

RIO GRANDE ELECTRIC COOPERATIVE, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

RIO GRANDE ELECTRIC COOPERATIVE, INC.
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**RIO GRANDE ELECTRIC COOPERATIVE, INC.
DIRECTORS AND OFFICERS
DECEMBER 31, 2013**

Stephen Haynes	President
Mark Daugherty	Vice-President
Rowdy Holmsley	Secretary
Jimmy Ballew	Treasurer
James Evrage	Director
Priscilla Parsons	Director
William D. White	Director
Kimball Miller	Director
Lowell Woodward	Director
Frank Archuleta	Director
Henry Mills	Director
Cindy Whitehead	Director
Margarita Nelson	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, 2013, 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.

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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

Board of Directors
Rio Grande Electric Cooperative, Inc.

Opinion

In our opinion, the 2013 financial statements referred to above present fairly, in all material respects, the financial position of Rio Grande Electric Cooperative, Inc. as of December 31, 2013, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior Period Financial Statements

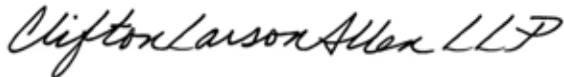
The financial statements of Rio Grande Electric Cooperative, Inc. as of December 31, 2012, were audited by other auditors whose report dated March 15, 2013, expressed an unmodified opinion on those financial statements.

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 27, 2014, 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 27, 2014

RIO GRANDE ELECTRIC COOPERATIVE, INC.
BALANCE SHEETS
DECEMBER 31, 2013 AND 2012

ASSETS	2013	2012
UTILITY PLANT		
Electric Plant in Service	\$ 130,958,356	\$ 122,430,574
Construction Work in Progress	4,818,259	4,156,946
Total	135,776,615	126,587,520
Less: Accumulated Provision for Depreciation	(52,638,142)	(49,559,451)
Net Utility Plant	83,138,473	77,028,069
OTHER ASSETS AND INVESTMENTS		
Investments in Associated Organizations	1,833,375	1,826,494
Notes Receivable, Net of Current Portion	3,252,556	3,421,023
Total Other Assets and Investments	5,085,931	5,247,517
CURRENT ASSETS		
Cash and Cash Equivalents	2,694,135	5,138,393
Accounts Receivable, Net	5,098,594	3,926,772
Power Cost Adjustment Receivable	13,601	-
Accrued Utility Revenue	5,060,900	4,975,527
Current Portion of Notes Receivable	271,676	228,128
Materials and Supplies Inventory	2,860,557	3,216,100
Prepayments	374,365	308,367
Interest Receivable	16,448	9,330
Total Current Assets	16,390,276	17,802,617
DEFERRED DEBITS		
Total Assets	5,071,976	1,048,867
	\$ 109,686,656	\$ 101,127,070
EQUITIES AND LIABILITIES		
EQUITIES		
Memberships	\$ 30,995	\$ 30,745
Patronage Capital	57,883,394	51,041,912
Other Equities	922,304	632,978
Total Equities	58,836,693	51,705,635
LONG-TERM DEBT, NET OF CURRENT MATURITIES		
	35,634,938	35,842,326
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	2,547,943	2,132,007
Accounts Payable	2,498,640	2,666,814
Power Cost Adjustment Payable	-	124,465
Consumer Deposits	766,075	517,274
Accrued Interest Payable	134,949	130,071
Other Current and Accrued Liabilities	2,694,469	4,485,805
Total Current Liabilities	8,642,076	10,056,436
DEFERRED CREDITS		
Total Equities and Liabilities	6,572,949	3,522,673
	\$ 109,686,656	\$ 101,127,070

See accompanying Notes to Financial Statements.

RIO GRANDE ELECTRIC COOPERATIVE, INC.
STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
OPERATING REVENUES		
Electric	\$ 33,524,792	\$ 32,232,002
Other	9,489,010	12,556,612
Total Operating Revenue	43,013,802	44,788,614
OPERATING EXPENSES		
Cost of Power	18,075,007	17,043,404
Transmission Expense	36,553	46,511
Distribution Expense - Operations	5,235,133	3,962,680
Distribution Expense - Maintenance	2,123,416	1,836,574
Consumer Account Expense	783,751	791,758
Customer Service and Informational Expense	202,526	239,528
Administrative and General Expense	3,319,182	3,176,758
Depreciation	4,165,584	3,841,428
Taxes	10,275	10,151
Other Interest	5,942	9,655
Other Deductions	96,713	276,622
Total Operating Expenses	34,054,082	31,235,069
OPERATING MARGINS BEFORE FIXED CHARGES	8,959,720	13,553,545
INTEREST ON LONG-TERM DEBT	1,716,099	1,737,886
OPERATING MARGINS AFTER FIXED CHARGES	7,243,621	11,815,659
GENERATION AND TRANSMISSION AND OTHER CAPITAL CREDITS	244,266	242,693
NET OPERATING MARGINS	7,487,887	12,058,352
NON-OPERATING MARGINS		
Interest Income	67,193	39,665
Internet Activities, Net	25,218	32,967
Other Non-Operating Income	15,080	16,587
Total Non-Operating Margins	107,491	89,219
NET MARGINS	\$ 7,595,378	\$ 12,147,571

See accompanying Notes to Financial Statements.

RIO GRANDE ELECTRIC COOPERATIVE, INC.
STATEMENTS OF CHANGES IN PATRONAGE CAPITAL AND OTHER EQUITIES
YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>Memberships</u>	<u>Patronage Capital</u>	<u>Other Equities</u>	<u>Total</u>
BALANCE DECEMBER 31, 2011	\$ 30,040	\$ 39,659,110	\$ 231,914	\$ 39,921,064
Net Margins for the Year	-	12,147,571	-	12,147,571
Retirement of Capital Credits	-	(764,769)	401,064	(363,705)
Net Increase in Memberships	<u>705</u>	<u>-</u>	<u>-</u>	<u>705</u>
BALANCE DECEMBER 31, 2012	30,745	51,041,912	632,978	51,705,635
Net Margins for the Year	-	7,595,378	-	7,595,378
Retirement of Capital Credits	-	(753,896)	289,326	(464,570)
Net Increase in Memberships	<u>250</u>	<u>-</u>	<u>-</u>	<u>250</u>
BALANCE DECEMBER 31, 2013	<u>\$ 30,995</u>	<u>\$ 57,883,394</u>	<u>\$ 922,304</u>	<u>\$ 58,836,693</u>

See accompanying Notes to Financial Statements.

RIO GRANDE ELECTRIC COOPERATIVE, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 7,595,378	\$ 12,147,571
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	5,020,950	4,717,288
G & T and Other Capital Credits	(244,266)	(242,693)
Plant Impairment Charge	-	253,855
Interest Income Credited to Cushion of Credit	(20,347)	-
Changes in Assets and Liabilities -		
Decrease (Increase) in:		
Accounts Receivable	(1,171,822)	3,610,450
Power Cost Adjustment Receivable/Payable	(138,066)	(282,734)
Accrued Utility Revenue	(85,373)	(2,970,154)
Materials and Supplies Inventory	355,543	1,097,514
Other Current and Accrued Assets	(73,116)	(3,371)
Deferred Debits	(4,023,109)	(395,039)
Increase (Decrease) in:		
Accounts Payable	123,531	351,737
Other Current and Accrued Liabilities	(1,786,458)	(493,208)
Deferred Credits	3,050,276	(382,767)
Net Cash Provided by Operating Activities	8,603,121	17,408,449
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction and Acquisition of Plant	(10,902,859)	(8,869,848)
Plant Removal Costs, Net of Salvage	(520,200)	(358,377)
Proceeds from Capital Credit Retirements	216,670	127,079
Proceeds from Other Assets and Investments	20,714	-
Issuance of Notes Receivable	(115,999)	(1,257,500)
Payments Received on Notes Receivable	240,919	49,396
Net Cash Used by Investing Activities	(11,060,755)	(10,309,250)
CASH FLOWS FROM FINANCING ACTIVITIES		
Retirement of Capital Credits	(464,570)	(363,705)
Increase in Memberships	250	705
Consumer Deposits	248,801	87,350
Net Payments on Line of Credit	-	(2,984,572)
Proceeds from Issuance of Long-Term Debt	4,240,786	1,248,635
Advanced Payments on Long-Term Debt	(1,689,800)	-
Principal Payments on Long-Term Debt	(2,322,091)	(1,869,842)
Net Cash Provided (Used) by Financing Activities	13,376	(3,881,429)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,444,258)	3,217,770
Cash and Cash Equivalents - Beginning	5,138,393	1,920,623
CASH AND CASH EQUIVALENTS - ENDING	\$ 2,694,135	\$ 5,138,393

See accompanying Notes to Financial Statements.

RIO GRANDE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Rio Grande Electric Cooperative, Inc. (the Cooperative) is a non-profit 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, 2013 and 2012, the Cooperative recorded impairment charges of \$0 and \$253,855 related to the discontinued use of certain meters that were replaced with new technology. The impairment loss is included in other deductions in the statements of operations.

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, 2013 AND 2012**

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.

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.

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.

**RIO GRANDE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other Assets and Investments (Continued)

Allowance for Loan Losses (Continued)

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, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Cash in Checking	\$ 428,016	\$ 761,195
Cash on Hand	3,150	3,150
CFC Daily Fund Investment	565,165	564,629
CoBank Investment Fund	<u>1,697,804</u>	<u>3,809,419</u>
Total	<u>\$ 2,694,135</u>	<u>\$ 5,138,393</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, 2013 and 2012, the allowance for uncollectible accounts was \$113,636 and \$116,929, respectively.

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 non-profit 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.

**RIO GRANDE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2013, the Cooperative has recorded an asset of \$13,601 and a liability of \$124,465 at December 31, 2012. These accounts reflect under and over collections, respectively, 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. The Cooperative incurs unrelated business income taxable income (UBI) under the Code on certain revenue streams, but has net operating loss carryforwards of approximately \$900,000 to offset future taxable income as of December 31, 2013. Accordingly, no provision for income taxes has been recorded at December 31, 2013 and 2012.

The Cooperative evaluated its tax positions and determined that it has no uncertain tax positions as of December 31, 2013 and 2012.

With few exceptions, the Cooperative is no longer subject to federal, state, or local income tax examinations by tax authorities for years before 2010.

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.

Supplemental Information of Statement of Cash Flows

Cash Payments for Interest	<u>\$ 1,711,221</u>	<u>\$ 1,707,175</u>
NON-CASH FINANCING ACTIVITY		
Refinancing of Long-Term Debt with CoBank	<u>\$ -</u>	<u>\$ 9,558,564</u>
Accounts Payable for Construction	<u>\$ 456,332</u>	<u>\$ 748,037</u>

**RIO GRANDE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

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 27, 2014, the date the financial statements were available to be issued.

Reclassifications

Certain reclassifications have been made to the 2012 financial statements to make them conform to the 2013 presentation. The reclassifications had no effect on net margins.

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, 2013 and 2012:

	2013	2012
Intangible Plant	\$ 642	\$ 642
Electric Plant Adjustment	2,019,075	2,019,075
Electric Transmission Plant	5,354,623	4,734,491
Electric Distribution Plant	105,185,531	99,427,620
General Plant	18,398,485	16,248,746
Total Utility Plant in Service	130,958,356	122,430,574
Construction Work in Progress	4,818,259	4,156,946
Total	\$ 135,776,615	\$ 126,587,520

**RIO GRANDE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 4 OTHER ASSETS AND INVESTMENTS

Investments in Associated Organizations

Investments in associated organizations as of December 31, 2013 and 2012 are as follows:

	2013	2012
National Rural Utilities Cooperative Finance Corporation		
Capital Term Certificates	\$ 875,683	\$ 896,389
Patronage Capital	268,969	243,202
Membership	1,000	1,000
	1,145,652	1,140,591
Patronage Capital:		
Texas Electric Cooperative	228,417	258,238
National Rural Telecommunications Cooperative	134,617	114,499
CoBank	124,953	96,686
Medina Electric Cooperative	80,628	82,855
Dell Telephone Cooperative	56,865	57,826
National Information Solutions Cooperative	48,298	34,507
Federated Rural Electric Insurance Exchange	11,445	38,617
Other Patronage Capital and Memberships	2,500	2,675
	\$ 1,833,375	\$ 1,826,494

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 five percent and begin maturing in the year 2070; and zero term certificates bear interest of zero percent and begin maturing in the year 2017.

Notes Receivable

Notes receivable as of December 31, 2013 and 2012 are as follows:

	2013	2012
U.S. Army - Fort Bliss, Texas		
10.5%, Due Monthly through August 2039	\$ 2,407,726	\$ 2,425,257
Laughlin Air Force Base		
8.84%, Due Monthly through May 2018	1,116,506	1,223,894
	3,524,232	3,649,151
Less Current Portion	(271,676)	(228,128)
Long-Term Portion of Notes Receivable	\$ 3,252,556	\$ 3,421,023

RIO GRANDE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 4 OTHER ASSETS AND INVESTMENTS (CONTINUED)

Notes Receivable (Continued)

As of December 31, 2013 and 2012, the Cooperative has not reserved any allowance for loan losses on their notes receivable. The following table shows an aging analysis of the loan portfolio by time past due:

	<u>Accruing Interest</u>			Total Nonaccrual	2013 Total
	Current	30-89 Days Past Due	More Than 90 Days Past Due		
Notes Receivable	\$ 3,524,232	\$ -	\$ -	\$ -	\$ 3,524,232
Total	<u>\$ 3,524,232</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,524,232</u>

	<u>Accruing Interest</u>			Total Nonaccrual	2012 Total
	Current	30-89 Days Past Due	More Than 90 Days Past Due		
Notes Receivable	\$ 3,649,151	\$ -	\$ -	\$ -	\$ 3,649,151
Total	<u>\$ 3,649,151</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,649,151</u>

NOTE 5 ACCRUED UTILITY REVENUE

Accrued utility revenue as of December 31, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Accrued Energy Revenue	\$ 856,966	\$ 930,913
Ft. Bliss - Job Order Costs	3,417,403	3,498,489
Ft. Bliss - Operations and Maintenance	31,459	73,060
Laughlin - Job Order Costs	593,455	373,361
Laughlin - Operations and Maintenance	80,724	80,724
Other	80,893	18,980
Total	<u>\$ 5,060,900</u>	<u>\$ 4,975,527</u>

RIO GRANDE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 6 DEFERRED DEBITS

Deferred debits consist of the following at December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
NRECA Pension Prepayment	\$ 3,958,067	\$ -
Fort Bliss - Contract Price Redetermination	595,030	654,247
Laughlin - Contract Price Redetermination	49,309	34,387
Software Costs, Net of Amortization	242,586	101,993
Preliminary Survey and Investigative Charges	175,546	232,897
Other/Clearing Accounts	51,438	25,343
	<u>\$ 5,071,976</u>	<u>\$ 1,048,867</u>

NOTE 7 PATRONAGE CAPITAL AND OTHER EQUITIES

The following is a summary of patronage capital assignable and assigned at December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Assignable	\$ 7,595,378	\$ 12,147,571
Assigned	50,288,016	38,894,341
	<u>\$ 57,883,394</u>	<u>\$ 51,041,912</u>

The mortgage provisions restrict the retirement of patronage capital unless after retirement, the capital of the Cooperative equals at least 30 percent of total assets of the Cooperative; provided, however, that retirements can be made if such distributions do not exceed 25 percent 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, 2013, capital credits through 1983 had been fully retired.

Other equities consist of the following at December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Unclaimed Capital Credits	\$ 906,346	\$ 617,020
Donated Capital	4,622	4,622
Paid-in Capital	7,196	7,196
Prior Period Margins	4,140	4,140
Total	<u>\$ 922,304</u>	<u>\$ 632,978</u>

RIO GRANDE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 8 LONG-TERM DEBT

The following is a summary of outstanding long-term debt as of December 31, 2013 and 2012:

	2013	2012
Rural Utilities Services (RUS) Mortgage Notes		
2.00% Fixed Rate Notes Maturing in 2016	\$ 676,128	\$ 1,051,777
Advance Payments on RUS Notes - Cushion of Credit	(1,710,147)	-
Federal Financing Bank (FFB) Mortgages Notes		
3.586% - 5.735% Fixed Rate Notes		
Maturing through 2034	4,276,910	4,400,282
National Rural Utilities Cooperative Finance Corporation (NRUCFC) Mortgage Notes		
3.10% - 6.35% Fixed Rate Notes		
Maturing 2017 through 2043	10,508,313	10,898,450
CoBank Mortgage Notes		
3.95% to 4.97% Adjustable Rate Notes		
Maturing 2018 through 2043	4,681,083	4,848,855
2.88% - 4.19% Fixed Rate Notes		
Maturing 2020 through 2037	17,103,876	13,948,814
U.S. Department of Defense - Laughlin Air Force Base		
3.88% Fixed Rate Note Maturing in 2028	2,646,718	2,826,155
	38,182,881	37,974,333
Less Current Maturities	(2,547,943)	(2,132,007)
	\$ 35,634,938	\$ 35,842,326

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, 2013 of \$695,606 and \$20,929,000 from NRUCFC and FFB, respectively.

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:

	2014	2015	2016	2017	2018
RUS	\$ 337,697	\$ 338,431	\$ -	\$ -	\$ -
FFB	135,020	141,736	148,790	156,199	163,980
CFC	433,398	452,078	471,646	463,765	231,310
CoBank	1,470,186	1,522,882	1,577,565	1,634,313	1,650,434
Other	171,642	179,873	178,999	179,723	179,276
	\$ 2,547,943	\$ 2,635,000	\$ 2,377,000	\$ 2,434,000	\$ 2,225,000

RIO GRANDE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

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 is also in place with NRUCFC in the amount of \$4,000,000 with an expiration date of June 27, 2015. Interest rates vary with the prime rate as published in the Wall Street Journal. At December 31, 2013 and 2012, the interest rate on these lines of credit was 2.90%. The Cooperative had no outstanding balances as of December 31, 2013 and 2012.

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, 2014. At December 31, 2013 and 2012, the interest rate on this line of credit was 2.93% and 2.96%, respectively. The Cooperative had no outstanding balances as of December 31, 2013 and 2012.

NOTE 10 OTHER CURRENT AND ACCRUED LIABILITIES

Other current and accrued liabilities consist of the following at December 31, 2013 and 2012:

	2013	2012
Advanced Payments for Plant Construction	\$ 1,738,839	\$ 3,541,056
Accrued Employee Compensated Absences	426,701	425,865
Taxes Accrued and Withheld	104,573	155,384
Other	424,356	363,500
	<u>\$ 2,694,469</u>	<u>\$ 4,485,805</u>

NOTE 11 DEFERRED CREDITS

Deferred credits at December 31, 2013 and 2012 are as follows:

	2013	2012
Deferred Gain - NRECA Pension Plan Conversion	\$ -	\$ 10,352
Deferred Revenue - Fort Bliss Repair and Replacement	3,025,010	607,376
Deferred Revenue - Laughlin Repair and Replacement	3,482,422	2,754,070
Deferred Revenue - Material Credits	-	75,706
Consumer Advances for Energy	65,517	75,169
	<u>\$ 6,572,949</u>	<u>\$ 3,522,673</u>

**RIO GRANDE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

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 Internal Revenue Code. 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 2013 and in 2012 represented less than 5 percent of the total contributions made to the plan by all participating employers. The Cooperative made contributions to the plan in 2013 and 2012 as follows:

	2013	2012
Current Payments to Plan	\$ 1,234,370	\$ 1,508,345
Prepayments	4,240,786	-
	\$ 5,475,156	\$ 1,508,345

Contributions in 2013 are significantly higher than those in 2012 due to the Cooperative electing to participate in the prepayment option offered to participating employers in 2013.

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 percent funded on January 1, 2013 and between 65 percent and 80 percent funded at January 1, 2012 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.

RIO GRANDE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 12 EMPLOYEE BENEFIT PLANS (CONTINUED)

Plan Information (Continued)

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.

In addition to the above retirement plan, the Cooperative has adopted a 401(k) Employees Savings Plan. The Cooperative matches one percent of each employee's base wages in this plan. The cost of this plan was approximately \$66,000 and \$65,000 for 2013 and 2012, 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 percent margin.

**RIO GRANDE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 13 COMMITMENTS AND CONCENTRATIONS (CONTINUED)

Long-Term Contracts – Fort Bliss (Continued)

In addition to the planned long-term upgrades, the Cooperative is committed to make immediate system improvements of approximately \$2.5 million which will be recovered, with interest at 10.5 percent per annum over a thirty-five year period. The Cooperative began the long-term upgrade in 2004. The Cooperative is not under contract to supply electrical energy to the base, but will have the opportunity to bid on the power supply contract in the near future.

The Cooperative has entered into modifications of the 50 year contract to expand electrical distribution infrastructure at Fort Bliss. In connection with these modifications, the Cooperative has entered into irrevocable letters of credit with NRUCFC as follows:

<u>Irrevocable Letter of Credit Number</u>	<u>Issuance Date</u>	<u>Expiration Date</u>	<u>2013</u>	<u>2012</u>
TX144-L-9016	4/1/2012	3/31/2013	\$ -	\$ 293,838
TX144-L-9017	2/1/2013	6/30/2014	110,000	-
TX144-L-9018	2/1/2013	9/30/2015	348,000	-
			<u>\$ 458,000</u>	<u>\$ 293,838</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 one percent 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 \$12,541,677 and \$9,512,282 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, 2013 and 2012, respectively. The Cooperative has expended and recognized \$9,516,667 and \$8,904,905, respectively, towards the repair and replacement as of December 31, 2013 and 2012. Unexpended funds of \$3,025,010 and \$607,376 are included with deferred credits as of December 31, 2013 and 2012, respectively.

RIO GRANDE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

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 non-cash transaction. Long-term debt was established payable to the USAF for the purchase price of the facilities at an interest rate of 3.88% for a period of 18 ½ years. Debt payments made to the USAF are offset by a corresponding credit from the USAF for the purchase price of the facilities. The contract requires the Cooperative to provide for the operations and maintenance of the system and for rebuilding the system over the term of the contract in accordance with specifications in the contract. The contract provides for monthly charges to allow the Cooperative to recover its cost of operations, maintenance and rebuilding the system, plus a 10 percent 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 percent.

The Cooperative has billed and accrued \$4,052,968 and \$2,970,316 cumulatively for operation and maintenance projects and the repair and replacement of the Laughlin electric distribution system under the contract as of December 31, 2013 and 2012, respectively. The Cooperative has expended \$570,546 and \$216,246 towards the repair and replacement as of December 31, 2013 and 2012, respectively. Unexpended funds of \$3,482,422 and \$2,754,070 are included with deferred credits as of December 31, 2013 and 2012.

Construction Contract Commitments

System improvement project commitments for Fort Bliss and LAFB were approximately \$22,125,000 as of December 31, 2013. Expenditures incurred on these projects were approximately \$6,975,000 as of December 31, 2013. Estimated remaining expenditures, including commitments to third party contractors is approximately \$8,550,000 as of December 31, 2013.

Litigation

The Cooperative is involved in three lawsuits. Outside counsel for the Cooperative has advised that at this stage in the various proceedings, an opinion as to the probable outcome cannot be given. The Cooperative is vigorously defending its positions.

**RIO GRANDE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 14 FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values of financial instruments have been derived, in part, by management's assumptions, the estimated amount and timing of future cash flows, and estimated discount rates. Different assumptions could significantly affect these estimated fair values. Accordingly, the net realizable value could be materially different from the estimates presented below. In addition, the estimates are only indicative of the value of individual financial instruments and should not be considered an indication of the fair value of the Cooperative. The following disclosures represent financial instruments in which the ending balances at December 31, 2013 and 2012 are not carried at fair value in their entirety on the balance sheets.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cash and cash equivalents: The carrying values reported in the balance sheet approximate the fair value of these assets.

Investments in associated organizations: The carrying values reported in the balance sheet approximate the fair value of these assets.

Long Term Debt: Fair value is estimated by discounting the future cash flows using the current rates at which similar debt could be obtained with similar maturities.

The following table presents the carrying amounts and estimated fair values of the Cooperative's financial instruments at December 31:

	2013		2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Financial Assets</u>				
Cash and Cash Equivalents	\$ 2,694,135	\$ 2,694,135	\$ 5,138,393	\$ 5,138,393
Investments in Associated Organizations and Other Investments	1,833,375	1,833,375	1,826,494	1,826,494
<u>Financial Liabilities</u>				
Long-Term Debt, Including Current Maturities	38,182,881	36,831,452	37,974,333	37,974,333

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SUPPLEMENTARY INFORMATION

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**RIO GRANDE ELECTRIC COOPERATIVE, INC.
SCHEDULE OF ELECTRIC PLANT
YEAR ENDED DECEMBER 31, 2013**

	Balance 12/31/2012	Additions & Transfers	Retirements	Balance 12/31/2013
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	1,063,565	337,635	-	1,401,200
Poles & Fixtures	2,129,465	54,216	5,912	2,177,769
Overheads Conductors & Devices	1,510,489	234,539	346	1,744,682
Total Transmission Plant	4,734,491	626,390	6,258	5,354,623
Distribution Plant:				
Land & Land Rights	58,761	116,356	-	175,117
Structures & Improvements	7,474,996	2,145,256	3,174	9,617,078
Poles, Towers, & Fixtures	30,914,007	1,598,903	442,335	32,070,575
Overhead Conductors & Devices	36,077,932	1,133,942	801,239	36,410,635
Underground Conductors & Devices	1,042,455	297,206	11,615	1,328,046
Line Transformers	15,427,495	1,033,018	123,438	16,337,075
Services	265,429	1,169	113	266,485
Meters	7,380,005	882,836	71,115	8,191,726
Installations on Customers' Premises	495,680	19,477	7,716	507,441
Leased Property on Customers' Premises	3,920	-	3,920	-
Street Lighting	286,940	66	5,653	281,353
Total Distribution Plant	99,427,620	7,228,229	1,470,318	105,185,531
General Plant				
Land & Land Rights	188,275	(23,841)	-	164,434
Structures & Improvements	3,690,811	1,048,944	-	4,739,755
Office Furniture & Equipment	1,651,259	329,546	56,324	1,924,481
Transportation Equipment	7,263,111	498,076	174,441	7,586,746
Stores Equipment	244,042	68,204	6,662	305,584
Tools, Shop, and Garage Equipment	510,666	78,688	2,894	586,460
Laboratory Equipment	775,008	67,955	5,787	837,176
Power Operated Equipment	252,655	-	-	252,655
Communications Equipment	1,496,177	171,885	6,855	1,661,207
Miscellaneous Equipment	176,742	166,545	3,300	339,987
Total General Plant	16,248,746	2,406,002	256,263	18,398,485
Total Electric Plant in Service	122,430,574	10,260,621	1,732,839	130,958,356
Construction Work in Progress	4,156,946	661,313	-	4,818,259
	<u>\$ 126,587,520</u>	<u>\$ 10,921,934</u>	<u>\$ 1,732,839</u>	<u>\$ 135,776,615</u>

RIO GRANDE ELECTRIC COOPERATIVE, INC.
SCHEDULE OF ELECTRIC PLANT
YEAR ENDED DECEMBER 31, 2013

	Balance 12/31/2012	Depreciation & Transfers	Retirements	Balance 12/31/2013
Electric Plant Adjustment	\$ 300,134	\$ 109,140	\$ -	\$ 409,274
Transmission Plant	2,112,821	129,656	12,393	2,230,084
Distribution Plant	36,936,544	3,024,845	1,585,412	38,375,977
Acquired Plant - LAFB	1,474,552	70,296	333,510	1,211,338
Total Distribution Plant	38,411,096	3,095,141	1,918,922	39,587,315
General Plant				
Structures & Improvements	1,391,923	127,628	-	1,519,551
Office Furniture & Equipment	1,102,371	268,981	56,144	1,315,208
Transportation Equipment	4,128,958	828,632	174,440	4,783,150
Stores Equipment	117,070	43,035	6,663	153,442
Tools, Shop, and Garage Equipment	215,681	58,361	2,893	271,149
Laboratory Equipment	609,161	61,969	10,859	660,271
Power Operated Equipment	79,785	19,627	-	99,412
Communications Equipment	1,461,478	244,543	7,035	1,698,986
Miscellaneous	62,291	34,237	3,299	93,229
Total General Plant	9,168,718	1,687,013	261,333	10,594,398
Total Electric Plant in Service	49,992,769	5,020,950	2,192,648	52,821,071
Retirement Work in Progress	(433,318)	-	(250,389)	(182,929)
	\$ 49,559,451	\$ 5,020,950	\$ 1,942,259	\$ 52,638,142
		(1)	(2)	
(1) Charged to Depreciation Expense				\$ 4,165,584
Charged to Clearing Accounts				855,366
				\$ 5,020,950
(2) Cost of Units Retired				\$ 1,732,839
Cost of Removal				364,810
Salvage				(155,390)
Loss Due to Retirement				\$ 1,942,259

**RIO GRANDE ELECTRIC COOPERATIVE, INC.
SCHEDULE OF PATRONAGE CAPITAL
YEAR ENDED DECEMBER 31, 2013**

Calendar Year	Assignable	Assigned	Retired	12/31/2013 Balance	12/31/2012 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	-	96,868
1981	-	162,472	162,472	-	162,424
1982	-	495,360	495,360	-	495,222
1984	-	1,257,162	519	1,256,643	1,256,750
1985	-	528,848	123	528,725	528,692
1986	-	85,875	25	85,850	85,845
1987	-	240,365	100	240,265	240,282
1988	-	1,854,292	255	1,854,037	1,853,698
1989	-	1,671,269	240	1,671,029	1,670,929
1990	-	1,555,440	-	1,555,440	1,555,232
1991	-	921,927	43	921,884	921,824
1992	-	764,835	103	764,732	764,732
1993	-	859,051	115	858,936	858,936
1994	-	1,140,748	158	1,140,590	1,140,593
1995	-	827,512	131	827,381	827,381
1996	-	1,112,077	132	1,111,945	1,111,945
1997	-	798,362	60	798,302	798,302
1998	-	1,113,615	102	1,113,513	1,113,513
1999	-	736,600	95	736,505	736,505
2000	-	712,753	108	712,645	712,645
2001	-	734,829	53	734,776	734,776
2002	-	778,390	63	778,327	778,327
2003	-	612,527	27	612,500	612,500
2004	-	657,471	-	657,471	657,471
2005	-	1,288,790	-	1,288,790	1,288,790
2006	-	1,778,181	-	1,778,181	1,778,181
2007	-	1,271,264	-	1,271,264	1,271,264
2008	-	915,300	-	915,300	915,300
2009	-	1,114,536	-	1,114,536	1,114,536
2010	-	5,276,007	-	5,276,007	5,276,007
2011	-	7,534,871	-	7,534,871	7,534,871
2012	-	12,147,571	-	12,147,571	12,147,571
2013	7,595,378	-	-	7,595,378	-
	<u>\$ 7,595,378</u>	<u>\$ 52,485,117</u>	<u>\$ 2,197,101</u>	<u>\$ 57,883,394</u>	<u>\$ 51,041,912</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 2013, 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 27, 2014.

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.

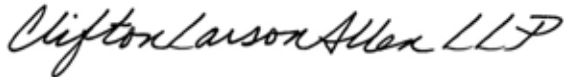
Board of Directors
Rio Grande Electric Cooperative, Inc.

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

Austin, Minnesota
March 27, 2014



**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, 2013, 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 27, 2014. In accordance with *Government Auditing Standards*, we have also issued a report dated March 27, 2014, 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	\$ 3,958,067
Fort Bliss - Contract Price Redetermination	595,030
Laughlin - Contract Price Redetermination	49,309
Software Costs, Net of Amortization	242,586
Preliminary Survey and Investigative Charges	175,546
Other/Clearing Accounts	51,438
Total Deferred Debits	<u>\$ 5,071,976</u>

Schedule of Deferred Credits

Deferred Revenue - Fort Bliss Repair and Replacement	\$ 3,025,010
Deferred Revenue - Laughlin Repair and Replacement	3,482,422
Consumer Advances for Energy	65,517
Total Deferred Credits	<u>\$ 6,572,949</u>

Schedule of Investments

No investments in subsidiary or affiliated companies as of December 31, 2013. 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 27, 2014



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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, 2013, 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 27, 2014.

During the year ended December 31, 2013, 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 27, 2014

