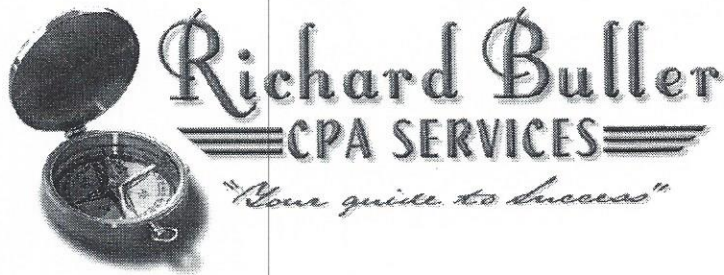


JEFFERSON DAVIS ELECTRIC COOPERATIVE, INC.  
JENNINGS, LOUISIANA  
FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 2013 AND 2012  
AND  
INDEPENDENT AUDITORS' REPORT

Richard Buller CPA Services, LLC  
742 East Plaquemine Street  
Post Office Drawer 1429  
Jennings, Louisiana 70546

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## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Jefferson Davis Electric Cooperative, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities and 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.

### ***Auditor's Responsibility***

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, 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 Jefferson Davis Electric Cooperative, Inc. as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



# Richard Buller

## CPA SERVICES

*"Your guide to success"*

### ***Other Matters***

#### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2014, on our consideration of Jefferson Davis Electric Cooperative, Inc.'s 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* in considering Jefferson Davis Electric Cooperative, Inc.'s internal control over financial reporting and compliance.

Richard Buller CPA Services, LLC  
Jennings, LA.  
March 10, 2014

JEFFERSON DAVIS ELECTRIC COOPERATIVE, INC.

STATEMENTS OF FINANCIAL POSITION

As Of December 31, 2013 and 2012

<u>ASSETS</u>	<u>2013</u>	<u>2012</u>	<u>INCREASE (DECREASE)</u>
<u>UTILITY PLANT:</u>			
ELECTRIC PLANT IN SERVICE - AT COST	\$ 40,979,604	\$ 39,640,437	\$ 1,339,167
CONSTRUCTION WORK IN PROGRESS	3,536,940	2,177,791	1,359,149
TOTAL ELECTRIC PLANT IN SERVICE	44,516,543	41,818,228	2,698,315
LESS: ACCUMULATED DEPRECIATION	10,811,390	10,265,730	545,660
NET UTILITY PLANT	\$ 33,705,154	\$ 31,552,498	2,152,656
<u>OTHER PROPERTY AND INVESTMENTS:</u>			
ASSOCIATED ORGANIZATIONS	201,644	222,535	(20,891)
SU CAPITAL TERM CERTIFICATES	1,359,620	1,333,192	26,428
OTHER INVESTMENTS	93,224	961,434	(868,210)
TOTAL OTHER PROPERTY &	1,654,488	2,517,161	(862,673)
<u>CURRENT ASSETS:</u>			
CASH - GENERAL	812,179	508,377	303,802
ACCOUNTS RECEIVABLE (LESS PROVISION FOR DOUBTFUL ACCOUNTS OF \$ 202,227 IN 2013 AND \$212,716 IN 2012)	2,491,382	1,584,680	906,702
MATERIALS AND SUPPLIES	675,865	651,410	24,455
PREPAYMENTS	3,391	47,432	(44,041)
OTHER CURRENT AND ACCRUED ASSETS	7,188	7,211	(23)
TOTAL CURRENT ASSETS	3,990,005	2,799,110	1,190,895
<u>OTHER ASSETS:</u>			
DEFERRED CHARGES-HURRICANE RITA	3,308,224	2,147,321	1,160,903
DEFERRED CHARGES:	91	88	3
TOTAL OTHER ASSETS	3,308,314	2,147,409	1,160,905
TOTAL ASSETS	<u>\$ 42,657,961</u>	<u>\$ 39,016,178</u>	<u>\$ 3,641,783</u>

The accompanying notes are an integral part of the financial statements

**JEFFERSON DAVIS ELECTRIC COOPERATIVE, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**As Of December 31, 2013 and 2012**

	2013	2012	INCREASE (DECREASE)
<b>EQUITIES AND MARGINS:</b>			
MEMBERSHIP	\$ 33,680	\$ 32,960	\$ 720
PATRONAGE CAPITAL	15,832,240	15,221,537	610,703
DONATED CAPITAL	4,808	4,808	0
TOTAL EQUITIES AND MARGINS	\$ 15,870,729	\$ 15,259,305	611,424
<b>LONG TERM DEBT:</b>			
RUS MORTGAGE NOTES	-	3,953,805	(3,953,805)
RUS GUARANTEED-FFB	-	3,942,472	(3,942,472)
COBANK	-	1,069,386	(1,069,386)
CFC NOTE	15,139,083	4,106,137	11,032,946
TOTAL LONG TERM DEBT	15,139,083	13,071,800	2,067,283
<b>TOTAL LONG TERM DEBT</b>			
<b>CURRENT LIABILITIES:</b>			
ACCOUNTS PAYABLE	1,502,126	1,578,258	(76,132)
CONSUMER DEPOSITS	195,877	198,252	(2,375)
RUS MORTGAGE NOTES	-	221,396	(221,396)
RUS GUARANTEED-FFB	-	83,756	(83,756)
NOTE PAYABLE – CFC	657,975	499,718	158,257
NOTE PAYABLE - COBANK	-	45,110	(45,110)
NOTE PAYABLE – LOC COBANK	225,104	800,351	(575,247)
OTHER CURRENT AND ACCRUED	4,899,619	3,446,731	1,452,888
TOTAL CURRENT LIABILITIES	7,480,701	6,873,572	607,129
<b>DEFERRED CREDITS AND OTHER:</b>			
POST RETIREMENT BENEFIT OBLIGATION	4,167,449	3,811,501	355,948
	4,167,449	3,811,501	355,948
TOTAL EQUITIES AND LIABILITIES	<u>\$ 42,657,961</u>	<u>\$ 39,016,178</u>	<u>\$ 3,641,783</u>

The accompanying notes are an integral part of the financial statements

**JEFFERSON DAVIS ELECTRIC COOPERATIVE, INC.**  
**COMPARATIVE STATEMENT OF ACTIVITIES AND PATRONAGE CAPITAL**  
For the years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>	<u>INCREASE (DECREASE)</u>
OPERATING REVENUES	\$ 23,963,055	\$ 21,260,622	\$ 2,702,432.54
OPERATING EXPENSES:			
COST OF POWER	\$ 14,681,126	\$ 13,505,792	\$ 1,175,334
TRANSMISSION EXPENSE	4,929	11,599	(6,670)
DISTRIBUTION EXPENSE OPERATIONS	1,715,110	1,473,679	241,431
DISTRIBUTION EXPENSE MAINTENANCE	1,851,294	1,797,058	54,236
MAINTENANCE OF GENERAL PLANT	138,952	92,461	46,491
CONSUMER ACCOUNTS EXPENSE	652,440	605,488	46,952
SALES EXPENSE	19,517	21,134	(1,617)
ADMINISTRATIVE AND GENERAL	1,644,560	1,605,200	39,360
DEPRECIATION & AMORTIZATION	1,662,895	1,566,421	96,474
TAXES	278,326	235,418	42,908
INTEREST ON LONG TERM DEBT	740,887	702,528	38,359
TOTAL OPERATING EXPENSE	<u>23,390,034</u>	<u>21,616,778</u>	<u>1,773,256</u>
COST OF POWER	573,020	(356,156)	929,176
TRANSMISSION EXPENSE			
DISTRIBUTION EXPENSE OPERATIONS	66,137	86,498	(20,361)
DISTRIBUTION EXPENSE MAINTENANCE			-
MAINTENANCE OF GENERAL PLANT			-
INTEREST INCOME	28,561	29,453	(892)
OTHER NON-OPERATING INCOME	-0-	-0-	-0-
TOTAL NON-OPERATING INCOME	<u>28,561</u>	<u>29,453</u>	<u>(892)</u>
NET MARGINS FOR PERIOD:	<u>667,718</u>	<u>(240,205)</u>	<u>907,923</u>
PATRONAGE CAPITAL - BEGINNING OF YEAR	15,221,535	15,532,291	(310,756)
LESS: RETIREMENT OF CAPITAL CREDITS	<u>(57,013)</u>	<u>(70,551)</u>	<u>13,538</u>
PATRONAGE CAPITAL-END OF YEAR	<u>\$ 15,832,240</u>	<u>\$ 15,221,535</u>	<u>\$ 610,705</u>

The accompanying notes are an integral part of the financial statements

**JEFFERSON DAVIS ELECTRIC COOPERATIVE, INC.**  
**COMPARATIVE STATEMENT OF CASH FLOWS**  
For the years ended December 31, 2013 and 2012

	2013	2012
<b>OPERATING ACTIVITIES:</b>		
NET MARGINS FOR PERIOD	\$ 667,718	\$ (240,205)
ADJUSTMENTS TO RECONCILE NET MARGINS TO NET CASH PROVIDED BY OPERATIONS:		
DEPRECIATION AND AMORTIZATION	2,008,539	1,889,007
SALVAGED MATERIAL	(159,555)	177,556
DECREASE (INCREASE) IN ACCOUNTS RECEIVABLE	(906,702)	(383,441)
DECREASE (INCREASE) IN MATERIAL AND SUPPLIES	(24,455)	67,227
DECREASE (INCREASE) IN PREPAYMENTS	44,041	(29,449)
DECREASE (INCREASE) IN ACCRUED ASSETS AND OTHER DIFFERED	20	5
INCREASE (DECREASE) IN ACCOUNTS PAYABLE AND ACCRUED EXPENSES	1,374,381	416,535
INCREASE (DECREASE) IN DEFERRED CREDITS	355,948	362,725
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	3,359,934	2,259,960
<b>INVESTING ACTIVITIES:</b>		
PURCHASES OF UTILITY PLANT	(2,698,316)	(1,432,617)
NET PLANT REMOVAL COST	(2,521,239)	(308,285)
INVESTMENTS IN ASSOCIATED ORGANIZATIONS AND LT SU CAPITAL TERM CERTIFICATES	20,891	(4,947)
OTHER INVESTING ACTIVITIES	(26,428)	47,091
NET CASH PROVIDED (USED) IN INVESTING ACTIVITIES	(4,356,882)	(2,758,955)
<b>FINANCING ACTIVITIES:</b>		
PAYMENTS OF LONG TERM DEBT	1,300,031	457,586
FINANCING THROUGH LONG TERM DEBT	-0-	-0-
INCREASE (DECREASE) IN MEMBERSHIP	720	550
RETIREMENT OF CAPITAL CREDITS	-	(70,551)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	1,300,751	387,585
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	303,804	(111,410)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	508,375	619,785
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 812,179	\$ 508,375

1. Accounting Policies Note: Cash Equivalents - The Cooperative considers only cash to be cash and cash equivalents.
2. Debt Note: During 2013 and 2012 respectively, the Cooperative paid interest of \$ 683,367 and \$ 702,528.
3. Income Taxes: The Cooperative paid no income taxes in 2013 and 2012.
4. Acquisitions: The Cooperative had acquisitions in 2013 and 2012 of utility plant.

The accompanying notes are an integral part of the financial statements



## 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 is 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, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Transmission Lines	\$ 4,879,568	\$ 4,073,497
Distribution Plant	31,888,572	30,839,649
General Plant	4,211,464	4,727,291
Electric Plant in Service	40,979,604	39,640,437
Construction Work In Progress	3,536,940	2,177,791
Total Electric Plant	<u>\$ 44,516,544</u>	<u>\$ 41,818,228</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, 2013 and 2012

3 - OTHER PROPERTY AND INVESTMENTS:

Investments consisted of the following at December 31, 2013 and 2012.

Held to Maturity:

		<u>2013</u>		<u>2012</u>
Capital Stock - Nat'l Bank For Cooperatives	\$	201,644	\$	222,535
Total Investments in Associated Organizations		201,644		222,535
Capital Term Certificates of NRUCFC	(1)	1,359,620		1,333,192
Other Investments:				
Bank Rate Saving	(1)	10		10
CFC Daily Cash Fund	(1)	93,214		961,424
Total Other Investments		<u>93,225</u>		<u>961,434</u>
Total Other Property and Investments		<u>\$ 1,654,489</u>		<u>\$ 2,517,161</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 12/31/13 and 12/31/12.

4 - DETAILS OF PATRONAGE CAPITAL:

		<u>2013</u>		<u>2012</u>
Assigned and Assignable	\$	15,832,240	\$	15,221,535
Less: Retirements		-		-
Total Assigned and Assignable		<u>15,832,240</u>		<u>15,221,535</u>
Less: Unassigned Losses		-		-
Balance	\$	<u>15,832,240</u>	\$	<u>15,221,535</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. In September 2013, all long-term debt payable to RUS was refinanced through the National Rural Utilities Cooperative Finance Corporation and combined with existing note payable (see Note 5 (d)).

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

		<u>2013</u>		<u>2012</u>
Five Percent Notes		-0-	\$	4,175,202
Less: Current Portion		<u>-0-</u>		<u>( 221,396 )</u>
Total	\$	<u>-0-</u>	\$	<u>3,953,806</u>

JEFFERSON DAVIS ELECTRIC COOPERATIVE, INC.  
 NOTES TO THE FINANCIAL STATEMENTS (cont.)  
 For The Years Ended December 31, 2013 and 2012

5 - MORTGAGE NOTES (Continued):

(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. In September 2013, all long-term debt payable to RUS was refinanced through the National Rural Utilities Cooperative Finance Corporation and combined with existing note payable (see Note 5 (d)).

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

	<u>2013</u>	<u>2012</u>
4.691 % Loan	\$ -0-	\$ 1,489,717
5.121 % Loan	-0-	2,536,510
Less: Current Portion	<u>-0-</u>	<u>(83,756)</u>
<b>Total</b>	<b>\$ <u>-0-</u></b>	<b>\$ <u>3,942,471</u></b>

(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. In September 2013, all long-term debt payable to RUS was refinanced through the National Rural Utilities Cooperative Finance Corporation and combined with existing note payable (see Note 5 (d)).

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

	<u>2013</u>	<u>2012</u>
Loan Number 234053002	\$ -0-	\$ 800,351
Loan Number 1873664	-0-	1,114,496
Less: Current Portion	<u>-0-</u>	<u>(45,460)</u>
<b>Total</b>	<b>\$ <u>-0-</u></b>	<b>\$ <u>1,114,497</u></b>

(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. This loan was combined with the rest of long-term debt September 2013.

All long-term debt payable to RUS was combined with this loan. The principle and interest are due quarterly.

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

	<u>2013</u>	<u>2012</u>
Total CFC Loans	\$ 15,797,058	\$ 4,605,855
Less: Current Portion	<u>(657,975)</u>	<u>(499,718)</u>
<b>Total</b>	<b>\$ <u>15,139,083</u></b>	<b>\$ <u>4,106,137</u></b>

JEFFERSON DAVIS ELECTRIC COOPERATIVE, INC.  
 NOTES TO THE FINANCIAL STATEMENTS (cont.)  
 For The Years Ended December 31, 2013 and 2012

5 - MORTGAGE NOTES (d) (Continued):

The maturities of the long-term debt through December 31, 2042 due to National Utilities Cooperative Finance Corporation are as follows:

	\$	657,975
2014		640,861
2015		522,295
2016		423,342
2017		444,567
2018		1,032,194
2019		3,488,917
2020-2024		3,302,638
2025-2029		2,651,305
2030-2034		1,355,087
2035-3039		1,277,877
2040-2042		

Line of credit available at December 31, 2013 was \$ 4,774,896.

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 \$ 366,321 in 2013 and \$ 257,602 in 2012. 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 was \$ 76,098 in 2013 and \$ 70,612 in 2012.

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, 2013 and 2012 is \$ 28,789 and \$ 30,539, respectively.

9 - MAJOR VENDOR:

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

JEFFERSON DAVIS ELECTRIC COOPERATIVE, INC.  
 NOTES TO THE FINANCIAL STATEMENTS (cont.)  
 For The Years Ended December 31, 2013 and 2012

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>2013(1)</u>	<u>2012(1)</u>
Accumulated Postretirement Benefits Obligation:		
Retirees and dependents	\$ (3,309,600)	\$ (2,804,900)
Fully eligible active plan participants	(1,101,400)	(1,035,400)
Other active plan participants	<u>(2,688,400)</u>	<u>(2,141,600)</u>
Total	(7,099,400)	(5,981,900)
Plan assets at fair value	-	-
Accumulated postretirement benefit obligation in excess of plan assets	(7,099,400)	(5,981,900)
Unrecognized actuarial gain (loss)	2,931,951	2,170,399
Prior service cost not yet recognized in net periodic postretirement benefit cost	-	-
Unrecognized transition obligation	<u>-</u>	<u>-</u>
Accrued postretirement benefit cost recognized in the Balance Sheet	<u>\$ (4,167,449)</u>	<u>\$ (3,811,501)</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, 2013	\$ 511,800
Post retirement benefit cost for the year ended December 31, 2012	\$ 518,700

11 - CONCENTRATION OF CREDIT RISK:

Deposit Risk:

	<u>2013</u>	<u>2012</u>
Deposits insured by the FDIC or FSLIC	\$ 250,000	\$ 250,000
Uninsured uncollateralized deposits	\$ 250,000	\$ 258,377

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, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Estimated plant loss due to hurricane Rita	\$ 1,431,545	\$ 2,147,321

JEFFERSON DAVIS ELECTRIC COOPERATIVE, INC.  
 NOTES TO THE FINANCIAL STATEMENTS (cont.)  
 For The Years Ended December 31, 2013 and 2012

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, 2013 and December 31, 2012:

	<u>December 31, 2013</u>		<u>December 31, 2012</u>	
	<u>Carrying Amount</u>	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Fair Value</u>
Cash	\$ 812,179	\$ 812,179	\$ 508,377	\$ 508,377
Other Investments	1,359,620	1,359,620	1,163,969	1,163,969
Investments in Capital Term Certificates	1,183,969	1,183,969	1,333,192	1,333,192
Long Term Debt	15,474,909	15,474,909	13,071,800	13,071,800

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.

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:

The only open litigation is a settlement with FEMA for a total of \$ 889,018 for damages caused by Hurricane Rita (see Note 19).

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 \$ 3,206,368, which had not been expended as of December 31, 2013 and 2012, were recorded as a liability at that date. As the result of an audit by the office of Inspector General, FEMA had disallowed

18 PHYSICAL PLANT AND FEMA REIMBURSEMENTS (continued):

JEFFERSON DAVIS ELECTRIC COOPERATIVE, INC.  
NOTES TO THE FINANCIAL STATEMENTS (cont.)  
For The Years Ended December 31, 2013 and 2012

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 - CAMERON SERVICE FACILITY FEMA PW 2339:

Beginning in 2012, Jefferson Davis Electric Cooperative, Inc. began replacing the loss of its Cameron Parish plant in Cameron, Louisiana, with a total Project Worksheet approval of \$ 1,490,189. FEMA reimbursed Jefferson Davis Electric Cooperative, Inc. \$156,520 for this project which represented all the invoices Jefferson Davis Electric Cooperative, Inc. paid and sent to FEMA. For the year ending December 31, 2013, Jefferson Davis Electric Cooperative, Inc. paid and applied to FEMA for reimbursement \$1,405,678 of paid invoices, of which FEMA reimbursed \$1,162,290. The balance due Jefferson Davis Electric Cooperative, Inc. should be reimbursed in calendar year 2014. The total amounts paid by FEMA has been accounted for as received and not yet completed. This transaction is for replacement for the loss of a plant facility due to hurricanes Rita, Gustoff, and Ike. These funds were not capitalized, expensed, or accounted for as revenue. The plant value retained the original book value and the reimbursement of the plant by FEMA did not increase capital expenses from Jefferson Davis Electric Cooperative, Inc.

21 - ALTERNATE PROJECT – BOOM TRUCK FEMA PW 4769:

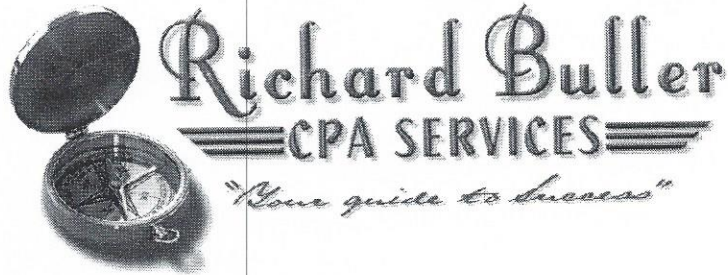
in November 2012, FEMA approved alternate project by using a portion of the damages approved original with PW 2339. Alternate Project after insurance proceeds and twenty five percent reductions, amount to be funded towards PW 4769 was #237,332 of which the Jefferson Davis Electric Cooperative, Inc. paid and received \$ 214,667.

22 - Subsequent Events

Management evaluated subsequent events through March 10, 2014, 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**





INDEPENDENT AUDITOR'S 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, Inc.

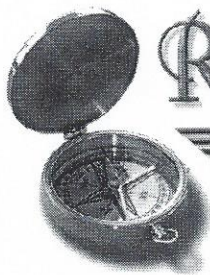
We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Jefferson Davis Electric Cooperative, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2013, and the related statements of activities and patronage capital and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 10, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Jefferson Davis Electric Cooperative, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Jefferson Davis Electric Cooperative, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



# Richard Buller

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### **Compliance and Other Matters**

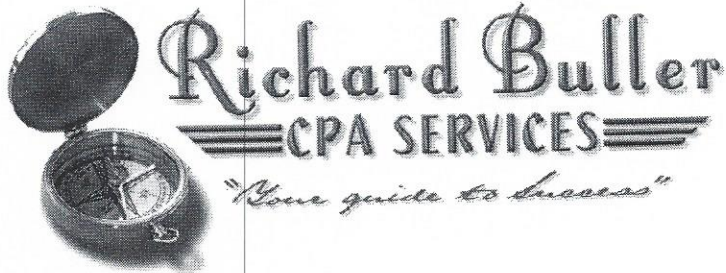
As part of obtaining reasonable assurance about whether Jefferson Davis Electric Cooperative, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could 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*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in dark ink, reading "David Edgson". The signature is written in a cursive, flowing style.

Richard Buller CPA Services, LLC  
Jennings, LA  
March 10, 2014



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

**Report on Compliance for Each Major Federal Program**

We have audited Jefferson Davis Electric Cooperative, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Jefferson Davis Electric Cooperative, Inc.'s major federal programs for the year ended December 31, 2013. Jefferson Davis Electric Cooperative's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

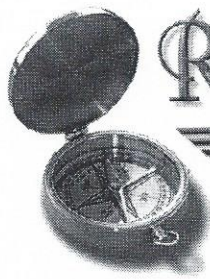
***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Jefferson Davis Electric Cooperative, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Jefferson Davis Electric Cooperative's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Jefferson Davis Electric Cooperative, Inc.'s compliance.

***Opinion on Each Major Federal Program***

In our opinion, Jefferson Davis Electric Cooperative, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.



**Richard Buller**  
**CPA SERVICES**

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### **Report on Internal Control over Compliance**

Management of Jefferson Davis Electric Cooperative, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Jefferson Davis Electric Cooperative, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Jefferson Davis Electric Cooperative, Inc.'s internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in cursive script that reads "David Edgar".

Richard Buller CPA Services, LLC  
Jennings, LA  
March 10, 2014

JEFFERSON DAVIS ELECTRIC COOPERATIVE, INC.  
 Schedule of Expenditures of Federal Awards  
 For The Year Ended December 31, 2013

Federal Grantor/Pass-Through Grantor/ Program Title	Project Number	Federal CFDA Number	Expenditures
<u>United States Department of Homeland Security</u>			
Passed through State Department of Homeland Security			
Public Assistance Grant*		97.036	\$ 214,667
Public Assistance Grant*		97.036	<u>1,405,678</u>
Total Federal Awards 2013			<u>\$ 1,620,345</u>

\* Denotes Major Program

See accompanying notes to schedule of expenditures of federal awards.

JEFFERSON DAVIS ELECTRIC COOPERATIVE, INC.  
Notes to the Schedule of Expenditures of Federal Awards  
For The Years Ended December 31, 2013

**NOTE 1 - GENERAL**

The accompanying Schedule of Expenditures of Federal Awards present the activity of all federal awards programs of the Jefferson Davis Electric Cooperative, Inc. Federal awards received directly from federal agencies, as well as awards passed through other governmental agencies, are included on the schedule. The information in this schedule is presented in accordance with the requirements of OMB A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**NOTE 2 – BASIS OF ACCOUNTING**

The accompanying Schedule of Expenditure of Federal Awards is the accrual basis of accounting, which is described in Note 1 to the Jefferson Davis Electric Cooperative, Inc.'s primary financial statements.

JEFFERSON DAVIS ELECTRIC COOPERATIVE, INC.  
SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

A. SUMMARY OF AUDITOR'S REPORTS

1. The auditor's report expresses an unqualified opinion on the financial statement of the Jefferson Davis Electric Cooperative, Inc.
2. No significant deficiencies in internal control relating to the financial statements are reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Governmental Auditing Standards*.
3. No instances of noncompliance material to the financial statements of the Jefferson Davis Electric Cooperative, Inc. were reported in the Independent Auditor's 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*.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditor's on compliance for Each Major Program and on Internal Control Over Compliance for Each Major Program and in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for the Jefferson Davis Electric Cooperative, Inc. expresses an unqualified opinion.
6. There were no findings required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The program test as a major program was:

Public Assistance Grant	<u>CFDA Number</u> 97.036
-------------------------	------------------------------
8. The threshold for distinguishing Types A and B programs was \$ 300, 000.
9. Jefferson Davis Electric Cooperative, Inc. was determined to be a low-risk auditee.
10. A management letter was not issued for the year ended December 31, 2013.

See Independent Auditor's Report on Other Financial Reporting.

**SCHEDULE OF PRIOR YEAR FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**SECTION I – FINDINGS RELATED TO THE FINANCIAL STATEMENTS**

**NOT APPLICABLE**

**SECTION II- FINDINGS AND QUESTIONED COSTS RELATED TO MAJOR FEDERAL AWARD PROGRAMS**

**NOT APPLICABLE**

**SECTION III – MANAGEMENT LETTER**

**NOT APPLICABLE**