



Financial Statements  
December 31, 2012 and 2011

**Rio Grande Electric Cooperative,  
Inc.**

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CPAs & BUSINESS ADVISORS

## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of Rio Grande Electric Cooperative, Inc., which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of operations, equities, and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rio Grande Electric Cooperative, Inc. as of December 31, 2012 and 2011, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated March 15, 2013 on our consideration of Rio Grande Electric Cooperative, Inc.'s internal control over financial reporting and on 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. Those reports are 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.

*Eide Sallee LLP*

Sioux Falls, South Dakota  
March 15, 2013

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	<u>2012</u>	<u>2011</u>
Assets		
Electric Plant		
In service	\$ 122,430,574	\$ 116,890,171
Under construction	4,156,946	3,225,496
Total electric plant	<u>126,587,520</u>	<u>120,115,667</u>
Less accumulated depreciation and amortization	49,559,451	46,658,974
Electric plant - net	<u>77,028,069</u>	<u>73,456,693</u>
Other Assets		
Investments in associated organizations	1,826,494	1,710,880
Notes receivable - noncurrent portion	3,421,023	2,425,256
	<u>5,247,517</u>	<u>4,136,136</u>
Current Assets		
Cash and cash equivalents	5,138,393	1,920,623
Accounts receivable, net of allowances	3,926,772	7,537,222
Accrued utility revenue	4,975,527	2,005,373
Notes receivable - current portion	228,128	15,791
Materials and supplies	3,216,100	4,313,614
Prepayments	308,367	305,089
Interest receivable	9,330	9,237
Total current assets	<u>17,802,617</u>	<u>16,106,949</u>
Deferred Debits	<u>1,048,867</u>	<u>653,828</u>
	<u>\$ 101,127,070</u>	<u>\$ 94,353,606</u>

See Notes to Financial Statements

Rio Grande Electric Cooperative, Inc.  
Balance Sheets  
December 31, 2012 and 2011

	2012	2011
Equities and Liabilities		
Equities		
Patronage capital	\$ 51,041,912	\$ 39,659,110
Memberships	30,745	30,040
Other equities	632,978	231,914
Total equities	51,705,635	39,921,064
Long-Term Debt, Less Current Maturities	35,842,326	36,756,206
Current Liabilities		
Current maturities of long-term debt	2,132,007	1,839,334
Notes payable - line-of-credit	-	2,984,572
Accounts payable	2,666,814	3,000,783
Power cost adjustment payable	124,465	407,199
Customer deposits	517,274	429,924
Accrued interest payable	130,071	99,360
Other current and accrued liabilities	4,485,805	5,009,724
Total current liabilities	10,056,436	13,770,896
Deferred Credits	3,522,673	3,905,440
	\$ 101,127,070	\$ 94,353,606

Rio Grande Electric Cooperative, Inc.  
Statements of Operations  
Years Ended December 31, 2012 and 2011

	2012	2011
Operating Revenues		
Electric	\$ 32,232,002	\$ 34,169,715
Other	12,556,612	10,645,548
Total operating revenues	44,788,614	44,815,263
Operating Expenses		
Cost of power	17,043,404	19,083,973
Transmission	46,511	16,458
Distribution - operations	3,962,680	3,628,033
Distribution - maintenance	1,836,574	1,716,721
Customer accounts	791,758	854,175
Customer service and informational	239,528	238,136
Administrative and general	3,176,758	3,159,454
Depreciation	3,841,428	3,492,435
Taxes	10,151	9,752
Interest on long-term debt	1,737,886	1,794,034
Other interest	9,655	79,572
Other deductions	276,622	3,485,767
Total operating expenses	32,972,955	37,558,510
Operating Margin Before Capital Credits	11,815,659	7,256,753
Generation and Transmission and Other Cooperative Capital Credits	242,693	174,957
Net Operating Margin	12,058,352	7,431,710
Nonoperating Margin		
Interest income	39,665	44,433
Internet activities (less costs and expenses: 2012 - \$152,672 ; 2011 - \$165,616)	32,967	24,468
Other	16,587	34,260
Total nonoperating margin	89,219	103,161
Net Margin	\$ 12,147,571	\$ 7,534,871



Rio Grande Electric Cooperative, Inc.  
 Statements of Equities  
 Years Ended December 31, 2012 and 2011

	Patronage Capital			Memberships	Other	Total
	Assigned	Assignable	Total		Equities	
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	32,124,239	7,534,871	39,659,110	30,040	231,914	39,921,064
Margins assigned	7,534,871	(7,534,871)	-	-	-	-
Net margin for the year	-	12,147,571	12,147,571	-	-	12,147,571
Capital credit retirements	(764,769)	-	(764,769)	-	401,064	(363,705)
Other	-	-	-	705	-	705
Balance, December 31, 2012	<u>\$ 38,894,341</u>	<u>\$ 12,147,571</u>	<u>\$ 51,041,912</u>	<u>\$ 30,745</u>	<u>\$ 632,978</u>	<u>\$ 51,705,635</u>

Rio Grande Electric Cooperative, Inc.  
Statements of Cash Flows  
Years Ended December 31, 2012 and 2011

	2012	2011
Operating Activities		
Net margin	\$ 12,147,571	\$ 7,534,871
Adjustments to reconcile net margins to net cash from operating activities		
Depreciation and amortization	4,717,288	4,284,177
Patronage capital credits from other cooperatives	(242,693)	(174,957)
Plant impairment charge	253,855	3,464,884
(Increase) decrease in assets		
Accounts receivable	3,610,450	(1,979,049)
Accrued revenue	(2,970,154)	(168,141)
Prepayments	(3,278)	63,315
Interest receivable	(93)	127
Deferred debits	(395,039)	(2,084,550)
Increase (decrease) in liabilities		
Accounts payable	351,737	(874,197)
Power cost adjustment receivable/payable	(282,734)	703,966
Customer deposits	87,350	114,104
Other current and accrued liabilities	(493,208)	36,648
Deferred credits	(382,767)	5,552,156
Net Cash from Operating Activities	16,398,285	16,473,354
Investing Activities		
Electric plant additions and replacements - net	(8,869,848)	(7,800,041)
Net cost of removal	(358,377)	(297,453)
Decrease in investments	127,079	129,998
Increase in notes receivable	(1,257,500)	-
Payments received on notes receivable	49,396	-
Increase in materials and supplies	1,097,514	(1,801,660)
Net Cash used for Investing Activities	(9,211,736)	(9,769,156)
Financing Activities		
Advance of long-term-debt	1,248,635	-
Principal payments on long-term debt	(1,869,842)	(1,829,467)
Payments on line of credit - net	(2,984,572)	(4,180,022)
Patronage capital retirements	(363,705)	(459,020)
Increase in memberships	705	805
Net Cash used for from Financing Activities	(3,968,779)	(6,467,704)
Net Change in Cash and Cash Equivalents	3,217,770	236,494
Cash and Cash Equivalents, Beginning of Year	1,920,623	1,684,129
Cash and Cash Equivalents, End of Year	\$ 5,138,393	\$ 1,920,623

Rio Grande Electric Cooperative, Inc.  
 Statements of Cash Flows  
 Years Ended December 31, 2012 and 2011

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	2012	2011
<b>Supplemental Disclosures of Cash Flow Information</b>		
Interest paid on long-term debt	\$ 1,695,161	\$ 1,665,088
Interest paid on short-term debt	12,014	103,364
Total cash payments for interest	\$ 1,707,175	\$ 1,768,452
<b>Supplemental Disclosures of Non-Cash Financing Information</b>		
Refinancing of long-term debt with CoBank	\$ 9,558,564	\$ -
Transfer of property, plant, and equipment in exchange for reduction in long-term debt	\$ -	\$ 138,358
Accounts payable for construction	\$ 748,037	\$ 1,433,743

## **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, 2012 and 2011, the Cooperative recorded impairment charges of \$253,855 and \$3,464,884 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 uncollectible accounts was \$116,929 and \$90,418 as of December 31, 2012 and 2011, 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.

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, 2012 and 2011, the Cooperative had recorded a liability of \$124,465 and \$407,199, 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, 2012 and 2011.

### **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, 2012.

The Cooperative evaluated its income tax positions on an annual basis. Management has determined that there are no uncertain tax positions at December 31, 2012 and 2011 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 tax examinations by tax authorities for years before 2009.

### **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.

### **Fair Value of Financial Instruments**

The Cooperative considers the carrying amount of significant classes of financial instruments on the balance sheets, including cash equivalents, accounts and notes receivable, investments, and variable rate long-term debt to be reasonable estimates of fair value either due to their length of maturity or the existence of variable interest rates underlying such financial instruments that approximate prevailing market rates at December 31, 2012 and 2011. The investments in associate companies and notes receivable are not actively traded and fair value is not readily estimable.

The Cooperative has fixed-rate long term debt financial instruments as of December 31, 2012 and 2011. Generally, the carrying value of the fixed rate long-term debt approximates its fair value, although the Cooperative has certain fixed-rate long-term debt financial instruments which have carrying values that may differ from their estimated fair values. It is not practicable for the Cooperative to estimate the fair value of these financial instruments given the nature of the debt agreements that are in place which include debt from federal agencies of the United States with interest rates that are not considered to have comparable prevailing rates as of December 31, 2012 and 2011.

### **Reclassifications**

Certain reclassifications have been made to the 2011 financial statements to make them conform to the 2012 presentation. The reclassifications had no effect on net margins.

**Note 2 - Electric Plant and Depreciation**

	2012		2011	
	Plant	Depreciation Rates	Plant	Depreciation Rates
Transmission plant	\$ 4,734,491	2.75%	\$ 3,703,653	2.75%
Distribution plant	99,427,620	2.90%	95,785,181	2.90%
General plant	16,248,746	2.0 - 33.3%	15,381,620	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	122,430,574		116,890,171	
Construction in progress	4,156,946		3,225,496	
Total electric plant	<u>\$ 126,587,520</u>		<u>\$ 120,115,667</u>	

**Note 3 - Investments in Associated Organizations**

	2012	2011
National Rural Utilities Cooperative Finance Corporation (CFC)		
Capital term certificates	\$ 896,389	\$ 896,389
Patronage capital allocation	243,202	220,944
Membership	1,000	1,000
	<u>1,140,591</u>	<u>1,118,333</u>
Texas Electric Power Cooperative - patronage capital	258,238	257,667
Medina Electric Power Cooperative - patronage capital	82,855	82,855
Dell Telephone Cooperative, Inc. - patronage capital	57,826	50,083
National Information Service Cooperative - patronage capital	34,507	25,851
Federated Rural Electric Insurance - patronage capital	38,617	53,046
National Rural Telecommunications Cooperative - patronage capital	114,499	64,063
CoBank - patronage capital	96,686	56,328
Nueces Electric Power Cooperative - patronage capital	610	589
Other memberships	2,065	2,065
	<u>1,826,494</u>	<u>1,710,880</u>
Totals	<u>\$ 1,826,494</u>	<u>\$ 1,710,880</u>

**Note 4 - Cash and Cash Equivalents**

	2012	2011
Cash on hand	\$ 3,150	\$ 3,150
Cash in checking	761,195	365,405
CFC Daily Fund investment	564,629	1,552,068
CoBank Investment Fund	3,809,419	-
	<u>5,138,393</u>	<u>1,920,623</u>
Total cash and cash equivalents	<u>\$ 5,138,393</u>	<u>\$ 1,920,623</u>

**Note 5 - Accrued Utility Revenue**

	2012	2011
Accrued energy revenue	\$ 930,913	\$ 600,183
Ft. Bliss - job order costs	3,498,489	679,491
Ft. Bliss - operations and maintenance	73,060	73,060
Laughlin - job order costs	373,361	554,127
Laughlin - operations and maintenance	80,724	80,724
Other	18,980	17,788
	\$ 4,975,527	\$ 2,005,373

**Note 6 - Deferred Debits**

	2012	2011
Fort Bliss - contract price redetermination	654,247	410,950
Laughlin - contract price redetermination	34,387	-
Software costs, net of amortization	101,993	100,950
Preliminary survey and investigative charges	232,897	116,180
Other/Clearing accounts	25,343	25,748
	\$ 1,048,867	\$ 653,828

**Note 7 - Notes Receivable**

	2012	2011
U.S. Army - Fort Bliss, Texas		
10.5% note receivable due monthly through August 2039	\$ 2,425,257	\$ 2,441,047
Laughlin Air Force Base		
8.84% notes receivable due monthly through October 2017	1,223,894	-
	3,649,151	2,441,047
Less current maturities	(228,128)	(15,791)
	\$ 3,421,023	\$ 2,425,256

Minimum future principal payments to be received from 2013 through 2017 are the following: 2013 - \$229,868, 2014 - \$251,359, 2015 - \$274,865, 2016 - \$276,451, and 2017 - \$276,451.



**Note 8 - Other Current and Accrued Liabilities**

	2012	2011
Deferred revenue - advance payments for plant construction	\$ 3,541,056	\$ 4,135,026
Accrued employee compensated absences	425,865	410,873
Taxes accrued and withheld	155,384	155,450
Other	363,500	308,375
	\$ 4,485,805	\$ 5,009,724

**Note 9 - Long - Term Debt**

	2012	2011
Rural Utilities Service (RUS) mortgage notes		
2%, due in quarterly installments through 2016	\$ 1,051,777	\$ 1,496,341
5%, due in monthly installments through 2041	-	9,680,714
	1,051,777	11,177,055
Federal Financing Bank (FFB) mortgage notes		
Fixed rate notes (3.586% - 5.735%), due in quarterly installments through 2034	4,400,282	4,519,561
National Rural Utilities Cooperative Finance Corporation (CFC) mortgage notes		
Fixed rate notes (3.10% to 6.35%) due in quarterly installments through 2017 - 2043	10,898,450	9,839,214
CoBank mortgage notes		
Adjustable rate notes, currently 3.98% to 4.97%, subject to adjustment in 2016 through 2019, variable thereafter, due quarterly, with final maturities from 2018 to 2043	4,848,855	5,007,964
Fixed rate note, 3.20%, due monthly through May 2020	4,425,469	5,046,151
Fixed rate note, 4.19%, due monthly through October 2037	9,523,345	-
	18,797,669	10,054,115
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	2,826,155	3,005,595
	37,974,333	38,595,540
Total long-term debt		
Less current maturities	(2,132,007)	(1,839,334)
	\$ 35,842,326	\$ 36,756,206

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>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
RUS	\$ 375,667	\$ 337,714	\$ 338,396	\$ -	\$ -
FFB	126,727	133,027	139,643	146,592	153,891
CFC	410,481	428,155	446,669	466,047	459,672
CoBank	1,039,694	1,091,970	1,146,885	1,203,150	1,265,112
Other	<u>179,438</u>	<u>179,438</u>	<u>179,438</u>	<u>179,438</u>	<u>179,438</u>
Total	<u>\$ 2,132,007</u>	<u>\$ 2,170,304</u>	<u>\$ 2,251,031</u>	<u>\$ 1,995,227</u>	<u>\$ 2,058,113</u>

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 \$695,606, available from CFC at December 31, 2012.

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

#### Note 10 - Deferred Credits

	<u>2012</u>	<u>2011</u>
Deferred gain - NRECA Pension Plan Conversion (Note 13)	\$ 10,352	\$ 28,096
Deferred revenue - Fort Bliss Repair and Replacement (Note 15)	607,376	961,195
Deferred revenue - Fort Bliss Capital Upgrade (Note 15)	-	1,107,770
Deferred revenue - Laughlin Repair and Replacement (Note 15)	2,754,070	1,743,864
Deferred revenue - Material credits	75,706	-
Consumer advances for energy	<u>75,169</u>	<u>64,515</u>
Totals	<u>\$ 3,522,673</u>	<u>\$ 3,905,440</u>

#### Note 11 - Patronage Capital

	<u>2012</u>	<u>2011</u>
Assignable	\$ 12,147,571	\$ 7,534,871
Assigned to date	<u>40,337,546</u>	<u>32,802,675</u>
Total	52,485,117	40,337,546
Retired to date	<u>1,443,205</u>	<u>678,436</u>
Balance	<u>\$ 51,041,912</u>	<u>\$ 39,659,110</u>

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 12 - Other Equities**

	2012	2011
Unclaimed capital credits	\$ 617,020	\$ 215,956
Donated capital	4,622	4,622
Paid-in capital	7,196	7,196
Prior period margins	4,140	4,140
	\$ 632,978	\$ 231,914
Totals		

**Note 13 - 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, 2012 and 2011, were approximately \$1,508,000 and \$1,575,000, 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 \$65,000 and \$67,000, in 2012 and 2011, respectively.

#### **Note 14 - 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 million 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, 2012 and 2011, were \$0 and \$2,984,572, respectively. The Cooperative had available amounts under the line-of-credit agreements of \$8 million as of December 31, 2012.

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, 2013. There were no outstanding advances on this line-of-credit for the years ending December 31, 2012 and 2011. The Cooperative had available amounts under the line-of-credit agreements of \$8,000,000 as of December 31, 2012.

#### **Note 15 - 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 \$293,838 and \$265,000 as of December 31, 2012 and 2011, respectively. The letters of credit have expiration dates through 2013.

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 Cooperative estimates projected costs at completion and compares that to amounts that are billed or to be billed in determining the amount of utility revenue to accrue in connection with the projects. Payments that are received in advance of the completion of project work are recorded as deferred revenue and reflected in deferred credits at an amount that is reduced by the estimated margins resulting from the project.

The Cooperative has billed and accrued \$9,512,282 and \$8,647,741 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, 2012 and 2011, respectively. The Cooperative has expended and recognized \$8,904,905 and \$7,686,546, respectively, towards the repair and replacement as of December 31, 2012 and 2011. Unexpended funds of \$607,376 and \$961,195 are included with deferred credits as of December 31, 2012 and 2011, 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 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%.

The Cooperative has billed and accrued \$2,970,316 and \$1,885,544 cumulatively for operation and maintenance projects and the repair and replacement of the Laughlin electric distribution system under the contract as of December 31, 2012 and 2011, respectively. The Cooperative has expended \$346,833 and \$141,680 towards the repair and replacement as of December 31, 2012 and 2011, respectively. Unexpended funds of \$2,623,483 and \$1,743,864 are included with deferred credits as of December 31, 2012 and 2011.

#### **Construction Contract Commitments**

System improvement project commitments for Fort Bliss and LAFB were approximately \$17,600,000 as of December 31, 2012. Estimated remaining commitments related to the projects were approximately \$9,300,000 as of December 31, 2012. The Cooperative is committed to third party contractors in connection with these projects of approximately \$3,000,000 as of December 31, 2012.

**Note 16 - Subsequent Events**

In February 2013, the Cooperative submitted to RUS a loan application in the amount of \$20,929,000. The Cooperative expects the loan to be approved in 2013 and the loan funds will be available for long-term financing of future rural electric distribution projects. Military base contract projects are not part of this RUS loan application.

Subsequent to year end, the Cooperative entered into two letter of credit reimbursement agreements with CFC for a total amount of \$448,000.

The Cooperative has evaluated subsequent events through March 15, 2013, the date on which the financial statements were available to be issued.



Supplemental Information  
December 31, 2012 and 2011

# 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, 2012 and 2011 and our report thereon dated March 15, 2013, 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 21 through 27 as of and for the years ended December 31, 2012 and 2011 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 2012 and 2011 financial statements. The information on pages 21 through 27 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 21 through 27 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, 2008 through 2010, none of which is presented herein, and we expressed unqualified opinions on those financial statements. In our opinion, the December 31, 2010, 2009, and 2008 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 20 and the comparative data of the RUS and CFC KRTA borrowers on pages 28 and 29 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, 2013



<u>Name</u>	<u>Position</u>
Stephen Haynes.....	President
Mark Daugherty .....	Vice President
Rowdy Holmsley .....	Secretary
William White.....	Treasurer
Frank Archuleta .....	Director
Jimmy Ballew .....	Director
James Evrage .....	Director
Kimball Miller .....	Director
Henry Mills III.....	Director
Priscilla Parsons .....	Director
Margarita Nelson .....	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, 2012 and 2011

	Balance 01/01/12	Additions & Transfers	Retirements	Balance 12/31/12
<b>Electric Plant in Service</b>				
Intangible plant	\$ 642	\$ -	\$ -	\$ 642
Electric plant adjustment - LAFB	2,019,075	-	-	2,019,075
<b>Transmission plant</b>				
Land and land rights	30,972	-	-	30,972
Station equipment	1,020,160	43,405	-	1,063,565
Poles and fixtures	1,325,321	884,976	80,832	2,129,465
Overheads conductors and devices	1,327,200	191,757	8,468	1,510,489
Total transmission plant	<u>3,703,653</u>	<u>1,120,138</u>	<u>89,300</u>	<u>4,734,491</u>
<b>Distribution plant</b>				
Land and land rights	58,761	-	-	58,761
Structures and improvements	7,259,288	220,536	4,828	7,474,996
Poles, towers, and fixtures	30,493,432	546,297	125,722	30,914,007
Overhead conductors and devices	35,728,451	584,625	235,144	36,077,932
Underground conductors and devices	991,637	53,177	2,360	1,042,454
Line transformers	14,004,512	1,690,787	267,803	15,427,496
Services	261,701	4,000	272	265,429
Meters	6,223,280	1,453,536	296,811	7,380,005
Installations on customers' premises	473,259	34,285	11,864	495,680
Leased property on customers' premises	3,920	-	-	3,920
Street lighting	286,940	-	-	286,940
Total distribution plant	<u>95,785,181</u>	<u>4,587,243</u>	<u>944,804</u>	<u>99,427,620</u>
<b>General plant</b>				
Land and land rights	152,934	35,341	-	188,275
Structures and improvements	3,582,865	107,946	-	3,690,811
Office furniture and equipment	1,490,657	210,123	49,521	1,651,259
Transportation equipment	7,021,746	810,536	569,171	7,263,111
Stores equipment	147,216	96,970	144	244,042
Tools, shop, and garage equipment	458,544	54,134	2,012	510,666
Laboratory equipment	713,965	64,618	3,575	775,008
Power operated equipment	256,103	50,314	53,762	252,655
Communications equipment	1,392,522	103,655	-	1,496,177
Miscellaneous equipment	165,068	11,674	-	176,742
Total general plant	<u>15,381,620</u>	<u>1,545,311</u>	<u>678,185</u>	<u>16,248,746</u>
Total electric plant in service	<u>116,890,171</u>	<u>7,252,692</u>	<u>1,712,289</u>	<u>122,430,574</u>
Construction Work in Progress	<u>3,225,496</u>	<u>931,450</u>	<u>-</u>	<u>4,156,946</u>
	<u>\$ 120,115,667</u>	<u>\$ 8,184,142</u>	<u>\$ 1,712,289</u>	<u>\$ 126,587,520</u>

Rio Grande Electric Cooperative, Inc.  
Schedule of Electric Plant Accumulated Depreciation  
Years Ended December 31, 2012 and 2011

	Balance 01/01/12	Depreciation Accruals	Retirements	Balance 12/31/12
Accumulated amortization - plant adjustment	\$ 190,994	\$ 109,140	\$ -	\$ 300,134
Transmission plant	2,076,897	126,769	90,845	2,112,821
Distribution plant	34,762,951	2,894,570	720,977	36,936,544
Accumulated depreciation on acquired plant - LAFB	1,406,230	70,296	1,974	1,474,552
	<u>36,169,181</u>	<u>2,964,866</u>	<u>722,951</u>	<u>38,411,096</u>
General plant				
Structures and improvements	1,285,250	106,673	-	1,391,923
Office furniture and equipment	952,890	196,210	46,729	1,102,371
Transportation equipment	3,845,325	852,804	569,171	4,128,958
Stores equipment	92,745	24,469	144	117,070
Tools, shop, and garage equipment	177,083	40,611	2,013	215,681
Laboratory equipment	552,554	60,181	3,574	609,161
Power operated equipment	113,921	19,626	53,762	79,785
Communications equipment	1,261,069	203,202	2,793	1,461,478
Miscellaneous	49,554	12,737	-	62,291
Total general plant	<u>8,330,391</u>	<u>1,516,513</u>	<u>678,186</u>	<u>9,168,718</u>
Total electric plant in service	<u>46,767,463</u>	<u>4,717,288</u>	<u>1,491,982</u>	<u>49,992,769</u>
Retirement Work in Progress	(108,489)	-	324,829	(433,318)
	<u>\$ 46,658,974</u>	<u>\$ 4,717,288</u>	<u>\$ 1,816,811</u>	<u>\$ 49,559,451</u>
		(1)	(2)	
(1) Charged to depreciation expense				\$ 3,841,428
Charged to clearing accounts				875,860
				<u>\$ 4,717,288</u>
(2) Cost of units retired				\$ 1,712,289
Cost of removal				644,224
Loss on impairment of distribution plant				(253,855)
Salvage				(285,847)
Loss due to retirement				<u>\$ 1,816,811</u>

Rio Grande Electric Cooperative, Inc.  
Schedule of Patronage Capital  
Years Ended December 31, 2012 and 2011

Calendar Year	Assignable	Assigned	Retired	12/31/2012 Balance	12/31/2011 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	-	222,649
1978	-	366,220	366,220	-	366,191
1979	-	175,947	175,947	-	175,928
1980	-	96,892	24	96,868	96,869
1981	-	162,472	48	162,424	162,424
1982	-	495,360	138	495,222	495,222
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	1,853,698
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	921,824
1992	-	764,835	103	764,732	764,732
1993	-	859,051	115	858,936	858,936
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	798,302
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	-
	<u>\$ 12,147,571</u>	<u>\$ 40,337,546</u>	<u>\$ 1,443,205</u>	<u>\$ 51,041,912</u>	<u>\$ 39,659,110</u>

Rio Grande Electric Cooperative, Inc.  
Schedule of Long-Term Debt  
Years Ended December 31, 2012 and 2011

Note and Date	Principal Amount	Principal Payments	Net Obligations	
			2012	2011
<b>RUS Construction Obligations</b>				
2% interest rate				
14270 5/24/1977	\$ 2,962,000	\$ 2,962,000	\$ -	\$ 29,256
14280 7/18/1978	2,190,000	2,145,376	44,624	135,449
14290 1/20/1981	8,224,000	7,216,847	1,007,153	1,331,636
	<u>13,376,000</u>	<u>12,324,223</u>	<u>1,051,777</u>	<u>1,496,341</u>
5% interest rate				
1B320 12/8/2006	2,234,000	2,234,000	-	2,134,135
1B321 6/4/2007	2,000,000	2,000,000	-	1,910,595
1B322 1/7/2008	1,430,000	1,430,000	-	1,366,075
1B323 4/30/2008	1,000,000	1,000,000	-	955,298
1B324 7/23/2009	2,478,500	2,478,500	-	2,397,748
1B325 5/10/2010	937,500	937,500	-	916,863
	<u>10,080,000</u>	<u>10,080,000</u>	<u>-</u>	<u>9,680,714</u>
Total RUS debt	<u>23,456,000</u>	<u>22,404,223</u>	<u>1,051,777</u>	<u>11,177,055</u>
<b>FFB</b>				
H0010 4/27/2001	4.383%	350,000	72,256	285,753
H0015 4/27/2001	3.586%	350,000	67,034	291,938
H0020 4/27/2001	5.621%	380,000	65,752	322,044
H0025 4/4/2002	5.735%	340,000	55,491	291,469
H0030 10/21/2002	4.975%	248,000	43,683	209,801
H0035 1/29/2003	4.756%	985,000	175,753	831,556
H0040 4/11/2003	4.754%	685,000	120,189	580,385
H0045 8/19/2003	5.220%	525,000	84,979	451,487
H0050 10/30/2003	5.002%	1,462,000	239,581	1,255,128
Total FFB debt		<u>5,325,000</u>	<u>924,718</u>	<u>4,519,561</u>
<b>CFC</b>				
9006001 5/23/2003	6.30%	2,609,550	436,668	2,224,598
9006002 9/10/2003	6.30%	256,000	39,921	221,004
9006005 5/31/2005	6.35%	500,000	38,387	467,785
9006006 5/31/2005	6.35%	750,000	54,763	704,356
9006007 5/31/2005	6.35%	1,000,000	73,017	926,983
9006008 5/31/2005	6.35%	640,209	46,746	593,463
9006009 5/31/2005	6.35%	1,500,000	109,526	1,390,474
9006012 1/26/2011	3.70%	3,300,000	84,435	3,215,565
9006013 11/1/2012	3.46%	734,082	22,481	711,601
9006014 12/7/2012	3.10%	514,553	-	514,553
Total CFC debt		<u>11,804,394</u>	<u>905,944</u>	<u>10,898,450</u>

Rio Grande Electric Cooperative, Inc.  
Schedule of Long-Term Debt  
Years Ended December 31, 2012 and 2011

Note and Date				Principal Amount	Principal Payments	Net Obligations	
						2012	2011
CoBank							
RX0696T2-1	07/16/09	(1)	3.95%	608,079	202,373	405,706	467,453
RX0696T2	07/16/09	(2)	4.43%	389,356	100,005	289,351	319,864
RX0696T1-3	07/16/09	(3)	4.92%	918,937	68,465	850,472	871,361
RX0696T1-2	07/16/09	(4)	3.98%	474,848	24,524	450,324	457,807
RX0696T1-1	07/16/09	(4)	3.98%	1,487,221	66,214	1,421,007	1,441,091
RX0696T1	07/16/09	(3)	4.97%	1,492,276	60,281	1,431,995	1,450,388
RI0696T3	11/30/10		3.20%	5,732,851	1,307,382	4,425,469	5,046,151
RI0696T4	10/31/12		4.19%	9,558,564	35,219	9,523,345	-
Total CFC debt				<u>20,662,132</u>	<u>1,864,463</u>	<u>18,797,669</u>	<u>10,054,115</u>
Department of Defense - Laughlin AFB							
	04/09/10		3.88%	<u>3,457,971</u>	<u>631,816</u>	<u>2,826,155</u>	<u>3,005,595</u>
				<u>\$ 64,705,497</u>	<u>\$ 26,731,164</u>	<u>\$ 37,974,333</u>	<u>\$ 38,595,540</u>

- (1) Fixed to maturity of May 31, 2018.  
(2) Fixed to maturity of May 31, 2020.  
(3) Converts to variable rate on March 3, 2019.  
(4) Converts to variable rate on March 3, 2016.

Rio Grande Electric Cooperative, Inc.  
Schedule of Administrative and General Expenses  
Years Ended December 31, 2012 and 2011

	December 31		Increase (Decrease)
	2012	2011	
Administrative and general salaries	\$ 1,164,423	\$ 1,169,777	\$ (5,354)
Administrative and general salaries-military bases	372,259	340,647	31,612
Office supplies and expenses	121,186	175,312	(54,126)
Outside services employed	337,842	269,602	68,240
Directors' fees and expenses	218,209	177,730	40,479
Dues to associated organizations	19,326	17,811	1,515
Miscellaneous general expenses	259,434	191,549	67,885
Utility commission related expenses	129,232	169,740	(40,508)
Annual meeting expense	121,111	103,804	17,307
Maintenance of general plant	433,736	543,482	(109,746)
Total	<u>\$ 3,176,758</u>	<u>\$ 3,159,454</u>	<u>\$ 17,304</u>

	2012		2011	
	Amount	Percent	Amount	Percent
Operating Revenue				
Residential	\$ 13,807,136	30.83%	\$ 14,293,665	31.89%
Irrigation	4,385,813	9.79%	5,468,045	12.20%
Commercial and industrial	14,039,053	31.35%	14,408,005	32.15%
Other operating revenues	12,556,612	28.04%	10,645,548	23.75%
	<u>44,788,614</u>	<u>100.00%</u>	<u>44,815,263</u>	<u>100.00%</u>
Operating Expenses				
Cost of power	17,043,404	38.1%	19,083,973	42.6%
Transmission	46,511	0.1%	16,458	0.0%
Distribution-operations	3,962,680	8.8%	3,628,033	8.1%
Distribution-maintenance	1,836,574	4.1%	1,716,721	3.8%
Customer accounts	791,758	1.8%	854,175	1.9%
Customer service and informational	239,528	0.5%	238,136	0.5%
Administrative and general	3,176,758	7.1%	3,159,454	7.0%
Depreciation	3,841,428	8.6%	3,492,435	7.8%
Taxes	10,151	0.0%	9,752	0.0%
Interest on long-term debt	1,737,886	3.9%	1,794,034	4.0%
Other interest	9,655	0.0%	79,572	0.2%
Other deductions	276,622	0.6%	3,485,767	7.8%
Total operating expenses	<u>32,972,955</u>	<u>73.62%</u>	<u>37,558,510</u>	<u>83.81%</u>
Operating Margin Before Capital Credits	11,815,659	26.38%	7,256,753	16.19%
Generation and Transmission and Other Cooperative Capital Credits	<u>242,693</u>	<u>0.6%</u>	<u>174,957</u>	<u>0.4%</u>
Net Operating Margin	12,058,352	<u>26.9%</u>	7,431,710	<u>16.6%</u>
Nonoperating Margin	<u>89,219</u>		<u>103,161</u>	
Net Margin	<u>\$ 12,147,571</u>		<u>\$ 7,534,871</u>	



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

2010		2009		2008	
Amount	Percent	Amount	Percent	Amount	Percent
\$ 12,408,006	34.24%	\$ 11,242,576	35.11%	\$ 11,978,305	36.00%
3,454,338	9.53%	3,332,723	10.41%	3,667,190	11.02%
14,181,900	39.14%	13,579,271	42.41%	15,074,401	45.30%
6,189,149	17.08%	3,867,197	12.08%	2,557,729	7.69%
<u>36,233,393</u>	<u>100.00%</u>	<u>32,021,767</u>	<u>100.0%</u>	<u>33,277,625</u>	<u>100.0%</u>
16,801,559	46.4%	17,338,262	54.1%	20,103,550	60.4%
16,347	0.0%	10,480	0.0%	20,381	0.1%
3,161,861	8.7%	3,018,864	9.4%	3,031,028	9.1%
1,855,598	5.1%	1,914,765	6.0%	1,589,571	4.8%
1,044,869	2.9%	1,085,381	3.4%	895,258	2.7%
264,933	0.7%	213,239	0.7%	203,377	0.6%
2,863,833	7.9%	2,723,500	8.5%	2,229,209	6.7%
3,161,147	8.7%	2,849,178	8.9%	2,623,674	7.9%
8,291	0.0%	7,439	0.0%	8,343	0.0%
1,758,996	4.9%	1,683,269	5.3%	1,627,667	4.9%
301,342	0.8%	276,350	0.9%	212,959	0.6%
26,442	0.1%	15,457	0.0%	30,615	0.1%
<u>31,265,218</u>	<u>86.29%</u>	<u>31,136,184</u>	<u>97.2%</u>	<u>32,575,632</u>	<u>97.9%</u>
4,968,175	13.71%	885,583	2.8%	701,993	2.1%
168,061	0.5%	107,183	0.4%	103,723	0.4%
5,136,236	<u>14.2%</u>	992,766	<u>3.1%</u>	805,716	<u>2.4%</u>
139,771		121,770		109,584	
<u>\$ 5,276,007</u>		<u>\$ 1,114,536</u>		<u>\$ 915,300</u>	

Rio Grande Electric Cooperative, Inc.  
 Statistics for the Years Ended December 31, 2009 - 2012  
 Compared to the 2011 CFC KRTA & 2010 RUS Borrowers Statistical Profile Median Values

	2011 CFC KRTA & 2010 RUS Borrowers Statistical Profile Median Values		Rio Grande Electric Cooperative, Inc.			
	US	Texas	2012	2011	2010	2009
	1. Times interest earned ratio (TIER)	2.40	3.41	7.99	5.20	4.00
2. Debt service coverage (DSC)	2.11	2.75	5.56	3.86	3.14	1.75
3. Interest/average debt %	5.07	5.06	4.79	4.97	5.15	5.18
4. Equity ratio %	42.32	45.63	51.13	42.31	37.85	34.85
5. Rate of return %	5.13	5.80	16.81	15.79	8.90	3.95
6. Consumers per mile	5.96	5.23	1.34	1.29	1.28	1.26
7. Administrative and general expense per consumer	124.90	106.27	248.01	255.23	236.10	229.44
8. Plant investment per mile	28,235	24,744	13,196	12,555	12,204	10,893
9. Revenue per kwh sold (mills)	104.14	99.76	142.15	148.79	141.02	130.79
10. Power cost per kwh sold (mills)	68.44	67.64	75.37	83.17	78.94	80.59
11. Power cost/revenue %	63.18	65.73	53.02	55.90	55.98	61.62
12. System line loss	5.41	7.25	9.30	11.11	10.54	10.02

Rio Grande Electric Cooperative, Inc.  
 Statistics for the Years Ended December 31, 2009 - 2012  
 Compared to the 2011 CFC KRTA & 2010 RUS Borrowers Statistical Profile Median Values

	2011 CFC KRTA & 2010 RUS Borrowers Statistical Profile Median Values		Rio Grande Electric Cooperative, Inc.			
	US	Texas	2012	2011	2010	2009
	13. Plant revenue ratio	6.46	6.37	4.57	4.67	6.06
14. Long-term Debt/ total assets %	44.30	39.43	37.55	40.91	46.17	41.61
15. Accumulated depreciation/ total plant %	31.33	28.16	40.48	39.92	40.93	41.99
16. Revenue per mile of line	11,235	9,466	4,669	4,684	3,784	3,361
17. Current ratio	1.23	1.09	1.77	1.17	1.08	1.02
18. Total consumers	13,362	19,630	12,809	12,379	12,130	11,870
19. General funds/ total plant %	4.21	4.84	4.06	1.60	1.45	1.32
20. Total margins per consumer	144.88	234.71	948.36	608.68	434.96	93.90
21. Consumer accounts expense per consumer	59.35	52.53	61.81	69.00	86.14	91.44



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, 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., which comprise the balance sheet as of December 31, 2012, and the related statements of operations, equities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 15, 2013.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Rio Grande Electric Cooperative, Inc.'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Rio Grande Electric Cooperative, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Rio Grande Electric Cooperative, Inc.'s internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting 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 yet been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings as Finding 2012-1 as discussed below, that we consider to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Rio Grande Electric Cooperative, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters and required audit communications that we reported to management of Rio Grande Electric Cooperative, Inc. in a separate letter dated March 15, 2013.

### **Rio Grande Electric Cooperative, Inc.'s Response to Findings**

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

### **Purpose of this Report**

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



Sioux Falls, South Dakota  
March 15, 2013

**Finding 2012-1 – Lack of Adequate Controls over Inventory**

*Criteria:* Proper controls over inventory include the ability to accurately track the level of inventory throughout the year and record charge-outs and purchases on a timely basis.

*Condition:* During the physical observation of inventory at one of the Cooperative's location, we noted errors in the quantity of two inventory items. The differences resulted in adjustments to the financial statements.

*Cause:* The Cooperative has worked to improve controls over inventory; however, certain material charge-outs were not accurately recorded to charge tickets and recorded as project work order costs. This caused differences in the physical inventory compared to the amounts recorded in the accounting records.

*Effect:* Inadequate controls over the tracking of inventory increases the likelihood that the Cooperative would not be able to materially reflect the proper inventory balance in the consolidated financial statements and properly reflect the amount of inventory that should be capitalized to plant or charged to expense.

*Recommendation:* We recommend that management continue to strengthen the controls over inventory by establishing additional inventory control policies and regularly monitoring inventory levels through periodic counts on an interim basis throughout the year. Variances should be reviewed on a timely basis. Unit prices of inventory items should be reviewed for reasonableness.

*Management's Response:* Management has continued to strive to improve the controls over inventory. In fiscal year 2013, management is implementing additional controls in certain locations to mitigate the risk of misstating inventory in the financial statements. Furthermore, additional training and oversight will be conducted.



## Independent Auditor's Report on Loan Fund Expenditures

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

We have audited, in accordance with U.S. generally accepted auditing standards, the balance sheet of Rio Grande Electric Cooperative, Inc. as of December 31, 2012 and the related statements of operations, patronage capital and other equities and cash flows for the year then ended, and have issued our report thereon dated March 15, 2013.

During the year ended December 31, 2012, Rio Grande Electric Cooperative, Inc. received no advances from NRUCFC on loans controlled by the NRUCFC Loan Agreement and/or Mortgage or Security Agreements. In conducting 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 such noncompliance.

This report is intended for the information and use of the Board of Directors, management, and the National Rural Utilities Cooperative Finance Corporation and is not intended to be and should not be used by anyone other than these specified parties.

*Eide Bailly LLP*

Sioux Falls, South Dakota  
March 15, 2013