations	(2,530)	-	-	-	-	-	-	-
Net margins for the year ended December 31, 2012	-	-	-	2,842,565	-	-	-	2,842,565
Assignment of patronage capital for the year ended December 31, 2012	-	-	-	(3,548,689)	3,548,689	-	-	-
Retirement of patronage capital of estates of deceased members and adjustments	-	-	-	-	-	-	-	-
Other comprehensive income	-	(172,995)	-	-	-	-	-	-
Distributions of patronage capital	-	-	-	-	-	-	(350,779)	(350,779)
Balances, December 31, 2012	<u>\$ 532,005</u>	<u>\$ (473,489)</u>	<u>\$ (1,092,440)</u>	<u>\$ 2,842,565</u>	<u>\$ 39,522,384</u>	<u>\$ (433,300)</u>	<u>\$ (12,378,568)</u>	<u>\$ 28,460,641</u>

The accompanying notes are an integral  
part of the financial statements.

FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY  
 STATEMENTS OF CASH FLOWS  
 For the years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Net margins	\$ 2,842,565	\$ 3,548,689
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,355,944	2,298,810
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	448,827	(169,586)
(Increase) decrease in inventory	23,329	(84,843)
(Increase) decrease in prepaid expenses	(13,225)	(11,360)
Increase (decrease) in accounts payable	(792,432)	(327,715)
Increase (decrease) in customer deposits	61,412	(183,650)
Increase (decrease) in accrued expenses	12,599	(128,957)
Increase (decrease) in customer advances for construction	45,482	21,813
(Increase) decrease in deferred charges	<u>(9,489)</u>	<u>15,512</u>
Net cash provided by operating activities	<u>4,975,012</u>	<u>4,978,713</u>
Cash flows from investing activities:		
Purchases of property, plant and equipment	(2,663,901)	(2,278,936)
Plant removal costs	(400,941)	(486,941)
Salvage recovered from retirement of plant	44,294	56,474
Investments in subsidiary companies	132,701	(63,930)
(Increase) decrease in investments in associated organizations and other investments	<u>(2,279,486)</u>	<u>(2,529,698)</u>
Net cash used in investing activities	<u>(5,167,333)</u>	<u>(5,303,031)</u>

The accompanying notes are an integral  
 part of the financial statements.

FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY  
 STATEMENTS OF CASH FLOWS, CONCLUDED  
 For the years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from financing activities:		
Memberships issued	\$ (2,530)	\$ (155)
Increase in noncurrent liabilities	(209,563)	(139,968)
Distributions of patronage capital	(350,779)	(990,994)
Retired capital credits - gain	(65,453)	(148,409)
Minority interest - subsidiary	32,619	-
Principal payments under capital lease obligation	(29,045)	(29,045)
Principal payments to RUS	(2,696,002)	(239,103)
Advanced principal payments unapplied	380,963	462,200
Principal payments to CFC	(563,732)	(496,290)
Loan advancements from CFC	2,519,994	-
Loan advancements from RUS/FFB	2,000,000	750,000
Principal payments to RUS/FFB	<u>(679,233)</u>	<u>(602,683)</u>
Net cash provided (used) by financing activities	<u>337,239</u>	<u>(1,434,447)</u>
Increase (decrease) in cash and cash equivalents	144,918	(1,758,765)
Cash and cash equivalents at beginning of year	<u>764,903</u>	<u>2,523,668</u>
Cash and cash equivalents at end of year	<u>\$ 909,821</u>	<u>\$ 764,903</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	<u>\$ 1,920,126</u>	<u>\$ 1,987,320</u>

The accompanying notes are an integral  
part of the financial statements.

FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL

1. Summary of Significant Accounting Policies:

Principles of Consolidation:

The consolidated financial statements include the accounts of Farmers Rural Electric Cooperative Corporation and its 75% owned subsidiary, Farmers Energy Services Corporation. All material intercompany transactions have been eliminated in consolidation.

General:

The Cooperative maintains its records in accordance with policies prescribed or permitted by Kentucky Public Service Commission and United States Department of Agriculture, Rural Utilities Service, which conform in all material respects with generally accepted accounting principles. The more significant of these policies are as follows:

Nature of Business:

Farmers Rural Electric Cooperative Corporation provides electric service in an eight-county area of south central Kentucky. The Cooperative grants credit to customers, substantially all of whom are local residents and commercial businesses.

Utility Plant:

Utility plant is stated substantially at original cost, net of contributions, which is the cost when first dedicated to public service. Such cost includes applicable supervisory and overhead cost.

The cost of maintenance and repairs, including renewals of minor items of property, is charged to operating expense. The cost of replacement of depreciable property units, as distinguished from minor items, is charged to utility plant. The cost of units of property replaced or retired, including cost of removal, net of any salvage value, is charged to accumulated depreciation. When property is sold, a gain or loss is reflected in income.

The major classifications of electric plant in service at December 31, 2012 and 2011 were:

	<u>2012</u>		<u>2011</u>
Distribution Plant	\$ 66,110,276	\$	64,460,155
General Plant	7,558,361		7,330,517
Other Production Plant	1,100,818		1,100,818
Intangible Plant	<u>3,625</u>		<u>3,625</u>
	<u>\$ 74,773,080</u>	<u>\$</u>	<u>72,895,115</u>

Cash and Cash Equivalents:

For purposes of the statement of cash flows, the Cooperative considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Estimates:

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

FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL, CONTINUED

1. Summary of Significant Accounting Policies, Continued:

Depreciation:

Provision has been made for depreciation on the basis of estimated lives of assets, using the straight-line method. Distribution plant depreciation is based on a composite rate of three and twenty-four hundredths percent (3.24%) per annum.

The following depreciation rates for the components of the general plant were in effect as of December 31, 2012 and 2011:

Structures and Improvements	2.5%
Office Furniture and Fixtures	20.0%
Transportation and Communication Equipment	14.0%
Power-Operated Equipment	12.0%
Office Equipment and Computers	20.0%
Telephone Equipment	14.0%
Other General Plant	6.0%

Depreciation for the years ended December 31, 2012 and 2011 was \$2,564,086 and \$2,528,773 respectively, of which \$2,355,944 in 2012 and \$2,298,810 in 2011 was charged to depreciation expense. In 2012 \$208,142 and \$229,963 in 2011 was allocated to plant and other operating expenses.

Revenue and Cost of Power:

Operating revenue and cost of purchased power include increases (decreases) under the fuel clause adjustment of approximately \$(92,485) for the year ended December 31, 2012, and \$(49,048) for the year ended December 31, 2011.

Income Tax Status:

The Cooperative is exempt from federal and state income taxes under Code Section 501(c)(12) because more than 85% of its revenue is received from members. Accordingly, the financial statements include no provision for income taxes.

Investment in Subsidiary Companies:

This balance represents the Cooperative's investments in affiliates, together with other Cooperatives, for the purpose of providing other energy services and products. These investments are accounted for using the equity method.

Subsequent Events:

Management has evaluated subsequent events through March 6, 2013, the date which the financial statements were available to be issued. The Cooperative received proceeds from a loan of \$1,500,000 on January 24, 2013 from FFB.

Reclassifications

Comparative data for the prior year have been presented in certain sections of the accompanying financial statements in order to provide an understanding of changes in the Corporation's financial position and operations.

FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL, CONTINUED

2. Investments in Associated Organizations:

Investments in associated organizations as of December 31, 2012 and 2011 are listed as follows:

	<u>2012</u>	<u>2011</u>
East Kentucky Power Cooperative, Inc.	\$ 16,066,456	\$ 13,831,209
National Rural Utilities Cooperative Finance Corp.	832,194	833,150
Other	<u>776,336</u>	<u>731,141</u>
Total	<u>\$ 17,674,986</u>	<u>\$ 15,395,500</u>

Investments in National Rural Utilities Cooperative Finance Corporation consist of a membership fee and capital term certificates. Patronage capital from associated organizations is recorded at the stated amount of the certificate.

3. Long-Term Debt:

All assets, except motor vehicles are pledged as collateral for the long-term debt to the United States of America and National Rural Utilities Cooperative Finance Corporation under a joint mortgage agreement.

Long-term debt at December 31, 2012 and 2011 consisted of:

	<u>2012</u>	<u>2011</u>
Due United States of America:		
5% First Mortgage Notes	\$ -	\$ 2,593,851
5.12% First Mortgage Notes-Variable Rate	1,784,938	1,835,240
4.125 - 4.5% First Mortgage Notes-Variable Rate	1,669,360	1,721,210
5.49% Mortgage Note-FFB	3,863,328	3,953,444
5.62% Mortgage Note-FFB	379,961	388,681
2.87 - 4.93% Mortgage Note-FFB-Variable Rate	<u>28,418,933</u>	<u>26,999,330</u>
Total due United States of America	\$ 36,116,520	\$ 37,491,756
Due National Rural Utilities Cooperative Finance Corporation:		
2.4 - 6.8% First Mortgage Notes	<u>6,156,003</u>	<u>4,199,740</u>
Advance payments unapplied to long term debt	<u>(68,940)</u>	<u>(449,904)</u>
Total due all	42,203,583	41,241,592
Less current maturities	<u>(1,440,000)</u>	<u>(1,289,000)</u>
	<u>\$ 40,763,583</u>	<u>\$ 39,952,592</u>

FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL, CONTINUED

3. Long-Term Debt, Continued:

In June, 2000, the Cooperative received approval from the Federal Financing Bank – Rural Utilities Service for a loan in amount of \$5,053,000. This loan is for a period of thirty-five years and bears interest at the approximate rate of 5.5%. The total amount of this loan was advanced to the Cooperative in January, 2001. Principal payments began June 30, 2002, and are due quarterly.

In May, 2003, the Cooperative received approval from the Federal Financing Bank – Rural Utilities Service for a loan in the amount of \$18,228,000. This loan is for a period of thirty-five years, is payable quarterly, and currently bearing a variable interest rate of approximately 4.5%. The total amount of this loan was advanced to the Cooperative.

In 2008, the Cooperative received approval from the Federal Financing Bank-Rural Utilities Service for a loan in the amount of \$17,582,000. This loan is for a period of thirty-five years, is payable quarterly, and currently bearing a variable interest rate of approximately 3.63%. The Cooperative has received \$12,750,000 as of December 31, 2012.

The long-term debt payable to the United States of America is due in quarterly and monthly installments of varying amounts through 2040. During the year ending December 31, 2013, installments estimated at \$2,337,921 will include approximately \$830,633 of principal and \$1,507,288 of current interest.

The long-term debt payable to the National Rural Utilities Cooperative Finance Corporation is due in quarterly installments of varying amounts through 2032. During the year ending December 31, 2013, installments estimated at \$1,433,246 will include approximately \$1,129,645 of principal and \$303,601 of current interest.

The Cooperative has available a line of credit for short-term loans of up to \$5,000,000 with National Rural Utilities Cooperative Finance Corporation extending to October 30, 2014. The maximum interest rate is to be the prevailing bank prime rate published in the "money rates" column of The Wall Street Journal plus one percent (1%) per annum. At December 31, 2012, the balance of the line-of-credit was \$-0-.

The maturities of long-term debt for each of the five years succeeding the balance sheet are as follows:

2013	\$ 1,440,000
2014	1,440,000
2015	1,440,000
2016	1,450,000
2017	1,450,000
Thereafter	<u>34,983,583</u>
Total	<u>\$ 42,203,583</u>

4. Leases:

The Corporation is the lessee of office equipment under capital leases expiring December 2015. The asset and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are amortized over their estimated productive lives. Amortization of the asset under capital leases is included in depreciation expense.

FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL, CONTINUED

4. Leases, Continued:

Following is a summary of property held under capital leases:

Office equipment	\$ 117,117
Accumulated depreciation	(28,008)
	<u>\$ 89,109</u>

Minimum future lease payments under capital leases as of December 31, 2012, were as follows:

	<u>Amount</u>
2013	\$ 29,358
2014	9,994
2015	<u>9,993</u>
Net minimum lease payments	49,345
Amount representing interest	-
Present value of net minimum lease payments	<u>\$ 49,345</u>

5. Deferred Charges:

Following is a summary of amounts recorded as deferred charges approved by RUS per 1773.33(h) as of December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Transportation Expense	\$ 12,310	\$ 10,176
Gis-Field Inventory Cost	579,773	614,044
Long Range Plans	78,951	27,470
Mapping ESRI	13,927	17,663
EDP Support Agreement/Maintenance	4,076	5,587
Maintenance Agreements	<u>15,965</u>	<u>20,573</u>
	<u>\$ 705,002</u>	<u>\$ 695,513</u>

6. Return of Capital:

Under provisions of the long-term debt agreement, return to patrons of capital contributed by them is limited to amounts which would not allow the total members' equities to be less than forty percent (40%) of total assets, except that distributions may be made to estates of deceased patrons.

The debt agreement provides, however, that should such distributions to estates not exceed twenty-five percent (25%) of net margins for the next preceding year, the Cooperative may distribute the difference between twenty-five percent (25%) and the payments made to such estates.

Capital credit retirements in the amount of \$350,779 and \$990,994 were paid for the years ended December 31, 2012 and 2011, respectively.

7. Other Equities:

At December 31, 2012 and 2011 other equities consisted of retired capital credits – gain, in amounts of \$1,471,017 and \$1,405,564, respectively.

FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL, CONTINUED

8. Pension Plan:

Pension benefits for all employees hired before January 1, 2012 are provided through participation in the NRECA Retirement and Security Program. It is the policy of the Cooperative to fund pension costs accrued. Due to the good investment performance, a moratorium was declared on all employer contributions to the Retirement and Security Program for the period July 1, 1987 through December 31, 1988, in order to keep the program from moving ahead of its funding schedule. This moratorium was then extended through all of 1993. The moratorium on employer contributions ended in June, 1994, with the collection of all past service costs. Beginning in November, 1994, the program accepted contributions from November, 1994 through April, 1995, and then contributions were resumed in October, 1996. Pension costs for 2012 and 2011 were \$718,716 and \$702,104, respectively. The NRECA Retirement and Security Program is a master multiple-employer non-contributory defined benefit plan, and it has been approved as a qualified tax-exempt plan by the Internal Revenue Service. As the Cooperative is only one of several employers participating in the Plan, it is not practical to determine if the vested benefits of the Cooperative's employees exceed the Cooperative's portion of the plan assets. The accumulated plan benefit information using the latest actuarial information applicable for each plan year as follows:

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Accumulated benefit obligation	Unavailable	Unavailable
Plan assets at fair value	4,691,587,000	4,637,065,000
Plan assets in excess of the accumulated benefit obligation	Unavailable	Unavailable

Additionally, the Cooperative has two 401-(K) Plans. The first Plan is for those employees hired before January 1, 2012. The terms of the Plan call for an elective contribution from employees of 0.5% - 1.0% or more of their salaries while the Cooperative matches 100% of employees' contributions up to 1.0%. The second Plan is for those employees hired on or after January 1, 2012. The terms of the Plan call for an elective contribution from employees of 1.0% - 4.0% or more of their salaries while the Cooperative matches 100% of employees' contributions up to 4.0%. Also, the Cooperative will make a 6.0% matching contribution to the second Plan. Total expenses related to both Plans for 2012 and 2011 were \$29,046 and \$28,011.

9. Self-Funded Health Insurance Plan:

In October, 1995, the Cooperative's Board of Directors approved the establishment of the FRECC Group Medical Program. The Plan is self-funded and is re-insured through Houston Casualty Company. The Plan was designed to duplicate the Cooperative's prior plan. The third-party administrator is North America Administrators. The Cooperative is protected against any individual claim in excess of \$30,000 and any aggregate claims in excess of \$1,220,000 by the re-insurance. The current funding levels are designed to allow for the maximum claim liability that the Cooperative could incur under the Plan. At December 31, 2012, the Cooperative held \$57,554 in cash designated for payment of claims and had a receivable of \$52,910 from North America Administrators for a stop loss payment.

10. Related Party Transactions:

The Cooperative is a member of the National Rural Utilities Cooperative Finance Corporation, which furnishes a portion of the Cooperative's financing.

The Cooperative is a member of East Kentucky Power Cooperative which is a generating and transmission cooperative. The Cooperative has entered into an agreement with East Kentucky Power Cooperative to supply substantially all of the Cooperative's future power needs. Under its wholesale power agreement, the Cooperative has agreed to purchase the majority of its electric power and energy requirements from East Kentucky Power Cooperative until January, 2040. Changes in rates are refunded to or recovered from the Cooperative's customers through a cost of power adjustment.

FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL, CONTINUED

11. Cash and Cash Equivalents:

All deposits are in various financial institutions and are carried at cost.

	2012		2011	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 909,821	\$ 828,853	\$ 764,903	\$ 694,674
Uninsured	-	-	-	-
Total deposits	<u>\$ 909,821</u>	<u>\$ 828,853</u>	<u>\$ 764,903</u>	<u>\$ 694,674</u>

12. Litigation:

The Cooperative is subject to claims and investigations that arise in the ordinary course of business. One legal investigation is ongoing, and the Cooperative intends to vigorously contest any alleged violations. Management and the Cooperative's legal counsel do not anticipate any material effect on the Cooperative's financial statements as a result of these actions.

13. Postretirement Benefit Plans:

The Cooperative provides postretirement life insurance benefits to all current employees and provides certain retired and active employees with postretirement health care benefits.

The annual measurement date is December 31 for other postretirement benefits. The following tables provide information about changes in the benefit obligation and plan assets and the funded status of the Cooperative's postretirement benefit plan:

	<u>2012</u>	<u>2011</u>
Accumulated Benefit Obligation		
Projected benefit obligation at end of year	\$ 548,701	\$ 339,138
Fair Value of plan assets at end of year	-	-
Unfunded status at end of year	<u>\$ 548,701</u>	<u>\$ 339,138</u>
Amounts recognized in the balance sheet		
Unfunded status	\$ 548,701	\$ 339,138
Current liabilities	-	-
Noncurrent liabilities	<u>\$ 548,701</u>	<u>\$ 339,138</u>
Change in Accumulated Benefit Obligation		
Accumulated post-retirement benefit obligation at beginning of year	\$ 339,138	\$ 180,850
Service cost	13,868	30,420
Interest cost	30,944	20,646
Actuarial loss	188,727	137,964
Amortization of transition obligation	10,044	10,044
Amortization of net actuarial gain	5,696	4,266
Benefits paid	(39,716)	(45,052)
Accumulated post-retirement benefit obligation at end of year	<u>\$ 548,701</u>	<u>\$ 339,138</u>

FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL, CONTINUED

13. Postretirement Benefit Plans, Concluded:

Change in plan assets and benefit obligations recognized in other comprehensive income

	<u>2012</u>	<u>2011</u>
Beginning of year	\$ 300,494	\$ 180,850
Net loss (gain)	177,343	125,422
Amortization of net loss (gain)	5,696	4,266
Amortization of transition obligation	<u>(10,044)</u>	<u>(10,044)</u>
Total recognized in other comprehensive income	172,995	119,644
End of year	<u>\$ 473,489</u>	<u>\$ 300,494</u>

Amounts recognized in accumulated other comprehensive income

Net loss (gain)	\$ 302,683	\$ 119,644
Transition obligation	<u>170,806</u>	<u>180,850</u>
	<u>\$ 473,489</u>	<u>\$ 300,494</u>

Net periodic benefit cost

Service cost	\$ 13,868	\$ 30,420
Interest cost	30,944	20,646
Amortization of transition obligation	10,044	10,044
Amortization of net actuarial gain	<u>5,696</u>	<u>4,266</u>
Net periodic benefit cost	<u>\$ 60,552</u>	<u>\$ 65,376</u>

Amounts in other comprehensive income expected to be realized in 2013

Amortization of net loss (gain)	\$ 14,196	
Amortization of transition obligation	<u>10,044</u>	
	<u>\$ 24,240</u>	

The discount rate used in determining the accumulated postretirement benefit obligation was 5.5% in 2012 and 2011.

The following expected benefit payments from the plan, which reflect anticipated future services, are as follows:

2013	\$	144,450
2014		119,934
2015		126,530
2016		133,489
2017		140,831

For measurement purposes, a 6% annual medical rate increase was used for the year ended December 31, 2012. The rate is assumed to decline by .25% per year until level at 5% per year.

The effect of a 1% increase in the health care trend rates would have the following effects on the plan:

Postemployment benefit obligation	\$ 550,000	
Net periodic benefit cost		93,000

FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL, CONTINUED

14. Provision for Income Taxes

The Cooperative follows the recognition requirements for uncertain income tax positions as required by generally accepted accounting principles. The Cooperative has no tax position at December 31, 2012 for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. The Cooperative's policy is to classify income tax related interest and penalties in interest expense and other expenses, respectively. No such interest or penalties were recognized during the periods presented.

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

# CAMPBELL, MYERS, & RUTLEDGE, PLLC

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### Independent Auditors' Report on Consolidating Information

Board of Directors  
Farmers Rural Electric  
Cooperative Corporation  
Glasgow, Kentucky

We have audited the consolidated financial statements of Farmers Rural Electric Cooperative Corporation and Subsidiary as of and for the years ended December 31, 2012 and 2011, and our report thereon dated March 6, 2013, which expressed an unmodified opinion on those financial statements appears on pages one and two. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information presented in Schedule I and II is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and it is not a required part of the consolidated 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 consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Campbell, Myers & Rutledge, PLLC*  
Certified Public Accountants  
Glasgow, Kentucky

March 6, 2013

**FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION**  
**SCHEDULE I – CONSOLIDATING BALANCE SHEET**  
December 31, 2012

ASSETS	Farmers Rural Electric Cooperative Corporation, Inc.	Farmers Energy Services Corporation	Consolidating Entries	Consolidated Totals
<b>Current assets:</b>				
Cash	\$ 853,388	\$ 56,433	\$ -	\$ 909,821
Accounts and notes receivable, less allowance for doubtful accounts of \$81,126 in 2012 and \$66,925 in 2011	5,038,192	-	-	5,038,192
Materials and supplies, at average cost	431,990	-	-	431,990
Prepaid expenses	206,294	-	-	206,294
<b>Total current assets</b>	<b>6,529,864</b>	<b>56,433</b>	<b>-</b>	<b>6,586,297</b>
<b>Other assets and investments:</b>			(1) (906,421)	
Investments in subsidiary companies	1,236,571	1,529,793	(2) (302,140)	1,557,803
Investments in associated organizations	17,674,986	-	-	17,674,986
Deferred Charges	705,002	-	-	705,002
	<u>19,616,559</u>	<u>1,529,793</u>	<u>(1,208,561)</u>	<u>19,937,791</u>
<b>Electric plant, at cost</b>				
Electric plant in service	74,773,080	-	-	74,773,080
Construction work in progress	641,088	-	-	641,088
	<u>75,414,168</u>	<u>-</u>	<u>-</u>	<u>75,414,168</u>
Less accumulated depreciation	(22,470,247)	-	-	(22,470,247)
Electric plant, net	<u>52,943,921</u>	<u>-</u>	<u>-</u>	<u>52,943,921</u>
	<b>\$ 79,090,344</b>	<b>\$ 1,586,226</b>	<b>\$ (1,208,561)</b>	<b>\$ 79,468,009</b>
<b>LIABILITIES AND MEMBERS' EQUITIES</b>				
<b>Current liabilities:</b>				
Accounts payable	\$ 3,649,845	\$ -	\$ -	\$ 3,649,845
Accrued expenses	1,271,221	-	-	1,271,221
Customer deposits	971,823	-	-	971,823
Current portion of capital leases	29,358	-	-	29,358
Current portion of long-term debt	1,440,000	-	-	1,440,000
<b>Total current liabilities</b>	<b>7,362,247</b>	<b>-</b>	<b>-</b>	<b>7,362,247</b>
<b>Long-term liabilities</b>				
Capital lease less current maturities	19,987	-	-	19,987
Long-term debt less current maturities	40,763,583	-	-	40,763,583
<b>Total long-term liabilities</b>	<b>40,783,570</b>	<b>-</b>	<b>-</b>	<b>40,783,570</b>
<b>Noncurrent liabilities:</b>				
Post retirement benefit obligations	548,701	-	-	548,701
Customer advances for construction	405,652	-	-	405,652
<b>Total noncurrent liabilities</b>	<b>954,353</b>	<b>-</b>	<b>-</b>	<b>954,353</b>
<b>Members' equities:</b>				
Memberships	532,005	-	-	532,005
Patronage capital	28,460,641	-	-	28,460,641
Accumulated other comprehensive income	(473,489)	-	-	(473,489)
Other equities	1,471,017	-	-	1,471,017
Capital stock	-	1,040,000	(1) (906,421)	133,579
Retained earnings	-	546,226	(2) (302,140)	244,086
	<u>29,990,174</u>	<u>1,586,226</u>	<u>(1,208,561)</u>	<u>30,367,839</u>
	<b>\$ 79,090,344</b>	<b>\$ 1,586,226</b>	<b>\$ (1,208,561)</b>	<b>\$ 79,468,009</b>

FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION  
SCHEDULE II – CONSOLIDATING STATEMENT OF REVENUE  
For the Year Ended December 31, 2012

	Farmers Rural Electric Cooperative Corporation, Inc.	Farmers Energy Services Corporation	Consolidating Entries	Consolidated Totals
	\$ 47,550,989	\$ -	\$ -	\$ 47,550,989
Operating revenues				
Operating expenses:				35,139,536
Cost of power	35,139,536	-	-	1,436,920
Distribution - operations	1,436,920	-	-	2,427,889
Distribution - maintenance	2,427,889	-	-	1,094,399
Consumer accounts	1,094,399	-	-	120,854
Customer services and informational expense	120,854	-	-	2,129,588
Administrative and general	2,129,093	495	-	2,355,944
Depreciation	2,355,944	-	-	595,398
Taxes	557,577	37,821	-	
Total operating expenses	45,262,212	38,316	-	45,300,528
Operating margins	2,288,777	(38,316)	-	2,250,461
Interest on long-term debt to RUS and CFC	\$ 1,920,126	-	-	1,920,126
Operating margins after fixed charges	368,651	(38,316)	-	330,335
G & T and other capital credits	\$ 2,301,587	-	-	2,301,587
Net operating margins	2,670,238	(38,316)	-	2,631,922
Nonoperating margins:				23,454
Interest income, net of interest expense of \$60,984	23,171	283	-	48,933
Other net nonoperating income (loss)	48,933	-	-	
Income (loss) from equity investments	100,223	168,512	(2) (32,620)	138,256
	172,327	168,795	(1) (97,859)	210,643
Net margins	\$ 2,842,565	\$ 130,479	\$ (130,479)	\$ 2,842,565

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Report on Internal Control over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards*

### INDEPENDENT AUDITORS' REPORT

Board of Directors  
Farmers Rural Electric  
Cooperative Corporation  
Glasgow, Kentucky

We have audited, in accordance with the 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 consolidated financial statements of Farmers Rural Electric Cooperative Corporation, which comprise the balance sheets as of December 31, 2012 and 2011 and the related statements of revenue, comprehensive income, patronage capital and memberships, and cash flows for the years then ended, and related notes to the financial statements, and have issued our report thereon dated March 6, 2013.

#### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Farmers Rural Electric Cooperative Corporation's internal control over financial reporting (*internal control*) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Farmers Rural Electric Cooperative Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of Farmers Rural Electric Cooperative Corporation's internal control.

*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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control 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 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. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Farmers Rural Electric Cooperative Corporation's financial statements are free from 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*.

## **Purpose of this Report**

The purpose of this report 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Campbell, Myers, & Rutledge, PLLC*  
Certified Public Accountants  
Glasgow, Kentucky

March 6, 2013

FESC

03/14/13

## Farmers Energy Services Corporation

## Balance Sheet

As of December 31, 2012

	Dec 31, 12	Dec 31, 11	\$ Change	% Change
<b>ASSETS</b>				
<b>Current Assets</b>				
<b>Checking/Savings</b>				
1200 · ESB Checking Account	56,432.90	56,290.86	142.04	0.3%
<b>Total Checking/Savings</b>	<b>56,432.90</b>	<b>56,290.86</b>	<b>142.04</b>	<b>0.3%</b>
<b>Total Current Assets</b>	<b>56,432.90</b>	<b>56,290.86</b>	<b>142.04</b>	<b>0.3%</b>
<b>Other Assets</b>				
1210 · Investment in Farmers Pro...	1,529,793.12	1,399,456.38	130,336.74	9.3%
<b>Total Other Assets</b>	<b>1,529,793.12</b>	<b>1,399,456.38</b>	<b>130,336.74</b>	<b>9.3%</b>
<b>TOTAL ASSETS</b>	<b>1,586,226.02</b>	<b>1,455,747.24</b>	<b>130,478.78</b>	<b>9.0%</b>
<b>LIABILITIES &amp; EQUITY</b>				
<b>Equity</b>				
1110 · Retained Earnings	415,747.24	316,434.83	99,312.41	31.4%
1520 · Capital Stock	1,040,000.00	1,040,000.00	0.00	0.0%
Net Income	130,478.78	99,312.41	31,166.37	31.4%
<b>Total Equity</b>	<b>1,586,226.02</b>	<b>1,455,747.24</b>	<b>130,478.78</b>	<b>9.0%</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>1,586,226.02</b>	<b>1,455,747.24</b>	<b>130,478.78</b>	<b>9.0%</b>

Farmers Energy Services Corporation  
Profit & Loss Detail  
January through December 2012

FESC

Type	Date	Num	Name	Memo	Clr	Split	Amount	Balance
<b>Ordinary Income/Expense</b>								
<b>Expense</b>								
6230 · Licenses and Permits								
Check	1/16/2012	1062	Kentucky State Treasurer	License Fee		1200 · ES...	15.00	15.00
Total 6230 · Licenses and Permits							15.00	15.00
6270 · Professional Fees								
Check	5/10/2012	1063	Campbell, Myers & Rutled...	2011 Tax Return		1200 · ES...	495.00	495.00
Total 6270 · Professional Fees							495.00	495.00
6600 · Federal Income Tax Expense								
Check	6/7/2012	EFTS	Internal Revenue Service	2nd Qtr 2012 Est F...		1200 · ES...	11,998.00	11,998.00
Check	9/14/2012	EFTS	Internal Revenue Service	3rd Qtr 2012 Est F...		1200 · ES...	12,817.00	24,815.00
Check	12/14/2012	EFTS	Internal Revenue Service	4th Qtr 2012 Est F...		1200 · ES...	12,816.00	37,631.00
Total 6600 · Federal Income Tax Expense							37,631.00	37,631.00
6601 · Kentucky Income Tax Expense								
Check	6/7/2012	1064	Kentucky State Treasurer	2nd Qtr 2012 Form...		1200 · ES...	175.00	175.00
Total 6601 · Kentucky Income Tax Expense							175.00	175.00
<b>Total Expense</b>							<b>38,316.00</b>	<b>38,316.00</b>
<b>Net Ordinary Income</b>							<b>-38,316.00</b>	<b>-38,316.00</b>
<b>Other Income/Expense</b>								
<b>Other Income</b>								
7010 · Interest Income								
Deposit	1/31/2012		Edmonton State Bank	Interest Income		1200 · ES...	26.83	26.83
Deposit	2/29/2012		Edmonton State Bank	Interest Income		1200 · ES...	22.37	49.20
Deposit	3/31/2012		Edmonton State Bank	Interest Income		1200 · ES...	23.92	73.12
Deposit	4/30/2012		Edmonton State Bank	Interest Income		1200 · ES...	23.16	96.28
Deposit	5/31/2012		Edmonton State Bank	Interest Income		1200 · ES...	23.84	120.12
Deposit	6/30/2012		Edmonton State Bank	Interest Income		1200 · ES...	23.31	143.43
Deposit	7/31/2012		Edmonton State Bank	Interest Income		1200 · ES...	23.75	167.18
Deposit	8/31/2012		Edmonton State Bank	Interest Income		1200 · ES...	23.76	190.94
Deposit	9/28/2012		Edmonton State Bank	Interest Income		1200 · ES...	20.68	211.62
Deposit	10/31/2012		Edmonton State Bank	Interest Income		1200 · ES...	23.86	235.48
Deposit	11/30/2012		Edmonton State Bank	Interest Income		1200 · ES...	23.10	258.58
Deposit	12/31/2012		Edmonton State Bank	Interest Income		1200 · ES...	24.46	283.04
Total 7010 · Interest Income							283.04	283.04
7040 · Equity in Earnings of Sub-FEPP								
General Jou...	12/31/2012	12		FEPP 2012 NET IN...		1210 · Inv...	168,511.74	168,511.74
Total 7040 · Equity in Earnings of Sub-FEPP							168,511.74	168,511.74
<b>Total Other Income</b>							<b>168,794.78</b>	<b>168,794.78</b>
<b>Net Other Income</b>							<b>168,794.78</b>	<b>168,794.78</b>
<b>Net Income</b>							<b>130,478.78</b>	<b>130,478.78</b>

FEPP

STCRE : 391

ACCT NO	DESCRIPTION	CURRENT AMT	HISTCRY AMT
A S S E T S			
CURRENT ASSETS			
1000-391	CASH IN BANK	206,726.12	74,467.47
1080-391	PETTY CASH	500.00	500.00
1100-391	ACCCUNTS RECEIVABLE	74,448.67	141,551.24
1101-391	RESERVE FOR BAD DEBT	16,000.00-	14,000.00-
1200-391	PRCPANE INVENTCRY	33,905.94	72,310.25
1210-391	PARTS INVENTCRY	11,820.75	14,523.02
1220-391	APPLIANCE INVENTCRY	36,696.42	27,919.01
	TCTAL CURRENT ASSETS	348,097.90	317,270.99
F I X E D A S S E T S			
1430-391	PREPAID INSURANCE	.00	600.00
1433-391	PREPAID PENSICN	.00	.00
1434-391	PREPAID BENEFITS	5,055.94	5,055.94
1436-391	PREPAID GAS RCLLCVER	28,000.00	28,000.00
1450-391	PLANT/PRCP/EQUIP/PUR FX.ASSETS	2,213,740.19	2,133,065.21
1470-391	ACCUMULATED DEPRECIATION	1,012,986.43-	910,425.98-
1551-391	GCCDWILL	494,511.79	494,511.79
1570-391	ACCUMULATED DEP.GCCDWILL	36,459.84-	36,459.84-
	TCTAL FIXED ASSETS	1,691,861.65	1,714,347.12
	T O T A L A S S E T S	2,039,959.55	2,031,618.11
L I A B I L I T I E S			
CURRENT LIABILITIES			
2000-391	CREDIT CARD DEBIT ACCUNT	5,303.91-	1,070.60-
2010-391	CUSTCMER DEPCSIT	65.85	65.85
2019-391	ACCRUED BCNUS	9,750.00	16,000.00
2022-391	ACCRUED PROPERTY TAX	4,500.00	6,500.00
2023-391	ACCRUED WORKMANS CCOMPENSATION	7,000.00	6,400.00
2025-391	ACCRUED CITY / CCUNTY TAX	370.79	344.08
2030-391	ACCRUED STATE INCCME TAX	797.00	779.00
2040-391	ACCRUED FEDERAL INCCME TAX	825.83	.00
2050-391	FICA & MEDICARE WITHHCLDING	1,076.07	.00
2230-391	TAX FAYABLE - SALES - KENTUCKY	2,856.11	3,192.24
2340-391	ACCRUED 401K	.00	.00
	TCTAL CURRENT LIABILITIES	21,937.74	32,210.57
LCNG TERM LIABILITIES			
2431-391	NCTE PAYABLE EAST KY	330,419.52	442,141.99
	TCTAL LCNG TERM LIABLITIES	330,419.52	442,141.99
	TCTAL LIABILITIES	352,357.26	474,352.56

STCRE : 391

ACCT NO	DESCRIPTION	CURRENT AMT	HISTCRY AMT
O W N E R ' S E Q U I T Y			
3010-391	CAPITAL CONTRIB.SINCE 7/01/00	340,000.00	340,000.00
3040-391	CAPITAL CONTRIBUTIONS	524,313.43	524,313.43
3045-391	PAID DIVIDENES	218,475.00-	180,300.00-
3050-391	RETAINED EARNINGS	501,246.32	501,246.32
	NET INCCME	540,517.54	372,005.80
	TCTAL OWNER'S EQUITY	1,687,602.29	1,557,265.55
	T O T A L LIABILITY & EQUITY	2,039,959.55	2,031,618.11

FEPP

STCRE : 391

ACCT	DESCRIPTION	CURRENT PERIOD				YEAR TO DATE			
		CURR AMT	%	HIST AMT	%	CURR AMT	%	HIST AMT	%
R E V E N U E									
4010-391	SALES - COTHER-MISCELLANOUS	412.00	0.2	2,041.37-	-0.9	360.00	0.0	1,555.37-	-0.1
4020-391	SALES - PARTS/FITTINGS/CTHER	6,028.88	3.1	8,836.94	3.7	42,109.29	2.2	43,936.76	1.8
4030-391	SALES - APPLIANCES	7,024.79	3.6	6,501.97	2.7	67,291.06	3.5	51,320.31	2.2
4040-391	SALES - AGRICULTURAL PRCPANE	4,192.02	2.1	6,230.27	2.6	50,642.69	2.7	59,191.66	2.5
4050-391	SALES - CCOMMERCIAL PRCPANE	16,581.10	8.4	27,197.26	11.3	134,395.42	7.1	158,966.85	6.7
4060-391	SALES - DCMESTIC PRCPANE	128,430.64	65.4	142,308.82	59.4	1,182,530.05	62.3	1,629,694.03	68.6
4070-391	SALES - INDUSTRIAL PRCPANE	.00	0.0	16,280.24	6.8	22,151.66	1.2	62,010.00	2.6
4085-391	SALE CF FIXED ASSETS	.00	0.0	116.06	0.0	967.16	0.1	8,697.88	0.4
4100-391	SALES RECREATIONAL PRCPANE	.00	0.0	91.16	0.0	1,372.41	0.1	3,872.19	0.2
4110-391	SALES - RETAIL - PRCPANE	21,150.37	10.8	21,694.60	9.1	280,108.80	14.8	259,086.04	10.9
4130-391	SALES DISCOUNTS - PRCPANE	2,597.08-	-1.3	3,349.42-	-1.4	33,642.95-	-1.8	45,621.54-	-1.9
4155-391	PRICE PROTECTION ENRCLLMENT	25.00	0.0	75.00	0.0	15,925.00	0.8	17,825.00	0.8
4160-391	REVENUE SERVICE - SERVICE/INST	4,179.50	2.1	5,393.00	2.3	41,812.67	2.2	42,445.91	1.8
4162-391	BANK INTEREST EARNED	129.32	0.1	36.03	0.0	1,621.65	0.1	951.34	0.0
4200-391	REVENUE-CTHER-CYL/TANK RENTAL	10,117.25	5.2	9,734.21	4.1	87,447.04	4.6	74,370.46	3.1
4220-391	REVENUE-CTHER-FINANCE CHARGES	546.68	0.3	629.91	0.3	4,943.76	0.3	10,815.07	0.5
4240-391	REVENUE-CTHER-FIN CHG-FCRGIVEN	6.67-	-0.0	105.42-	-0.0	459.47-	-0.0	728.75-	-0.0
4300-391	CUSTOMER REFUND	.00	0.0	.00	0.0	1,242.86-	-0.1	14.97	0.0
4510-391	NSF SERVICE CHARGE	50.00	0.0	50.00	0.0	500.00	0.0	500.00	0.0
	TCTAL SALES	196,263.80	100.0	239,679.26	100.0	1,898,833.38	100.0	2,375,792.81	100.0
C O S T C F S A L E S									
5020-391	COGS-PURCHASES-PF&CP	5,124.55	2.6	7,511.39	3.1	33,207.53	1.7	41,106.20	1.7
5030-391	COGS-PURCHASES-APPLIANCES	19,354.98	9.9	3,795.71	1.6	42,996.13	2.3	26,291.63	1.1
5040-391	COGS-PURCHASES-AG PRCPANE	2,521.40	1.3	4,146.85	1.7	32,431.71	1.7	44,734.35	1.9
5050-391	COGS-PURCHASES-CCM PRCPANE	8,712.89	4.4	15,899.73	6.6	73,894.62	3.9	104,435.80	4.4
5060-391	COGS-PURCHASES-DCMESTIC PRCPAN	65,994.58	33.6	81,889.67	34.2	638,451.74	33.6	1,015,092.33	42.7
5070-391	COGS-PURCHASES-IND PRCPANE	.00	0.0	13,117.34	5.5	20,308.67	1.1	53,460.53	2.3
5100-391	COGS-PURCHASES-RECREATION PRCP	.00	0.0	41.31	0.0	739.62	0.0	3,427.07	0.1
5110-391	COGS-PURCHASES-RETAIL PRCPANE	10,340.66	5.3	16,101.08	6.7	191,993.28	10.1	179,230.02	7.5
5210-391	COGS-INVENT GAIN/ICSS-PRCPANE	307.86	0.2	2,165.14	0.9	15,524.59-	-0.8	19,639.07-	-0.8
	TCTAL CCST CF SALES	112,356.92	57.2	144,668.22	60.4	1,018,498.71	53.6	1,448,138.86	61.0
	GRCSS PROCFIT CN SALES	83,906.88	42.8	95,011.04	39.6	880,334.67	46.4	927,653.95	39.0
O P E R A T I N G E X P .									
6025-391	TAX EXP-PROPERTY-KY 2011	.00	0.0	.00	0.0	.00	0.0	14,331.64	0.6
6030-391	TAX EXP-PROPERTY-KY 2012	1,389.45	0.7	.00	0.0	12,389.45	0.7	.00	0.0
6110-391	TAX EXP-MOTOR FUEL	.00	0.0	.00	0.0	571.68	0.0	553.77	0.0
6140-391	TAX EXP - COTHER	1,204.77	0.6	1,176.89	0.5	21,031.40	1.1	16,090.77	0.7
6230-391	SAL/WAGES-SAL/WAGES-PLANT MGR	5,656.00	2.9	5,414.32	2.3	73,332.00	3.9	69,553.20	2.9
6235-391	SAL/WAGES-SAL/WAGES-PLANT, DRVR	9,039.98	4.6	8,473.08	3.5	114,529.64	6.0	113,438.86	4.8
6236-391	SAL/WAGES - AREA MGR	.00	0.0	.00	0.0	.00	0.0	25,000.00	1.1
6237-391	SALARIES/WAGES - CFFICE ADM	910.80	0.5	1,122.00	0.5	16,108.80	0.8	20,776.00	0.9
6238-391	SALARIES/WAGES - CSR	1,919.75	1.0	2,071.32	0.9	26,351.10	1.4	25,369.35	1.1
6270-391	401K-BENEFITS-PLANT	702.97	0.4	688.77	0.3	9,666.51	0.5	7,603.37	0.3
6271-391	PENSICN/BENEFIT-PENSICN	500.00	0.3	700.00	0.3	23,083.46	1.2	23,417.26	1.0
6272-391	BCNUS EXPENSE	22,750.00-	-11.6	12,000.00-	-5.0	13,250.00	0.7	5,000.00-	-0.2

STORE : 391

ACCT	DESCRIPTION	CURRENT PERIOD				YEAR TO DATE			
		CURR AMT	%	HIST AMT	%	CURR AMT	%	HIST AMT	%
6290-391	PEN/BENEFIT-PHYSICALS/PCLYGRH	.00	0.0	120.00	0.1	642.00	0.0	278.00	0.0
6293-391	MEDICAL BENEFITS	3,255.26	1.7	3,205.29	1.3	38,145.16	2.0	43,432.05	1.8
6294-391	DENTAL BENEFITS	205.94	0.1	293.43	0.1	2,524.85	0.1	4,158.90	0.2
6296-391	LONG TERM DISABILITY	48.90-	-0.0	44.92-	-0.0	613.81-	-0.0	455.07-	-0.0
6298-391	BASIC (SUPP. & DEP.) LIFE	373.83	0.2	370.43	0.2	4,403.47	0.2	4,739.86	0.2
6299-391	PRESCRIPTION DRUGS	.00	0.0	.00	0.0	.00	0.0	249.60	0.0
6315-391	MAT/SUPPLIES-EMPLCYEE UNIFCRMS	345.42	0.2	63.60	0.0	2,121.95	0.1	1,652.61	0.1
6320-391	MAT/SUPPLIES-FCRMS/GRPHCS/BLUE	.00	0.0	.00	0.0	2,096.93	0.1	5,594.85	0.2
6325-391	REPAIRS-SUPPLIES-CFFICE EXP	1,439.06	0.7	1,918.44	0.8	7,108.42	0.4	7,645.06	0.3
6330-391	MAT/SUPPLIES-PCSTAGE-FREIGHT	259.28	0.1	248.00	0.1	2,803.82	0.1	3,418.98	0.1
6335-391	MAT/SUPPLIES-SAFETY	.00	0.0	.00	0.0	850.74	0.0	1,493.97	0.1
6340-391	REPAIRS & MAINTENANCE PLANT	244.42	0.1	1,846.91	0.8	5,170.26	0.3	9,624.72	0.4
6350-391	CUTSIDE SERVICES	.00	0.0	.00	0.0	7,092.75	0.4	8,381.87	0.4
6358-391	CREDIT CARD EXPENSE	403.77	0.2	379.04	0.2	3,962.95	0.2	5,177.37	0.2
6361-391	EXP - MANAGEMENT FEES	3,832.04	2.0	2,991.68	1.2	51,471.93	2.7	45,960.02	1.9
6365-391	CUTSIDE SERV-CONTRACT LABCR	194.32	0.1	399.05	0.2	1,643.27	0.1	1,181.35	0.0
6377-391	AUTC/TRUCK-FUEL/LUBRICANTS	3,703.78	1.9	3,910.63	1.6	39,868.30	2.1	39,669.58	1.7
6380-391	AUTC/TRUCK-MAJCR REPAIRS/MAINT	.00	0.0	.00	0.0	7.65	0.0	.00	0.0
6385-391	AUTC/TRUCK-MINCR REPAIRS/MAINT	2,777.11	1.4	787.99	0.3	24,761.33	1.3	38,949.70	1.6
6395-391	AUTC/TRUCK-VEHICLE LICENSES	.00	0.0	.00	0.0	.00	0.0	2,021.16	0.1
6400-391	REPAIR & MAINTENANCE CN TANKS	.00	0.0	36.83	0.0	14,092.16	0.7	3,209.86	0.1
6405-391	RENTALS-BULIDINGS/FACILITIES	463.60	0.2	447.40	0.2	5,449.80	0.3	5,137.39	0.2
6415-391	UTILITIES/POWER/FUEL	233.29	0.1	434.86	0.2	2,883.19	0.2	2,859.88	0.1
6430-391	TELECOMMUNICATIONS	877.25	0.4	637.42	0.3	7,951.62	0.4	7,544.13	0.3
6450-391	TRAVEL/MEAL/ENTER-TRAVEL-100%	244.98	0.1	388.63	0.2	5,680.28	0.3	7,852.75	0.3
6450-391	ADVERTISING	1,050.00	0.5	1,208.50	0.5	17,318.06	0.9	25,001.91	1.1
6456-391	CUSTOMER PROMOTION	.00	0.0	.00	0.0	50.00	0.0	200.00	0.0
6472-391	WORKMANS COMPENSATION	500.00	0.3	400.00	0.2	6,034.93	0.3	5,073.04	0.2
6475-391	INSURANCE-GENERAL LIABILITY	2,400.00	1.2	2,800.00	1.2	24,831.60	1.3	31,308.76	1.3
6480-391	LICENSES/FEES/DUES	25.00	0.0	25.00	0.0	5,039.98	0.3	797.33	0.0
6485-391	CONTRIBUTIONS-CHARITABLE	.00	0.0	.00	0.0	.00	0.0	150.00	0.0
6550-391	BAD DEBT EXPENSE	7,265.71-	-3.7	3,026.16-	-1.3	2,581.00	0.1	11,028.61	0.5
6560-391	CREDIT/COLLECTION EXPENSE	336.74	0.2	206.45	0.1	2,313.41	0.1	5,363.37	0.2
6800-391	INTEREST EXPENSE	780.75	0.4	2,095.30	0.9	9,871.36	0.5	15,242.30	0.6
6910-391	OTHER EXPENSE-CLEARING	.00	0.0	.00	0.0	.00	0.0	16,500.00-	-0.7
6950-391	OTHER EXPENSE-CVER/SHCRT	.00	0.0	.00	0.0	6.20	0.0	47.20	0.0
7110-391	DEPRECIATION	10,089.66	5.1	9,282.17	3.9	103,343.33	5.4	104,360.86	4.4
	TOTAL OPERATING EXPENSE	25,294.61	12.9	39,072.35	16.3	711,822.93	37.5	742,986.19	31.3
	NET INCOME	58,612.27	29.9	55,938.69	23.3	168,511.74	8.9	184,667.76	7.8