

December 11, 2010

Mr. Dennis R. Fransich, Esq. General Counsel

Socorro Electric Cooperative, Inc.

5400 Lomas NE

Albuquerque, NM 87110

Re: \$10,000. Trustee Expense Limit, 12/10/2010

Dear Mr. Fransich:

You inadvertently erred in your letter of August 26, by using the word "reimbursed" to describe how trustee expenses were distributed and administered. That error is quite misleading compared to the way it really works. As you know, it is an Honor System easily dishonored. The right word is "advanced."

Here is how it works. Before an event (which may take place over one or several days) estimated expenses (such as per diem, travel, meal, etc.) are advanced to trustees on the "honor system". The amount of the check issued may or may not be related to the actual expense incurred, because no vouchers or receipts are required from the trustee recipient as evidence of an actual paid transaction, and no expense report is required after the event. If the event is scheduled to last 5 days and the trustee leaves the event after only two days the remaining advanced funds (per diem, hotel, meal allowances, etc.) are not an incurred business expense and are not accounted for. There are documented instances in which trustees were advanced checks in amounts to cover travel mileage and hotel allowances far in excess of the expense actually incurred, with no refund required from the trustee to pay back the cooperative's general account. It is a system designed by trustees to illegally benefit trustees by converting cooperative assets to their own personal use. It is a concept antithetical to the concept of Trusteeship. The word "reimbursed" in this case is incorrect regarding the way SEC trustee expenses are handled.

The cooperative must not (due to the bylaw's limits) make any advance to any trustee once the record shows that the \$10,000 (or \$15,000 for the president) limit has been reached. It must be the duty of the cooperative's payroll and accounting department to administer this process and inform each trustee in no uncertain terms that the limit has been reached. At that point the trustee's duties are carried out at his/her own expense until the 12 month period expires.

It must be the duty of the cooperative's general manager and his staff to cease issuing advance checks to any trustee once the limit has been reached. Furthermore, no credit should be extended against the next year's \$10,000 limit. The trustee who is the elected

12/25/2010

delegate to the various affiliated organizations can resign if unwilling to continue in that role (as did Mr. Ulibarri) or continue by absorbing the costs associated with his service.

Considering your characterization of SEC as a "Culture of Borrowing", you will agree with me that there should be no borrowing of expenses from the future 12 month period's budget for trustee expenses.

By copy of this letter, I am asking IGM Lopez to please inform me of any advanced amount in excess of the \$10,000 limit which has been issued to me to date. Upon receipt of that notice I will send a check to reimburse that excess advance. The calculation sheet (called an Advance Per diem Expense, APE sheet) which Mrs. Latasa sends with each advance check should still be sent (without a check) so a trustee can keep track of the estimated cost of any future event for tax purposes. Richard, if you or Eileen have any questions please call me.

I am also asking Mr. Lopez for copies of all APE sheets issued to all trustees after the April 17, 2010 Annual Members Meeting to audit them for compliance. I will also create an XL program to track details of advances made in order to verify current and future advances to trustees to validate the accounting processed by the cooperative.

Mr. Fransich, now that you have a clear explanation of how trustees receive cash advances from the co-op I think we can agree that there are no exceptions to the bylaw's expense limits. By copy of this to all other trustees that fact should be clear. If there are any doubts, we should address them as a board. We also should agree that no borrowing from future years or other extension of credit to trustees can be made by the co-op.

Sincerely,

Charlie Wagner, Trustee District 5

Socorro Electric Cooperative, Inc.

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