

Departmental Focus: Finance

South Mississippi Electric employees often associate the finance department with their paycheck, invoice processing and not much more. With nearly \$1.5 billion in assets and plans for more than \$1 billion in capital investments over the next three years, SME depends on the team of highly-skilled experts to maintain the organization's financial strength. Under the leadership of Chief Financial Officer Ray Haley, eight accounting professionals manage the Association's business transactions and four treasury analysts monitor SME's daily cash, investment and debt positions. Collectively, the finance department ensures the financial soundness and integrity of the Association day-in and day-out. Every dollar that flows through SME is tracked and allocated by the department.

Bobby Vinson, controller, is at the helm of all accounting responsibilities, including financial and operational reporting, accounts payable, fixed assets, payroll, budgeting, long-range forecasting and financial analyses. These and other of the group's responsibilities are regulated by the Financial Accounting Standards Board, Rural Utilities Service (RUS), and the Federal Energy Regulatory Commission (FERC).

The accounting group prepares and maintains the integrity of the Association's monthly, quarterly and annual financial statements. SME's financial statements are audited annually to ensure compliance with accounting standards accepted in the United States, as well as financial audit standards issued by the Comptroller General of the United States. SME's independent auditor, KPMG, determines at the conclusion of the audit whether the financial statements fairly present, in all material respects, SME's financial position. The audited financial statements are used by lenders, suppliers and others to analyze SME's financial strength and the ability to meet current and future obligations.

The accounting and treasury groups coordinate financing for capital expenditures through RUS, SME's primary source of funding. Michael Morgan, operations and assets accountant, monitors construction work plans and appraises Haley and Vinson of upcoming projects. Qualifying projects are submitted in a loan application to RUS for permanent financing, and if necessary, interim financing is available from a syndicated credit facility led by the National Rural Utilities Cooperative Finance Corporation (CFC).

"SMEPA typically submits new loan applications to RUS every two years and more often if significant generation projects emerge," said Morgan. "The past several years, however, have been busier than ever in terms of loan applications because of our many capital projects, including the Morrow scrubber upgrades, the Moselle Repower Project, the microwave tower system expansion and the new IGCC plant under construction in Kemper County."

Once an RUS loan is approved, which historically takes 12 to 24 months, Morgan monitors each project to determine when enough steps have been completed to request an advance on the loan.

"SMEPA has always been successful with RUS loan applications," said Morgan. "Each application requires a lot of timing and cooperation among SMEPA groups. For example, BPO (bulk power operations) must maintain their projects in approved construction work plans in order for the project to be submitted for financing." RUS borrowers must also comply with standards issued by the North American Electric Reliability Corporation, FERC and other RUS-specific standards in order to maintain loan eligibility.

Regina McAlpin, financial applications expert, contributes to the success of SME's loan applications by maintaining the Association's general and sub-ledgers and overseeing all financial reports. "On-going reporting is required to monitor financial soundness of SMEPA for RUS and capital markets to ensure the funding of our generation and transmission projects that serve our Members' needs," said McAlpin.

Irmalene Rainey, budget and payroll accountant, combines information maintained by McAlpin with budget proposals and project plans from BPO and other departments to compile SME's annual budget. The budget includes the upcoming year's plan for every dollar that flows through the Association. Rainey develops each budget based upon a number of assumptions, including what units will be operated, how much power will be generated, what units will be taken offline for repairs and how much fuel will be purchased. The budget also outlines plans for each group's projects and capital expenditures for the upcoming year (i.e., constructing new transmission lines, substations, microwave towers, etc.). The costs and financial ratios are then used to calculate the budgeted rate that will be charged to each Member system.

In contrast to the accounting duties that focus on dollars coming in and spent in the present and near future, Financial Analyst Leah Davis focuses upon predicting the dollars that will flow through SME from five to 30 years into the future. Davis's long-range financial forecasts assist lenders by projecting SME's financial status in the future. Forecasts are continually revised to incorporate changes that impact it, such as changes in environmental requirements. As part of forecasting, Davis also processes sensitivity cases to determine the impact of a variety of scenarios upon wholesale rates, including different interest rate assumptions, fuel costs or construction costs. Davis also incorporates expected future variances to project results for coming months to determine potential impact upon rates charged to Member systems.

When investments are explored, Davis conducts analyses to evaluate the impact of the potential investment on Member rates. In addition, Davis prepares a monthly analysis that compares monthly financial results with the year's budget.

Accounts Payable Clerks Kathy Freeman and Missy Kelly process invoices for checks issued by SME. The invoices represent a range of expenditures, from fuel for generating plants to purchased power to charges associated with major capital projects and office supplies. "The work we do is behind the scenes to make sure everything runs properly and the lights stay on, so to speak," said Freeman.

The accounts payable process was streamlined in January 2011 when ImageNow, a document scanning and retention program, was implemented to advance the department toward a paperless system. The program links invoice information from Oracle EBS, SME's accounting system, to scanned images of invoices.

"Once an invoice was received in the past, it had to manually move between multiple offices for payment authorization and problem resolution before it could be processed, then it was filed manually," said McAlpin, who supervises all accounts payable activities. "ImageNow eliminates the physical movement of paper invoices, expediting the procure-to-pay process."

The invoice images are readily retrievable from the system for departmental budget analysis, audits and capitalization of the projects as fixed assets. The system is instrumental in meeting FERC and internal document-retention requirements as necessary to obtain RUS funding.

Donna Douglas, payroll assistant, oversees SME's payroll system. Douglas's cycle of payroll processing begins with verifying and processing timesheets every two weeks, processing employee benefits and other items deducted from paychecks (i.e., 401K, insurance, loans, etc.), calculating pension plan contributions and calculating payroll taxes. In addition, Douglas annually generates 300-plus W-2 Forms for regular employees, 1099 Forms for contract employees and completes all associated year-end reporting.

The treasury group, under the guidance of Director of Treasury Services Kevin Grace, complements the work of the accounting group by managing transactions that impact SME's cash and debt positions. Grace and Treasury Analysts Brian Harris and Tonia Ware and Senior Treasury Analyst and Risk Manager Jeanne Walker monitor SME's daily positions to ensure that funds are available to cover all cash outflows and that no excess cash sits inactive in any account. The team forecasts cash requirements on a daily, weekly, monthly and quarterly basis.

In addition to long-term debt funds, funding from revolving lines of credit is vital to SME's liquidity. The primary source of this readily available funding is provided by credit facilities. Two lines of credit totaling \$35 million have been established locally with Trustmark National Bank and BancorpSouth. A third source is a \$250 million syndicated credit facility with 10 financial institutions led by CFC. As treasury monitors SME's daily positions, funds are continually drawn upon or repaid on these lines of credit in order to maintain a positive target balance in each account.

"SMEPA's terms and conditions with each of these finance organizations allow us to submit a request as necessary and receive funds in the same day," said Grace. "These funds are consistently available, giving us constant access to funding. They also improve SMEPA's liquidity in the eyes of the rating agencies that analyze the Association's creditworthiness."

Just as the treasury group ensures that cash levels maintain a certain threshold at all times, the analysts ensure that any excess cash is used for maximum benefit to the Association. When account levels exceed the threshold, the excess is invested to earn interest or used to repay lines of credit or other forms of debt early in order to minimize interest payments.

Ware manages the Member pre-payments of wholesale power bills to ensure that funds are used in an effective manner. All 11 Member systems are billed monthly for the wholesale electric service provided to them. Payments are due on the 20th of each month; however, systems that pre-pay any portion of their bill in advance are paid interest by SME on the amount of their prepayment. The pre-paid funds are then used to manage SME's daily cash and debt positions. This creates a mutually beneficial transaction wherein both SME and the Member are earning or saving money.

In 2011, SME implemented GTreasury software to assist treasury with their functions. This software provides the analysts with the ability to monitor the daily positions of all bank accounts and revolving lines of credit, as well as balances of long-term loans and bonds. GTreasury serves as a single, centralized platform to record, track and monitor all debt instruments in an organized, structured manner.

"Every day our job is to make sure that we are repaying or borrowing the right amount of money at the right time from the right lenders," said Grace. "GTreasury has improved our ability to do that by providing reliable, up-to-date information more efficiently. The utilization of an interface between GTreasury and our core accounting system (Oracle EBS) has provided for a more systematic process to conduct our work."

GTreasury's monitoring of journal entries and forecasting of debt interest and principal payments assists the treasury group as they work with the accounting group to prepare the annual budget, quarterly and annual reports, and financial forecasts.

Harris, Walker and Ware also work with the accounting group to submit applications for RUS loans and other funding sources, as well as to maintain compliance with loan agreements. Harris assists in the preparation of analyses, reports and presentations for rating agencies, bond investors and other participants in the capital market. Walker prepares compliance reports for lenders and the indenture trustee to validate SME's creditworthiness. Ware also issues periodic reports on the Association's Decommissioning Trust Fund, Power Supply Development Fund and other investments.

The end of the first quarter of 2012 marks the beginning of a new project for the finance department. SME is implementing new efforts to become more aligned with requirements set forth by the Securities and Exchange Commission (SEC). Although not currently registered with the SEC, the Association will begin producing enhanced quarterly reporting that improves disclosure and transparency in the eyes of lenders and creditors.

While workload and responsibilities for the finance department have increased significantly in recent years, headcount in the department is at the same level it was in 2005. "The Association's investments in systems, staff training and development have resulted in a measurably more effective organization," said Haley. "The finance department has made a significant contribution to SMEPA's current strong position."