

**Dixie Electric Membership  
Corporation and Subsidiaries  
Greenwell Springs, Louisiana  
December 31, 2017**

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## **Independent Auditor's Report**

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

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

We have audited the accompanying consolidated financial statements of Dixie Electric Membership Corporation (a nonprofit organization) and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and 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 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, 2017 and 2016, and the results of their operations and patronage capital, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying 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*, consolidating balance sheets and consolidating statements of operations, and schedule of compensation, benefits, and other payments to agency head or chief executive officer are presented for purposes of additional analysis and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the 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 consolidated financial statements or to the 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 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 May 4, 2018 on our consideration of Dixie Electric Membership Corporation and Subsidiaries' 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 and Subsidiaries' internal control over financial reporting and compliance.



May 4, 2018

**Dixie Electric Membership Corporation and Subsidiaries**  
**Consolidated Balance Sheets**  
**December 31, 2017 and 2016**

**Assets**

	<u>2017</u>	<u>2016</u>
<b>Utility Plant</b>		
Electric plant in service	\$ 645,810,466	\$ 623,089,846
Construction work in progress	17,564,277	25,892,047
Other fixed assets	3,497,854	3,067,779
	<u>666,872,597</u>	<u>652,049,672</u>
Less: accumulated depreciation	(161,658,230)	(153,209,389)
	<u>505,214,367</u>	<u>498,840,283</u>
<b>Investments and Other Assets</b>		
Investments in associated organizations	10,544,279	10,361,587
Notes receivable, long-term portion	62,642	64,188
	<u>10,606,921</u>	<u>10,425,775</u>
<b>Current Assets</b>		
Cash and cash equivalents	111,023	6,003,864
Current portion of notes receivable	43,552	26,922
Accounts receivable		
Consumers, net of allowance	10,829,058	12,107,975
Unbilled revenue	13,377,389	10,544,805
Other receivables	9,258,857	6,327,697
Deferred fuel adjustment	277,430	833,286
Materials and supplies	4,978,080	4,927,176
Prepaid expenses	988,316	967,617
	<u>39,863,705</u>	<u>41,739,342</u>
<b>Other Assets</b>		
Deferred charges	73,508,165	77,822,590
Intangible assets, net	802	802
Certificate of deposit, pledged	600,000	600,000
	<u>74,108,967</u>	<u>78,423,392</u>
Total assets	<u>\$ 629,793,960</u>	<u>\$ 629,428,792</u>

**Dixie Electric Membership Corporation and Subsidiaries**  
**Consolidated Balance Sheets**  
**December 31, 2017 and 2016**

**Equities and Liabilities**

	<u>2017</u>	<u>2016</u>
<b>Equities</b>		
Memberships	\$ 446,390	\$ 438,400
Patronage capital	114,367,870	109,719,215
Total equities	<u>114,814,260</u>	<u>110,157,615</u>
<b>Long-Term Debt</b>		
Notes payable, less current maturities	375,494,787	388,989,246
Deferred interest - RUS notes	522,479	765,174
Total long-term debt	<u>376,017,266</u>	<u>389,754,420</u>
<b>Current Liabilities</b>		
Cash overdraft	3,897,793	-
Current maturities of notes payable	13,357,405	12,971,841
Lines of credit	14,754,453	-
Accounts payable	22,990,572	29,802,753
Consumer deposits	7,943,039	7,655,112
Accrued interest	2,288,762	2,285,560
Other accrued expenses and deferred credits	2,280,584	2,173,073
Customer refund	624,336	624,336
Total current liabilities	<u>68,136,944</u>	<u>55,512,675</u>
<b>Deferred Credits and Other Liabilities</b>		
Accrued post-retirement benefits	65,665,300	68,612,700
Accrued vacation and sick pay	5,160,190	5,391,382
Total deferred credits and other liabilities	<u>70,825,490</u>	<u>74,004,082</u>
Total equities and liabilities	<u><u>\$ 629,793,960</u></u>	<u><u>\$ 629,428,792</u></u>

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

**Dixie Electric Membership Corporation and Subsidiaries**  
**Consolidated Statements of Operations and Patronage Capital**  
**Years Ended December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>Operating Revenue</b>	\$ 208,449,119	\$ 208,012,454
<b>Operating Expenses</b>		
Cost of power	124,622,544	128,700,467
Cost of sales	5,633	15,842
Distribution - operations	8,218,955	7,978,557
Distribution - maintenance	15,420,863	13,802,072
Consumer accounts	7,079,342	7,139,630
Administrative and general expenses	7,721,592	8,000,600
Depreciation and amortization	19,639,636	18,891,310
Taxes	5,664,572	5,653,554
Other expenses	2,642,868	2,130,339
	<u>191,016,005</u>	<u>192,312,371</u>
Total operating expenses	191,016,005	192,312,371
	<u>17,433,114</u>	<u>15,700,083</u>
Operating margins before fixed charges	17,433,114	15,700,083
<b>Fixed Charges</b>		
Interest on long-term debt	12,795,695	12,735,361
Other interest	835,056	670,753
	<u>13,630,751</u>	<u>13,406,114</u>
Total fixed charges	13,630,751	13,406,114
	<u>3,802,363</u>	<u>2,293,969</u>
Operating margins after fixed charges	3,802,363	2,293,969
<b>Capital Credits</b>	670,909	1,178,555
	<u>670,909</u>	<u>1,178,555</u>
<b>Non-Operating Margins</b>		
Interest income	147,561	147,437
Other income	27,822	139,416
	<u>175,383</u>	<u>286,853</u>
Total non-operating margins	175,383	286,853
<b>Net Margins</b>	4,648,655	3,759,377
<b>Patronage Capital, beginning of year</b>	109,719,215	105,959,838
	<u>109,719,215</u>	<u>105,959,838</u>
<b>Patronage Capital, end of year</b>	<u>\$ 114,367,870</u>	<u>\$ 109,719,215</u>

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

**Dixie Electric Membership Corporation and Subsidiaries**  
**Consolidated Statements Cash Flows**  
**Years Ended December 31, 2017 and 2016**

	2017	2016
<b>Cash Flows From Operating Activities</b>		
Net margins	\$ 4,648,655	\$ 3,759,377
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation and amortization	19,639,636	18,891,310
Depreciation included in G&A	43,621	48,535
Depreciation included in cost of sales	3,000	3,000
Gain due to flood	-	(254,759)
Bad debts	699,596	793,234
Capital credits assigned by associated organizations	(655,765)	(1,169,880)
Amortization of conversion fee	408,784	465,716
Amortization of pension prepayment	580,606	580,606
(Increase) Decrease in assets:		
Consumer accounts receivable	579,321	(3,426,471)
Unbilled revenue	(2,832,584)	581,789
Other receivables	(2,931,160)	(3,745,891)
Materials and supplies	(50,904)	1,308,120
Deferred fuel adjustment	555,856	1,330,594
Other deferred costs	(96,251)	1,296,766
Prepaid expenses	(20,699)	(72,315)
Increase (Decrease) in liabilities		
Accounts payable	(6,812,181)	15,872,632
Consumer deposits	287,927	(499,734)
Accrued interest	3,202	1,603,215
Other accrued expenses and deferred credits	107,511	72,930
Net cash provided by operating activities	14,158,171	37,438,774
<b>Cash Flows From Investing Activities</b>		
Utility plant expenditures	(25,100,853)	(38,481,828)
Purchases of fixed assets	(537,185)	(66,143)
Insurance proceeds from flood	-	610,000
Capitalized interest	(422,303)	(393,092)
Capital credits collected	473,072	540,584
Issuance of notes receivable	(95,312)	(25,139)
Proceeds from notes receivable	80,228	50,803
Net cash used in investing activities	(25,602,353)	(37,764,815)
<b>Cash Flows From Financing Activities</b>		
Proceeds from long-term debt	51,163	30,000,000
Increase (Decrease) in lines of credit	14,754,453	(13,495,524)
Repayment of long-term debt	(13,160,058)	(11,596,174)
Proceeds from membership, net	7,990	(2,155)
Net cash provided by financing activities	1,653,548	4,906,147

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

**Dixie Electric Membership Corporation and Subsidiaries**  
**Consolidated Statements of Cash Flows (Continued)**  
**Years Ended December 31, 2017 and 2016**

(Continued)

	<u>2017</u>	<u>2016</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	\$ (9,790,634)	\$ 4,580,106
<b>Cash and Cash Equivalents (Cash Overdraft)</b>		
Beginning of year	6,003,864	1,423,758
End of year	<u>\$ (3,786,770)</u>	<u>\$ 6,003,864</u>
<b>Presented in Consolidated Balance Sheet as:</b>		
Cash and cash equivalents	\$ 111,023	\$ 6,003,864
Cash overdraft	<u>(3,897,793)</u>	<u>-</u>
Net balance	<u>\$ (3,786,770)</u>	<u>\$ 6,003,864</u>

**Supplemental Disclosure of Noncash Investing and Financing Activities**

Increase (Decrease) in compensated absences in accordance with FASB ASC 980	<u>\$ (231,192)</u>	<u>\$ (531,187)</u>
Amortization of deferred interest	<u>\$ 242,695</u>	<u>\$ 353,975</u>
Post-retirement benefits	<u>\$ (2,947,400)</u>	<u>\$ 9,880,000</u>

**Supplemental Disclosures of Cash Flow Information**

Cash paid during the year for:		
Interest	<u>\$ 14,049,850</u>	<u>\$ 12,195,991</u>
Income taxes	<u>\$ -</u>	<u>\$ -</u>

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

**Dixie Electric Membership Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2017**

**Note 1-Summary of Significant Accounting Policies**

A. Nature of Organization

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 and assist emerging businesses in the local service area by providing office space and technical services in an environment in which these businesses can develop, grow, and succeed.

B. Principles of Consolidation

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 predominantly from DEMCO.

C. System of Accounts

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

D. Use of Estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates. The most significant items on the consolidated balance sheets that involve a greater degree of accounting estimates are the allowance for uncollectible accounts, unbilled revenue, deferred fuel adjustment, and self-insured liabilities. As additional information becomes available, the recorded estimates are revised and reflected in operating results of the period they are determined. Although some variability is inherent in these estimates, the Cooperative believes the amounts provided are adequate.

E. 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.

F. Accounts Receivable

The Cooperative uses the reserve method to account for uncollectible accounts. Accounts deemed uncollectible are written off against the reserve. The allowance for doubtful accounts is based on management’s estimates, historical experience, and a review of outstanding amounts on an ongoing basis.

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

**Dixie Electric Membership Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2017**

**Note 1-Summary of Significant Accounting Policies (Continued)**

G. Unbilled Revenue

Unbilled revenue consists of revenue that has been earned but not yet billed due to a time lag in billing for services.

H. Inventory

Inventory is stated at the lower of cost or market. Cost is determined on an average cost basis. Market is determined based on net realizable value. Appropriate consideration is given to obsolescence, excessive levels, deterioration and other factors in evaluating net realizable value.

I. Utility Plant

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

Depreciation is computed using straight-line composite rates based upon the estimated useful lives of the various classes of assets as shown in Note 3.

J. Costs of Borrowing

Interest totaling \$14,053,054 and \$13,799,206 was incurred during the years ended December 31, 2017 and 2016, 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 \$422,303 and \$393,092 was capitalized during the years ended December 31, 2017 and 2016, respectively.

K. Investments in Associated Organizations

Investments in capital term certificates and patronage capital certificates are stated at cost, plus the Cooperative's share of assigned patronage capital. Investments in capital stock are stated at cost.

L. Other Assets

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. See Note 5 for additional information related to the conversion fees.

M. Revenue

The Cooperative accrues revenue related to energy consumed but not yet billed. The Cooperative's rates include a purchased power cost adjustment clause which enables the Cooperative to pass through to consumers all purchased power cost as approved monthly by the LPSC.

**Dixie Electric Membership Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2017**

**Note 1-Summary of Significant Accounting Policies (Continued)**

N. Advertising

Advertising costs, which are included in operating expenses, are expensed as incurred. Advertising expense was \$1,187,914 and \$1,183,030 for the years ended December 31, 2017 and 2016, respectively.

O. Income Taxes

DEMCO is exempt from federal and state income taxes under Section 501(c)(12) of the Internal Revenue Code (IRC).

DBDC is exempt from federal and state income taxes under Section 501(c)(4) of the IRC.

DESI is a limited liability company and has elected to be taxed as a C-Corporation under the provisions of the IRC. DESI provides for deferred income taxes for temporary differences arising from using the straight-line depreciation method for financial statement purposes and accelerated methods of depreciation for income tax purposes, including differences between book and tax for amortizing organization expenses. In addition, deferred income taxes are recognized for certain expense accruals, allowances and net operating loss carryforwards available to offset future taxable income, net of valuation allowances for potential expiration and other contingencies that could impact DESI's ability to recognize the benefit. As described in Note 9, DESI recorded no current or deferred income taxes for the years ended December 31, 2017 and 2016.

Management has determined that there are no uncertain tax positions that would require recognition in the financial statements. If the Cooperative were to incur an income tax liability in the future, interest on any income tax liability would be reported as interest expense and penalties on any income tax would be reported as income taxes. Management's conclusions regarding uncertain tax positions may be subject to review and adjustment at a later date based on ongoing analysis of tax laws, regulations, and interpretations thereof as well as other factors.

P. Reclassifications

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

**Note 2-Notes Receivable**

	<u>2017</u>	<u>2016</u>
Notes receivable due from customers for special construction. The unsecured notes are due in monthly installments ranging from \$92 to \$1,312, with imputed interest rates of 6%. The notes mature at various times from 2018 through 2024.	\$ 106,194	\$ 91,110
Less: current portion of notes receivable	<u>(43,552)</u>	<u>(26,922)</u>
Notes receivable, long-term portion	<u>\$ 62,642</u>	<u>\$ 64,188</u>

**Dixie Electric Membership Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2017**

**Note 2-Notes Receivable (Continued)**

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

2018	\$ 43,552
2019	22,155
2020	11,850
2021	11,850
2022	11,850
Thereafter	<u>4,937</u>
	<u>\$ 106,194</u>

**Note 3-Utility Plant**

Utility plant consisted of the following as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Distribution plant	\$ 526,684,193	\$ 512,491,124
Transmission plant	74,774,881	70,123,860
General plant	44,351,392	40,474,862
Construction work in progress	17,564,277	25,892,047
Other fixed assets	<u>3,497,854</u>	<u>3,067,779</u>
	<u>\$ 666,872,597</u>	<u>\$ 652,049,672</u>

Average annual composite rates of depreciation used by the Cooperative during 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Distribution plant	1.8 % to 3.67%	1.8% to 4.4%
Transmission plant	2.3%	2.7%
General plant		
Structures and improvements	2.5%	2.5%
Power operated equipment	14%	14%
Transportation equipment	16%	16%
Other	6% to 20%	6% to 20%

**Dixie Electric Membership Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2017**

**Note 4-Investments in Associated Organizations**

Investments in associated organizations consisted of the following as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Capital Term Certificates		
National Rural Utilities Cooperatives Finance Corporation	\$ 4,535,797	\$ 4,559,607
Patronage Capital Certificates		
National Rural Utilities Cooperatives Finance Corporation	4,225,866	4,126,104
Southeastern Data Cooperative, Inc.	386,272	367,216
CoBank, ACB	1,277,500	1,163,568
Gresco Utility Supply, Inc.	52,596	59,591
Other	10,189	29,442
Memberships		
Association of Louisiana Electric Cooperatives	51,759	51,759
Other	<u>4,300</u>	<u>4,300</u>
	<u>\$ 10,544,279</u>	<u>\$ 10,361,587</u>

**Note 5-Deferred Charges**

Following is a summary of deferred charges as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Deferred compensation	\$ 5,160,190	\$ 5,391,382
Deferred interest on RUS notes	318,682	561,376
Unamortized conversion fee	396,153	804,937
Post-retirement benefits	60,262,621	63,210,021
Pension prepayment	7,112,428	7,693,034
Other	<u>258,091</u>	<u>161,840</u>
	<u>\$ 73,508,165</u>	<u>\$ 77,822,590</u>

Deferred compensation represents employees' accrued vacation and sick time, accounted for in accordance with the Regulated Operations Topic of the FASB-Accounting Standards Codification.

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 \$242,694 and \$353,975 for the years ended December 31, 2017 and 2016, respectively.

**Dixie Electric Membership Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2017**

**Note 5-Deferred Charges** (Continued)

The Cooperative repriced its debt with the National Rural Utilities Cooperative Finance Corporation (NRUCFC) to lower its interest rates. The cost to reprice the debt is being amortized to expense over the repricing period.

	<u>2017</u>	<u>2016</u>
Original amount	\$ 5,265,487	\$ 5,265,487
Accumulated amortization	<u>(4,869,334)</u>	<u>(4,460,550)</u>
Net book value	<u>\$ 396,153</u>	<u>\$ 804,937</u>

Amortization expense was \$408,784 and \$465,716 for the years ended December 31, 2017 and 2016, respectively. Future expected amortization of the conversion fees is as follows:

2018	\$ 182,757
2019	21,149
2020	21,144
2021	21,144
2022	22,646
Thereafter	<u>127,313</u>
	<u>\$ 396,153</u>

The Cooperative complies with regulatory requirements under LPSC Order Number S-32362 for purposes of accounting for Postretirement 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 postretirement 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 postretirement benefits other than pensions, the LPSC retains the flexibility to examine individual cooperatives’ accounting for other postretirement benefits to determine if special exceptions to this order are warranted. See Note 12 for information relating to the 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.

	<u>2017</u>	<u>2016</u>
Original amount	\$ 9,870,308	\$ 9,870,308
Accumulated amortization	<u>(2,757,880)</u>	<u>(2,177,274)</u>
Net book value	<u>\$ 7,112,428</u>	<u>\$ 7,693,034</u>

**Dixie Electric Membership Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2017**

**Note 5-Deferred Charges (Continued)**

Amortization expense related to the pension prepayment was \$580,606 for the years ended December 31, 2017 and 2016. Future expected amortization is as follows:

2018	\$ 580,606
2019	580,606
2020	580,606
2021	580,606
2022	580,606
Thereafter	<u>4,209,398</u>
	<u>\$ 7,112,428</u>

**Note 6-Lines of Credit**

Lines of credit as of December 31, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
The Cooperative has an unsecured line of credit totaling \$25,000,000 with the National Rural Utilities Cooperative Finance Corporation. The interest rate on the line of credit was 2.75% at December 31, 2017 and 2016. The line of credit, which matured on March 28, 2018, has been renewed for an additional year.	\$ 10,000,000	\$ -
The Cooperative has an unsecured \$30,000,000 line of credit with CoBank. The interest rate on the line of credit was 3.77% and 2.67% at December 31, 2017 and 2016, respectively. The line of credit matures August 31, 2018.	4,475,760	-
The Cooperative has an unsecured \$5,000,000 line of credit with Red River Bank. The interest rate on the line of credit was 2.87% at December 31, 2017 and 2016, respectively. The line of credit, which matured on February 12, 2018, has been renewed for an additional year.	<u>278,693</u>	<u>-</u>
	<u>\$ 14,754,453</u>	<u>\$ -</u>

**Dixie Electric Membership Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2017**

**Note 7-Notes Payable**

Long-term debt as of December 31, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Rural Utilities Service, 3.63% to 5.18% mortgage notes, with maturity dates ranging from March 2024 through October 2040.	\$ 66,934,202	\$ 69,680,794
National Rural Utilities Cooperative Finance Corporation, mortgage notes at variable and fixed interest rates ranging from 2.50% to 3.50%, with maturity dates ranging from March 2024 through January 2039.	72,595,438	76,200,781
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.	133,411,580	136,524,128
Federal Financing Bank loans with interest ranging from 2.11% to 2.72% maturing December 2048. These notes are guaranteed by the USDA Rural Utilities Service.	87,312,192	89,122,412
CoBank loans with interest rates ranging from 3.09% to 4.10% with maturity dates ranging from March 2023 to September 2037.	28,446,117	30,310,049
National Cooperative Services Corporation note payable with a fixed interest rate of 4.10%. The note is guaranteed by DEMCO and secured by a building.	101,500	122,923
Note payable to South Central Planning and Development Commission, Inc. The note is interest free and payments begin 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. The note is guaranteed by a board member of Dixie Business Development Center, Inc.	<u>51,163</u>	<u>—</u>
	388,852,192	401,961,087
Less current maturities of notes payable	<u>13,357,405</u>	<u>12,971,841</u>
Notes payable, less current maturities	<u>\$ 375,494,787</u>	<u>\$ 388,989,246</u>

**Dixie Electric Membership Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2017**

**Note 7-Notes Payable (Continued)**

Substantially all of the Cooperative's utility plant is pledged as collateral under the various mortgage notes.

There were loan funds available to the Cooperative in the amount of \$110,698,000 on a loan commitment from Federal Financing Bank as of December 31, 2017.

Annual future maturities of long-term debt, as of December 31, 2017, are as follows:

2018	\$ 13,357,405
2019	12,469,669
2020	11,924,542
2021	11,779,261
2022	13,823,273
Thereafter	325,498,042

**Note 8-Patronage Capital**

At December 31, 2017 and 2016, patronage capital consisted of:

	<u>2017</u>	<u>2016</u>
Assignable	\$ 79,175,585	\$ 74,896,508
Assigned to date	22,892,714	22,892,714
Non-assignable nonoperating	<u>12,299,571</u>	<u>11,929,993</u>
	<u>\$114,367,870</u>	<u>\$109,719,215</u>

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 distributions to members or consumers, provided that the borrower may make distributions to estates of deceased patrons to the extent required or permitted by its articles of incorporation and bylaws so long as such distributions shall not in any year exceed 25 percent of the patronage capital and margins received by the borrower in the preceding year. No distributions of capital credits occurred in 2017 or 2016.

**Note 9-Income Tax**

DESI had no provision recorded for current or deferred income taxes for the years ended December 31, 2017 and 2016.

On December 22, 2017, the Tax Cuts and Jobs Act (the "Act") was signed into law. Among other changes, the Act reduced the corporate federal income tax rate from 35% to 21%, effective for DESI on January 1, 2018. Under FASB ASC 740, the effects of changes in tax rates and laws are recognized in the period in which the new legislation is enacted.

**Dixie Electric Membership Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2017**

**Note 9-Income Tax** (Continued)

The components of income tax expense are as follows:

	<u>2017</u>	<u>2016</u>
Current income tax expense	\$ 122,387	\$ 101,328
Benefit of net operating loss carryforward	<u>(122,387)</u>	<u>(101,328)</u>
Total income tax expense	<u>\$ -</u>	<u>\$ -</u>

The tax effects of temporary differences in depreciation and net operating loss carryforwards that give rise to significant portions of deferred tax assets and liabilities consist of the following:

	<u>2017</u>	<u>2016</u>
Net operating loss carryforward	\$ 532,534	\$ 932,321
Depreciation	<u>(1,013)</u>	<u>(2,041)</u>
	531,521	930,280
Valuation allowance	<u>(531,521)</u>	<u>(930,280)</u>
Net deferred tax asset	<u>\$ -</u>	<u>\$ -</u>

The change in the deferred tax assets and liabilities results primarily from the utilization of net operating loss carryforwards and the change in the federal corporate tax rate.

The valuation allowance for the deferred tax asset relates principally to the uncertainty of the utilization of deferred tax assets and was calculated in accordance with the provisions of the Income Taxes Topic of the FASB Accounting Standards Codification, which requires that a valuation allowance be established or maintained when it is “more likely than not” that all or a portion of the deferred tax asset will not be realized. This valuation allowance is based on management estimates of future taxable income. Although the degree of variability inherent in the estimates of future taxable income is significant and subject to change in the near term, management believes that the estimate is adequate. The estimated valuation allowance is continually reviewed and adjusted, as necessary, in the current operations. The changes in the valuation allowance as of December 31, 2017 and 2016 were \$398,759 and \$113,777, respectively.

During the years ended December 31, 2017 and 2016, the Cooperative did not incur any interest or penalties on its income tax returns.

At December 31, 2017, net operating loss carryforwards available to offset future taxable income, if any, are as follows:

<u>Taxable Year</u>	<u>Expiration Date</u>	<u>NOL Carry-forward</u>
2002	2022	\$ 1,876,103
2004	2024	<u>254,031</u>
		<u>\$ 2,130,134</u>

**Dixie Electric Membership Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2017**

**Note 10-Fair Value of Financial Instruments**

The carrying value of financial instruments reported in the accompanying consolidated balance sheets for cash and cash equivalents, accounts receivable, certificate of deposits – pledged, and investments in associated organizations approximate fair value due to the immediate or short-term nature or maturity of these financial instruments. The fair value of notes receivable and long-term and short-term debt have been based on market quotations for similar debt instruments or estimated using discounted cash flow analyses based upon the Cooperative’s current incremental borrowing rates for similar types of borrowing arrangements.

The carrying amounts and fair values of other financial instruments subject to fair value disclosures as of December 31, 2017 and 2016 are presented in the table below and have been calculated using present value calculations based on market rates.

	2017		2016	
	<u>Carrying Amount</u>	<u>Fair Value Level 2</u>	<u>Carrying Amount</u>	<u>Fair Value Level 2</u>
Notes receivable	\$ 106,194	\$ 110,945	\$ 91,110	\$ 99,559
Long-term and short-term debt	403,606,645	408,529,518	401,961,087	406,404,561

**Note 11-Retirement Plans**

The Cooperative participates in the National Rural Electric Cooperative Association (NRECA) Retirement Security Plan (RS Plan), which 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 multi-employer plan under the accounting standards. The plan sponsor’s Employer Identification Number is 53-0116145 and the Plan Number is 333.

A unique characteristic of a multi-employer plan, as opposed 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 2017 and 2016 represented less than 5% of the total contributions made to the plan by all participating employers. The Cooperative made contributions to the plan of \$3,070,307 in 2017 and \$3,427,276 in 2016.

In 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 94.2% and 95.5% funded at December 31, 2017 and December 31, 2016 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.

In addition, the Cooperative has a 401(k) defined contribution plan available to all employees, which provides for matching contributions by the Cooperative (at specified percentages of compensation), as well as certain elective and voluntary employee contributions. Employer contributions to the plan for the years ended December 31, 2017 and 2016 amounted to \$398,453 and \$386,756, respectively.

**Dixie Electric Membership Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2017**

**Note 12-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 paid, net of premiums collected, were \$2,016,896 and \$1,633,201 for 2017 and 2016, respectively. The following is summary information on the Cooperative's plan.

Accumulated post-retirement benefit obligation as of December 31, 2017 and 2016.

	<u>2017</u>	<u>2016</u>
Retirees and dependents	\$ 23,384,000	\$ 28,340,800
Fully eligible active plan participants	17,883,600	18,542,000
Active plan participants not fully eligible	<u>24,397,700</u>	<u>21,729,900</u>
Accrued post-retirement benefit obligation	<u>\$ 65,665,300</u>	<u>\$ 68,612,700</u>

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

	<u>2017</u>	<u>2016</u>
Service cost benefits attributed to employee service during the year	\$ 1,859,400	\$ 1,521,400
Interest cost on accumulated post-retirement benefit obligation	2,713,400	2,659,600
Amortization of actuarial (gain)/loss, net	<u>(5,906,200)</u>	<u>7,095,200</u>
Net periodic post-retirement cost (benefit)	<u>\$ (1,333,400)</u>	<u>\$ 11,276,200</u>

The discount rate used in determining the accrued post-retirement benefit cost was 4.05% and 4.65% for 2017 and 2016, respectively. The assumed health care cost trend rates used in measuring the accumulated post-retirement benefit obligation ranged from 6.15% to 7.50% in 2017 and was 9.50% in 2016, declining to an ultimate rate of 5.00% in 2027.

Benefits expected to be contributed to the plan by the Cooperative in each of the next five years, and in the aggregate for the next five years thereafter, are approximated as follows:

2018	\$ 1,561,600
2019	1,768,900
2020	1,935,500
2021	2,171,000
2022	2,331,200
Aggregate for the five years thereafter	13,020,300

**Dixie Electric Membership Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2017**

**Note 13-Self-Funded 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, DEMCO 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 accrued expense and deferred credits" in the consolidated balance sheets, totaled \$1,083,827 at December 31, 2017, and \$860,843 at December 31, 2016.

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.

**Note 14-Related Party Transactions**

The Cooperative collects voluntary contributions from customer billings and remits them to The DEMCO Foundation, Inc. (the "Foundation"), a related party through common management. DEMCO remitted \$255,550 and \$359,351 of contributions to the Foundation for the years ended December 31, 2017 and 2016, respectively. Included in accounts payable are contributions due to the Foundation of \$159,179 and \$32,054 as of December 31, 2017 and 2016, respectively.

The Cooperative received \$54,913 and \$50,364 for administrative and program services for the years ended December 31, 2017 and 2016, respectively. Included in other receivables are amounts due from the Foundation totaling \$104,080 and \$100,762 at December 31, 2017 and 2016, respectively.

**Note 15-Concentrations of Credit Risk**

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

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.

Approximately 70% of the Cooperative's workforce is covered by a collective bargaining agreement with the International Brotherhood of Electrical Workers Local 767. This contract was negotiated for a four year term expiring February 28, 2019.

**Dixie Electric Membership Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2017**

**Note 16-Commitments and Contingencies**

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 provision for any liability or asset that may result from the claims have been made in the consolidated financial statements.

**Note 17-Natural Disaster**

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 for 22 parishes which included all parishes served by the Cooperative. For the year ended December 31, 2016 and 2017, the Cooperative incurred a total of \$6,698,084 in expenditures to restore its utility plant and facilities. The Cooperative received a grant from FEMA for reimbursement of expenditures related to recovery efforts. As of December 31, 2017, FEMA has approved \$2,827,196, which is included in the schedule of expenditures of federal awards. Included in other receivables is \$4,388,207 of amounts due from FEMA, net of amounts received, a 10% unreimbursed percentage, and an additional allowance established by management. Management anticipates that FEMA will reimburse the Cooperative approximately 90% of its flood-related expenditures. Management will determine the necessity of a rate rider through the Public Service Commission for the unreimbursed 10% and any disallowed cost by FEMA.

**Note 18-Subsequent Events**

The Cooperative has evaluated all subsequent events through May 4, 2018, the date the consolidated financial statements were available to be issued. As a result, the Cooperative noted no subsequent events that required adjustment to, or disclosure in, these consolidated financial statements.

**Supplementary Information**

**Dixie Electric Membership Corporation and Subsidiaries**  
**Consolidating Balance Sheet**  
**December 31, 2017**

**Assets**

	<b>DEMCO</b>	<b>DEMCO Energy Services, L.L.C.</b>	<b>Dixie Business Development Center, Inc.</b>	<b>Eliminations</b>	<b>2017 Totals</b>
<b>Utility Plant</b>					
Electric plant in service	\$ 645,810,466	\$ -	\$ -	\$ -	\$ 645,810,466
Construction work in progress	17,564,277	-	-	-	17,564,277
Other fixed assets	178,797	1,697,781	1,621,276	-	3,497,854
	663,553,540	1,697,781	1,621,276	-	666,872,597
Less: accumulated depreciation	(159,473,255)	(1,691,545)	(493,430)	-	(161,658,230)
Total utility plant, net	504,080,285	6,236	1,127,846	-	505,214,367
<b>Investments and Other Assets</b>					
Investments in associated organizations	10,543,279	1,000	-	-	10,544,279
Investment, at cost plus equity in undistributed earnings	1,133,868	-	-	(1,133,868)	-
Notes receivable, long-term portion	62,642	-	-	-	62,642
Total investments and other assets	11,739,789	1,000	-	(1,133,868)	10,606,921
<b>Current Assets</b>					
Cash and cash equivalents	-	19,794	91,229	-	111,023
Current portion of notes receivable	43,552	-	-	-	43,552
Accounts receivable					
Consumers, net of allowance	10,829,058	-	-	-	10,829,058
Unbilled revenue	13,377,389	-	-	-	13,377,389
Other receivables, net of allowance	9,257,607	-	1,250	-	9,258,857
Intercompany receivables	157,248	214,919	-	(372,167)	-
Deferred fuel adjustment	277,430	-	-	-	277,430
Materials and supplies	4,975,900	2,180	-	-	4,978,080
Prepaid expenses	985,548	-	2,768	-	988,316
Total current assets	39,903,732	236,893	95,247	(372,167)	39,863,705
<b>Other Assets</b>					
Deferred charges	73,508,165	-	-	-	73,508,165
Intangible assets, net	-	802	-	-	802
Certificate of deposit, pledged	600,000	-	-	-	600,000
Total other assets	74,108,165	802	-	-	74,108,967
Total assets	\$ 629,831,971	\$ 244,931	\$ 1,223,093	\$ (1,506,035)	\$ 629,793,960

**Dixie Electric Membership Corporation and Subsidiaries**  
**Consolidating Balance Sheet**  
**December 31, 2017**

**Equities and Liabilities**

	DEMCO	DEMCO Energy Services, L.L.C.	Dixie Business Development Center, Inc.	Eliminations	2017 Totals
<b>Equities</b>					
Memberships	\$ 446,390	\$ -	\$ -	\$ -	\$ 446,390
Unrestricted net assets	-	-	893,548	(893,548)	-
Patronage capital	114,367,870	-	-	-	114,367,870
Retained earnings	-	240,320	-	(240,320)	-
<b>Total equities</b>	<b>114,814,260</b>	<b>240,320</b>	<b>893,548</b>	<b>(1,133,868)</b>	<b>114,814,260</b>
<b>Long-Term Debt</b>					
Notes payable, less current maturities	375,368,023	-	126,764	-	375,494,787
Deferred interest - RUS notes	522,479	-	-	-	522,479
<b>Total long-term debt</b>	<b>375,890,502</b>	<b>-</b>	<b>126,764</b>	<b>-</b>	<b>376,017,266</b>
<b>Current Liabilities</b>					
Cash overdraft	3,897,793	-	-	-	3,897,793
Current maturities of notes payable	13,331,506	-	25,899	-	13,357,405
Lines of credit	14,754,453	-	-	-	14,754,453
Accounts payable	23,205,141	350	157,248	(372,167)	22,990,572
Consumer deposits	7,930,227	-	12,812	-	7,943,039
Accrued interest	2,288,762	-	-	-	2,288,762
Other accrued expenses and deferred credits	2,269,501	4,261	6,822	-	2,280,584
Customer refund	624,336	-	-	-	624,336
<b>Total current liabilities</b>	<b>68,301,719</b>	<b>4,611</b>	<b>202,781</b>	<b>(372,167)</b>	<b>68,136,944</b>
<b>Deferred Credits and Other Liabilities</b>					
Accrued post-retirement benefits	65,665,300	-	-	-	65,665,300
Accrued vacation and sick pay	5,160,190	-	-	-	5,160,190
<b>Total deferred credits and other liabilities</b>	<b>70,825,490</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>70,825,490</b>
<b>Total equities and liabilities</b>	<b>\$ 629,831,971</b>	<b>\$ 244,931</b>	<b>\$ 1,223,093</b>	<b>\$ (1,506,035)</b>	<b>\$ 629,793,960</b>

**Dixie Electric Membership Corporation and Subsidiaries**  
**Consolidating Statement of Operations**  
**Year Ended December 31, 2017**

	DEMCO	DEMCO Energy Services, L.L.C.	Dixie Business Development Center, Inc.	Eliminations	2017 Totals
<b>Operating Revenue</b>	\$ 207,827,238	\$ 504,012	\$ 117,869	\$ -	\$ 208,449,119
<b>Operating Expenses</b>					
Cost of power	124,622,544	-	-	-	124,622,544
Cost of sales	-	5,633	-	-	5,633
Distribution - operations	8,218,955	-	-	-	8,218,955
Distribution - maintenance	15,420,863	-	-	-	15,420,863
Consumer accounts	7,079,342	-	-	-	7,079,342
Administrative and general expenses	7,303,777	176,309	247,402	(5,896)	7,721,592
Depreciation and amortization	19,639,636	-	-	-	19,639,636
Taxes	5,664,572	-	-	-	5,664,572
Other expenses	2,642,868	-	-	-	2,642,868
Total operating expenses	190,592,557	181,942	247,402	(5,896)	191,016,005
Operating margins (deficit) before fixed charges	17,234,681	322,070	(129,533)	5,896	17,433,114
<b>Fixed Charges</b>					
Interest on long-term debt	12,791,055	-	4,640	-	12,795,695
Other interest	835,056	-	-	-	835,056
Total fixed charges	13,626,111	-	4,640	-	13,630,751
Operating margins (deficit) after fixed charges	3,608,570	322,070	(134,173)	5,896	3,802,363
<b>Capital Credits</b>	670,909	-	-	-	670,909
<b>Non-Operating Margins</b>					
Interest income	147,561	-	-	-	147,561
Other income	221,615	-	33,718	(227,511)	27,822
Total non-operating margins	369,176	-	33,718	(227,511)	175,383
<b>Net Margins (Deficit)</b>	<u>\$ 4,648,655</u>	<u>\$ 322,070</u>	<u>\$ (100,455)</u>	<u>\$ (221,615)</u>	<u>\$ 4,648,655</u>

**Dixie Electric Membership Corporation and Subsidiaries  
Schedule of Compensation, Benefits and Other  
Payments to Agency Head or Chief Executive Officer  
Year Ended December 31, 2017**

**Agency Head Name: John Vranic, CEO**

<b>Purpose</b>	<b>Amount</b>
Salary	\$ 0
Benefits - insurance	0
Benefits - retirement	0
Car allowance	0
Vehicle provided by government	0
Per diem	0
Reimbursements	0
Travel	0
Registration fees	0
Conference travel	0
Continuing professional education fees	0
Housing	0
Unvouchered expenses	0
Special meals	0

No compensation, benefits or other payments were paid to the CEO from public funds received by the Cooperative.



**HAWTHORN  
WAYMOUTH  
& CARROLL, L.L.P.**  
Certified Public Accountants

Louis C. McKnight, III, CPA  
Charles R. Pevey, Jr., CPA  
David J. Broussard, CPA  
Neal D. King, CPA  
Brittany B. Thames, CPA

**Independent Auditor's Report on Internal Control over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards***

The Officers and Board of Directors  
Dixie Electric Membership Corporation and Subsidiaries  
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 consolidated financial statements of Dixie Electric Membership Corporation (a nonprofit organization) and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related statements of operations and patronage capital, and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated May 4, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audits of the consolidated financial statements, we considered Dixie Electric Membership Corporation and Subsidiaries' 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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Dixie Electric Membership Corporation and Subsidiaries' internal control. Accordingly, we do not express an opinion on the effectiveness of Dixie Electric Membership Corporation and Subsidiaries' internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2017-001 that we consider to be a significant deficiency.

## **Compliance and Other Matters**

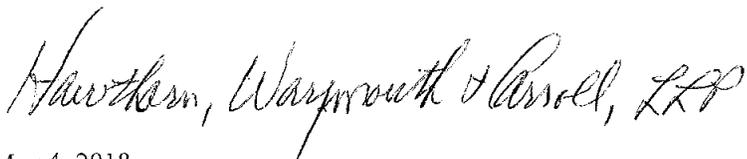
As part of obtaining reasonable assurance about whether Dixie Electric Membership Corporation and Subsidiaries' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with 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*.

## **Dixie Electric Membership Corporation and Subsidiaries' Response to Finding**

Dixie Electric Membership Corporation and Subsidiaries' response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Dixie Electric Membership Corporation and Subsidiaries' response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on it.

## **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.



May 4, 2018



**HAWTHORN  
WAYMOUTH  
& CARROLL, L.L.P.**  
Certified Public Accountants

Louis C. McKnight, III, CPA  
Charles R. Pevey, Jr., CPA  
David J. Broussard, CPA  
Neal D. King, CPA  
Brittany B. Thames, CPA

**Independent Auditor's Report  
on Compliance for Each Major Program and on Internal  
Control over Compliance Required by the Uniform Guidance**

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

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

We have audited Dixie Electric Membership Corporation and Subsidiaries' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Dixie Electric Membership Corporation and Subsidiaries' major federal programs for the year ended December 31, 2017. Dixie Electric Membership Corporation and Subsidiaries' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Dixie Electric Membership Corporation and Subsidiaries' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Dixie Electric Membership Corporation and Subsidiaries' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Dixie Electric Membership Corporation and Subsidiaries' compliance.

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

In our opinion, Dixie Electric Membership Corporation and Subsidiaries 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, 2017.

## Report on Internal Control over Compliance

Management of Dixie Electric Membership Corporation and Subsidiaries is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Dixie Electric Membership Corporation and Subsidiaries' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Dixie Electric Membership Corporation and Subsidiaries' internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

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. We consider the deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2017-002, to be a significant deficiency.

Dixie Electric Membership Corporation and Subsidiaries' response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Dixie Electric Membership Corporation and Subsidiaries' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

  
May 4, 2018

**Dixie Electric Membership Corporation and Subsidiaries  
Schedule of Expenditures of Federal Awards  
Year Ended December 31, 2017**

<u>Federal Grantor/Pass-Through Grantor/ Program Title or Cluster Title</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<b>Department of Homeland Security</b>			
<i>Passed through Government Office of Homeland Security and Emergency Preparedness</i>			
Disaster Grants – Public Assistance (Presidentially Declared Disasters) *	N/A	97.036	\$2,641,520
Hazard Mitigation Grant	N/A	97.039	<u>185,676</u>
Total Expenditures of Federal Awards			<u>\$2,827,196</u>

\* Denotes major program

The accompanying notes are an integral part of this schedule.

**Dixie Electric Membership Corporation and Subsidiaries**  
**Notes to Schedule of Expenditures of Federal Awards**  
**Year Ended December 31, 2017**

**Note 1-Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Dixie Electric Membership Corporation and Subsidiaries under programs of the federal government for the year ended December 31, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 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 Dixie Electric Membership Corporation and Subsidiaries, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Dixie Electric Membership Corporation and Subsidiaries.

**Note 2-Summary of Significant Accounting Principles**

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

**Note 3-Loans and Loan Guarantee Programs**

Dixie Electric Membership Corporation and Subsidiaries had no loans or loan guarantee programs outstanding as of December 31, 2017 for those loans described in 2 CFR 200.502(b).

**Note 4-Indirect Cost Rate**

Dixie Electric Membership Corporation and Subsidiaries has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**Note 5-Subrecipients**

Dixie Electric Membership Corporation and Subsidiaries did not pass-through any of its federal awards to a subrecipient during the year ended December 31, 2017.

**Note 6-Non-Cash Assistance**

No federal awards were expended in the form of non-cash assistance during the year ended December 31, 2017.

**Note 7-Prior Year Expenditures Included in the Schedule**

Included in the accompanying schedule of expenditures of federal awards is \$1,979,037 of expenditures recognized in the year ended December 31, 2016.

**Dixie Electric Membership Corporation and Subsidiaries  
Schedule of Findings and Questioned Costs  
Year Ended December 31, 2017**

**Section I - Summary of Audit Results**

Financial Statements

Type of report the auditor issues on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting

\* Material weakness(es) identified?

\_\_\_\_\_ Yes  X  No

\* Significant deficiency(ies) identified?

X  Yes \_\_\_\_\_ None reported

Noncompliance material to financial statements noted?

\_\_\_\_\_ Yes  X  No

Management letter issued?

X  Yes \_\_\_\_\_ No

Federal Awards

Internal control over major federal programs

\* Material weakness(es) identified?

\_\_\_\_\_ Yes  X  No

\* Significant deficiency(ies) identified?

X  Yes \_\_\_\_\_ None reported

Type of auditor's report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

X  Yes \_\_\_\_\_ No

Identification of major federal programs:

<u>CFDA Number</u>	<u>Federal Program or Cluster</u>
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disaster)

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee:

\_\_\_\_\_ Yes  X  No

**Dixie Electric Membership Corporation and Subsidiaries**  
**Schedule of Findings and Questioned Costs**  
**Year Ended December 31, 2017**

**Section II – Financial Statement Findings**

*2017-001: Payroll Taxes Not Remitted Timely*

Condition:

Payroll is processed bi-weekly; therefore, the Cooperative has 26 pay periods each year. Payroll tax remittances were late for two of the 26 pay periods.

Criteria:

Employers are required, by law, to remit payroll taxes withheld from employees' paychecks on a timely basis.

Effect:

The Cooperative did not maintain compliance with the requirement to remit payroll taxes on a semi-weekly basis, and may be subject to fines and penalties as a result.

Cause:

The payroll tax liability account was not reconciled each pay period to ensure that all amounts withheld were remitted to the appropriate governmental agencies.

Auditor's recommendation:

We recommend that management of the Cooperative remit all required payroll taxes in a timely and consistent manner to maintain compliance with IRS rules and regulations and to prevent any fines and penalties that may be imposed.

Views of responsible officials and planned corrective actions:

The Finance Department understands that two inadvertent errors in regards to payroll tax payments took place during 2017. In response to those errors, the Finance Department will deploy a practice of checking and verifying month-end trial balances to make sure those transactions have been properly executed.

**Section III – Federal Award Findings**

*2017-002: Written Policies, Procedures, and Standards of Conduct*

Federal Program Information:

CFDA 97.036: Disaster Grants – Public Assistance (Presidentially Declared Disasters); Department of Homeland Security

Criteria:

The entity should have written policies, procedures, and standards of conduct governing Federal awards as required by 2 CFR 200, Subparts D and E (2 CFR sections 200.300 and 200.400, respectively).

**Dixie Electric Membership Corporation and Subsidiaries**  
**Schedule of Findings and Questioned Costs**  
**Year Ended December 31, 2017**

**Section III – Federal Award Findings (Continued)**

*2017-002: Written Policies, Procedures, and Standards of Conduct (Continued)*

Condition:

The entity was unable to provide documentation for four of the five policies selected for testing.

Questioned costs:

None

Context:

Of the 45 listed policies and procedures included in 2 CFR 200, Subpart D (section 200.300), we haphazardly selected 5 of the policies to determine if the entity was in compliance with the applicable Federal requirements. We found 4 instances where the entity did not have written documentation of the required policy. This was not a statistically valid sample.

Effect:

The entity is not in compliance with the requirements set forth in 2 CFR 200, Subparts D and E (2 CFR sections 200.300 and 200.400, respectively).

Cause:

While the entity did have processes to address the required policies and procedures, there was no documentation of these processes.

Auditor's recommendation:

Management should familiarize themselves with the Federal requirements, specifically pertaining to 2 CFR 200, Subparts D and E (2 CFR 200.300 and 200.400, respectively), for future disasters.

Views of responsible officials and planned corrective actions:

Management understands that in the past DEMCO may have been more reactionary when dealing with the Federal requirements; however, DEMCO's entire senior management team is becoming more proactive in understanding, interpreting, and implementing the necessary changes at DEMCO.

In an effort to be more proactive, DEMCO sent personnel to a 2018 FEMA Training Workshop to increase their skill sets.

Also, Practice 2201-001 Extraordinary Disasters or Extenuating Circumstances, Emergency Contractor and Material Purchasing has been implemented. Most of the responsibility for this review is currently being led by DEMCO's Manager of Purchasing.

**Dixie Electric Membership Corporation and Subsidiaries  
Schedule of Prior Year Findings  
Year Ended December 31, 2017**

**Part I – Financial Statement Findings**

- 1) No findings were noted.
- 2) A management letter was not issued.



**HAWTHORN  
WAYMOUTH  
& CARROLL, L.L.P.**  
Certified Public Accountants

Louis C. McKnight, III, CPA  
Charles R. Pevey, Jr., CPA  
David J. Broussard, CPA  
Neal D. King, CPA  
Brittany B. Thames, CPA

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

In planning and performing our audit of the financial statements of Dixie Electric Membership Corporation (DEMCO) and Subsidiaries as of and for the year ended December 31, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered Dixie Electric Membership Corporation and Subsidiaries' internal control over financial reporting (internal control) as a basis for designing auditing 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 organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the organization's internal control.

However, during our audit we became aware of deficiencies in internal control other than significant deficiencies and material weaknesses and matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated May 4, 2018, on the financial statements of Dixie Electric Membership Corporation and Subsidiaries

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with management of DEMCO, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This communication is intended solely for the information and use of management, the Board of Directors, and others within the organization, and is not intended to be, and should not be, used by anyone other than those specified parties.

May 4, 2018

## Management Letter Points

### Work Orders

The Cooperative should review open work orders that are over six months old and have no activity, determine the status of the work orders, and document the reason the work orders are not yet closed. Any work order that is determined to be completed should be immediately closed.

### Contract Approvals

In our review of contracts approved by the Board, we noted one contract that had a variance of more than 10% from the approved bid amount. Per board policy, a change order should have been submitted for review and approval at the next scheduled Purchasing Committee and Board meetings before proceeding with construction. Contracts should be closely monitored and compared to the approved bid amounts to ensure that any variances of 10% or more are appropriately reported to the Board.

### Vendor Statements

To ensure proper year-end cutoff, the Cooperative should request billing statements from its significant vendors. The statements should be reconciled to the accounts payable listing and any differences should be researched.

### DEMCO Foundation Contributions

The Cooperative collects voluntary contributions from participating members by “rounding up” the members’ bills to the nearest dollar and remitting the difference to DEMCO Foundation for Operation Round Up. The Cooperative did not remit Operation Round Up contributions to DEMCO Foundation timely and consistently during the year. The Cooperative should remit all contributions it has collected on behalf of DEMCO Foundation on a monthly basis.



DIXIE ELECTRIC MEMBERSHIP CORPORATION

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www.demco.org

May 3, 2018

Mr. Charles Pevey, CPA  
Hawthorn, Waymouth & Carroll, L.L.P.  
8545 United Plaza Blvd., Suite 200  
Baton Rouge, LA 70809

### WORK ORDERS

The Cooperative should review open work orders that are over six months old and have no activity, determine the status of the work orders, and document the reason the work orders are not yet closed. Any work order that is determined to be completed should be immediately closed.

#### **DEMCO's Response:**

**DEMCO understands that the Cooperative has been lax in the past regarding timely work order closings. It was evident during the 2017 Financial Audit where the Cooperative wrote off significant dollars that were booked into account 107.20. The Cooperative has begun to work on developing a plan to manage the work order process. The first items that will be addressed are the small in value work orders that have been open since 2016 and prior. After the "clean up" of the 2016 and prior work orders, the Cooperative will work with SEDC to develop a report to ensure timely and effective work order management.**

### CONTRACT APPROVALS

In our review of contracts approved by the Board, we noted one contract that had a variance of more than 10% from the approved bid amount. Per board policy, a change order should have been submitted for review and approval at the next scheduled Purchasing Committee and Board meetings before proceeding with construction. Contracts should be closely monitored and compared to the approved bid amounts to ensure that any variances of 10% or more are appropriately reported to the Board.

#### **DEMCO's Response:**

**In the past, there has been an occasion where due to circumstances the real dollars have exceeded the board approved amount by more than 10%, and inadvertently the project was not taken back to the board for additional action. The Cooperative is working on defining what constitutes a variance from approved amount. The board approved amount only consists of contract labor and an estimated amount of owner provided materials. Once a definition has been agreed upon, then the respective party responsible for that project will report the cause of the variance, and it will be submitted to the board for review and approval.**

VENDOR STATEMENTS

To ensure proper year-end cutoff, the Cooperative should request billing statements from its significant vendors. The statements should be reconciled to the accounts payable listing and any differences should be reconciled.

**DEMCO's Response:**

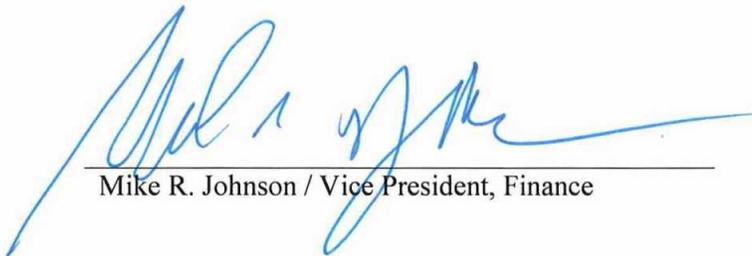
**DEMCO has always worked statements; however, DEMCO will steepen the amount of statements worked. The difficult issue for DEMCO is that some vendors invoice DEMCO slowly and sometimes not at all. It is hard for DEMCO to force vendors into a timely billing practice.**

DEMCO FOUNDATION CONTRIBUTIONS

The Cooperative collects voluntary contributions from participating members by "rounding up" the members' bills to the nearest dollar and remitting the difference to DEMCO Foundation for Operation Round Up. The Cooperative did not remit Operation Round Up contributions to DEMCO Foundation timely and consistently during the year. The Cooperative should remit all contributions it has collected on behalf of DEMCO Foundation on a monthly basis.

**DEMCO's Response:**

**DEMCO's Finance Department did not remit all contributions to the foundation in a timely manner; that being said, DEMCO's Finance Department has implemented a monthly review of the trial balance to ensure that those payments are made the month after they are collected.**



Mike R. Johnson / Vice President, Finance

Work\_Orders MRJ-050318