

RIO GRANDE ELECTRIC COOPERATIVE, INC.
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014

**RIO GRANDE ELECTRIC COOPERATIVE, INC.
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**RIO GRANDE ELECTRIC COOPERATIVE, INC.
DIRECTORS AND OFFICERS
DECEMBER 31, 2015**

Rowdy Holmsley	President
Jimmy Ballew	Vice-President
Priscilla Parsons	Secretary
Stephen Haynes	Treasurer
Warren Cude	Director
Mark Daugherty	Director
Tim Edwards	Director
William Foster	Director
Janice Metcalf	Director
Margarita Nelson	Director
Keith Richardson	Director
William D. White	Director
* * * * *	
Daniel G. Laws	General Manager and CEO

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INDEPENDENT AUDITORS' REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of Rio Grande Electric Cooperative, Inc., which comprise the balance sheet as of December 31, 2015 and 2014, and the related statements of operations, changes in patronage capital and other equities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rio Grande Electric Cooperative, Inc. as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2016, on our consideration of Rio Grande Electric Cooperative, Inc.'s internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rio Grande Electric Cooperative, Inc.'s internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Dallas, Texas
March 10, 2016

RIO GRANDE ELECTRIC COOPERATIVE, INC.
BALANCE SHEETS
DECEMBER 31, 2015 AND 2014

ASSETS	<u>2015</u>	<u>2014</u>
UTILITY PLANT		
Electric Plant in Service	\$ 147,192,899	\$ 139,234,601
Construction Work in Progress	6,271,813	959,606
Total	<u>153,464,712</u>	<u>140,194,207</u>
Less Accumulated Provision for Depreciation	<u>(59,171,392)</u>	<u>(55,760,757)</u>
Net Utility Plant	94,293,320	84,433,450
OTHER ASSETS AND INVESTMENTS		
Investments in Associated Organizations	2,146,997	5,170,904
Notes Receivable, Net of Current Portion	2,630,695	2,955,492
Trading Securities	44,472	-
Total Other Assets and Investments	<u>4,822,164</u>	<u>8,126,396</u>
CURRENT ASSETS		
Cash and Cash Equivalents	6,350,508	6,411,613
Accounts Receivable, Net	4,825,341	5,129,804
Accrued Utility Revenue	3,374,309	5,240,823
Current Portion of Notes Receivable	324,807	297,064
Materials and Supplies Inventory	3,015,319	2,650,585
Prepayments	734,903	548,598
Interest Receivable	24,833	26,052
Total Current Assets	<u>18,650,020</u>	<u>20,304,539</u>
DEFERRED DEBITS		
Total Assets	<u>4,065,210</u>	<u>4,590,921</u>
	<u>\$ 121,830,714</u>	<u>\$ 117,455,306</u>
EQUITIES AND LIABILITIES		
EQUITIES		
Memberships	\$ 31,655	\$ 31,390
Patronage Capital	63,372,116	61,358,815
Other Equities	1,567,730	1,457,252
Total Equities	<u>64,971,501</u>	<u>62,847,457</u>
LONG-TERM DEBT, NET OF CURRENT MATURITIES		
	31,111,218	33,810,554
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	2,450,656	2,612,861
Accounts Payable	2,403,317	2,752,715
Power Cost Adjustment Payable	376,919	628,502
Consumer Deposits	1,009,037	802,932
Accrued Interest Payable	103,606	109,553
Other Current and Accrued Liabilities	2,458,126	3,182,161
Total Current Liabilities	<u>8,801,661</u>	<u>10,088,724</u>
DEFERRED CREDITS		
	<u>16,946,334</u>	<u>10,708,571</u>
Total Equities and Liabilities	<u>\$ 121,830,714</u>	<u>\$ 117,455,306</u>

See accompanying Notes to Financial Statements.

RIO GRANDE ELECTRIC COOPERATIVE, INC.
STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
OPERATING REVENUES		
Electric	\$ 35,304,487	\$ 36,892,400
Other	6,681,983	7,556,880
Total Operating Revenue	41,986,470	44,449,280
OPERATING EXPENSES		
Cost of Power	18,971,015	20,850,181
Transmission Expense	56,022	108,119
Distribution Expense - Operations	6,710,773	6,227,435
Distribution Expense - Maintenance	3,126,150	2,316,803
Consumer Account Expense	805,934	951,868
Customer Service and Informational Expense	287,807	231,527
Administrative and General Expense	3,559,179	3,483,030
Depreciation	4,544,461	4,351,672
Taxes	9,444	10,348
Other Interest	8,851	7,793
Other Deductions	29,768	23,996
Total Operating Expenses	38,109,404	38,562,772
OPERATING MARGINS BEFORE FIXED CHARGES	3,877,066	5,886,508
INTEREST ON LONG-TERM DEBT	1,639,080	1,708,813
OPERATING MARGINS AFTER FIXED CHARGES	2,237,986	4,177,695
GENERATION AND TRANSMISSION AND OTHER CAPITAL CREDITS	380,031	270,284
NET OPERATING MARGINS	2,618,017	4,447,979
NONOPERATING MARGINS		
Interest Income	223,382	264,250
Internet Activities, Net	15,311	11,627
Other Nonoperating Income	11,432	8,273
Total Nonoperating Margins	250,125	284,150
NET MARGINS	\$ 2,868,142	\$ 4,732,129

See accompanying Notes to Financial Statements.

RIO GRANDE ELECTRIC COOPERATIVE, INC.
STATEMENTS OF CHANGES IN PATRONAGE CAPITAL AND OTHER EQUITIES
YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>Memberships</u>	<u>Patronage Capital</u>	<u>Other Equities</u>	<u>Total</u>
BALANCE - DECEMBER 31, 2013	\$ 30,995	\$ 57,883,394	\$ 922,304	\$ 58,836,693
Net Margins for the Year	-	4,732,129	-	4,732,129
Retirement of Capital Credits	-	(1,256,708)	534,948	(721,760)
Net Increase in Memberships	<u>395</u>	<u>-</u>	<u>-</u>	<u>395</u>
BALANCE - DECEMBER 31, 2014	31,390	61,358,815	1,457,252	62,847,457
Net Margins for the Year	-	2,868,142	-	2,868,142
Retirement of Capital Credits	-	(854,841)	110,478	(744,363)
Net Increase in Memberships	<u>265</u>	<u>-</u>	<u>-</u>	<u>265</u>
BALANCE - DECEMBER 31, 2015	<u>\$ 31,655</u>	<u>\$ 63,372,116</u>	<u>\$ 1,567,730</u>	<u>\$ 64,971,501</u>

See accompanying Notes to Financial Statements.

RIO GRANDE ELECTRIC COOPERATIVE, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 2,868,142	\$ 4,732,129
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	5,414,438	5,311,329
G & T and Other Capital Credits	(380,031)	(270,284)
(Gain) Loss on Trading Securities	192	-
Interest Income Credited to Cushion of Credit	(174,487)	(121,866)
Changes in Assets and Liabilities -		
Decrease (Increase) in:		
Accounts Receivable	304,463	(31,210)
Power Cost Adjustment Receivable/Payable	(251,583)	642,103
Accrued Utility Revenue	1,866,514	(179,923)
Materials and Supplies Inventory	(364,734)	209,972
Other Current and Accrued Assets	(185,086)	(183,837)
Deferred Debits	525,711	481,055
Increase (Decrease) in:		
Accounts Payable	(84,827)	445,836
Other Current and Accrued Liabilities	(729,982)	462,296
Deferred Credits	6,237,763	4,135,622
Net Cash Provided by Operating Activities	15,046,493	15,633,222
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction and Acquisition of Plant	(15,267,497)	(6,125,258)
Plant Removal Costs, Net of Salvage	(271,382)	(672,809)
Issuance of Investments in Associated Organizations	-	(3,281,803)
Proceeds from Capital Credit Retirements	200,491	214,558
Proceeds from Other Assets and Investments	3,158,783	-
Payments Received on Notes Receivable	297,054	271,676
Net Cash Used by Investing Activities	(11,882,551)	(9,593,636)
CASH FLOWS FROM FINANCING ACTIVITIES		
Retirement of Capital Credits	(744,363)	(721,760)
Increase in Memberships	265	395
Consumer Deposits	206,105	36,857
Proceeds from Issuance of Long-Term Debt	-	2,511,606
Advanced Payments on Long-Term Debt	-	(1,597,000)
Principal Payments on Long-Term Debt	(2,687,054)	(2,552,206)
Net Cash Used by Financing Activities	(3,225,047)	(2,322,108)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(61,105)	3,717,478
Cash and Cash Equivalents - Beginning of Year	6,411,613	2,694,135
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 6,350,508	\$ 6,411,613

See accompanying Notes to Financial Statements.

RIO GRANDE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

Basis of Accounting

The Cooperative follows the Federal Energy Regulatory Commission's Uniform System of Accounts prescribed for Class A and B Electric Utilities as modified by RUS. The accounting policies conform to U.S. generally accepted accounting principles as applied in the case of regulated electric utilities.

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

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates may also affect the reported amounts of revenues and expenses during the reported period. Accordingly, actual results could vary from those estimates.

Long-Lived Assets

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or their fair value less cost to sell. During the years ended December 31, 2015 and 2014, the Cooperative recorded no impairment charges.

Utility Plant and Depreciation Procedures

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

RIO GRANDE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Utility Plant and Depreciation Procedures (Continued)

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

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

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

Other Assets and Investments

Investments in Associated Organizations:

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

Notes Receivable:

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

Trading Securities:

Trading Securities are equity securities valued at fair market value. Unrealized losses (gains) recognized in operations were \$192 and \$0, respectively, for the years ended December 31, 2015 and 2014.

Allowance for Loan Losses:

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

RIO GRANDE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other Assets and Investments (Continued)

Allowance for Loan Losses (Continued)

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

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

Cash and Cash Equivalents

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

	2015	2014
Cash in Checking	\$ 1,844,326	\$ 829,847
Cash on Hand	3,150	3,150
CFC Daily Fund Investment	857,012	52,892
CoBank Investment Fund	3,646,020	5,525,724
Total	<u>\$ 6,350,508</u>	<u>\$ 6,411,613</u>

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

Accounts Receivable

The Cooperative provides an allowance for bad debts using the allowance method based on management's judgment. Services are sold on an unsecured basis. Payment is generally required within 30 days after the date of billing. Accounts past due are individually analyzed for collectibility. In addition, an allowance is provided for other accounts when a significant pattern of uncollectibility has occurred. The Cooperative writes-off accounts on an annual basis. At December 31, 2015 and 2014, the allowance for uncollectible accounts was \$89,799 and \$139,151, respectively.

RIO GRANDE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Materials and Supplies Inventory

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

Patronage Capital

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

Recognition of Revenue and Power Costs

The Cooperative recognizes revenue and the related cost of power when the power is consumed. 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, 2015 and 2014, the Cooperative has recorded a liability of \$376,919 and \$628,502, respectively. These accounts reflect over collections of revenue relative to the power cost adjustment.

Power costs are recognized on the basis of meter readings made by the power supplier on the last day of the month.

Income Taxes

The Cooperative is exempt from income taxes under Section 501(c)(12) of the Internal Revenue Code (IRC). The Cooperative incurs unrelated business income taxable income (UBI) under the Code on certain revenue streams, but has net operating loss carryforwards of approximately \$909,000 to offset future taxable income as of December 31, 2015. Accordingly, no provision for income taxes has been recorded at December 31, 2015 and 2014.

The Cooperative evaluated its tax positions and determined that it has no uncertain tax positions as of December 31, 2015 and 2014.

Presentation of Sales Taxes

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

RIO GRANDE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 4 OTHER ASSETS AND INVESTMENTS

Investments in Associated Organizations

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

	2015	2014
National Rural Utilities Cooperative Finance Corporation		
Capital Term Certificates	\$ 875,683	\$ 875,683
Patronage Capital	312,978	292,906
Select Notes	-	3,200,000
Membership	1,000	1,000
	1,189,661	4,369,589
Patronage Capital:		
Texas Electric Cooperative	206,544	216,583
National Rural Telecommunications Cooperative	146,058	140,356
CoBank	232,914	177,252
Medina Electric Cooperative	76,811	76,811
Dell Telephone Cooperative	69,013	61,469
National Information Solutions Cooperative	66,913	44,947
Federated Rural Electric Insurance Exchange	157,469	81,803
Other Patronage Capital and Memberships	1,614	2,094
Total	\$ 2,146,997	\$ 5,170,904

Capital term certificates include investments in National Rural Utilities Cooperative Finance Corporation capital term certificates, loan term certificates, and zero term certificates. Capital term certificates bear interest at 5% and begin maturing in the year 2070; and zero term certificates bear interest of 0% and begin maturing in the year 2017.

NRUCFC Select Notes bear interest at rates ranging from .37% to .46% and matured during 2015.

Notes Receivable

Notes receivable as of December 31 are as follows:

	2015	2014
U.S. Army - Fort Bliss, Texas		
10.5%, Due Monthly through August 2039	\$ 2,366,655	\$ 2,388,263
Laughlin Air Force Base		
8.84%, Due Monthly through May 2018	588,847	864,293
	2,955,502	3,252,556
Less Current Portion	(324,807)	(297,064)
Long-Term Portion of Notes Receivable	\$ 2,630,695	\$ 2,955,492

RIO GRANDE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 4 OTHER ASSETS AND INVESTMENTS (CONTINUED)

Notes Receivable (Continued)

As of December 31, 2015 and 2014, the Cooperative has not reserved any allowance for loan losses on their notes receivable. The following tables show an aging analysis of the loan portfolio by time past due:

	Accruing Interest			Total Nonaccrual	2015 Total
	Current	30-89 Days Past Due	More Than 90 Days Past Due		
Notes Receivable	\$ 2,955,502	\$ -	\$ -	\$ -	\$ 2,955,502
Total	<u>\$ 2,955,502</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,955,502</u>

	Accruing Interest			Total Nonaccrual	2014 Total
	Current	30-89 Days Past Due	More Than 90 Days Past Due		
Notes Receivable	\$ 3,252,556	\$ -	\$ -	\$ -	\$ 3,252,556
Total	<u>\$ 3,252,556</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,252,556</u>

NOTE 5 ACCRUED UTILITY REVENUE

Accrued utility revenue as of December 31 is as follows:

	2015	2014
Accrued Energy Revenue	\$ 976,500	\$ 886,238
Ft. Bliss - Job Order Costs	1,955,159	2,804,151
Ft. Bliss - Operations and Maintenance	-	42,559
Laughlin - Job Order Costs	274,034	1,318,810
Laughlin - Operations and Maintenance	85,275	129,079
Other	83,341	59,986
Total	<u>\$ 3,374,309</u>	<u>\$ 5,240,823</u>

RIO GRANDE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 6 DEFERRED DEBITS

Deferred debits consist of the following at December 31:

	<u>2015</u>	<u>2014</u>
NRECA Pension Prepayment	\$ 3,109,910	\$ 3,533,988
Fort Bliss - Contract Price Redetermination	519,284	641,953
Laughlin - Contract Price Redetermination	122,820	7,180
Software Costs, Net of Amortization	143,837	193,750
Preliminary Survey and Investigative Charges	58,224	116,448
Other/Clearing Accounts	111,135	97,602
Total	<u>\$ 4,065,210</u>	<u>\$ 4,590,921</u>

NOTE 7 PATRONAGE CAPITAL AND OTHER EQUITIES

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

	<u>2015</u>	<u>2014</u>
Assignable	\$ 2,868,142	\$ 4,732,129
Assigned	60,503,974	56,626,686
Total	<u>\$ 63,372,116</u>	<u>\$ 61,358,815</u>

The mortgage provisions restrict the retirement of patronage capital unless after retirement, the capital of the Cooperative equals at least 30% of total assets of the Cooperative; provided, however, that retirements can be made if such distributions do not exceed 25% of the preceding year's margins. No distribution can be made if there are unpaid, when due, any installments of principal and interest on the notes.

As of December 31, 2015, capital credits through 1987 had been fully retired.

Other equities consist of the following at December 31:

	<u>2015</u>	<u>2014</u>
Unclaimed Capital Credits	\$ 1,551,772	\$ 1,441,294
Donated Capital	4,622	4,622
Paid-in Capital	7,196	7,196
Prior Period Margins	4,140	4,140
Total	<u>\$ 1,567,730</u>	<u>\$ 1,457,252</u>

RIO GRANDE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 8 LONG-TERM DEBT

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

	2015	2014
Rural Utilities Services (RUS) Mortgage Notes		
2.00% Fixed Rate Notes Maturing in 2015	\$ -	\$ 338,410
Advance Payments on RUS Notes - Cushion of Credit	(3,603,500)	(3,429,013)
Federal Financing Bank (FFB) Mortgages Notes		
3.438% - 5.735% Fixed Rate Notes		
Maturing through 2047	5,804,784	5,963,382
National Rural Utilities Cooperative Finance Corporation (NRUCFC) Mortgage Notes		
2.90% Variable Rate Notes		
Maturing through 2042	679,022	695,606
3.10% - 6.35% Fixed Rate Notes		
Maturing 2017 through 2040	6,591,605	6,979,831
CoBank Mortgage Notes		
2.31% Adjustable Rate Notes		
Maturing through 2043	3,019,695	3,091,217
2.875% - 4.971% Fixed Rate Notes		
Maturing 2018 through 2037	18,782,427	20,316,703
U.S. Department of Defense - Laughlin Air Force Base		
3.88% Fixed Rate Note Maturing in 2028	2,287,841	2,467,279
	33,561,874	36,423,415
Less Current Maturities	(2,450,656)	(2,612,861)
Total	\$ 31,111,218	\$ 33,810,554

Adjustable rate notes with CoBank are subject to rate adjustments beginning in 2016 through 2019. These notes will carry a variable rate after the rate adjustment, with final maturity beginning in 2018 through 2043.

The Cooperative has unadvanced loan funds at December 31, 2015 of \$19,113,000 from FFB.

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

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

	2015	2016	2017	2018	2019
FFB	\$ 181,570	\$ 190,107	\$ 199,055	\$ 208,434	\$ 218,265
CFC	413,266	405,625	170,083	179,551	190,529
CoBank	1,676,384	1,745,832	1,768,426	1,035,579	981,770
Other	179,436	179,436	179,436	179,436	179,436
	\$ 2,450,656	\$ 2,521,000	\$ 2,317,000	\$ 1,603,000	\$ 1,570,000

RIO GRANDE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 9 NOTES PAYABLE

The Cooperative has an unsecured, perpetual line of credit with NRUCFC in the amount of \$4,000,000. An additional line of credit was also in place with NRUCFC in the amount of \$4,000,000 that expired on June 27, 2015. Interest rates vary with the prime rate as published in the Wall Street Journal. At December 31, 2015 and 2014, the interest rate on these lines of credit was 2.90%. The Cooperative had no outstanding balances as of December 31, 2015 and 2014.

The Cooperative also has an unsecured line of credit with CoBank in the amount of \$8,000,000, with an expiration date of September 30, 2016. At December 31, 2015 and 2014, the interest rate on this line of credit was 2.53% and 2.92%, respectively. The Cooperative had no outstanding balances as of December 31, 2015 and 2014.

NOTE 10 OTHER CURRENT AND ACCRUED LIABILITIES

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

	<u>2015</u>	<u>2014</u>
Advanced Payments for Plant Construction	\$ 1,340,567	\$ 2,102,803
Accrued Employee Compensated Absences	491,339	465,336
Accrued Payroll	347,792	312,428
Taxes Accrued and Withheld	118,059	122,425
Other	160,369	179,169
Total	<u>\$ 2,458,126</u>	<u>\$ 3,182,161</u>

NOTE 11 DEFERRED CREDITS

Deferred credits at December 31 are as follows:

	<u>2015</u>	<u>2014</u>
Deferred Revenue - Fort Bliss Repair and Replacement	\$ 11,475,263	\$ 6,391,328
Deferred Revenue - Laughlin Repair and Replacement	5,321,589	4,225,931
Consumer Advances for Energy	149,482	91,312
Total	<u>\$ 16,946,334</u>	<u>\$ 10,708,571</u>

RIO GRANDE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 12 EMPLOYEE BENEFIT PLANS

Narrative Description

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

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

Plan Information

The Cooperative's contributions to the RS Plan in 2015 and in 2014 represented less than 5% of the total contributions made to the plan by all participating employers. Contributions to the plan for the years ended December 31, 2015 and 2014, were \$1,316,581 and \$1,342,033, respectively. There have been no significant changes that affect the comparability of 2015 and 2014 contributions.

For the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was over 80% funded on January 1, 2015 and January 1, 2014 based on the PPA funding target and PPA actuarial value of assets on those dates.

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

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

RIO GRANDE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 12 EMPLOYEE BENEFIT PLANS (CONTINUED)

Plan Information (Continued)

In addition to the above retirement plan, the Cooperative has adopted a 401(k) Employees Savings Plan. The Cooperative matches 1% each employee's base wages in this plan. The cost of this plan was approximately \$75,000 and \$71,000 for 2015 and 2014, respectively.

NOTE 13 COMMITMENTS AND CONCENTRATIONS

U.S. generally accepted accounting principles require disclosure of information about certain significant estimates and current vulnerabilities due to certain concentrations. These matters include the following:

Sources of Supply

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

Concentration of Credit

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

Long-Term Contracts – Fort Bliss

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

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

**RIO GRANDE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 13 COMMITMENTS AND CONCENTRATIONS (CONTINUED)

Long-Term Contracts – Fort Bliss (Continued)

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 with NRUCFC as follows:

<u>Irrevocable Letter of Credit Number</u>	<u>Issuance Date</u>	<u>Expiration Date</u>	<u>2015</u>	<u>2014</u>
TX144-L-9018	2/1/2013	9/30/2015	\$ -	\$ 348,000
			<u>\$ -</u>	<u>\$ 348,000</u>

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 NRUCFC's regular billing cycles at rates established by NRUCFC, 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 \$22,665,051 and \$16,281,467 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, 2015 and 2014, respectively. The Cooperative has expended and recognized \$11,189,788 and \$9,890,139, respectively, towards the repair and replacement as of December 31, 2015 and 2014. Unexpended funds of \$11,475,263 and \$6,391,328 are included with deferred credits as of December 31, 2015 and 2014, respectively.

RIO GRANDE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 13 COMMITMENTS AND CONCENTRATIONS (CONTINUED)

Long-Term Contracts – Laughlin Air Force Base

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

The Cooperative has billed and accrued \$6,373,789 and \$5,142,772 cumulatively for operation and maintenance projects and the repair and replacement of the Laughlin electric distribution system under the contract as of December 31, 2015 and 2014, respectively. The Cooperative has expended \$1,052,200 and \$916,841 towards the repair and replacement as of December 31, 2015 and 2014, respectively. Unexpended funds of \$5,321,589 and \$4,225,931 are included with deferred credits as of December 31, 2015 and 2014.

Construction Contract Commitments

System improvement project commitments for Fort Bliss and LAFB were approximately \$20,071,000 as of December 31, 2015. Expenditures incurred on these projects were approximately \$5,663,000 as of December 31, 2015. Estimated remaining expenditures, including commitments to third party contractors is approximately \$10,235,000 as of December 31, 2015.

SUPPLEMENTARY INFORMATION

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RIO GRANDE ELECTRIC COOPERATIVE, INC.
SCHEDULE OF ELECTRIC PLANT
YEAR ENDED DECEMBER 31, 2015

	Balance 12/31/2014	Additions & Transfers	Retirements	Balance 12/31/2015
Electric Plant in Service				
Intangible Plant	\$ 642	\$ -	\$ -	\$ 642
Electric Plant Adjustment - LAFB	2,019,075	-	-	2,019,075
Transmission Plant:				
Land & Land Rights	30,972	-	-	30,972
Station Equipment	1,401,200	-	-	1,401,200
Poles & Fixtures	2,177,769	59,157	2,358	2,234,568
Overheads Conductors & Devices	1,744,682	23,563	288	1,767,957
Total Transmission Plant	<u>5,354,623</u>	<u>82,720</u>	<u>2,646</u>	<u>5,434,697</u>
Distribution Plant:				
Land & Land Rights	190,289	-	-	190,289
Structures & Improvements	11,382,515	15,600	-	11,398,115
Poles, Towers, & Fixtures	35,331,583	3,270,946	285,426	38,317,103
Overhead Conductors & Devices	37,714,542	1,971,832	202,177	39,484,197
Underground Conductors & Devices	1,348,055	36,715	1,333	1,383,437
Line Transformers	17,178,614	1,627,095	179,923	18,625,786
Services	266,973	41	17	266,997
Meters	8,317,382	639,678	2,437	8,954,623
Installations on Customers' Premises	521,444	24,792	16,991	529,245
Street Lighting	280,251	-	-	280,251
Total Distribution Plant	<u>112,531,648</u>	<u>7,586,699</u>	<u>688,304</u>	<u>119,430,043</u>
General Plant				
Land & Land Rights	164,734	-	-	164,734
Structures & Improvements	4,935,472	72,461	-	5,007,933
Office Furniture & Equipment	2,005,105	422,930	87,987	2,340,048
Transportation Equipment	8,392,655	984,761	730,498	8,646,918
Stores Equipment	390,709	21,565	-	412,274
Tools, Shop, and Garage Equipment	582,104	147,493	11,506	718,091
Laboratory Equipment	733,750	73,584	30,928	776,406
Power Operated Equipment	254,680	268,725	4,411	518,994
Communications Equipment	1,537,632	230,654	380,637	1,387,649
Miscellaneous Equipment	331,770	3,625	-	335,395
Total General Plant	<u>19,328,611</u>	<u>2,225,798</u>	<u>1,245,967</u>	<u>20,308,442</u>
Total Electric Plant in Service	139,234,599	9,895,217	1,936,917	147,192,899
Construction Work in Progress	<u>959,606</u>	<u>5,312,207</u>	<u>-</u>	<u>6,271,813</u>
	<u>\$ 140,194,205</u>	<u>\$ 15,207,424</u>	<u>\$ 1,936,917</u>	<u>\$ 153,464,712</u>

RIO GRANDE ELECTRIC COOPERATIVE, INC.
SCHEDULE OF ELECTRIC PLANT ACCUMULATED DEPRECIATION
YEAR ENDED DECEMBER 31, 2015

	Balance 12/31/2014	Depreciation & Transfers	Retirements	Balance 12/31/2015
Electric Plant Adjustment	\$ 518,414	\$ 109,140	\$ -	\$ 627,554
Transmission Plant	2,348,164	110,102	9,381	2,448,885
Distribution Plant	40,017,904	3,471,903	991,768	42,498,039
Acquired Plant - LAFB	1,280,598	70,296	16,563	1,334,331
Total Distribution Plant	41,298,502	3,542,199	1,008,331	43,832,370
General Plant				
Structures & Improvements	1,668,020	159,692	-	1,827,712
Office Furniture & Equipment	1,424,123	240,938	84,811	1,580,250
Transportation Equipment	5,607,595	829,058	496,536	5,940,117
Stores Equipment	195,956	34,812	-	230,768
Tools, Shop, and Garage Equipment	280,007	51,009	7,213	323,803
Laboratory Equipment	563,850	56,346	27,456	592,740
Power Operated Equipment	109,096	27,435	8,713	127,818
Communications Equipment	1,691,783	188,364	382,061	1,498,086
Miscellaneous	130,873	65,343	-	196,216
Total General Plant	11,671,303	1,652,997	1,006,790	12,317,510
Total Electric Plant in Service	55,836,383	5,414,438	2,024,502	59,226,319
Retirement Work in Progress	(75,626)	-	(20,699)	(54,927)
	\$ 55,760,757	\$ 5,414,438	\$ 2,003,803	\$ 59,171,392

(1) Charged to Depreciation Expense	\$ 4,544,461
Charged to Clearing Accounts	869,977
	\$ 5,414,438
(2) Cost of Units Retired	\$ 1,936,917
Cost of Removal	169,134
Salvage	(102,248)
Loss Due to Retirement	\$ 2,003,803

RIO GRANDE ELECTRIC COOPERATIVE, INC.
SCHEDULE OF PATRONAGE CAPITAL
YEAR ENDED DECEMBER 31, 2015

Calendar Year	Assignable	Assigned	Retired	12/31/2015 Balance	12/31/2014 Balance
1951	\$ -	\$ 5,611	\$ 5,611	\$ -	\$ -
1952	-	41,630	41,630	-	-
1953	-	44,658	44,658	-	-
1956	-	5,745	5,745	-	-
1967	-	30,621	30,621	-	-
1968	-	25,575	25,575	-	-
1969	-	64,144	64,144	-	-
1971	-	27,279	27,279	-	-
1972	-	51,428	51,428	-	-
1973	-	80,910	80,910	-	-
1974	-	158,288	158,288	-	-
1975	-	139,201	139,201	-	-
1977	-	222,668	222,668	-	-
1978	-	366,220	366,220	-	-
1979	-	175,947	175,947	-	-
1980	-	96,892	96,892	-	-
1981	-	162,472	162,472	-	-
1982	-	495,360	495,360	-	-
1984	-	1,257,162	1,257,162	-	-
1985	-	528,848	528,848	-	528,660
1986	-	85,875	85,875	-	85,850
1987	-	240,365	240,365	-	240,265
1988	-	1,854,292	291	1,854,001	1,854,037
1989	-	1,671,269	270	1,670,999	1,671,029
1990	-	1,555,440	-	1,555,440	1,555,440
1991	-	921,927	43	921,884	921,884
1992	-	764,835	103	764,732	764,732
1993	-	859,051	115	858,936	858,936
1994	-	1,140,748	158	1,140,590	1,140,590
1995	-	827,512	131	827,381	827,381
1996	-	1,112,077	132	1,111,945	1,111,945
1997	-	798,362	60	798,302	798,302
1998	-	1,113,615	102	1,113,513	1,113,513
1999	-	736,600	95	736,505	736,505
2000	-	712,753	108	712,645	712,645
2001	-	734,829	53	734,776	734,776
2002	-	778,390	63	778,327	778,327
2003	-	612,527	27	612,500	612,500
2004	-	657,471	-	657,471	657,471
2005	-	1,288,790	-	1,288,790	1,288,790
2006	-	1,778,181	-	1,778,181	1,778,181
2007	-	1,271,264	-	1,271,264	1,271,264
2008	-	915,300	-	915,300	915,300
2009	-	1,114,536	-	1,114,536	1,114,536
2010	-	5,276,007	-	5,276,007	5,276,007
2011	-	7,534,871	-	7,534,871	7,534,871
2012	-	12,147,571	-	12,147,571	12,147,571
2013	-	7,595,378	-	7,595,378	7,595,378
2014	-	4,732,129	-	4,732,129	4,732,129
2015	2,868,142	-	-	2,868,142	-
	<u>\$ 2,868,142</u>	<u>\$ 64,812,624</u>	<u>\$ 4,308,650</u>	<u>\$ 63,372,116</u>	<u>\$ 61,358,815</u>

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Rio Grande Electric Cooperative, Inc. which comprise the balance sheet as of December 31 2015, and the related statements of operations and patronage capital, and cash flows, for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 10, 2016.

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 opinion 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 Cooperative's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

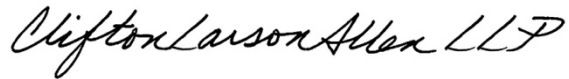
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Cooperative's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cooperative's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Austin, Minnesota
March 10, 2016



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Rio Grande Electric Cooperative, Inc., which comprise the balance sheet as of December 31, 2015, and the related statements of operations, changes in patronage capital and other equities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 10, 2016. In accordance with *Government Auditing Standards*, we have also issued a report dated March 10, 2016, on our consideration of Rio Grande Electric Cooperative, Inc.'s internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. No reports other than the reports referred to above and the Independent Auditors' Report on Loan Fund Expenditures have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that Rio Grande Electric Cooperative, Inc. and Subsidiary failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, Policy on Audits of Rural Utilities Service Borrowers, §1773.33 and clarified in the RUS policy memorandum dated February 7, 2014, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Rio Grande Electric Cooperative, Inc.'s noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, we noted no matters regarding Rio Grande Electric Cooperative, Inc.'s accounting and records to indicate that Rio Grande Electric Cooperative, Inc. did not:

- Maintain adequate and effective accounting procedures;
- Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;
- Reconcile continuing property records to the controlling general ledger plant accounts;
- Clear construction accounts and accrue depreciation on completed construction;
- Record and properly price the retirement of plant;
- Seek approval of the sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;
- Maintain adequate control over materials and supplies;

- Prepare accurate and timely Financial and Operating Reports;
- Obtain written RUS approval to enter into any contract for the management, operation, or maintenance of the borrower's system if the contract covers all or substantially all of the electric system;
- Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;
- Record depreciation in accordance with RUS requirements (See RUS Bulletin 183-1, Depreciation Rates and Procedures);
- Comply with the requirements for the detailed schedule of deferred debits and deferred credits; and
- Comply with the requirements for the detailed schedule of investments.

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

Schedule of Deferred Debits

NRECA Pension Prepayment	\$ 3,109,910
Fort Bliss - Contract Price Redetermination	519,284
Laughlin - Contract Price Redetermination	122,820
Software Costs, Net of Amortization	143,837
Preliminary Survey and Investigative Charges	58,224
Other/Clearing Accounts	111,135
Total Deferred Debits	<u>\$ 4,065,210</u>

Schedule of Deferred Credits

Deferred Revenue - Fort Bliss Repair and Replacement	\$ 11,475,263
Deferred Revenue - Laughlin Repair and Replacement	5,321,589
Consumer Advances for Energy	149,482
Total Deferred Credits	<u>\$ 16,946,334</u>

Schedule of Investments

No investments in subsidiary or affiliated companies as of December 31, 2015.

This report is intended solely for the information and use of the board of directors, management, and the Rural Utilities Service and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Dallas, Texas
March 10, 2016

INDEPENDENT AUDITORS' REPORT ON LOAN FUND EXPENDITURES

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Rio Grande Electric Cooperative, Inc., which comprise the balance sheet as of December 31, 2015, and the related statements of operations, changes in patronage capital and other equities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 10, 2016.

During the year ended December 31, 2015, 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 connection with our audit, nothing came to our attention that caused us to believe that Rio Grande Electric Cooperative, Inc. was not in compliance with the intended purpose of the loan funds as contemplated in the Loan Agreement. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Rio Grande Electric Cooperative, Inc.'s noncompliance with the above-referenced agreements, insofar as they relate to accounting matters.

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Dallas, Texas
March 10, 2016

