

HIGHLINES

Special Annual Report | March 2013

A publication for members of Pella Cooperative Electric

President and CEO's Report to the Membership

Another great year has gone by in the world of electric cooperatives, and we had a great 2012 where we celebrated the International Year of Cooperatives. The cooperative business model has continued to provide our members with low-cost and reliable energy, even in today's economy. As we start our 77th year of service to the member-owners of Pella Cooperative Electric Association, your cooperative is in a good financial position and ready for whatever challenges lie ahead.

We exist to provide fair electric rates to our members while providing high-quality electric service. Electric cooperatives may only serve 12 percent of American consumers, but we are a part of the \$371 billion U.S. electric utility industry that plays a critical role in this nation's economy and communities. We strive to provide reliable service in the office and on the power lines. Your cooperative continues to be involved in community efforts and economic development as well as legislation to speak on behalf of our members.

PCEA finished the year with sufficient margins to satisfy our debt service obligations. Kilowatt hour usage has declined in recent years, but the cooperative has remained financially strong. This is important because adequate margins are needed to demonstrate our ability to repay any money borrowed for system improvements and maintenance. We had year-end operating margins of \$811,563 and an additional \$477,814 of allocated, non-cash margins from other associated organizations. These non-cash margins improve our year-end totals,

but the distribution may not be received for up to 40 years. Because of our firm financial position, the Board of Directors authorized the retirement of more than \$107,000 of capital credits to members in 2012. Members of the cooperative in 1993 and 2011 received their share of the capital credits retirement allocated for those years. The capital credits were distributed via a December bill credit for current members or by check for past members.

Inside the office we have seen some changes. We said goodbye to Financial Manager Cheinette Van Wyk and Communications Coordinator Jenna Vos as they have moved on to different opportunities but have also welcomed two new employees, Doug Stewart, Financial Manager and Amy Holmquist, Communications Coordinator, to fill these positions.

In the operations side, we have recently just finished up two FEMA mitigation projects, which will strengthen our system west of Pella and in the Pleasantville area, and are starting on another FEMA mitigation project that will replace and strengthen 128 miles of line throughout our service area. FEMA projects are beneficial to the cooperative because 85 percent of the total cost is paid through federal and state grants. The funding from FEMA is critical to our ability to rebuild our system and improve reliability without impacting the rate base.

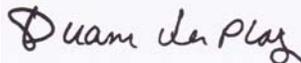
As member-owners of PCEA, you have a say in how this not-for-profit organization operates, and we want to hear your voice. We urge you to join us at our 77th Annual Meeting on April 2, 2013 at Pella Christian

High School. This year, you'll be asked to vote for two director seats that the nominating committee has nominated to run. Only members hold seats on the board of directors, so local people - not far-away stockholders - are running things at PCEA, and all members have the opportunity to run for a seat on the board and be involved in the utility that you and your neighbors own. We look forward to seeing you at the 77th Annual Meeting on April 2nd.




John R. Smith, CEO




Duane Ver Ploeg, President

Financial Report

Balance Sheets at December 31, 2012 and 2011

	2012	2011
Assets		
Net Utility Plant	\$ 13,093,989	12,128,513
Other Assets and Investments	2,981,535	2,533,380
Current Assets	2,465,009	2,806,877
Deferred Debits	5,115	122,077
Total Assets	\$ 18,545,648	17,590,847
Liabilities		
Long-Term Debt	\$ 8,379,948	8,847,884
Current Liabilities	1,130,166	1,154,835
Deferred Credits	359,356	141,033
Equity		
Margins and Equity	8,676,178	7,447,095
Total Liabilities and Equity	\$ 18,545,648	17,590,847

Income Statements for the Years Ended December 31, 2012 and 2011

	2012	2011
Operating Revenues	\$ 6,915,026	6,399,482
Operating Expenses		
Cost of Power	3,643,351	3,491,529
Operations and Maintenance Expense	661,330	662,900
Member Relations Expense	469,391	525,701
Administrative and General Expense	487,610	475,264
Depreciation Expense	369,475	350,416
Interest Expense	472,306	482,747
Operating Margins	\$ 811,563	410,925

Expenses as a Percentage of Revenues for the Years Ended December 31, 2012 and 2011

	2012	2011
Cost of Power	53%	55%
Operations and Maintenance Expense	10%	10%
Member Relations Expense	7%	8%
Administrative and General Expense	7%	7%
Depreciation Expense	5%	5%
Interest Expense	7%	8%

Official Notice of the Annual Meeting

The Annual Meeting for members of the Pella Cooperative Electric Association will be held at Pella Christian High School in Pella, Iowa. Dinner will be at 5:30 PM and the meeting at 7 PM on Tuesday, April 2, 2013 to take action upon the following matters:

1. The report of officers, directors and committees.
2. The election of two directors of the cooperative for a term of three years each.
3. All other business which may legally come before the meeting or any adjournment thereof.

In conjunction with the election of directors scheduled for this meeting, the following members have been appointed as director candidates by the Board of Directors of Pella Cooperative Electric, pursuant to the Bylaws:

District 3:
Sam Nichols (unopposed)

At Large:
Rick Fopma
Bob Van Soelen

You are urged to attend this meeting, hear reports of the officers, vote for directors, and transact other business as may come before the meeting.

Dated at Pella, Iowa this 31st day of January 2013.

Sam Nichols, Secretary

No Nominations By Petition Received

As published in the November HighLines, Article III of the cooperative's Bylaws outlines the process of nomination by petition, giving members the opportunity to nominate a candidate for the office of director by petition. Since no petition has been received, the candidates have been established as published here in this issue.

Meet the 2013 Board Candidates

At-Large District

Nestled five miles north of Sully lies the Fopma family farm where Rick and his wife Carla reside. The Fopmas have been members of PCEA for over 30 years, since 1980, and Rick is running for the At-Large board position.

Rick farms corn and beans along with 10,000 head of hogs. Together, Rick and Carla have two daughters, Rochelle and Trisha, and a son, Shawn. Off the farm Rick enjoys driving his Ultra Classic 2010 Harley and is also actively engaged in church. The Fopmas are members of Sully Christian Reformed Church and have served for a number of years as leaders of the youth group and also teach Sunday school. Rick also resides as a board member at Key Cooperative for 25 years, currently serving as their Vice-President.

Rick's experience with the cooperative business model along with his leadership roles in his church provides PCEA with a good candidate for At-Large District position. "I've always been interested in the cooperative business model, and I'm interested to learn more about how the electric cooperative runs," Rick said, "A cooperative is owned by members and I want to do what's best for the members."

RICK FOPMA



BOB VAN SOELEN



Located on a farm of generations, Bob and Marilyn Van Soelen reside one mile south of Lynnvile on originally Marilyn's parents' 160 acre farm. Marilyn's folks were members of PCEA and the Van Soelens have been on the cooperative line for the past eight years.

In January of 2005, Bob retired from Fleck Feed and Grain where he worked for 42 years, first as an accountant and then the owner. Bob and Marilyn have been married for 49 years, and together they have two children, Greg and Becky, who have blessed them with a total of six grandchildren.

As a family they like to go fishing and enjoy golfing during the warm months. Alongside their hobbies, Bob and Marilyn visit elderly in nursing homes. Bob also serves as council president at his church, Sully Christian Reformed Church.

Bob is running for the At-Large board position. His expertise in running a business alongside his leadership roles in his church make for a great candidate. "I was in business for 42 years, and know what it takes to be solvent. Being associated with the REC for the past eight years, I've seen the business model and have been impressed with their business approach," Bob said.

District 3

Just recently celebrating 20 years with the cooperative, Sam Nichols is running unopposed for District 3. Sam and his wife Cathy live near the mile-long bridge north of Knoxville and have been a member of PCEA for 30 years. Together they have four children, Nicole, Daniel, Michele and Joe, and 14 grandchildren.

Sam has recently retired from his position on the Marion County Board of Supervisors where he served for several years. The Nichols enjoy spending their free time traveling and riding motorcycles. Along with their hobbies, Sam serves as minister of Community of Christ Church.

Sam currently represents the cooperative on the Central Iowa Power Cooperative (CIPCO) Board of Directors along with the National Rural Electric Cooperative Association (NRECA) Board of Directors. He looks forward to contributing more of his time to the cooperative. "The main reason I'm running again is my concern over all the issues facing our industry with the potential EPA regulations and those initiatives. Now that I'm retired, I have more time I can spend working with the co-op world, both on the distribution side and the generation & transmission side with CIPCO and in Washington with the national board," he said.

SAM NICHOLS



The 2013 Nominating Committee



Thank you to the 2013 nominating committee for selecting candidates for the cooperative's board of directors. Each member on the committee spent time and effort in seeking candidates for this year's election and PCEA is appreciative of all their hard work. The committee chairman, Carroll Hoksbergen, will read the committee's report at the Annual Meeting.

Members of the nominating committee are pictured from left to right:

Arvin Vander Wilt, Dan Steenhoek, Carroll Hoksbergen, Lloyd Brand, Kelli Courtney, Melvin Dunsbergen, and Harlan Maasdam. Steve Van Wyk and Ken Kenyon not pictured.

FEMA Work Begins

It was very exciting news for us when we found out a few weeks ago that we have been awarded \$5.6 million from FEMA for a \$7.4 million dollar project! Over the next three years, we will work on upgrading 20 percent of our system all across the entire service territory.



Tyler Davis with Stanley Consultants

The new project is already in the works, and PCEA has hired Stanley Consultants, an engineering firm out of Muscatine, to help us with the project.

In the coming months, you may see Tyler Davis with Stanley Consultants out and about in the PCEA service territory. Davis will be working on staking locations for poles and other materials for our linemen to install. You'll most likely spot him along the roads where our lines are, but he will also be working in some other areas as well.

Meeting Agenda

Tuesday, April 2 at Pella Christian High School

- 5:30 pm **Dinner (free)**
Ham, mashed potatoes, corn, roll, brownies and ice cream

- 7:00 pm **Annual Meeting**
Welcome
Invocation
Secretary's Report
Introductions
Report of the Nominating Committee
Election of Directors
President's Report
CEO's Report
Results of the Election
Unfinished Business
Adjournment

- 7:45 pm **Door Prize Drawing**
Valuable Gift Certificates
LCD HD Television
Kitchen Aid Mixer

Those who stay for the entire meeting will receive a free gift. Please limit one gift per member. Members must be present during the door prize drawing to win the door prize.

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Pella Cooperative Electric is a not-for-profit, member-owned electric cooperative. The co-op exists to provide electric service at cost. It is the members (anyone who gets electricity from the cooperative), not outside investors, that own and control the co-op. Cooperatives are governed by a member-elected Board of Directors.

Board of Directors: Bryce Arkema, Don Jansen, Edwin Klyn, Sam Nichols, Norman Van Zante, David Vander Pol, Duane Ver Ploeg, and CEO John R. Smith.