



**JEMEZ MOUNTAINS ELECTRIC  
COOPERATIVE, INC.  
(NEW MEXICO 28 SANDOVAL)**

**REPORTS OF INDEPENDENT AUDITORS  
AND FINANCIAL STATEMENTS**

**DECEMBER 31, 2010 and 2009**

**MOSS ADAMS<sub>LLP</sub>**

Certified Public Accountants | Business Consultants

*Acumen. Agility. Answers.*

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**JEMEZ MOUNTAINS ELECTRIC COOPERATIVE, INC.  
OFFICIAL ROSTER  
DECEMBER 31, 2010**

**Members of the Board**

<b>Name</b>	<b>Title</b>
Levi Valdez	President
Kenneth Borrego	Vice-President
David Salazar	Secretary
Dolores McCoy	Treasurer
Elias Coriz	Trustee
Lucas Cordova	Trustee
Ralph Garcia	Trustee
Manuel Garcia	Trustee
Johnny Jaramillo	Trustee
Ron Lovato	Trustee
Patrick Montoya	Trustee-at-large
	<b>Official</b>
Wayne Sowell	General Manager

## Report of Independent Auditors

Levi Valdez, President  
Board of Trustees and  
Wayne Sowell, General Manager  
Jemez Mountains Electric Cooperative, Inc.

We have audited the accompanying balance sheet of Jemez Mountains Electric Cooperative, Inc. (Cooperative), as of December 31, 2010, and the related statements of revenue and patronage capital, and cash flows for the year 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 audit. The financial statements of the Cooperative as of December 31, 2009, before the restatement described in Note 24, were audited by other auditors whose report dated April 14, 2010 expressed an unqualified opinion on those statements.

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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2010 financial statements referred to above present fairly, in all material respects, the financial position of Jemez Mountains Electric Cooperative, Inc. at December 31, 2010, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. We also audited the adjustments described in Note 24 that were applied to restate the 2009 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

Levi Valdez, President  
Board of Trustees and  
Wayne Sowell, General Manager  
Jemez Mountains Electric Cooperative, Inc.

As described in Note 24 to the financial statements, the Cooperative corrected an error related to its accounting for unbilled revenue and has restated its equity as of January 1, 2009, to conform with accounting principles generally accepted in the United States of America.

In accordance with "Government Auditing Standards", we have also issued a report dated May 27, 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 and grants agreements, and other matters. The purpose of that report is to describe the scope of our 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 read in assessing the results of our audit.

*Mess Adams LLP*

Albuquerque, New Mexico  
May 27, 2011

**JEMEZ MOUNTAINS ELECTRIC COOPERATIVE, INC.**  
**BALANCE SHEETS**  
**December 31, 2010 and 2009**

	2010	2009 (As restated)
<b>ASSETS</b>		
Electric Plant		
Electric plant at cost	\$ 97,924,287	93,177,579
Construction work in progress	1,055,458	3,199,038
Total utility plant	<u>98,979,745</u>	<u>96,376,617</u>
Less accumulated provision for depreciation	<u>(38,149,053)</u>	<u>(36,527,119)</u>
Net utility plant	<u>60,830,692</u>	<u>59,849,498</u>
Other Property and Investments		
Non utility property at costs (less accumulated depreciation of \$176,394 and \$165,063 as of December 31, 2010 and 2009, respectively)	230,619	241,250
Investment in associated organizations	8,565,590	6,361,669
<b>Total other property and investments</b>	<u>8,796,209</u>	<u>6,602,919</u>
Current Assets		
Cash - general	1,230,294	1,265,900
Cash - construction fund	100	100
Temporary cash investment	4,790,387	7,742,935
Accounts receivable (less allowance for uncollectibles of \$153,279 and \$451,989 as of December 31, 2010 and 2009, respectively)	4,151,615	4,210,467
Unbilled revenue	2,491,020	3,110,333
Other assets	172,592	493,771
Prepayments	36,375	-
Material and supplies	1,633,661	1,696,736
<b>Total current assets</b>	<u>14,506,044</u>	<u>18,520,242</u>
Regulatory assets	6,191,501	6,444,215
Deferred debits	461,854	557,048
<b>Total assets</b>	<u>\$ 90,786,300</u>	<u>91,973,922</u>
<b>LIABILITIES AND EQUITY</b>		
Equity		
Memberships	\$ 106,605	106,490
Patronage capital	40,239,408	37,604,038
<b>Total equity</b>	<u>40,346,013</u>	<u>37,710,528</u>
Long-term Debt		
RUS mortgage note	23,778,953	45,152,108
Co-Bank mortgage note	4,239,292	4,570,409
CFC mortgage note	17,583,086	-
<b>Total long-term debt</b>	<u>45,601,331</u>	<u>49,722,517</u>
Less current maturities	<u>(3,990,984)</u>	<u>(1,705,313)</u>
<b>Total long-term debt</b>	<u>41,610,347</u>	<u>48,017,204</u>
Current Liabilities		
Current maturities of long-term debt	3,990,984	1,705,313
Accounts payable	3,282,733	2,775,616
Customer deposits	185,427	168,886
Other current and accrued liabilities	1,307,074	1,326,320
<b>Total current and accrued liabilities</b>	<u>8,766,218</u>	<u>5,976,135</u>
Deferred Credits	63,722	270,055
<b>Total liabilities and equity</b>	<u>\$ 90,786,300</u>	<u>91,973,922</u>

See Notes to Financial Statements.

**JEMEZ MOUNTAINS ELECTRIC COOPERATIVE, INC.**  
**STATEMENTS OF REVENUE AND PATRONAGE CAPITAL**  
**December 31, 2010 and 2009**

	2010	2009 (As restated)
<b>Operating Revenues:</b>	<b>\$ 43,111,049</b>	<b>42,295,172</b>
Operating Expenses:		
Power costs	26,971,971	25,526,416
Transmission	28,284	42,433
Distribution - operation	2,785,895	2,658,342
Distribution - maintenance	2,638,656	1,920,250
Customer accounts	1,808,667	1,811,062
Customer service	32,917	41,695
Administration and general	3,309,371	2,599,519
Depreciation and amortization	2,818,904	2,755,886
Taxes	108,494	59,129
Interest expense	3,375	6,645
<b>Total operating expenses</b>	<b>40,506,534</b>	<b>37,421,377</b>
Operating margins before interest expense	2,604,515	4,873,795
Interest		
Interest on long-term debt	2,494,402	2,621,566
<b>Operating margin after interest expense</b>	<b>110,113</b>	<b>2,252,229</b>
Generation and transmission capital credits	2,131,097	2,889,656
Other capital credits	110,516	113,176
<b>Net Operating margins</b>	<b>2,351,726</b>	<b>5,255,061</b>
Nonoperating Margins		
Interest income	318,239	235,165
Other nonoperating revenue	(34,595)	(23,211)
<b>Total nonoperating revenues</b>	<b>283,644</b>	<b>211,954</b>
<b>Net margins</b>	<b>2,635,370</b>	<b>5,467,015</b>
<b>Patronage capital, beginning of year</b>	<b>37,604,038</b>	<b>29,639,319</b>
<b>Prior period restatement</b>	<b>-</b>	<b>2,497,704</b>
<b>Patronage capital, beginning of year (restated)</b>	<b>37,604,038</b>	<b>32,137,023</b>
<b>Patronage capital, end of year</b>	<b>\$ 40,239,408</b>	<b>37,604,038</b>

*See Notes to Financial Statements.*

**JEMEZ MOUNTAINS ELECTRIC COOPERATIVE, INC.**  
**STATEMENTS OF CASH FLOWS**  
**December 31, 2010**

	2010	2009 (As restated)
Cash flows from operating activities:		
Net Margin	\$ 2,635,370	5,467,015
Adjustments to reconcile net margin to net cash provided by operating activities		
Depreciation and amortization - net	2,818,904	2,755,886
Changes in operating assets and liabilities:		
Account receivables	58,852	103,556
Unbilled revenue	663,050	(612,629)
Inventories and prepayments	26,700	57,373
Deferred debits	95,194	198,754
Accounts payable and accrued expenses	507,117	339,808
Other current liabilities	(19,246)	239,765
Other assets	321,179	-
Deferred credits	(206,333)	(262,467)
<b>Net cash provided by operating activities</b>	<b><u>6,900,787</u></b>	<b><u>8,287,061</u></b>
Cash flows from investing activities:		
Additions to plant, net of retirements	(3,591,121)	(3,969,751)
Other Property and Investments	10,631	-
Investment in associated organizations	(2,203,921)	(3,057,962)
<b>Net cash used in investing activities</b>	<b><u>(5,784,411)</u></b>	<b><u>(7,027,713)</u></b>
Cash flows from financing activities:		
Customer deposits	16,541	5,928
Memberships	115	795
Increase (decrease) in long term debt	(4,121,186)	(1,924,007)
<b>Net cash provided by financing activities</b>	<b><u>(4,104,530)</u></b>	<b><u>(1,917,284)</u></b>
Increase (decrease) in cash and cash equivalents	(2,988,154)	(657,936)
<b>Cash and cash equivalents, beginning of year</b>	<b><u>9,008,935</u></b>	<b><u>9,666,871</u></b>
<b>Cash and cash equivalents, end of year</b>	<b><u>\$ 6,020,781</u></b>	<b><u>9,008,935</u></b>
Supplemental disclosure of cash information:		
Interest paid during the year	<b><u>\$ 2,497,777</u></b>	<b><u>2,628,211</u></b>

*See Notes to Financial Statements.*

**JEMEZ MOUNTAINS ELECTRIC COOPERATIVE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 and 2009**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Background.* Jemez Mountains Electric Cooperative Inc. (the “Cooperative” or “Jemez”), was incorporated in 1948 for the purpose of organizing a cooperative, Non-profit Membership Corporation, to engage in rural electrification, under the laws of the State of New Mexico, pursuant to Chapter 47 of the Session laws of New Mexico of the year 1939, and known as the “Rural Electric Cooperative Act”.

*Basis of accounting and presentation* - The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as applied to regulated enterprises, which conform to policies prescribed by the Department of Agriculture, Rural Utilities Service (RUS).

*Electric Plant and Depreciation.* The electric plant is stated at cost and depreciation is computed over the estimated service lives of the respective assets using the straight-line method. Construction work in progress is capitalized to plant in service accounts upon completion. Depreciation is provided from the date such assets are placed in service. The cost of replacement of minor items of plant is charged to maintenance expense. The average cost of property retired, together with removal costs, less salvage is charged to accumulated depreciation at such time as the property is removed from service. Contributions in aid of construction are recorded as reductions of the capitalized costs of the constructed assets.

*Allowance for borrowed funds used during construction (AFUDC).* Interest during construction is capitalized only on jobs estimated to cost \$50,000 or more that take at least six months to complete and only if the resulting capitalizable amount is material in amount. The Cooperative did not capitalize any interest in 2010 and 2009.

*Investments in Associated Organizations.* Investments are stated at cost with the exception of capital credits. Capital credits assigned by the Cooperative’s associated organizations are stated at their assigned value.

*Materials and Supplies.* Inventories of materials and supplies are stated at average cost. The materials and supplies consist mostly of items to construct overhead and underground distribution line.

*Patronage Capital.* Any excess of revenue over expenditures, net margins, is treated as advances of capital by the patrons. Patronage capital is credited to each patron on the basis of energy sales and may be retired at the discretion of the Board of Trustees, subject to certain limitations imposed by mortgage covenants.

**JEMEZ MOUNTAINS ELECTRIC COOPERATIVE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 and 2009**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Pension Plan.* Pension fund costs are currently funded by the Cooperative.

*Revenues.* The Cooperative's operating revenues are under the jurisdiction of the New Mexico Public Regulatory Commission. Revenues are recognized monthly as billed to consumers on a cyclical basis. The Cooperative accrues revenues at year-end for electricity sold but not billed at the usual cyclical billing date. Upon connection, the Cooperative may require a deposit from its members and in case of default is applied to outstanding bills and fees. After one year of on-time payments made, the Cooperative refunds the deposit with accrued interest. As of December 31, 2010 and 2009, customer deposits totaled \$185,427 and \$168,886, respectively.

*Service Area.* The Cooperative's headquarters are located in Española, New Mexico. The Cooperative has district offices in Jemez Springs and Cuba, New Mexico. The service area includes parts of Rio Arriba, Santa Fe, Sandoval, McKinley, and San Juan counties.

*Cash and Cash Equivalents.* For the purpose of cash flows, the Cooperative considers cash balances and certificates of deposit with an original issue maturity of three months or less to be cash equivalents.

*Fair Value of Financial Instruments.* Financial instruments include cash, temporary cash investment and long-term debt. Investments in associated organizations are not considered a financial instrument because they represent nontransferable interests in associated organizations.

The carrying value of cash and temporary cash investments approximates fair value because of the short maturity of those instruments. The financial institutions in which the cooperative has deposits are insured by agencies of the Federal Government, deposits at times exceed insured amounts. It is not practicable to estimate the fair value of long-term debt; additional information pertinent to its value is provided in the footnote for long-term debt.

*Concentration of Credit Risk.* Financial investments that are exposed to concentrations of credit risk consist of cash, accounts receivable and temporary investments. The cash and temporary investments are in high quality institutions and companies with high credit ratings. Account receivables are principally with customer members with the Cooperative. Realization is dependent on various individual economic conditions. Cash and temporary investments are based on quoted market price. Accounts receivable are carried at estimated net realizable value.

**JEMEZ MOUNTAINS ELECTRIC COOPERATIVE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 and 2009**

**NOTE 2. ASSETS PLEDGED**

All assets are pledged as security of the long-term debt due to CFC, RUS, and Co-Bank.

**NOTE 3. ELECTRIC PLANT IN SERVICE AND DEPRECIATION PROCEDURES**

Listed below are the major classes of the electric plant in service for December 31:

	2010	2009
Intangible plant	\$ 7,903	7,903
Transmission plant	2,669,420	2,669,420
Distribution	83,502,168	79,530,270
General plant	<u>11,744,796</u>	<u>10,969,986</u>
Total classified utility plant in service	97,924,287	93,177,579
Construction work in progress	<u>1,055,458</u>	3,199,038
Total electric plant	<u>\$ 98,979,745</u>	<u>96,376,617</u>

Provision is made for depreciation on a straight-line basis using the following rates:

Distribution plant	
Station equipment	2.7%
Poles, towers and fixtures	3.0%
Overhead, conductors and devises	2.3%
Underground conductors and devises	2.4%
Line transformers	2.6%
Services	3.1%
Meters	2.9%
Installation on consumers premises	3.9%
Street lighting	3.8%
General plant	
Structures and improvements	3.0%
Office furniture and equipment	3.0 – 6.0%
Transportation equipment	15.0%
Miscellaneous equipment	4.0%
Power operated equipment	10.32%
Communication equipment	9.0%
Transmission Plant	2.75%

The Cooperative capitalizes items over \$500 for general plant items and all other utility plant accounts are capitalized through the work order process.

**JEMEZ MOUNTAINS ELECTRIC COOPERATIVE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 and 2009**

**NOTE 4. INVESTMENT IN ASSOCIATED ORGANIZATIONS**

	<b>2010</b>	2009
Patronage capital – at assigned values:		
Southeastern Data Cooperative Inc	\$ 125,681	103,912
Co-Bank	381,067	337,826
Cooperative Finance Corporation	51,235	51,235
CFC capital securities	100,000	100,000
Tri-state Transmission and Generation	7,848,215	5,717,118
Membership – Co-Bank	1,000	1,000
NMRECA Capital	22,900	22,900
Western United Electric Corporation	35,492	27,678
	<u>\$ 8,565,590</u>	<u>6,361,669</u>

The patronage capital assigned, which is non-interest bearing, may be retired, subject to mortgage restriction, at the discretion of the Board of Directors of the associated organizations.

**NOTE 5. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of demand deposits. Of the total amount in demand deposits and other temporary investments all amounts were insured and collateralized as of December 31, 2010 and 2009.

Custodial credit risk is the risk that in the event of bank failure, the Cooperative deposits may not be recovered. Cash deposits are reported at carrying amount which reasonably estimates fair value.

**JEMEZ MOUNTAINS ELECTRIC COOPERATIVE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 and 2009**

**NOTE 5. CASH AND CASH EQUIVALENTS (CONTINUED)**

The Cooperative has the following bank accounts:

	2010	2009
Valley National Bank:		
Checking account-general	\$ 1,135,419	1,042,506
Checking account-payroll	(140,553)	4,456
Checking account	42,825	42,825
Checking account-special construction	100	100
Checking account- capital credit	183	183
Jemez Valley Credit Union:		
Checking account	28,821	23,004
Wells Fargo Bank:		
Checking account	50,771	89,555
Community Bank:		
Checking account	110,598	61,141
Change funds	2,150	2,150
Special deposits	80	80
	<u>                    </u>	<u>                    </u>
Total Cash and Cash Equivalents	<u>\$ 1,230,394</u>	<u>1,266,000</u>

**NOTE 6. TEMPORARY CASH INVESTMENTS**

Temporary cash investments are stated at fair market value.

	2010	2009
Jemez Valley Credit Union-savings account	\$ 208	208
Valley National Bank		
Investment account	4,747,317	2,700,122
Co-Bank		
General fund account	42,862	5,042,605
	<u>                    </u>	<u>                    </u>
Total	<u>\$ 4,790,387</u>	<u>7,742,935</u>

The investment account at Valley National Bank at December 31, 2010 and 2009 is fully collateralized. The Co-Bank temporary investment at December 31, 2010 and 2009 is a program where the cooperative invests with Co-Bank and is not subject to credit risk because of the loans outstanding.

**JEMEZ MOUNTAINS ELECTRIC COOPERATIVE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 and 2009**

**NOTE 7. ACCOUNTS RECEIVABLE**

Accounts receivable represent mostly amounts due from customers for electric service. The types of accounts receivable are as follows:

	<b>2010</b>	2009
Electric service	\$ 4,104,200	4,239,997
Non-electric-construction contracts, pole rental, miscellaneous	<u>200,694</u>	422,460
	<b>4,304,894</b>	4,662,457
Less allowance	<u>153,279</u>	451,989
Total	<u><b>\$ 4,151,615</b></u>	<u>4,210,467</u>

**NOTE 8. DEFERRED DEBITS**

A summary of amounts recorded as deferred debits follows:

	<b>2010</b>	2009
Fuel cost under recovery	\$ 299,290	330,038
GPS mapping	<u>162,564</u>	227,010
Total	<u><b>\$ 461,854</b></u>	<u>557,048</u>

The GPS mapping system is being amortized over a ten year time period. The fuel cost under recovery is the amount of the fuel (over) under recovery at December 31, 2010 and 2009 that is billed two months later in the months of February 2011 and 2010.

**NOTE 9. PATRONAGE CAPITAL**

A summary of the Cooperative's patronage capital follows:

	<b>2010</b>	2009
Assigned	\$ 38,487,269	32,935,094
Assignable	<u>1,752,139</u>	4,668,944
Total	<u><b>\$ 40,239,408</b></u>	<u>37,604,038</u>

**JEMEZ MOUNTAINS ELECTRIC COOPERATIVE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 and 2009**

**NOTE 9. PATRONAGE CAPITAL (CONTINUED)**

Under the provisions of the mortgage agreement, without the prior written approval of RUS, the borrower shall not in any calendar year make any distributions to its members or consumers except as follows:

- a. Equity above 30%. If, after giving effect to any such distribution, the equity of the borrower shall be greater than or equal to 30% of its total assets; or
- b. Equity above 20%. If, after giving effect to any such distribution, the equity of the borrower shall be greater than or equal to 20% of its total assets and the aggregate of all distributions made during the calendar year when added to such distribution shall be less than or equal to 25% of the prior year's margins.

**NOTE 10. FFB MORTGAGE NOTES**

Long-term debt to the Federal Financing Bank (FFB) which is guaranteed by RUS is represented by various 35-year notes bearing interest rates from 4.103% to 6.517% per annum. These notes, mature at various dates through 2035. Principal and interest payments are due monthly and quarterly.

**NOTE 11. CFC MORTGAGE NOTES**

Long-term debt to CFC is represented by various 35 year notes bearing interest rates from 2.10% to 4.85% per annum. These notes mature at various dates through 2034. Principal and interest payments are due monthly.

**NOTE 12. CO-BANK MORTGAGE NOTE**

Long-term debt to Co-Bank is represented by various notes bearing variable interest rates established by the payee with the principal payments through 2030. Principal and interest payments are due quarterly. At December 31, 2010 the note bore interest at 3.42% per annum.

**JEMEZ MOUNTAINS ELECTRIC COOPERATIVE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 and 2009**

**NOTE 13. PENSION PLAN**

Effective May, 1995, the Jemez Mountains Electric Cooperative, Inc. changed over their JMEC Employees Pension Trust Plan to the Nation Rural Electric Cooperative Association's (NRECA) 401K and Defined Trust Plan. Funds for the plan will be managed by NRECA. Participants are required to contribute a minimum of 6% of gross earnings and the Cooperative contributes 7.5%. The Cooperative contributed approximately \$357,558 and \$341,532 to the plan in the years ended December 31, 2010 and 2009, respectively.

**NOTE 14. SELF-INSURANCE**

Effective January 1, 1987, the Cooperative joined other Cooperatives in establishing a self-insurance trust fund for coverage of worker's compensation claims. The Cooperative was committed to make quarterly payments totaling \$262,288 and \$215,378 for 2010 and 2009, respectively.

**NOTE 15. RELATED PARTY MATTERS**

Jemez Mountains Electric Cooperative, Inc. had entered into a contract with Tri-State Electric Generation and Transmission Association until December 31, 2040; on October 27, 2006 the Cooperative extended its contract with Tri-State until December 31, 2050 and thereafter until terminated by either party giving to the other not less than two years written notice of its intention to terminate. The Cooperative purchases all of its power from Tri-State Electric Generation and Transmission Association, Inc. Jemez Mountains Electric Cooperative, Inc. is a member Cooperative and is represented on the Tri-State Board of Directors. The power is purchased according to a wholesale power contract executed by both parties. The cooperative paid Tri-State Electric Generation and Transmission Association for electric power for the year ended December 2010 and 2009 the amount of \$26,971,971 and \$25,526,416, respectively. As of the end of December 2010 and 2009, the Cooperative owed Tri-State Electric Generation and Transmission Association \$2,515,283 and \$2,573,335, respectively.

**NOTE 16. FEDERAL INCOME TAX STATUS**

The Cooperative has been granted exemption from Federal income taxes by the U.S. Treasury Department, under Section 501(c) 12 of the Internal Revenue Code. This code section provides that the exempt status exists only if eighty-five (85) percent of the revenue consists of amounts collected from member for the sole purpose of meeting losses and expenses.

**JEMEZ MOUNTAINS ELECTRIC COOPERATIVE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 and 2009**

**NOTE 17. ANNUAL AND SICK LEAVE**

The Cooperative's annual and sick leave policy provides for payment of unused annual leave upon termination of employment. Annual leave in excess of 480 hours at December 31 of any year is paid annually. As of December 31, 2010 and 2009, the accrued annual leave liability totaled \$399,780 and \$397,274, respectively.

Sick leave is accrued at the rate of 12 days per year based on permanent status and may be accumulated unlimitedly. After 25 years of service or the employee's fifty-fifth birthday, or upon death, the Employee's sick leave becomes fully vested. If an employee terminates before such time, unused sick leave is forfeited. Sick leave in excess of 480 hours at December is paid annually. As of December 31, 2010 and 2009, the accrued sick liability totaled \$200,927 and \$238,931, respectively.

**NOTE 18. DEBT SERVICE REQUIREMENTS**

A summary of debt service requirements for long-term obligations follows:

Maturities	December 31, 2010			
	Co-Bank	RUS	CFC	Total
2011	\$ 362,362	514,505	3,114,117	3,990,984
2012	363,401	546,097	2,240,646	3,150,144
2013	376,026	574,888	1,761,864	2,712,778
2014	354,169	605,234	1,459,000	2,418,403
2015	300,471	637,222	1,243,060	2,180,753
Thereafter	<u>2,482,864</u>	<u>20,901,009</u>	<u>7,764,396</u>	<u>31,148,269</u>
Total	<u>\$ 4,239,293</u>	<u>23,778,955</u>	<u>17,583,083</u>	<u>45,601,331</u>

**NOTE 19. CAFETERIA PLAN**

The Cooperative had Insurance Associates implement a cafeteria plan during 1989. The plan was implemented under the requirements of Code Section 125 of the Internal Revenue Code. The Plan allows employers to offer their employees the option to select certain tax-exempt benefits in-lieu of taxable wages. These options include medical, dental, and vision expenditures, dependent care expenses, group term life insurance premiums and the employee portion of the group health premium. The plan is administered by Pomeroy Insurance Agency for American Family Life Assurance Company (AFLAC).

**JEMEZ MOUNTAINS ELECTRIC COOPERATIVE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 and 2009**

**NOTE 20. CONTINGENCIES**

The Cooperative is a party to various claims and other routine legal matters arising in the ordinary course of business. The Cooperative does not believe that the results of all claims and other legal matters, individually or in the aggregate, will have a material adverse effect on its operations or financial position.

**NOTE 21. SHORT TERM BORROWING**

The cooperative has a revolving line-of-credit loan not to exceed \$5,000,000 for short term financing from Co-Bank. The Cooperative may borrow, repay and re-borrow funds at any time or from time to time for a period of 12 months. No amounts were outstanding under this agreement as of December 31, 2010 and 2009.

The Cooperative has a revolving line-of-credit loan not to exceed \$7,500,000 for short-term financing from CFC. The Cooperative may borrow, repay and re-borrow funds at any time or from time to time. No amounts were outstanding under this agreement as of December 31, 2010.

**NOTE 22. REGULATORY ASSET**

On July 1, 2000, Plains Electric Generation and Transmission Cooperative, Inc. (Plains) merged with Tri-State Generation and Transmission Association, Inc. The Cooperative borrowed from RUS \$8,845,000 for the cooperative share due to the merger. The merger resulted in a reduction of the cost of electric power. The regulatory asset is being amortized over a period of 35 years. The regulatory asset balances are as follows:

	<b>2010</b>	2009
Balance beginning	\$ 8,845,000	8,845,000
Accumulated amortization	2,400,786	2,148,071
Current year amortization	<u>252,713</u>	252,714
Balance ending	<u>\$ 6,191,501</u>	<u>6,444,215</u>

**JEMEZ MOUNTAINS ELECTRIC COOPERATIVE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 and 2009**

**NOTE 23. USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS**

The preparation of financial statements in conformity with 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 and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

**NOTE 24. PRIOR PERIOD ADJUSTMENT**

In prior periods, the Cooperative did not record and accrue for unbilled revenues. During 2010, in order to more accurately account for revenues in the period in which they are earned, the Cooperative implemented a methodology of accounting for unbilled revenues and established new estimates for an accrual at year end. As a result, the Cooperative corrected its recording of unbilled revenue in previous periods which resulted in the following adjustments to the 2009 financial statements:

	As Originally Reported	As Restated	Effect of Change
Balance sheet			
Unbilled revenue	\$ -	3,110,333	3,110,333
Patronage capital	34,493,705	37,604,038	3,110,333
Statement of revenue and patronage capital			
Operating revenues	41,682,543	42,295,172	612,629
Statement of cash flows			
Net margin	4,854,386	5,467,015	612,629
Change in unbilled revenues	-	(612,629)	(612,619)

The impact to January 1, 2009 patronage capital for the error correction is as follows:

Patronage capital, January 1, 2009, as previously reported	\$ 29,639,319
Accrual for unbilled services	<u>2,497,704</u>
Patronage capital, January 1, 2009, as restated	<u>\$ 32,137,023</u>

**JEMEZ MOUNTAINS ELECTRIC COOPERATIVE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 and 2009**

**NOTE 25. PENDING LITIGATION**

The Cooperative currently has distribution lines and other facilities located on the lands of eight Pueblos. The Cooperative also provides electric service to the Pueblos and their members. In a number of instances the rights of way granted by the Pueblos have expired, some for many years. In other instances, the Cooperative has been unable to locate grants of rights of way supporting facilities. Currently, the total area associated with expired and undocumented rights of way is estimated at approximately 270 acres.

The Cooperative is negotiating with the eight Pueblos to obtain the necessary rights of way and to resolve any claims for damages or compensation for periods during which effective rights of way were not in place. The Pueblos have no legal obligation to grant rights of way to the Cooperative, nor can the Cooperative obtain the rights of way by eminent domain. At least one Pueblo has threatened to sue the Cooperative if the issues are not settled satisfactorily. The Cooperative is investigating and developing the information necessary for negotiations with the Pueblos and intends to work constructively with the Pueblos and the Bureau of Indian Affairs, Office of Trust Services, to negotiate satisfactory resolutions of the right-or-way issues.

There is insufficient information to estimate the likelihood that negotiations will be successful or whether or not the various Pueblos will sue the Cooperative for trespass or other claims with respect to the facilities not supported by effective rights of way. As a result, it is not possible to determine the likelihood of unfavorable outcomes should such suits be filed or the range of potential loss to the Cooperative.

**NOTE 26. SUBSEQUENT EVENTS**

The Cooperative has evaluated subsequent events through May 27, 2011, the date the financial statements were available to be issued.

**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 Trustees  
Jemez Mountains Electric Cooperative, Inc.

We have audited the financial statements of Jemez Mountains Electric Cooperative, Inc., (Cooperative) as of and for the year ended December 31, 2010, and have issued our report thereon dated May 27, 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 the Cooperative's internal control over financial reporting 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control over financial reporting.

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 over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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

Board of Trustees  
Jemez Mountains Electric Cooperative, Inc.

control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We considered the deficiencies described in the accompanying schedule findings and recommendations as findings 10-01 through 10-04 to be material weaknesses.

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. We considered certain deficiencies described in the accompanying schedule of findings and recommendations as findings 10-05 through 10-15 to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Cooperative's financial statements are free of 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*.

We noted certain matters that we reported to the board and management of Cooperative in a separate letter dated May 27, 2011.

This report is intended solely for the information and use of the Board of Trustees, management, and others within the Cooperative, the United States Department of Agriculture-Rural Utilities Service and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties.

*Mess Adams LLP*

Albuquerque, New Mexico  
May 27, 2011

**JEMEZ MOUNTAINS ELECTRIC COOPERATIVE, INC.  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
Year Ended December 31, 2010**

**FINANCIAL STATEMENT FINDINGS**

**10-01 Cash Reconciliations (Material Weakness)**

CONDITION

The Accounting Department was not reconciling the general operating bank account for the last half of 2010. The reconciliations were performed subsequent to year end which resulted in an adjustment to cash at year-end.

CRITERIA

Good internal controls require that reconciliations be performed timely and reviewed by a supervisor to ensure accuracy.

EFFECT

Errors or misappropriation of cash could go undetected.

CAUSE

There was no process established to ensure that the bank reconciliations were performed timely.

RECOMMENDATION

We recommend that all bank accounts be reconciled on a monthly basis and all significant variances to the general ledger be identified and posted in a timely fashion. Additionally, we recommend that the reconciliations be reviewed and approved each month by someone not performing the reconciliation.

MANAGEMENT RESPONSE

All bank accounts have been reconciled through 2010 and we are current through April 2011. We are working on procedures to streamline the steps needed to perform bank reconciliations, utilizing system reports, system settings, and on-line reporting. Policies and procedures need to be developed.

**JEMEZ MOUNTAINS ELECTRIC COOPERATIVE, INC.  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)  
Year Ended December 31, 2010**

**FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**10-02 Accounting Department Technical Knowledge (Material Weakness)**

CONDITION

We noted that the Accounting Department lacked sufficient technical knowledge related to Generally Accepted Accounting Principles (GAAP) to allow them to perform their duties in an accurate and reasonable fashion which resulted in significant auditing adjustments and control findings during the course of the audit.

CRITERIA

Accounting Principles Generally Accepted in the United States of America.

EFFECT

Errors in the preparation of the financial statements could go undetected.

CAUSE

Lack of training related to GAAP by the accounting department.

RECOMMENDATION

We recommend that additional oversight and training be provided to the Accounting Department. We recommend the addition of an experienced accountant properly trained and knowledgeable with regards to applicable accounting standards and procedures.

MANAGEMENT RESPONSE

An Accounting Department staff member is currently enrolled at the college, working toward a degree in Accounting. Additional in-house technical training will be offered to complement the staff's knowledge of the electrical coop industry.

**JEMEZ MOUNTAINS ELECTRIC COOPERATIVE, INC.  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)  
Year Ended December 31, 2010**

**FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**10-03 Segregation of Duties (Material Weakness)**

CONDITION

During our audit we noted accounting employees were able to approve invoices for payment, had access to the check stock, had authority to sign a check, and had the access to record directly to the general ledger. Other employees had a combination of the above mentioned duties which should be segregated. Additionally, it was noted that many employees had system rights in the accounting software that were not needed to perform their job function.

CRITERIA

Good internal controls require that there be proper segregation of duties. In general, the following functions should be separated among employees:

- Approval
- Accounting/reconciling
- Asset custody

EFFECT

Errors or misappropriation of assets could go undetected.

CAUSE

The accounting policies and procedures do not ensure that there are proper segregation of duties.

RECOMMENDATION

We recommend that the Cooperative segregate duties within the accounting department. Duties should be segregated as the custody of an asset (access to check stock and/or authority to sign a check), authorization to approve a payment, and recording a transaction to the general ledger. One employee should not be able to perform more than one of these duties. We also recommend that the Cooperative analyze each employee's job duties and limit their access to the general ledger so that they only have access to the general ledger that is needed to perform their daily job functions.

**JEMEZ MOUNTAINS ELECTRIC COOPERATIVE, INC.  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)  
Year Ended December 31, 2010**

**FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**10-03 Segregation of Duties (Material Weakness) (Continued)**

MANAGEMENT RESPONSE

The Cooperative has changed its procedure to ensure that the same person cannot approve an invoice and also sign the check. The Cooperative is also currently reviewing by department the tasks that are performed in the normal course of business to determine that there is adequate separation to prevent processing errors, misappropriation, or fraud from occurring.

**JEMEZ MOUNTAINS ELECTRIC COOPERATIVE, INC.  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)  
Year Ended December 31, 2010**

**FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**10-04 Prior Period Adjustment – Unbilled Revenue (Material Weakness)**

CONDITION

The Cooperative did not accrue revenue in the period earned but rather in the period billed. This is inconsistent with Generally Accepted Accounting Principles.

CRITERIA

Accounting Principles Generally Accepted in the United States of America.

EFFECT

This resulted in a prior period adjustment to January 1, 2009 patronage capital of \$2,497,704.

CAUSE

There is a lack of policies and procedures to ensure that accruals are properly recorded.

RECOMMENDATION

We recommend that the Cooperative create policies and procedures to ensure that the accruing for unbilled revenue occurs at year-end.

MANAGEMENT RESPONSE

Policies and procedures will be developed for capturing Unbilled Revenue.

**JEMEZ MOUNTAINS ELECTRIC COOPERATIVE, INC.  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)  
Year Ended December 31, 2010**

**FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**10-05 Cashiering –Checks Received by Mail (Significant Deficiency)**

CONDITION

During our review of internal controls over cashiering it was noted that there were customer complaints that payments being mailed in were not being applied to their accounts which resulted in late notices being sent to the customers. Upon further investigation it was noted that checks were being held for weeks at a time before being processed and deposited in the bank. We also noted that \$128,000 worth of checks were left in an unlocked cabinet over a weekend during the audit. Approximately \$40,000 of these checks had not been recorded in the system.

CRITERIA

Good internal control requires that all cash receipts be recorded in a timely manner.

EFFECT

Errors or misappropriation of assets could go undetected.

CAUSE

There were no policies or procedures established to ensure that deposits were recorded and deposited in a timely manner.

RECOMMENDATION

We recommend that policies and procedures be put in place to keep a record of payments sent by mail. Also, we recommend customer payments be processed on the same business day that they are received without exception and any undeposited checks be kept in a secure location by the cashiering manager.

MANAGEMENT RESPONSE

New policies and procedures have been established to ensure that payments received via the mail are processed on a daily basis by cashiering.

**JEMEZ MOUNTAINS ELECTRIC COOPERATIVE, INC.  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)  
Year Ended December 31, 2010**

**FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**10-06 Allocation of Patronage Capital (Significant Deficiency)**

CONDITION

Due to the error in accounting for unbilled revenue in 2009, patronage capital was incorrectly allocated. The unbilled revenue was corrected subsequent to year end. Patronage capital will need to be recalculated and notifications will need to be made to patrons. Additionally, we noted that patronage capital was incorrectly allocated for 2009. The reason for the error was the fact that the prior year audit adjustments were posted in the general ledger effective 2010.

CRITERIA

Accounting Principles Generally Accepted in the United States of America and Cooperative Bylaws.

EFFECT

Patrons' accounts were incorrectly reported.

CAUSE

The allocation of patronage capital was not adjusted for the audit adjustments.

RECOMMENDATION

Policies and procedures need to be developed to ensure that all adjustments are properly reflected in the patronage capital accounts.

MANAGEMENT RESPONSE

The unbilled revenue has been entered. Patronage capital will be recalculated and then reallocated. Patrons will receive notice of the reallocation. Policies and procedures will be developed.

**JEMEZ MOUNTAINS ELECTRIC COOPERATIVE, INC.  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)  
Year Ended December 31, 2010**

**FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**10-07 Cashier Closing Process (Significant Deficiency)**

CONDITION

At the end of each day when each cashier reconciles their cash drawer, there is no approval for journal entries if the cashier is out of balance. The cashiers are able to post adjustments into the system without manager or any other approval.

CRITERIA

Good accounting policies require that the preparation and approval of journal entries be limited to specific personnel and should be reviewed by a supervisor.

EFFECT

Errors and /or cash outages could go undetected.

CAUSE

No policies and procedures were established to require approval of cash outages.

RECOMMENDATION

We recommend that policies and procedures be established to require the cashiering manager to review and approve all cash overages and shortages over a certain threshold determined by management.

MANAGEMENT RESPONSE

New policies and procedures have been established which requires the cashiering manager review and approve all cash overages and shortages. Cashiers are no longer allowed to post adjusting entries.

**JEMEZ MOUNTAINS ELECTRIC COOPERATIVE, INC.  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)  
Year Ended December 31, 2010**

**FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**10-08 Vendor Approval (Significant Deficiency)**

**CONDITION**

We noted that accounting staff are able to process and pay invoices and create new vendors into the billing system.

**CRITERIA**

Good internal controls require that new vendors created be approved by someone independent of the accounts payable function.

**EFFECT**

Invalid vendors could be created and go undetected which could result in fraudulent disbursements being made.

**CAUSE**

There were no policies and procedures established for the vendor approval process.

**RECOMMENDATION**

We recommend developing and implementing a formal vendor approval process. We recommend maintaining an authorized vendor list and restrict the function of setting up new vendors to an individual unassociated with the invoicing process.

**MANAGEMENT RESPONSE**

The Cooperative is currently working on a formal vendor approval process which will not allow the assistant bookkeeper who enters vendor invoices to have access to the setup of new vendors. This process will also address vendor selection approval. Policies and procedures will be developed.

**JEMEZ MOUNTAINS ELECTRIC COOPERATIVE, INC.  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)  
Year Ended December 31, 2010**

**FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**10-09 Approval of Adjustments Made to Customer Accounts (Significant Deficiency)**

CONDITION

During the ordinary course of business it is necessary to make adjustments to customer accounts. These adjustments are made by the billing staff and are supposed to be approved by the billing supervisor. We selected three adjustments to review for proper approval and noted that all three lacked evidence of approval.

CRITERIA

The Cooperative policies and procedures required approval be performed by the billing supervisor.

EFFECT

Errors or fraud could go undetected.

CAUSE

The policies and procedures where not being followed.

RECOMMENDATION

We recommend that the Cooperative retain evidence of approval for all adjustments made to customer accounts and to ensure that adjustments are being properly reviewed and approved prior to posting the adjustment to the customer account.

MANAGEMENT RESPONSE

We have begun discussions to address this deficiency. Policies and procedures will need to be developed.

**JEMEZ MOUNTAINS ELECTRIC COOPERATIVE, INC.  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)  
Year Ended December 31, 2010**

**FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**10-10 Long Outstanding Work Orders (Significant Deficiency)**

CONDITION

We noted several work orders that have been outstanding for significant lengths of time after the work was substantially complete.

CRITERIA

GAAP requires that work orders be capitalized when complete.

EFFECT

Depreciation is not being properly calculated for plant assets.

CAUSE

Policies and procedures were not established to ensure that work orders were closed out and capitalized in a timely manner.

RECOMMENDATION

We recommend that policies and procedures be put in place to have management review work orders on a regular basis and to close work orders within a reasonable amount of time subsequent to the work being substantially complete.

MANAGEMENT RESPONSE

The Cooperative has begun the process of developing the policies and procedures to address these deficiencies regarding work orders. We have established the need for the process and the forms to be consistent between the main office and the district offices. A flow chart has been completed for the main office. Next we will work on determining the differences, if any, with the process in the district offices.

**JEMEZ MOUNTAINS ELECTRIC COOPERATIVE, INC.  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)  
Year Ended December 31, 2010**

**FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**10-11 Work Order Estimates (Significant Deficiency)**

CONDITION

We noted that several work orders had a significant variance between the estimated cost and actual cost. These variances were not appropriately investigated to ensure costs were accurate or customer billings were appropriate.

CRITERIA

Good internal controls require monitoring of budget to actual costs.

EFFECT

Customers could be charged unexpected overages or unexpected costs could be included in the work order.

CAUSE

There is no review process to refine the estimated costs.

RECOMMENDATION

We recommend that management compare actual costs to estimated costs on a regular basis. Additionally, we recommend that the Cooperative provide additional training to improve the estimation process for all branch locations.

MANAGEMENT RESPONSE

Policies and procedures have been drafted and are in the review process.

**JEMEZ MOUNTAINS ELECTRIC COOPERATIVE, INC.  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)  
Year Ended December 31, 2010**

**FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**10-12 Work Orders – Staking and Estimating Process (Significant Deficiency)**

CONDITION

During our review of open work orders we noted that two work orders had the staking and estimating sheets completed approximately a year after work was substantially complete. We note that in both cases the work orders were commenced in prior years and we did not note this issue for work orders originating in 2010.

CRITERIA

Good internal controls require a planning process, which includes staking and estimating sheets, be established.

EFFECT

Construction may not be consistent with engineered designs.

CAUSE

There are no policies and procedures established to ensure that the work orders estimation process is functioning properly.

RECOMMENDATION

We recommend policies and procedures be established to ensure that work orders are not commenced without a completed and authorized staking and estimation sheet.

MANAGEMENT RESPONSE

The policies and procedures have been drafted and are in the review process.

**JEMEZ MOUNTAINS ELECTRIC COOPERATIVE, INC.  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)  
Year Ended December 31, 2010**

**FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**10-13 Accounting for Overhead (Significant Deficiency)**

CONDITION

We noted that during 2010 transfers were being made by the accounting department between labor and material overhead accounts in order to smooth costs between the accounts.

CRITERIA

GAAP requires that overhead be allocated based on an appropriate model.

EFFECT

This practice resulted in incorrect overhead allocations between materials and labor applied to customers with new construction.

CAUSE

Allocation of costs may not be spread to plant accounts appropriately.

RECOMMENDATION

We recommend accounting for overhead in their proper accounts. Instead of smoothing the accounts we recommend that the overhead costs be reviewed on a regular basis and any inappropriate costs be removed.

MANAGEMENT RESPONSE

The policies and procedures have been drafted and are in the review process.

**JEMEZ MOUNTAINS ELECTRIC COOPERATIVE, INC.  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)  
Year Ended December 31, 2010**

**FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**10-14 Year-End Accounting for Overhead (Significant Deficiency)**

CONDITION

We noted that the balance remaining in the overhead account was re-classed at year-end to an unrelated asset account. This practice is inconsistent with GAAP as it results in an understatement of overhead costs and a misstatement to the account the overhead was applied to. An adjusting entry to correct the misstatement for 2010 was made.

CRITERIA

GAAP requires that costs be allocated to the appropriate accounts.

EFFECT

Account balances were incorrect.

CAUSE

Lack of appropriate financial reporting.

RECOMMENDATION

We recommend that overhead not be re-classed during the year. We recommend that adjustments made to the overhead account by accounting personnel be reviewed and approved prior to posting.

MANAGEMENT RESPONSE

The policies and procedures have been drafted and are in the review process.

**JEMEZ MOUNTAINS ELECTRIC COOPERATIVE, INC.  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)  
Year Ended December 31, 2010**

**FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**10-15 Overhead Allowable Costs (Significant Deficiency)**

CONDITION

We noted that costs are being applied to overhead which are not permitted by RUS. Examples of these costs are bad debt expense and uniforms expense.

CRITERIA

RUS states that only certain expenses are allowed to be charged to overhead.

EFFECT

We note that the inclusion of unallowable costs have inflated overhead and result in increased cost to customers.

CAUSE

Lack of appropriate financial reporting.

RECOMMENDATION

We recommend that costs being applied to overhead be reviewed regularly to ensure that the costs are allowable under FERC guidelines.

MANAGEMENT RESPONSE

The policies and procedures have been drafted and are in the review process.