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DIXIE ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES

GREENWELL SPRINGS, LOUISIANA

CONSOLIDATED FINANCIAL STATEMENTS
WITH CONSOLIDATING INFORMATION

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

DIXIE ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES
GREENWELL SPRINGS, LOUISIANA

CONSOLIDATED FINANCIAL STATEMENTS
WITH CONSOLIDATING INFORMATION
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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DIXIE ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES
GREENWELL SPRINGS, LOUISIANA

CONSOLIDATED FINANCIAL STATEMENTS
WITH CONSOLIDATING INFORMATION
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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Independent Auditor's Report

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

Report on the Consolidated Financial Statements

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Dixie Electric Membership Corporation and Subsidiaries as of December 31, 2018, and the results of their operations and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of Dixie Electric Membership Corporation and Subsidiaries as of and for the year ended December 31, 2017 were audited by other auditors whose report dated May 4, 2018 expressed an unmodified opinion.

Other Matters

Supplementary 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 sheet, consolidating statement of income and patronage capital, consolidating statement of cash flows, and the schedule of compensation, benefits and other payments to agency head 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic consolidated financial statements or to the basic consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 11, 2019 on our consideration of Dixie Electric Membership Corporation internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Dixie Electric Membership Corporation internal control over financial reporting and compliance.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

April 11, 2019

DIXIE ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES

Exhibit A

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2018 AND 2017

ASSETS

	December 31, 2018	December 31, 2017
UTILITY PLANT		
Electric Plant in Service	$ 670,052,629	$ 645,989,261
Construction Work in Progress	10,664,833	16,741,682
Other Fixed Assets	3,338,070	3,319,057
	$ 684,055,532	$ 666,050,000
Less: Accumulated Provision for Depreciation	173,511,577	160,506,964
Total Utility Plant, Net	$ 510,543,955	$ 505,543,036
INVESTMENTS AND OTHER ASSETS		
Investments in Associated Organizations	$ 10,528,597	$ 10,544,279
Notes Receivable, Long-Term Portion	40,488	62,642
Certificate of Deposit, Pledged	600,000	600,000
	$ 11,169,085	$ 11,206,921
CURRENT ASSETS		
Cash and Cash Equivalents	$ 7,360,027	$ 111,023
Current Portion of Notes Receivable	91,964	316,489
Accounts Receivable		
Consumers, net of allowance of $500,000 in 2018 and $500,000 in 2017	13,268,156	10,829,645
FEMA, net of allowance of $966,978 in 2018 and $966,978 in 2017	135,022	4,388,449
Other Receivables, net of allowance of $833,828 in 2018 and $833,828 in 2017	6,004,861	4,707,408
Unbilled Revenue	11,956,088	13,376,801
Under-Collected Purchased Power Cost Adjustment		277,430
Materials and Supplies	3,978,835	4,978,080
Other Current and Accrued Assets	1,556,857	1,350,230
	$ 44,351,810	$ 40,335,555
DEFERRED CHARGES		
Deferred Charges	$ 63,039,162	$ 73,276,507
Deferred Income Tax Asset	330,987	
Intangible Assets, Net		802
	$ 63,370,149	$ 73,277,309
TOTAL ASSETS	$ 629,434,999	$ 630,362,821

EQUITIES AND LIABILITIES

	2018	2017
EQUITIES		
Memberships	$ 451,695	$ 446,390
Patronage Capital	115,817,091	109,972,327
Other Equities	4,763,779	4,395,543
	$ 121,032,565	$ 114,814,260
LONG-TERM DEBT		
Notes Payable, Less Current Maturities	$ 393,234,157	$ 375,494,787
Deferred Interest - RUS Notes	472,097	522,479
	$ 393,706,254	$ 376,017,266
NON-CURRENT LIABILITIES		
Post-Retirement Benefit Obligation	$ 55,033,854	$ 64,103,700
CURRENT LIABILITIES		
Cash Overdraft	$	$ 3,897,793
Current Maturities of Notes Payable	12,336,390	13,357,405
Current Portion of Post-Retirement Benefit Obligation	1,754,496	1,561,600
Lines of Credit	10,861,843	14,754,453
Accounts Payable - Purchased Power	11,253,106	18,674,997
Accounts Payable	4,252,565	4,153,735
Over-Collected Purchase Power Cost Adjustment	2,897,792	
Consumer Deposits	8,155,822	7,943,039
Accrued Taxes	56,066	366,075
Accrued Interest	523,385	2,288,762
Other Current and Accrued Liabilities	1,951,411	1,864,739
	$ 54,042,876	$ 68,862,598
DEFERRED CREDITS	$ 5,619,450	$ 6,564,997
TOTAL EQUITIES AND LIABILITIES	$ 629,434,999	$ 630,362,821

See accompanying notes to the consolidated financial statements.

DIXIE ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES

Exhibit B

CONSOLIDATED STATEMENTS OF OPERATIONS AND PATRONAGE CAPITAL
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	December 31, 2018 Amount	2018 %	December 31, 2017 Amount	2017 %	Increase (Decrease)
OPERATING REVENUES					
Residential	$ 172,643,870	76.8	$ 158,756,961	76.2	$ 13,886,909
Commercial and Industrial - Small	16,963,801	7.6	16,179,750	7.8	784,051
Commercial and Industrial - Large	27,683,818	12.3	26,726,070	12.8	957,748
Public Street & Highway Lighting	200,498	0.1	197,842	0.1	2,656
Other Sales to Public Authorities	1,118,952	0.5	937,374	0.4	181,578
Rent from Electric and Other Property	2,043,481	0.9	2,124,409	1.0	(80,928)
Other Revenue	4,030,728	1.8	3,514,289	1.7	516,439
Total Operating Revenues	$ 224,685,148	100.0	$ 208,436,695	100.0	$ 16,248,453
OPERATING EXPENSES					
Purchased Power	$ 136,907,211	60.9	$ 124,622,544	59.8	$ 12,284,667
Cost of Sales	3,064	0.0	2,633	0.0	431
Transmission - Operation	387,941	0.2	467,797	0.2	(79,856)
Transmission - Maintenance	56,193	0.0	138,190	0.1	(81,997)
Distribution - Operations	8,352,070	3.7	8,218,956	3.9	133,114
Distribution - Maintenance	15,001,814	6.7	15,420,864	7.4	(419,050)
Consumer Accounts	6,671,926	3.0	6,563,770	3.1	108,156
Customer Service and Information	532,480	0.2	515,573	0.2	16,907
Selling Expenses	925,093	0.4	918,872	0.4	6,221
Administrative and General Expenses	8,179,716	3.6	7,677,972	3.7	501,744
Depreciation and Amortization	23,287,627	10.4	19,686,257	9.4	3,601,370
Taxes	5,867,471	2.6	5,664,572	2.7	202,899
Other Expenses	236,581	0.1	695,857	0.3	(459,276)
Total Operating Expenses	$ 206,409,187	91.7	$ 190,593,857	91.2	$ 15,815,330
OPERATING MARGINS - BEFORE FIXED CHARGES	$ 18,275,961	8.3	$ 17,842,838	8.8	$ 433,123
FIXED CHARGES					
Interest on Long-Term Debt	$ 12,228,211	5.4	$ 12,795,695	6.1	(567,484)
Amortization on Reacquired Debt	338,383	0.2	408,784	0.2	(70,401)
Other Interest	1,228,116	0.5	835,056	0.4	393,060
Total Fixed Charges	$ 13,794,710	6.1	$ 14,039,535	6.7	(244,825)
OPERATING MARGINS - AFTER FIXED CHARGES	$ 4,481,251	2.9	$ 3,803,303	2.7	$ 677,948
Other Capital Credits	562,563	0.3	670,909	0.3	(108,346)
NET OPERATING MARGINS	$ 5,043,814	3.2	$ 4,474,212	3.0	$ 569,602
NONOPERATING MARGINS					
Interest Income	$ 228,710	0.1	$ 147,292	0.1	$ 81,418
Other Income	615,362	0.3	27,151	0.0	588,211
Total Nonoperating Margins	$ 844,072	0.4	$ 174,443	0.1	$ 669,629
NET MARGINS BEFORE PROVISION FOR INCOME TAXES	$ 5,887,886	3.6	$ 4,648,655	3.1	$ 1,239,231
PROVISION FOR INCOME TAX BENEFIT (EXPENSE)					
Current	$ (5,873)	0.0	$	0.0	$ (5,873)
Deferred - State	59,553	0.0		0.0	59,553
Deferred - Federal	271,434	0.1		0.0	271,434
Total Provision for Income Tax Benefit	$ 325,114	0.1	$ 0	0.0	$ 325,114
NET MARGINS	$ 6,213,000	3.7	$ 4,648,655	3.1	$ 1,564,345
PATRONAGE CAPITAL - BEGINNING OF YEAR	109,972,327		105,702,662		
Transfer Nonoperating Margins to Other Equities	(146,621)		(145,732)		
Transfer Subsidiary Margins to Other Equities	(221,615)		(233,258)		
PATRONAGE CAPITAL - END OF YEAR	$ 115,817,091		$ 109,972,327		

See accompanying notes to the consolidated financial statements.

DIXIE ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES

Exhibit C

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	December 31, 2018	December 31, 2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	$ 6,213,000	$ 4,648,655
Adjustments to Reconcile Net Margins to Net Cash From Operating Activities		
Depreciation and Amortization	24,337,172	20,547,683
Capital Credits	(562,563)	(670,909)
(Increase) Decrease		
Accounts Receivable	517,463	(3,504,343)
Purchased Power Cost Adjustment	3,175,222	555,856
Unbilled Revenue	1,420,713	(2,831,996)
Inventories and Other Current Assets	792,617	(98,818)
Deferred Charges	1,360,395	1,427,711
Deferred Income Taxes	(330,987)	
Increase (Decrease)		
Accounts Payable and Other Accrued Liabilities	(1,677,100)	(5,137,713)
Accounts Payable - Purchased Power	(7,421,891)	(831,466)
Cash Overdraft	(3,897,793)	3,897,793
Deferred Credits	(945,547)	(379,068)
Net Cash From Operating Activities	$ 22,980,701	$ 17,623,385
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Plant	$ (25,300,512)	$ (21,339,719)
Plant Removal Costs Over Salvage and Other Credits	(4,037,580)	(3,789,463)
Other Property and Investments	578,245	488,218
Net (Advances) Payments - Notes Receivable	246,679	(286,115)
Intangible Asset	802	
Net Cash From Investing Activities	$ (28,512,366)	$ (24,927,079)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Long-Term Debt - RUS	$ (1,997,020)	$ (2,746,591)
Payments on Long-Term Debt - FFB	(6,797,177)	(4,922,771)
Payments on Long-Term Debt - CoBank	(1,953,147)	(1,863,932)
Payments on Long-Term Debt - CFC	(2,508,400)	(3,605,342)
Payments on Long-Term Debt - Other	(76,282)	(264,117)
Advances on Long-Term Debt - FFB	30,000,000	
Advances on Long-Term Debt - Other		51,163
Net Advances (Payments) - Line of Credit	(3,892,610)	14,754,453
Memberships and Other Equities	5,305	7,990
Net Cash From Financing Activities	$ 12,780,669	$ 1,410,853
CHANGE IN CASH AND CASH EQUIVALENTS	$ 7,249,004	$ (5,892,841)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	111,023	6,003,864
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 7,360,027	$ 111,023
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Year for:		
Interest	$ 14,563,809	$ 14,049,850
Income Taxes	$ 1,719	$ 0

NON CASH INVESTING AND FINANCING ACTIVITIES

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

See accompanying notes to the consolidated financial statements.

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

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

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

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

Principles of Consolidations

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

System of Accounts

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

Use of Estimates in the Preparation of Consolidated Financial Statements

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

Cash Equivalents

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

Accounts Receivable and Allowance for Uncollectible Accounts

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

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

Materials and Supplies

Materials and supplies inventories are valued at average unit cost.

Electric Plant, Maintenance, and Depreciation

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

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

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

Capitalized Interest

Interest totaling $14,051,808 and $14,053,054 was incurred during the years ended December 31, 2018 and 2017, 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 $595,481 and $422,303 was capitalized during the years ended December 31, 2018 and 2017, respectively.

Patronage Capital Certificates

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

Deferred Charges

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

Electric Revenues

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

The Cooperative records electric revenues as billed to members on a monthly basis. Revenue is accrued for power delivered but not billed at the end of each month. Unbilled revenue amounted $11,956,088 and $13,376,801 As of December 31, 2018 and 2017, respectively. The Cooperative's tariffs for electric service include purchased power adjustment clauses under which billings to members are adjusted to reflect changes in the cost of fuel and purchased power as approved by the LPSC. In order to match power costs and related revenues, under-collected power cost to be billed to consumers in subsequent periods is recognized as a current asset and as an increase of classified operating revenues on the consolidated statements of income, and patronage capital. Over-collected power cost to be returned to consumers in subsequent periods is recognized as a current liability and as a decrease of classified operating revenues on the consolidated statements of income, and patronage capital. As of December 31, 2018 and 2017 the Cooperative had over-collected power cost of $2,897,792 and under-collected power cost of $277,430, respectively.

Group Concentrations of Credit Risk

The Cooperative may require a deposit from its members upon connection which is applied to unpaid bills and fees in the event of default. Interest is accrued on the deposited funds while it is held by the Cooperative. As of December 31, 2018 and 2017, deposits on hand totaled $8,155,822 and $7,943,039, respectively.

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

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

As of December 31, 2018, 75% of the Cooperative's 218 employees work under a collectible bargaining agreement. Those employees are represented by the International Brotherhood of Electrical Workers Local 767 whose existing labor agreement will expire on February 28, 2019.

Advertising

Advertising costs, which are included in operating expenses, are expensed as incurred. Advertising expense was $1,188,149 and $1,187,914 for the years ended December 31, 2018 and 2017, respectively.

Reclassifications

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

Regulation

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

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

2. Assets Pledged

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

3. Utility Plant

Utility plant consists of the following:

	December 31,	
	2018	2017
Transmission Plant	$ 77,632,956	$ 74,774,880
Distribution Plant	546,161,756	526,684,193
General Plant	46,257,917	44,530,188
Other Fixed Assets	3,338,070	3,319,057
	$ 673,390,699	$ 649,308,318
Construction Work in Progress	10,664,833	16,741,682
Total Utility Plant	$ 684,055,532	$ 666,050,000

Average annual composite rates of depreciation used by the Cooperative during 2018 and 2017 are as follows:

	December 31,	
	2018	2017
Transmission Plant	2.75%	2.75%
Distribution Plant	2.16% to 4.40%	2.16% to 4.40%
Distribution Plant Meters	3.40% to 10.00%	3.40%
General Plant		
Structures and Improvements	2.00% to 6.00%	2.00% to 6.00%
Power Operated Equipment	6.00% to 14.00%	6.00% to 14.00%
Transportation Equipment	16.00%	16.00%
Other	5.97% to 33.34%	5.97% to 20.00%

Depreciation for the years ended December 31, 2018 and 2017 was $24,337,172 and $20,547,683, respectively, of which $23,287,627 and $19,686,257 was charged to depreciation expense, and $1,049,545 and $861,426 allocated to other accounts. During 2018, the Cooperative began accelerating depreciation on old metering assets. Effective January 1, 2019 the Cooperative will depreciate all new metering assets purchased at 10.00%.

4. Investments in Associated Organizations

Investments in Associated Organizations consist of the following:

	December 31, 2018	December 31, 2017
Capital Term Certificates		
National Rural Utilities Cooperative Finance Corporation	$ 4,511,331	$ 4,535,797
Patronage Capital		
National Rural Utilities Cooperative Finance Corporation	4,334,962	4,225,866
Southeastern Data Cooperative, Inc.	186,308	386,272
CoBank, ACB	954,212	1,277,500
Gresco Utility Supply, Inc.	514,795	52,596
Other	20,189	10,189
Memberships		
Association of Louisiana Electric Cooperatives		51,759
Other	6,800	4,300
	$ 10,528,597	$ 10,544,279

5. Notes Receivable

Notes Receivable consists of the following:

	December 31, 2018	December 31, 2017
Construction Notes Receivable	$ 118,888	$ 106,193
Promissory Notes Receivable	13,564	272,938
Less: Current Portion of Notes Receivable	(91,964)	(316,489)
Notes Receivable - Long-Term Portion	$ 40,488	$ 62,642

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

2019	$	91,964
2020		11,850
2021		11,850
2022		11,850
2023		4,938
	$	132,452

6. Other Receivables

Other Receivables consist of the following:

	December 31,			
		2018		2017
Pole Attachments	$	2,837,169	$	2,174,069
Other Cooperatives - Mutual Aid		625,287		
Contributions for Construction		2,355,637		2,794,744
Sales Taxes - Overpaid		641,301		165,631
Miscellaneous		379,295		406,792
	$	6,838,689	$	5,541,236
Less: Allowance for Uncollectibles		(833,828)		(833,828)
	$	6,004,861	$	4,707,408

7. Materials and Supplies

Materials and Supplies consist of the following:

	December 31,			
		2018		2017
Construction Materials and Supplies	$	3,586,487	$	4,593,248
Minor Construction Materials and Supplies		276,055		277,215
Vehicle Parts		116,293		107,617
	$	3,978,835	$	4,978,080

8. Deferred Charges

Deferred Charges consist of the following:

	December 31, 2018	December 31, 2017
Deferred Earned Vacation and Sick Leave	$ 4,636,657	$ 5,160,190
Deferred Interest on RUS Notes	268,299	318,682
Unamortized Conversion Fee	212,616	396,153
Post-Retirement Benefits	51,385,671	60,262,621
Pension Prepayment	6,531,822	7,112,428
Other	4,097	26,433
	$ 63,039,162	$ 73,276,507

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

Deferred interest represents interest that was added back to the principal balances of debt from RUS. The deferred interest is accounted for in accordance with the Regulated Operations Topic of the FASB-Accounting Standards Codification, and the deferred cost is amortized to expense when paid. The amount amortized was $50,383 and $242,694 for the years ended December 31, 2018 and 2017, respectively.

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

	December 31, 2018	December 31, 2017
Original Amount	$ 5,265,487	$ 5,265,487
Accumulated Amortization	(5,052,871)	(4,869,334)
Net Book Value	$ 212,616	$ 396,153

Amortization expense was $183,537 and $408,784 for the years ended December 31, 2018 and 2017, respectively. Future expected amortization of the conversion fees is as follows:

2019	$	22,646
2020		22,646
2021		22,646
2022		22,646
2023		22,646
Thereafter		99,386
	$	212,616

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

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

	December 31,			
		2018		2017
Original Amount	$	9,870,308	$	9,870,308
Accumulated Amortization		(3,338,486)		(2,757,880)
Net Book Value	$	6,531,822	$	7,112,428

Amortization expense related to the pension prepayment was $580,606 for the years ended December 31, 2018 and 2017 Future expected amortization is as follows:

2019	$	580,606
2020		580,606
2021		580,606
2022		580,606
2023		580,606
Thereafter		3,628,792
	$	6,531,822

9. Patronage Capital

Patronage capital consists of the following:

	December 31, 2018	December 31, 2017
Assignable	$ 6,213,000	$ 81,438,568
Assigned to Date	103,398,427	22,328,097
Underassigned	2	
Operating Margins - Prior Years	6,205,662	6,205,662
	$ 115,817,091	$ 109,972,327

10. Return of Capital

The equities and margins of the Cooperative represent 19.23% of the total assets at the balance sheet date. Under the provisions of the Mortgage Agreement, the Cooperative shall not, without written approval of RUS and National Rural Utilities Cooperative Finance Corporation, make any capital credit retirements to members or consumers, provided that the borrower may make capital credit retirements to estates of deceased patrons to the extent required or permitted by its articles of incorporation and bylaws so long as such capital credit retirements shall not in any year exceed 25 percent of the patronage capital and margins received by the borrower in the preceding year. No patronage capital was retired during the year ended December 31, 2018 and 2017, respectively.

11. Other Equities

Other Equities consist of the following:

	December 31, 2018	December 31, 2017
Subsidiary Margins	$ 1,359,698	$ 1,133,868
Other Nonoperating Income	3,404,081	3,261,675
	$ 4,763,779	$ 4,395,543

12. Lines of Credit

Lines of credit consists of the following:

	December 31, 2018	December 31, 2017
The Cooperative has two line of credit facilities totaling $25,000,000 with the National Rural Utilities Cooperative Finance Corporation. The interest rate on the line of credit was 3.35% and 3.75% at December 31, 2018 and 2.75% at December 31, 2017. The line of credit, which matured on March 28, 2018, has been renewed for an additional year.	$ 10,861,843	$ 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 4.61% and 3.77% at December 31, 2018 and 2017, respectively. The line of credit matures August 31, 2019.		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 4.39% and 2.87% at December 31, 2018 and 2017, respectively. The line of credit, which matured on February 12, 2018, has been renewed for an additional year.		278,693
	$ 10,861,843	$ 14,754,453

13. Notes Payable

Notes Payable consist of the following:

	December 31,	
	2018	2017
Rural Utilities Service, 3.63% to 5.18% mortgage notes, with maturity dates ranging from March 2024 through October 2040.	$ 64,937,182	$ 66,934,202
National Rural Utilities Cooperative Finance Corporation, mortgage notes at variable and fixed interest rates ranging from 2.50% to 3.55%, with maturity dates ranging from March 2024 through January 2039.	23,164,038	72,595,438
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.	129,351,688	133,411,580
Federal Financing Bank loans with interest ranging from 2.11% to 3.28% maturing December 2048. These notes are guaranteed by the USDA Rural Utilities Service.	161,497,905	87,312,192
CoBank loans with interest rates ranging from 3.09% to 4.10% with maturity dates ranging from March 2023 to September 2037.	26,492,970	28,446,117
National Cooperative Services Corporation note payable with a fixed interest rate of 4.10%. The note guaranteed by DEMCO and secured by a building.	79,182	101,500
Note payable to South Central Planning and Development Commission, Inc. The note is interest free and payments began on June 16, 2018. After 60 months of timely payments, the remaining 40% of the loan balance will be forgiven. If timely payments are not made for the required period, a balloon payment will be due on May 16, 2023 for the remaining balance. The note is guaranteed by a board member of Dixie Business Development Center, Inc.	47,582	51,163
	$ 405,570,547	$ 388,852,192
Less: Current Maturities of Notes Payable	12,336,390	13,357,405
Notes Payable, Less Current Maturities	$ 393,234,157	$ 375,494,787

There were loan funds available to the Cooperative in the amount of $33,775,000 on a loan commitment from FFB as of December 31, 2018.

Annual future maturities of notes payable as of December 31, 2018 are as follows:

	CFC	FFB	RUS	CoBank	NCSC	SCPD	Total
2019	$ 1,410,000	$ 6,875,000	$ 2,012,000	$ 2,010,000	$ 23,250	$ 6,140	$ 12,336,390
2020	1,453,000	7,072,000	2,107,000	2,083,000	24,222	6,141	12,745,363
2021	1,496,000	5,453,000	2,207,000	2,161,000	25,234	6,141	11,348,375
2022	1,541,000	7,430,000	2,312,000	2,219,000	6,476	6,141	13,514,617
2023	1,587,000	7,603,000	2,421,000	1,455,405		23,019	13,089,424
Thereafter	15,677,038	256,416,593	53,878,182	16,564,565			342,536,378
	$ 23,164,038	$ 290,849,593	$ 64,937,182	$ 26,492,970	$ 79,182	$ 47,582	$ 405,570,547

14. Income Taxes

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

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

Year Incurred	Expiration Date	Federal Carry-Forward	State Carry-Forward
2002	2022	$ 1,604,432	$ 1,960,842
2004	2024	254,031	254,031
		$ 1,858,463	$ 2,214,873

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

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

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

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

	December 31, 2018	December 31, 2017
Operating Loss Carryforward	$ 503,105	$ 532,534
Depreciation	(492)	(1,013)
	$ 502,613	$ 531,521
Valuation Allowance	(171,626)	(531,521)
	$ 330,987	$ 0

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

	December 31, 2018	December 31, 2017
Current Income Tax Expense	$ (5,873)	$
Provision for Deferred Income Tax Benefit (Expense)	(28,908)	122,387
Provision for Deferred Income Taxes -		
Change in Valuation Allowance	359,895	(398,759)
Effect of Enacted Rate Reduction		276,372
Total Income Tax Benefit	$ 325,114	$ 0

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

DESI files its income tax return in the U.S. federal jurisdiction and in the state of Louisiana. The Company is no longer subject to income tax examination by U.S. federal jurisdiction and by the Louisiana state taxing authorities for the years before 2015. DESI recognizes interest expense and penalties in operating expenses. There were no penalties or interest recognized during the years ended December 31, 2018 and 2017.

15. Fair Value of Financial Instruments

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

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

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

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

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

Long-Term Debt Fixed Rate – Estimated by computing the present value by individual note to maturity, using currently quoted or offered rates for similar issues of debt. These are the only financial instruments of the Cooperative that have a difference in fair value and carrying value. The carrying value of the Cooperative's fixed rate debt is $405,570,547, and the estimated fair value was calculated to be $313,229,253 and is Level 2 as defined below.

Fair Value Hierarchy

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

The three levels of fair value hierarchy are as follows:

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

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

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

16. Pension Benefits

Narrative Description

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

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

Plan Information

The Cooperative's contributions to the RS Plan in 2018 and 2017 represented less than five percent of the total contributions made to the RS Plan by all participating employers. The Cooperative made contributions to the RS Plan of $3,016,591 in 2018 and $2,956,173 in 2017. There have been no significant changes that affect the comparability of 2018 and 2017 contributions. Pension expense for the years ended December 31, 2018 and 2017, including amortization was $3,597,197 and $3,650,193, respectively.

For the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the Retirement Security Plan was over 80% funded on January 1, 2018 and at January 1, 2017 based on the PPA funding target and PPA actuarial value of assets on those dates.

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

The employees also participate in a 401(k) plan, a defined contribution plan provided through National Rural Electric Cooperative Association. The Cooperative makes semi-monthly contributions to the plan matching up to four percent of an employee's salary. The cost for the Cooperative was $409,755 and $398,453 for the years ended December 31, 2018 and 2017, respectively.

17. Post-Retirement Benefits Other than Pensions

The Cooperative continues to fund benefit costs on a pay-as-you-go basis. The benefit provided by the Cooperative is certain health insurance coverage for retired employees. Substantially all of the Cooperative's employees may become eligible for these benefits if they reach normal retirement age while working for the Cooperative. Such benefits are provided through a self-insured plan, which has a stop loss of $100,000 per claim. The total claims and administrative fees paid, net of premiums collected, were $2,275,195 and $2,016,896 for 2018 and 2017, respectively.

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

	December 31, 2018	December 31, 2017
I) Funded Status at End of Year:		
APBO Balance	$ (56,788,350)	$ (65,665,300)
Fair Value of Plan Assets		
APBO in Excess of Plan Assets	$ (56,788,350)	$ (65,665,300)
II) Amounts Recognized in the Balance Sheets:		
Current Liability	$ (1,754,496)	$ (1,561,600)
Noncurrent Liability	(55,033,854)	(64,103,700)
Unrecognized Actuarial Loss - Deferred Charge	51,385,671	60,262,621
Net Accumulated Post-Retirement Benefit Obligation	$ (5,402,679)	$ (5,402,679)
III) Amounts Not Yet Recognized in Net Periodic Post-Retirement Benefit Cost		
Unrecognized Actuarial Loss	$ 51,385,671	$ 60,262,621
Net Prior Service Credit		
Deferred Charge - Unrecognized Actuarial Loss	$ 51,385,671	$ 60,262,621
IV) Net Periodic Benefit Cost - Recognized in Deferred Charges:		
Service Cost	$ 1,803,700	$ 1,859,400
Interest Cost	2,596,200	2,713,400
Actuarial Gain	(11,715,250)	(5,906,200)
Net Periodic Benefit Cost - Deferred Charge	$ (7,315,350)	$ (1,333,400)
V) Amounts Recognized in Deferred Charges:		
Estimated Premiums Paid by the Cooperative	$ (1,561,600)	$ (1,614,000)
VI) Amount Recognized in Statements of Income and Patronage Capital:		
Actual Premiums Expensed by the Cooperative	$ 1,478,877	$ 1,310,983

Economic Assumptions

The discount rate used to develop the accumulated post-retirement benefit obligation (APBO) was 4.65% and 4.05%, for the years ended December 31, 2018 and 2017, respectively. The assumed health care cost trend rates are as follows for 2018:

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

The Cooperative has not funded plan assets as of December 31, 2018 and 2017.

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

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

2019	$ 1,754,496
2020	1,901,602
2021	2,119,085
2022	2,260,552
2023	2,397,766
Aggregate for the Five Years Thereafter	12,621,761

18. Deferred Credits

Deferred Credits consist of the following:

	December 31, 2018	December 31, 2017
Deferred Earned Vacation and Sick Leave	$ 4,636,657	$ 5,160,190
Customer Refund - Cajun Bankruptcy	624,336	624,336
LOA Payout	229,993	559,301
Other	128,464	221,170
	$ 5,619,450	$ 6,564,997

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

19. Self-Funded Insurance Programs

The Cooperative is exposed to various claims relating to its business, including those for which self-insurance is provided. Claims for which the Cooperative self-insures include: (1) worker's compensation claims; (2) general liability claims by third parties for injury or property damage caused by equipment or personnel; (3) automobile liability claims; and (4) medial liability claims. These types of claims may take a substantial amount of time to resolve and, accordingly, the ultimate liability associated with a particular claim, including claims incurred but not reported as of a period-end reporting date, may not be known for an extended period of time. The methodology for developing self-insurance reserves is based on management estimates and independent third-party actuarial estimates. The estimation process considers, among other matters, the cost of known claims over time, cost of inflation and incurred but not reported claims. These estimates may change based on, among other things, changes in claim history or receipt of additional information relevant to assessing the claims. Further, these estimates may prove to be inaccurate due to factors such as adverse judicial determinations or other claim settlements at higher than estimated amounts. Accordingly, the Cooperative may be required to increase or decrease its reserve levels. Effective January 1, 2014, the Cooperative became self-insured for medical claims. The claims reserves related to worker's compensation, general liability, automobile liability and medical liability, which are included in "other current and accrued liabilities" in the consolidated balance sheets, totaled $979,357 and $1,083,827 at December 31, 2018 and 2017, respectively.

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

The Cooperative has established a self-insurance program covering medical benefits for substantially all of its employees. The Cooperative limits its losses through the use of stop-loss policies from reinsurers. Specific individual losses for claims are limited to $100,000 a year. For the year ended December 31, 2017, the Cooperative contributed $3,823,162 including reinsurance and administrative fees of $759,487. Employees and board members contributed $862,346.

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

20. Related Party Transactions

The Cooperative collects voluntary contribution from customer billing and remits them to The DEMCO Foundation, Inc. (the Foundation), a related party though common management. DEMCO remitted $536,327 and $278,048 of contributions to the Foundation for the years ended December 31, 2018 and 2017, respectively. Included in accounts payables are contributions due to the Foundation of $0 and $159,179 as of December 31, 2018 and 2017, respectively. Included in other accounts receivable are services due from the Foundation of $127,266 and $105,346 as of December 31, 2018 and 2017, respectively.

The Cooperative received $3,600 for rental space provided to the Foundation for the year ended December 31, 2018.

21. Commitments, Contingencies and litigation

The Cooperative is committed under a wholesale power agreement to purchase its electric power and energy requirements from Cleco Power, L.L.C. through April 1, 2024. The Cooperative has assigned its receivables to Cleco Power, L.L.C as security for its contractual obligations.

The Cooperative is a litigant in several lawsuits. Management, on the advice of legal counsel, believes that such proceedings and contingencies will not have a material effect on the Cooperative. The ultimate outcome of these matters cannot presently be determined and no specific provision for any liability or asset that may result from the claims have been made in the consolidated financial statements. The Cooperative does estimate a reserve for general liability claims and believes that the amount recorded as reserves for claims is sufficient to cover any expected losses in the future.

22. Natural Disaster

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

During August 2016, southern Louisiana suffered considerable damage from severe storms and flooding; resulting in the President of the United States issuing a major disaster declaration (DR-4277) for 26 parishes which included all parishes served by the Cooperative. For the years ended December 31, 2017 and 2016, the Cooperative expended a total of $6,275,032 in eligible expenses to restore its utility plant and facilities. The Cooperative (sub-recipient) received grants from FEMA by way of GOHSEP (recipient) for reimbursement of expenditures related to the recovery efforts. For the year ended December 31, 2018 GOHSEP approved $2,827,196, which is included in the 2018 schedule of expenditures of federal awards. Amounts due from FEMA, included $135,022 recorded in other receivables as of December 31, 2018. Management anticipates that FEMA by way of GOHSEP will reimburse the Cooperative 90% of the eligible flood related expenditures. The Cooperative's management has contracted with the State of Louisiana under the Community Development Block Grant Disaster Recovery Program through the Restore Louisiana Infrastructure (Restore LA): FEMA Public Assistance Nonfederal Share Match Program for the remaining 10% (Grant No.: B-16-DL-22-0001/Year 2016 PA No.:2000379494). As of December 31, 2018, the 10% Nonfederal Share Match amount of $624,178 has not been received and is not reflected in the Cooperative's financial statements.

23. Subsequent Events

The Cooperative has evaluated all subsequent events through April 11, 2019, the date the consolidated financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

DIXIE ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES

Schedule 1

CONSOLIDATING INFORMATION
BALANCE SHEET
DECEMBER 31, 2018

ASSETS

	DEMCO	DEMCO Energy Services, Inc.	Dixie Business Development Center, Inc.	Eliminating Entries	Consolidated Total
UTILITY PLANT					
Electric Plant in Service	$ 670,052,629	$	$	$	$ 670,052,629
Construction Work in Progress	10,664,833				10,664,833
Other Fixed Assets		1,697,781	1,640,289		3,338,070
	$ 680,717,462	$ 1,697,781	$ 1,640,289	$ 0	$ 684,055,532
Less: Accumulated Depreciation	171,267,416	1,695,156	549,005		173,511,577
Total Utility Plant, net	$ 509,450,046	$ 2,625	$ 1,091,284	$ 0	$ 510,543,955
INVESTMENTS AND OTHER ASSETS					
Investments in Associated Organizations	$ 10,527,597	$ 1,000	$	$	$ 10,528,597
Investments, at cost plus equity in undistributed earnings	1,359,698			(1,359,698)	
Notes Receivable, Long-Term Portion	40,488				40,488
Certificate of Deposit, pledged	600,000				600,000
Total Investments and Other Assets	$ 12,527,783	$ 1,000	$ 0	$ (1,359,698)	$ 11,169,085
CURRENT ASSETS					
Cash and Cash Equivalents	$ 7,274,035	$ 34,659	$ 51,333	$	$ 7,360,027
Current Portion of Notes Receivable	91,964				91,964
Accounts Receivable					
Consumers, net of allowance of $500,000	13,268,156				13,268,156
Intercompany Receivables	176,207	186,864		(363,071)	
FEMA, net of allowance of $966,978	135,022				135,022
Other Receivables, net of allowance of $833,828	6,003,511		1,350		6,004,861
Unbilled Revenue	11,956,088				11,956,088
Materials and Supplies	3,977,815	1,020			3,978,835
Other Current and Accrued Assets	1,554,553		2,304		1,556,857
Total Current Assets	$ 44,437,351	$ 222,543	$ 54,987	$ (363,071)	$ 44,351,810
DEFERRED CHARGES					
Deferred Charges	$ 63,039,162	$	$	$	$ 63,039,162
Deferred Income Tax Asset		330,987			330,987
	$ 63,039,162	$ 330,987	$ 0	$ 0	$ 63,370,149
TOTAL ASSETS	$ 629,454,342	$ 557,155	$ 1,146,271	$ (1,722,769)	$ 629,434,999

EQUITIES AND LIABILITIES

	DEMCO	DEMCO Energy Services, Inc.	Dixie Business Development Center, Inc.	Eliminating Entries	Consolidated Total
EQUITIES					
Memberships	$ 451,695	$	$	$	$ 451,695
Net Investment in Fixed Assets			964,520	(964,520)	
Undesignated			(144,027)	144,027	
Patronage Capital	115,817,091				115,817,091
Other Equities	4,763,779				4,763,779
Retained Earnings		539,205		(539,205)	
Total Equities	$ 121,032,565	$ 539,205	$ 820,493	$ (1,359,698)	$ 121,032,565
LONG-TERM DEBT					
Notes Payable, Less Current Maturities	$ 393,136,783	$	$ 97,374	$	$ 393,234,157
Deferred Interest - RUS Notes	472,097				472,097
Total Long-Term Debt	$ 393,608,880	$ 0	$ 97,374	$ 0	$ 393,706,254
NON-CURRENT LIABILITIES					
Post-Retirement Benefit Obligation	$ 55,033,854	$	$	$	$ 55,033,854
CURRENT LIABILITIES					
Current Maturities of Notes Payable	$ 12,307,000	$	$ 29,390	$	$ 12,336,390
Lines of Credit	10,861,843				10,861,843
Current Portion of Post-Retirement Benefit Obligation	1,754,496				1,754,496
Accounts Payable - Purchased Power	11,253,106				11,253,106
Accounts Payable - Other	4,252,215	350			4,252,565
Intercompany Payables	186,864		176,207	(363,071)	
Over-Collected Purchase Power Cost Adjustment	2,897,792				2,897,792
Consumer Deposits	8,155,822				8,155,822
Accrued Taxes	38,466	17,600			56,066
Accrued Interest	523,385				523,385
Other Current and Accrued Liabilities	1,928,604		22,807		1,951,411
Total Current Liabilities	$ 54,159,593	$ 17,950	$ 228,404	$ (363,071)	$ 54,042,876
DEFERRED CREDITS	$ 5,619,450	$	$	$	$ 5,619,450
TOTAL EQUITIES AND LIABILITIES	$ 629,454,342	$ 557,155	$ 1,146,271	$ (1,722,769)	$ 629,434,999

DIXIE ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES

Schedule 2

CONSOLIDATING INFORMATION
STATEMENT OF INCOME, AND PATRONAGE CAPITAL
DECEMBER 31, 2018

	DEMCO	DEMCO Energy Services, Inc.	Dixie Business Development Center, Inc.	Eliminating Entries	Consolidated Total
OPERATING REVENUE					
Residential	$ 172,643,870	$	$	$	$ 172,643,870
Small Commercial	16,963,801				16,963,801
Large Commercial	27,683,818				27,683,818
Public Street and Highway Lighting	200,498				200,498
Other Sales to Public Authorities	1,118,952				1,118,952
Rent from Electric and Other Property	1,876,931		166,550		2,043,481
Other Revenue	3,553,470	471,705	5,553		4,030,728
	$ 224,041,340	$ 471,705	$ 172,103	$ 0	$ 224,685,148
OPERATING EXPENSES					
Purchased Power	$ 136,907,211	$	$	$	$ 136,907,211
Cost of Sales		3,064			3,064
Transmission - Operation	387,941				387,941
Transmission - Maintenance	56,193				56,193
Distribution - Operation	8,352,070				8,352,070
Distribution - Maintenance	15,001,814				15,001,814
Consumer Accounts	6,671,926				6,671,926
Customer Service and Information	532,480				532,480
Selling Expenses	925,093				925,093
Administrative and General Expenses	7,807,593	186,285	185,838		8,179,716
Depreciation and Amortization	23,228,442	3,610	55,575		23,287,627
Taxes	5,862,496	4,975			5,867,471
Other Expenses	236,581				236,581
Total Operating Expenses	$ 205,969,840	$ 197,934	$ 241,413	$ 0	$ 206,409,187
Operating Margins (Deficit) before Fixed Charges	$ 18,071,500	$ 273,771	$ (69,310)	$ 0	$ 18,275,961
FIXED CHARGES					
Interest on Long-Term Debt	$ 12,224,466	$	$ 3,745	$	$ 12,228,211
Amortization of Reacquired Debt	338,383				338,383
Other Interest	1,228,116				1,228,116
Total Fixed Charges	$ 13,790,965	$ 0	$ 3,745	$ 0	$ 13,794,710
Operating Margins (Deficit) after Fixed Charges	$ 4,280,535	$ 273,771	$ (73,055)	$ 0	$ 4,481,251
CAPITAL CREDITS	$ 562,563	$	$	$	$ 562,563
NONOPERATING MARGINS					
Interest Income	$ 228,710	$	$	$	$ 228,710
Other Income	615,362				615,362
Affiliated Company Income	525,830			(525,830)	
	$ 1,369,902	$ 0	$ 0	$ (525,830)	$ 844,072
NET MARGINS BEFORE PROVISION FOR INCOME TAXES	$ 6,213,000	$ 273,771	$ (73,055)	$ (525,830)	$ 5,887,886
PROVISION FOR INCOME TAX BENEFIT		325,114			325,114
NET MARGINS	$ 6,213,000	$ 598,885	$ (73,055)	$ (525,830)	$ 6,213,000
PATRONAGE CAPITAL - BEGINNING OF PERIOD	109,972,327	240,320	893,548	(1,133,868)	109,972,327
Dividends Declared		(300,000)		300,000	
Re-Class Prior Year Nonoperating Margins to Other Equities	(368,236)				(368,236)
PATRONAGE CAPITAL - END OF PERIOD	$ 115,817,091	$ 539,205	$ 820,493	$ (1,359,698)	$ 115,817,091

DIXIE ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES

Schedule 3

CONSOLIDATING INFORMATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

	DEMCO	DEMCO Energy Services, Inc.	Dixie Business Development Center, Inc.	Eliminating Entries	Consolidated Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Net Margins (Loss)	$ 6,213,000	$ 598,885	$ (73,055)	$ (525,830)	$ 6,213,000
Adjustments to Reconcile Net Margins to Net Cash From Operating Activities					
Depreciation and Amortization	24,277,987	3,610	55,575		24,337,172
Capital Credits	(562,563)				(562,563)
Affiliated Company Income	(525,830)			525,830	
(Increase) Decrease					
Accounts Receivable	517,563		(100)		517,463
Accounts Receivable - Intercompany	(18,959)	28,055		(9,096)	
Deferred Fuel Adjustment	3,175,222				3,175,222
Unbilled Revenue	1,420,713				1,420,713
Inventories and Other Current and Accrued Assets	790,993	1,160	464		792,617
Deferred Charges	1,360,395				1,360,395
Deferred Income Taxes		(330,987)			(330,987)
Increase (Decrease)					
Accounts Payable and Other Current Liabilities	(1,693,613)	13,340	3,173		(1,677,100)
Accounts Payable - Purchased Power	(7,421,891)				(7,421,891)
Cash Overdraft	(3,897,793)				(3,897,793)
Accounts Payable - Intercompany	(28,055)		18,959	(9,096)	
Deferred Credits	(945,547)				(945,547)
Net Cash From Operating Activities	$ 22,661,622	$ 314,063	$ 5,016	$ (18,192)	$ 22,980,701
CASH FLOWS FROM INVESTING ACTIVITIES					
Additions to Plant	$ (25,281,499)	$	$ (19,013)	$	$ (25,300,512)
Plant Removal Costs Over Salvage and Other Credits	(4,037,580)				(4,037,580)
Other Property and Investments	578,245				578,245
Payments on Notes Receivable	246,679				246,679
Dividends from Affiliated Company	300,000			(300,000)	
Intangible Asset		802			802
Net Cash From Investing Activities	$ (28,194,155)	$ 802	$ (19,013)	$ (300,000)	$ (28,512,366)
CASH FLOWS FROM FINANCING ACTIVITIES					
Payments on Long-Term Debt - RUS	$ (1,997,020)	$	$	$	$ (1,997,020)
Payments on Long-Term Debt - FFB	(6,797,177)				(6,797,177)
Payments on Long-Term Debt - CoBank	(1,953,147)				(1,953,147)
Payments on Long-Term Debt - CFC	(2,508,400)				(2,508,400)
Payments on Long-Term Debt - Other	(50,383)		(25,899)		(76,282)
Advances of Long-Term Debt - FFB	30,000,000				30,000,000
Net Advances (Payments) - Line of Credit	(3,892,610)				(3,892,610)
Dividends to Affiliated Company		(300,000)		300,000	
Memberships and Other Equities	5,305				5,305
Net Cash From Financing Activities	$ 12,806,568	$ (300,000)	$ (25,899)	$ 300,000	$ 12,780,669
CHANGE IN CASH AND CASH EQUIVALENTS	$ 7,274,035	$ 14,865	$ (39,896)	$ (18,192)	$ 7,249,004
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	0	19,794	91,229		111,023
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 7,274,035	$ 34,659	$ 51,333	$ (18,192)	$ 7,360,027
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION					
Cash Paid During the Year for:					
Interest on Long-Term Debt	$ 14,560,064	$ 0	$ 3,745	$ 0	$ 14,563,809
Federal and State Income Taxes	$ 0	$ 1,719	$ 0	$ 0	$ 1,719

DIXIE ELECTRIC MEMBERSHIP CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2018

Federal Grantor/Pass-Through Grantor/Program Title	Pass-Through Entity Identifying Number	Federal CFDA Number	Total Federal Expenditures	Amount Passed Through to Subrecipient
FEDERAL AWARDS				
U.S. Department of Homeland Security				
Federal Emergency Management Agency Passed through Government Office of Homeland Security and Emergency Preparedness				
Public Assistance (Presidentially Declared Disasters)		97.036	$ 2,820,332	$
Hazard Mitigation Grant		97.039	-	
Total Department of Homeland Security and Federal Awards			$ 2,820,332	$ 0

DIXIE ELECTRIC MEMBERSHIP CORPORATION

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2018

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 (the Cooperative) under programs of the federal government for the year ended December 31, 2018. 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, it is not intended to and does not present the financial position, changes in equities, or cash flows of Dixie Electric Membership Corporation.

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 had no loans or loan guarantee programs outstanding as of December 31, 2018 for those loans described in 2 CFR 200.502(b).

Note 4 – Indirect Cost Rate

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

Note 5 – Subrecipients

Dixie Electric Membership Corporation did not pass-through any of its federal awards to a subrecipient during the year ended December 31, 2018.

Note 6 – Noncash Assistance

No federal awards were expended in the form of noncash assistance during the year ended December 31, 2018.

Note 7 – Prior Year Expenditures Included in the Schedule

Included in the accompanying schedule of expenditures of federal awards is $2,820,332 of expenditures recognized during the year ended December 31, 2017.

Note 8 – Subsequent Events

Subsequent to December 31, 2018, the Cooperative's management has contracted with the State of Louisiana under the Community Development Block Grant Disaster Recovery Program through the Restore Louisiana Infrastructure (Restore LA): FEMA Public Assistance Nonfederal Share Match Program for the remaining 10% (Grant No.: B-16-DL-22-0001/Year 2016 PA No.:2000379494). As of April 11, 2019, the 10% Nonfederal Share Match amount of $624,178 has not been received and is not reflected in the Cooperative's financial statements or the schedule of expenditures of federal awards.

DIXIE ELECTRIC MEMBERSHIP CORPORATION

SCHEDULE OF COMPENSATION, BENEFITS AND OTHER PAYMENTS TO AGENCY HEAD OR CHIEF EXECUTIVE OFFICER YEAR ENDED DECEMBER 31, 2018

Agency Head Name: John Vranic, CEO

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

No compensation, benefits or other payments were paid to the CEO from public funds received by the Cooperative.
Note: John Vranic's last paycheck was 6/13/2018.

DIXIE ELECTRIC MEMBERSHIP CORPORATION

SCHEDULE OF COMPENSATION, BENEFITS AND OTHER PAYMENTS TO AGENCY HEAD OR CHIEF EXECUTIVE OFFICER YEAR ENDED DECEMBER 31, 2018

Agency Head Name: Randy Pierce, CEO

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

No compensation, benefits or other payments were paid to the CEO from public funds received by the Cooperative.
Note: Randy Pierce's first paycheck was 9/2/2018.

COMPLIANCE AND INTERNAL CONTROL SECTION

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

Independent Auditor's Report

Board of Directors
Dixie Electric Membership Corporation
Greenwell Springs, Louisiana

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audit contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Dixie Electric Membership Corporation (the Cooperative), which comprise the balance sheet as of December 31, 2018, and the related statements of income and patronage capital, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 11, 2019. In accordance with *Government Auditing Standards*, we have also issued our report dated April 11, 2019, on our consideration of the Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above and our schedule of findings related to our audit have been furnished to management.

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

> Maintain adequate and effective accounting procedures except as noted in the schedule of findings and questioned costs [2018-001] and [2018-002];
>
> Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;
>
> Reconcile continuing property records to the controlling general ledger plant accounts;
>
> Clear construction accounts and accrue depreciation on completed construction;

Record and properly price the retirement of plant;

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

Maintain adequate control over materials and supplies;

Prepare accurate and timely Financial and Operating Reports;

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

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

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

Comply with the requirements for the detailed schedule of deferred debits and deferred credits See notes 8 and 18; and

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

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

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

April 11, 2019

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

Independent Auditor's Report

Board of Directors
Dixie Electric Membership Corporation
Greenwell Springs, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Dixie Electric Membership Corporation, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise Dixie Electric Membership Corporation's financial statements, and have issued our report thereon dated April 11, 2019.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness. [2018-001]

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency. [2018-002]

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Dixie Electric Membership Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Dixie Electric Membership Corporation Response to Finding

Dixie Electric Membership Corporation's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Dixie Electric Membership Corporation's response was not subjected to the auditing procedures applied in the audit of 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.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

April 11, 2019

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

Independent Auditor's Report

Board of Directors
Dixie Electric Membership Corporation
Greenwell Springs, Louisiana

Report on Compliance for Each Major Federal Program

We have audited Dixie Electric Membership Corporation 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 major federal programs for the year ended December 31, 2018. Dixie Electric Membership Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Managements 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's 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 the 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's 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's compliance.

Opinion on Each Major Federal Program

In our opinion, Dixie Electric Membership Corporation complied, in all material respects, with the types of compliance requirements referred to above that could not have direct and material effect on each of its major federal programs for the year ended December 31, 2018.

Report on Internal Control over Compliance

Management of Dixie Electric Membership Corporation 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's 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's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section 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 have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompany schedule of findings and questioned cost as items [2018-003] that we consider to be significant deficiencies.

Dixie Electric Membership Corporation's 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's 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.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

April 11, 2019

DIXIE ELECTRIC MEMBERSHIP CORPORATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2018

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

1. Financial Statements

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

2. Federal Awards

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

Identification of major programs:

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

Dollar threshold used to distinguish between type A and type B programs:	$ **750,000**	
Auditee qualified as low-risk auditee?	___ Yes	**X** No

DIXIE ELECTRIC MEMBERSHIP CORPORATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2018

Section II - Financial Statement Findings:

2018-001	*Monthly balance sheet account reconciliations*
Condition and Criteria:	Review of all balance sheet accounts by the auditors found that numerous accounts had not been reconciled to the general ledger on a monthly basis for the period under audit.
Effect:	Because of the lack of reconciliations related to numerous balance sheet accounts errors or fraud could occur and not be detected through the normal reconciliation process.
Cause:	Turnover in various accounting positions have caused accounts to be neglected due to the lack of communication to new employees regarding their responsibilities over reconciling general ledger accounts.
Recommendation:	We recommend the Cooperative implement procedures to ensure that all balance sheet accounts are being reconciled to the general ledger on a monthly basis.

Views of Responsible Officials and Planned Corrective Actions:

2018-001	The Cooperative has hired a chief compliance officer whose job description includes internal audit and part of the chief compliance officer's monthly duties will include monthly review of all balance sheet account reconciliations.
Contact:	Mike Johnson – Chief Financial Officer
2018-002	*Sales Tax Overpayment*
Condition and Criteria:	The amount owed for sales taxes has been based upon a spreadsheet calculation and accounting did not verify the amounts collected from billing to the internal spreadsheet prepared by accounting.
Effect:	Because of the failure of accounting to agree the amounts of sales taxes that were collected from billing to their internal spreadsheet, it appears the Cooperative has overpaid their sales taxes owed to the Louisiana Department of Revenue.
Cause:	Error on the client prepared spreadsheet not excluding certain jurisdiction amounts that were considered tax exempt beginning during the 2017 reporting period.

Recommendation: We recommend the Cooperative implement procedures to verify that the amount of sales taxes calculated as owed by the spreadsheet matches the amount that is collected through the billing system.

Views of Responsible Officials and Planned Corrective Actions:

2018-002 The Cooperative is working in conjunction with the Louisiana State Department of Revenue to prove that the Cooperative has overpaid the sale tax amounts and seeks to recoup all amounts overpaid from the State.

Contact: Mike Johnson – Chief Financial Officer

Section III – Federal Award Findings:

2018-003 Federal Program Information: CFDA 97.036 Disaster Grants – Public Assistance (Presidentially Declared Disasters); Department of Homeland Security

Compliance Requirement: A/B Activities Allowed or Unallowed, Allowable Costs/Cost Principles

Condition and Criteria: The April 2018 Uniform Guidance Compliance Supplement requires the Cooperative to establish and maintain effective internal controls over the federal award that provides reasonable assurance that the Cooperative is managing the federal award in compliance with federal statutes and regulations.

Effect: Because incorrect and unapproved hours were reported on the project worksheet there is an increase in the chance of non-compliance. The errors noted did not result in material known or likely questioned costs required to be reported.

Cause: The Cooperative personnel did not match the labor hours from the employee timesheet with the labor hours reported on the project worksheet. In addition, direct supervisors did not approve one of the timesheets selected for testing that was submitted for reimbursement.

Context: Of the 13 labor items sampled, we noted one instance where the Cooperative personnel made a clerical error when inputting labor hours from the employee timesheet on the project worksheet.

Of the five equipment usage items sampled, we noted one instance where the payroll accountant approved a timesheet after receiving verbal approval from a supervisor. The verbal approval was not documented in the payroll accountant's records.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2018

Recommendation:	We believe management should implement effective internal controls to ensure compliance with applicable allowable cost requirements, and that all procedures should be documented and strictly adhered to by the Cooperative personnel. We also recommend that the Cooperative maintain paper timesheets when working on FEMA related projects and compare the labor hours reported on the project worksheet with the hours reported on employee approved timesheets.

Views of Responsible Officials and Planned Corrective Actions:

2018-003	The Cooperative currently uses an electronic timekeeping system. The Cooperative plans to review the process surrounding time entry, including the utilization of paper timesheets, to ensure that all employees' time is properly approved by a direct supervisor prior to processing payroll each pay period.
Contact:	Mike Johnson – Chief Financial Officer

DIXIE ELECTRIC MEMBERSHIP CORPORATION

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2018

Section II – Financial Statement Findings:

2017-001	*Payroll Taxes not remitted timely*
Condition:	Payroll is processed bi-weekly; therefor, the Cooperative has 26 pay periods each year. Payroll tax remittances were late for two of the 26 pay periods.
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.
Current Status:	The recommendation was adopted in May 2018. No similar findings were noted in the December 31, 2018 audit.
Contact:	Mike Johnson – Chief Financial Officer

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
Condition:	Of the 45 listed policies and procedures included in 2 CFR 200, Subpart D (section 200.300), 5 policies were selected haphazardly to determine if the entity was in compliance with the applicable Federal Requirements. The entity was unable to provide written documentation of the required policy for four of the five policies selected for testing.
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.
Current Status:	The recommendation was adopted in May 2018. No similar findings were noted in the December 31, 2018 audit.
Contact:	Mike Johnson – Chief Financial Officer