

**POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION  
FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**MAJOR, MORRISON & DAVID  
Certified Public Accountants**

**POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION**

**June 30, 2018 and 2017**

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INDEPENDENT AUDITORS' REPORT

To the Officers and Board of Directors  
Pointe Coupee Electric Membership Corporation  
New Roads, Louisiana

**Report on the Financial Statements**

We have audited the accompanying financial statements of Pointe Coupee Electric Membership Corporation (a Cooperative), which comprise the balance sheets as of June 30, 2018 and 2017, and the related statements of revenue and patronage capital, comprehensive income, and cash flows for the years then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Opinions**

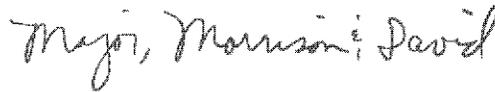
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pointe Coupee Electric Membership Corporation as of June 30, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2018, on our consideration of Pointe Coupee Electric Membership Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pointe Coupee Electric Membership Corporation's internal control over financial reporting and compliance.

**Other Reporting Required by Regulatory Requirements**

In accordance with 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers*, we have also issued our report dated September 11, 2018, on our consideration of Pointe Coupee Electric Membership Corporation's compliance with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as they relate to accounting matters. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing, insofar as it relates to accounting matters for electric borrowers. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. That report is an integral part of an audit performed in accordance with 7 CFR Part 1773 in considering Pointe Coupee Electric Membership Corporation's compliance as they relate to accounting matters.



Major, Morrison & David  
New Roads, Louisiana  
September 11, 2018

**Pointe Coupee Electric Membership Corporation**  
**BALANCE SHEETS**  
**As of June 30, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
ELECTRIC PLANT: (Note 2)		
In Service - at cost	\$ 48,542,868	\$ 48,014,515
Construction work in progress	1,014,930	414,450
	49,557,798	48,428,965
Less: accumulated depreciation	(15,059,011)	(14,421,255)
	34,498,787	34,007,710
OTHER ASSETS AND INVESTMENTS		
Non-utility property (net of accumulated depreciation of \$140,977 for 2018 and \$140,977 for 2017)	-	-
Postretirement benefit asset (Note 13)	1,147,037	835,625
Investments in associated organizations, at cost (Note 4)	1,361,542	1,313,521
	2,508,579	2,149,146
CURRENT ASSETS		
Cash and cash equivalents	289,164	184,077
Short-term investments (Note 4)	200,000	200,000
Accounts receivable (less provision for uncollectible accounts of \$29,525 in 2018 and \$25,634 in 2017)	2,003,216	1,639,535
Accounts receivable - unbilled	3,979,744	3,294,833
Materials and supplies (at average cost)	404,232	382,311
Prepayments	224,916	203,973
Other current and accrued assets	7,933	7,917
	7,109,205	5,912,646
DEFERRED DEBITS (Note 7)	1,571,806	1,764,965
	\$ 45,688,377	\$ 43,834,467

The accompanying notes are an integral part of this statement.

**Pointe Coupee Electric Membership Corporation**  
**BALANCE SHEETS**  
**As of June 30, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>EQUITIES AND LIABILITIES</b>		
<b>EQUITIES:</b>		
Memberships	\$ 39,195	\$ 39,235
Accumulated other comprehensive income (Note 13)	1,147,037	835,625
Patronage capital (Note 8)	18,904,170	17,635,632
	20,090,402	18,510,492
<b>LONG-TERM LIABILITIES:</b>		
Long-term debt, less current maturities (Note 5)	18,153,559	19,312,279
Postretirement benefit obligation (Note 13)	-	-
	18,153,559	19,312,279
<b>CURRENT LIABILITIES:</b>		
Line of credit - note payable (Note 6)	3,850,000	2,800,000
Current maturities of long-term debt (Note 5)	1,275,803	1,192,713
Accounts payable - purchased power	1,258,943	1,072,030
Accounts payable - other	104,600	70,055
Customer deposits	480,280	470,780
Other current and accrued liabilities	474,790	406,118
	7,444,416	6,011,696
<b>DEFERRED CREDITS</b>		
	-	-
	<b>\$ 45,688,377</b>	<b>\$ 43,834,467</b>

The accompanying notes are an integral part of this statement.

**Pointe Coupee Electric Membership Corporation**  
**STATEMENTS OF REVENUE AND PATRONAGE CAPITAL**  
For the Years Ended June 30, 2018 and 2017

	<b>2018</b>	<b>2017</b>
OPERATING REVENUES	<u>\$ 23,595,533</u>	<u>\$ 21,572,868</u>
OPERATING EXPENSES:		
Cost of power	13,680,255	13,452,502
Distribution operation	612,191	612,456
Distribution maintenance	2,643,820	2,388,124
Consumer accounts	896,027	880,532
Sales	30,584	29,648
Administrative and general	1,917,547	1,784,380
Depreciation and amortization	1,324,422	1,306,039
Taxes	463,597	449,271
	<u>21,568,443</u>	<u>20,902,952</u>
OPERATING MARGINS BEFORE FIXED CHARGES	2,027,090	669,916
FIXED CHARGES:		
Interest on long-term debt (Note 3)	<u>851,941</u>	<u>875,709</u>
OPERATING MARGINS AFTER FIXED CHARGES	1,175,149	(205,793)
CAPITAL CREDITS	<u>82,309</u>	<u>66,493</u>
NET OPERATING MARGINS	<u>1,257,458</u>	<u>(139,300)</u>
NONOPERATING MARGINS:		
Interest income	33,739	32,990
Other income	3,120	2,636
Other expense	(25,779)	(34,481)
	<u>11,080</u>	<u>1,145</u>
NET MARGINS	1,268,538	(138,155)
PATRONAGE CAPITAL - beginning of year	<u>17,635,632</u>	<u>17,773,787</u>
PATRONAGE CAPITAL - end of year	<u>\$ 18,904,170</u>	<u>\$ 17,635,632</u>

The accompanying notes are an integral part of this statement.

**Pointe Coupee Electric Membership Corporation**  
**STATEMENTS OF COMPREHENSIVE INCOME**  
**For the Years Ended June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>NET MARGINS</b>	\$ 1,268,538	\$ (138,155)
<b>OTHER COMPREHENSIVE INCOME</b>		
Recognized actuarial gains/losses, net periodic benefit cost & revaluation for postretirement benefit obligation (Note 13)	<u>311,412</u>	<u>439,309</u>
<b>COMPREHENSIVE INCOME</b>	<u>\$ 1,579,950</u>	<u>\$ 301,154</u>

The accompanying notes are an integral part of this statement.

**Pointe Coupee Electric Membership Corporation**  
**STATEMENTS OF CASH FLOWS**  
**For the Years Ended June 30, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net margins	\$ 1,268,538	\$ (138,155)
Adjustments to reconcile net margins to net cash provided (used) by operating activities:		
Depreciation and amortization	1,499,444	1,483,860
Bad debts	22,273	28,364
(Increase) decrease in:		
Accounts receivable	(385,953)	65,634
Unbilled receivable	(684,910)	428,203
Prepaid expenses	(20,943)	(2,127)
Materials and supplies	(21,921)	118,917
Deferred debits	193,160	115,578
Other current and accrued assets	(16)	-
Decrease (increase) in:		
Accounts payable	221,457	(212,412)
Other current and accrued liabilities	68,672	41,314
Deferred credits	-	-
Total adjustments	891,263	2,067,331
Net Cash Provided (Used) by Operating Activities	2,159,801	1,929,176
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investments in associated organizations	(48,021)	(35,017)
Proceeds from sale of investments	200,000	200,000
Construction and acquisition of plant	(1,990,523)	(1,732,382)
Purchase of investments	(200,000)	(200,000)
Net Cash Provided (Used) by Investing Activities	(2,038,544)	(1,767,399)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from line of credit	4,150,000	9,050,000
Repayment of line of credit	(3,100,000)	(8,000,000)
Proceeds from long-term debt	-	-
Repayment of long-term debt	(1,075,630)	(1,278,877)
Increase (decrease) in:		
Memberships issued	(40)	(10)
Customer deposits	9,500	16,290
Net Cash Provided (Used) by Financing Activities	(16,170)	(212,597)
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>105,087</b>	<b>(50,820)</b>
<b>CASH AT BEGINNING OF YEAR</b>	<b>184,077</b>	<b>234,897</b>
<b>CASH AT END OF YEAR</b>	<b>\$ 289,164</b>	<b>\$ 184,077</b>
<u>Supplemental Disclosures</u>		
Cash Paid During the Year for:		
Interest	\$ 754,052	\$ 880,987
<b>Noncash Investing &amp; Financing Activities:</b>		
Increase (decrease) in compensated absences	6,087	9,578
Postretirement benefits	(311,412)	(439,309)

The accompanying notes are an integral part of this statement.

**POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

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

**A. Organization**

Pointe Coupee Electric Membership Corporation (Cooperative) is an electric transmission and distribution cooperative. Its principal business activity is providing electric power to approximately 10,439 member-consumers over three parishes. The Cooperative is subject to the jurisdiction of the Louisiana Public Service Commission (LPSC) for ratemaking regulations.

**B. Accounting and Records**

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

**C. Cash and Cash Equivalents**

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

**D. Short-Term Investments**

Short-term investments consist of a certificate of deposit which matures every 12 months and is stated at cost, which approximates fair market value. The investments are held until each maturity date.

**E. Accounts Receivable**

The Cooperative uses the reserve method to account for uncollectible accounts. Accounts deemed uncollectible are written off yearly against the reserve.

**F. Inventory**

Inventory consists of materials and electrical supplies and is stated at average-cost.

**G. Utility Plant**

Utility plant is stated at original cost net of contributions. 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 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.

**H. Investments in Associated Organizations**

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

**POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

**I. Income Taxes**

The Cooperative is exempt from income taxes under Section 501 (c)(12) of the IRS Code, since it receives more the 85% of its income from members. The statute of limitations for the examination of the Cooperative's income tax returns is generally three years from the due date of the tax returns including extensions. The tax Form 990s are prepared on a calendar year basis. The tax years open for assessment are the years ending after December 31, 2014.

**J. Revenue**

Revenue is recognized based on monthly billings to consumers. The Cooperative accrues revenue related to energy consumed but not yet billed.

The Cooperative's rates include a power cost adjustment clause (PCA), which enables the Cooperative to pass through to consumers all fuel charges and non-fuel charges in the cost of power. The Cooperative's rates, including the PCA must be approved by the LPSC, which also retains jurisdiction to review the cooperative's PCA periodically to ensure that costs comply with their power purchase contracts and that their overall rates do not permit the over collection of costs.

**K. Advertising Costs**

Advertising costs are charged to operations when incurred. Total advertising expense for the years ended June 30, 2018 and 2017, was \$23,728 and \$26,453, respectively.

**L. Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

**M. Reclassifications**

Certain amounts as previously reported have been reclassified to conform to the June 30, 2018 presentation. The reclassifications had no effect on net margins or patronage capital.

**Note 2-Utility Plant**

The following are the major classes of utility plant as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Transmission plant	\$ 6,377,630	\$ 6,365,644
Distribution plant	37,982,041	37,501,214
General plant	<u>4,183,197</u>	<u>4,147,657</u>
Utility plant in service	48,542,868	48,014,515
Construction work in progress	<u>1,014,930</u>	<u>414,450</u>
	<u>\$ 49,557,798</u>	<u>\$ 48,428,965</u>

Depreciation and amortization expense totaling \$175,022 and \$177,821 for the years ended June 30, 2018 and 2017, respectively, are included in various expense accounts based on allocation of work order costs in accordance with RUS

**POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION**  
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guidelines. Annual average composite rates of depreciation used by the Cooperative during 2018 and 2017 are as follows:

	<u>Percent Per Year</u>
Distribution plant	1.80 to 4.40
Transmission plant	2.75
General plant	
Structures and improvements	2.00
Transportation equipment	7.00
Communications equipment	5.00
Office furniture and fixtures	4.00
Power-operated equipment	11.00
Other general plant	3.60

**Note 3-Capitalization of Interest**

The Cooperative's policy is to capitalize interest as a component of the cost of property, plant and equipment constructed for its own use with a contracted life of a year or more. The following is a schedule of interest components for the years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Interest capitalized	\$ -0-	\$ -0-
Interest deferred	-0-	-0-
Interest charged to operations	<u>851,941</u>	<u>875,709</u>
 Total interest	 <u>\$ 851,941</u>	 <u>\$ 875,709</u>

**Note 4-Investments in Associated Organizations and Short-term Investments**

Investments in associated organizations consist of the following as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
National Rural Utilities Cooperative Finance Corporation:		
Capital Term Certificates	\$ 560,493	\$ 564,475
Patronage Capital	186,569	180,757
Member Capital Securities	100,000	100,000
Membership Fee	1,000	1,000
Patronage Capital Certificates:		
Association of Louisiana Electric Cooperatives, Inc.	3,641	3,641
Federal Rural Electric Insurance Corporation	254,778	227,598
National Information Solutions Co-op	77,238	69,351
GRESKO- member fee	100	100
GRESKO	87,240	84,656
ERMCO – member fee	100	100
NRTC	31	31
Co-Bank- member fee	1,000	1,000
Co-Bank	16,625	15,321
Arkansas Electric	<u>72,727</u>	<u>65,491</u>
	 <u>\$ 1,361,542</u>	 <u>\$ 1,313,521</u>

**POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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The Cooperative has adopted Financial Accounting Standards Board (FASB) –Accounting Standards Codification (ASC) 320, “Accounting for Certain Investments in Debt and Equity Securities.” In accordance with FASB ASC 320, the Cooperative has classified all short-term investments as held-to-maturity. Held-to-maturity investments are stated at amortized cost as the cooperative has the ability and intent to hold these investments to maturity. The cost of investments sold is based on the specific identification method. There were no sales or transfers of investments classified as held-to-maturity during the years ended June 30, 2018 and 2017, respectively.

Short-term investments classified as held-to-maturity and their maturities were as follows at June 30, 2018 and 2017:

At the balance sheet date of June 30, 2018:

	<u>Amortized Cost Basis</u>	<u>Gross Unrealized Gain</u>	<u>Gross Unrealized Loss</u>	<u>Aggregate Fair Value</u>
Certificates of Deposit	\$ 200,000	\$ -0-	\$ -0-	\$ 200,000

Maturities of investments

	<u>Amortized Cost</u>	<u>Fair Value</u>
Less than one year	\$ 200,000	\$ 200,000

At the balance sheet date of June 30, 2017:

	<u>Amortized Cost Basis</u>	<u>Gross Unrealized Gain</u>	<u>Gross Unrealized Loss</u>	<u>Aggregate Fair Value</u>
Certificates of Deposit	\$ 200,000	\$ -0-	\$ -0-	\$ 200,000

Maturities of investments

	<u>Amortized Cost</u>	<u>Fair Value</u>
Less than one year	\$ 200,000	\$ 200,000

**Note 5- Long-Term Debt**

Long-term debt consists of mortgage notes payable to RUS, NRUCFC, and The Federal Financing Bank (FFB). Notes payable to RUS consist of 3.7% to 5% mortgage notes payable in monthly and quarterly payments maturing in various years through 2041. Notes payable to NRUCFC consist of mortgage notes payable in quarterly payments bearing fixed interest rates of 2.10% to 7.025% maturing in various years through 2027. Notes Payable to FFB consists of mortgage notes payable in quarterly payments bearing fixed rates of 1.988% to 5.285%. It is estimated that principal payments to RUS, NRUCFC, and FFB in the next twelve months will be approximately \$230,632, \$429,029 and \$616,142, respectively.

On February 28, 1991, the Cooperative signed a term sheet agreement with RUS, which allowed the Cooperative to defer its original principal and interest payments for five years. On February 28, 1994, an amendment to the agreement was signed which discontinued the deferment and the Cooperative began paying back its deferred principal and interest.

**POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION**  
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Agreements with mortgage lenders requires the Cooperative to maintain minimum financial covenant ratios of Tier and DSC of 1.25 and operating Tier and operating DSC of 1.10 (based on a best 2 of last 3-year average). During the calendar year ended December 31, 2017, the Cooperative met its financial debt covenants. In July 2016, the Cooperative's board of directors passed a resolution to submit an application for rate increases and a formula rate plan to the LPSC in order to improve operating performance and maintain compliance with its debt covenants. The rate increase was heard and approved by LPSC on February 17, 2017 and took effect with the April 2017 billing.

The following schedule is a summary of outstanding loans as of June 30, 2018 and 2017, respectively.

	<u>2018</u>	<u>2017</u>
RUS Notes:		
5% notes due from March 8, 2019 through November 8, 2023	152,892	292,478
Fixed interest rate (3.70-4.78%) notes due July 3, 2041	4,933,769	5,057,270
FFB Notes:		
Fixed interest rate (1.988 - 5.285%) notes due January 2, 2046	12,578,730	12,948,415
NRUCFC Notes:		
Fixed interest rate (2.10 – 7.025%) notes due August 31, 2017 Through March 1, 2027	<u>1,763,971</u>	<u>2,206,829</u>
Total	19,429,362	20,504,992
Less current maturities of long-term debt	<u>1,275,803</u>	<u>1,192,713</u>
Total long term debt	<u>\$ 18,153,559</u>	<u>\$ 19,312,279</u>

Substantially all of the Cooperative's utility plant is pledged as collateral under the various mortgage notes. Annual maturities of long-term debt for each of the next five years ending June 30 are as follows:

2019	\$ 1,275,803
2020	969,879
2021	798,312
2022	812,755
2023	920,755
Thereafter	<u>14,651,858</u>
	<u>19,429,362</u>

On July 27, 2017, the Board of Directors passed a resolution to make application to the RUS pursuant to 7 CFR Part 1710 for a guaranteed FFB loan in the approximate amount of \$14,926,000 to be used in accordance with the provisions of CFR Part 1710 to finance construction of its facilities on the basis of its 2016-2019 Construction Work Plan. The financing shall bear a maturity date to cover an approximate period of twenty-nine years. It shall also be used to repay a short-term bridge loan borrowed for construction costs incurred prior to having the RUS available funds (see Note 6). During the years ended June 30, 2018 and 2017, the Cooperative borrowed \$0 and \$0 on the 2016-2019 work plan from RUS, respectively.

On March 28, 2013, the Cooperative's board of directors passed a resolution to prepay retirement contributions of its retirement security pension plan with National Rural Electric Cooperative Association (NRECA) in the amount of \$1,504,604 in order to receive a 25% reduction in their payments along with a guarantee that the contribution rate would not increase for the next two years. The prepayment amount was borrowed from NRUCFC, with approval from RUS as "permitted debt" under the RUS loan contracts, and is estimated to result in significant savings over the next twenty years.

**POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION**  
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The Cooperative is allowed by RUS to amortize the prepayment over a defined period. See Note 7 for the current balance recognized within deferred debits as of June 30, 2018 and 2017, respectively. The NRUCFC loan funds were expended for purposes contemplated in the loan agreement on such loan. No other long-term loan fund advances from NRUCFC were received during the current or prior year.

**Note 6-Lines of Credit**

The Cooperative has a line of credit of \$2,500,000 with NRUCFC at June 30, 2018 and 2017 respectively, at a rate equal to the bank prime rate, plus one percent per annum (currently 3.25%), maturing April 2, 2020. As of June 30, 2018 and 2017, \$1,150,000 and \$100,000 was owed on the line of credit, respectively. The Cooperative also has a line of credit with Co-Bank in the amount of \$2,000,000 for the years ended June 30, 2018 and 2017, respectively at a weekly variable rate set by Co-Bank (currently 4.31%), maturing January 31, 2019. As of June 30, 2018 and 2017, \$0 and \$0 was owed on this line of credit, respectively.

During the prior year, the Cooperative applied for and was approved by the LPSC in March 2017, for a bridge loan (line of credit) with NRUCFC in the amount of \$4,000,000 at a rate equal to the bank prime rate plus one percent per annum (currently 2.85%), maturing June 2, 2020 in order to finance construction activities until approved for RUS loan requests for its 2016-2019 Construction Work Plan (see Note 5). As of June 30, 2018 and 2017, \$2,700,000 and \$2,700,000 was owed on this line of credit, respectively.

**Note 7-Deferred Debits and Other Assets**

Following is a summary of amounts recorded as deferred debits as of June 30, 2018 and 2017.

	<u>2018</u>	<u>2017</u>
Hurricane Gustav Restoration (see Note 14)	471,543	576,194
Hurricane Isaac Restoration (see Note 14)	51,434	51,434
Preliminary survey & facility charges	30,982	30,982
RS Pension Prepayment (see Note 5)	<u>1,017,847</u>	<u>1,106,355</u>
	<u>\$ 1,571,806</u>	<u>\$1,764,965</u>

**Note 8-Patronage Capital**

At June 30, 2018 and 2017, patronage capital consisted of:

	<u>2018</u>	<u>2017</u>
Assignable	\$ 1,315,928	\$ 405,344
Assigned to date	16,747,218	16,376,729
Non-assignable non-operating	<u>841,024</u>	<u>853,559</u>
	<u>\$ 18,904,170</u>	<u>\$ 17,635,632</u>

Under the provisions of the Mortgage Agreement, until the equities and margins equal or exceed forty percent of the total assets of the Cooperative, the return to patrons of contributed capital is generally limited to twenty-five percent of the patronage capital or margins received by the Cooperative in the prior calendar year. The equities and margins of the Cooperative represent 41% of the total assets at June 30, 2018. No retirements of capital credits occurred in 2018 or 2017.

**POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

**Note 9-Pension Plan**

The Cooperative participates in the NRECA Retirement Security Plan (RS Plan), which is a multi-employer defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. The plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333. Unlike a single-employer plan, a multi-employer plan's assets are available to pay benefits of any plan participant and separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer could be used to provide benefits to employees of other participating employers.

The Cooperative makes annual contributions to the plan equal to the amounts accrued for pension expense. Total pension expense in these statements, which represented less than 5% of the total contributions made to the plan by all participating employers, for the years ended June 30, 2018 and 2017, was \$523,733 and \$454,782, respectively. There were no significant changes that affect the comparability of the 2018 and 2017 contributions.

In the RS Plan, a "zone status" determination is not required and, therefore, not determined under the Pension Protection Act (PPA) of 2006. Additionally, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, The RS Plan was over 94.2% and 95.5% funded at December 31, 2017 and 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 can change as a result of plan experience.

The Cooperative also maintains a 401(K) plan for the benefit of all eligible employees. All employees are eligible to participate after meeting certain service and age requirements and may contribute up to 25% of compensation, with no contributions to be made on the Cooperative's part.

**Note 10-Commitment**

The Cooperative was one of eleven member electric cooperatives of Cajun Electric Power Cooperative, Inc. (Cajun) and has executed a wholesale power agreement with Cajun's successor, Louisiana Generating, LLC (LaGen), who purchased Cajun's non-nuclear assets out of bankruptcy. Under this agreement, the Cooperative is committed to purchase its electric power and energy requirements from LaGen until the year 2025. In January and March 2000, the LPSC issued orders approving the member co-ops purchase power contracts with LaGen and the use of an automatic adjustment clause for the recovery of purchased power costs. However, in order to implement this clause, the cooperatives needed to adjust their overall revenue requirements and rate designs. The Cooperative filed an application with the LPSC to redesign their rates and include the power cost adjustment clause. On June 2, 2000, the LPSC approved the Cooperative's petition.

**Note 11-Contingency**

The Cooperative is involved in no lawsuits at the current time.

**Note 12- Credit Risks**

At various times during the year cash deposits with one banking institution exceeded the \$250,000 coverage limit of protection offered by the Federal Deposit Insurance Corporation. Management monitors the financial condition of the institution on a regular basis in order to minimize the potential risk. At June 30, 2018 and 2017, uninsured cash balances totaled \$128,446 and \$0, respectively. Concentrations of credit risk with respect to accounts receivable are limited due to the large number of members comprising the membership base and their dispersion across the geographic area.

A major portion of the Cooperative's workforce is covered by a collective bargaining agreement with the International Brotherhood of Electrical Workers Local 2286. This contract was negotiated for a three year term beginning January 1,

**POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

2017 through December 31, 2019.

**Note 13- Postretirement Benefits Other Than Pensions**

The Cooperative has implemented FASB ASC 715-60, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, which improves financial reporting by requiring an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. The Cooperative sponsors a defined benefit postretirement plan that covers all current employees and directors and provides certain retired and active employees with postretirement health care benefits. The plan provides medical and dental insurance benefits. The postretirement plan is contributory, with non-eligible medicare retiree contributions equal to 15% of cost.

The annual measurement date is the end of the fiscal year (FYE) for the postretirement benefits (June 30<sup>th</sup> for FYE 2018 and FYE 2017). The following table provides further information about the postretirement benefit plan:

	<u>2018</u>	<u>2017</u>
Fair Value of plan assets at June 30	\$ 5,411,254	\$ 5,131,371
Accumulated Postretirement Benefit Obligation at June 30	<u>(4,264,217)</u>	<u>(4,295,746)</u>
Net Funded (Unfunded) Status at June 30	<u>\$ 1,147,037</u>	<u>\$ 835,625</u>

The following table provides amounts recognized in the statement of financial position as noncurrent assets and accumulated other comprehensive income:

Noncurrent Assets	\$ 1,147,037	\$ 835,625
Current Liabilities	-	-
Noncurrent Liabilities	<u>-</u>	<u>-</u>
Recognized in Net Financial Position	<u>\$ 1,147,037</u>	<u>\$ 835,625</u>

The following table provides the components of net postretirement benefit costs as follows:

Net Loss (Gain) on Assets	\$ (156,215)	\$ (373,564)
Service Cost	224,703	215,770
Interest Cost	179,102	168,643
Net Amortization and Deferral	<u>0</u>	<u>0</u>
Net Periodic Postretirement Benefit Cost	<u>\$ 247,590</u>	<u>\$ 10,849</u>

Assumptions:

**Actuarial Cost Method** – The valuation was performed using the Projected Unit Credit Method with the attribution period being the period from the participant's date of hire to the expected retirement date. The employer portion of the actuarial present value for retiree post-retirement benefits in future years is determined by projecting the current cost levels using the healthcare cost trend rate and discounting this projected amount to the valuation date using the other described pertinent actuarial assumptions, including the discount rate, mortality, and turnover.

**Actuarial Value of Plan Assets** – Actual market value of the assets has been used.

**Mortality** – The 1994 Group Annuity Reserving (94GAR) table, projected to 2002, based on a fixed blend of 50% of the unloaded male mortality rates and 50% of the unloaded female mortality rates, is used. This is a recently published mortality table which has been used in determining the value of accrued benefits in defined benefit pension plans.

Projected future mortality improvement has not been used since it is our opinion that this table contains sufficiently conservative margin for the population involved in this valuation.

**POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

Expected Time of Commencement of Benefits – It was assumed that employees retire at the later of attainment of age 62 and completion of 10 years of service.

Turnover – An age-related turnover scale based on actual experience as described for the administrative staff of the Cooperative has been used. The rates, when applied to the active employee census, produce an annual turnover of approximately 5%.

Future Cost increase (Trend) Rate – The expected rate of increase in medical cost is based on a graded schedule beginning with 8% annually, down to an ultimate annual rate of 5% for ten years out and later.

Investment Return Assumption (Discount Rate) – As required a “discount rate” is used to value the actuarial liabilities rather than the long-term return on assets which is typically used in such actuarial valuations. For this purpose, we have used the values in the “Citigroup Pension Liability Index” (formerly Salmon Brothers Pension Liability Index) as of each measurement date. The tables disclose the discount rate applicable to each measurement date. The discount rates used as of June 30, 2018 and 2017 were 4.14% and 3.87%, respectively.

Plan assets in the amount of \$115,318 are expected to be returned to the employer within the next 12 month operating cycle for retiree costs. The cooperative expects to contribute \$0 into the trust in 2019.

Estimated benefits expected to be paid over the next five years ending June 30 are as follows:

2019	115,318
2020	124,543
2021	134,507
2022	145,267
2023	156,743
2024-2028	971,899

**Note 14 – Hurricanes Gustav & Isaac**

On September 1, 2008, Hurricane Gustav hit Louisiana as a Category 2 (one mile per hour short of a Category 3) hurricane and caused significant damage to the area and the Cooperative’s electrical systems. The Cooperative’s tri-parish region of Pointe Coupee, Iberville, and West Baton Rouge was hit particularly hard causing 100% power outages and considerable damages to the infrastructure. Costs to repair and replace the Cooperative’s infrastructure totaled \$3,808,113 of which \$3,427,302 is eligible for reimbursement from FEMA at a 90% coverage rate. Actual reimbursements received during the years ending June 30, 2018 and 2017 totaled \$104,651 and \$56,186, respectively. Any costs not reimbursed by FEMA will be recovered by assessment on individual customer bills as allowed by order of the La. Public Service Commission. At this time, approval will be sought from RUS to account for the costs as a regulatory asset or capitalized and depreciated according to RUS guidelines.

On August 29, 2012, Hurricane Isaac hit Louisiana as a Category 1 hurricane and caused damage and power outages to the Cooperative’s electrical system. Costs to repair and replace the cooperative’s infrastructure totaled \$514,102 of which \$444,615 is eligible for reimbursement from FEMA at a 75% coverage rate. Actual reimbursements received during the years ending June 30, 2018 and 2017 totaled \$12,682 and \$0, respectively. Any costs not reimbursed by FEMA will be capitalized and depreciated according to RUS guidelines.

**Note 15 – Subsequent Events**

Management has performed an evaluation of the Cooperative’s activities through September 11, 2018, and has concluded that there are no other significant subsequent events requiring recognition or disclosure through the date and time these financial statements were available to be issued on September 11, 2018.

**Supplemental Information**

**Pointe Coupee Electric Membership Corporation  
 SCHEDULE OF COMPENSATION, BENEFITS, AND  
 OTHER PAYMENTS TO AGENCY HEAD  
 For the Year Ended June 30, 2018**

**AGENCY HEAD NAME : MYRON A. LAMBERT, GENERAL MANAGER**

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

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

**Independent Auditors' 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  
Pointe Coupee Electric Membership Corporation  
New Roads, 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 Pointe Coupee Electric Membership Corporation (a Cooperative), which comprise the balance sheets as of June 30, 2018 and 2017, and the related statements of revenue and patronage capital, comprehensive income, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated September 11, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Pointe Coupee 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pointe Coupee Electric Membership Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of Pointe Coupee 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.

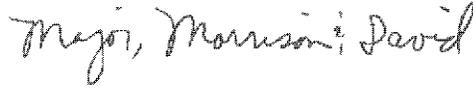
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

A handwritten signature in cursive script that reads "Major, Morrison & David".

Major, Morrison & David  
New Roads, Louisiana  
September 11, 2018

**Independent Auditors' Report on Compliance with Aspects of Contractual  
Agreements and Regulatory Requirements for Electric Borrowers**

The Officers and Board of Directors  
Pointe Coupee Electric Membership Corporation  
New Roads, 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 Pointe Coupee Electric Membership Corporation (a Cooperative), which comprise the balance sheets as of June 30, 2018 and 2017, and the related statements of revenue and patronage capital, comprehensive income, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated September 11, 2018. In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2018, on our consideration of Pointe Coupee Electric Membership Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above and our schedule of findings and recommendations related to our audit have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that Pointe Coupee Electric Membership Corporation 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 Pointe Coupee Electric Membership Corporation'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 Pointe Coupee Electric Membership Corporation's accounting and records to indicate that Pointe Coupee Electric Membership Corporation did not:

Maintain adequate and effective accounting procedures;

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

Reconcile continuing property records to the controlling general ledger plant accounts;

Clear construction accounts and accrue depreciation on completed construction;

Record and properly price the retirement of plant;

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

Maintain adequate control over materials and supplies;

Prepare accurate and timely Financial and Operating Reports;

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

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

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

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

Comply with the requirements for the detailed schedule of investments.

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



Major, Morrison & David  
New Roads, Louisiana  
September 11, 2018

**POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2018**

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

Material weakness (es) identified?

\_\_\_yes Xno

Deficiency(s)in internal control identified not  
considered to be material weaknesses?

\_\_\_yes Xnone reported

Noncompliance material to financial statements noted?

\_\_\_yes Xno

**SECTION II - FINANCIAL STATEMENT FINDINGS**

There were no current year findings.

**POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION  
 SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES  
 FOR THE YEAR ENDED JUNE 30, 2018**

<u>Ref. No.</u>	<u>Fiscal Year Finding Initially Occurred</u>	<u>Description of Finding</u>	<u>Corrective Action Taken</u>	<u>Planned Corrective Action/Partial Corrective Action Taken</u>
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**Section I – Internal Control and Compliance Material to the Financial Statements:**

There were no prior year findings.