JEFFERSON DAVIS ELECTRIC COOPERATIVE, INC.
Jennings, Louisiana

Financial Statement and
Report of Independent Auditor

For the Years Ended December 31, 2020 and 2019

JEFFERSON DAVIS ELECTRIC COOPERATIVE, INC.

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JEFFERSON DAVIS ELECTRIC COOPERATIVE, INC.

BOARD OF DIRECTORS

Joseph L. Tupper, Jr.	District No. 1	Elton Area
Kirk Weldon	District No. 2	Jennings Area
John V. Berken	District No. 3	Thornwell Area
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OFFICERS

E. Garner Nunez	President
Joseph L. Tupper, Jr.	1st Vice-President
John V. Berken	Secretary-Treasurer
Michael J. Heinen	General Manager

J. Aaron Cooper, CPA, LLC

P.O. Box 918 · 106 West Nezpique Street · Jennings, Louisiana 70546

Member of the American Institute of Certified Public Accountants and the Society of Louisiana Certified Public Accountants.

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INDEPENDENT AUDITOR'S REPORT

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

Report on Financial Statements
I have audited the accompanying financial statements of Jefferson Davis Electric Cooperative, Inc. (a non-profit corporation) which comprise the balance sheet as of December 31, 2020 and 2019, and the related statements of revenues and expenses, equities and margins, and cash flows for the years then ended, and the related notes to the financial statements.

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

Auditor's Responsibility
My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Jefferson Davis Electric Cooperative, Inc. as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Other Information. My audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Cooperative’s basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements. Such information is the responsibility of management and were derived and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic 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 financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, such information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards,* I have also issued a report dated May 21, 2021, on my consideration of the Jefferson Davis Electric Cooperative’s internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the 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 the Cooperative's internal control over financial reporting and compliance.

J. Aaron Cooper, CPA, LLC

Jennings, Louisiana
May 21, 2021

FINANCIAL STATEMENTS

JEFFERSON DAVIS ELECTRIC COOPERATIVE, INC.

Balance Sheets

December 31, 2020 and 2019

ASSETS

	2020	2019
Utility plant:		
Electric plant in service, at cost	$ 59,506,475	$ 55,387,503
Construction work in progress	15,792,816	374,756
Accumulated depreciation	(15,237,725)	(14,810,676)
Net utility plant	60,061,566	40,951,583
Other property and investments:		
Investments in associated organizations	1,931,107	1,878,516
Current assets:		
Cash and cash equivalents	6,375,783	3,400,974
Accounts receivable, less allowance for doubtful accounts of $179,118 and $178,7983 in 2020 and 2019, respectively	1,880,757	3,390,907
Disaster assistance receivable	170,231,532	-
Inventories	7,153,761	1,584,350
Other current assets	19,013	43,342
Total current assets	185,660,846	8,419,573
Deferred charges	5,785,659	2,342,892
Total assets	$ 253,439,178	$ 53,592,564

The accompanying notes are an integral part of this financial statement.

LIABILITIES AND CAPITAL

	2020	2019
Capital:		
Memberships	$ 33,725	$ 38,800
Patronage	14,027,795	16,533,046
Donated	4,808	4,808
Total capital	14,066,328	16,576,654
Long-term debt:		
National Rural Utilities Cooperative Finance Corporation (CFC)	18,784,468	19,854,337
Current liabilities:		
Accounts payable	87,440,176	2,705,226
Line of credit, CFC	120,000,000	1,500,000
Current portion of long-term debt	1,069,442	1,022,696
Member deposits	102,699	140,004
Other accrued liabilities	145,924	156,970
Total current liabilities	208,758,241	5,524,896
Deferred credits and other liabilities:		
Accumulated provision for postretirement benefits	8,613,750	8,420,286
Deferred credits	3,216,391	3,216,391
Total deferred credits and other liabilities	11,830,141	11,636,677
Total liabilities	239,372,850	37,015,910
Total liabilities and capital	$ 253,439,178	$ 53,592,564

The accompanying notes are an integral part of this financial statement.

JEFFERSON DAVIS ELECTRIC COOPERATIVE, INC.

Statements of Revenue and Expenses

For the Years Ended December 31, 2020 and 2019

	2020	2019
Operating revenue:		
Electricity sales	$ 21,781,789	$ 26,531,627
Miscellaneous electricity revenue	283,208	591,218
Total operating revenues	22,064,997	27,122,845
Operating expenses:		
Power purchased	14,391,980	17,275,599
Transmission - operation	1,909	35,881
Distribution - operation	2,547,570	2,320,362
Distribution - maintenance	2,459,628	2,277,314
General plant - maintenance	192,934	281,859
Customer accounts	608,136	746,967
Administrative and general	2,130,390	1,996,675
Depreciation and amortization	1,429,231	1,353,847
Taxes	326,555	339,099
Total operating expenses	24,088,333	26,627,603
Operating margins before interest expense	(2,023,336)	495,242
Interest expense	628,423	932,709
Operating margins	(2,651,759)	(437,467)
Nonoperating margins:		
Capital credits received	145,643	140,697
Interest income	35,706	39,311
Loss on disposition of assets	-	(2,210)
Total nonoperating margins	181,349	177,798
Net margins	$ (2,470,410)	$ (259,669)

The accompanying notes are an integral part of this financial statement.

JEFFERSON DAVIS ELECTRIC COOPERATIVE, INC.

Statements of Equities and Margins

For the Years Ended December 31, 2020 and 2019

	Memberships	Patronage Capital	Donated Capital	Total
Balance at December 31, 2018	$ 37,565	$ 16,847,407	$ 4,808	$ 16,889,780
2019 net margins	-	(259,669)	-	(259,669)
Retirement of capital credits	-	(54,692)	-	(54,692)
Net change in memberships	1,235	-	-	1,235
Balance at December 31, 2019	38,800	16,533,046	4,808	16,576,654
2020 net margins	-	(2,470,410)	-	(2,470,410)
Retirement of capital credits	-	(34,841)	-	(34,841)
Net change in memberships	(5,075)	-	-	(5,075)
Balance at December 31, 2020	$ 33,725	$ 14,027,795	$ 4,808	$ 14,066,328

The accompanying notes are an integral part of this financial statement.

JEFFERSON DAVIS ELECTRIC COOPERATIVE, INC.

Statements of Cash Flows

For the Years Ended December 31, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Net margins	$ (2,470,410)	$ (259,669)
Reconciliation of net margins to net cash provided by operating activities:		
Depreciation and amortization	1,739,529	1,541,808
(Gain)/loss on sales of assets	-	2,210
Interest capitalized	(630,395)	(5,689)
Change in deferred regulatory charges	(3,442,767)	(53,677)
Change in accumulated provision for postretirement benefits	193,464	520,142
Changes in current assets and liabilities:		
Accounts receivable	1,510,150	704,413
Other current assets	24,329	(36,210)
Accounts payable	171,343	871,076
Other accrued liabilities	(11,046)	21,219
Net cash provided (used) operating activities	(2,915,803)	3,305,623
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(153,788,315)	(7,130,225)
Cost to remove retired plant	1,291,320	(156,668)
Change in construction accounts payable	84,563,607	-
Reimbursement of capital expenditures	132,277,878	6,234,970
Proceeds from sale of assets	-	16,232
Change in materials inventory	(5,569,411)	(117,309)
Change in investments in associated organizations	(52,591)	(47,209)
Net cash provided (used) by investing activities	58,722,488	(1,200,209)
Cash flows from financing activities:		
Drawdowns on line of credit	118,500,000	1,500,000
Change in disaster assistance receivable	(170,231,532)	-
Payments on long-term debt	(1,023,123)	(1,044,800)
Change in member deposits	(37,305)	12,630
Retirement of capital credits	(34,841)	(54,692)
Net change in memberships	(5,075)	1,235
Net cash provided (used) by financing activities	(52,831,876)	414,373
Net change in cash and cash equivalents	2,974,809	2,519,787
Cash and cash equivalents, beginning of year	3,400,974	881,187
Cash and cash equivalents, end of year	$ 6,375,783	$ 3,400,974
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 1,258,818	$ 938,398
Noncash investing and financing activities:		
Conversion of line-of-credit to long-term debt	$ -	$ 4,880,000

The accompanying notes are an integral part of this financial statement.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The accounting records of the Cooperative are maintained in accordance with the Rural Utilities Service (RUS) Uniform System of Accounts (USOA). The financial statements and the accompanying notes to the financial statements have been prepared on the basis of U.S. generally accepted accounting principles (GAAP).

Regulatory Accounting

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

Patronage Capital

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

Utility Plant

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.

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

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

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

Classification	Rate
Transmission plant	2.75%
Distribution plant	2.30% to 3.90%
General plant:	
Structures and improvements	3.00%
Transportation equipment	10.00% to 25.00%
Power operated equipment	6.00%
Other general plant	6.00% to 7.00%

Valuation of Long-Lived Assets

Management of the Cooperative periodically reviews the net carrying value of its assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset might not be recoverable. These reviews consider the net realizable value of each asset to determine whether an impairment in value has occurred, and whether there is a need for any impairment write-down. Impaired assets are reported at the lower of cost or fair value. At December 31, 2020, no assets were considered to be impaired.

Investments

Investments are generally included in the financial statements at cost. Investments in associated organizations are included at its patronage capital balance or at face value of related certificates, as appropriate.

Cash and Cash Equivalents

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

Revenue Recognition

The Cooperative implemented ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, effective January 1, 2019. Topic 606 requires entities to "recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services." The ASU details a five-step model that should be followed to achieve the core principle.

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

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

To the extent that deliveries have occurred, but a bill has not been issued, the Cooperative records an estimate for energy delivered since the latest billings. The Cooperative calculates the estimate based upon the subsequent month's billing cycles and prorated based upon the number of days in each cycle and the number of days that relate to the prior period.

A portion of the members' billings relates to power cost adjustments. Due to the timing of when the adjustments are actually billed to the member, a cumulative under/(overbilled) amount is recorded as an adjustment to electricity sales.

Accounts Receivable

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

Investments in Associated Organizations

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

Inventories

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

Income Taxes

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

In accordance with FASB ASC 740-10 which also requires the disclosure of open tax years subject to examination and the policy for classifying interest and penalties, the Cooperative has performed an evaluation and determined that no uncertain tax liabilities or positions exist for the years ended December 31, 2020 and 2019. The Cooperative's tax years of December 31, 2017 through December 31, 2020 remain subject to examination by federal and state taxing authorities.

Fair Value Measurements

ASC Topic 820, *Fair Value Measurement and Disclosures*, establishes a fair value hierarchy for those assets and liabilities measured at fair value, that distinguishes between assumptions based on market data (observable inputs) and the organization's own assumptions (unobservable inputs). The hierarchy consists of: Level 1 – quoted market prices in active markets for identical instruments; Level 2 – inputs other than Level 1 inputs that are observable; and Level 3 – unobservable inputs developed using estimates and assumptions determined by the organization.

ASC Topic 825, Financial Instruments, permits entities to choose to measure many financial assets and liabilities at fair value. The fair value of a financial instrument is the amount at which these instruments could be exchanged in a current transaction between willing parties, other than a forced liquidation sale. At December 31, 2020 and 2019, there were no assets or liabilities that were measured at fair value on a recurring basis. Certain assets are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis, but subject to fair value adjustments only in certain circumstances (for example, when there is evidence of impairment). The Cooperative had no assets measured at fair value on a nonrecurring basis at December 31, 2020 and 2019.

Use of Estimates

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

Advertising

Advertising costs are charged to expense when incurred. Advertising expense was $4,384 and $8,733 for the years ended December 31, 2020 and 2019, respectively.

(2) UTILITY PLANT

Utility plant consisted of the following at December 31, 2020 and 2019:

	2020	2019
Transmission plant	$ 5,260,736	$ 4,912,382
Distribution plant	47,529,183	44,935,738
General plant	6,716,556	5,539,383
Construction work in progress	15,792,816	374,756
Total	75,299,291	55,762,259
Accumulated depreciation	(15,237,725)	(14,810,676)
Total utility plant, net	$ 60,061,566	$ 40,951,583

Depreciation expense was $1,541,808 and $1,521,286 for the years ended December 31, 2020 and 2019.

(3) CASH AND CASH EQUIVALENTS

Cash and cash equivalents consists of the following at December 31, 2020 and 2019:

	2020	2019
Cash on hand	$ 1,000	$ 1,000
Cash in bank	6,325,267	1,324,581
Cooperative Finance Corporation Daily Fund	49,516	2,075,393
	$ 6,375,783	$ 3,400,974

(4) INVESTMENTS IN ASSOCIATED ORGANIZATIONS

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

Investments in associated organizations consisted of the following at December 31, 2020 and 2019:

	2020	2019
Arkansas Electric Cooperative Corp. - patronage capital	$ 283,167	$ 285,049
Southeastern Data Cooperative - patronage capital	99,418	99,566
Federated Rural Electric Insurance Exchange - patronage capital	401,513	377,803
CoBank common stock	58,210	81,041
Gresco Utility Supply, Inc.	66,665	52,512
Cooperative Finance Corporation (CFC):		
Membership	1,000	1,000
Patronage capital	452,780	411,675
Capital term certificates (CTC):		
Subscriptions (SCTC)	565,317	565,317
Loan (ZTC)	3,037	4,553
Total investment in CFC	1,022,134	982,545
Total investments in associated organizations	$ 1,931,107	$ 1,878,516

The capital term certificates invested in CFC are unsecured and subordinated. The SCTCs bear interest at an annual rate of 5% and mature between 2070 and 2080. The ZTCs are non-interest bearing and mature between 2020 and 2027.

(5) ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at December 31, 2020 and 2019:

	2020	2019
Consumer accounts receivable	$ 1,472,547	$ 1,624,572
Unbilled electric revenues	510,322	1,780,894
Customer contracts receivable	77,006	164,239
Total	2,059,875	3,569,705
Accumulated provision for uncollectible accounts	(179,118)	(178,798)
Total accounts receivable, net	$ 1,880,757	$ 3,390,907

(6) DISASTER ASSISTANCE RECEIVABLE

In 2020, southwest Louisiana was struck by two hurricanes, Laura and Delta, which caused significant damage to the Cooperative's transmission and distribution plant. The Cooperative has recorded a receivable for what it estimates the Federal Emergency Management Agency FEMA via the Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP) will reimburse the Cooperative for hurricane recovery related to costs through December 31, 2020.

(7) DEFERRED CHARGES

Deferred charges consisted of the following at December 31, 2020 and 2019:

	2020	2019
Unrecognized actuarial loss on OPEB plan	$ 1,293,585	$ 1,432,293
Rural Utilities Service (RUS) prepayment fee	574,007	607,092
RS Plan prepayment	198,175	302,696
Regulatory asset - Hurricane Laura	3,718,602	-
Miscellaneous	1,290	811
Total deferred charges	$ 5,785,659	$ 2,342,892

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

As a result of the Cooperative's other postretirement benefits plan, the unamortized actuarial loss related to the plan is recorded as a regulatory asset. The Cooperative amortizes this asset as determined by the Plan actuary.

In 2013, the Cooperative refinanced its debt with RUS through CFC. RUS charged the Cooperative a fee of $827,127 for early prepayment of the debt. The fee was deferred and is being amortized over twenty-five years.

At the December 2012 meeting of the I&FS Committee of the NRECA Board of Directors, the Committee approved an option to allow participating cooperatives in the RS Plan to make a contribution prepayment and reduce future required contributions. The prepayment amount is a cooperative's share, as of January 1, 2013, of future contributions required to fund the RS Plan's unfunded value of benefits earned to date using RS Plan actuarial valuation assumptions. The prepayment amount will typically equal approximately 2.5 times a cooperative's annual RS Plan required contribution as of January 1, 2013. After making the prepayment, for most cooperatives the billing rate is reduced by approximately 25%, retroactive to the January 1st of the year in which the amount is paid to the RS Plan. The 25% differential in billing rates is expected to continue for approximately 15 years from January 1, 2013. However, changes in interest rates, asset returns and other plan experience different from expected, plan assumption changes and other factors may have an impact on the differential in billing rates and the 15-year period. The Cooperative's prepayment of $1,212,506 was recorded as a deferred charge and is being amortized over ten years.

The damage from the afore-mentioned hurricanes has left several substations without power. In order to provide electricity to its customers, the Cooperative has rented large generators and at these substations at substantial cost. Additionally, the Cooperative has incurred significant costs for debris removal. On May 20, 2021, the Cooperative's board of directors approved establishing a regulatory asset for these costs net of expected FEMA reimbursement. Such asset will be amortized over ten years.

(8) PLEDGED ASSETS, LINE OF CREDIT, AND LONG-TERM DEBT

The Cooperative has entered into various borrowing arrangements with CFC. As a result of these arrangements, substantially all assets of the Cooperative have been pledged as collateral. The loan agreement includes covenant requirements of the Cooperative, including maintenance of a debt service coverage ratio (as defined) of 1.35. The Cooperative was not in compliance with this covenant at December 31, 2020; however, a waiver of the covenant has been received from CFC.

The Cooperative lines of credit totaling $120,000,000 with CFC. At December 31, 2020 and 2019, $120,000,000 and $1,500,000, respectively, was advanced on the line of credit. At December 31, 2020, the interest rate on the lines of credit ranged 2.00% to 3.25%. At December 31, 2020, there were unfunded amounts totaling $-0- remaining on these long-term facilities.

Long-term debt consists of mortgage notes payable to CFC. The notes are payable in quarterly installments of principal and interest at rates ranging from 2.95% to 5.60% maturing at various dates through February 28, 2049. As of December 31, 2020, annual maturities of long-term debt outstanding for the next five years are as follows:

Year	Annual Principal Payments
2021	$ 1,069,442
2022	1,117,888
2023	881,086
2024	868,590
2025	909,314
Thereafter	15,007,590
Total	$ 19,853,910

(9) DEFERRED CREDITS

Deferred credits of $3,216,391 at December 31, 2020 and 2019, relate to advances from the Federal Emergency Management Agency (FEMA) due to losses from damage caused by hurricanes, primarily Hurricane Rita. The Cooperative has hired an outside consultant to work with the Governor's Office of Homeland Security and Emergency Preparedness to clear out the remaining project worksheets related to the storms. Based on the consultant's work, it appears that FEMA advanced approximately $3,000,000 in excess funding. If it is determined that these funds were advanced in error, this amount will need to be repaid to FEMA. The repayment, if any, will be charged to deferred credits and will have little effect on net margins or patronage capital. The Cooperative expects to begin repayment during 2021.

(10) PENSION PLAN

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

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

The Cooperative's contributions to the RS Plan in 2020 and in 2019 represented less than 5 percent of the total contributions made to the RS Plan by all participating employers. The Cooperative made contributions to the RS Plan of $509,654 in 2020 and $441,002 in 2019. There have been no significant changes that affect the comparability of 2020 and 2019 contributions.

For the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was over 80 percent funded on January 1, 2020 and over 80 percent funded on January 1, 2019, based on the PPA funding target and PPA actuarial value of assets on those dates.

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

Substantially all full-time employees participate in a 401(k) plan administered by NRECA. Participants are required to contribute at least 2% of their income and the Cooperative matches an additional 2% (prior to March 1, 2019, the Cooperative matched 4%). The amount expensed for the 401(k) match totaled $60,384 and $51,608 for the years ended December 31, 2020 and 2019, respectively.

(11) POST RETIREMENT BENEFITS OTHER THAN PENSIONS

In addition to providing pension benefits, the Cooperative provides certain medical and dental insurance benefits for retired employees. The Cooperative has adopted SFAS No. 158, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans*, which requires the Cooperative to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability, respectively, in its balance sheet and recognize changes in that funded status in the year in which the change occurs in other comprehensive income. However, for entities such as the Cooperative that are subject to SFAS No. 71, the net loss, prior service cost, and transition obligation are recorded as a regulatory asset since the Cooperative has historically recovered and currently recovers pension and other postretirement benefits through its electric rates and there is no negative evidence that the existing regulatory treatment will change. If, in the future, the regulatory bodies indicate a change in policy related to the recovery of pension and other postretirement benefit costs, this could cause the regulatory asset to be reclassified as other comprehensive income.

Disclosures for the plan for the years ended December 31, 2020 and 2019 are as follows:

	2020	2019
Accumulated benefit obligation, beginning of year	$ 8,420,286	$ 7,900,144
Net actuarial (gain)/loss	(97,195)	218,634
Service cost	240,860	235,340
Interest cost	308,593	310,809
Benefit payments	(258,794)	(244,641)
Accumulated benefit obligation, end of year	$ 8,613,750	$ 8,420,286
Funded status:		
Net plan assets	$ -	$ -
Net liability recognized	$ 8,613,750	$ 8,420,286
Deferred actuarial (gain)/loss, beginning of year	$ 1,432,293	$ 1,241,252
Net actuarial (gain)/loss	(97,195)	218,634
Amortization of actuarial gain/(loss)	(41,513)	(27,593)
Deferred actuarial (gain)/loss, end of year	$ 1,293,585	$ 1,432,293
Net periodic cost:		
Service cost	$ 240,860	$ 235,340
Interest cost	308,593	310,809
Amortization of actuarial (gain)/loss	41,513	27,593
Total	$ 590,966	$ 573,742

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

Year	Annual Payments
2021	$ 344,408
2022	334,200
2023	339,094
2024	354,536
2025	391,115
2026-2030	2,038,634

Assumptions

The weighted-average rate assumptions used to determine net periodic benefit cost for the years ended December 31, 2020 and 2019 are as follows:

	2020	2019
Discount rate	3.15%	3.85%
Health care cost trend for next year	6.40%	6.60%
Ultimate health care cost trend	4.50%	5.00%
Year that the rate reaches the ultimate trend rate	2029	2026

A one percentage-point increase in the health care trend rates would have increased the accumulated benefit obligation by $1523,672 at December 31, 2020, and increased service and interest costs by $97,952 for the year then ended.

(12) CONTINGENCIES, RISKS, AND UNCERTAINTIES

The Cooperative utilizes a local bank for its cash deposits. Periodically, the Cooperative's deposits exceed the maximum FDIC coverage amounts. Management considers the bank to be financially sound and continues to monitor the bank's financial stability.

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

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

Substantially all non-management employees are members of the International Brotherhood of Electrical Workers (IBEW). The Cooperative has entered into an agreement with the union that covers, among other things, pay rates and benefits.

The Cooperative has recorded a receivable in the amount of $170,231,532 for disaster assistance as a result of Hurricanes Laura and Delta. Some of this amount could be disallowed and not reimbursed.

(13) SUBSEQUENT EVENTS

Subsequent events have been evaluated through May 21, 2021, which is the date the financial statements were available to be issued.

(14) PUBLIC FUNDS PAID TO AGENCY HEAD

Michael J. Heinen, general manager, is considered the agency head of Jefferson Davis Electric Cooperative for purposes of required disclosures under R.S. 24:513(A)(3). Mr. Heinen received no payments of public funds during the year ended December 31, 2020.

COMPLIANCE SECTION

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INDEPENDENT AUDITOR'S REPORT
REGARDING LOAN FUND EXPENDITURES

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

I have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Jefferson Davis Electric Cooperative, Inc., as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Cooperative's basic financial statements and have issued my report thereon dated May 21, 2021.

In connection with my audit, except as noted below, nothing came to my attention that caused me to believe that the Cooperative failed to comply with the terms, covenants, provisions, or conditions of the Loan Agreements with National Rural Utilities Cooperative Finance Corporation (CFC), insofar as they relate to accounting matters. However, my audit was not directed primarily toward obtaining knowledge of such compliance. Accordingly, had I performed additional procedures, other matters may have come to my attention regarding the Cooperative's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the Agreements, insofar as they relate to accounting matters.

Upon testing of loan covenants, it was determined that the Cooperative had failed its debt service coverage requirement for the three-year period ending December 31, 2020. The Cooperative has received a waiver of this requirement from CFC.

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

J. Aaron Cooper, CPA, LLC

Jennings, Louisiana
May 21, 2021

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

Independent Auditor's Report

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

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Jefferson Davis Electric Cooperative, Inc. (the Cooperative), which comprise the balance sheet as of December 31, 2020, and the related statement of income, comprehensive income and patronage capital and cash flows for the year then ended and the related notes to the financial statements and have issued my report thereon dated May 21, 2021.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cooperative's financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

J. Aaron Cooper, CPA, LLC

Jennings, Louisiana
May 21, 2021

J. Aaron Cooper, CPA, LLC

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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

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

Report on Compliance for Each Major Federal Program

I have audited Jefferson Davis Electric Cooperative, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Cooperative's major federal programs for the year ended December 31, 2020. The Cooperative's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of the Cooperative's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that I 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 the Cooperative's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of the Cooperative's compliance.

Opinion on Each Major Federal Program

In my opinion, Jefferson Davis Electric Cooperative, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2020.

Report on Internal Control over Compliance

Management of Jefferson Davis Electric Cooperative, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered the Cooperative'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, I do not express an opinion on the effectiveness of the Cooperative'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.

My 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. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of my 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.

J. Aaron Cooper, CPA, LLC

Jennings, Louisiana
May 21, 2021

JEFFERSON DAVIS ELECTRIC COOPERATIVE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2020

I. Summary of Auditor's Results

Financial Statements:

Type of Auditor's report issued on the financial statements: **Unmodified**

Internal Control over Financial Reporting

Significant Deficiencies: **None Reported**

Material Weaknesses: **No**

Noncompliance which is material to the financial statements: **No**

Federal Awards:

Type of Auditor's report on compliance for major programs: **Unmodified**

Internal Control over Major Federal Programs

Significant Deficiencies: **None Reported**

Material Weaknesses: **No**

Did the audit disclose findings which are required to be reported under 2 CFR 200.516(a): **No**

Major programs include:

97.036 Disaster Grants - Public Assistance (Presidentially-Declared Disasters)

Dollar threshold used to distinguish between Type A and Type B programs: **$750,000**
Low risk auditee: **No**

II. Financial Statement Findings

None Reported.

III. Federal Award Findings and Questioned Costs

None Reported.

JEFFERSON DAVIS ELECTRIC COOPERATIVE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2020

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Grantor's Number	Federal Expenditures
United States Department of Homeland Security			
Passed through Louisiana Governor's Office of Homeland Security and Emergency Preparedness:			
Public Assistance (Presidentially-Declared Disasters)	97.036	N/A	$ 170,231,532

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A—BASIS OF PRESENTATION

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

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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