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**POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION
FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date **FEB 08 2012**

MAJOR, MORRISON & DAVID
Certified Public Accountants



POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION

June 30, 2011 and 2010

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CERTIFIED PUBLIC ACCOUNTANTS

VAN P. MAJOR, CPA (1951-2005)

Independent Auditor's Report

The Officers and Board of Directors
Pointe Coupee Electric Membership Corporation
New Roads, Louisiana

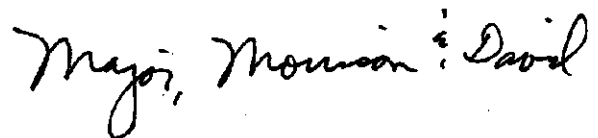
We have audited the accompanying balance sheets of Pointe Coupee Electric Membership Corporation as of June 30, 2011 and 2010, and the related statements of revenue and patronage capital, comprehensive income, and cash flows for the years then ended. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 Pointe Coupee Electric Membership Corporation as of June 30, 2011 and 2010, and the results of its operations and its 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 a report dated August 30, 2011, on our consideration of Pointe Coupee 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 results of our audit.

Major, Morrison & David
New Roads, Louisiana
August 30, 2011



POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION
BALANCE SHEETS
As of June 30, 2011 and 2010

| | 2011 | 2010 |
|--|----------------------|----------------------|
| ASSETS | | |
| ELECTRIC PLANT: (Note 2) | | |
| In Service - at cost | \$ 38,835,997 | \$ 37,751,440 |
| Construction work in progress | 497,357 | 549,519 |
| | <u>39,333,354</u> | <u>38,300,959</u> |
| Less: accumulated depreciation | (11,199,384) | (11,065,369) |
| | <u>28,133,970</u> | <u>27,235,590</u> |
| OTHER ASSETS AND INVESTMENTS | | |
| Non-utility property (net of accumulated depreciation of \$120,485 for 2011 and \$116,961 for 2010) | 20,492 | 24,016 |
| Post-retirement benefit asset (Note 14) | 127,676 | - |
| Investments in associated organizations, at cost (Note 4) | 1,080,011 | 1,050,050 |
| | <u>1,228,179</u> | <u>1,074,066</u> |
| CURRENT ASSETS | | |
| Cash and cash equivalents | 247,508 | 354,226 |
| Short-term investments (Note 4) | 200,000 | 200,000 |
| Accounts receivable (less provision for uncollectible accounts of \$25,144 in 2011 and \$22,268 in 2010) | 1,536,786 | 1,567,844 |
| Accounts receivable - unbilled | 2,528,491 | 2,617,342 |
| Materials and supplies (at average cost) | 443,587 | 460,118 |
| Prepayments | 326,544 | 239,997 |
| Other current and accrued assets | 8,804 | 8,645 |
| | <u>5,291,720</u> | <u>5,448,172</u> |
| DEFERRED DEBITS (Note 7) | <u>762,344</u> | <u>816,358</u> |
| | <u>\$ 35,416,213</u> | <u>\$ 34,574,186</u> |

The accompanying notes are an integral part of this statement.

POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION
BALANCE SHEETS
As of June 30, 2011 and 2010

| | 2011 | 2010 |
|--|---------------|---------------|
| EQUITIES AND LIABILITIES | | |
| EQUITIES: | | |
| Memberships | \$ 38,740 | \$ 38,920 |
| Accumulated other comprehensive income (Note 14) | 127,676 | (614,730) |
| Patronage capital (Note 9) | 15,233,233 | 15,878,287 |
| | 15,399,649 | 15,302,477 |
| LONG-TERM LIABILITIES: | | |
| Long-term debt, less current maturities (Note 5) | 14,167,213 | 14,994,107 |
| Post-retirement benefit obligation (Note 14) | - | 614,730 |
| | 14,167,213 | 15,608,837 |
| CURRENT LIABILITIES: | | |
| Line of credit - note payable (Note 6) | 2,596,000 | 455,000 |
| Current maturities of long-term debt (Note 5) | 948,314 | 956,323 |
| Accounts payable - purchased power | 1,232,326 | 1,167,813 |
| Accounts payable - other | 330,938 | 330,716 |
| Customer deposits | 346,480 | 343,915 |
| Other current and accrued liabilities | 342,959 | 286,137 |
| | 5,797,017 | 3,539,904 |
| DEFERRED CREDITS (Note 8) | 52,334 | 122,968 |
| | \$ 35,416,213 | \$ 34,574,186 |

The accompanying notes are an integral part of this statement.

POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION
STATEMENTS OF REVENUE AND PATRONAGE CAPITAL
For the Years Ended June 30, 2011 and 2010

| | 2011 | 2010 |
|--|---------------|---------------|
| OPERATING REVENUES | \$ 19,876,146 | \$ 19,425,419 |
| OPERATING EXPENSES: | | |
| Cost of power | 12,766,161 | 11,931,016 |
| Distribution operation | 559,653 | 398,972 |
| Distribution maintenance | 2,259,003 | 2,082,424 |
| Consumer accounts | 953,690 | 909,073 |
| Sales | 29,602 | 32,106 |
| Administrative and general | 1,631,334 | 1,533,286 |
| Depreciation and amortization | 1,100,929 | 1,065,851 |
| Taxes | 389,356 | 382,028 |
| | 19,689,728 | 18,334,756 |
| OPERATING MARGINS BEFORE FIXED CHARGES | 186,418 | 1,090,663 |
| FIXED CHARGES: | | |
| Interest on long-term debt (Note 3) | 855,886 | 843,709 |
| NET OPERATING MARGINS | (669,468) | 246,954 |
| NONOPERATING MARGINS: | | |
| Interest income | 39,845 | 36,990 |
| Other income | - | 894 |
| Other expense | (15,431) | (40,185) |
| | 24,414 | (2,301) |
| NET MARGINS | (645,054) | 244,653 |
| PATRONAGE CAPITAL - beginning of year | 15,878,287 | 15,633,634 |
| PATRONAGE CAPITAL - end of year | \$ 15,233,233 | \$ 15,878,287 |

The accompanying notes are an integral part of this statement.

POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended June 30, 2011 and 2010

| | <u>2011</u> | <u>2010</u> |
|---|------------------|-------------------|
| NET MARGINS | \$ (645,054) | \$ 244,653 |
| OTHER COMPREHENSIVE INCOME | | |
| Recognized actuarial gains/losses & net periodic benefit cost reclassification for postretirement benefit obligation (Note 14) | <u>742,406</u> | <u>548,758</u> |
| COMPREHENSIVE INCOME | <u>\$ 97,352</u> | <u>\$ 793,411</u> |

The accompanying notes are an integral part of this statement.

POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2011 and 2010

| | 2011 | 2010 |
|---|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net margins | \$ (645,054) | \$ 244,653 |
| Adjustments to reconcile net margins to net cash provided (used) by operating activities: | | |
| Depreciation and amortization | 1,219,805 | 1,224,187 |
| Bad debts | 47,862 | 65,475 |
| (Increase) decrease in: | | |
| Accounts receivable | (16,962) | (594,878) |
| Unbilled receivable | 88,852 | (175,644) |
| Prepaid expenses | (86,547) | (111,850) |
| Materials and supplies | 16,531 | 69,638 |
| Deferred debits | 54,014 | 427,787 |
| Decrease (increase) in: | | |
| Accounts payable | 64,735 | 79,214 |
| Other current and accrued liabilities | 56,822 | (89,809) |
| Deferred credits | (70,634) | (70,634) |
| Total adjustments | 1,374,478 | 823,486 |
| Net Cash Provided (Used) by Operating Activities | 729,424 | 1,068,139 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Investments in associated organizations | (29,963) | (197,045) |
| Proceeds from sale of investments | 200,000 | 200,000 |
| Construction and acquisition of plant | (2,114,661) | (2,045,787) |
| Purchase of investments | (200,000) | - |
| Net Cash Provided (Used) by Investing Activities | (2,144,624) | (2,042,832) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from line of credit | 3,850,000 | 1,300,000 |
| Repayment of line of credit | (1,709,000) | (2,095,000) |
| Proceeds from long-term debt | 1,634,936 | 2,100,000 |
| Repayment of long-term debt | (2,469,839) | (969,240) |
| Increase (decrease) in: | | |
| Memberships issued | (180) | 260 |
| Customer deposits | 2,565 | 43,050 |
| Net Cash Provided (Used) by Financing Activities | 1,308,482 | 379,070 |
| NET INCREASE (DECREASE) IN CASH | (106,718) | (595,623) |
| CASH AT BEGINNING OF YEAR | 354,226 | 949,849 |
| CASH AT END OF YEAR | \$ 247,508 | \$ 354,226 |
| Supplemental Disclosures | | |
| Cash Paid During the Year for: | | |
| Interest | \$ 853,352 | \$ 844,766 |

The accompanying notes are an integral part of this statement.

POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

Note 1-Summary of Significant Accounting Policies

A. Organization

Pointe Coupee Electric Membership Corporation (Cooperative) is an electric transmission and distribution cooperative. Its principal business activity is providing electric power to approximately 10,292 member-consumers over three parishes. The Cooperative is subject to the jurisdiction of the Louisiana Public Service Commission (LPSC) for ratemaking regulations.

B. Accounting and Records

The Cooperative maintains its records in accordance with the Uniform System of Accounts, prescribed for electric borrowers of the Rural Utilities Service (RUS).

C. Cash and Cash Equivalents

For purposes of the statements of cash flows, the Cooperative considers all highly liquid debt instruments purchased with maturity of two months or less to be cash equivalents.

D. Short-Term Investments

Short-term investments consist of certificates of deposits with various maturity dates and are stated at cost, which approximates fair market value. The investments are held until each maturity date.

E. Accounts Receivable

The Cooperative uses the reserve method to account for uncollectible accounts. Accounts deemed un-collectible are written off yearly against the reserve.

F. Inventory

Inventory is stated at average-cost.

G. Utility Plant

Utility plant is stated at original cost net of contributions. Such cost includes applicable supervisory and overhead costs. Expenditures for maintenance and repairs, which do not materially extend the life of assets, are included in operating expenses. Upon retirement or disposition, the recorded cost of depreciable plant and the cost of removal, net of salvage, are charged to accumulated depreciation.

Depreciation is computed using straight-line composite rates based upon the estimated useful lives of the various classes of assets.

H. Investments in Associated Organizations

Investments in capital term certificates, capital credit notes, and capital stock of associated organizations are stated at cost. Investments in patronage capital certificates of associated organizations are accounted for using the equity method (cost plus allocated capital credits, which are assigned, to the Cooperative based on its patronage of the associated organizations).

POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

I. Income Taxes

The Cooperative is exempt from income taxes under Section 501 (c)(12) of the IRS Code, since it receives more the 85% of its income from members.

J. Revenue

Revenue is recognized based on monthly billings to consumers. The Cooperative accrues revenue related to energy consumed but not yet billed.

The Cooperative's rates include a power cost adjustment clause (PCA), which enables the Cooperative to pass through to consumers all fuel charges and non-fuel charges in the cost of power. The Cooperative's rates, including the PCA must be approved by the LPSC, which also retains jurisdiction to review the cooperative's PCA periodically to ensure that costs comply with their power purchase contracts and that their overall rates do not permit the over collection of costs.

K. Advertising Costs

Advertising costs are charged to operations when incurred. Total advertising expense for the years ended June 30, 2011 and 2010, was \$23,127 and \$24,431, respectively.

L. Use of Estimates

The preparation of financial statements in conformity with U.S. 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 and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

M. Reclassifications

Certain amounts as previously reported have been reclassified to conform to the June 30, 2011 presentation.

Note 2-Utility Plant

The following are the major classes of utility plant as of June 30, 2011 and 2010:

| | <u>2011</u> | <u>2010</u> |
|-------------------------------|----------------------|----------------------|
| Transmission plant | \$ 6,407,505 | \$ 6,407,505 |
| Distribution plant | 29,132,292 | 28,093,329 |
| General plant | <u>3,296,200</u> | <u>3,250,606</u> |
| Utility plant in service | 38,835,997 | 37,751,440 |
| Construction work in progress | <u>497,357</u> | <u>549,519</u> |
| | <u>\$ 39,333,354</u> | <u>\$ 38,300,959</u> |

Depreciation and amortization expense totaling \$118,876 and \$158,336 for the years ended June 30, 2011 and 2010, respectively, are included in various expense accounts based on allocation of work order costs in accordance with RUS guidelines.

POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

Annual average composite rates of depreciation used by the Cooperative during 2011 and 2010 are as follows:

| | <u>Percent Per Year</u> |
|-------------------------------|-------------------------|
| Distribution plant | 3.20 |
| Transmission plant | 2.75 |
| General plant | |
| Structures and improvements | 2.00 |
| Transportation equipment | 7.00 |
| Communications equipment | 5.00 |
| Office furniture and fixtures | 10.00 |
| Power-operated equipment | 11.00 |
| Other general plant | 3.60 |

Note 3-Capitalization of Interest

The Cooperative's policy is to capitalize interest as a component of the cost of property, plant and equipment constructed for its own use with a contracted life of a year or more. The following is a schedule of interest components for the years ended June 30, 2011 and 2010:

| | <u>2011</u> | <u>2010</u> |
|--------------------------------|-------------------|-------------------|
| Interest capitalized | \$ -0- | \$ -0- |
| Interest deferred | -0- | -0- |
| Interest charged to operations | <u>855,886</u> | <u>843,709</u> |
| Total interest | <u>\$ 855,886</u> | <u>\$ 843,709</u> |

Note 4-Investments in Associated Organizations and Short-term Investments

Investments in associated organizations consist of the following as of June 30, 2011 and 2010:

| | <u>2011</u> | <u>2010</u> |
|---|---------------------|---------------------|
| National Rural Utilities Cooperative Finance Corporation: | | |
| Capital Term Certificates | \$ 583,283 | \$ 585,716 |
| Patronage Capital | 132,297 | 123,440 |
| Member Capital Securities | 100,000 | 100,000 |
| Membership Fee | 1,000 | 1,000 |
| Patronage Capital Certificates: | | |
| Association of Louisiana Electric Cooperatives, Inc. | 3,641 | 3,641 |
| Federal Rural Electric Insurance Corporation | 103,861 | 96,732 |
| National Information Solutions Co-op | 39,550 | 36,853 |
| GRESKO- member fee | 100 | 100 |
| GRESKO | 68,947 | 68,435 |
| ERMCO – member fee | 100 | 100 |
| NRTC | 705 | 705 |
| Co-Bank- member fee | 1,000 | 1,000 |
| Co-Bank | 7,508 | 6,448 |
| Arkansas Electric | <u>38,019</u> | <u>25,880</u> |
| | <u>\$ 1,080,011</u> | <u>\$ 1,050,050</u> |

POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

The Cooperative has adopted Financial Accounting Standards Board (FASB) –Accounting Standards Codification (ASC) 320, “Accounting for Certain Investments in Debt and Equity Securities.” In accordance with FASB ASC 320, the Cooperative has classified all short-term investments as held-to-maturity. Held-to-maturity investments are stated at amortized cost as the cooperative has the ability and intent to hold these investments to maturity. The cost of investments sold is based on the specific identification method. There were no sales or transfers of investments classified as held-to-maturity during the years ended June 30, 2011 and 2010, respectively.

Short-term investments classified as held-to-maturity and their maturities were as follows at June 30, 2011 and 2010:

At the balance sheet date of June 30, 2011:

| | <u>Amortized Cost Basis</u> | <u>Gross Unrealized Gain</u> | <u>Gross Unrealized Loss</u> | <u>Aggregate Fair Value</u> |
|-------------------------|---------------------------------|----------------------------------|----------------------------------|---------------------------------|
| Certificate of Deposits | \$ 200,000 | \$ -0- | \$ -0- | \$ 200,000 |

Maturities of investments

| | <u>Amortized Cost</u> | <u>Fair Value</u> |
|--------------------|-----------------------|-------------------|
| Less than one year | \$ 200,000 | \$ 200,000 |

At the balance sheet date of June 30, 2010:

| | <u>Amortized Cost Basis</u> | <u>Gross Unrealized Gain</u> | <u>Gross Unrealized Loss</u> | <u>Aggregate Fair Value</u> |
|------|---------------------------------|----------------------------------|----------------------------------|---------------------------------|
| None | \$ 200,000 | \$ -0- | \$ -0- | \$ 200,000 |

Maturities of investments

| | <u>Amortized Cost</u> | <u>Fair Value</u> |
|------------------------|-----------------------|-------------------|
| One through five years | \$ 200,000 | \$ 200,000 |

Note 5- Long-Term Debt

Long-term debt consists of mortgage notes payable to RUS, NRUCFC, and The Federal Financing Bank (FFB). Notes payable to RUS consist of 3.7% to 5% mortgage notes payable in monthly and quarterly payments maturing in various years through 2041. Notes payable to NRUCFC consist of mortgage notes payable in quarterly payments bearing fixed interest rates of 2.10% to 7.025% maturing in various years through 2027. Notes Payable to FFB consist of mortgage notes payable in quarterly payments bearing fixed rates of 4.452% to 5.410%. It is estimated that principal payments to RUS, NRUCFC, and FFB in the next twelve months will be approximately \$534,114, \$311,109 and \$103,090, respectively.

On February 28, 1991, the Cooperative signed a term sheet agreement with RUS, which allowed the Cooperative to defer its original principal and interest payments for five years. On February 28, 1994, an amendment to the agreement was signed which discontinued the deferment and the Cooperative began paying back its deferred principal and interest.

POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

The following schedule is a summary of outstanding loans as of June 30, 2011 and 2010, respectively.

| | <u>2011</u> | <u>2010</u> |
|--|----------------------|----------------------|
| RUS Notes: | | |
| 2% notes due from May 31, 2003 through February 28, 2011 | \$ 0 | \$ 12,001 |
| 5% notes due from March 7, 2010 through January 31, 2027 | 2,422,375 | 4,355,366 |
| Fixed interest rate (3.70-4.78%) notes due February 28, 2041 | 5,693,104 | 5,636,258 |
| FFB Notes: | | |
| Fixed interest rate (4.452 - 5.410%) notes due December 31, 2037 | 3,642,524 | 3,779,978 |
| NRUCFC Notes: | | |
| Fixed interest rate (2.10 – 7.025%) notes due August 31, 2011 Through March 1, 2027 | <u>3,357,524</u> | <u>2,166,827</u> |
| Total | 15,115,527 | 15,950,430 |
| Less current maturities of long-term debt | <u>948,314</u> | <u>956,323</u> |
| Total long term debt | <u>\$ 14,167,213</u> | <u>\$ 14,994,107</u> |

Substantially all of the Cooperative's utility plant is pledged as collateral under the various mortgage notes. Annual maturities of long-term debt for each of the next five years ending June 30 are as follows:

| | |
|------|------------|
| 2012 | \$ 948,314 |
| 2013 | 959,628 |
| 2014 | 991,383 |
| 2015 | 902,416 |
| 2016 | 883,935 |

On July 23, 1998, the Cooperative's board of directors passed a resolution to apply to NRUCFC for a loan in the amount of \$4,139,000 to finance for a term of 30 years its 1997-2001 year Construction Work Plan. The Cooperative also applied to RUS for a type I lien accommodation in order to provide security for said loan. On August 23, 1998, RUS approved their request for the lien accommodation. During the years ended June 30, 2011 and 2010, the Cooperative received no long term loan fund advances from NRUCFC. Management indicated their intent was to use current funds to finance the construction work plan and that the loan application was done in order to have available the funds to draw upon if needed. The availability of these loan funds was extended until June 2011.

On August 25, 2005, the Cooperative's board of directors passed a resolution to apply to RUS for a loan in the amount of \$6,614,000 to finance for a term of 30 years its 2006-2009 year Construction Work Plan. On May 3, 2006, RUS approved the cooperative's loan request to borrow up to \$5,897,000 for its 2006-2009 year Construction Work Plan. During the years ended June 30, 2011 and 2010, the Cooperative borrowed \$147,000 and \$2,100,000 on the 2006-2009 work plan from RUS, respectively.

On September 23, 2010, the Cooperative's board of directors passed a resolution to request permission from RUS, which subsequently granted permission, to refinance 3 notes totaling \$1,487,936 with NRUCFC at lower interest rates which resulted in reduced debt service costs.

On November 11, 2010, the Cooperative's board of directors passed a resolution to apply to RUS for a loan in the amount

POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

of \$11,618,000 to finance for a term of 35 years its 2010-2013 year Construction Work Plan. On February 2, 2011, RUS approved the Cooperative's loan request to borrow up to \$11,618,000 for its 2010-2013 construction work plan. During the years ended June 30, 2011 and 2010, the Cooperative borrowed \$0 and \$0 on the 2010-2013 work plan from RUS, respectively.

Note 6-Line of Credit

The Cooperative has a line of credit of \$2,500,000 with NRUCFC at June 30, 2011 and 2010, respectively, at a rate equal to the bank prime rate, plus one percent per annum. As of June 30, 2011 and 2010, \$600,000 and \$0 was owed on the line of credit, respectively. The Cooperative also has a line of credit with Co-Bank in the amount of \$2,000,000 for the years ended June 30, 2011 and 2010, respectively at a weekly variable rate set by Co-Bank. As of June 30, 2011 and 2010, \$1,996,000 and \$455,000 was owed on this line of credit, respectively.

Note 7-Deferred Debits and Other Assets

Following is a summary of amounts recorded as deferred debits as of June 30, 2011 and 2010.

| | <u>2011</u> | <u>2010</u> |
|--|-------------------|-------------------|
| Deferred interest due to term sheet agreement (see Note 5) | \$ 52,334 | \$ 122,968 |
| Deferred conversion fee | 9,520 | 11,923 |
| Hurricane Gustav Restoration (see Note 15) | 634,142 | 635,023 |
| Preliminary survey & facility charges | <u>66,348</u> | <u>46,444</u> |
| | <u>\$ 762,344</u> | <u>\$ 816,358</u> |

Note 8-Deferred Credits

Following is a summary of amounts recorded as deferred credits as of June 30, 2011 and 2010.

| | <u>2011</u> | <u>2010</u> |
|--|-------------|-------------|
| Deferred interest due to term sheet agreement (see Note 5) | \$ 52,334 | \$ 122,968 |

Note 9-Patronage Capital

At June 30, 2011 and 2010, patronage capital consisted of:

| | <u>2011</u> | <u>2010</u> |
|------------------------------|----------------------|----------------------|
| Assignable | \$ (314,196) | \$ 127,717 |
| Assigned to date | 14,245,318 | 14,245,318 |
| Non-assignable non-operating | <u>1,302,111</u> | <u>1,505,251</u> |
| | <u>\$ 15,233,233</u> | <u>\$ 15,878,286</u> |

Under the provisions of the Mortgage Agreement, until the equities and margins equal or exceed forty percent of the total assets of the Cooperative, the return to patrons of contributed capital is generally limited to twenty-five percent of the patronage capital or margins received by the Cooperative in the prior calendar year. The equities and margins of the Cooperative represent 43% of the total assets at June 30, 2011. No retirements of capital credits occurred in 2011 or 2010.

POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

Note 10-Pension Plan

The Cooperative participates in a noncontributory multi-employer plan. The plan provides defined benefits to substantially all of its employees and is administered by the National Rural Electric Cooperative Association (N.R.E.C.A.). The Cooperative makes annual contributions to the plan equal to the amounts accrued for pension expense. In this multi-employer plan, which is available to all member cooperatives of NRECA, the accumulated benefits and plan assets are not determined or allocated separately by individual employers. Total pension expense reflected in these statements for the years ended June 30, 2011 and 2010 was \$491,221 and \$391,297, respectively. The Cooperative also maintains a 401(K) plan for the benefit of all eligible employees. All employees are eligible to participate after meeting certain service and age requirements and may contribute up to 25% of compensation, with no contributions to be made on the Cooperative's part.

Note 11-Commitment

The Cooperative was one of eleven member electric cooperatives of Cajun Electric Power Cooperative, Inc. (Cajun) and has executed a wholesale power agreement with Cajun's successor, Louisiana Generating, LLC (LaGen), who purchased Cajun's non-nuclear assets out of bankruptcy. Under this agreement, the Cooperative is committed to purchase its electric power and energy requirements from LaGen until the year 2025. In January and March 2000, the LPSC issued orders approving the member co-ops purchase power contracts with LaGen and the use of an automatic adjustment clause for the recovery of purchased power costs. However, in order to implement this clause the cooperatives needed to adjust their overall revenue requirements and rate designs. The Cooperative filed an application with the LPSC to redesign their rates and include the power cost adjustment clause. On June 2, 2000, the LPSC approved the Cooperative's petition.

Note 12-Contingency

The Cooperative has no lawsuits currently pending.

Note 13- Credit Risks

At various times during the year cash deposits with one banking institution exceeded the \$250,000 coverage limit of protection offered by the Federal Deposit Insurance Corporation (non-interest bearing accounts currently have unlimited protection under FDIC). Management monitors the financial condition of the institution on a regular basis in order to minimize the potential risk. At June 30, 2011 and 2010, uninsured cash balances totaled \$95,875 and \$211,990, respectively. The Cooperative requires collateral to support its balances with the bank in excess of insured limits and consisted of \$1,500,000 in pledged securities. Concentrations of credit risk with respect to accounts receivable are limited due to the large number of members comprising the membership base and their dispersion across the geographic area.

Note 14- Postretirement Benefits Other Than Pensions

The Cooperative has implemented FASB ASC 715-60, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, which improves financial reporting by requiring an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income.

The Cooperative sponsors a defined benefit postretirement plan that covers both directors and employees. The plan provides medical and dental insurance benefits. The postretirement plan is contributory, with retiree contributions equal to 15% of cost. The following table summarizes the benefit obligation, fair value of assets, and the funded status over the two-year period ending June 30, 2011:

POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

| | <u>2011</u> | <u>2010</u> |
|--------------------------------------|-------------------|----------------------|
| Benefit obligation at June 30 | \$ (3,685,200) | \$ (3,685,200) |
| Fair value of plan assets at June 30 | <u>3,812,876</u> | <u>3,070,470</u> |
| Funded status at June 30 | <u>\$ 127,676</u> | <u>\$ (614,730)</u> |

The following provides the net periodic benefit cost, amount of contributions, and benefits payable from the plan are as follows:

| | | |
|------------------------|------------|------------|
| Benefit cost | \$ 274,552 | \$ 278,208 |
| Employer contributions | 274,552 | 278,208 |
| Benefit payments | -0- | -0- |

The following table provides the amount recognized in the statement of financial position as of June 30 of both years:

| | | |
|--|--------------|--------------|
| Prepaid benefit cost | \$ 3,812,876 | \$ 3,070,470 |
| Accrued benefit liability | (3,685,200) | (3,685,200) |
| Accumulated other comprehensive income | 127,676 | (614,730) |

The Cooperative's post-retirement benefit plan is over (under) funded with an accumulated benefit asset (obligation) of \$127,676 and \$(614,730) as of June 30, 2011 and 2010, respectively. The plan assets, which are held in the Pointe Coupee Electric Membership Corporation Retiree Welfare Benefit Trust (an irrevocable trust), are invested in various mutual funds through Homestead Funds, Inc. The trust seeks a balanced diversification strategy where approximately 40 to 50% of the plan assets are invested in stock-based funds, 30 to 35% in bond based funds, and the remaining 15 to 25% in cash equivalent funds. As of June 30, the trust held the following investments:

| | | |
|---------------------------------------|--------------------|--------------------|
| Value Fund | \$ 903,760 | \$ 655,523 |
| Small Company Stock Fund | 1,094,373 | 736,379 |
| Short Term Bond Fund | 879,509 | 804,521 |
| Short Term Government Securities Fund | <u>935,234</u> | <u>874,047</u> |
| | <u>\$3,812,876</u> | <u>\$3,070,470</u> |

Adoption of ASC 715 resulted in adjustments to other comprehensive income for actuarial gains/losses, asset funding payments, and revaluation of the accumulated post retirement benefit obligation as listed in the following table:

| | | |
|--|---------------------|-------------------|
| Amounts initially recognized in other comprehensive income | \$ 614,730 | \$ 1,163,488 |
| Current year amounts recognized in comprehensive income: | | |
| Net periodic benefit cost reclassification adjustments | (204,000) | (204,000) |
| Actuarial (gain)/loss | <u>(538,406)</u> | <u>(344,758)</u> |
| Net Accumulated Other Comprehensive Income | <u>\$ (127,676)</u> | <u>\$ 614,730</u> |
| Transition obligation recognized as a component of net periodic benefit cost | 44,200 | 44,200 |

The following table presents the allocation of net accumulated other comprehensive income not yet recognized as components of net periodic benefit cost:

| | | |
|--|----------------------|-------------------|
| Unrecognized transition obligation | \$ 178,900 | \$ 223,100 |
| Unrecognized (gain)/loss | <u>(306,576)</u> | <u>391,630</u> |
| Net Accumulated other comprehensive income | <u>\$ (127,676)</u> | <u>\$ 614,730</u> |

**POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

The estimated portion of net actuarial gain/loss (\$152,515) and the transition obligation (\$44,200) in accumulated other comprehensive income expected to be recognized as a component of net periodic benefits cost in the fiscal year ending June 30, 2011 is \$196,715. Plan assets in the amount of \$78,000 are expected to be returned to the employer within the next 12 month operating cycle for retiree costs. The cooperative expects to contribute \$0 into the trust in 2012.

Estimated benefits expected to be paid over the next five years ending June 30 are as follows:

| | |
|-----------|-----------|
| 2012 | 111,300 |
| 2013 | 126,200 |
| 2014 | 136,700 |
| 2015-2019 | 1,006,400 |

The assumptions used in the measurement of the company's benefit obligation are shown in the following table:

Weighted average assumptions as of June 30:

| | | |
|--------------------------------|-------|-------|
| Discount rate | 5.75% | 5.75% |
| Expected return on plan assets | 5.20% | 5.20% |

The measurement date used for the current valuations is June 30, 2011. For measurement purposes, a 8.50% annual rate of increase in the per capita cost of covered medical and 6.25% rate of increase for dental care benefits was assumed for 2012; the rate was assumed to decrease 0.5% per year for medical and 0.25% for dental to 5.0% per year for medical by 2019 and for dental by 2017 and remain at that level, thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. To illustrate, increasing the assumed health care cost trend rates by 1% each year would increase the Accumulated Postretirement Benefit Obligation as of June 30, 2009 by \$797,600 and the aggregate of the service and interest cost components of the net periodic postretirement benefit cost for the year by \$88,200. The return on plan assets was based on historical returns of similarly diversified portfolios.

Note 15 – Hurricane Gustav

On September 1, 2008, Hurricane Gustav hit Louisiana as a Category 2 (one mile per hour short of a Category 3) hurricane and caused significant damage to the area and the Cooperative's electrical systems. The Cooperative's tri-parish region of Pointe Coupee, Iberville, and West Baton Rouge was hit particularly hard causing 100% power outages and considerable damages to the infrastructure. Costs to repair and replace the Cooperative's infrastructure totaled \$3,806,127 through the end of this fiscal year. Reimbursement from FEMA is based on a 90% coverage rate of which \$3,171,986 has been received through the end of this fiscal year. Additional expenses are still being tabulated and should be complete by the end of 2011. Any costs not reimbursed by FEMA will be recovered by assessment on individual customer bills as allowed by order of the La. Public Service Commission. At that time, approval will be sought from RUS to account for the costs as a regulatory asset.

Note 16 – Subsequent Events

On February 11, 2011, the Cooperative's board of directors passed a resolution to submit an application for rate increases to the LPSC. The rate increase application was filed in April 2011 and as the date of this report is pending review and approval by LPSC.

Management has performed an evaluation of the Cooperative's activities through August 30, 2011, and has concluded that there are no significant subsequent events requiring recognition or disclosure through the date and time these financial statements were available to be issued on August 30, 2011.

MAJOR, MORRISON & DAVID

CERTIFIED PUBLIC ACCOUNTANTS

JOHN L. MORRISON III, CPA, PC
MARK A. DAVID, CPA, PC

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
SOCIETY OF LOUISIANA
CERTIFIED PUBLIC ACCOUNTANTS

VAN P. MAJOR, CPA (1951-2005)

Independent Auditors' Report on Internal Control Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Officers and Board of Directors
Pointe Coupee Electric Membership Corporation
New Roads, Louisiana

Members of the Board:

We have audited the financial statements of Pointe Coupee Electric Membership Corporation as of and for the years ended June 30, 2011 and 2010, and have issued our report thereon dated August 30, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pointe Coupee Electric Membership Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Pointe Coupee Electric Membership Corporation's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. We discussed other matters involving the internal control over financial reporting that we have reported to the management of Pointe Coupee Electric Membership Corporation in a separate letter dated August 30, 2011.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pointe Coupee Electric Membership Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of directors, management, the Rural Utilities Service, and supplemental lenders, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Major, Morrison & David
New Roads, Louisiana
August 30, 2011

Major, Morrison & David

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CERTIFIED PUBLIC ACCOUNTANTS

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VAN P. MAJOR, CPA (1951-2005)

August 30, 2011

The Officers and Board of Directors
Pointe Coupee Electric Membership Corporation
New Roads, Louisiana

Members of the Board:

We have audited the financial statements of Pointe Coupee Electric Membership Corporation as of and for the year ended June 30, 2011, and have issued our report thereon dated August 30, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and 7 CFR Part 1773, Policy on Audits of Rural Utilities Service (RUS) Borrowers. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of Pointe Coupee Electric Membership Corporation for the year ended June 30, 2011, we considered its internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control over financial reporting that we consider to be a material weakness as defined above.

7 CFR Part 1773.33 requires comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and other additional matters. We have grouped our comments accordingly. In addition to obtaining reasonable assurance about whether the financial statements are free from material misstatements, at your request, we performed tests of specific aspects of the internal control over financial reporting, of compliance with specific RUS loan and security instrument provisions, and of additional matters.

The specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and additional matters tested include, among other things, the accounting procedures and records, materials control, compliance with specific RUS loan and security instrument provisions set forth in 7 CFR Part 1773.33(e)(1), related party transactions, depreciation rates, a schedule of deferred debits and credits, and a schedule of investments, upon which we express an opinion. In addition, our audit of the financial statements also included the procedures specified in 7 CFR Part 1773.38-45. Our objective was not to provide an opinion on these specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, or additional matters, and accordingly, we express no opinion thereon.

No reports other than our independent auditor's report and our independent auditor's report on compliance and on internal control over financial reporting, all dated August 30, 2011, or summary of recommendations related to our audit have been furnished to management.

Our comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and other additional matters as required by 7 CFR Part 1773.33 are presented below.

Comments on Certain Specific Aspects of the Internal Control Over Financial Reporting

We noted no matters regarding the Corporation's internal control over financial reporting and its operation that we consider to be a material weakness as previously defined with respect to:

- * The accounting procedures and records;
- * The process for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts; and
- * The materials control.

Comments on Compliance with Specific RUS Loan and Security Instrument Provisions

At your request, we have performed the procedures enumerated below with respect to compliance with certain provisions of laws, regulations, contracts, and grants. The procedures we performed are summarized as follows:

- * Procedures performed with respect to the requirement for a borrower to obtain written approval of the mortgagee to enter into any contract for the operation or maintenance of property, or for the use of mortgaged property by others for the year ended June 30, 2011, of Pointe Coupee Electric Membership Corporation:
 - Obtained and read a borrower prepared schedule of new written contracts entered into during the year for the operation or maintenance of all or any part of its property, or for the use of its property by others as defined in Sec. 1773.33(e)(1)(i).
 - Reviewed minutes of the Board of Directors to ascertain whether board approved written contracts are included in the borrower prepared schedule.
 - Noted the existence of written RUS approval for each contract listed by the borrower.

* Procedure performed with respect to the requirement for submission of RUS Form 7 to the RUS:

- Agreed amounts reported on RUS Form 7, as submitted to the RUS, to the Corporation's records. The audit is presented on a July 1 through June 30 fiscal year basis and the Form 7 is presented on a calendar year basis.

The results of our tests indicate that, with respect to the items tested, Pointe Coupee Electric Membership Corporation complied, in all material respects, with the specific RUS loan and security instrument provisions referred to below. The specific provisions tested, as well as any exceptions noted, include the requirements that:

- The borrower entered into no new contracts for the maintenance or operation of the Corporation's property, or for the use of mortgaged property by others as defined in 1773.33(e)(1)(i) during the year audited that required RUS written approval.
- The borrower has submitted Form 7 to RUS and the Form 7, Financial and Statistical Report as of December 31, 2010, represented by the borrower as having been submitted to RUS is in agreement with the Corporation's audited records in all material respects, appears reasonable based upon the audit procedures performed.

Comments on Other Additional Matters

In connection with our audit of the financial statements of Pointe Coupee Electric Membership Corporation, nothing came to our attention that caused us to believe that the Corporation failed to comply with respect to:

- The reconciliation of continuing property records to the controlling general ledger plant accounts addressed at 7 CFR Part 1773.33(c)(1);
- The clearing of construction accounts and the accrual of depreciation on completed construction addressed at 7 CFR Part 1773.33(c)(2);
- The retirement of plant addressed at 7 CFR Parts 1773.33(c)(3) and (4);
- Approval of the sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap addressed at 7 CFR Part 1773.33(c)(5);
- The disclosure of material related party transactions, in accordance with FASB-ASC 850, Related Party Transactions, for the year ended June 30, 2011, in the financial statements referenced in the first paragraph of this report addressed at 7 CFR Part 1773.33(f);
- Depreciation rates addressed at 7 CFR Part 1773.33(g);
- Detailed schedule of deferred debits and deferred credits; and
- Detailed schedule of investments.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The detailed schedule of deferred debits and deferred credits required by 7 CFR Part 1773.33(h), and the detailed schedule of investments required by 7 CFR 1773.33 (i), and provided below, are presented for purposes of additional analysis and

are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Detailed Schedule of Deferred Debits and Deferred Credits

Deferred items as classified on the balance sheet consist of:

Deferred Debits

| | |
|---|-------------------|
| Deferred interest due to the term sheet agreement * | \$ 52,334 |
| Deferred conversion fee | 9,520 |
| Hurricane Gustav Restoration** | 634,142 |
| Preliminary survey & facility charges | <u>66,348</u> |
| | <u>\$ 762,344</u> |

Deferred Credit

| | |
|---|------------------|
| Deferred interest due to the term sheet agreement * | \$ 52,334 |
| | <u>\$ 52,334</u> |

- * Approved by RUS, in writing
- ** Will apply to RUS for approval

Detailed Schedule of Investments

The Corporation has investments in associated organizations as follows:

| | |
|--|---------------------|
| National Rural Utilities Cooperative Finance Corporation: | |
| Capital Term Certificates | \$ 583,283 |
| Patronage Capital | 132,297 |
| Member Capital Securities | 100,000 |
| Membership Fee | 1,000 |
| Patronage Capital Certificates: | |
| Association of Louisiana Electric Cooperatives, Inc. | 3,641 |
| Federal Rural Electric Insurance Corporation | 103,861 |
| National Information Solutions Co-op | 39,550 |
| GRESKO -- member fee | 100 |
| GRESKO | 68,947 |
| ERMCO -- member fee | 100 |
| NRTC | 705 |
| Co-Bank -- member fee | 1,000 |
| Co-Bank | 7,508 |
| Arkansas Electric | <u>38,019</u> |
| | <u>\$ 1,080,011</u> |

The corporation also has investments in certificate of deposits of:

\$ 200,000

This report is intended solely for the information and use of the board of directors, management, the Rural Utilities Service, and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Major, Morrison & David
New Roads, Louisiana

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