

RIO GRANDE ELECTRIC COOPERATIVE, INC.

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED DECEMBER 31, 2020 AND 2019

RIO GRANDE ELECTRIC COOPERATIVE, INC.
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**RIO GRANDE ELECTRIC COOPERATIVE, INC.
DIRECTORS AND OFFICERS
YEAR ENDED DECEMBER 31, 2020**

Billy Foster	President
Priscilla Parsons	Vice-President
Tim Edwards	Secretary
Jamie Ballew	Treasurer
Rowdy Holmsley	Director
Edward Walker	Director
Cody Burns	Director
Bryon Garrison	Director
Johny Sheets	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, 2020 and 2019, 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, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 March 12, 2021, 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
March 12, 2021

RIO GRANDE ELECTRIC COOPERATIVE, INC.
BALANCE SHEETS
DECEMBER 31, 2020 AND 2019

	2020	2019
ASSETS		
UTILITY PLANT		
Electric Plant in Service	\$ 187,470,688	\$ 180,719,871
Construction Work in Progress	2,768,945	3,769,065
Total	190,239,633	184,488,936
Less: Accumulated Provision for Depreciation	(75,341,415)	(72,121,756)
Net Utility Plant	114,898,218	112,367,180
OTHER ASSETS AND INVESTMENTS		
Investments in Associated Organizations	23,849,626	23,716,465
Notes Receivable, Net of Current Portion	2,176,734	2,217,194
Equity Securities	89,128	84,103
Total Other Assets and Investments	26,115,488	26,017,762
CURRENT ASSETS		
Cash and Cash Equivalents	15,774,691	12,780,740
Accounts Receivable, Net	6,941,216	6,566,870
Accrued Utility Revenue	6,444,273	4,497,997
Current Portion of Notes Receivable	40,460	36,445
Materials and Supplies Inventory	2,920,664	2,930,781
Prepayments	824,129	993,355
Interest Receivable	78,923	224,040
Total Current Assets	33,227,055	28,030,228
DEFERRED DEBITS		
Total Assets	1,399,342	1,672,768
	\$ 175,640,103	\$ 168,087,938
EQUITIES AND LIABILITIES		
EQUITIES		
Memberships	\$ 34,045	\$ 33,460
Patronage Capital	81,849,010	76,061,018
Other Equities	1,659,973	1,711,688
Total Equities	83,543,028	77,806,166
LONG-TERM DEBT, NET OF CURRENT MATURITIES		
	38,881,227	40,848,613
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	1,891,165	1,931,526
Accounts Payable	3,014,041	3,601,289
Power Cost Adjustment Payable	-	223,837
Consumer Deposits	554,030	557,733
Accrued Interest Payable	76,321	81,065
Other Current and Accrued Liabilities	3,302,022	3,940,967
Total Current Liabilities	8,837,579	10,336,417
DEFERRED CREDITS		
Total Equities and Liabilities	44,378,269	39,096,742
	\$ 175,640,103	\$ 168,087,938

See accompanying Notes to Financial Statements.

RIO GRANDE ELECTRIC COOPERATIVE, INC.
STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
OPERATING REVENUES		
Electric	\$ 51,963,518	\$ 52,983,044
Other	6,815,760	6,176,026
Total Operating Revenues	58,779,278	59,159,070
OPERATING EXPENSES		
Cost of Power	26,849,616	28,639,176
Transmission Expense	25,851	29,889
Distribution Expense - Operations	8,900,938	8,895,468
Distribution Expense - Maintenance	2,682,146	3,187,459
Consumer Account Expense	879,150	765,007
Customer Service and Informational Expense	333,881	364,660
Administrative and General Expense	4,323,978	4,369,353
Depreciation	5,351,381	5,252,208
Taxes	10,262	10,853
Other Interest	5,310	5,616
Other Deductions	19,513	17,802
Total Operating Expenses	49,382,026	51,537,491
OPERATING MARGINS BEFORE FIXED CHARGES	9,397,252	7,621,579
INTEREST ON LONG-TERM DEBT	1,594,180	1,762,547
OPERATING MARGINS AFTER FIXED CHARGES	7,803,072	5,859,032
GENERATION AND TRANSMISSION AND OTHER CAPITAL CREDITS	296,162	247,729
NET OPERATING MARGINS	8,099,234	6,106,761
NONOPERATING MARGINS		
Interest Income	532,927	940,912
Miscellaneous income	164,267	-
Other Nonoperating Income	13,787	215,245
Total Nonoperating Margins	710,981	1,156,157
NET MARGINS	\$ 8,810,215	\$ 7,262,918

See accompanying Notes to Financial Statements.

RIO GRANDE ELECTRIC COOPERATIVE, INC.
STATEMENTS OF CHANGES IN PATRONAGE CAPITAL AND OTHER EQUITIES
YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>Memberships</u>	<u>Patronage Capital</u>	<u>Other Equities</u>	<u>Total</u>
BALANCE - DECEMBER 31, 2018	\$ 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	640	-	-	640
BALANCE - DECEMBER 31, 2019	33,460	76,061,018	1,711,688	77,806,166
Net Margins for the Year	-	8,810,215	-	8,810,215
Retirement of Capital Credits	-	(3,022,223)	(51,715)	(3,073,938)
Net Increase in Memberships	585	-	-	585
BALANCE - DECEMBER 31, 2020	<u>\$ 34,045</u>	<u>\$ 81,849,010</u>	<u>\$ 1,659,973</u>	<u>\$ 83,543,028</u>

See accompanying Notes to Financial Statements.

RIO GRANDE ELECTRIC COOPERATIVE, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 8,810,215	\$ 7,262,918
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	6,091,751	6,005,413
Other Capital Credits	(296,162)	(247,729)
Loss (Gain) on Equity Securities	2,007	(2,552)
Interest Income Credited to Cushion of Credit	(77,986)	(182,813)
Changes in Assets and Liabilities		
Decrease (Increase) in:		
Accounts Receivable	(374,346)	(747,303)
Power Cost Adjustment Receivable/Payable	(426,536)	106,546
Accrued Utility Revenue	(1,946,276)	(1,054,192)
Materials and Supplies Inventory	10,117	226,094
Other Current and Accrued Assets	314,343	(245,935)
Deferred Debits	273,426	451,563
Increase (Decrease) in:		
Accounts Payable	(587,248)	1,034,929
Other Current and Accrued Liabilities	(643,689)	(1,264,549)
Deferred Credits	5,281,527	5,691,360
Net Cash Provided by Operating Activities	16,431,143	17,033,750
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction and Acquisition of Plant	(7,330,504)	(7,997,502)
Plant Removal Costs, Net of Salvage	(1,292,285)	(1,130,462)
Proceeds from Capital Credit Retirements	161,451	130,168
Purchases of Other Assets and Investments	(240,393)	(21,281,117)
Payments Received on Notes Receivable	271,356	283,103
Net Cash Used by Investing Activities	(8,430,375)	(29,995,810)
CASH FLOWS FROM FINANCING ACTIVITIES		
Retirement of Capital Credits	(3,073,938)	(1,230,867)
Increase in Memberships	585	640
Consumer Deposits	(3,703)	(40,295)
Proceeds from Issuance of Long-Term Debt	-	9,613,000
Advanced Payments on Long-Term Debt	2,290,967	1,945,318
Principal Payments on Long-Term Debt	(4,220,728)	(3,995,231)
Net Cash Provided (Used) by Financing Activities	(5,006,817)	6,292,565
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,993,951	(6,669,495)
Cash and Cash Equivalents - Beginning of Year	12,780,740	19,450,235
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 15,774,691	\$ 12,780,740
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Payments for Interest	\$ 1,598,924	\$ 1,773,301

See accompanying Notes to Financial Statements.

RIO GRANDE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

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 12-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, 2020 and 2019, 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, 2020 AND 2019

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 Plant	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 consist of mutual funds and are recorded at fair market value.

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, 2020 AND 2019**

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:

	2020	2019
Cash in Checking	\$ 10,060,457	\$ 7,877,999
Cash on Hand	3,150	3,150
Investments	5,711,084	4,899,591
Total	<u>\$ 15,774,691</u>	<u>\$ 12,780,740</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, 2020 and 2019, the allowance for uncollectible accounts was \$168,883 and \$94,358, respectively.

RIO GRANDE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

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 \$894,000 to offset future taxable income as of December 31, 2020. Accordingly, no provision for income taxes has been recorded at December 31, 2020 and 2019.

The Cooperative evaluated its tax positions and determined that it has no uncertain tax positions as of December 31, 2020 and 2019.

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

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 20th 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 member.

RIO GRANDE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue from Contracts with Customers (Continued)

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

	2020	2019
Residential	\$ 13,573,995	\$ 12,949,818
Seasonal	2,722,377	2,574,492
Irrigation	5,155,331	5,116,121
Small Commercial	7,340,345	7,378,587
Large Commercial	23,171,470	24,964,026
Military Base Revenue	6,151,714	5,308,226
Other Revenue	664,046	867,800
Total Operating Revenue	\$ 58,779,278	\$ 59,159,070

Subsequent Events

In preparing these financial statements, the Cooperative has evaluated events and transactions for potential recognition or disclosure through March 12, 2021, the date the financial statements were available to be issued.

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 PLANT IN SERVICE

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

	2020	2019
Intangible Plant	\$ 642	\$ 642
Electric Plant Adjustment	2,019,075	2,019,075
Electric Transmission Plant	7,540,298	7,496,011
Electric Distribution Plant	147,521,891	142,979,346
General Plant	30,388,782	28,224,797
Total Utility Plant in Service	187,470,688	180,719,871
Construction Work in Progress	2,768,945	3,769,065
Total	\$ 190,239,633	\$ 184,488,936

**RIO GRANDE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 4 OTHER ASSETS AND INVESTMENTS

Investments in Associated Organizations

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

	2020	2019
National Rural Utilities Cooperative Finance Corporation:		
Capital Term Certificates	\$ 875,686	\$ 875,686
Patronage Capital	390,060	378,193
Medium Term Notes	21,000,000	21,000,000
Membership	1,000	1,000
Subtotal	22,266,746	22,254,879
Patronage Capital:		
Texas Electric Cooperative	208,887	187,915
National Rural Telecommunications Cooperative	151,272	151,707
CoBank	507,077	445,470
Medina Electric Cooperative	65,436	67,421
Dell Telephone Cooperative	73,800	74,611
National Information Solutions Cooperative	99,261	103,395
Federated Rural Electric Insurance Exchange	474,778	428,950
Other Patronage Capital and Memberships	2,369	2,117
Total	\$ 23,849,626	\$ 23,716,465

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. Medium term notes consist of investments that bear interest at rates ranging from 0.41% to 1.86% and all mature in 2021.

Notes Receivable

Notes receivable as of December 31 are as follows:

	2020	2019
U.S. Army - Fort Bliss, Texas		
10.5%, Due Monthly through August 2039	\$ 2,217,194	\$ 2,253,639
Less: Current Portion	(40,460)	(36,445)
Long-Term Portion of Notes Receivable	\$ 2,176,734	\$ 2,217,194

RIO GRANDE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 4 OTHER ASSETS AND INVESTMENTS (CONTINUED)

Notes Receivable (Continued)

As of December 31, 2020 and 2019, 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:

	Accruing Interest			Total Nonaccrual	Total
	Current	30-89 Days Past Due	More Than 90 Days Past Due		
December 31, 2020					
Notes Receivable	\$ 2,217,194	\$ -	\$ -	\$ -	\$ 2,217,194
December 31, 2019					
Notes Receivable	\$ 2,253,639	\$ -	\$ -	\$ -	\$ 2,253,639

NOTE 5 DEFERRED DEBITS

Deferred debits consist of the following at December 31:

	2020	2019
NRECA Pension Prepayment	\$ 989,517	\$ 1,413,596
Fort Bliss - Contract Price Redetermination	242,722	148,302
Laughlin - Contract Price Redetermination	5,560	27,801
Other/Clearing Accounts	161,543	83,043
Total	\$ 1,399,342	\$ 1,672,768

NOTE 6 PATRONAGE CAPITAL AND OTHER EQUITIES

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

	2020	2019
Assignable	\$ 8,810,215	\$ 7,262,918
Assigned	73,038,795	68,798,100
Total	\$ 81,849,010	\$ 76,061,018

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, 2020, capital credits through 1990 had been fully retired.

RIO GRANDE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 6 PATRONAGE CAPITAL AND OTHER EQUITIES (CONTINUED)

Other equities consist of the following at December 31:

	<u>2020</u>	<u>2019</u>
Unclaimed Capital Credits	\$ 1,644,015	\$ 1,695,730
Donated Capital	4,622	4,622
Paid-In Capital	7,196	7,196
Prior Period Margins	4,140	4,140
Total	<u>\$ 1,659,973</u>	<u>\$ 1,711,688</u>

NOTE 7 LONG-TERM DEBT

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

<u>Description</u>	<u>2020</u>	<u>2019</u>
Advance Payments on RUS Notes - Cushion of Credit	\$ -	\$ (2,212,981)
Federal Financing Bank (FFB) Mortgages Notes 2.130% - 3.438% Fixed Rate Notes Maturing through 2047	18,789,097	21,603,899
National Rural Utilities Cooperative Finance Corporation (NRUCFC) Mortgage Notes 2.45% Variable Rate Notes Maturing through 2042	588,515	607,677
6.30% - 6.35% Fixed Rate Notes Maturing 2033 through 2042	5,276,301	5,458,208
CoBank Mortgage Notes 2.875% - 4.188% Fixed Rate Notes Maturing 2023 through 2043	14,727,829	15,753,249
U.S. Department of Defense - Laughlin Air Force Base 3.88% Fixed Rate Note Maturing in 2028	<u>1,390,650</u>	<u>1,570,087</u>
Total	40,772,392	42,780,139
Less: Current Maturities	<u>(1,891,165)</u>	<u>(1,931,526)</u>
Total	<u>\$ 38,881,227</u>	<u>\$ 40,848,613</u>

Adjustable rate notes with CoBank are subject to rate adjustments beginning in 2024. These notes will carry a variable rate after the rate adjustment, with final maturity beginning in 2034 through 2043.

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

RIO GRANDE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 7 LONG-TERM DEBT (CONTINUED)

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

	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
FFB	\$ 535,134	\$ 550,447	\$ 566,207	\$ 581,100	\$ 599,081
CFC	213,411	226,533	226,533	240,483	255,316
CoBank	963,182	998,838	998,838	748,274	568,835
Other	179,438	179,438	179,438	179,439	179,438
Total	<u>\$ 1,891,165</u>	<u>\$ 1,955,256</u>	<u>\$ 1,971,016</u>	<u>\$ 1,749,296</u>	<u>\$ 1,602,670</u>

NOTE 8 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, 2020 and 2019, the interest rate on this line of credit was 2.45% and 3.23%, respectively. The Cooperative had no outstanding balances as of December 31, 2020 and 2019.

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, 2021. At December 31, 2020 and 2019, the interest rate on this line of credit was 2.45% and 3.37%, respectively. The Cooperative had no outstanding balances as of December 31, 2020 and 2019.

NOTE 9 OTHER CURRENT AND ACCRUED LIABILITIES

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

	<u>2020</u>	<u>2019</u>
Advanced Payments for Plant Construction	\$ 1,012,939	\$ 1,531,489
Accrued Employee Compensated Absences	663,497	610,557
Accrued Payroll	182,423	512,562
Taxes Accrued and Withheld	382,388	326,873
Other	1,060,775	959,486
Total	<u>\$ 3,302,022</u>	<u>\$ 3,940,967</u>

NOTE 10 DEFERRED CREDITS

Deferred credits at December 31 are as follows:

	<u>2020</u>	<u>2019</u>
Deferred Revenue - Fort Bliss Repair and Replacement	\$ 36,289,610	\$ 31,398,267
Deferred Revenue - Laughlin Repair and Replacement	7,934,544	7,535,436
Consumer Advances for Energy	154,115	163,039
Total	<u>\$ 44,378,269</u>	<u>\$ 39,096,742</u>

RIO GRANDE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 11 EMPLOYEE BENEFIT PLANS

Narrative Description

The Retirement Security Plan (RS Plan), sponsored by the National Rural Electric Cooperative Association (NRECA) is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is considered 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 2020 and in 2019 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, 2020 and 2019, were \$1,924,000 and \$1,759,000, respectively.

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, 2020, and over 80% funded on January 1, 2019, based on the PPA funding target and 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.

RIO GRANDE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 11 EMPLOYEE BENEFIT PLANS (CONTINUED)

Plan Information (Continued)

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 \$100,000 and \$97,000, respectively, for 2020 and 2019.

NOTE 12 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.

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.

RIO GRANDE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 12 COMMITMENTS AND CONCENTRATIONS (CONTINUED)

Long-Term Contracts – Fort Bliss (Continued)

The Cooperative has billed and accrued \$56,710,566 and \$49,831,409 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, 2020 and 2019, respectively. The Cooperative has expended and recognized \$20,420,956 and \$18,433,142, respectively, towards the repair and replacement as of December 31, 2020 and 2019. Unexpended funds of \$36,289,610 and \$31,398,267 are included with deferred credits as of December 31, 2020 and 2019, respectively.

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 has billed and accrued \$12,798,773 and \$11,465,093 cumulatively for operation and maintenance projects and the repair and replacement of the Laughlin electric distribution system under the contract as of December 31, 2020 and 2019, respectively. The Cooperative has expended \$4,864,229 and \$3,978,440 towards the repair and replacement as of December 31, 2020 and 2019, respectively. Unexpended funds of \$7,934,544 and \$7,486,653 are included with deferred credits as of December 31, 2020 and 2019, respectively.

Construction Contract Commitments

System improvement project commitments for Fort Bliss and LAFB were approximately \$7,895,000 and \$8,088,000 as of December 31, 2020 and 2019, respectively. Expenditures incurred on these projects were approximately \$5,538,000 and \$4,349,000 as of December 31, 2020 and 2019, respectively. Estimated remaining expenditures, including commitments to third-party contractors, are approximately \$1,451,000 and \$2,708,000 as of December 31, 2020 and 2019, respectively.

RIO GRANDE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 13 SUBSEQUENT EVENT

Additional Cost of Power

In February 2021, the state of Texas including the Cooperative's service territory experienced a significant winter storm that caused extensive disruption in the generation and distribution of electric services throughout the state. There were significant costs throughout the state related to this event and the overall cost to the Cooperative could be significant.

RIO GRANDE ELECTRIC COOPERATIVE, INC.
SCHEDULE OF ELECTRIC PLANT
YEAR ENDED DECEMBER 31, 2020

	Balance 12/31/2019	Additions and Transfers	Retirements	Balance 12/31/2020
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	3,629,247	3,355	-	3,632,602
Overheads Conductors and Devices	2,391,636	48,031	7,099	2,432,568
Total Transmission Plant	7,496,011	51,386	7,099	7,540,298
Distribution Plant:				
Land and Land Rights	207,861	-	-	207,861
Structures and Improvements	14,038,657	1,413,753	-	15,452,410
Poles, Towers, and Fixtures	45,982,923	1,628,110	394,378	47,216,655
Overhead Conductors and Devices	47,319,254	818,720	314,445	47,823,529
Underground Conductors and Devices	1,723,881	270,263	19,297	1,974,847
Line Transformers	22,423,129	1,187,077	481,544	23,128,662
Services	580,944	922	2,126	579,740
Meters	9,835,106	764,752	350,472	10,249,386
Installations on Customers' Premises	598,106	90,383	68,532	619,957
Street Lighting	269,485	-	641	268,844
Total Distribution Plant	142,979,346	6,173,980	1,631,435	147,521,891
General Plant:				
Land and Land Rights	138,684	13,280	-	151,964
Structures and Improvements	7,904,352	184,706	31,802	8,057,256
Office Furniture and Equipment	3,437,148	220,774	724	3,657,198
Transportation Equipment	11,024,547	1,487,184	52,268	12,459,463
Stores Equipment	460,366	1,302	-	461,668
Tools, Shop, and Garage Equipment	1,257,143	94,254	2,634	1,348,763
Laboratory Equipment	1,024,183	81,145	-	1,105,328
Power Operated Equipment	507,848	-	1,203	506,645
Communications Equipment	1,859,369	157,504	-	2,016,873
Miscellaneous Equipment	611,157	12,467	-	623,624
Total General Plant	28,224,797	2,252,616	88,631	30,388,782
Total Electric Plant in Service	180,719,871	8,477,982	1,727,165	187,470,688
Construction Work in Progress	3,769,065	(1,000,120)	-	2,768,945
Total	\$ 184,488,936	\$ 7,477,862	\$ 1,727,165	\$ 190,239,633

RIO GRANDE ELECTRIC COOPERATIVE, INC.
SCHEDULE OF ELECTRIC PLANT ACCUMULATED DEPRECIATION
YEAR ENDED DECEMBER 31, 2020

	Balance 12/31/2019	Depreciation and Transfers	Retirements	Balance 12/31/2020
Electric Plant Adjustment	\$ 1,064,114	\$ 109,140	\$ -	\$ 1,173,254
Transmission Plant	2,574,733	168,200	10,948	2,731,985
Distribution Plant	49,971,798	4,139,762	2,355,283	51,756,277
Acquired Plant - LAFB	1,516,982	70,296	42,808	1,544,470
Total Distribution Plant	51,488,780	4,210,058	2,398,091	53,300,747
General Plant:				
Structures and Improvements	2,233,463	243,858	8,926	2,468,395
Office Furniture and Equipment	2,690,562	242,751	725	2,932,588
Transportation Equipment	8,012,258	688,740	52,268	8,648,730
Stores Equipment	365,026	21,351	-	386,377
Tools, Shop, and Garage Equipment	645,202	83,826	2,555	726,473
Laboratory Equipment	769,113	35,497	-	804,610
Power Operated Equipment	261,187	53,488	-	314,675
Communications Equipment	2,114,196	192,968	3,072	2,304,092
Miscellaneous	410,089	41,874	-	451,963
Total General Plant	17,501,096	1,604,353	67,546	19,037,903
Total Electric Plant in Service	72,628,723	6,091,751	2,476,585	76,243,889
Retirement Work in Progress	(506,967)	-	395,507	(902,474)
Total	\$ 72,121,756	\$ 6,091,751	\$ 2,872,092	\$ 75,341,415
		(1)	(2)	
		(1) Charged to Depreciation Expense		\$ 5,351,381
		Charged to Clearing Accounts		740,370
				\$ 6,091,751
		(2) Cost of Units Retired		\$ 1,638,533
		Cost of Removal		1,262,922
		Salvage		(29,363)
		Loss Due to Retirement		\$ 2,872,092

**RIO GRANDE ELECTRIC COOPERATIVE, INC.
SCHEDULE OF PATRONAGE CAPITAL
YEAR ENDED DECEMBER 31, 2020**

Calendar Year	Assignable	Assigned	Retired	12/31/2020 Balance	12/31/2019 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	-	-
1991	-	921,927	921,927	-	920,690
1992	-	764,835	1,266	763,569	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	2,100,370	5,162,548	7,262,918
2020	8,810,215	-	-	8,810,215	-
Total	<u>\$ 8,810,215</u>	<u>\$ 85,451,302</u>	<u>\$ 12,412,507</u>	<u>\$ 81,849,010</u>	<u>\$ 76,061,018</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, 2020, and the related statements of operations and 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 March 12, 2021.

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
March 12, 2021



**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, 2020, 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 March 12, 2021. In accordance with *Government Auditing Standards*, we have also issued a report dated March 12, 2021, 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	\$ 989,517
Fort Bliss - Contract Price Redetermination	242,722
Laughlin - Contract Price Redetermination	5,560
Other/Clearing Accounts	161,543
Total Deferred Debits	<u>\$ 1,399,342</u>

Schedule of Deferred Credits

Deferred Revenue - Fort Bliss Repair and Replacement	\$ 36,289,610
Deferred Revenue - Laughlin Repair and Replacement	7,934,544
Consumer Advances for Energy	154,115
Total Deferred Credits	<u>\$ 44,378,269</u>

Board of Directors
Rio Grande Electric Cooperative, Inc.

Schedule of Investments

No investments in subsidiary or affiliated companies as of December 31, 2020.

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
March 12, 2021



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, 2020, 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 March 12, 2021.

During the year ended December 31, 2020, 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
March 12, 2021