Financial Statements
December 31, 2018 and 2017

Jemez Mountains Electric Cooperative, Inc.

Independent Auditor's Report

The Board of Directors
Jemez Mountains Electric Cooperative, Inc.
Espanola, 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, 2018 and 2017, 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 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, 2018 and 2017, and the results of its operations and 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 dated April 16, 2019 on our consideration of Jemez Mountains Electric Cooperative, Inc.'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. Those reports are 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 April 16, 2019, 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.

Eide Bailly LLP

Phoenix, Arizona
April 16, 2019

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	2018	2017
Assets		
Electric Plant		
Electric plant at cost	$ 119,969,415	$ 118,398,351
Construction work in progress	5,949,331	4,346,350
Total electric plant	125,918,746	122,744,701
Less accumulated depreciation	(57,732,216)	(55,024,660)
Electric plant - net	68,186,530	67,720,041
Other Property and Investments		
Nonutility property at cost (less accumulated depreciation (of $269,593 in 2018 and $257,871 in 2017)	150,212	161,934
Investment in associated organizations	20,584,405	19,466,503
Total other property and investments	20,734,617	19,628,437
Current Assets		
Cash - general	16,419,247	15,359,982
Temporary cash investment	543,458	543,206
Accounts receivable (less allowance for uncollectibles of $99,751 in 2018 and $98,107 in 2017)	5,017,694	5,076,647
Unbilled revenue	3,089,946	3,218,480
Material and supplies	2,332,571	1,770,787
Prepayments	538,314	280,685
Total current assets	27,941,230	26,249,787
Noncurrent Assets		
Regulatory assets	4,169,787	4,422,501
Regulatory assets for pueblo easement	942,006	1,371,279
Deferred debits	61,570	64,449
Total noncurrent assets	5,173,363	5,858,229
	$ 122,035,740	$ 119,456,494

See Notes to Financial Statements

	2018	2017
Equities and Liabilities		
Equities		
Memberships	$ 112,440	$ 111,570
Patronage capital	62,046,019	59,642,751
Total equities and margins	62,158,459	59,754,321
Long-Term Debt		
RUS mortgage note	42,255,642	40,823,132
Co-Bank mortgage note	1,695,069	2,069,047
CFC mortgage note	9,747,539	10,633,185
	53,698,250	53,525,364
Less current maturities	(3,206,805)	(2,927,090)
Total long-term debt	50,491,445	50,598,274
Current Liabilities		
Current maturities of long-term debt	3,206,805	2,927,090
Accounts payable	3,963,598	4,404,946
Customer deposits	212,016	205,081
Other current accrued liabilities	1,590,395	1,323,905
Total current liabilities	8,972,814	8,861,022
Deferred Credits	413,022	242,877
	$ 122,035,740	$ 119,456,494

	2018	2017
Operating Revenues	$ 52,585,365	$ 53,293,906
Operating Expenses		
Cost of power	31,849,046	32,229,498
Distribution - operations	2,527,502	2,543,189
Distribution - maintenance	3,262,259	3,222,622
Customer accounts	2,336,409	2,145,442
Customer service	86,047	97,808
Administrative and general	5,339,782	5,424,952
Depreciation and amortization	3,343,551	3,268,374
Taxes	745,217	785,844
Interest expense	7,705	3,416
Total operating expenses	49,497,518	49,721,145
Operating Margin before Interest Expense	3,087,847	3,572,761
Interest on long-term debt	2,332,260	2,528,530
Operating Margin after Interest Expense	755,587	1,044,231
Generation and Transmission and Other Cooperative Capital Credits	1,179,869	1,789,832
Net Operating Margin from Electric Services	1,935,456	2,834,063
Nonoperating Margin (Expense)		
Interest income	477,041	679,113
Other nonoperating revenue (expense)	(9,229)	(12,808)
Total nonoperating expense	467,812	666,305
Net Margins	2,403,268	3,500,368
Patronage Capital, Beginning of Year	59,642,751	58,028,511
Retirement of patronage capital	-	(1,886,128)
Patronage Capital, End of Year	$ 62,046,019	$ 59,642,751

	2018	2017
Operating Activities		
Net margin	$ 2,403,268	$ 3,500,368
Adjustments to reconcile net margin to net cash provided by operating activities		
Depreciation and amortization - net	3,343,551	3,268,374
Transmission and other capital credits	(1,179,869)	(1,789,832)
Changes in operating assets and liabilities:		
Account receivables	58,953	(803,012)
Unbilled revenue	128,534	(18,049)
Prepayments	(257,629)	234,108
Deferred debits and regulatory assets	255,593	198,337
Prepaid easements	429,273	473,742
Accounts payable	(441,348)	1,086,754
Other current and accrued liabilities	266,490	39,621
Deferred credits	170,145	(84,150)
Net Cash Provided by Operating Activities	5,176,961	6,106,261
Investing Activities		
Additions to plant and other property, net of retirement	(3,798,318)	(2,343,045)
Purchases of temporary investments	(252)	(500,000)
Reductions in investments in associated organizations through capital credit retirements	61,967	-
Change in materials and supplies	(561,784)	(48,996)
Net Cash Used in Investing Activities	(4,298,387)	(2,892,041)
Financing Activities		
Customer deposits	6,935	(20,595)
Memberships	870	815
Patronage capital retirement	-	(1,886,128)
Reduction in cushion of credit	3,268,941	3,100,728
Payments of long-term debt	(3,096,055)	(2,946,435)
Net Cash Provided by (Used in) Financing Activities	180,691	(1,751,615)
Net Change in Cash and Cash Equivalents	1,059,265	1,462,605
Cash and Cash Equivalents, Beginning of Year	15,359,982	13,897,377
Cash and Cash Equivalents, End of Year	$ 16,419,247	$ 15,359,982
Supplemental Disclosures of Cash Flow Information		
Cash payments for interest	$ 2,332,260	$ 2,376,942

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 New Mexico Public Service Commission regulates the Cooperative.

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 2018 and 2017.

Investments

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.

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 sells electrical energy on account to residential, farm and business consumers located in its service area. Receivables are uncollateralized customer obligations due under terms established by the Board of Trustees. 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.

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'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, 2018 and 2017, customer deposits totaled $212,016 and $205,081, respectively.

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

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, 2018 and 2017, 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, 2018 and 2017. 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, 2018 and 2017. 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, 2018 and 2017.

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.

Subsequent Events

The Cooperative has evaluated subsequent events through April 16, 2019, the date which the financial statements were available to be issued.

Note 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.

Note 3 - Electric Plant in Service and Depreciation

	2018		2017	
	Plant	Depreciation Rates	Plant	Depreciation Rates
Distribution plant	$ 99,747,705	2.7%-3.9%	$ 98,649,557	2.7%-3.9%
Transmission plant	2,812,590	2.75%	2,797,192	2.75%
General plant	17,400,972	3.0%-12.0%	16,943,454	3.0%-12.0%
Intangible plant	8,148		8,148	
Electric plant in service	119,969,415		118,398,351	
Construction work in progress	5,949,331		4,346,350	
Total electric plant	$ 125,918,746		$ 122,744,701	

Note 4 - Nonutility Property

	Depreciation Rates	2018	2017
Land		$ 29,076	$ 29,076
Improvements	3.0%	390,729	390,729
		419,805	419,805
Accumulated depreciation		269,593	257,871
Totals		$ 150,212	$ 161,934

Depreciation expense on nonutility property was $11,722 and $11,721 in 2018 and 2017, respectively.

Note 5 - Investment in Associated Organizations

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

	2018	2017
Patronage Capital - as assigned values		
Southeastern Data Cooperative Inc	$ 231,452	$ 228,282
Co-Bank	293,940	319,693
Cooperative Finance Corporation	243,018	243,018
CFC capital securities	28,858	28,858
Tri-State Transmission and Generation	19,692,245	18,573,188
Membership - CFC	1,000	1,000
NMRECA Capital	22,900	22,900
Western United Electric Corporation	70,992	49,564
	$ 20,584,405	$ 19,466,503

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 6 - 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 $15,191,247 as of December 31, 2018 and $14,858,982 as of December 31, 2017.

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.

The Cooperative has the following bank accounts as of December 31,

	2018	2017
Jemez Valley Credit Union:		
Checking account	$ 260,898	$ 526,056
Wells Fargo Bank:		
Checking account - general	15,650,191	14,382,032
Checking account - payroll	(25,997)	(996)
Checking account	351,659	270,395
Checking account - capital credits	181,496	181,495
Change funds	1,000	1,000
Total cash and cash equivalents	$ 16,419,247	$ 15,359,982

Note 7 - Temporary Cash Investments

Temporary cash investments are stated at fair market value as of December 31,

	2018	2017
Jemez Valley Credit Union - savings account	$ 216	$ 216
New Mexico Bank and Trust - certificate of deposit	250,000	250,000
Century Bank - certificate of deposit	250,000	250,000
Co-Bank - general fund account	43,242	42,990
Total	$ 543,458	$ 543,206

The Co-Bank temporary investment at December 31, 2018 is a program where the cooperative invests with Co-Bank and is not subject to credit risk because of the loans outstanding.

Note 8 - 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,

	2018	2017
Electric service	$ 4,453,280	$ 4,398,016
Non-electric - construction contracts, pole rental, miscellaneous	664,165	776,738
	5,117,445	5,174,754
Less allowance	99,751	98,107
Total	$ 5,017,694	$ 5,076,647

Note 9 - 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,

	2018	2017
Balance, beginning	$ 8,845,000	$ 8,845,000
Accumulated amortization	4,422,499	4,169,785
Current year amortization	252,714	252,714
Balance, ending	$ 4,169,787	$ 4,422,501

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,

	2018	2017
Tri-State	$ 4,169,787	$ 4,422,501
Pueblo of Ohkay Owingeh	278,754	321,870
San Ildefonso Pueblo	568,145	796,260
Nambe Pueblo	19,284	89,261
Pueblo of Pojoaque	31,822	69,037
Santa Clara	44,001	94,850
	$ 5,111,793	$ 5,793,779

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 (Advise 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 10 - Deferred Debits

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

	2018	2017
Ten year work plan	$ 4,317	$ 7,195
US Forest Service Right of Way	57,253	57,254
Total	$ 61,570	$ 64,449

Note 11 - Patronage Capital

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

	2018	2017
Assigned	$ 49,101,493	$ 45,639,361
Assignable	12,944,526	14,003,390
Total	$ 62,046,019	$ 59,642,751

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 12 - Long-Term Debt

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

	2018	2017
Federal Financing Bank (FFB) guaranteed by Rural Utility Service	$ 42,255,642	$ 40,823,132
National Rural Utilities Cooperative Finance Corporation	9,747,539	10,633,185
Co-Bank	1,695,069	2,069,047
	53,698,250	53,525,364
Less current maturities	(3,206,805)	(2,927,090)
Total long-term debt	$ 50,491,445	$ 50,598,274

<u>RUS</u>
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, 2018 and 2017, the Cooperative had $4,870,735 and $8,139,646, 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, 2018 and 2017.

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
2019	$ 1,953,409	$ 392,911	$ 860,485	$ 3,206,805
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	2,019,334	-	406,364	2,425,698
Thereafter	37,189,185	-	5,934,787	43,123,972
	$ 47,126,378	$ 1,695,069	$ 9,747,538	$ 58,568,985

Note 13 - 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 14 - 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 $378,934 to the plan in the year ended December 31, 2018 and approximately $350,781 in 2017.

Note 15 - 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 2018 and 2017 the amount of $31,849,046 and $32,229,498, respectively. As of the end of December 2018 and 2017, the Cooperative owed Tri-State Electric Generation and Transmission Association $3,050,317 and $3,045,112, respectively.

Note 16 - 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 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, 2018 and 2017, 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.

Note 17 - Annual and Sick Leave

The Cooperative's annual and sick leave policy provides for payment of unused annual leave upon termination of employment. Annual leave in excess of 480 hours at December 31 of any year is paid annually. As of December 31, 2018 and 2017, the accrued annual leave liability totaled $405,929 and $410,799, 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. Sick leave in excess of 480 hours at December is paid annually. As of December 31, 2018 and 2017, the accrued sick liability totaled $244,509 and $195,865, respectively.

Note 18 - 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 19 - Deferred Credits

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

	2018	2017
Special equipment - labor installation	$ 413,022	$ 242,877
Total	$ 413,022	$ 242,877

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

Note 20 - 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 Trustees
Jemez Mountains Electric Cooperative, Inc.
Espanola, 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, 2018, and the related consolidated 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 16, 2019.

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*.

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

We noted certain matters that we reported to management of the Cooperative in a separate letter dated April 16, 2019.

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.

Eide Bailly LLP

Phoenix, Arizona
April 16, 2019

Material Weaknesses

2017 - 1 – Prior Period Adjustment

Criteria: A good system of internal accounting control contemplates an adequate system for recording and processing entries material to the financial statements.

Condition: During the course of our engagement, we proposed a material audit adjustment that would not have been identified as a result of the Cooperative's existing internal controls, and therefore could have resulted in a material misstatement of the Cooperative's financial statements. It did result in a material misstatement of the Cooperative's previously issued financial statements.

Status of Corrective Action Plan: Corrected.

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

The Board of Directors
Jemez Mountains Electric Cooperative, Inc.
Espanola, 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, 2018, 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 16, 2019. In accordance with *Government Auditing Standards*, we have also issued our report dated April 16, 2019, 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

	2018	2017
Tri-State	$ 4,169,787	$ 4,422,501
Pueblo of Ohkay Owingeh	278,754	321,870
San Ildefonso Pueblo	568,145	796,260
Nambe Pueblo	19,284	89,261
Pueblo of Pojoaque	31,822	69,037
Santa Clara	44,001	94,850
	$ 5,111,793	$ 5,793,779

	2018	2017
Special equipment - labor installation	$ 413,022	$ 242,877
Total	$ 413,022	$ 242,877

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 16, 2019