



Financial Statements
December 31, 2011 and 2010

Rio Grande Electric Cooperative, Inc.

Independent Auditor’s Report.....	1
Financial Statements	
Balance Sheets	2
Statements of Operations	3
Statements of Equities.....	4
Statements of Cash Flows	5
Notes to Financial Statements.....	7
Independent Auditor’s Report on Supplementary Information	17
Supplemental Information	
Directors, Officers and Management	18
Schedule of Electric Plant	19
Schedule of Electric Plant Accumulated Depreciation	20
Schedule of Patronage Capital	21
Schedule of Long-Term Debt	22
Schedule of Administrative and General Expenses	24
Comparative Statements of Operations.....	25
Statistics for the Years Ended December 31, 2008 - 2011	26
Independent Auditor’s Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	28
Auditor’s Certification Regarding Loan Fund Expenditures	30



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Independent Auditor's Report

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

We have audited the accompanying balance sheets of Rio Grande Electric Cooperative, Inc. as of December 31, 2011 and 2010, and the related statements of operations, equities, and cash flows for the years then ended. These financial statements are the responsibility of the Cooperative's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2012, on our consideration of the Cooperative's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Sioux Falls, South Dakota
March 15, 2012

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	2011	2010
Assets		
Electric Plant		
In service	\$ 116,890,171	\$ 108,012,287
Under construction	3,225,496	8,026,200
Total electric plant	<u>120,115,667</u>	<u>116,038,487</u>
Less accumulated depreciation and amortization	46,658,974	44,204,648
Electric plant - net	<u>73,456,693</u>	<u>71,833,839</u>
Other Investments		
Investments in associated organizations	<u>1,710,880</u>	<u>1,665,921</u>
Current Assets		
Cash and cash equivalents	1,920,623	1,684,129
Accounts receivable, net of allowances	7,537,222	5,558,173
Power cost adjustment receivable	-	296,767
Accrued utility revenue	2,021,164	1,853,023
Materials and supplies	4,313,614	2,511,954
Prepayments	305,089	368,404
Interest receivable	9,237	9,364
Total current assets	<u>16,106,949</u>	<u>12,281,814</u>
Deferred Debits	<u>3,079,085</u>	<u>994,535</u>
	<u>\$ 94,353,607</u>	<u>\$ 86,776,109</u>

See Notes to Financial Statements

Rio Grande Electric Cooperative, Inc.
Balance Sheets
December 31, 2011 and 2010

	2011	2010
Equities and Liabilities		
Equities		
Patronage capital	\$ 39,659,110	\$ 32,799,215
Memberships	30,040	29,235
Other equities	231,914	15,958
	39,921,064	32,844,408
Long-Term Debt, Less Current Maturities	36,756,206	38,749,255
Current Liabilities		
Current maturities of long-term debt	1,839,334	1,814,110
Notes payable - line-of-credit	2,984,572	7,164,594
Accounts payable	3,000,783	2,462,201
Power cost adjustment payable	407,199	-
Customer deposits	429,924	315,820
Taxes accrued and withheld	120,458	107,080
Accrued interest payable	99,360	110,641
Accrued employee compensated absences	410,873	401,332
Other current liabilities	343,369	318,359
	9,635,872	12,694,137
Deferred Credits	8,040,465	2,488,309
	\$ 94,353,607	\$ 86,776,109

Rio Grande Electric Cooperative, Inc.
 Statements of Operations
 Years Ended December 31, 2011 and 2010

	2011	2010
Operating Revenues		
Electric	\$ 34,169,715	\$ 30,044,244
Other	10,645,548	6,189,149
Total operating revenues	44,815,263	36,233,393
Operating Expenses		
Cost of power	19,083,973	16,801,559
Transmission	16,458	16,347
Distribution - operations	3,628,033	3,161,861
Distribution - maintenance	1,716,721	1,855,598
Customer accounts	854,175	1,044,869
Customer service and informational	238,136	264,933
Administrative and general	3,159,454	2,863,833
Depreciation	3,492,435	3,161,147
Taxes	9,752	8,291
Interest on long-term debt	1,794,034	1,758,996
Other interest	79,572	301,342
Other deductions	3,485,767	26,442
Total operating expenses	37,558,510	31,265,218
Operating Margin Before Capital Credits	7,256,753	4,968,175
Generation and Transmission and Other Cooperative Capital Credits	174,957	168,061
Net Operating Margin	7,431,710	5,136,236
Nonoperating Margin		
Interest income	44,433	37,464
Internet activities (less costs and expenses: 2011 - \$165,616; 2010 - \$152,096)	24,468	49,194
Other	34,260	53,113
Total nonoperating margin	103,161	139,771
Net Margin	\$ 7,534,871	\$ 5,276,007

Rio Grande Electric Cooperative, Inc.
Statements of Equities
Years Ended December 31, 2011 and 2010

	Patronage Capital			Memberships	Other	Total
	Assigned	Assignable	Total		Equities	
Balance, December 31, 2009	\$ 20,969,129	\$ 1,114,536	\$ 22,083,665	\$ 28,630	\$ 5,455,501	\$ 27,567,796
Margins assigned	6,554,079	(1,114,536)	5,439,543	-	(5,439,543)	-
Net margin for the year		5,276,007	5,276,007	-	-	5,276,007
Other	-	-	-	605	-	605
Balance, December 31, 2010	27,523,208	5,276,007	32,799,215	29,235	15,958	32,844,408
Margins assigned	5,276,007	(5,276,007)	-	-	-	-
Net margin for the year	-	7,534,871	7,534,871	-	-	7,534,871
Capital credit retirements	(674,976)	-	(674,976)	-	215,956	(459,020)
Other	-	-	-	805	-	805
Balance, December 31, 2011	<u>\$ 32,124,239</u>	<u>\$ 7,534,871</u>	<u>\$ 39,659,110</u>	<u>\$ 30,040</u>	<u>\$ 231,914</u>	<u>\$ 39,921,064</u>

Rio Grande Electric Cooperative, Inc.
Statements of Cash Flows
Years Ended December 31, 2011 and 2010

	2011	2010
Operating Activities		
Net margin	\$ 7,534,871	\$ 5,276,007
Adjustments to reconcile net margins to net cash from operating activities		
Depreciation and amortization	4,284,177	3,855,481
Patronage capital credits from other cooperatives	(174,957)	(168,061)
(Increase) decrease in assets		
Accounts receivable	(1,979,049)	(414,684)
Accrued revenue	(168,141)	4,312,448
Prepayments	63,315	50,296
Interest receivable	127	(86)
Deferred debits	(2,084,550)	(306,348)
Increase (decrease) in liabilities		
Accounts payable	(874,197)	(796,046)
Power cost adjustment receivable/payable	703,966	(480,655)
Customer deposits	114,104	(102,691)
Taxes accrued and withheld	13,378	60,142
Other current liabilities	23,270	(213,917)
Deferred credits	5,552,156	(295,082)
Net Cash from Operating Activities	13,008,470	10,776,804
Investing Activities		
Electric plant additions and replacements - net	(4,335,157)	(10,506,770)
Net cost of removal	(297,453)	(478,518)
Decrease in investments	129,998	113,176
Increase in materials and supplies	(1,801,660)	(440,353)
Net Cash used for Investing Activities	(6,304,272)	(11,312,465)
Financing Activities		
Advance of long-term-debt	-	3,300,000
Principal payments on long-term debt	(1,829,467)	(1,734,666)
Payments on line of credit - net	(4,180,022)	(705,544)
Patronage capital retirements	(459,020)	-
Increase in memberships	805	605
Net Cash (used for) from Financing Activities	(6,467,704)	860,395
Net Change in Cash and Cash Equivalents	236,494	324,734
Cash and Cash Equivalents, Beginning of Year	1,684,129	1,359,395
Cash and Cash Equivalents, End of Year	\$ 1,920,623	\$ 1,684,129

Rio Grande Electric Cooperative, Inc.
 Statements of Cash Flows
 Years Ended December 31, 2011 and 2010

	2011	2010
Supplemental Disclosures of Cash Flow Information		
Interest paid on long-term debt	\$ 1,665,088	\$ 1,647,722
Interest paid on short-term debt	103,364	307,828
	\$ 1,768,452	\$ 1,955,550
Supplemental Disclosures of Non-Cash Financing Information		
Refinancing of long-term debt with CoBank	\$ -	\$ 5,732,819
Assumption of long-term debt to acquire of property, plant, and equipment	\$ -	\$ 3,457,971
Transfer of property, plant, and equipment in exchange for reduction in long-term debt	\$ 138,358	\$ -
Accounts payable for construction	\$ 1,433,743	\$ 20,964

Note 1 - Summary of Significant Accounting Policies

General

The Cooperative is subject to the accounting and reporting rules and regulations of Rural Utilities Service (RUS). The Cooperative follows the Federal Energy Regulatory Commission's Uniform System of Accounts prescribed for Class A and B Electric Utilities as modified by RUS.

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

Electric Plant and Retirements

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

Impairment of Long-Lived Assets

In accordance with FASB ASC Topic 360-10, *Impairment of Long-Lived Assets*, the Cooperative reviews, as circumstances dictate, the carrying amount of its long-lived assets. The purpose of the review is to determine whether the carrying amounts of its long-lived assets are recoverable. Recoverability is determined by comparing the projected undiscounted net cash flows of the long-lived assets against their respective carrying amounts. The amount of impairment, if any, is measured based upon the excess of the carrying value over the fair value. During the years ended December 31, 2011 and 2010, the Cooperative recorded impairment charges of \$3,464,884 and \$0 related to the discontinued use of certain meters that are being replaced with new technology. The impairment loss is included in other deductions in the statements of operations.

Depreciation

Depreciation is computed using the straight-line method based upon the estimated useful lives of the various classes of property.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Cooperative considers all certificates of deposit, commercial paper, and money market funds with an original maturity of three months or less to be cash equivalents.

Investments

Investments in other cooperatives are recorded at cost, including allocated patronage capital. Investments that are a condition of loans from National Rural Utilities Cooperative Finance Corporation are recorded at cost.

Receivable and Credit Policy

Accounts receivable are uncollateralized customer obligations due under terms established by the Board of Directors. Past due balances are subject to disconnection of service. The Cooperative requires deposits from customers with poor credit history. The carrying amount of accounts receivable is reduced by an amount that reflects management's best estimate of amounts that will not be collected. Allowance for uncollectable accounts was \$90,418 and \$92,648 as of December 31, 2011 and 2010, respectively.

Materials and Supplies

Inventories are stated at average cost.

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 principal payments on debt 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.

Electric Revenue and Power Costs

Electric revenues are recognized as billed to customers on a monthly basis. Revenue for energy delivered after the billing date to the end of the accounting period is recorded as accrued revenue. During 2011, the Cooperative estimated and recorded approximately fourteen days of accrued revenue.

The Cooperative's tariffs for electric service include power cost adjustment factors under which electric rates charged to customers are adjusted to reflect changes in the cost of power. At December 31, 2011 and 2010, the Cooperative had recorded a liability of \$-0- and an asset of \$296,767, respectively, to reflect under and over collections of revenue relative to the power cost adjustment.

Power costs are recognized based on billings from the Cooperative's power suppliers. The billing date coincides with the Cooperative's year-end, accordingly, there are no unbilled power costs at December 31, 2011 and 2010.

Pension Costs

The policy is to fund normal pension costs as accrued.

Accounting Estimates

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

Business Credit Risk

The Cooperative sells electric energy on account to its members in a designated service area that covers a large area of southwest Texas and southern New Mexico.

The Cooperative maintains its cash deposits in financial institutions insured by the federal government deposit balances which at times exceed insured limits.

Income Taxes

The Cooperative is exempt from income taxes under Section 501(c)(12) of the Internal Revenue Code on any income related to its exempt purpose. The Company incurs unrelated business taxable income (UBI) under the Code on certain revenue streams, but has net operating loss carryforwards of approximately \$900,000 to offset future taxable income as of December 31, 2011.

The Cooperative evaluated its income tax positions on an annual basis. Management has determined that there are no uncertain tax positions at December 31, 2011 and 2010 that meet the criteria for recognition in the financial statements.

The Cooperative would recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred. Generally, the Cooperative is no longer subject to Federal or state tax examinations by tax authorities for years before 2008.

Sales Taxes

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

Reclassifications

Certain reclassifications have been made to the 2010 financial statements to make them conform to the 2011 presentation. The reclassifications had no effect on net margins.

Note 2 - Electric Plant and Depreciation

	2011		2010	
	Plant	Depreciation Rates	Plant	Depreciation Rates
Transmission plant	\$ 3,703,653	2.75%	\$ 2,968,130	2.75%
Distribution plant	95,785,181	2.90%	89,292,180	2.90%
General plant	15,381,620	2.0 - 33.3%	13,732,260	2.0 - 33.3%
Electric plant adjustment	2,019,075	5.41%	2,019,075	5.41%
Intangible plant	642		642	
Electric plant in service	<u>116,890,171</u>		<u>108,012,287</u>	
Construction in progress	<u>3,225,496</u>		<u>8,026,200</u>	
Total electric plant	<u><u>\$ 120,115,667</u></u>		<u><u>\$ 116,038,487</u></u>	

Note 3 - Investments in Associated Organizations

	2011	2010
National Rural Utilities Cooperative Finance Corporation (CFC)		
Capital term certificates	\$ 896,389	\$ 896,389
Patronage capital allocation	220,944	190,568
Membership	1,000	1,000
	<u>1,118,333</u>	<u>1,087,957</u>
Texas Electric Power Cooperatives - patronage capital	257,667	271,944
Medina Electric Power Cooperative - patronage capital	82,855	85,797
Dell Telephone Cooperative, Inc. - patronage capital	50,083	51,272
National Information Service Cooperative - patronage capital	25,851	18,537
Federated Rural Electric Insurance - patronage capital	53,046	69,565
National Rural Telecommunications Cooperative - patronage capital	64,063	53,962
CoBank - patronage capital	56,328	23,921
Nueces Electric Power Cooperative - patronage capital	589	901
Other memberships	2,065	2,065
Totals	<u><u>\$ 1,710,880</u></u>	<u><u>\$ 1,665,921</u></u>

Note 4 - Cash and Cash Equivalents

	2011	2010
Cash on hand	\$ 3,150	\$ 3,150
Cash in checking	365,405	180,979
CFC Daily Fund investment	<u>1,552,068</u>	<u>1,500,000</u>
Total cash and cash equivalents	<u><u>\$ 1,920,623</u></u>	<u><u>\$ 1,684,129</u></u>

Note 5 - Accrued Utility Revenue

	2011	2010
Accrued energy revenue	\$ 600,183	\$ 960,568
Ft. Bliss - job order costs	695,282	456,551
Ft. Bliss - operations and maintenance	73,060	73,060
Laughlin - job order costs	554,127	260,919
Laughlin - operations and maintenance	80,724	83,664
Other	17,788	18,261
	\$ 2,021,164	\$ 1,853,023

Note 6 - Deferred Debits

	2011	2010
Job order costs - Fort Bliss	\$ 2,425,256	\$ 625,404
Fort Bliss - contract price redetermination	410,950	232,966
Software costs, net of amortization	100,950	100,479
Preliminary survey and investigative charges	116,181	18,234
Other/Clearing accounts	25,748	17,452
	\$ 3,079,085	\$ 994,535

Note 7 - Patronage Capital

	2011	2010
Assignable	\$ 7,534,871	\$ 5,276,007
Assigned to date	32,802,675	27,526,668
	40,337,546	32,802,675
Retired to date	678,436	3,460
	\$ 39,659,110	\$ 32,799,215

The mortgage provisions restrict the retirement of patronage capital unless, after retirement, the capital of the Cooperative equals at least 30% of the total assets of the Cooperative. No distribution can be made if there is unpaid, when due, any installments of principal or interest on the notes, or, if after giving effect to any distribution, the total current and accrued assets would be less than the total current and accrued liabilities.

Note 8 - Other Equities

	2011	2010
Unclaimed capital credits	\$ 215,956	\$ -
Donated capital	4,622	4,622
Paid-in capital	7,196	7,196
Prior period margins	4,140	4,140
	\$ 231,914	\$ 15,958

Note 9 - Long - Term Debt

	2011	2010
Rural Utilities Service (RUS) mortgage notes		
2%, due in quarterly installments through 2016	\$ 1,496,341	\$ 2,026,920
5%, due in monthly installments through 2041	9,680,714	9,821,399
	11,177,055	11,848,319
Federal Financing Bank (FFB) mortgage notes		
Fixed rate notes (4.383% - 5.735%), due in quarterly installments through 2034	4,227,623	4,331,057
Variable rate notes (3.586% at December 31, 2011), due in quarterly installments due through 2011	291,938	299,784
	4,519,561	4,630,841
National Rural Utilities Cooperative Finance Corporation (CFC) mortgage notes		
Fixed rate notes (3.70% to 6.35%) due in quarterly installments through 2033 - 2043	9,839,214	6,670,260
Line of credit - 3.20% at 12/31/11, due in December 2049	-	3,300,000
	9,839,214	9,970,260
CoBank mortgage notes		
Adjustable rate notes, converted to fixed rates of 3.98% to 4.97% during 2011 for 5-9 year periods, reverting to variable thereafter, due quarterly, with final maturities from 2018 to 2043	5,007,964	5,158,858
Fixed rate note, 3.20%, due in monthly installments through May 2020	5,046,151	5,637,302
	10,054,115	10,796,160
Department of Defense -Laughlin Air Force Base note payable		
Fixed rate (3.88%) note due in decreasing monthly installments of principal, plus applicable interest through September 2028	3,005,595	3,317,785
	38,595,540	40,563,365
Less current maturities	1,839,334	1,814,110
	\$ 36,756,206	\$ 38,749,255

It is estimated that the minimum principal repayments on the above debt for the next five years ending December 31 will be as follows:

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
RUS	\$ 592,482	\$ 531,119	\$ 501,124	\$ 510,141	\$ 180,558
FFB	120,703	126,656	132,909	139,474	146,368
CFC	166,920	176,182	185,986	196,364	207,352
CoBank	779,791	820,923	863,475	908,234	954,986
Other	179,438	179,438	179,438	179,438	179,438
Total	\$ 1,839,334	\$ 1,834,318	\$ 1,862,932	\$ 1,933,651	\$ 1,668,702

All loan funds advanced by RUS are deposited in a special trust bank account, the disbursements from which are restricted by the provisions of the loan agreement to purposes approved by RUS. The Cooperative has unadvanced loan funds of \$1,944,241, available from CFC at December 31, 2011. During 2011, the cooperative refinanced \$3,300,000 of the CFC line of credit, with a long-term note from CFC.

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

Note 10 - Deferred Credits

	<u>2011</u>	<u>2010</u>
Deferred gain - NRECA Pension Plan Conversion (Note 11)	\$ 28,096	\$ 45,841
Deferred revenue - Fort Bliss Repair and Replacement (Note 13)	961,195	1,617,258
Deferred revenue - Fort Bliss Capital Upgrade (Note 13)	1,107,770	-
Deferred revenue - Laughlin Repair and Replacement (Note 13)	1,743,864	765,156
Deferred revenue - Advance payments for plant construction	4,135,026	-
Consumer advances for energy	64,514	60,054
Totals	\$ 8,040,465	\$ 2,488,309

Note 11 - Pension Plan

Substantially all employees of the Cooperative participate in the National Rural Electric Cooperative Association (NRECA) Retirement & Security Program, a defined benefit pension plan qualified under Section 401(k) and tax exempt under section 501(a) of the Internal Revenue Code. The Cooperative makes contributions to the plan equal to the amounts accrued for pension expense. In this multi-employer plan, which is available to all member cooperatives of NRECA, the accumulated benefits and plan assets are not determined or allocated separately by individual employer. Costs of the plan for the years ended December 31, 2011 and 2010, were approximately \$1,575,000 and \$1,385,000, respectively.

In 1987, the Cooperative terminated its participation in its single employer defined benefit plan, and began participation in the NRECA plan described above. The Cooperative transferred the assets of the terminated plan to NRECA. As a result of the transfer, the Cooperative realized a gain and has a credit balance with NRECA, which is being applied to required pension contributions.

The unamortized gain on the transfer is included with deferred credits and the prepaid pension credit was included with current assets. The gain on the transfer is being amortized over the average remaining service lives of the active employees as of August 1, 1987. The prepaid pension credit was applied to pension contribution requirements. RUS has approved the accounting treatment for this transaction.

In addition to the above retirement plan, employees of the Cooperative are eligible for a 401(k) savings plan. This plan is offered through NRECA. The Cooperative makes a one percent contribution of each employee's base wages in this plan. The Cooperative made contributions of approximately \$67,000 and \$63,000, in 2011 and 2010, respectively.

Note 12 - Lines-of-Credit

The Cooperative has executed line-of-credit agreements with the National Rural Utilities Cooperative Finance Corporation providing the Cooperative with total short-term loans in the total amount of \$8,000,000 on a revolving basis. Interest on unpaid principal is payable quarterly at rates established by CFC, which are not to exceed the lowest prime rate as published in the "Money Rates" column of "The Wall Street Journal" plus 1% per annum. Outstanding advances on these lines-of-credit for the years ended December 31, 2011 and 2010, were \$2,984,572 and \$4,612,847, respectively. Amounts included with long-term debt for the year ended December 31, 2011 and 2010, were \$-0- and \$3,300,000 respectively. The Cooperative had available amounts under the line-of-credit agreements of \$5,015,428 as of December 31, 2011.

The Cooperative has also executed a line-of-credit agreement with CoBank to finance operating needs and interim capital expenditures. Total financing available on the CoBank line-of-credit is \$8 million. Interest on unpaid principal is payable quarterly at rates established by CoBank with the full unpaid principal balance due by the expiration date of September 30, 2012. Outstanding advances on this line-of-credit for the years ending December 31, 2011 and 2010, were \$-0- and \$5,851,747, respectively. The Cooperative had available amounts under the line-of-credit agreements of \$8,000,000 as of December 31, 2011.

Note 13 - Commitments

Wholesale Power Agreements

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

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 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 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 percent per annum, over a thirty-five year period. The Cooperative began the long-term upgrade in 2004. The Cooperative is not under contract to supply electrical energy to the base, but will have the opportunity to bid on the power supply contract in the near future.

The Cooperative has entered into modifications of the 50 year contract to expand electrical distribution infrastructure at Fort Bliss. In connection with these modifications, the Cooperative has entered into irrevocable letters of credit in the amounts of \$265,000, \$1,350,635, and \$19,182,337 which expire in 2012, 2011 and 2010, respectively.

In the event of a draw on an irrevocable letter of credit, the unpaid principal balance and unpaid interest is due one year from the date of each draw. Interest payments are due in accordance with CFC's regular billing cycles at rates established by CFC, which are not to exceed the lowest prime rate as published in the "Money Rates" column of "The Wall Street Journal" plus 1% per annum.

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 Company 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 \$8,647,741 and \$7,783,201 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, 2011 and 2010, respectively. The Cooperative has expended and recognized \$7,686,546 and \$6,165,943, respectively, towards the repair and replacement as of December 31, 2011 and 2010. Unexpended funds of \$961,195 and \$1,617,258 are included with deferred credits as of December 31, 2011 and 2010, respectively.

The Cooperative has billed and accrued \$2,517,768 cumulatively for a capital upgrade project of the Fort Bliss electric distribution system under the contract as of December 31, 2011. The Cooperative has expended and recognized \$1,409,988 towards the repair and replacement as of December 31, 2011. Unexpended funds of \$1,107,770 are included with deferred credits as of December 31, 2011.

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 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 non-cash 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 18 ½ 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 sixty months at an interest rate of 8.84%. Initial system improvement projects scheduled for the first two years of the contract total approximately \$1.2 million dollars, of which approximately \$457,000 has been expended as of December 31, 2011.

The Cooperative has billed and accrued \$1,885,544 and \$795,528 cumulatively for operation and maintenance projects and the repair and replacement of the Laughlin electric distribution system under the contract as of December 31, 2011 and 2010, respectively. The Cooperative has expended \$141,680 and \$30,372 towards the repair and replacement as of December 31, 2011 and 2010, respectively. Unexpended funds of \$1,743,864 and \$765,156 are included with deferred credits as of December 31, 2011 and 2010.

Construction Contract Commitments

As of December 31, 2011, the Cooperative had outstanding construction contract commitments of approximately \$11,690,000.

Note 14 - Subsequent Events

The Cooperative has evaluated subsequent events through March 15, 2012, the date on which the financial statements were available to be issued.



Supplemental Information
December 31, 2011 and 2010

Rio Grande Electric Cooperative, Inc.



CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Supplementary Information

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

We have audited the financial statements of Rio Grande Electric Cooperative, Inc. as of and for the years ended December 31, 2011 and 2010 and our report thereon dated March 15, 2012, which contained an unqualified opinion on those financial statements, appears on page 1. Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The information on pages 19 through 25 as of and for the years ended December 31, 2011 and 2010 is presented for the purposes of additional analysis of the financial statements and is not a required part of the financial statements. Such information is the responsibility of management and is derived from and relates directly to the underlying accounting and other records used to prepare the 2011 and 2010 financial statements. The information on pages 19 through 25 has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly 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 on pages 19 through 25 is fairly stated in all material respects in relation to the financial statements as a whole. We have also previously audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of Rio Grande Electric Cooperative, Inc. as of and for the years ended December 31, 2007 through 2009, none of which is presented herein, and we expressed unqualified opinions on those financial statements. In our opinion, the December 31, 2009, 2008, and 2007 information is fairly stated in all material respects in relation to the basic financial statements from which it has been derived.

The list of Directors, Officers, and Management on page 18 and the comparative data of the RUS and CFC KRTA borrowers on pages 26 and 27 in the statistical and analytical section of this report are the responsibility of management and have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Sioux Falls, South Dakota
March 15, 2012

<u>Name</u>	<u>Position</u>
Stephen Haynes.....	President
Mark Daugherty	Vice President
Margarita Nelson	Secretary
Rowdy Holmsley	Treasurer
Frank Archuleta	Director
Jimmy Ballew	Director
James Evrage	Director
Kimball Miller	Director
Henry Mills III.....	Director
Priscilla Parsons	Director
William White.....	Director
Cindy Whitehead	Director
Lowell Woodward	Director
Daniel G. Laws	General Manager/CEO

Rio Grande Electric Cooperative, Inc.
Schedule of Electric Plant
Years Ended December 31, 2011 and 2010

	Balance 12/31/10	Additions & Transfers	Retirements	Balance 12/31/11
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	854,263	204,833	38,936	1,020,160
Poles and fixtures	1,203,221	122,253	153	1,325,321
Overheads conductors and devices	879,674	447,526	-	1,327,200
Total transmission plant	<u>2,968,130</u>	<u>774,612</u>	<u>39,089</u>	<u>3,703,653</u>
Distribution plant				
Land and land rights	58,761	-	-	58,761
Structures and improvements	6,919,482	367,695	27,889	7,259,288
Poles, towers, and fixtures	27,822,043	3,121,280	449,891	30,493,432
Overhead conductors and devices	32,701,633	3,612,501	585,683	35,728,451
Underground conductors and devices	895,363	96,546	272	991,637
Line transformers	13,163,697	1,219,670	378,855	14,004,512
Services	261,570	163	32	261,701
Meters	6,732,879	2,892,512	3,402,111	6,223,280
Installations on customers' premises	445,759	34,773	7,273	473,259
Leased property on customers' premises	3,920	-	-	3,920
Street lighting	287,073	-	133	286,940
Total distribution plant	<u>89,292,180</u>	<u>11,345,140</u>	<u>4,852,139</u>	<u>95,785,181</u>
General plant				
Land and land rights	152,934	-	-	152,934
Structures and improvements	3,427,326	155,539	-	3,582,865
Office furniture and equipment	1,386,261	199,771	95,375	1,490,657
Transportation equipment	6,073,131	949,039	424	7,021,746
Stores equipment	138,830	8,386	-	147,216
Tools, shop, and garage equipment	427,207	34,578	3,241	458,544
Laboratory equipment	680,386	34,977	1,398	713,965
Power operated equipment	259,851	1,697	5,445	256,103
Communications equipment	1,129,796	262,726	-	1,392,522
Miscellaneous equipment	56,538	108,701	171	165,068
Total general plant	<u>13,732,260</u>	<u>1,755,414</u>	<u>106,054</u>	<u>15,381,620</u>
Total electric plant in service	<u>108,012,287</u>	<u>13,875,166</u>	<u>4,997,282</u>	<u>116,890,171</u>
Construction Work in Progress	8,026,200	(4,800,704)	-	3,225,496
	<u>\$ 116,038,487</u>	<u>\$ 9,074,462</u>	<u>\$ 4,997,282</u>	<u>\$ 120,115,667</u>

Rio Grande Electric Cooperative, Inc.
Schedule of Electric Plant Accumulated Depreciation
Years Ended December 31, 2011 and 2010

	Balance 12/31/10	Depreciation Accruals	Retirements	Balance 12/31/11
Accumulated amortization - plant adjustment	\$ 81,855	\$ 109,139	\$ -	\$ 190,994
Transmission plant	2,034,485	84,205	41,793	2,076,897
Distribution plant	34,308,367	2,705,893	2,251,309	34,762,951
Accumulated depreciation on acquired plant - LAFB	1,348,108	63,573	5,451	1,406,230
	<u>35,656,475</u>	<u>2,769,466</u>	<u>2,256,760</u>	<u>36,169,181</u>
General plant				
Structures and improvements	1,181,210	104,040	-	1,285,250
Office furniture and equipment	883,046	158,935	89,091	952,890
Transportation equipment	3,065,763	779,986	424	3,845,325
Stores equipment	74,674	18,071	-	92,745
Tools, shop, and garage equipment	155,257	24,515	2,689	177,083
Laboratory equipment	480,101	73,852	1,399	552,554
Power operated equipment	104,191	15,175	5,445	113,921
Communications equipment	1,123,063	141,903	3,897	1,261,069
Miscellaneous	44,837	4,890	173	49,554
Total general plant	<u>7,112,142</u>	<u>1,321,367</u>	<u>103,118</u>	<u>8,330,391</u>
Total electric plant in service	<u>43,536,849</u>	<u>4,220,604</u>	<u>2,396,220</u>	<u>45,361,233</u>
Retirement Work in Progress	<u>(680,309)</u>	<u>-</u>	<u>(571,820)</u>	<u>(108,489)</u>
	<u>\$ 44,204,648</u>	<u>\$ 4,284,177</u>	<u>\$ 1,829,851</u>	<u>\$ 46,658,974</u>
		(1)	(2)	
(1) Charged to depreciation expense				\$ 3,492,435
Charged to clearing accounts				791,742
				<u>\$ 4,284,177</u>
(2) Cost of units retired				\$ 4,997,282
Cost of removal				342,383
Loss on impairment of distribution plant				(3,464,884)
Salvage				(44,930)
Loss due to retirement				<u>\$ 1,829,851</u>

Rio Grande Electric Cooperative, Inc.
Schedule of Patronage Capital
Years Ended December 31, 2011 and 2010

Calendar Year	Assignable	Assigned	Retired	12/31/2011 Balance	12/31/2010 Balance
1951	\$ -	\$ 5,611	\$ 5,611	\$ -	\$ 5,611
1952	-	41,630	41,630	-	41,630
1953	-	44,658	44,658	-	44,658
1956	-	5,745	5,745	-	5,745
1967	-	30,621	30,621	-	30,621
1968	-	25,575	25,575	-	25,575
1969	-	64,144	64,144	-	64,144
1971	-	27,279	27,279	-	27,279
1972	-	51,428	51,428	-	51,427
1973	-	80,910	80,910	-	80,900
1974	-	158,288	158,288	-	158,273
1975	-	139,201	139,201	-	139,191
1977	-	222,668	19	222,649	222,649
1978	-	366,220	29	366,191	366,191
1979	-	175,947	19	175,928	175,928
1980	-	96,892	23	96,869	96,869
1981	-	162,472	48	162,424	162,424
1982	-	495,360	138	495,222	495,221
1984	-	1,257,162	412	1,256,750	1,256,750
1985	-	528,848	156	528,692	528,692
1986	-	85,875	30	85,845	85,845
1987	-	240,365	83	240,282	240,282
1988	-	1,854,292	594	1,853,698	1,853,697
1989	-	1,671,269	340	1,670,929	1,670,929
1990	-	1,555,440	208	1,555,232	1,555,232
1991	-	921,927	103	921,824	921,823
1992	-	764,835	103	764,732	764,732
1993	-	859,051	115	858,936	858,937
1994	-	1,140,748	155	1,140,593	1,140,593
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	798,303
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	712,643
2001	-	734,829	53	734,776	734,775
2002	-	778,390	63	778,327	778,326
2003	-	612,527	27	612,500	612,427
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	-
	<u>\$ 7,534,871</u>	<u>\$ 32,802,675</u>	<u>\$ 678,436</u>	<u>\$ 39,659,110</u>	<u>\$ 32,799,215</u>

Rio Grande Electric Cooperative, Inc.
Schedule of Long-Term Debt
Years Ended December 31, 2011 and 2010

Note and Date	Principal Amount	Principal Payments	Net Obligations	
			2011	2010
RUS Construction Obligations				
2% interest rate				
14270 5/24/1977	\$ 2,962,000	\$ 2,932,744	\$ 29,256	\$ 152,716
14280 7/18/1978	2,190,000	2,054,551	135,449	224,482
14290 1/20/1981	8,224,000	6,892,364	1,331,636	1,649,722
	<u>13,376,000</u>	<u>11,879,659</u>	<u>1,496,341</u>	<u>2,026,920</u>
5% interest rate				
1B320 12/8/2006	2,234,000	99,865	2,134,135	2,165,192
1B321 6/4/2007	2,000,000	89,405	1,910,595	1,938,399
1B322 1/7/2008	1,430,000	63,925	1,366,075	1,385,955
1B323 4/30/2008	1,000,000	44,702	955,298	969,199
1B324 7/23/2009	2,478,500	80,752	2,397,748	2,432,479
1B325 5/10/2010	937,500	20,637	916,863	930,175
	<u>10,080,000</u>	<u>399,286</u>	<u>9,680,714</u>	<u>9,821,399</u>
Total RUS debt	<u>23,456,000</u>	<u>12,278,945</u>	<u>11,177,055</u>	<u>11,848,319</u>
FFB				
H0010 4/27/2001 4.383%	350,000	64,247	285,753	293,328
H0015 4/27/2001 3.586%	350,000	58,062	291,938	299,784
H0020 4/27/2001 5.621%	380,000	57,956	322,044	329,285
H0025 4/4/2002 5.735%	340,000	48,531	291,469	297,923
H0030 10/21/2002 4.975%	248,000	38,199	209,801	214,945
H0035 1/29/2003 4.756%	985,000	153,444	831,556	852,545
H0040 4/11/2003 4.754%	685,000	104,615	580,385	595,038
H0045 8/19/2003 5.220%	525,000	73,513	451,487	462,201
H0050 10/30/2003 5.002%	1,462,000	206,872	1,255,128	1,285,792
Total FFB debt	<u>5,325,000</u>	<u>805,439</u>	<u>4,519,561</u>	<u>4,630,841</u>

Rio Grande Electric Cooperative, Inc.
Schedule of Long-Term Debt
Years Ended December 31, 2011 and 2010

Note and Date	Principal Amount	Principal Payments	Net Obligations		
			2011	2010	
CFC					
9006001	5/23/2003 6.30%	2,609,550	384,952	2,224,598	2,273,180
9006002	9/10/2003 6.30%	256,000	34,996	221,004	225,631
9006005	5/31/2005 6.35%	500,000	32,215	467,785	473,580
9006006	5/31/2005 6.35%	750,000	45,644	704,356	712,918
9006007	5/31/2005 6.35%	1,000,000	60,860	939,140	950,558
9006008	5/31/2005 6.35%	640,209	38,962	601,247	608,556
9006009	5/31/2005 6.35%	1,500,000	91,288	1,408,712	1,425,837
9006012	1/26/2011 3.70%	3,300,000	27,628	3,272,372	-
LOC *	various (1)	-	-	-	3,300,000
Total CFC debt		<u>10,555,759</u>	<u>716,545</u>	<u>9,839,214</u>	<u>9,970,260</u>
CoBank					
RX0696T2-1	07/16/09 (2) 3.95%	608,079	140,626	467,453	525,976
RX0696T2	07/16/09 (3) 4.43%	389,356	69,492	319,864	348,783
RX0696T1-3	07/16/09 (4) 4.92%	918,937	47,576	871,361	891,161
RX0696T1-2	07/16/09 (5) 3.98%	474,848	17,041	457,807	464,899
RX0696T1-1	07/16/09 (5) 3.98%	1,487,221	46,130	1,441,091	1,460,219
RX0696T1	07/16/09 (4) 4.97%	1,492,276	41,888	1,450,388	1,467,820
RI0696T3	11/30/10 3.20%	5,732,851	686,700	5,046,151	5,637,302
Total CFC debt		<u>11,103,568</u>	<u>1,049,453</u>	<u>10,054,115</u>	<u>10,796,160</u>
Department of Defense - Laughlin AFB					
	04/09/10 3.88%	3,457,971	452,376	3,005,595	3,317,785
		<u>\$ 53,898,298</u>	<u>\$ 15,302,758</u>	<u>\$ 38,595,540</u>	<u>\$ 40,563,365</u>

- (1) The CFC variable rate was 3.20% at December 31, 2011.
(2) Fixed to maturity of May 31, 2018
(3) Fixed to maturity of May 31, 2020
(4) Converts to variable rate on March 3, 2019
(5) Converts to variable rate on March 3, 2016

Rio Grande Electric Cooperative, Inc.
Schedule of Administrative and General Expenses
Years Ended December 31, 2011 and 2010

	December 31		Increase (Decrease)
	2011	2010	
Administrative and general salaries	\$ 1,169,777	\$ 1,061,789	\$ 107,988
Administrative and general salaries-military bases	340,647	319,516	21,131
Office supplies and expenses	175,312	136,736	38,576
Outside services employed	269,602	303,116	(33,514)
Directors' fees and expenses	177,730	178,982	(1,252)
Dues to associated organizations	17,811	20,310	(2,499)
Miscellaneous general expenses	191,549	153,550	37,999
Utility commission related expenses	169,740	96,032	73,708
Annual meeting expense	103,804	119,184	(15,380)
Maintenance of general plant	543,482	474,618	68,864
Total	<u>\$ 3,159,454</u>	<u>\$ 2,863,833</u>	<u>\$ 295,621</u>

	2011		2010	
	Amount	Percent	Amount	Percent
Operating Revenue				
Residential	\$ 14,293,665	31.89%	\$ 12,408,006	34.24%
Irrigation	5,468,045	12.20%	3,454,338	9.53%
Commercial and industrial	14,408,005	32.15%	14,181,900	39.14%
Other operating revenues	10,645,548	23.75%	6,189,149	17.08%
	<u>44,815,263</u>	<u>100.00%</u>	<u>36,233,393</u>	<u>100.00%</u>
Operating Expenses				
Cost of power	19,083,973	42.6%	16,801,559	46.4%
Transmission	16,458	0.0%	16,347	0.0%
Distribution-operations	3,628,033	8.1%	3,161,861	8.7%
Distribution-maintenance	1,716,721	3.8%	1,855,598	5.1%
Customer accounts	854,175	1.9%	1,044,869	2.9%
Customer service and informational	238,136	0.5%	264,933	0.7%
Administrative and general	3,159,454	7.0%	2,863,833	7.9%
Depreciation	3,492,435	7.8%	3,161,147	8.7%
Taxes	9,752	0.0%	8,291	0.0%
Interest on long-term debt	1,794,034	4.0%	1,758,996	4.9%
Other interest	79,572	0.2%	301,342	0.8%
Other deductions	3,485,767	7.8%	26,442	0.1%
Total operating expenses	<u>37,558,510</u>	<u>83.81%</u>	<u>31,265,218</u>	<u>86.29%</u>
Operating Margin Before Capital Credits	7,256,753	16.19%	4,968,175	13.71%
Generation and Transmission and Other Cooperative Capital Credits	<u>174,957</u>	<u>0.4%</u>	<u>168,061</u>	<u>0.5%</u>
Net Operating Margin	7,431,710	<u>16.6%</u>	5,136,236	<u>14.2%</u>
Nonoperating Margin	<u>103,161</u>		<u>139,771</u>	
Net Margin	<u>\$ 7,534,871</u>		<u>\$ 5,276,007</u>	

Rio Grande Electric Cooperative
Comparative Statements of Operations
For the Years Ended December 31

2009		2008		2007	
Amount	Percent	Amount	Percent	Amount	Percent
\$ 11,242,576	35.11%	\$ 11,978,305	36.00%	\$ 9,694,545	36.55%
3,332,723	10.41%	3,667,190	11.02%	2,074,006	7.82%
13,579,271	42.41%	15,074,401	45.30%	12,109,759	45.66%
3,867,197	12.08%	2,557,729	7.69%	2,644,160	9.97%
32,021,767	100.00%	33,277,625	100.0%	26,522,470	100.0%
17,338,262	54.1%	20,103,550	60.4%	13,819,458	52.1%
10,480	0.0%	20,381	0.1%	55,304	0.2%
3,018,864	9.4%	3,031,028	9.1%	2,522,431	9.5%
1,914,765	6.0%	1,589,571	4.8%	1,766,760	6.7%
1,085,381	3.4%	895,258	2.7%	942,762	3.6%
213,239	0.7%	203,377	0.6%	172,060	0.6%
2,723,500	8.5%	2,229,209	6.7%	2,113,083	8.0%
2,849,178	8.9%	2,623,674	7.9%	2,446,775	9.2%
7,439	0.0%	8,343	0.0%	6,772	0.0%
1,683,269	5.3%	1,627,667	4.9%	1,467,869	5.5%
276,350	0.9%	212,959	0.6%	124,143	0.5%
15,457	0.0%	30,615	0.1%	33,672	0.1%
31,136,184	97.23%	32,575,632	97.9%	25,471,089	96.0%
885,583	2.77%	701,993	2.1%	1,051,381	4.0%
107,183	0.4%	103,723	0.4%	86,087	0.4%
992,766	3.1%	805,716	2.4%	1,137,468	4.3%
121,770		109,584		133,801	
\$ 1,114,536		\$ 915,300		\$ 1,271,269	

Rio Grande Electric Cooperative, Inc.
 Statistics for the Years Ended December 31, 2008 - 2011
 Compared to the 2010 CFC KRTA & RUS Borrowers Statistical Profile Median Values

	2010 CFC KRTA & 2010 RUS Borrowers Statistical Profile Median Values		Rio Grande Electric Cooperative, Inc.			
	US	Texas	2011	2010	2009	2008
	1. Times interest earned ratio (TIER)	2.45	3.23	5.20	4.00	1.66
2. Debt service coverage (DSC)	2.21	2.70	3.86	3.14	1.75	1.71
3. Interest/average debt %	5.07	5.06	4.97	5.15	5.18	5.40
4. Equity ratio %	41.78	45.80	42.31	37.85	34.85	35.33
5. Rate of return %	5.13	5.80	15.79	8.90	3.95	3.84
6. Consumers per mile	5.94	5.14	1.29	1.28	1.26	1.24
7. Administrative and general expense per consumer	121.82	102.50	255.23	236.10	229.44	191.15
8. Plant investment per mile	27,286	23,567	12,555	12,204	10,893	10,161
9. Revenue per kwh sold (mills)	100.25	105.54	148.79	141.02	130.79	151.37
10. Power cost per kwh sold (mills)	66.26	70.47	83.17	78.94	80.59	99.16
11. Power cost/revenue %	62.54	65.77	55.90	55.98	61.62	65.51
12. System line loss	5.98	7.23	11.11	10.54	10.02	10.95

Rio Grande Electric Cooperative, Inc.
 Statistics for the Years Ended December 31, 2008 - 2011
 Compared to the 2010 CFC KRTA & RUS Borrowers Statistical Profile Median Values

	2010 CFC KRTA & 2010 RUS Borrowers Statistical Profile Median Values		Rio Grande Electric Cooperative, Inc.			
	US	Texas	2011	2010	2009	2008
	13. Plant revenue ratio	6.31	6.51	4.67	6.06	7.14
14. Long-term Debt/ total assets %	44.72	41.41	40.91	46.17	41.61	42.82
15. Accumulated depreciation/ total plant %	31.07	27.97	39.92	40.93	41.99	42.99
16. Revenue per mile of line	11,235	9,466	4,684	3,784	3,361	3,505
17. Current ratio	1.23	0.99	1.17	1.08	1.02	1.18
18. Total consumers	13,250	19,413	12,379	12,130	11,870	11,662
19. General funds/ total plant %	4.16	3.64	1.60	1.45	1.32	1.58
20. Total margins per consumer	150.51	230.41	608.68	434.96	93.90	78.49
21. Consumer accounts expense per consumer	58.47	61.23	69.00	86.14	91.44	76.77

* Obtained from “2010 RUS Borrower Statistical Profile” report published by RUS.



CPAs & BUSINESS ADVISORS

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

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

We have audited the financial statements of Rio Grande Electric Cooperative, Inc. as of and for the year ended December 31, 2011, and have issued our report thereon dated March 15, 2012. We conducted our audit 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Rio Grande Electric Cooperative, Inc.'s internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified.

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 combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Association's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rio Grande Electric Cooperative, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

We noted certain matters and required audit communications that we reported to management of Rio Grande Electric Cooperative, Inc. in a separate letter dated March 15, 2012.

This report is intended solely for the information and use of the Board of Directors, management, 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.

A handwritten signature in cursive script that reads "Eide Sully LLP".

Sioux Falls, South Dakota
March 15, 2012



Auditor's Certification Regarding Loan Fund Expenditures

CFC's Member Services Group
2201 Cooperative Way
Herndon, VA 20171-3025

Gentlemen:

During the period of this review, the Cooperative received \$3,300,000 in long-term loan fund advances from CFC on loans controlled by the RUS/CFC Mortgage and Loan Agreement. Based on our review of construction work orders and other plant accounting records created during the period of review, it is our opinion that these CFC loan funds were expended for purposes contemplated in the Loan Agreements on such loans.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Sioux Falls, South Dakota
March 15, 2012