Kentucky 3
Jackson Energy Cooperative and Subsidiary
McKee, Kentucky

Audited Financial Statements
February 28, 2014 and 2013

ALAN ZUMSTEIN
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Independent Auditor's Report

To the Board of Directors
Jackson Energy Cooperative
McKee, Kentucky

Report on the Financial Statements

I have audited the accompanying consolidated financial statements of Jackson Energy Cooperative and Subsidiary, which comprise the balance sheets as of February 28, 2014 and 2013, and the related statements of revenue and comprehensive income, changes in equities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made my management, as well as evaluating the overall presentation of the financial statements.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Jackson Energy Cooperative and Subsidiary as of February 28, 2014 and 2013, and the results of their operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued a report dated June 5, 2014, 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* in considering internal control over financial reporting and compliance.

Other Matter

My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The consolidating information on pages 16-18 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Alan M. Zumstein

Alan M. Zumstein, CPA
June 5, 2014

Jackson Energy Cooperative

Consolidated Balance Sheets, February 28, 2014 and 2013

	2014	2013
Assets		
Utility Plant, net	$ 165,747,272	$ 164,125,545
Investments and Other Assets:		
Associated organizations	45,992,112	39,400,307
Goodwill	262,177	262,177
	46,254,289	39,662,484
Current Assets:		
Cash and cash equivalents	2,996,959	2,204,248
Accounts receivable, less allowance for uncollectible accounts	18,692,774	17,589,637
Material and supplies	1,695,926	1,717,337
Prepayments	770,465	744,600
	24,156,124	22,255,822
Deferred Property Retirements	14,230,809	8,434,385
Total	$ 250,388,494	$ 234,478,236
Members' Equities and Liabilities		
Members' Equities:		
Memberships and capital	$ 1,299,355	$ 1,297,560
Patronage capital and retained earnings	77,699,765	70,939,930
Accumulated other comprehensive income	(1,179,611)	(1,381,211)
Other equities and minority interest	5,201,294	4,929,561
	83,020,803	75,785,840
Long Term Debt	131,692,646	130,268,692
Accumulated Postretirement Benefits	8,512,796	8,240,510
Current Liabilities:		
Accounts payable	8,172,959	8,647,193
Short term borrowings	8,512,694	1,710,282
Current portion of long term debt	6,045,000	5,345,000
Consumer deposits	805,304	1,037,175
Other current and accrued liabilities	3,268,895	3,115,333
	26,804,852	19,854,983
Consumer advances for construction	357,397	328,211
Total	$ 250,388,494	$ 234,478,236

The accompanying notes are an integral part of these statements.

Consolidated Statements of Revenue and Comprehensive Income
for the years ended February 28, 2014 and 2013

	2014	2013
Operating Revenues	$ 110,475,456	$ 104,878,212
Operating Expenses:		
Cost of purchases	73,814,266	68,796,243
Distribution - operations and maintenance	11,341,158	11,618,857
Consumer accounts	3,489,628	3,377,936
Sales	824,390	844,850
Administrative and general	4,830,937	4,839,876
Depreciation, excluding $555,350 in 2014 and $555,350 in 2013 charged to clearing accounts	8,916,756	8,516,652
Amortization of deferred property retirements	470,772	470,772
Taxes	195,910	145,757
Other	51,984	73,532
	103,935,801	98,684,475
Operating Margins before Interest Charges	6,539,655	6,193,737
Interest Charges:		
Interest on long-term debt	5,206,943	5,416,882
Other interest	88,470	40,051
	5,295,413	5,456,933
Operating Margins after Interest Charges	1,244,242	736,804
Net Operating Margins	7,196,740	5,243,297
Nonoperating Margins		
Interest income	164,720	164,675
Subsidiary and others	50,803	(101,688)
	215,523	62,987
Patronage Capital assigned, associated organizations	5,952,498	4,506,493
Net Margins	7,412,263	5,306,284
Other Comprehensive Income:		
Postretirement benefits	201,600	201,600
Noncontrolling interest	(72,058)	(41,424)
Total Comprehensive income	$ 7,541,805	$ 5,466,460

The accompanying notes are an integral part of these statements.

Statements of Changes in Members' Equity
for the years ended February 28, 2013 and 2014

	Memberships and Capital	Patronage Capital	Other Equity	Accumulated Other Comprehensive Income	Total Members' Equity
Balance - Beginning of year	$ 1,296,610	$ 69,691,007	$ 3,459,931	$ (1,582,811)	$ 72,864,737
Comprehensive income:					
Net margins		5,306,284			5,306,284
Postretirement benefit obligation					
Amortization				201,600	
Adjustments				-	201,600
Noncontrolling interests		(41,424)			(41,424)
Total comprehensive income					5,466,460
Refunds of capital credits		(3,933,090)			(3,933,090)
Transfers to other equity and minority interests		(82,847)			(82,847)
Memberships, net	950				950
Other equities			1,469,630		1,469,630
Balance - February 28, 2013	1,297,560	70,939,930	4,929,561	(1,381,211)	75,785,840
Comprehensive income:					
Net margins		7,412,263			7,412,263
Postretirement benefit obligation					
Amortization				201,600	
Adjustments				-	201,600
Noncontrolling interests		(72,058)			(72,058)
Total comprehensive income					7,541,805
Refunds of capital credits		(436,255)			(436,255)
Transfers to other equity and minority interests		(144,115)			(144,115)
Memberships, net	1,795				1,795
Other equities			271,733		271,733
Balance - February 28, 2014	$ 1,299,355	$ 77,699,765	$ 5,201,294	$ (1,179,611)	$ 83,020,803

The accompanying notes are an integral part of the financial statements.

Consolidated Statements of Cash Flows

for the years ended February 28, 2014 and 2013

	2014	2013
Cash Flows from Operating Activities:		
Net margins	$ 7,412,263	$ 5,306,284
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization		
Charged to expense	9,387,528	8,987,424
Charged to clearing accounts	601,009	555,350
Patronage capital allocated	(5,952,498)	(4,506,493)
Accumulated postretirement benefits	473,886	523,406
Change in assets and liabilities:		
Receivables	(1,103,098)	(1,973,226)
Material and supplies	21,411	(176,753)
Prepayments	(6,293,061)	(31,020)
Payables	(474,358)	795,008
Consumer deposits and advances	(202,685)	(565,807)
Accrued expenses	153,562	67,570
	4,023,959	8,981,743
Cash Flows from Investing Activities:		
Plant additions	(9,942,625)	(11,343,543)
Plant removal costs	(1,341,799)	(1,591,475)
Salvage recovered from plant retirements	85,167	150,232
Other investments, net	(639,307)	(697,340)
	(11,838,564)	(13,482,126)
Cash Flows from Financing Activities:		
Memberships, capital and other equities	112,528	1,299,884
Retirement of patronage capital	(431,578)	(3,928,413)
Additional long-term borrowings	8,000,000	6,967,000
Payments on long-term debt	(5,876,046)	(5,229,586)
Short term borrowings (repayments)	6,802,412	955,954
	8,607,316	64,839
Net increase in cash	792,711	(4,435,544)
Cash and cash equivalents - beginning of period	2,204,248	6,639,792
Cash and cash equivalents - end of period	$ 2,996,959	$ 2,204,248
Supplemental cash flows information:		
Interest paid on long-term debt	$ 5,220,190	$ 5,421,595
Income taxes paid	$ 50,726	$ -

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:

	2014	2013
Electric Plant:		
Distribution plant	$202,379,611	$196,271,410
General plant	22,437,033	22,286,622
	224,816,644	218,558,032
Plant under construction	1,550,767	1,110,597
	226,367,411	219,668,629
Less accumulated depreciation	63,357,139	58,231,923
Net electric plant	163,010,272	161,436,706
Propane Plant:		
Propane tanks on customers' premises	1,844,524	1,830,101
Bulk tanks	685,322	599,229
Delivery and other trucks	955,422	847,522
Buildings and land	580,072	559,566
Office and other equipment	170,208	159,473
	4,235,548	3,995,891
Less accumulated depreciation	1,498,548	1,307,052
Net propane plant	2,737,000	2,688,839
Net utility plant	$165,747,272	$164,125,545

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, 2014, 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.

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 $143,528 at 2014 and $132,178 at 2013. There were no individual account balances that exceeded 10% of outstanding accounts receivable at February 28, 2014 or 2013.

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 $26,008 for 2013 and $9,000 for 2012. There were no individual account balances that exceeded 10% of outstanding accounts receivable at December 31, 2013 or 2012.

The Companies are required to collect, on behalf of the Commonwealth of Kentucky, sales taxes based on 6 percent of gross sales from non-residential consumers, a 3 percent school tax from certain counties on most gross sales, and franchise fees in certain cities. The Company's policy is to exclude sales tax from revenue when collected and expenses when paid and instead, record collection and payment of sales taxes through a liability account.

Advertising Jackson Energy expenses advertising costs as incurred.

Note 1. Summary of Significant Accounting Policies, continued

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.

Propane Inventory Propane is measured at the end of each month and valued based on the current purchase price of propane.

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: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities
>
> Level 2: Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly.
>
> Level 3: Prices or valuations that require inputs that are both significant to the fair value measure and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

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.

Jackson Energy may, and also does, invest idle funds in local banks and in National Rural Utilities Cooperative Finance Corporation ("CFC") commercial paper. The inputs used to measure idle funds are Level 1 measurements, as these funds are exchange traded funds in an active market.

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 2013 or 2012.

Note 1. Summary of Significant Accounting Policies, continued

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.

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. Propane Plus is a limited liability company treated as a partnership for federal income tax purposes. All tax related issues would be passed on to Service Corporation. Propane Plus uses the same depreciation for book and taxes, therefore, deferred taxes are considered immaterial and are not recorded.

Effective January 1, 2008, Jackson Energy adopted the provisions of the *Income Taxes Topic* of the FASB ASC that pertains to accounting for uncertainty in income taxes. Jackson Energy had no prior unrecognized tax benefits as a result of the implementation. Management evaluates its potential exposures from tax positions taken that have or could be challenged by taxing authorities. These potential exposures result because taxing authorities may take positions that differ from those taken by management in the interpretation and application of statutes, regulations, and rules. There are no tax positions for which the ultimate deductibility is highly uncertain included in the accompanying financial statements. 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 December 31, 2013 or 2012. Jackson Energy's income tax return is subject to possible examination by taxing authorities until the expiration of related statues of limitations on the return, which is generally three years.

Comprehensive Income Comprehensive income includes both net margin and other comprehensive income. Other comprehensive income represents the change in funded status of the accumulated postretirement benefit obligation.

Reclassifications Comparative data for the prior year have presented in certain sections of the accompanying financial statements in order to provide an understanding of changes in the financial position and operations.

Subsequent Events Management has evaluated subsequent events through June 5, 2014, the date the financial statements were available to be issued. There were no significant subsequent events to report.

Note 2. Investments in Associated Organizations

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 Aprill and October 1.

Investments in associated organizations consist of:

	2014	2013
East Kentucky, patronage capital	$37,597,877	$31,890,184
CFC - CTC's	1,851,863	1,892,412
CFC - Member Capital Securities	980,000	980,000
Other associated organizations	2,725,739	2,594,157
Economic development loans	2,836,633	2,043,554
	$45,992,112	$39,400,307

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, 2014 was 32% of total assets. Prior year's deficits are being carried forward and will be offset with future years' non operating margins.

Patronage capital consists of:

	2014	2013
Assigned to date	$100,914,706	$93,550,929
Assignable	1,331,691	1,701,409
Prior year's deficits	(2,394,701)	(2,596,731)
Retired to date	(22,151,931)	(21,715,677)
	$77,699,765	$70,939,930

Note 4. 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 $1,000,000. RUS assess 12.5 basis points to administer the FFB loans.

Note 4. Long Term Debt, continued

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.

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 2013 was 2.75% and 2012 was 2.75%.

Long term debt consists of:

	2014	2013
Notes due RUS, 4.125% to 5%	$28,824,343	$29,571,608
Notes due FFB, 0.069% to 4.51%	87,175,381	82,531,796
Economic Development, RUS, 0% interest	2,804,375	2,025,499
Notes due CFC:		
5.85% to 6.70%	10,626,418	11,274,680
Refinance RUS loans 5.30% to 6.05%	8,151,692	9,959,928
	137,582,209	135,363,511
Current portion	5,950,000	5,250,000
Long term portion for Jackson Energy	131,632,209	130,113,511
East Kentucky 2.75% (2.75% in 2010)	155,437	250,181
Current portion	95,000	95,000
Long term portion for Propane Plus	60,437	155,181
Total long term portion	$131,692,646	$130,268,692

As of February 28, 2014, the annual principal payments of Jackson Energy for the next five years are as follows: 2015 - $5,950,000; 2016 - $6,000,000; 2017 - $6,150,000; 2018 - $6,300,000; 2019 - $6,500,000.

As of December 31, 2013, the annual principal payments of Propane Plus for the next five years are as follows: 2014 - $95,000; 2015 - $100,000; 2016 - $55,000; 2017 - none.

Note 5. Short Term Borrowings

At February 28, 2014, 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"). At February, 2014 there was $1,000,000 advanced against the CFC line of credit with an interest rate of 2.90%.

Propane Plus has advanced funds to open facilities at a new location. The 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 6. Pension Plan

All eligible employees of Jackson participate in the NRECA Retirement and Security Plan ("R&S Plan"), a defined benefit pension plan qualified under section 401 and tax exempt under section 501(a) of the Internal Revenue Code. It is a multiemployer plan under the accounting standards. The Plan sponsor's identification number is 53-0116145 and the Plan Number is 333. A unique characteristic of a multiemployer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

Employees hired prior to December 1, 2013 participate in Cost of Living Allowance ("COLA") benefits and have a contribution rate of 2.0%. Employees hired after December 1, 2013 do not participate in COLA and have a contribution rate of 1.7%.

Jackson's contributions to the R&S Plan in 2014 and 2013 represent less than 5 percent of the total contributions made to the plan by all participating employers. Jackson made contributions to the plan of $2,442,964 in 2014 and $2,264,685 in 2013. There have been no significant changes that affect the comparability of 2013 and 2012. During 2012, Jackson Energy purchased ("COLA") benefits for participating employees at a cost of $2,040,627. This amount is being amortized over 30 years.

In the R&S Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act ("PPA") of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the R&S Plan was between 65 percent and 80 percent funded at January 1, 2013 and 2012 based on the PPA funding target and PPA actuarial value of assets on those dates. Because the provisions of the PPA do not apply to the R&S Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

At the December 2012 meeting of the I&FS Committee of the NRECA Board of Directors, the Committee approved an option to allow participating cooperatives in the Retirement Security ("R&S") Plan (a defined benefit multiemployer pension plan) to make a prepayment and reduce future required contributions. The prepayment amount is a cooperative share, as of January 1, 2013, of future contributions required to fund the R&S Plan's unfunded value of benefits earned to date using Plan actuarial valuation assumptions. The prepayment amount will typically equal approximately 2.5 times a cooperative's annual R&S Plan required contribution as of January 1, 2013. After making the prepayment, for most cooperatives the billing rate is reduced by approximately 25%, retroactive to January 1, 2013. The 25% differential in billing rates is expected to continue for approximately 15 years. However, changes in interest rates, asset returns and other plan experience different from that expected, plan assumptions changes, and other factors may have an impact on the differential in billing rates and the 15 year period.

Two prepayment options were available to participating cooperatives:

1. Use current assets to make the prepayment over a period of not more than 4 years, or,
2. Borrow funds sufficient to make the prepayment in a lump sum, with the prepayment of the borrowed amount determined by the loan's amortization schedule.

Note 6. Pension Plan, continued

On February 14, 2013, RUS issued a memorandum to all of its borrowers regarding the proper accounting treatment of the R&S Plan prepayment. RUS stipulated that the prepayment shall be recorded as a long term prepayment in Account 186, Miscellaneous Deferred Debits. This prepaid expense shall be amortized to Account 926, Employee Pensions and Benefits, over a ten year period. Alternatively, RUS borrowers may calculate the amortization period by subtracting the cooperative's average age of its workforce as provided by NRECA from the cooperative's normal retirement age under the R&S Plan, up to a maximum period of 20 years. If the entity choses to finance the prepayment, interest expense associated with the loan shall be recorded in the year incurred as is required under the RUS Uniform System of Accounts ("USoA").

Section 6.13(e) of the RUS Loan Contract limits the amount of unsecured debt that a borrower may incur to 15% on Net Utility Plant if the equity level of the borrower, after considering such unsecured debt, is below 30% of its Total Assets, unless the borrower obtains RUS consent. RUS will consider any unsecured debt associated with the R&S Plan prepayment to be "Permitted Debt" and accordingly, it will be excluded from the application of Section 6.13(e). On March 15, 2013, the Corporation made a prepayment of $6,383,300 to the R&S Plan. The amount is being amortized over 10 years. Interest expense associated with the prepayment loan is being accounted for in accordance with the RUS USOA.

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 2013 was $14,390 and 2012 was $10,779.

Note 7. 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:

	2014	2013
Projected benefit obligation	($8,512,796)	($8,240,510)
Fair value of plan assets	-	-
Funded status	($8,512,796)	($8,240,510)

Note 7. Postretirement Benefits, continued

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

	2014	2013
Benefit obligation - beginning of period	$8,240,510	$7,918,704
Net periodic benefit cost:		
Service cost	339,807	298,664
Interest cost	418,833	484,776
Amortize gains/losses	-	-
Net period cost	758,640	783,440
Accumulated comprehensive income	-	-
Benefit payments to participants	(486,354)	(461,634)
Benefit obligation - end of period	$8,512,796	$8,240,510

Projected retiree benefit payments for the next five years are expected to be as follows: 2015 - $440,000; 2016 - $434,000; 2017 - $423,000; 2018 - $420,000; 2019 - $400,000.

The discount rate used in determining the APBO was 5.0% for 2014 and 2013. The health care cost trend rate used to compute the APBO is an 8% annual rate of increase for 2013, 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 has various agreements outstanding with local contractors. Under these agreements, the contractors will perform certain metering services, 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. 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, 2013 by another 5%. Jackson Energy passed each of East Kentucky's increases on to its customers using the methodology prescribed by the PSC. The PSC has allowed Jackson Energy to increase its monthly customer charge by $2 during 2013, 2014, and 2015.

* * * * * *

Jackson Energy Cooperative and Subsidiary

Consolidating Balance Sheet, February 28, 2014

Assets	Energy	Services	Propane	Eliminations	Consolidated
Net Utility Plant	$163,010,272		$2,737,000		$165,747,272
Investments and Other Assets:					
Associated organizations	45,992,112				45,992,112
Goodwill, net of amortization			262,177		262,177
Subsidiary	1,983,585	2,642,103		(4,625,688)	0
	47,975,697	2,642,103	262,177	(4,625,688)	46,254,289
Current Assets:					
Cash and cash equivalents	2,874,628	3,067	119,264		2,996,959
Accounts receivable, less allowance for uncollectible accounts	18,458,603		234,327	(156)	18,692,774
Material and supplies, at average cost	1,454,732		241,194		1,695,926
Prepayments	726,593		43,872		770,465
	23,514,556	3,067	638,657	(156)	24,156,124
Deferred charges	14,230,809				14,230,809
Total	$248,731,334	$2,645,170	$3,637,834	($4,625,844)	$250,388,494
Members' Equities and Liabilities					
Members' and Stockholder's Equities:					
Memberships and capital	$1,299,355	$1,344,000	$1,157,915	($2,501,915)	$1,299,355
Patronage capital and retained earnings	77,699,765	639,585	1,486,844	(2,126,429)	77,699,765
Accum other comprehensive income	(1,179,611)				(1,179,611)
Minority interests and other equities	4,537,443	661,195		2,656	5,201,294
	82,356,952	2,644,780	2,644,759	(4,625,688)	83,020,803
Long Term Debt	131,632,209		60,437		131,692,646
Accumulated Postretirement Benefits	8,512,796				8,512,796
Current Liabilities:					
Accounts payable	8,047,781	390	124,944	(156)	8,172,959
Short term borrowings	7,800,000		712,694		8,512,694
Current portion of long term debt	5,950,000		95,000		6,045,000
Consumer deposits	805,304				805,304
Accrued expenses	3,268,895				3,268,895
	25,871,980	390	932,638	(156)	26,804,852
Consumer Advances for Construction	357,397				357,397
Total	$248,731,334	$2,645,170	$3,637,834	($4,625,844)	$250,388,494

The accompanying notes are an integral part of these statements.

Consolidating Statement of Revenue and Comprehensive Income

for the year ended February 28, 2014

	Energy	Services	Propane	Eliminations	Consolidated
Operating Revenues	$106,527,764		$3,976,448	($28,756)	$110,475,456
Operating Expenses:					
Cost of purchases	71,825,777		1,988,489		73,814,266
Distribution - operations and maintenance	10,392,731		948,427		11,341,158
Consumer accounts	3,271,001		218,627		3,489,628
Customer service and information	754,245		70,145		824,390
Administrative and general	4,725,388	5,511	128,794	(28,756)	4,830,937
Depreciation, excluding $601,009 charged to clearing accounts	8,700,225		216,531		8,916,756
Amortization of deferred property retirements	470,772				470,772
Taxes	117,963	50,726	27,221		195,910
Other	51,984				51,984
	100,310,086	56,237	3,598,234	(28,756)	103,935,801
Operating Margins before Interest Charges	6,217,678	(56,237)	378,214		6,539,655
Interest Charges:					
Interest on long term debt	5,164,986		41,957		5,206,943
Other interest	88,470				88,470
	5,253,456		41,957		5,295,413
Operating Margins after Interest Charges	964,222	(56,237)	336,257		1,244,242
Nonoperating Margins:					
Interest income	164,523		197		164,720
Subsidiary and others	331,020	344,468	8,014	(632,699)	50,803
	495,543	344,468	8,211	(632,699)	215,523
Patronage Capital, associated organizations	5,952,498				5,952,498
Net Margins	7,412,263	288,231	344,468	(632,699)	7,412,263
Other Comprehensive Income:					
Postretirement benefits	201,600				201,600
Noncontrolling interests		(72,058)			(72,058)
Total Comprehensive Income	$7,613,863	$216,173	$344,468	($632,699)	$7,541,805

The accompanying notes are an integral part of these statements.

Consolidating Statement of Cash Flows

for the year ended February 28, 2014

	Energy	Services	Propane	Eliminations	Consolidated
Cash Flows from Operating Activities:					
Net margins	$7,412,263	$288,231	$344,468	($632,699)	$7,412,263
Adjustments to reconcile to net cash provided by operating activities:					
Depreciation and amortization					
Charged to expense	9,170,997		216,531		9,387,528
Charged to clearing accounts	601,009				601,009
Patronage capital credits	(5,952,498)				(5,952,498)
(Profit) or loss in subsidiary	(216,173)	(344,468)		560,641	-
Accumulated postretirement benefits	473,886				473,886
Change in assets and liabilities:					
Receivables	(1,046,216)		(56,921)	39	(1,103,098)
Material and supplies	31,124		(9,713)		21,411
Prepayments and deferred debits	(6,292,361)		(700)		(6,293,061)
Payables	(350,796)	149	(123,672)	(39)	(474,358)
Consumer deposits and advances	(202,685)				(202,685)
Accrued expenses	153,562				153,562
	3,782,112	(56,088)	369,993	(72,058)	4,023,959
Cash Flows from Investing Activities:					
Plant additions	(9,618,168)		(324,457)		(9,942,625)
Plant removal costs	(1,341,799)				(1,341,799)
Salvage recovered from plant	85,167				85,167
Other investments, net	(639,307)				(639,307)
	(11,514,107)		(324,457)		(11,838,564)
Cash Flows from Financing Activities:					
Memberships, capital and other equities	(12,938)	53,408		72,058	112,528
Retirement of patronage capital	(436,255)	4,677	-		(431,578)
Long term advances	8,000,000				8,000,000
Payments on long term debt	(5,781,302)		(94,744)		(5,876,046)
Short term borrowings (repayments)	6,800,000		2,412		6,802,412
	8,569,505	58,085	(92,332)	72,058	8,607,316
Net increase in cash	837,510	1,997	(46,796)		792,711
Cash and cash equivalents - beginning of period	2,037,118	1,070	166,060		2,204,248
Cash and cash equivalents - end of period	$2,874,628	$3,067	$119,264		$2,996,959
Supplemental cash flows information:					
Interest paid on long term debt	$5,178,233		$41,957		$5,220,190
Income taxes paid		$50,726			$50,726

The accompanying notes are an integral part of these statements.

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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*

To the Board of Directors
Jackson Energy Cooperative

I have audited, in accordance with the 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, the consolidated financial statements of Jackson Energy Cooperative and Subsidiary, which comprise the balance sheets as of February 28, 2014 and 2013, and the related statements of revenue and comprehensive income, members' equities and cash flows for the years then ended, and related notes to the financial statements, and have issued my report thereon dated June 5, 2014.

Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing my audit, I considered Jackson Energy'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 Jackson Energy's internal control over financial reporting. Accordingly, I do no express an opinion on the effectiveness of Jackson Energy'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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My 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. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Jackson Energy'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*.

Purpose of this Report

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
June 5, 2014

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Independent Auditor's Report on Compliance with Aspects of Contractual Agreements and Regulatory Requirements for Electric Borrowers

Board of Directors
Jackson Energy Cooperative

Independent Auditor's Report

I have audited, 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, the financial statements of Jackson Energy Cooperative ("the Cooperative"), which comprise the balance sheet as of February 28, 2014, and the related statements of revenue and comprehensive income, patronage capital, and changes in cash flows for the year then ended, and the related notes to the financial statements, and have issued my report thereon dated June 5, 2014. In accordance with *Government Auditing Standards*, we have also issued my report dated June 5, 2014, on my consideration of the Cooperative's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above and my schedule of findings and recommendations related to my audit have been furnished to management.

In connection with my audit, nothing came to my attention that caused me to believe that the Cooperative failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers,* §1773.33 and clarified in the RUS policy memorandum dated February 7, 2014, insofar as they relate to accounting matters as enumerated below. However, my audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had I performed additional procedures, other matters may have come to my attention regarding the Cooperative's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with my audit, I noted no matters regarding the Cooperative's accounting and records to indicate that the Cooperative did not:

- Maintain adequate and effective accounting procedures;
- Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;
- Reconcile continuing property records to the controlling general ledger plant accounts;
- Clear construction accounts and accrue depreciation on completed construction;
- Record and properly price the retirement of plant;

- Seek approval of the sale, lease, or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;
- Maintain adequate control over material and supplies;
- Prepare accurate and timely Financial and Operating Reports;
- Obtain written RUS approval to enter into any contract for the management, operation, or maintenance of the borrower's system if the contract covers all or substantially all of the electric system;
- Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;
- Record depreciation in accordance with RUS requirements ("See RUS Bulletin 183-1, Depreciation Rates and Procedures");
- Comply with the requirements for the detailed schedule of deferred debits and deferred credits; and
- Comply with the requirements for the detailed schedule of investments.

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. However, this report is a matter of public record and its distributions is not limited.

Alan Zumstein

Alan M. Zumstein, CPA
June 5, 2014

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To the Board of Directors
Jackson Energy Cooperative

I have audited the consolidated financial statements of Jackson Energy Cooperative and Subsidiary for the year ended February 28, 2014, and have issued my report thereon dated June 5, 2014. 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, 2013, 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 June 5, 2014, or summary of recommendations related to my audit have been furnished to management.

To the Board of Directors
Jackson Energy Cooperative – 2

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, 2014, 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, 2013.

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, 2013, 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, 2014, 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	$6,002,349
Past service pension benefits	1,893,249
Accelerated pension benefit payment	6,335,211
	$14,230,809

The deferred credits are as follows:

Consumer advances for construction	$357,397

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	$423,412
Activity for 2014		216,173
Ending balance	$1,344,000	$639,585

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
June 5, 2014