



Financial Statements  
December 31, 2019 and 2018

# Southwest Iowa Rural Electric Cooperative

Southwest Iowa Rural Electric Cooperative

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December 31, 2019 and 2018

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Southwest Iowa Rural Electric Cooperative  
Directors, Officers, and Management  
December 31, 2019

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<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, 2019 and 2018, 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, 2019 and 2018, 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.

## **Emphasis of Matter – Change in Accounting Principle**

As discussed in Note 15 the financial statements, the Cooperative has adopted the provisions of Financial Accounting Standards Board Accounting Standards Update No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. Accordingly, the December 31, 2018 statement of cash flows has been adjusted to adopt this standard. Our opinion is not modified with respect to this matter.

## **Report Issued in Accordance with Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2020, 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 23, 2020, 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.



Sioux Falls, South Dakota  
March 23, 2020

# Southwest Iowa Rural Electric Cooperative

Balance Sheets

December 31, 2019 and 2018

	2019	2018
Assets		
Electric Plant		
In service	\$ 45,762,636	\$ 45,101,131
Under construction	1,283,525	1,282,021
Total electric plant	47,046,161	46,383,152
Less accumulated depreciation	(15,589,961)	(16,518,403)
Electric plant - net	31,456,200	29,864,749
Other Assets and Investments		
Investments in associated companies	3,301,165	3,176,930
Restricted investments	324,760	125,722
Total other assets and investments	3,625,925	3,302,652
Current Assets		
Cash and cash equivalents	118,142	132,779
Restricted cash	925,712	1,098,729
Accounts receivable, net of allowance for uncollectible accounts	1,317,285	1,340,190
Materials and supplies	464,725	549,072
Accrued interest receivable	6,645	6,645
Other current assets	57,177	65,619
Total current assets	2,889,686	3,193,034
Deferred Debits	22,236	37,014
Total assets	\$ 37,994,047	\$ 36,397,449

# Southwest Iowa Rural Electric Cooperative

Balance Sheets

December 31, 2019 and 2018

	2019	2018
Equities and Liabilities		
Equities		
Patronage capital	\$ 7,396,141	\$ 6,811,636
Other equities	9,353,955	9,184,106
Total equities	16,750,096	15,995,742
Long-Term Debt, Less Current Maturities	17,733,453	16,630,288
Current Liabilities		
Current maturities of long-term debt	780,000	877,000
Line of credit	940,000	900,000
Accounts payable	771,074	893,772
Customer deposits	64,781	69,497
Other current and accrued liabilities	817,517	822,132
Total current liabilities	3,373,372	3,562,401
Deferred Credits	137,126	209,018
Total equities and liabilities	\$ 37,994,047	\$ 36,397,449

# Southwest Iowa Rural Electric Cooperative

## Statements of Operations

Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating Revenues	\$ 12,401,689	\$ 12,538,633
Operating Expenses		
Cost of power	6,714,490	6,876,592
Distribution - operations	827,712	781,573
Distribution - maintenance	1,031,494	1,059,464
Customer accounts	526,634	542,054
Administrative and general	885,131	848,470
Depreciation	1,336,329	1,659,730
Taxes	12,137	12,270
Interest on long-term debt	828,641	819,831
Other	10,476	13,244
Total operating expenses	<u>12,173,044</u>	<u>12,613,228</u>
Operating Margin (Loss) Before Capital Credits	228,645	(74,595)
Generation and Transmission and Other Cooperative Capital Credits	<u>627,061</u>	<u>622,038</u>
Net Operating Margin	<u>855,706</u>	<u>547,443</u>
Nonoperating Margin		
Interest and dividend income	213,219	212,793
Other nonoperating margins, net	27,660	61,237
Total nonoperating margin	<u>240,879</u>	<u>274,030</u>
Net Margin	<u>\$ 1,096,585</u>	<u>\$ 821,473</u>

## Southwest Iowa Rural Electric Cooperative

### Statements of Equities

Years Ended December 31, 2019 and 2018

	Patronage Capital Assigned	Current Year Margins	Patronage Capital	Other Equities	Total Equities
Balance - January 1, 2018	\$ 5,616,628	\$ 1,256,805	\$ 6,873,433	\$ 8,617,468	\$ 15,490,901
Assigned 2017 margins	684,265	(1,256,805)	(572,540)	572,540	-
Retirement of capital credits	(310,730)	-	(310,730)	(5,902)	(316,632)
2018 margins	-	821,473	821,473	-	821,473
Balance - December 31, 2018	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	<u>\$ 6,299,556</u>	<u>\$ 1,096,585</u>	<u>\$ 7,396,141</u>	<u>\$ 9,353,955</u>	<u>\$ 16,750,096</u>

# Southwest Iowa Rural Electric Cooperative

## Statements of Cash Flows

Years Ended December 31, 2019 and 2018

	2019	2018 (Adjusted)
<b>Operating Activities</b>		
Net margin	\$ 1,096,585	\$ 821,473
Adjustments to reconcile net margins to net cash from operating activities		
Depreciation	1,511,717	1,803,845
Interest income credited to cushion of credit	(166,411)	(172,636)
Interest expense paid by cushion of credit	188,357	156,125
Generation and transmission and other cooperative capital credits:		
Noncash allocations received	(627,061)	(622,038)
Cash retirements received	502,826	566,535
Change in assets and liabilities		
Accounts receivable	22,905	54,886
Other current assets	8,442	11,769
Deferred debits	14,778	11,399
Accounts payable	(122,698)	51,584
Customer deposits	(4,716)	4,742
Other current and accrued liabilities	(4,615)	51,373
Deferred credits	(71,892)	27,832
<b>Net Cash from Operating Activities</b>	<b>2,348,217</b>	<b>2,766,889</b>
<b>Investing Activities</b>		
Electric plant additions, net	(2,941,566)	(2,628,207)
Cost of removal, net of salvage	(161,602)	(141,605)
Increase in restricted investments - revolving loan funds	(12,468)	(12,466)
Advance on funds of economic development notes receivable	(265,000)	-
Repayments of economic development notes receivable	78,430	54,634
Change in materials and supplies	84,347	(20,781)
<b>Net Cash used for Investing Activities</b>	<b>(3,217,859)</b>	<b>(2,748,425)</b>
<b>Financing Activities</b>		
Advances on long-term debt	1,800,000	1,100,000
Principal payments on long-term debt	(837,726)	(767,420)
Decrease (increase) in advance payments on long-term debt	21,945	(16,511)
Net advances on line of credit	40,000	40,000
Patronage capital retirements	(347,149)	(310,730)
Change in other equities, net	4,918	(5,902)
<b>Net Cash from Financing Activities</b>	<b>681,988</b>	<b>39,437</b>
<b>Net Change in Cash, Cash Equivalents, and Restricted Cash</b>	<b>(187,654)</b>	<b>57,901</b>
<b>Cash, Cash Equivalents, and Restricted Cash, Beginning of Year</b>	<b>1,231,508</b>	<b>1,173,607</b>
<b>Cash, Cash Equivalents, and Restricted Cash, End of Year</b>	<b>\$ 1,043,854</b>	<b>\$ 1,231,508</b>
Cash and Cash Equivalents	\$ 118,142	\$ 132,779
Restricted Cash	925,712	1,098,729
<b>Total Cash, Cash Equivalents, and Restricted Cash</b>	<b>\$ 1,043,854</b>	<b>\$ 1,231,508</b>

# Southwest Iowa Rural Electric Cooperative

## Statements of Cash Flows

Years Ended December 31, 2019 and 2018

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	<u>2019</u>	<u>2018</u>
Supplemental Disclosures of Cash Flow Information		
Cash payments for interest on long-term debt	\$ 828,641	\$ 819,831
Non-Cash Financing Activities		
Principal payments on long-term debt paid by cushion of credit	\$ 131,788	\$ 120,606

**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, 2019 and 2018.

### **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 \$24,933 and \$37,402 at December 31, 2019 and 2018, 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 \$38,394 and \$53,905 as of December 31, 2019 and 2018, respectively.

# Southwest Iowa Rural Electric Cooperative

Notes to Financial Statements  
December 31, 2019 and 2018

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The beginning and ending balances for accounts receivable, net of allowances for doubtful accounts, was as follows for the years ended December 31, 2019 and 2018:

	December 31, 2019	December 31, 2018	January 1, 2018
Billed	\$ 1,317,285	\$ 1,340,190	\$ 1,395,076
Customer deposits - contract liability	\$ 64,781	\$ 69,497	\$ 64,755
Customer prepayments - contract liability	\$ 59,844	\$ 49,718	\$ 35,436

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, 2019 and 2018

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### 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, 2019 and 2018, respectively:

	<u>2019</u>	<u>2018</u>
Electric revenues (transferred over time)	\$ 12,364,270	\$ 12,501,026
Merchandising revenues (transferred at a point in time)	<u>142,102</u>	<u>173,901</u>
Revenue from contracts with customers	<u>12,506,372</u>	<u>12,674,927</u>
Other revenues	<u>37,419</u>	<u>37,607</u>
Total revenues	<u><u>\$ 12,543,791</u></u>	<u><u>\$ 12,712,534</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, 2019 and 2018, 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.

### **Change in Accounting Policies**

In 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09 (ASU 2014-09), *Revenues from Contracts with Customers* (Topic 606). The guidance provides a principles-based approach for determining revenue recognition and supersedes all prior guidance. The core principle of ASU 2014-09 is that an entity will recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (payment) to which the entity expects to be entitled in exchange for those goods or services. Additionally, the guidance ASU 2014-09 provides additional disclosures related to revenue.

The Cooperative elected to apply the new guidance on a modified retrospective basis on January 1, 2019. The Cooperative did not identify any significant differences in the timing or amount of revenues recorded. As such, implementation did not have a significant impact on the financial position, results of operations, or cash flows of the Cooperative and there was no cumulative adoption adjustment needed for the effect of the change in accounting principle.

As of January 1, 2019, the Cooperative adopted the provisions of Accounting Standards Update (ASU) 2016-18, *Statement of Cash Flows (Topic 230) Restricted Cash*. This update requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents, by including amounts generally described as restricted cash and restricted cash equivalents with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. Retrospective application of the amendment is required. The Cooperative has adopted this standard as management believes this presentation eliminates a diversity in practice in the presentation of restricted cash and restricted cash equivalents in the statement of cash flows.

Effective January 1, 2019, the Cooperative adopted FASB Accounting Standards Update No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which affects current U.S. GAAP primarily as it relates to the accounting for equity investments and the presentation and disclosure requirements for financial instruments. The standard had no material impact on the amounts recorded in the Cooperative's financial statements and eliminated certain fair value disclosures for financial instruments.

### 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 23, 2020, the date which the financial statements were available to be issued.

### Note 2 - Electric Plant and Depreciation

	2019		2018	
	Plant	Depreciation Rates	Plant	Depreciation Rates
Distribution plant	\$ 40,915,018	2.0 - 25.0%	\$ 40,414,670	2.0 - 25.0%
General plant	4,817,103	3.0 - 25.0%	4,655,946	3.0 - 25.0%
Intangible plant	30,515	20.0%	30,515	20.0%
Electric plant in service	45,762,636		45,101,131	
Construction work in progress	1,283,525		1,282,021	
Total electric plant	<u>\$ 47,046,161</u>		<u>\$ 46,383,152</u>	

Depreciation for the years ended December 31, 2019 and 2018 consisted of the following:

	2019	2018
Charged to depreciation expense	\$ 1,336,329	\$ 1,659,730
Charged to transportation clearing	175,388	144,115
Total depreciation expense and clearing	<u>\$ 1,511,717</u>	<u>\$ 1,803,845</u>

The Cooperative accelerated depreciation on certain metering assets during the year ended December 31, 2019, resulting in additional depreciation expense of approximately \$140,000.

Southwest Iowa Rural Electric Cooperative

Notes to Financial Statements

December 31, 2019 and 2018

**Note 3 - Investments in Associated Companies**

	2019	2018
Central Iowa Power Cooperative		
Patronage capital credits	\$ 2,074,064	\$ 1,990,385
National Rural Utilities Cooperative Finance Corporation		
Capital term certificates		
Subscription capital term certificates (5% interest, mature 2070-2080)	480,309	480,310
Loan term capital certificates (3% interest, mature 2020-2030)	80,050	80,050
Zero term capital certificates (0% interest, mature 2020-2025)	5,466	7,618
Patronage capital credits	161,097	163,396
	726,922	731,374
Federated Rural Electric Insurance Corporation		
Patronage capital credits	127,550	127,276
National Information Solutions Cooperative		
Patronage capital credits	88,360	84,992
CoBank		
Patronage capital credits	212,457	175,427
Other Associated Organizations		
Patronage capital credits	66,042	61,706
Membership Fees	5,770	5,770
	71,812	67,476
Total investments in associated companies	\$ 3,301,165	\$ 3,176,930

Southwest Iowa Rural Electric Cooperative

Notes to Financial Statements

December 31, 2019 and 2018

**Note 4 - Restricted Investments – Economic Development**

	2019	2018
Rural economic development notes receivable		
City of Stanton - 5% interest through 2036	\$ 64,922	\$ 67,379
Friends of Stanton - 2% interest through 2021	22,500	33,420
Hearts & Hugs Daycare - 1% interest repaid in 2019	-	35,488
Pursuit of Independence - 3% interest repaid in 2019	-	26,837
Forward with Faith - 3% interest through 2029	220,000	-
Stanton Area Industrial Foundation - 2% interest through 2029	42,272	-
	349,694	163,124
Less: allowance for uncollectible notes	(24,934)	(37,402)
 Total restricted investments - economic development	 \$ 324,760	 \$ 125,722

**Note 5 - Cash and Cash Equivalents**

	2019	2018
Cash in checking and on hand	\$ 45,421	\$ 45,359
Savings account	72,721	87,420
	\$ 118,142	\$ 132,779

**Note 6 - Deferred Debits**

	2019	2018
Preliminary survey and investigation charges	\$ 14,638	\$ 29,275
Other	7,598	7,739
	\$ 22,236	\$ 37,014

Southwest Iowa Rural Electric Cooperative

Notes to Financial Statements

December 31, 2019 and 2018

**Note 7 - Patronage Capital**

	2019	2018
Assignable	\$ 1,096,585	\$ 821,473
Assigned to date	15,156,769	14,500,227
Total	16,253,354	15,321,700
Retired to date	8,857,213	8,510,064
Total patronage capital	\$ 7,396,141	\$ 6,811,636

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**

	2019	2018
Reserve for Contingent Losses	\$ 3,942,567	\$ 3,777,636
Statutory Surplus	5,315,051	5,315,051
Unclaimed Patronage Capital	71,418	75,888
Donated capital - other	24,919	15,531
Total other equities	\$ 9,353,955	\$ 9,184,106

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 \$-0- and \$333,201 were made to this reserve in 2019 and 2018, 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 \$164,931 and \$239,339 in 2019 and 2018, respectively. At December 31, 2019, the reserve was approximately 8% of gross utility plant.

Southwest Iowa Rural Electric Cooperative

Notes to Financial Statements

December 31, 2019 and 2018

**Note 9 - Long - Term Debt**

	2019	2018
Federal Financing Bank (FFB) mortgage notes 1.95% - 3.47% fixed notes due in monthly installments through 2052	\$ 7,379,275	\$ 5,711,063
Advance payments on long-term debt	(3,228,215)	(3,381,948)
	4,151,060	2,329,115
National Rural Utilities Cooperative Financing Corporations (CFC) 3.35% - 4.85% fixed rate mortgage notes due in quarterly installments through 2040	3,038,595	3,214,259
Variable rate (3.25% at December 31, 2019) mortgage note due in quarterly installments through 2028	52,398	57,595
	3,090,993	3,271,854
CoBank mortgage notes 2.69% - 4.51% fixed rate notes due in monthly installments through 2044	10,405,608	11,040,527
USDA Rural Economic Development Grant	865,792	865,792
Total long-term debt	18,513,453	17,507,288
Less current maturities	(780,000)	(877,000)
Total long-term debt, less current maturities	\$ 17,733,453	\$ 16,630,288

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, 2019.

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 \$4,300,000 from FFB and \$1,800,000 from CFC at December 31, 2019.

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:

2020	\$	780,000
2021		853,000
2022		890,000
2023		931,000
2024		972,000

### 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, 3.25% as of December 31, 2019. There was \$940,000 and \$900,000 outstanding on the above line-of-credit at December 31, 2019 and 2018, respectively.

The Cooperative has also established an unsecured revolving line-of-credit with CoBank ACB. The line-of-credit agreement matures on May 31, 2020 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, 2019 and 2018, respectively. The weekly quoted variable rate was 3.89% at December 31, 2019.

### Note 11 - Deferred Credits

	2019	2018
Consumer advances for construction	\$ 34,919	\$ 122,421
Consumer prepayments	59,844	49,718
Operation roundup	39,424	32,924
Other deferred credits	2,939	3,955
	<u>          </u>	<u>          </u>
Total deferred credits	<u>\$ 137,126</u>	<u>\$ 209,018</u>

**Note 12 - 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 2019 and in 2018 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 \$357,000 and \$233,000 in 2019 and 2018, 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, 2019 and June 30, 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 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 \$56,000 for the years ended December 31, 2019 and 2018.

**Note 13 - 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 14 - 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, 2019 and 2018.

	2019	2018
Purchase of wholesale power	\$ 6,712,803	\$ 6,874,961
Accounts payable for purchased power at December 31	\$ 572,459	\$ 603,229
Accumulated unretired patronage capital credit allocations	\$ 2,074,064	\$ 1,990,385
Capital credit allocations received (current year)	\$ 484,887	\$ 430,944
Capital credit retirements received (current year)	\$ 401,208	\$ 419,334

**Note 15 - Restatement Resulting from Change in Accounting Principle**

As discussed in Note 1 to the financial statements, the Cooperative has adopted the provisions of Financial Accounting Standards Board Accounting Standards Update No. 2016-18, *Statement of Cash Flows (Topic 230) Restricted Cash*. Accordingly, the December 31, 2018 statement of cash flows has been restated to adopt this standard. Following is a summary of the effects of the change in accounting policy in the Cooperative's December 31, 2018 statement of cash flows.

	As Previously Reported	Adoption of ASU 2016-18	As Adjusted
Investing Activities			
Increase in restricted investments revolving loan funds	\$ (74,179)	\$ 61,713	\$ (12,466)
Net Change in Cash, Cash Equivalents, and Restricted Cash	(3,812)	61,713	57,901
Cash, Cash Equivalents, and Restricted Cash, Beginning of Year	136,591	1,037,016	1,173,607
Cash, Cash Equivalents, and Restricted Cash, End of Year	132,779	1,098,729	1,231,508



**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, 2019, 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 23, 2020.

**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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 (2019-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 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*.

We noted certain matters that we reported to management of Southwest Iowa Rural Electric Cooperative in a separate letter dated March 23, 2020.

## **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 black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Sioux Falls, South Dakota  
March 23, 2020

**Finding 2019-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, 2019, 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 23, 2020. In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2020, 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>2019</u>	<u>2018</u>
Deferred debits		
Preliminary survey and investigation charges	\$ 14,638	\$ 29,275
Other	<u>7,598</u>	<u>7,739</u>
Total deferred debits	<u>\$ 22,236</u>	<u>\$ 37,014</u>
Deferred credits		
Consumer advances for construction	\$ 34,919	\$ 122,421
Consumer prepayments	59,844	49,718
Operation roundup	39,424	32,924
Other deferred credits	<u>2,939</u>	<u>3,955</u>
Total deferred credits	<u>\$ 137,126</u>	<u>\$ 209,018</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 23, 2020