Moon Lake Electric Association, Inc.

Financial Statements

For the years ending December 31, 2012 and 2011

Table of Contents

Aycock, Miles & Associates, CPAs, P.C.

Certified Public Accountants

58 East 100 North (83-13) • Roosevelt, Utah 84066 • Phone (435) 722-5153 • Fax (435) 722-5095

Independent Auditors' Report

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

We have audited the accompanying financial statements of Moon Lake Electric Association, Inc., which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of revenues and expenses, patronage capital, 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.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 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 Association'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 Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Moon Lake Electric Association, Inc. as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Aycock, Miles & Associates, CPAs

Roosevelt, Utah
May 6, 2013

Moon Lake Electric Association, Inc.

Balance Sheet

December 31, 2012 and 2011

	2012	2011
Assets		
Utility plant:		
Electric plant in service, at cost	$ 126,808,320	$ 124,381,633
Construction in progress less contributed aid payments	580,420	360,068
Non-utility plant, at cost	-	-
Total utility plant, at cost	127,388,740	124,741,701
Less accumulated depreciation	(55,624,768)	(52,469,513)
Net utility plant	71,763,972	72,272,188
Investments, at cost	2,876,982	2,783,132
Current assets:		
Cash and cash equivalents	12,681,093	10,051,812
Investments	4,000,000	3,000,000
Notes and accounts receivable less allowances for doubtful accounts of $47,025 in 2012 and $46,342 in 2011	5,226,825	5,058,456
Accounts receivable, other	981,246	3,201,133
Contracts receivable	30,382	273,325
Material and supplies, at average cost	4,365,640	2,939,804
Prepayments	135,693	145,906
Total current assets	27,420,879	24,670,436
Total assets and other debits	$ 102,061,833	$ 99,725,756
Liabilities and Equity		
Equities and margins:		
Patronage capital	$ 77,992,385	$ 76,231,867
Accumulated other comprehensive income	(2,304,800)	(2,212,000)
Total equity	75,687,585	74,019,867
Long-term liabilities:		
CFC mortgage notes	10,549,222	10,980,716
Capital lease obligations	310,235	365,964
Accumulated retirement benefit obligation	2,304,800	2,212,000
Total long-term liabilities	13,164,257	13,558,680
Current liabilities:		
Current portion of long-term debt	431,494	404,809
Current obligation of capital leases	55,729	52,785
Accounts payable, power	9,060,630	7,996,405
Accounts payable, other	298,174	404,160
Customer deposits	364,675	321,435
Accrued payroll & payroll liabilities	673,462	694,124
Accrued vacation, sick & holiday	1,579,466	1,638,565
Accrued interest	61,073	63,500
Other current liabilities	438,710	363,788
Total current liabilities	12,963,413	11,939,571
Deferred credits	246,578	207,638
Total equity, liabilities and other credits	$ 102,061,833	$ 99,725,756

Moon Lake Electric Association, Inc.

Statement of Revenues and Patronage Capital

For the years ending December 31, 2012 and 2011

	2012	2011
Operating revenue	$ 65,559,618	$ 62,983,833
Cost of electric service:		
Power production expense	369,101	359,802
Purchased power	46,939,815	44,111,503
Transmission expense	916,624	345,034
Distribution--operation	4,112,492	4,251,052
Distribution--maintenance	1,765,747	2,633,012
Consumer accounts expense	1,043,084	1,031,561
Customer services and sales	69,206	56,031
Administrative and general	2,487,847	2,734,518
Depreciation and amortization	3,806,269	3,764,503
Taxes	599,663	527,378
Interest on long-term debt	747,959	768,571
Other deductions	77,549	68,945
Total cost of electric service	62,935,356	60,651,910
Operating margins	2,624,262	2,331,923
Non-operating margins:		
Interest income	149,283	168,961
Other income (expense)	(2,260)	228
Total non-operating margins	147,023	169,189
Other capital credits:		
Patronage allocations	1,346,327	749,755
Net margin for the year	4,117,612	3,250,867
Other comprehensive income:		
Post retirement health benefit plan loss	(429,400)	-
Net margin after comprehensive income	3,688,212	3,250,867
Patronage capital, beginning of year	74,019,867	71,781,353
Retirement of capital credits	(2,020,494)	(1,012,353)
Patronage capital, end of year	$ 75,687,585	$ 74,019,867

Moon Lake Electric Association, Inc.

Statement of Cash Flows

For the years ending December 31, 2012 and 2011

	2012	2011
Cash from operating activities:		
Cash received from consumers	$ 69,200,406	$ 62,972,779
Cash paid for power	(45,875,590)	(43,688,829)
Cash paid to vendors and suppliers	(1,302,312)	(1,467,436)
Cash paid to employees for wages and benefits	(10,072,318)	(9,843,282)
Interest received	149,283	168,961
Interest paid	(750,386)	(773,953)
Net cash from operating activities	11,349,083	7,368,240
Cash from investing activities:		
Construction and acquisition of plant	(3,338,203)	(2,992,363)
Proceeds from retirement	(420,527)	(113,657)
Plant removal costs	(112,369)	(97,518)
Materials salvaged from retirement	66,891	55,489
(Increase) or decrease in:		
Materials inventory	(1,425,836)	(374,970)
Investments in associated organizations	(93,850)	(56,964)
Change in deferred credits	38,940	2,281
Net cash from investing activities	(5,284,954)	(3,577,702)
Cash from financing activities:		
Patronage retirements	(2,020,494)	(1,012,353)
Long-term debt change	(404,809)	(379,784)
Capital lease principal paid	(52,785)	(49,996)
Customer deposits, net	43,240	(13,115)
Net cash from financing activities	(2,434,848)	(1,455,248)
Net cash increase (decrease)	3,629,281	2,335,290
Cash and cash equivalents, beginning of year	13,051,812	10,716,522
Cash and cash equivalents, end of year	$ 16,681,093	$ 13,051,812
Reconciliation of net cash provided by operating activities:		
Net margin for the year	$ 3,688,212	$ 3,250,867
Add items not requiring cash:		
Depreciation and amortization	3,806,269	3,764,503
Allocated depreciation for transportation assets	504,579	462,048
Accumulated post-retirement benefit obligation	92,800	145,700
(Gain) or loss on retirement of plant	1,576	(22,040)
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	2,294,461	(760,809)
(Increase) in prepaid expenses	10,213	(30,373)
Increase (decrease) in accounts payable, etc.	950,973	558,344
Net cash from operating activities	$ 11,349,083	$ 7,368,240

Moon Lake Electric Association, Inc.
Notes to Financial Statements
For the years ending December 31, 2012 and 2011

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—The Cooperative 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).

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, businesses 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 77.9% of total revenues and receivables are derived from industrial and large power users compared to 77.7% 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 regarding 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.

Date of Subsequent Event Evaluation—Moon Lake Electric's subsequent events have been evaluated through the date of financial issuance of May 6, 2013.

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	2012	2011
Patronage capital assignable for year	$ 3,688,212	$ 3,250,867
Patronage capital assigned previous years	106,069,512	102,818,645
Total patronage received	109,757,724	106,069,512
Less retirements of patronage for year	(2,020,494)	(1,012,353)
Less retirements of patronage previous years	(32,049,645)	(31,037,292)
Net patronage capital retained	$ 75,687,585	$ 74,019,867

Moon Lake Electric Association, Inc.
Notes to Financial Statements
For the years ending December 31, 2012 and 2011

Note 3 Long-term Investments
The Association has the following investments at December 31, 2012 and 2011.

Investment	2012	2011
Capital term certificates--NRUCFC:		
5% interest, maturities 2070-2080	$ 1,153,182	$ 1,153,182
3% interest, maturities 2020-30	261,850	296,738
0% interest, maturity 2019	31,765	-
Patronage capital credits:		
NRUCFC	486,743	455,089
WUESC	943,442	878,123
Total investments	$ 2,876,982	$ 2,783,132

Note 4 Cash and Investments, Concentrations
Cash Equivalents—Cash and temporary cash investments may be liquidated on demand. Cash and cash equivalents consist of cash on hand, demand deposits, sweep repurchase agreement 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 $12,681,093 at December 31, 2012 and $10,051,812 at December 31, 2011. Significant concentrations of deposits exceed federally insured deposit limits. The repurchase agreements hold highly rated bonds, government securities, etc. for the collateral on those accounts.

Investments—The Association, at December 31, 2012 and 2011, had $4,000,000 and $3,000,000, respectively, medium-term notes receivable with National Rural Utility Cooperative Finance Corporation. These notes are uninsured and mature in 12 months before the following year-end.

Note 5 Electric Plant
Total depreciation expense for the year ending December 31, 2012 was $3,806,269 ($504,579 was allocated to transportation expense category). 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	2012	2011
Generation plant--hydraulic	$ 1,893,262	$ 1,893,262
Transmission plant	22,396,911	22,335,192
Distribution plant	78,814,236	76,841,785
General plant	23,703,911	23,311,394
Total plant in service	126,808,320	124,381,633
Construction in progress less contributed aid	580,420	360,068
Non-utility plant	-	-
Total plant	$ 127,388,740	$ 124,741,701
Accumulated depreciation	$ (55,624,768)	$ (52,469,513)

Moon Lake Electric Association, Inc.
Notes to Financial Statements
For the years ending December 31, 2012 and 2011

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 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 historical cost of transmission plant property under capital lease is $1,160,902 and accumulated depreciation on those assets for years 2012 and 2011 were $928,805 and $896,880. Schedule of future minimum lease payments and present value of the net minimum lease payments:

Year Due	Payments
2013	$ 110,094
2014	110,094
2015	110,094
2016	110,094
2017	110,094
2018 and later	82,566
Total minimum lease payments	633,036
Less executory costs	(206,086)
Net minimum lease payments	426,950
Less amount representing interest (a)	(60,986)
Present value of net minimum lease payements (b)	$ 365,964

(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 $55,729 and $310,235, respectively.

Note 7 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, 2012 and 2011 are $246,578 and $207,638, respectively.

Note 8 Long-term Debts
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.

CFC Notes Payable	2012	2011
Interest rate at 6.05%, matures Dec. 2014	$ 194,526	$ 283,371
Interest rate at 6.05%, matures Sep. 2019	568,947	635,291
Interest rate at 6.2%, matures Sep. 2016	393,871	484,438
Interest rate at 6.2%, matures Sep. 2016	178,221	219,202
Interest rate at 7.2%, matures May 2039	9,645,151	9,763,223
Total long-term debt	10,980,716	11,385,525
Current maturities	(431,494)	(404,809)
Long-term debt due after one year	$ 10,549,222	$ 10,980,716

Repayment Schedule	
Year	Amount
2013	$ 431,494
2014	459,949
2015	383,911
2016	366,646
2017	258,272

Note 9 Pension and Postretirement Benefits
Retirement and post-retirement insurance benefits are provided through National Rural Electric Cooperative Association's Retirement Program for all full-time employees 21 years of age or older with at least one year of employment with the Association. The Association has the following plans.

Defined Benefit Plan—Pension benefits are provided through the NRECA multi-employer defined benefit pension plan, designed to provide employees a certain benefit level upon retirement. In this multi-employer plan, which is available to all member cooperatives of NRECA, the accumulated benefits and plan assets are not determined or allocated separately by individual employer. In the Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. Plan funding requirements increase beginning year 2017. For funding requirements through year 2016, the Plan was 95.1% and 87.1% funded based on PPA actuarial ratios and market value of assets at January 1, 2012 and 2011. For funding requirements beginning year 2017, the Plan was 78.7% and 77.5% funded based on PPA actuarial ratios and market value of assets at January 1, 2012 and 2011. Because the provisions of the PPA do not apply to the Plan, funding improvement plans and surcharges are not applicable. 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 2012 and 2011 of $1,138,549 and $1,084,037, respectively, representing full service costs. All past service costs have been fully funded or accrued. 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.

The Economic Growth and Tax Relief Act of 2001 sets limits on the compensation to be used in the calculation of pension benefits for qualified plans. In order to restore potential lost benefits, the NRECA has established a Pension Restoration Plan. Under the plan, the amount that NRECA invoices the Association will continue to be based on the full compensation paid to each employee. Upon retirement of a covered employee, NRECA will calculate the retirement and security benefit to be paid with consideration of the compensation limits and will pay the maximum benefit thereunder. NRECA will also calculate the retirement and security benefit that would have been available without consideration of the compensation limits and the Association will pay the difference. NRECA will then give the Association a credit against future retirement and security contribution liabilities in the amount paid by the Association to the covered employee.

Defined Contribution Plan—A contributory 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 2012 and 2011 was $416,155 and $400,386, respectively. The expected contribution for the year 2013 is $425,000.

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 or when the employee is eligible for another employer's group plan; 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 158 was adopted January 1, 2008. No policy has been formulated for funding the plan. A 6.0% trend for health care benefits costs is assumed. The following table explains the benefits obligation projected.

	2012	2011
Medical benefit obligation--beginning of year	$ 2,212,000	$ 2,066,300
Service cost	75,000	77,400
Interest cost	99,900	113,600
Plan adjustments	-	-
Actuarial (gain) loss	42,700	-
Benefits paid	(124,800)	(45,300)
Medical benefit obligation--end of year	2,304,800	2,212,000
Fair value of plan assets to fund obligation	-	-
Unfunded plan assets (accrued as liability)	(2,304,800)	(2,212,000)
Change in plan assets:		
Employer contributions	124,800	45,300
Benefits paid	(124,800)	(45,300)
Fair value of plan assets at end of year	$ -	$ -

Estimated future benefit payments	Year	Amount
	2013	$ 137,100
	2014	106,200
	2015	102,800
	2016	131,500
	2017	153,300
	2018-2022	1,123,200

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 2012 and 2011, the Association paid Deseret $46,939,815 and $44,111,503, respectively.

Intermountain Power Agency Agreement—Under the terms of a power sales contract with 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, 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
58 East 100 North (83-13) • Roosevelt, Utah 84066 • Phone (435) 722-5153 • Fax (435) 722-5095

Independent Auditors' Supplemental Letter

Board of Directors
Moon Lake Electric Association, Inc.

We have audited the financial statements of Moon Lake Electric Association, Inc. (the Association) for the year ended December 31, 2012, and have issued our report thereon dated May 6, 2013. 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, 2012, we considered its internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting.

Our consideration of 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. A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Association'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 Association's financial statements that is more than inconsequential will not be prevented or detected by the Association's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Association's internal control. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. 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
May 6, 2013