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Moon Lake Electric Association, Inc.

Financial Statements

For the Years Ended December 31, 2007 and 2006

Moon Lake Electric Association, Inc.

Financial Statements

For the years ending December 31, 2007 and 2006

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AYCOCK, MILES & ASSOCIATES, CPAs, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditors' Report

To the Board of Directors
Moon Lake Electric Association, Inc.
Roosevelt, Utah

We have audited the accompanying balance sheet of the Moon Lake Electric Association, Inc. (Association) as of December 31, 2007 and 2006 and the related statements of revenue and patronage capital and cash flows for the years then ended. The financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the balance sheet of the Moon Lake Electric Association, Inc. as of December 31, 2007 and 2006, and the results of its operating income and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Aycock, Miles & Associates, CPAs

Roosevelt, Utah
March 18, 2008

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Moon Lake Electric Association, Inc.

Balance Sheet

December 31, 2007 and 2006

	2007	2006
Assets		
Utility plant:		
Electric plant in service, at cost	$ 97,137,529	$ 89,983,411
Construction work in progress	877,113	2,111,398
Non-utility plant, at cost	388,766	388,766
Total utility plant, at cost	98,403,408	92,483,575
Less accumulated depreciation	(44,428,583)	(42,543,044)
Net utility plant	53,974,825	49,940,531
Investments, at cost	2,357,379	2,299,054
Current assets:		
Cash and cash equivalents	9,371,799	8,532,129
Notes and accounts receivable less allowances for doubtful accounts of $136,659 in 2007 and $152,732 in 2006	4,834,219	4,310,753
Accounts receivable, other	2,425,392	2,514,637
Contracts receivable	129,468	225,126
Material and supplies, at average cost	2,675,844	2,445,629
Prepayments	109,838	104,161
Total current assets	19,546,560	18,132,435
Total assets and other debits	$ 75,878,764	$ 70,372,020
Liabilities and Equity		
Equities and margins:		
Patronage capital	$ 60,271,969	$ 55,987,986
Long-term liabilities:		
CFC mortgage notes	2,385,078	2,609,981
Capital lease obligations	560,952	603,435
Accumulated retirement benefit obligation	1,246,300	1,172,100
Total long-term liabilities	4,192,330	4,385,516
Current liabilities:		
Current portion of long-term debt	224,903	211,654
Current obligation of capital leases	42,484	40,239
Accounts payable, power	7,496,870	6,596,008
Accounts payable, other	806,796	507,383
Customer deposits	335,985	319,035
Accrued payroll & payroll liabilities	452,421	401,366
Accrued vacation, sick & holiday	1,545,869	1,500,682
Accrued interest	12,488	13,501
Other current liabilities	223,609	163,176
Total current liabilities	11,141,425	9,753,044
Deferred credits	273,040	245,474
Total liabilities and other credits	$ 75,878,764	$ 70,372,020

Moon Lake Electric Association, Inc.

Statement of Revenues and Patronage Capital

For the years ending December 31, 2007 and 2006

	2007	2006
Operating revenue	$ 58,939,797	$ 52,553,282
Cost of electric service:		
Power production expense	353,064	416,187
Purchased power	42,119,081	35,853,385
Transmission expense	759,810	1,064,601
Distribution--operation	3,528,969	2,836,462
Distribution--maintenance	1,467,490	1,701,468
Consumer accounts expense	824,215	803,718
Customer services and sales	55,880	57,362
Administrative and general	2,370,223	2,437,343
Depreciation and amortization	2,749,656	2,580,043
Taxes	447,167	454,121
Interest on long-term debt	156,493	167,776
Other deductions	63,607	68,211
Total cost of electric service	54,895,655	48,440,677
Operating margins	4,044,142	4,112,605
Non-operating margins:		
Interest income	652,959	613,464
Other income (expense)	21,060	(10,434)
Total non-operating margins	674,019	603,030
Other capital credits:		
Patronage allocations	618,184	218,512
Net margin for the year	5,336,345	4,934,147
Patronage capital, beginning of year	55,987,986	51,111,692
Retirement of capital credits	(1,052,362)	(57,853)
Patronage capital, end of year	$ 60,271,969	$ 55,987,986

Moon Lake Electric Association, Inc.

Statement of Cash Flows

For the years ending December 31, 2007 and 2006

	2007	2006
Cash from operating activities:		
Cash received from consumers	$ 59,219,418	$ 52,391,714
Cash paid for power	(41,218,219)	(35,700,785)
Cash paid to vendors and suppliers	(1,867,712)	(3,056,052)
Cash paid to employees for wages and benefits	(7,141,747)	(6,108,153)
Interest received	652,959	613,464
Interest paid	(157,506)	(169,211)
Net cash from operating activities	9,487,193	7,970,977
Cash from investing activities:		
Construction and acquisition of plant	(6,872,515)	(6,308,675)
Proceeds from retirement	47,893	34,188
Plant removal costs	(343,844)	(921,869)
Materials salvaged from retirement	69,222	75,299
(Increase) or decrease in:		
Materials inventory	(230,215)	(544,152)
Investments in associated organizations	(58,325)	(174,191)
Change in deferred credits	27,566	30,090
Net cash from investing activities	(7,360,218)	(7,809,310)
Cash from financing activities:		
Patronage retirements	(1,052,362)	(57,853)
Long-term debt paid	(211,654)	(199,184)
Capital lease principal paid	(40,239)	(38,113)
Customer deposits, net	16,950	48,685
Net cash from financing activities	(1,287,305)	(246,465)
Net cash increase (decrease)	839,670	(84,798)
Cash and cash equivalents, beginning of year	8,532,129	8,616,927
Cash and cash equivalents, end of year	$ 9,371,799	$ 8,532,129
Reconciliation of net cash provided by operating activities:		
Net margin for the year	$ 5,336,345	$ 4,934,147
Add items not requiring cash:		
Depreciation and amortization	2,749,656	2,580,043
Allocated depreciation for transportation assets	336,360	314,407
Accumulated post-retirement benefit obligation	74,200	56,000
(Gain) or loss on retirement of plant	(21,065)	8,993
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	(338,563)	(380,080)
(Increase) in prepaid expenses	(5,677)	(37,402)
Increase (decrease) in accounts payable, etc.	1,355,937	494,869
Net cash from operating activities	$ 9,487,193	$ 7,970,977

Moon Lake Electric Association, Inc.
Notes to Financial Statements
For the years ending December 31, 2007 and 2006

Note 1 Summary of Accounting Policies
This note describes various significant accounting policies related to the Moon Lake Electric Association, Inc. (the Association) financial statement presentation. Some accounting policies are presented with the applicable note disclosure item.

Nature of Operations and Income Taxes—The Association is a non-profit corporation (see additional discussion in Note 2) organized to provide retail electric service to residential and commercial accounts in a designated service area. The Association provides electric services to sections of northeastern Utah and northwestern Colorado. Power delivered at retail is purchased wholesale from Deseret Power (see additional discussion in Note 10). The is exempt from federal and state income taxes. The Association pays property taxes as required by local laws.

System of Accounts—The Association's accounting records are maintained in accordance with the Uniform System of Accounts as prescribed by the Federal Energy Regulatory Commission.

Electric Plant, Maintenance and Depreciation—The electric plant is stated at the original cost of construction which includes the cost of contracted services, direct labor, materials and overhead items less contributions from others toward the construction of the electric plant. All additions and retirements of plant are recorded by means of job orders. Provision is made for depreciation on a straight-line basis. The Public Service Commission of the State wherein the property is located is informed of the depreciation rates used (see Note 5 for depreciation detail).

When property which represents a retirement unit is replaced or removed, the average cost of such property as determined from the continuing property records is credited to electric plant and such cost, together with costs of removal less salvage, is charged to the accumulated provision for depreciation.

Maintenance and repairs, including the renewal of minor items of plant not comprising a retirement unit, are charged to the appropriate maintenance accounts, except that repairs of transportation and service equipment are charged to clearing accounts and redistributed to operation expenses and other accounts.

Electric Revenues—Operating revenues are generated through rates established by the Association's Board of Directors. Electric revenue is recorded as it is billed to customers on a cyclical monthly basis. Large power users are billed at month-end. Revenue related to power delivered to residential users which are on prior to month-end billing cycles but not billed at month-end is not material and is not accrued.

Trade Receivables and Allowance for Doubtful Accounts—Customer billing statements are mailed monthly. Customer bills are due 25 days following the billing date. Meter disconnection begins for customers two months overdue. Three months after disconnection and various collection efforts, accounts are written off on a case by case basis. Once an account is written off, the customer balance is forwarded to a collection agency. Although balances are written off, receivable balances are maintained indefinitely for possible payment if a customer attempts to reconnect in the future.

Concentration of Revenue and Accounts Receivable Risk—The Association provides electric power service in northeastern Utah and northwestern Colorado and substantially all of its accounts receivable are due from individuals, business and industries in that geographic area. A service deposit is required as collateral when it is deemed necessary and a monthly review is made of all past due accounts. Accounts receivable are only written off about three to fourth months after disconnection and collection efforts. Credit losses consistently have been within management's expectation. The oil and gas industry is the major, prevalent industrial and large power user in the Association's boundaries. Approximately 79.0% of total revenues and receivables are industrial and large powers users compared to 78.2% during the previous year.

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

Cash and Cash Equivalents—For purposes of the statement of cash flows, all highly liquid debt instruments purchased with a maturity of three months or less or which are subject to demand liquidation are considered to be cash equivalents.

Inventory—Materials held in inventory are accounted for using the average cost method. Obsolete inventory items are written off as considered necessary.

Income Tax—The Association is a regulated cooperative non-profit association that is exempt from federal and state income taxes. The Association pays property taxes as required by local laws.

Note 2 Patronage Capital

The Association is a non-stock cooperative organized to provide electric energy to its patrons. All revenues from the sale of electric energy which exceed the costs of providing such energy are considered capital contributions and are credited to patrons capital accounts based upon their total patronage. Margins received from sale of goods or services other than electric energy are non-operating and are credited to patron accounts after losses are recovered. Operating losses are not allocated to patrons. These capital accounts are payable to patrons or their successors only at the discretion of the Board of Directors with permission of regulatory bodies, provided, however, that the financial condition of the Association is not impaired.

Patronage Capital Credit Summary	2007	2006
Patronage capital assignable for year	$ 5,336,345	$ 4,934,147
Patronage capital assigned previous years	85,962,172	81,028,025
Total patronage received	91,298,517	85,962,172
Less retirements of patronage for year	(1,052,362)	(57,853)
Less retirements of patronage previous years	(29,974,186)	(29,916,333)
Net patronage capital retained	$ 60,271,969	$ 55,987,986

Note 3 Investments

The Association has the following investments at December 31, 2007.

Investment	2007	2006
Capital term certificates--NRUCFC:		
5% interest, maturities 2070-2080	$ 1,153,182	$ 1,153,182
3% interest, maturities 2020-30	261,850	261,850
Noninterest bearing, maturities to 2019	45,667	47,980
Patronage capital credits:		
NRUCFC	380,544	394,370
WUESC	516,136	441,672
Total investments	$ 2,357,379	$ 2,299,054

Note 4 Cash and Cash Equivalents

All cash and temporary cash investments may be liquidated on demand. Cash and cash equivalents consist of cash on hand and in checking accounts, repurchase agreement (sweep) accounts, certificates of deposit, mutual and money market funds, and bonds, at market. The carrying amounts for cash and cash equivalents, which amount to approximate fair market value, were $9,371,799 at December 31, 2007 and $8,532,129 at December 31, 2006. Significant concentrations of deposits exceed federally insured deposits limits. The repurchase agreements hold highly rated bonds, government securities, etc. for the collateral on those accounts.

Note 5 Electric Plant

Total depreciation expense for the year ending December 31, 2007 was $3,064,063 ($314,407 was allocated to functional expense categories). Depreciation is calculated on the straight-line basis using the rates disclosed below. Major classes of electric plant at December 31 are as follows:

Assets at Historical Cost	2007	2006
Generation plant--hydraulic	$ 1,889,765	$ 1,889,765
Transmission plant	15,835,464	12,946,230
Distribution plant	68,349,801	64,574,613
General plant	11,062,499	10,572,803
Total plant in service	97,137,529	89,983,411
Construction work in progress	877,113	2,111,398
Non-utility plant	388,766	388,766
Total plant	$ 98,403,408	$ 92,483,575
Accumulated depreciation	$ (44,428,583)	$ (42,543,044)

Depreciation rates	Utah	Colorado
Transmission plant, annual composite rate	2.75%	2.75%
Distribution plant, annual composite rate	3.00%	3.00%
General plant rates:		
Structures and improvements	2.47%	2.46%
Office furniture	14.42%	6.05%
Tranportation equipment	11.99%	11.35%
Stores equipment	9.69%	1.60%
Tools, shop and garage equipment	9.60%	7.34%
Laboratory equipment	14.44%	8.40%
Power operated equipment	7.70%	4.69%
Communication equipment	7.39%	9.28%
Miscellaneous equipment	8.77%	2.38%

Note 6 Deferred Credits

Unclaimed patronage is retained for the assistance of low-income consumers as provided by Utah Uniform Property Act. The amounts retained at year-end December 31, 2007 and 2006 are $273,040 and $245,474, respectively.

Note 7 Capital Lease

The Association has a non-cancelable 35 year lease on a substation which expires September, 2018. Minimum rentals have been capitalized at present value at the inception of the lease and the obligation for such amount is recorded as a liability. Amortization is computed on a straight-line basis over the lease term and interest expense is recorded on the basis of the outstanding lease obligation. The following is an analysis of the property under capital lease.

Capital lease	2007	2006
Transmission plant in service	$ 1,160,902	$ 1,160,902
Less accumulated depreciation	(769,180)	(737,255)
Net	$ 391,722	$ 423,647

Schedule of future minimum lease payments and present value of the net minimum lease payments:

Year Due	Payments
2008	$ 110,094
2009	110,094
2010	110,094
2011	110,094
2012	110,094
2013 and later	633,033
Total minimum lease payments	1,183,503
Less executory costs	(385,291)
Net minimum lease payments	798,212
Less amount representing interest (a)	(194,777)
Present value of net minimum lease payements (b)	$ 603,435

(a) Amount necessary to reduce net minimum lease payments to present value calculated at the Association's incremental borrowing rate at the inception of the lease.

(b) Reflected in the balance sheet as current and non-current obligations under capital leases of $42,484 and $560,952, respectively.

Note 8 Long-term Debt
Mortgage notes are payable to National Rural Utilities Cooperative Finance Corporation (CFC) and are secured by substantially all of the Association's assets. There is an unadvanced revolving line of credit with CFC in the amount of $6,500,000 and an unadvanced CFC loan in the amount of $10,000,000.

CFC Notes Payable	2007	2006	Repayment Schedule Year	Amount
Interest rate at 6.05%, maturity 2014	$ 589,905	$ 655,708	2008	$ 224,903
Interest rate at 6.05%, maturity 2019	864,197	913,335	2009	238,985
Interest rate at 6.2%, maturity 2016	795,793	862,377	2010	253,946
Interest rate at 6.2%, maturity 2016	360,086	390,215	2011	269,845
Total long-term debt	2,609,981	2,821,635	2012	$ 286,738
Current maturities	(224,903)	(211,654)		
Long-term debt due after one year	$ 2,385,078	$ 2,609,981		

Note 9 Pension and Postretirement Benefits
The Association provides pension and other postretirement benefits to its employees. Retirement and insurance benefits are provided through NRECA Retirement Program for all full-time employees 21 years of age or older with at least one year of employment with the Association. There are two types of pension plans and a postretirement health care benefit plan.

(a) *Defined Benefit Plan*—Pension benefits are provided through NRECA's Retirement and Security Plan, a multiemployer defined benefit pension plan, designed to provide employees a certain benefit level upon retirement. The benefit level is 1.2% multiplied by the highest five years salary average multiplied by the years of service. The Association recognized expense related to the plan in 2007 and 2006 of $487,220 and $408,573, respectively, representing full service costs. All past service costs have been fully funded. Information relating to the accumulated plan benefits, benefits paid, and plan net assets is not determinable. The expected contribution for the year 2008 is $500,000 with inflationary growth each year.

(b) *Defined Contribution Plan*—A savings plan is provided wherein participating employees contribute a minimum of 3.0% of compensation with the Association contributing 7.0% of compensation. This is a defined contribution plan. Expense related to this plan for 2007 and 2006 was $300,426 and $267,971, respectively. The expected contribution for the year 2008 is $320,000.

(c) *Defined Benefit Postretirement Plan*—The Association also sponsors a defined benefit postretirement plan covering both salaried and non-salaried employees. The plan provides health care benefits for employees until Medicare coverage starts; hence, there is no effect on the plan by provisions of the Medicare Modernization Act passed December 8, 2003. To be eligible, 1) employees hired before May 2, 2007 must have at least 10 years of service and be over age 55 when they retire or 2) employees hired after May 1, 2007 must have at least 20 years of service and be over age 55 when they retire. SFAS 106 was adopted January 1, 1993. No policy has been formulated for funding the plan. A 7.5 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 2004; the rate was assumed to decrease gradually to 5.5% per year by 2009 and maintain that level thereafter.

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Benefits Obligation, Fair Value of Assets and Funded Status

	Pension Benefits		Other Benefits	
	2007	2006	2007	2006
Benefit obligation	$ -	$ -	$ (1,246,300)	$ (1,172,100)
Fair value of plan assets	-	-	-	-
Funded status (see letter (a) in disclosure above)	(a)	(a)	(1,246,300)	(1,172,100)
Contributions and benefits payable:				
Employer contributions	787,646	676,544	-	-
Participant contributions	(a)	(a)	-	-
Benefit payments	(a)	(a)	(55,400)	(73,200)
Amounts recognized in balance sheet:				
Prepaid benefit cost	-	-	-	-
Accrued benefit liability	-	-	(1,246,300)	(1,172,100)
Net amount recognized	-	-	(1,246,300)	(1,172,100)
Net periodic benefits cost:				
Net periodic benefits cost	787,646	676,544	129,600	129,200
Net periodic benefits cost after curtailments and settlements	$ 787,646	$ 676,544	$ 129,600	$ 129,200
Assumptions:				
Discount rate	n/a	n/a	6.00%	5.50%

The following other benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Year	Amount
2008	$ 48,400
2009	77,300
2010	96,100
2011	115,000
2012	108,300
2013-17	$ 560,400

Note 10 Contingencies and Commitments

Deseret Power Contract—The Association is a member of Deseret Power, an electric generation and transmission cooperative (for additional information see Note 1). In 1996, as part of Deseret Power's financial restructuring, the Association entered into a Wholesale Power Contract with Deseret whereby all of the Association's owned power resources have been pooled with Deseret and all of the Association's power requirements are purchased from these pooled resources. During 2007 and 2006, the Association paid Deseret $42,119,081 and $35,853,385, respectively.

Intermountain Power Agency Agreement—Under the terms of a power sales contract wit the Intermountain Power Agency, the Association has contracted to receive up to a 2.0% share of the total power output from the I.P.P. project and has joined with other Utah municipal and cooperative electric suppliers and entered into a joint contract with various California cities (Burbank, Glendale, Pasadena, and Los Angeles) to purchase the excess power not used by the Utah suppliers. The Excess Power Sales Agreement is to remain in force for the duration of the original Power Sales Agreement, providing that there is, in fact, an excess power availability beyond the needs of the Utah suppliers. The Association would be responsible, in the event of a shutdown of the I.P.P. plant, for 2% of the debt service associated with the plant as well as 2% of the maintenance of the facility. This responsibility would be effective two years after such a shutdown.

AYCOCK, MILES & ASSOCIATES, CPAs, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Supplemental Letter

Board of Directors
Moon Lake Electric Association, Inc.
Roosevelt, Utah

We have audited the financial statements of Moon Lake Electric Association, Inc. (the Association) for the year ended December 31, 2007, and have issued our report thereon dated March 18, 2008. We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. In planning and performing our audit of the financial statements of the Association for the year ended December 31, 2007, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structures.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities 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. However, we noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above. Also, we noted no matters regarding the Association's internal control structure and its operation that we consider to be a material weakness as previously defined with respect to the following.

- The accounting procedures and records,
- The process for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts, and the procedures for materials control,
- The reconciliation of subsidiary plant records to the controlling general ledger plant accounts,
- The clearing of the construction accounts and the accrual of depreciation on completed construction, and
- The retirement of plant, and the sales of plant, material, or scrap.

Auditors' Certification Regarding Loan Fund Expenditures
During the period of this review, the Association received no advances of long-term loan funds from CFC on loans controlled by the CFC's Mortgage and Loan Agreement.

This report is intended solely for the information and use of the board of directors, management, and long-term lenders. However, this report is a matter of public record and its distribution is not limited.

Aycock, Miles & Associates, CPAs

Roosevelt, Utah
March 18, 2008

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