Washington-St. Tammany Electric Cooperative, Inc.
Franklinton, Louisiana
December 31, 2013

Table of Contents

Independent Auditor's Report	Page 3
Financial Statements	
Balance Sheets	Page 5
Statements of Operations	Page 6
Statements of Changes in Patronage Capital	Page 7
Statements of Cash Flows	Page 8
Notes to Financial Statements	Page 10
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*	Page 20
Schedule of Findings and Questioned Costs	Page 22
Schedule of Prior Year Findings and Questioned Costs	Page 23

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Independent Auditor's Report

The Officers and Board of Directors
Washington-St. Tammany Electric Cooperative, Inc.
Franklinton, Louisiana

Report on the Financial Statements

We have audited the accompanying financial statements of Washington-St. Tammany Electric Cooperative, Inc. (a nonprofit organization), which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of operations, changes in 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 audits. We conducted our audits 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 Washington-St. Tammany Electric Cooperative, Inc. as of December 31, 2013 and 2012, and the results of its operations, changes in patronage capital, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated April 30, 2014, on our consideration of Washington-St. Tammany 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 Washington-St. Tammany Electric Cooperative, Inc.'s internal control over financial reporting and compliance.

Hawthorn, Waymouth & Carroll, LLP

April 30, 2014

Liabilities and Equities

	2013	2012
Equities		
Memberships	$ 397,370	$ 397,210
Patronage capital	34,932,257	32,940,332
Total equities	35,329,627	33,337,542
Long-Term Debt,		
Net of current maturities	121,342,203	117,879,997
Current Liabilities		
Line of credit	5,300,000	8,500,000
Current portion of long-term debt	6,298,601	6,011,136
Accounts payable	5,809,480	6,390,758
Customer deposits	5,241,523	5,112,293
Accrued interest	122,065	150,101
Other accrued expenses	216,930	177,312
Total current liabilities	22,988,599	26,341,600
Deferred Credits		
Vacation and sick pay	3,241,935	3,056,370
Accrued post-retirement benefits	11,243,900	12,384,500
Deferred compensation	18,958	-
Total deferred credits	14,504,793	15,440,870
Total liabilities and equities	$194,165,222	$193,000,009

Washington-St. Tammany Electric Cooperative, Inc.
Statements of Operations
Years Ended December 31, 2013 and 2012

	2013	2012
Operating Revenue	$78,739,226	$78,740,094
Operating Expenses		
Cost of power	47,224,970	47,630,079
Distribution - operations	5,519,766	6,066,105
Distribution - maintenance	7,875,523	7,312,090
Consumer accounts	2,965,441	2,851,999
Administrative and general	1,926,465	1,899,532
Depreciation	5,635,513	5,494,200
Taxes	226,632	230,137
Total operating expenses	71,374,310	71,484,142
Operating margins before fixed charges	7,364,916	7,255,952
Fixed Charges		
Interest on long-term debt	5,435,945	5,440,594
Other interest	286,216	194,148
Total fixed charges	5,722,161	5,634,742
Operating margins after fixed charges	1,642,755	1,621,210
Capital Credits	429,826	654,560
Net Operating Margins	2,072,581	2,275,770
Nonoperating Margins		
Interest income	61,083	61,036
Net Margins	$ 2,133,664	$ 2,336,806

The accompanying notes are an integral part of these financial statements.

Washington-St. Tammany Electric Cooperative, Inc.
Statements of Changes in Patronage Capital
Years Ended December 31, 2013 and 2012

	2013	2012
Patronage Capital, beginning of year	$32,940,332	$30,750,090
Net margins	2,133,664	2,336,806
Retirement of capital credits	(141,739)	(146,564)
Patronage Capital, end of year	$34,932,257	$32,940,332

The accompanying notes are an integral part of these financial statements.

Washington-St. Tammany Electric Cooperative, Inc.
Statements of Cash Flows
Years Ended December 31, 2013 and 2012

	2013	2012
Cash Flows From Operating Activities		
Net margins	$ 2,133,664	$ 2,336,806
Adjustments to reconcile net margins to net cash provided by operating activities		
Bad debt expense	70,139	80,845
Depreciation	5,635,513	5,494,200
Amortization of deferred debits	288,617	267,566
Capital credits received from associated organizations	(410,830)	(637,437)
(Increase) decrease in assets:		
Consumer accounts receivable	(1,026,981)	(270,706)
FEMA receivable	2,057,926	(345,589)
Other receivables	285,767	(807,045)
Materials and supplies	267,939	(249,927)
Prepaid expenses	(73,083)	(187,243)
Deferred fuel adjustment	1,704,835	(1,302,248)
Deferred charges	144,763	1,011,301
Increase (decrease) in liabilities:		
Accounts payable	(581,278)	(2,068,697)
Accrued interest	(28,036)	(65,651)
Other accrued expenses	39,618	25,757
Customer deposits	129,230	167,011
Vacation and sick pay	185,565	100,114
Net cash provided by operating activities	10,823,368	3,549,057
Cash Flows From Investing Activities		
Additions to utility plant, net	(12,226,533)	(8,853,446)
Proceeds received on capital credits	270,364	371,846
Net cash used in investing activities	(11,956,169)	(8,481,600)
Cash Flows From Financing Activities		
Change in managed overdraft	–	(1,060,490)
Net proceeds or payments on memberships	160	2,605
Net change in line of credit	(3,200,000)	2,500,000
Retirement of capital credits on deceased estates	(141,739)	(146,564)
Proceeds from long-term debt	10,000,000	10,000,000
Payments on long-term debt	(6,250,329)	(5,484,122)
Net cash provided by financing activities	408,092	5,811,429

(Continued)

The accompanying notes are an integral part of these financial statements.

Washington-St. Tammany Electric Cooperative, Inc.
Statements of Cash Flows (Continued)
Years Ended December 31, 2013 and 2012

	2013	2012
Net Increase in Cash and Cash Equivalents	$ (724,709)	$ 878,886
Cash and Cash Equivalents, beginning of year	993,085	114,199
Cash and Cash Equivalents, end of year	$ 268,376	$ 993,085

Supplemental Schedule of Noncash Investing and Financing Activities		
Decrease in accrued post-retirement benefits, deferred in accordance with the Regulated Operations topic of the FASB - Accounting Standards Codification	$(1,140,600)	$(1,270,900)
Increase in deferred compensation	$ 18,958	$ -
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for:		
Interest	$ 5,750,197	$ 5,700,393

The accompanying notes are an integral part of these financial statements.

Note 1-Summary of Significant Accounting Policies

A. Nature of Organization

Washington-St. Tammany Electric Cooperative, Inc. ("the Cooperative") is an electric distribution cooperative. Its principal business activity is providing electric power to approximately 50,000 member-consumers in Southeast Louisiana and part of Mississippi. The Cooperative is subject to the jurisdiction of the Louisiana Public Service Commission (LPSC) regulations for rate-making.

B. Accounting and Records

The Cooperative maintains its records in accordance with RUS Bulletin 1767B-1, *Uniform System of Accounts*, prescribed for electric borrowers of the Rural Utilities Service.

C. Use of Estimates

The preparation of 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 revenue and expenses during the reporting periods. Actual results could differ from those estimates. Consumer accounts receivable-unbilled and the deferred fuel adjustment are estimated by management. The amounts ultimately realized upon billing may differ. These differences may be material.

D. Cash and Cash Equivalents

For purposes of the statements of cash flows, the Cooperative considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

E. Accounts Receivable

The Cooperative uses the reserve method to account for uncollectible accounts. Accounts deemed uncollectible are written off against the reserve. The allowance for doubtful accounts is based on a percentage of revenue. The allowance is periodically reviewed and compared with past due accounts to ensure the allowance is sufficient.

The Cooperative grants credit to its members. Payment terms are net 30 days with balance due in full. After 30 days, the accounts are considered past due. The Cooperative charges a 5% finance fee on all past due amounts.

F. Utility Plant

Utility plant is stated at original cost, net of contributions. Such cost includes applicable supervision and overhead costs. Expenditures for maintenance and repairs, which do not materially extend the life of assets, are included in operating expenses. Upon retirement or disposition, the recorded cost of depreciable plant and cost of removal, net of salvage, are charged to accumulated depreciation.

Depreciation is computed using straight-line composite rates based upon the estimated useful lives of the various classes of assets, as displayed in Note 2.

Note 1-Summary of Significant Accounting Policies (Continued)

G. Investments in Associated Organizations

Investments in capital term certificates and capital stock of associated organizations are stated at cost. Investments in patronage capital certificates of associated organizations are accounted for at cost plus allocated capital credits, which are assigned to the Cooperative based on its patronage of the associated organization.

H. Amortization

The Cooperative amortizes various deferred debits using the straight-line method.

I. Income Taxes

The Cooperative is exempt from income taxes under Section 501 (c)(12) of the Internal Revenue Code, since it receives more than 85% of its income from members.

The Cooperative has determined that there are no uncertain tax positions that would require recognition in the financial statements. If the Cooperative were to incur an income tax liability in the future, interest on any income tax liability would be reported as interest expense and penalties on any income tax would be reported as income taxes. The Cooperative's conclusions regarding uncertain tax positions may be subject to review and adjustment at a later date based on ongoing analysis of tax laws, regulations, and interpretations thereof, as well as other factors. Generally, federal, state, and local authorities may examine the Cooperative's tax returns for three years from the filing date and the current and prior three years remain subject to examination as of December 31, 2013.

J. Revenue

The Cooperative accrues revenue related to energy consumed but not yet billed.

The Cooperative's rates include a power cost adjustment clause which enables the Cooperative to pass through to consumers all fuel and nonfuel power cost as approved monthly by the Louisiana Public Service Commission (LPSC). A fixed portion of the nonfuel component of the cost of power is included in the base rate, with the remainder of the nonfuel power cost and fuel cost being recovered through the power cost adjustment.

K. Inventory

Inventory is valued at average cost.

L. Advertising

Advertising costs are expensed as incurred. Advertising expense was $18,779 and $16,073 for the years ended December 31, 2013 and 2012, respectively.

Note 1-Summary of Significant Accounting Policies (Continued)

M. Impairment or Disposal of Long-Lived Assets

The Cooperative follows the provisions of the Impairment or Disposal of Long-Lived Assets topic of the FASB Accounting Standards Codification. The Impairment or Disposal of Long-Lived Assets topic requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeded the fair value of the assets. No such impairments were recognized during the years ended December 31, 2013 and 2012.

N. Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

Note 2-Utility Plant

Utility plant consisted of the following as of December 31, 2013 and 2012:

	2013	2012
Distribution plant	$169,840,036	$164,888,408
Transmission plant	19,495,546	19,426,944
General plant	10,391,753	9,792,686
Total electric plant in service	199,727,335	194,108,038
Construction work in progress	13,104,278	8,014,281
Total utility plant	$212,831,613	$202,122,319

Annual average composite rates of depreciation used by the Cooperative during 2013 and 2012, were as follows:

	2013	2012
Distribution plant	2% to 4.2%	2% to 4.2%
Transmission plant	2.8%	2.8%
General plant		
Structures and improvements	3%	3%
Power operated equipment	15%	15%
Transportation equipment	17%	17%
Other	5% to 7.2%	5% to 7.2%

Note 3-Investments in Associated Organizations

Investments in associated organizations consisted of the following as of December 31, 2013 and 2012:

	2013	2012
Capital term certificates		
National Rural Utilities Cooperative Finance Corporation	$ 2,025,873	$ 2,044,869
Patronage capital certificates		
National Rural Utilities Cooperative Finance Corporation	1,547,768	1,494,595
Other	1,049,914	987,345
Capital investments	306,098	262,378
Total investments in associated organizations	$ 4,929,653	$ 4,789,187

Note 4-Deferred Charges

The following is a summary of amounts recorded as deferred charges as of December 31, 2013 and 2012:

	2013	2012
Deferred interest	$ 1,262,093	$ 1,523,531
Deferred post-retirement benefits	11,243,900	12,384,500
Deferred compensation	18,958	–
Unamortized conversion fees	126,839	154,019
Regulatory asset - GIS, net of amortization	1,017,354	1,075,218
Other	48,636	135,534
Total deferred charges	$13,717,780	$15,272,802

Deferred interest represents interest that was added back to the principal balances of debt from RUS and CFC. The deferred interest is accounted for in accordance with the Regulated Operations Topic of the FASB-Accounting Standards Codification, and the deferred cost will be amortized to expense when paid.

Deferred post-retirement benefits are being accounted for in accordance with the Regulated Operations Topic of the FASB-Accounting Standards Codification. See Footnote 9 for information relating to the post-retirement benefit.

Washington-St. Tammany Electric Cooperative, Inc. offers highly-compensated members of management a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust (custodial account), as described in IRC Section 457 (g) for the exclusive benefit of the employees and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use.

Note 4-Deferred Charges (Continued)

The Cooperative repriced its debt with the National Rural Utilities Cooperative Finance Corporation (NRUCFC) to lower its interest rates. The cost to reprice the debt is being amortized to expense over the repricing period. The total amount amortized was $27,180 for 2013 and 2012. Annual amortization expense over the next four years through December 31, 2017 is estimated to be $27,180 per year. Amortization expense in the final year will be $18,119. Following is a summary:

	2013	2012
Original amount of conversion fees	$ 460,292	$ 460,292
Accumulated amortization	(333,453)	(306,273)
Unamortized conversion fees	$ 126,839	$ 154,019

The regulatory asset - GIS consists of expenses related to the Cooperative mapping out its utility plant. This asset is being amortized over twenty years. Amortization expense was $57,864 for the years ended December 31, 2013 and 2012, respectively. Annual amortization expense over the next five years through December 2018 is estimated to be $57,864 per year. Following is a summary:

	2013	2012
Original amount	$ 1,157,192	$ 1,157,192
Accumulated amortization	(139,838)	(81,974)
Net book value	$ 1,017,354	$ 1,075,218

Note 5-Note Payable - Line of Credit

As of December 31, 2013, the Cooperative had a $10,000,000 line of credit with a financial institution, of which $5,300,000 was drawn. Variable interest rate was 3.18% at December 31, 2013. The line of credit is secured by the utility plant.

As of December 31, 2012, the Cooperative had a $10,000,000 line of credit with a financial institution, of which $8,500,000 was drawn. Variable interest rate was 3.20% at December 31, 2012. The line of credit is secured by the utility plant.

Note 6-Long-Term Debt

Long-term debt as of December 31, 2013 and 2012 consisted of the following:

	2013	2012
Rural Utilities Service (RUS) mortgage notes ranging from 4.43% to 4.68% interest, due in monthly principal and interest installments totaling approximately $200,000, with maturity dates ranging from November 2039 through December 2040.	$ 34,457,071	$ 35,110,525
National Rural Utilities Cooperative Finance Cooperation (CFC) mortgage notes with interest rates ranging from 2.90% to 5.90% due in quarterly principal and interest installments ranging from approximately $60,000 to $350,000, with maturity dates ranging from August 2014 through December 2028.	20,976,896	23,847,857
Federal Financing Bank loans with interest rates ranging from 2.67% to 5.52% due in quarterly principal and interest installments ranging from approximately $23,000 to $145,000, with maturity dates ranging from December 2031 through January 2045.	60,489,271	51,732,563
Conversion fees due to National Rural Utilities Cooperative Finance Corporation for repricing its debt in 2004, due in quarterly principal installments of $6,795.	129,104	156,284
CoBank loan with interest at 4.61%, due in monthly and quarterly installments totaling approximately $1,500,000 per year through December 2028.	11,588,462	13,043,904
	127,640,804	123,891,133
Less current maturities of long-term debt	6,298,601	6,011,136
Long-term debt, net of current maturities	$121,342,203	$117,879,997

All of the above notes are collateralized by the Cooperative's utility plant, except for $862,000 in loans with CFC which are unsecured.

Annual maturities of long-term debt for the next five years are as follows:

Year Ending December 31,	
2014	$6,298,601
2015	6,308,385
2016	6,488,671
2017	6,459,627
2018	6,597,239

Note 6-Long-Term Debt (Continued)

RUS and CFC loan covenants require a 1.025 Times Interest Earned Ratio (TIER) and a 1.0 Debt Service Coverage (DSC). The Cooperative must meet these requirements in two out of the three most recent calendar years. The Cooperative met its TIER and DSC covenant requirements for the years ended December 31, 2013 and December 31, 2012.

CoBank loan covenants require total equity as a percentage of total assets to be 12.50% or greater, a debt service coverage ratio of 1.20 to 1.0, and a total debt to EBITDA ratio of less than 11.0. The Cooperative was in compliance with these loan covenants for the years ended December 31, 2013 and 2012.

Note 7-Fair Value of Financial Instruments

The Financial Instruments Topic of the FASB Accounting Standards Codification requires disclosure of fair value information about certain financial instruments, whether or not recognized on the balance sheet. Where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In addition, the Financial Instruments Topic of the FASB Accounting Standards Codification excludes certain financial instruments and all non-financial instruments from its disclosure requirements. Therefore, the aggregate fair value amounts presented do not purport to represent and should not be considered representative of the underlying "market" or franchise value of the Cooperative.

The methods and assumptions used to estimate the fair values of each class of the financial instruments are described as follows.

<u>Cash and Cash Equivalents</u>

The carrying amount reported in the balance sheet for cash and cash equivalents approximates fair value.

<u>Investments in Associated Organizations</u>

The investments in associated organizations are accounted for at cost. These investments are in non-publicly traded companies which have no quoted market prices; therefore, a reasonable estimate of fair value could not be made.

<u>Long-Term and Short-Term Debt</u>

The carrying amounts of the Cooperative's borrowings under its short-term debt arrangements approximate their fair values. The fair values of the Cooperative's long-term debt have been based upon market quotations for similar debt instruments or estimated using discounted cash flow analyses based upon the Cooperative's current incremental borrowing rates for similar types of borrowing arrangements.

Note 7-Fair Value of Financial Instruments (Continued)

The estimated fair values of the Cooperative's financial instruments at December 31, 2013 and 2012 were as follows:

	2013		2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 268,376	$ 268,376	$ 993,085	$ 993,085
Investment in associated organizations	4,929,653	4,929,653	4,789,187	4,789,187
Long-term and short-term debt	132,940,804	132,266,117	132,391,133	134,071,873

Note 8-Pension Plan

The Cooperative has a Defined Contribution Plan available to all employees which provides for matching contributions at specified percentages of compensation. Employer contributions to the Plan for the years ended December 31, 2013 and 2012 totaled $465,353 and $471,278, respectively.

Note 9-Post-Retirement Benefits Other Than Pensions

The Cooperative continues to fund benefit costs principally on a pay-as-you-go basis. The benefit provided by the Cooperative is certain health insurance coverage for retired employees. Substantially all of the Cooperative's employees may become eligible for these benefits if they reach normal retirement age while working for the Cooperative. Such benefits are provided through an insurance company whose premiums are based on the benefits paid during the year. The total premiums paid were $202,262 and $176,655 for 2013 for 2012, respectively.

The following is summary information on the Cooperative's plan.

Accumulated post-retirement benefit obligation (APBO) as of December 31, 2013 and 2012 consisted of the following:

	2013	2012
Retirees and dependents	$ 2,495,100	$ 2,538,400
Fully eligible active plan participants	854,600	961,800
Active plan participants not yet eligible	7,894,200	8,884,300
Accrued post-retirement benefit obligation	$ 11,243,900	$ 12,384,500

Note 9-Post-Retirement Benefits Other Than Pensions (Continued)

The components of net periodic post-retirement benefit cost are as follows:

	2013	2012
Service costs benefits attributed to employee service during the year	$ 526,800	$ 511,500
Interest cost on accumulated post-retirement benefit obligation	446,900	424,100
Net periodic post-retirement benefit cost	$ 973,700	$ 935,600

The discount rate used in determining the APBO was 4.55% and 3.70% for 2013 and 2012, respectively. The assumed health care cost trend rate used in measuring the accumulated post-retirement benefit obligation was 7.5% in 2013 and 9.0% in 2012, declining to an ultimate rate of 5.0% in 2019. The accumulated post-retirement benefit obligation as of December 31, 2013 and 2012 was $11,243,900 and $12,384,500, respectively.

The Cooperative expects to contribute approximately $175,000 to the plan in 2014. Benefits expected to be paid in each of the next five years, and in the aggregate for the next five years thereafter, are approximated as follows:

2014	$ 174,600
2015	205,100
2016	262,000
2017	298,200
2018	344,500
Aggregate for the five years thereafter	2,357,400

Note 10-Patronage Capital

At December 31, 2013 and 2012, patronage capital consisted of:

	2013	2012
Prior year margins assignable	$ –	$ 574,409
Prior year non-operating margins	(12,830,071)	(13,545,667)
Patronage capital assigned	45,628,664	43,574,784
Current year operating margins	1,642,755	1,621,210
Current year non-operating margins	490,909	715,596
Prior period adjustments	–	–
	$ 34,932,257	$ 32,940,332

Under the provisions of the Mortgage Agreement, (exclusive of any distributions to the estates of deceased patrons) after the equities and margins exceed twenty percent of the total assets, the return of patrons capital credits is limited to twenty-five percent of patronage capital or margins received by the Cooperative in the prior calendar year. The Cooperative may return capital or margins in excess of thirty percent of total assets without limitations.

Note 11-Commitments and Contingencies

The Cooperative is committed under wholesale power agreements to purchase all of its electric power and energy requirements from Louisiana Generating, L.L.C. and Southwestern Power Administration through March 31, 2025. The Cooperative has assigned its receivables to Louisiana Generating, L.L.C. as security for its contractual obligations.

The Cooperative is a litigant in several lawsuits. Management, on the advice of legal counsel, believes that such proceedings and contingencies will not have a material effect on the Cooperative. The ultimate outcome of these matters cannot presently be determined and no provision for any liability or asset that may result from the claims has been made in the financial statements.

Note 12-Concentration of Credit Risk

The Cooperative's future operating results may be affected by a number of factors. The Cooperative is dependent upon a number of major suppliers and contractors. If a supplier or contractor has operational problems or ceases making materials available or providing services to the Cooperative, operations could be adversely affected.

The Cooperative has approximately $19,000,000 in debt at variable interest rates. A significant change in interest rates could adversely affect the Cooperative.

At various times during the year, cash and cash equivalents on deposit with one banking institution exceeded the amount insured by the Federal Deposit Insurance Corporation. Management monitors the financial condition of the institution on a regular basis, along with balances in cash and cash equivalents, to minimize potential risk.

Note 13-Subsequent Events

The Cooperative evaluated all subsequent events through April 30, 2014, the date the financial statements were available to be issued. As a result, management of the Cooperative noted no subsequent events that required adjustment to, or disclosure in, these financial statements.

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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*

The Officers and Board of Directors
Washington-St. Tammany Electric Cooperative, Inc.
Franklinton, Louisiana

Officers and Members of the Board:

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 balance sheet of Washington-St. Tammany Electric Cooperative, Inc., as of December 31, 2013, and the related statements of operations, changes in 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 April 30, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Washington-St. Tammany 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Washington-St. Tammany Electric Cooperative, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Washington-St. Tammany Electric Cooperative, Inc.'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 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Washington-St. Tammany 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hawthorn, Waymouth & Carroll, LLP

April 30, 2014

Washington-St. Tammany Electric Cooperative, Inc.
Schedule of Findings and Questioned Costs
Year Ended December 31, 2013

Findings - Financial Statement Audit

None.

Findings - Financial Statement Audit

None.

HAWTHORN, WAYMOUTH & CARROLL, L.L.P.

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CERTIFIED PUBLIC ACCOUNTANTS

8555 UNITED PLAZA BLVD., SUITE 200
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(225) 923-3000 • FAX (225) 923-3008

April 30, 2014

The Officers and Board of Directors
Washington-St. Tammany Electric Cooperative, Inc.
Franklinton, Louisiana

We have audited the financial statements of Washington-St. Tammany Electric Cooperative, Inc. as of and for the year ended December 31, 2013, and have issued our report thereon dated April 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, and *Government Auditing Standards,* as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated February 11, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Washington-St. Tammany Electric Cooperative, Inc. are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2013. We noted no transactions entered into by the Cooperative during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

> Management's estimate of the deferred fuel adjustment is based on fuel costs incurred by the Cooperative and cumulative billings of these costs to customers. We evaluated the key factors and assumptions used to develop the deferred fuel adjustment in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of unbilled revenue is based on subsequent review of billings and the total number of days for each billing cycle. We evaluated the key factors and assumptions used to develop the unbilled revenue estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of accrued post retirement benefits is based on information provided by the plan's actuary. We evaluated the key factors and assumptions used to develop the accrued post-retirement benefits estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures can be particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of post-retirement benefits other than pensions in Note 9 to the financial statements provides the funding status and periodic cost of health insurance provided for retired employees.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 30, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Cooperative's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Cooperative's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Officers and Board of Directors and management of Washington-St. Tammany Electric Cooperative, Inc., and is not intended to be and should not be used by anyone other than these specified parties.

Yours truly,

Hawthorn, Waymouth & Carroll, LLP

HAWTHORN, WAYMOUTH & CARROLL, L.L.P.

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The Officers and Board of Directors
Washington-St. Tammany Electric Cooperative, Inc.
Franklinton, Louisiana

Independent Auditor's Report

We have audited, 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, the financial statements of Washington-St. Tammany Electric Cooperative, Inc., which comprise the balance sheet as of December 31, 2013, and the related statements of operations, changes in 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 April 30, 2014. In accordance with *Government Auditing Standards,* we have also issued our report dated April 30, 2014, on our consideration of Washington-St. Tammany 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. No reports other than the reports referred to above and our schedule of findings and recommendations related to our audit have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that Washington-St. Tammany Electric Cooperative, Inc. failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers,* §1773.33 and clarified in the RUS policy memorandum dated February 7, 2014, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Washington-St. Tammany Electric Cooperative, Inc.'s noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, we noted no matters regarding Washington-St. Tammany Electric Cooperative, Inc.'s accounting and records to indicate that Washington-St. Tammany Electric Cooperative, Inc. did not:

- Maintain adequate and effective accounting procedures;

- Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;

- Reconcile continuing property records to the controlling general ledger plant accounts; Clear construction accounts and accrue depreciation on completed construction; Record and properly price the retirement of plant;

- Seek approval of the sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;

- Maintain adequate control over materials and supplies; Prepare accurate and timely Financial and Operating Reports;

- Obtain written RUS approval to enter into any contract for the management, operation, or maintenance of the borrower's system if the contract covers all or substantially all of the electric system;

- Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;

- Record depreciation in accordance with RUS requirements (See RUS Bulletin 183-1, Depreciation Rates and Procedures);

- Comply with the requirements for the detailed schedule of deferred debits and deferred credits; and

- Comply with the requirements for the detailed schedule of investments.

This report is intended solely for the information and use of the board of directors, management, and the RUS and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Hawthorn, Waymouth & Carroll, LLP

Hawthorn, Waymouth & Carroll, L.L.P.
Baton Rouge, Louisiana
April 30, 2014

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The Officers and Board of Directors
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Baton Rouge, Louisiana

During our audit of the period from January 1, 2013 to December 31, 2013, the Cooperative received no long-term loan fund advances from CFC on loans controlled by the RUS/CFC Mortgage and Loan Agreement.

Hawthorn, Waymouth & Carroll, LLP

April 30, 2014