

**POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION**  
**FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

**MAJOR, MORRISON & DAVID**  
**Certified Public Accountants**

**POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION**

**June 30, 2012 and 2011**

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CERTIFIED PUBLIC ACCOUNTANTS  
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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 (a Cooperative) as of June 30, 2012 and 2011, 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, 2012 and 2011, 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 31, 2012, 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 31, 2012



**POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION**  
**BALANCE SHEETS**  
As of June 30, 2012 and 2011

	<b>2012</b>	<b>2011</b>
<b>ASSETS</b>		
ELECTRIC PLANT: (Note 2)		
In Service - at cost	\$ 40,065,767	\$ 38,835,997
Construction work in progress	410,143	497,357
	40,475,910	39,333,354
Less: accumulated depreciation	(11,430,713)	(11,199,384)
	29,045,197	28,133,970
OTHER ASSETS AND INVESTMENTS		
Non-utility property (net of accumulated depreciation of \$124,009 for 2012 and \$120,485 for 2011)	16,968	20,492
Post-retirement benefit asset (Note 14)	84,148	127,676
Investments in associated organizations, at cost (Note 4)	1,107,566	1,080,011
	1,208,682	1,228,179
CURRENT ASSETS		
Cash and cash equivalents	360,792	247,508
Short-term investments (Note 4)	200,000	200,000
Accounts receivable ( less provision for uncollectible accounts of \$24,921 in 2012 and \$25,144 in 2011)	1,539,523	1,536,786
Accounts receivable - unbilled	2,795,297	2,528,491
Materials and supplies (at average cost)	425,465	443,587
Prepayments	342,221	326,544
Other current and accrued assets	8,526	8,804
	5,671,824	5,291,720
DEFERRED DEBITS (Note 7)	687,415	762,344
	\$ 36,613,118	\$ 35,416,213

The accompanying notes are an integral part of this statement.

**POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION**  
**BALANCE SHEETS**  
As of June 30, 2012 and 2011

	<b>2012</b>	<b>2011</b>
<b>EQUITIES AND LIABILITIES</b>		
EQUITIES:		
Memberships	\$ 38,855	\$ 38,740
Accumulated other comprehensive income (Note 14)	84,148	127,676
Patronage capital (Note 9)	15,103,957	15,233,233
	15,226,960	15,399,649
LONG-TERM LIABILITIES:		
Long-term debt, less current maturities (Note 5)	17,371,258	14,167,213
Post-retirement benefit obligation (Note 14)	-	-
	17,371,258	14,167,213
CURRENT LIABILITIES:		
Line of credit - note payable (Note 6)	900,000	2,596,000
Current maturities of long-term debt (Note 5)	962,035	948,314
Accounts payable - purchased power	1,104,081	1,232,326
Accounts payable - other	320,415	330,938
Customer deposits	378,155	346,480
Other current and accrued liabilities	350,214	342,959
	4,014,900	5,797,017
DEFERRED CREDITS (Note 8)		
	-	52,334
	\$ 36,613,118	\$ 35,416,213

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, 2012 and 2011

	<b>2012</b>	<b>2011</b>
OPERATING REVENUES	\$ 20,026,785	\$ 19,876,146
OPERATING EXPENSES:		
Cost of power	12,575,121	12,766,161
Distribution operation	591,031	559,653
Distribution maintenance	2,142,374	2,259,003
Consumer accounts	925,981	953,690
Sales	29,126	29,602
Administrative and general	1,507,275	1,631,334
Depreciation and amortization	1,135,922	1,100,929
Taxes	391,047	389,356
	19,297,877	19,689,728
OPERATING MARGINS BEFORE FIXED CHARGES	728,908	186,418
FIXED CHARGES:		
Interest on long-term debt (Note 3)	864,551	855,886
NET OPERATING MARGINS	(135,643)	(669,468)
NONOPERATING MARGINS:		
Interest income	38,649	39,845
Other income	-	-
Other expense	(32,282)	(15,431)
	6,367	24,414
NET MARGINS	(129,276)	(645,054)
PATRONAGE CAPITAL - beginning of year	15,233,233	15,878,287
PATRONAGE CAPITAL - end of year	\$ 15,103,957	\$ 15,233,233

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, 2012 and 2011

	<b>2012</b>	<b>2011</b>
<b>NET MARGINS</b>	\$ (129,276)	\$ (645,054)
<b>OTHER COMPREHENSIVE INCOME</b>		
Recognized actuarial gains/losses & net periodic benefit cost reclassification for postretirement benefit obligation (Note 14)	(43,528)	742,406
<b>COMPREHENSIVE INCOME</b>	<b>\$ (172,804)</b>	<b>\$ 97,352</b>

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, 2012 and 2011

	<b>2012</b>	<b>2011</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net margins	\$ (129,276)	\$ (645,054)
Adjustments to reconcile net margins to net cash provided (used) by operating activities:		
Depreciation and amortization	1,231,750	1,219,805
Bad debts	33,792	47,862
(Increase) decrease in:		
Accounts receivable	(36,251)	(16,962)
Unbilled receivable	(266,807)	88,852
Prepaid expenses	(15,677)	(86,547)
Materials and supplies	18,122	16,531
Deferred debits	74,929	54,014
Decrease (increase) in:		
Accounts payable	(138,768)	64,735
Other current and accrued liabilities	7,255	56,822
Deferred credits	(52,334)	(70,634)
Total adjustments	856,011	1,374,478
Net Cash Provided (Used) by Operating Activities	726,735	729,424
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investments in associated organizations	(27,554)	(29,963)
Proceeds from sale of investments	200,000	200,000
Construction and acquisition of plant	(2,139,454)	(2,114,661)
Purchase of investments	(200,000)	(200,000)
Net Cash Provided (Used) by Investing Activities	(2,167,008)	(2,144,624)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from line of credit	6,500,000	3,850,000
Repayment of line of credit	(8,196,000)	(1,709,000)
Proceeds from long-term debt	4,200,000	1,634,936
Repayment of long-term debt	(982,233)	(2,469,839)
Increase (decrease) in:		
Memberships issued	115	(180)
Customer deposits	31,675	2,565
Net Cash Provided (Used) by Financing Activities	1,553,557	1,308,482
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>113,284</b>	<b>(106,718)</b>
<b>CASH AT BEGINNING OF YEAR</b>	<b>247,508</b>	<b>354,226</b>
<b>CASH AT END OF YEAR</b>	<b>\$ 360,792</b>	<b>\$ 247,508</b>
<u>Supplemental Disclosures</u>		
Cash Paid During the Year for:		
Interest	\$ 866,509	\$ 853,352
<b>Noncash Investing &amp; Financing Activities:</b>		
Increase (decrease) in compensated absences	(2,968)	15,796
Post-retirement benefits	43,528	(742,406)

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, 2012 AND 2011**

**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 10,339 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 cost method 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, 2012 AND 2011**

**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. The statute of limitations for the examination of the Cooperative's income tax returns is generally three years from the due date of the tax returns including extensions. The tax Form 990s are prepared on a calendar basis. The tax years open for assessment are the years ending on or after December 31, 2008.

**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, 2012 and 2011, was \$24,639 and \$23,127, 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, 2012 presentation.

**Note 2-Utility Plant**

The following are the major classes of utility plant as of June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Transmission plant	\$ 6,352,994	\$ 6,407,505
Distribution plant	30,351,667	29,132,292
General plant	<u>3,361,106</u>	<u>3,296,200</u>
Utility plant in service	40,065,767	38,835,997
Construction work in progress	<u>410,143</u>	<u>497,357</u>
	<u>\$ 40,475,910</u>	<u>\$ 39,333,354</u>

Depreciation and amortization expense totaling \$95,828 and \$118,876 for the years ended June 30, 2012 and 2011, respectively, are included in various expense accounts based on allocation of work order costs in accordance with RUS guidelines.

**POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION**  
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Annual average composite rates of depreciation used by the Cooperative during 2012 and 2011 are as follows:

	Percent Per Year
Distribution plant	1.80 to 4.40
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, 2012 and 2011:

	2012	2011
Interest capitalized	\$ -0-	\$ -0-
Interest deferred	-0-	-0-
Interest charged to operations	864,551	855,886
Total interest	\$ 864,551	\$ 855,886

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

Investments in associated organizations consist of the following as of June 30, 2012 and 2011:

	2012	2011
National Rural Utilities Cooperative Finance Corporation:		
Capital Term Certificates	\$ 580,673	\$ 583,283
Patronage Capital	141,698	132,297
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	113,335	103,861
National Information Solutions Co-op	44,058	39,550
GRESKO- member fee	100	100
GRESKO	70,545	68,947
ERMCO – member fee	100	100
NRTC	705	705
Co-Bank- member fee	1,000	1,000
Co-Bank	11,883	7,508
Arkansas Electric	38,828	38,019
	\$ 1,107,566	\$ 1,080,011

**POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION**  
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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, 2012 and 2011, respectively.

Short-term investments classified as held-to-maturity and their maturities were as follows at June 30, 2012 and 2011:

At the balance sheet date of June 30, 2012:

	<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, 2011:

	<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 2.264% to 5.410%. It is estimated that principal payments to RUS, NRUCFC, and FFB in the next twelve months will be approximately \$509,750, \$314,831 and \$137,454, 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**  
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Agreements with mortgage lenders requires the Cooperative to maintain minimum financial covenant ratios of Tier and DSC of 1.25 and operating Tier and operating DSC of 1.10. During the year ended June 30, 2012, the Cooperative failed to meet its financial debt covenants. On February 11, 2011, the Cooperative's board of directors passed a resolution to submit an application for rate increases to the LPSC in order to improve operating performance and return to compliance with its debt covenants. The rate increase application was filed in April 2011, was approved by LPSC on March 31, 2012, and became effective with the April/May 2012 billing.

The following schedule is a summary of outstanding loans as of June 30, 2012 and 2011, respectively.

	<u>2012</u>	<u>2011</u>
RUS Notes:		
5% notes due from March 7, 2010 through January 31, 2027	1,983,104	2,422,375
Fixed interest rate (3.70-4.78%) notes due February 28, 2041	5,598,703	5,693,104
FFB Notes:		
Fixed interest rate (2.264 - 5.410%) notes due January 2, 2046	7,705,070	3,642,524
NRUCFC Notes:		
Fixed interest rate (2.10 – 7.025%) notes due August 31, 2011 Through March 1, 2027	<u>3,046,416</u>	<u>3,357,524</u>
Total	18,333,293	15,115,527
Less current maturities of long-term debt	<u>962,035</u>	<u>948,314</u>
Total long term debt	<u>\$ 17,371,258</u>	<u>\$ 14,167,213</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:

2013	\$ 962,035
2014	1,151,689
2015	1,030,661
2016	1,012,629
2017	824,405

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, 2012 and 2011, the Cooperative borrowed \$0 and \$147,000 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 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, 2012 and 2011, the Cooperative borrowed \$4,200,000 and \$0 on the 2010-2013 work plan from RUS, respectively.

**POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**Note 6-Line of Credit**

The Cooperative has a line of credit of \$2,500,000 with NRUCFC at June 30, 2012 and 2011, respectively, at a rate equal to the bank prime rate, plus one percent per annum. As of June 30, 2012 and 2011, \$900,000 and \$600,000 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, 2012 and 2011, respectively at a weekly variable rate set by Co-Bank. As of June 30, 2012 and 2011, \$0 and \$1,996,000 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, 2012 and 2011.

	<u>2012</u>	<u>2011</u>
Deferred interest due to term sheet agreement (see Note 5)	\$ 0	\$ 52,334
Deferred conversion fee	7,117	9,520
Hurricane Gustav Restoration (see Note 15)	632,380	634,142
Preliminary survey & facility charges	<u>47,918</u>	<u>66,348</u>
	<u>\$ 687,415</u>	<u>\$ 762,344</u>

**Note 8-Deferred Credits**

Following is a summary of amounts recorded as deferred credits as of June 30, 2012 and 2011.

	<u>2012</u>	<u>2011</u>
Deferred interest due to term sheet agreement (see Note 5)	\$ 0	\$ 52,334

**Note 9-Patronage Capital**

At June 30, 2012 and 2011, patronage capital consisted of:

	<u>2012</u>	<u>2011</u>
Assignable	\$ 230,617	\$ ( 314,196)
Assigned to date	14,245,318	14,245,318
Non-assignable non-operating	<u>628,022</u>	<u>1,302,111</u>
	<u>\$ 15,103,957</u>	<u>\$ 15,233,233</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 41% of the total assets at June 30, 2012. No retirements of capital credits occurred in 2012 or 2011.

**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

**POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION**  
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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, 2012 and 2011 was \$522,470 and \$491,221, 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 is involved in one lawsuit involving a matter covered by its liability insurance carrier, who has supplied counsel for complete defense of the case. Counsel has been instructed to vigorously defend this case, and believes that any potential adverse judgment would be covered by the limits of liability insurance covering the cooperative.

The ultimate outcome of this matter cannot presently be determined and no provision for any liability that may result from such claim has been made in the financial statements.

**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, 2012 and 2011, uninsured cash balances totaled \$145,943 and \$95,875, 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, 2012:

**POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
Benefit obligation at June 30	\$ (3,685,200)	\$ (3,685,200)
Fair value of plan assets at June 30	<u>3,769,348</u>	<u>3,812,876</u>
Funded status at June 30	<u>\$ 84,148</u>	<u>\$ 127,676</u>

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

Benefit cost	\$ 70,911	\$ 274,552
Employer contributions	70,911	274,552
Benefit payments	77,220	-0-

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

Prepaid benefit cost	\$ 3,769,348	\$ 3,812,876
Accrued benefit liability	(3,685,200)	(3,685,200)
Accumulated other comprehensive income	84,148	127,676

The Cooperative's post-retirement benefit plan is over (under) funded with an accumulated benefit asset (obligation) of \$84,148 and \$127,676 as of June 30, 2012 and 2011, 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	\$1,147,667	\$ 903,760
Small Company Stock Fund	579,929	1,094,373
Short Term Bond Fund	1,184,624	879,509
International Value Fund	155,475	0
Daily Income Fund	306,632	0
Short Term Government Securities Fund	<u>395,021</u>	<u>935,234</u>
	<u>\$3,769,348</u>	<u>\$3,812,876</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	\$ (127,676)	\$ 614,730
Current year amounts recognized in comprehensive income:		
Net periodic benefit cost reclassification adjustments	77,220	(204,000)
Actuarial (gain)/loss	<u>(33,692)</u>	<u>(538,406)</u>
Net Accumulated Other Comprehensive Income	<u>\$ (84,148)</u>	<u>\$ (127,676)</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:

**POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

Unrecognized transition obligation	\$ 134,700	\$ 178,900
Unrecognized (gain)/loss	<u>(218,848)</u>	<u>(306,576)</u>
Net Accumulated other comprehensive income	<u>\$ ( 84,148)</u>	<u>\$ (127,676)</u>

The estimated portion of net actuarial gain/loss (\$150,774) 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, 2012 is \$194,974. Plan assets in the amount of \$75,000 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 2013.

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

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, 2012. 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 2013; 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 \$3,808,113 through the end of this fiscal year. Reimbursement from FEMA is based on a 90% coverage rate of which \$3,175,733 has been received in prior periods through the end of this fiscal year. 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 August 29, 2012, Hurricane Isaac hit Louisiana as a Category 1 hurricane and caused damage and power outages to the Cooperative's electrical system. Costs to repair and replace the cooperative's infrastructure at this time are indeterminable. The Cooperative's tri-parish region has been declared a disaster area available for funding from FEMA at a 75% coverage rate.

Management has performed an evaluation of the Cooperative's activities through August 31, 2012, and has concluded that there are no other significant subsequent events requiring recognition or disclosure through the date and time these financial statements were available to be issued on August 31, 2012.

**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 (a Cooperative) as of and for the years ended June 30, 2012 and 2011, and have issued our report thereon dated August 31, 2012. 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

Management of Pointe Coupee Electric Membership Corporation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audits, 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 31, 2012.

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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which is described in the accompanying schedule of findings and responses as item 12-1.

Pointe Coupee Electric Membership Corporation's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Corporation's response and, accordingly, we express no opinion on it.

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 31, 2012

A handwritten signature in blue ink that reads "Major, Morrison & David". The signature is written in a cursive, flowing style.

**POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2012**

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness (es) identified? \_\_\_yes X no

Deficiency(s) in internal control identified not considered to be material weaknesses? \_\_\_yes X none reported

Noncompliance material to financial statements noted? X yes \_\_\_no

**SECTION II - FINANCIAL STATEMENT FINDINGS**

**Finding 12-1**

Criteria: CFR 1710.114 provides for minimum coverage ratios required of distribution borrowers of RUS loans of a TIER of 1.25, DSC of 1.25, OTIER of 1.10, and ODSC of 1.10.

Condition: Pointe Coupee Electric Membership Corporation did not maintain the applicable coverage ratios in accordance with RUS regulations during the current fiscal year ending June 30, 2012.

Effect: Due to not maintaining the required coverage ratios a technical default of the RUS mortgage loan agreements has occurred.

Cause: Due to inflationary increases in operating costs over the past years without application for rate increases by the cooperative, a steady decrease in operating margins occurred. Because of the decreasing operating margins, the cooperative's financial coverage ratios declined to the point of falling into technical default.

Recommendation: We recommend that the cooperative take steps to return to compliance with its financial coverage ratios through an approved rate increase, reduction of non-essential expenses, or a combination of these two options.

Management's Response: Management of the cooperative examined all non-essential expenses within operations and made necessary reductions where available. After reduction of expenses, on February 11, 2011, the Cooperative's board of directors passed a resolution to submit an application for rate increases to the LPSC in order to improve operating performance and return to compliance with its debt covenants. The rate increase application was filed in April 2011, was approved by LPSC on March 31, 2012, and became effective with the April/May 2012 billing. Based on the rate increases approved by the LPSC, management estimates to produce a TIER ratio of 1.80 and a DSC ratio of 1.40, above that which is required by RUS mortgage loan requirements.

**POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION  
 SCHEDULE OF FINDINGS AND RESPONSES  
 FOR THE YEAR ENDED JUNE 30, 2011**

<u>Ref. No.</u>	<u>Fiscal Year Finding Initially Occurred</u>	<u>Description of Finding</u>	<u>Corrective Action Taken</u>	<u>Planned Corrective Action/Partial Corrective Action Taken</u>
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**Section I – Internal Control and Compliance Material to the Financial Statements:**

There were no prior year findings.

**POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED JUNE 30, 2012**

<u>Ref. No.</u>	<u>Description of Finding</u>	<u>Corrective Action Planned</u>	<u>Name of Contact Person</u>	<u>Anticipated Completed</u>
<b>Section I – Internal Control and Compliance Material to the Financial Statements:</b>				
12-1	Technical default of RUS financial coverage ratios regarding mortgage loan agreements.	The cooperative has reduced costs and applied for and received from LPSC rate increases which are estimated to return the cooperative to compliance with its financial coverage ratios in accordance with its mortgage loan agreements.	J. Jewell	3/2012

**MAJOR, MORRISON & DAVID**  
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VAN P. MAJOR, CPA (1951-2005)

August 31, 2012

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, 2012, and have issued our report thereon dated August 31, 2012. 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, 2012, 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 31, 2012, 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, 2012, 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, 2011, 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, 2012, 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 conversion fee	7,117
Hurricane Gustav Restoration**	632,380
Preliminary survey & facility charges	<u>47,918</u>

\$ 687,415

Deferred Credit

Deferred interest due to the term sheet agreement *	\$ <u>0</u>
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\$ 0

\* Approved by RUS, in writing

\*\* Will apply to RUS for approval upon final balances

Detailed Schedule of Investments

The Corporation has investments in associated organizations as follows:

National Rural Utilities Cooperative Finance Corporation:	
Capital Term Certificates	\$ 580,673
Patronage Capital	141,698
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	113,335
National Information Solutions Co-op	44,058
GRESKO – member fee	100
GRESKO	70,545
ERMCO – member fee	100
NRTC	705
Co-Bank – member fee	1,000
Co-Bank	11,883
Arkansas Electric	<u>38,828</u>
	<u>\$ 1,107,566</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.

A handwritten signature in blue ink that reads "Major, Morrison & David". The signature is written in a cursive, flowing style.

Major, Morrison & David  
New Roads, Louisiana