

**SAWNEE ELECTRIC MEMBERSHIP CORPORATION
CUMMING, GEORGIA**

**FINANCIAL STATEMENTS AS OF
DECEMBER 31, 2006 AND 2005 AND
REPORT OF INDEPENDENT ACCOUNTANTS**

SAWNEE ELECTRIC MEMBERSHIP CORPORATION

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March 8, 2007

REPORT OF INDEPENDENT ACCOUNTANTS

The Board of Directors
Sawnee Electric Membership Corporation

We have audited the accompanying balance sheets of **Sawnee Electric Membership Corporation** as of December 31, 2006 and 2005 and the related statements of revenue and patronage capital and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes 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 presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sawnee Electric Membership Corporation as of December 31, 2006 and 2005, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2007 on our consideration of Sawnee Electric Membership Corporation'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the result of our audits.

McNair, McLemore, Middlebrooks & Co., LLP
MCNAIR, McLEMORE, MIDDLEBROOKS & CO., LLP

SAWNEE ELECTRIC MEMBERSHIP CORPORATION
BALANCE SHEETS
DECEMBER 31

ASSETS

	2006	2005
Utility Plant		
Electric Plant in Service-At Cost	\$379,585,959	\$359,140,283
Construction Work in Progress	4,513,851	3,546,694
	384,099,810	362,686,977
Gross Utility Plant	(65,591,862)	(61,894,606)
Accumulated Provision for Depreciation	318,507,948	300,792,371
Other Property and Investments		
Investments in Associated Organizations	19,618,622	24,280,142
Restricted Funds	10,020,260	10,020,260
	29,638,882	34,300,402
Current Assets		
Cash and Cash Equivalents	9,950,754	11,499,429
Accounts Receivable (Net of Accumulated Provision for Uncollectibles of \$626,936 in 2006 and \$595,467 in 2005)	16,208,798	17,347,383
Materials and Supplies	3,275,068	2,235,935
Prepayments	194,608	92,763
Interest Receivable	251,077	274,525
	29,880,305	31,450,035
Deferred Debits	424,583	436,487
Total Assets	\$378,451,718	\$366,979,295

The accompanying notes are an integral part of these balance sheets.

SAWNEE ELECTRIC MEMBERSHIP CORPORATION
BALANCE SHEETS
DECEMBER 31

EQUITIES AND LIABILITIES

	2006	2005
Equities		
Membership Fees	\$ 599,280	\$ 574,015
Patronage Capital	124,826,697	120,520,406
Other	2,047,274	1,784,033
	127,473,251	122,878,454
 Long-Term Debt	 195,021,558	 190,078,992
Other Long-Term Liabilities		
Accumulated Provisions for Postretirement Benefits Other than Pensions	3,834,976	7,294,900
Current Liabilities		
Long-Term Debt-Current Portion	6,065,000	6,001,000
Accounts Payable	16,528,965	18,023,887
Consumers' Deposits	6,267,448	5,281,377
Accrued and Withheld Taxes	3,617,999	3,002,689
Accrued Interest	411,263	325,493
Other	3,487,671	3,456,387
	36,378,346	36,090,833
 Deferred Credits	 15,743,587	 10,636,116
 Total Equities and Liabilities	 \$378,451,718	 \$366,979,295

The accompanying notes are an integral part of these balance sheets.

SAWNEE ELECTRIC MEMBERSHIP CORPORATION
STATEMENTS OF REVENUE AND PATRONAGE CAPITAL
FOR THE YEARS ENDED DECEMBER 31

	<u>2006</u>	<u>2005</u>
Operating Revenues	\$262,585,818	\$253,812,721
Operating Expenses		
Cost of Power	195,038,949	190,309,807
Distribution Operations	10,616,678	9,526,082
Distribution Maintenance	9,634,523	10,608,176
Consumer Accounts	9,015,215	8,786,980
Customer Information and Sales	870,893	914,442
Administrative and General	8,589,805	7,123,884
Depreciation	11,453,467	10,540,529
Loan Amortization-Conversion Fee	119,887	162,063
Other	20,235	66,998
	<u>245,359,652</u>	<u>238,038,961</u>
Operating Margins Before Interest Expense	17,226,166	15,773,760
Interest Expense	9,859,740	9,482,599
Operating Margins After Interest Expense	7,366,426	6,291,161
Nonoperating Margins	2,265,387	2,331,457
Generation and Transmission Cooperative Capital Credits	(4,609,399)	(991,401)
Other Capital Credits and Patronage Capital Allocations	388,915	244,867
Net Margins	5,411,329	7,876,084
Patronage Capital-Beginning	120,520,406	113,695,718
Retirement of Patronage Capital	(1,105,038)	(1,051,396)
Patronage Capital-Ending	\$124,826,697	\$120,520,406

The accompanying notes are an integral part of these statements.

SAWNEE ELECTRIC MEMBERSHIP CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31

	2006	2005
Cash Flows from Operating Activities		
Net Margins	\$ 5,411,329	\$ 7,876,084
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities		
Depreciation and Amortization	12,067,972	11,254,001
Investment in Associated Organizations	4,215,644	730,698
Postretirement Benefits	(3,459,924)	1,303,485
Loss on Disposition of Property-Net	222,756	113,643
Change In		
Accounts Receivable	1,138,585	(3,693,234)
Other Current Assets	(78,397)	(110,015)
Accounts Payable	(1,494,922)	1,883,483
Other Current Liabilities	732,364	1,999,448
	<u>18,755,407</u>	<u>21,357,593</u>
Cash Flows from Investing Activities		
Extension and Replacement of Plant	(27,996,137)	(17,095,439)
Deferred Debits	11,904	(62,228)
Materials and Supplies	(1,039,133)	(68,569)
Return of Equity from Associated Organizations	399,260	304,255
Plant Removal and Salvage-Net	(2,010,168)	(1,510,386)
Advanced Payments Unapplied	11,034,591	790,453
	<u>(19,599,683)</u>	<u>(17,641,914)</u>
Cash Flows from Financing Activities		
Memberships	25,265	(57,900)
Principal Repayment of Long-Term Debt	(6,028,025)	(5,948,481)
Retirement of Patronage Capital	(1,105,038)	(1,051,396)
Investment in Capital Term Certificates	46,616	44,795
Consumers' Deposits	986,071	241,097
Other Equities	263,241	321,867
Restricted Funds	-	6,406,016
Deferred Credits	5,107,471	(10,820,804)
	<u>(704,399)</u>	<u>(10,864,806)</u>
Net Decrease in Cash and Cash Equivalents	(1,548,675)	(7,149,127)
Cash and Cash Equivalents-Beginning	11,499,429	18,648,556
Cash and Cash Equivalents-Ending	\$ 9,950,754	\$ 11,499,429

The accompanying notes are an integral part of these statements.

SAWNEE ELECTRIC MEMBERSHIP CORPORATION

NOTES TO FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

Accounting policies of the Corporation reflect practices appropriate in the electric utility industry. The following describes the more significant of those policies.

Nature of Operations

Sawnee Electric Membership Corporation is a not-for-profit corporation organized to provide electric service to its members. The Corporation operates as a cooperative whereby all monies in excess of cost of providing electric service are capital, at the moment of receipt, and are credited to each member's capital account.

Use of Estimates

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

Long-Lived Assets

The Corporation evaluates long-lived assets for impairment when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The determination of whether an impairment has occurred is based on either a specific regulatory disallowance or an estimate of undiscounted future cash flows attributable to the assets, as compared with the carrying value of the assets.

If an impairment has occurred, the amount of the impairment recognized is determined by estimating the fair value of the assets and recording a provision for loss if the carrying value is greater than the fair value. For assets identified as held for sale, the carrying value is compared to the estimated fair value less the cost to sell in order to determine if an impairment provision is required. Until the assets are disposed of, their estimated fair value is reevaluated when circumstances or events change.

Accounting standards require the present value of the ultimate cost for an asset's future retirement be recorded in the period in which the liability is incurred. The cost should be capitalized as part of the related long-lived asset and depreciated over the asset's useful life. The Corporation has no legal retirement obligations related to its distribution facilities; therefore, a liability for the removal of these assets will not be recorded. Management believes the actual cost of removal, even though not a legal obligation, will be recovered through rates over the life of the distribution assets.

Utility Plant

Utility plant is capitalized at cost less related contributions in aid of construction. In general, utility plant is capitalized at the time it becomes part of an operating unit and has been energized. However, certain items of plant referred to as special equipment items (meters, transformers, oil circuit reclosers, etc.) are capitalized at the time of purchase along with the related estimated cost of installation.