LOUISIANA 13

DIXIE ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES

GREENWELL SPRINGS, LOUISIANA

CONSOLIDATED FINANCIAL STATEMENTS
WITH CONSOLIDATING INFORMATION

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditor's Report

Board of Directors
Dixie Electric Membership Corporation and Subsidiaries
Greenwell Springs, Louisiana

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Dixie Electric Membership Corporation and Subsidiaries (the Cooperative), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, the related consolidated statements of operations and patronage capital, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Dixie Electric Membership Corporation and Subsidiaries as of December 31, 2019 and 2018, and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information for the years ended December 31, 2019 consisting of consolidating balance sheet, consolidating statement of income, and patronage capital, consolidating statement of cash flows and the schedule of compensation, benefits and other payments to agency head of chief executive officer are presented for purposes of additional analysis and is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic consolidated financial statements or to the basic consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic consolidated 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 April 24, 2020 on our consideration of Dixie Electric Membership Corporation 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 Dixie Electric Membership Corporation internal control over financial reporting and compliance.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

April 24, 2020

DIXIE ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES

Exhibit A

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2019 AND 2018

ASSETS

	December 31, 2019	December 31, 2018
UTILITY PLANT		
Electric Plant in Service	$ 688,627,466	$ 670,052,629
Other Fixed Assets	3,350,150	3,338,070
Construction Work in Progress	10,135,750	10,664,833
	$ 702,113,366	$ 684,055,532
Less: Accumulated Provision for Depreciation	179,968,446	173,511,577
Total Utility Plant, Net	$ 522,144,920	$ 510,543,955
INVESTMENTS AND OTHER ASSETS		
Investments in Associated Organizations	$ 10,914,351	$ 10,528,597
Notes Receivable, Long-Term Portion	28,638	40,488
Certificate of Deposit, Pledged	600,000	600,000
	$ 11,542,989	$ 11,169,085
CURRENT ASSETS		
Cash and Cash Equivalents	$ 13,437,181	$ 7,360,027
Current Portion of Notes Receivable	183,805	91,964
Accounts Receivable		
Consumers, net of allowance of $452,843 in 2019 and $500,000 in 2018	9,855,588	13,268,156
FEMA, net of allowance of $361,653 in 2019 and $966,978 in 2018		135,022
Other Receivables, net of allowance of $0 in 2019 and $833,828 in 2018	4,957,352	6,062,423
Unbilled Revenue	10,735,853	11,956,088
Materials and Supplies	4,152,126	3,978,835
Other Current and Accrued Assets	1,582,020	1,556,857
	$ 44,903,925	$ 44,409,372
DEFERRED CHARGES		
Deferred Charges	$ 52,413,735	$ 63,065,913
Deferred Income Tax Asset	257,280	330,987
	$ 52,671,015	$ 63,396,900
TOTAL ASSETS	$ 631,262,849	$ 629,519,312

EQUITIES AND LIABILITIES

	2019	2018
EQUITIES		
Memberships	$ 457,070	$ 451,695
Patronage Capital	112,762,645	115,817,091
Other Equities	9,997,307	4,763,779
	$ 123,217,022	$ 121,032,565
LONG-TERM DEBT		
Notes Payable, Less Current Maturities	$ 413,081,289	$ 393,234,157
Deferred Interest - RUS Notes	363,303	472,097
Lines of Credit - Refinanced with Long-Term Debt		10,861,843
	$ 413,444,592	$ 404,568,097
NON-CURRENT LIABILITIES		
Post-Retirement Benefit Obligation	$ 44,573,234	$ 55,033,854
CURRENT LIABILITIES		
Current Maturities of Notes Payable	$ 13,435,212	$ 12,336,390
Current Portion of Post-Retirement Benefit Obligation	1,820,639	1,754,496
Accounts Payable - Purchased Power	9,062,237	11,253,106
Accounts Payable	3,491,897	4,252,565
Over-Collected Purchase Power Cost Adjustment	5,945,218	2,897,792
Consumer Deposits	8,372,409	8,155,822
Accrued Taxes	95,580	113,628
Accrued Interest	520,667	523,385
Other Current and Accrued Liabilities	1,720,492	1,951,411
	$ 44,464,351	$ 43,238,595
DEFERRED CREDITS	$ 5,563,650	$ 5,646,201
TOTAL EQUITIES AND LIABILITIES	$ 631,262,849	$ 629,519,312

See accompanying notes to the consolidated financial statements.

DIXIE ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES

Exhibit B

CONSOLIDATED STATEMENTS OF OPERATIONS AND PATRONAGE CAPITAL
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	December 31,				Increase
	2019		2018		
	Amount	%	Amount	%	(Decrease)
OPERATING REVENUES					
Residential	$ 163,719,036	76.9	$ 172,643,870	76.8	$ (8,924,834)
Commercial and Industrial - Small	16,012,224	7.5	16,963,801	7.6	(951,577)
Commercial and Industrial - Large	25,431,452	11.9	27,683,818	12.3	(2,252,366)
Public Street & Highway Lighting	204,400	0.1	200,498	0.1	3,902
Other Sales to Public Authorities	968,823	0.5	1,118,952	0.5	(150,129)
Rent from Electric and Other Property	2,077,525	1.0	2,043,481	0.9	34,044
Other Revenue	4,446,647	2.1	4,030,728	1.8	415,919
Total Operating Revenues	$ 212,860,107	100.0	$ 224,685,148	100.0	$ (11,825,041)
OPERATING EXPENSES					
Purchased Power	$ 123,778,362	58.2	$ 136,907,211	60.9	$ (13,128,849)
Cost of Sales	11,660	0.0	3,064	0.0	8,596
Transmission - Operation	476,489	0.2	387,941	0.2	88,548
Transmission - Maintenance	232,555	0.1	56,193	0.0	176,362
Distribution - Operations	7,863,218	3.7	8,352,070	3.7	(488,852)
Distribution - Maintenance	19,414,867	9.1	15,001,814	6.7	4,413,053
Consumer Accounts	6,288,663	3.0	6,671,926	3.0	(383,263)
Customer Service and Information	278,478	0.1	269,424	0.1	9,054
Selling Expenses	1,566,184	0.7	1,188,149	0.5	378,035
Administrative and General Expenses	9,885,306	4.6	8,179,716	3.6	1,705,590
Depreciation	20,822,473	9.8	23,287,627	10.4	(2,465,154)
Taxes	6,121,066	2.9	5,867,471	2.6	253,595
Other Expenses	575,549	0.3	236,581	0.1	338,968
Total Operating Expenses	$ 197,314,870	92.4	$ 206,409,187	91.8	$ (9,094,317)
OPERATING MARGINS - BEFORE FIXED CHARGES	$ 15,545,237	7.6	$ 18,275,961	8.2	$ (2,730,724)
FIXED CHARGES					
Interest on Long-Term Debt	$ 13,994,254	6.6	$ 12,228,211	5.4	1,766,043
Amortization on Reacquired Debt	22,646	0.0	338,383	0.2	(315,737)
Other Interest	395,615	0.2	1,228,116	0.5	(832,501)
Total Fixed Charges	$ 14,412,515	6.8	$ 13,794,710	6.1	617,805
OPERATING MARGINS - AFTER FIXED CHARGES	$ 1,132,722	1.0	$ 4,481,251	2.8	$ (3,348,529)
Other Capital Credits	425,814	0.2	562,563	0.3	(136,749)
NET OPERATING MARGINS	$ 1,558,536	1.2	$ 5,043,814	3.1	$ (3,485,278)
NONOPERATING MARGINS					
Interest Income	$ 699,551	0.3	$ 228,710	0.1	$ 470,841
Other Income	24,852	0.0	615,362	0.3	(590,510)
Total Nonoperating Margins	$ 724,403	0.3	$ 844,072	0.4	$ (119,669)
NET MARGINS BEFORE PROVISION FOR INCOME TAXES	$ 2,282,939	1.5	$ 5,887,886	3.5	$ (3,604,947)
PROVISION FOR INCOME TAX BENEFIT (EXPENSE)					
Current	$ (30,150)	0.0	$ (5,873)	0.0	$ (24,277)
Deferred - State	(12,114)	0.0	59,553	0.0	(71,667)
Deferred - Federal	(61,593)	0.0	271,434	0.1	(333,027)
Total Provision for Income Tax Benefit	$ (103,857)	0.0	$ 325,114	0.1	$ (428,971)
NET MARGINS	$ 2,179,082	1.5	$ 6,213,000	3.6	$ (4,033,918)
PATRONAGE CAPITAL - BEGINNING OF YEAR	115,817,091		109,972,327		
Transfer Nonoperating Margins to Other Equities	(844,072)		(146,621)		
Transfer Subsidiary Margins to Other Equities	(525,831)		(221,615)		
Re-Class Prior Years Nonoperating Margins to Other Equities	(3,863,625)				
PATRONAGE CAPITAL - END OF YEAR	$ 112,762,645		$ 115,817,091		

See accompanying notes to the consolidated financial statements.

DIXIE ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES

Exhibit C

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	December 31, 2019	December 31, 2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	$ 2,179,082	$ 6,213,000
Adjustments to Reconcile Net Margins to Net Cash From Operating Activities		
Depreciation	22,154,297	24,337,172
Capital Credits	(425,814)	(562,563)
(Increase) Decrease		
Accounts Receivable	4,595,099	459,901
Unbilled Revenue	1,220,235	1,420,713
Inventories and Other Current Assets	(198,454)	792,617
Deferred Charges	230,950	1,360,395
Deferred Income Taxes	73,707	(330,987)
Increase (Decrease)		
Accounts Payable and Other Accrued Liabilities	(738,204)	(1,619,538)
Accounts Payable - Purchased Power	(2,190,869)	(7,421,891)
Cash Overdraft		(3,897,793)
Over-Collected Purchased Power Cost Adjustment	3,047,426	3,175,222
Deferred Credits	(55,800)	(945,547)
Net Cash From Operating Activities	$ 29,891,655	$ 22,980,701
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Plant	$ (29,786,259)	$ (25,300,512)
Plant Removal Costs Over Salvage and Other Credits	(3,969,003)	(4,037,580)
Other Property and Investments	(135,254)	578,245
Net Payments - Notes Receivable	95,323	246,679
Intangible Asset		802
Net Cash From Investing Activities	$ (33,795,193)	$ (28,512,366)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Long-Term Debt - RUS	$ (1,990,598)	$ (1,997,020)
Payments on Long-Term Debt - FFB	(7,422,053)	(6,797,177)
Payments on Long-Term Debt - CoBank	(2,007,338)	(1,953,147)
Payments on Long-Term Debt - CFC	(1,378,662)	(2,508,400)
Payments on Long-Term Debt - Other	(138,189)	(76,282)
Advances on Long-Term Debt - FFB	33,774,000	30,000,000
Net Payments - Line of Credit	(10,861,843)	(3,892,610)
Memberships and Other Equities	5,375	5,305
Net Cash From Financing Activities	$ 9,980,692	$ 12,780,669
CHANGE IN CASH AND CASH EQUIVALENTS	$ 6,077,154	$ 7,249,004
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	7,360,027	111,023
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 13,437,181	$ 7,360,027
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Year for:		
Interest	$ 14,328,665	$ 14,563,809
Income Taxes	$ 29,526	$ 1,719

NON CASH INVESTING AND FINANCING ACTIVITIES

During the year ending December 31, 2018, the Cooperative refinanced CFC notes with FFB notes. The amount refinanced was $46,923,000 of CFC debt. This refinance resulted in a early payment fee to CFC in the amount of $154,816 which was expensed during the year. The total amount of FFB debt obtained was $46,923,000.

See accompanying notes to the consolidated financial statements.

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Dixie Electric Membership Corporation (DEMCO) is an electric distribution cooperative. Its principal business activity is providing electric power to over 100,000 consumer accounts throughout seven parishes. DEMCO is subject to the jurisdiction of the Louisiana Public Service Commission (LPSC) for rate-setting.

DEMCO Energy Services, L.L.C. (DESI) provides surge protection services in southeastern Louisiana.

Dixie Business Development Center, Inc. (DBDC) is a nonprofit organization whose purpose is to attract asset emerging businesses in the local service area by providing office spaces to local companies in exchange for rental revenues.

Principles of Consolidations

The consolidated financial statements include the accounts of DEMCO and its wholly owned subsidiaries, DESI and DBDC (collectively referred to herein as "the Cooperative"). Intercompany transactions and balances have been eliminated in consolidation. Operations in these consolidated financial statements are predominately from DEMCO.

System of Accounts

The Cooperative maintains its records in accordance with the Uniform System of Accounts (USOA) prescribed for borrowers from the United States Department of Agriculture Rural Utilities Services.

Use of Estimates in the Preparation of Consolidated Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Cash Equivalents

For purposes of the consolidated 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.

Accounts Receivable and Allowance for Uncollectible Accounts

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 management's estimates, historical experience, and a review of outstanding amounts on an ongoing basis.

The Cooperative uses the aging method to allow for uncollectible accounts receivable. During the year management makes an evaluation of past due accounts to determine collectability. The accounts deemed uncollectible are written off upon approval by the Board of Directors.

Materials and Supplies

Materials and supplies inventories are valued at average unit cost.

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.

Maintenance and repairs, including the renewal of minor items of plant not comprising a retirement unit, are charged to the appropriate maintenance accounts, except that repairs of transportation and service equipment are charged to clearing accounts and redistributed to operating expense and other accounts.

Capitalized Interest

Interest totaling $14,728,841 and $14,051,808 was incurred during the years ended December 31, 2019 and 2018, respectively. Interest costs incurred on borrowed funds during the construction of capital assets are capitalized as a component of the cost of acquiring those assets. Interest of $336,166 and $595,481 was capitalized during the years ended December 31, 2019 and 2018, respectively.

Patronage Capital Certificates

Patronage capital from associated cooperatives are recorded at the stated amount of the certificate.

Deferred Charges

Included in deferred charges are conversion fees related to the repricing of debt, which are amortized over the term of the debt using the straight-line method. Accounting principles generally accepted in the United States of America require that the effective yield method be used to amortize these costs; however, the effect of using the straight-line method is not materially different from the results that would have been obtained under the effective yield method.

Electric Revenues from Contracts with Customers

Certain aspects of the Cooperative's operations are subject to regulation by the Louisiana Public Service Commission (LPSC) which includes being regulated for rate making purposes. The Cooperative's headquarters facilities is located in Greenwell Springs, Louisiana. The service area includes members located in a seven parish area surrounding Greenwell Springs, Louisiana.

Substantially all operating revenues and customer accounts receivables are derived from contracts with customers. Performance obligations related to the sale of energy are satisfied as energy is delivered to customers. The Cooperative recognizes revenue that corresponds to the price of the energy delivered to the customer. The measurement of energy sales to customers is generally based on the reading of their meters, which occurs on a systematic basis throughout the month. At the end of each month, amounts of energy delivered to customers since the date of the last meter reading are estimated, and the corresponding unbilled revenue is recognized. The Cooperative has calculated that its unbilled revenue for delivered power usage which has not been billed to be $10,735,853 and $11,956,088, respectively. The Cooperative's tariffs for electric service include purchased power adjustment clauses under which billings to members are adjusted to reflect changes in the cost of fuel and purchased power as approved by the LPSC. In order to match power costs and related revenues, under-collected power cost to be billed to consumers in subsequent periods is recognized as a current asset and as an increase of classified operating revenues on the consolidated statements of operations and patronage capital. Over-collected power cost to be returned to consumers in subsequent periods is recognized as a current liability and as a decrease of classified operating revenues on the consolidated statements of income, and patronage capital. As of December 31, 2019 and 2018 the Cooperative had over-collected power cost of $5,945,218 and $2,897,792, respectively.

The Cooperative does not recognize a separate financing component of its collections from customers as contract terms are short-term in nature. The Cooperative presents its revenues net of any excise or sales taxes.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers, Topic 606*, which provides a new framework for the recognition of revenue. The Cooperative implemented the guidance on January 1, 2019. Results and disclosures for reporting periods beginning after December 31, 2018 are presented in accordance with Topic 606, while prior period results have not been adjusted and continue to be reported in accordance with prior accounting guidance. The implementation did not have a material impact on the Cooperative's financial statements, other than increased disclosures regarding revenues related to contracts with customers.

Group Concentrations of Credit Risk

The Cooperative may require a deposit from its members upon connection which is applied to unpaid bills and fees in the event of default. Interest is accrued on the deposited funds while it is held by the Cooperative. As of December 31, 2019 and 2018, deposits on hand totaled $8,372,409 and $8,155,822, respectively.

At various times during the year, cash and cash equivalents on deposit with one financial 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 its balances in cash and cash equivalents, to minimize potential 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.

As of December 31, 2019, 72% of the Cooperative's 245 employees work under a collectible bargaining agreement. Those employees are represented by the International Brotherhood of Electrical Workers Local 767 whose existing labor agreement will expire on February 28, 2023.

Advertising

Advertising costs, which are included in operating expenses, are expensed as incurred. Advertising expense was $1,566,184 and $1,188,149 for the years ended December 31, 2019 and 2018, respectively.

Reclassifications

Certain reclassifications have been made to the prior year's consolidated financial statements to conform to the current year's financial statement presentation. The reclassifications has no effect on equities or net margins of the prior year.

Regulation

The Cooperative's accounting policies and the accompanying financial statements conform to generally accepted accounting principles applicable to rate-regulated enterprises and reflects the effects of the ratemaking process.

As a result of the ratemaking process, the Cooperative applies Accounting Standards Codification (ASC) 980, Regulated Operations. The applicable of generally accepted accounting principles by the Cooperative differs in certain respects from the applicable by non-regulated businesses as a result of applying ASC 980. Such differences generally related to the time at which certain items enter into the determination of net margins in order to follow the principle of matching costs and revenues.

2. Assets Pledged

Substantially all assets are pledged as security for the long-term debt due Rural Utilities Service (RUS), Federal Financing Bank (FFB), National Rural Utilities Cooperative Finance Corporation (CFC), and CoBank.

3. Utility Plant

Utility plant consists of the following:

	December 31, 2019	December 31, 2018
Transmission and Distribution Plant	$ 640,679,605	$ 623,794,712
General Plant	47,947,861	46,257,917
Other Fixed Assets	3,350,150	3,338,070
	$ 691,977,616	$ 673,390,699
Construction Work in Progress	10,135,750	10,664,833
Total Utility Plant	$ 702,113,366	$ 684,055,532

Average annual composite rates of depreciation used by the Cooperative during 2019 and 2018 are as follows:

	December 31, 2019	December 31, 2018
Transmission Plant	2.75%	2.75%
Distribution Plant	2.16% to 4.40%	2.16% to 4.40%
Distribution Plant Meters	3.40% to 10.00%	3.40% to 10.00%
General Plant		
Structures and Improvements	2.00% to 6.00%	2.00% to 6.00%
Power Operated Equipment	6.00% to 14.00%	6.00% to 14.00%
Transportation Equipment	16.00%	16.00%
Other	5.97% to 33.34%	5.97% to 33.34%

Depreciation for the years ended December 31, 2019 and 2018 was $22,154,297 and $24,337,172, respectively, of which $20,822,473 and $23,287,627 was charged to depreciation expense, and $1,331,824 and $1,049,545 allocated to other accounts.

4. Investments in Associated Organizations

Investments in Associated Organizations consist of the following:

	December 31, 2019	December 31, 2018
Capital Term Certificates		
National Rural Utilities Cooperative Finance Corporation	$ 4,497,223	$ 4,511,331
Patronage Capital		
National Rural Utilities Cooperative Finance Corporation	4,287,173	4,334,962
Southeastern Data Cooperative, Inc.	411,468	186,308
CoBank, ACB	1,079,387	954,212
Gresco Utility Supply, Inc.	243,272	514,795
National Rural Telecommunications Cooperative, Inc.	40,647	
Federated Insurance	328,192	
Other	20,189	20,189
Memberships		
Other	6,800	6,800
	$ 10,914,351	$ 10,528,597

5. Notes Receivable

Notes Receivable consist of the following:

	December 31,			
		2019		2018
Construction Notes Receivable	$	202,652	$	118,888
Promissory Notes Receivable		9,791		13,564
Less: Current Portion of Notes Receivable		(183,805)		(91,964)
Notes Receivable - Long-Term Portion	$	28,638	$	40,488

Maturities of the notes receivable during the next four years are as follows:

2020	$	183,805
2021		11,850
2022		11,850
2023		4,938
	$	212,443

6. Other Receivables

Other Receivables consist of the following:

	December 31,			
		2019		2018
Pole Attachments	$	1,801,306	$	2,837,169
Other Cooperatives - Mutual Aid				625,287
Contributions for Construction		1,770,209		2,355,637
Sales Taxes - Overpaid		913,447		698,864
DEMCO Foundation		360,086		216,831
Miscellaneous		112,304		162,463
	$	4,957,352	$	6,896,251
Less: Allowance for Uncollectibles				(833,828)
	$	4,957,352	$	6,062,423

7. Materials and Supplies

Materials and Supplies consist of the following:

	December 31, 2019	December 31, 2018
Construction Materials and Supplies	$ 3,724,992	$ 3,586,487
Minor Construction Materials and Supplies	282,745	276,055
Vehicle Parts	144,389	116,293
	$ 4,152,126	$ 3,978,835

8. Deferred Charges

Deferred Charges consist of the following:

	December 31, 2019	December 31, 2018
Deferred Earned Vacation and Sick Leave	$ 5,082,863	$ 4,636,657
Deferred Interest on RUS Notes	159,506	268,299
Unamortized Conversion Fee	189,970	212,616
Post-Retirement Benefits	40,991,194	51,385,671
Pension Prepayment	5,951,216	6,531,822
Other	38,986	30,848
	$ 52,413,735	$ 63,065,913

Deferred earned vacation and sick leave represents employees' accrued vacation and sick time that is accounted for in accordance with the Regulated Operations Topic ASC 980 of the FASB-Accounting Standards Codification. Management represents that approval for the regulatory accounting treatment was obtained from RUS.

Deferred interest represents interest that was added back to the principal balances of debt from RUS. The deferred interest is accounted for in accordance with the Regulated Operations Topic of the FASB-Accounting Standards Codification, and the deferred cost is amortized to expense when paid. The amount amortized was $108,793 and $50,383 for the years ended December 31, 2019 and 2018, respectively.

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.

	December 31, 2019	December 31, 2018
Original Amount	$ 5,265,487	$ 5,265,487
Accumulated Amortization	(5,075,517)	(5,052,871)
Net Book Value	$ 189,970	$ 212,616

Amortization expense was $22,646 and $183,537 for the years ended December 31, 2019 and 2018, respectively. Future expected amortization of the conversion fees is as follows:

2020	$ 22,646
2021	22,646
2022	22,646
2023	22,646
2024	22,646
Thereafter	76,740
	$ 189,970

The Cooperative complies with regulatory requirements under LPSC Order Number S-32362 for purposes of accounting for Post-Retirement Benefits Other than Pensions (OPEB). The order requires the Cooperative to defer OPEB costs in excess of amounts amortizable under the pay-as-you-go method of accounting and provides regulatory approval to recover accrued other Post-Retirement Benefit costs through rates. While the LPSC has ordered the Cooperative to continue the use of the pay-as-you-go method for ratemaking purposes for Post-Retirement Benefits other than pensions, the LPSC retains the flexibility to examine individual entities accounting for other Post-Retirement Benefits to determine if special exceptions to this order are warranted. See Note 17 for information relating to the Cooperative's Post-Retirement Benefit.

The pension prepayment represents an accelerated funding payment to the Cooperative's defined benefit retirement plan for the reduction of future contributions. This amount is being amortized over a period of 17 years on a straight-line basis.

	December 31, 2019	December 31, 2018
Original Amount	$ 9,870,308	$ 9,870,308
Accumulated Amortization	(3,919,092)	(3,338,486)
Net Book Value	$ 5,951,216	$ 6,531,822

Amortization expense related to the pension prepayment was $580,606 for the years ended December 31, 2019 and 2018 Future expected amortization is as follows:

2020	$	580,606
2021		580,606
2022		580,606
2023		580,606
2024		580,606
Thereafter		3,048,186
	$	5,951,216

9. Patronage Capital

Patronage capital consists of the following:

	December 31,			
		2019		2018
Assignable	$	2,179,082	$	6,213,000
Assigned to Date		104,377,900		103,398,427
Underassigned		1		2
Operating Margins - Prior Years		6,205,662		6,205,662
	$	112,762,645	$	115,817,091

10. Return of Capital

The equities and margins of the Cooperative represent 19.52% of the total assets at the balance sheet date. Under the provisions of the Mortgage Agreement, the Cooperative shall not, without written approval of RUS and National Rural Utilities Cooperative Finance Corporation, make any capital credit retirements to members or consumers, provided that the borrower may make capital credit retirements to estates of deceased patrons to the extent required or permitted by its articles of incorporation and bylaws so long as such capital credit retirements shall not in any year exceed 25 percent of the patronage capital and margins received by the borrower in the preceding year. No patronage capital was retired during the year ended December 31, 2019 and 2018, respectively.

11. Other Equities

Other Equities consist of the following:

	December 31,	
	2019	2018
Subsidiary Margins - Net of Dividends	$ 1,244,225	$ 1,359,698
Other Nonoperating Income	8,753,082	3,404,081
	$ 9,997,307	$ 4,763,779

12. Lines of Credit

Lines of credit consists of the following:

	December 31,	
	2019	2018
The Cooperative has two lines of credit facilities totaling $25,000,000 with the National Rural Utilities Cooperative Finance Corporation. The interest rate on the lines of credit was 3.25% and 2.85% at December 31, 2019 and 3.35% and 3.75% at December 31, 2018. The lines of credit, which matured on March 28, 2019, has been renewed for an additional year.	$	$ 10,861,843
The Cooperative has an unsecured $30,000,000 line of credit with CoBank. The interest rate on the line of credit was 3.19% and 4.61% at December 31, 2019 and 2018, respectively. The line of credit matures February 27, 2020.		
The Cooperative has an unsecured $5,000,000 line of credit with Red River Bank. The interest rate on the line of credit was LIBOR plus 2%. The line of credit matures February 2020.		
	$ 0	$ 10,861,843

13. Notes Payable

Notes Payable consist of the following:

	December 31, 2019	December 31, 2018
Rural Utilities Service, 3.63% to 5.18% mortgage notes, with maturity dates ranging from March 2024 through October 2040.	$ 62,946,585	$ 64,937,182
National Rural Utilities Cooperative Finance Corporation, mortgage notes at variable and fixed interest rates ranging from 2.90% to 4.30%, with maturity dates ranging from March 2024 through November 2038.	21,785,376	23,164,038
Federal Financing Bank loans with interest ranging from 2.28% to 3.55% maturing January 2045. These notes are guaranteed by the USDA Rural Utilities Service.	126,004,908	129,351,688
Federal Financing Bank loans with interest ranging from 2.11% to 3.28% maturing December 2048. These notes are guaranteed by the USDA Rural Utilities Service.	191,196,630	161,497,905
CoBank loans with interest rates ranging from 3.09% to 4.10% with maturity dates ranging from March 2023 to September 2037.	24,485,633	26,492,970
National Cooperative Services Corporation note payable with a fixed interest rate of 4.10%. The note guaranteed by DEMCO and secured by a building.	55,926	79,182
Note payable to South Central Planning and Development Commission, Inc. The note is interest free and payments began on June 16, 2018. After 60 months of timely payments, the remaining 40% of the loan balance will be forgiven. If timely payments are not made for the required period, a balloon payment will be due on May 16, 2023 for the remaining balance.	41,443	47,582
	$ 426,516,501	$ 405,570,547
Less: Current Maturities of Notes Payable	13,435,212	12,336,390
Notes Payable, Less Current Maturities	$ 413,081,289	$ 393,234,157

There were no long-term loan funds available to the Cooperative from any of its lenders as of December 31, 2019.

Annual future maturities of notes payable as of December 31, 2019 are as follows:

	CFC	FFB	RUS	CoBank	NCSC	SCPD	Total
2020	$ 1,394,087	$ 7,821,001	$ 2,107,164	$ 2,082,598	$ 24,222	$ 6,140	$ 13,435,212
2021	1,444,208	6,031,020	2,207,148	2,161,090	25,233	6,140	11,874,839
2022	1,496,190	8,217,135	2,311,561	2,218,724	6,471	6,140	14,256,221
2023	1,550,103	8,408,010	2,420,798	1,455,405		23,023	13,857,339
2024	1,412,211	10,936,754	2,226,946	953,433			15,529,344
Thereafter	14,488,577	275,787,618	51,672,968	15,614,383			357,563,546
	$ 21,785,376	$ 317,201,538	$ 62,946,585	$ 24,485,633	$ 55,926	$ 41,443	$ 426,516,501

14. Income Taxes

DESI is a single member limited liability company that has elected to be taxed as a corporation under the Internal Revenue Code (IRC). The State of Louisiana also recognizes this election. Therefore, DESI files corporate income tax returns for both federal and state income tax reporting purposes.

For losses arising in tax years beginning before January 1, 2018, federal net operating losses (NOLs) were generally allowed to be carried back for a period of up to two years for offsetting prior years' taxable income or carried forward for a period not to exceed 20 years for offsetting future taxable income. For losses arising in tax years beginning after December 31, 2017, the federal NOL carry forward period is indefinite and the amount utilized for any year is limited to 80% of taxable income for such year. The Louisiana state NOL carryforward period for offsetting future taxable income is 20 years and the amount utilized for any year is limited to 72% of taxable income for such year. As of December 31, 2019, DESI has the following NOLs available to offset future taxable income, if any.

Year Incurred	Expiration Date	Federal Carry-Forward	State Carry-Forward
2002	2022	$ 1,346,422	$ 1,772,693
2004	2024	254,031	254,031
		$ 1,600,453	$ 2,026,724

DESI accounts for income taxes in accordance with FASB ASC 740, Income Taxes. Accordingly, income taxes are provided for the tax effects of transactions reported in the financial statements, including permanent and temporary timing differences, and consist of taxes currently due plus deferred taxes. Permanent differences represent items of income or expense that will never enter into the computation of taxes payable under applicable tax laws, such as nondeductible expenses. Temporary differences represent items of income or expense impacting the computation of taxes payable in a period different from when such items are recognized for financial state purposes and give rise to deferred income taxes.

DESI follows the asset and liability method for recording deferred income taxes. The objective of the asset and liability method is to establish deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of DESI's assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized and settled. As changes in the tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes for the period in which the rate change occurred.

Deferred income taxes result from transactions which enter into the determination of taxable income in different periods than recorded for financial reporting purposes. These differences represent future tax return consequences (increases and decreases in taxable income) when deferred tax assets and liabilities are recovered, realized or settled. DESI's principal sources of deferred federal and state income taxes are NOL carryovers and accelerated depreciation used for tax purposes. It is anticipated that only a portion of the federal and state NOL carryovers will be utilized prior to the year such carryovers expire. Therefore, a valuation allowance for the related deferred tax asset is recorded in order to reflect a net deferred tax asset for the income tax effect of what management anticipates will be utilized.

Components of net deferred federal tax asset (liability) recognized in the consolidated financial statements are as follows:

	December 31, 2019	December 31, 2018
Operating Loss Carryforward	$ 440,993	$ 503,105
Depreciation	27	(492)
	$ 441,020	$ 502,613
Valuation Allowance	(183,740)	(171,626)
	$ 257,280	$ 330,987

Components of the provision for federal and state tax benefit (expense) are as follows:

	December 31, 2019	December 31, 2018
Current Income Tax Expense	$ (30,150)	$ (5,873)
Provision for Deferred Income Tax Benefit (Expense)	(61,593)	(28,908)
Provision for Deferred Income Taxes - Change in Valuation Allowance	(12,114)	359,895
Total Income Tax Benefit (Expense)	$ (103,857)	$ 325,114

The Cooperative follows the "uncertain tax positions" provisions of accounting principles generally accepted in the United States of America. The primary tax positions are timing differences impacting taxable income. The entities have determined that it is more likely than not that their tax positions will be sustained upon examination by the Internal Revenue Service or the applicable state taxing authority and that all tax benefits are likely to be realized upon settlement with taxing authorities.

DESI files its income tax return in the U.S. federal jurisdiction and in the State of Louisiana. DESI is no longer subject to income tax examination by U.S. federal jurisdiction and by the Louisiana state taxing authorities for the years before 2016. DESI recognizes interest expense and penalties in operating expenses. There were no penalties or interest recognized during the years ended December 31, 2019 and 2018.

15. Fair Value of Financial Instruments

FASB Accounting Standards Codification, Disclosures about Fair Value of Financial Instruments, requires disclosure of fair value information about financial instruments. Many of the Cooperative's financial instruments lack an available market as characterized by a normal exchange between a willing buyer and a willing seller. Accordingly, significant assumptions, estimations, and present value calculations were used for purposes of this disclosure.

The following assumptions were used to estimate fair value of each class of financial instrument for which estimation is practicable.

Patronage Capital from Associated Organizations – The right to receive cash is an inherent component of a financial instrument. The Cooperative holds no right to receive cash since any payments are at the discretion of the governing body for the associated organizations. As such, Patronage Capital from Associated Organizations is not considered financial instruments.

CFC Capital Term Certificates – It is not practicable to estimate fair value for these financial instruments given the lack of a market and their long holding period.

Cash and Certificates of Deposits – Carrying value, given the short period to maturity.

Long-Term Debt Fixed Rate – Estimated by computing the present value by individual note to maturity, using currently quoted or offered rates for similar issues of debt. These are the only financial instruments of the Cooperative that have a difference in fair value and carrying value. The carrying value of the Cooperative's fixed rate debt is $426,516,501, and the estimated fair value was calculated to be $373,992,650 and is Level 2 as defined below.

Fair Value Hierarchy

The Fair Value Measurements Topic of the FASB Accounting Standards Codification establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

The three levels of fair value hierarchy are as follows:

Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the company has the ability to access at the measurement date.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - Inputs are unobservable inputs for the asset or liability.

16. Pension Benefits

Narrative Description

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

Plan Information

The Cooperative's contributions to the RS Plan in 2019 and 2018 represented less than five percent of the total contributions made to the RS Plan by all participating employers. The Cooperative made contributions to the RS Plan of $3,248,908 in 2019 and $3,016,591 in 2018. There have been no significant changes that affect the comparability of 2019 and 2018 contributions. Pension expense for the years ended December 31, 2019 and 2018, including amortization, was $3,829,514 and $3,597,197, respectively.

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 Retirement Security Plan was over 80% funded on January 1, 2019 and at January 1, 2018 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.

The employees also participate in a 401(k) plan, a defined contribution plan provided through National Rural Electric Cooperative Association. The Cooperative makes semi-monthly contributions to the plan matching up to four percent of an employee's salary. The cost for the Cooperative was $455,089 and $409,755 for the years ended December 31, 2019 and 2018, respectively.

17. Post-Retirement Benefits Other than Pensions

The Cooperative continues to fund benefit costs 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 a self-insured plan, which has a stop loss of $100,000 per claim. The total claims and administrative fees paid, net of premiums collected, were $2,334,767 and $2,275,195 for 2019 and 2018, respectively.

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

	December 31, 2019		December 31, 2018
I) Funded Status at End of Year:			
APBO Balance	$ (46,393,873)		$ (56,788,350)
Fair Value of Plan Assets			
APBO in Excess of Plan Assets	$ (46,393,873)		$ (56,788,350)
II) Amounts Recognized in the Balance Sheets:			
Current Liability	$ (1,820,639)		$ (1,754,496)
Noncurrent Liability	(44,573,234)		(55,033,854)
Unrecognized Actuarial Loss - Deferred Charge	40,991,194		51,385,671
Net Accumulated Post-Retirement Benefit Obligation	$ (5,402,679)		$ (5,402,679)
III) Amounts Not Yet Recognized in Net Periodic Post-Retirement Benefit Cost			
Unrecognized Actuarial Loss	$ 40,991,194		$ 51,385,671
Net Prior Service Credit			
Deferred Charge - Unrecognized Actuarial Loss	$ 40,991,194		$ 51,385,671
IV) Net Periodic Benefit Cost - Recognized in Deferred Charges:			
Service Cost	$ 867,349		$ 1,803,700
Interest Cost	1,729,014		2,596,200
Actuarial Gain	(11,112,380)		(11,715,250)
Net Periodic Benefit Cost - Deferred Charge	$ (8,516,017)		$ (7,315,350)
V) Amounts Recognized in Deferred Charges:			
Estimated Premiums Paid by the Cooperative	$ (1,878,460)		$ (1,561,600)
VI) Amount Recognized in Statements of Income and Patronage Capital:			
Actual Premiums Expensed by the Cooperative	$ 2,037,841		$ 1,478,877

Economic Assumptions

The discount rate used to develop the accumulated post-retirement benefit obligation (APBO) was 3.65% and 4.65%, for the years ended December 31, 2019 and 2018, respectively. The assumed health care cost trend rates are as follows for 2019:

	Trend Rate	Declining to Over 6 Years
Pre-65 - Medical and Drug	6.60%	5.00%
Post-65 - Medical and Drug	4.70%	4.60%

The Cooperative has not funded plan assets as of December 31, 2019 and 2018.

As discussed in Note 8, the Cooperative recognizes post-retirement expense for rate making purposes on a pay-as-you-go method in accordance with LPSC Order Number S-32362.

Estimated future benefit payments for the next five years and the five years thereafter are as follows:

2020	$ 1,820,639
2021	1,905,479
2022	1,979,513
2023	2,022,420
2024	1,994,163
Aggregate for the Five Years Thereafter	9,854,825

18. Deferred Credits

Deferred Credits consist of the following:

	December 31, 2019	December 31, 2018
Deferred Earned Vacation and Sick Leave	$ 5,082,863	$ 4,636,657
Customer Refund - Cajun Bankruptcy		624,336
LOA Payout	140,503	229,993
Unclaimed Property	188,134	1,178
Other	152,150	154,037
	$ 5,563,650	$ 5,646,201

Deferred earned vacation and sick leave represents employees' accrued vacation and sick time that is accounted for in accordance with the Regulated Operations Topic ASC 980 of the FASB-Accounting Standards Codification. Management represents that approval for the regulatory accounting treatment was obtained from RUS.

19. Self-Funded Insurance Programs

The Cooperative is exposed to various claims relating to its business, including those for which self-insurance is provided. Claims for which the Cooperative self-insures include: (1) worker's compensation claims; (2) general liability claims by third parties for injury or property damage caused by equipment or personnel; (3) automobile liability claims; and (4) medical liability claims. These types of claims may take a substantial amount of time to resolve and, accordingly, the ultimate liability associated with a particular claim, including claims incurred but not reported as of a period-end reporting date, may not be known for an extended period of time. The methodology for developing self-insurance reserves is based on management estimates and independent third-party actuarial estimates. The estimation process considers, among other matters, the cost of known claims over time, cost of inflation and incurred but not reported claims. These estimates may change based on, among other things, changes in claim history or receipt of additional information relevant to assessing the claims. Further, these estimates may prove to be inaccurate due to factors such as adverse judicial determinations or other claim settlements at higher than estimated amounts. Accordingly, the Cooperative may be required to increase or decrease its reserve levels. Effective January 1, 2014, the Cooperative became self-insured for medical claims. The claims reserves related to worker's compensation, general liability, automobile liability and medical liability, which are included in "other current and accrued liabilities" in the consolidated balance sheets, totaled $695,734 and $979,357 at December 31, 2019 and 2018, respectively.

The Cooperative's worker's compensation plan is administered by a third-party, which requires the pledge of a certificate of deposit in the amount of $600,000, which is included in other assets. The pledge will be released upon dissolution of the plan.

The Cooperative has established a self-insurance program covering medical benefits for substantially all of its employees. The Cooperative limits its losses through the use of stop-loss policies from reinsurers. Specific individual losses for claims are limited to $100,000 a year. For the year ended December 31, 2019, the Cooperative contributed $3,286,225 including reinsurance and administrative fees of $781,789. Employees contributed $924,245. Retirees and spouses contributed $294,434.

The Cooperative has established a self-insurance program covering general liability claims. The Cooperative limits its losses through the use of stop-loss policies from reinsurers. Specific losses for claims are limited to $200,000.

20. Related Party Transactions

The Cooperative collects voluntary contribution from customer billing and remits them to The DEMCO Foundation, Inc. (the Foundation), a related party through common management. DEMCO remitted $342,736 and $536,327 of contributions to the Foundation for the years ended December 31, 2019 and 2018, respectively. Included in other accounts receivable are services due from the Foundation of $360,086 and $216,831 as of December 31, 2019 and 2018, respectively.

The Cooperative received $3,600 for rental space provided to the Foundation for the year ended December 31, 2019.

21. Commitments, Contingencies and litigation

The Cooperative is committed under a wholesale power agreement to purchase its electric power and energy requirements from Cleco Power, L.L.C. through April 1, 2024. The Cooperative has assigned its receivables to Cleco Power, 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 specific provision for any liability or asset that may result from the claims have been made in the consolidated financial statements. The Cooperative does estimate a reserve for general liability claims and believes that the amount recorded as reserves for claims is sufficient to cover any expected losses in the future.

22. Natural Disaster

The Cooperative experiences natural disasters on occasion and, as a result, requests funding from the Federal Emergency Management Agency (FEMA) based on the Robert T. Stafford Disaster Relief and Emergency Assistance Act (Stafford Act). As part of the process of requesting funds from 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 the Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP). GOHSEP is currently auditing the Cooperative's project worksheets for DR-1786 (Hurricane Gustav). Based on the Stafford Act and the Louisiana Disaster Act, GOHSEP has the responsibility as the recipient of FEMA funds to disallow ineligible expenditures during the course of their audits. During 2019, the Cooperative was notified by GOHSEP that a recouped amount of $890,247 was due for DR-1786 Hurricane Gustav, Project Worksheet No. PW-2155. The Cooperative has responded to GOHSEP's initial request and has determined that $131,870 is due back to GOHSEP for this project worksheet. This amount represents a re-write of the initial project worksheet; the Category F event was changed to a Category B event. As of December 31, 2019 and 2018 the Cooperative has a liability on its balance sheets of $425,443 and $455,000, respectively to GOHSEP representing all of the project worksheets subject to the previously mentioned issue for DR-1786 (Hurricane Gustav). To date, the Cooperative has not received a response from GOHSEP concerning the issue.

During August 2016, southern Louisiana suffered considerable damage from severe storms and flooding; resulting in the President of the United States issuing a major disaster declaration (DR-4277) for 26 parishes which included all parishes served by the Cooperative. For the year ended December 31, 2018, GOHSEP approved $2,827,196, which is included in the 2018 schedule of expenditures of federal awards. Amounts due from FEMA included $135,022 recorded in other receivables as of December 31, 2018. Management anticipates that FEMA, by way of GOHSEP, will reimburse the Cooperative 90% of the eligible flood related expenditures. During 2019, the Cooperative's management has contracted with the State of Louisiana under the Community Development Block Grant Disaster Recovery Program through the Restore Louisiana Infrastructure (Restore LA): FEMA Public Assistance Nonfederal Share Match Program for the remaining 10% (Grant No.: B-16-DL-22-0001/Year 2016 PA No.:2000379494). As of December 31, 2019, the 10% Nonfederal Share Match amount of $624,178 has not been received and is not reflected in the Cooperative's financial statements because collectability is not certain as of the balance sheet date.

23. Subsequent Events

Subsequent to December 31, 2019, the Cooperative rescinded the $30,000,000 line of credit available with CoBank. Additionally, the Cooperative increased the line of credit available with CFC to $40,000,000.

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China, has since spread to other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, multiple jurisdictions in the U.S. have declared states of emergency. It is anticipated that these impacts will continue for some time. There has been no material financial impact to the Cooperative's operations to date. Future potential impacts include disruptions or restrictions on our employees' ability to work, reduced consumer demand for energy, and customers' ability to pay their monthly bills in a timely fashion. Changes to the Cooperative's operating environment may also be impacted. These changes may impact operating costs and net income. The future effects of these issues are unknown.

The Cooperative has evaluated all subsequent events through April 24, 2020, the date the consolidated financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

DIXIE ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES

Schedule 1

CONSOLIDATING INFORMATION
BALANCE SHEET
DECEMBER 31, 2019

ASSETS

	DEMCO	DEMCO Energy Services, Inc.	Dixie Business Development Center, Inc.	Eliminating Entries	Consolidated Total
UTILITY PLANT					
Electric Plant in Service	$ 688,627,466	$	$	$	$ 688,627,466
Construction Work in Progress	10,135,750				10,135,750
Other Fixed Assets		1,709,861	1,640,289		3,350,150
	$ 698,763,216	$ 1,709,861	$ 1,640,289	$ 0	$ 702,113,366
Less: Accumulated Depreciation	177,665,809	1,698,204	604,433		179,968,446
Total Utility Plant, net	$ 521,097,407	$ 11,657	$ 1,035,856	$ 0	$ 522,144,920
INVESTMENTS AND OTHER ASSETS					
Investments in Associated Organizations	$ 10,913,351	$ 1,000	$	$	$ 10,914,351
Investments, at cost plus equity in undistributed earnings	1,233,879			(1,233,879)	
Notes Receivable, Long-Term Portion	28,638				28,638
Certificate of Deposit, pledged	600,000				600,000
Total Investments and Other Assets	$ 12,775,868	$ 1,000	$ 0	$ (1,233,879)	$ 11,542,989
CURRENT ASSETS					
Cash and Cash Equivalents	$ 13,380,085	$ 21,394	$ 35,702	$	$ 13,437,181
Current Portion of Notes Receivable	183,805				183,805
Accounts Receivable					
Consumers, net of allowance of $452,843	9,855,588				9,855,588
Intercompany Receivables	176,607	172,773		(349,380)	
Other Receivables, net of allowance of $0	4,942,170	14,782	400		4,957,352
Unbilled Revenue	10,735,853				10,735,853
Materials and Supplies	4,144,416	7,710			4,152,126
Other Current and Accrued Assets	1,579,662		2,358		1,582,020
Total Current Assets	$ 44,998,186	$ 216,659	$ 38,460	$ (349,380)	$ 44,903,925
DEFERRED CHARGES					
Deferred Charges	$ 52,413,735	$	$	$	$ 52,413,735
Deferred Income Tax Asset		257,280			257,280
	$ 52,413,735	$ 257,280	$ 0	$ 0	$ 52,671,015
TOTAL ASSETS	$ 631,285,196	$ 486,596	$ 1,074,316	$ (1,583,259)	$ 631,262,849
EQUITIES AND LIABILITIES					
EQUITIES					
Memberships	$ 457,070	$	$	$	$ 457,070
Net Investment in Fixed Assets			938,487	(938,487)	
Undesignated			(162,234)	162,234	
Patronage Capital	112,762,645				112,762,645
Other Equities	9,997,307				9,997,307
Retained Earnings		457,626		(457,626)	
Total Equities	$ 123,217,022	$ 457,626	$ 776,253	$ (1,233,879)	$ 123,217,022
LONG-TERM DEBT					
Notes Payable, Less Current Maturities	$ 413,014,282	$	$ 67,007	$	$ 413,081,289
Deferred Interest - RUS Notes	363,303				363,303
Total Long-Term Debt	$ 413,377,585	$ 0	$ 67,007	$ 0	$ 413,444,592
NON-CURRENT LIABILITIES					
Post-Retirement Benefit Obligation	$ 44,573,234	$	$	$	$ 44,573,234
CURRENT LIABILITIES					
Current Maturities of Notes Payable	$ 13,404,850	$	$ 30,362	$	$ 13,435,212
Current Portion of Post-Retirement Benefit Obligation	1,820,639				1,820,639
Accounts Payable - Purchased Power	9,062,237				9,062,237
Accounts Payable - Other	3,480,975	10,922			3,491,897
Intercompany Payables	172,773		176,607	(349,380)	
Over-Collected Purchase Power Cost Adjustment	5,945,218				5,945,218
Consumer Deposits	8,372,409				8,372,409
Accrued Taxes	77,532	18,048			95,580
Accrued Interest	520,667				520,667
Other Current and Accrued Liabilities	1,696,405		24,087		1,720,492
Total Current Liabilities	$ 44,553,705	$ 28,970	$ 231,056	$ (349,380)	$ 44,464,351
DEFERRED CREDITS	$ 5,563,650	$	$	$	$ 5,563,650
TOTAL EQUITIES AND LIABILITIES	$ 631,285,196	$ 486,596	$ 1,074,316	$ (1,583,259)	$ 631,262,849

DIXIE ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES

Schedule 2

CONSOLIDATING INFORMATION
STATEMENT OF OPERATIONS AND PATRONAGE CAPITAL
DECEMBER 31, 2019

	DEMCO	DEMCO Energy Services, Inc.	Dixie Business Development Center, Inc.	Eliminating Entries	Consolidated Total
OPERATING REVENUE					
Residential	$ 163,719,036	$	$	$	$ 163,719,036
Small Commercial	16,012,224				16,012,224
Large Commercial	25,431,452				25,431,452
Public Street and Highway Lighting	204,400				204,400
Other Sales to Public Authorities	968,823				968,823
Rent from Electric and Other Property	1,890,575		186,950		2,077,525
Other Revenue	3,983,339	458,400	4,908		4,446,647
Total Operating Revenues	$ 212,209,849	$ 458,400	$ 191,858	$ 0	$ 212,860,107
OPERATING EXPENSES					
Purchased Power	$ 123,778,362	$	$	$	$ 123,778,362
Cost of Sales		11,660			11,660
Transmission - Operation	476,489				476,489
Transmission - Maintenance	232,555				232,555
Distribution - Operation	7,863,218				7,863,218
Distribution - Maintenance	19,414,867				19,414,867
Consumer Accounts	6,288,663				6,288,663
Customer Service and Information	278,478				278,478
Selling Expenses	1,566,184				1,566,184
Administrative and General Expenses	9,517,234	187,402	180,670		9,885,306
Depreciation	20,763,997	3,048	55,428		20,822,473
Taxes	6,112,628	8,438			6,121,066
Other Expenses	575,549				575,549
Total Operating Expenses	$ 196,868,224	$ 210,548	$ 236,098	$ 0	$ 197,314,870
Operating Margins (Deficit) before Fixed Charges	$ 15,341,625	$ 247,852	$ (44,240)	$ 0	$ 15,545,237
FIXED CHARGES					
Interest on Long-Term Debt	$ 13,994,254	$	$	$	$ 13,994,254
Amortization of Reacquired Debt	22,646				22,646
Other Interest	395,615				395,615
Total Fixed Charges	$ 14,412,515	$ 0	$ 0	$ 0	$ 14,412,515
Operating Margins (Deficit) after Fixed Charges	$ 929,110	$ 247,852	$ (44,240)	$ 0	$ 1,132,722
OTHER CAPITAL CREDITS	$ 425,814	$	$	$	$ 425,814
NONOPERATING MARGINS					
Interest Income	$ 699,551	$	$	$	$ 699,551
Other Income	24,852				24,852
Affiliated Company Income	124,181			(124,181)	
Total Nonoperating Margins	$ 848,584	$ 0	$ 0	$ (124,181)	$ 724,403
NET MARGINS BEFORE PROVISION FOR INCOME TAXES	$ 2,203,508	$ 247,852	$ (44,240)	$ (124,181)	$ 2,282,939
PROVISION FOR INCOME TAX EXPENSE	(24,426)	(79,431)			(103,857)
NET MARGINS	$ 2,179,082	$ 168,421	$ (44,240)	$ (124,181)	$ 2,179,082
PATRONAGE CAPITAL - BEGINNING OF PERIOD	115,817,091	539,205	820,493	(1,359,698)	115,817,091
Dividends Declared		(250,000)		250,000	
Transfer Non-Operating Margins to Other Equities	(1,369,903)				(1,369,903)
Re-Class Prior Years Nonoperating Margins to Other Equities	(3,863,625)				(3,863,625)
PATRONAGE CAPITAL - END OF PERIOD	$ 112,762,645	$ 457,626	$ 776,253	$ (1,233,879)	$ 112,762,645

DIXIE ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES

Schedule 3

CONSOLIDATING INFORMATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019

	DEMCO	DEMCO Energy Services, Inc.	Dixie Business Development Center, Inc.	Eliminating Entries	Consolidated Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Net Margins (Loss)	$ 2,179,082	$ 168,421	$ (44,240)	$ (124,181)	$ 2,179,082
Adjustments to Reconcile Net Margins to Net Cash From Operating Activities					
Depreciation	22,095,821	3,048	55,428		22,154,297
Capital Credits	(425,814)				(425,814)
Affiliated Company Income	(124,181)			124,181	
(Increase) Decrease					
Accounts Receivable	4,608,931	(14,782)	950		4,595,099
Accounts Receivable - Intercompany	(400)	14,091		(13,691)	
Unbilled Revenue	1,220,235				1,220,235
Inventories and Other Current and Accrued Assets	(191,710)	(6,690)	(54)		(198,454)
Deferred Charges	230,950				230,950
Deferred Income Taxes		73,707			73,707
Increase (Decrease)					
Accounts Payable and Other Current Liabilities	(750,504)	11,020	1,280		(738,204)
Accounts Payable - Purchased Power	(2,190,869)				(2,190,869)
Accounts Payable - Intercompany	(14,091)		400	13,691	
Over-Collected Purchased Power Cost Adjustment	3,047,426				3,047,426
Deferred Credits	(55,800)				(55,800)
Net Cash From Operating Activities	$ 29,629,076	$ 248,815	$ 13,764	$ 0	$ 29,891,655
CASH FLOWS FROM INVESTING ACTIVITIES					
Additions to Plant	$ (29,774,179)	$ (12,080)	$	$	$ (29,786,259)
Plant Removal Costs Over Salvage and Other Credits	(3,969,003)				(3,969,003)
Other Property and Investments	(135,254)				(135,254)
Net Payments - Notes Receivable	95,323				95,323
Dividends from Affiliated Company	250,000			(250,000)	
Net Cash From Investing Activities	$ (33,533,113)	$ (12,080)	$ 0	$ (250,000)	$ (33,795,193)
CASH FLOWS FROM FINANCING ACTIVITIES					
Payments on Long-Term Debt - RUS	$ (1,990,598)	$	$	$	$ (1,990,598)
Payments on Long-Term Debt - FFB	(7,422,053)				(7,422,053)
Payments on Long-Term Debt - CoBank	(2,007,338)				(2,007,338)
Payments on Long-Term Debt - CFC	(1,378,662)				(1,378,662)
Payments on Long-Term Debt - Other	(108,794)		(29,395)		(138,189)
Advances of Long-Term Debt - FFB	33,774,000				33,774,000
Net Payments - Line of Credit	(10,861,843)				(10,861,843)
Dividends to Affiliated Company		(250,000)		250,000	
Memberships and Other Equities	5,375				5,375
Net Cash From Financing Activities	$ 10,010,087	$ (250,000)	$ (29,395)	$ 250,000	$ 9,980,692
CHANGE IN CASH AND CASH EQUIVALENTS	$ 6,106,050	$ (13,265)	$ (15,631)	$ 0	$ 6,077,154
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	7,274,035	34,659	51,333		7,360,027
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 13,380,085	$ 21,394	$ 35,702	$ 0	$ 13,437,181
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION					
Cash Paid During the Year for:					
Interest on Long-Term Debt	$ 14,325,858	$ 0	$ 2,807	$ 0	$ 14,328,665
Federal and State Income Taxes	$ 24,426	$ 5,100	$ 0	$ 0	$ 29,526

DIXIE ELECTRIC MEMBERSHIP CORPORATION

SCHEDULE OF COMPENSATION, BENEFITS AND OTHER PAYMENTS TO AGENCY HEAD OR CHIEF EXECUTIVE OFFICER YEAR ENDED DECEMBER 31, 2019

Agency Head Name: Randy Pierce, 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

COMPLIANCE AND INTERNAL CONTROL SECTION

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REPORT ON COMPLIANCE WITH ASPECTS OF CONTRACTUAL AGREEMENTS AND REGULATORY REQUIREMENTS FOR ELECTRIC BORROWERS

Independent Auditor's Report

Board of Directors
Dixie Electric Membership Corporation
Greenwell Springs, Louisiana

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audit contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Dixie Electric Membership Corporation (the Cooperative), which comprise the balance sheet as of December 31, 2019, and the related statement of operations and patronage capital, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 24, 2020. In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2020, 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. No reports other than the reports referred to above and our schedule of findings 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 the Cooperative 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 the Cooperative'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 the Cooperative's accounting and records to indicate that the Cooperative 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 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 See notes 8 and 18; and

Comply with the requirements for the detailed schedule of investments. See Notes 4 and 5.

The purpose of this report is solely to communicate, in connection with the audit of the financial statements, on compliance with aspects of contractual agreements and the regulatory requirements for electric borrowers based on the requirements of 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers and Grantees.* Accordingly, this report is not suitable for any other purpose.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

April 24, 2020

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.
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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
Dixie Electric Membership Corporation
Greenwell Springs, 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 Dixie Electric Membership Corporation, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise Dixie Electric Membership Corporation's financial statements, and have issued our report thereon dated April 24, 2020.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Dixie Electric Membership Corporation'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.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

April 24, 2020