

RIO GRANDE ELECTRIC COOPERATIVE, INC.
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

RIO GRANDE ELECTRIC COOPERATIVE, INC.
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YEARS ENDED DECEMBER 31, 2016 AND 2015

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**RIO GRANDE ELECTRIC COOPERATIVE, INC.
DIRECTORS AND OFFICERS
DECEMBER 31, 2016**

Rowdy Holmsley	President
Stephen Haynes	Vice-President
Priscilla Parsons	Secretary
Billy Foster	Treasurer
Warren Cude	Director
Mark Daugherty	Director
Tim Edwards	Director
Jamie Ballew	Director
Jan Metcalf	Director
Dr. David Nelson	Director
Keith Richardson	Director
Sandy Archuleta	Director
David Wharton	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. (the Cooperative), which comprise the balance sheets as of December 31, 2016 and 2015, 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

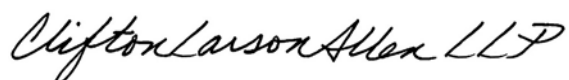
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rio Grande Electric Cooperative, Inc. as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting 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 21, 2017, 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 21, 2017

RIO GRANDE ELECTRIC COOPERATIVE, INC.
BALANCE SHEETS
DECEMBER 31, 2016 AND 2015

ASSETS	<u>2016</u>	<u>2015</u>
UTILITY PLANT		
Electric Plant in Service	\$ 154,486,042	\$ 147,192,899
Construction Work in Progress	10,217,938	6,271,813
Total	<u>164,703,980</u>	<u>153,464,712</u>
Less Accumulated Provision for Depreciation	(62,005,449)	(59,171,392)
Net Utility Plant	<u>102,698,531</u>	<u>94,293,320</u>
OTHER ASSETS AND INVESTMENTS		
Investments in Associated Organizations	2,275,586	2,146,997
Notes Receivable, Net of Current Portion	2,327,780	2,630,695
Trading Securities	47,017	44,472
Total Other Assets and Investments	<u>4,650,383</u>	<u>4,822,164</u>
CURRENT ASSETS		
Cash and Cash Equivalents	10,648,735	6,350,508
Accounts Receivable, Net	4,005,919	4,825,341
Power Cost Adjustment Receivable	136,895	-
Accrued Utility Revenue	3,093,408	3,374,309
Current Portion of Notes Receivable	302,915	324,807
Materials and Supplies Inventory	2,824,994	3,015,319
Prepayments	1,042,790	734,903
Interest Receivable	28,584	24,833
Total Current Assets	<u>22,084,240</u>	<u>18,650,020</u>
DEFERRED DEBITS	<u>3,311,106</u>	<u>4,065,210</u>
Total Assets	<u><u>\$ 132,744,260</u></u>	<u><u>\$ 121,830,714</u></u>
EQUITIES AND LIABILITIES		
EQUITIES		
Memberships	\$ 31,920	\$ 31,655
Patronage Capital	65,124,149	63,372,116
Other Equities	1,814,324	1,567,730
Total Equities	<u>66,970,393</u>	<u>64,971,501</u>
LONG-TERM DEBT, NET OF CURRENT MATURITIES	33,730,426	31,111,218
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	2,654,428	2,450,656
Accounts Payable	2,698,117	2,403,317
Power Cost Adjustment Payable	-	376,919
Consumer Deposits	884,709	1,009,037
Accrued Interest Payable	94,033	103,606
Other Current and Accrued Liabilities	2,555,202	2,458,126
Total Current Liabilities	<u>8,886,489</u>	<u>8,801,661</u>
DEFERRED CREDITS	<u>23,156,952</u>	<u>16,946,334</u>
Total Equities and Liabilities	<u><u>\$ 132,744,260</u></u>	<u><u>\$ 121,830,714</u></u>

See accompanying Notes to Financial Statements.

RIO GRANDE ELECTRIC COOPERATIVE, INC.
STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
OPERATING REVENUES		
Electric	\$ 32,661,178	\$ 35,304,487
Other	6,894,981	6,681,983
Total Operating Revenue	39,556,159	41,986,470
OPERATING EXPENSES		
Cost of Power	15,938,828	18,971,015
Transmission Expense	67,321	56,022
Distribution Expense - Operations	6,939,741	6,710,773
Distribution Expense - Maintenance	3,071,453	3,126,150
Consumer Account Expense	802,657	805,934
Customer Service and Informational Expense	322,904	287,807
Administrative and General Expense	3,498,784	3,559,179
Depreciation	4,817,393	4,544,461
Taxes	8,620	9,444
Other Interest	9,525	8,851
Other Deductions	64,381	29,768
Total Operating Expenses	35,541,607	38,109,404
OPERATING MARGINS BEFORE FIXED CHARGES	4,014,552	3,877,066
INTEREST ON LONG-TERM DEBT	1,599,230	1,639,080
OPERATING MARGINS AFTER FIXED CHARGES	2,415,322	2,237,986
GENERATION AND TRANSMISSION AND OTHER CAPITAL CREDITS	337,205	380,031
NET OPERATING MARGINS	2,752,527	2,618,017
NONOPERATING MARGINS		
Interest Income	250,607	223,382
Internet Activities, Net	9,789	15,311
Other Nonoperating Income	9,237	11,432
Total Nonoperating Margins	269,633	250,125
NET MARGINS	\$ 3,022,160	\$ 2,868,142

See accompanying Notes to Financial Statements.

RIO GRANDE ELECTRIC COOPERATIVE, INC.
STATEMENTS OF CHANGES IN PATRONAGE CAPITAL AND OTHER EQUITIES
YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>Memberships</u>	<u>Patronage Capital</u>	<u>Other Equities</u>	<u>Total</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	31,655	63,372,116	1,567,730	64,971,501
Net Margins for the Year	-	3,022,160	-	3,022,160
Retirement of Capital Credits	-	(1,270,127)	246,594	(1,023,533)
Net Increase in Memberships	<u>265</u>	<u>-</u>	<u>-</u>	<u>265</u>
BALANCE - DECEMBER 31, 2016	<u>\$ 31,920</u>	<u>\$ 65,124,149</u>	<u>\$ 1,814,324</u>	<u>\$ 66,970,393</u>

See accompanying Notes to Financial Statements.

RIO GRANDE ELECTRIC COOPERATIVE, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 3,022,160	\$ 2,868,142
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	5,719,695	5,414,438
Other Capital Credits	(337,205)	(380,031)
(Gain) Loss on Trading Securities	(338)	192
Interest Income Credited to Cushion of Credit	(183,622)	(174,487)
Changes in Assets and Liabilities -		
Decrease (Increase) in:		
Accounts Receivable	819,422	304,463
Power Cost Adjustment Receivable/Payable	(513,814)	(251,583)
Accrued Utility Revenue	280,901	1,866,514
Materials and Supplies Inventory	190,325	(364,734)
Other Current and Accrued Assets	(311,638)	(185,086)
Deferred Debits	754,104	525,711
Increase (Decrease) in:		
Accounts Payable	294,800	(84,827)
Other Current and Accrued Liabilities	87,503	(729,982)
Deferred Credits	6,210,618	6,237,763
Net Cash Provided by Operating Activities	16,032,911	15,046,493
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction and Acquisition of Plant	(12,829,113)	(15,267,497)
Plant Removal Costs, Net of Salvage	(1,295,793)	(271,382)
Proceeds from Capital Credit Retirements	211,060	200,491
Proceeds from (Purchases of) Other Assets and Investments	(4,651)	3,158,783
Payments Received on Notes Receivable	324,807	297,054
Net Cash Used by Investing Activities	(13,593,690)	(11,882,551)
CASH FLOWS FROM FINANCING ACTIVITIES		
Retirement of Capital Credits	(1,023,533)	(744,363)
Increase in Memberships	265	265
Consumer Deposits	(124,328)	206,105
Proceeds from Issuance of Long-Term Debt	5,500,000	-
Principal Payments on Long-Term Debt	(2,493,398)	(2,687,054)
Net Cash Provided (Used) by Financing Activities	1,859,006	(3,225,047)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,298,227	(61,105)
Cash and Cash Equivalents - Beginning of Year	6,350,508	6,411,613
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 10,648,735	\$ 6,350,508
SUPPLEMENTARY DISCLOSURES OF CASH FLOW INFORMATION		
Cash Payments for Interest	\$ 1,608,803	\$ 1,645,027

See accompanying Notes to Financial Statements.

RIO GRANDE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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

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

Use of Estimates

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

Long-Lived Assets

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or their fair value less cost to sell. During the years ended December 31, 2016 and 2015, 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, 2016 AND 2015**

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 \$(338) and \$192, respectively, for the years ended December 31, 2016 and 2015.

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, 2016 AND 2015**

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:

	2016	2015
Cash in Checking	\$ 424,804	\$ 1,844,326
Cash on Hand	3,150	3,150
CFC Daily Fund Investment	8,779,831	857,012
CoBank Investment Fund	1,440,950	3,646,020
Total	<u>\$ 10,648,735</u>	<u>\$ 6,350,508</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, 2016 and 2015, the allowance for uncollectible accounts was \$85,222 and \$89,799, respectively.

RIO GRANDE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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, 2016 and 2015, the Cooperative has recorded an asset of \$136,895 and a liability of \$376,919, respectively. These accounts reflect under and 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 \$911,000 to offset future taxable income as of December 31, 2016. Accordingly, no provision for income taxes has been recorded at December 31, 2016 and 2015.

The Cooperative evaluated its tax positions and determined that it has no uncertain tax positions as of December 31, 2016 and 2015.

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, 2016 AND 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

In preparing these financial statements, the Cooperative has evaluated events and transactions for potential recognition or disclosure through March 21, 2017, the date the financial statements were available to be issued.

New Accounting Pronouncements

During the year ended December 31, 2015, the Cooperative early adopted a provision of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-01, *Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. This provision eliminates the requirement for entities, other than public business entities, to disclose the fair values of financial instruments carried at amortized cost, as previously required by Accounting Standards Codification (ASC) 825-10-50. As such, the Cooperative has omitted this disclosure for the years ended December 31, 2016 and 2015. The early adoption of this provision did not have an impact on the entity's financial position or results of operations.

NOTE 2 ASSETS PLEDGED

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

NOTE 3 UTILITY PLANT IN SERVICE

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

	2016	2015
Intangible Plant	\$ 642	\$ 642
Electric Plant Adjustment	2,019,075	2,019,075
Electric Transmission Plant	6,325,249	5,434,697
Electric Distribution Plant	123,435,565	119,430,043
General Plant	22,705,511	20,308,442
Total Utility Plant in Service	<u>154,486,042</u>	<u>147,192,899</u>
Construction Work in Progress	10,217,938	6,271,813
Total	<u>\$ 164,703,980</u>	<u>\$ 153,464,712</u>

RIO GRANDE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 4 OTHER ASSETS AND INVESTMENTS

Investments in Associated Organizations

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

	2016	2015
National Rural Utilities Cooperative Finance Corporation		
Capital Term Certificates	\$ 875,683	\$ 875,683
Patronage Capital	331,554	312,978
Membership	1,000	1,000
	1,208,237	1,189,661
Patronage Capital:		
Texas Electric Cooperative	199,272	206,544
National Rural Telecommunications Cooperative	148,893	146,058
CoBank	289,488	232,914
Medina Electric Cooperative	72,790	76,811
Dell Telephone Cooperative	68,037	69,013
National Information Solutions Cooperative	63,553	66,913
Federated Rural Electric Insurance Exchange	223,956	157,469
Other Patronage Capital and Memberships	1,360	1,614
Total	\$ 2,275,586	\$ 2,146,997

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.

Notes Receivable

Notes receivable as of December 31 are as follows:

	2016	2015
U.S. Army - Fort Bliss, Texas		
10.5%, Due Monthly through August 2039	\$ 2,342,666	\$ 2,366,655
Laughlin Air Force Base		
8.84%, Due Monthly through May 2018	288,029	588,847
	2,630,695	2,955,502
Less Current Portion	(302,915)	(324,807)
Long-Term Portion of Notes Receivable	\$ 2,327,780	\$ 2,630,695

**RIO GRANDE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 4 OTHER ASSETS AND INVESTMENTS (CONTINUED)

Notes Receivable (Continued)

As of December 31, 2016 and 2015, the Cooperative has not reserved any allowance for loan losses on their notes receivable. The following tables show an aging analysis of the loan portfolio by time past due:

	Accruing Interest			Total Nonaccrual	Total
	Current	30-89 Days Past Due	More Than 90 Days Past Due		
December 31, 2016					
Notes Receivable	\$ 2,630,695	\$ -	\$ -	\$ -	\$ 2,630,695
December 31, 2015					
Notes Receivable	\$ 2,955,502	\$ -	\$ -	\$ -	\$ 2,955,502

NOTE 5 ACCRUED UTILITY REVENUE

Accrued utility revenue as of December 31 is as follows:

	2016	2015
Accrued Energy Revenue	\$ 820,229	\$ 976,500
Ft. Bliss - Job Order Costs	1,521,688	1,955,159
Laughlin - Job Order Costs	598,588	274,034
Laughlin - Operations and Maintenance	85,275	85,275
Other	67,628	83,341
Total	\$ 3,093,408	\$ 3,374,309

RIO GRANDE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 6 DEFERRED DEBITS

Deferred debits consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
NRECA Pension Prepayment	\$ 2,685,831	\$ 3,109,910
Fort Bliss - Contract Price Redetermination	396,616	519,284
Laughlin - Contract Price Redetermination	66,251	122,820
Software Costs, Net of Amortization	83,170	143,837
Preliminary Survey and Investigative Charges	-	58,224
Other/Clearing Accounts	79,238	111,135
Total	<u>\$ 3,311,106</u>	<u>\$ 4,065,210</u>

NOTE 7 PATRONAGE CAPITAL AND OTHER EQUITIES

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

	<u>2016</u>	<u>2015</u>
Assignable	\$ 3,022,160	\$ 2,868,142
Assigned	62,101,989	60,503,974
Total	<u>\$ 65,124,149</u>	<u>\$ 63,372,116</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 and due installments of principal and interest on mortgage notes.

As of December 31, 2016, capital credits through 1987 had been fully retired.

Other equities consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
Unclaimed Capital Credits	\$ 1,798,366	\$ 1,551,772
Donated Capital	4,622	4,622
Paid-in Capital	7,196	7,196
Prior Period Margins	4,140	4,140
Total	<u>\$ 1,814,324</u>	<u>\$ 1,567,730</u>

RIO GRANDE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 8 LONG-TERM DEBT

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

	<u>2016</u>	<u>2015</u>
Advance Payments on RUS Notes - Cushion of Credit	\$ (3,787,122)	\$ (3,603,500)
Federal Financing Bank (FFB) Mortgages Notes		
2.130% - 5.735% Fixed Rate Notes		
Maturing through 2047	11,088,423	5,804,784
National Rural Utilities Cooperative Finance Corporation (NRUCFC) Mortgage Notes		
2.90% Variable Rate Notes		
Maturing through 2042	661,951	679,022
3.10% - 6.35% Fixed Rate Notes		
Maturing 2017 through 2040	6,186,205	6,591,605
CoBank Mortgage Notes		
2.31% Adjustable Rate Notes		
Maturing through 2043	2,946,283	3,019,695
2.875% - 4.971% Fixed Rate Notes		
Maturing 2018 through 2037	17,180,712	18,782,427
U.S. Department of Defense - Laughlin Air Force Base		
3.88% Fixed Rate Note Maturing in 2028	<u>2,108,402</u>	<u>2,287,841</u>
	36,384,854	33,561,874
Less Current Maturities	<u>(2,654,428)</u>	<u>(2,450,656)</u>
Total	<u>\$ 33,730,426</u>	<u>\$ 31,111,218</u>

Adjustable rate notes with CoBank are subject to rate adjustments beginning in 2019. These notes will carry a variable rate after the rate adjustment, with final maturity beginning in 2034 through 2043. The Cooperative has unadvanced loan funds at December 31, 2016 of \$13,613,000 from FFB.

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

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

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
FFB	\$ 321,582	\$ 333,424	\$ 345,761	\$ 358,615	\$ 372,011
CFC	405,614	170,205	180,144	191,160	202,871
CoBank	1,747,796	1,781,872	1,016,419	985,097	988,407
Other	179,436	179,436	179,436	179,436	179,436
	<u>\$ 2,654,428</u>	<u>\$ 2,464,937</u>	<u>\$ 1,721,760</u>	<u>\$ 1,714,308</u>	<u>\$ 1,742,725</u>

RIO GRANDE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 9 NOTES PAYABLE

The Cooperative has an unsecured, perpetual line of credit with NRUCFC in the amount of \$4,000,000. Interest rates vary with the prime rate as published in the Wall Street Journal. At December 31, 2016 and 2015, the interest rate on this line of credit was 2.50% and 2.90%, respectively. The Cooperative had no outstanding balances as of December 31, 2016 and 2015.

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, 2017. At December 31, 2016 and 2015, the interest rate on this line of credit was 2.87% and 2.29%, respectively. The Cooperative had no outstanding balances as of December 31, 2016 and 2015.

NOTE 10 OTHER CURRENT AND ACCRUED LIABILITIES

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

	<u>2016</u>	<u>2015</u>
Advanced Payments for Plant Construction	\$ 1,238,593	\$ 1,340,567
Accrued Employee Compensated Absences	515,647	491,339
Accrued Payroll	387,103	347,792
Taxes Accrued and Withheld	135,253	118,059
Other	278,606	160,369
Total	<u>\$ 2,555,202</u>	<u>\$ 2,458,126</u>

NOTE 11 DEFERRED CREDITS

Deferred credits at December 31 are as follows:

	<u>2016</u>	<u>2015</u>
Deferred Revenue - Fort Bliss Repair and Replacement	\$ 16,434,248	\$ 11,475,263
Deferred Revenue - Laughlin Repair and Replacement	6,620,563	5,321,589
Consumer Advances for Energy	102,141	149,482
Total	<u>\$ 23,156,952</u>	<u>\$ 16,946,334</u>

RIO GRANDE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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 2016 and in 2015 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, 2016 and 2015, were \$1,486,800 and \$1,316,581, respectively. There have been no significant changes that affect the comparability of 2016 and 2015 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, 2016 and January 1, 2015 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, 2016 AND 2015

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% of each employee's base wages in this plan. The cost of this plan was approximately \$80,000 and \$75,000 for 2016 and 2015, respectively.

NOTE 13 COMMITMENTS AND CONCENTRATIONS

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

Sources of Supply

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

Concentration of Credit

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

Long-Term Contracts – Fort Bliss

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

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

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

RIO GRANDE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 13 COMMITMENTS AND CONCENTRATIONS (CONTINUED)

Long-Term Contracts – Fort Bliss (Continued)

The Cooperative has billed and accrued \$29,253,018 and \$22,665,051 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, 2016 and 2015, respectively. The Cooperative has expended and recognized \$12,818,770 and \$11,189,788, respectively, towards the repair and replacement as of December 31, 2016 and 2015. Unexpended funds of \$16,434,248 and \$11,475,263 are included with deferred credits as of December 31, 2016 and 2015, respectively.

Long-Term Contracts – Laughlin Air Force Base

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

The Cooperative has billed and accrued \$7,752,013 and \$6,373,789 cumulatively for operation and maintenance projects and the repair and replacement of the Laughlin electric distribution system under the contract as of December 31, 2016 and 2015, respectively. The Cooperative has expended \$1,131,450 and \$1,052,200 towards the repair and replacement as of December 31, 2016 and 2015, respectively. Unexpended funds of \$6,620,563 and \$5,321,589 are included with deferred credits as of December 31, 2016 and 2015, respectively.

Construction Contract Commitments

System improvement project commitments for Fort Bliss and LAFB were approximately \$23,836,000 and \$20,071,000 as of December 31, 2016 and 2015, respectively. Expenditures incurred on these projects were approximately \$11,199,000 and \$5,663,000 as of December 31, 2016 and 2015, respectively. Estimated remaining expenditures, including commitments to third-party contractors, are approximately \$7,849,000 and \$10,235,000 as of December 31, 2016 and 2015, respectively.

SUPPLEMENTARY INFORMATION

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RIO GRANDE ELECTRIC COOPERATIVE, INC.
SCHEDULE OF ELECTRIC PLANT
YEAR ENDED DECEMBER 31, 2016

	Balance 12/31/2015	Additions and Transfers	Retirements	Balance 12/31/2016
Electric Plant in Service				
Intangible Plant	\$ 642	\$ -	\$ -	\$ 642
Electric Plant Adjustment - LAFB	2,019,075	-	-	2,019,075
Transmission Plant:				
Land and Land Rights	30,972	-	-	30,972
Station Equipment	1,401,200	7,914	-	1,409,114
Poles and Fixtures	2,234,568	658,327	50,456	2,842,439
Overheads Conductors and Devices	1,767,957	336,361	61,594	2,042,724
Total Transmission Plant	5,434,697	1,002,602	112,050	6,325,249
Distribution Plant:				
Land and Land Rights	190,289	17,572	-	207,861
Structures and Improvements	11,398,115	613,474	-	12,011,589
Poles, Towers, and Fixtures	38,317,103	1,254,590	217,961	39,353,732
Overhead Conductors and Devices	39,484,197	1,055,826	205,668	40,334,355
Underground Conductors and Devices	1,383,437	46,810	2,571	1,427,676
Line Transformers	18,625,786	1,632,967	319,576	19,939,177
Services	266,997	-	17	266,980
Meters	8,954,623	699,306	592,284	9,061,645
Installations on Customers' Premises	529,245	30,615	7,561	552,299
Street Lighting	280,251	-	-	280,251
Total Distribution Plant	119,430,043	5,351,160	1,345,638	123,435,565
General Plant				
Land and Land Rights	164,734	-	-	164,734
Structures and Improvements	5,007,933	254,937	-	5,262,870
Office Furniture and Equipment	2,340,048	502,113	19,187	2,822,974
Transportation Equipment	8,646,918	1,083,545	40,476	9,689,987
Stores Equipment	412,274	33,199	-	445,473
Tools, Shop, and Garage Equipment	718,091	326,681	34,970	1,009,802
Laboratory Equipment	776,406	65,585	48,868	793,123
Power Operated Equipment	518,994	2,329	829	520,494
Communications Equipment	1,387,649	89,709	55,622	1,421,736
Miscellaneous Equipment	335,395	239,422	499	574,318
Total General Plant	20,308,442	2,597,520	200,451	22,705,511
Total Electric Plant in Service	147,192,899	8,951,282	1,658,139	154,486,042
Construction Work in Progress	6,271,813	3,946,125	-	10,217,938
	<u>\$ 153,464,712</u>	<u>\$ 12,897,407</u>	<u>\$ 1,658,139</u>	<u>\$ 164,703,980</u>

RIO GRANDE ELECTRIC COOPERATIVE, INC.
SCHEDULE OF ELECTRIC PLANT ACCUMULATED DEPRECIATION
YEAR ENDED DECEMBER 31, 2016

	<u>Balance 12/31/2015</u>	<u>Depreciation and Transfers</u>	<u>Retirements</u>	<u>Balance 12/31/2016</u>
Electric Plant Adjustment	\$ 627,554	\$ 109,140	\$ -	\$ 736,694
Transmission Plant	2,448,885	126,090	140,282	2,434,693
Distribution Plant	42,498,039	3,707,938	1,736,397	44,469,580
Acquired Plant - LAFB	<u>1,334,331</u>	<u>70,296</u>	<u>22,877</u>	<u>1,381,750</u>
Total Distribution Plant	43,832,370	3,778,234	1,759,274	45,851,330
General Plant				
Structures and Improvements	1,827,712	163,592	-	1,991,304
Office Furniture and Equipment	1,580,250	269,153	17,084	1,832,319
Transportation Equipment	5,940,117	833,693	19,633	6,754,177
Stores Equipment	230,768	38,719	-	269,487
Tools, Shop, and Garage Equipment	323,803	77,892	31,467	370,228
Laboratory Equipment	592,740	53,545	38,812	607,473
Power Operated Equipment	127,818	36,538	10,884	153,472
Communications Equipment	1,498,086	174,160	60,349	1,611,897
Miscellaneous	<u>196,216</u>	<u>58,939</u>	<u>499</u>	<u>254,656</u>
Total General Plant	<u>12,317,510</u>	<u>1,706,231</u>	<u>178,728</u>	<u>13,845,013</u>
Total Electric Plant in Service	59,226,319	5,719,695	2,078,284	62,867,730
Retirement Work in Progress	<u>(54,927)</u>	<u>-</u>	<u>807,354</u>	<u>(862,281)</u>
	<u>\$ 59,171,392</u>	<u>\$ 5,719,695</u>	<u>\$ 2,885,638</u>	<u>\$ 62,005,449</u>

(1) Charged to Depreciation Expense	\$ 4,817,393
Charged to Clearing Accounts	<u>902,302</u>
	<u>\$ 5,719,695</u>

(2) Cost of Units Retired	\$ 1,658,139
Cost of Removal	1,261,646
Salvage	<u>(34,147)</u>
Loss Due to Retirement	<u>\$ 2,885,638</u>

RIO GRANDE ELECTRIC COOPERATIVE, INC.
SCHEDULE OF PATRONAGE CAPITAL
YEAR ENDED DECEMBER 31, 2016

Calendar Year	Assignable	Assigned	Retired	12/31/2016 Balance	12/31/2015 Balance
1951	\$ -	\$ 5,611	\$ 5,611	\$ -	\$ -
1952	-	41,630	41,630	-	-
1953	-	44,658	44,658	-	-
1956	-	5,745	5,745	-	-
1967	-	30,621	30,621	-	-
1968	-	25,575	25,575	-	-
1969	-	64,144	64,144	-	-
1971	-	27,279	27,279	-	-
1972	-	51,428	51,428	-	-
1973	-	80,910	80,910	-	-
1974	-	158,288	158,288	-	-
1975	-	139,201	139,201	-	-
1977	-	222,668	222,668	-	-
1978	-	366,220	366,220	-	-
1979	-	175,947	175,947	-	-
1980	-	96,892	96,892	-	-
1981	-	162,472	162,472	-	-
1982	-	495,360	495,360	-	-
1984	-	1,257,162	1,257,162	-	-
1985	-	528,848	528,848	-	-
1986	-	85,875	85,875	-	-
1987	-	240,365	240,365	-	-
1988	-	1,854,292	1,270,418	583,874	1,854,001
1989	-	1,671,269	270	1,670,999	1,670,999
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	2,868,142
2016	3,022,160	-	-	3,022,160	-
	<u>\$ 3,022,160</u>	<u>\$ 67,680,766</u>	<u>\$ 5,578,777</u>	<u>\$ 65,124,149</u>	<u>\$ 63,372,116</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. (the Cooperative) which comprise the balance sheet as of December 31 2016, 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 21, 2017.

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.

Board of Directors
Rio Grande Electric Cooperative, Inc.

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

Dallas, Texas
March 21, 2017



**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, 2016, 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 21, 2017. In accordance with *Government Auditing Standards*, we have also issued a report dated March 21, 2017, 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. 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	\$ 2,685,831
Fort Bliss - Contract Price Redetermination	396,616
Laughlin - Contract Price Redetermination	66,251
Software Costs, Net of Amortization	83,170
Preliminary Survey and Investigative Charges	-
Other/Clearing Accounts	79,238
Total Deferred Debits	<u><u>\$ 3,311,106</u></u>

Schedule of Deferred Credits

Deferred Revenue - Fort Bliss Repair and Replacement	\$ 16,434,248
Deferred Revenue - Laughlin Repair and Replacement	6,620,563
Consumer Advances for Energy	102,141
Total Deferred Credits	<u><u>\$ 23,156,952</u></u>

Schedule of Investments

No investments in subsidiary or affiliated companies as of December 31, 2016.

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 21, 2017


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, 2016, 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 21, 2017.

During the year ended December 31, 2016, 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

Dallas, Texas
March 21, 2017