

LOUISIANA 19 JEFFERSON DAVIS
JEFFERSON DAVIS ELECTRIC COOPERATIVE, INC.
JENNINGS, LOUISIANA
FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2012 AND 2011
AND
INDEPENDENT AUDITORS' REPORT

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Richard Buller

CPA SERVICES

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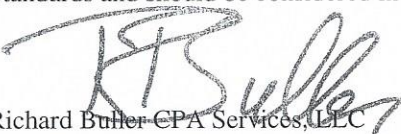
To the Board of Directors of
Jefferson Davis Electric Cooperative, Inc.

We have audited the accompanying statement of financial position of Jefferson Davis Electric Cooperative, Inc. (a nonprofit organization) as of December 31, 2012 and 2011, and the related statements of activities and patronage capital, and cash flows for the years then ended. These financial statements are the responsibility of the Organization'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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that 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 the 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 financial position of Jefferson Davis Electric Cooperative, Inc. as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated March 1, 2013, on our consideration of Jefferson Davis Electric Cooperative, Inc. internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.


Richard Buller CPA Services, LLC

Jennings, LA.

March 1, 2013

Louisiana 19 Jefferson Davis
JEFFERSON DAVIS ELECTRIC COOPERATIVE, INC
STATEMENT OF FINANCIAL POSITION
As Of December 31, 2012 and 2011

<u>ASSETS</u>	2012	2011	INCREASE (DECREASE)
<u>UTILITY PLANT:</u>			
ELECTRIC PLANT IN SERVICE - AT COST	\$ 39,640,437	\$ 35,110,841	\$ 4,529,596
CONSTRUCTION WORK IN PROGRESS	2,177,791	3,125,734	(947,943)
TOTAL ELECTRIC PLANT IN SERVICE	41,818,228	38,236,575	3,581,653
LESS: ACCUMULATED DEPRECIATION NET UTILITY PLANT	10,265,730	9,819,295	446,435
	\$ 31,552,498	\$ 28,417,280	3,135,218
<u>OTHER PROPERTY AND INVESTMENTS:</u>			
ASSOCIATED ORGANIZATIONS	222,535	227,482	(4,947)
SU CAPITAL TERM CERTIFICATES	1,333,192	1,286,101	47,091
OTHER INVESTMENTS	961,434	2,021,631	(1,060,197)
TOTAL OTHER PROPERTY &	2,517,161	3,535,214	(1,018,053)
<u>CURRENT ASSETS:</u>			
CASH - GENERAL	508,377	619,785	(111,408)
ACCOUNTS RECEIVABLE (LESS PROVISION FOR DOUBTFUL ACCOUNTS OF \$ 202,227 IN 2012 AND \$212,716 IN 2011)	1,584,680	1,808,121	(383,441)
MATERIALS AND SUPPLIES	651,410	584,183	67,227
PREPAYMENTS	47,432	76,881	(29,449)
OTHER CURRENT AND ACCRUED ASSETS	7,211	7,271	(60)
TOTAL CURRENT ASSETS	2,799,110	3,256,241	(457,131)
<u>OTHER ASSETS:</u>			
DEFERRED CHARGES-HURRICANE RITA	2,147,321	2,880,778	(733,457)
DEFERRED CHARGES:	88	23	65
TOTAL OTHER ASSETS	2,147,409	2,880,801	(733,392)
TOTAL ASSETS	\$ 39,016,178	\$ 38,089,536	\$ 926,642

Louisiana 19 Jefferson Davis
JEFFERSON DAVIS ELECTRIC COOPERATIVE, INC.
STATEMENT OF FINANCIAL POSITION
As Of December 31, 2012 and 2011

	2012	2011	INCREASE (DECREASE)
EQUITIES AND MARGINS:			
MEMBERSHIP	\$ 32,960	\$ 32,410	\$ 550
PATRONAGE CAPITAL	15,221,537	15,532,291	(310,754)
DONATED CAPITAL	4,808	4,808	0
TOTAL EQUITIES AND MARGINS	\$ 15,259,305	\$ 15,569,509	(310,204)
LONG TERM DEBT:			
RUS MORTGAGE NOTES	3,953,806	4,212,857	(259,051)
RUS GUARANTEED-FFB	3,942,472	4,008,997	(66,525)
COBANK	1,069,385	1,114,496	(45,111)
CFC NOTE	4,106,137	3,310,541	795,596
TOTAL LONG TERM DEBT	13,071,800	12,646,891	424,909
TOTAL LONG TERM DEBT			
CURRENT LIABILITIES:			
ACCOUNTS PAYABLE	1,578,258	1,328,259	249,999
CONSUMER DEPOSITS	198,252	198,952	(700)
RUS MORTGAGE NOTES	221,396	210,621	10,775
RUS GUARANTEED-FFB	83,756	98,570	(14,814)
NOTE PAYABLE - CFC	499,718	467,145	32,573
NOTE PAYABLE - COBANK	45,110	40,967	4,143
NOTE PAYABLE - LOC COBANK	800,351	800,351	(0)
OTHER CURRENT AND ACCRUED	3,446,731	3,279,495	167,236
TOTAL CURRENT LIABILITIES	6,873,571	6,424,360	449,211
DEFERRED CREDITS AND OTHER:			
POST RETIREMENT BENEFIT	3,811,502	3,448,776	362,726
	3,811,502	3,448,776	362,726
TOTAL EQUITIES AND LIABILITIES	\$ 39,016,178	\$ 38,089,536	\$ 926,642

Louisiana 19 Jefferson Davis
JEFFERSON DAVIS ELECTRIC COOPERATIVE, INC.
COMPARATIVE STATEMENT OF ACTIVITIES AND PATRONAGE CAPITAL
As Of December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>	<u>INCREASE (DECREASE)</u>
OPERATING ACTIVITIES	21,260,622	\$ 22,111,923	\$ (851,301.04)
OPERATING EXPENSES:			
COST OF POWER	13,505,792	\$ 13,714,730	\$ (208,938)
TRANSMISSION EXPENSE	11,599	8,547	3,052
DISTRIBUTION EXPENSE OPERATIONS	1,473,679	1,429,327	44,352
DISTRIBUTION EXPENSE MAINTENANCE	1,797,057	1,633,409	163,648
MAINTENANCE OF GENERAL PLANT	92,461	99,537	(7,076)
CONSUMER ACCOUNTS EXPENSE	605,487	524,275	81,212
SALES EXPENSE	21,134	23,134	(2,000)
ADMINISTRATIVE AND GENERAL	1,605,200	1,726,891	(121,691)
DEPRECIATION & AMORTIZATION	1,566,421	1,534,628	31,793
TAXES	235,418	230,075	5,343
INTEREST ON LONG TERM DEBT	702,528	720,866	(18,338)
TOTAL OPERATING EXPENSE	<u>21,616,776</u>	<u>21,645,419</u>	<u>(28,643)</u>
COST OF POWER	(356,154)	466,504	(822,658)
TRANSMISSION EXPENSE			
DISTRIBUTION EXPENSE OPERATIONS	86,498	77,301	9,197
DISTRIBUTION EXPENSE MAINTENANCE			-
MAINTENANCE OF GENERAL PLANT			-
INTEREST INCOME	29,453	31,107	(1,654)
OTHER NON-OPERATING INCOME	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
TOTAL NON-OPERATING INCOME	<u>29,453</u>	<u>31,107</u>	<u>(1,654)</u>
NET MARGINS FOR PERIOD:	(240,203)	574,912	(815,115)
PATRONAGE CAPITAL - BEGINNING OF YEAR	15,532,291	15,033,090	499,201
LESS: RETIREMENT OF CAPITAL CREDITS	<u>(70,551)</u>	<u>(75,711)</u>	<u>5,160</u>
PATRONAGE CAPITAL-END OF YEAR	<u>\$ 15,221,537</u>	<u>\$ 15,532,291</u>	<u>\$ (310,754.34)</u>

Louisiana 19 Jefferson Davis
JEFFERSON DAVIS ELECTRIC COOPERATIVE, INC.
COMPARATIVE STATEMENT OF CASH FLOWS

As Of December 31, 2012 and 2011

	2012	2011
OPERATING ACTIVITIES:		
NET MARGINS FOR PERIOD	\$ (240,203)	\$ 574,912
ADJUSTMENTS TO RECONCILE NET MARGINS TO NET CASH PROVIDED BY OPERATIONS:		
DEPRECIATION AND AMORTIZATION	1,889,007	1,819,771
SALVAGED MATERIAL	177,556	28,434
DECREASE (INCREASE) IN ACCOUNTS RECEIVABLE	(383,441)	168,001
DECREASE (INCREASE) IN MATERIAL AND SUPPLIES	67,227	(104,448)
DECREASE (INCREASE) IN PREPAYMENTS	(29,449)	859
DECREASE (INCREASE) IN ACCRUED ASSETS AND OTHER DEFERRED	5	(224)
INCREASE (DECREASE) IN ACCOUNTS PAYABLE AND ACCRUED EXPENSES	416,535	(101,393)
INCREASE (DECREASE) IN DEFERRED CREDITS	362,725	399,054
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	2,259,962	2,784,966
INVESTING ACTIVITIES:		
PURCHASES OF UTILITY PLANT	(1,432,617)	(1,477,135)
NET PLANT REMOVAL COST	(308,285)	(146,062)
INVESTMENTS IN ASSOCIATED ORGANIZATIONS AND LT	(4,947)	(703,635)
SU CAPITAL TERM CERTIFICATES	47,091	720,784
OTHER INVESTING ACTIVITIES	(1,060,197)	(357,020)
NET CASH PROVIDED (USED) IN INVESTING ACTIVITIES	(2,758,955)	(1,963,068)
FINANCING ACTIVITIES:		
PAYMENTS OF LONG TERM DEBT	457,586	(870,788)
FINANCING THROUGH LONG TERM DEBT	-0-	-0-
INCREASE (DECREASE) IN MEMBERSHIP	550	595
RETIREMENT OF CAPITAL CREDITS	(70,551)	(75,711)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	387,585	(945,904)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(111,408)	(124,006)
CASH AND CASH EQUIVALENTS AT BEGGING OF YEAR	619,785	743,791
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 508,377	\$ 619,785

1. Accounting Policies Note: Cash Equivalents - The Cooperative considers only cash to be cash and cash equivalents.
2. Debt Note: During 2012 and 2011 respectively, the Cooperative paid interest of \$ 702,528 and \$ 720,866.
3. Income Taxes: The Cooperative paid no income taxes in 2012 and 2011.
4. Acquisitions: The Cooperative had acquisitions in 2012 and 2011 of utility plant.

NOTES TO THE FINANCIAL STATEMENTS

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, 2012 and 2011

	<u>2012</u>		<u>2011</u>
Transmission Lines	\$ 4,073,497	±	3,696,488
Distribution Plant	30,839,649		26,878,409
General Plant	<u>4,727,291</u>		<u>4,535,944</u>
Electric Plant in Service	\$ 39,640,437	\$	35,110,841
Construction Work In Progress	<u>2,177,791</u>		<u>3,125,734</u>
 Total Electric Plant	 <u>\$ 41,818,228</u>		 <u>\$ 38,236,575</u>

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.

JEFFERSON DAVIS ELECTRIC COOPERATIVE, INC.
 NOTES TO THE FINANCIAL STATEMENTS (cont.)
 For The Years Ended December 31, 2012 and 2011

3 - OTHER PROPERTY AND INVESTMENTS:

Investments consisted of the following at December 31, 2012 and 2011.

Held to Maturity:

		<u>2012</u>	<u>2011</u>
Capital Stock - Nat'l Bank For Cooperatives	\$	222,535	\$ 227,482
Other		<u>-0-</u>	<u>-0-</u>
Total Investments in Associated Organizations		222,535	227,482
Capital Term Certificates of NRUCFC	(1)	1,333,192	1,286,101
Other Investments:			
Bank Rate Saving	(1)	10	266,396
CFC Daily Cash Fund	(1)	<u>961,424</u>	<u>1,755,233</u>
Total Other Investments		<u>961,434</u>	<u>2,021,631</u>
Total Other Property and Investments		<u>\$ 2,294,626</u>	<u>\$ 3,535,214</u>

(1) Deposits and investments that are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the Cooperative's name are considered to have custodial risk.

Market value on investments in Associated Organizations was indeterminable because these securities are not ordinarily traded. The market value on the Capital Term Certificates and other cash investments approximates cost at 12/31/12 and 12/31/11.

4 - DETAILS OF PATRONAGE CAPITAL:

		<u>2012</u>	<u>2011</u>
Assigned and Assignable	\$	15,221,537	\$ 15,532,291
Less: Retirements		<u>0</u>	<u>0</u>
Total Assigned and Assignable		15,221,537	15,532,291
Less: Unassigned Losses		<u>0</u>	<u>0</u>
Balance		<u>\$ 15,221,537</u>	<u>\$ 15,532,291</u>

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 were originally deferred for five years. Note payments resumed beginning October of 2010. 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 2010 to August 2026.

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

		<u>2012</u>	<u>2011</u>
Five Percent Notes	\$	4,175,202	\$ 4,423,478
Less: Current Portion		<u>(221,396)</u>	<u>(210,621)</u>
Total		<u>\$ 3,953,806</u>	<u>\$ 4,212,857</u>

JEFFERSON DAVIS ELECTRIC COOPERATIVE, INC.
 NOTES TO THE FINANCIAL STATEMENTS (cont.)
 For The Years Ended December 31, 2012 and 2011

The maturities of the long-term debts through August 31, 2026 due to RUS are as follows:

2013	221,396
2014	232,723
2015	244,630
2016	257,146
2017	270,302
2018	284,131
2019-2023	1,654,161
2024-2026	1,010,713

(b) The Cooperative has drawn \$ 1,694,000 and \$ 2,806,000 against a 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:

	<u>2012</u>	<u>2011</u>
4.691 % Loan	\$ 1,489,717	\$ 1,521,014
5.121 % Loan	2,536,510	2,586,553
Less: Current Portion	<u>(83,756)</u>	<u>(98,570)</u>
Total	<u>\$ 3,942,471</u>	<u>\$ 4,008,997</u>

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

2013	83,756
2014	88,004
2015	92,447
2016	72,627
2017	99,874
2018	133,672
2019-2023	587,211
2024-2028	787,120
2029-2033	1,007,403
2034-2037	1,074,113

(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 \$ 800,351 line of credit matures on June 30, 2012.

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

	<u>2012</u>	<u>2011</u>
Loan Number 234053002	\$ 800,351	\$ 800,351
Loan Number 1873677	-0-	-0-
Loan Number 1873664	1,114,496	1,155,462
Less: Current Portion	<u>(845,460)</u>	<u>(841,317)</u>
Total	<u>\$ 1,069,386</u>	<u>\$ 1,114,496</u>

JEFFERSON DAVIS ELECTRIC COOPERATIVE, INC.
 NOTES TO THE FINANCIAL STATEMENTS (cont.)
 For The Years Ended December 31, 2012 and 2011

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

2013	45,110
2014	49,671
2015	54,694
2016	60,225
2017	66,315
2018	73,021
2019-2023	472,057
2024-2025	293,403

The maturities through 2025 are estimates that have been provided by the National Bank For Cooperatives. Loan commitment available at December 31, 2012 was \$ 1,199,649.

(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 May 15, 2027.

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

	<u>2012</u>	<u>2011</u>
Total CFC Loans	\$ 4,605,855	\$ 3,777,686
Less: Current Portion	<u>(499,718)</u>	<u>(467,145)</u>
Total	\$ <u>4,106,137</u>	\$ <u>3,310,541</u>

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

2013	499,718
2014	477,279
2015	452,286
2016	325,534
2017	217,954
2018	230,217
2019-2022	927,846
2023-2027	815,553
2028-2032	659,468

Line of credit available at December 31, 2012 was \$ 5,000,000.

6 - PENSION PLAN:

Plan I:

Pension benefits for substantially all employees are provided through participation in the NRECA Retirement Savings and Security Program, which is a multiemployer cost sharing plan whose report can be found on line at NRECA.org. The defined benefits pension plan is at a 1.9% 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 \$ 257,602 in 2012 and \$ 409,647 in 2011. The plan is approved by the Internal Revenue Service.

Plan II:

The Cooperative has made available a 401k plan to its employees. Participants are able to contribute 4 % of their wages and the Cooperative will match the 4 %, however any additional contributions by the employee are not matched by the Cooperative. The Cooperative's matching was \$ 75,569 in 2012 and \$ 70,612 in 2011.

JEFFERSON DAVIS ELECTRIC COOPERATIVE, INC.
 NOTES TO THE FINANCIAL STATEMENTS (cont.)
 For The Years Ended December 31, 2012 and 2011

7 - 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 due to organization type 501(c)12, and Internal Revenue Service Form 990 is being filed.

8 - 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, 2012 and 2011 is \$ 30,539 and \$ 31,926, respectively.

9 - MAJOR VENDOR:

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

10 - 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, 2012 and 2011 follows:

	<u>2012⁽¹⁾</u>	<u>2011⁽¹⁾</u>
Accumulated Postretirement Benefits Obligation:		
Retirees and dependents	\$ (2,804,900)	\$ (2,601,700)
Fully eligible active plan participants	(1,035,400)	(831,200)
Other active plan participants	<u>(2,141,600)</u>	<u>(1,719,200)</u>
Total	\$ (5,981,900)	\$ (5,152,100)
Plan assets at fair value	<u>0</u>	<u>0</u>
Accumulated postretirement benefit obligation in excess of plan assets	\$ (5,981,900)	\$ (5,152,100)
Unrecognized actuarial gain (loss)	2,170,399	1,703,324
Prior service cost not yet recognized in net periodic postretirement benefit cost	0	0
Unrecognized transition obligation	<u>0</u>	<u>0</u>
Accrued postretirement benefit cost recognized in the Balance Sheet	<u>\$ (3,811,501)</u>	<u>\$ (3,448,776)</u>

⁽¹⁾ Rounded to nearest hundred.

A 5.35% and 5.65% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2012 and 2011, respectively; the rate was assumed to decrease gradually per year to 5% by 2018 and remain at that level, thereafter.

The weighted-average of the assumed discount rate used in determining the Accumulated Postretirement Benefit Obligation was 5.5%.

Recognized cost of postretirement benefits:

Post retirement benefit cost for the year ended December 31, 2012	\$ 511,800
Post retirement benefit cost for the year ended December 31, 2011	\$ 518,700

11 - CONCENTRATION OF CREDIT RISK:

Deposit Risk:

JEFFERSON DAVIS ELECTRIC COOPERATIVE, INC.
 NOTES TO THE FINANCIAL STATEMENTS (cont.)
 For The Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Deposits insured by the FDIC or FSLIC	\$ 250,000	\$ 258,854
Uninsured uncollateralized deposits	\$ 258,377	\$ 360,931

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.

12 - LABOR UNION:

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

13 - DEFERRED DEBTS:

The following is a summary of the amounts recorded as deferred debits as of December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Estimated plant loss due to hurricane Rita	2,147,320	2,863,097

14 - 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, 2011 and December 31, 2010:

	<u>December 31, 2012</u>		<u>December 31, 2011</u>	
	Carrying Amount	Carrying Amount	Fair Value	Fair Value
Cash	\$ 508,377	\$ 508,377	\$ 619,785	\$ 619,785
Other Investments	1,163,969	1,163,969	2,249,113	2,249,113
Investments in Capital Term Certificates	1,333,192	1,333,192	1,286,101	1,286,101
Long Term Debt	13,071,800	13,071,800	12,646,891	12,646,891

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.

JEFFERSON DAVIS ELECTRIC COOPERATIVE, INC.
NOTES TO THE FINANCIAL STATEMENTS (cont.)
For The Years Ended December 31, 2012 and 2011

15 - 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.

16 - 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.

17 - LITIGATION:

There are two small legal claim against the Cooperative at December 31, 2012 and a settlement with FEMA for a total of \$ 889,018 for damages caused by Hurricane Rita.

18 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 advanced funds from the State of Louisiana in the amount of \$ 3,206,368 and \$ 3,260,918, which had not been expended as of December 31, 2012 and 2011, were recorded as a liability at that date. As the result of an audit by the office of Inspector General, FEMA had disallowed the sum of \$ 5,844,015 for funds paid the Co-op for damages caused by Hurricane Rita. FEMA's disallowance is based on the lack of documentation supplied by the Co-op. The Co-op filed an appeal because the proper documentation has been supplied. On March 10, 2011 FEMA approved the appeal, and the sum of \$ 889,018 is owed to FEMA as the result of the audit.

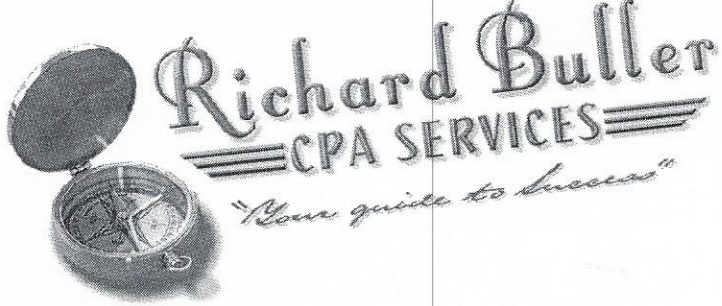
19 Deferred Charges – Plant Loss Due to Storm

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.

20 Subsequent Events

Management evaluated subsequent events through March 1, 2013, the date these financial statements were available to be issued, to evaluate whether such events warrant adjustment to any reported amounts or inclusion of additional financial disclosures. No such adjustments or disclosures were judged necessary

COMPLIANCE, INTERNAL CONTROL AND OTHER MATTERS



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

To the Board of Directors of Jefferson Davis Electric Cooperative

We have audited the financial statements of Jefferson Davis Electric Cooperative (a nonprofit organization) as of and for the years ended December 31, 2012 and 2011, and have issued our report thereon dated March 1, 2013. 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 Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Jefferson Davis Electric Cooperative's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Jefferson Davis Electric Cooperative's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.


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

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of Jefferson Davis Electric Cooperative, Inc. in a separate letter dated March 1, 2013.

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

A handwritten signature in black ink, appearing to read "Richard Buller". The signature is stylized and cursive.

Richard Buller CPA Services, LLC

Jennings, LA

March 1, 2013

CURRENT YEAR

COMPLIANCE FINDINGS

None to report

INTERNAL CONTROL FINDINGS

None to report

Jefferson Davis Electric Cooperative, Inc.
Financial Statement Audit
Schedule of Prior Years Findings

PRIOR YEAR

COMPLIANCE FINDINGS

None to report

INTERNAL CONTROL FINDINGS

None to report