



October 25, 2018

Ken Derschan
Chairman of the Board
Valley Electric Association, Inc.
PO Box 237
Pahrump, NV 89041

We were engaged by Valley Electric Association (the Association) to analyze the financial activities for the period January 1, 2016 through July 31, 2018.

The services provided were:

- We obtained and reviewed information about the company: internal controls, cash activity, and expenditures for the period January 1, 2016 to July 31, 2018.
- In our review of the internal controls process and documentation we noted the Association personnel appear to take internal controls seriously and work to safeguard the Association's resources. We did note, however, some of the controls are not clearly documented for an organization of the Association's size and level of activity. One example is that we did not find any documentation of thresholds for disbursement approval. The Association appears to have amounts set in its system and other mitigating controls in place to safeguard the assets. However, without official policy approved by the board and available to the staff, the controls are more procedural in nature and there are increased risks. Two possible examples are the risk the controls can be changed without board approval over time and as staffing changes, or staff may not be aware of the control and fail to perform their duties due to uncertainty or ambiguity. We recommend the Association look toward expanding its documentation with respect to its accounting policies and controls to safeguard its assets. We also recommend the board periodically, but regularly, review and approve the controls as documented.
- We noted no significant segregation of duties issues in the design of the internal controls as we reviewed the documentation provided.
- We calculated and compared ratios with industry performance.
- We noted the key ratios for the association were frequently well under the US median values, as published by NRUCFC, consistently in the period of time we reviewed. These ratios indicate the Association has sustained its growth and performance through significant debt. The long-term debt has caused the debt service coverage, equity as a percentage of assets, and equity as a percentage of capitalization to be lower; and its long term debt as a percentage of assets along with its long term debt per member ratios to be higher than the averages. Some ratios were improved in 2017 due to the Association's sale of its subsidiary activity, but this was a one-time spike which will not improve the ratios significantly overtime.
- Based on our preliminary reviews and analysis, we judgmentally selected a sample of detailed general ledger activity, and correlated it with supporting documentation and bank activity.
- No significant transactions lacking supporting documentation, or of an unidentifiable nature, were noted.

- We reviewed the bank statements and bank reconciliations for the period and based on our preliminary reviews and analysis we judgmentally selected a sample of bank activity correlating it with related activity recorded in the general ledger and supporting documentation.
 - We noted the bank reconciliations had not been performed in a timely manner during 2017, which increased the risk of error or fraud for the Association in that time period. The Association was aware of the issue, the auditor had issued a finding in relation to the 2017 financial audit, and the Association appears to have remedied the issue in 2018.
 - We noted one vendor without contact information in the system, and for which no I-9 and no 1099 could be provided. Per discussion with staff, and correlation of information on some of the vendor invoices, this appears to have been a legitimate vendor providing services to the Association. The lack of information appears to have been a failure in internal processes at the time the vendor was approved and entered in the system.
 - There were a few other items noted in the course of our work which were not significant in their amounts or scope, and have been communicated to management.

The purpose of our engagement was to assist the Association in an analysis of its records and information as consulting services detailed above and in our engagement letter dated August 8, 2018.

In performing our engagement, we relied on the accuracy and reliability of information provided by the Association's personnel. We have not audited, examined, or performed an accounting review of the information, and express no assurance on it.

This report is intended solely for the information and use of the board and management of the Association and should not be used for any other purpose.

We appreciate the opportunity to serve you and thank the individuals in your organization for their cooperation. If there are any questions, or we can be of any further assistance, please let us know.

Sincerely,



HintonBurdick, PLLC
October 25, 2018