

Lumbee River EMC

Annual Report 2012

EMBRACING CHANGE



Lumbee River
ELECTRIC MEMBERSHIP CORPORATION

Committed to our communities

A Touchstone Energy® Cooperative



BOARD OF DIRECTORS



Roger Oxendine
Chairman
District 2



Wyatt Upchurch
Vice Chairman
District 6



Herbert Clark
Secretary
District 1



Ronald Hammonds
Treasurer
District 3

Lumbee River EMC is governed by a 13-member Board of Directors. These member-directors are elected each year by their fellow co-op members at the Annual Member Meeting. They bring together a wealth of knowledge, business skills and personal experience that provide the expertise needed to make Lumbee River EMC a successful cooperative. They are charged with establishing policies and overseeing financial decisions that are in the best interest of cooperative members.

2013 Credentials and Election Committee

- Wade Hunt, Chairperson
Douglas Locklear, Vice Chairperson
Betty Grimsley, Secretary
- Robert Brayboy • Lewis Brayboy Jr.
 - Carmen Chavis • Freddie Chavis
 - Frank Cooper • Robert Fairley
 - Greg Goins • Tonya Hunt
 - Jeffery Jacobs • James R. Jones
 - Larry Jones • George Lessane
 - David Locklear • Gene Locklear
 - Jervis Locklear • Shelia Locklear
 - Carrie McMillian • Paul Miller
 - Jim Plummer Jr. • James Pridgett
 - Deborah Purcell • Shirl Rising
 - Gary Strickland Jr. • Myrna Strickland
 - Joseph Whitely Jr.

2013 Nominating Committee

- Harold Brock, Chairperson
Sherry Carter, Secretary
- Betty F. Brewington • Kellie Blue • Richard Campbell Cheryl Cunningham • Ginger Hardin • Gregory Hunt
 - James Jacobs Jr. • Annette Jones • James A. Leach
 - Richard Smith • Irma J. Wilson



Eric Locklear
District 3



Jarette Sampson
District 4



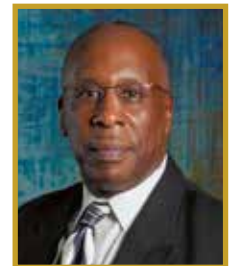
Elaine Chavis
District 5



Ilene Oxendine
District 5



Madie Rae Locklear
District 5



William Hollingsworth
District 6



Maggie Hunt
District 6



James Hardin
District 6



Rory Eddings
District 6

Cooperative Principles

- Voluntary and open membership
- Democratic member control
- Member economic participation
- Autonomy and independence
- Education, training, and information
- Cooperation among cooperatives
- Concern for community

Cooperative Facts (as of 12/31/12)

Total miles of line:

Overhead	3,425
Underground	2,082

Counties served:

- Cumberland • Hoke
- Robeson • Scotland

Number of accounts: 56,716

Number of employees: 114

Monthly Board Meeting: Third Tuesday

Date first energized: April 5, 1941

Power Suppliers:

North Carolina Electric Membership Corp.
Southeastern Power Administration

Minutes of the 2012 Annual Meeting of the Members - October 14, 2012

Pursuant to due notice thereof, the 72nd Annual Meeting of the Members of the Lumbee River Electric Membership Corporation was held at the University of North Carolina at Pembroke, Givens Performing Arts Center, beginning at 1:00 p.m. on Thursday, October 4, 2012.

1. Registration and voting commenced at 1:00 p.m. and ended at 7:30 p.m.
2. Attorney Arlie Jacobs called the meeting to order and welcomed the members to the meeting. Mr. Jacobs introduced Reverend T. Judson Dunlap of Sandy Grove and Parkers United Methodist Church to give the invocation.
3. Attorney Jacobs introduced Chancellor Dr. Kyle Carter - University of North Carolina at Pembroke, who welcomed everyone to the university campus.
4. Attorney Jacobs introduced Secretary Ronald G. Hammonds who read the Proof of Mailing for the Annual Meeting Notice and reported that quorum was present. Mr. Hammonds reported on September 24, 2012, the Corporation did place 49,252 Annual Meeting member notices in the United States mail with postage thereon duly paid. A copy of the proof of mailing is incorporated herein by reference, made a part of these minutes, and is available for inspection in the Minutes Book of the Corporation.
5. Attorney Jacobs called for the approval of the October 13, 2011 Annual Meeting minutes. Upon a motion duly made and seconded, the membership waived the reading of the minutes of the 2011 Annual Meeting of the Members.
6. Attorney Jacobs reported that according to Section 5.05 of the Cooperative's Bylaws, candidates are placed into nomination in one of two ways: (1) nomination by the Nominating Committee; and (2) nomination by petition containing at least fifteen (15) or more members' signatures so nominating the interested members. Attorney Jacobs reported that the cooperative had received two (2) petitions for nomination, placing into nomination Jarette Sampson for District 4 and Carl A. Pevia for District 6.
 - i.) Ms. Sherry Carter presented the report of the Nominating Committee, placing into nomination the following names in the following districts:

District 3	Ambrose Locklear	
	Eric L. Locklear	
District 4	Lacy Cummings	
District 6	Proctor Locklear	
	Rory Eddings	
	Wyatt Upchurch	
7. Interim CEO Perry Cummings recognized special guests and gave a special thank you to Mr. Charles Bell, The Mt. Airy Mixed Choir and The Pierce Family for providing entertainment and, also to the University of North Carolina at Pembroke for the use of its facility.
8. Attorney Jacobs introduced Mr. James Hardin, Chairman of the Cooperative's Board of Directors, who gave an audiovisual presentation of his report to the membership. A copy of his presentation is incorporated herein by reference, made a part of these minutes and is available for inspection in the Minutes Book of the Corporation.
9. Interim CEO Perry Cummings presented his annual presentation to the membership. A copy of the presentation is incorporated herein by reference, made a part of these minutes and is available for inspection in the Minutes Book of the Corporation.
10. Attorney Jacobs opened the floor for comments and questions. General comments and questions were provided by several members. Interim CEO Perry Cummings responded to the member's comments or questions. At the conclusion of comments or questions from the floor, Mr. Jacobs closed the open forum of the program.
11. The results of the election, which were certified by Mr. Wade Hunt of the Credential and Elections Committee, were announced by Attorney Jacobs as follows:

District 3	Ambrose Locklear	897
	Eric L. Locklear	1,692
District 4	Lacy Cummings	1,185
	Jarette Sampson	1,410
District 6	Proctor Locklear	1,107
	Wyatt Upchurch	1,209
	Carl Pevia	980
	Rory Eddings	1,254
12. Attorney Jacobs introduced Mr. Hampton Oxendine, who conducted the drawing and awards of the door prizes and power credits.
13. After the drawing of the prizes, the 2012 Annual Meeting of the Members was proclaimed adjourned.
14. The 2012 Annual Meeting of Members registered 2,718 members. A list of each member registered is attached to these minutes, incorporated herein by reference, made a part of these minutes and is available for inspection in the Minutes Book of the Corporation.

Signed: _____

Roger Oxendine
Roger Oxendine, Chairman

Signed: _____

Herbert Clark
Herbert Clark, Secretary



EXECUTIVE REPORT

VOLUNTARY AND OPEN MEMBERSHIP

Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political, or religious discrimination.

DEMOCRATIC MEMBER CONTROL

Cooperatives are democratic organizations controlled by their members, who actively participate in setting policies and making decisions. The elected representatives are accountable to the membership. In primary cooperatives, members have equal voting rights (one member, one vote) and cooperatives at other levels are organized in a democratic manner.

MEMBERS' ECONOMIC PARTICIPATION

Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing the cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.

AUTONOMY AND INDEPENDENCE

Cooperatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.

EDUCATION, TRAINING, AND INFORMATION

Cooperatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their cooperatives. They inform the general public, particularly young people and opinion leaders, about the nature and benefits of cooperation.

COOPERATION AMONG COOPERATIVES

Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional, and international structures.

CONCERN FOR COMMUNITY

While focusing on member needs, cooperatives work for the sustainable development of their communities through policies accepted by their members.

Change is occurring in the electric utility industry at an unprecedented rate. From the development of automated metering infrastructure to the more widely spread use of renewable energy, the days of receiving all of your electricity from remote coal or nuclear or hydro sources and the days of seeing the utility meter reader coming by your house or business each month are things of the past.

These and other changes come with challenges, but also each of them present an opportunity for your electric cooperative to position itself to continue to be a vital and crucial part of the industry's future. We at Lumbee River EMC are working hard every day to ensure we take advantage of the opportunities that each of the changes bring, and at the same time, minimizing the impact that they potentially have on you, our member / owners.

Fiber Project

As you may recall, in 2010 Lumbee River EMC was awarded a grant / loan combination for \$20 Million to provide high-speed internet access to an area within Robeson County that is under served or has limited access to high-speed internet services. This is the single largest project your cooperative has undertaken to date. It is anticipated that this project would take five years to complete. We are on schedule to complete this project on time. After a three-year construction plan to build out the backbone or main lines of this network, we anticipate having the network available for service providers to begin offering services in this area very soon.



Roger Oxendine
Chairman, Board of Directors



Steven C. Hunt
President & CEO

Renewables

Interest in renewable energy has increased significantly over the last several years. In the last couple of years we have connected approximately 1.5 MW's worth of renewable generation to our distribution system. The main portion of this renewable generation is from a landfill gas generator connected for Robeson County landfill and most recently, from the connection of the photovoltaic solar array that is associated with the new Sandy Grove Middle School in Hoke County. As electric utilities in North Carolina continue to move toward the 2018 mandate of 10% of our generation being from renewable resources (12% for investor-owned utilities), more and more interest is being shown in connecting large solar farms to our system. While we currently do not have any of these connected, we do anticipate that more renewable energy generators will soon come to our area.

Advance Metering Infrastructure (AMI)

As advancements in metering technologies and communications have improved over the years, we have been able to deploy a state of the art AMI system. Lumbee River EMC currently reads all 55,000+ meters daily with the use of our power line network. Through the use of this network, we are able to produce more accurate bills and virtually eliminate the estimation of readings. Our estimations have dropped from 941 estimates out of 46,718 accounts billed prior to the deployment to just 8 estimates out of 59,502 accounts billed today. In addition to improving our billing capabilities, this new technology also provides us the opportunity to provide our membership with more information so you can better manage your energy consumption. In the future you will see more applications that will provide you, our member / owners, with information via the internet to more easily see when and how you use electricity.

Internet / Website

More and more we are seeing our membership going to the internet for services and conveniences. The number of people visiting our website continues to grow at a significant rate. We saw 26,000 more visits to our website in 2012 compared with 2011. This growth is indicative of what we have seen every year since 2007. Because of this growth and interest from our

membership, we will be developing new opportunities for you to engage with your cooperative through the use of our website.

System Improvements and New Construction

We must continuously evaluate the condition of our electric system to ensure you have a safe and reliable source of power. In addition, we must make sure that our system is adequate to handle the new growth we have been experiencing. As a result of this, in 2012 we spent over \$10 million in upgrades to substations, transmission lines and new service installations. With this investment, we can be assured that we have a system to adequately meet the needs of our growing service territory.

Rates

As you can imagine, all of these changes come with a cost. Your Board of Directors and Management Team at Lumbee River EMC have been working very closely to provide for these necessary changes while keeping the cost as affordable as possible. An example of this is the charges associated with the renewable energy mandate. As a result of the legislation passed in 2007 we mentioned earlier, the NC legislature capped the charges to you as a consumer of electricity in NC at \$1.00 a month (\$12.00 / year). Through prudent management practices, we have managed to stay well below the cap (current charges are \$0.67 a month) and still meet the mandated requirements of the legislation. In addition to this effort, we have not had to have an increase to our retail rates since 2009. As the economy continues to struggle to rebound, and prices start to increase we must stay vigilant in our concern for cost increases. We are always conscious of our responsibility to keep your cost of electricity as affordable as we possibly can while ensuring that our system remains safe and reliable.

From all this, you can see there are many areas where change is affecting your cooperative. While these changes may appear to be daunting, we as your Board of Directors, management team and employees are confident we can adapt to these changes and put your cooperative in the best possible position to take advantages of the future opportunities created by change.



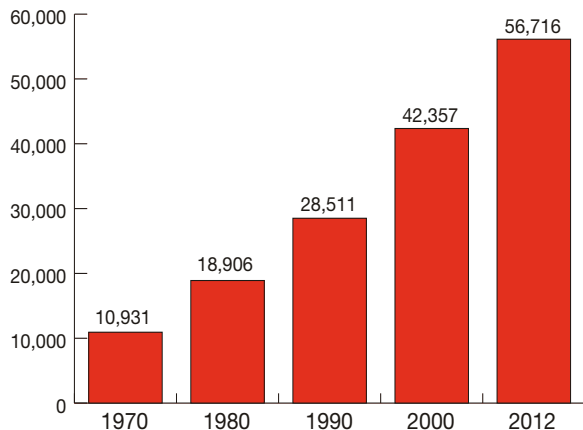
STATEMENT OF AUDIT

The accounting firm of Dixon Hughes Goodman, LLP, Danville, VA, conducted an audit of the balance sheet and related statements of revenues and patronage capital and cash flows as of December 31, 2011 and 2012. This audit was conducted in accordance with generally accepted auditing standards, including examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presented.

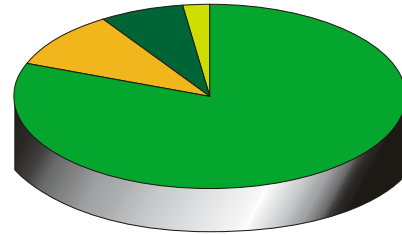
In the opinion of the auditor, the financial statements of Lumbee River EMC present fairly, in all material respects, the financial position of Lumbee River Electric Membership Corporation as of December 31, 2011 and 2012, and the results of its operations and its cash flows for the years then ended to be in conformity with generally accepted accounting principles.

	2011	2012
Assets/Deferred Charges		
Net Utility	162,118,659	173,898,101
Investments	14,667,135	18,258,280
Cash	8,426,481	29,282,880
Notes & Accts. Receivable	18,570,906	18,915,502
Materials & Supplies	1,457,755	5,213,728
Other Current & Accrued Assets	170,578	143,035
Deferred Charges	1,233,986	1,025,127
Total Assets	206,645,500	246,736,653
Liabilities/Members' Equity	2011	2012
Membership	486,095	493,720
Equities & Margins	89,587,981	95,510,115
Long Term Debt	84,829,999	112,000,922
Accounts Payable	12,404,717	10,861,914
Other Non-Cur. Liabilities	9,186,700	9,837,147
Other Cur. & Accrued Liabilities	10,150,008	10,386,646
Deferred Credits	0	7,646,189
Total Liabilities	206,645,500	246,736,653
Monies We Collected		
Revenues	2011	2012
Sales of Electric Power	118,903,868	116,235,478
Miscellaneous Elec. Revenue	2,850,435	2,694,872
Total Electric Revenues	121,754,303	118,930,350
Cost of Providing Service		
Expenses	2011	2012
Purchased Power	85,931,738	81,835,806
Oper. & Maintenance	5,760,457	6,078,727
Consumer Accounting	4,366,561	3,698,425
Admin. & General Expense	7,758,469	7,561,411
Depreciation	6,771,265	7,012,276
Taxes	5,036,319	5,011,171
Interest	4,744,173	4,913,039
Other Deductions	9,927	13,064
Total Liabilities	120,378,909	116,123,919
What We Had Left		
Margins	2011	2012
Operating Margins	1,375,394	2,806,431
Other Margins	166,467	402,486
Non-Operating Margins	640,651	1,004,503
Gen. & Trans. Capital Credits	1,752,507	1,724,852
Income (Loss)	1,908,084	3,024,797
Total Margins Assigned	5,843,103	8,963,069

MEMBER ACCOUNT GROWTH

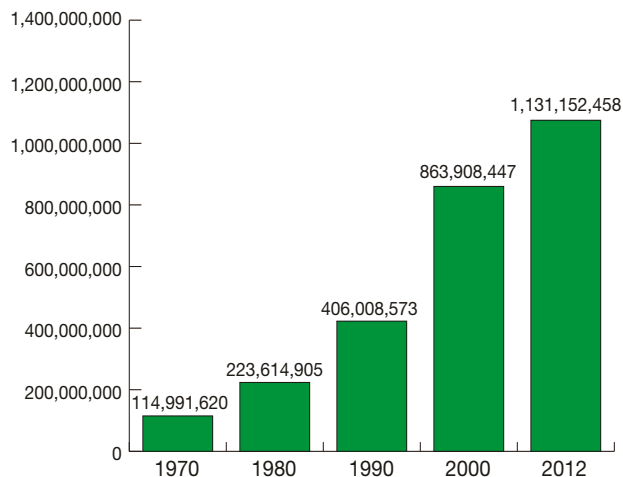


2012 SOURCES OF REVENUE

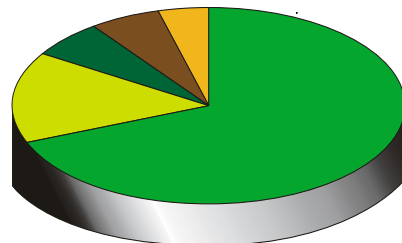


- RESIDENTIAL – 81%**
Homes, churches, clubs, and community houses provided 81 percent of LREMC's revenue.
- SMALL COMMERCIAL – 10%**
Business accounts whose annual load average is 1000 KVA or less per month provided 10 percent of LREMC's revenue.
- LARGE COMMERCIAL – 7%**
Commercial and industrial accounts whose annual load average is over 1000 KVA per month provided 7 percent of LREMC's revenue.
- PUBLIC AUTHORITIES – 2%**
Schools, street lighting, and other community accounts provided 2 percent of LREMC's revenue.

KILOWATT HOURS SOLD

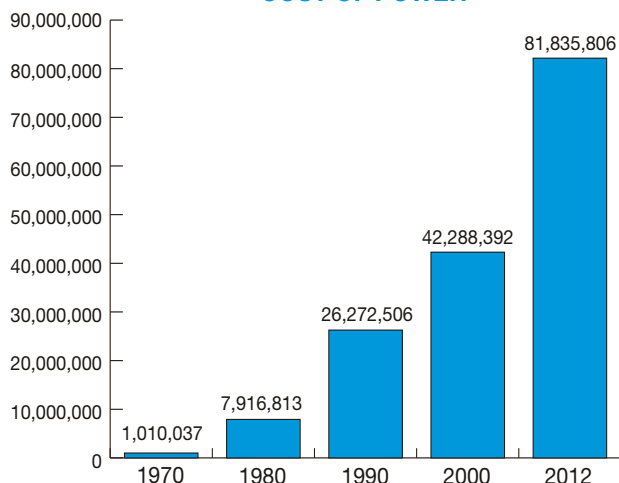


2012 EXPENSES AND MARGINS



- PURCHASED POWER – 69%**
Purchased power is your Cooperative's largest expense item and is the cost of getting the electricity to our substations from the suppliers who generate it.
- OPERATIONS & MAINTENANCE – 15%**
This includes construction and maintenance cost of lines, as well as trucks and equipment that the employees use in their work. It also includes office equipment, buildings, salaries, and other operational expenses.
- DEPRECIATION – 6%**
Equipment, buildings, and lines have a "quantity of usefulness," and day by day as they are used, the "quantity of usefulness" is consumed or expires.
- MARGINS – 6%**
Margins represent the amount of money taken in by the Cooperative over and above expenses. Other organizations call this "profit." Since we are a nonprofit organization, the margins are reinvested to build lines. This helps decrease the amount of money that must be borrowed. The margins are later returned to the members in the form of Capital Credits.
- INTEREST – 4%**
This is the interest we paid on long-term debt- money borrowed from the Rural Utilities Service, Farmer Mack Loans, and National Rural Utilities Cooperative Finance Corporation to finance construction of lines and substations.

COST OF POWER





Lumbee River
ELECTRIC MEMBERSHIP CORPORATION

Committed to our communities

A Touchstone Energy® Cooperative

