

**JEMEZ MOUNTAINS ELECTRIC COOPERATIVE, INC.
(NEW MEXICO 28 SANDOVAL)
ESPANOLA, NEW MEXICO
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016 AND 2015
AND
REPORTS OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT**

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JEMEZ MOUNTAINS ELECTRIC COOPERATIVE, INC.
ESPANOLA, NEW MEXICO
December 31, 2016

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**JEMEZ MOUNTAINS ELECTRIC COOPERATIVE, INC.
OFFICIAL ROSTER
DECEMBER 31, 2016**

Members of the Board

<u>Name</u>	<u>Title</u>
Bruce Duran	President
Dolores McCoy	Vice-President
Steven Santistevan	Secretary
Johnny Jaramillo	Treasurer
Lucas Cordova	Trustee
Nick Naranjo	Trustee
Richard Ramsey	Trustee
David Salazar	Trustee
Victor Salazar	Trustee
John Tapia	Trustee
Charlie Trujillo	Trustee

Official

Joseph Sanchez	General Manager
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Joseph M. Salazar
Certified Public Accountant

P.O. Box 1744
Española, New Mexico
505-747-2775

INDEPENDENT AUDITOR'S REPORT

Bruce Duran, President
Board of Trustees and
Joseph Sanchez, Manager
Jemez Mountains Electric Cooperative, Inc.
Española, New Mexico 87532

Report on Financial Statements

We have audited the accompanying financial statements of the Jemez Mountain Electric Cooperative Inc. (Cooperative) as of and for the year ended December 31, 2016 and 2015 and the related notes to the financial statements which collectively comprise the Cooperative's basic financial statements as listed in the table of contents.

Management Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

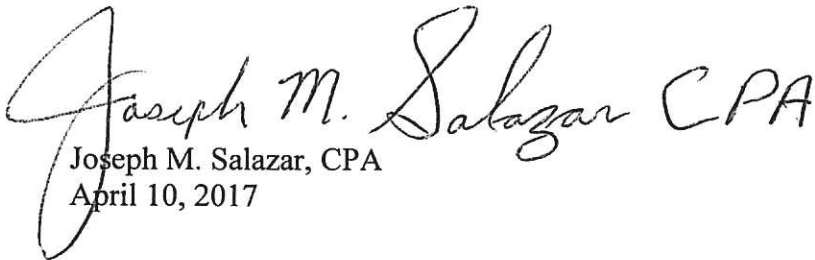
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Jemez Mountain Electric Cooperative Inc. as of December 31, 2016 and 2015 and the respective changes in the financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated April 10, 2017 on our consideration of the Cooperative's internal control over financial reporting and on 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* in considering the Cooperative's internal control over financial reporting and compliance.

Handwritten signature of Joseph M. Salazar CPA in cursive script.

Joseph M. Salazar, CPA
April 10, 2017

JEMEZ MOUNTAINS ELECTRIC COOPERATIVE, INC.
BALANCE SHEETS
DECEMBER 31, 2016 AND 2015

<u>Assets</u>	December 31,	
	2016	2015
Electric Plant:		
Electric plant at cost	\$ 116,766,949	\$ 115,023,314
Construction work in progress	4,271,973	3,574,325
Total utility plant	121,038,922	118,597,639
Less: Accumulated depreciation	(52,405,274)	(49,619,189)
Net Utility Plant	68,633,648	68,978,450
Other Property and Investments:		
Non utility property at costs (less accumulated depreciation of \$246,149 in 2016 and \$234,427 in 2015)	173,656	185,378
Investment in associated organizations	17,758,504	16,931,787
Total other property and investments	17,932,160	17,117,165
Current Assets:		
Cash-general	13,897,377	10,317,068
Cash-construction fund	-	100
Temporary cash investment	43,206	43,189
Notes receivable	28,131	2,000
Accounts receivable (less allowance for uncollectibles of \$126,195 in 2016 and \$ 339,918 in 2015)	4,245,504	4,255,030
Unbilled revenue	3,200,431	2,980,436
Material and supplies	1,721,791	1,658,759
Prepayments	514,793	726,768
Other current and accrued assets	-	59,971
Total Current Assets	23,651,233	20,043,321
Regulatory assets	4,675,215	4,794,734
Regulatory assets for pueblo easement	1,845,021	2,433,837
Deferred debits	10,073	12,951
Total Assets	\$ 116,747,350	\$ 113,380,458
<u>Equities and Liabilities</u>		
Equities:		
Memberships	\$ 110,755	\$ 109,600
Patronage capital	56,945,135	55,080,126
Total equities and margins	57,055,890	55,189,726
Long-Term Debt:		
RUS mortgage note	39,469,476	36,337,766
CoBank mortgage note	2,425,005	2,763,810
CFC mortgage note	11,558,424	12,487,492
	53,452,905	51,589,068
Less: current maturities	(2,956,903)	(2,572,736)
Total long-term debt	50,496,002	49,016,332
Current Liabilities:		
Current maturities of long-term debt	2,956,903	2,572,736
Accounts payable	3,318,192	3,993,379
Customer deposits	225,676	214,989
Other current and accrued liabilities	1,284,284	1,159,577
Total current liabilities	7,785,055	7,940,681
Deferred credits	1,410,403	1,233,719
Total Equities and Liabilities	\$ 116,747,350	\$ 113,380,458

See accompanying notes to financial statements.

JEMEZ MOUNTAINS ELECTRIC COOPERATIVE, INC.
STATEMENTS OF REVENUE AND PATRONAGE CAPITAL
YEARS ENDED DECEMBER 31, 2016 AND 2015

	December 31,	
	<u>2016</u>	<u>2015</u>
Operating Revenues:	<u>\$ 49,577,510</u>	<u>\$ 48,886,401</u>
Operating Expenses:		
Cost of power	29,399,542	28,444,583
Transmission	-	47,742
Distribution-operation	2,433,736	2,635,533
Distribution-maintenance	3,188,939	2,595,217
Customer accounts	2,025,498	2,158,778
Customer service	56,947	89,539
Administration and general	5,213,091	5,356,577
Depreciation and amortization	3,348,426	3,363,270
Taxes	743,236	720,038
Other deductions	-	1,171
Interest expense	8,599	3,303
Other operating expenses	-	140
Total Operating Expense	<u>46,418,014</u>	<u>45,415,891</u>
Operating margins before interest expense	<u>3,159,496</u>	<u>3,470,510</u>
Interest		
Interest on long-term debt	2,553,821	2,436,535
Operating margin after interest expense	<u>605,675</u>	<u>1,033,975</u>
Generation and transmission capital credits	825,939	1,453,963
Other capital credits	101,480	116,836
Net Operating margins	<u>1,533,094</u>	<u>2,604,774</u>
Non-Operating margins:		
Interest income	482,753	435,260
Other non-operating revenue (expenses)	11,762	(6,874)
Extraordinary deduction	(162,599)	-
Total non-operating margins	<u>331,916</u>	<u>428,386</u>
Net margins	<u>1,865,010</u>	<u>3,033,160</u>
Patronage capital-beginning of year	55,080,125	52,046,965
Patronage capital-end of year	<u>\$ 56,945,135</u>	<u>\$ 55,080,125</u>

See accompanying notes to financial statements.

JEMEZ MOUNTAINS ELECTRIC COOPERATIVE, INC
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	December 31,	
	2016	2015
Cash flows from operating activities:		
Net Margin	\$ 1,865,010	\$ 3,033,160
Adjustments to reconcile net margin to net cash provided by operating activities		
Depreciation and amortization-net	3,348,426	3,363,533
Changes in operating assets and liabilities:		
Account receivables	9,665	(483,496)
Notes receivable	(26,047)	(2,000)
Unbilled revenue	(219,995)	(334,624)
Inventory and prepayments	237,207	224,007
Deferred debits and regulatory assets	588,816	1,271,138
Prepaid easements	122,397	(780,227)
Accounts payable	(675,188)	516,536
Other current and accrued liabilities	124,568	(123,325)
Deferred credits	176,684	32,821
Net cash provided by operating activities	<u>5,551,543</u>	<u>6,717,523</u>
Cash Flows from investing activities:		
Additions to plant and other property, net of retirement	(3,063,485)	(2,240,972)
Investment in associated organizations	(826,717)	(1,490,289)
Net cash used in investing activities	<u>(3,890,202)</u>	<u>(3,731,261)</u>
Cash flow from financing activities:		
Customer deposits	10,687	(6,188)
Memberships	1,155	480
Increase (decrease) in long term debt	1,863,837	63,246
Net cash provided by financing activities	<u>1,875,679</u>	<u>57,538</u>
Increase (decrease) in cash and cash equivalents	3,537,020	3,043,800
Cash and cash equivalents-beginning of year	10,360,357	7,316,557
Cash and cash equivalents-end of year	<u>\$ 13,897,377</u>	<u>\$ 10,360,357</u>
Supplemental disclosures of cash information:		
Interest paid during the year	<u>2,553,821</u>	<u>2,439,838</u>
Income tax	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

JEMEZ MOUNTAINS ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

1. Summary of Significant Accounting Policies

Background

Jemez Mountains Electric Cooperative Inc., 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”.

Accounting and Regulations

The Cooperative borrows funds from the Rural Utilities Service of the United States Department of Agriculture (RUS), National Rural Utilities Cooperative Finance Corporation (CFC) and Co Bank. It maintains its accounting records on the accrual basis using RUS’s prescribed uniform system of accounts. The New Mexico Public Service Commission regulates the Cooperative.

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 2016 and 2015.

Investments in Associated Organizations

Investments are stated at cost which approximates fair value 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 material and supplies are stated at average cost. The material and supplies consist mostly of items to construct overhead and underground distribution line.

JEMEZ MOUNTAINS ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Accounts Receivable

Accounts receivable are recorded when invoices are issued and are written off when they are determined to be uncollectible. The allowance for doubtful accounts is estimated based on the Cooperatives historical losses, review of specific problems accounts, existing economic conditions and the financial stability of its members. Generally, the Cooperative considers all accounts receivable past due after thirty days.

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.

Regulatory Accounting

Due to regulations of its rates by its Board of Trustees and the New Mexico Public Regulations Commission, the Cooperative utilizes accounting for regulated entities. Accordingly, certain costs and income may be capitalized as regulatory asset or liability that would otherwise be charged to expense or revenues. Regulatory assets and liabilities are recorded when it is probable that future rates will permit recovery.

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 does accrue 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, 2016 and 2015, customer deposits totaled \$225,676 and \$214,989 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.

JEMEZ MOUNTAINS ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 2016 AND 2015

Cash Equivalents

For purposes of cash flows, the Cooperative considers cash balances, certificates of deposit to be cash and 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 receivables 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 within 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.

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.

2. Assets Pledged

All assets are pledged as security for the long-term debt due to Rural Utilities Service (RUS), National Rural Utilities Cooperative Finance Corporation (CFC), and Co-Bank.

JEMEZ MOUNTAINS ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

3. Electric Plant in Service and Depreciation Procedures

Listed below are the major classes of the electric plant in service.

	December 31	
	2016	2015
Intangible plant	\$ 7,902	\$ 7,902
Transmission plant	2,793,373	2,785,421
Distribution plant	98,031,688	96,798,854
General plant	<u>15,933,986</u>	<u>15,431,137</u>
Total classified utility		
Plant in service	116,766,949	115,023,314
Construction work in progress	<u>4,271,973</u>	<u>3,574,325</u>
Total electric plant	<u>\$121,038,922</u>	<u>\$118,597,639</u>

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

	Annual Rate
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, 2016 AND 2015

4. Investment in Associated Organizations

A summary of investments in associated organizations follows:

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Patronage capital – at assigned values:		
Southeastern Data Cooperative Inc	\$215,192	\$ 209,568
CoBank	344,836	369,468
Cooperative Finance Corporation	212,475	187,461
CFC capital securities	28,858	21,941
Tri-state Transmission and Generation	16,888,128	16,062,189
Membership-CFC	1,000	1,000
NMRECA Capital	22,900	22,900
Western United Electric Corporation	<u>45,115</u>	<u>57,260</u>
	<u>\$17,758,504</u>	<u>\$16,931,787</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.

5. Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits, of the total amount in demand deposits and other temporary investments were insured only for the FDIC coverage of \$250,000 per type of bank account. The Cooperative's accounts were uninsured and uncollateralized by approximately \$13,397,377 as of December 31, 2016 and \$9,813,724 as of December 31, 2015.

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, 2016 AND 2015

5. Cash and Cash Equivalents Continued

The Cooperative has the following bank accounts:

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Jemez Valley Credit Union:		
Checking account	721,789	732,461
Wells Fargo Bank:		
Checking account-general	12,913,653	7,747,483
Checking account-medical	-0-	1,280
Checking account-payroll	(1,998)	(740)
Checking account	259,749	1,832,364
Checking account-special construction	-0-	100
Checking account	-0-	36
Change funds	<u>4,184</u>	<u>4,184</u>
Total Cash and Cash Equivalents	<u>\$13,897,377</u>	<u>\$10,317,168</u>

6. Temporary Cash Investments

Temporary cash investments are stated at fair market value.

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Jemez Valley Credit Union-savings account	\$ 216	\$ 216
Co – Bank		
General fund account	<u>42,990</u>	<u>42,950</u>
Total	<u>\$43,206</u>	<u>\$ 43,166</u>

The Co-Bank temporary investment at December 31, 2016 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, 2016 AND 2015

7. Accounts Receivable

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

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Electric service	\$3,926,149	\$4,109,771
Non-electric-construction contracts, pole rental, miscellaneous	445,550	485,177
	4,371,699	4,594,948
Less allowance	126,195	339,918
Total	<u>\$4,245,504</u>	<u>\$4,255,030</u>

8. Deferred Debits

A summary of amounts recorded as deferred debits follows:

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Ten year work plan	\$10,073	\$ 12,951
Total	<u>\$10,073</u>	<u>\$ 12,951</u>

9. Patronage Capital

A summary of the Cooperative's patronage capital follows:

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Assigned	\$ 38,487,269	\$38,487,269
Assignable	18,457,866	16,592,857
Totals	<u>\$ 56,945,135</u>	<u>\$55,080,126</u>

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.

JEMEZ MOUNTAINS ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

10. Long Term Debt

The Cooperative has long term loans with RUS, CFC, and CoBank as follows:

	<u>2016</u>	<u>2015</u>
Federal Financing Bank (FFB)		
guaranteed by Rural Utility Service	39,469,476	36,337,766
National Rural Utilities Cooperative		
Finance Corporation	11,558,424	12,487,492
CoBank	<u>2,425,005</u>	<u>2,763,810</u>
	53,452,905	51,589,068
Less Current Portion of Long Term Debt	<u>2,956,903</u>	<u>2,572,736</u>
Totals	<u>\$50,496,002</u>	<u>\$49,016,332</u>

RUS

Long-term debt to the Federal Financing Bank which is guaranteed by RUS is represented by various fixed notes bearing interest rates from 2.150% to 6.4170% per annum. These notes mature at various dates from December 2032 through January 2045. Principal and interest payments are due quarterly. The notes are subject to covenants, of which certain financial covenants.

In accordance with the provisions of Section 313 of the Rural Electrification Act of 1936 (RE Act) as amended, RUS established a cushion of credit program. Under this program, RUS borrowers may make voluntary deposits into a special cushion of credit account. A borrower's cushion of credit account balance accrues interest to the borrower at a rate of 5 percent per annum. The amount in the cushion of credit account can only be used to make scheduled payments on loans made or guaranteed under the RE Act. At December 31, 2016 and 2015, the Cooperative had \$11,158,541 and 6,857,543 in the cushion of credit account which reduced long term debt.

CFC

Long term debt to CFC is represented by various fixed notes bearing interest rates from 2.75% to 4.85% per annum. These notes mature at various dates from June 2016 through June 2034. Principal and interest payments are due quarterly and are subject to financial and non-financial covenants.

JEMEZ MOUNTAINS ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Long Term Debt continued

The Cooperative has a revolving line-of-credit loan not to exceed \$7,500,000 for short-term financing from CFC at a floating interest determined by CFC. The Cooperative may borrow, repay and re-borrow funds at any time or from time to time, The Cooperative did not have any outstanding balances as December 31, 2016 and 2015.

CoBank

Long-term debt to CoBank is represented by a fixed note bearing an interest rate of 4.57% per annum with principal payments from September 2016 through September 2022. Principal and interest payments are due semi-annually and are subject to financial and non-financial covenants.

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

	RUS	CoBank	CFC	Total
2016	1,665,619	355,958	935,327	2,956,904
2017	1,844,298	373,978	877,405	3,095,681
2018	1,953,410	392,911	856,214	3,202,535
2019	1,960,191	455,656	877,253	3,293,100
2020	1,960,741	433,700	851,645	3,246,086
Thereafter	<u>41,243,759</u>	<u>412,802</u>	<u>7,160,580</u>	<u>48,817,141</u>
Total	<u>\$50,628,018</u>	<u>\$2,425,005</u>	<u>\$11,558,424</u>	<u>\$64,611,447</u>

11. 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 \$310,617 to the plan in the year ended December 31, 2016 and approximately \$302,623 in 2015.

12. 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 aggregating \$239,950 for 2016 and \$363,994 for 2015. Beginning in 2017 the Cooperative will no longer be participating in the Self Insurance Fund but will seek commercial coverage for workers' compensation.

JEMEZ MOUNTAINS ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

13. 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 2016 and 2015 the amount of \$29,399,542 and \$28,444,583 respectively. As of the end of December 2016 and 2015, the Cooperative owed Tri-State Electric Generation and Transmission Association \$2,889,982 and \$2,745,828 respectively.

14. Federal Income Tax Status

The Cooperative is exempt from federal income taxes under the provisions of Section 501 (c) 12 of the Internal Revenue Code, except to the extent of unrelated business income, if any. This code section provides that the exempt status exists only if eighty-five (85) percent of the revenue consists of amounts collected from members for the sole purpose of meeting losses and expenses Effective January 1, 2009, The Cooperative adopted FASB Accounting Standards Codifications (ASC) 740-10, relating to accounting for uncertain tax positions. As of December 31, 2016 and 2015, the Cooperative does not have any uncertain tax positions. The Cooperative files an exempt organization tax return in the U.S. federal jurisdiction and is no longer subject to examination by taxing authorities before 2009.

15. 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, 2016 and 2015, the accrued annual leave liability totaled \$371,157 and \$284,091 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, 2016 and 2015, the accrued sick liability totaled \$196,750 and \$231,518 respectively.

JEMEZ MOUNTAINS ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

16. 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 benefits on a pre-tax basis. 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 Klebesadel Agency for American Family Life Assurance Company (AFLAC).

17. Contingencies

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 positions.

18. Extraordinary Deductions

The Cooperative recognized an extraordinary expense in the amount of \$162,599. The extraordinary item was related to legal fees incurred as a result of Las Conchas fire. The Las Conchas fire broke out in 2011 when a gust of wind caused a tree to fall onto a Jemez Mountains Electric Cooperative power line. The item meets the requirements for treatment as an extraordinary item as set forth in RUS Bulletin 1767.24.

19. Regulatory Asset-Plains Electric and Pueblo Easements

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 thirty-five years. The regulatory asset balances are as follows:

	December 31	
	2016	2015
Balance beginning	\$8,845,000	\$8,845,000
Accumulated amortization	3,917,071	3,664,356
Current year amortization	252,714	252,714
Balance ending	\$4,675,215	\$4,927,930

JEMEZ MOUNTAINS ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Regulatory Asset-Pueblo Easements Continued

The Cooperative has service areas that expand into the lands of eight pueblos, two nations. The Cooperative has reached settlements with six of the pueblos (Ohkay Owingeh, Nambe, Santa Clara, San Ildefonso, Santa Ana and Pojoaque) as of December 31, 2016. Negotiations for renewal of easements with Jemez and Zia Pueblos and the Jicarilla Apache and Navajo Nations will continue in 2016. Easement payments and other costs incurred during the negotiations and settlement process will be recovered through application of the rate rider pass through mechanism filed with the New Mexico Public Regulation Commission (Commission).

The regulatory assets are as follows:

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Pueblo of Ohkay Owingeh	\$ 338,158	\$ 363,385
San Ildefonso Pueblo	1,013,433	1,281,699
Nambe Pueblo	191,011	272,573
Pueblo of Pojoaque	39,914	(215,962)*
Santa Clara	262,505	514,775
Jemez Pueblo	-0-	217,367
	<u>\$ 1,845,021</u>	<u>\$ 2,433,837</u>

*The Cooperative will refund this amount to the affected consumer in the following calendar year.

As of December 31, 2016 costs incurred to reach an easement settlement, easement payment and all preliminary costs associated with acquired easements and implementing the rate riders for the Pueblos of Ohkay Owingeh, San Ildefonso, Nambe, Pojoaque and Santa Clara are being recovered by Fifth Revised Rate Riders No. 2 (Advice No. 78) and Second Revised Rate Rider No.3 for Ohkay Owingeh (Advice No. 79), Second Revised Rate Rider No. 4 for Ildefonso (Advice No. 80), Second Revised Rate Rider No. 5 for Nambe (Advice No. 81), Second Revised Rate Rider No. 6 for Pojoaque (Advice No. 82) and Second Revised Rate Rider No. 7 for Santa Clara (Advice No. 83) all filed on April 1, 2016. The latest Advices filed continues to support the mechanism for the Cooperative to recover costs incurred for the access expenses. Access Expenses are defined as expenses for right-of-way, easements, leasehold agreements or franchises, except franchises for which charges are recovered pursuant to NMSA 1978 section 62-6-4.5. Local governments are defined as any county, municipality, Native American tribe or pueblo, land grant, or other political subdivision within the Cooperative's service territory. The Rate Rider No. 3, 4, 5, 6 and 7 for charges for facilities built and maintained by the Cooperative that are predominantly used to support service to those local customers located within the outer boundaries of the Pueblo. Rate Rider No. 2 charges all consumers within the entire Cooperative service area for facilities built and maintained by the Cooperative that predominantly support service customers located outside the outer boundaries of the Pueblos.

JEMEZ MOUNTAINS ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

20. Easement Trespass

The Cooperative is currently in trespass on the following Native American Tribal Lands: Jemez Pueblo, Zia Pueblo and a portion of both the Jicarilla Apache and Navajo Nations and in the process of negotiating to renew the easements in 2016. Negotiations since 2011 have resulted in 6 settlements outside of court and the Cooperative expects to continue to include any costs of obtaining the easements into future rates. The potential loss from lawsuits has been greatly reduced from prior years due to the settlements the Cooperative has obtained.

The Tribes have no legal obligation to grant right of way to the Cooperative, nor can the Cooperative obtain the rights-of-way by eminent domain. The Cooperative is investigating and developing the information necessary for negotiations with the Pueblo and Nations and intends to work constructively with the Pueblos and the Bureau of Indian Affairs, Office of Special Trustee, to negotiate satisfactory resolutions of the right-of-way issues.

21. Deferred Credits

A summary of deferred credits is as follows:

	December 31	
	2016	2015
Special equipment- labor installation	<u>\$1,410,403</u>	<u>\$1,233,719</u>
Totals	<u>\$1,410,403</u>	<u>\$1,233,719</u>

Special equipment labor install represents labor costs associated with capitalized special equipment that have not been incurred.

Joseph M. Salazar
Certified Public Accountant

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**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***

Bruce Duran, President
Board of Trustees and
Joseph Sanchez, General Manager
Jemez Mountains Electric Cooperative, Inc.
Española, New Mexico

We have audited in accordance with the auditing standard generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Jemez Mountain Electric Cooperative Inc., (Cooperative) as of and for the year ended December 31, 2016 and the related notes to the financial statements which collectively comprise the Cooperative's basic financial statements and have issued our report thereon dated April 10, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit, of the financial statements, we considered the Cooperative's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Cooperative's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weakness or significant and therefore material weakness or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control described in the accompanying audit findings and responses that we consider to be significant deficiencies. See audit findings, 2015-2 and 2013-3.

Compliance and Other Matters

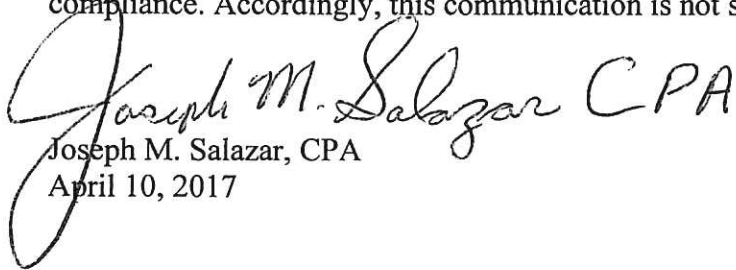
As part of obtaining reasonable assurance about whether the Cooperative's financial statements are free of material misstatements, we perform tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material 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 instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

Cooperative's Response to Findings

The Cooperative's responses to the findings identified in our audit are described in the accompanying schedule of audit findings and responses. The Cooperative's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

This report is intended solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Cooperative's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cooperative's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Joseph M. Salazar, CPA
April 10, 2017

**Jemez Mountain Electric Cooperative
Schedule of Audit Findings and Reposes
December 31, 2016**

2013-3 Uninsured Monies

Condition

We noted during our examination of bank accounts reconciliations that the Cooperative has bank accounts which have monies on deposit that are in excess of the Federal Deposit Insurance Corporation amount of \$250,000. The Cooperative's accounts were uninsured and uncollateralized by approximately \$13,397,377 as of December 31, 2016 and \$9,813,724 as of December 31, 2015.

Criteria

Good accounting practice requires that the Cooperative reduce its risk of uninsured monies in order to safeguard its assets.

Effect

If a financial institution was to fail, the Cooperative would not be able to recover its monies in excess of \$250,000 FDIC coverage per each type of bank account.

Cause

The Cooperative obtained a loans in the prior calendar year which increased it cash balance significantly.

Recommendation

The Cooperative review it deposits in the financial institutions it does business and determine how it can reduce its risk of uninsured monies.

Cooperative's Response

JMEC is currently in the process of assessing its loans structure and plans to use available cash to extinguish older loans with higher rates of interest. JMEC will soon be working with USDA RUS and the Federal Financing Bank to explore all options toward this end.

**Jemez Mountain Electric Cooperative
Schedule of Audit Findings and Responses
December 31, 2016**

2015-2 Agreement of Subsidiary Plant Records to Plant Accounts

Condition

Our examination revealed that the following plant accounts and estimated labor for special equipment (deferred credit) per the general ledger (accounting summary report) as of December 31, 2016 do not agree to the detail subsidiary records.

Account	Account Title	Amount per General Ledger	Amount per Subsidiary records
391.04	Office Equipment	169,474	No supporting documentation
391.07	GPS mapping system software	56,592	No supporting documentation
399.99	Adjustment-general plant	72,930	No supporting documentation
253.05	Estimated labor for special equipment	1,400,241	No supporting documentation

Criteria

Good accounting practice and Codification of Federal Regulations Section 1773.39 (c) (1) requires that the subsidiary plant records agree with the controlling general ledger plant accounts.

Effect

The Cooperatives does not have detailed financial records to support its summarized financial records for the above accounts.

Cause

The staff of the Cooperative indicated that most of the differences are due to fully depreciated assets which are not included in the subsidiary records since the items have been fully depreciated. The special equipment account has not been reviewed and adjusted to special equipment inventory and the adjustment –general account has not been reviewed and adjusted.

Recommendation

Recommend that the Cooperative maintain and reconcile its subsidiary records for the plant accounts as to the amounts on its general ledger. Also the Cooperative analysis its deferred credit account for estimated labor for special equipment and adjust its records if necessary to actual amount of special equipment on hand.

Cooperative's Response

Efforts were made to correct the subsidiary ledger for these accounts during 2016. Remaining work will require a coordinated effort with accounting system support (SEDC) to correct reporting deficiencies.

**Jemez Mountain Electric Cooperative
Status of Prior Year Audit Findings
December 31, 2016**

2013-3 Pledged Collateral – Repeated and modified

2015-2 Agreement of Subsidiary Plant Records to Plant Accounts- Repeated and modified

Joseph M. Salazar
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**AUDITORS' REPORT ON COMPLIANCE WITH ASPECTS OF
CONTRACTUAL AGREEMENTS AND REGULATORY REQUIREMENT
FOR ELECTRICAL BORROWERS**

Bruce Duran, President
Board of Trustees and
Joseph Sanchez, Manager
Jemez Mountains Electric Cooperative, Inc.
Española, New Mexico

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standard applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Jemez Mountain Electric Cooperative Inc. (Cooperative) which comprise the balance sheet as of December 31, 2016 and the related statements of revenue and patronage capital, changes in cash flows for the year ended, and the related notes to the financial statements, and have issued our report thereon dated April 21, 2016, on our consideration of the Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above and our schedule of findings and recommendations related to our audit have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that the Cooperative failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, Policy on Audits of Rural Utilities Service Borrowers, Section 1773.33 and clarified in the RUS policy memorandum dated February 7, 2015, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Cooperative's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, we noted no matters regarding the Cooperative's accounting and records to indicate that the Cooperative did not:

Maintain adequate and effective accounting procedures;

Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;

Reconcile continuing property records to the controlling general ledger plant accounts; (See audit finding 2015-2)

Clear construction accounts and accrue depreciation on completed construction;

Record and properly price the retirement of plant;

Seek approval of the sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;

Maintain adequate control over material and supplies;

Prepare accurate and timely Financial and Operating Reports;

Obtain written RUS approval to enter into any contract for the management, operation, or maintenance of the borrower's system if the contract covers all or substantially all of the electric system;

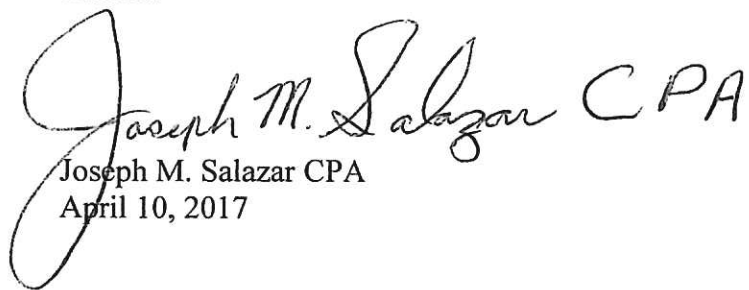
Disclose materials related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;

Record depreciation in accordance with RUS requirements (See RUS Bulletin 183-1, Depreciation Rates and Procedures);

Comply with the requirements for the detailed schedule of deferred debits and deferred credits; The Cooperative has obtained approval from RUS for the regulatory assets related to pueblo easements and;

Comply with the requirements for the detail schedule of investments.

This report is intended solely for the information and use of the board of trustees, management, and the RUS and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "Joseph M. Salazar CPA". The signature is written in a cursive style with a large, looping initial "J".

Joseph M. Salazar CPA
April 10, 2017