

NEW MEXICO 20 SOCORRO

SOCORRO ELECTRIC COOPERATIVE, INC.

SOCORRO, NEW MEXICO

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

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

CERTIFIED PUBLIC ACCOUNTANTS

LUBBOCK, TEXAS

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

CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditor's Report

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

Opinion

We have audited the financial statements of Socorro Electric Cooperative, Inc. (the Cooperative), which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Socorro Electric Cooperative, Inc. as of December 31, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Cooperative and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Cooperative's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

In performing an audit in accordance with GAAS we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Cooperative's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Cooperative's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Accompanying Information

Our audit was conducted for the purpose of forming an opinion on the Cooperative's financial statements. The schedules of electric plant in service, accumulated provision for depreciation, other property and investments, and administrative and general expenses (collectively referred to as accompanying information) 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 accompanying information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2022 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. The purpose of that report is solely 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 the effectiveness of the Cooperative's 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 the Cooperative's internal control over financial reporting and compliance.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

March 31, 2022

SOCORRO ELECTRIC COOPERATIVE, INC.

Exhibit A

BALANCE SHEETS
DECEMBER 31, 2021 AND 2020

ASSETS

	December 31,	
	2021	2020
PLANT AT COST		
Electric Plant in Service	\$ 88,765,155	\$ 87,082,660
Construction Work in Progress	1,445,162	439,884
	<u>\$ 90,210,317</u>	<u>\$ 87,522,544</u>
Less: Accumulated Provision for Depreciation	38,336,305	35,892,071
	<u>\$ 51,874,012</u>	<u>\$ 51,630,473</u>
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 12,597,840	\$ 12,194,145
Investments in Marketable Securities - Restricted	337,639	318,537
Notes Receivable	30,995	28,142
	<u>\$ 12,966,474</u>	<u>\$ 12,540,824</u>
CURRENT ASSETS		
Cash - General	\$ 8,842,617	\$ 7,926,445
Cash - Restricted	199,320	278,461
Accounts and Notes Receivable (Less allowance for uncollectibles of \$474,640 in 2021 and \$487,459 in 2020)	1,832,267	2,246,961
Accrued Unbilled Revenue	567,070	603,340
Power Cost Undercollected	15,294	150,069
Debt Service Cost Undercollected		4,322
Materials and Supplies	667,745	761,801
Other Current and Accrued Assets	158,823	196,954
	<u>\$ 12,283,136</u>	<u>\$ 12,168,353</u>
DEFERRED CHARGES		
Regulatory Assets	\$ 2,761,247	\$ 2,900,003
NRECA RS Prepayment	71,147	142,295
CFC Prepayment Premium	511,758	651,307
Other	176,063	291,556
	<u>\$ 3,520,215</u>	<u>\$ 3,985,161</u>
TOTAL ASSETS	<u>\$ 80,643,837</u>	<u>\$ 80,324,811</u>
	EQUITIES AND LIABILITIES	
EQUITIES		
Patronage Capital	\$ 32,013,646	\$ 30,955,336
Donated Capital	100,940	100,940
Other Equities	177,788	157,204
Accumulated Other Comprehensive Income	66,809	66,548
	<u>\$ 32,359,183</u>	<u>\$ 31,280,028</u>
LONG-TERM DEBT		
RUS Mortgage Notes Less Current Maturities	\$ 37,284	\$ 74,998
FFB Mortgage Notes Less Current Maturities	27,240,864	28,006,972
CoBank Mortgage Notes Less Current Maturities	15,442,695	16,566,729
RUS Advanced Payments	(49,157)	(974,331)
	<u>\$ 42,671,686</u>	<u>\$ 43,674,368</u>
ACCUMULATED PROVISION FOR PENSIONS AND BENEFITS		
Post-Retirement Benefits	\$ 319,751	\$ 288,059
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 1,913,000	\$ 1,694,000
Current Portion of APBO	10,737	25,127
SEC Educational Foundation	536,959	596,998
Accounts Payable - Purchased Power	1,218,875	1,354,600
Accounts Payable - Other	149,805	93,443
Debt Service Cost Overcollected	15,641	
Consumer Deposits and Prepayments	335,463	327,806
Accrued Employee Compensated Absences	255,227	230,729
Accrued Taxes	360,724	367,691
Other Current and Accrued Liabilities	182,062	191,320
	<u>\$ 4,978,493</u>	<u>\$ 4,881,714</u>
DEFERRED CREDITS	<u>\$ 314,724</u>	<u>\$ 200,642</u>
TOTAL EQUITIES AND LIABILITIES	<u>\$ 80,643,837</u>	<u>\$ 80,324,811</u>

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, 2021 AND 2020**

	December 31,				Increase (Decrease)
	2021		2020		
	Amount	%	Amount	%	
OPERATING REVENUES					
Residential	\$ 10,771,374	44.7	\$ 10,921,310	44.1	\$ (149,936)
Irrigation	69,371	0.3	77,055	0.3	(7,684)
Commercial and Industrial	13,196,456	54.8	13,441,714	54.4	(245,258)
Public Buildings and Other Authorities	121,803	0.5	124,357	0.5	(2,554)
Power and Debt Cost Adjustment	(154,739)	(0.6)	42,562	0.2	(197,301)
Other Operating Revenues	80,479	0.3	114,700	0.5	(34,221)
Total Operating Revenues	<u>\$ 24,084,744</u>	<u>100.0</u>	<u>\$ 24,721,698</u>	<u>100.0</u>	<u>\$ (636,954)</u>
OPERATING EXPENSES					
Purchased Power	\$ 14,379,050	59.7	\$ 14,905,737	60.3	\$ (526,687)
Transmission - Operation	16,732	0.1	16,680	0.1	52
Distribution - Operation	1,891,145	7.9	1,998,674	8.1	(107,529)
Distribution - Maintenance	632,419	2.6	746,159	3.0	(113,740)
Consumers' Accounts	888,976	3.7	900,842	3.6	(11,866)
Sales	7,404	0.0	6,479	0.0	925
Administrative and General	1,287,583	5.3	1,311,463	5.3	(23,880)
Depreciation and Amortization	2,538,609	10.5	2,508,707	10.1	29,902
Taxes	127,085	0.5	146,067	0.6	(18,982)
Other Deductions	138,836	0.6	132,003	0.5	6,833
Other Interest	1,012	0.0	42,970	0.2	(41,958)
Total Operating Expenses	<u>\$ 21,908,851</u>	<u>90.9</u>	<u>\$ 22,715,781</u>	<u>91.8</u>	<u>\$ (806,930)</u>
OPERATING MARGINS - Before Fixed Charges	<u>\$ 2,175,893</u>	<u>9.1</u>	<u>\$ 2,005,917</u>	<u>8.2</u>	<u>\$ 169,976</u>
FIXED CHARGES					
Interest on Long-Term Debt	<u>1,387,262</u>	<u>5.8</u>	<u>1,419,654</u>	<u>5.7</u>	<u>(32,392)</u>
OPERATING MARGINS - After Fixed Charges	<u>\$ 788,631</u>	<u>3.3</u>	<u>\$ 586,263</u>	<u>2.5</u>	<u>\$ 202,368</u>
G&T Capital Credits	341,440	1.4	330,610	1.3	10,830
Other Capital Credits	224,460	0.9	234,563	0.9	(10,103)
Total Capital Credits	<u>\$ 565,900</u>	<u>2.3</u>	<u>\$ 565,173</u>	<u>2.2</u>	<u>\$ 727</u>
NET OPERATING MARGINS	<u>\$ 1,354,531</u>	<u>5.6</u>	<u>\$ 1,151,436</u>	<u>4.7</u>	<u>\$ 203,095</u>
NON-OPERATING MARGINS (LOSS)					
Interest Income	\$ 50,150	0.2	\$ 113,166	0.5	\$ (63,016)
Realized Gain (Loss) on Sale of Securities	(3,665)	0.0	2,134	0.0	(5,799)
Loss on Retired Meters	(1,041)	0.0	(755)	0.0	(286)
Other Non-Operating Margins	68,638	0.3	72,394	0.3	(3,756)
Total Non-Operating Margins	<u>\$ 114,082</u>	<u>0.5</u>	<u>\$ 186,939</u>	<u>0.8</u>	<u>\$ (72,857)</u>
NET MARGINS	<u>\$ 1,468,613</u>	<u>6.1</u>	<u>\$ 1,338,375</u>	<u>5.5</u>	<u>\$ 130,238</u>
OTHER COMPREHENSIVE INCOME					
APBO Gain	551		31,154		
Amortization of Net Loss	(1,890)		(630)		
Amortization of Prior Service Cost	<u>1,600</u>		<u>2,000</u>		
COMPREHENSIVE INCOME	<u>\$ 1,468,874</u>		<u>\$ 1,370,899</u>		
Post-Retirement Benefit Adjustment	(261)		(32,524)		
PATRONAGE CAPITAL - BEGINNING OF YEAR	30,955,336		29,998,840		
Patronage Capital Discounted	(20,584)		(19,936)		
Patronage Capital Retired	<u>(389,719)</u>		<u>(361,943)</u>		
PATRONAGE CAPITAL - END OF YEAR	<u>\$ 32,013,646</u>		<u>\$ 30,955,336</u>		

See accompanying notes to financial statements.

SOCORRO ELECTRIC COOPERATIVE, INC.

Exhibit C

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

	December 31,	
	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 1,468,613	\$ 1,338,375
Items to Reconcile to Net Cash From Operating Activities		
Depreciation	2,813,076	2,750,502
Non-Operating Loss on Retirement of Plant		
Capital Credits	(565,900)	(565,173)
Post-Retirement Benefit Accruals	26,013	30,763
Deferred Charges	464,946	541,929
Deferred Credits	114,082	(283,254)
Accounts Receivable	414,694	(46,280)
Power Cost Adjustment	134,775	(45,823)
Debt Cost Adjustment	19,963	3,261
Accrued Unbilled Revenue	36,270	(73,123)
Inventories and Other Current Assets	132,187	19,914
Accounts Payable and Other Accrued Liabilities	(131,129)	(71,368)
Customer Deposits	7,657	33,879
Net Cash From Operating Activities	<u>\$ 4,935,247</u>	<u>\$ 3,633,602</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Utility Plant	\$ (2,898,403)	\$ (2,288,734)
Plant Removal Costs Net of Salvage	(158,212)	(161,871)
Notes Receivable	(2,853)	8,433
Other Property and Investments	143,103	(156,177)
Net Cash From Investing Activities	<u>\$ (2,916,365)</u>	<u>\$ (2,598,349)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Long-Term Debt to RUS	\$ (37,714)	\$ (40,270)
Net Activity on RUS Cushion of Credit	339,066	711,886
Advances on Long-Term Debt from FFB		8,554,000
Payments on Long-Term Debt to CoBank	(1,085,034)	(1,620,306)
Net Activity on CFC Line-of-Credit		(1,050,000)
Net Activity on CoBank Line-of-Credit		(800,000)
Payments on Post-Retirement Benefits	(8,450)	(6,839)
Retirement of Patronage Capital	(389,719)	(361,943)
Net Cash From Financing Activities	<u>\$ (1,181,851)</u>	<u>\$ 5,386,528</u>
CHANGE IN CASH AND CASH EQUIVALENTS	<u>\$ 837,031</u>	<u>\$ 6,421,781</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>8,204,906</u>	<u>1,783,125</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 9,041,937</u>	<u>\$ 8,204,906</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash Paid During the Year for:		
Interest	<u>\$ 1,215,260</u>	<u>\$ 1,466,666</u>
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 0.0667%. 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, 2021 and 2020 amounted to \$567,070 and \$603,340, 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 2018.

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, 2021 and 2020.

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, 2021 and 2020, deposits on hand totaled \$335,463 and \$327,806, 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

Securities are valued at fair value with unrealized gains or losses recognized in net income.

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.

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.

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,	
	2021	2020
Intangible	\$ 906,486	\$ 906,486
Electric Transmission Plant	2,343,690	2,342,653
Electric Distribution Plant	78,540,394	77,236,611
General Plant	6,974,585	6,596,910
Total Plant in Service	\$ 88,765,155	\$ 87,082,660
Construction Work in Progress	1,445,162	439,884
Total Plant	\$ 90,210,317	\$ 87,522,544

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, 2021 and 2020, was \$2,813,076 and \$2,750,502, of which \$2,538,609 and \$2,508,707 was charged to depreciation expense, and \$274,467 and \$241,795 was allocated to clearing and other accounts.

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

4. Investments in Associated Organizations

Investments in associated organizations consisted of the following:

	December 31,	
	2021	2020
National Rural Utilities Cooperative Finance Corporation		
Capital Term Certificates	\$ 470,920	\$ 470,920
Patronage Capital	158,023	167,040
Membership	1,000	1,000
Tri-State Generation and Transmission Cooperative	10,915,687	10,574,247
Federated Insurance	367,702	348,357
Southeastern Data Corporation	142,224	127,656
CoBank	512,486	475,484
Western United Electric Cooperative	18,439	18,700
Other	11,359	10,741
	<u>\$ 12,597,840</u>	<u>\$ 12,194,145</u>

5. Investments in Marketable Securities - Restricted

Marketable securities at fair value:

	December 31,	
	2021	2020
Money Market Funds	\$ 60,011	\$ 60,005
Bond Funds	149,806	151,495
Stock Funds	127,822	107,037
	<u>\$ 337,639</u>	<u>\$ 318,537</u>

The cost and approximate fair values of these investments at December 31, 2021 are as follows:

	Original Cost	Unrealized Gain (Loss)	Fair Value
Money Market Funds	\$ 60,011	\$	\$ 60,011
Bond Funds	153,501	(3,695)	149,806
Stock Funds	118,525	9,297	127,822
	<u>\$ 332,037</u>	<u>\$ 5,602</u>	<u>\$ 337,639</u>

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

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>

The Cooperative had realized gains of \$0 in 2021 and 2020 from the sale of marketable securities. The unrealized gains (losses) for the year ended December 31, 2021 and 2020 for investments still held on that date was \$5,602 and \$6,976, respectively.

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,	
	2021	2020
Line Extension Loans	\$ 47,795	\$ 62,742
Less: Current Portion of Line Extension Loans	16,800	34,600
	<u>\$ 30,995</u>	<u>\$ 28,142</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:

2022	\$ 16,800
2023	14,100
2024	9,900
2025	4,400
2026	2,600

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

7. Materials and Supplies

Materials and supplies consisted of the following:

	December 31,	
	<u>2021</u>	<u>2020</u>
Construction Materials and Supplies	\$ 618,629	\$ 709,140
Other Materials and Supplies	49,116	52,661
	<u>\$ 667,745</u>	<u>\$ 761,801</u>

8. Deferred Charges

Deferred charges consisted of the following:

	December 31,	
	<u>2021</u>	<u>2020</u>
Regulatory Assets - Tri-State Merger Costs	\$ 2,761,247	\$ 2,900,003
Premium on Debt Refinance	511,758	651,307
RS Plan Prepayment	71,147	142,295
Four Year Work Plan	73,886	151,426
State Land Right-of-Way Renewals	78,690	140,130
Long Range Work Plan	23,487	
	<u>\$ 3,520,215</u>	<u>\$ 3,985,161</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,	
	<u>2021</u>	<u>2020</u>
Original Cost of Merger	\$ 4,633,175	\$ 4,633,175
Accumulated Amortization	<u>(1,871,928)</u>	<u>(1,733,172)</u>
	<u>\$ 2,761,247</u>	<u>\$ 2,900,003</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, 2021 and 2020 was \$71,148.

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 40.04% of the total assets at December 31, 2021 excluding the accumulated other comprehensive income and 40.13% including the accumulated other comprehensive income. Capital credits totaling \$410,303 and \$381,879 were retired for 2021 and 2020, and were within guidelines set by RUS for return of capital.

10. Patronage Capital

Patronage capital consisted of the following:

	December 31,	
	2021	2020
Assigned	\$ 29,977,963	\$ 29,013,621
Assignable	1,127,173	1,007,765
Assignable - G&T	341,440	330,610
	\$ 31,446,576	\$ 30,351,996
Unbilled Revenue (Assignable)	567,070	603,340
	\$ 32,013,646	\$ 30,955,336

11. Other Equities

Other equities consisted of retired capital credit gains of \$177,788 and \$157,204 as of December 31, 2021 and 2020, respectively.

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

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,	
	2021	2020
Fixed Rate Notes (2.000%)	\$ 75,284	\$ 112,998
Less: Current Maturities	38,000	38,000
	<u>\$ 37,284</u>	<u>\$ 74,998</u>

As of December 31, 2021, annual maturities of long-term debt due RUS for the next five years are as follows:

2022	\$ 38,000
2023	26,000
2024	2,000
2025	3,000
2026	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,	
	2021	2020
Fixed Rate Notes (1.171% - 4.114%)	\$ 27,991,864	\$ 28,577,972
Less: Current Maturities	751,000	571,000
	<u>\$ 27,240,864</u>	<u>\$ 28,006,972</u>

The Cooperative has made advance payments to RUS in the amount of \$49,157 and \$974,331 as of December 31, 2021 and 2020, respectively.

As of December 31, 2021, annual maturities of long-term debt due FFB for the next five years are as follows:

2022	\$ 751,000
2023	825,000
2024	845,000
2025	861,000
2026	880,000

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

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,	
	<u>2021</u>	<u>2020</u>
Fixed Rate Notes (3.00% - 3.60%)	\$ 16,566,695	\$ 17,651,729
Less: Current Maturities	<u>1,124,000</u>	<u>1,085,000</u>
	<u>\$ 15,442,695</u>	<u>\$ 16,566,729</u>

As of December 31, 2021, annual maturities of long-term debt due CoBank for the next five years are as follows:

2022	\$ 1,124,000
2023	1,165,000
2024	1,205,000
2025	1,154,000
2026	904,000

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 outstanding on this line of credit as of December 31, 2021 and 2020. The interest rate as of December 31, 2021 and 2020 was 2.45% and 2.45%, respectively.

The Cooperative also has a \$4,000,000 line of credit with CoBank at an interest rate of 2.41% for the year ended December 31, 2021 with a maturity date of July 31, 2022. As of December 31, 2021 and 2020, \$0 was outstanding on this line of credit.

16. Deferred Credits

Deferred credits consisted of the following:

	December 31,	
	<u>2021</u>	<u>2020</u>
Unclaimed Capital Credit Retirements	\$ 299,782	\$ 185,701
Miscellaneous Deferred Credits	<u>14,942</u>	<u>14,941</u>
	<u>\$ 314,724</u>	<u>\$ 200,642</u>

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

17. Pension Plan

Defined Benefit Plan

The Retirement Security Plan (RS Plan), sponsored by the National Rural Electric Cooperative Association (NRECA), is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is considered a multi-employer plan under the accounting standards.

The plan sponsor's employer identification number is 53-0116145 and the plan number is 333.

A unique characteristic of a multi-employer plan compared with 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 2021 and 2020 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 \$264,747 in 2021 and \$261,388 in 2020. Pension expense for the years ended December 31, 2021 and 2020, including amortization was \$335,894 and \$332,535, 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, 2022 and 2021 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 \$138,957 and \$138,548 for the years ended December 31, 2021 and 2020, respectively.

18. Post-Retirement Benefits

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

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

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 2.90%. The assumed health care cost trend rate was 6.80% for 2021, declining to an ultimate level of 5.0% by 2028.

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, 2021 and 2020 were \$8,450 and \$6,839, respectively.

This information is based on the most recent actuarial valuation calculated as of January 1, 2021.

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,	
	2021	2020
Funded Status at End of Year:		
APBO Balance	\$ 330,488	\$ 313,186
Plan Assets		
Funded Status at End of Year	<u>\$ 330,488</u>	<u>\$ 313,186</u>

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

	December 31,	
	2021	2020
Change in Benefit Obligation:		
Benefit Obligation at Beginning of Year	\$ (313,186)	\$ (321,786)
Service Cost	(18,039)	(19,720)
Interest Cost	(8,264)	(9,673)
Benefits Paid	8,450	6,839
Net Actuarial Gain	551	31,154
Benefit Obligation at End of Year	<u>\$ (330,488)</u>	<u>\$ (313,186)</u>
Net Periodic Benefit Cost:		
Service Cost	\$ 18,039	\$ 19,720
Interest Cost	8,264	9,673
Amortization of Actuarial Gain	(1,890)	(630)
Amortization of Prior Service Cost	1,600	2,000
Post-Retirement Benefit Expense	<u>\$ 26,013</u>	<u>\$ 30,763</u>
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income:		
Net Actuarial Gain	\$ 551	\$ 31,154
Amortization of Actuarial Gain	(1,890)	(630)
Amortization of Prior Service Cost	1,600	2,000
Other Comprehensive Income	<u>\$ 261</u>	<u>\$ 32,524</u>
Amounts Not Yet Recognized in Net Periodic Post-Retirement Benefit Cost:		
Unrecognized Actuarial Gain	\$ 66,809	\$ 68,148
Net Prior Service Cost	(1,600)	(1,600)
Total Accumulated Other Comprehensive Income	<u>\$ 66,809</u>	<u>\$ 66,548</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).

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

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

2022	\$	10,737
2023		13,083
2024		15,426
2025		4,567
2026		11,257
2027-2031		61,834

19. Litigation and Commitments

There is no pending or threatened litigation at December 31, 2021 that would materially affect the Cooperative's financial condition.

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, 2021 and 2020, the Cooperative had investments in Tri-State of \$10,915,687 and \$10,574,247, and owed Tri-State \$1,218,875 and \$1,354,600 for purchased power, respectively.

21. Subsequent Events

The Cooperative has evaluated subsequent events through March 31, 2022, 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, 2021

	Balance 1/1/2021	Additions And Transfers	Retirements	Balance 12/31/2021
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	1,338,749	1,037		1,339,786
Total	<u>\$ 2,342,653</u>	<u>\$ 1,037</u>	<u>\$ 0</u>	<u>\$ 2,343,690</u>
Distribution Plant				
Land and Land Rights	\$ 42,960	\$ _____	\$ _____	\$ 42,960
Station Equipment	5,268,517	80,578	18,782	5,330,313
Poles, Towers, and Fixtures	25,794,619	541,010	37,934	26,297,695
Overhead Conductors and Devices	18,502,499	290,767	12,344	18,780,922
Underground Conductors and Devices	5,953,954	53,075	11,143	5,995,886
Line Transformers	10,713,062	383,236	88,532	11,007,766
Services	5,518,555	368	8,630	5,510,293
Meters	4,324,133	127,555	17,224	4,434,464
Installations on Consumers' Premises	871,534	27,432	5,649	893,317
Street Lighting and Signal Systems	246,778			246,778
Total	<u>\$ 77,236,611</u>	<u>\$ 1,504,021</u>	<u>\$ 200,238</u>	<u>\$ 78,540,394</u>
General Plant				
Land and Land Rights	\$ 41,073	\$ _____	\$ _____	\$ 41,073
Structures and Improvements	990,424	12,948	10,392	992,980
Office Furniture and Computer Equipment	978,350	56,962		1,035,312
Transportation and Power Operated Equipment	3,474,689	318,157		3,792,846
Store Equipment	9,911			9,911
Tools, Shop, and Garage Equipment	156,218			156,218
Laboratory Equipment	14,148			14,148
Communications Equipment	272,754			272,754
Miscellaneous Equipment	659,343			659,343
Total	<u>\$ 6,596,910</u>	<u>\$ 388,067</u>	<u>\$ 10,392</u>	<u>\$ 6,974,585</u>
Total Classified Electric Plant in Service	\$ 87,082,660	\$ 1,893,125	\$ 210,630	\$ 88,765,155
Construction Work in Progress	439,884	1,005,278		1,445,162
Total Utility Plant	<u>\$ 87,522,544</u>	<u>\$ 2,898,403</u>	<u>\$ 210,630</u>	<u>\$ 90,210,317</u>

SOCORRO ELECTRIC COOPERATIVE, INC.

Schedule 2

**ACCUMULATED PROVISION FOR DEPRECIATION
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<u>Balance 1/1/2021</u>	<u>Accruals And Transfers</u>	<u>Retirements</u>	<u>Balance 12/31/2021</u>
Transmission Plant	\$ <u>790,001</u>	\$ <u>64,343</u>	\$ _____	\$ <u>854,344</u>
Distribution Plant	\$ <u>29,259,236</u>	\$ <u>2,373,340</u>	\$ <u>294,619</u>	\$ <u>31,337,957</u>
General Plant				
Structures and Improvements	\$ 892,468	\$ 5,314	\$ 8,633	\$ 889,149
Office Furniture and Computer Equipment	819,209	61,236		880,445
Transportation and Power Operated Equipment	2,886,536	274,467		3,161,003
Stores Equipment	7,765	248		8,013
Tools, Shop, and Garage Equipment	140,432	5,307		145,739
Laboratory Equipment	12,501	248		12,749
Communications Equipment	264,137	3,801		267,938
Intangible Plant	179,605	24,772		204,377
Miscellaneous Equipment	659,342			659,342
Total General Plant	\$ <u>5,861,995</u>	\$ <u>375,393</u>	\$ <u>8,633</u>	\$ <u>6,228,755</u>
Total Classified Electric Plant in Service	\$ 35,911,232	\$ 2,813,076	\$ 303,252	\$ 38,421,056
Retirement Work in Progress	<u>(19,161)</u>	_____	<u>65,590</u>	<u>(84,751)</u>
	<u>\$ 35,892,071</u>	<u>\$ 2,813,076</u>	<u>\$ 368,842</u>	<u>\$ 38,336,305</u>
Charged to Depreciation Expense		\$ 2,538,609		
Charged to Clearing and Other Accounts		<u>274,467</u>		
		<u>\$ 2,813,076</u>		
Cost of Plant Retired			\$ 210,630	
Plant Removal Cost Net of Salvage			<u>158,212</u>	
			<u>\$ 368,842</u>	

SOCORRO ELECTRIC COOPERATIVE, INC.

Schedule 3

OTHER PROPERTY AND INVESTMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	December 31,	
	<u>2021</u>	<u>2020</u>
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	158,023	167,040
Federated Insurance	367,702	348,357
Southeastern Data Corporation	142,224	127,656
Tri-State Generation and Transmission Cooperative	10,915,687	10,574,247
Western United Electric Cooperative	18,439	18,700
CoBank	512,486	475,484
Cooperative Response Center	6,165	5,547
Capital Term Certificates		
National Rural Utilities Cooperative Finance Corporation	470,920	470,920
Other	594	594
	<u>\$ 12,597,840</u>	<u>\$ 12,194,145</u>
NOTES RECEIVABLE		
Line Extension Contracts	\$ 47,795	\$ 62,742
Less: Current Portion of Line Extension Loans	(16,800)	(34,600)
	<u>\$ 30,995</u>	<u>\$ 28,142</u>
OTHER INVESTMENTS - RESTRICTED		
Homestead Investments Funds	<u>\$ 337,639</u>	<u>\$ 318,537</u>
Total Other Property and Investments	<u>\$ 12,966,474</u>	<u>\$ 12,540,824</u>

SOCORRO ELECTRIC COOPERATIVE, INC.

Schedule 4

**ADMINISTRATIVE AND GENERAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

	December 31,		Increase (Decrease)
	<u>2021</u>	<u>2020</u>	
Administrative and General Salaries	\$ 736,804	\$ 668,899	\$ 67,905
Office Supplies and Expenses	100,005	94,589	5,416
Injuries and Damages		746	(746)
Outside Services Employed	96,960	146,421	(49,461)
Regulatory Commission Expenses	2,598	64,868	(62,270)
Directors' Fees and Expenses	60,204	44,619	15,585
Association Dues	109,767	113,714	(3,947)
Annual Meeting Expenses	8,942	26,366	(17,424)
Scholarship Fund Expenses	11,567	16,492	(4,925)
Miscellaneous Expenses	72,114	63,331	8,783
Maintenance of General Plant	<u>88,622</u>	<u>71,418</u>	<u>17,204</u>
Total	<u>\$ 1,287,583</u>	<u>\$ 1,311,463</u>	<u>\$ (23,880)</u>

COMPLIANCE AND INTERNAL CONTROL SECTION

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

CERTIFIED PUBLIC ACCOUNTANTS

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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, 2021, 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, 2022. In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2022, 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, 2022

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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, 2021, 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, 2022.

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) as a basis for designing 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 financial statements. 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.

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