JEFFERSON DAVIS ELECTRIC COOPERATIVE, INC.

JENNINGS, LOUISIANA

FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2022

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS
LUBBOCK, TEXAS

JEFFERSON DAVIS ELECTRIC COOPERATIVE, INC.

JENNINGS, LOUISIANA

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BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS
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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Jefferson Davis Electric Cooperative, Inc., which comprise the balance sheet as of December 31, 2022, and the related statements of income and patronage capital, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2022, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Jefferson Davis Electric Cooperative, Inc. (the Cooperative) and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Cooperative's ability to continue as a going concern within one year after the date the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Cooperative's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Cooperative's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of compensation, benefits, and other payments to agency head of chief executive officer and the schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 supplementary 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 May 3, 2023 on our consideration of the Cooperative'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 solely 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 the effectiveness of the Cooperative's 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.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

May 3, 2023

FINANCIAL STATEMENTS

JEFFERSON DAVIS ELECTRIC COOPERATIVE, INC.

Exhibit A

BALANCE SHEET
DECEMBER 31, 2022

ASSETS

		December 31, 2022
UTILITY PLANT AT COST		
Electric Plant in Service	$	62,767,266
Right of Use Lease Asset		541,519
Construction Work in Progress		29,798,060
	$	93,106,845
Less: Accumulated Provision for Depreciation		16,996,560
	$	76,110,285
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	$	3,135,589
CURRENT ASSETS		
Cash - General	$	5,349,961
Temporary Cash Investments		52,426
Accounts Receivable (Less allowance for uncollectible accounts of $244,604 in 2022)		1,536,510
Disaster Assistance Receivable		159,861,437
Accounts Receivable - Other		134,725
Unbilled Revenue		2,593,680
Materials and Supplies		4,408,085
Other Current Assets		68,814
	$	174,005,638
Deferred Charges	$	31,011,020
TOTAL ASSETS	$	284,262,532

LIABILITIES AND EQUITIES

EQUITIES		
Memberships	$	38,710
Patronage Capital		24,911,926
Other Equities (Deficits)		(2,829,785)
	$	22,120,851
LONG-TERM DEBT		
National Rural Utilities Cooperative Finance Corporation, Less Current Maturities	$	24,710,970
Lease Obligations, Less Current Maturities		344,097
	$	25,055,067
NON-CURRENT LIABILITIES		
Post-Retirement Benefit Obligation, Less Current Maturities	$	7,080,360
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	$	1,038,000
Current Portion of Post-Retirement Benefit Obligation		404,021
Current Maturities of Lease Obligations		197,422
Line of Credit, CFC		215,911,517
Accounts Payable Purchased Power		1,548,317
Accounts Payable - Other		10,312,861
Overbilled Wholesale Power Cost Adjustment		86,882
Member Deposits		125,114
Accrued Interest Payable		95,710
Other Accrued Liabilities		91,297
	$	229,811,141
DEFERRED CREDITS AND OTHER LIABILTIES		
Accumulated Provision for Post-Retirement Benefits - Actuarial Gain	$	193,479
Deferred Credits		1,634
	$	195,113
TOTAL LIABILITIES AND EQUITIES	$	284,262,532

See accompanying notes to financial statements.

JEFFERSON DAVIS ELECTRIC COOPERATIVE, INC.

Exhibit B

STATEMENT OF INCOME AND PATRONAGE CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2022

	Year Ended December 31, 2022 Amount	%
OPERATING REVENUES		
Electricity Sales	$ 29,054,756	95.4
Unbilled Revenue	958,858	3.1
Fuel (Over) Under Collected	(86,882)	(0.3)
Rent from Electric Property	98,197	0.3
Miscellaneous Electric Revenue	454,777	1.5
Total Operating Revenues	$ 30,479,706	100.0
OPERATING EXPENSES		
Purchased Power	$ 17,439,898	57.2
Transmission - Maintenance	(14,569)	0.0
Distribution - Operation	2,398,517	7.9
Distribution - Maintenance	2,597,902	8.5
Customer Accounts	874,201	2.9
Customer Service and Information	25,174	0.1
Selling Expenses	4,754	0.0
Administrative and General	3,311,065	10.9
Depreciation and Amortization	1,650,529	5.4
Taxes	341,961	1.1
Other Interest	925,622	3.0
Other Deductions	257,949	0.8
Total Operating Expenses	$ 29,813,003	97.8
OPERATING MARGINS - Before Fixed Charges	$ 666,703	2.2
FIXED CHARGES		
Interest on Long-Term Debt	$ 707,594	2.3
Amortization of Prepayment Penalty	33,085	0.1
	$ 740,679	2.4
OPERATING MARGINS - After Fixed Charges	$ (73,976)	(0.2)
Other Capital Credits	512,354	1.7
NET OPERATING MARGINS	$ 438,378	1.5
NONOPERATING MARGINS		
Interest Income	$ 30,726	0.1
Gain on Disposition of Assets	66,628	0.2
Other Income	4,798	0.0
	$ 102,152	0.3
NET MARGINS	$ 540,530	1.8
PATRONAGE CAPITAL - BEGINNING OF YEAR	25,735,941	
Estate Retirements	(25,602)	
Offset Prior Losses with Current Year Non-Operating Margins	(102,152)	
Offset Prior Losses with Prior Year Non-Operating Margins	(1,208,248)	
Transfer Gains to Other Equities	(28,543)	
PATRONAGE CAPITAL - END OF YEAR	$ 24,911,926	

See accompanying notes to financial statements.

JEFFERSON DAVIS ELECTRIC COOPERATIVE, INC.

Exhibit C

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022

		December 31, 2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	$	540,530
Reconciliation of Net Margins to Net Cash From Operating Activities		
Depreciation and Amortization		1,991,143
(Gain)/Loss on Disposition of Assets		(66,628)
Capital Credits - Non Cash		(289,082)
Post-Retirement Benefit Accruals		356,775
Unrecorded Audit Entries		180,442
(Increase) Decrease		
Accounts Receivable and Other Accounts Receivable		818,018
Unbilled Revenue		(958,858)
Materials and Supplies and Other Current Assets		1,266,945
Deferred Charges		122,628
Increase (Decrease)		
Accounts Payable and Other Accrued Liabilities		371,337
(Over) Under Collected Wholesale Power Cost Adjustment		86,882
Deferred Credits		1,634
Net Cash From Operating Activities	$	4,421,766
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Plant	$	(8,538,286)
Plant Removal Costs net of Salvage and Other Credits		(783,177)
Proceeds from Sale of Assets		435,401
Other Property and Investments		36,100
Net Cash From Investing Activities	$	(8,849,962)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Activity on Line of Credit	$	(16,247,930)
Payments on Long-Term Debt		(1,230,380)
Advances on Long-Term Debt		3,250,000
Disaster Assistance - Receivable, Deferral, and Construction		18,734,712
Payments on Post-Retirement Benefits		(325,253)
Retirement of Capital Credits		(25,602)
Net Change in Memberships		720
Net Cash From Financing Activities	$	4,156,267
NET CHANGE IN CASH AND CASH EQUIVALENTS	$	(271,929)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR		5,674,316
CASH AND CASH EQUIVALENTS - END OF YEAR	$	5,402,387
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest on Long-Term Debt	$	925,370
Income Taxes	$	0
SUPPLEMENTAL DISCLOSURES OF NON-CASH FLOW INFORMATION		
Right Of Use Leases	$	541,519

See accompanying notes to financial statements.

JEFFERSON DAVIS ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Nature of Operations

Jefferson Davis Electric Cooperative, Inc. (the Cooperative), is a Louisiana non-profit corporation organized to provide electric service at the retail level to residential and commercial accounts in Southwest Louisiana. Power delivered at retail is purchased wholesale primarily from Louisiana Generating, LLC. The Cooperative is regulated by the Louisiana Public Service Commission (LPSC). Any revenues earned in excess of costs incurred are allocated to members of the Cooperative and are reflected as patronage capital equity in the balance sheet.

System of Accounts

Although the Cooperative is no longer an RUS borrower, the accounting records are maintained in accordance with the Rural Utilities Service (RUS) Uniform System of Accounts (USOA). The financial statements and the accompanying notes to the financial statements have been prepared on the basis of U.S. generally accepted accounting principles (GAAP).

Regulatory Accounting

Due to regulation of its rates by the LPSC, the Cooperative follows regulatory accounting requirements. Regulatory accounting requirements recognize that the ratemaking process can result in differences in the application of generally accepted accounting principles between regulated and non-regulated businesses. Such differences generally involve the accounting period in which various transactions enter into the determination of net margin. Accordingly, certain costs and receipts may be capitalized as a regulatory asset or liability that would otherwise be charged to expense or revenues. Regulatory assets and liabilities (included in deferred charges and deferred credits) are recorded when it is probable that future rates will permit their recovery and are amortized over their expected recovery period as authorized by the Board of Directors.

Patronage Capital

In conformity with its bylaws, the Cooperative conducts its operations on a cooperative, nonprofit basis. Annual revenues in excess of the cost of providing service, commonly referred to as net margins, are allocated in the form of "capital credits" to the customers' capital accounts on the basis of patronage. Capital credits are returned to members in accordance with the Cooperative's policies and are classified as payable upon Board resolution authorizing retirement.

Electric Plant, Maintenance, and Depreciation

Electric plant is stated at the original cost of construction, which includes the cost of contracted services, direct labor, materials, and overhead items. Contributions from others toward the construction of electric plant are credited to the applicable plant accounts.

When property which represents a retirement unit is replaced or removed, the average cost of such property as determined from the continuing property records is credited to electric plant and such cost, together with cost of removal less salvage, is charged to the accumulated provision for depreciation.

NOTES TO FINANCIAL STATEMENTS

Depreciation is recorded on the composite basis and is charged to capital and operating accounts at rates adopted by the Board of Directors in conformity with guidelines provided by RUS. When transmission and distribution units of property are retired, their average cost (specific unit cost for substantially all of the general plant) is removed from utility plant and the cost, less net salvage, is removed from allowances for depreciation.

Costs of routine repairs and maintenance that do not improve or extend the useful lives of the related assets, and the replacement and renewal of items determined to be less than units of plant are charged to maintenance as incurred.

Cash and Cash Equivalents

For purposes of the statement 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.

Accounts Receivable

Accounts receivable are stated at the amount that management of the Cooperative expects to collect from outstanding balances. Management provides for probable uncollectible amounts through an allowance for doubtful accounts. Additions to the allowance for doubtful accounts are based on management’s judgment, considering historical write-offs, review of specific past-due accounts, collections and current credit conditions. Generally, the Cooperative considers accounts receivable past due after 30 days. Balances which remain outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for doubtful accounts and a credit to the applicable accounts receivable. Payments received on accounts subsequent to being written off are considered a bad debt recovery.

Financial Instruments with Off-Balance Sheet Risk

The Cooperative maintains checking accounts in financial institutions located in its service area. The balances are insured by the Federal Deposit Insurance Corporation. Deposits at times exceeded insured amounts.

Group Concentrations of Credit Risk

The Cooperative's headquarters facility is located in Jennings, Louisiana. The service area includes three parishes in Louisiana. The Cooperative records a receivable for electric revenues as billed on a monthly basis. The Cooperative requires a deposit from its members upon connection based on a credit check, which is applied to unpaid bills and fees in the event of default. The deposit accrues interest annually and is returned along with accrued interest after one year of prompt payments. As of December 31, 2022, deposits on hand totaled $125,114.

At December 31, 2022, 75% of the Cooperative’s 54 employees work under a collective bargaining agreement. Those employees are represented by the International Brotherhood of Electric Workers whose existing labor agreement will expire on November 1, 2023.

Investments in Associated Organizations

In the course of its business, the Cooperative has become a member of other cooperative organizations. Such membership required an investment in each cooperative for which the Cooperative periodically receives patronage which can be disbursed or reinvested. These investments are carried at cost adjusted for any reinvested patronage.

NOTES TO FINANCIAL STATEMENTS

Materials and Supplies

Inventories consist primarily of materials and supplies for construction and maintenance of the Cooperative's transmission and distribution system and are stated at average unit cost, as prescribed by RUS. Usable material from plant retirements is returned to inventory at current average cost.

Income Taxes

The Cooperative is exempt from federal income taxes under Section 501 (c) (12) of the Internal Revenue Code. Accordingly, there is no provision for income taxes in the accompanying financial statements.

In accordance with the Financial Accounting Standards Board (FASB) ASC 740-10 which also requires the disclosure of open tax years subject to examination and the policy for classifying interest and penalties, the Cooperative has performed an evaluation and determined that no uncertain tax liabilities or positions exist for the year ended December 31, 2022. The Cooperative files income tax returns in the U.S. federal jurisdiction. The Cooperative is no longer subject to U.S. federal income tax examinations by tax authorities for a period of three years beyond the filing of those returns.

Use of Estimates

The preparation of financial statements in conformity with GAAP 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.

Advertising

Advertising costs are charged to expense when incurred. Advertising expense was $4,754 for the year ended December 31, 2022.

2. Restatement of Previously Issued Financial Statements

The Cooperative has restated its previously issued financial statements for 2021, primarily to reflect the correction of errors related to its recording of Deferred Revenue.

Regulatory accounting requires that any Deferred Revenue recognition be approved by both the Board of Directors and the rate regulatory body governing the Cooperative's rates. The Cooperative recorded Deferred Revenue without having obtained the appropriate approval from the Louisiana Public Service Commission.

Following the Cooperative's determination that it would restate its financial statements for 2021, the Cooperative also determined that it would correct other known miscellaneous immaterial errors made in the application of GAAP that arose during those periods. The Cooperative's restated financial statements reflect each of these items in the period in which it actually arose.

NOTES TO FINANCIAL STATEMENTS

The effect of correction of these errors on results of operations for the above mentioned financial statements is as follows for the 2021 calendar year:

		December 31, 2021
Patronage Capital		
As previously reported	$	17,417,452
As restated	$	25,735,941
Other Equities		
As previously reported	$	0
As restated	$	(4,168,727)
Donated		
As previously reported	$	4,808
As restated	$	0
Totals		
As previously reported	$	17,422,260
As restated	$	21,567,214

3. Utility Plant

Utility Plant consists of the following:

		December 31, 2022
Transmission and Distribution Plant	$	56,613,387
General Plant		6,153,879
Property Under Lease		541,519
	$	63,308,785
Construction Work in Progress		29,798,060
Total	$	93,106,845
Accumulated Depreciation		(16,996,560)
Total Utility Plant, net	$	76,110,285

Depreciation expense is provided by the straight-line method over the composite rate or a specific unit basis for transportation and power operated equipment as follows:

Transmission Plant	2.75%
Distribution Plant	2.30% - 3.90%
General Plant:	
Structures and Improvements	3.00%
Transportation Equipment	10.00% - 25.00%
Power Operating Equipment	6.00%
Other General Plant	2.75% - 6.00%

Depreciation was $1,991,143 for the year ended December 31, 2022 of which $1,650,529 were charged to depreciation expense, and $340,614 were allocated to other accounts.

4. Cash and Cash Equivalents

Cash and cash equivalents consist of the following:

	December 31, 2022
Working Funds	$ 1,400
Cash in Bank	5,348,561
Cooperative Finance Corporation Daily Fund	52,426
	$ 5,402,387

5. Investments in Associated Organizations

The Cooperative has business relationships with various other cooperatives. As a result, the Cooperative holds membership rights in these organizations, which include the right to receive patronage allocations.

Investments in associated organizations consisted of the following:

	December 31, 2022
Arkansas Electric Cooperative Corp.	$ 290,840
Meridian Cooperative	105,818
Federated Rural Electric Insurance Exchange	412,591
CoBank Common Stock	25,760
Gresco Utility Supply, Inc.	942,034
National Rural Cooperative Finance Corporation (CFC):	
Patronage Capital	790,196
Capital Term Certificates (CTC):	568,350
Total Investments in Associated Organizations	$ 3,135,589

6. Disaster Assistance Receivable

In 2020, Southwest Louisiana was struck by two hurricanes, Laura and Delta, which caused significant damage to the Cooperative’s transmission and distribution plant. The Cooperative has recorded a receivable for what has been approved by the Federal Emergency Management Agency (FEMA) via the Governor’s Office of Homeland Security and Emergency Preparedness (GOHSEP) which will reimburse the Cooperative for hurricane recovery related to costs through December 31, 2022. The receivable represents the funds that have been considered obligated by FEMA. As a result of hurricanes Laura and Delta, FEMA has obligated funds to the Cooperative totaling $289,668,048 of which the Cooperative has recorded a disaster assistance receivable in the amount of $159,861,437 as of December 31, 2022. The Cooperative has received funds from FEMA passed through GOHSEP totaling $129,806,611 through December 31, 2022.

7. Deferred Charges

Deferred charges consist of the following:

	December 31, 2022
Prepayment Penalty	$ 507,837
Regulatory Asset - Hurricane Laura - Generators	20,165,313
Regulatory Asset - Hurricane Laura - Interest	10,312,623
Other	25,247
	$ 31,011,020

Regulatory assets are recorded for expenses that are deferred and will be recovered through rates charged to members in future periods. Such deferrals are made at the discretion of the Cooperative’s Board of Directors and the LPSC.

The damage from the aforementioned hurricanes has left several substations without power. In order to provide electricity to its customers, the Cooperative has rented large generators and at these substations at substantial cost. Additionally, the Cooperative has incurred significant costs for debris removal. On May 20, 2021, the Cooperative’s board of directors approved establishing a regulatory asset for these costs net of expected FEMA reimbursement. Any amounts not reimbursed through FEMA will be recovered through a rate rider application through the LPSC.

The Cooperative pays interest on emergency lines of credit (ELOC) financed by the Cooperative’s primary lender, CFC. The interest is incurred due to the Cooperative financing payment of invoices associated with hurricanes in advance of reimbursement by FEMA. As a result, the Cooperative applied for and received rate relief related to the interest being paid on the ELOC. The Cooperative is collecting 2mils per KWH sold for the interest associated with the emergency lines of credit. The Cooperative is amortizing the interest incurred on the ELOC on the same basis of collection. The amount collected and expensed for the year ended December 31, 2022 was $479,283.

8. Mortgage Notes – CFC

The following is a summary of long-term debt due CFC and maturing at various times from 2023 to 2052:

	December 31, 2022
Fixed Rate Notes - 2.710% - 3.840%	$ 5,475,184
Fixed Rate Notes - 4.000% - 4.750%	15,031,050
Fixed Rate Notes - 5.000% - 5.890%	5,242,736
Total CFC Mortgage Notes	$ 25,748,970
Less: Current Maturities	1,038,000
	$ 24,710,970

Principal and interest installments on the above notes are due in quarterly amounts. As of December 31, 2022, annual maturities of long-term debt due CFC for the next five years are as follows:

2023	$ 1,038,000
2024	1,032,000
2025	1,078,000
2026	1,106,000
2027	933,000

9. Line of Credit - CFC

The Cooperative lines of credit totaling $235,000,000 with CFC. At December 31, 2022, $215,911,517 was advanced on the line of credit. At December 31, 2022, the interest rate on the lines of credit ranged 5.15% to 5.75%. At December 31, 2022, there were unfunded amounts totaling $21,593,483 remaining on these facilities.

10. Lease Obligations

The Cooperative executed lease agreements with Altec leasing for five bucket and service trucks with an implicit interest rates ranging from 1.34% to 1.75%. The leases are multi-year leases for 48 months. The leases are considered operating leases but the Cooperative has recorded a right of use (ROU) lease asset and corresponding liability associated with the leases.

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, effective for annual reporting periods beginning after December 15, 2021. The previous effective date for this standard of December 15, 2020 was delayed by FASB ASU 2019-10. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP, which requires only financing leases to be recognized on the balance sheet, the new ASU will require both types of leases to be recognized on the balance sheet. The ASU will also require disclosures to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements providing additional information about the amounts recorded in the financial statements. The Cooperative adopted the provisions of this accounting standard effective December 31, 2022.

The balance of the assets are as follows:

		December 31, 2022
Transportation Equipment - ROU	$	541,519

A schedule of future minimum lease payments under these leases is as follows:

2023	$	203,389
2024		203,389
2025		122,913
2026		23,170
	$	552,861
Less: Current Maturities		197,422
Less: Discounts on Right of Use Assets		11,342
Present Value of Net Lease Obligations	$	344,097

11. Return of Capital

The mortgage agreement contains provision to make patronage capital retirements. These provisions include minimum equity, debt service and earnings ratios. The equities and margins of the Cooperative represent 7.78% of the total assets at the balance sheet date. Patronage capital estate retirements totaling $25,602 was retired during the year ended December 31, 2022, and was within guidelines in the mortgage agreements for return of capital.

NOTES TO FINANCIAL STATEMENTS

12. Patronage Capital

Patronage Capital consists of the following:

		December 31, 2022
Assigned	$	19,512,227
Unbilled Revenue - Unassigned		816,367
Assignable		4,583,332
	$	24,911,926

13. Other Equities (Deficits)

Other Equities (Deficits) consist of the following:

		December 31, 2022
Donated Capital	$	4,808
Retired Capital Credit Gain		28,544
Prior Operating Deficits		(2,863,137)
	$	(2,829,785)

In accordance with its bylaws, the Cooperative uses non-operating margins to offset operating deficits.

14. Deferred Credits

Deferred Credits consist of the following:

		December 31, 2022
Actuarial Gain	$	193,479
Other		1,634
	$	195,113

15. Pension Plan

The Cooperative participates in the National Rural Electric Cooperative (NRECA) Retirement Security Plan (RS Plan), a multiemployer defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. The plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333.

A unique characteristic of a multiemployer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

The Cooperative's contributions to the RS Plan in 2022 represented less than 5 percent of the total contributions made to the RS Plan by all participating employers. The Cooperative made contributions to the RS Plan of $508,876 in 2022. Pension expense for the year ended December 31, 2022, including amortization was $602,531.

For the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was over 80 percent funded on January 1, 2021, based on the PPA funding target and PPA actuarial value of assets on those dates.

Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

Substantially all full-time employees participate in a 401(k) plan administered by NRECA. Participants are required to contribute at least 2% of their income and the Cooperative matches an additional 2%. The amount expensed for the 401(k) match totaled $54,885 for the year ended December 31, 2022.

16. Post-Retirement Benefits Other than Pensions

In addition to providing pension benefits, the Cooperative provides certain medical and dental insurance benefits for retired employees. The Cooperative has adopted *Accounting Standards Codification (ASC) 715*, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans*, which requires the Cooperative to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability, respectively, in its balance sheet and recognize changes in that funded status in the year in which the change occurs in other comprehensive income. However, for entities such as the Cooperative that are subject to *ASC 980 – Regulated Operations*, the net loss, prior service cost, and transition obligation are recorded as a regulatory asset since the Cooperative has historically recovered and currently recovers pension and other postretirement benefits through its electric rates and there is no negative evidence that the existing regulatory treatment will change. If, in the future, the regulatory bodies indicate a change in policy related to the recovery of pension and other postretirement benefit costs, this could cause the regulatory asset to be reclassified as other comprehensive income.

JEFFERSON DAVIS ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

Disclosures for the plan for the year ended December 31, 2022 are as follows:

		December 31, 2022
I) Funded Status at End of Year:		
APBO Balance	$	7,484,381
Fair Value of Plan Assets		
APBO in Excess of Plan Assets	$	7,484,381
II) Amounts Recognized in the Balance Sheet:		
Current Liability	$	404,021
Noncurrent Liability		7,080,360
Net Accumulated Post-Retirement Benefit Obligation	$	7,484,381
III) Deferred Acturarial (Gain) Loss, Beginning of Year	$	853,960
Net Actuarial (Gain) Loss		(1,046,241)
Amortization of Actuarial Gain/(Loss)		(1,198)
Deferred Actuarial (Gain) Loss, End of Year	$	(193,479)
IV) Net Periodic Benefit Cost:		
Service Cost	$	285,721
Interest Cost		260,927
Unrecorded Audit Adjustment		(191,071)
Amortization of Actuarial (Gain)/Loss		1,198
Post-Retirement Benefit Cost	$	356,775

Estimated future benefit payments for the next ten years are as follows:

Year		Payments
2023	$	404,021
2024		420,722
2025		438,798
2026		455,958
2027		445,393
2028-2032		2,085,498

Assumptions

The weighted-average rate assumptions used to determine net periodic benefit cost for the year ended December 31, 2022 are as follows:

Discount Rate	5.00%
Healthcare Cost Trend for Next Year	6.63%
Ultimate Healthcare Cost Trend	5.00%
Year that the Rate Reaches the Ultimate Trend Rate	2029

A one percentage-point increase in the health care trend rates would have increased the accumulated benefit obligation by $1,095,779 at December 31, 2022, and increased service and interest costs by $80,034 for the year then ended.

17. Revenues from Contracts with Customers

Revenues from electric service are recognized when services are transferred to the customer in an amount equal to what the Cooperative has the right to bill the customer because this amount represents the value of services provided to customers.

The Cooperative's primary source of revenue is from retail electric sales sold under tariff rates approved by LPSC. The Cooperative transmits and distributes electric power primarily to retail customers in southwestern Louisiana. Energy is provided on demand throughout the month, measured by a meter located at the customer's property. The Cooperative issues monthly bills to customers at rates approved by regulators for power and related services provided during the previous billing cycle.

To the extent that deliveries have occurred, but a bill has not been issued, the Cooperative records an estimate for energy delivered since the latest billings. The Cooperative calculates the unbilled revenue estimate based upon the subsequent month's billing cycles and prorated based upon the number of days in each cycle and the number of days that relate to the prior period. The Cooperative has calculated that its unbilled revenue for delivered power usage which has not been billed to customers at December 31, 2022 amounted to $2,593,680. The unbilled amount is presented as a current asset on the balance sheet.

A portion of the members' billings relates to power cost adjustments. Due to the timing of when the adjustments are actually billed to the member, a cumulative under (overbilled) amount is recorded as an adjustment to electricity sales. Below is a disaggregated view of the Cooperative's revenues from contracts with customers.

		December 31, 2022
Member Electric Sales - Residential	$	14,701,150
Member Electric Sales - Irrigation		2,783,926
Member Electric Sales - Small Commercial		2,782,810
Member Electric Sales - Large Commercial		6,247,759
Member Electric Sales - Lighting		43,852
Member Electric Sales - Other		2,495,259
	$	29,054,756

18. Contingencies, Risks, and Uncertainties

The Cooperative maintains insurance coverage through commercial insurance carriers for liability, property damage, and various other types of loss risk. Management is unaware of any claims or lawsuits against the Cooperative that would not be covered by insurance.

Under its wholesale power agreement, the Cooperative is committed to purchasing all of its electric power from CLECO Cajun, LLC. The rates for such purchases are subject to review annually and are regulated by LPSC. Future operating results could be materially affected in the event of an interruption of the supply of power from CLECO Cajun.

On July 15, 2021, the Cooperative entered into a full requirements power supply agreement with Nextera Energy Marketing, LLC. (Nextera) and the LPSC approved the power supply agreement during the year 2022. On November 23, 2022, finalized the full requirements power supply agreement with Nextera. The anticipated date the Cooperative will begin buying power from Nextera is the year 2025.

The Cooperative experiences natural disasters on occasion and as a result requests funding from FEMA based on the Robert T. Stafford Disaster Relief and Emergency Assistance Act (Stafford Act). As part of the process of requesting funds from Federal Emergency Management Agency (FEMA), the Cooperative must comply with the provisions of the Louisiana Homeland Security and Emergency Assistance and Disaster Act (Louisiana Disaster Act). Compliance with the Louisiana Disaster Act, is administered by Governor's Office of Homeland Security & Emergency Preparedness (GOHSEP). FEMA and GOHSEP are in the process of evaluating the funds obligated and some of the amounts submitted for reimbursement could be disallowed. Due to the destruction caused by the storm, the Cooperative was required to rent generators to be able to continue to provide power to members in its service territory. The Cooperative is expected to be reimbursed for the cost of renting the generators. The Cooperative has benefited from KWH sales without incurring the cost of power. FEMA is expected to reduce the FEMA claim filed by the Cooperative by an estimated fuel benefit. Through December 31, 2022, the estimated benefit of fuel not having to be purchased by the Cooperative is $3,869,432. Any cost incurred by the Cooperative not reimbursed by FEMA is expected to be collected through a rate rider or the wholesale power cost adjustment. Any rate rider will require approval by the LPSC.

Under Disaster declaration 1607, the Cooperative submitted eligible reimbursable cost totaling $81,154,151. Based on GOHSEP's review of allowable cost, the Cooperative was ordered to pay a total of $1,380,058 to be removed from a funding hold from GOHSEP. GOHSEP's review of the Cooperative's documentation, discovered an additional amount of disallowed funds totaling $7,307,771 of which $1,424,293 is currently under appeal from the Cooperative's attorney and consultants. The remaining amount of $5,883,478 will continue to be negotiated between the Cooperative's consultants and GOHSEP. Management anticipates that any amount that is to be paid or deducted from future claims to GOHSEP for Disaster declaration 1607's disallowed funds will result in the Cooperative seeking a rate rider relief through the LPSC.

18. Subsequent Events

Subsequent to December 31, 2022, the LPSC approved the rate rider to increase from 2mils per KWH sold to 5.65mils per KWH sold due to the increase in interest rates.

As of the date of the financial statements, the Cooperative has a $20M loan application in process with CFC.

Subsequent to December 31, 2022, the Cooperative entered into construction contracts for a 230kV transmission line totaling approximately $378,000,000 of which FEMA has currently obligated a portion of the projects totaling $70,646,105. Advanced funding to date totals $6,573,461. The Cooperative anticipates the entire project to be eligible for FEMA funding.

Subsequent events have been evaluated through May 3, 2023, which is the date the financial statements were available to be issued.

COMPLIANCE AND INTERNAL CONTROL SECTION

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LETTER TO BOARD OF DIRECTORS REGARDING POLICIES CONCERNING AUDITS OF CFC BORROWERS

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Jefferson Davis Electric Cooperative, Inc. (the Cooperative), as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Cooperative's financial statements and have issued my report thereon dated May 3, 2023.

In connection with our audit, nothing came to our attention that caused us to believe that the Cooperative failed to comply with the terms of Article V of the National Rural Utilities Cooperative Finance Corporation (CFC) Loan Agreement insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

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

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

May 3, 2023

JEFFERSON DAVIS ELECTRIC COOPERATIVE, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2022

Federal Grantor/Pass-Through Grantor/Program Title	Pass-Through Entity Identifying Number	Assistance Listing Number	Total Federal Expenditures	Amount Passed Through to Subrecipient
FEDERAL AWARDS				
U.S. Department of Homeland Security				
Federal Emergency Management Agency Passed through Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP)				
Public Assistance (Presidentially Declared Disasters)		97.036	$ 34,597,365	$ 0

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Jefferson Davis Electric Cooperative, Inc. under programs of the federal government for the year ended December 31, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Jefferson Davis Electric Cooperative, Inc., it is not intended to and does not present the financial position, changes in net position, or cash flows of Jefferson Davis Electric Cooperative, Inc.

Note B – Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting based on when the funds are obligated by the awarding entity. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note C – Indirect Cost Rate

Jefferson Davis Electric Cooperative, Inc. has elected not to use the 10-percent de minimus indirect cost rate allowed under the Uniform Guidance.

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

Independent Auditor's Report

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

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., as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise Jefferson Davis Electric Cooperative, Inc.'s basic financial statements, and have issued our report thereon dated May 3, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Cooperative's internal control over financial reporting (internal control) as a basis for designing our 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 the Cooperative's internal control. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control.

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. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item [2022-001] to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item [2022-002] to be a significant deficiency.

Report on 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 financial statements. 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*.

Jefferson Davis Electric Cooperative, Inc.'s Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Jefferson Davis Electric Cooperative, Inc.'s response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. Jefferson Davis Electric Cooperative, Inc.'s response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 Cooperative'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 Cooperative's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

May 3, 2023

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REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Jefferson Davis Electric Cooperative, Inc's (the Cooperative) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Cooperative's major federal programs for the year ended December 31, 2022. The Cooperative's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Cooperative 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, 2022.

Basis for Opinion on Each Major Federal Program

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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Cooperative and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Cooperative's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Cooperative's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Cooperative's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Cooperative's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Cooperative's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Cooperative's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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 Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

May 3, 2023

JEFFERSON DAVIS ELECTRIC COOPERATIVE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2022

A. Section I - Summary of Auditor's Results:

1. Financial Statements

Type of auditor's report issued	**Unmodified**	
Internal control over financial reporting		
Material weakness(es) identified?	**X** Yes	No
Significant deficiencies identified that are not considered to be material weaknesses?	**X** Yes	No
Noncompliance material to financial statements noted?	Yes	**X** No

2. Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	Yes	**X** No
Significant deficiency identified that are not considered to be material weaknesses?	Yes	**X** No
Type of auditor's report issued on compliance for major programs	**Unmodified**	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	Yes	**X** No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
97.036	**Public Assistance Grant (Presidentially Declared Disasters)**

Dollar threshold used to distinguish between type A and type B programs:	$ **1,037,921**	
Auditee qualified as low-risk auditee?	**X** Yes	No

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2022

Section II - Financial Statement Findings:

2022-001	*Closing of Hurricane Laura Work Orders without properly applied aid to construction*
Condition and Criteria:	During 2022, the Cooperative closed approximately $6.25m in Hurricane Laura work orders to electric plant in service without having properly applied aid to construction to those work orders.
Effect:	Closing of Hurricane Laura work orders without properly applied FEMA aid to construction resulted in depreciation being recorded on assets in which the Cooperative has little to no basis in the cost of those assets.
Cause:	The individual in charge of the accounting function within the Cooperative is fairly new to the industry and thus work order training and theory is lacking due to inexperience in the Cooperative industry.
Recommendation:	We recommend the Cooperative implement procedures to ensure that Hurricane Laura work orders are not closed until the claims process with FEMA is complete and an entire accounting of all of the assembly units installed and retired from plant is completed.

Views of Responsible Officials and Planned Corrective Actions:

2022-001	The Cooperative reopened all of the closed Hurricane Laura work orders and does not plan to close this project until all FEMA funding has been received for this phase of the disaster relief. Upon completion, Royal Engineering and consultants will provide a detail list of assembly units added and retired from plant so that we can close the projects to the proper continuing property records.
Contact:	Tara Guinn – Chief Financial Officer
2022-002	*Transmission work orders are being closed to the Distribution plant depreciation reserve accounts*
Condition and Criteria:	The Cooperative is closing Transmission plant retirements, cost of removal and salvage to the Distribution plant depreciation reserve accounts.
Effect:	Due to the Cooperative having separate depreciation reserve accounts for Transmission and Distribution plant, transmission retirements being coded to the Distribution plant depreciation reserve can potentially cause either the Distribution plant reserve to become a debit balance or the Transmission plant reserve to exceed the cost of the Transmission plant investment.

JEFFERSON DAVIS ELECTRIC COOPERATIVE, INC.

(CONCLUDED)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2022

Cause:	The Cooperative has not properly set up their assembly units for Transmission plant. If an assembly is used for both Distribution and Transmission plant, then the Cooperative should create the same assembly for Transmission plant.
Recommendation:	Due to the Cooperatives anticipated entrance into MISO, having the reserve accounts properly mapped between Transmission and Distribution plant is important for MISO calculations. We recommend that the Cooperative either build the properly assembly units internally or contract with an individual or entity to assist with the assembly units.

Views of Responsible Officials and Planned Corrective Actions:

2022-002	The Cooperative plans to establish assembly units for all Transmission assets so that Transmission asset retirements are not recorded to the Distribution plant depreciation reserve account.
Contact:	Tara Guinn – Chief Financial Officer

JEFFERSON DAVIS ELECTRIC COOPERATIVE, INC.

SCHEDULE OF COMPENSATION, BENEFITS AND OTHER PAYMENTS TO AGENCY HEAD OR CHIEF EXECUTIVE OFFICER YEAR ENDED DECEMBER 31, 2022

Agency Head Name: Michael Heinen, CEO

Purpose	Amount
Salary	$ 0
Benefits - Insurance	0
Benefits - Retirement	0
Car Allowance	0
Vehicle Provided by Cooperative	0
Per Diem	0
Reimbursements	0
Travel	0
Registration Fees	0
Conference Travel	0
Continuing Professional Education	0
Housing	0
Unvouchered Expenses	0
Special Meals	0