

**POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION
FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

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

POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION

June 30, 2020 and 2019

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Pointe Coupee Electric Membership Corporation (a Cooperative), which comprise the balance sheets as of June 30, 2020 and 2019, and the related statements of revenue and patronage capital, comprehensive income, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pointe Coupee Electric Membership Corporation as of June 30, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2020, on our consideration of Pointe Coupee Electric Membership Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pointe Coupee Electric Membership Corporation's internal control over financial reporting and compliance.

Other Reporting Required by Regulatory Requirements

In accordance with 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers*, we have also issued our report dated September 9, 2020, on our consideration of Pointe Coupee Electric Membership Corporation's compliance with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as they relate to accounting matters. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing, insofar as it relates to accounting matters for electric borrowers. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. That report is an integral part of an audit performed in accordance with 7 CFR Part 1773 in considering Pointe Coupee Electric Membership Corporation's compliance as they relate to accounting matters.



Major, Morrison & David
New Roads, Louisiana
September 9, 2020

Pointe Coupee Electric Membership Corporation
BALANCE SHEETS
As of June 30, 2020 and 2019

	2020	2019
ASSETS		
ELECTRIC PLANT: (Note 2)		
In Service - at cost	\$ 52,122,675	\$ 50,095,744
Construction work in progress	342,823	842,640
	52,465,498	50,938,384
Less: accumulated depreciation	(15,915,027)	(15,479,438)
	36,550,471	35,458,946
OTHER ASSETS AND INVESTMENTS		
Postretirement benefit asset (Note 14)	429,423	1,366,673
Investments in associated organizations, at cost (Note 4)	1,397,522	1,384,578
	1,826,945	2,751,251
CURRENT ASSETS		
Cash and cash equivalents	713,912	768,004
Short-term investments (Note 4)	200,000	200,000
Accounts receivable (less provision for uncollectible accounts of \$30,951 in 2020 and \$30,588 in 2019)	1,169,447	1,501,449
Accounts receivable - unbilled	3,136,043	3,078,647
Materials and supplies (at average cost)	436,285	444,247
Prepayments	160,508	227,526
Other current and accrued assets	7,812	8,401
	5,824,007	6,228,274
DEFERRED DEBITS (Note 8)	1,306,076	1,425,103
	\$ 45,507,499	\$ 45,863,574

The accompanying notes are an integral part of this statement.

Pointe Coupee Electric Membership Corporation
BALANCE SHEETS
As of June 30, 2020 and 2019

	2020	2019
EQUITIES AND LIABILITIES		
EQUITIES:		
Memberships	\$ 39,175	\$ 39,195
Accumulated other comprehensive income (Note 14)	429,423	1,366,673
Patronage capital (Note 9)	19,428,314	18,795,840
	19,896,912	20,201,708
LONG-TERM LIABILITIES:		
Long-term debt, less current maturities (Note 5)	20,822,507	19,830,914
Obligations under capital leases - less current portion (Note 7)	298,077	107,436
	21,120,584	19,938,350
CURRENT LIABILITIES:		
Line of credit - note payable (Note 6)	500,000	2,200,000
Current maturities of long-term debt (Note 5)	1,689,913	1,139,679
Current portion of obligations under capital leases (Note 7)	123,457	43,044
Accounts payable - purchased power	1,086,036	1,225,902
Accounts payable - other	112,701	119,191
Customer deposits	540,700	510,365
Other current and accrued liabilities	437,196	485,335
	4,490,003	5,723,516
DEFERRED CREDITS		
	-	-
	\$ 45,507,499	\$ 45,863,574

The accompanying notes are an integral part of this statement.

Pointe Coupee Electric Membership Corporation
STATEMENTS OF REVENUE AND PATRONAGE CAPITAL
For the Years Ended June 30, 2020 and 2019

	2020	2019
OPERATING REVENUES	\$ 23,271,508	\$ 22,715,583
OPERATING EXPENSES:		
Cost of power	13,616,347	13,647,404
Distribution operation	505,122	538,358
Distribution maintenance	2,794,612	2,868,145
Consumer accounts	919,031	990,186
Sales	16,178	21,922
Administrative and general	2,047,590	2,163,834
Depreciation and amortization	1,504,135	1,361,903
Taxes	495,155	480,433
	21,898,170	22,072,185
OPERATING MARGINS BEFORE FIXED CHARGES	1,373,338	643,398
FIXED CHARGES:		
Interest on long-term debt (Note 3)	815,971	830,996
OPERATING MARGINS AFTER FIXED CHARGES	557,367	(187,598)
CAPITAL CREDITS	55,662	63,972
NET OPERATING MARGINS	613,029	(123,626)
NONOPERATING MARGINS:		
Interest income	35,271	33,818
Other income	1,513	1,490
Other expense	(17,339)	(20,012)
	19,445	15,296
NET MARGINS	632,474	(108,330)
PATRONAGE CAPITAL - beginning of year	18,795,840	18,904,170
PATRONAGE CAPITAL - end of year	\$ 19,428,314	\$ 18,795,840

The accompanying notes are an integral part of this statement.

Pointe Coupee Electric Membership Corporation
STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended June 30, 2020 and 2019

	2020	2019
NET MARGINS	\$ 632,474	\$ (108,330)
OTHER COMPREHENSIVE INCOME		
Recognized actuarial gains/losses, net periodic benefit cost & revaluation for postretirement benefit obligation (Note 14)	(937,250)	219,636
COMPREHENSIVE INCOME	\$ (304,776)	\$ 111,306

The accompanying notes are an integral part of this statement.

Pointe Coupee Electric Membership Corporation
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net margins	\$ 632,474	\$ (108,330)
Adjustments to reconcile net margins to net cash provided (used) by operating activities:		
Depreciation and amortization	1,590,771	1,529,936
Amortization of capital leased assets	84,093	9,754
Bad debts	34,565	54,369
(Increase) decrease in:		
Accounts receivable	297,437	447,399
Unbilled receivable	(57,396)	901,096
Prepaid expenses	67,018	(2,610)
Materials and supplies	7,962	(40,015)
Deferred debits	119,028	146,702
Other current and accrued assets	589	(467)
Decrease (increase) in:		
Accounts payable	(146,357)	(18,450)
Other current and accrued liabilities	(48,140)	10,546
Total adjustments	1,949,570	3,038,260
Net Cash Provided (Used) by Operating Activities	2,582,044	2,929,930
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investments in associated organizations	(12,944)	(23,036)
Proceeds from sale of investments	200,000	200,000
Construction and acquisition of plant	(2,311,797)	(2,336,029)
Purchase of investments	(200,000)	(200,000)
Net Cash Provided (Used) by Investing Activities	(2,324,741)	(2,359,065)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit	5,813,700	9,625,000
Repayment of line of credit	(6,933,219)	(11,275,000)
Proceeds from long-term debt	2,000,000	2,700,000
Repayment of long-term debt	(1,038,653)	(1,158,769)
Repayment of capital lease obligations	(183,538)	(13,341)
Increase (decrease) in:		
Memberships issued	(20)	-
Customer deposits	30,335	30,085
Net Cash Provided (Used) by Financing Activities	(311,395)	(92,025)
NET INCREASE (DECREASE) IN CASH	(54,092)	478,840
CASH AT BEGINNING OF YEAR	768,004	289,164
CASH AT END OF YEAR	\$ 713,912	\$ 768,004
<u>Supplemental Disclosures</u>		
Cash Paid During the Year for:		
Interest	\$ 930,573	\$ 815,003
Noncash Investing & Financing Activities:		
Increase (decrease) in compensated absences	14,821	5,085
Postretirement benefits	937,250	(219,636)
Assets acquired through capital lease	(370,498)	(163,821)
Capital lease used to acquire assets	370,498	163,821

The accompanying notes are an integral part of this statement.

POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

Note 1-Summary of Significant Accounting Policies

A. Organization

Pointe Coupee Electric Membership Corporation (Cooperative) is an electric transmission and distribution cooperative. Its principal business activity is providing electric power to approximately 10,406 member-consumers over three parishes. The Cooperative is subject to the jurisdiction of the Louisiana Public Service Commission (LPSC) for ratemaking regulations.

B. Accounting and Records

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

C. Cash and Cash Equivalents

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

D. Short-Term Investments

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

E. Accounts Receivable

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

F. Inventory

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

G. Utility Plant

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

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

H. Investments in Associated Organizations

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

POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

I. Income Taxes

The Cooperative is exempt from income taxes under Section 501 (c)(12) of the IRS Code, since it receives more the 85% of its income from members. The statute of limitations for the examination of the Cooperative's income tax returns is generally three years from the due date of the tax returns including extensions. The tax Form 990s are prepared on a calendar year basis. The tax years open for assessment are the years ending after December 31, 2016.

J. Revenue

Revenue is recognized based on monthly billings to consumers. The Cooperative accrues revenue related to energy consumed but not yet billed. The Cooperative's rates include a power cost adjustment clause (PCA), which enables the Cooperative to pass through to consumers all fuel charges and non-fuel charges in the cost of power. The Cooperative's rates, including the PCA must be approved by the LPSC, which also retains jurisdiction to review the cooperative's PCA periodically to ensure that costs comply with their power purchase contracts. In order to match power costs and related revenues, under-collected power cost to be billed to consumers and over-collected power costs to be returned to consumers in subsequent periods are recognized within the unbilled revenue receivable on the balance sheets and as an increase or decrease within the operating revenues on the statements of revenue and patronage capital. As of June 30, 2020 and 2019, the cooperative had under-collected power cost of \$321,518 and \$435,529, respectively.

K. Advertising Costs

Advertising costs are charged to operations when incurred. Total advertising expense for the years ended June 30, 2020 and 2019, was \$9,470 and \$16,297, respectively.

L. Use of Estimates

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

M. Reclassifications

Certain amounts as previously reported have been reclassified to conform to the June 30, 2020 presentation. The reclassifications had no effect on net margins or patronage capital.

Note 2-Utility Plant

The following are the major classes of utility plant as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Transmission plant	\$ 6,390,698	\$ 6,377,498
Distribution plant	41,038,601	39,294,065
General plant	4,159,056	4,260,360
Capital leases	<u>534,320</u>	<u>163,821</u>
Utility plant in service	52,122,675	50,095,744
Construction work in progress	<u>342,823</u>	<u>842,640</u>
	<u>\$ 52,465,498</u>	<u>\$ 50,938,384</u>

POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

Depreciation and amortization expense totaling \$180,040 and \$177,788 for the years ended June 30, 2020 and 2019, respectively, are included in various expense accounts based on allocation of work order costs in accordance with RUS guidelines. Annual average composite rates of depreciation used by the Cooperative during 2020 and 2019 are as follows:

	<u>Percent Per Year</u>
Distribution plant	1.80 to 6.66
Transmission plant	2.75
General plant	
Structures and improvements	2.00
Transportation equipment	7.00
Communications equipment	5.00
Office furniture and fixtures	4.00
Power-operated equipment	11.00
Other general plant	3.60

Note 3-Capitalization of Interest

The Cooperative's policy is to capitalize interest as a component of the cost of property, plant and equipment constructed for its own use with a contracted life of a year or more. The following is a schedule of interest components for the years ended June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Interest capitalized	\$ -0-	\$ -0-
Interest deferred	-0-	-0-
Interest charged to operations	<u>815,971</u>	<u>830,996</u>
Total interest	<u>\$ 815,971</u>	<u>\$ 830,996</u>

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

Investments in associated organizations consist of the following as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
National Rural Utilities Cooperative Finance Corporation:		
Capital Term Certificates	\$ 555,105	\$ 555,105
Patronage Capital	192,529	194,320
Member Capital Securities	100,000	100,000
Membership Fee	1,000	1,000
Patronage Capital Certificates:		
Association of Louisiana Electric Cooperatives, Inc.	3,641	3,641
Federal Rural Electric Insurance Corporation	272,824	264,357
National Information Solutions Co-op	83,097	79,702
GRESKO- member fee	100	100
GRESKO	91,937	90,168
ERMCO – member fee	100	100
Co-Bank- member fee	1,000	1,000
Co-Bank	17,893	17,103
Arkansas Electric	<u>78,296</u>	<u>77,982</u>
	<u>\$ 1,397,522</u>	<u>\$ 1,384,578</u>

POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

The Cooperative has adopted Financial Accounting Standards Board (FASB) –Accounting Standards Codification (ASC) 320, “Accounting for Certain Investments in Debt and Equity Securities.” In accordance with FASB ASC 320, the Cooperative has classified all short-term investments as held-to-maturity. Held-to-maturity investments are stated at amortized cost as the cooperative has the ability and intent to hold these investments to maturity. The cost of investments sold is based on the specific identification method. There were no sales or transfers of investments classified as held-to-maturity during the years ended June 30, 2020 and 2019, respectively.

Short-term investments classified as held-to-maturity and their maturities were as follows at June 30, 2020 and 2019:

At the balance sheet date of June 30, 2020:

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

Maturities of investments

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

At the balance sheet date of June 30, 2019:

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

Maturities of investments

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

Note 5- Long-Term Debt

Long-term debt consists of mortgage notes payable to RUS, NRUCFC, and The Federal Financing Bank (FFB). Notes payable to RUS consist of 3.7% to 5% mortgage notes payable in monthly and quarterly payments maturing in various years through 2041. Notes payable to NRUCFC consist of mortgage notes payable in quarterly payments bearing fixed interest rates of 4.40% to 7.15% maturing in various years through 2027. Notes Payable to FFB consists of mortgage notes payable in quarterly payments bearing fixed rates of 2.113% to 5.410% maturing in various years through 2046. It is estimated that principal payments to RUS, NRUCFC, and FFB in the next twelve months will be approximately \$155,770, \$153,455 and \$666,988, respectively.

On April 16, 2020, the Cooperative was awarded a loan made by the Small Business Administration under the Paycheck Protection Program as authorized by Section 1102 of the Coronavirus Aid, Relief and Economic Security Act. The Board of Directors authorized the acceptance of the approved loan in the amount of \$713,700 pursuant to and in compliance with the Paycheck Protection Program. The Cooperative is required to use the proceeds of the loan for its payroll costs and

POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

other expenses in accordance with the requirements of the Paycheck Protection Program so that it may seek loan forgiveness as provided in the Paycheck Protection Program. Notification was provided to RUS prior to execution of the loan according to RUS requirements.

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

Agreements with mortgage lenders requires the Cooperative to maintain minimum financial covenant ratios of Tier and DSC of 1.25 and operating Tier and operating DSC of 1.10 (based on a best 2 of last 3-year average). During the calendar years ended December 31, 2019 and 2018, the Cooperative met its financial debt covenants.

The following schedule is a summary of outstanding loans as of June 30, 2020 and 2019, respectively.

	<u>2020</u>	<u>2019</u>
RUS Notes:		
5% notes due November 8, 2023	42,135	53,967
Fixed interest rate (3.70-4.78%) notes due July 3, 2041	4,672,241	4,804,856
FFB Notes:		
Fixed interest rate (2.113 - 5.410%) notes due January 2, 2046	16,082,636	14,785,816
NRUCFC Notes:		
Fixed interest rate (2.10 – 7.025%) notes due August 31, 2019 Through March 1, 2027	1,001,708	1,325,954
SBA PPP Notes:		
Fixed interest rate (1%) note due November 16, 2020 Through April 16, 2022 (if not forgiven)	<u>713,700</u>	<u>0</u>
Total	22,512,420	20,970,593
Less current maturities of long-term debt	<u>1,689,913</u>	<u>1,139,679</u>
Total long term debt	\$ 20,822,507	\$ 19,830,914

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

2021	\$ 1,689,913
2022	986,526
2023	1,094,829
2024	948,741
2025	990,725
Thereafter	<u>16,801,686</u>
	<u>22,512,420</u>

On July 27, 2017, the Board of Directors passed a resolution to make application to the RUS pursuant to 7 CFR Part 1710 for a guaranteed FFB loan in the approximate amount of \$14,926,000 to be used in accordance with the provisions of CFR Part 1710 to finance construction of its facilities on the basis of its 2016-2019 Construction Work Plan. The financing shall

POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION
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bear a maturity date to cover an approximate period of twenty-nine years. It shall also be used to repay a short-term bridge loan borrowed for construction costs incurred prior to having the RUS available funds (see Note 6). During the years ended June 30, 2020 and 2019, the Cooperative borrowed \$2,000,000 and \$2,700,000 on the 2016-2019 work plan from RUS, respectively.

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

The Cooperative is allowed by RUS to amortize the prepayment over a defined period. See Note 8 for the current balance recognized within deferred debits as of June 30, 2020 and 2019, respectively. The NRUCFC loan funds were expended for purposes contemplated in the loan agreement on such loan. No other long-term loan fund advances from NRUCFC were received during the current or prior year.

Note 6-Lines of Credit

The Cooperative has a line of credit of \$2,500,000 with NRUCFC at June 30, 2020 and 2019 respectively, at a rate equal to the bank prime rate, plus one percent per annum (currently 2.95%), maturing April 7, 2021. As of June 30, 2020 and 2019, \$500,000 and \$200,000 was owed on the line of credit, respectively. The Cooperative also has a line of credit with Co-Bank in the amount of \$2,000,000 for the years ended June 30, 2020 and 2019, respectively at a weekly variable rate set by Co-Bank (currently 2.58%), maturing January 31, 2021. As of June 30, 2020 and 2019, \$0 and \$2,000,000 was owed on this line of credit, respectively.

During a prior year, the Cooperative applied for and was approved by the LPSC in March 2017, for a bridge loan (line of credit) with NRUCFC in the amount of \$4,000,000 at a rate equal to the bank prime rate plus one percent per annum, maturing June 2, 2020 in order to finance construction activities until approved for RUS loan requests for its 2016-2019 Construction Work Plan (see Note 5). As of June 30, 2020 and 2019, \$0 and \$0 was owed on this line of credit, respectively.

Note 7-Leases

The Cooperative is obligated under leases for 3 trucks that are accounted for as capital leases. At June 30, 2020 and 2019, the net amount of equipment under capital leases was \$443,377 and \$157,828, respectively.

Amortization of assets held under capital leases is included within the depreciation and amortization line item on the Statements of Revenue and Patronage Capital. Amortization of leased assets in association with capital leases amounted to \$84,093 and \$9,754, for the years ended June 30, 2020 and 2019, respectively. Interest costs associated with capital leases amounted to \$10,122 and \$1,007, for the years ended June 30, 2020 and 2019, respectively.

Future minimum lease payments under noncancelable capital leases as of June 30, 2020 are as follows:

<u>Year Ending June 30</u>	
2021	\$ 123,457
2022	130,768
2023	116,420
2024	58,235
2025	<u>14,497</u>

POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

Net minimum lease payments	\$443,377
Less amount representing interest	<u>21,843</u>
Present value of minimum lease payments	\$421,534
Less current portion	<u>123,457</u>
Long term obligations under capital leases	<u>\$298,077</u>

Note 8-Deferred Debits and Other Assets

Following is a summary of amounts recorded as deferred debits as of June 30, 2020 and 2019.

	<u>2020</u>	<u>2019</u>
Hurricane Gustav Restoration (see Note 15)	447,783	471,543
Preliminary survey & facility charges	17,463	24,222
RS Pension Prepayment (see Note 5)	<u>840,830</u>	<u>929,338</u>
	<u>\$ 1,306,076</u>	<u>\$ 1,425,103</u>

Note 9-Patronage Capital

At June 30, 2020 and 2019, patronage capital consisted of:

	<u>2020</u>	<u>2019</u>
Assignable	\$ 375,671	\$ 148,872
Assigned to date	17,717,292	17,928,172
Non-assignable non-operating	<u>1,335,351</u>	<u>718,796</u>
	<u>\$ 19,428,314</u>	<u>\$ 18,795,840</u>

Under the provisions of the Mortgage Agreement, until the equities and margins equal or exceed forty percent of the total assets of the Cooperative, the return to patrons of contributed capital is generally limited to twenty-five percent of the patronage capital or margins received by the Cooperative in the prior calendar year. The equities and margins of the Cooperative represent 42% of the total assets at June 30, 2020. No retirements of capital credits occurred in 2020 or 2019.

Note 10-Pension Plan

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

The Cooperative makes annual contributions to the plan equal to the amounts accrued for pension expense. Total pension expense in these statements, which represented less than 5% of the total contributions made to the plan by all participating

POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

employers, for the years ended June 30, 2020 and 2019, was \$597,450 and \$551,476, respectively. There were no significant changes that affect the comparability of the 2020 and 2019 contributions.

In the RS Plan, a “zone status” determination is not required and, therefore, not determined under the Pension Protection Act (PPA) of 2006. Additionally, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was over 80% and 80% funded at January 1, 2019 and 2018 based on the PPA funding target and PPA actuarial value of assets on those dates. Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and can change as a result of plan experience.

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

Note 11-Commitment

The Cooperative was one of eleven member electric cooperatives of Cajun Electric Power Cooperative, Inc. (Cajun) and has executed a wholesale power agreement with Cajun’s successor, Louisiana Generating, LLC (LaGen), who purchased Cajun’s non-nuclear assets out of bankruptcy. Under this agreement, the Cooperative is committed to purchase its electric power and energy requirements from LaGen until the year 2025. In January and March 2000, the LPSC issued orders approving the member co-ops purchase power contracts with LaGen and the use of an automatic adjustment clause for the recovery of purchased power costs. However, in order to implement this clause, the cooperatives needed to adjust their overall revenue requirements and rate designs. The Cooperative filed an application with the LPSC to redesign their rates and include the power cost adjustment clause. On June 2, 2000, the LPSC approved the Cooperative’s petition. Cleco Corporate Holdings, LLC (Cleco) acquired NRG South Central Generating, LLC, owner of LaGen, in February 2019. The power supply contracts were included in this sale.

Note 12-Contingency

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

Note 13- Credit Risks

At various times during the year cash deposits with one banking institution exceeded the \$250,000 coverage limit of protection offered by the Federal Deposit Insurance Corporation. Management monitors the financial condition of the institution on a regular basis in order to minimize the potential risk. At June 30, 2020 and 2019, uninsured cash balances totaled \$602,527 and \$674,924, respectively. Concentrations of credit risk with respect to accounts receivable are limited due to the large number of members comprising the membership base and their dispersion across the geographic area.

A major portion of the Cooperative’s workforce is covered by a collective bargaining agreement with the International Brotherhood of Electrical Workers Local 2286. This contract was negotiated for a three year term beginning January 1, 2020 through December 31, 2022.

Note 14- Postretirement Benefits Other Than Pensions

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

POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

insurance benefits. The postretirement plan is contributory, with non-eligible medicare retiree contributions equal to 15% of cost.

The annual measurement date is the end of the fiscal year (FYE) for the postretirement benefits (June 30th for FYE 2020 and FYE 2019). The following table provides further information about the postretirement benefit plan:

	<u>2020</u>	<u>2019</u>
Fair Value of plan assets at June 30	\$ 5,458,678	\$ 5,536,276
Accumulated Postretirement Benefit Obligation at June 30	<u>(5,029,255)</u>	<u>(4,169,603)</u>
Net Funded (Unfunded) Status at June 30	\$ 429,423	\$ 1,366,673

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

Noncurrent Assets	\$ 429,423	\$ 1,366,673
Current Liabilities	-	-
Noncurrent Liabilities	-	-
Recognized in Net Financial Position	<u>\$ 429,423</u>	<u>\$ 1,366,673</u>

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

Net Loss (Gain) on Assets	\$ (47,424)	\$ (125,022)
Service Cost	240,814	200,667
Interest Cost	135,018	144,792
Net Amortization and Deferral	<u>4,233</u>	<u>0</u>
Net Periodic Postretirement Benefit Cost	<u>\$ 332,641</u>	<u>\$ 220,437</u>

Assumptions:

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

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

Mortality – The RP-2000 Combined Mortality Table without projection is used. This is a recently published mortality table which has been used in determining the value of accrued benefits in defined benefit pension plans. Projected future mortality improvement has not been used since it is our opinion that this table contains sufficiently conservative margin for the population involved in this valuation.

Expected Time of Commencement of Benefits – It was assumed that employees retire at the earliest eligibility to receive retiree medical benefits which is the attainment of age 62 and completion of 10 years of service.

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

Future Cost increase (Trend) Rate – The expected rate of increase in medical cost is based on a flat annual rate of 5.5%.

Investment Return Assumption and Discount Rate – As required, a “discount rate” is used to value the actuarial liabilities rather than the long-term return on assets which is typically used in such actuarial valuations. For this purpose, we have used the values in the “FTSE Pension Liability Index” (formerly the “Citigroup Pension Liability Index”) as of each measurement date. The applicable discount rates used as of June 30, 2020 and 2019 were 2.71% and 3.51%, respectively.

POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

Plan assets in the amount of \$93,342 are expected to be returned to the employer within the next 12 month operating cycle for retiree costs. The cooperative expects to contribute \$0 into the trust in 2021.

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

2021	93,342
2022	98,809
2023	104,244
2024	109,977
2025	116,257
2026-2030	684,527

Note 15 – Hurricanes Gustav, Barry & Old River Flooding

On September 1, 2008, Hurricane Gustav hit Louisiana as a Category 2 (one mile per hour short of a Category 3) hurricane and caused significant damage to the area and the Cooperative’s electrical systems. The Cooperative’s tri-parish region of Pointe Coupee, Iberville, and West Baton Rouge was hit particularly hard causing 100% power outages and considerable damages to the infrastructure. Costs to repair and replace the Cooperative’s infrastructure totaled \$3,808,113 of which \$3,427,302 is eligible for reimbursement from FEMA at a 90% coverage rate. Actual reimbursements received during the years ending June 30, 2020 and 2019 totaled \$23,759 and \$0, respectively. Upon final reimbursement, approval will be sought from RUS to account for the costs as a regulatory asset or capitalized and depreciated according to RUS guidelines.

On July 13, 2019, Hurricane Barry hit Louisiana as a Category 1 hurricane and caused damage and power outages to the Cooperative’s electrical system. Costs to repair and replace the cooperative’s infrastructure totaled \$314,987 of which \$282,019 is eligible for reimbursement from FEMA at a 75% coverage rate. Actual reimbursements received during the year ending June 30, 2020 totaled \$82,098.

In July 2019, Old River Flooding caused damage and power outages to the Cooperative’s electrical system. Emergency operations and flood damages were incurred of which \$75,982 is eligible for reimbursement from FEMA at a 75% coverage rate. Actual reimbursements received during the year ending June 30, 2020 totaled \$54,273 excluding some indirect costs and the resulting work order accounting was closed out.

Note 16 – Subsequent Events

In the spring of 2020, there was a global outbreak of a new strain of coronavirus, COVID-19. The public health crisis has caused volatile economic conditions, impacting financial markets and disrupting general business activities across the United States. The timing and extent of the impact of COVID-19 on the Cooperative’s current operations and future operations is uncertain at the date of this report, however management will monitor the situation and make necessary adjustments as they arise.

Management has performed an evaluation of the Cooperative’s activities through September 9, 2020, and has concluded that there are no other significant subsequent events requiring recognition or disclosure through the date and time these financial statements were available to be issued on September 9, 2020.

Supplemental Information

**Pointe Coupee Electric Membership Corporation
 SCHEDULE OF COMPENSATION, BENEFITS, AND
 OTHER PAYMENTS TO AGENCY HEAD
 For the Year Ended June 30, 2020**

AGENCY HEAD NAME : MYRON A. LAMBERT, GENERAL MANAGER

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

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

**Independent Auditors' Report on Internal Control Over Financial Reporting
And on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Pointe Coupee Electric Membership Corporation (a Cooperative), which comprise the balance sheets as of June 30, 2020 and 2019, and the related statements of revenue and patronage capital, comprehensive income, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated September 9, 2020.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Prepare accurate and timely Financial and Operating Reports;

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

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

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

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

Comply with the requirements for the detailed schedule of investments.

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.



Major, Morrison & David
New Roads, Louisiana
September 9, 2020

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Pointe Coupee Electric Membership Corporation (a Cooperative), which comprise the balance sheets as of June 30, 2020 and 2019, and the related statements of revenue and patronage capital, comprehensive income, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated September 9, 2020. In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2020, on our consideration of Pointe Coupee Electric Membership Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above and our schedule of findings and recommendations related to our audit have been furnished to management.

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

Maintain adequate and effective accounting procedures;

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

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

Clear construction accounts and accrue depreciation on completed construction;

Record and properly price the retirement of plant;

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

Maintain adequate control over materials and supplies;

Prepare accurate and timely Financial and Operating Reports;

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

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

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

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

Comply with the requirements for the detailed schedule of investments.

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.

Major, Morrison & David
New Roads, Louisiana
September 9, 2020

A handwritten signature in blue ink that reads "Major, Morrison & David". The signature is written in a cursive, flowing style.