JACKSON ENERGY
COOPERATIVE
A Touchstone Energy Cooperative

115 Jackson Energy Lane
McKee, Kentucky 40447
Telephone (606) 364-1000 ● Fax (606 364-1007

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JUL 06 2012
PUBLIC SERVICE
COMMISSION

July 3, 2012

Mr. Jeff D. Cline
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

Dear Mr. Cline:

Enclosed please find a copy of Jackson Energy Cooperative's audit report for the period through February 28, 2012. This audit report was prepared by an independent certified public accountant. If you have any questions concerning this audit, please contact Sharon Carson at (606) 364-9239 or sharoncarson@jacksonenergy.com.

Sincerely,

Sharon K. Carson

Sharon K. Carson
CFO and Executive Vice President

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PUBLIC SERVICE
COMMISSION

Kentucky 3
Jackson Energy Cooperative
and Subsidiary
McKee, Kentucky

Audited Financial Statements
February 28, 2012 and 2011

ALAN M. ZUMSTEIN
Certified Public Accountant
1032 Chetford Drive
Lexington, Kentucky 40509

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- INDIANA SOCIETY OF CPA'S
- AICPA DIVISION FOR FIRMS
- TENNESSEE STATE BOARD OF ACCOUNTANCY

To the Board of Directors
Jackson Energy Cooperative

I have audited the financial statements of Jackson Energy Cooperative for the year ended February 28, 2012, and have issued my report thereon dated May 21, 2012. I conducted my 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 the Rural Utilities Service (RUS) Borrowers. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing my audit of the financial statements of the Cooperative for the year ended December 31, 2011, I considered its internal control over financial reporting in order to determine my 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.

My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting that I consider to be a material weakness.

7 CFR Part 1773.3 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. I have grouped my comments accordingly. In addition to obtaining reasonable assurance about whether the financial statements are free from material misstatements, at your request, I 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, material control, compliance with specific RUS loan and security instrument provisions set forth in 7 CFR Part 1773.3(d)(1) related transactions, depreciation rates, a schedule of deferred debits and credits and a schedule of investments, upon which I express an opinion. In addition, my audit of the financial statements also included the procedures specified in 7 CFR Part 1773.38-.45. My 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, I express no opinion thereon.

No reports, other than my independent auditor's report, and my independent auditor's report on internal control over financial reporting and compliance and other matters, all dated May 21, 2012, or summary of recommendations related to my audit have been furnished to management.

My 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

I noted no matters regarding the Cooperative's internal control over financial reporting and its operation that I 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 and other expense accounts, and;
- the material controls.

Comments on Compliance with Specific RUS Loan and Security Instrument Provisions

At your request, I have performed the procedures enumerated below with respect to compliance with certain provisions of laws, regulations, and contracts. The procedures I 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 February 28, 2012, of the Cooperative.
    1. The Cooperative has not entered into any contract during the year for the operation or maintenance of its property, or for the use of its property by others as defined in 1773.33(e)(1)(i).
- Procedures performed with respect to the requirement to submit RUS Financial and Operating Report, Electric Distribution to RUS:
    1. Agreed amounts reported in RUS Financial and Operating Report, Electric Distribution to the Cooperative's records as of December 31, 2011.

The results of my tests indicate that, with respect to the items tested, the Cooperative complied in all material respects, with the specific RUS loan and security instrument provisions referred to below. With respect to items not tested, nothing came to my attention that caused me to believe that the Cooperative had not complied, in all material respects, with those provisions. The specific provisions tested, as well as any exceptions noted, include the requirements that:

- The borrower has submitted its RUS Financial and Operating Report, Electric Distribution to RUS and the RUS Financial and Operating Report, Electric Distribution, as of December 31, 2011, represented by the borrower as having been submitted to RUS appears to be in agreement with its audited records in all material respects.
- During the period of this review, the Cooperative received no long term advances from CFC on loans controlled by the RUS/CFC Mortgage and Loan Agreement.

Comments on Other Additional Matters

In connection with my audit of the Cooperative, nothing came to my attention that caused me to believe that the Cooperative failed to comply with respect to:

- The reconciliation of continuing property records to controlling general ledger plant accounts addressed at 7 CFR Part 1773.33(c)(1);

- The clearing of the 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 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 Statement of Financial Accounting Standard No. 57, Related party Transactions, for the year ended February 28, 2012, in the financial statements referenced in the first paragraph of this report addressed at 7 CFR Part 1773.33(f);
- The depreciation rates addressed at 7 CFR Part 1773.33(g);
- The detailed schedule of deferred debits and deferred credits; and
- The detailed schedule of investments.

My 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(h) and provided below is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The deferred debits are as follows:

Deferred property retirements	$6,943,887
Past service pension benefits	2,029,290
	$8,973,177

The deferred credits are as follows:

Consumer advances for construction	$302,847

Jackson Energy is a 75% owner of Jackson Energy Services Corporation, which owns 100% of the stock of Jackson Energy Propane Plus, LLC. Jackson Propane distributes propane to residential and commercial customers in and around areas where Jackson Energy Cooperative provides electric service. Jackson Energy Cooperative's initial investment was $9,000. The investment and profits (losses) are as follows:

	Investment	Profits
Beginning balance	$1,344,000	$269,742
Activity for 2012		29,399
Ending balance	$1,344,000	$299,141

This report is intended solely for the information and use of the Board of Directors, management, RUS, and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties.

Alan M. Zumstein

Alan M. Zumstein, CPA
May 21, 2012

CONTENTS

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Independent Auditor's Report

To the Board of Directors
Jackson Energy Cooperative

I have audited the accompanying consolidated balance sheets of Jackson Energy Cooperative and Subsidiary, as of February 28, 2012 and 2011, and the related statements of income and patronage capital and cash flows for the years then ended. These financial statements are the responsibility of Jackson Energy Cooperative's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits 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 I plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from 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. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Jackson Energy Cooperative and Subsidiary as of February 28, 2012 and 2011, and the results of operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued a report dated May 21, 2012, on my consideration of Jackson Energy Cooperative's internal control over financial reporting and my 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 my 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 my audits.

Alan M. Zumstein

Alan M. Zumstein, CPA
May 21, 2012

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To the Board of Directors
Jackson Energy Cooperative

I have audited the financial statements of Jackson Energy Cooperative as of and for the years ended February 28, 2012 and 2011, and have issued my report thereon dated May 21, 2012. I conducted my audits in accordance with generally accepted auditing standards 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 my audit, I considered the Cooperative's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Cooperative's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more that a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

To the Board of Directors
Jackson Energy Cooperative
Page - 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Jackson's financial statements are free of material misstatement, I performed test 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 my audit, and accordingly, I do not express such an opinion. The results of my 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 audit committee, 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.

Alan M. Zumstein

Alan M. Zumstein, CPA
May 21, 2012

Jackson Energy Cooperative

Consolidated Balance Sheets, February 28, 2012 and 2011

	2012	2011
Assets		
Utility Plant, net	$ 160,412,761	$ 155,887,155
Investments and Other Assets:		
Associated organizations	34,155,050	28,439,922
Goodwill	262,177	262,177
	34,417,227	28,702,099
Current Assets:		
Cash and cash equivalents	6,639,792	11,151,043
Accounts receivable, less allowance for uncollectible accounts	15,616,073	16,197,746
Material and supplies	1,540,584	1,543,387
Prepayments	645,560	757,092
	24,442,009	29,649,268
Deferred Property Retirements	8,973,177	7,414,659
Total	$ 228,245,174	$ 221,653,181
Members' Equities and Liabilities		
Members' Equities:		
Memberships and capital	$ 1,296,610	$ 1,294,805
Patronage capital and retained earnings	71,520,534	69,584,296
Accumulated other comprehensive income	(1,582,811)	(1,784,411)
Other equities and minority interest	1,630,404	(97,188)
	72,864,737	68,997,502
Long Term Debt	128,781,278	127,583,722
Accumulated Postretirement Benefits	7,918,704	7,612,518
Current Liabilities:		
Accounts payable	7,852,171	7,439,261
Short term borrowings	754,328	450,000
Current portion of long term debt	5,095,000	4,565,000
Consumer deposits	1,628,346	1,818,832
Other current and accrued liabilities	3,047,763	2,860,491
	18,377,608	17,133,584
Consumer advances for construction	302,847	325,855
Total	$ 228,245,174	$ 221,653,181

The accompanying notes are an integral part of these statements.

Consolidated Statements of Revenue and Patronage Capital

for the years ended February 28, 2012 and 2011

	2012	2011
Operating Revenues	$ 104,110,656	$ 105,857,076
Operating Expenses:		
Cost of purchases	68,851,696	69,096,051
Distribution - operations and maintenance	11,450,289	10,440,482
Consumer accounts	3,766,458	3,549,552
Sales	791,734	669,715
Administrative and general	4,357,131	4,122,079
Depreciation, excluding $456,543 in 2012 and $456,543 in 2011 charged to clearing accounts	8,171,246	7,801,287
Amortization of deferred property retirements	470,772	470,772
Taxes	170,238	254,257
Other	97,059	109,710
	98,126,623	96,513,905
Operating Margins before Interest Charges	5,984,033	9,343,171
Interest Charges:		
Interest on long-term debt	5,631,224	6,188,723
Other interest	100,631	111,491
	5,731,855	6,300,214
Operating Margins after Interest Charges	252,178	3,042,957
Patronage Capital assigned, associated organizations	5,181,339	3,049,645
Net Operating Margins	5,433,517	6,092,602
Nonoperating Margins		
Interest income	177,289	196,359
Subsidiary and others	(5,650)	31,259
	171,639	227,618
Net Margins	5,605,156	6,320,220
Patronage Capital - beginning of year	69,584,296	63,124,631
Retirements to estates of deceased members	(3,466,105)	(569,411)
Transfer to other equities and minority interests	(202,813)	708,856
Patronage Capital - end of year	$ 71,520,534	$ 69,584,296

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

for the years ended February 28, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities:		
Net margins	$ 5,605,156	$ 6,320,220
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization		
Charged to expense	8,642,018	8,272,059
Charged to clearing accounts	487,908	456,543
Patronage capital allocated	(5,181,339)	(3,049,645)
Accumulated postretirement benefits	507,786	499,389
Change in assets and liabilities:		
Receivables	581,712	3,040,088
Material and supplies	2,803	(156,663)
Prepayments	(1,917,758)	(442,291)
Payables	412,871	(1,621,916)
Consumer deposits and advances	(213,494)	(113,307)
Accrued expenses	187,272	98,432
	9,114,935	13,302,909
Cash Flows from Investing Activities:		
Plant additions	(12,098,933)	(9,998,050)
Plant removal costs	(1,174,977)	(1,226,406)
Salvage recovered from plant retirements	89,049	123,129
Other investments, net	(523,990)	329,657
	(13,708,851)	(10,771,670)
Cash Flows from Financing Activities:		
Memberships, capital and other equities	1,516,886	1,215
Retirement of patronage capital	(3,466,105)	(706,411)
Additional long-term borrowings	6,740,000	4,848,000
Payments on long-term debt	(5,012,444)	(4,458,145)
Short term borrowings (repayments)	304,328	450,000
	82,665	134,659
Net increase in cash	(4,511,251)	2,665,898
Cash and cash equivalents - beginning of period	11,151,043	8,485,145
Cash and cash equivalents - end of period	$ 6,639,792	$ 11,151,043
Supplemental cash flows information:		
Interest paid on long-term debt	$ 5,708,298	$ 6,183,825
Income taxes paid	$ 42,997	$ 136,934

The accompanying notes are an integral part of these statements.

Note 1. Summary of Significant Accounting Policies

Jackson Energy Cooperative ("Jackson Energy") maintains its records in accordance with the policies prescribed or permitted by the Kentucky Public Service Commission ("PSC") and the United States Department of Agriculture, Rural Utilities Service ("RUS"), which conform in all material respects with generally accepted accounting principles. The more significant of these policies are as follows:

Principles of Consolidation The accompanying consolidated financial statements include the accounts of Jackson Energy Cooperative, Jackson Energy Service Corporation ("Service Corporation") and Jackson Energy Propane Plus, LLC ("Propane Plus"). Jackson Energy owns 75% and East Kentucky Power Cooperative ("East Kentucky") owns 25% of Service Corporation's outstanding stock. The Service Corporation owns 100% of the outstanding stock of Propane Plus. All significant inter company accounts and transactions have been eliminated. Jackson Energy uses an audit date of February 28. The Subsidiary operates on a fiscal year ending December 31. The consolidated financial statements reflect the year end of February 28 for Jackson Energy and December 31 for the Subsidiary, respectively.

Utility Plant Jackson Energy's electric plant is stated at original cost, which is the cost when first dedicated to public service. Such amount includes applicable supervisory and overhead cost including any construction period interest and taxes. There was no interest required to be capitalized during the year.

Propane Plus' fixed assets consist primarily of propane tanks located on customers' premises, bulk tanks, and trucks used in the delivery of propane.

Utility plant consists of:

	2012	2011
Electric Plant:		
Distribution plant	$189,892,918	$182,986,902
General plant	18,678,992	17,753,715
	208,571,910	200,740,617
Plant under construction	3,184,087	1,611,591
	211,755,997	202,352,208
Less accumulated depreciation	54,019,343	48,794,880
Net electric plant	157,736,654	153,557,328
Propane Plant:		
Propane tanks on customers' premises	1,711,692	1,681,426
Bulk tanks	513,239	490,315
Delivery and other trucks	847,522	847,522
Buildings and land	555,950	105,646
Office and other equipment	158,158	149,425
	3,786,561	3,274,334
Less accumulated depreciation	1,110,454	944,507
Net propane plant	2,676,107	2,329,827
Net utility plant	$160,412,761	$155,887,155

Note 1. Summary of Significant Accounting Policies, continued

The cost of maintenance and repairs, including renewals of minor items of property, is charged to operating expense. The cost of replacement of depreciable property units, as distinguished from minor items, is charged to electric plant. The units of property replaced or retired, including cost of removal, net of any salvage value, is charged to accumulated depreciation.

Depreciation Provision has been made for depreciation on the basis of the estimated lives of assets, using the straight-line method. Depreciation rates range from 1.44% to 10.0%, with a composite rate of 4.1% for distribution plant. General plant rates range from 2.5% to 20%. Propane Plus's depreciation is computed using the straight-line method over the useful lives of its assets.

Cash and Cash Equivalents Jackson Energy considers all short-term, highly liquid investments with original maturities of three months or less to be cash equivalents.

Off Balance Sheet Risk Jackson Energy has off-balance sheet risk in that they maintain cash deposits in financial institutions in excess of the amounts insured by the Federal Deposit Insurance Corporation (FDIC). At February 28, 2012, the financial institutions reported deposits in excess of the $250,000 FDIC insured limit several times during the audit period. These financial institutions have strong credit ratings and management believes that credit risk related to the accounts is minimal.

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

Fair Value Measurements The Fair Value Measurements and Disclosures Topic of the FASB ASC 820, *Fair Value Measurements and Disclosures,* defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal, or most advantageous, market for the asset or liability in an orderly transaction between market participants at the measurement date. The Fair Values Measurements Topic establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs when possible. The three levels of inputs used to measure fair value are as follows:

> Level 1: Quoted prices (unadjusted) or identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
>
> Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices of similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.
>
> Level 3: Significant unobservable inputs that reflect an organization's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The carrying amounts of Jackson Energy's cash and cash equivalents, other receivables, investments, inventories, other assets, trade accounts payable, accrued expenses and liabilities, and other liabilities approximate fair value due to their short maturity. Investments in associated organizations are not considered a financial instrument because they represent nontransferable interests in associated organizations. Other assets are not considered financial instruments because they represent activities specifically related to Jackson Energy. Long term debt can not be traded in the market, and is specifically for electric cooperatives and, therefore, a value other than its outstanding principal cannot be determined.

Note 1. Summary of Significant Accounting Policies, continued

Jackson Energy may, and also does, invest idle funds in local banks and in National Rural Utilities Cooperative Finance Corporation ("CFC") commercial paper. These investments are classified as held-to-maturity in accordance with provisions of the *Financial Instruments Topic* of FASB ASC 320. Held-to-maturity securities are presented at amortized cost. The fair value of held-to-maturity securities approximates cost at 2012 and 2011. The only fair values measured on a recurring basis are cash and cash equivalents, which are valued at Level 1 and are recorded at cost.

Revenue Jackson Energy records revenue as billed to its consumers based on monthly meter-reading cycles. All consumers are required to pay a refundable deposit, however, it may be waived under certain circumstances. Jackson Energy's sales are concentrated in a fifteen (15) county area of southeastern Kentucky. Consumers must pay their bill within 20 days of billing, at which time a disconnect notice is sent with payment to be within 10 days. If not paid, then consumers are subject to disconnect. Accounts are written off when they are deemed to be uncollectible. The allowance for uncollectible accounts is based on the aging of receivables. The balance in the allowance account was $172,451 at 2012 and $188,643 at 2011. There were no individual account balances that exceeded 10% of outstanding accounts receivable at February 28, 2012 or 2011.

Propane Plus recognizes revenue when earned, regardless of the period in which customers are billed. Propane sales are recognized when deliveries are made, tank rental each month, and sales of related accessories at the time of sale. Accounts are written off when they are deemed to be uncollectible. The allowance for uncollectible accounts is based on the aging of receivables. The balance in the allowance account was $8,800 for 2011 and $6,186 for 2010. There were no individual account balances that exceeded 10% of outstanding accounts receivable at December 31, 2011 or 2010.

Cost of Power Jackson Energy is one of sixteen (16) members of East Kentucky. Under a wholesale power agreement, Jackson Energy is committed to purchase its electric power and energy requirements from East Kentucky until 2051. The rates charged by East Kentucky are subject to approval of the PSC. The cost of purchased power is recorded monthly during the period in which the energy is consumed, based upon billings from East Kentucky.

Cost of Propane Propane Plus purchases all of its propane requirements from an unrelated party through Kentucky Propane Plus, LLC, a related party. Propane is delivered in bulk tanks owned by Propane Plus, then delivered to customers on an as needed basis.

Goodwill Goodwill was recorded in connection with the purchase of one-half (1/2) interest from an unrelated party on June 30, 2000. The excess of the purchase price over the value of assets acquired has been recorded as goodwill. Goodwill was tested for impairment and it was determined that goodwill has not been impaired; therefore, there was no impairment of goodwill for 2011 or 2010.

Deferred Property Retirement During 1994, Jackson Energy initiated a Geographic Information system ("GIS") project to establish detailed maps of its distribution electric system and provide a database containing detailed information on the facilities and quantities installed. A physical inventory was performed and the difference between the facilities reported on the GIS base map and the accounting records resulted in an adjustment to decrease plant by $14,535,593, and a reduction in accumulated depreciation of $2,530,647. This resulted in a net adjustment of $12,004,946. The PSC required this amount to be amortized over 25.5 years, which results in annual amortization of $470,782.

Note 1. Summary of Significant Accounting Policies, continued

Risk Management Jackson Energy is exposed to various forms of losses of assets associated with, but not limited to, fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, workers compensation, etc. Each of these areas is covered through the purchase of commercial insurance.

Environmental Contingency Jackson Energy, from time to time, is required to work with and handle PCB's, herbicides, automotive fluids, lubricants, and other hazardous materials in the normal course of business. As a result, there is a possibility that environmental conditions may arise which would require Jackson Energy to incur cleanup costs. The likelihood of such an event, or the amount of such costs, if any, cannot be determined at this time. However, management does not believe such costs, if any, would materially affect Jackson Energy's financial position or its future cash flows.

Income Tax Status Jackson Energy is exempt from federal and state income taxes under provisions of Section 501(c)(12). Accordingly, the financial statements for Jackson Energy include no provision for income taxes. Income taxes for Service Corporation are provided on income as reported in the accompanying statements regardless of when such taxes are payable. Service Corporation uses the same depreciation for book and tax, therefore, there are no deferred taxes to report.

Jackson Energy's accounting policy provides that a tax expense/benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. Management believes Jackson Energy has no uncertain tax positions resulting in an accrual of tax expense or benefit. Jackson Energy recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. Jackson Energy did not recognize any interest or penalties during the years ended February 28, 2012 and 2011. Jackson Energy's federal and state income tax returns are subject to possible examination by the taxing authorities until the expiration of the related statutes of limitations on those tax returns. In general, the federal income tax returns have a three year statute of limitations, and the state income tax returns have a four year statute of limitations.

Advertising Jackson Energy expenses advertising costs as incurred.

Subsequent Events Management has evaluated subsequent events through May 21, 2012, the date the financial statements were available to be issued. There were no significant subsequent events to report.

Note 2. Investments in Associated Organizations

Investments in associated organizations consist of:

	2012	2011
East Kentucky, patronage capital	$27,531,845	$22,603,173
CFC - CTC's	1,932,691	1,972,717
CFC - Member Capital Securities	980,000	980,000
Other associated organizations	2,524,314	2,393,291
Economic development loans	1,186,200	490,741
	$34,155,050	$28,439,922

Note 2. Investments in Associated Organizations, continued

Jackson Energy records patronage capital assigned by associated organizations in the year in which such assignments are received. The Capital Term Certificates ("CTCs") of CFC are recorded at cost. The CTCs were purchased from CFC as a condition of obtaining long-term financing. The CTCs bear interest at 0%, 3% and 5% and are scheduled to mature at varying times from 2020 to 2080. Member Capital Securities have a 7.5% fixed interest rate and mature 35 years from the issuance date. Interest is paid each April1 and October 1.

Note 3. Patronage Capital

Under provisions of the long-term debt agreement, return to patrons of capital contributed by them is limited to amounts which would not allow the total equities and margins to be less than 30% of total assets, except that distributions may be made to estates of deceased patrons. The debt agreement provides, however, that should such distributions to estates not exceed 25% of the net margins for the next preceding year, Jackson Energy may distribute the difference between 25% and the payments made to such estates. The equity at February 28, 2012 was 32% of total assets. Included in other equities is $2,002,942 of losses from prior years' that is being carried forward to be offset with future years' non operating margins. Patronage capital consists of:

	2012	2011
Assigned to date	$89,041,661	$82,725,021
Assignable	261,459	1,175,756
Retired to date	(17,782,586)	(14,316,481)
	$71,520,534	$69,584,296

Note 4. Accumulated Other Comprehensive Income

The changes in accumulated other comprehensive income, which includes the effects of accounting for accumulated postretirement benefits, follows:

	2012	2011
Balance, beginning	($1,784,411)	($1,973,656)
Amortization	201,600	189,245
Adjustments	-	-
Balance, end	($1,582,811)	($1,784,411)

Note 5. Long Term Debt

All assets, except vehicles, are pledged as collateral on the long term debt to RUS, Federal Financing Bank ("FFB"), and CFC under a joint mortgage agreement. The Economic Development Loans are due to RUS and are secured by a portion of the assets pledged by Jackson Energy's consumers. The amounts due East Kentucky are for the Residential Marketing Loan Program for consumers.

The interest rates on the notes to CFC are subject to change every seven years from the repricing date for each individual note. The long term debt is due in quarterly and monthly installments of varying amounts through 2039. Jackson Energy has loan funds available from FFB in the amount of $14,000,000. RUS assess 12.5 basis points to administer the FFB loans.

During 2003, Jackson Energy refinanced $27,128,547 of RUS 5% notes with variable rate and term notes. These notes are due in 15 annual installments of $1,808,570 each.

Note 5. Long Term Debt, continued

On September 12, 2000, East Kentucky issued a "Commercial Note With Guaranty" in the amount of $817,852 to allow Service Corporation to purchase its one-half interest. The interest rate is variable, with the rate being the "*Index Rate*", as published in the Wall Street Journal, minus one-half percent. The rate at 2011 was 2.75% and 2010 was 2.75%.

Long term debt consists of:

	2012	2011
Notes due RUS, 4.125% to 5%	$30,288,700	$30,967,762
Notes due FFB, 0.122% to 5.353%	78,378,629	74,126,049
Economic Development, RUS, 0% interest	1,163,139	438,703
Notes due CFC:		
5.85% to 6.70%	11,935,510	12,607,994
Refinance RUS loans 5.30% to 6.05%	11,767,941	13,576,176
	133,533,919	131,716,684
Current portion	5,000,000	4,475,000
Long term portion for Jackson Energy	128,533,919	127,241,684
East Kentucky 2.75% (2.75% in 2010)	342,359	432,038
Current portion	95,000	90,000
Long term portion for Propane Plus	247,359	342,038
Total long term portion	$128,781,278	$127,583,722

As of February 28, 2012, the annual principal payments of Jackson Energy for the next five years are as follows: 2013 - $5,000,000; 2014 - $5,200,000; 2015 - $5,300,000; 2016 - $5,500,000; 2016 - $5,700,000.

As of December 31, 2011, the annual principal payments of Propane Plus for the next five years are as follows: 2012 - $100,000; 2013 - $110,000; 2014 - $120,000; 2015 - $130,000; 2016 - $140,000.

Note 6. Short Term Borrowings

At February 28, 2012, Jackson Energy had a short term line of credit of $10,000,000 available from CFC and $5,000,000 from National Bank for Cooperative ("CoBank"). All advances against this line of credit were repaid during the audit period.

Propane Plus has advanced funds from a related propane company to open facilities at a new location. $30,000 has been advanced from a related propane company for a period of 6 months, with renewal for another 6 months. The note is due upon 30 days notice by the propane company. The note bears interest at 3% per year. The remaining advances are from two (2) Line of Credit loans from Cumberland Valley National Bank in the amount of $400,000 and $350,000, respectively. These notes are for a period of one year, with renewal options. The interest rate on both line of credit advances is the minimum of 5%.

Note 8. Pension Plan

Jackson Energy provides retirement benefits for substantially all employees through participation in the NRECA Retirement and Security Program, a multi-employer plan. Contributions for pension expense were $2,264,685 for 2012 and $2,008,089 for 2011. In this master 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 employer. During 2012, Jackson Energy purchased Cost of Living Allowance ("COLA") benefits for participating employees at a cost of $2,040,627. This amount is being amortized over 30 years.

Propane Plus has a profit sharing plan of 10% of net profits, before the pension amount, where managers receive 5% of the plan amount and the remaining employees share the remaining 5%. The pension amount for 2011 was $0 (none) and 2010 was $33,577.

Note 9. Postretirement Benefits

Jackson Energy sponsors a defined benefit plan that provides medical insurance coverage to retired employees, directors, and attorney and their dependents. The plan calls for benefits to be paid at retirement based primarily upon years of service with Jackson Energy. Participating retirees and dependents do not contribute to the projected cost of coverage. The following is a reconciliation of the postretirement obligation.

The funded status of the plan is as follows:

	2012	2011
Projected benefit obligation	($7,918,704)	($7,612,518)
Fair value of plan assets	-	-
Funded status	($7,918,704)	($7,612,518)

The components of net periodic postretirement benefit costs are as follows:

	2012	2011
Benefit obligation - beginning of period	$7,612,518	$7,302,374
Net periodic benefit cost:		
Service cost	322,463	206,425
Interest cost	465,937	456,751
Amortize gains/losses	-	-
Net period cost	788,400	663,176
Accumulated comprehensive income	-	122,824
Benefit payments to participants	(482,214)	(475,856)
Benefit obligation - end of period	$7,918,704	$7,612,518

Projected retiree benefit payments for the next five years are expected to be as follows: 2013 - $440,000; 2014 - $434,000; 2015 - $423,000; 2016 - $420,000; 2017 - $400,000.

The discount rate used in determining the APBO was 6.50% for 2012 and 2011. The health care cost trend rate used to compute the APBO in an 8% annual rate of increase for 2010, and decreasing gradually to 5.5%, then remain at that level thereafter.

Note 11. Related Party Transactions

Several of the Directors of Jackson Energy, its President & CEO, and another employee are on the boards of directors of various associated organizations.

Note 12. Commitments

Jackson Energy is contingently liable as guarantor for approximately $144,000 of long term obligations of East Kentucky to RUS, CFC, and institutional investors. Substantially all assets of Jackson Energy are pledged as collateral for this guarantee, in addition to the pledge in the mortgage agreement referred to in Note 4. This contingent liability was part of an overall financing plan for the construction of a generating facility near Maysville, Kentucky.

Jackson Energy has various other agreements outstanding with local contractors. Under these agreements, the contractors will perform certain meter reading, construction, and maintenance work at specified hourly rates or unit cost, or on an as needed basis. The duration of these contracts are one to three years.

Note 13. Leases

Jackson Energy leases space for two (2) of its branch offices and a storage facility from unrelated parties. The leases are operating leases with monthly payments of $1,600, $200, and $55 per month, respectively. The lease terms vary, and can be renewed, or cancelled, by either party with advance notice.

Note 14. Rate Matters

East Kentucky increased its base rates to Jackson Energy during August 2007, by 2%, in April 2008, by another 7%, and in January, 2011 by another 5%. Jackson Energy passed each of East Kentucky's increases on to its customers using the methodology prescribed by the PSC.

Note 15. High Energy Cost Grant Program

Jackson Energy was awarded a High Energy Cost Grant through the United States Department of Agriculture ("USDA") Rural Development Electric Program to provide energy efficiency and weatherization upgrades for low income families with high electric usage in two (2) of the counties it serves. The Grant Award is in the amount of $999,996 and requires a matching contribution of $95,472, or 10% of the total project, whichever is less. The grant is for a three (3) year period, and may be extended, starting in February 2009. Expenditures under the Grant Program amounted to $196,082 for 2012 and $194,289 for 2011.

Jackson Energy received a grant from the Department of Energy in the amount of $100,000 to install "Smart-Grid" devices on metering equipment.

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Independent Auditor's Report

To the Board of Directors
Jackson Energy Cooperative

My report on the audits of the consolidated financial statements of Jackson Energy Cooperative and Subsidiary as of February 28, 2012 and 2011 and for the years then ended appears on page 1. My audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies. The supplementary consolidating information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in my opinion is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Alan M. Zumstein

Alan M. Zumstein, CPA
May 21, 2012

Jackson Energy Cooperative and Subsidiary

Consolidating Balance Sheet, February 28, 2012

Assets	Energy	Services	Propane	Eliminations	Consolidated
Net Utility Plant	$157,736,654		$2,676,107		$160,412,761
Investments and Other Assets:					
Associated organizations	34,155,050				34,155,050
Goodwill, net of amortization			262,177		262,177
Subsidiary	1,643,141	2,189,583		(3,832,724)	0
	35,798,191	2,189,583	262,177	(3,832,724)	34,417,227
Current Assets:					
Cash and cash equivalents	6,492,033	1,022	146,737		6,639,792
Accounts receivable, less allowance for uncollectible accounts	15,439,707		176,821	(455)	15,616,073
Material and supplies, at average cost	1,314,872		225,712		1,540,584
Prepayments	596,587		48,973		645,560
	23,843,199	1,022	598,243	(455)	24,442,009
Deferred charges	8,973,177				8,973,177
Total	$226,351,221	$2,190,605	$3,536,527	($3,833,179)	$228,245,174
Members' Equities and Liabilities					
Members' and Stockholder's Equities:					
Memberships and capital	$1,296,610	$1,344,000	$1,217,680	($2,561,680)	$1,296,610
Patronage capital and retained earnings	71,520,534	299,141	971,903	(1,271,044)	71,520,534
Accum other comprehensive income	(1,582,811)				(1,582,811)
Minority interests and other equities	1,083,271	547,133			1,630,404
	72,317,604	2,190,274	2,189,583	(3,832,724)	72,864,737
Long Term Debt	128,533,919		247,359		128,781,278
Accumulated Postretirement Benefits	7,918,704				7,918,704
Current Liabilities:					
Accounts payable	7,602,038	331	250,257	(455)	7,852,171
Short term borrowings	0		754,328		754,328
Current portion of long term debt	5,000,000		95,000		5,095,000
Consumer deposits	1,628,346				1,628,346
Accrued expenses	3,047,763				3,047,763
	17,278,147	331	1,099,585	(455)	18,377,608
Consumer Advances for Construction	302,847				302,847
Total	$226,351,221	$2,190,605	$3,536,527	($3,833,179)	$228,245,174

The accompanying notes are an integral part of these statements.

Jackson Energy Cooperative and Subsidiary

Consolidating Balance Sheet, February 28, 2011

Assets	Energy	Services	Propane	Eliminations	Consolidated
Net Utility Plant	$153,557,328		$2,329,827		$155,887,155
Investments and Other Assets:					
Associated organizations	28,439,922				28,439,922
Goodwill, net of amortization			262,177		262,177
Subsidiary	1,613,741	2,149,441		(3,763,182)	0
	30,053,663	2,149,441	262,177	(3,763,182)	28,702,099
Current Assets:					
Cash and cash equivalents	10,878,533	2,396	270,114		11,151,043
Accounts receivable, less allowance for uncollectible accounts	15,947,568		250,633	(455)	16,197,746
Material and supplies, at average cost	1,401,727		141,660		1,543,387
Prepayments	731,592		25,500		757,092
	28,959,420	2,396	687,907	(455)	29,649,268
Deferred property retirements	7,414,659				7,414,659
Total	$219,985,070	$2,151,837	$3,279,911	($3,763,637)	$221,653,181
Members' Equities and Liabilities					
Members' and Stockholder's Equities:					
Memberships and capital	$1,294,805	$1,344,000	$1,204,325	($2,548,325)	$1,294,805
Patronage capital and retained earnings	69,584,296	270,220	944,637	(1,214,857)	69,584,296
Accum other comprehensive income	(1,784,411)				(1,784,411)
Minority interests and other equities	(634,623)	537,435			(97,188)
	68,460,067	2,151,655	2,148,962	(3,763,182)	68,997,502
Long Term Debt	127,241,684		342,038		127,583,722
Accumulated Postretirement Benefits	7,612,518				7,612,518
Current Liabilities:					
Accounts payable	7,190,623	182	248,911	(455)	7,439,261
Short term borrowings	0		450,000		450,000
Current portion of long term debt	4,475,000		90,000		4,565,000
Consumer deposits	1,818,832				1,818,832
Accrued expenses	2,860,491				2,860,491
	16,344,946	182	788,911	(455)	17,133,584
Consumer Advances for Construction	325,855				325,855
Total	$219,985,070	$2,151,837	$3,279,911	($3,763,637)	$221,653,181

The accompanying notes are an integral part of these statements.

Consolidating Statement of Revenue and Patronage Capital

for the year ended February 28, 2012

	Energy	Services	Propane	Eliminations	Consolidated
Operating Revenues	$100,324,310		$3,811,388	($25,042)	$104,110,656
Operating Expenses:					
Cost of purchases	66,652,020		2,199,676		68,851,696
Distribution - operations and maintenance	10,563,562		886,727		11,450,289
Consumer accounts	3,562,124		204,334		3,766,458
Customer service and information	726,174		65,560		791,734
Administrative and general	4,256,276	5,523	120,374	(25,042)	4,357,131
Depreciation, excluding $487,908 charged to clearing accounts	7,981,960		189,286		8,171,246
Amortization of deferred property retirements	470,772				470,772
Taxes	107,126	42,997	20,115		170,238
Other	97,059				97,059
	94,417,073	48,520	3,686,072	(25,042)	98,126,623
Operating Margins before Interest Charges	5,907,237	(48,520)	125,316		5,984,033
Interest Charges:					
Interest on long term debt	5,588,490		42,734		5,631,224
Other interest	100,631				100,631
	5,689,121		42,734		5,731,855
Operating Margins after Interest Charges	218,116	(48,520)	82,582		252,178
Patronage Capital, associated organizations	5,181,339				5,181,339
Nonoperating Margins:					
Interest income	176,632		657		177,289
Subsidiary and others	29,069	87,719	4,480	(126,918)	(5,650)
	205,701	87,719	5,137	(126,918)	171,639
Net Margins	5,605,156	39,199	87,719	(126,918)	5,605,156
Patronage Capital - beginning of year	69,584,296	270,220	944,637	(1,214,857)	69,584,296
Retirements of patronage capital	(3,466,105)		(46,997)	46,997	(3,466,105)
Transfer to other equities and minority interests	(202,813)	(10,278)	(13,456)	23,734	(202,813)
Patronage Capital - end of year	$71,520,534	$299,141	$971,903	($1,271,044)	$71,520,534

The accompanying notes are an integral part of these statements.

Consolidating Statement of Revenue and Patronage Capital

for the year ended February 28, 2011

	Energy	Services	Propane	Eliminations	Consolidated
Operating Revenues	$102,368,758		$3,535,985	($47,667)	$105,857,076
Operating Expenses:					
Cost of purchases	67,004,458		2,091,593		69,096,051
Distribution - operations and maintenance	9,676,388		764,094		10,440,482
Consumer accounts	3,373,417		176,135		3,549,552
Customer service and information	613,203		56,512		669,715
Administrative and general	4,060,868	5,116	103,762	(47,667)	4,122,079
Depreciation, excluding $435,504 charged to clearing accounts	7,672,812		128,475		7,801,287
Amortization of deferred property retirements	470,772				470,772
Taxes	101,017	136,934	16,306		254,257
Other	109,710				109,710
	93,082,645	142,050	3,336,877	(47,667)	96,513,905
Operating Margins before Interest Charges	9,286,113	(142,050)	199,108		9,343,171
Interest Charges:					
Interest on long term debt	6,169,783		18,940		6,188,723
Other interest	111,491				111,491
	6,281,274		18,940		6,300,214
Operating Margins after Interest Charges	3,004,839	(142,050)	180,168		3,042,957
Patronage Capital, associated organizations	3,049,645				3,049,645
Nonoperating Margins:					
Interest income	194,473		1,886		196,359
Subsidiary and others	71,263	187,693	5,639	(233,336)	31,259
	265,736	187,693	7,525	(233,336)	227,618
Net Margins	6,320,220	45,643	187,693	(233,336)	6,320,220
Patronage Capital - beginning of year	63,124,631	235,510	894,423	(1,129,933)	63,124,631
Retirements of patronage capital	(569,411)		(137,000)	137,000	(569,411)
Transfer to other equities and minority interests	708,856	(10,933)	(479)	11,412	708,856
Patronage Capital - end of year	$69,584,296	$270,220	$944,637	($1,214,857)	$69,584,296

The accompanying notes are an integral part of these statements.

Consolidating Statement of Cash Flows

for the year ended February 28, 2012

	Energy	Services	Propane	Eliminations	Consolidated
Cash Flows from Operating Activities:					
Net margins	$5,605,156	$39,199	$87,719	($126,918)	$5,605,156
Adjustments to reconcile to net cash provided by operating activities:					
Depreciation and amortization					
Charged to expense	8,452,732		189,286		8,642,018
Charged to clearing accounts	487,908				487,908
Patronage capital credits	(5,181,339)				(5,181,339)
(Profit) or loss in subsidiary	(39,199)	(87,719)		126,918	-
Accumulated postretirement benefits	507,786				507,786
Change in assets and liabilities:					
Receivables	507,861		73,812	39	581,712
Material and supplies	86,855		(84,052)		2,803
Prepayments and deferred debits	(1,894,285)		(23,473)		(1,917,758)
Payables	411,415	149	1,346	(39)	412,871
Consumer deposits and advances	(213,494)				(213,494)
Accrued expenses	187,272				187,272
	8,918,668	(48,371)	244,638		9,114,935
Cash Flows from Investing Activities:					
Plant additions	(11,563,266)		(535,667)		(12,098,933)
Plant removal costs	(1,174,977)				(1,174,977)
Salvage recovered from plant	89,049				89,049
Other investments, net	(523,990)				(523,990)
	(13,173,184)		(535,667)		(13,708,851)
Cash Flows from Financing Activities:					
Memberships, capital and other equities	1,516,886			-	1,516,886
Retirement of patronage capital	(3,466,105)	46,997	(46,997)		(3,466,105)
Long term advances	6,740,000				6,740,000
Payments on long term debt	(4,922,765)		(89,679)		(5,012,444)
Short term borrowings (repayments)	-		304,328		304,328
	(131,984)	46,997	167,652		82,665
Net increase in cash	(4,386,500)	(1,374)	(123,377)		(4,511,251)
Cash and cash equivalents - beginning of period	10,878,533	2,396	270,114		11,151,043
Cash and cash equivalents - end of period	$6,492,033	$1,022	$146,737		$6,639,792
Supplemental cash flows information:					
Interest paid on long term debt	$5,665,564		$42,734		$5,708,298
Income taxes paid		$42,997			$42,997

The accompanying notes are an integral part of these statements.

Consolidating Statement of Cash Flows

for the year ended February 28, 2011

	Energy	Services	Propane	Eliminations	Consolidated
Cash Flows from Operating Activities:					
Net margins	$6,320,220	$45,643	$187,693	($233,336)	$6,320,220
Adjustments to reconcile to net cash provided by operating activities:					
Depreciation and amortization					
Charged to expense	8,143,584		128,475		8,272,059
Charged to clearing accounts	456,543				456,543
Patronage capital credits	(3,049,645)				(3,049,645)
(Profit) or loss in subsidiary	(45,643)	(187,693)		233,336	-
Accumulated postretirement benefits	499,389				499,389
Change in assets and liabilities:					
Receivables	3,129,738		(89,689)	39	3,040,088
Material and supplies	(97,054)		(59,609)		(156,663)
Prepayments	(429,891)		(12,400)		(442,291)
Payables	(1,731,143)	(274)	109,540	(39)	(1,621,916)
Consumer deposits and advances	(113,307)				(113,307)
Accrued expenses	98,432				98,432
	13,181,223	(142,324)	264,010		13,302,909
Cash Flows from Investing Activities:					
Plant additions	(9,371,722)		(626,328)		(9,998,050)
Plant removal costs	(1,226,406)				(1,226,406)
Salvage recovered from plant	123,129				123,129
Other investments, net	192,657	137,000			329,657
	(10,282,342)	137,000	(626,328)		(10,771,670)
Cash Flows from Financing Activities:					
Memberships, capital and other equities	1,694		(479)	-	1,215
Retirement of patronage capital	(569,411)		(137,000)		(706,411)
Long term advances	4,848,000				4,848,000
Payments on long term debt	(4,370,895)		(87,250)		(4,458,145)
Short term borrowings (repayments)	-		450,000		450,000
	(90,612)		225,271		134,659
Net increase in cash	2,808,269	(5,324)	(137,047)		2,665,898
Cash and cash equivalents - beginning of period	8,070,264	7,720	407,161		8,485,145
Cash and cash equivalents - end of period	$10,878,533	$2,396	$270,114		$11,151,043
Supplemental cash flows information:					
Interest paid on long term debt	$6,164,885		$18,940		$6,183,825
Income taxes paid		$136,934			$136,934

The accompanying notes are an integral part of these statements.