Looking Toward the Horizon
Board and Manager’s Report

Bringing the power to our members has been a challenge since the early days when most rural Americans didn’t have electricity. The adversity faced by cooperatives through the years has persisted in many ways, whether it was the rural terrain faced by construction crews, the complexity of designing, building and maintaining an electrical network or the financial constraints faced by management. Today the challenges are similar and very different at the same time. The rural terrain remains, the complexity of the network is still there and keeping the cost of electrical service in check remains a point of focus. What makes these challenges much different today are the higher expectations. Cooperatives are expected to be innovative, business savvy and environmentally responsible.

One of the challenges identified for Southern Pine in operating in a world of higher expectations is the ability to connect with the membership. We provide service to people from multiple generations with a diverse set of needs. The cooperative value and brand of Southern Pine Electric needs to resonate with all members. The first step in revitalizing a connection with members was to freshen our logo design. Our hope is the new logo will help strengthen Southern Pine’s identity and foster pride with our stakeholders.

Technology is ever changing and staying ahead of the curve is becoming more and more difficult. The employees here have made great strides in making Southern Pine a technologically advanced cooperative. In the past year, we’ve changed accounting software, added electronic monitoring equipment to substations and implemented mobile dispatching and service order capabilities. These innovative efforts will improve our ability to track and report costs, provide for quicker response to members and shorten outage times.

Another challenge taken very seriously by your Board and Management team is setting rates that keep electric service affordable, reliable and safe. At the heart of Southern Pine’s business model is the not-for-profit status that allows us to operate as a cooperative. The ownership of the business lies with the members who work and live in our service territory. One of the benefits of being a member-owner of the cooperative is the assurance that rates are set at just the right amount to pay for expenses, invest in system improvements and service debt obligations.

Any revenue collected above that amount is allocated to the member’s capital credit account. The allocated portion is paid back to the member or “retired” on a 30-year cycle. Southern Pine also makes the allocated portion of capital credits available for early or “special” retirement to former members and to heirs of deceased members. To date, Southern Pine has returned $74.8 million in capital credits and will retire an additional $3.5 million this year. Our multiple methods of returning capital credits demonstrate our philosophy of keeping as many member dollars as possible where the dollars belong, in the pockets of the members.

Over time the expectations have also risen for how electric cooperatives work to protect the environment. After hearing from our members, we understand the importance of diversifying our energy portfolio. We’ve recently installed solar panels at our new facility as part of a pilot project with South Mississippi Electric. We look forward to learning more about the opportunities solar power will bring to the mix. We will keep our sights set on striking the right balance between using renewable sources of energy that protect our environment and keeping the cost of power as low as possible.

The challenges of bringing power to rural Mississippians have been there from the beginning and will continue to be there. Southern Pine Electric has grown to be one of the largest electric cooperatives in the country. We are proud to report to our members that our system is robust and reliable. Our employees are becoming more and more innovative every day. The Board and Management’s success and business savvy approach are proven by your cooperative’s financial strength and affordable rates. We take pride in the privilege to live and work in the Mississippi towns and communities we serve, and we will continue to work diligently to protect the best interest of all our stakeholders, especially you, the member.
January  Southern Pine Electric makes capital credits available for retirement to former members.

February  Heavy storms batter our service territory on February 15. At one point, as many as 10,000 members are without power. By Thursday, February 18, all power is restored.

March  The legislature passes House Bill 1139. This bill modernizes and streamlines the current Electric Power Associations Act to reflect changes in government agency names and to help clarify the manner in which cooperatives operate under state law.

April  On April 1, heavy winds and tornadoes hit the Brandon District near Star. Crews work through the night to help restore power to thousands of members.

May  Our crews and contract workers perform the largest system upgrade in the cooperative’s history in Covington County. More than 100 personnel and 50 utility vehicles participate.

June  The Board of Directors approves a new logo for the cooperative.

   Youth Tour participants Tanner Rogers, Caleb Harrison and Ward Winstead visit Washington, D.C.

July  Construction begins on a solar panel site that will generate 100 kW. The site is at the new campus under construction in Taylorsville.

August  SCADA, a substation equipment monitoring software system, is deployed. The system provides instantaneous information when issues arise in the substation and shortens outage times.

September  Southern Pine Electric’s new logo is installed at its warehouse on Mississippi Highway 28 in Taylorsville.

October  Southern Pine holds energy fairs at each district office. The energy fairs highlight energy efficiency and programs available to Southern Pine members.

November  The Board of Directors announces the return of $3.5 million in general capital credits to members.
Software Upgrades

In the fall of 2015, Southern Pine’s management and staff decided to upgrade our existing financial and member services software. The desire was to move toward a more modern platform that would improve integration ability, increase user efficiency and increase security.

We are pleased to announce our partnership with Advanced Technology Services, Inc. (ATS). Through exhaustive research and collaboration with other co-ops, Southern Pine chose ATS because of its innovative staff and their flexible approach to accommodating all of our integration needs.

The first phase of this software conversion was to change the financial information system. This phase was completed in late summer. Our accounting and IT staff have worked tirelessly to get the new system up and running. We look forward to better reporting capabilities which will allow us to better monitor and control costs.

By mid-2017, we will implement a second phase of the upgrade with the installation of new member services software which will allow us to add more service options for you and incorporate a more user-friendly experience. There are plans to implement options for more mobile interaction with you over your iPhone, iPad and other devices. Also, we believe the new system will provide a more secure environment for your private information.

This is part of our commitment to take the lead in industry standards and business processes which allows Southern Pine to continue to deliver the services you expect while maintaining a modern and secure technology environment.

Powered by the Sun

Southern Pine continually looks for ways to keep electricity prices low and to safeguard the environment. A 2015 survey indicated that our members are interested in alternative energy sources such as solar. In 2016, we partnered with South Mississippi Electric, our wholesale energy provider, to build a solar facility in Taylorsville as part of a pilot project along with four other cooperatives around the state.

The Taylorsville site, which features an array of 378 solar panels, will generate approximately 100 kilowatts of power, enough to power about 14 homes. The project will help determine the best locations for future solar facilities in the state.

Meanwhile, South Mississippi Electric is working with Orisis Energy, a specialized developer and investor in utility-scale sites throughout the United States and Europe, to build a solar site near Sumrall in Lamar County that will produce enough energy to power 10,000 homes in the first year. The site is scheduled to be completed in December 2017. South Mississippi Electric’s energy mix now includes nuclear, coal, natural gas, hydroelectric power and solar energy.

Upgrades to Infrastructure

Preparing for the future by improving infrastructure today is one of Southern Pine’s long-term goals. In the last year we have worked to upgrade our South Collins substation and the power lines around the Collins and Seminary areas.

In May, Southern Pine Electric embarked on one of the largest upgrades in our cooperative’s history. More than 100 employees and contract workers took part in a system
improvement project that affected around 900 members in Covington County. For two days, Southern Pine linemen climbed poles and worked in bucket trucks to upgrade lines along Highway 49 and various roads in the Collins/Seminary area.

The project is part of Southern Pine’s effort to hold down costs to its more than 66,000 members.

System improvements were also made to the Puckett substation as well as to infrastructure in Sylvarena, Mendenhall, Decatur and the Eminence community.

Southern Pine will continue to do upgrades to our infrastructure throughout the next year, including rebuilding the Magee substation.

### Economic Development

The creation and development of electric cooperatives is one of the most successful economic development initiatives our country has ever experienced. Improving the quality of life for our members and our communities remains the primary driver behind our efforts to promote economic development. Over the last eight years, the recession has taken its toll in terms of economic growth in our service area. We are, however, beginning to see an increase in business development. Southern Pine is dedicated to economic development and works with numerous local and state economic agencies to help bring businesses to our service territory. In addition, Southern Pine recently updated its website with a list of potential build sites and properties available within our service territory. The list has been compiled in cooperation with many local economic development authorities and is available on our website at www.southernpine.coop.

Southern Pine is essential to economic development within our service area. We work to build and maintain substations necessary to serve large loads to members such as Georgia-Pacific, Denbury Onshore and Colonial Pipeline. We work with local groups and businesses to acquire funds under the Rural Economic Development Loan Program and the Rural Development Grant Program to help promote rural economic development. These loans are obtained at no risk to our members and have totaled almost $7.6 million of support for new industry. This is just another way in which we partner with businesses within our area to keep and add jobs.

### Capital Credits

Electric cooperatives like Southern Pine are not-for-profit organizations that operate for the benefit of their members. Accordingly, if member-generated revenues are in excess of operating costs and expenses, those funds are credited to a member’s account based on the amount of electricity they use. Those funds, called capital credits, are the lifeblood that enables Southern Pine to satisfy the future growth and power needs of our members.

To date, Southern Pine has returned more than $74.8 million in capital credits to our members.
Southern Pine uses four methods to retire capital credits:

- General Retirement – A portion of each year’s allocation is returned to the members based on the cooperative’s financial performance after paying for capital improvements, loan payments and emergency reserves. The Board of Directors has voted to retire $3.5 million in capital credits this year, starting in December.

- Estate Capital Credits – When a member dies, his or her heirs can apply for the deceased member’s capital credit allocation.

- 30-Year Cycle – In 2015, Southern Pine began retiring all capital credit allocations older than 30 years. To get on the 30-year cycle, allocations to members from 1964 through 1984 totaling more than $12 million were retired.

- Former Members – In 2016 we began retiring capital credits to former members. Members who moved out of Southern Pine territory in recent years and those leaving in the future can get their capital credits without waiting on the normal 30-year retirement cycle.

A member’s capital credit account represents his or her ownership in the cooperative. The methods used to return capital credits to members represent Southern Pine’s philosophy of spreading the costs and the benefits of doing business with the cooperative across all members. We believe in keeping as many member dollars as possible in the members’ pockets.

**Total Capital Credit Amount Retired To Date**

$74.8 million

In 2015, Southern Pine retired $17,422,263 in Capital Credits.

**FACTS AND FIGURES**

- Completed 4,340 new services
- Worked 513,896 employee hours
- Peak wholesale kilowatt-hours purchased was 212 million kilowatt-hours in July
- Average residential meter used 1,210 kilowatt-hours per month
- Residential bill for 1,000 kWh use in 2015 was $120.43
- 61,427 residential meters
- 5,159 commercial and industrial services under 1,000 KVA
- 47 commercial and industrial services over 1,000 KVA
- 22 public street lights
- Total active accounts: 66,655
- Taxes paid $819,785
### Financial Highlights 2015

#### Summary of Financial Performance

**Operating Revenue** $216,915,379

**Operating Expense** 199,243,481

**Interest Expense** 4,378,040

**Net Operating Income** 13,293,858

**Net Plant** 292,297,360

**Total Assets** 439,954,984

**Member Equity** 257,867,595

#### Operating Statistics

<table>
<thead>
<tr>
<th>Total Active Services</th>
<th>Kilowatt-hours sold (millions)</th>
<th>Miles of line</th>
<th>Members per mile of line</th>
<th>Number of employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>66,655</td>
<td>1,978</td>
<td>10,320</td>
<td>6.5</td>
<td>237</td>
</tr>
</tbody>
</table>

#### Sources of Revenue

<table>
<thead>
<tr>
<th>Residential</th>
<th>Large commercial/industrial</th>
<th>Small commercial</th>
</tr>
</thead>
<tbody>
<tr>
<td>50%</td>
<td>32%</td>
<td>18%</td>
</tr>
</tbody>
</table>

#### Operating Expense

<table>
<thead>
<tr>
<th>Purchased power</th>
<th>Other operating expense</th>
<th>Depreciation</th>
<th>Maintenance</th>
<th>Taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>78%</td>
<td>10.6%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>0.4%</td>
</tr>
</tbody>
</table>

### BALANCE SHEET

as of December 31, 2015 (Rounded to nearest dollar)

#### Assets

- Lines, building, equipment: $402,224,340
- Less reserve for depreciation: (109,926,980)
  - Total net plant: 292,297,360
- Cash and equivalents: 31,577,439
- Investments (including temporary): 83,418,630
  - Total cash and investments: 114,996,069
- Accounts receivable: 18,525,290
- Materials and supplies: 6,158,937
- Prepayment, other current accrued assets: 457,182
- Deferred debits: 7,520,146
  - **Total Assets**: $439,954,984

#### Liabilities

- Long-term debt: $95,123,194
- Current and accrued liabilities: 86,960,925
- Deferred credits: 3,270
  - **Total Liabilities**: $182,087,389

#### Net Worth

- Membership fees: $338,000
- Patronage capital: 256,801,486
- Other equities: 728,109
  - **Total Net Worth**: $257,867,595
  - **Total Liabilities and Net Worth**: $439,954,984

### STATEMENT OF OPERATIONS

as of December 31, 2015 (Rounded to nearest dollar)

#### Income

<table>
<thead>
<tr>
<th>Operating revenue</th>
<th>$216,915,379</th>
</tr>
</thead>
</table>

#### Expenses

<table>
<thead>
<tr>
<th>Cost of power</th>
<th>$160,634,942</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operation expense</td>
<td>3,194,145</td>
</tr>
<tr>
<td>Maintenance expense</td>
<td>9,932,405</td>
</tr>
<tr>
<td>Customer expense</td>
<td>4,652,757</td>
</tr>
<tr>
<td>General expense</td>
<td>9,601,214</td>
</tr>
<tr>
<td>Depreciation expense</td>
<td>10,408,233</td>
</tr>
<tr>
<td>Tax expense</td>
<td>819,785</td>
</tr>
<tr>
<td>Interest on debt</td>
<td>4,378,040</td>
</tr>
</tbody>
</table>
  - **Total cost of electric service**: 203,621,521
  - **Operating margin**: $13,293,858
Our Mission

It is the mission of Southern Pine Electric to provide reliable, safe and efficient services at a competitive price to all customers, whether we are supplying electricity to a poultry farm, an urban subdivision or a multi-million-dollar industry. Our commitment is to set the service standard for the providers of electric service and to remain the power provider for our customers.