



Financial Statements
December 31, 2019 and 2018

**Jemez Mountains Electric Cooperative,
Inc.**

Jemez Mountains Electric Cooperative, Inc.
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December 31, 2019 and 2018

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Disbursement testing

- Summary of testing
- vouchers were reviewed and are in alignment with bylaws, and compliance with policies and procedures.

Our procedures and findings were as follows:

1. Obtained a listing of all disbursements relating to JMEC Check Register, JMEC Credit Cards, JMEC BOT Trustee Vouchers for the period ended December 31, 2019.
2. Agreed monthly disbursement totals provided to respective bank statement disbursements.
3. Haphazardly select ten disbursements for each month (120 total selections).
4. Obtain related support for each disbursement selected to ensure proper approval and proper business-related disbursement.

There were no discrepancies noted in the items tested.





Independent Auditor's Report

The Board of Directors
Jemez Mountains Electric Cooperative, Inc.
Española, New Mexico

Report on the Financial Statements

We have audited the accompanying financial statements of Jemez Mountains Electric Cooperative, Inc., which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of operations and patronage capital and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 reasonable basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Jemez Mountains Electric Cooperative, Inc. as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Report Issued in Accordance with Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report April 30, 2020 on our consideration of Jemez Mountains Electric Cooperative, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Jemez Mountains Electric Cooperative, Inc.'s internal control over financial reporting and compliance.

Report on Other Legal and Regulatory Requirements

In accordance with the Rural Utility Service's requirements set forth in 7 CFR Part 1773, we have also issued a report dated, on our consideration of Jemez Mountains Electric Cooperative, Inc.'s compliance with aspects of contractual agreements and regulatory requirements for electric borrowers. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing, and not directed primarily toward obtaining knowledge of noncompliance. That report is an integral part of procedures performed in accordance with Rural Utility Service's requirements in considering Jemez Mountains Electric Cooperative, Inc.'s compliance with certain regulatory requirements



Phoenix, Arizona
April 30, 2020

Jemez Mountains Electric Cooperative, Inc.
Balance Sheets
December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Electric Plant		
In service	\$ 124,333,686	\$ 119,969,415
Under construction	7,757,531	5,949,331
Total electric plant	<u>132,091,217</u>	<u>125,918,746</u>
Less accumulated depreciation	<u>60,236,501</u>	<u>57,732,216</u>
Electric plant - net	<u>71,854,716</u>	<u>68,186,530</u>
Other Property and Investments		
Nonutility property at cost (less accumulated depreciation (of \$269,605 in 2019 and \$269,593 in 2018))	150,200	150,212
Investment in associated organizations	<u>21,861,185</u>	<u>20,584,405</u>
Total other property and investments	<u>22,011,385</u>	<u>20,734,617</u>
Current Assets		
Cash and cash equivalents	14,268,698	16,419,247
Temporary cash investment	547,326	543,458
Accounts receivable		
Trade (net of allowance for uncollectible of \$77,965 for 2019 and \$99,751 for 2018)	5,032,632	5,017,694
Unbilled revenue	2,971,511	3,089,946
Materials and supplies	2,194,854	2,332,571
Prepayments and other assets	<u>588,271</u>	<u>538,314</u>
Total current assets	<u>25,603,292</u>	<u>27,941,230</u>
Noncurrent Assets		
Regulatory assets	3,917,073	4,169,787
Regulatory assets for pueblo easement	850,512	942,006
Deferred debits	<u>307,135</u>	<u>61,570</u>
Total noncurrent assets	<u>5,074,720</u>	<u>5,173,363</u>
Total Assets	<u>\$ 124,544,113</u>	<u>\$ 122,035,740</u>

Jemez Mountains Electric Cooperative, Inc.
Balance Sheets
December 31, 2019 and 2018

	2019	2018
Equities and Liabilities		
Equities		
Patronage capital	\$ 64,388,710	\$ 62,046,019
Memberships	113,420	112,440
Total equities	64,502,130	62,158,459
Long-Term Debt		
RUS mortgage note	43,787,546	42,255,642
Co-Bank mortgage note	1,302,157	1,695,069
CFC mortgage note	8,891,702	9,747,539
	53,981,405	53,698,250
Less current maturities	(3,305,269)	(3,206,805)
Total long-term debt	50,676,136	50,491,445
Current Liabilities		
Current maturities of long-term debt	3,305,269	3,206,805
Accounts payable	4,087,329	3,963,598
Customer deposits	211,080	212,016
Other current accrued liabilities	1,248,379	1,590,395
Total current liabilities	8,852,057	8,972,814
Deferred Credits	513,790	413,022
Total Equities and Liabilities	\$ 124,544,113	\$ 122,035,740

Jemez Mountains Electric Cooperative, Inc.
 Statements of Operations and Patronage Capital
 Years Ended December 31, 2019 and 2018

	2019	2018
Electric Operating Revenues	\$ 53,159,508	\$ 52,585,365
Electric Operating Expenses		
Cost of power	32,717,249	31,849,046
Distribution - operations	2,586,415	2,527,502
Distribution - maintenance	3,186,093	3,262,259
Customer accounts	2,282,877	2,336,409
Customer service	102,409	86,047
Administrative and general	5,181,350	5,339,782
Depreciation and amortization	3,739,376	3,343,551
Taxes	506,322	745,217
Interest expense	5,389	7,705
Total electric operating expenses	50,307,480	49,497,518
Operating Margin before Interest Expense	2,852,028	3,087,847
Interest on long-term debt	2,104,627	2,332,260
Operating Margin after Interest Expense	747,401	755,587
Generation and Transmission and Other Cooperative Capital Credits	1,318,838	1,179,869
Net Operating Margin from Electric Services	2,066,239	1,935,456
Nonoperating Margin (Expense)		
Interest income	367,100	477,041
Other nonoperating expense	(90,648)	(9,229)
Total nonoperating income	276,452	467,812
Net Margins	2,342,691	2,403,268
Patronage Capital, Beginning of Year	62,046,019	59,642,751
Patronage Capital, End of Year	\$ 64,388,710	\$ 62,046,019

Jemez Mountains Electric Cooperative, Inc.
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Operating Activities		
Net margin	\$ 2,342,691	\$ 2,403,268
Adjustments to reconcile net margin to net cash provided by operating activities		
Depreciation and amortization - net	3,899,394	3,343,551
Loss on sale of equipment	84,815	
Transmission and other capital credits	(1,318,838)	(1,179,869)
Changes in operating assets and liabilities:		
Account receivables	(14,938)	58,953
Unbilled revenue	118,435	128,534
Prepayments	(49,957)	(257,629)
Deferred debits and regulatory assets	7,149	255,593
Prepaid easements	91,494	429,273
Accounts payable	123,731	(441,348)
Other current and accrued liabilities	(342,016)	266,490
Deferred credits	100,768	170,145
Net Cash Provided by Operating Activities	5,042,728	5,176,961
Investing Activities		
Additions to plant and other property, net of retirement	(7,652,383)	(3,798,318)
Purchases of temporary investments	(3,868)	(252)
Reductions in investments in associated organizations through capital credit retirements	42,058	61,967
Change in materials and supplies	137,717	(561,784)
Net Cash Used in Investing Activities	(7,476,476)	(4,298,387)
Financing Activities		
Customer deposits	(936)	6,935
Memberships	980	870
Reduction in cushion of credit	3,663,313	3,268,941
Payments of long-term debt	(3,380,158)	(3,096,055)
Net Cash Provided by (Used in) Financing Activities	283,199	180,691
Net Change in Cash and Cash Equivalents	(2,150,549)	1,059,265
Cash and Cash Equivalents, Beginning of Year	16,419,247	15,359,982
Cash and Cash Equivalents, End of Year	\$ 14,268,698	\$ 16,419,247
Supplemental Disclosures of Cash Flow Information		
Cash payments for interest	\$ 2,332,260	\$ 2,332,260

Note 1 - Summary of Significant Accounting Policies

General

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 Cooperatives rates are regulated by the New Mexico Public Service Commission.

Electric Plant and Depreciation

Electric plant is stated at cost. The cost of additions to electric plant includes contracted work, direct labor and materials and allocable overheads. Contributions in aid of construction are recorded as reductions of the capitalized costs of the constructed assets. The Cooperative capitalizes items over \$500 for general plant items and all other utility plant accounts are capitalized through the work order process.

Depreciation is computed by applying composite rates to the monthly balance for all classes of utility plant, except for transportation equipment and certain other general plant assets, which are depreciated on a unit basis using the straight-line method over the useful lives of the assets. When units of property are retired, sold or otherwise disposed of in the ordinary course of business, their average book cost less net salvage is charged to accumulated depreciation. Repairs and the replacement and renewal of items determined to be less than units of property are charged to maintenance expense.

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 2019 and 2018.

Investments

The Cooperative has Investments in associated companies and other investments which are accounted for as equity securities. The Cooperative has determined that these investments do not have a readily determinable fair value. Investments in associated companies are recorded at the Cooperative's share of allocated patronage capital and the other investments are recorded at cost. These investments are assessed for impairment, if any, and adjusted for changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. The Cooperative has not identified any impairments and there has not been observable price changes during the years ended December 31, 2019 and 2018.

Cash Equivalents

For purposes of reporting cash flows, the Cooperative considers all bank deposits and investments with an original maturity of three months or less to be cash equivalents.

Receivables and Credit Policy

The Cooperative's revenue contracts provide it with the unconditional right to consideration upon delivery of electricity to its customers; therefore, a receivable is recognized in the period the Cooperative provides energy to its customers, so no contract assets or liabilities exist. The unconditional right to consideration is represented by contract receivables which are presented on the balance sheet as accounts receivable and unbilled revenues.

Receivables are uncollateralized customer obligations due under terms established by the Board of Directors. Past due balances are subject to disconnection of service. The Cooperative requires deposits from customers with poor credit history. The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. Management reviews all account receivable balances that exceed 90 days from invoice date and based on an assessment of current creditworthiness, estimate the portion, if any, of the balance that will not be collected.

The beginning and ending balances for customer accounts receivable and unbilled revenues, net of allowances for doubtful accounts, were as follows for the years ended December 31, 2019 and 2018:

	December 31, 2019	December 31, 2018	January 1, 2018
Billed	\$ 5,003,498	\$ 4,991,306	\$ 5,053,045
Unbilled	<u>2,971,511</u>	<u>3,089,946</u>	<u>3,218,480</u>
Total accounts receivable	<u>\$ 7,975,009</u>	<u>\$ 8,081,252</u>	<u>\$ 8,271,525</u>

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.

Patronage Capital

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

Revenues

The Cooperative accounts for customer revenues under Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers*.

The Cooperative's performance obligation related to the sale of energy is satisfied as energy is delivered to customers; therefore, revenue from the delivery of energy is recognized over time as energy is delivered to the customers. The Cooperative reads customer meters and bills customers each month based on various billing cycles. Accordingly, at the end of each month, there is energy delivered to customers for which customers have not been billed. The Cooperative records an estimate of the unbilled revenues each month.

The Cooperative does not have any significant financing components related to contracts with customers as payment is received shortly after being billed to customers.

The following table depicts revenues by timing of revenue recognition and type of revenue for the years ended December 31, 2019 and 2018, respectively:

	<u>2019</u>	<u>2018</u>
Electric revenues (transferred over time)	\$ 53,159,508	\$ 52,585,365
Revenue from contracts with customers	<u>53,159,508</u>	<u>52,585,365</u>
Other Revenues		
Interest income	367,100	477,041
Generation and Transmission and Other Cooperative Capital Credits	1,318,838	1,179,869
Other nonoperating expense	<u>(88,939)</u>	<u>(9,229)</u>
Total other revenues	<u>1,596,999</u>	<u>1,647,681</u>
Total revenues	<u>\$ 54,756,507</u>	<u>\$ 54,233,046</u>

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, 2019 and 2018, customer deposits totaled \$211,080 and \$212,016, respectively.

Benefit Plan

Pension fund costs are currently funded by the Cooperative.

Use of Estimates

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

Service Area

The Cooperative's headquarters are located in Espanola, 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.

Sales Taxes

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

Income Taxes

The Cooperative is exempt from income taxes under Section 501(c)(12) of the Internal Revenue Code (IRS) and is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. The Cooperative is subject to income tax on any unrelated business income. This code section provides that the exempt status exists only if 85% 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, 2019 and 2018, 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.

Fair Value of Financial Instruments

The Cooperative considers the carrying amount of significant classes of financial instruments on the balance sheets, including cash, accounts receivable, inventories, other assets, accounts payable, accrued liabilities, and variable rate long-term debt to be reasonable estimates of fair value either due to their length of maturity or the existence of variable interest rates underlying such financial instruments that approximate prevailing market rates at December 31, 2019 and 2018. The investments in associated companies are not actively traded and fair value is not readily estimable. The carrying amount of loans to members approximates fair value as the loans outstanding include repayment terms up to seven years and collection is highly probable considering historical experience.

The Cooperative has fixed-rate long-term debt financial instruments as of December 31, 2019 and 2018. Generally, the carrying value of the fixed-rate long-term debt approximates its fair value, although the Cooperative has certain fixed-rate long-term debt financial instruments which have carrying values that may differ from their estimated fair values. It is not practicable for the Cooperative to estimate the fair value of these financial instruments given the nature of the debt agreements that are in place which include debt from federal agencies of the United States with interest rates that are not considered to have comparable prevailing rates as of December 31, 2019 and 2018.

Regulatory Accounting

As a result of the ratemaking process, the Cooperative applies Accounting Standards Codification (ASC) 980, *Regulated Operations*. The application of generally accepted accounting principles by the Cooperative differs in certain respects from the application by non-regulated businesses as a result of applying ASC 980. Such differences generally related to the time at which certain items enter into the determination of net margins in order to follow the principle of matching costs and revenues.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on net income or stockholders' equity.

Change in Accounting Principle

In May 2014, the FASB issued guidance (Accounting Standards Codification [ASC] 606, *Revenue from Contracts with Customers*) which provides a five-step analysis of contracts to determine when and how revenue is recognized and replaces most existing revenue recognition guidance in U.S. generally accepted accounting principles. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. Additionally, the guidance provides additional disclosures related to revenue.

The Cooperative applied ASC 606 to all customer contracts effective on January 1, 2019 using the modified retrospective basis. The Cooperative did not identify any significant differences in the timing or amount of revenues recorded. As such, implementation did not have a significant impact on the financial position, results of operations, or cash flows of the Cooperative and there was no cumulative adoption adjustment needed for the effect of the change in accounting principle.

Subsequent Events

The Cooperative has evaluated subsequent events through April 30, 2020, the date which the financial statements were available to be issued.

Note 2 - Electric Plant in Service and Depreciation

	2019		2018	
	Plant	Depreciation Rates	Plant	Depreciation Rates
Distribution plant	\$ 103,799,757	2.7%-3.9%	\$ 99,747,705	2.7%-3.9%
Transmission plant	3,069,919	2.75%	2,812,590	2.75%
General plant	17,455,862	3.0%-12.0%	17,400,972	3.0%-12.0%
Intangible plant	8,148		8,148	
Electric plant in service	<u>124,333,686</u>		<u>119,969,415</u>	
Construction work in progress	<u>7,757,531</u>		<u>5,949,331</u>	
	132,091,217		125,918,746	
Accumulated depreciation	<u>60,236,501</u>		<u>57,732,216</u>	
Total electric plant	<u>\$ 71,854,716</u>		<u>\$ 68,186,530</u>	

Note 3 - Nonutility Property

	Depreciation Rates	2019	2018
Land		\$ 29,076	\$ 29,076
Improvements	3.0%	<u>390,729</u>	<u>390,729</u>
		419,805	419,805
Accumulated depreciation		<u>269,605</u>	<u>269,593</u>
Totals		<u>\$ 150,200</u>	<u>\$ 150,212</u>

Depreciation expense on nonutility property was \$12 and \$11,721 in 2019 and 2018, respectively.

Note 4 - Investment in Associated Organizations

A summary of investments in associated organizations follows as of December 31,

	2019	2018
Patronage Capital - as assigned values		
Southeastern Data Cooperative Inc	\$ 231,452	\$ 231,452
Co-Bank	293,940	293,940
Cooperative Finance Corporation	253,327	243,018
CFC capital securities	28,858	28,858
Tri-State Transmission and Generation	20,910,439	19,692,245
Membership - CFC	1,000	1,000
NMRECA Capital	22,900	22,900
Western United Electric Corporation	119,269	70,992
	\$ 21,861,185	\$ 20,584,405

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

	2019	2018
Cash in checking	\$ 14,268,698	\$ 16,419,247
Commercial paper	547,326	543,458
	\$ 14,816,024	\$ 16,962,705

Note 6 - Accounts Receivable

Accounts receivable represent mostly amounts due from customers for electric service. The types of accounts receivable are as follows as of December 31,

	2019	2018
Electric service	\$ 4,006,327	\$ 4,453,280
Non-electric construction contracts, pole rental, miscellaneous	1,104,270	664,165
	5,110,597	5,117,445
Less allowance	77,965	99,751
Total	\$ 5,032,632	\$ 5,017,694

Note 7 - 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 as of December 31,

	<u>2019</u>	<u>2018</u>
Balance, beginning	\$ 8,845,000	\$ 8,845,000
Accumulated amortization	4,675,213	4,422,499
Current year amortization	<u>252,714</u>	<u>252,714</u>
Balance, ending	<u>\$ 3,917,073</u>	<u>\$ 4,169,787</u>

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. 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 as of December 31,

	<u>2019</u>	<u>2018</u>
Tri-State	\$ 3,917,073	\$ 4,169,787
Pueblo of Ohkay Owingeh	278,122	278,754
San Ildefonso Pueblo	528,925	568,145
Nambe Pueblo	(12,398)	19,284
Pueblo of Pojoaque	16,721	31,822
Santa Clara	<u>39,142</u>	<u>44,001</u>
	<u>\$ 4,767,585</u>	<u>\$ 5,111,793</u>

As of December 31, 2017, 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 continue 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.

Note 8 - Deferred Debits

A summary of amounts recorded as deferred debits follows as of December 31,

	<u>2019</u>	<u>2018</u>
Ten year work plan	\$ -	\$ 4,317
Sebastien Substation	129,541	-
Jicarilla Service	120,340	-
US Forest Service Right of Way	<u>57,254</u>	<u>57,253</u>
Total	<u>\$ 307,135</u>	<u>\$ 61,570</u>

Note 9 - Patronage Capital

A summary of the Cooperative's patronage capital follows as of December 31,

	<u>2019</u>	<u>2018</u>
Assigned	\$ 51,444,184	\$ 49,101,493
Assignable	<u>12,944,526</u>	<u>12,944,526</u>
	<u>\$ 64,388,710</u>	<u>\$ 62,046,019</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.

Note 10 - Long-Term Debt

The Cooperative has long-term loans with RUS, CFC, and Co-Bank as follows as of December 31,

	2019	2018
Federal Financing Bank (FFB) guaranteed by Rural Utility Service	\$ 43,787,546	\$ 42,255,642
Co-Bank	1,302,157	1,695,069
National Rural Utilities Cooperative Finance Corporation	8,891,702	9,747,539
	<u>53,981,405</u>	<u>53,698,250</u>
Less current maturities	(3,305,269)	(3,206,805)
	<u>\$ 50,676,136</u>	<u>\$ 50,491,445</u>
Total long-term debt		

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 January 2033 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% 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, 2019 and 2018, the Cooperative had \$1,385,794 and \$4,870,735, respectively, 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 4.1% to 4.85% per annum. These notes mature at various dates through June 2034. Principal and interest payments are due quarterly and are subject to financial and non-financial covenants.

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, 2019 and 2018.

Co-Bank

Long-term debt to Co-Bank is represented by a fixed note bearing an interest rate of 4.57% per annum with principal payments 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 (exclusive of cushion of credit) is as follows:

	RUS	Co-Bank	CFC	Total
2020	\$ 1,971,171	\$ 455,656	\$ 878,442	\$ 3,305,269
2021	1,984,785	433,700	850,456	3,268,941
2022	2,008,494	412,802	817,004	3,238,300
2023	2,019,333	-	797,386	2,816,719
2024	2,019,333	-	666,331	2,685,664
Thereafter	35,170,224	-	4,882,082	40,052,306
	<u>\$ 45,173,340</u>	<u>\$ 1,302,158</u>	<u>\$ 8,891,701</u>	<u>\$ 55,367,199</u>

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.

Note 11 - 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).

Note 12 - Pension Plan

Effective May 1995, the Jemez Mountains Electric Cooperative, Inc. changed over their JMEC Employees Pension Trust Plan to the National 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 \$15,632 to the plan in the year ended December 31, 2019 and approximately \$378,934 in 2018.

Note 13 - Related Party Transactions

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 years ended December 31, 2019 and 2018 the amount of \$32,717,212 and \$31,849,021, respectively. As of the end of December 31, 2019 and 2018, the Cooperative owed Tri-State Electric Generation and Transmission Association \$2,980,899 and \$3,050,317, respectively.

Note 14 - 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, 2019 and 2018, the accrued annual leave liability totaled \$523,553 and \$405,924, 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 55th birthday, or upon death, the Employee's sick leave becomes fully vested. If an employee terminates before such time, unused sick leave is forfeited. As of December 31, 2019 and 2018, the accrued sick liability totaled \$267,912 and \$244,509, respectively.

Note 15 - 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.

Note 16 - Deferred Credits

A summary of deferred credits is as follows as of December 31,

	2019	2018
Special equipment - labor installation	\$ 513,790	\$ 413,022

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

Note 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.



**Independent Auditor's 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***

The Board of Directors
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 standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Jemez Mountains Electric Cooperative, Inc. (the Cooperative), which comprise the balance sheet as of December 31, 2019, and the related statements of operations and patronage capital and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon April 30, 2020.

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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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.



Phoenix, Arizona

April 30, 2020



Independent Auditors' Report on Compliance with Aspects of Contractual Agreements and Regulatory Requirements

The Board of Directors
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 standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Jemez Mountains Electric Cooperative, Inc. (Cooperative), which comprise the balance sheets as of December 31, 2019, and the related statements of operations and patronage capital and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 30, 2020. In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2020, 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*, §1773.33 and clarified in the RUS policy memorandum dated February 7, 2014, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding 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, except as noted below, 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;
- Clear construction accounts and accrue depreciation on completed construction;
- Record and properly price the retirement of plant;

- Seek approval of the sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;
- Maintain adequate control over materials and supplies;
- Prepare accurate and timely Financial and Operating Reports;
- Obtain written RUS approval to enter into any contract for the management, operation, or maintenance of the borrower's system if the contract covers all or substantially all of the electric system;
- Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;
- Record depreciation in accordance with RUS requirements (See RUS Bulletin 183-1, *Depreciation Rates and Procedures*); and
- Comply with the requirements for the detailed schedule of deferred debits and deferred credits.

Detailed Schedule of Deferred Debits and Deferred Credits

	<u>2019</u>	<u>2018</u>
Tri-State	\$ 3,917,073	\$ 4,169,787
Pueblo of Ohkay Owingeh	278,122	278,754
San Ildefonso Pueblo	528,925	568,145
Nambe Pueblo	(12,398)	19,284
Pueblo of Pojoaque	16,721	31,822
Santa Clara	39,142	44,001
	<u>\$ 4,767,585</u>	<u>\$ 5,111,793</u>
	<u>2019</u>	<u>2018</u>
Special equipment - labor installation	\$ 513,790	\$ 413,022

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

Eide Bailly LLP

Phoenix, Arizona
April 30, 2020