LOUISIANA 19 JEFFERSON DAVIS

JEFFERSON DAVIS ELECTRIC COOPERATIVE, INC.

JENNINGS, LOUISIANA

FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2006 AND 2005

AND

INDEPENDENT AUDITORS' REPORT

FREDERICK, NORTON, ROBERT & SCHULTHESS
Certified Public Accountants
(a professional corporation)
345 East Academy Avenue
Post Office Drawer 1429
Jennings, Louisiana 70546

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FREDERICK, NORTON,
ROBERT & SCHULTHESS
CERTIFIED PUBLIC ACCOUNTANTS
(A PROFESSIONAL CORPORATION)

Ronald W. Frederick, CPA
Carl W. Norton, CPA
Melvin R. Schulthess, CPA

345 EAST ACADEMY AVENUE
POST OFFICE DRAWER 1429
JENNINGS, LOUISIANA 70546

(337) 824-2395 (337) 824-8028
(337) 824-8080 FAX (337) 824-8082

Members:
American Institute of Certified Public Accountants
Louisiana Society of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Jefferson Davis Electric Cooperative, Inc.

Gentlemen:

We have audited the accompanying balance sheet of the Jefferson Davis Electric Cooperative, Inc., a Louisiana Corporation as of December 31, 2006 and 2005 and the related statements of revenues and patronage capital, and cash flows for the years then ended. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

We did not observe the taking of the physical inventory as of December 31, 2005, since control over the classification of inventory and open work order was lost during the aftermath of Hurricane Rita, and we were unable to satisfy ourselves regarding inventory quantities by means of other auditing procedures. Inventory amounts as of December 31, 2005, enter into the determination of plant assets on the balance sheet and cash flows for the year ended December 31, 2005 and on the cash flows for the year ended December 31, 2006.

Because of the matter discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the balance sheet and statement of cash flows for the year ended December 31, 2005 and on the cash flows for the year ended December 31, 2006.

In our opinion, the balance sheet of Jefferson Davis Electric Cooperative as of December 31, 2006 and the related statements of revenues and patronage capital for the year then ended and the statements of income and patronage capital for the year ended December 31, 2005, present fairly, in all material respects, the financial position, changes in patronage capital and results of its operations of Jefferson Davis Electric Cooperative as of and for the year ended December 31, 2006 and the results of its operations and changes in patronage capital for the year ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America.

In accordance with auditing standards generally accepted in the United States of America, we have also issued a report dated March 9,2007, on our consideration of the Cooperative's internal control over reporting and our test of it's compliance with certain provisions of laws, contracts, and grants. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards, and should be read in conjunction with this report in considering the results of our audit.

Frederick, Norton, Robert & Schulthess

Frederick, Norton, Robert & Schulthess
March 9, 2007

Louisiana 19 Jefferson Davis

JEFFERSON DAVIS ELECTRIC COOPERATIVE, INC.

COMPARATIVE BALANCE SHEET

As Of December 31, 2006 and 2005

ASSETS	2006		2005		INCREASE (DECREASE)
UTILITY PLANT:					
ELECTRIC PLANT IN SERVICE - AT COST	$ 29,269,628		$ 27,229,130		$ 2,040,498
CONSTRUCTION WORK IN PROGRESS	1,790,339		12,805,045		(11,014,706)
TOTAL ELECTRIC PLANT IN SERVICE	31,059,967		40,034,175		(8,974,208)
LESS: ACCUMULATED DEPRECIATION	8,571,448		7,104,577		1,466,871
NET UTILITY PLANT		$ 22,488,519		$ 32,929,598	(10,441,079)
OTHER PROPERTY AND INVESTMENTS:					
ASSOCIATED ORGANIZATIONS	764,975		454,423		310,552
CAPITAL TERM CERTIFICATES	565,317		565,317		0
OTHER INVESTMENTS	1,163,483		681,457		482,026
TOTAL OTHER PROPERTY & INVESTMENTS		2,493,775		1,701,197	792,578
CURRENT ASSETS:					
CASH - GENERAL	480,175		618,704		(138,529)
ACCOUNTS RECEIVABLE (LESS PROVISION FOR DOUBTFUL ACCOUNTS OF $ 246,722 IN 2006 AND $ 259,818 IN 2005)	1,607,163		816,540		790,623
ESTIMATED FEMA FUNDS RECEIVABLE	0		52,477,489		(52,477,489)
MATERIALS AND SUPPLIES	842,621		116,141		726,480
PREPAYMENTS	128,057		100,617		27,440
OTHER CURRENT AND ACCRUED ASSETS	12,896		9,604		3,292
TOTAL CURRENT ASSETS		3,070,912		54,139,095	(51,068,183)
OTHER ASSETS:					
DEFERRED CHARGES-HURRICANE RITA	6,441,977		7,157,752		(715,775)
DEFERRED CHARGES:	127		264		(137)
TOTAL OTHER ASSETS		6,442,104		7,158,016	(715,912)
TOTAL ASSETS		$ 34,495,310		$ 95,927,906	$ (61,432,596)

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

Louisiana 19 Jefferson Davis

JEFFERSON DAVIS ELECTRIC COOPERATIVE, INC.

COMPARATIVE BALANCE SHEET

As Of December 31, 2006 and 2005

EQUITIES AND LIABILITIES

	2006		2005		INCREASE (DECREASE)
EQUITIES AND MARGINS:					
MEMBERSHIP	$ 29,865		$ 32,250		$ (2,385)
PATRONAGE CAPITAL	10,242,173		12,508,760		(2,266,587)
DONATED CAPITAL	4,808		4,808		0
TOTAL EQUITIES AND MARGINS		$ 10,276,846		$ 12,545,818	(2,268,972)
LONG TERM DEBT:					
RUS MORTGAGE NOTES	3,982,149		3,866,795		115,354
RUS GUARANTEED-FFB	4,388,345		1,660,488		2,727,857
COBANK	1,545,487		1,691,355		(145,868)
CFC NOTE	5,570,739		5,994,248		(423,509)
TOTAL LONG TERM DEBT		15,486,720		13,212,886	2,273,834
CURRENT LIABILITIES:					
ACCOUNTS PAYABLE	1,141,623		13,693,314		(12,551,691)
CONSUMER DEPOSITS	181,892		203,763		(21,871)
NOTE PAYABLE – RUS	0		195,875		(195,875)
RUS GUARANTEED-FFB	78,143		22,530		55,613
NOTE PAYABLE – CFC	423,509		48,402,398		(47,978,889)
NOTE PAYABLE - COBANK	145,868		5,170,104		(5,024,236)
OTHER CURRENT AND ACCRUED	4,742,224		504,428		4,237,796
TOTAL CURRENT LIABILITIES		6,713,259		68,192,412	(61,479,153)
DEFERRED CREDITS AND OTHER:					
DEFERRED CREDITS	1,822		1,822		0
POST RETIREMENT BENEFIT OBLIGATION	2,016,663		1,974,968		41,695
		2,018,485		1,976,790	41,695
TOTAL EQUITIES AND LIABILITIES		$ 34,495,310		$ 95,927,906	$ (61,432,596)

Louisiana 19 Jefferson Davis

JEFFERSON DAVIS ELECTRIC COOPERATIVE, INC.

COMPARATIVE STATEMENT OF REVENUES AND PATRONAGE CAPITAL

For The Years Ended December 31, 2006 and 2005

	2006		2005		INCREASE (DECREASE)
OPERATING REVENUES:		$ 14,759,179		$ 14,685,538	$ 73,641
OPERATING EXPENSES:					
COST OF POWER	$ 9,142,000		$ 9,814,478		(672,478)
TRANSMISSION EXPENSE	4,620		7,630		(3,010)
DISTRIBUTION EXPENSE OPERATIONS	521,487		787,462		(265,975)
DISTRIBUTION EXPENSE MAINTENANCE	1,297,238		1,097,731		199,507
MAINTENANCE OF GENERAL PLANT	53,992		83,466		(29,474)
CONSUMER ACCOUNTS EXPENSE	389,062		403,281		(14,219)
SALES EXPENSE	14,991		52,418		(37,427)
ADMINISTRATIVE AND GENERAL	1,177,778		1,167,129		10,649
DEPRECIATION & AMORTIZATION	1.529,588		985,580		544,008
TAXES	152,338		207,619		(55,281)
INTEREST ON LONG TERM DEBT	3,381,401		1,075,874		2,305,527
TOTAL OPERATING EXPENSE		17,664,495		15,682,668	1,981,827
NET OPERATING MARGINS		(2,905,316)		(997,130)	(1,908,186)
CAPITAL CREDITS:		568,536		62,294	506,242
NON-OPERATING MARGINS:					
INTEREST INCOME	70,193		60,943		9,250
OTHER NON-OPERATING INCOME	0		735		(735)
TOTAL NON-OPERATING INCOME		70,193		61,678	8,515
NET MARGINS FOR PERIOD:		(2,266,587)		(873,158)	(1,393,429)
PATRONAGE CAPITAL - BEGINNING OF YEAR		12,508,760		13,429,516	(920,756)
LESS: RETIREMENT OF CAPITAL CREDITS		0		(47,598)	47,598
PATRONAGE CAPITAL-END OF YEAR		$ 10,242,173		$ 12,508,760	$ (2,266,587)

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

Louisiana 19 Jefferson Davis

JEFFERSON DAVIS ELECTRIC COOPERATIVE, INC.

COMPARATIVE STATEMENT OF CASH FLOWS

For The Years Ended December 31, 2006 and 2005

		2006		2005
OPERATING ACTIVITIES:				
NET MARGINS FOR PERIOD	$	(2,266,587)	$	(873,158)
ADJUSTMENTS TO RECONCILE NET MARGINS TO NET CASH PROVIDED BY OPERATIONS:				
DEPRECIATION AND AMORTIZATION		1,756,666		1,139,358
NONCASH DEFERRED CHARGES		0		7,155,486
SALVAGED MATERIAL		125,087		179,519
DECREASE (INCREASE) IN ACCOUNTS RECEIVABLE		51,686,866		(51,935,700)
DECREASE (INCREASE) IN MATERIALS AND SUPPLIES		(726,480)		307,998
DECREASE (INCREASE) IN PREPAYMENTS		(27,440)		(3,328)
DECREASE (INCREASE) IN ACCRUED ASSETS AND DEFERRED CHARGES		(3,155)		(7,159,408)
INCREASE (DECREASE) IN ACCOUNTS PAYABLE AND ACCRUED EXPENSES		(8,335,766)		13,131,245
INCREASE (DECREASE) IN DEFERRED CREDITS		41,695		(51,830)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		42,250,886		(38,109,818)
INVESTING ACTIVITIES:				
PURCHASES OF UTILITY PLANT		(2,196,849)		(14,437,782)
2005 AID TO CONSTRUCTION RECEIVED 2006		11,542,210		0
NET PLANT REMOVAL COSTS		(70,260)		(562,757)
INVESTMENTS IN ASSOCIATED ORGANIZATIONS AND LT CONTRACTS		(310,552)		(19,966)
OTHER INVESTING ACTIVITIES		(482,026)		1,404,045
NET CASH PROVIDED (USED) IN INVESTING ACTIVITIES		8,482,523)		(13,616,460)
FINANCING ACTIVITIES:				
PAYMENTS ON LONG-TERM DEBT		(89,827,719)		(883,678)
FINANCING THROUGH LONG TERM DEBT		38,958,166		53,000,000
INCREASE (DECREASE) IN MEMBERSHIP		(2,385)		(3200)
RETIREMENT OF CAPITAL CREDITS		0		(47,598)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES		(50,871,938)		52,065,524
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(138,529)		339,246
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		618,704		279,458
CASH AND CASH EQUIVALENTS AT END OF YEAR	$	480,175	$	618,704

1. Accounting Policies Note: Cash Equivalents - The Cooperative considers only cash to be cash and cash equivalents.
2. Debt Note: During 2006 and 2005 respectively, the Cooperative paid interest of $ 3,403,498 and $ 1,171,767.
3. Income Taxes: The Cooperative paid no income taxes in 2006 and 2005.
4. Acquisitions: The Cooperative had acquisitions in 2006 and 2005 of utility plant.

1 - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES:

NATURE OF OPERATIONS:

Jefferson Davis Electric Cooperative, Inc. is a tax exempt electrical cooperative with offices in Jennings, Louisiana and Cameron, Louisiana. The cooperative provides electricity to residential and commercial customers located in Southwestern Louisiana.

A. Basis of Accounting - The records of the Cooperative are maintained on the accrual basis of accounting in accordance with the "Uniform System of Accounts Prescribed for Electric Borrowers of the Rural Utilities Service" (RUS Bulletin 181-1).

B. Allowance For Uncollectibles - Estimated uncollectible accounts receivable are based on the Cooperative's prior experience with bad debts.

C. Inventories - Inventories are valued at average cost.

2 - ELECTRIC PLANT AND DEPRECIATION PROCEDURES:

Listed below are the assets comprising the electric plant as of December 31, 2006 and 2005.

	2006	2005
Transmission Lines	$ 3,397,721	$ 3,015,459
Distribution Plant	21,972,828	20,333,674
General Plant	3,899,079	3,879,997
Electric Plant in Service	$ 29,269,628	$ 27,229,130
Construction Work In Progress	1,790,339	12,805,045
Total Electric Plant	$ 31,059,967	$ 40,034,175

Provision has been made for depreciation of transmission lines at a straight-line composite rate of 2.75 percent per annum.

Provision has been made for depreciation of distribution plant at straight-line composite rates ranging from 2.3 to 4.15 percent per annum depending on the type of distribution asset.

General plant depreciation rates have been applied on a straight-line basis and are as follows:

Structures and Improvements	3.00%
Communication Equipment	8.00%
Transportation Equipment	16.67 to 25.00%
Stores Equipment	6.00%
Office Equipment	7.00%
Laboratory Equipment	6.00%
Miscellaneous Equipment	6.00%

Electric Plant-in-Service: Electric plant-in-service is stated on the basis of cost. Depreciation is computed using the straight-line method over the expected useful lives of the related component assets. The cost of units of property replaced or retired, including costs of removal net of any salvage value, is charged to accumulated depreciation.

Construction-in-Progress: Construction-in-progress is stated at cost.

3 - OTHER PROPERTY AND INVESTMENTS:

Investments consisted of the following at December 31, 2006 and 2005.

Held to Maturity:

	2006	2005
Capital Stock - Nat'l Bank For Cooperatives	258,010	274,588
Other	506,965	179,835
Total Investments in Associated Organizations	764,975	454,423
Capital Term Certificates of NRUCFC	565,317	565,317
Other Investments:		
CFC Daily Cash Fund	1,163,483	681,457
Repurchase agreements	0	0
Total Other Investments	1,163,483	681,457
Total Other Property and Investments	$ 2,493,775	$ 1,701,197

Market value on investments in Associated Organizations was indeterminable because these securities are not ordinarily traded. The market value on the Capital Term Certificates approximates cost at 12/31/06 and 12/31/05.

4 - DETAILS OF PATRONAGE CAPITAL:

	2006	2005
Assigned and Assignable	$ 10,242,173	$ 12,986,981
Less: Retirements	0	47,598
Total Assigned and Assignable	10,242,173	12,939,383
Less: Unassigned Losses	0	430,623
Balance	$ 10,242,173	$ 12,508,760

5 - MORTGAGE NOTES:

(a) The following are RUS 5 percent mortgage notes payable to the United States of America. All assets are pledged as security for this debt. The notes are for 35 year periods each. The principle and interest installments on these notes have been deferred for five years. The note balance at October 2011 will be $ 4,916,233. Note payments will resume beginning October of 2011. The 35 year maturity dates have been extended to reflect this deferral. The notes are scheduled to be fully paid at various times from October 2011 to November 2028.

The long-term debt payable to RUS is summarized below:

	2006	2005
Two Percent Notes	$ 0	$ 0
Five Percent Notes	3,982,149	4,062,670
Less: Current Portion	0	(195,875)
Total	$ 3,982,149	$ 3,866,795

The annual maturities of the long-term debts through December 31, 2028 due to RUS are as follows:

2007	-0-
2008	-0-
2009	-0-
2010	-0-
2011	62,174
2012-2016	1,421,065
2017-2021	1,823,737
2022-2026	1,372,326
2027-2028	236,931

(b) The Cooperative has drawn $ 1,694,000 and $ 2,806,000 against an RUS loan guarantee commitment in the amount of $4,500,000 for construction and operation of electric facilities. The rate for these loans are 4.691% and 5.121 % with principle and interest payment due quarterly in equal installments of $ 25,379 and $ $ 45,116, respectively.

The long-term debt payable to RUS on Guaranteed FFB loans is summarized below:

	2006	2005
4.691 % Loan	$ 1,660,488	$ 1,683,018
5.121 % Loan	2,806,000	0
Less: Current Portion	(78,143)	(22,530)
Total	$ 4,388,345	$ 1,660,488

The annual maturities of the long-term debts through December 31, 2037 due to RUS are as follows:

2007	$ 78,143
2008	65,483
2009	68,803
2010	54,302
2011	74,958
2012-2016	435,404
2017-2021	557,283
2022-2026	753,112
2027-2031	923,795
2032-2036	1,181,933
2037-2037	273,272

(c) Additional loans have been obtained from the National Bank For Cooperatives at variable interest rates. All assets are pledged as security for this debt. These notes mature in 20 years. The principle and interest are due quarterly in equal installments of approximately $ 59,701.

The long-term debt to the National Bank For Cooperatives is summarized below:

	2006	2005
Loan Number 15234053002	$ 0	$ 5,000,000
Loan Number 15234040020	381,040	528,160
Loan Number 15234040018	1,310,315	1,333,299
Less: Current Portion	(145,868)	(5,170,104)
Total	$ 1,545,487	$ 1,691,355

The annual maturities of the long-term debt through December 31, 2025 due to National Bank For Cooperatives are as follows:

2007	$ 145,868
2008	148,427
2009	77,325
2010	80,428
2011	83,845
2012-2016	250,667
2017-2021	405,768
2022-2025	499,027

The maturities through 2025 are estimates that have been provided by the National Bank For Cooperatives.

(d) Additional loans have been obtained from the National Rural Utilities Cooperative Finance Corporation at variable interest rates. All assets are pledged as security for this debt. These notes will amortize over 22 years maturing at 5/15/27.

The long-term debt to the National Rural Utilities Cooperative Finance Corporation is summarized below:

	2006	2005
Total CFC Loans	$ 5,994,248	$ 54,396,646
Less: Current Portion	(423,509)	(48,402,398)
Total	$ 5,570,739	$ 5,994,248

The annual maturities of the long-term debt through December 31, 2027 due to National Utilities Cooperative Finance Corporation are as follows:

2007	$ 423,509
2008	445,371
2009	426,756
2010	448,220
2011	471,796
2012-2016	2,143,430
2017-2021	861,526
2022-2026	731,492
2027-2027	42,148

6 - PENSION PLAN:

Plan I:

Pension benefits for substantially all employees are provided through participation in the NRECA Retirement Savings and Security Program. The defined benefits pension plan is at a 2.1% benefit level on the number of years of service. All new employees must be employed for one year before becoming eligible. Pension costs to the Cooperative were $ 209,213 in 2006 and $ 183,112 in 2005. The plan is approved by the Internal Revenue Service.

Plan II:

The Cooperative has made available a 401k plan to its employees. Participants are required to contribute 4 % of their wages. The Cooperative matches that 4 %. Any additional contributions by the employee are not matched by the Cooperative. The Cooperative's matching for 2006 was $ 62,526.

7 - DEFERRED CREDITS:

The following is a summary of the amounts recorded as deferred credits as of December 31, 2006 and 2005:

	2006	2005
Other Regulatory Liabilities	$ 322	$ 322
Customer Prepayments	1,500	1,500
Total	$ 1,822	$ 1,822

8 - INCOME TAX STATUS:

More than 85 percent of the income is collected from the Cooperative's members. Exemption from federal income taxes has been obtained, and Internal Revenue Service Form 990 is being filed.

9 - COMPENSATED ABSENCES:

The Cooperative does not record a provision for accrued sick pay. Vested vacation time is accrued at current pay rates. The amount accrued at December 31, 2006 and 2005 is $ 117,316 and $ 102,980, respectively.

10 - MAJOR VENDOR:

Louisiana Generating LLC is Jefferson Davis Electric Cooperative's major power supplier.

11 - POST RETIREMENT BENEFITS:

In addition to providing pension benefits, the Cooperative provides certain medical and dental insurance benefits for retired employees. Effective January 1, 1995 the Cooperative adopted SFAS No. 106, "Employers Accounting for Postretirement Benefits Other Than Pensions". Reconciliation of the funded status of the Plan and amounts recognized in the Cooperative's Balance Sheet at December 31, 2006 and 2005 follows:

	2006	2005
Accumulated Postretirement Benefits Obligation:		
Retirees and dependents	$ (1,002,300)	$ (1,085,500)
Fully eligible active plan participants	(534,400)	(514,000)
Other active plan participants	(2,190,600)	(1,937,600)
Total	$ (3,727,300)	$ (3,537,100)
Plan assets at fair value	0	0
Accumulated postretirement benefit obligation in excess of plan assets	$ (3,727,300)	$ (3,537,100)
Unrecognized actuarial gain (loss)	1,868,100	1,771,200
Prior service cost not yet recognized in net periodic postretirement benefit cost	(157,500)	(209,068)
Unrecognized transition obligation	0	0
Accrued postretirement benefit cost recognized in the Balance Sheet	$ (2,016,700)	$ (1,974,968)

A 6.0% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2006 and 2005, respectively; the rate was assumed to decrease gradually per year to 5.5% by 2009 and remain at that level, thereafter.

The weighted-average of the assumed discount rate used in determining the Accumulated Postretirement Benefit Obligation was 5.65%...

Recognized cost of postretirement benefits:	
Post retirement benefit cost for the year ended December 31, 2006	$ 150,000
Post retirement benefit cost for the year ended December 31, 2005	$ 150,000

12 - CONCENTRATION OF CREDIT RISK:

Deposit Risk:

	2006	2005
Deposits insured by the FDIC or FSLIC	$ 132,882	$ 122,416
Uninsured uncollateralized deposits	$ 347,293	$ 496,288

The Cooperative extends credit to their electrical customers who are all located in Southwest Louisiana. Accounts receivable become due within a short period after billing and the Cooperative performs on going reviews of balances. Credit losses consistently have been within management's expectation.

13 - LABOR UNION:

During 1998 a voting unit consisting of linemen, groundsmen and staking coordinator voted to become part of IBEW.

14 - DEFERRED DEBTS:

The following is a summary of the amounts recorded as deferred debits as of December 31, 2006 and 2005:

	2006	2005
NRECA Dues & Annual Meeting	$ 127	$ 264
Estimated plant loss due to hurricane Rita	6,441,977	7,157,752

15 - FAIR VALUE OF FINANCIAL INSTRUMENTS:

The following summarizes the carrying amounts and estimated fair value of the Cooperative's financial instruments for which it is practicable to estimate the value as of December 31, 2006 and December 31, 2005:

	December 31, 2006		December 31, 2005	
	Carrying Amount	Carrying Amount	Carrying Amount	Carrying Amount
Cash	$ 480,175	$ 480,175	$ 618,704	$ 618,704
Other Investments	1,163,483	1,163,483	681,457	681,457
Investments in Capital Term Certificates	565,317	565,317	565,317	565,317
Long Term Debt	15,486,720	15,400,352	13,212,886	13,212,886

Investments in associated organizations consist of investments in nonmarketable securities as disclosed in Note 3 above. It is impracticable to measure the fair value of these investments.

The following methods were used to estimate the fair value of the financial instruments included above:

Cash and Other Investments

The carrying amount is assumed to approximate fair value because of the short maturities of those instruments.

Investments in Capital Term Certificates

The fair value of the Cooperative's investment in CFCs is based on market prices for these or like kind investments.

Long-Term Debt

The fair value of the Cooperative's long-term debt is estimated using the discounted cash flow method based on the quoted market rates and prices for the same or similar issues of the same maturities.

16 - OTHER BALANCE SHEET RISK:

The Cooperative purchases commercial insurance to reduce the risk of loss due to liability claims and loss due to physical damage to fixed assets should they occur.

17 - USE OF ESTIMATES:

The preparation of Jefferson Davis Electric Cooperative, Inc.'s 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 disclosure 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.

18 - LITIGATION:

There are two small legal claims against the Cooperative at December 31, 2006.

19- Environmental Issues

The Cooperative has determined that it had two releases from registered underground tanks. During the year ended December 31, 2004 the Louisiana Motor Fuels Trust Fund set the Jefferson Davis Electric Cooperative's deductible for these releases at $ 25,000. During the year ended December 31, 2005 the Cooperative paid the $ 25,000 deductible. The maximum damages payable by the Louisiana Motor Fuels Trust Fund is set at $ 1,000,000.

20- 2005 Going Concern Issue

At December 31, 2005 there were concerns as to the Cooperative's ability to continuing doing business due to the devastation caused by Hurricane Rita. There was a substantial increase in debt due to unrecoverable cost and interest incurred along with the loss of immediate and future revenues which cast doubt on the Cooperative's ability to continue conducting business.

During 2006 the Cooperative worked with the State of Louisiana, which oversees the disbursement of FEMA reimbursement, and its lender CFC to secure FEMA funds in an expedited manner. CFC committed a 30 million dollar line of credit protecting the State in the event that FEMA reimbursements to the Cooperative were found to be inappropriate. These funds along with the receipt or FEMA funds received through the normal process allowed the Cooperative to substantially reduce its outstanding debt. The Cooperative also obtained a deferral of interest and principal payments from RUS on approximately 3.9 million in loans for a 5 year period. These agreements and a rate increase granted from the Louisiana PSC improved the Cooperative's cash flow and operations. A subsequent request for an additional rate increase is presently being processed. Due to the above improvements, the earlier going concern clause has been removed.

21- Contingent Liabilities

Jefferson Davis Electrical Cooperative, Inc. has an unresolved sales tax issue which could have a material impact on the Cooperative's Balance Sheet. Nothing has been included in the balance sheet to reflect the possibility of an unfavorable outcome of this issue.

During the year the State of Louisiana agreed to disburse, to the Cooperative, FEMA funds in excess of thirty million dollars without requiring supporting documentation for such funds for the State's review and approval. In doing so, the State required a guarantee as to the repayment of such funds if the requested reimbursement amounts are subsequently denied by federal government. To facilitate such an agreement, the National Rural Utilities Cooperative Finance Corporation agreed to issue a line of credit dedicated to the repayment of such questioned reimbursements if they should occur. The Cooperative is ultimately responsible for these funds plus interest should FEMA reimbursement fund be found to be inappropriate and require repayment.

22- Physical Plant and FEMA Reimbursements

Jefferson Davis Electrical Cooperative, Inc. has recorded estimated FEMA reimbursements for funds expended as a result of damages sustained due to hurricane Rita on an accrual basis through December 31, 2006. The amounts received were recorded as an aid to construction except for $ 4,500,000 of advanced funds from the State of Louisiana. This $ 4,500,000, which had not been expended as of December 31, 2006, was recorded as a liability at that date.

23- Related Party Transactions

During the 2005 year a member of the board sold land to the Cooperative in the amount of $ 25,000.

24- Deferred Charges – Plant Loss Due to Storm

The physical plant loss due to hurricane Rita has been set up as a deferred charge and is being amortized over a ten year period which began January 1, 2006.

COMPLIANCE, INTERNAL CONTROL AND OTHER MATTERS

FREDERICK, NORTON,
ROBERT & SCHULTHESS
CERTIFIED PUBLIC ACCOUNTANTS
(A PROFESSIONAL CORPORATION)

Ronald W. Frederick, CPA
Carl W. Norton, CPA
Melvin R. Schulthess, CPA

345 EAST ACADEMY AVENUE
POST OFFICE DRAWER 1429
JENNINGS, LOUISIANA 70546

(337) 824-2395 (337) 824-8028
(337) 824-8080 FAX (337) 824-8082

Members:
American Institute of Certified Public Accountants
Louisiana Society of Certified Public Accountants

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Directors
Jefferson Davis Electric Cooperative, Inc.

We were engaged to audit the financial statements of Jefferson Davis Electric Cooperative, Inc. as of and for the year ended December 31, 2006, and have issued our report thereon dated March 9, 2007, which was unqualified except for the balance sheet and the statement of cash flows for which we did not express an opinion. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States.

Compliance
As part of obtaining reasonable assurance about whether Jefferson Davis Electric Cooperative, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed material noncompliance with procurement procedures relating to a FEMA public assistance reimbursement program which are required to be reported under Government Auditing Standards. and which are described in the accompanying schedule of findings and questioned cost as item 2006-01.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered Jefferson Davis Electric Cooperative, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Jefferson Davis Electric Cooperative, Inc.'s ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Controls relating to documentation and proper review and approval relating to

procurement were not followed. Controls over physical inventory, the perpetual inventory system and the work order system were not adhered to during the period subsequent to hurricane Rita. These reportable conditions are described in the accompanying schedule of findings and questioned cost as item 2006-2 and 2006-3, respectively.

A material weakness is a condition in which the design or operation of one or more of the 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. . Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. We believe that the reportable conditions listed above are material weaknesses.

This report is intended for the information of the Board of Directors, Management and 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.

Frederick, Norton, Robert & Schulthess

Frederick, Norton, Robert & Schulthess
March 9, 2007

COMPLIANCE FINDINGS:
2006-01 PROCUREMENT PROCEDURES

Condition: The Cooperative's request for assistance for FEMA public assistance funds contained cost that lacked proper documentation and cost that are considered unreasonable.

Criteria. During the period following a disaster such as hurricane Rita federal procurement guidelines for competitive bids, proper documentation for expenditures and the consideration of reasonable cost are still applied.

Cause. It appears that the Cooperative was overwhelmed by the increased activity following hurricane Rita's destruction and felt great pressured to insure that ample facilities to sustain the large work force from around the United States was in place. The Cooperative also made timely payments without some detailed documentation as required by federal procurement procedures in an attempt to insure continued sustained effort by the contract work force.

Effect. Improper costs were included in the request for public assistance from FEMA. The projected questioned costs on the Rita related program through December 31, 2006 were $ 9,777,000.

Recommendation. The Cooperative should contact and evaluate specialty contractors including seeking estimated rates annually so as to have a current a listing of possible contractors and suppliers that could be used to obtain immediate proposals in times of emergency. The Cooperative should also have a standard letter spelling out what contracts and other supporting documents each contractor is to furnish before beginning work and a detailed explanation of how and with what detailed documentation invoices should be submitted for payment. Any contractor charging unreasonable rates should not be hired and any contractor not operating within the terms of employment should be terminated.

We suggest that additional temporary qualified personnel be hired for aid in processing and detail review of contract rates and invoices along with filing required documentation to FEMA and communicating with the pass through or oversight agency on any problems with the reimbursement process. Locating a potential source for such personnel should be addressed in advance.

Management's Response. Management began implementation of recommendations in August 2006. Similar findings were noted in the 2005 audit. These current year findings were primarily in the first part of the year which was expected due to the delayed 2005 audit recommendations and thus the late implementation of corrective actions. At December 31, 2006 the implementation was considered effective.

Current Status. Resolved

INTERNAL CONTROL FINDINGS
2006-2 PROCUREMENT & DISBURSEMENT PROCEDURES

Condition: During the period subsequent to the devastation of hurricane Rita we noted that the Cooperative failed to obtain proper documentation and failed to review and approve such documentation prior to disbursing funds.

Criteria. Controls over purchasing and disbursements should be strong to insure that materials and contracts are being procured and recorded correctly within the approved operations of the Cooperative.

Cause. It appears that the Cooperative was overwhelmed by the increased activity following hurricane Rita's destruction and felt great pressured to insure that ample facilities to sustain the large work force from around the United States was in place. The Cooperative also made timely payments without some detailed documentation as required by federal procurement procedures in an attempt to insure continued sustained effort by the contract work force. Controls over procurement and disbursements were set aside.

Effect. Lack of proper documentation and the review and approval caused funds to be lost due to FEMA reimbursement guidelines and also prolonged the period for the receipt of FEMA reimbursements. The proper recording and reporting of cost was delayed.

Recommendation. The Cooperative's internal control process should not be affected by emergency situations. An advance plan of action for increase work loads should be in place. We suggest that additional temporary qualified personnel be hired for aid in processing and detail review of contract rates and invoices along with filing required documentation to FEMA and communicating with the pass through or oversight agency on any problems with the reimbursement process. Locating a potential source for such personnel should be addressed in advance. Management should make it very clear that control procedures should be followed in all circumstances

Management's Response. Management began implementation of recommendations in August 2006. Similar findings were noted in the 2005 audit. These current year findings were primarily in the first part of the year which was expected due to the delayed 2005 audit recommendations and thus the late implementation of corrective actions. At December 31, 2006 the implementation was considered effective.

Current Status. Resolved

2006-3 INVENTORIES

Condition: During the period subsequent to the devastation of hurricane Rita we noted that the Cooperative failed to properly record and disburse inventory.

Criteria. Controls over the physical inventory and the perpetual inventory system are pertinent to properly safeguard assets and to properly record costs.

Cause. It appears that the Cooperative was overwhelmed by the increased activity following hurricane Rita's destruction. The urgency to keep work crews supplied with materials caused the Cooperative's normal operations to be curtailed.

Effect. Lack of proper handling of inventory caused a failure of the perpetual inventory and work order system and the recordation and reporting of inventory and plant were not able to be verified.

Recommendation. The Cooperative's internal control process should not be affected by emergency situations. An advance plan of action for increase work loads should be in place. We suggest that additional temporary qualified personnel be hired for the management of inventory and the work order system. We also suggested that a physical inventory be taken and that the perpetual inventory and work order system be adjusted properly and the established procedures be reinstated. Locating a potential source for such personnel should be addressed in advance. Management should make it very clear that control procedures should be followed in all circumstances

Current Status. Management began implementation of recommendations in August 2006. Similar findings were noted in the 2005 audit. These finding were primarily in the first part of the year which was expected due to the delayed audit recommendations and thus the late implementation of corrective actions. A physical inventory was taken and the process observed by CPAs on August 1, 2006 to reestablish our inventory system and required adjustments to inventory and plant accounts were made. At December 31, 2006 the implementation was considered effective.

Current Status. Resolved

Jefferson Davis Electric Cooperative, Inc.
Financial Statement Audit
Schedule of Prior Year Findings and Questioned Costs
December 31, 2006

COMPLIANCE FINDINGS:
2005-01 PROCUREMENT PROCEDURES

Condition: The Cooperative's request for assistance for FEMA public assistance funds contained cost that lacked proper documentation and cost that are considered unreasonable.

Recommendation. The Cooperative should contact and evaluate specialty contractors including seeking estimated rates annually so as to have a current a listing of possible contractors and suppliers that could be used to obtain immediate proposals in times of emergency. The Cooperative should also have a standard letter spelling out what contracts and other supporting documents each contractor is to furnish before beginning work and a detailed explanation of how and with what detailed documentation invoices should be submitted for payment. Any contractor charging unreasonable rates should not be hired and any contractor not operating within the terms of employment should be terminated.

We suggest that additional temporary qualified personnel be hired for aid in processing and detail review of contract rates and invoices along with filing required documentation to FEMA and communicating with the pass through or oversight agency on any problems with the reimbursement process. Locating a potential source for such personnel should be addressed in advance.

Current Status. Management began implementation of recommendations in August 2006. Similar findings were noted in the 2006 audit. These finding were primarily in the first part of the year which was expected due to the delayed audit recommendations and thus the late implementation of corrective actions. At December 31, 2006 the implementation was considered effective.

INTERNAL CONTROL FINDINGS
2005-2 PROCUREMENT & DISBURSEMENT PROCEDURES

Condition: During the period subsequent to the devastation of hurricane Rita we noted that the Cooperative failed to obtain proper documentation and failed to review and approve such documentation prior to disbursing funds.

Recommendation. The Cooperative's internal control process should not be affected by emergency situations. An advance plan of action for increase work loads should be in place. We suggest that additional temporary qualified personnel be hired for aid in processing and detail review of contract rates and invoices along with filing required documentation to FEMA and communicating with the pass through or oversight agency on any problems with the reimbursement process. Locating a potential source for such personnel should be addressed in advance. Management should make it very clear that control procedures should be followed in all circumstances

Current Status. Management began implementation of recommendations in August 2006. Similar findings were noted in the 2006 audit. These finding were primarily in the first part of the year which was expected due to the delayed audit recommendations and thus the late implementation of corrective actions. At December 31, 2006 the implementation was considered effective.

2005-3 INVENTORIES

Condition: During the period subsequent to the devastation of hurricane Rita we noted that the Cooperative failed to properly record and disburse inventory.

Recommendation. The Cooperative's internal control process should not be affected by emergency situations. An advance plan of action for increase work loads should be in place. We suggest that additional temporary qualified personnel be hired for the management of inventory and the work order system. We also suggested that a physical inventory be taken and that the perpetual inventory and work order system be adjusted properly and the established procedures be reinstated. Locating a potential source for such personnel should be addressed in advance. Management should make it very clear that control procedures should be followed in all circumstances

Current Status. Management began implementation of recommendations in August 2006. Similar findings were noted in the 2006 audit. These finding were primarily in the first part of the year which was expected due to the delayed audit recommendations and thus the late implementation of corrective actions. A physical inventory was taken and the process observed by CPAs on August 1, 2006 to reestablish our inventory system and required adjustments to inventory and plant accounts were made. At December 31, 2006 the implementation was considered effective.

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March 9, 2007

The Board of Directors
Jefferson Davis Electric Cooperative, Inc.
Jennings, Louisiana

Gentlemen:

We were engaged to audited the financial statements of Jefferson Davis Electric Cooperative, Inc., a Louisiana Corporation, for the years ended December 31, 2006 and 2005 and have issued our report thereon dated March 9, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Governmental Auditing Standards issued by the Comptroller General of the United States, and 7 CFR Part 1773, Policy on Audits of Rural Utilities Service (RUS) Borrowers. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of Jefferson Davis Electric Cooperative, Inc. for the years ended December 31, 2006 and 2005, we considered its internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of the specific internal control over financial reporting 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. We noted two matters involving the internal control over financial reporting that we consider to be material weaknesses as defined above. These matters are detailed in our report on compliance and internal control, in our schedules of financial statement audit findings and questioned cost and below in the section for comments on certain specific aspects of the internal control over financial reporting.

Section Part 1773.33 requires comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and other additional matters. We have grouped our comments accordingly. In addition to obtaining reasonable assurance about whether the financial statements are free from material misstatements, at your request, we performed tests of specific aspects of the internal control over financial reporting, of compliance with specific RUS loan and security instrument provisions, and of additional matters. The specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and additional matters tested include, among other things, the accounting procedures and records, materials control, compliance with specific RUS loan and security instrument provisions set forth in 7 CFR Part 1773.33(e)(1), related party transactions, and depreciation rates, a schedule of deferred debits and credits, and a schedule of investments upon which we express an opinion. In addition, our audit of the financial statements also included the procedures specified in 7 CFR Part 1773.38 - .45. Our objective was not to provide an opinion on these specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, or additional matters, and accordingly, we express no opinion thereon.

No reports other than our independent auditors' report, our independent auditors' compliance and internal control report, all dated March 9, 2007 or summary of recommendations related to our audit have been furnished to management.

Our comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and other additional matters as required by 7 CFR Part 1773.33 are presented below.

COMMENTS ON CERTAIN SPECIFIC ASPECTS OF THE INTERNAL CONTROL OVER FINANCIAL REPORTING

We noted the following matters regarding Jefferson Davis Electric Cooperative, Inc.'s internal control over financial reporting and its operation that we consider to be a material weakness as previously defined with respect to:

1 - *The accounting procedures and records:*
During the period following the devastation caused by hurricane Rita the Cooperative failed to follow control procedures relating to the procurement, disbursements and inventory which effected the Cooperative's ability to process and record transactions timely and correctly. (Resolved 2006)

2 -*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*:
Due to the loss of controls over inventory and the perpetual inventory system the process for accumulating and recording material cost and distributing these costs to construction, retirement, and other cost was lost. (Resolved 2006)

3 - *The materials control*:
Controls over materials were lost during the period following hurricane Rita. A physical inventory was unable to be taken at December 31, 2005. A physical inventory was taken and observed on August 1, 2006. The perpetual inventory was reestablished and adjustments to inventory and plant accounts made. The December 31, 2006 inventory was taken and observed. (Resolved 2006)

COMMENTS ON COMPLIANCE WITH SPECIFIC RUS LOAN AND SECURITY INSTRUMENT PROVISIONS

At your request, we have performed the procedures enumerated below with respect to compliance with certain provisions of laws, regulations, contracts and grants. The procedures we performed are summarized as follows:

Procedures performed with respect to the requirement for a borrower to obtain written approval of the mortgagee to enter into any contract for the operation or maintenance of property, or for the use of mortgaged property by others for the year ended December 31, 2006 and 2005:

1 - Obtained and read a borrower prepared schedule of new written contracts entered into 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).

2 - Reviewed Board of Director minutes to ascertain whether board-approved written contracts are included in borrower-prepared schedule.

3 - Noted the existence of written RUS approval of each contract listed by the borrower

Procedure performed with respect to the requirement to submit RUS Form 7 to RUS

1 - Agreed amounts reported in Form 7 to Jefferson Davis Electric Cooperative, Inc.'s records.

The results of our tests indicated that, with respect to the items tested, Jefferson Davis Electric Cooperative, Inc. complied, except as noted below, in all material respects, with the specific RUS loan and security instrument provisions referred to below. The specific provisions tested, as well as any exceptions noted, include the requirements that:

The borrower has obtained written approval of the RUS to enter into any contract for the operation or maintenance of property, or for the use of mortgaged property by others as defined in 1773.33 (e)(1)(i).

The borrower has submitted its Form 7 to the RUS and the Form 7, financial and Statistical Report, as of December 31, 2006, represented by the borrower as having been submitted to RUS is being amended and the amended Form 7 is in agreement with the Jefferson Davis Electric Cooperative, Inc. records in all material respects.

COMMENTS ON OTHER ADDITIONAL MATTERS

In connection with our audit of the financial statements of Jefferson Davis Electric Cooperative, Inc., nothing came to our attention that caused us to believe that Jefferson Davis Electric Cooperative, Inc. failed to comply with respect to:

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

The clearing of the construction accounts and accrual of depreciation on completed construction addressed at 7 CFR Part 1773.33(c)(2).

The retirement of plant addressed at 7 CFR Part 1773.33(c)(3) and (4).

Approval of the sale, lease, or transfer of capital assets and disposition of proceeds for the sales 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 Standards No. 57, Related Party Transactions, for the year ended December 31, 2006 and 2005, 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

The detailed schedule of investments

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The detailed schedule of deferred debits and deferred credits required by 7 CFR Part 1773.33(h) and the detailed schedule of investments required by 7CFR 1773.33(i), provided below are 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 our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

DETAILED SCHEDULE OF DEFERRED DEBITS AND DEFERRED CREDITS

Deferred Charges - Deferred Charges as of December 31, 2006 and 2005 consisted of the following:

	2006	2005
NRECA Dues & Annual Meeting	$ 127	$ 286
Estimated plant loss due to hurricane Rita	6,441,977	7,157,752

Deferred Credits - Deferred Credits as of December 31, 2006 and 2005 consist of the following:

	2006	2005
Cajun Bankruptcy Funds Refunded Coop. By PSC Subject to Approved Work Plan	$ 322	$ 322
Customer Prepayment	1,500	1,500
Totals	$ 1,822	$ 1,822

DETAILED SCHEDULE OF INVESTMENTS

	2006	2005
Investment In Associate Companies:		
Co Bank-Equity	$ 258,010	$ 274,588
Arkansas Electric-Capital Credits	253,606	8,798
Southeastern Data-Capital Credits	43,360	41,622
Federated Rural Electric-Equity	38,148	38,985
Natl. Rural Util. Coop. Fin. Corp.-CTC	623,900	613,967
Natl. Rural Util. Coop. Fin. Corp.-Patronage	113,269	41,780
Other Investments:		
CFC Medium Term Notes-Restricted	0	0
CFC Daily Cash Fund-Restricted	0	0
CFC Daily Cash Fund	1,163,482	681,457
Certificate of Deposit	0	0
Repurchase Agreements	0	0
Total Investments	$ 2,493,775	$ 1,701,197

The investments above include investments in associate companies. The Cooperative had no investment in subsidiary or affiliated companies.

This report is intended solely for the information and use of the board of directors, Management, and 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.

Frederick, Norton, Robert & Schulthess

Frederick, Norton, Robert & Schulthess