

**RIO GRANDE ELECTRIC COOPERATIVE, INC.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2014 AND 2013**



**RIO GRANDE ELECTRIC COOPERATIVE, INC.  
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**RIO GRANDE ELECTRIC COOPERATIVE, INC.  
DIRECTORS AND OFFICERS  
DECEMBER 31, 2014**

Rowdy Holmsley	President
Jimmy Ballew	Vice-President
Priscilla Parsons	Secretary
Stephen Haynes	Treasurer
Frank Archuleta	Director
Warren Cude	Director
Mark Daugherty	Director
James Evrage	Director
William Foster	Director
Kimball Miller	Director
Margarita Nelson	Director
William D. White	Director
Cindy Whitehead	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, 2014 and 2013, 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Rio Grande Electric Cooperative, Inc. as of December 31, 2014 and 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.

**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 6, 2015, 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 6, 2015



**RIO GRANDE ELECTRIC COOPERATIVE, INC.**  
**BALANCE SHEETS**  
**DECEMBER 31, 2014 AND 2013**

<b>ASSETS</b>	<u>2014</u>	<u>2013</u>
<b>UTILITY PLANT</b>		
Electric Plant in Service	\$ 139,234,601	\$ 130,958,356
Construction Work in Progress	959,606	4,818,259
Total	<u>140,194,207</u>	<u>135,776,615</u>
Less: Accumulated Provision for Depreciation	<u>(55,760,757)</u>	<u>(52,638,142)</u>
Net Utility Plant	84,433,450	83,138,473
<b>OTHER ASSETS AND INVESTMENTS</b>		
Investments in Associated Organizations	5,170,904	1,833,375
Notes Receivable, Net of Current Portion	<u>2,955,492</u>	<u>3,252,556</u>
Total Other Assets and Investments	8,126,396	5,085,931
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	6,411,613	2,694,135
Accounts Receivable, Net	5,129,804	5,098,594
Power Cost Adjustment Receivable	-	13,601
Accrued Utility Revenue	5,240,823	5,060,900
Current Portion of Notes Receivable	297,064	271,676
Materials and Supplies Inventory	2,650,585	2,860,557
Prepayments	548,598	374,365
Interest Receivable	<u>26,052</u>	<u>16,448</u>
Total Current Assets	20,304,539	16,390,276
<b>DEFERRED DEBITS</b>		
Total Assets	<u>4,590,921</u>	<u>5,071,976</u>
<b>EQUITIES AND LIABILITIES</b>		
<b>EQUITIES</b>		
Memberships	\$ 31,390	\$ 30,995
Patronage Capital	61,358,815	57,883,394
Other Equities	<u>1,457,252</u>	<u>922,304</u>
Total Equities	62,847,457	58,836,693
<b>LONG-TERM DEBT, NET OF CURRENT MATURITIES</b>		
	33,810,554	35,634,938
<b>CURRENT LIABILITIES</b>		
Current Maturities of Long-Term Debt	2,612,861	2,547,943
Accounts Payable	2,752,715	2,498,640
Power Cost Adjustment Payable	628,502	-
Consumer Deposits	802,932	766,075
Accrued Interest Payable	109,553	134,949
Other Current and Accrued Liabilities	<u>3,182,161</u>	<u>2,694,469</u>
Total Current Liabilities	10,088,724	8,642,076
<b>DEFERRED CREDITS</b>		
Total Equities and Liabilities	<u>10,708,571</u>	<u>6,572,949</u>
	<u>\$ 117,455,306</u>	<u>\$ 109,686,656</u>

See accompanying Notes to Financial Statements.

**RIO GRANDE ELECTRIC COOPERATIVE, INC.**  
**STATEMENTS OF OPERATIONS**  
**YEARS ENDED DECEMBER 31, 2014 AND 2013**

	2014	2013
<b>OPERATING REVENUES</b>		
Electric	\$ 36,892,400	\$ 33,524,792
Other	7,556,880	9,489,010
Total Operating Revenue	44,449,280	43,013,802
<b>OPERATING EXPENSES</b>		
Cost of Power	20,850,181	18,075,007
Transmission Expense	108,119	36,553
Distribution Expense - Operations	6,227,435	5,235,133
Distribution Expense - Maintenance	2,316,803	2,123,416
Consumer Account Expense	951,868	783,751
Customer Service and Informational Expense	231,527	202,526
Administrative and General Expense	3,483,030	3,319,182
Depreciation	4,351,672	4,165,584
Taxes	10,348	10,275
Other Interest	7,793	5,942
Other Deductions	23,996	96,713
Total Operating Expenses	38,562,772	34,054,082
<b>OPERATING MARGINS BEFORE FIXED CHARGES</b>	5,886,508	8,959,720
<b>INTEREST ON LONG-TERM DEBT</b>	1,708,813	1,716,099
<b>OPERATING MARGINS AFTER FIXED CHARGES</b>	4,177,695	7,243,621
<b>GENERATION AND TRANSMISSION AND OTHER CAPITAL CREDITS</b>	270,284	244,266
<b>NET OPERATING MARGINS</b>	4,447,979	7,487,887
<b>NON-OPERATING MARGINS</b>		
Interest Income	264,250	67,193
Internet Activities, Net	11,627	25,218
Other Non-Operating Income	8,273	15,080
Total Non-Operating Margins	284,150	107,491
<b>NET MARGINS</b>	\$ 4,732,129	\$ 7,595,378

See accompanying Notes to Financial Statements.

**RIO GRANDE ELECTRIC COOPERATIVE, INC.**  
**STATEMENTS OF CHANGES IN PATRONAGE CAPITAL AND OTHER EQUITIES**  
**YEARS ENDED DECEMBER 31, 2014 AND 2013**

	<u>Memberships</u>	<u>Patronage Capital</u>	<u>Other Equities</u>	<u>Total</u>
<b>BALANCE DECEMBER 31, 2012</b>	\$ 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	250	-	-	250
<b>BALANCE DECEMBER 31, 2013</b>	30,995	57,883,394	922,304	58,836,693
Net Margins for the Year	-	4,732,129	-	4,732,129
Retirement of Capital Credits	-	(1,256,708)	534,948	(721,760)
Net Increase in Memberships	395	-	-	395
<b>BALANCE DECEMBER 31, 2014</b>	<u>\$ 31,390</u>	<u>\$ 61,358,815</u>	<u>\$ 1,457,252</u>	<u>\$ 62,847,457</u>

See accompanying Notes to Financial Statements.

**RIO GRANDE ELECTRIC COOPERATIVE, INC.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2014 AND 2013**

	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Margins	\$ 4,732,129	\$ 7,595,378
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	5,311,329	5,020,950
G & T and Other Capital Credits	(270,284)	(244,266)
Interest Income Credited to Cushion of Credit	(121,866)	(20,347)
Changes in Assets and Liabilities -		
Decrease (Increase) in:		
Accounts Receivable	(31,210)	(1,171,822)
Power Cost Adjustment Receivable/Payable	642,103	(138,066)
Accrued Utility Revenue	(179,923)	(85,373)
Materials and Supplies Inventory	209,972	355,543
Other Current and Accrued Assets	(183,837)	(73,116)
Deferred Debits	481,055	(4,023,109)
Increase (Decrease) in:		
Accounts Payable	445,836	123,531
Other Current and Accrued Liabilities	462,296	(1,786,458)
Deferred Credits	4,135,622	3,050,276
Net Cash Provided by Operating Activities	15,633,222	8,603,121
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Construction and Acquisition of Plant	(6,125,258)	(10,902,859)
Plant Removal Costs, Net of Salvage	(672,809)	(520,200)
Issuance of Investments in Associated Organizations	(3,281,803)	-
Proceeds from Capital Credit Retirements	214,558	216,670
Proceeds from Other Assets and Investments	-	20,714
Issuance of Notes Receivable	-	(115,999)
Payments Received on Notes Receivable	271,676	240,919
Net Cash Used by Investing Activities	(9,593,636)	(11,060,755)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Retirement of Capital Credits	(721,760)	(464,570)
Increase in Memberships	395	250
Consumer Deposits	36,857	248,801
Proceeds from Issuance of Long-Term Debt	2,511,606	4,240,786
Advanced Payments on Long-Term Debt	(1,597,000)	(1,689,800)
Principal Payments on Long-Term Debt	(2,552,206)	(2,322,091)
Net Cash Provided (Used) by Financing Activities	(2,322,108)	13,376
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	3,717,478	(2,444,258)
Cash and Cash Equivalents - Beginning	2,694,135	5,138,393
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	\$ 6,411,613	\$ 2,694,135

See accompanying Notes to Financial Statements.

**RIO GRANDE ELECTRIC COOPERATIVE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014 AND 2013**

**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, 2014 and 2013, 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, 2014 AND 2013**

**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, 2014 AND 2013**

**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, 2014 and 2013:

	2014	2013
Cash in Checking	\$ 829,847	\$ 428,016
Cash on Hand	3,150	3,150
CFC Daily Fund Investment	52,892	565,165
CoBank Investment Fund	5,525,724	1,697,804
Total	\$ 6,411,613	\$ 2,694,135

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, 2014 and 2013, the allowance for uncollectible accounts was \$139,151 and \$113,636, 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, 2014 AND 2013**

**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, 2014, the Cooperative has recorded a liability of \$628,502 and an asset of \$13,601 at December 31, 2013. 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, 2014. Accordingly, no provision for income taxes has been recorded at December 31, 2014 and 2013.

The Cooperative evaluated its tax positions and determined that it has no uncertain tax positions as of December 31, 2014 and 2013.

With few exceptions, the Cooperative is no longer subject to federal, state, or local income tax examinations by tax authorities for years before 2011.

**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>\$ 1,734,209</u>	<u>\$ 1,711,221</u>
<b>NON-CASH FINANCING ACTIVITY</b>		
Refinancing of Long-Term Debt with CoBank	<u>\$ 3,108,832</u>	<u>\$ -</u>
Accounts Payable for Construction	<u>\$ 264,571</u>	<u>\$ 456,332</u>



**RIO GRANDE ELECTRIC COOPERATIVE, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**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 6, 2015, the date the financial statements were available to be issued.

**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, 2014 and 2013:

	2014	2013
Intangible Plant	\$ 642	\$ 642
Electric Plant Adjustment	2,019,075	2,019,075
Electric Transmission Plant	5,354,623	5,354,623
Electric Distribution Plant	112,531,650	105,185,531
General Plant	19,328,611	18,398,485
Total Utility Plant in Service	139,234,601	130,958,356
Construction Work in Progress	959,606	4,818,259
Total	\$ 140,194,207	\$ 135,776,615

**RIO GRANDE ELECTRIC COOPERATIVE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014 AND 2013**

**NOTE 4 OTHER ASSETS AND INVESTMENTS**

**Investments in Associated Organizations**

Investments in associated organizations as of December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
National Rural Utilities Cooperative Finance Corporation		
Capital Term Certificates	\$ 875,683	\$ 875,683
Patronage Capital	292,906	268,969
Select Notes	3,200,000	-
Membership	1,000	1,000
	<u>4,369,589</u>	<u>1,145,652</u>
Patronage Capital:		
Texas Electric Cooperative	216,583	228,417
National Rural Telecommunications Cooperative	140,356	134,617
CoBank	177,252	124,953
Medina Electric Cooperative	76,811	80,628
Dell Telephone Cooperative	61,469	56,865
National Information Solutions Cooperative	44,947	48,298
Federated Rural Electric Insurance Exchange	81,803	11,445
Other Patronage Capital and Memberships	2,094	2,500
	<u>2,094</u>	<u>2,500</u>
Total	<u>\$ 5,170,904</u>	<u>\$ 1,833,375</u>

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.

NRUCFC Select Notes bear interest at rates ranging from .37% to .46% and begin maturing on March 2, 2015.

**Notes Receivable**

Notes receivable as of December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
U.S. Army - Fort Bliss, Texas		
10.5%, Due Monthly through August 2039	\$ 2,388,263	\$ 2,407,726
Laughlin Air Force Base		
8.84%, Due Monthly through May 2018	864,293	1,116,506
	<u>3,252,556</u>	<u>3,524,232</u>
Less Current Portion	<u>(297,064)</u>	<u>(271,676)</u>
Long-Term Portion of Notes Receivable	<u>\$ 2,955,492</u>	<u>\$ 3,252,556</u>

**RIO GRANDE ELECTRIC COOPERATIVE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014 AND 2013**

**NOTE 4 OTHER ASSETS AND INVESTMENTS (CONTINUED)**

**Notes Receivable (Continued)**

As of December 31, 2014 and 2013, 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	2014 Total
	Current	30-89 Days Past Due	More Than 90 Days Past Due		
Notes Receivable	\$ 3,252,556	\$ -	\$ -	\$ -	\$ 3,252,556
Total	<u>\$ 3,252,556</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,252,556</u>

	<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>

**NOTE 5 ACCRUED UTILITY REVENUE**

Accrued utility revenue as of December 31, 2014 and 2013 are as follows:

**Accrued Utility Revenue - Note 5**

	<u>2014</u>	<u>2013</u>
Accrued Energy Revenue	\$ 886,238	\$ 856,966
Ft. Bliss - Job Order Costs	2,804,151	3,417,403
Ft. Bliss - Operations and Maintenance	42,559	31,459
Laughlin - Job Order Costs	1,318,810	593,455
Laughlin - Operations and Maintenance	129,079	80,724
Other	59,986	80,893
Total	<u>\$ 5,240,823</u>	<u>\$ 5,060,900</u>

**RIO GRANDE ELECTRIC COOPERATIVE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014 AND 2013**

**NOTE 6 DEFERRED DEBITS**

Deferred debits consist of the following at December 31, 2014 and 2013:

	2014	2013
NRECA Pension Prepayment	\$ 3,533,988	\$ 3,958,067
Fort Bliss - Contract Price Redetermination	641,953	595,030
Laughlin - Contract Price Redetermination	7,180	49,309
Software Costs, Net of Amortization	193,750	242,586
Preliminary Survey and Investigative Charges	116,448	175,546
Other/Clearing Accounts	97,602	51,438
	\$ 4,590,921	\$ 5,071,976

**NOTE 7 PATRONAGE CAPITAL AND OTHER EQUITIES**

The following is a summary of patronage capital assignable and assigned at December 31, 2014 and 2013:

	2014	2013
Assignable	\$ 4,732,129	\$ 7,595,378
Assigned	56,626,686	50,288,016
	\$ 61,358,815	\$ 57,883,394

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, 2014, capital credits through 1983 had been fully retired.

Other equities consist of the following at December 31, 2014 and 2013:

	2014	2013
Unclaimed Capital Credits	\$ 1,441,294	\$ 906,346
Donated Capital	4,622	4,622
Paid-in Capital	7,196	7,196
Prior Period Margins	4,140	4,140
Total	\$ 1,457,252	\$ 922,304

**RIO GRANDE ELECTRIC COOPERATIVE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014 AND 2013**

**NOTE 8 LONG-TERM DEBT**

The following is a summary of outstanding long-term debt as of December 31, 2014 and 2013:

	2014	2013
Rural Utilities Services (RUS) Mortgage Notes		
2.00% Fixed Rate Notes Maturing in 2016	\$ 338,410	\$ 676,128
Advance Payments on RUS Notes - Cushion of Credit	(3,429,013)	(1,710,147)
Federal Financing Bank (FFB) Mortgages Notes		
3.438% - 5.735% Fixed Rate Notes		
Maturing through 2047	5,963,382	4,276,910
National Rural Utilities Cooperative Finance Corporation (NRUCFC) Mortgage Notes		
2.90% Variable Rate Notes		
Maturing through 2042	695,606	-
3.10% - 6.35% Fixed Rate Notes		
Maturing 2017 through 2040	6,979,831	10,508,313
CoBank Mortgage Notes		
2.92% Adjustable Rate Notes		
Maturing through 2043	3,091,217	4,681,083
2.875% - 4.971% Fixed Rate Notes		
Maturing 2018 through 2037	20,316,703	17,103,876
U.S. Department of Defense - Laughlin Air Force Base		
3.88% Fixed Rate Note Maturing in 2028	2,467,279	2,646,718
	36,423,415	38,182,881
Less Current Maturities	(2,612,861)	(2,547,943)
	\$ 33,810,554	\$ 35,634,938

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, 2014 of \$19,113,000 from FFB.

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

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

	2014	2015	2016	2017	2018
RUS	\$ 338,410	\$ -	\$ -	\$ -	\$ -
FFB	164,307	179,888	188,375	197,272	206,599
CFC	404,990	422,658	413,238	178,307	189,218
CoBank	1,525,718	1,621,018	1,677,951	1,701,985	1,004,747
Other	179,436	179,436	179,436	179,436	179,436
	\$ 2,612,861	\$ 2,403,000	\$ 2,459,000	\$ 2,257,000	\$ 1,580,000

**RIO GRANDE ELECTRIC COOPERATIVE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014 AND 2013**

**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, 2014 and 2013, the interest rate on these lines of credit was 2.90%. The Cooperative had no outstanding balances as of December 31, 2014 and 2013.

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, 2015. At December 31, 2014 and 2013, the interest rate on this line of credit was 2.92% and 2.93%, respectively. The Cooperative had no outstanding balances as of December 31, 2014 and 2013.

**NOTE 10 OTHER CURRENT AND ACCRUED LIABILITIES**

Other current and accrued liabilities consist of the following at December 31, 2014 and 2013:

	2014	2013
Advanced Payments for Plant Construction	\$ 2,102,803	\$ 1,738,839
Accrued Employee Compensated Absences	465,336	426,701
Taxes Accrued and Withheld	122,425	104,573
Other	491,597	424,356
	\$ 3,182,161	\$ 2,694,469

**NOTE 11 DEFERRED CREDITS**

Deferred credits at December 31, 2014 and 2013 are as follows:

	2014	2013
Deferred Revenue - Fort Bliss Repair and Replacement	\$ 6,391,328	\$ 3,025,010
Deferred Revenue - Laughlin Repair and Replacement	4,225,931	3,482,422
Consumer Advances for Energy	91,312	65,517
	\$ 10,708,571	\$ 6,572,949

**RIO GRANDE ELECTRIC COOPERATIVE, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**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 2014 and in 2013 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 2014 and 2013 as follows:

	2014	2013
Current Payments to Plan	\$ 1,342,033	\$ 1,234,370
Prepayments	-	4,240,786
	\$ 1,342,033	\$ 5,475,156

Contributions in 2014 are significantly lower than those in 2013 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, 2014 and January 1, 2013 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, 2014 AND 2013**

**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 \$71,000 and \$66,000 for 2014 and 2013, 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, 2014 AND 2013**

**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>2014</u>	<u>2013</u>
TX144-L-9017	2/1/2013	6/30/2014	\$ -	\$ 110,000
TX144-L-9018	2/1/2013	9/30/2015	348,000	348,000
			<u>\$ 348,000</u>	<u>\$ 458,000</u>

In the event of a draw on an irrevocable letter of credit, the unpaid principal balance and unpaid interest is due one year from the date of each draw. Interest payments are due in accordance with NRUCFC's regular billing cycles at rates established by NRUCFC, which are not to exceed the lowest prime rate as published in the "Money Rates" column of "The Wall Street Journal" plus 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 \$16,281,467 and \$12,541,677 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, 2014 and 2013, respectively. The Cooperative has expended and recognized \$9,890,139 and \$9,516,667, respectively, towards the repair and replacement as of December 31, 2014 and 2013. Unexpended funds of \$6,391,328 and \$3,025,010 are included with deferred credits as of December 31, 2014 and 2013, respectively.

**RIO GRANDE ELECTRIC COOPERATIVE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014 AND 2013**

**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 \$5,142,772 and \$4,052,968 cumulatively for operation and maintenance projects and the repair and replacement of the Laughlin electric distribution system under the contract as of December 31, 2014 and 2013, respectively. The Cooperative has expended \$916,841 and \$570,546 towards the repair and replacement as of December 31, 2014 and 2013, respectively. Unexpended funds of \$4,225,931 and \$3,482,422 are included with deferred credits as of December 31, 2014 and 2013.

**Construction Contract Commitments**

System improvement project commitments for Fort Bliss and LAFB were approximately \$24,863,000 as of December 31, 2014. Expenditures incurred on these projects were approximately \$6,279,000 as of December 31, 2014. Estimated remaining expenditures, including commitments to third party contractors is approximately \$12,648,000 as of December 31, 2014.

**Litigation**

The Cooperative is involved in two 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, 2014 AND 2013**

**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, 2014 and 2013 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:

	2014		2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Financial Assets</u>				
Cash and Cash Equivalents	\$ 6,411,613	\$ 6,411,613	\$ 2,694,135	\$ 2,694,135
Investments in Associated Organizations and Other Investments	5,170,904	5,170,904	1,833,375	1,833,375
<u>Financial Liabilities</u>				
Long-Term Debt, Including Current Maturities	36,423,415	39,312,901	38,182,881	36,831,452

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**SUPPLEMENTARY INFORMATION**

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**RIO GRANDE ELECTRIC COOPERATIVE, INC.  
SCHEDULE OF ELECTRIC PLANT  
YEAR ENDED DECEMBER 31, 2014**

	Balance 12/31/2013	Additions & Transfers	Retirements	Balance 12/31/2014
Electric Plant in Service				
Intangible Plant	\$ 642	\$ -	\$ -	\$ 642
Electric Plant Adjustment - LAFB	2,019,075	-	-	2,019,075
Transmission Plant:				
Land & Land Rights	30,972	-	-	30,972
Station Equipment	1,401,200	-	-	1,401,200
Poles & Fixtures	2,177,769	-	-	2,177,769
Overheads Conductors & Devices	1,744,682	-	-	1,744,682
Total Transmission Plant	5,354,623	-	-	5,354,623
Distribution Plant:				
Land & Land Rights	175,117	15,172	-	190,289
Structures & Improvements	9,617,078	1,765,437	-	11,382,515
Poles, Towers, & Fixtures	32,070,575	3,708,573	447,565	35,331,583
Overhead Conductors & Devices	36,410,635	1,785,488	481,581	37,714,542
Underground Conductors & Devices	1,328,046	29,172	9,163	1,348,055
Line Transformers	16,337,075	904,397	62,858	17,178,614
Services	266,485	620	132	266,973
Meters	8,191,726	217,592	91,936	8,317,382
Installations on Customers' Premises	507,441	22,939	8,936	521,444
Street Lighting	281,353	-	1,102	280,251
Total Distribution Plant	105,185,531	8,449,390	1,103,273	112,531,648
General Plant				
Land & Land Rights	164,434	300	-	164,734
Structures & Improvements	4,739,755	213,068	17,351	4,935,472
Office Furniture & Equipment	1,924,481	265,140	184,516	2,005,105
Transportation Equipment	7,586,746	898,122	92,213	8,392,655
Stores Equipment	305,584	85,125	-	390,709
Tools, Shop, and Garage Equipment	586,460	44,150	48,506	582,104
Laboratory Equipment	837,176	44,084	147,510	733,750
Power Operated Equipment	252,655	10,656	8,631	254,680
Communications Equipment	1,661,207	63,093	186,668	1,537,632
Miscellaneous Equipment	339,987	29,800	38,017	331,770
Total General Plant	18,398,485	1,653,538	723,412	19,328,611
Total Electric Plant in Service	130,958,356	10,102,928	1,826,685	139,234,599
Construction Work in Progress	4,818,259	(3,858,653)	-	959,606
	<u>\$ 135,776,615</u>	<u>\$ 6,244,275</u>	<u>\$ 1,826,685</u>	<u>\$ 140,194,205</u>

**RIO GRANDE ELECTRIC COOPERATIVE, INC.  
SCHEDULE OF ELECTRIC PLANT  
YEAR ENDED DECEMBER 31, 2014**

	Balance 12/31/2013	Depreciation & Transfers	Retirements	Balance 12/31/2014
Electric Plant Adjustment	\$ 409,274	\$ 109,140	\$ -	\$ 518,414
Transmission Plant	2,230,084	118,080	-	2,348,164
Distribution Plant	38,375,977	3,213,495	1,571,568	40,017,904
Acquired Plant - LAFB	1,211,338	70,296	1,036	1,280,598
Total Distribution Plant	39,587,315	3,283,791	1,572,604	41,298,502
General Plant				
Structures & Improvements	1,519,551	165,821	17,352	1,668,020
Office Furniture & Equipment	1,315,208	274,014	165,099	1,424,123
Transportation Equipment	4,783,150	916,660	92,215	5,607,595
Stores Equipment	153,442	42,514	-	195,956
Tools, Shop, and Garage Equipment	271,149	57,365	48,507	280,007
Laboratory Equipment	660,271	50,732	147,153	563,850
Power Operated Equipment	99,412	18,669	8,985	109,096
Communications Equipment	1,698,986	198,882	206,085	1,691,783
Miscellaneous	93,229	75,661	38,017	130,873
Total General Plant	10,594,398	1,800,318	723,413	11,671,303
Total Electric Plant in Service	52,821,071	5,311,329	2,296,017	55,836,383
Retirement Work in Progress	(182,929)	-	(107,303)	(75,626)
	\$ 52,638,142	\$ 5,311,329	\$ 2,188,714	\$ 55,760,757
		(1)	(2)	
(1) Charged to Depreciation Expense				\$ 4,351,672
Charged to Clearing Accounts				959,657
				\$ 5,311,329
(2) Cost of Units Retired				\$ 1,826,685
Cost of Removal				517,419
Salvage				(155,390)
				\$ 2,188,714



**RIO GRANDE ELECTRIC COOPERATIVE, INC.**  
**SCHEDULE OF PATRONAGE CAPITAL**  
**YEAR ENDED DECEMBER 31, 2014**

Calendar Year	Assignable	Assigned	Retired	12/31/2014 Balance	12/31/2013 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	-	1,256,643
1985	-	528,848	188	528,660	528,725
1986	-	85,875	25	85,850	85,850
1987	-	240,365	100	240,265	240,265
1988	-	1,854,292	255	1,854,037	1,854,037
1989	-	1,671,269	240	1,671,029	1,671,029
1990	-	1,555,440	-	1,555,440	1,555,440
1991	-	921,927	43	921,884	921,884
1992	-	764,835	103	764,732	764,732
1993	-	859,051	115	858,936	858,936
1994	-	1,140,748	158	1,140,590	1,140,590
1995	-	827,512	131	827,381	827,381
1996	-	1,112,077	132	1,111,945	1,111,945
1997	-	798,362	60	798,302	798,302
1998	-	1,113,615	102	1,113,513	1,113,513
1999	-	736,600	95	736,505	736,505
2000	-	712,753	108	712,645	712,645
2001	-	734,829	53	734,776	734,776
2002	-	778,390	63	778,327	778,327
2003	-	612,527	27	612,500	612,500
2004	-	657,471	-	657,471	657,471
2005	-	1,288,790	-	1,288,790	1,288,790
2006	-	1,778,181	-	1,778,181	1,778,181
2007	-	1,271,264	-	1,271,264	1,271,264
2008	-	915,300	-	915,300	915,300
2009	-	1,114,536	-	1,114,536	1,114,536
2010	-	5,276,007	-	5,276,007	5,276,007
2011	-	7,534,871	-	7,534,871	7,534,871
2012	-	12,147,571	-	12,147,571	12,147,571
2013	-	7,595,378	-	7,595,378	7,595,378
2014	\$ 4,732,129	-	-	4,732,129	-
	<u>\$ 4,732,129</u>	<u>\$ 60,080,495</u>	<u>\$ 3,453,809</u>	<u>\$ 61,358,815</u>	<u>\$ 57,883,394</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 2014, 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 6, 2015.

**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 6, 2015



**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, 2014, 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 6, 2015. In accordance with *Government Auditing Standards*, we have also issued a report dated March 6, 2015, 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	\$ 3,533,988
Fort Bliss - Contract Price Redetermination	641,953
Laughlin - Contract Price Redetermination	7,180
Software Costs, Net of Amortization	193,750
Preliminary Survey and Investigative Charges	116,448
Other/Clearing Accounts	<u>97,602</u>
Total Deferred Debits	<u>\$ 4,590,921</u>

**Schedule of Deferred Credits**

Deferred Revenue - Fort Bliss Repair and Replacement	\$ 6,391,328
Deferred Revenue - Laughlin Repair and Replacement	4,225,931
Consumer Advances for Energy	<u>91,312</u>
Total Deferred Credits	<u>\$ 10,708,571</u>

**Schedule of Investments**

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

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 6, 2015


## **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, 2014, 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 6, 2015.

During the year ended December 31, 2014, 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 6, 2015

