



Financial Statements
December 31, 2020 and 2019

Southwest Iowa Rural Electric Cooperative

Southwest Iowa Rural Electric Cooperative

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December 31, 2020 and 2019

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Southwest Iowa Rural Electric Cooperative
Directors, Officers, and Management
December 31, 2020

<u>Name</u>	<u>Position</u>
Marilyn Werner.....	President
Mark Herzberg	Vice President
Kay Fast	Treasurer
Ken Peppmeier.....	Secretary
Terry Barnes.....	Director
Fred Hossle.....	Director
Deena Moore	Director
Dana Morgan	Director
Jason Smith	Director
Dale Walkup.....	Director
Phil Kinser	General Manager



Independent Auditor's Report

The Board of Directors
Southwest Iowa Rural Electric Cooperative
Corning, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of Southwest Iowa Rural Electric Cooperative (Cooperative) which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of operations, equities, 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

Our responsibility is to express an opinion 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 opinion.

Opinion

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

Report Issued in Accordance with Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2021, on our consideration of Southwest Iowa Rural Electric Cooperative's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 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 Southwest Iowa Rural Electric Cooperative's internal control over financial reporting and compliance.

Report on Other Legal and Regulatory Requirements

In accordance with the Rural Utility Service's requirements set forth in 7 CFR Part 1773, we have also issued a report dated March 15, 2021, on our consideration of Southwest Iowa Rural Electric Cooperative's compliance with aspects of contractual agreements and regulatory requirements for electric borrowers. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing, and not directed primarily toward obtaining knowledge of noncompliance. That report is an integral part of procedures performed in accordance with Rural Utility Service's requirements in considering Southwest Iowa Rural Electric Cooperative's compliance with certain regulatory requirements.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP".

Sioux Falls, South Dakota
March 15, 2021

Southwest Iowa Rural Electric Cooperative

Balance Sheets

December 31, 2020 and 2019

	2020	2019
Assets		
Electric Plant		
In service	\$ 47,772,315	\$ 45,762,636
Under construction	675,758	1,283,525
Total electric plant	48,448,073	47,046,161
Less accumulated depreciation	(16,288,561)	(15,589,961)
Electric plant - net	32,159,512	31,456,200
Other Assets and Investments		
Investments in associated companies	3,460,255	3,301,165
Restricted investments	897,294	324,760
Total other assets and investments	4,357,549	3,625,925
Current Assets		
Cash and cash equivalents	877,104	118,142
Restricted cash	377,957	925,712
Accounts receivable, net of allowance for uncollectible accounts	1,281,598	1,317,285
Materials and supplies	416,008	464,725
Accrued interest receivable	6,557	6,645
Other current assets	62,426	57,177
Total current assets	3,021,650	2,889,686
Deferred Debits	41,288	22,236
Total assets	\$ 39,579,999	\$ 37,994,047
Equities and Liabilities		
Equities		
Patronage capital	\$ 7,706,384	\$ 7,396,141
Other equities	9,841,220	9,353,955
Total equities	17,547,604	16,750,096
Long-Term Debt, Less Current Maturities	18,935,270	17,733,453
Current Liabilities		
Current maturities of long-term debt	789,000	780,000
Paycheck Protection Program note payable	524,793	-
Line of credit	-	940,000
Accounts payable	776,702	771,074
Customer deposits	72,266	64,781
Other current and accrued liabilities	805,873	817,517
Total current liabilities	2,968,634	3,373,372
Deferred Credits	128,491	137,126
Total equities and liabilities	\$ 39,579,999	\$ 37,994,047

Southwest Iowa Rural Electric Cooperative

Statements of Operations

Years Ended December 31, 2020 and 2019

	2020	2019
Operating Revenues	\$ 11,971,402	\$ 12,401,689
Operating Expenses		
Cost of power	6,327,578	6,714,490
Distribution - operations	809,793	827,712
Distribution - maintenance	1,180,154	1,031,494
Customer accounts	520,478	526,634
Administrative and general	802,229	885,131
Depreciation	1,265,420	1,336,329
Taxes	11,762	12,137
Interest on long-term debt	798,784	828,641
Other	5,093	10,476
Total operating expenses	11,721,291	12,173,044
Operating Margin Before Capital Credits	250,111	228,645
Generation and Transmission and Other Cooperative Capital Credits	680,209	627,061
Net Operating Margin	930,320	855,706
Nonoperating Margin		
Interest and dividend income	173,576	213,219
Other nonoperating margins, net	26,766	27,660
Total nonoperating margin	200,342	240,879
Net Margin	\$ 1,130,662	\$ 1,096,585

Southwest Iowa Rural Electric Cooperative

Statements of Equities

Years Ended December 31, 2020 and 2019

	Patronage Capital Assigned	Current Year Margins	Patronage Capital	Other Equities	Total Equities
Balance - January 1, 2019	\$ 5,990,163	\$ 821,473	\$ 6,811,636	\$ 9,184,106	\$15,995,742
Assigned 2018 margins	656,542	(821,473)	(164,931)	164,931	-
Retirement of capital credits	(347,149)	-	(347,149)	4,918	(342,231)
2019 margins	-	1,096,585	1,096,585	-	1,096,585
Balance - December 31, 2019	6,299,556	1,096,585	7,396,141	9,353,955	16,750,096
Assigned 2019 margins	621,845	(1,096,585)	(474,740)	474,740	-
Retirement of capital credits	(345,679)	-	(345,679)	12,525	(333,154)
2020 margins	-	1,130,662	1,130,662	-	1,130,662
Balance - December 31, 2020	<u>\$ 6,575,722</u>	<u>\$ 1,130,662</u>	<u>\$ 7,706,384</u>	<u>\$ 9,841,220</u>	<u>\$17,547,604</u>

Southwest Iowa Rural Electric Cooperative

Statements of Cash Flows

Years Ended December 31, 2020 and 2019

	2020	2019
Operating Activities		
Net margin	\$ 1,130,662	\$ 1,096,585
Adjustments to reconcile net margins to net cash from operating activities		
Depreciation	1,445,104	1,511,717
Interest income credited to cushion of credit	(127,633)	(166,411)
Interest expense paid by cushion of credit	216,211	188,357
Generation and transmission and other cooperative capital credits		
Noncash allocations received	(680,209)	(627,061)
Cash retirements received	505,940	500,674
Adjustments to allowance for notes receivable	(12,380)	(12,468)
Change in assets and liabilities		
Accounts receivable	35,687	22,905
Other current assets	(5,249)	8,442
Deferred debits	(19,052)	14,778
Accounts payable	5,628	(122,698)
Customer deposits	7,485	(4,716)
Other current and accrued liabilities	(11,644)	(4,615)
Deferred credits	(8,635)	(71,892)
Net Cash from Operating Activities	2,481,915	2,333,597
Investing Activities		
Electric plant additions, net	(2,016,523)	(2,941,566)
Cost of removal, net of salvage	(131,893)	(161,602)
Advance on funds of economic development notes receivable	(600,000)	(265,000)
Repayments of economic development notes receivable	39,934	78,430
Cash received from other investments	15,179	2,152
Change in materials and supplies	48,717	84,347
Net Cash used for Investing Activities	(2,644,586)	(3,203,239)
Financing Activities		
Advances on long-term debt	1,800,000	1,800,000
Principal payments on long-term debt	(677,761)	(815,781)
Net change in line of credit	(940,000)	40,000
Proceeds from Paycheck Protection Program note payable	524,793	-
Patronage capital retirements	(345,679)	(347,149)
Change in other equities, net	12,525	4,918
Net Cash from Financing Activities	373,878	681,988

Southwest Iowa Rural Electric Cooperative

Statements of Cash Flows

Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Net Change in Cash, Cash Equivalents, and Restricted Cash	\$ 211,207	\$ (187,654)
Cash, Cash Equivalents, and Restricted Cash, Beginning of Year	<u>1,043,854</u>	<u>1,231,508</u>
Cash, Cash Equivalents, and Restricted Cash, End of Year	<u>\$ 1,255,061</u>	<u>\$ 1,043,854</u>
Cash and Cash Equivalents	\$ 877,104	\$ 118,142
Restricted Cash	<u>377,957</u>	<u>925,712</u>
Total Cash, Cash Equivalents, and Restricted Cash	<u>\$ 1,255,061</u>	<u>\$ 1,043,854</u>
Supplemental Disclosures of Cash Flow Information		
Cash payments for interest on long-term debt	\$ 798,784	\$ 828,641
Non-Cash Financing Activities		
Principal payments on long-term debt paid by cushion of credit	\$ 1,842,708	\$ 131,788

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

Southwest Iowa Rural Electric Cooperative (the Cooperative) is a rural electric cooperative which provides electric energy to consumers in rural areas of southwest Iowa. The Cooperative is subject to the accounting and reporting rules and regulations of Rural Utilities Service (RUS). The Cooperative follows the Federal Energy Regulatory Commission's Uniform System of Accounts prescribed for Class A and B Electric Utilities as modified by RUS.

Rates charged to customers are established by the Board of Directors and are subject to review of RUS.

Electric Plant and Retirements

Electric plant is stated at cost. The cost of additions to electric plant includes contracted work, direct labor and materials, and allocable overheads. When units of property are retired, sold or otherwise disposed of in the ordinary course of business, their average book cost less net salvage is charged to accumulated depreciation. Repairs and the replacement and renewal of items determined to be less than units of property are charged to maintenance expense.

Recoverability of Long-Lived Assets

The Cooperative reviews its long-lived assets whenever events or changes in circumstances indicate the carrying value of the assets may not be recoverable. If a review indicates that the carrying value of such asset is not recoverable as determined based on projected undiscounted cash flows related to the asset over its remaining life, the Cooperative would determine whether an impairment loss should be recognized. No impairment losses have been identified in the financial statements.

Depreciation

Depreciation of distribution plant is computed on a straight-line composite method based upon the estimated useful lives of the various classes of property. Depreciation of general plant is calculated by unit using the straight-line method over the estimated service lives of the assets.

Investments

The Cooperative has investments in associated companies and other investments which are accounted for as equity securities. The Cooperative has determined that these investments do not have a readily determinable fair value. Investments in associated companies are recorded at the Cooperative's share of allocated patronage capital and the other investments are recorded at cost. These investments are assessed for impairment, if any, and adjusted for changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. The Cooperative has not identified any impairments and there has not been observable price changes during the years ended December 31, 2020 and 2019.

Restricted Investments

The Cooperative received funds through the United States Department of Agriculture (USDA) Rural Economic Development Loan & Grant Program to provide low-interest loans to businesses within the Cooperative's service territory. The Cooperative records notes receivables related to the loan agreements with the businesses. The Cooperative also has cash and cash equivalents that are held and provided to businesses through the program on a revolving basis. The Cooperative classifies all assets related to the program as restricted investments within the balance sheets.

The allowance for uncollectible notes is evaluated on a regular basis by management. Management reviews delinquent loans to evaluate the adequacy of the valuation allowance. Management considers known and inherent risks in the loan portfolio, adverse situations that may affect the borrower's ability to repay, and current economic conditions in arriving at an allowance for unknown and inherent losses. Management arrives at an estimate it believes will not be collected on these loans and evaluates the allowance account to the total estimated loss on delinquent loans. While management uses available information to recognize losses on loans, further reductions in the carrying amount of the loans may be necessary. The allowance for losses was \$12,465 and \$24,933 at December 31, 2020 and 2019, respectively.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Cooperative considers all cash deposits and investments with an original maturity of three months or less to be cash equivalents.

Receivables and Credit Policies

The Cooperative's revenue contracts provide it with the unconditional right to consideration upon delivery of electricity to its customers; therefore, a receivable is recognized in the period the Cooperative provides energy to its customers. The unconditional right to consideration is represented by contract receivables which are presented on the balance sheet as accounts receivable.

Receivables are uncollateralized customer obligations due under terms established by the Board of Directors. Past due balances are subject to disconnection of service. The Cooperative requires deposits from all new customers and are refunded after one year of service. The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. Management reviews all electric service accounts receivable balances that exceed 30 days from invoice date and reviews all other receivables exceeding 60 days. Based on an assessment of current creditworthiness, management then estimate the portion, if any, of the balance that will not be collected. Allowance for uncollectible accounts was \$27,929 and \$38,394 as of December 31, 2020 and 2019, respectively.

Southwest Iowa Rural Electric Cooperative

Notes to Financial Statements
December 31, 2020 and 2019

The beginning and ending balances for accounts receivable, net of allowances for doubtful accounts, was as follows for the years ended December 31, 2020 and 2019:

	December 31, 2020	December 31, 2019	January 1, 2019
Billed	\$ 1,281,598	\$ 1,317,285	\$ 1,340,190
Customer deposits - contract liability	\$ 72,266	\$ 64,781	\$ 69,497
Customer prepayments - contract liability	\$ 54,736	\$ 59,844	\$ 49,718

The Cooperative receives deposits and prepayments from customers during the course of providing electric services. Customer prepayments are recognized as a contract liability included in deferred credits on the balance sheets.

Material and Supplies

Material and supplies are stated at the lower of average cost or market, except for inventory held for resale which is stated at the lower of actual cost or net realizable value.

Patronage Capital

The Cooperative operates on a nonprofit basis. Net margins resulting from the furnishing of electric energy in excess of operating costs and expenses, along with other amounts received by the Cooperative in its operations, are assigned to patrons on a patronage basis, to the extent that such margins are not used to fund certain reserves as required by the Cooperative's Articles of Incorporation and as allowed by Iowa state law.

Revenue Recognition

The Cooperative accounts for customer revenues under Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers*.

Electric Revenue

The Cooperative's performance obligation related to the sale of energy is satisfied as energy is delivered to customers; therefore, revenue from the delivery of energy is recognized over time as energy is delivered to the customers. The Cooperative recognizes revenue in the amount to which it has a right to invoice. The Cooperative reads customer meters at the end of each month; accordingly, revenue is recorded through the end of each accounting period.

Merchandising Revenue

The Cooperative's performance obligation related to merchandising and electrical services are satisfied at the point in time when projects have been completed; therefore, revenue is recorded upon the completion of the service.

Southwest Iowa Rural Electric Cooperative

Notes to Financial Statements
December 31, 2020 and 2019

Other Revenue

The Cooperative's other revenues include revenue accounted for under accounting guidance separate from ASC 606. Other revenues primarily include lease revenues and late payment charges on receivables.

The following table depicts revenues by timing of revenue recognition and type of revenue for the years ended December 31, 2020 and 2019, respectively:

	<u>2020</u>	<u>2019</u>
Electric revenues (transferred over time)	\$ 11,945,003	\$ 12,364,270
Merchandising revenues (transferred at a point in time)	<u>165,806</u>	<u>142,102</u>
Revenue from contracts with customers	<u>12,110,809</u>	<u>12,506,372</u>
Other revenues	<u>26,399</u>	<u>37,419</u>
Total revenues	<u><u>\$ 12,137,208</u></u>	<u><u>\$ 12,543,791</u></u>

Power Costs

The monthly billings from the wholesale power supplier reflect usage through the end of the year.

Pension Costs

The policy is to fund normal pension costs as accrued.

Income Taxes

The Cooperative is exempt from income taxes under Section 501(c)(12) of the Internal Revenue Code. The Cooperative does pay income tax on its unrelated business income on Federal Form 990T.

The Cooperative evaluates its tax positions that have been taken or are expected to be taken on income tax returns to determine if an accrual is necessary for uncertain tax positions. As of December 31, 2020 and 2019, the unrecognized tax benefits accrual was zero. The Cooperative will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred.

Accounting Estimates

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

Business Credit Risk

The Cooperative provides electrical service on account to its members which include residential, farm, business, and industrial consumers located in southwest Iowa.

The Cooperative maintains cash and investments in deposit accounts at financial institutions approved by the Board of Directors and insured by Federal Deposit Insurance Corporation. Accumulated deposits at these financial institutions, at times, may exceed federally insured limits.

Regulation

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

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

Sales Taxes

The Cooperative has customers in Iowa and its municipalities in which those governmental units impose a sales tax on certain sales. The Cooperative collects those sales taxes from its customers and remits the entire amount to the various governmental units. The Cooperative's accounting policy is to exclude the tax collected and remitted from revenue and cost of revenue.

Subsequent Events

The Cooperative has evaluated subsequent events through March 15, 2021, the date which the financial statements were available to be issued.

Note 2 - Electric Plant and Depreciation

	2020		2019	
	Plant	Depreciation Rates	Plant	Depreciation Rates
Distribution plant	\$ 42,793,665	2.0 - 25.0%	\$ 40,915,018	2.0 - 25.0%
General plant	4,948,135	3.0 - 25.0%	4,817,103	3.0 - 25.0%
Intangible plant	30,515	20.0%	30,515	20.0%
Electric plant in service	<u>47,772,315</u>		<u>45,762,636</u>	
Construction work in progress	<u>675,758</u>		<u>1,283,525</u>	
Total electric plant	<u>\$ 48,448,073</u>		<u>\$ 47,046,161</u>	

Depreciation for the years ended December 31, 2020 and 2019 consisted of the following:

	2020	2019
Charged to depreciation expense	\$ 1,265,420	\$ 1,336,329
Charged to transportation clearing	<u>179,684</u>	<u>175,388</u>
Total depreciation expense and clearing	<u>\$ 1,445,104</u>	<u>\$ 1,511,717</u>

Southwest Iowa Rural Electric Cooperative

Notes to Financial Statements

December 31, 2020 and 2019

Note 3 - Investments in Associated Companies

	2020	2019
Central Iowa Power Cooperative		
Patronage capital credits	\$ 2,206,356	\$ 2,074,064
National Rural Utilities Cooperative Finance Corporation		
Capital term certificates		
Subscription capital term certificates (5% interest, mature 2070-2080)	480,309	480,309
Loan term capital certificates (3% interest, mature 2025-2030)	69,200	80,050
Zero term capital certificates (0% interest, mature 2025)	1,137	5,466
Patronage capital credits	162,295	161,097
	712,941	726,922
Federated Rural Electric Insurance Corporation		
Patronage capital credits	133,597	127,550
National Information Solutions Cooperative		
Patronage capital credits	89,476	88,360
CoBank		
Patronage capital credits	246,849	212,457
Other Associated Organizations		
Patronage capital credits	65,266	66,042
Membership fees	5,770	5,770
	71,036	71,812
Total investments in associated companies	\$ 3,460,255	\$ 3,301,165

Southwest Iowa Rural Electric Cooperative

Notes to Financial Statements

December 31, 2020 and 2019

Note 4 - Restricted Investments – Economic Development

	2020	2019
Rural economic development notes receivable		
City of Stanton - 5% interest through 2036	\$ 62,330	\$ 64,922
Friends of Stanton - 2% interest through 2021	11,361	22,500
Corning Hotel - 1% interest through 2030	600,000	-
Forward with Faith - 3% interest through 2029	197,958	220,000
Stanton Area Industrial Foundation - 2% interest through 2029	38,110	42,272
	909,759	349,694
Less allowance for uncollectible notes	(12,465)	(24,934)
 Total restricted investments - economic development	 \$ 897,294	 \$ 324,760

Note 5 - Cash and Cash Equivalents

	2020	2019
Cash in checking and on hand	\$ 50,240	\$ 45,421
CFC short term investment fund	700,507	-
Savings account	126,357	72,721
	\$ 877,104	\$ 118,142
 Total cash and cash equivalents	 \$ 877,104	 \$ 118,142

Note 6 - Deferred Debits

	2020	2019
Preliminary survey and investigation charges	\$ 37,722	\$ 14,638
Other	3,566	7,598
	\$ 41,288	\$ 22,236
 Total deferred debits	 \$ 41,288	 \$ 22,236

Southwest Iowa Rural Electric Cooperative

Notes to Financial Statements

December 31, 2020 and 2019

Note 7 - Patronage Capital

	2020	2019
Assignable	\$ 1,130,662	\$ 1,096,585
Assigned to date	15,799,214	15,177,369
Total	16,929,876	16,273,954
Retired to date	9,223,492	8,877,813
 Total patronage capital	 \$ 7,706,384	 \$ 7,396,141

The mortgage provisions restrict the retirement of patronage capital unless, after retirement, the capital of the Cooperative equals at least 30% of the total assets of the Cooperative, provided however, that retirements can be made if such distributions do not exceed 25% of the preceding year's margins. No distribution can be made if there is unpaid, when due, any installments of principal or interest on the notes.

Note 8 - Other Equities

	2020	2019
Reserve for Contingent Losses	\$ 4,116,538	\$ 3,942,567
Statutory Surplus	5,615,821	5,315,051
Unclaimed Patronage Capital	75,307	71,418
Donated capital - other	33,554	24,919
 Total other equities	 \$ 9,841,220	 \$ 9,353,955

The Cooperative's Articles of Incorporation require, as allowed by Iowa statute, that at least 10% of the remaining earnings (after the reserve for contingent losses and expenses) be added to the "statutory surplus" until the reserve equals at least 30%, but not more than 50%, of the total memberships, unretired patronage capital, earnings from nonmember business and allocations of patronage from other cooperatives. Additions of \$300,770 and \$-0- were made to this reserve in 2020 and 2019, respectively.

The Cooperative's Articles of Incorporation require, as allowed by Iowa statute that a reasonable portion of current earnings be set aside in a reserve for depreciation, obsolescence, bad debts or contingent losses or expenses. Additions of the prior year's margins made to this reserve was \$173,971 and \$164,931 in 2020 and 2019, respectively. At December 31, 2020, the reserve was approximately 8% of gross utility plant.

Note 9 - Long-Term Debt

	<u>2020</u>	<u>2019</u>
Federal Financing Bank (FFB) mortgage notes 1.08% - 2.781% fixed notes due in monthly installments through 2052	\$ 7,336,568	\$ 7,379,275
Advance payments on long-term debt	<u>(1,296,929)</u>	<u>(3,228,215)</u>
	<u>6,039,639</u>	<u>4,151,060</u>
National Rural Utilities Cooperative Financing Corporations (CFC) 1.88% - 4.85% fixed rate mortgage notes due in quarterly installments through 2040	2,924,058	3,038,595
Variable rate (1.88% at December 31, 2020) mortgage note due in quarterly installments through 2028	42,926	52,398
	<u>2,966,984</u>	<u>3,090,993</u>
CoBank mortgage notes 2.96% - 4.51% fixed rate notes due in monthly installments through 2044	9,851,855	10,405,608
USDA Rural Economic Development Grant	865,792	865,792
Total long-term debt	19,724,270	18,513,453
Less current maturities	<u>(789,000)</u>	<u>(780,000)</u>
Total long-term debt, less current maturities	<u>\$ 18,935,270</u>	<u>\$ 17,733,453</u>

Substantially all assets are pledged as security on the mortgage notes. The FFB and CFC notes generally mature 35 years from the date of issuance. The CoBank notes will mature over 10-29 years.

The Cooperative's debt agreements contain various restrictive covenants including a requirement that the Cooperative maintain a defined margins for interest ratio. Management believes the Cooperative was in compliance with all restrictive covenants as of December 31, 2020.

All loan funds advanced by FFB are deposited in a special trust bank account, the disbursements from which are restricted by the provisions of the loan agreement to purposes approved by RUS. The Cooperative had unadvanced loan funds of \$2,500,000 from FFB and \$1,800,000 from CFC at December 31, 2020. Subsequent to December 31, 2020, the Cooperative received an advance of \$600,000 on the unadvanced loans available from FFB.

The Cooperative has received \$865,792 under the Rural Economic Development Loan and Grant Program. These are non-interest bearing loans used to establish a fund to finance approved rural economic development projects. The original loans made from the fund are zero percent interest and loans made from the repayment of the original loans can bear interest up to the prevailing prime rate. At termination of the loan program, the balance is due back to the government.

Estimated principal repayments on the above debt for the next five years will be as follows:

2021	\$	789,000
2022		893,000
2023		933,000
2024		974,000
2025		955,000

Note 10 - Line-of-Credit

An unsecured, perpetual line-of-credit has been executed with the National Rural Utilities Cooperative Finance Corporation providing the Cooperative with short-term loans in the total amount of \$2,500,000 on a revolving basis. Interest on unpaid principal is payable quarterly at rates established by the CFC, which are not to exceed the lowest prime rate as published in the "Money Rates" column of the "Wall Street Journal" plus 1% per annum or such lesser total rate per annum as may be fixed by CFC, 2.45% as of December 31, 2020. There was \$0- and \$940,000 outstanding on the above line-of-credit at December 31, 2020 and 2019, respectively.

The Cooperative has also established an unsecured revolving line-of-credit with CoBank ACB. The line-of-credit agreement matures on September 30, 2021 and provides short-term loans in an amount not to exceed \$2,500,000. There were no outstanding advances on this line-of-credit at December 31, 2020 and 2019, respectively. The weekly quoted variable rate was 2.45% at December 31, 2020.

Note 11 - Paycheck Protection Program Note Payable

The Cooperative was granted a \$524,793 loan under the PPP administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. The Cooperative is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The Cooperative has recorded a note payable and will record the forgiveness upon being legally released from the loan obligation by the SBA. No forgiveness income has been recorded for the year ended December 31, 2020. The Cooperative is required to repay any remaining balance, plus interest accrued at 1 percent in monthly payments commencing on December 10, 2020, principal and interest will be required through the maturity date of May 4, 2022. As long as an application for forgiveness is submitted within the 10-month timeframe after the loan forgiveness covered period ends, all payments of principal and interest will be deferred until the SBA makes a decision on the forgiveness application. On February 5, 2021, the Cooperative received notification from the SBA that the loan was forgiven.

Note 12 - Deferred Credits

	2020	2019
Consumer advances for construction	\$ 33,595	\$ 34,919
Consumer prepayments	54,736	59,844
Operation roundup	37,355	39,424
Other deferred credits	2,805	2,939
	<u>\$ 128,491</u>	<u>\$ 137,126</u>

Note 13 - Pension and Retirement Plans**Pension Plan**

Substantially all employees of the Cooperative participate in the Hawkeye Pension Plan (the Plan), a defined benefit pension plan intended to be qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. The Plan is a multiemployer plan under accounting standards. The plan sponsor's Employer Identification Number is 42-1438152 and the Plan Number is 001.

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 Plan in 2020 and in 2019 represented less than 5 percent of the total contributions made to the plan by all participating employers. The Cooperative made contributions to the plan of approximately \$332,000 and \$357,000 in 2020 and 2019, respectively. During 2019, the Cooperative was required to make a deficit reduction contribution in addition to their standard contribution.

In the 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 Plan was over 80 percent funded at June 30, 2020 and June 30, 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 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.

Retirement Plan

The Cooperative is a participant in the NRECA 401(k) Pension Plan. The plan is a defined contribution plan qualified under Section 401(k) of the Internal Revenue Code. Participants are not required to make contributions but may elect to contribute a percentage of their salary, subject to IRS maximum limitations. The Cooperative makes a contribution in an amount as determined by the Board of Directors. The Cooperative made contributions of approximately \$58,000 and \$56,000 for the years ended December 31, 2020 and 2019, respectively.

Note 14 - Commitments**Wholesale Power Agreement**

The Cooperative is committed under a long-term wholesale power agreement whereby it is to purchase its electric power and energy requirements from Central Iowa Power Cooperative until December 31, 2045. The rates paid are subject to periodic review.

Note 15 - Related Party Transactions

The Cooperative is a member of and purchases its wholesale power from Central Iowa Power Cooperative. Following is a summary of material transactions with Central Iowa Power Cooperative, for the years ended December 31, 2020 and 2019.

	<u>2020</u>	<u>2019</u>
Purchase of wholesale power	\$ 6,325,931	\$ 6,712,803
Accounts payable for purchased power at December 31	\$ 583,795	\$ 572,459
Accumulated unretired patronage capital credit allocations	\$ 2,206,356	\$ 2,074,064
Capital credit allocations received (current year)	\$ 536,397	\$ 484,887
Capital credit retirements received (current year)	\$ 404,105	\$ 401,208



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

The Board of Directors
Southwest Iowa Rural Electric Cooperative
Corning, Iowa

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 Southwest Iowa Rural Electric Cooperative, which comprise the balance sheets as of December 31, 2020, and the related statements of operations, equities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 15, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Southwest Iowa Rural Electric Cooperative’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Southwest Iowa Rural Electric Cooperative’s internal control. Accordingly, we 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.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify a certain deficiency in internal control, described in the accompanying schedule of audit findings (2020-A) that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Southwest Iowa Rural Electric Cooperative'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 financial statements. 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*.

We noted certain matters that we reported to management of Southwest Iowa Rural Electric Cooperative in a separate letter dated March 15, 2021.

Southwest Iowa Rural Electric Cooperative's Response to Findings

Southwest Iowa Rural Electric Cooperative's response to the findings identified in our audit is described in the accompanying schedule of audit findings. Southwest Iowa Rural Electric Cooperative's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

The image shows a handwritten signature in cursive script that reads "Eide Sully LLP".

Sioux Falls, South Dakota
March 15, 2021

Finding 2020-A – Preparation of Full Disclosure Financial Statements

Criteria: Proper controls over financial reporting include the ability to prepare financial statements with accompanying notes to the financial statements that are materially correct and include all required disclosures.

Condition: The Cooperative does not have an internal control system designed to provide for the preparation of the full disclosure financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

Cause: The Cooperative has limited staff. They cannot justify incurring the costs necessary for preparing the financial statements with accompanying notes to the financial statements.

Effect: Inadequate controls over financial reporting of the Cooperative could result in the likelihood that the Cooperative would not be able to draft the financial statements with accompanying notes to the financial statements without the assistance of the auditors.

Recommendation: While we recognize that this condition is not unusual for an organization of your size, it is important that you be aware of this condition for financial reporting purposes.

Management's Response: Since it is not cost effective for an organization of our size to prepare audit ready financial statements, we have chosen to hire Eide Bailly, a public accounting firm, to prepare our full disclosure financial statements as part of the annual audit. We have designated a member of management to review the propriety of the draft financial statements and accompanying notes to the financial statements.



Independent Auditors' Report on Compliance with Aspects of Contractual Agreements and Regulatory Requirements

The Board of Directors
Southwest Iowa Rural Electric Cooperative
Corning, Iowa

We have audited, 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, the financial statements of Southwest Iowa Rural Electric Cooperative (Cooperative), which comprise the balance sheet as of December 31, 2020, and the related statements of operations, equities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 15, 2021. In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2021, on our consideration of the Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above and our schedule of findings 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 the Cooperative failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers*, §1773.33 and clarified in the RUS policy memorandum dated February 7, 2014, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Cooperative's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, we noted no matters regarding the Cooperative's accounting and records to indicate that the Cooperative did not:

- Maintain adequate and effective accounting procedures;
- 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), except the Cooperative has adopted accelerated depreciation rates on advanced metering infrastructure; and
- Comply with the requirements for the detailed schedule of deferred debits and deferred credits.

Detailed Schedule of Deferred Debits and Deferred Credits

	<u>2020</u>	<u>2019</u>
Deferred debits		
Preliminary survey and investigation charges	\$ 37,722	\$ 14,638
Other	<u>3,566</u>	<u>7,598</u>
Total deferred debits	<u>\$ 41,288</u>	<u>\$ 22,236</u>
Deferred credits		
Consumer advances for construction	\$ 33,595	\$ 34,919
Consumer prepayments	54,736	59,844
Operation roundup	37,355	39,424
Other deferred credits	<u>2,805</u>	<u>2,939</u>
Total deferred credits	<u>\$ 128,491</u>	<u>\$ 137,126</u>

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

Eide Bailly LLP

Sioux Falls, South Dakota
March 15, 2021