

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**

TABLE OF CONTENTS

	<u>Statement Identification</u>	<u>Page No.</u>
Independent Auditor's Report		1
Financial Statements		
Balance Sheets	Exhibit A	3
Statements of Income, Comprehensive Income and Patronage Capital	Exhibit B	4
Statements of Cash Flows	Exhibit C	5
Notes to Financial Statements		6
Accompanying Information		
Electric Plant in Service	Schedule 1	20
Accumulated Provision for Depreciation	Schedule 2	21
Other Property and Investments	Schedule 3	22
Administrative and General Expenses	Schedule 4	23
Compliance and Internal Control Section		
Report on Compliance with Aspects of Contractual Agreements and Regulatory Requirements for Electric Borrowers		24
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		26

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

CERTIFIED PUBLIC ACCOUNTANTS

PHONE: (806) 747-3806

FAX: (806) 747-3815

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, 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.

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

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,	
	<u>2020</u>	<u>2019</u>
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	<u>2,000</u>	<u>2,000</u>
Other Comprehensive Income	<u>\$ 32,524</u>	<u>\$ 9,637</u>
Amounts Not Yet Recognized in Net Periodic		
Post-Retirement Benefit Cost:		
Unrecognized Actuarial Gain	\$ 68,148	\$ 37,624
Net Prior Service Cost	<u>(1,600)</u>	<u>(3,600)</u>
Total Accumulated Other Comprehensive Income	<u>\$ 66,548</u>	<u>\$ 34,024</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.

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

COMPLIANCE AND INTERNAL CONTROL SECTION

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

CERTIFIED PUBLIC ACCOUNTANTS

PHONE: (806) 747-3806

FAX: (806) 747-3815

8215 NASHVILLE AVENUE

LUBBOCK, TEXAS 79423-1954

**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

PHONE: (806) 747-3806

FAX: (806) 747-3815

8215 NASHVILLE AVENUE

LUBBOCK, TEXAS 79423-1954

**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