



**MORA-SAN MIGUEL ELECTRIC  
COOPERATIVE, INC.  
(NEW MEXICO 14 MORA)**

**REPORTS OF INDEPENDENT AUDITORS  
AND FINANCIAL STATEMENTS**

**DECEMBER 31, 2010 and 2009**

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

Certified Public Accountants | Business Consultants

*Acumen. Agility. Answers.*

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**MORA-SAN MIGUEL ELECTRIC COOPERATIVE, INC.  
OFFICIAL ROSTER  
DECEMBER 31, 2010**

**Members of the Board**

<b>Name</b>	<b>Title</b>
Daniel Romero	Chairman
May Lou Roybal	Secretary/Treasurer
Robert Baca	Member
Alex Garcia	Member
Robert M. Quintana	Member

**Officials**

Abran Romero	General Manager
LaDonna LaRan	Chief Financial Officer

## Report of Independent Auditors

Daniel Romero, Chairman  
Board of Trustees  
Mora-San Miguel Electric Cooperative, Inc.

We have audited the accompanying balance sheet of Mora-San Miguel Electric Cooperative, Inc. (Cooperative), as of December 31, 2010, and the related statements of revenue and patronage capital, and cash flows for the year then ended. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Cooperative as of December 31, 2009, before the restatement described in Note 21, were audited by other auditors whose report dated March 19, 2010 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2010 financial statements referred to above present fairly, in all material respects, the financial position of Mora-San Miguel Electric Cooperative, Inc. at December 31, 2010, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. We also audited the restatements described in Note 21 that were applied to restate the 2009 financial statements. In our opinion, such restatements are appropriate and have been properly applied.

Daniel Romero, Chairman  
Board of Trustees  
Mora-San Miguel Electric Cooperative, Inc.

As described in Note 21, the Cooperative corrected an error related to its accounting for unbilled revenue and has restated its equity as of January 1, 2009, to conform with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 5, 2011 on our consideration of the Cooperative's, internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, and other matters. The purpose of that report is to describe the scope of our testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in assessing the results of our audit.

*Mess Adams LLP*

Albuquerque, New Mexico  
July 5, 2011

**MORA-SAN MIGUEL ELECTRIC COOPERATIVE, INC.**  
**BALANCE SHEET**  
**December 31, 2010 and 2009**

	2010	2009 (As restated)
<b>ASSETS</b>		
Electric Plant		
Electric plant at cost	\$ 27,118,792	26,327,202
Construction work in progress	2,068,854	296,039
Total utility plant	<u>29,187,646</u>	<u>26,623,241</u>
Less accumulated provision for depreciation	<u>(12,014,806)</u>	<u>(11,289,863)</u>
<b>Net utility plant</b>	<u><b>17,172,840</b></u>	<u><b>15,333,378</b></u>
Other Property and Investments		
Non utility property at cost	40,793	40,793
Investment in associated organizations	1,771,996	1,335,209
<b>Total other property and investments</b>	<u><b>1,812,789</b></u>	<u><b>1,376,002</b></u>
Current Assets		
Cash - general	1,513,040	1,214,869
Cash - construction fund	100	100
Temporary cash investment	624,187	742,140
Accounts receivable (less allowance for uncollectibles of \$43,427 and \$18,240 as of December 31, 2010 and 2009, respectively)	1,311,613	1,294,675
Unbilled revenue	620,464	597,810
Material and supplies	151,172	136,290
Prepayments	95,140	126,264
<b>Total current assets</b>	<u><b>4,315,716</b></u>	<u><b>4,112,148</b></u>
Regulatory assets	<u>950,991</u>	<u>1,050,225</u>
<b>Total assets</b>	<u><b>\$ 24,252,336</b></u>	<u><b>21,871,753</b></u>
<b>LIABILITIES AND EQUITY</b>		
Equity		
Memberships	\$ 54,625	54,625
Patronage capital	9,456,751	9,175,282
<b>Total equities and margins</b>	<u><b>9,511,376</b></u>	<u><b>9,229,907</b></u>
Long-term Debt		
FFS mortgage note	12,648,520	10,678,473
CFC mortgage note	503,991	545,220
	<u><b>13,152,511</b></u>	<u><b>11,223,693</b></u>
Less current maturities	<u>474,406</u>	<u>430,142</u>
<b>Total long-term debt</b>	<u><b>12,678,105</b></u>	<u><b>10,793,551</b></u>
Current Liabilities		
Current maturities of long-term debt	474,406	430,142
Accounts payable	955,716	807,944
Customer deposits and prepayments	103,633	90,235
Accrued taxes	54,199	77,982
Accrued employees and personal leave	204,234	207,830
Other current and accrued liabilities	112,275	73,275
<b>Total current and accrued liabilities</b>	<u><b>1,904,463</b></u>	<u><b>1,687,408</b></u>
Deferred credits	<u>158,392</u>	<u>160,887</u>
<b>Total liabilities and equity</b>	<u><b>\$ 24,252,336</b></u>	<u><b>21,871,753</b></u>

See Notes to Financial Statements.

**MORA-SAN MIGUEL ELECTRIC COOPERATIVE, INC.**  
**STATEMENT OF REVENUE AND PATRONAGE CAPITAL**  
**Years Ended December 31, 2010 and 2009**

	2010	%	2009	%
		(Unaudited)	(As restated)	(Unaudited)
<b>Operating Revenues</b>				
Residential rural and seasonal	\$ 8,099,625	80.0%	\$ 7,988,118	79.9%
Commercial and industrial-large	409,247	4.0%	434,877	4.4%
Commercial and industrial-small	1,521,517	15.0%	1,479,176	14.8%
Public buildings and other authorities	6,679	0.1%	6,728	0.1%
Rent from electric property	33,256	0.3%	33,256	0.3%
Other operating revenue	52,959	0.5%	51,159	0.5%
<b>Total operating revenue</b>	<u>10,123,283</u>	<b>100.0%</b>	<u>9,993,314</u>	<b>100.0%</b>
<b>Operating Expenses</b>				
Power costs	5,589,174	55.2%	5,447,029	54.5%
Transmission	18,333	0.2%	21,338	0.2%
Distribution - operation	809,513	8.0%	505,540	5.1%
Distribution - maintenance	393,304	3.9%	428,465	4.3%
Customer accounts	799,231	7.9%	814,262	8.1%
Customer service	8,284	0.1%	9,826	0.1%
Administration and general	1,227,349	12.1%	949,266	9.5%
Depreciation and amortization	840,855	8.3%	811,709	8.1%
Taxes	1,477	0.0%	2,687	0.0%
Interest expense	2,425	0.0%	1,535	0.0%
Other deductions	17,540	0.2%	9,730	0.1%
<b>Total operating expenses</b>	<u>9,707,485</u>		<u>9,001,387</u>	
<b>Operating margins before interest expense</b>	<u>415,798</u>	<b>4.1%</b>	<u>991,927</u>	<b>9.9%</b>
Interest expense				
Interest on long-term debt	562,153	5.6%	563,493	5.6%
<b>Operating margin after interest expense</b>	<u>(146,355)</u>		<u>428,434</u>	
Generation and transmission capital credits	441,609	4.4%	616,618	6.2%
Other capital credits	-	0.0%	4,730	0.0%
<b>Net Operating margins</b>	<u>295,254</u>	<b>2.9%</b>	<u>1,049,782</u>	<b>10.5%</b>
Nonoperating Margins				
Interest income and other	55,866	0.6%	83,527	0.8%
<b>Total nonoperating revenues</b>	<u>55,866</u>		<u>83,527</u>	
<b>Net margins</b>	<u>\$ 351,120</u>	<b>3.5%</b>	<u>\$ 1,133,309</u>	<b>11.3%</b>
<b>Patronage capital, beginning of year</b>	<u>\$ 9,175,282</u>		<u>\$ 7,503,093</u>	
<b>Prior period restatement</b>	<u>-</u>		<u>551,709</u>	
<b>Patronage capital, beginning of year (restated)</b>	<u>9,175,282</u>		<u>8,054,802</u>	
Less: retirements of capital credits	(69,651)		(12,829)	
Add: Net margins	351,120		1,133,309	
<b>Patronage capital, end of year</b>	<u>\$ 9,456,751</u>		<u>\$ 9,175,282</u>	

See Notes to Financial Statements.

**MORA-SAN MIGUEL ELECTRIC COOPERATIVE, INC.**  
**STATEMENT OF CASH FLOWS**  
**Years Ended December 31, 2010 and 2009**

	2010	2009
Cash flows from operating activities		(As restated)
Net Margin	\$ 351,120	1,133,309
Adjustments to reconcile net margin to net cash provided by operating activities		
Depreciation and amortization, net	840,855	811,709
Changes in operating assets and liabilities:		
Account receivables and unbilled revenues, net	(39,592)	(133,144)
Inventories and prepayments	16,242	36,127
Accounts payable and accrued expenses	159,393	183,265
Deferred credits	(2,495)	970
<b>Net cash provided by operating activities</b>	<b>1,325,523</b>	<b>2,032,236</b>
Cash flows from investing activities		
Electric plant in service	(791,590)	(716,765)
Construction work in progress	(1,772,815)	141,040
Plant removal cost	(16,678)	(137,170)
Other property and investments	(436,787)	(619,543)
<b>Net cash used by investing activities</b>	<b>(3,017,870)</b>	<b>(1,332,438)</b>
Cash flows from financing activities		
Retirement of patronage capital credits	(69,651)	(12,829)
Increase in long term debt to RUS	1,970,047	(401,339)
Decrease in long term debt to CFC	(41,229)	(38,614)
Memberships	-	(1,640)
Customer deposits	13,398	(2,309)
<b>Net cash provided (used) by financing activities</b>	<b>1,872,565</b>	<b>(456,731)</b>
Increase in cash and cash equivalents	180,218	243,067
<b>Cash and cash equivalents, beginning of year</b>	<b>1,957,109</b>	<b>1,714,042</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 2,137,327</b>	<b>1,957,109</b>
Supplemental disclosure of cash information		
Interest paid during the year	\$ 564,578	565,028

*See Notes to Financial Statements.*

**MORA-SAN MIGUEL ELECTRIC COOPERATIVE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 and 2009**

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

*Background.* Mora-San Miguel Electric Cooperative, Inc., (the “Cooperative” or “Mora”), was incorporated in 1940 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”. The service area of the Cooperative includes members living in a four county area, with its headquarter facilities located in Mora, New Mexico. The Cooperative has a district office in Pecos, New Mexico.

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

*Electric Plant and Depreciation.* Electric plant is stated at cost of construction, which includes the cost of contracted services, direct labor, materials and overhead items. Construction work in progress is capitalized to plant in service accounts upon completion. The cost of replacement of minor items of plant is charged to maintenance expense. Depreciation is computed over the estimated service lives of the respective assets using the straight-line method. 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. The Cooperative did not capitalize any interest costs for and construction work for the year ended December 2010 and 2009.

*Electric 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. Revenue is accrued for power delivered but not billed at the end of the year which totaled \$620,464 and \$597,810 at December 31, 2010 and 2009, respectively. Upon connection, the Cooperative may require a deposit from its members and in case of default is applied to outstanding bills and fees. After one year of on-time payments made, the Cooperative refunds the deposit with accrued interest. As of December 31, 2010 and 2009, customer deposits totaled \$103,633 and \$90,235, respectively. The Cooperative’s tariffs for electric service include power cost adjustment clauses under which electric rates charged to customers are adjusted to customers are adjusted to reflect changes in the cost of power.

*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.

**MORA-SAN MIGUEL ELECTRIC COOPERATIVE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 and 2009**

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

*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 institution in which the cooperative has deposits are insured by agencies of the Federal Government, deposits at times exceed insured amounts. It is not practicable to estimate the fair value of long-term debt; additional information pertinent to its value is provided in the footnote for long-term debt.

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

*Cash and Cash Equivalents.* For the purpose of cash flows, the Cooperative considers cash balances and temporary cash investments to be cash and cash equivalents.

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

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

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

**NOTE 2. ASSETS PLEDGED**

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

**MORA-SAN MIGUEL ELECTRIC COOPERATIVE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 and 2009**

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

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

	<b>2010</b>	2009
Intangible plant	\$ <b>14,196</b>	14,196
Transmission plant	<b>2,326,020</b>	2,326,019
Distribution	<b>22,438,876</b>	22,024,117
General plant	<b>2,339,700</b>	1,962,870
Total classified utility plant in service	<b>27,118,792</b>	26,327,202
Construction work in progress	<b>2,068,854</b>	296,039
Total electric plant	<b><u>\$ 29,187,646</u></b>	<u>26,623,241</u>

Distribution plant is depreciated at straight-line composite rate of 2.78%.

General plant depreciation rates have been applied on a straight-line basis at the following rates:

Transmission plant	2.75%
Distribution plant and composite	2.76%
Structures and improvements	2.00%
Office furniture and fixtures	6.00%
Transportation equipment	16.80%
Tools, shop, and garage equipment	6.00%
Power operated equipment	12.00%
Computer software and support	14.40%
Communication equipment	7.20%

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

**MORA-SAN MIGUEL ELECTRIC COOPERATIVE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 and 2009**

**NOTE 4. INVESTMENTS IN ASSOCIATED ORGANIZATIONS**

Investments in associated organizations consisted of the following at December 31:

	<b>2010</b>	2009
Memberships	\$ 2,939	2,939
Patronage capital		
La Jicarita Telephone Cooperative	19,997	23,024
Touchstone	92	92
Tri-State Transmission and Generation	1,696,102	1,254,493
Western Union capital credit	1,600	1,600
Cooperative Finance Corporation		
Other	1,256	1,367
Patronage capital	22,006	22,917
Certificate SCTC	11,435	11,435
Certificate ZTC	10,904	11,677
MNRECA Booth property	5,665	5,665
	<u>\$ 1,771,996</u>	<u>1,335,209</u>

Patronage capital from associated organizations is recorded at the stated amount of the certificates.

**NOTE 5. CASH AND CASH EQUIVALENTS**

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

The Cooperative entered into a repurchase agreement with the Bank of Las Vegas whereby excess funds in the general fund account are automatically transferred into a repurchase agreement account. The repurchase agreement pays 3.5 percent per annum secured one hundred percent by government securities.

Custodial credit risk is the risk that in the event of bank failure, the Cooperative deposits will not be recovered. Cash deposits are reported at carrying amount which reasonably estimates fair value. Investment credit risk is the risk an issuer or other counter party to an investment will not fulfill its obligations.

**MORA-SAN MIGUEL ELECTRIC COOPERATIVE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 and 2009**

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

The Cooperative has the following bank accounts at December 31:

	<b>2010</b>	2009
Bank of Las Vegas:		
Checking account-general	<b>\$ 1,422,312</b>	1,101,533
Checking account-payroll	<b>3,484</b>	3,482
Checking account-special construction	<b>100</b>	100
Checking account-capital credit refund	<b>(16,018)</b>	3,592
Checking account-educational trust fund	<b>101,941</b>	104,941
Special deposits	<b>121</b>	121
Change funds	<b>1,200</b>	1,200
Total cash and cash equivalents	<b><u>\$ 1,513,140</u></b>	<u>1,214,969</u>

**NOTE 6. TEMPORARY CASH INVESTMENTS**

Temporary cash investments are stated at fair market value and are considered cash equivalents. The following is a schedule of temporary cash investments at December 31:

	<b>2010</b>	2009
Bank of Las Vegas	<b>\$ 250,000</b>	-
Institutional CD's Inc.	<b>192,854</b>	189,150
FTN Financial	<b>181,333</b>	552,990
Total	<b><u>\$ 624,187</u></b>	<u>742,140</u>

The temporary cash investments with Institutional CD's Inc. and FTN are all certificates of deposit which at maturity would not exceed \$100,000. All certificates of deposit are insured by FDIC/SAIF-BIF to the extent provided by law and backed by the full faith and credit of the United States government.

**MORA-SAN MIGUEL ELECTRIC COOPERATIVE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 and 2009**

**NOTE 7. ACCOUNTS RECEIVABLE**

Accounts receivable represent mostly amounts due from customers for electric service. The types of accounts receivable as of December 31, 2010 are as follows:

	<b>2010</b>	2009
Electric service	<b>\$ 1,278,546</b>	1,253,448
Service calls, pole rental, etc.	<b>52,328</b>	36,785
Line construction contracts	<b>21,914</b>	21,714
Other	<b>2,252</b>	968
	<b>1,355,040</b>	1,312,915
Less: allowance	<b>43,427</b>	18,240
Total	<b><u>\$ 1,311,613</u></b>	<u>1,294,675</u>

**NOTE 8. REGULATORY ASSET**

On July 1, 2000, Plains Electric Generation and Transmission Cooperative, Inc. merged with Tri-State Generation and Transmission Association Inc. The Cooperative share of \$1,984,677 due to the merger, resulting in a reduction of the cost of electric power is being amortized over a period of twenty years. The regulatory asset balances are as follows:

	<b>2010</b>	2009
Balance beginning	<b>\$ 1,984,677</b>	1,984,677
Accumulated amortization	<b>934,452</b>	835,218
Current year amortization	<b>99,234</b>	99,234
Balance ending	<b><u>\$ 950,991</u></b>	<u>1,050,225</u>

**MORA-SAN MIGUEL ELECTRIC COOPERATIVE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 and 2009**

**NOTE 9. PATRONAGE CAPITAL**

A summary of the Cooperative's patronage capital at December 31 is as follows:

	<b>2010</b>	2009 (As restated)
Assigned	<b>\$ 9,105,631</b>	7,490,264
Prior period adjustment, assignable	-	551,709-
Net margin assignable	<u><b>351,120</b></u>	<u>1,133,309</u>
Balance	<u><b>\$ 9,456,751</b></u>	<u>9,175,282</u>

Under the provisions of the mortgage agreement, until the equities and margins equal or exceed twenty percent (20%) of the total assets of the Cooperative, the return to patrons of contributed capital is generally limited to twenty-five percent of the patronage capital or margins received by the Cooperative in the prior year.

**NOTE 10. CAPITAL CREDITS**

Capital credits were paid to the estate of deceased customers in accordance with the bylaws of the Cooperative for the years ended December 31, 2010 and 2009 in the amounts of \$69,651 and \$12,829, respectively.

**NOTE 11. SHORT TERM BORROWING**

The Cooperative has a revolving line-of-credit loan not to exceed \$1,300,000 for short-term financing from CFC. The Cooperative may borrow, repay and re-borrow funds at any time or from time to time. No amounts were outstanding under this agreement as of December 31, 2010 and 2009.

**NOTE 12. LONG-TERM DEBT**

Long term debt to Federal Financing Bank (FFB) which is guaranteed by RUS is represented by 33 loans that are 35 year notes bearing interest ranging from 2% to 5%. These notes, payable to the United States of America acting through the Administrator of the Utilities Service, mature at various dates through 2045. Principal and interest payments are due monthly and quarterly.

**MORA-SAN MIGUEL ELECTRIC COOPERATIVE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 and 2009**

**NOTE 12. LONG-TERM DEBT (CONTINUED)**

Long-term debt to CFC is represented by two thirty-five year notes bearing interest at 3.95% per annum. Principal and interest installments are due monthly. One of the notes had a balance of \$205,516 at December 31, 2010 and matures July 25, 2019. The other note had a balance of \$298,475 at December 31, 2010 and matures November 25, 2021.

A summary of debt service requirements for long-term obligations for the year ended December 31, 2010 are as follows:

Maturities	CFC	RUS	Total
2011	\$ 42,881	431,525	474,406
2012	44,601	422,802	467,403
2013	46,389	441,649	488,038
2014	48,248	460,834	509,082
2015	50,183	510,842	561,025
Thereafter	<u>271,689</u>	<u>10,380,868</u>	<u>10,652,557</u>
Total	<u>\$ 503,991</u>	<u>12,648,520</u>	<u>13,152,511</u>

**NOTE 13. PERSONAL LEAVE**

Personal leave is all leave from work and included vacation, personal illness, accident, family sickness and personal business. Each full time employee accrues personal leave time on a semi-weekly pay period basis based on years of service. The rate of personal leave earned is from one year of service at 6.77 hours per pay period to twenty years and more of service at 10.15 hours per period. The maximum amount of personal leave time that may be accumulated by an employee is 145 days. In the event of retirement, layoff, resignation or death, all accrued personal leave time will be paid at the employee's current rate of pay. Vested and accumulated personal leave that is expected to be liquidated with expendable available financial resources is reflected as a liability of the Cooperative. As of December 31, 2010 and 2009, the accrued personal leave liability totaled \$204,234 and \$207,830.

**NOTE 14. DEFERRED CREDITS**

Deferred credits, which are comprised of unclaimed refunds, capital credits, and other property, had a balance at December 31, 2010 and 2009 of \$158,392 and \$160,887, respectively.

**MORA-SAN MIGUEL ELECTRIC COOPERATIVE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 and 2009**

**NOTE 15. PENSION BENEFITS**

Pension benefits for all employees are provided through participation in the Mora-San Miguel Electric Cooperative, Inc. 401(k) Profit Sharing Plan. This is a defined contribution plan with the cooperative making annual contributions equal to the amounts accrued for pension expense.

The Cooperative contributes 12% of the employee's compensation to the Plan. The pension cost to the cooperative for the year ended December 31, 2010 and 2009 was \$19,166 and \$140,996, respectively.

**NOTE 16. FEDERAL INCOME TAX STATUS**

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

**NOTE 17. CONTINGENCIES**

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

**NOTE 18. 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.

**MORA-SAN MIGUEL ELECTRIC COOPERATIVE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 and 2009**

**NOTE 19. RELATED PARTY MATTERS**

The Cooperative has 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. Mora is a member Cooperative and is represented on the Tri-State Board of Directors. The power is purchased according to a wholesale power contract executed by both parties. The cooperative paid Tri-State Electric Generation and Transmission Association for electric power for the year ended December 2010 and 2009 in the amount of \$5,589,174 and \$5,447,029. As of the end of December 2010, the Cooperative had no outstanding balance owed to Tri-State Electric Generation and Transmission Association.

**NOTE 20. SUBSEQUENT EVENTS**

The Cooperative has evaluated subsequent events through July 5, 2011, the date the financial statements were available to be issued.

**NOTE 21. PRIOR PERIOD RESTATEMENT**

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

	As Originally Reported	As Restated	Effect of Change
Balance sheet			
Unbilled revenue	\$ -	597,810	597,810
Patronage capital, end of year	8,577,472	9,175,282	597,810
Statement of revenue and patronage capital			
Residential rural and seasonal	7,942,017	7,988,118	46,101
Operating revenue	9,947,213	9,993,314	46,101
Net operating margins	1,003,681	1,049,782	46,101
Net margins	1,087,208	1,133,309	46,101

**MORA-SAN MIGUEL ELECTRIC COOPERATIVE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 and 2009**

**NOTE 21. PRIOR PERIOD RESTATEMENT (CONTINUED)**

	As Originally Reported	As Restated	Effect of Change
Statement of cash flows			
Net margin	\$ 1,087,208	1,133,309	46,101
Change in accounts receivable and and unbilled revenues, net	(87,043)	(133,144)	(46,101)

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

Patronage capital, January 1, 2009, as previously reported	\$ 7,503,093
Accrual for unbilled services	<u>551,709</u>
Patronage capital, January 1, 2009, as restated	<u>\$ 8,054,802</u>

## **Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards**

Board of Trustees  
Mora-San Miguel Electric Cooperative, Inc.

We have audited the financial statements of Mora-San Miguel Electric Cooperative, Inc., (Cooperative) as of and for the year ended December 31, 2010, and have issued our report thereon dated July 5, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

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

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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 over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and recommendations as findings 10-01 to 10-05, that we consider to be significant deficiencies in internal control over financial reporting. 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.

Board of Trustees  
Mora-San Miguel Electric Cooperative, Inc.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Cooperative's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Cooperative in a separate letter dated July 5, 2011.

The Cooperative's response to the findings identified in our audit are described in the accompanying schedule of findings and recommendations. We did not audit the Cooperative's response and, accordingly, we express no opinion on it.

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

*Mess Adams LLP*

Albuquerque, New Mexico  
July 5, 2011

**MORA-SAN MIGUEL ELECTRIC COOPERATIVE, INC.  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
Year Ended December 31, 2010**

**FINANCIAL STATEMENT FINDINGS**

**10-01 Prior Period Adjustment – Unbilled Revenue (Significant Deficiency)**

CONDITION

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

CRITERIA

Accounting Principles Generally Accepted in the United States.

EFFECT

This resulted in a prior period adjustment to January 1, 2009 patronage capital of \$551,709.

CAUSE

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

RECOMMENDATION

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

MANAGEMENT RESPONSE

Policies and procedures will be developed for capturing unbilled revenue.

**MORA-SAN MIGUEL ELECTRIC COOPERATIVE, INC.**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)**  
**Year Ended December 31, 2010**

**FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**10-02 Check Stock (Significant Deficiency)**

CONDITION

During our disbursements cycle documentation we noted opened boxes of check stock kept in a vault that is open during business hours. We noted the boxes on the floor in an unsecure area that is not being monitored.

CRITERIA

Good internal controls require that assets be properly secured.

EFFECT

Misappropriation of assets could go undetected.

CAUSE

The accounting policies and procedures do not ensure that the check stock is properly secured.

RECOMMENDATION

We recommend all check stock be kept in a secure area with limited access. The check stock should only be accessible to employees authorized to print checks.

MANAGEMENT RESPONSE

Check stock was moved to a locked filing cabinet with access by only the A/P bookkeeper and her supervisor.

**MORA-SAN MIGUEL ELECTRIC COOPERATIVE, INC.**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)**  
**Year Ended December 31, 2010**

**FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**10-03 Segregation of Duties (Significant Deficiency)**

CONDITION

During our audit we noted the CFO is able to approve invoices for payment, had authority to sign a check, had the access to record directly to the general ledger and reconciles the bank accounts.

CRITERIA

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

- Approval
- Accounting/reconciling
- Asset custody

EFFECT

Errors or misappropriation of assets could go undetected.

CAUSE

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

RECOMMENDATION

We recommend that the Cooperative segregate duties within the accounting department. Duties should be segregated as the custody of an asset (access to check stock and/or authority to sign a check), authorization to approve a payment, recording a transaction to the general ledger, and reconciling the bank accounts. One employee should not be able to perform more than one of these duties.

**MORA-SAN MIGUEL ELECTRIC COOPERATIVE, INC.**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)**  
**Year Ended December 31, 2010**

**FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**10-03 Segregation of Duties (Significant Deficiency)**

MANAGEMENT RESPONSE

Effective immediately, regarding segregation of duties concerns with the CFO, the CEO will approve all inside operations invoices and operations manager will approve all outside operations invoices. Moreover, CFO no longer has access to check stock and will no longer sign checks only in emergency situations. Therefore, continuing to allow CFO to access G/L and reconcile to bank.

**MORA-SAN MIGUEL ELECTRIC COOPERATIVE, INC.  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)  
Year Ended December 31, 2010**

**FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**10-04 Approval of Adjustments Made to Customer Accounts  
(Significant Deficiency)**

CONDITION

We noted that billing staff have the ability to make adjustments to customer accounts without management approval.

CRITERIA

Good internal control includes proper approval of adjustments to customer accounts.

EFFECT

Errors or fraud could go undetected.

CAUSE

Policies and procedures were not established to ensure that adjustments to accounts receivable are being reviewed and approved.

RECOMMENDATION

We recommend that all adjustments be reviewed and approved by management prior to being entered into the system by the billing staff.

MANAGEMENT RESPONSE

Effective immediately the department supervisor will review and approve all adjustments to customer accounts.

**MORA-SAN MIGUEL ELECTRIC COOPERATIVE, INC.  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)  
Year Ended December 31, 2010**

**FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**10-05 Review of Journal Entries (Significant Deficiency)**

CONDITION

We noted that there is no oversight for journal entries posted by the CFO.

CRITERIA

Good internal control includes proper review and approval of all journal entries.

EFFECT

Errors or fraud could go undetected.

CAUSE

Policies and procedures were not established to ensure that journal entries are being reviewed and approved.

RECOMMENDATION

We recommend that all adjustments be reviewed and approved prior to being posted into the system.

MANAGEMENT RESPONSE

Effective immediately all journal entries will be approved by CEO and posted by CEO. Moreover, CEO will review and approve CFO's bank reconciliations. CEO has no access to general ledger.