

IN THE MATTER OF THE FILING OF ADVICE NOTICE)
NO. 69 BY SOCORRO ELECTRIC COOPERATIVE, INC.)
) Case No. 18-00383-UT
SOCORRO ELECTRIC COOPERATIVE, INC.,)
APPLICANT.)

The New Mexico Public Regulation Commission’s (“Commission”) Initial Order on Remand places The Socorro Electric Cooperative, Inc. (“SEC”) in the unenviable position of having to explain why the Final Order and Compliance Order in this matter are not aligned with the law to virtually the same Commissioners who entered those Orders and invites SEC to share discussions with the Commission’s counsel that SEC believes are confidential settlement communications. Nevertheless, SEC responds to the New Mexico Public Regulation Commission (“Commission”) Initial Order on Remand as follows:

1) Do you support or oppose the Final Order and state reasons?

Response: SEC opposed the Final Order because it exceeded the Commission's authority pursuant to 17.9.540.6 NMAC, contained internal inconsistencies that were irreconcilable that the Commission refused to address when requested, substituted the Commission's own judgment for the judgment of SEC's trustees in a manner contrary to law, required SEC to implement rates that it did not propose in Advice Notices 69-71 and was not based on substantial evidence in the record. SEC thus exercised its rights and filed its appeal, Case No. S-1-SC-37948, and refers the

Commission to its Statement of the Issues for Appeal and Brief in Chief for a detailed explanation of SEC's reasons for opposing the Final Order.

2) Do you support or oppose the compliance Order, and state reasons?

Response: SEC opposed the Compliance Order because, among other reasons, the Commission exceeded its jurisdiction and summarily imposed fines against SEC's Trustees individually without due process of law. The Trustees were not named parties in SEC's application. The Commission failed to hold any hearing and took no evidence regarding whether any Trustee violated his or her fiduciary or statutory duties to SEC or its members. Because the Compliance Order was unlawful, SEC filed its emergency petition for a writ of mandamus, Case No. S-1-SC-38302. SEC refers the Commission to its Statement of the Issues for Appeal on the Compliance Order and its Emergency Verified Petition for Writ of Mandamus and Request for Stay for a detailed explanation of its reasons for opposing the Compliance Order.

3) Is SEC intending to comply with the Final Order, and if so, when, and if not, why not?

Response: SEC exercised its right to appeal the Commission's Final Order and, pursuant to NMSA 1978, Section 62-11-1 (1993), filed a Motion to Stay. SEC is awaiting the New Mexico Supreme Court's decision and will fully comply with any decision from that Court.

4) Are your positions identical to that stated in your Briefs filed in S-1-SC 38302 and S-1-SC 37948 and if not, what position is changed and in what manner?

Response: Yes.

5) What rates have been charged by SEC and/or paid by Tech and the City since the date of the Final Order?

Response: SEC is maintaining the status quo by charging the rates that were in effect prior to filing Advice Notices 69-71. No rates have been changed pending the outcome of the appeal to the New Mexico Supreme Court.

6) Is SEC currently in compliance with the Final Order; and if not, reasons?

Response: No, as stated above, SEC is awaiting the decision of the New Mexico Supreme Court that SEC believes is holding the Final Order in obedience.

7) Should the Compliance Order be revised and/or withdrawn?

Response: Yes, the Compliance Order should be withdrawn for the reasons stated in SEC's emergency petition for a writ of mandamus filed in Case No. S-1-SC-38302.

6) [sic] What revisions should be made to the Compliance Order?

Response: The Compliance Order should be withdrawn in its entirety.

8) Have the parties been in negotiations since the Compliance Order?

Response: No. SEC previously agreed to mediation to resolve both cases pending before the New Mexico Supreme Court but was informed that New Mexico Tech and the City of Socorro declined to participate in any mediation. SEC will agree to participate in any mediation that could result in a global resolution of all pending matters.

9) If so, what areas of agreement and/or disagreement remain amongst the parties?

Response: Not applicable.

10) What proposed resolution of the matter is desired to be able to file a stipulated joint motion of dismissal of all New Mexico Supreme Court appeals?

Response: SEC requests that the Commission rescind the Final Order and Compliance Order and permit SEC to implement the rates, rules and forms in Advice Notices 69-71, which were supported by its extensive Cost of Service Study performed by C. H. Guernsey & Company, Engineers • Architects • Consultants. While many members protested the Advice Notices, none of the notices filed articulated a reason for denying the requested rates.


11) SEC shall submit its audited financial statements for 2019, 2020 and 2021.

Response: Attached are copies of the audited financial statements for 2019 and 2020. SEC has not yet completed the 2021 audit.

SEC notes that it has been forced to take multiple actions to contain expenses, many of which are at the expense of SEC employees in the form of no or limited wage increases. As detailed in the Affidavit of Joseph M. Herrera filed contemporaneously herewith, SEC has limited staff training that is offered to conserve resources. SEC has deferred maintenance and has not hired contractors to keep current with tree trimming and pole replacements. SEC elected not to fill a staking engineer position and has decreased the number of meter readers from three to two positions. SEC borrowed \$8 million to infuse its cash on hand. It has delayed purchasing new or late model used vehicles for its aging fleet. SEC's bucket trucks are over nine years old and SEC has cannibalized one bucket truck to make repairs to the remaining two bucket trucks. SEC's pressure digger is a 1997 model. SEC current headquarters building was constructed in 1953 and has significant issues because of its age. SEC has delayed indefinitely the construction of a new office headquarters building because of its current financial position.

SEC has also been unable to replace or update its phone system. The current system is outdated and has had issues with the server going down, which prevents members from being able to contact SEC by phone. SEC has been unable to replace or update its outdated servers, which are no longer supported due to the age of the system.

WIGGINS, WILLIAMS & WIGGINS
A Professional Corporation

By  _____

Lorna M. Wiggins
Patricia G. Williams

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BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF THE FILING OF ADVICE NOTICE)	
NO. 69 BY SOCORRO ELECTRIC COOPERATIVE, INC.)	
)	Case No. 18-00383-UT
SOCORRO ELECTRIC COOPERATIVE, INC.,)	
<u>APPLICANT.</u>)	

CERTIFICATE OF SERVICE

I CERTIFY that on this date I sent to the parties listed here, via email only, a true and correct copy of SEC's Response to the Commission's Initial Order on Remand and Affidavit of Joseph M. Herrera in support thereof.

Nann Winter Keith W. Herrmann Ed Reyes Polo Pineda Larry Blank Donald J. Steinnerd Mark K. Adams Cindy Loehr Donald Monette Patricia G. Williams Lorna Wiggins Patricia G. Williams Joseph Herrera Christie Griego Justin Proctor Rauni Montoya Jimmy Capps Donna Wilkins Bradford Borman Milo Chavez Judith Amer David Ault Gabriella Dasheno	nwinter@stelznerlaw.com; kherrmann@stelznerlaw.com; Edwin.reyes.jr@comcast.net; ppineda@socorronm.gov; lb@tahoeconomics.com; reenerd@q.com; mkadams@rodey.com; CLoehr@rodey.com; Dmonette@socorronm.gov; pwilliams@wwwlaw.us; lwiggins@wwwlaw.us; pwilliams@wwwlaw.us; jherrera@socorroelectric.com; cgriego@wwwlaw.us; Justin.proctor@guernsey.us; rmontoya@socorroelectric.com; jcapps@socorroelectric.com; donna@socorroelectric.com; Bradford.borman@state.nm.us; Milo.chavez@state.nm.us; Judith.amer@state.nm.us; David.Ault@state.nm.us; Gabriella.Dasheno@state.nm.us;
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DATED this February 23, 2022.

WIGGINS, WILLIAMS & WIGGINS
A Professional Corporation

By 

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NEW MEXICO 20 SOCORRO

SOCORRO ELECTRIC COOPERATIVE, INC.

SOCORRO, NEW MEXICO

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

LUBBOCK, TEXAS

NEW MEXICO 20 SOCORRO

SOCORRO ELECTRIC COOPERATIVE, INC.

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FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

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REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

**NEW MEXICO 20 SOCORRO
SOCORRO ELECTRIC COOPERATIVE, INC.
SOCORRO, NEW MEXICO**

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

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BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

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8215 NASHVILLE AVENUE

LUBBOCK, TEXAS 79423-1954

Independent Auditor's Report

Board of Trustees
Socorro Electric Cooperative, Inc.
Socorro, New Mexico

Report on the Financial Statements

We have audited the accompanying financial statements of Socorro Electric Cooperative, Inc. (the Cooperative), which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of income, comprehensive income 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 Socorro Electric Cooperative, Inc. as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accompanying Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of electric plant in service, accumulated provision for depreciation, other property and investments, and administrative and general expenses are presented for purposes of additional analysis and are not a required part of the financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2020 on our consideration of Socorro Electric Cooperative, Inc.'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. 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Socorro Electric Cooperative, Inc.'s internal control over financial reporting and compliance.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

March 27, 2020

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SOCORRO ELECTRIC COOPERATIVE, INC.

Exhibit A

**BALANCE SHEETS
DECEMBER 31, 2019 AND 2018**

ASSETS

	December 31,	
	2019	2018
PLANT AT COST		
Electric Plant in Service	\$ 85,662,741	\$ 83,020,643
Construction Work in Progress	222,931	1,768,485
	\$ 85,885,672	\$ 84,789,128
Less: Accumulated Provision for Depreciation	33,955,302	32,488,133
	\$ 51,930,370	\$ 52,300,995
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 11,791,332	\$ 11,131,145
Notes Receivable	36,575	34,127
	\$ 11,827,907	\$ 11,165,272
CURRENT ASSETS		
Cash - General	\$ 1,397,954	\$ 2,459,188
Cash - Restricted	385,171	428,796
Accounts and Notes Receivable (Less allowance for uncollectibles of \$460,139 in 2019 and \$519,312 in 2018)	2,200,681	1,942,068
Accrued Unbilled Revenue	530,217	569,727
Power Cost Undercollected	104,246	124,332
Debt Service Cost Undercollected	7,583	
Materials and Supplies	781,883	648,521
Other Current and Accrued Assets	196,786	170,613
	\$ 5,604,521	\$ 6,343,245
DEFERRED CHARGES		
Regulatory Assets	\$ 3,032,006	\$ 3,157,584
NRECA RS Prepayment	213,442	284,590
CFC Prepayment Premium	790,856	930,405
Other	490,786	590,600
	\$ 4,527,090	\$ 4,963,179
TOTAL ASSETS	\$ 73,889,888	\$ 74,772,691

EQUITIES AND LIABILITIES

EQUITIES		
Patronage Capital	\$ 29,998,840	\$ 28,556,751
Donated Capital	100,940	100,940
Other Equities	137,268	97,379
Accumulated Other Comprehensive Income	34,024	24,387
	\$ 30,271,072	\$ 28,779,457
LONG-TERM DEBT		
RUS Mortgage Notes Less Current Maturities	\$ 113,268	\$ 150,458
FFB Mortgage Notes Less Current Maturities	20,024,190	31,252,462
CoBank Mortgage Notes Less Current Maturities	17,652,035	19,271,836
Line-of-Credit to be Refinanced with Long-Term Debt	1,850,000	2,000,000
RUS Advanced Payments	(2,375,435)	(14,261,325)
	\$ 37,264,058	\$ 38,413,431
ACCUMULATED PROVISION FOR PENSIONS AND BENEFITS		
Post-Retirement Benefits	\$ 321,786	\$ 320,587
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 2,349,000	\$ 2,790,000
SEC Educational Foundation	385,171	428,796
Accounts Payable - Purchased Power	1,301,780	1,309,697
Accounts Payable - Other	283,892	1,362,514
Debt Service Cost Overcollected		1,911
Consumer Deposits and Prepayments	293,927	195,370
Accrued Employee Compensated Absences	231,894	219,188
Accrued Taxes	361,915	350,738
Other Current and Accrued Liabilities	341,497	201,095
	\$ 5,549,076	\$ 6,859,309
DEFERRED CREDITS	\$ 483,896	\$ 399,907
TOTAL EQUITIES AND LIABILITIES	\$ 73,889,888	\$ 74,772,691

See accompanying notes to financial statements.

SOCORRO ELECTRIC COOPERATIVE, INC.

Exhibit B

**STATEMENTS OF INCOME, COMPREHENSIVE INCOME AND PATRONAGE CAPITAL
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	December 31,				
	2019		2018		Increase
	Amount	%	Amount	%	(Decrease)
OPERATING REVENUES					
Residential	\$ 10,667,131	42.4	\$ 10,528,866	41.8	\$ 138,265
Irrigation	48,374	0.2	67,603	0.3	(19,229)
Commercial and Industrial	14,110,661	56.2	14,276,626	56.6	(165,965)
Public Buildings and Other Authorities	126,844	0.5	128,847	0.5	(2,003)
Power and Debt Cost Adjustment	(10,592)	0.0	61,890	0.2	(72,482)
Other Operating Revenues	173,285	0.7	162,578	0.6	10,707
Total Operating Revenues	\$ 25,115,703	100.0	\$ 25,226,410	100.0	\$ (110,707)
OPERATING EXPENSES					
Purchased Power	\$ 14,764,369	58.8	\$ 14,807,825	58.7	\$ (43,456)
Distribution - Operation	1,828,250	7.3	1,832,457	7.3	(4,207)
Distribution - Maintenance	717,817	2.9	809,666	3.2	(91,849)
Consumers' Accounts	833,685	3.3	901,462	3.6	(67,777)
Sales	8,474	0.0	19,104	0.0	(10,630)
Administrative and General	1,591,733	6.3	1,493,958	5.9	97,775
Depreciation and Amortization	2,436,413	9.7	2,380,630	9.4	55,783
Taxes	172,958	0.7	159,031	0.6	13,927
Other Deductions	126,163	0.5	119,566	0.5	6,597
Other Interest	75,862	0.3	7,686	0.0	68,176
Total Operating Expenses	\$ 22,555,724	89.8	\$ 22,531,385	89.2	\$ 24,339
OPERATING MARGINS - Before					
Fixed Charges	\$ 2,559,979	10.2	\$ 2,695,025	10.8	\$ (135,046)
FIXED CHARGES					
Interest on Long-Term Debt	2,008,116	8.0	2,125,769	8.4	(117,653)
OPERATING MARGINS - After					
Fixed Charges	\$ 551,863	2.2	\$ 569,256	2.4	\$ (17,393)
G&T Capital Credits	560,903	2.2	519,946	2.1	40,957
Other Capital Credits	235,653	0.9	248,539	1.0	(12,886)
Total Capital Credits	\$ 796,556	3.1	\$ 768,485	3.1	\$ 28,071
NET OPERATING MARGINS	\$ 1,348,419	5.3	\$ 1,337,741	5.5	\$ 10,678
NON-OPERATING MARGINS					
Interest Income	\$ 688,193	2.7	\$ 750,839	3.0	\$ (62,646)
Realized Gain on Sale of Securities	3,098	0.0	280	0.0	2,818
Loss on Retired Meters	(533,267)	(2.1)	(284,961)	(1.1)	(248,306)
Other Non-Operating Margins	11,021	0.0	14,979	0.1	(3,958)
Total Non-Operating Margins	\$ 169,045	0.6	\$ 481,137	2.0	\$ (312,092)
NET MARGINS	\$ 1,517,464	5.9	\$ 1,818,878	7.5	\$ (301,414)
OTHER COMPREHENSIVE INCOME					
APBO Gain	10,442		14,804		
Amortization of Net Loss	(2,805)		(100)		
Amortization of Prior Service Cost	2,000		2,000		
COMPREHENSIVE INCOME	\$ 1,527,101		\$ 1,835,582		
Post-Retirement Benefit Adjustment	(9,637)		(16,704)		
PATRONAGE CAPITAL - BEGINNING OF YEAR	28,556,751		27,149,364		
Patronage Capital Discounted	(39,888)		(56,700)		
Patronage Capital Retired	(35,487)		(354,791)		
PATRONAGE CAPITAL - End of Year	\$ 29,998,840		\$ 28,556,751		

See accompanying notes to financial statements.

SOCORRO ELECTRIC COOPERATIVE, INC.

Exhibit C

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	December 31,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 1,517,464	\$ 1,818,878
Items to Reconcile to Net Cash From Operating Activities		
Depreciation	2,643,763	2,622,638
Non-Operating Loss on Retirement of Plant	531,748	280,886
Capital Credits	(796,556)	(728,994)
Post-Retirement Benefit Accruals	24,579	22,700
Deferred Charges	436,089	85,779
Deferred Credits	83,989	(134,205)
Accounts Receivable	(258,613)	(195,217)
Power Cost Adjustment	20,086	(63,210)
Debt Cost Adjustment	(9,494)	1,319
Accrued Unbilled Revenue	39,510	15,168
Inventories and Other Current Assets	(159,535)	(147,863)
Accounts Payable and Other Accrued Liabilities	(965,879)	1,432,761
Customer Deposits	98,557	36,095
Net Cash From Operating Activities	<u>\$ 3,205,708</u>	<u>\$ 5,046,735</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Utility Plant	\$ (2,601,361)	\$ (4,269,021)
Plant Removal Costs Net of Salvage	(203,525)	(167,917)
Notes Receivable	(2,448)	(2,461)
Other Property and Investments	136,369	198,184
Net Cash From Investing Activities	<u>\$ (2,670,965)</u>	<u>\$ (4,241,215)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Long-Term Debt to RUS	\$ (33,143)	\$ (35,566)
Net Activity on RUS Cushion of Credit	352,571	(177,320)
Payments on Long-Term Debt to FFB		(961,910)
Payments on Long-Term Debt to CoBank	(1,759,801)	(1,705,005)
Net Activity on CFC Line-of-Credit	50,000	2,000,000
Payments on CoBank Line-of-Credit	(200,000)	
Payments on Post-Retirement Benefits	(13,743)	(16,914)
Retirement of Patronage Capital	(35,486)	(385,487)
Net Cash From Financing Activities	<u>\$ (1,639,602)</u>	<u>\$ (1,282,202)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	<u>\$ (1,104,859)</u>	<u>\$ (476,682)</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>2,887,984</u>	<u>3,364,666</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 1,783,125</u></u>	<u><u>\$ 2,887,984</u></u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash Paid During the Year for:		
Interest	\$ 1,730,919	\$ 1,988,657
Income Taxes	<u>\$ 0</u>	<u>\$ 0</u>

See accompanying notes to financial statements.

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Socorro Electric Cooperative, Inc. (the Cooperative) is a non-profit company organized to provide electric service at the retail level to primarily residential and commercial accounts in a designated service area composed of the counties surrounding the City of Socorro, New Mexico. Power delivered at retail is purchased wholesale from Tri-State Electric Generation and Transmission Association, Inc. Any revenues earned in excess of costs incurred are allocated to members of the Cooperative and are reflected as patronage capital equity in the balance sheet.

System of Accounts

The accounting records of the Cooperative are maintained in accordance with the Rural Utilities Service (RUS) Uniform System of Accounts (USOA) prescribed for RUS electric borrowers.

Electric Plant, Maintenance, and Depreciation

Electric plant is stated at the original cost of construction, which includes the cost of contracted services, direct labor, materials, and overhead items. Contributions from others toward the construction of electric plant are credited to the applicable plant accounts.

When property which represents a retirement unit is replaced or removed, the average cost of such property as determined from the continuing property records is credited to electric plant and such cost, together with cost of removal less salvage, is charged to accumulated provision for depreciation.

Maintenance and repairs, including the renewal of minor items of plant not comprising a retirement unit, are charged to the appropriate maintenance accounts, except that repairs of transportation and service equipment are charged to clearing accounts and redistributed to operating expense and other accounts.

Accounts Receivable

In the normal course of business, the Cooperative recognizes accounts receivable for energy delivered and billed. The Cooperative allows 20 days from the date of the bill for payment to be received or the service is considered delinquent. Delinquent accounts receive a penalty of .0667%. If no payment is received within 24 days the account is subject to disconnect.

The Cooperative provides an allowance for doubtful accounts to recognize the portion of receivables considered uncollectible. The Cooperative accrues for this allowance, as needed, in order to keep the allowance above the total amounts owed in excess of 90 days per the accounts receivable aging report. The Board of Trustees reviews delinquent accounts annually and charges off accounts over five years old.

Inventories

Materials and supplies inventories are valued at average unit cost.

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents are represented by cash-general and cash-restricted.

Cash – Restricted

The Cooperative holds cash that is restricted for scholarships.

Electric Revenues from Contracts with Customers

The Cooperative's operating revenues are under the jurisdiction of the New Mexico Public Regulation Commission.

Substantially all operating revenues and customer accounts receivables are derived from contracts with customers. Performance obligations related to the sale of energy are satisfied as energy is delivered to customers. The Cooperative recognizes revenue that corresponds to the price of the energy delivered to the customer. The measurement of energy sales to customers is generally based on the reading of their meters, which occurs on a systematic basis throughout the month. At the end of each month, amounts of energy delivered to customers since the date of the last meter reading are estimated, and the corresponding unbilled revenue is recognized. The Cooperative has calculated that its unbilled revenue for delivered power usage which has not been billed to customers at December 31, 2019 and 2018 amounted to \$530,217 and \$569,727, respectively.

The Cooperative does not recognize a separate financing component of its collections from customers as contract terms are short-term in nature. The Cooperative presents its revenues net of any excise or sales taxes or fees.

The Cooperative's tariffs for electric service include a power cost recovery factor and a debt cost adjustment factor. These factors provide for the adjustment of electric rates charged to customers to reflect the changes in the cost of power and in interest costs, from the costs which were established in the test year of the Cooperative's last rate case. In order to match power costs and interest costs and related revenues, costs to be billed in subsequent periods are recognized as accrued under-collected power cost and debt cost adjustments, and amounts to be refunded to customers in subsequent periods are recognized as over-collected power cost and debt cost adjustments.

Income Tax Status

The Cooperative is an exempt organization for federal income tax purposes under Section 501(c)(12) of the Internal Revenue Code.

The Cooperative has adopted the "uncertain tax positions" provisions of accounting principles generally accepted in the United States of America. The primary tax position of the Cooperative is its filing status as a tax exempt entity. The Cooperative determined that it is more likely than not that its tax positions will be sustained upon examination by the Internal Revenue Service (IRS), and that all tax benefits are likely to be realized upon settlement with taxing authorities.

The Cooperative files its income tax return in the U.S. federal jurisdiction. The Cooperative is no longer subject to U.S. federal tax examinations by federal taxing authorities for years before 2016.

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

The Cooperative recognizes interest accrued related to income tax activities in interest expense and penalties in operating expenses. There were no penalties or interest recognized during the years ended December 31, 2019 and 2018.

Patronage Capital Certificates

Patronage capital from associated companies is recorded at the stated amount of the certificates. At the end of each year the Cooperative receives an estimated allocation from its G&T purchased power provider. In accordance with USOA, the Cooperative records this estimated amount as income. Any differences between the estimated amounts and actual final allocations are recorded in the following years. For the years ended 2019 and 2018, the allocations were recorded as follows:

	December 31,	
	2019	2018
Final Allocation for 2019	\$ 560,903	\$
Final Allocation for 2018		519,946
	<u>\$ 560,903</u>	<u>\$ 519,946</u>

Group Concentrations of Credit Risk

The Cooperative's headquarters facility is located in Socorro, New Mexico. The service area includes members located in several counties surrounding the City of Socorro. The Cooperative records a receivable for electric revenues as billed on a monthly basis.

The Cooperative requires a deposit from its members upon connection, which is applied to unpaid bills and fees in the event of default. The deposit accrues interest annually and is returned along with accrued interest with an established history of current payment or when the service is disconnected. As of December 31, 2019 and 2018, deposits on hand totaled \$293,927 and \$195,370, respectively.

The financial institutions in which the Cooperative had deposits are insured by the Federal Deposit Insurance Corporation. At times during the year, the Cooperative's deposits exceeded the insured amounts.

Use of Estimates in the Preparation of Financial Statements

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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to the 2018 financial statement balances to conform to the 2019 presentation.

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

2. Assets Pledged

All assets of the Cooperative are pledged as security for the long-term debt to Rural Utilities Service (RUS), Federal Financing Bank (FFB), and CoBank.

3. Plant at Cost

The major classes of plant are as follows:

	December 31,	
	2019	2018
Intangible	\$ 906,486	\$ 906,486
Electric Transmission Plant	2,338,518	2,335,230
Electric Distribution Plant	75,616,375	73,308,024
General Plant	6,801,362	6,470,903
Total Plant in Service	\$ 85,662,741	\$ 83,020,643
Construction Work in Progress	222,931	1,768,485
Total Plant	\$ 85,885,672	\$ 84,789,128

Provision has been made for depreciation of transmission plant at straight-line composite rates of 2.75% and distribution plant at composite rates ranging from 1.90% - 4.10%. AMI meters are being depreciated at 6.66% and meter software is being depreciated at 20.00%.

General plant depreciation rates have been applied on a straight-line basis and are as follows:

Structures and Improvements	2.00%
Office Furniture and Fixtures	6.00%
Computer Equipment	14.28% - 33.00%
Transportation Equipment	20.00%
Store Equipment	6.00%
Tools, Shop, and Garage Equipment	20.00%
Laboratory Equipment	6.00%
Communication Equipment	12.00%
Mapping & Miscellaneous Equipment	6.00%
GIS Hardware/Software	20.00%

Depreciation and amortization for the years ended December 31, 2019 and 2018, was \$2,643,763 and \$2,622,638, of which \$2,436,413 and \$2,380,630 was charged to depreciation expense, and \$207,350 and \$242,008 was allocated to clearing and other accounts.

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SOCORRO ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS

4. Investments in Associated Organizations

Investments in associated organizations consisted of the following:

	December 31,	
	2019	2018
National Rural Utilities Cooperative Finance Corporation		
Capital Term Certificates	\$ 476,620	\$ 476,620
Patronage Capital	174,806	184,964
Membership	1,000	1,000
Tri-State Generation and Transmission Cooperative	10,243,637	9,682,734
Federated Insurance	333,310	312,450
Southeastern Data Corporation	127,727	123,219
CoBank	407,030	323,121
Western United Electric Cooperative	17,276	18,020
Other	9,926	9,017
	\$ 11,791,332	\$ 11,131,145

5. Notes Receivable

Notes receivable consisted of the following:

	December 31,	
	2019	2018
Line Extension Loans	\$ 65,675	\$ 62,127
Less: Current Portion of Line Extension Loans	29,100	28,000
	\$ 36,575	\$ 34,127

The Cooperative issues notes receivable for customers for aid to construction on line extensions. These notes are received in monthly payments over three to five year contracts.

The contracts mature over the next five years as follows:

2020	\$ 29,100
2021	14,900
2022	9,800
2023	7,100
2024	4,775

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

6. Materials and Supplies

Materials and supplies consisted of the following:

	December 31,	
	2019	2018
Construction Materials and Supplies	\$ 725,937	\$ 586,266
Other Materials and Supplies	55,946	62,255
	<u>\$ 781,883</u>	<u>\$ 648,521</u>

7. Deferred Charges

Deferred charges consisted of the following:

	December 31,	
	2019	2018
Regulatory Assets - Tri-State Merger Costs	\$ 3,032,006	\$ 3,157,584
Premium on Debt Refinance	790,856	930,405
RS Plan Prepayment	213,442	284,590
Four Year Work Plan	224,584	272,095
State Land Right-of-Way Renewals	251,886	279,873
Other	14,316	38,632
	<u>\$ 4,527,090</u>	<u>\$ 4,963,179</u>

Deferred charges are being amortized to expense over applicable periods.

Tri-State merger costs represent the amount paid by the Cooperative to complete a transfer from Plains Electric Generation and Transmission Cooperative to Tri-State Generation and Transmission Association. The merger cost amounted to \$4,633,175 and is being amortized to expense over 35 years from August 1, 2000.

	December 31,	
	2019	2018
Original Cost of Merger	\$ 4,633,175	\$ 4,633,175
Accumulated Amortization	(1,601,169)	(1,475,591)
	<u>\$ 3,032,006</u>	<u>\$ 3,157,584</u>

The Cooperative is recovering the merger cost and interest from the Cooperative's members through electric rates as approved by the New Mexico Public Regulation Commission.

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

During the year ended December 31, 2013, the Cooperative refinanced \$8,951,955 of CFC debt with CoBank. This early payment resulted in fees amounting to \$1,709,476. These fees are being amortized to interest expense on long-term debt over 135 months, which approximates the anticipated repayment period of the new refinancing debt.

In May 2013, the Cooperative elected to participate in the National Rural Electric Cooperative Association (NRECA) Retirement Security Plan (RS Plan) Prepayment. The Cooperative's original contribution was \$711,475 and is being amortized over ten years. Amortization expense for the years ended December 31, 2019 and 2018 was \$71,148.

8. Return of Capital

Under the provisions of the mortgage agreements, until the equities and margins equal or exceed 30.00% of the total assets of the Cooperative, the return to patrons of capital contributed by them is limited generally to 25.00% of the patronage capital or margins received by the Cooperative in the prior calendar year. The equities and margins of the Cooperative represent 38.46% of the total assets at December 31, 2019 excluding the accumulated other comprehensive income and 38.49% including the accumulated other comprehensive income. Capital credits totaling \$75,375 and \$411,491 were retired for 2019 and 2018, and were within guidelines set by RUS for return of capital.

9. Patronage Capital

Patronage capital consisted of the following:

	December 31,	
	2019	2018
Assigned	\$ 27,951,159	\$ 26,152,978
Assignable	956,561	1,314,100
Assignable - G&T	560,903	519,946
	\$ 29,468,623	\$ 27,987,024
Unbilled Revenue (Assignable)	530,217	569,727
	<u>\$ 29,998,840</u>	<u>\$ 28,556,751</u>

10. Other Equities

Other equities consisted of retired capital credit gains of \$137,268 and \$97,379 as of December 31, 2019 and 2018, respectively.

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

11. Mortgage Notes – RUS

Long-term debt due RUS is represented by 35-year mortgage notes payable to the United States of America. Principal and interest on the notes are paid in monthly installments. Following is a summary of long-term debt due RUS and maturing at various times through 2028:

	December 31,	
	2019	2018
Fixed Rate Notes (2.000%)	\$ 153,268	\$ 186,458
Less: Current Maturities	40,000	36,000
	<u>\$ 113,268</u>	<u>\$ 150,458</u>

As of December 31, 2019, annual maturities of long-term debt due RUS for the next five years are as follows:

2020	\$ 40,000
2021	38,000
2022	38,000
2023	26,000
2024	2,000

12. Mortgage Notes – FFB

The long-term debt due FFB is represented by 35-year mortgage notes, guaranteed by the RUS, and payable to the FFB. Principal and interest on the notes are paid in quarterly installments.

Following is a summary of long-term debt due FFB and maturing at various times through 2046:

	December 31,	
	2019	2018
Fixed Rate Notes (2.319% - 6.327%)	\$ 20,713,190	\$ 32,246,462
Less: Current Maturities	689,000	994,000
	<u>\$ 20,024,190</u>	<u>\$ 31,252,462</u>

The Cooperative has made advance payments to RUS in the amount of \$2,375,435 and \$14,261,325 as of December 31, 2019 and 2018, respectively. During the year ended December 31, 2019, the Cooperative used this advance payment to make all FFB principal and interest payments plus an additional zero-penalty early payment of \$10,789,764 plus accrued interest.

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

As of December 31, 2019, annual maturities of long-term debt due FFB for the next five years are as follows:

2020	\$ 689,000
2021	511,000
2022	528,000
2023	543,000
2024	558,000

The Cooperative has no unadvanced funds with FFB at December 31, 2019.

13. Mortgage Notes – CoBank

Long-term debt due CoBank is represented by mortgage notes payable to CoBank. Principal and interest on the notes are paid in monthly installments. Following is a summary of long-term debt due CoBank and maturing at various times through 2037:

	December 31,	
	2019	2018
Fixed Rate Notes (2.62%-3.60%)	\$ 19,272,035	\$ 21,031,836
Less: Current Maturities	1,620,000	1,760,000
	<u>\$ 17,652,035</u>	<u>\$ 19,271,836</u>

As of December 31, 2019, annual maturities of long-term debt due CoBank for the next five years are as follows:

2020	\$ 1,620,000
2021	1,085,000
2022	1,124,000
2023	1,165,000
2024	1,205,000

14. Short-Term Borrowing

The Cooperative has a line of credit for short-term, variable rate financing from National Rural Utilities Cooperative Finance Corporation (CFC) in the amount of \$4,700,000. There was \$1,050,000 and \$1,000,000 outstanding on this line of credit as of December 31, 2019 and 2018. The interest rate as of December 31, 2019 and 2018 was 3.25% and 3.75%, respectively.

The Cooperative also has a \$4,000,000 line of credit with CoBank at an interest rate of 3.34% for the year ended December 31, 2019 with a maturity date of July 31, 2020. As of December 31, 2019 and 2018, \$800,000 and \$1,000,000 were outstanding on this line of credit, respectively.

Both line of credit amounts are presented on the balance sheet as long-term debt since both outstanding amounts will be refinanced with FFB once the new loan fund request is approved.

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

15. Deferred Credits

Deferred credits consisted of the following:

	December 31,	
	2019	2018
Unclaimed Capital Credit Retirements	\$ 471,484	\$ 390,118
Miscellaneous Deferred Credits	12,412	9,789
	<u>\$ 483,896</u>	<u>\$ 399,907</u>

16. Pension Plan

Defined Benefit Plan

The NRECA RS Plan is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is a multiemployer plan under the accounting standards. The RS Plan sponsor's Employer Identification Number is 53-0116145 and the RS Plan Number is 333.

A unique characteristic of a multiemployer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

The Cooperative contributions to the RS Plan in 2019 and 2018 represented less than five percent of the total contributions made to the RS Plan by all participating employers. Socorro made contributions to the RS Plan of \$241,574 in 2019 and \$257,793 in 2018. Pension expense for the years ended December 31, 2019 and 2018, including amortization was \$312,722 and \$328,941, respectively.

In the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employers. In total, the RS Plan was over 80% funded on January 1, 2019 and 2018 based on the PPA funding target and PPA actuarial value of assets on those dates.

Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

Defined Contribution Plan

The employees also participate in a 401(k) plan, a defined contribution plan provided through National Rural Electric Cooperative Association. The Cooperative makes monthly contributions to the plan. The cost for the Cooperative was \$138,227 and \$138,694 for the years ended December 31, 2019 and 2018, respectively.

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

17. Post-Retirement Benefits

The Cooperative provides post-retirement medical and life insurance premium coverage for eligible employees and trustees.

A summary of the plan follows:

Medical Benefits – Health Insurance Premiums

Eligibility	Eligible employees who have reached age 55 with 20 years of service.
Covered Group	Current retirees limited to \$6,000 per year, active employees and trustees with varying levels of Cooperative and participant provided premiums based on age and years of service.
Period of Coverage	Up to age 65.
Type of Plan	Point of Service Plan.

Life Insurance Benefits – Group Term Life Insurance Premiums

Eligibility, covered group, and period of coverage similar to medical benefits, but insurance, in effect, begins to be reduced starting at age 70.

Economic Assumptions

The discount rate used to develop the accumulated Post-Retirement Benefit Obligation was 3.1%. The assumed health care cost trend rate was 6.8% for 2019, declining to an ultimate level of 5.0% by 2026.

Management of the Cooperative intends to fund the plan as health care claims are required to be paid. Benefits are paid on behalf of retirees and are a function of medical insurance costs and number of retirees. Benefits paid for the years ended December 31, 2019 and 2018 were \$13,743 and \$16,914, respectively.

This information is based on the most recent actuarial valuation calculated as of January 1, 2019.

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

The following tables set forth the benefit obligation, the fair value of plan assets, the funded status of the Cooperative's plan, and amounts recognized in the Cooperative's financial statements:

	December 31,	
	2019	2018
Funded Status at End of Year:		
APBO Balance	\$ (321,786)	\$ (320,587)
Plan Assets		
Funded Status at End of Year	<u>\$ (321,786)</u>	<u>\$ (320,587)</u>
Change in Benefit Obligation:		
Benefit Obligation at Beginning of Year	\$ (320,587)	\$ (331,505)
Service Cost	(15,426)	(9,000)
Interest Cost	(9,958)	(11,800)
Benefits Paid	13,743	16,914
Net Actuarial Gain	10,442	14,804
Benefit Obligation at End of Year	<u>\$ (321,786)</u>	<u>\$ (320,587)</u>
Net Periodic Benefit Cost:		
Service Cost	\$ 15,426	\$ 9,000
Interest Cost	9,958	11,800
Amortization of Actuarial Gain	(2,805)	(100)
Amortization of Prior Service Cost	2,000	2,000
Post-Retirement Benefit Expense	<u>\$ 24,579</u>	<u>\$ 22,700</u>
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income:		
Net Actuarial Gain	\$ 10,442	\$ 14,804
Amortization of Actuarial Gain	(2,805)	(100)
Amortization of Prior Service Cost	2,000	2,000
Other Comprehensive Income	<u>\$ 9,637</u>	<u>\$ 16,704</u>
Amounts Not Yet Recognized in Net Periodic Post-Retirement Benefit Cost:		
Unrecognized Actuarial Gain	\$ 37,624	\$ 29,987
Net Prior Service Cost	(3,600)	(5,600)
Total Accumulated Other Comprehensive Income	<u>\$ 34,024</u>	<u>\$ 24,387</u>

Accounting principles generally accepted in the United States of America requires an employer that sponsors a defined benefit post-retirement plan to report the current economic status (the overfunded or underfunded status) of the plan in its balance sheet, to measure the plan assets and plan obligations as of the balance sheet date, and to include enhanced disclosures about the plan.

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

The estimated prior service cost and net gain for the post-retirement medical benefit plan that will be amortized from accumulated other comprehensive income into net post-retirement benefit cost over the next year is expected to be \$1,678.

Estimated benefit payments for the next five years and five years thereafter are as follows:

2020	\$ 3,983
2021	4,092
2022	11,212
2023	13,744
2024	16,265
2025-2029	56,468

18. Litigation and Commitments

There is no pending or threatened litigation at December 31, 2019 that would materially affect the Cooperative's financial condition.

19. Related Party Transactions

The Cooperative purchases all of its power from Tri-State Generation and Transmission Association (Tri-State), Inc. As a member of Tri-State Generation and Transmission Association, Inc., the Cooperative has representation on the Board of Trustees. At December 31, 2019 and 2018, the Cooperative had investments in Tri-State of \$10,243,637 and \$9,682,734, and owed Tri-State \$1,301,780 and \$1,309,697 for purchased power, respectively.

20. Subsequent Events

The Cooperative has evaluated subsequent events through March 27, 2020, the date which the financial statements were available to be issued.

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, multiple jurisdictions in the U.S. have declared states of emergency. It is anticipated that these impacts will continue for some time. There has been no material financial impact to the Cooperative's operations to date. Future potential impacts include disruptions or restrictions on our employees' ability to work, reduced consumer demand for energy, and customers' ability to pay their monthly bills in a timely fashion. Changes to our operating environment may also be impacted. These changes may impact operating costs and net income. The future effects of these issues are unknown.

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

21. Recently Issued Accounting Pronouncement

In February 2016, the FASB issued Accounting Standards Update 2016-02, *Leases*. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be clarified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The new standard is effective for nonpublic entities for fiscal years beginning after December 15, 2020. The Cooperative is evaluating the impact of the new standard on the financial statements.

ACCOMPANYING INFORMATION

SOCORRO ELECTRIC COOPERATIVE, INC.

Schedule 1

**ELECTRIC PLANT IN SERVICE
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Balance 1/1/2019	Additions And Transfers	Retirements	Balance 12/31/2019
CLASSIFIED ELECTRIC PLANT IN SERVICE				
Intangible Plant				
Organization	\$ 906,486	\$	\$	\$ 906,486
Transmission Plant				
Land and Land Rights	\$ 2,228	\$	\$	\$ 2,228
Poles and Fixtures	999,392	8,024	5,740	1,001,676
Overhead Conductors and Devices	1,333,610	1,004		1,334,614
Total	\$ 2,335,230	\$ 9,028	\$ 5,740	\$ 2,338,518
Distribution Plant				
Land and Land Rights	\$ 42,960	\$	\$	\$ 42,960
Station Equipment	5,269,390	10,698	13,500	5,266,588
Poles, Towers, and Fixtures	24,860,677	465,019	45,168	25,280,528
Overhead Conductors and Devices	17,352,537	1,055,036	410,735	17,996,838
Underground Conductors and Devices	5,683,367	112,665	30,507	5,765,525
Line Transformers	10,088,697	429,240	12,872	10,505,065
Services	5,542,579	2,751	18,078	5,527,252
Meters	3,343,707	1,720,157	941,841	4,122,023
Installations on Consumers' Premises	877,332	11,862	26,376	862,818
Street Lighting and Signal Systems	246,778			246,778
Total	\$ 73,308,024	\$ 3,807,428	\$ 1,499,077	\$ 75,616,375
General Plant				
Land and Land Rights	\$ 41,073	\$	\$	\$ 41,073
Structures and Improvements	990,424			990,424
Office Furniture and Computer Equipment	922,695	26,937		949,632
Transportation and Power Operated Equipment	3,417,012	291,049		3,708,061
Store Equipment	9,911			9,911
Tools, Shop, and Garage Equipment	144,397	11,821		156,218
Laboratory Equipment	14,148			14,148
Communications Equipment	271,900	652		272,552
Miscellaneous Equipment	659,343			659,343
Total	\$ 6,470,903	\$ 330,459	\$ 0	\$ 6,801,362
Total Classified Electric Plant in Service	\$ 83,020,643	\$ 4,146,915	\$ 1,504,817	\$ 85,662,741
Construction Work in Progress	1,768,485	(1,545,554)		222,931
Total Utility Plant	\$ 84,789,128	\$ 2,601,361	\$ 1,504,817	\$ 85,885,672

SOCORRO ELECTRIC COOPERATIVE, INC.

Schedule 2

**ACCUMULATED PROVISION FOR DEPRECIATION
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>Balance 1/1/2019</u>	<u>Accruals And Transfers</u>	<u>Retirements</u>	<u>Balance 12/31/2019</u>
Transmission Plant	\$ 670,207	\$ 64,157	\$ 8,622	\$ 725,742
Distribution Plant	\$ 26,278,816	\$ 2,253,853	\$ 1,163,375	\$ 27,369,294
General Plant				
Structures and Improvements	\$ 878,215	\$ 8,218	\$	\$ 886,433
Office Furniture and Computer Equipment	696,053	63,746		759,799
Transportation and Power Operated Equipment	2,806,010	207,350		3,013,360
Stores Equipment	7,269	248		7,517
Tools, Shop, and Garage Equipment	118,345	11,057		129,402
Laboratory Equipment	12,005	248		12,253
Communications Equipment	243,838	10,114		253,952
Intangible Plant	130,061	24,772		154,833
Miscellaneous Equipment	659,342			659,342
Total General Plant	\$ 5,551,138	\$ 325,753	\$ 0	\$ 5,876,891
Total Classified Electric Plant in Service	\$ 32,500,161	\$ 2,643,763	\$ 1,171,997	\$ 33,971,927
Retirement Work in Progress	(12,028)		4,597	(16,625)
	<u>\$ 32,488,133</u>	<u>\$ 2,643,763</u>	<u>\$ 1,176,594</u>	<u>\$ 33,955,302</u>
Charged to Depreciation Expense		\$ 2,436,413		
Charged to Clearing and Other Accounts		<u>207,350</u>		
		<u>\$ 2,643,763</u>		
Cost of Plant Retired			\$ 1,504,817	
Plant Removal Cost Net of Salvage			203,525	
Loss on Retirement of Meters			<u>(531,748)</u>	
			<u>\$ 1,176,594</u>	

SOCORRO ELECTRIC COOPERATIVE, INC.

Schedule 3

**OTHER PROPERTY AND INVESTMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	December 31,	
	2019	2018
INVESTMENTS IN ASSOCIATED ORGANIZATIONS		
Memberships		
National Rural Telephone Cooperative	\$ 1,000	\$ 1,000
National Rural Utilities Cooperative Finance Corporation	1,000	1,000
CoBank	1,000	1,000
Southeastern Data Corporation	100	100
Cooperative Response Center	2,500	2,500
Patronage Capital		
National Rural Utilities Cooperative Finance Corporation	174,806	184,964
Federated Insurance	333,310	312,450
Southeastern Data Corporation	127,727	123,219
Tri-State Generation and Transmission Cooperative	10,243,637	9,682,734
Western United Electric Cooperative	17,276	18,020
CoBank	407,030	323,121
Cooperative Response Center	4,733	3,823
Capital Term Certificates		
National Rural Utilities Cooperative Finance Corporation	476,620	476,620
Other	593	594
	<u>\$ 11,791,332</u>	<u>\$ 11,131,145</u>
NOTES RECEIVABLE		
Line Extension Contracts	\$ 65,675	\$ 62,127
Less: Current Portion of Line Extension Loans	(29,100)	(28,000)
	<u>\$ 36,575</u>	<u>\$ 34,127</u>
 Total Other Property and Investments	 <u>\$ 11,827,907</u>	 <u>\$ 11,165,272</u>

SOCORRO ELECTRIC COOPERATIVE, INC.

Schedule 4

**ADMINISTRATIVE AND GENERAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	December 31,		Increase (Decrease)
	2019	2018	
Administrative and General Salaries	\$ 592,230	\$ 681,939	\$ (89,709)
Office Supplies and Expenses	100,308	105,815	(5,507)
Injuries and Damages	4,059	85,245	(81,186)
Outside Services Employed	132,903	240,351	(107,448)
Regulatory Commission Expenses	371,962	13,595	358,367
Directors' Fees and Expenses	77,628	84,025	(6,397)
Association Dues	117,424	113,226	4,198
Annual Meeting Expenses	62,170	41,192	20,978
Scholarship Fund Expenses	15,812	11,356	4,456
Miscellaneous Expenses	32,248	41,142	(8,894)
Maintenance of General Plant	84,989	76,072	8,917
Total	\$ <u>1,591,733</u>	\$ <u>1,493,958</u>	\$ <u>97,775</u>

COMPLIANCE AND INTERNAL CONTROL SECTION

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

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**REPORT ON COMPLIANCE WITH ASPECTS OF CONTRACTUAL
AGREEMENTS AND REGULATORY REQUIREMENTS FOR ELECTRIC BORROWERS**

Independent Auditor's Report

Board of Trustees
Socorro Electric Cooperative, Inc.
Socorro, 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 Socorro Electric Cooperative, Inc. (the Cooperative), which comprise the balance sheet as of December 31, 2019, and the related statements of income, comprehensive income 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 March 27, 2020. In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2020, on our consideration of the Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above 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 and Grantees*, 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, 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 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);

Comply with the requirements for the detailed schedule of deferred debits and deferred credits; and

Comply with the requirements for the detailed schedule of investments.

See note 4 and schedule 3 for the schedule of investments. See notes 7 and 15 for the schedule of deferred debits and deferred credits.

The purpose of this report is solely to communicate, in connection with the audit of the financial statements, on compliance with aspects of contractual agreements and the regulatory requirements for electric borrowers based on the requirements of 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers and Grantees*. Accordingly, this report is not suitable for any other purpose.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

March 27, 2020

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

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**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**

Independent Auditor's Report

Board of Trustees
Socorro Electric Cooperative, Inc.
Socorro, New Mexico

We have audited, in accordance with the 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 Socorro Electric Cooperative, Inc., as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise Socorro Electric Cooperative, Inc.'s basic financial statements, and have issued our report thereon dated March 27, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Socorro Electric Cooperative, Inc.'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 Socorro Electric Cooperative, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Socorro Electric Cooperative, Inc.'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 entity'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 Socorro Electric Cooperative, Inc.'s financial statements are free from 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*.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

March 27, 2020

NEW MEXICO 20 SOCORRO

SOCORRO ELECTRIC COOPERATIVE, INC.

SOCORRO, NEW MEXICO

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

LUBBOCK, TEXAS

NEW MEXICO 20 SOCORRO

SOCORRO ELECTRIC COOPERATIVE, INC.

SOCORRO, NEW MEXICO

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

**NEW MEXICO 20 SOCORRO
SOCORRO ELECTRIC COOPERATIVE, INC.
SOCORRO, NEW MEXICO**

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

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Independent Auditor's Report

Board of Trustees
Socorro Electric Cooperative, Inc.
Socorro, New Mexico

Report on the Financial Statements

We have audited the accompanying financial statements of Socorro Electric Cooperative, Inc. (the Cooperative), which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of income, comprehensive income 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 Socorro Electric Cooperative, Inc. as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accompanying Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of electric plant in service, accumulated provision for depreciation, other property and investments, and administrative and general expenses are presented for purposes of additional analysis and are not a required part of the financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2021 on our consideration of Socorro Electric Cooperative, Inc.'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. 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Socorro Electric Cooperative, Inc.'s internal control over financial reporting and compliance.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

March 31, 2021

SOCORRO ELECTRIC COOPERATIVE, INC.

Exhibit A

BALANCE SHEETS
DECEMBER 31, 2020 AND 2019

ASSETS

	December 31,	
	2020	2019
PLANT AT COST		
Electric Plant in Service	\$ 87,082,660	\$ 85,662,741
Construction Work in Progress	439,884	222,931
	\$ 87,522,544	\$ 85,885,672
Less: Accumulated Provision for Depreciation	35,892,071	33,955,302
	\$ 51,630,473	\$ 51,930,370
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 12,194,145	\$ 11,791,332
Investments in Marketable Securities - Restricted	318,537	
Notes Receivable	28,142	36,575
	\$ 12,540,824	\$ 11,827,907
CURRENT ASSETS		
Cash - General	\$ 7,926,445	\$ 1,397,954
Cash - Restricted	278,461	385,171
Accounts and Notes Receivable (Less allowance for uncollectibles of \$487,459 in 2020 and \$460,139 in 2019)	2,246,961	2,200,681
Accrued Unbilled Revenue	603,340	530,217
Power Cost Undercollected	150,069	104,246
Debt Service Cost Undercollected	4,322	7,583
Materials and Supplies	761,801	781,883
Other Current and Accrued Assets	196,954	196,786
	\$ 12,168,353	\$ 5,604,521
DEFERRED CHARGES		
Regulatory Assets	\$ 2,900,003	\$ 3,032,006
NRECA RS Prepayment	142,295	213,442
CFC Prepayment Premium	651,307	790,856
Other	291,556	490,786
	\$ 3,985,161	\$ 4,527,090
TOTAL ASSETS	\$ 80,324,811	\$ 73,889,888

EQUITIES AND LIABILITIES

EQUITIES		
Patronage Capital	\$ 30,955,336	\$ 29,998,840
Donated Capital	100,940	100,940
Other Equities	157,204	137,268
Accumulated Other Comprehensive Income	66,548	34,024
	\$ 31,280,028	\$ 30,271,072
LONG-TERM DEBT		
RUS Mortgage Notes Less Current Maturities	\$ 74,998	\$ 113,268
FFB Mortgage Notes Less Current Maturities	28,006,972	20,024,190
CoBank Mortgage Notes Less Current Maturities	16,566,729	17,652,035
Line-of-Credit to be Refinanced with Long-Term Debt		1,850,000
RUS Advanced Payments	(974,331)	(2,375,435)
	\$ 43,674,368	\$ 37,264,058
ACCUMULATED PROVISION FOR PENSIONS AND BENEFITS		
Post-Retirement Benefits	\$ 288,059	\$ 286,186
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 1,694,000	\$ 2,349,000
Current Portion of APBO	25,127	35,600
SEC Educational Foundation	596,998	385,171
Accounts Payable - Purchased Power	1,354,600	1,301,780
Accounts Payable - Other	93,443	283,892
Consumer Deposits and Prepayments	327,806	293,927
Accrued Employee Compensated Absences	230,729	231,894
Accrued Taxes	367,691	361,915
Other Current and Accrued Liabilities	191,320	341,497
	\$ 4,881,714	\$ 5,584,676
DEFERRED CREDITS	\$ 200,642	\$ 483,896
TOTAL EQUITIES AND LIABILITIES	\$ 80,324,811	\$ 73,889,888

See accompanying notes to financial statements.

SOCORRO ELECTRIC COOPERATIVE, INC.

Exhibit B

**STATEMENTS OF INCOME, COMPREHENSIVE INCOME AND PATRONAGE CAPITAL
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

	December 31,				
	2020		2019		Increase
	Amount	%	Amount	%	(Decrease)
OPERATING REVENUES					
Residential	\$ 10,921,310	44.1	\$ 10,667,131	42.4	\$ 254,179
Irrigation	77,055	0.3	48,374	0.2	28,681
Commercial and Industrial	13,441,714	54.4	14,110,661	56.2	(668,947)
Public Buildings and Other Authorities	124,357	0.5	126,844	0.5	(2,487)
Power and Debt Cost Adjustment	42,562	0.2	(10,592)	0.0	53,154
Other Operating Revenues	114,700	0.5	173,285	0.7	(58,585)
Total Operating Revenues	\$ 24,721,698	100.0	\$ 25,115,703	100.0	\$ (394,005)
OPERATING EXPENSES					
Purchased Power	\$ 14,905,737	60.3	\$ 14,764,369	58.8	\$ 141,368
Transmission - Operation	16,680	0.1	16,945	0.1	(265)
Distribution - Operation	1,998,674	8.1	1,811,305	7.2	187,369
Distribution - Maintenance	746,159	3.0	717,817	2.9	28,342
Consumers' Accounts	900,842	3.6	833,685	3.3	67,157
Sales	6,479	0.0	8,474	0.0	(1,995)
Administrative and General	1,311,463	5.3	1,591,733	6.3	(280,270)
Depreciation and Amortization	2,508,707	10.1	2,436,413	9.7	72,294
Taxes	146,067	0.6	172,958	0.7	(26,891)
Other Deductions	132,003	0.5	126,163	0.5	5,840
Other Interest	42,970	0.2	75,862	0.3	(32,892)
Total Operating Expenses	\$ 22,715,781	91.8	\$ 22,555,724	89.8	\$ 160,057
OPERATING MARGINS - Before					
Fixed Charges	\$ 2,005,917	8.2	\$ 2,559,979	10.2	\$ (554,062)
FIXED CHARGES					
Interest on Long-Term Debt	1,419,654	5.7	2,008,116	8.0	(588,462)
OPERATING MARGINS - After					
Fixed Charges	\$ 586,263	2.5	\$ 551,863	2.2	\$ 34,400
G&T Capital Credits	330,610	1.3	560,903	2.2	(230,293)
Other Capital Credits	234,563	0.9	235,653	0.9	(1,090)
Total Capital Credits	\$ 565,173	2.2	\$ 796,556	3.1	\$ (231,383)
NET OPERATING MARGINS	\$ 1,151,436	4.7	\$ 1,348,419	5.3	\$ (196,983)
NON-OPERATING MARGINS					
Interest Income	\$ 113,166	0.5	\$ 688,193	2.7	\$ (575,027)
Realized Gain on Sale of Securities	2,134	0.0	3,098	0.0	(964)
Loss on Retired Meters		0.0	(531,748)	(2.1)	531,748
Other Non-Operating Margins	71,639	0.3	9,502	0.0	62,137
Total Non-Operating Margins	\$ 186,939	0.8	\$ 169,045	0.6	\$ 17,894
NET MARGINS	\$ 1,338,375	5.5	\$ 1,517,464	5.9	\$ (179,089)
OTHER COMPREHENSIVE INCOME					
APBO Gain	31,154		10,442		
Amortization of Net Loss	(630)		(2,805)		
Amortization of Prior Service Cost	2,000		2,000		
COMPREHENSIVE INCOME	\$ 1,370,899		\$ 1,527,101		
Post-Retirement Benefit Adjustment	(32,524)		(9,637)		
PATRONAGE CAPITAL - BEGINNING OF YEAR	29,998,840		28,556,751		
Patronage Capital Discounted	(19,936)		(39,888)		
Patronage Capital Retired	(361,943)		(35,487)		
PATRONAGE CAPITAL - END OF YEAR	\$ 30,955,336		\$ 29,998,840		

See accompanying notes to financial statements.

SOCORRO ELECTRIC COOPERATIVE, INC.

Exhibit C

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	December 31,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 1,338,375	\$ 1,517,464
Items to Reconcile to Net Cash From Operating Activities		
Depreciation	2,750,502	2,643,763
Non-Operating Loss on Retirement of Plant		531,748
Capital Credits	(565,173)	(796,556)
Post-Retirement Benefit Accruals	30,763	24,579
Deferred Charges	541,929	436,089
Deferred Credits	(283,254)	83,989
Accounts Receivable	(46,280)	(258,613)
Power Cost Adjustment	(45,823)	20,086
Debt Cost Adjustment	3,261	(9,494)
Accrued Unbilled Revenue	(73,123)	39,510
Inventories and Other Current Assets	19,914	(159,535)
Accounts Payable and Other Accrued Liabilities	(71,368)	(965,879)
Customer Deposits	33,879	98,557
Net Cash From Operating Activities	\$ 3,633,602	\$ 3,205,708
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Utility Plant	\$ (2,288,734)	\$ (2,601,361)
Plant Removal Costs Net of Salvage	(161,871)	(203,525)
Notes Receivable	8,433	(2,448)
Other Property and Investments	(156,177)	136,369
Net Cash From Investing Activities	\$ (2,598,349)	\$ (2,670,965)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Long-Term Debt to RUS	\$ (40,270)	\$ (33,143)
Net Activity on RUS Cushion of Credit	711,886	352,571
Advances on Long-Term Debt from FFB	8,554,000	
Payments on Long-Term Debt to CoBank	(1,620,306)	(1,759,801)
Net Activity on CFC Line-of-Credit	(1,050,000)	50,000
Payments on CoBank Line-of-Credit	(800,000)	(200,000)
Payments on Post-Retirement Benefits	(6,839)	(13,743)
Retirement of Patronage Capital	(361,943)	(35,486)
Net Cash From Financing Activities	\$ 5,386,528	\$ (1,639,602)
CHANGE IN CASH AND CASH EQUIVALENTS	\$ 6,421,781	\$ (1,104,859)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,783,125</u>	<u>2,887,984</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 8,204,906</u>	<u>\$ 1,783,125</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash Paid During the Year for:		
Interest	\$ 1,466,666	\$ 1,730,919
Income Taxes	\$ 0	\$ 0

See accompanying notes to financial statements.

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Socorro Electric Cooperative, Inc. (the Cooperative) is a non-profit company organized to provide electric service at the retail level to primarily residential and commercial accounts in a designated service area composed of the counties surrounding the City of Socorro, New Mexico. Power delivered at retail is purchased wholesale from Tri-State Electric Generation and Transmission Association, Inc. Any revenues earned in excess of costs incurred are allocated to members of the Cooperative and are reflected as patronage capital equity in the balance sheet.

System of Accounts

The accounting records of the Cooperative are maintained in accordance with the Rural Utilities Service (RUS) Uniform System of Accounts (USOA) prescribed for RUS electric borrowers.

Electric Plant, Maintenance, and Depreciation

Electric plant is stated at the original cost of construction, which includes the cost of contracted services, direct labor, materials, and overhead items. Contributions from others toward the construction of electric plant are credited to the applicable plant accounts.

When property which represents a retirement unit is replaced or removed, the average cost of such property as determined from the continuing property records is credited to electric plant and such cost, together with cost of removal less salvage, is charged to accumulated provision for depreciation.

Maintenance and repairs, including the renewal of minor items of plant not comprising a retirement unit, are charged to the appropriate maintenance accounts, except that repairs of transportation and service equipment are charged to clearing accounts and redistributed to operating expense and other accounts.

Accounts Receivable

In the normal course of business, the Cooperative recognizes accounts receivable for energy delivered and billed. The Cooperative allows 20 days from the date of the bill for payment to be received or the service is considered delinquent. Delinquent accounts receive a penalty of .0667%. If no payment is received within 24 days the account is subject to disconnect.

The Cooperative provides an allowance for doubtful accounts to recognize the portion of receivables considered uncollectible. The Cooperative accrues for this allowance, as needed, in order to keep the allowance above the total amounts owed in excess of 90 days per the accounts receivable aging report. The Board of Trustees reviews delinquent accounts annually and charges off accounts over five years old.

Inventories

Materials and supplies inventories are valued at average unit cost.

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents are represented by cash-general and cash-restricted.

Cash – Restricted

The Cooperative holds cash that is restricted for scholarships.

Electric Revenues from Contracts with Customers

The Cooperative's operating revenues are under the jurisdiction of the New Mexico Public Regulation Commission.

Substantially all operating revenues and customer accounts receivables are derived from contracts with customers. Performance obligations related to the sale of energy are satisfied as energy is delivered to customers. The Cooperative recognizes revenue that corresponds to the price of the energy delivered to the customer. The measurement of energy sales to customers is generally based on the reading of their meters, which occurs on a systematic basis throughout the month. At the end of each month, amounts of energy delivered to customers since the date of the last meter reading are estimated, and the corresponding unbilled revenue is recognized. The Cooperative has calculated that its unbilled revenue for delivered power usage which has not been billed to customers at December 31, 2020 and 2019 amounted to \$603,340 and \$530,217, respectively.

The Cooperative does not recognize a separate financing component of its collections from customers as contract terms are short-term in nature. The Cooperative presents its revenues net of any excise or sales taxes or fees.

The Cooperative's tariffs for electric service include a power cost recovery factor and a debt cost adjustment factor. These factors provide for the adjustment of electric rates charged to customers to reflect the changes in the cost of power and in interest costs, from the costs which were established in the test year of the Cooperative's last rate case. In order to match power costs and interest costs and related revenues, costs to be billed in subsequent periods are recognized as accrued under-collected power cost and debt cost adjustments, and amounts to be refunded to customers in subsequent periods are recognized as over-collected power cost and debt cost adjustments.

Income Tax Status

The Cooperative is an exempt organization for federal income tax purposes under Section 501(c)(12) of the Internal Revenue Code.

The Cooperative has adopted the "uncertain tax positions" provisions of accounting principles generally accepted in the United States of America. The primary tax position of the Cooperative is its filing status as a tax exempt entity. The Cooperative determined that it is more likely than not that its tax positions will be sustained upon examination by the Internal Revenue Service (IRS), and that all tax benefits are likely to be realized upon settlement with taxing authorities.

The Cooperative files its income tax return in the U.S. federal jurisdiction. The Cooperative is no longer subject to U.S. federal tax examinations by federal taxing authorities for years before 2017.

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

The Cooperative recognizes interest accrued related to income tax activities in interest expense and penalties in operating expenses. There were no penalties or interest recognized during the years ended December 31, 2020 and 2019.

Patronage Capital Certificates

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

Group Concentrations of Credit Risk

The Cooperative's headquarters facility is located in Socorro, New Mexico. The service area includes members located in several counties surrounding the City of Socorro. The Cooperative records a receivable for electric revenues as billed on a monthly basis.

The Cooperative requires a deposit from its members upon connection, which is applied to unpaid bills and fees in the event of default. The deposit accrues interest annually and is returned along with accrued interest with an established history of current payment or when the service is disconnected. As of December 31, 2020 and 2019, deposits on hand totaled \$327,806 and \$293,927, respectively.

The financial institutions in which the Cooperative had deposits are insured by the Federal Deposit Insurance Corporation. At times during the year, the Cooperative's deposits exceeded the insured amounts.

Investments in Marketable Securities

In January 2016, FASB ASU 2016-01, *Financial Instruments: Recognition and Measurement of Financial Assets and Financial Liabilities, Topic 321* (ASC 321). The Cooperative implemented the guidance on January 1, 2020. Results and disclosures for reporting periods beginning after December 31, 2019 are presented in accordance with ASC 321, while prior period results have not been adjusted and continue to be reported in accordance with prior accounting guidance.

ASC 321 eliminates the distinction between trading and available-for-sale equity securities. Beginning in 2020 these securities are valued at fair value with unrealized gains or losses recognized in net income. Prior amounts that were reported in accumulated other comprehensive income are presented as a cumulative effect of the adoption of ASC 321 and will be reported as other equities at the consolidated level.

Investment levels are based on inputs used to calculate fair market value of investments. Those inputs are defined for each level as follows:

Level 1 - inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Cooperative has the ability to access at the measurement date.

Level 2 - inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - inputs are unobservable inputs for the asset or liability.

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

Use of Estimates in the Preparation of Financial Statements

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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to the 2019 financial statement balances to conform to the 2020 presentation.

2. Assets Pledged

All assets of the Cooperative are pledged as security for the long-term debt to Rural Utilities Service (RUS), Federal Financing Bank (FFB), and CoBank.

3. Plant at Cost

The major classes of plant are as follows:

	December 31,	
	2020	2019
Intangible	\$ 906,486	\$ 906,486
Electric Transmission Plant	2,342,653	2,338,518
Electric Distribution Plant	77,236,611	75,616,375
General Plant	6,596,910	6,801,362
Total Plant in Service	\$ 87,082,660	\$ 85,662,741
Construction Work in Progress	439,884	222,931
Total Plant	<u>\$ 87,522,544</u>	<u>\$ 85,885,672</u>

Provision has been made for depreciation of transmission plant at straight-line composite rates of 2.75% and distribution plant at composite rates ranging from 1.90% - 4.10%. AMI meters are being depreciated at 6.66% and meter software is being depreciated at 20.00%.

General plant depreciation rates have been applied on a straight-line basis and are as follows:

Structures and Improvements	2.00%
Office Furniture and Fixtures	6.00%
Computer Equipment	14.28% - 33.00%
Transportation Equipment	20.00%
Store Equipment	6.00%
Tools, Shop, and Garage Equipment	20.00%
Laboratory Equipment	6.00%
Communication Equipment	12.00%
Mapping & Miscellaneous Equipment	6.00%
GIS Hardware/Software	20.00%

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SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

Depreciation and amortization for the years ended December 31, 2020 and 2019, was \$2,750,502 and \$2,643,763, of which \$2,508,707 and \$2,436,413 was charged to depreciation expense, and \$241,795 and \$207,350 was allocated to clearing and other accounts.

4. Investments in Associated Organizations

Investments in associated organizations consisted of the following:

	December 31,	
	2020	2019
National Rural Utilities Cooperative Finance Corporation		
Capital Term Certificates	\$ 470,920	\$ 476,620
Patronage Capital	167,040	174,806
Membership	1,000	1,000
Tri-State Generation and Transmission Cooperative	10,574,247	10,243,637
Federated Insurance	348,357	333,310
Southeastern Data Corporation	127,656	127,727
CoBank	475,484	407,030
Western United Electric Cooperative	18,700	17,276
Other	10,741	9,926
	<u>\$ 12,194,145</u>	<u>\$ 11,791,332</u>

5. Investments in Marketable Securities - Restricted

Marketable securities at fair value:

	December 31, 2020
Money Market Funds	\$ 60,005
Bond Funds	151,495
Stock Funds	107,037
	<u>\$ 318,537</u>

The cost and approximate fair values of these investments at December 31, 2020 are as follows:

	Original Cost	Unrealized Gain (Loss)	Fair Value
Money Market Funds	\$ 60,005	\$	\$ 60,005
Bond Funds	153,814	(2,319)	151,495
Stock Funds	97,742	9,295	107,037
	<u>\$ 311,561</u>	<u>\$ 6,976</u>	<u>\$ 318,537</u>

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

The Cooperative had realized gains of \$10,597 in 2020 from the sale of marketable securities. The unrealized gains (losses) for the year ended December 31, 2020 for investments still held on that date was \$6,976.

Based on the Fair Value Hierarchy presented in Note 1, the investments are considered to be Level 1.

These investments are restricted for use by the Cooperative's foundation. Realized and unrealized gains and losses are recognized as changes to the liability that reflects the amount owed to the foundation.

6. Notes Receivable

Notes receivable consisted of the following:

	December 31,	
	2020	2019
Line Extension Loans	\$ 62,742	\$ 65,675
Less: Current Portion of Line Extension Loans	34,600	29,100
	<u>\$ 28,142</u>	<u>\$ 36,575</u>

The Cooperative issues notes receivable for customers for aid to construction on line extensions. These notes are received in monthly payments over three to five year contracts.

The contracts mature over the next five years as follows:

2021	\$ 29,100
2022	14,900
2023	9,800
2024	7,100
2025	4,775

7. Materials and Supplies

Materials and supplies consisted of the following:

	December 31,	
	2020	2019
Construction Materials and Supplies	\$ 709,140	\$ 725,937
Other Materials and Supplies	52,661	55,946
	<u>\$ 761,801</u>	<u>\$ 781,883</u>

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

8. Deferred Charges

Deferred charges consisted of the following:

	December 31,	
	2020	2019
Regulatory Assets - Tri-State Merger Costs	\$ 2,900,003	\$ 3,032,006
Premium on Debt Refinance	651,307	790,856
RS Plan Prepayment	142,295	213,442
Four Year Work Plan	151,426	224,584
State Land Right-of-Way Renewals	140,130	251,886
Other		14,316
	<u>\$ 3,985,161</u>	<u>\$ 4,527,090</u>

Deferred charges are being amortized to expense over applicable periods.

Tri-State merger costs represent the amount paid by the Cooperative to complete a transfer from Plains Electric Generation and Transmission Cooperative to Tri-State Generation and Transmission Association. The merger cost amounted to \$4,633,175 and is being amortized to expense over 35 years from August 1, 2000.

	December 31,	
	2020	2019
Original Cost of Merger	\$ 4,633,175	\$ 4,633,175
Accumulated Amortization	(1,733,172)	(1,601,169)
	<u>\$ 2,900,003</u>	<u>\$ 3,032,006</u>

The Cooperative is recovering the merger cost and interest from the Cooperative's members through electric rates as approved by the New Mexico Public Regulation Commission.

During the year ended December 31, 2013, the Cooperative refinanced \$8,951,955 of CFC debt with CoBank. This early payment resulted in fees amounting to \$1,709,476. These fees are being amortized to interest expense on long-term debt over 135 months, which approximates the anticipated repayment period of the new refinancing debt.

In May 2013, the Cooperative elected to participate in the National Rural Electric Cooperative Association (NRECA) Retirement Security Plan (RS Plan) Prepayment. The Cooperative's original contribution was \$711,475 and is being amortized over ten years. Amortization expense for the years ended December 31, 2020 and 2019 was \$71,148.

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

9. Return of Capital

Under the provisions of the mortgage agreements, until the equities and margins equal or exceed 30.00% of the total assets of the Cooperative, the return to patrons of capital contributed by them is limited generally to 25.00% of the patronage capital or margins received by the Cooperative in the prior calendar year. The equities and margins of the Cooperative represent 38.86% of the total assets at December 31, 2020 excluding the accumulated other comprehensive income and 38.94% including the accumulated other comprehensive income. Capital credits totaling \$381,879 and \$75,375 were retired for 2020 and 2019, and were within guidelines set by RUS for return of capital.

10. Patronage Capital

Patronage capital consisted of the following:

	December 31,	
	2020	2019
Assigned	\$ 29,013,621	\$ 27,951,159
Assignable	1,007,765	956,561
Assignable - G&T	330,610	560,903
	\$ 30,351,996	\$ 29,468,623
Unbilled Revenue (Assignable)	603,340	530,217
	<u>\$ 30,955,336</u>	<u>\$ 29,998,840</u>

11. Other Equities

Other equities consisted of retired capital credit gains of \$157,204 and \$137,268 as of December 31, 2020 and 2019, respectively.

12. Mortgage Notes – RUS

Long-term debt due RUS is represented by 35-year mortgage notes payable to the United States of America. Principal and interest on the notes are paid in monthly installments. Following is a summary of long-term debt due RUS and maturing at various times through 2028:

	December 31,	
	2020	2019
Fixed Rate Notes (2.000%)	\$ 112,998	\$ 153,268
Less: Current Maturities	38,000	40,000
	<u>\$ 74,998</u>	<u>\$ 113,268</u>

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

As of December 31, 2020, annual maturities of long-term debt due RUS for the next five years are as follows:

2021	\$ 38,000
2022	26,000
2023	26,000
2024	2,000
2025	3,000

13. Mortgage Notes – FFB

The long-term debt due FFB is represented by 35-year mortgage notes, guaranteed by the RUS, and payable to the FFB. Principal and interest on the notes are paid in quarterly installments.

Following is a summary of long-term debt due FFB and maturing at various times through 2054:

	December 31,	
	2020	2019
Fixed Rate Notes (1.171% - 4.114%)	\$ 28,577,972	\$ 20,713,190
Less: Current Maturities	571,000	689,000
	<u>\$ 28,006,972</u>	<u>\$ 20,024,190</u>

The Cooperative has made advance payments to RUS in the amount of \$974,331 and \$2,375,435 as of December 31, 2020 and 2019, respectively.

As of December 31, 2020, annual maturities of long-term debt due FFB for the next five years are as follows:

2021	\$ 571,000
2022	728,000
2023	800,000
2024	818,000
2025	833,000

14. Mortgage Notes – CoBank

Long-term debt due CoBank is represented by mortgage notes payable to CoBank. Principal and interest on the notes are paid in monthly installments. Following is a summary of long-term debt due CoBank and maturing at various times through 2037:

	December 31,	
	2020	2019
Fixed Rate Notes (3.00% - 3.60%)	\$ 17,651,729	\$ 19,272,035
Less: Current Maturities	1,085,000	1,620,000
	<u>\$ 16,566,729</u>	<u>\$ 17,652,035</u>

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SOCORRO ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS

As of December 31, 2020, annual maturities of long-term debt due CoBank for the next five years are as follows:

2021	\$ 1,085,000
2022	1,124,000
2023	1,165,000
2024	1,205,000
2025	1,154,000

15. Short-Term Borrowing

The Cooperative has a line of credit for short-term, variable rate financing from National Rural Utilities Cooperative Finance Corporation (CFC) in the amount of \$4,700,000. There was \$0 and \$1,050,000 outstanding on this line of credit as of December 31, 2020 and 2019. The interest rate as of December 31, 2020 and 2019 was 2.45% and 3.25%, respectively.

The Cooperative also has a \$4,000,000 line of credit with CoBank at an interest rate of 2.45% for the year ended December 31, 2020 with a maturity date of July 31, 2021. As of December 31, 2020 and 2019, \$0 and \$800,000 were outstanding on this line of credit, respectively.

Both line of credit amounts were presented on the balance sheet as long-term debt as of December 31, 2019 since both outstanding amounts were to be refinanced with FFB.

16. Deferred Credits

Deferred credits consisted of the following:

	December 31,	
	2020	2019
Unclaimed Capital Credit Retirements	\$ 185,701	\$ 471,484
Miscellaneous Deferred Credits	14,941	12,412
	<u>\$ 200,642</u>	<u>\$ 483,896</u>

17. Pension Plan

Defined Benefit Plan

The NRECA RS Plan is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is a multiemployer plan under the accounting standards. The RS Plan sponsor's Employer Identification Number is 53-0116145 and the RS Plan Number is 333.

A unique characteristic of a multiemployer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

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SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

The Cooperative contributions to the RS Plan in 2020 and 2019 represented less than five percent of the total contributions made to the RS Plan by all participating employers. Socorro made contributions to the RS Plan of \$261,388 in 2020 and \$241,574 in 2019. Pension expense for the years ended December 31, 2020 and 2019, including amortization was \$332,535 and \$312,722, respectively.

In the RS Plan, a “zone status” determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employers. In total, the RS Plan was over 80% funded on January 1, 2021 and 2020 based on the PPA funding target and PPA actuarial value of assets on those dates.

Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

Defined Contribution Plan

The employees also participate in a 401(k) plan, a defined contribution plan provided through National Rural Electric Cooperative Association. The Cooperative makes monthly contributions to the plan. The cost for the Cooperative was \$138,548 and \$138,227 for the years ended December 31, 2020 and 2019, respectively.

18. Post-Retirement Benefits

The Cooperative provides post-retirement medical and life insurance premium coverage for eligible employees and trustees.

A summary of the plan follows:

Medical Benefits – Health Insurance Premiums

Eligibility	Eligible employees who have reached age 55 with 20 years of service.
Covered Group	Current retirees limited to \$6,000 per year, active employees and trustees with varying levels of Cooperative and participant provided premiums based on age and years of service.
Period of Coverage	Up to age 65.
Type of Plan	Point of Service Plan.

Life Insurance Benefits – Group Term Life Insurance Premiums

Eligibility, covered group, and period of coverage similar to medical benefits, but insurance, in effect, begins to be reduced starting at age 70.

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

Economic Assumptions

The discount rate used to develop the accumulated Post-Retirement Benefit Obligation was 2.65%. The assumed health care cost trend rate was 6.65% for 2020, declining to an ultimate level of 5.0% by 2027.

Management of the Cooperative intends to fund the plan as health care claims are required to be paid. Benefits are paid on behalf of retirees and are a function of medical insurance costs and number of retirees. Benefits paid for the years ended December 31, 2020 and 2019 were \$6,839 and \$13,743, respectively.

This information is based on the most recent actuarial valuation calculated as of January 1, 2020.

The following tables set forth the benefit obligation, the fair value of plan assets, the funded status of the Cooperative's plan, and amounts recognized in the Cooperative's financial statements:

	December 31,	
	2020	2019
Funded Status at End of Year:		
APBO Balance	\$ 313,186	\$ (321,786)
Plan Assets		
Funded Status at End of Year	<u>\$ 313,186</u>	<u>\$ (321,786)</u>
Change in Benefit Obligation:		
Benefit Obligation at Beginning of Year	\$ (321,786)	\$ (320,587)
Service Cost	(19,720)	(15,426)
Interest Cost	(9,673)	(9,958)
Benefits Paid	6,839	13,743
Net Actuarial Gain	31,154	10,442
Benefit Obligation at End of Year	<u>\$ (313,186)</u>	<u>\$ (321,786)</u>
Net Periodic Benefit Cost:		
Service Cost	\$ 19,720	\$ 15,426
Interest Cost	9,673	9,958
Amortization of Actuarial Gain	(630)	(2,805)
Amortization of Prior Service Cost	2,000	2,000
Post-Retirement Benefit Expense	<u>\$ 30,763</u>	<u>\$ 24,579</u>

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

	December 31,	
	2020	2019
Other Changes in Plan Assets and Benefit Obligations		
Recognized in Other Comprehensive Income:		
Net Actuarial Gain	\$ 31,154	\$ 10,442
Amortization of Actuarial Gain	(630)	(2,805)
Amortization of Prior Service Cost	2,000	2,000
Other Comprehensive Income	\$ 32,524	\$ 9,637
Amounts Not Yet Recognized in Net Periodic		
Post-Retirement Benefit Cost:		
Unrecognized Actuarial Gain	\$ 68,148	\$ 37,624
Net Prior Service Cost	(1,600)	(3,600)
Total Accumulated Other Comprehensive Income	\$ 66,548	\$ 34,024

Accounting principles generally accepted in the United States of America requires an employer that sponsors a defined benefit post-retirement plan to report the current economic status (the overfunded or underfunded status) of the plan in its balance sheet, to measure the plan assets and plan obligations as of the balance sheet date, and to include enhanced disclosures about the plan.

The estimated prior service cost and net gain for the post-retirement medical benefit plan that will be amortized from accumulated other comprehensive income into net post-retirement benefit cost over the next year is expected to be (\$451).

Estimated benefit payments for the next five years and five years thereafter are as follows:

2021	\$ 4,182
2022	10,557
2023	12,816
2024	15,067
2025	4,547
2026-2030	57,118

19. Litigation and Commitments

There is no pending or threatened litigation at December 31, 2020 that would materially affect the Cooperative's financial condition.

As of December 31, 2020, the Cooperative had committed to purchase large trucks totaling approximately \$872,000. These trucks were on order and expected to be received in 2021.

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

20. Related Party Transactions

The Cooperative purchases all of its power from Tri-State Generation and Transmission Association (Tri-State), Inc. As a member of Tri-State Generation and Transmission Association, Inc., the Cooperative has representation on the Board of Trustees. At December 31, 2020 and 2019, the Cooperative had investments in Tri-State of \$10,574,247 and \$10,243,637, and owed Tri-State \$1,354,600 and \$1,301,780 for purchased power, respectively.

21. Subsequent Events

The Cooperative has evaluated subsequent events through March 31, 2021, the date which the financial statements were available to be issued.

22. Recently Issued Accounting Pronouncement

In February 2016, the FASB issued Accounting Standards Update 2016-02, *Leases*. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be clarified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The new standard is effective for nonpublic entities for fiscal years beginning after December 15, 2021. The Cooperative is evaluating the impact of the new standard on the financial statements.

ACCOMPANYING INFORMATION

SOCORRO ELECTRIC COOPERATIVE, INC.

Schedule 1

**ELECTRIC PLANT IN SERVICE
FOR THE YEAR ENDED DECEMBER 31, 2020**

	<u>Balance 1/1/2020</u>	<u>Additions And Transfers</u>	<u>Retirements</u>	<u>Balance 12/31/2020</u>
CLASSIFIED ELECTRIC PLANT IN SERVICE				
Intangible Plant				
Organization	\$ 906,486	\$ _____	\$ _____	\$ 906,486
Transmission Plant				
Land and Land Rights	\$ 2,228	\$ _____	\$ _____	\$ 2,228
Poles and Fixtures	1,001,676			1,001,676
Overhead Conductors and Devices	1,334,614	4,135		1,338,749
Total	<u>\$ 2,338,518</u>	<u>\$ 4,135</u>	<u>\$ 0</u>	<u>\$ 2,342,653</u>
Distribution Plant				
Land and Land Rights	\$ 42,960	\$ _____	\$ _____	\$ 42,960
Station Equipment	5,266,588	12,627	10,698	5,268,517
Poles, Towers, and Fixtures	25,280,528	559,438	45,347	25,794,619
Overhead Conductors and Devices	17,996,838	598,213	92,552	18,502,499
Underground Conductors and Devices	5,765,525	199,570	11,141	5,953,954
Line Transformers	10,505,065	292,214	84,217	10,713,062
Services	5,527,252	1,471	10,168	5,518,555
Meters	4,122,023	216,211	14,101	4,324,133
Installations on Consumers' Premises	862,818	23,735	15,019	871,534
Street Lighting and Signal Systems	246,778			246,778
Total	<u>\$ 75,616,375</u>	<u>\$ 1,903,479</u>	<u>\$ 283,243</u>	<u>\$ 77,236,611</u>
General Plant				
Land and Land Rights	\$ 41,073	\$ _____	\$ _____	\$ 41,073
Structures and Improvements	990,424			990,424
Office Furniture and Computer Equipment	949,632	28,718		978,350
Transportation and Power Operated Equipment	3,708,061	135,247	368,619	3,474,689
Store Equipment	9,911			9,911
Tools, Shop, and Garage Equipment	156,218			156,218
Laboratory Equipment	14,148			14,148
Communications Equipment	272,552	202		272,754
Miscellaneous Equipment	659,343			659,343
Total	<u>\$ 6,801,362</u>	<u>\$ 164,167</u>	<u>\$ 368,619</u>	<u>\$ 6,596,910</u>
Total Classified Electric Plant in Service	\$ 85,662,741	\$ 2,071,781	\$ 651,862	\$ 87,082,660
Construction Work in Progress	<u>222,931</u>	<u>216,953</u>		<u>439,884</u>
Total Utility Plant	<u>\$ 85,885,672</u>	<u>\$ 2,288,734</u>	<u>\$ 651,862</u>	<u>\$ 87,522,544</u>

SOCORRO ELECTRIC COOPERATIVE, INC.

Schedule 2

**ACCUMULATED PROVISION FOR DEPRECIATION
FOR THE YEAR ENDED DECEMBER 31, 2020**

	<u>Balance 1/1/2020</u>	<u>Accruals And Transfers</u>	<u>Retirements</u>	<u>Balance 12/31/2020</u>
Transmission Plant	\$ 725,742	\$ 64,259	\$	\$ 790,001
Distribution Plant	\$ 27,369,294	\$ 2,332,520	\$ 442,578	\$ 29,259,236
General Plant				
Structures and Improvements	\$ 886,433	\$ 6,035	\$	\$ 892,468
Office Furniture and Computer Equipment	759,799	59,410		819,209
Transportation and Power Operated Equipment	3,013,360	241,795	368,619	2,886,536
Stores Equipment	7,517	248		7,765
Tools, Shop, and Garage Equipment	129,402	11,030		140,432
Laboratory Equipment	12,253	248		12,501
Communications Equipment	253,952	10,185		264,137
Intangible Plant	154,833	24,772		179,605
Miscellaneous Equipment	659,342			659,342
Total General Plant	\$ 5,876,891	\$ 353,723	\$ 368,619	\$ 5,861,995
Total Classified Electric Plant in Service	\$ 33,971,927	\$ 2,750,502	\$ 811,197	\$ 35,911,232
Retirement Work in Progress	(16,625)		2,536	(19,161)
	<u>\$ 33,955,302</u>	<u>\$ 2,750,502</u>	<u>\$ 813,733</u>	<u>\$ 35,892,071</u>
Charged to Depreciation Expense		\$ 2,508,707		
Charged to Clearing and Other Accounts		<u>241,795</u>		
		<u>\$ 2,750,502</u>		
Cost of Plant Retired			\$ 651,862	
Plant Removal Cost Net of Salvage			<u>161,871</u>	
			<u>\$ 813,733</u>	

SOCORRO ELECTRIC COOPERATIVE, INC.

Schedule 3

**OTHER PROPERTY AND INVESTMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

	December 31,	
	2020	2019
INVESTMENTS IN ASSOCIATED ORGANIZATIONS		
Memberships		
National Rural Telephone Cooperative	\$ 1,000	\$ 1,000
National Rural Utilities Cooperative Finance Corporation	1,000	1,000
CoBank	1,000	1,000
Southeastern Data Corporation	100	100
Cooperative Response Center	2,500	2,500
Patronage Capital		
National Rural Utilities Cooperative Finance Corporation	167,040	174,806
Federated Insurance	348,357	333,310
Southeastern Data Corporation	127,656	127,727
Tri-State Generation and Transmission Cooperative	10,574,247	10,243,637
Western United Electric Cooperative	18,700	17,276
CoBank	475,484	407,030
Cooperative Response Center	5,547	4,733
Capital Term Certificates		
National Rural Utilities Cooperative Finance Corporation	470,920	476,620
Other	594	593
	<u>\$ 12,194,145</u>	<u>\$ 11,791,332</u>
NOTES RECEIVABLE		
Line Extension Contracts	\$ 62,742	\$ 65,675
Less: Current Portion of Line Extension Loans	(34,600)	(29,100)
	<u>\$ 28,142</u>	<u>\$ 36,575</u>
OTHER INVESTMENTS - RESTRICTED		
Homestead Investments Funds	\$ 318,537	\$ 0
 Total Other Property and Investments	 <u>\$ 12,540,824</u>	 <u>\$ 11,827,907</u>

SOCORRO ELECTRIC COOPERATIVE, INC.

Schedule 4

**ADMINISTRATIVE AND GENERAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

	December 31,		Increase (Decrease)
	2020	2019	
Administrative and General Salaries	\$ 668,899	\$ 592,230	\$ 76,669
Office Supplies and Expenses	94,589	100,308	(5,719)
Injuries and Damages	746	4,059	(3,313)
Outside Services Employed	146,421	132,903	13,518
Regulatory Commission Expenses	64,868	371,962	(307,094)
Directors' Fees and Expenses	44,619	77,628	(33,009)
Association Dues	113,714	117,424	(3,710)
Annual Meeting Expenses	26,366	62,170	(35,804)
Scholarship Fund Expenses	16,492	15,812	680
Miscellaneous Expenses	63,331	32,248	31,083
Maintenance of General Plant	71,418	84,989	(13,571)
Total	\$ <u>1,311,463</u>	\$ <u>1,591,733</u>	\$ <u>(280,270)</u>

COMPLIANCE AND INTERNAL CONTROL SECTION

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

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**REPORT ON COMPLIANCE WITH ASPECTS OF CONTRACTUAL
AGREEMENTS AND REGULATORY REQUIREMENTS FOR ELECTRIC BORROWERS**

Independent Auditor's Report

Board of Trustees
Socorro Electric Cooperative, Inc.
Socorro, 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 Socorro Electric Cooperative, Inc. (the Cooperative), which comprise the balance sheet as of December 31, 2020, and the related statements of income, comprehensive income 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 March 31, 2021. In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2021, 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 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 and Grantees*, 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, 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 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);

Comply with the requirements for the detailed schedule of deferred debits and deferred credits; and

Comply with the requirements for the detailed schedule of investments.

See Note 4 and Schedule 3 for the schedule of investments. See Notes 8 and 16 for the schedule of deferred debits and deferred credits.

The purpose of this report is solely to communicate, in connection with the audit of the financial statements, on compliance with aspects of contractual agreements and the regulatory requirements for electric borrowers based on the requirements of 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers and Grantees*. Accordingly, this report is not suitable for any other purpose.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

March 31, 2021

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

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**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**

Independent Auditor's Report

Board of Trustees
Socorro Electric Cooperative, Inc.
Socorro, New Mexico

We have audited, in accordance with the 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 Socorro Electric Cooperative, Inc., as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise Socorro Electric Cooperative, Inc.'s basic financial statements, and have issued our report thereon dated March 31, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Socorro Electric Cooperative, Inc.'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 Socorro Electric Cooperative, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Socorro Electric Cooperative, Inc.'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 entity'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 Socorro Electric Cooperative, Inc.'s financial statements are free from 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*.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

March 31, 2021