



Financial Statements
December 31, 2010 and 2009

Rio Grande Electric Cooperative, Inc.

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Independent Auditor's Report

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

We have audited the accompanying balance sheets of Rio Grande Electric Cooperative, Inc. as of December 31, 2010 and 2009, and the related statements of operations, equities, and cash flows for the years then ended. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2011, on our consideration of the Cooperative's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Sioux Falls, South Dakota
March 11, 2011

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	2010	2009
Assets		
Electric Plant		
In service	\$ 108,012,287	\$ 98,366,388
Under construction	8,026,200	4,575,842
Total electric plant	<u>116,038,487</u>	<u>102,942,230</u>
Less accumulated depreciation and amortization	44,204,648	41,305,566
Electric plant - net	<u>71,833,839</u>	<u>61,636,664</u>
Other Investments		
Investments in associated organizations	<u>1,665,921</u>	<u>1,611,036</u>
Current Assets		
Cash and cash equivalents	1,684,129	1,359,395
Accounts receivable, less allowance for uncollectible accounts (2010 - \$92,648; 2009 - \$68,192)	5,558,173	5,143,489
Power cost adjustment receivable	296,767	-
Accrued utility revenue	1,853,023	6,165,471
Materials and supplies	2,511,954	2,071,601
Prepayments	368,404	418,700
Interest receivable	9,364	9,278
Total current assets	<u>12,281,814</u>	<u>15,167,934</u>
Deferred Debits	<u>994,535</u>	<u>688,187</u>
	<u>\$ 86,776,109</u>	<u>\$ 79,103,821</u>

See Notes to Financial Statements

Rio Grande Electric Cooperative, Inc.
Balance Sheets
December 31, 2010 and 2009

	2010	2009
Equities and Liabilities		
Equities		
Patronage capital	32,799,215	\$ 22,083,665
Memberships	29,235	28,630
Other equities	15,958	5,455,501
Total equities	32,844,408	27,567,796
Long-Term Debt, Less Current Maturities	40,062,102	33,851,760
Current Liabilities		
Current maturities of long-term debt	1,814,110	1,688,300
Notes payable - line-of-credit	5,851,747	7,870,138
Accounts payable	2,462,201	3,648,850
Power cost adjustment payable	-	183,888
Customer deposits	315,820	418,511
Taxes accrued and withheld	107,080	46,938
Accrued interest payable	110,641	104,666
Accrued employee compensated absences	401,332	351,844
Other current liabilities	318,359	587,739
Total current liabilities	11,381,290	14,900,874
Deferred Credits	2,488,309	2,783,391
	\$ 86,776,109	\$ 79,103,821

Rio Grande Electric Cooperative, Inc.
Statements of Operations
Years Ended December 31, 2010 and 2009

	2010	2009
Operating Revenues		
Electric	\$ 30,044,244	\$ 28,154,570
Other	5,930,494	3,607,281
Total operating revenues	35,974,738	31,761,851
Operating Expenses		
Cost of power	16,801,559	17,338,262
Transmission	16,347	10,480
Distribution - operations	3,161,861	3,018,864
Distribution - maintenance	1,855,598	1,914,765
Customer accounts	1,044,869	1,085,381
Customer service and informational	264,933	213,239
Administrative and general	2,863,834	2,723,500
Depreciation	3,161,147	2,849,178
Taxes	8,291	7,439
Interest on long-term debt	1,758,996	1,683,269
Other interest	301,342	276,350
Other deductions	26,442	15,457
Total operating expenses	31,265,219	31,136,184
Operating Margin Before Capital Credits	4,709,519	625,667
Generation and Transmission and Other Cooperative Capital Credits	168,061	107,183
Net Operating Margin	4,877,580	732,850
Nonoperating Margin		
Interest income	296,120	299,277
Internet activities (less costs and expenses: 2010 - \$152,096; 2009 - \$190,147)	49,194	24,213
Other	53,113	58,196
Total nonoperating margin	398,427	381,686
Net Margin	\$ 5,276,007	\$ 1,114,536

Rio Grande Electric Cooperative, Inc.
 Statements of Equities
 Years Ended December 31, 2010 and 2009

	Patronage Capital			Memberships	Other	Total
	Assigned	Assignable	Total		Equities	
Balance, December 31, 2008	\$ 20,969,129	\$ 915,300	\$ 21,884,429	\$ 27,815	\$ 4,540,201	\$ 26,452,445
Transfer to other equities	-	(915,300)	(915,300)	-	915,300	-
Net margin for the year	-	1,114,536	1,114,536	-	-	1,114,536
Other	-	-	-	815	-	815
Balance, December 31, 2009	20,969,129	1,114,536	22,083,665	28,630	5,455,501	27,567,796
Margins assigned	6,554,079	(1,114,536)	5,439,543	-	(5,439,543)	-
Net margin for the year	-	5,276,007	5,276,007	-	-	5,276,007
Other	-	-	-	605	-	605
Balance, December 31, 2010	<u>\$ 27,523,208</u>	<u>\$ 5,276,007</u>	<u>\$ 32,799,215</u>	<u>\$ 29,235</u>	<u>\$ 15,958</u>	<u>\$ 32,844,408</u>

Rio Grande Electric Cooperative, Inc.
Statements of Cash Flows
Years Ended December 31, 2010 and 2009

	2010	2009
Operating Activities		
Net margin	\$ 5,276,007	\$ 1,114,536
Adjustments to reconcile net margins to net cash from operating activities		
Depreciation and amortization	3,855,481	3,415,847
Patronage capital credits from other cooperatives	(168,061)	(107,183)
(Increase) decrease in assets		
Accounts receivable	(414,684)	1,251,536
Accrued revenue	4,312,448	(240,748)
Prepayments	50,296	38,975
Interest receivable	(86)	(1,162)
Deferred debits	(306,348)	1,108
Increase (decrease) in liabilities		
Accounts payable	(796,046)	258,745
Power cost adjustment receivable/payable	(480,655)	(111,594)
Customer deposits	(102,691)	261,490
Taxes accrued and withheld	60,142	6,548
Other current liabilities	(213,917)	150,740
Deferred credits	(295,082)	(420,266)
Net Cash from Operating Activities	10,776,804	5,618,572
Investing Activities		
Electric plant additions and replacements - net	(10,506,770)	(7,830,598)
Net cost of removal	(478,518)	(714,772)
Decrease in investments	113,176	122,365
(Increase) decrease in materials and supplies	(440,353)	105,555
Net Cash used for Investing Activities	(11,312,465)	(8,317,450)
Financing Activities		
Advance of long-term-debt	4,612,847	2,478,500
Principal payments on long-term debt	(1,734,666)	(1,548,746)
(Payments) advances on line of credit - net	(2,018,391)	1,622,051
Increase in memberships	605	815
Net Cash from Financing Activities	860,395	2,552,620
Net Change in Cash and Cash Equivalents	324,734	(146,258)
Cash and Cash Equivalents, Beginning of Year	1,359,395	1,505,653
Cash and Cash Equivalents, End of Year	\$ 1,684,129	\$ 1,359,395

Rio Grande Electric Cooperative, Inc.
 Statements of Cash Flows
 Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Supplemental Disclosures of Cash Flow Information		
Interest paid on long-term debt	\$ 1,647,722	\$ 1,678,685
Interest paid on short-term debt	307,828	271,729
Total cash payments for interest	<u>\$ 1,955,550</u>	<u>\$ 1,950,414</u>
Supplemental Disclosures of Non-Cash Financing Information		
Refinancing of long-term debt with CoBank	<u>\$ 5,732,819</u>	<u>\$ 5,370,717</u>
Assumption of long-term debt to acquire of property, plant, and equipment	<u>\$ 3,457,971</u>	<u>\$ -</u>
Accounts payable for construction	<u>\$ 20,964</u>	<u>\$ 411,567</u>

Note 1 - Summary of Significant Accounting Policies

General

The Cooperative is subject to the accounting and reporting rules and regulations of Rural Utilities Service (RUS). The Cooperative follows the Federal Energy Regulatory Commission's Uniform System of Accounts prescribed for Class A and B Electric Utilities as modified by RUS.

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

Electric Plant and Retirements

Electric plant is stated at cost. The cost of additions to electric plant includes contracted work, direct labor and materials and allocable overheads. When units of property are retired, sold or otherwise disposed of in the ordinary course of business, their average book cost less net salvage is charged to accumulated depreciation. Repairs and the replacement and renewal of items determined to be less than units of property are charged to maintenance expense.

Depreciation

Depreciation is computed using the straight-line method based upon the estimated useful lives of the various classes of property.

Investments

Investments in other cooperatives are recorded at cost, including allocated patronage capital.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Cooperative considers all certificates of deposit, commercial paper, and money market funds with an original maturity of three months or less to be cash equivalents.

Materials and Supplies

Inventories are stated at average cost.

Patronage Capital

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

Electric Revenue and Power Costs

Electric revenues are recognized as billed to customers on a monthly basis. Revenue for energy delivered after the billing date to the end of the accounting period is recorded as accrued revenue. During 2010, the Cooperative estimated and recorded approximately fourteen days of 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, 2010 and 2009, the Cooperative had recorded an asset of \$296,767 and a liability of \$183,888, respectively, to reflect under and over collections of revenue relative to the power cost adjustment.

Power costs are recognized based on billings from the Cooperative's power suppliers. The billing date coincides with the Cooperative's year-end, accordingly, there are no unbilled power costs at December 31, 2010 and 2009.

Pension Costs

The policy is to fund normal pension costs as accrued.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Business Credit Risk

The Cooperative sells electric energy on account to its members in a designated service area that covers a large area of southwest Texas and southern New Mexico.

The Cooperative maintains its cash deposits in financial institutions insured by the federal government deposit balances which at times exceed insured limits.

Receivable and Credit Policy

Accounts receivable are uncollateralized customer obligations due under terms established by the Board of Directors. Past due balances are subject to disconnection of service. The Cooperative requires deposits from customers with poor credit history. The carrying amount of accounts receivable is reduced by an amount that reflects management's best estimate of amounts that will not be collected.

Income Taxes

The Cooperative is exempt from income taxes under Section 501(c)(12) of the Internal Revenue Code on any income related to its exempt purpose. The Company incurs unrelated business taxable income (UBI) under the Code on certain revenue streams, but has net operating loss carryforwards of approximately \$1 million to offset future taxable income as of December 31, 2010.

The Cooperative adopted the provisions of FASB Accounting Standards Codification Topic ASC 740-10 (previously Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*), on January 1, 2009. The implementation of this standard had no impact on the financial statements. As of both the date of adoption, and as of December 31, 2010 and 2009, there was no unrecognized tax benefit accrual.

The Cooperative would recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred. Generally, the Cooperative is no longer subject to Federal or state tax examinations by tax authorities for years before 2007.

Sales Taxes

The Cooperative has customers in Texas, New Mexico and various municipalities in which those governmental units impose a sales tax on certain sales. The Cooperative collects those sales taxes from its customers and remits the entire amount to the various governmental units. The Cooperative's accounting policy is to exclude the tax collected and remitted from revenue and cost of revenue.

Reclassifications

Certain reclassifications have been made to the 2009 financial statements to make them conform to the 2010 presentation. The reclassifications had no effect on net margins.

Note 2 - Electric Plant and Depreciation

	2010		2009	
	Plant	Depreciation Rates	Plant	Depreciation Rates
Transmission plant	\$ 2,968,130	2.75%	\$ 2,954,317	2.75%
Distribution plant	89,292,180	2.90%	82,932,971	2.90%
General plant	13,732,260	2.0 - 33.3%	12,478,458	2.0 - 33.3%
Electric plant adjustment	2,019,075	5.41%	0	5.41%
Intangible plant	642		642	
Electric plant in service	<u>108,012,287</u>		<u>98,366,388</u>	
Construction work in progress	<u>8,026,200</u>		<u>4,575,842</u>	
Total electric plant	<u><u>\$ 116,038,487</u></u>		<u><u>\$ 102,942,230</u></u>	

Note 3 - Investments in Associated Organizations

	2010	2009
National Rural Utilities Cooperative Finance Corporation (CFC)		
Capital term certificates	\$ 896,389	\$ 896,389
Patronage capital allocation	190,568	157,155
Membership	1,000	1,000
	1,087,957	1,054,544
Texas Electric Power Cooperatives - patronage capital	271,944	287,333
Medina Electric Power Cooperative - patronage capital	85,797	85,797
Dell Telephone Cooperative, Inc. - patronage capital	51,272	52,566
National Information Service Cooperative - patronage capital	18,537	16,029
Federated Rural Electric Insurance - patronage capital	69,565	79,257
National Rural Telecommunications Cooperative - patronage capital	53,962	30,714
CoBank - patronage capital	23,921	2,282
Nueces Electric Power Cooperative - patronage capital	901	449
Other memberships	2,065	2,065
	\$ 1,665,921	\$ 1,611,036

Note 4 - Cash and Cash Equivalents

	2010	2009
Cash on hand	\$ 3,150	\$ 3,150
Cash in checking	180,979	106,173
CFC Daily Fund investment	1,500,000	1,250,072
	\$ 1,684,129	\$ 1,359,395

Note 5 - Accrued Utility Revenue

	2010	2009
Accrued energy revenue	\$ 960,568	\$ 1,039,876
Ft. Bliss - job order costs	456,551	5,035,253
Ft. Bliss - operations and maintenance	73,060	73,060
Laughlin - job order costs	260,919	-
Laughlin - operations and maintenance	83,664	-
Other	18,261	17,282
	\$ 1,853,023	\$ 6,165,471

Note 6 - Deferred Debits

	2010	2009
Job order costs - Fort Bliss	\$ 625,404	\$ 633,289
Fort Bliss - contract price redetermination	232,966	-
Software costs, net of amortization	100,479	43,479
Preliminary survey and investigative charges	18,234	9,929
Other/Clearing accounts	17,452	1,490
	\$ 994,535	\$ 688,187

Note 7 - Patronage Capital

	2010	2009
Assignable	\$ 5,276,007	\$ 1,114,536
Assigned to date	27,526,668	20,972,589
	32,802,675	22,087,125
Total	32,802,675	22,087,125
Retired to date	3,460	3,460
	\$ 32,799,215	\$ 22,083,665
Balance	\$ 32,799,215	\$ 22,083,665

The mortgage provisions restrict the retirement of patronage capital unless, after retirement, the capital of the Cooperative equals at least 30% of the total assets of the Cooperative. No distribution can be made if there is unpaid, when due, any installments of principal or interest on the notes, or, if after giving effect to any distribution, the total current and accrued assets would be less than the total current and accrued liabilities

Note 8 - Other Equities

	2010	2009
Unallocated margins	\$ -	\$ 5,439,543
Donated capital	4,622	4,622
Paid-in capital	7,196	7,196
Prior period margins	4,140	4,140
	\$ 15,958	\$ 5,455,501
Totals	\$ 15,958	\$ 5,455,501

Note 9 - Long - Term Debt

	2010	2009
Rural Utilities Service (RUS) mortgage notes		
2%, due in quarterly installments through 2016	\$ 2,026,920	\$ 2,587,083
5%, due in monthly installments through 2041	9,821,399	15,212,118
	11,848,319	17,799,201
Federal Financing Bank (FFB) mortgage notes		
Fixed rate notes (4.383% - 5.735%), due in quarterly installments through 2034	4,331,057	4,427,695
5.152% fixed to 6/30/11, quarterly installments due through 2011	299,784	306,318
	4,630,841	4,734,013
National Rural Utilities Cooperative Finance Corporation (CFC) mortgage notes		
Fixed rate (5.4% to 6.35%) notes due in quarterly installments through 2018 - 2040	6,670,260	6,767,385
Line of credit - 4.25% at 12/31/10	4,612,847	937,500
	11,283,107	7,704,885
CoBank mortgage notes		
Variable rate notes (3.42% at December 31, 2010), due in quarterly installments through 2018 - 2039	4,632,882	4,720,519
Variable rate notes (3.67% at December 31, 2010), due in quarterly installments through May 2018	525,976	581,442
Fixed rate note (3.20%), due in monthly installments through May 2020	5,637,302	-
	10,796,160	5,301,961
Department of Defense -Laughlin Air Force Base note payable		
Fixed rate (3.88%) note due in monthly installments of \$15,576 of principal, plus applicable interest through September 2028	3,317,785	-
Total long-term debt	41,876,212	35,540,060
Less current maturities	1,814,110	1,688,300
Total long-term debt	\$ 40,062,102	\$ 33,851,760

It is estimated that the minimum principal repayments on the above debt for the next five years ending December 31 will be as follows:

	2011	2012	2013	2014	2015
RUS	\$ 671,286	\$ 592,478	\$ 531,118	\$ 501,125	\$ 510,131
FFB	110,451	116,067	121,974	128,182	134,708
CFC	103,416	110,113	117,244	124,837	132,921
CoBank	742,045	779,791	820,923	863,475	908,234
Other	186,912	186,912	186,912	186,912	186,912
Total	\$ 1,814,110	\$ 1,785,361	\$ 1,778,171	\$ 1,804,531	\$ 1,872,906

All loan funds advanced by RUS are deposited in a special trust bank account, the disbursements from which are restricted by the provisions of the loan agreement to purposes approved by RUS. The Cooperative has unadvanced loan funds of \$5,944,138, available from CFC at December 31, 2010. The Cooperative has the ability and intent to refinance the line-of-credit amount owed CFC with other long-term financing in 2011. During January 2011, the cooperative refinanced \$3,300,000 of the CFC line of credit, with a long-term note from CFC.

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

Note 10 - Deferred Credits

	2010	2009
Deferred gain - NRECA Pension Plan Conversion (Note 11)	\$ 45,841	\$ 63,585
Deferred revenue - Repair and Replacement Fort Bliss (Note 13)	1,617,258	2,547,045
Deferred revenue - Repair and Replacement Laughlin (Note 13)	765,156	-
Consumer advances for energy	60,054	172,761
Totals	\$ 2,488,309	\$ 2,783,391

Note 11 - Pension Plan

Substantially all employees of the Cooperative participate in the National Rural Electric Cooperative Association (NRECA) Retirement & Security Program, a defined benefit pension plan qualified under Section 401(k) and tax exempt under section 501(a) of the Internal Revenue Code. The Cooperative makes contributions to the plan equal to the amounts accrued for pension expense. In this multi-employer plan, which is available to all member cooperatives of NRECA, the accumulated benefits and plan assets are not determined or allocated separately by individual employer. Costs of the plan for the years ended December 31, 2010 and 2009, were approximately \$1,385,000 and \$836,000, respectively.

In 1987, the Cooperative terminated its participation in its single employer defined benefit plan, and began participation in the NRECA plan described above. The Cooperative transferred the assets of the terminated plan to NRECA. As a result of the transfer, the Cooperative realized a gain and has a credit balance with NRECA, which is being applied to required pension contributions.

The unamortized gain on the transfer is included with deferred credits and the prepaid pension credit was included with current assets. The gain on the transfer is being amortized over the average remaining service lives of the active employees as of August 1, 1987. The prepaid pension credit was applied to pension contribution requirements. RUS has approved the accounting treatment for this transaction.

In addition to the above retirement plan, employees of the Cooperative are eligible for a 401(k) savings plan. This plan is offered through NRECA. The Cooperative makes a one percent contribution of each employee's base wages in this plan. The Cooperative made contributions of approximately \$63,000 and \$48,300, in 2010 and 2009, respectively.

Note 12 - Lines-of-Credit

The Cooperative has executed line-of-credit agreements with the National Rural Utilities Cooperative Finance Corporation providing the Cooperative with total short-term loans in the total amount of \$8,000,000 on a revolving basis. Interest on unpaid principal is payable quarterly at rates established by CFC, which are not to exceed the lowest prime rate as published in the "Money Rates" column of "The Wall Street Journal" plus 1% per annum. Outstanding advances on these lines-of-credit for the years ended December 31, 2010 and 2009, were \$4,612,847 and \$3,880,878, respectively. Amounts included with long-term debt for the year ended December 31, 2010 and 2009, were \$4,612,847 and \$937,500 respectively.

The Cooperative has also executed a line-of-credit agreement with CoBank to finance operating needs and interim capital expenditures. Total financing available on the CoBank line-of-credit is \$8 million. Interest on unpaid principal is payable quarterly at rates established by CoBank with the full unpaid principal balance due by the expiration date of September 30, 2011. Outstanding advances on this line-of-credit for the years ending December 31, 2010 and 2009 were \$5,851,747 and \$4,926,760, respectively.

Note 13 - Commitments

Wholesale Power Agreements

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

Long-Term Contracts – Fort Bliss

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

In addition, to the planned long-term upgrades, the Cooperative is committed to make immediate system improvements of approximately \$2.5 million which will be recovered, with interest at 10.5 percent per annum, over a thirty-five year period. The Cooperative began the long-term upgrade in 2004. Costs associated with the upgrade are included with deferred charges and will be recorded as a long-term receivable when the project is completed. 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.

During the year ending December 31, 2008, the Cooperative entered into a modification of the 50 year contract whereby a two phase project to construct combat aviation brigade infrastructure electrical distribution system in the amount \$17,692,229 was added to the contract. In relation to this modification the CFC issued an \$18,000,000 irrevocable letter of credit on behalf of the Cooperative which expired October 14, 2010.

During the year ending December 31, 2009, the Cooperative entered into a modification of the 50 year contract to add construction of an additional electrical distribution system in the amount \$1,217,807. In relation to this modification, the CFC had issued a \$1,182,337 irrevocable letter of credit on behalf of the Cooperative which expired August 24, 2010.

During the year ending December 31, 2010, the Cooperative entered into additional contracts and/or modifications to the 50 year contract to add construction of additional electrical distribution system infrastructure totaling \$3,551,810. In relation to this modification, the CFC issued two irrevocable letters of credit on behalf of the Cooperative in the amounts of \$244,575 and \$1,106,060 which are scheduled to expire November 9, 2011 and April 4, 2011, respectively.

In the event of a draw on an irrevocable letter of credit, the unpaid principal balance and unpaid interest is due one year from the date of each draw. Interest payments are due in accordance with CFC's regular billing cycles at rates established by CFC, which are not to exceed the lowest prime rate as published in the "Money Rates" column of "The Wall Street Journal" plus 1% per annum.

The Cooperative has billed and accrued \$7,783,202 and \$6,918,662 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, 2010 and 2009, respectively. The Cooperative has expended and recognized \$6,165,943 and \$4,371,617, respectively, towards the repair and replacement as of December 31, 2010 and 2009. Unexpended funds of \$1,617,258 and \$2,547,045 are included with deferred credits as of December 31, 2010 and 2009, respectively.

Long-Term Contracts – Laughlin Air Force Base

In September 2009, the Cooperative was awarded a 50-year, firm-fixed-price, with price redetermination type contract for privatization of the electric distribution system for the Laughlin Air Force Base near Del Rio, Texas. The contract became effective in April 2010. On April 9, 2010, the Cooperative acquired ownership of the existing electric distribution facilities of the base for approximately \$3.5 million from the United States Air Force (USAF). The transaction took the form of a non-cash transaction. Long-term debt was established payable to the USAF for the purchase price of the facilities at an interest rate of 3.88% for a period of 18 ½ years. Debt payments made to the USAF are offset by a corresponding credit from the USAF for the purchase price of the facilities. The contract requires the Cooperative to provide for the operations and maintenance of the system and for rebuilding the system over the term of the contract in accordance with specifications in the contract. The contract provides for monthly charges to allow the Cooperative to recover its cost of operations, maintenance and rebuilding the system, plus a 10% margin. The Cooperative is required to finance specific initial system improvement projects during the first five years of the contract for periods of sixty months at an interest rate of 8.84%. Initial system improvement projects scheduled for the first two years of the contract total approximately \$1.2 million dollars, of which approximately \$360,000 has been expended as of December 31, 2010.

The Cooperative has billed and accrued \$795,528 cumulatively for operation and maintenance projects and the repair and replacement of the Laughlin electric distribution system under the contract as of December 31, 2010. The Cooperative has expended \$30,372 towards the repair and replacement as of December 31, 2010. Unexpended funds of \$765,156 are included with deferred credits as of December 31, 2010.

Note 14 - Subsequent Events

During January 2011, the Cooperative entered into additional modifications to the 50 year contract with the U.S. Army at Fort Bliss, Texas discussed in Note 13 to add construction combat aviation brigade electrical distribution system infrastructure totaling \$8,821,603.

The Cooperative has evaluated subsequent events through March 11, 2011, the date on which the financial statements were available to be issued.



Supplemental Information
December 31, 2010 and 2009

Rio Grande Electric Cooperative, Inc.



Independent Auditor's Report on Supplementary Information

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

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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.

The list of Directors, Officers, and Management, miles of distribution lines, number of customers, and the comparative data of the RUS and CFC KRTA borrowers and in the statistical and analytical section of this report were not audited by us. Therefore, we do not express an opinion on the information or the results of any of the computations based thereon.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Sioux Falls, South Dakota
March 11, 2011

<u>Name</u>	<u>Position</u>
Jimmy Ballew	President
William White.....	Vice President
Cindy Whitehead	Secretary
Rowdy Holmsley	Treasurer
Frank Archuleta	Director
Mark Daugherty	Director
Henry Mills III	Director
Margarita Nelson	Director
Priscilla Parsons	Director
Stephen Haynes.....	Director
Kimball Miller	Director
R. Donald Herschap	Director
James Evrage	Director
Daniel G. Laws	General Manager/CEO

Rio Grande Electric Cooperative, Inc.
Schedule of Electric Plant
Years Ended December 31, 2010 and 2009

	Balance 12/31/09	Additions & Transfers	Retirements	Balance 12/31/10
Electric Plant in Service				
Intangible plant	\$ 642	\$ -	\$ -	\$ 642
Electric plant adjustment - LAFB	-	2,019,075	-	2,019,075
Transmission plant				
Land and land rights	30,972	-	-	30,972
Station equipment	854,263	-	-	854,263
Poles and fixtures	1,189,408	13,813	-	1,203,221
Overheads conductors and devices	879,674	-	-	879,674
Total transmission plant	<u>2,954,317</u>	<u>13,813</u>	<u>-</u>	<u>2,968,130</u>
Distribution plant				
Land and land rights	58,761	-	-	58,761
Structures and improvements	6,906,937	12,545	-	6,919,482
Poles, towers, and fixtures	26,874,660	1,169,480	222,097	27,822,043
Overhead conductors and devices	31,040,492	1,819,320	158,179	32,701,633
Underground conductors and devices	473,182	426,559	4,378	895,363
Line transformers	11,642,633	1,764,049	242,985	13,163,697
Services	261,484	86	-	261,570
Meters	5,237,663	2,245,923	750,707	6,732,879
Installations on customers' premises	416,534	36,145	6,920	445,759
Leased property on customers' premises	3,920	-	-	3,920
Street lighting	16,705	270,368	-	287,073
Total distribution plant	<u>82,932,971</u>	<u>7,744,475</u>	<u>1,385,266</u>	<u>89,292,180</u>
General plant				
Land and land rights	152,934	-	-	152,934
Structures and improvements	3,042,505	384,821	-	3,427,326
Office furniture and equipment	1,256,506	129,755	-	1,386,261
Transportation equipment	5,577,244	928,475	432,588	6,073,131
Stores equipment	129,662	9,168	-	138,830
Tools, shop, and garage equipment	344,280	82,927	-	427,207
Laboratory equipment	653,656	26,730	-	680,386
Power operated equipment	206,133	61,194	7,476	259,851
Communications equipment	1,060,100	69,696	-	1,129,796
Miscellaneous equipment	55,438	1,759	659	56,538
Total general plant	<u>12,478,458</u>	<u>1,694,525</u>	<u>440,723</u>	<u>13,732,260</u>
Total electric plant in service	<u>98,366,388</u>	<u>11,471,888</u>	<u>1,825,989</u>	<u>108,012,287</u>
Construction Work in Progress	4,575,842	3,450,358	-	8,026,200
	<u>\$ 102,942,230</u>	<u>\$ 14,922,246</u>	<u>\$ 1,825,989</u>	<u>\$ 116,038,487</u>

Rio Grande Electric Cooperative, Inc.
Schedule of Electric Plant Accumulated Depreciation
Years Ended December 31, 2010 and 2009

	Balance 12/31/09	Depreciation Accruals	Retirements	Balance 12/31/10
Accumulated amortization - plant adjustment	\$ -	\$ 81,855	\$ -	\$ 81,855
Transmission plant	1,953,891	80,594	-	2,034,485
Distribution plant	33,607,447	2,439,628	1,738,708	34,308,367
Accumulated depreciation on acquired plant - LAFB	-	-	-	1,348,108
	<u>33,607,447</u>	<u>2,439,628</u>	<u>1,738,708</u>	<u>35,656,475</u>
General plant				
Structures and improvements	1,086,499	94,711	-	1,181,210
Office furniture and equipment	745,581	137,465	-	883,046
Transportation equipment	2,750,137	748,214	432,588	3,065,763
Stores equipment	53,383	21,291	-	74,674
Tools, shop, and garage equipment	133,815	21,442	-	155,257
Laboratory equipment	401,227	78,874	-	480,101
Power operated equipment	96,538	15,129	7,476	104,191
Communications equipment	988,627	134,828	392	1,123,063
Miscellaneous	44,045	1,450	658	44,837
Total general plant	<u>6,299,852</u>	<u>1,253,404</u>	<u>441,114</u>	<u>7,112,142</u>
Total electric plant in service	<u>41,861,190</u>	<u>3,855,481</u>	<u>2,179,822</u>	<u>43,536,849</u>
Retirement Work in Progress	<u>(555,624)</u>	<u>-</u>	<u>124,685</u>	<u>(680,309)</u>
	<u>\$ 41,305,566</u>	<u>\$ 3,855,481</u>	<u>\$ 2,304,507</u>	<u>\$ 44,204,648</u>
		(1)	(2)	
(1) Charged to depreciation expense				\$ 3,161,147
(2) Charged to clearing accounts				694,334
				<u>\$ 3,855,481</u>
Cost of units retired				\$ 1,825,989
Cost of removal				618,057
Salvage				<u>(139,539)</u>
Loss due to retirement				<u>\$ 2,304,507</u>

Rio Grande Electric Cooperative, Inc.
Schedule of Patronage Capital
Years Ended December 31, 2010 and 2009

Calendar Year	Assignable	Assigned	Retired	12/31/2010 Balance	12/31/2009 Balance
1951	\$ -	\$ 5,611	\$ -	\$ 5,611	\$ 5,611
1952	-	41,630	-	41,630	41,630
1953	-	44,658	-	44,658	44,658
1956	-	5,745	-	5,745	5,745
1967	-	30,621	-	30,621	30,621
1968	-	25,575	-	25,575	25,575
1969	-	64,144	-	64,144	64,144
1971	-	27,279	-	27,279	27,279
1972	-	51,428	1	51,427	51,427
1973	-	80,910	10	80,900	80,900
1974	-	158,288	15	158,273	158,273
1975	-	139,201	10	139,191	139,191
1977	-	222,668	19	222,649	222,649
1978	-	366,220	29	366,191	366,191
1979	-	175,947	19	175,928	175,928
1980	-	96,892	23	96,869	96,869
1981	-	162,472	48	162,424	162,424
1982	-	495,360	139	495,221	495,221
1984	-	1,257,162	412	1,256,750	1,256,750
1985	-	528,848	156	528,692	528,692
1986	-	85,875	30	85,845	85,845
1987	-	240,365	83	240,282	240,282
1988	-	1,854,292	595	1,853,697	1,853,697
1989	-	1,671,269	340	1,670,929	1,670,929
1990	-	1,555,440	208	1,555,232	1,555,232
1991	-	921,927	104	921,823	921,823
1992	-	764,835	103	764,732	764,732
1993	-	859,051	114	858,937	858,937
1994	-	1,140,748	155	1,140,593	1,140,593
1995	-	827,512	131	827,381	827,381
1996	-	1,112,077	132	1,111,945	1,111,945
1997	-	798,362	59	798,303	798,303
1998	-	1,113,615	102	1,113,513	1,113,513
1999	-	736,600	95	736,505	736,505
2000	-	712,753	110	712,643	712,643
2001	-	734,829	54	734,775	734,775
2002	-	778,390	64	778,326	778,326
2003	-	612,527	100	612,427	612,427
2004	-	657,471	-	657,471	-
2005	-	1,288,790	-	1,288,790	-
2006	-	1,778,181	-	1,778,181	471,465
2007	-	1,271,264	-	1,271,264	-
2008	-	915,300	-	915,300	-
2009	-	1,114,536	-	1,114,536	1,114,534
2010	5,276,007	-	-	5,276,007	-
	<u>\$ 5,276,007</u>	<u>\$ 27,526,668</u>	<u>\$ 3,460</u>	<u>\$ 32,799,215</u>	<u>\$ 22,083,665</u>

Rio Grande Electric Cooperative, Inc.
Schedule of Long-Term Debt
Years Ended December 31, 2010 and 2009

Note and Date	Principal Amount	Principal Payments	Net Obligations	
			2010	2009
RUS Construction Obligations				
2% interest rate				
14250 3/22/1975	\$ 983,000	\$ 983,000	\$ -	\$ 9,796
14260 11/5/1975	983,000	983,000	-	30,234
14270 5/24/1977	2,962,000	2,809,284	152,716	273,744
14280 7/18/1978	2,190,000	1,965,518	224,482	311,763
14290 1/20/1981	8,224,000	6,574,278	1,649,722	1,961,546
	<u>15,342,000</u>	<u>13,315,080</u>	<u>2,026,920</u>	<u>2,587,083</u>
5% interest rate				
1B300 7/25/1983 (5)	4,850,500	4,850,500	-	2,091,390
1B302 7/25/1983 (5)	3,886,500	3,886,500	-	1,678,214
1B303 7/25/1983 (5)	964,000	964,000	-	435,427
1B310 6/25/1985 (5)	1,744,000	1,744,000	-	867,143
1B311 6/25/1985 (5)	1,289,000	1,289,000	-	660,627
1B313 6/25/1985 (5)	911,000	911,000	-	466,899
1B320 12/8/2006	2,234,000	68,808	2,165,192	2,194,742
1B321 6/4/2007	2,000,000	61,601	1,938,399	1,964,854
1B322 1/7/2008	1,430,000	44,045	1,385,955	1,404,870
1B323 4/30/2008	1,000,000	30,801	969,199	982,427
1B324 7/23/2009	2,478,500	46,021	2,432,479	2,465,525
1B325 5/10/2010	937,500	7,325	930,175	-
	<u>23,725,000</u>	<u>13,903,601</u>	<u>9,821,399</u>	<u>15,212,118</u>
Total RUS debt	<u>39,067,000</u>	<u>27,218,681</u>	<u>11,848,319</u>	<u>17,799,201</u>
FFB				
H0010 4/27/2001 4.383%	350,000	56,672	293,328	300,472
H0015 4/27/2001 5.152%	350,000	50,216	299,784	306,318
H0020 4/27/2001 5.621%	380,000	50,715	329,285	335,980
H0025 4/4/2002 5.735%	340,000	42,077	297,923	303,878
H0030 10/19/2002 4.975%	248,000	33,055	214,945	219,752
H0035 1/29/2003 4.756%	985,000	132,455	852,545	872,227
H0040 4/11/2003 4.754%	685,000	89,962	595,038	608,779
H0045 8/19/2003 5.220%	525,000	62,799	462,201	472,174
H0050 10/30/2003 5.002%	1,462,000	176,208	1,285,792	1,314,433
Total FFB debt	<u>5,325,000</u>	<u>694,159</u>	<u>4,630,841</u>	<u>4,734,013</u>

Rio Grande Electric Cooperative, Inc.
Schedule of Long-Term Debt
Years Ended December 31, 2010 and 2009

Note and Date	Principal Amount	Principal Payments	Net Obligations	
			2010	2009
CFC				
(4) 9001001 3/31/1983 5.40%	1,135,000	1,135,000	-	-
(4) 9002001 8/1/1997 5.70%	687,755	687,755	-	-
9006001 5/23/2003 6.30%	2,609,550	336,370	2,273,180	2,318,817
9006002 9/10/2003 6.30%	256,000	30,369	225,631	229,977
(4) 9006003 4/25/2004 5.70%	1,000,000	1,000,000	-	-
(4) 9006004 6/23/2004 5.40%	500,000	500,000	-	-
9006005 5/31/2005 6.35%	500,000	26,420	473,580	479,021
9006006 5/31/2005 6.35%	750,000	37,082	712,918	720,958
9006007 5/31/2005 6.35%	1,000,000	49,442	950,558	961,277
9006008 5/31/2005 6.35%	640,209	31,653	608,556	615,419
9006009 5/31/2005 6.35%	1,500,000	74,163	1,425,837	1,441,916
(4) 9006010 2/28/2008 5.40%	1,500,000	1,500,000	-	-
(4) 9006011 2/28/2008 5.40%	1,500,000	1,500,000	-	-
LOC * various	937,500	-	4,612,847	937,500
Total CFC debt	14,516,014	6,908,254	11,283,107	7,704,885
CoBank				
RX0696T2-1 05/31/83 variable (2)	608,079	82,103	525,976	581,442
RX0696T2 05/31/85 variable (3)	389,356	40,573	348,783	376,193
RX0696T1-3 04/25/04 variable (3)	918,937	27,776	891,161	909,926
RX0696T1-2 06/23/04 variable (3)	474,848	9,949	464,899	471,620
RX0696T1-1 06/17/08 variable (3)	1,487,221	27,002	1,460,219	1,478,439
RX0696T1 09/23/08 variable (3)	1,492,276	24,456	1,467,820	1,484,341
RI0696T3 11/30/10 3.20%	5,732,851	95,549	5,637,302	-
Total CFC debt	11,103,568	307,408	10,796,160	5,301,961
Department of Defense - Laughlin AFB				
04/09/10 3.88%	3,457,971	140,186	3,317,785	-
	\$ 73,469,553	\$ 35,268,688	\$ 41,876,212	\$ 35,540,060

- (1) The CFC variable rate was 4.25% at December 31, 2010.
(2) The CoBank variable rate was 3.67% at December 31, 2010.
(3) The CoBank variable rate was 3.42% at December 31, 2010.
(4) These notes were refinanced during 2009 through CoBank.
(5) These notes were refinanced during 2010 through CoBank.

Rio Grande Electric Cooperative, Inc.
Schedule of Administrative and General Expenses
Years Ended December 31, 2010 and 2009

	December 31		Increase (Decrease)
	2010	2009	
Administrative and general salaries	\$ 1,061,789	\$ 964,221	\$ 97,568
Administrative and general salaries-military bases	319,516	232,843	86,673
Office supplies and expenses	136,736	146,526	(9,790)
Outside services employed	303,116	300,993	2,123
Directors' fees and expenses	178,982	173,727	5,255
Dues to associated organizations	20,310	19,576	734
Miscellaneous general expenses	153,551	203,182	(49,631)
Utility commission related expenses	96,032	186,131	(90,099)
Annual meeting expense	119,184	160,165	(40,981)
Maintenance of general plant	474,618	336,136	138,482
Total	<u>\$ 2,863,834</u>	<u>\$ 2,723,500</u>	<u>\$ 140,334</u>

	2010		2009	
	Amount	Percent	Amount	Percent
Operating Revenue				
Residential	\$ 12,408,006	34.49%	\$ 11,242,576	35.40%
Irrigation	3,454,338	9.60%	3,332,723	10.49%
Commercial and industrial	14,181,900	39.42%	13,579,271	42.75%
Other operating revenues	5,930,494	16.49%	3,607,281	11.36%
	<u>35,974,738</u>	<u>100.00%</u>	<u>31,761,851</u>	<u>100.00%</u>
Operating Expenses				
Cost of power	16,801,559	46.7%	17,338,262	54.6%
Transmission	16,347	0.0%	10,480	0.0%
Distribution-operations	3,161,861	8.8%	3,018,864	9.5%
Distribution-maintenance	1,855,598	5.2%	1,914,765	6.0%
Customer accounts	1,044,869	2.9%	1,085,381	3.4%
Customer service and informational	264,933	0.7%	213,239	0.7%
Administrative and general	2,863,834	8.0%	2,723,500	8.6%
Depreciation	3,161,147	8.8%	2,849,178	9.0%
Taxes	8,291	0.0%	7,439	0.0%
Interest on long-term debt	1,758,996	4.9%	1,683,269	5.3%
Other interest	301,342	0.8%	276,350	0.9%
Other deductions	26,442	0.1%	15,457	0.0%
Total operating expenses	<u>31,265,219</u>	<u>86.91%</u>	<u>31,136,184</u>	<u>98.03%</u>
Operating Margin Before Capital Credits	4,709,519	13.09%	625,667	1.97%
Generation and Transmission and Other Cooperative Capital Credits	<u>168,061</u>	<u>0.5%</u>	<u>107,183</u>	<u>0.4%</u>
Net Operating Margin	4,877,580	<u>13.6%</u>	732,850	<u>2.3%</u>
Nonoperating Margin	<u>398,427</u>		<u>381,686</u>	
Net Margin	<u>\$ 5,276,007</u>		<u>\$ 1,114,536</u>	

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

2008		2007		2006	
Amount	Percent	Amount	Percent	Amount	Percent
\$ 11,978,305	36.28%	\$ 9,694,545	36.92%	\$ 10,496,301	36.62%
3,667,190	11.11%	2,074,006	7.90%	2,571,201	8.97%
15,074,401	45.66%	12,109,759	46.11%	13,629,830	47.55%
2,296,677	6.96%	2,382,085	9.07%	1,967,257	6.86%
<u>33,016,573</u>	<u>100.00%</u>	<u>26,260,395</u>	<u>100.0%</u>	<u>28,664,589</u>	<u>100.0%</u>
20,103,550	60.9%	13,819,458	52.6%	16,688,553	58.2%
20,381	0.1%	55,304	0.2%	22,088	0.1%
3,031,028	9.2%	2,522,431	9.6%	2,265,809	7.9%
1,589,571	4.8%	1,766,760	6.7%	1,398,977	4.9%
895,258	2.7%	942,762	3.6%	771,993	2.7%
203,377	0.6%	172,060	0.7%	208,750	0.7%
2,229,209	6.8%	2,113,083	8.0%	2,149,049	7.5%
2,623,674	7.9%	2,446,775	9.3%	2,358,726	8.2%
8,343	0.0%	6,772	0.0%	9,790	0.0%
1,627,667	4.9%	1,467,869	5.6%	1,341,647	4.7%
212,959	0.6%	124,143	0.5%	67,115	0.2%
30,615	0.1%	33,672	0.1%	19,756	0.1%
<u>32,575,632</u>	<u>98.66%</u>	<u>25,471,089</u>	<u>97.0%</u>	<u>27,302,253</u>	<u>95.2%</u>
440,941	1.34%	789,306	3.0%	1,362,336	4.8%
103,723	0.4%	86,087	0.4%	99,901	0.4%
544,664	<u>1.6%</u>	875,393	<u>3.3%</u>	1,462,237	<u>5.1%</u>
<u>370,636</u>		<u>395,876</u>		<u>315,948</u>	
<u>\$ 915,300</u>		<u>\$ 1,271,269</u>		<u>\$ 1,778,185</u>	

Rio Grande Electric Cooperative, Inc.
 Statistics for the Years Ended December 31, 2007 - 2010
 Compared to the 2009 CFC KRTA & RUS Borrowers Statistical Profile Median Values

	2009 CFC KRTA & 2009 RUS Borrowers Statistical Profile Median Values		Rio Grande Electric Cooperative, Inc.			
	US	Texas	2010	2009	2008	2007
	1. Times interest earned ratio (TIER)	2.30	2.59	4.00	1.66	1.56
2. Debt service coverage (DSC)	2.06	2.29	3.14	1.75	1.71	1.77
3. Interest/average debt %	5.17	5.18	5.15	5.18	5.40	5.25
4. Equity ratio %	41.26	44.64	37.85	34.85	35.33	37.89
5. Rate of return %	4.85	5.48	8.90	3.95	3.84	4.23
6. Consumers per mile	5.93	5.08	1.28	1.26	1.24	1.22
7. Administrative and general expense per consumer	115.92	100.11	236.10	229.44	191.15	185.31
8. Plant investment per mile	26,206	22,720	12,204	10,893	10,161	9,660
9. Revenue per kwh sold (mills)	98.81	98.60	141.02	130.79	151.37	124.16
10. Power cost per kwh sold (mills)	64.59	68.60	78.94	80.59	99.16	72.15
11. Power cost/revenue %	62.30	66.27	55.98	61.62	65.51	58.11
12. System line loss	5.96	7.33	10.54	10.02	10.95	10.19

Rio Grande Electric Cooperative, Inc.
 Statistics for the Years Ended December 31, 2007 - 2010
 Compared to the 2009 CFC KRTA & RUS Borrowers Statistical Profile Median Values

	2009 CFC KRTA & 2009 RUS Borrowers Statistical Profile Median Values		Rio Grande Electric Cooperative, Inc.			
	US	Texas	2010	2009	2008	2007
	13. Plant revenue ratio	6.46	6.60	6.06	7.14	7.42
14. Long-term Debt/ total assets %	45.69	42.15	46.17	41.61	42.82	41.89
15. Accumulated depreciation/ total plant %	30.88	27.36	40.93	41.99	42.99	42.57
16. Revenue per mile of line	10,581	9,039	3,784	3,361	3,505	2,801
17. Current ratio	1.20	0.96	1.08	1.02	1.18	1.41
18. Total consumers	13,220	19,242	12,130	11,870	11,662	11,403
19. General funds/ total plant %	3.72	2.83	1.45	1.32	1.58	1.64
20. Total margins per consumer	130.60	187.80	434.96	93.90	78.49	111.49
21. Consumer accounts expense per consumer	57.61	58.31	86.14	91.44	76.77	82.68

* Obtained from “2009 RUS Borrower Statistical Profile” report published by RUS.



CPAs & BUSINESS ADVISORS

**Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting
Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing
Standards***

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

We have audited the financial statements of Rio Grande Electric Cooperative, Inc. as of and for the year ended December 31, 2010, and have issued our report thereon dated March 11, 2011. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Rio Grande Electric Cooperative, Inc.'s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified.

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 combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Association's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rio Grande Electric Cooperative, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

We noted certain matters and required audit communications that we reported to management of Rio Grande Electric Cooperative, Inc. in a separate letter dated March 11, 2011.

This report is intended solely for the information and use of the Board of Directors, management, 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.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Sioux Falls, South Dakota
March 11, 2011



Auditor's Certification Regarding Loan Fund Expenditures

CFC's Member Services Group
2201 Cooperative Way
Herndon, VA 20171-3025

Gentlemen:

During the period of this review, the Cooperative received \$-0- in long-term loan fund advances from CFC on loans controlled by the RUS/CFC Mortgage and Loan Agreement. Based on our review of construction work orders and other plant accounting records created during the period of review, it is our opinion that these CFC loan funds were expended for purposes contemplated in the Loan Agreements on such loans.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Sioux Falls, South Dakota
March 11, 2011