

**RIO GRANDE ELECTRIC COOPERATIVE, INC.**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEARS ENDED DECEMBER 31, 2019 AND 2018**

**RIO GRANDE ELECTRIC COOPERATIVE, INC.  
TABLE OF CONTENTS  
YEARS ENDED DECEMBER 31, 2019 AND 2018**

<b>DIRECTORS AND OFFICERS</b>	<b>1</b>
<b>INDEPENDENT AUDITORS' REPORT</b>	<b>2</b>
<b>FINANCIAL STATEMENTS</b>	
<b>BALANCE SHEETS</b>	<b>4</b>
<b>STATEMENTS OF OPERATIONS</b>	<b>5</b>
<b>STATEMENTS OF CHANGES IN PATRONAGE CAPITAL AND OTHER     EQUITIES</b>	<b>6</b>
<b>STATEMENTS OF CASH FLOWS</b>	<b>7</b>
<b>NOTES TO FINANCIAL STATEMENTS</b>	<b>8</b>
<b>SUPPLEMENTARY INFORMATION</b>	
<b>SCHEDULE OF ELECTRIC PLANT</b>	<b>24</b>
<b>SCHEDULE OF ELECTRIC PLANT ACCUMULATED DEPRECIATION</b>	<b>25</b>
<b>SCHEDULE OF PATRONAGE CAPITAL</b>	<b>26</b>
<b>INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i></b>	<b>27</b>
<b>INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH ASPECTS OF CONTRACTUAL AGREEMENTS AND REGULATORY REQUIREMENTS FOR ELECTRIC BORROWERS</b>	<b>29</b>
<b>INDEPENDENT AUDITORS' REPORT ON LOAN FUND EXPENDITURES</b>	<b>30</b>

**RIO GRANDE ELECTRIC COOPERATIVE, INC.  
DIRECTORS AND OFFICERS  
YEAR ENDED DECEMBER 31, 2019**

Billy Foster	President
Priscilla Parsons	Vice-President
Tim Edwards	Secretary
Rowdy Holmsley	Treasurer
Jamie Ballew	Director
Edward Walker	Director
Cody Whitehead	Director
Ellery Aufdengarten	Director
Warren Cude	Director
Sandi Archuleta	Director
Keith Richardson	Director
Margarita Nelson	Director
Jan Metcalf	Director
* * * * *	
Roger Andrade	Chief Executive Officer



## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Rio Grande Electric Cooperative, Inc.  
Brackettville, Texas

### **Report on Financial Statements**

We have audited the accompanying financial statements of Rio Grande Electric Cooperative, Inc. (the Cooperative), which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of operations, changes in patronage capital and other 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.

### ***Auditors' 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 auditors' 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 Cooperative'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 Cooperative'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 Rio Grande Electric Cooperative, Inc. as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Supplementary Information**

Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The schedule of electric plant, schedule of electric plant accumulated depreciation, and the schedule of patronage capital are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 14, 2020, on our consideration of Rio Grande Electric Cooperative, Inc.'s internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rio Grande Electric Cooperative, Inc.'s internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

San Antonio, Texas  
April 14, 2020

**RIO GRANDE ELECTRIC COOPERATIVE, INC.**  
**BALANCE SHEETS**  
**DECEMBER 31, 2019 AND 2018**

	2019	2018
<b>ASSETS</b>		
<b>UTILITY PLANT</b>		
Electric Plant in Service	\$ 180,719,871	\$ 174,259,610
Construction Work in Progress	3,769,065	3,681,509
Total	184,488,936	177,941,119
Less: Accumulated Provision for Depreciation	(72,121,756)	(68,696,490)
Net Utility Plant	112,367,180	109,244,629
<b>OTHER ASSETS AND INVESTMENTS</b>		
Investments in Associated Organizations	23,716,465	2,598,901
Notes Receivable, Net of Current Portion	2,217,194	2,253,639
Trading Securities	84,103	50,713
Total Other Assets and Investments	26,017,762	4,903,253
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	12,780,740	19,450,235
Accounts Receivable, Net	6,566,870	5,819,567
Accrued Utility Revenue	4,497,997	3,443,805
Current Portion of Notes Receivable	36,445	32,827
Materials and Supplies Inventory	2,930,781	3,156,875
Prepayments	993,355	938,056
Interest Receivable	224,040	33,404
Total Current Assets	28,030,228	32,874,769
<b>DEFERRED DEBITS</b>		
	1,672,768	2,124,331
Total Assets	\$ 168,087,938	\$ 149,146,982
<b>EQUITIES AND LIABILITIES</b>		
<b>EQUITIES</b>		
Memberships	\$ 33,460	\$ 32,820
Patronage Capital	76,061,018	70,069,348
Other Equities	1,711,688	1,671,307
Total Equities	77,806,166	71,773,475
<b>LONG-TERM DEBT, NET OF CURRENT MATURITIES</b>		
	40,848,613	33,436,347
<b>CURRENT LIABILITIES</b>		
Current Maturities of Long-Term Debt	1,931,526	1,963,518
Accounts Payable	3,601,289	2,566,360
Power Cost Adjustment Payable	223,837	117,291
Consumer Deposits	557,733	598,028
Accrued Interest Payable	81,065	91,819
Other Current and Accrued Liabilities	3,940,967	5,194,762
Total Current Liabilities	10,336,417	10,531,778
<b>DEFERRED CREDITS</b>		
	39,096,742	33,405,382
Total Equities and Liabilities	\$ 168,087,938	\$ 149,146,982

See accompanying Notes to Financial Statements.

**RIO GRANDE ELECTRIC COOPERATIVE, INC.**  
**STATEMENTS OF OPERATIONS**  
**YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019	2018
<b>OPERATING REVENUES</b>		
Electric	\$ 52,983,044	\$ 47,498,122
Other	6,176,026	5,733,472
Total Operating Revenues	59,159,070	53,231,594
<b>OPERATING EXPENSES</b>		
Cost of Power	28,639,176	25,363,617
Transmission Expense	29,889	28,880
Distribution Expense - Operations	8,895,468	7,682,071
Distribution Expense - Maintenance	3,187,459	2,899,289
Consumer Account Expense	765,007	732,437
Customer Service and Informational Expense	364,660	343,503
Administrative and General Expense	4,369,353	4,452,479
Depreciation	5,252,208	5,319,539
Taxes	10,853	9,531
Other Interest	5,616	6,481
Other Deductions	17,802	18,015
Total Operating Expenses	51,537,491	46,855,842
<b>OPERATING MARGINS BEFORE FIXED CHARGES</b>	7,621,579	6,375,752
<b>INTEREST ON LONG-TERM DEBT</b>	1,762,547	1,615,141
<b>OPERATING MARGINS AFTER FIXED CHARGES</b>	5,859,032	4,760,611
<b>GENERATION AND TRANSMISSION AND OTHER CAPITAL CREDITS</b>	247,729	367,694
<b>NET OPERATING MARGINS</b>	6,106,761	5,128,305
<b>NONOPERATING MARGINS</b>		
Interest Income	940,912	454,036
Other Nonoperating Income	215,245	274,574
Total Nonoperating Margins	1,156,157	728,610
<b>NET MARGINS</b>	\$ 7,262,918	\$ 5,856,915

See accompanying Notes to Financial Statements.

**RIO GRANDE ELECTRIC COOPERATIVE, INC.**  
**STATEMENTS OF CHANGES IN PATRONAGE CAPITAL AND OTHER EQUITIES**  
**YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<u>Memberships</u>	<u>Patronage Capital</u>	<u>Other Equities</u>	<u>Total</u>
<b>BALANCE - DECEMBER 31, 2017</b>	\$ 32,430	\$ 65,482,558	\$ 1,580,179	\$ 67,095,167
Net Margins for the Year	-	5,856,915	-	5,856,915
Retirement of Capital Credits	-	(1,270,125)	91,128	(1,178,997)
Net Increase in Memberships	<u>390</u>	<u>-</u>	<u>-</u>	<u>390</u>
<b>BALANCE - DECEMBER 31, 2018</b>	32,820	70,069,348	1,671,307	71,773,475
Net Margins for the Year	-	7,262,918	-	7,262,918
Retirement of Capital Credits	-	(1,271,248)	40,381	(1,230,867)
Net Increase in Memberships	<u>640</u>	<u>-</u>	<u>-</u>	<u>640</u>
<b>BALANCE - DECEMBER 31, 2019</b>	<u>\$ 33,460</u>	<u>\$ 76,061,018</u>	<u>\$ 1,711,688</u>	<u>\$ 77,806,166</u>

See accompanying Notes to Financial Statements.



**RIO GRANDE ELECTRIC COOPERATIVE, INC.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Margins	\$ 7,262,918	\$ 5,856,915
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	6,005,413	6,091,204
Other Capital Credits	(247,729)	(367,694)
Loss (Gain) on Trading Securities	(2,552)	4,075
Interest Income Credited to Cushion of Credit	(182,813)	(218,934)
Changes in Assets and Liabilities		
Decrease (Increase) in:		
Accounts Receivable	(747,303)	930,991
Power Cost Adjustment Receivable/Payable	106,546	(377,424)
Accrued Utility Revenue	(1,054,192)	259,762
Materials and Supplies Inventory	226,094	450
Other Current and Accrued Assets	(245,935)	66,417
Deferred Debits	451,563	546,645
Increase (Decrease) in:		
Accounts Payable	1,034,929	(115,297)
Other Current and Accrued Liabilities	(1,264,549)	1,290,416
Deferred Credits	5,691,360	5,616,123
Net Cash Provided by Operating Activities	17,033,750	19,583,649
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Construction and Acquisition of Plant	(7,997,502)	(8,963,426)
Plant Removal Costs, Net of Salvage	(1,130,462)	565,243
Proceeds from Capital Credit Retirements	130,168	201,553
Proceeds from (Purchases of) Other Assets and Investments	(21,281,117)	(244,609)
Payments Received on Notes Receivable	283,103	283,103
Net Cash Used by Investing Activities	(29,995,810)	(8,158,136)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Retirement of Capital Credits	(1,230,867)	(1,178,997)
Increase in Memberships	640	390
Consumer Deposits	(40,295)	(15,218)
Proceeds from Issuance of Long-Term Debt	9,613,000	4,000,000
Advanced Payments on Long-Term Debt	1,945,318	223,653
Principal Payments on Long-Term Debt	(3,995,231)	(2,143,673)
Net Cash Provided by Financing Activities	6,292,565	886,155
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(6,669,495)	12,311,668
Cash and Cash Equivalents - Beginning of Year	19,450,235	7,138,567
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 12,780,740	\$ 19,450,235
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash Payments for Interest	\$ 1,773,301	\$ 1,615,460

See accompanying Notes to Financial Statements.

**RIO GRANDE ELECTRIC COOPERATIVE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

Rio Grande Electric Cooperative, Inc. (the Cooperative) is a nonprofit rural electric cooperative headquartered in Brackettville, Texas. The primary purpose of the Cooperative is to provide electricity to its members through the purchase of electricity from wholesale providers and the subsequent distribution of these services to its member customers. The governing body consists of a 13-member board of directors elected by the members of the Cooperative. The Cooperative's primary service area is southwest Texas and southeast New Mexico.

**Basis of Accounting**

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. The accounting policies conform to accounting principles generally accepted in the United States of America as applied in the case of regulated electric utilities.

Rates charged to customers are established by the board of directors and are subject to review of RUS before becoming effective.

**Use of 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 and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates may also affect the reported amounts of revenues and expenses during the reported period. Accordingly, actual results could vary from those estimates.

**Long-Lived Assets**

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or their fair value less cost to sell. During the years ended December 31, 2019 and 2018, the Cooperative recorded no impairment charges.

**Utility Plant and Depreciation Procedures**

The Cooperative maintains transmission and distribution plant records on a mass item unit basis prescribed for utility plant accounting. Additions are recorded at cost which includes contracted work, direct labor, materials, and allocable overhead. Normal retirements are reflected by relieving the plant accounts at the average cost of the unit being retired. Such retired costs, together with removal costs, less any credits for material salvaged, are charged against the related accumulated provision for depreciation. Maintenance and repair costs are charged to expense as incurred.

**RIO GRANDE ELECTRIC COOPERATIVE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Utility Plant and Depreciation Procedures (Continued)**

General plant additions and retirements are recorded at cost. Gains and losses on dispositions of property are reflected in margins directly or through expense clearing accounts.

Depreciation of utility plant is provided on the straight-line method using rates based on estimated average service lives as follows:

Transmission Plan	2.75%
Distribution Plant	2.90%
Structures and Improvements	2.50 - 20%
Office Furniture and Equipment	10 - 20%
Transportation Equipment	10 - 20%
Stores Equipment	33.33%
Tools, Shop, and Garage Equipment	33.33%
Laboratory Equipment	33.33%
Power Operated Equipment	10 - 33.33%
Communications Equipment	10 - 33.33%
Miscellaneous	33.33%

**Other Assets and Investments**

**Investments in Associated Organizations**

Investments in associated organizations include patronage capital and NRUCFC capital term certificates. Patronage capital is recorded at cost plus undistributed patronage capital allocations. NRUCFC capital term certificates are carried at cost.

**Notes Receivable**

Notes receivable include notes from military installations for expansion of electrical facilities at the installations.

**Equity Securities**

Equity securities are valued at fair market value. Unrealized losses (gains) recognized in operations were \$(2,552) and \$4,075, respectively, for the years ended December 31, 2019 and 2018.

**Allowance for Loan Losses**

The allowance for loan losses (allowance) is an estimate of loan losses inherent in the Cooperative's loan portfolio. The allowance is established through a provision for loan losses which is charged to expense. Additions to the allowance are expected to maintain the adequacy of the total allowance after loan losses and loan growth. Loan losses are charged off against the allowance when the Cooperative determines the loan balance to be uncollectible. Cash received on previously charged off amounts is recorded as a recovery to the allowance.

**RIO GRANDE ELECTRIC COOPERATIVE, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Other Assets and Investments (Continued)**

**Allowance for Loan Losses (Continued)**

A loan is considered impaired when, based on current information and events, it is probable that the Cooperative will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Loans determined to be impaired are individually evaluated for impairment. When a loan is impaired, the Cooperative measures impairment based on the present value of the expected future cash flows discounted at the original contractual interest rate, except that as a practical expedient, it may measure impairment based on an observable market price, or the fair value of the collateral if collateral dependent. A loan is collateral dependent if the repayment is expected to be provided solely by the underlying collateral.

Although management believes the allowance to be adequate, ultimate losses may vary from its estimates. At least annually, management reviews the adequacy of the allowance, including consideration of the relevant risks of the portfolio, current economic conditions, and other factors. If management determines that changes are warranted based on those reviews, the allowance is adjusted.

**Cash and Cash Equivalents**

For the purpose of the statement of cash flows, the Cooperative considers short-term investments with original maturities of three months or less to be cash equivalents. The following is a summary of these items at December 31:

	2019	2018
Cash in Checking	\$ 7,877,999	\$ 1,579,894
Cash on Hand	3,150	3,150
Investments	4,899,591	17,867,191
Total	<u>\$ 12,780,740</u>	<u>\$ 19,450,235</u>

The Cooperative maintains cash and investments in deposit accounts at financial institutions approved by the board of directors. Accumulated deposits at these financial institutions, at times, may exceed federally insured limits.

**Accounts Receivable**

The Cooperative provides an allowance for bad debts using the allowance method based on management's judgment. Services are sold on an unsecured basis. Payment is generally required within 30 days after the date of billing. Accounts past due are individually analyzed for collectibility. In addition, an allowance is provided for other accounts when a significant pattern of uncollectibility has occurred. The Cooperative writes-off accounts on an annual basis. At December 31, 2019 and 2018, the allowance for uncollectible accounts was \$94,358 and \$83,643, respectively.

**RIO GRANDE ELECTRIC COOPERATIVE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Materials and Supplies Inventory**

Materials and supplies inventory is valued at the lower of cost or market using the average unit cost method.

**Patronage Capital**

The Cooperative operates on a nonprofit basis. Amounts received from the furnishing of electric energy and wire services in excess of operating costs and expenses are assigned to patrons on a patronage basis. All other amounts received by the Cooperative from its operations in excess of costs and expenses are also allocated to its patrons on a patronage basis to the extent they are not needed to offset current or prior deficits.

**Income Taxes**

The Cooperative is exempt from income taxes under Section 501(c)(12) of the Internal Revenue Code (IRC). The Cooperative incurs unrelated business income taxable income (UBI) under the IRC on certain revenue streams, but has net operating loss carryforwards of approximately \$895,000 to offset future taxable income as of December 31, 2019. Accordingly, no provision for income taxes has been recorded at December 31, 2019 and 2018.

The Cooperative evaluated its tax positions and determined that it has no uncertain tax positions as of December 31, 2019 and 2018.

**Presentation of Sales Taxes**

The Cooperative does business in various taxing jurisdictions in Texas and New Mexico which impose sales taxes on sales to nonexempt customers. The Cooperative collects that sales tax from customers and remits the entire amount to the taxing jurisdictions. The Cooperative's accounting policy is to exclude the tax collected and remitted to the taxing jurisdictions from revenues and costs of sales.

**Revenue from Contracts with Customers**

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*.

The objective of the standard is to enhance comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets.

The largely principles-based guidance in this ASU provides a framework for addressing revenue recognition issues comprehensively for entities that apply U.S. GAAP. It can be applied to all contracts with customers regardless of industry-specific or transaction-specific fact patterns.

**RIO GRANDE ELECTRIC COOPERATIVE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Revenue from Contracts with Customers (Continued)**

The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

The adoption of this guidance did not have a material impact on the Cooperative's consolidated financial statements as of the adoption date or for the year ended December 31, 2019.

The Cooperative primarily generates revenue from the distribution and sale of electricity to members. The Cooperative satisfies the performance obligation when the energy is delivered to the member. The Cooperative recognizes revenue from energy sales based on meter readings of the member's usage. Meters are read on the 20<sup>th</sup> day of the month. Bills are sent out the fifth day after the meter reading and payment is due in 20 days. Rates charged to members are based on rates approved by the Cooperative's board of directors. The Cooperative has elected to use the Invoice Practical Expedient allowing the Cooperative to recognize revenue in the amount that directly corresponds to the value transferred to the customer.

The following table presents the Cooperative's revenues disaggregated by type of customer at December 31:

	<u>2019</u>	<u>2018</u>
Residential	\$ 12,949,818	\$ 12,253,135
Seasonal	2,574,492	2,438,401
Irrigation	5,116,121	4,464,170
Small Commercial	7,378,587	7,616,665
Large Commercial	24,964,026	20,725,751
Military Base Revenue	5,308,226	5,088,627
Other Revenue	867,800	644,845
Total Operating Revenue	<u>\$ 59,159,070</u>	<u>\$ 53,231,594</u>

**Subsequent Events**

In preparing these financial statements, the Cooperative has evaluated events and transactions for potential recognition or disclosure through April 14, 2020, the date the financial statements were available to be issued.

**RIO GRANDE ELECTRIC COOPERATIVE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**NOTE 2 ASSETS PLEDGED**

Substantially all assets are pledged as security for the long-term debt to Rural Utilities Services (RUS), National Rural Utilities Cooperative Finance Corporation (NRUCFC), and CoBank.

**NOTE 3 UTILITY PLAN IN SERVICE**

The following are the major classes of the electric plan in service as of December 31:

	2019	2018
Intangible Plant	\$ 642	\$ 642
Electric Plant Adjustment	2,019,075	2,019,075
Electric Transmission Plant	7,496,011	7,374,404
Electric Distribution Plant	142,979,346	138,511,959
General Plant	<u>28,224,797</u>	<u>26,353,530</u>
Total Utility Plant in Service	180,719,871	174,259,610
Construction Work in Progress	<u>3,769,065</u>	<u>3,681,509</u>
Total	<u><u>\$ 184,488,936</u></u>	<u><u>\$ 177,941,119</u></u>

**NOTE 4 OTHER ASSETS AND INVESTMENTS**

**Investments in Associated Organizations**

Investments in associated organizations as of December 31 are as follows:

	2019	2018
National Rural Utilities Cooperative Finance Corporation:		
Capital Term Certificates	\$ 875,686	\$ 875,684
Patronage Capital	378,193	368,952
Select Notes	21,000,000	-
Membership	<u>1,000</u>	<u>1,000</u>
Subtotal	22,254,879	1,245,636
Patronage Capital:		
Texas Electric Cooperative	187,915	189,682
National Rural Telecommunications Cooperative	151,707	153,395
CoBank	445,470	389,168
Medina Electric Cooperative	67,421	71,412
Dell Telephone Cooperative	74,611	74,954
National Information Solutions Cooperative	103,395	83,793
Federated Rural Electric Insurance Exchange	428,950	375,368
Other Patronage Capital and Memberships	<u>2,117</u>	<u>15,493</u>
Total	<u><u>\$ 23,716,465</u></u>	<u><u>\$ 2,598,901</u></u>

**RIO GRANDE ELECTRIC COOPERATIVE, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

**NOTE 4 OTHER ASSETS AND INVESTMENTS (CONTINUED)**

**Investments in Associated Organizations (Continued)**

Capital term certificates include investments in National Rural Utilities Cooperative Finance Corporation capital term certificates and loan term certificates. Capital term certificates bear interest at 5% and begin maturing in the year 2070; and loan term certificates bear interest of 0% and begin maturing in the year 2033. Select notes consist of investments that bear interest at rates ranging from 1.96% to 2.93% and all mature in 2020.

**Notes Receivable**

Notes receivable as of December 31 are as follows:

	<u>2019</u>	<u>2018</u>
U.S. Army - Fort Bliss, Texas		
10.5%, Due Monthly through August 2039	\$ 2,253,639	\$ 2,286,466
Less: Current Portion	<u>(36,445)</u>	<u>(32,827)</u>
Long-Term Portion of Notes Receivable	<u>\$ 2,217,194</u>	<u>\$ 2,253,639</u>

As of December 31, 2019 and 2018, the Cooperative has not reserved any allowance for loan losses on their notes receivable. The following tables show an aging analysis of the loan portfolio by time past due:

	<u>Accruing Interest</u>			<u>Total Nonaccrual</u>	<u>Total</u>
	<u>Current</u>	<u>30-89 Days Past Due</u>	<u>More Than 90 Days Past Due</u>		
December 31, 2019					
Notes Receivable	<u>\$ 2,253,639</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,253,639</u>
December 31, 2018					
Notes Receivable	<u>\$ 2,286,466</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,286,466</u>



**RIO GRANDE ELECTRIC COOPERATIVE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**NOTE 5 ACCRUED UTILITY REVENUE**

Accrued utility revenue as of December 31 is as follows:

	<u>2019</u>	<u>2018</u>
Accrued Energy Revenue	\$ 1,461,127	\$ 1,081,786
Ft. Bliss - Job Order Costs	2,812,282	1,818,103
Laughlin - Job Order Costs	155,382	480,065
Laughlin - Operations and Maintenance	27,544	27,544
Other	41,662	36,307
Total	<u>\$ 4,497,997</u>	<u>\$ 3,443,805</u>

**NOTE 6 DEFERRED DEBITS**

Deferred debits consist of the following at December 31:

	<u>2019</u>	<u>2018</u>
NRECA Pension Prepayment	\$ 1,413,596	\$ 1,837,674
Fort Bliss - Contract Price Redetermination	148,302	197,736
Laughlin - Contract Price Redetermination	27,801	50,043
Software Costs, Net of Amortization	-	2,731
Other/Clearing Accounts	83,043	36,147
Total	<u>\$ 1,672,768</u>	<u>\$ 2,124,331</u>

**NOTE 7 PATRONAGE CAPITAL AND OTHER EQUITIES**

The following is a summary of patronage capital assignable and assigned at December 31:

	<u>2019</u>	<u>2018</u>
Assignable	\$ 7,262,918	\$ 5,856,915
Assigned	68,798,100	64,212,433
Total	<u>\$ 76,061,018</u>	<u>\$ 70,069,348</u>

**RIO GRANDE ELECTRIC COOPERATIVE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**NOTE 7 PATRONAGE CAPITAL AND OTHER EQUITIES (CONTINUED)**

The mortgage provisions restrict the retirement of patronage capital unless after retirement, the capital of the Cooperative equals at least 30% of 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 are unpaid and due installments of principal and interest on mortgage notes.

As of December 31, 2019, capital credits through 1989 had been fully retired.

Other equities consist of the following at December 31:

	<u>2019</u>	<u>2018</u>
Unclaimed Capital Credits	\$ 1,695,730	\$ 1,655,349
Donated Capital	4,622	4,622
Paid-In Capital	7,196	7,196
Prior Period Margins	4,140	4,140
Total	<u>\$ 1,711,688</u>	<u>\$ 1,671,307</u>

**NOTE 8 LONG-TERM DEBT**

The following is a summary of outstanding long-term debt as of December 31:

<u>Description</u>	<u>2019</u>	<u>2018</u>
Advance Payments on RUS Notes - Cushion of Credit	\$ (2,212,981)	\$ (3,975,486)
Federal Financing Bank (FFB) Mortgages Notes 2.130% - 4.756% Fixed Rate Notes Maturing through 2047	21,603,899	14,439,006
National Rural Utilities Cooperative Finance Corporation (NRUCFC) Mortgage Notes 3.52% Variable Rate Notes Maturing through 2042	607,677	625,750
6.30% - 6.35% Fixed Rate Notes Maturing 2033 through 2040	5,458,208	5,629,595

**RIO GRANDE ELECTRIC COOPERATIVE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**NOTE 8 LONG-TERM DEBT (CONTINUED)**

<u>Description</u>	<u>2019</u>	<u>2018</u>
CoBank Mortgage Notes		
4.02% Adjustable Rate Notes		
Maturing through 2043	\$ -	\$ 4,465,847
2.875% - 4.431% Fixed Rate Notes		
Maturing 2020 through 2037	15,753,249	12,465,628
U.S. Department of Defense - Laughlin Air Force Base		
3.88% Fixed Rate Note Maturing in 2028	<u>1,570,087</u>	<u>1,749,525</u>
Total	42,780,139	35,399,865
Less: Current Maturities	<u>(1,931,526)</u>	<u>(1,963,518)</u>
Total	<u>\$ 40,848,613</u>	<u>\$ 33,436,347</u>

Adjustable rate notes with CoBank are subject to rate adjustments beginning in 2019. These notes will carry a variable rate after the rate adjustment, with final maturity beginning in 2034 through 2043. The Cooperative has unadvanced loan funds at December 31, 2019 of \$2,000,000 from FFB.

The security agreement (mortgage) restricts the Cooperative's debt limit to \$75 million.

The aggregate five-year maturities of long-term debt are as follows:

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
FFB	\$ 525,599	\$ 608,464	\$ 626,412	\$ 644,923	\$ 664,018
CFC	201,069	204,653	217,217	230,574	244,775
CoBank	1,025,420	974,445	1,007,933	752,065	574,769
Other	179,438	179,438	179,438	179,438	179,438
Total	<u>\$ 1,931,526</u>	<u>\$ 1,967,000</u>	<u>\$ 2,031,000</u>	<u>\$ 1,807,000</u>	<u>\$ 1,663,000</u>

**NOTE 9 NOTES PAYABLE**

The Cooperative has an unsecured, perpetual line of credit with NRUCFC in the amount of \$4,000,000. Interest rates vary with the prime rate as published in the Wall Street Journal. At December 31, 2019 and 2018, the interest rate on this line of credit was 3.23% and 2.93%, respectively. The Cooperative had no outstanding balances as of December 31, 2019 and 2018.

The Cooperative also has an unsecured line of credit with CoBank in the amount of \$2,000,000, with an expiration date of September 30, 2020. At December 31, 2019 and 2018, the interest rate on this line of credit was 4.37% and 3.67%, respectively. The Cooperative had no outstanding balances as of December 31, 2019 and 2018.

**RIO GRANDE ELECTRIC COOPERATIVE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**NOTE 10 OTHER CURRENT AND ACCRUED LIABILITIES**

Other current and accrued liabilities consist of the following at December 31:

	2019	2018
Advanced Payments for Plant Construction	\$ 1,531,489	\$ 3,126,533
Accrued Employee Compensated Absences	610,557	565,625
Accrued Payroll	512,562	469,104
Taxes Accrued and Withheld	326,873	129,614
Other	959,486	903,886
Total	\$ 3,940,967	\$ 5,194,762

**NOTE 11 DEFERRED CREDITS**

Deferred credits at December 31 are as follows:

	2019	2018
Deferred Revenue - Fort Bliss Repair and Replacement	\$ 31,398,267	\$ 26,061,183
Deferred Revenue - Laughlin Repair and Replacement	7,535,436	7,161,034
Consumer Advances for Energy	163,039	183,165
Total	\$ 39,096,742	\$ 33,405,382

**NOTE 12 EMPLOYEE BENEFIT PLANS**

**Narrative Description**

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

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

**Plan Information**

The Cooperative's contributions to the RS Plan in 2019 and in 2018 represented less than 5% of the total contributions made to the plan by all participating employers. Contributions to the plan for the years ended December 31, 2019 and 2018, were \$1,759,000 and \$1,589,000, respectively. There have been no significant changes that affect the comparability of 2019 and 2018 contributions.

**RIO GRANDE ELECTRIC COOPERATIVE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**NOTE 12 EMPLOYEE BENEFIT PLANS (CONTINUED)**

**Plan Information (Continued)**

For the RS Plan, a “zone status” determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was over 80% funded on January 1, 2019 and January 1, 2018 based on the PPA funding target and PPA actuarial value of assets on those dates.

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

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

In addition to the above retirement plan, the Cooperative has adopted a 401(k) Employees Savings Plan. The Cooperative matches 1% of each employee’s base wages in this plan. The cost of this plan was approximately \$97,000 and \$86,000, respectively for 2019 and 2018.

**NOTE 13 COMMITMENTS AND CONCENTRATIONS**

Accounting principles generally accepted in the United States of America require disclosure of information about certain significant estimates and current vulnerabilities due to certain concentrations. These matters include the following:

**Sources of Supply**

The Cooperative currently purchases wholesale power from two suppliers. Commitments to continue purchasing power under these agreements vary by supplier, including contract terms and notification requirements to terminate the agreements.

**RIO GRANDE ELECTRIC COOPERATIVE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**NOTE 13 COMMITMENTS AND CONCENTRATIONS (CONTINUED)**

**Concentration of Credit**

The Cooperative provides electricity to its members located in southwest Texas and southeast New Mexico. The accounts receivable balance represents amounts due from these consumers. The collectability of the accounts receivable arising from sales is based on the economy of the service area. The Cooperative requires deposits from members with poor credit history.

**Long-Term Contracts – Fort Bliss**

In October 2002, the Cooperative was awarded a 50-year, firm-fixed-price, with price redetermination type contract for privatization of the electric distribution system for the U.S. Army at Fort Bliss, Texas. The contract became effective in early 2003. The Cooperative acquired ownership of the existing facilities at zero cost. The contract requires the Cooperative to provide for the operations and maintenance of the system and for rebuilding the system over term of the contract in accordance with specifications in the contract. The contract provides for monthly charges to allow the Cooperative to recover its cost of operations and maintenance, plus a 10% margin.

In addition to the planned long-term upgrades, the Cooperative is committed to make immediate system improvements of approximately \$2.5 million which will be recovered, with interest at 10.5% per annum over a 35-year period.

In connection with the contract modifications discussed above, the Cooperative bills for the projects based on contract specifications. At times, billings are in advance of the completion of the contract related work. The Cooperative estimates projected costs at completion and compares that to amounts that are billed or to be billed in determining the amount of utility revenue to accrue in connection with the projects. Payments that are received in advance of the completion of project work are recorded as deferred revenue and reflected in deferred credits at an amount that is reduced by the estimated margins resulting from the project.

The Cooperative has billed and accrued \$49,831,409 and \$42,952,252 cumulatively for operation and maintenance projects and the repair and replacement of the Fort Bliss electric distribution system under the contract as of December 31, 2019 and 2018, respectively. The Cooperative has expended and recognized \$18,433,142 and \$16,891,069, respectively, towards the repair and replacement as of December 31, 2019 and 2018. Unexpended funds of \$31,398,267 and \$26,061,183 are included with deferred credits as of December 31, 2019 and 2018, respectively.

**RIO GRANDE ELECTRIC COOPERATIVE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**NOTE 13 COMMITMENTS AND CONCENTRATIONS (CONTINUED)**

**Long-Term Contracts – Laughlin Air Force Base**

In September 2009, the Cooperative was awarded a 50-year, firm-fixed-price, with price redetermination type contract for privatization of the electric distribution system for the Laughlin Air Force Base (LAFB) near Del Rio, Texas. The contract became effective in April 2010. On April 9, 2010, the Cooperative acquired ownership of the existing electric distribution facilities of the base for approximately \$3.5 million from the United States Air Force (USAF). The transaction took the form of a noncash transaction. Long-term debt was established payable to the USAF for the purchase price of the facilities at an interest rate of 3.88% for a period of 18½ years. Debt payments made to the USAF are offset by a corresponding credit from the USAF for the purchase price of the facilities. The contract requires the Cooperative to provide for the operations and maintenance of the system and for rebuilding the system over the term of the contract in accordance with specifications in the contract. The contract provides for monthly charges to allow the Cooperative to recover its cost of operations, maintenance, and rebuilding the system, plus a 10% margin. The Cooperative is required to finance specific initial system improvement projects during the first five years of the contract for periods of 60 months at an interest rate of 8.84%.

The Cooperative has billed and accrued \$11,465,093 and \$10,131,413 cumulatively for operation and maintenance projects and the repair and replacement of the Laughlin electric distribution system under the contract as of December 31, 2019 and 2018, respectively. The Cooperative has expended \$3,978,440 and \$2,970,344 towards the repair and replacement as of December 31, 2019 and 2018, respectively. Unexpended funds of \$7,486,653 and \$7,161,034 are included with deferred credits as of December 31, 2019 and 2018, respectively.

**Construction Contract Commitments**

System improvement project commitments for Fort Bliss and LAFB were approximately \$8,088,000 and \$10,742,000 as of December 31, 2019 and 2018, respectively. Expenditures incurred on these projects were approximately \$4,349,000 and \$5,943,000 as of December 31, 2019 and 2018, respectively. Estimated remaining expenditures, including commitments to third-party contractors, are approximately \$2,708,000 and \$3,957,000 as of December 31, 2019 and 2018, respectively.

**RIO GRANDE ELECTRIC COOPERATIVE, INC.**  
**SCHEDULE OF ELECTRIC PLANT**  
**YEAR ENDED DECEMBER 31, 2019**

	Balance 12/31/2018	Additions and Transfers	Retirements	Balance 12/31/2019
Electric Plant in Service				
Intangible Plant	\$ 642	\$ -	\$ -	\$ 642
Electric Plant Adjustment - LAFB	2,019,075	-	-	2,019,075
Transmission Plant:				
Land and Land Rights	30,972	-	-	30,972
Station Equipment	1,444,156	-	-	1,444,156
Poles and Fixtures	3,511,082	128,007	9,842	3,629,247
Overheads Conductors and Devices	2,388,194	3,454	12	2,391,636
Total Transmission Plant	7,374,404	131,461	9,854	7,496,011
Distribution Plant:				
Land and Land Rights	207,861	-	-	207,861
Structures and Improvements	13,952,089	86,568	-	14,038,657
Poles, Towers, and Fixtures	44,528,297	1,802,641	348,015	45,982,923
Overhead Conductors and Devices	45,007,332	2,566,181	254,259	47,319,254
Underground Conductors and Devices	1,677,882	59,796	13,797	1,723,881
Line Transformers	21,697,975	1,051,130	325,976	22,423,129
Services	580,944	-	-	580,944
Meters	10,005,170	401,468	571,532	9,835,106
Installations on Customers' Premises	582,339	24,998	9,231	598,106
Street Lighting	272,070	-	2,585	269,485
Total Distribution Plant	138,511,959	5,992,782	1,525,395	142,979,346
General Plant:				
Land and Land Rights	195,984	-	57,300	138,684
Structures and Improvements	7,733,793	814,035	643,476	7,904,352
Office Furniture and Equipment	3,191,961	249,988	4,801	3,437,148
Transportation Equipment	9,815,477	1,367,158	158,088	11,024,547
Stores Equipment	455,521	4,845	-	460,366
Tools, Shop, and Garage Equipment	1,162,838	88,521	4,135	1,257,143
Laboratory Equipment	930,763	93,675	255	1,024,183
Power Operated Equipment	519,655	-	1,888	507,848
Communications Equipment	1,752,715	106,654	-	1,859,369
Miscellaneous Equipment	594,823	16,334	-	611,157
Total General Plant	26,353,530	2,741,210	869,943	28,224,797
Total Electric Plant in Service	174,259,610	8,865,453	2,405,192	180,719,871
Construction Work in Progress	3,681,509	87,556	-	3,769,065
Total	\$ 177,941,119	\$ 8,953,009	\$ 2,405,192	\$ 184,488,936



**RIO GRANDE ELECTRIC COOPERATIVE, INC.**  
**SCHEDULE OF ELECTRIC PLANT ACCUMULATED DEPRECIATION**  
**YEAR ENDED DECEMBER 31, 2019**

	Balance 12/31/2018	Depreciation and Transfers	Retirements	Balance 12/31/2019
Electric Plant Adjustment	\$ 954,974	\$ 109,140	\$ -	\$ 1,064,114
Transmission Plant	2,422,400	170,358	18,025	2,574,733
Distribution Plant	47,989,810	4,022,222	2,040,234	49,971,798
Acquired Plant - LAFB	1,477,587	70,296	30,901	1,516,982
Total Distribution Plant	<u>49,467,397</u>	<u>4,092,518</u>	<u>2,071,135</u>	<u>51,488,780</u>
General Plant:				
Structures and Improvements	2,295,489	237,526	299,552	2,233,463
Office Furniture and Equipment	2,437,181	258,182	4,801	2,690,562
Transportation Equipment	7,418,221	698,767	104,730	8,012,258
Stores Equipment	337,638	27,388	-	365,026
Tools, Shop, and Garage Equipment	563,627	85,710	4,135	645,202
Laboratory Equipment	719,914	49,199	-	769,113
Power Operated Equipment	221,897	41,432	2,142	261,187
Communications Equipment	1,933,108	181,088	-	2,114,196
Miscellaneous	355,984	54,105	-	410,089
Total General Plant	<u>16,283,059</u>	<u>1,633,397</u>	<u>415,360</u>	<u>17,501,096</u>
Total Electric Plant in Service	69,127,830	6,005,413	2,504,520	72,628,723
Retirement Work in Progress	<u>(431,340)</u>	<u>-</u>	<u>75,627</u>	<u>(506,967)</u>
Total	<u>\$ 68,696,490</u>	<u>\$ 6,005,413</u>	<u>\$ 2,580,147</u>	<u>\$ 72,121,756</u>

(1) Charged to Depreciation Expense	\$ 5,252,208
Charged to Clearing Accounts	753,205
	<u>\$ 6,005,413</u>

(2) Cost of Units Retired	1,535,247
Cost of Removal	1,087,681
Salvage	(42,781)
	<u>\$ 2,580,147</u>

**RIO GRANDE ELECTRIC COOPERATIVE, INC.**  
**SCHEDULE OF PATRONAGE CAPITAL**  
**YEAR ENDED DECEMBER 31, 2019**

Calendar Year	Assignable	Assigned	Retired	12/31/2019 Balance	12/31/2018 Balance
1951	\$ -	\$ 5,611	\$ 5,611	\$ -	\$ -
1952	-	41,630	41,630	-	-
1953	-	44,658	44,658	-	-
1956	-	5,745	5,745	-	-
1967	-	30,621	30,621	-	-
1968	-	25,575	25,575	-	-
1969	-	64,144	64,144	-	-
1971	-	27,279	27,279	-	-
1972	-	51,428	51,428	-	-
1973	-	80,910	80,910	-	-
1974	-	158,288	158,288	-	-
1975	-	139,201	139,201	-	-
1977	-	222,668	222,668	-	-
1978	-	366,220	366,220	-	-
1979	-	175,947	175,947	-	-
1980	-	96,892	96,892	-	-
1981	-	162,472	162,472	-	-
1982	-	495,360	495,360	-	-
1984	-	1,257,162	1,257,162	-	-
1985	-	528,848	528,848	-	-
1986	-	85,875	85,875	-	-
1987	-	240,365	240,365	-	-
1988	-	1,854,292	1,854,292	-	-
1989	-	1,671,269	1,671,269	-	-
1990	-	1,555,440	1,555,440	-	1,270,054
1991	-	921,927	1,237	920,690	921,884
1992	-	764,835	103	764,732	764,732
1993	-	859,051	115	858,936	858,936
1994	-	1,140,748	158	1,140,590	1,140,590
1995	-	827,512	131	827,381	827,381
1996	-	1,112,077	132	1,111,945	1,111,945
1997	-	798,362	60	798,302	798,302
1998	-	1,113,615	102	1,113,513	1,113,513
1999	-	736,600	95	736,505	736,505
2000	-	712,753	108	712,645	712,645
2001	-	734,829	53	734,776	734,776
2002	-	778,390	63	778,327	778,327
2003	-	612,527	27	612,500	612,500
2004	-	657,471	-	657,471	657,471
2005	-	1,288,790	-	1,288,790	1,288,790
2006	-	1,778,181	-	1,778,181	1,778,181
2007	-	1,271,264	-	1,271,264	1,271,264
2008	-	915,300	-	915,300	915,300
2009	-	1,114,536	-	1,114,536	1,114,536
2010	-	5,276,007	-	5,276,007	5,276,007
2011	-	7,534,871	-	7,534,871	7,534,871
2012	-	12,147,571	-	12,147,571	12,147,571
2013	-	7,595,378	-	7,595,378	7,595,378
2014	-	4,732,129	-	4,732,129	4,732,129
2015	-	2,868,142	-	2,868,142	2,868,142
2016	-	3,022,160	-	3,022,160	3,022,160
2017	-	1,628,543	-	1,628,543	1,628,543
2018	-	5,856,915	-	5,856,915	5,856,915
2019	7,262,918	-	-	7,262,918	-
Total	<u>\$ 7,262,918</u>	<u>\$ 78,188,384</u>	<u>\$ 9,390,284</u>	<u>\$ 76,061,018</u>	<u>\$ 70,069,348</u>



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

Board of Directors  
Rio Grande Electric Cooperative, Inc.  
Brackettville, Texas

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 Rio Grande Electric Cooperative, Inc. (the Cooperative) which comprise the balance sheet as of December 31, 2019, and the related statements of operations and patronage capital, and cash flows, for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 14, 2020.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Cooperative's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 Cooperative's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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*.

**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 result 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.



**CliftonLarsonAllen LLP**

San Antonio, Texas  
April 14, 2020



## **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH ASPECTS OF CONTRACTUAL AGREEMENTS AND REGULATORY REQUIREMENTS FOR ELECTRIC BORROWERS**

Board of Directors  
Rio Grande Electric Cooperative, Inc.  
Brackettville, Texas

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 Rio Grande Electric Cooperative, Inc. (the Cooperative), which comprise the balance sheet as of December 31, 2019, and the related statements of operations, changes in patronage capital and other equities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 14, 2020. In accordance with *Government Auditing Standards*, we have also issued a report dated April 14, 2020, on our consideration of the Cooperative's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. No reports other than the reports referred to above and the Independent Auditors' Report on Loan Fund Expenditures 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*);
- Comply with the requirements for the detailed schedule of deferred debits and deferred credits; and
- Comply with the requirements for the detailed schedule of investments.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The detailed schedule of deferred debit and deferred credits required by 7 CFR Part 1773.33(h) and the detail schedule of investments in affiliated companies required by 7 CFR 1773.33(i) and provided below are presented for purposes of additional analysis and are not required parts of the basic financial statements. This information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**Schedule of Deferred Debits**

NRECA Pension Prepayment	\$ 1,413,596
Fort Bliss - Contract Price Redetermination	148,302
Laughlin - Contract Price Redetermination	27,801
Other/Clearing Accounts	83,043
Total Deferred Debits	<u>\$ 1,672,768</u>

**Schedule of Deferred Credits**

Deferred Revenue - Fort Bliss Repair and Replacement	\$ 31,398,267
Deferred Revenue - Laughlin Repair and Replacement	7,535,436
Consumer Advances for Energy	163,039
Total Deferred Credits	<u>\$ 39,096,742</u>

Board of Directors  
Rio Grande Electric Cooperative, Inc.

**Schedule of Investments**

No investments in subsidiary or affiliated companies as of December 31, 2019.

This report is intended solely for the information and use of the board of directors, management, and the Rural Utilities Service 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.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

San Antonio, Texas  
April 14, 2020



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## INDEPENDENT AUDITORS' REPORT ON LOAN FUND EXPENDITURES

Board of Directors  
Rio Grande Electric Cooperative, Inc.  
Brackettville, Texas

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Rio Grande Electric Cooperative, Inc. (the Cooperative), which comprise the balance sheet as of December 31, 2019, and the related statements of operations, changes in patronage capital and other equities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 14, 2020.

During the year ended December 31, 2019, the Cooperative received no advances from CFC on loans controlled by National Rural Utilities Cooperative Finance Corporation's (NRUCFC) Loan Agreement and/or Mortgage or Security Agreements. In connection with our audit, nothing came to our attention that caused us to believe that the Cooperative was not in compliance with the intended purpose of the loan funds as contemplated in the Loan Agreement. 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 agreements, insofar as they relate to accounting matters.

This report is intended for the information and use of the board of directors, management, and the NRUCFC and is not intended to be and should not be used by anyone other than these specified parties.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

San Antonio, Texas  
April 14, 2020