

NEW MEXICO 20 SOCORRO

SOCORRO ELECTRIC COOPERATIVE, INC.

SOCORRO, NEW MEXICO

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

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

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, 2015 and 2014, and the related statements of 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, 2015 and 2014, 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.

Emphasis of a Matter

Change in Accounting Principle

As discussed in Note 2 to the financial statements, management has elected to retrospectively change its method of revenue recognition by recognizing revenue from power delivered but not yet billed as of January 1, 2014. Our opinion is not modified with respect to that matter.

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, accumulated provision for depreciation, other property and investments, mortgage notes, 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 29, 2016 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 29, 2016

SOCORRO ELECTRIC COOPERATIVE, INC.

Exhibit A

BALANCE SHEETS
DECEMBER 31, 2015 AND 2014

ASSETS

	December 31,	
	2015	2014
PLANT AT COST		
Electric Plant in Service	\$ 80,189,408	\$ 78,870,257
Construction Work in Progress	154,673	213,449
	\$ 80,344,081	\$ 79,083,706
Less: Accumulated Provision for Depreciation	28,951,384	26,911,843
	\$ 51,392,697	\$ 52,171,863
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 9,254,193	\$ 8,550,782
Notes Receivable	52,593	102,051
Other Investments		525
	\$ 9,306,786	\$ 8,653,358
CURRENT ASSETS		
Cash - General	\$ 2,780,947	\$ 1,007,483
Cash - Restricted	236,180	222,656
Accounts Receivable (Less allowance for uncollectibles of \$719,392 in 2015 and \$878,574 in 2014)	1,673,004	1,557,947
Accrued Unbilled Revenue	1,375,596	1,174,760
Power Cost Undercollected	142,082	35,745
Debt Service Cost Undercollected	47,936	
Current Maturities of Refundable Deposit	111,963	20,110
Materials and Supplies	533,867	589,767
Other Current and Accrued Assets	134,551	126,630
	\$ 7,036,126	\$ 4,735,098
DEFERRED CHARGES		
Regulatory Assets	\$ 3,498,821	\$ 3,601,679
NRECA RS Prepayment	498,032	569,180
CFC Prepayment Premium	1,349,053	1,488,602
Other	186,981	531,709
	\$ 5,532,887	\$ 6,191,170
TOTAL ASSETS	\$ 73,268,496	\$ 71,751,489

EQUITIES AND LIABILITIES

EQUITIES		
Patronage Capital	\$ 25,681,313	\$ 24,122,009
Donated Capital	100,940	100,940
Other Equities (Deficit)	13,174	(30,879)
Accumulated Other Comprehensive Loss	(24,217)	(90,417)
	\$ 25,771,210	\$ 24,101,653
LONG-TERM DEBT		
RUS Mortgage Notes Less Current Maturities	\$ 8,470,122	\$ 12,502,457
FFB Mortgage Notes Less Current Maturities	28,065,737	22,859,247
CoBank Mortgage Notes Less Current Maturities	5,638,058	6,605,015
	\$ 42,173,917	\$ 41,966,719
ACCUMULATED PROVISION FOR PENSIONS AND BENEFITS		
Post-retirement Benefits	\$ 363,071	\$ 422,038
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 2,188,000	\$ 1,961,000
Current Maturities of Capital Lease Payable		40,011
Notes Payable - NRUCFC Line of Credit		506,722
SEC Educational Foundation	236,180	222,656
Accounts Payable - Purchased Power	1,246,060	1,235,223
Accounts Payable - Other	152,540	147,655
Consumer Deposits and Prepayments	147,660	112,827
Debt Service Cost Overcollected		699
Accrued Employee Compensated Absences	186,253	251,293
Accrued Taxes	328,380	306,332
Other Current and Accrued Liabilities	144,652	142,976
	\$ 4,629,725	\$ 4,927,394
DEFERRED CREDITS	\$ 330,573	\$ 333,685
TOTAL EQUITIES AND LIABILITIES	\$ 73,268,496	\$ 71,751,489

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, 2015 AND 2014

	December 31,				Increase (Decrease)
	2015		2014		
	Amount	%	Amount	%	
OPERATING REVENUES					
Residential	\$ 10,222,099	41.9	\$ 10,403,413	43.7	\$ (181,314)
Irrigation	36,179	0.1	47,939	0.2	(11,760)
Commercial and Industrial	13,643,734	55.9	13,198,125	55.4	445,609
Public Buildings and Other Authorities	132,381	0.5	134,171	0.6	(1,790)
Power and Debt Cost (Over) Under Collected	154,972	0.6	(148,460)	(0.6)	303,432
Other Operating Revenues	206,261	1.0	192,564	0.7	13,697
Total Operating Revenues	<u>\$ 24,395,626</u>	<u>100.0</u>	<u>\$ 23,827,752</u>	<u>100.0</u>	<u>\$ 567,874</u>
OPERATING EXPENSES					
Purchased Power	\$ 13,885,185	56.9	\$ 13,414,062	56.3	\$ 471,123
Distribution - Operation	1,608,422	6.6	1,185,224	5.0	423,198
Distribution - Maintenance	634,795	2.6	1,088,761	4.6	(453,966)
Consumers' Accounts	1,338,308	5.5	1,119,906	4.7	218,402
Sales	1,592	0.0	14,029	0.1	(12,437)
Administrative and General	1,488,504	6.1	1,395,220	5.9	93,284
Depreciation and Amortization	2,314,946	9.5	2,284,392	9.6	30,554
Taxes	148,457	0.6	144,179	0.6	4,278
Other Deductions	104,915	0.4	97,853	0.4	7,062
Other Interest	3,962	0.0	10,800	0.0	(6,838)
Total Operating Expenses	<u>\$ 21,529,086</u>	<u>88.2</u>	<u>\$ 20,754,426</u>	<u>87.2</u>	<u>\$ 774,660</u>
OPERATING MARGINS - Before					
Fixed Charges	\$ 2,866,540	11.8	\$ 3,073,326	12.8	\$ (206,786)
FIXED CHARGES					
Interest on Long-Term Debt	<u>2,258,118</u>	<u>9.3</u>	<u>2,266,831</u>	<u>9.5</u>	<u>(8,713)</u>
OPERATING MARGINS - After					
Fixed Charges	\$ 608,422	2.5	\$ 806,495	3.3	\$ (198,073)
G&T Capital Credits	664,271	2.7	785,860	3.3	(121,589)
Other Capital Credits	126,908	0.5	148,352	0.6	(21,444)
Total Capital Credits	<u>\$ 791,179</u>	<u>3.2</u>	<u>\$ 934,212</u>	<u>3.9</u>	<u>\$ (143,033)</u>
NET OPERATING MARGINS	<u>\$ 1,399,601</u>	<u>5.7</u>	<u>\$ 1,740,707</u>	<u>7.2</u>	<u>\$ (341,106)</u>
NON-OPERATING MARGINS					
Interest Income	\$ 419,660	1.7	\$ 394,250	1.7	\$ 25,410
Realized Gain (Loss) on Sale of Securities	(1,305)	0.0	952	0.0	(2,257)
Dish Network Net Income (Loss)			(1,319)	0.0	1,319
Other Non-Operating Margins	102,178	0.4	13,410	0.1	88,768
Total Non-Operating Margins	<u>\$ 520,533</u>	<u>2.1</u>	<u>\$ 407,293</u>	<u>1.8</u>	<u>\$ 113,240</u>
NET MARGINS	<u>\$ 1,920,134</u>	<u>7.8</u>	<u>\$ 2,148,000</u>	<u>9.0</u>	<u>\$ (227,866)</u>
OTHER COMPREHENSIVE INCOME (LOSS)					
APBO Gain (Loss)	64,200		(9,100)		
Amortization of (Gain) Loss	2,000		1,400		
Amortization of Prior Service Cost			2,000		
COMPREHENSIVE INCOME	<u>\$ 1,986,334</u>		<u>\$ 2,142,300</u>		
Post-retirement Benefit Adjustment	(66,200)		5,700		
PATRONAGE CAPITAL - BEGINNING OF YEAR	24,122,009		23,170,485		
Prior Period Adjustment - Change in Accounting Principle			1,140,004		
Transfer Non-Operating Margins to Other Equities	(30,881)		(407,383)		
Patronage Capital Discounted	(13,174)				
Patronage Capital Retired	<u>(316,775)</u>		<u>(1,929,097)</u>		
PATRONAGE CAPITAL - End of Year	<u>\$ 25,681,313</u>		<u>\$ 24,122,009</u>		

See accompanying notes to financial statements.

SOCORRO ELECTRIC COOPERATIVE, INC.

Exhibit C

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	December 31,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 1,920,134	\$ 2,148,000
Items to Reconcile to Net Cash Provided by Operating Activities		
Depreciation	2,525,361	2,523,774
Capital Credits	(791,179)	(934,212)
Post-retirement Benefit Accruals	24,300	29,000
Deferred Charges	658,283	444,221
Deferred Credits	(3,112)	48,908
Accounts Receivable	(115,057)	58,206
Power Cost Adjustment	(106,337)	139,133
Debt Cost Adjustment	(47,936)	9,327
Accrued Unbilled Revenue	(200,836)	(34,756)
Inventories and Other Current Assets	(43,874)	87,870
Accounts Payable and Other Accrued Liabilities	(12,772)	(122,294)
Customer Deposits	34,833	10,137
Net Cash Provided by Operating Activities	\$ 3,841,808	\$ 4,407,314
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Utility Plant	\$ (1,608,622)	\$ (1,197,006)
Plant Removal Costs in Excess of Salvage	(137,573)	(369,378)
Notes Receivable	49,458	(91,632)
Other Property and Investments	88,293	70,528
Net Cash Used in Investing Activities	\$ (1,608,444)	\$ (1,587,488)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Long-Term Debt to RUS	(457,882)	(439,144)
Advance Payments to RUS	(3,545,453)	131,858
Advances on Long-Term Debt from FFB	6,000,000	
Payments on Long-Term Debt to FFB	(622,510)	(564,244)
Payments on Long-Term Debt to CoBank	(939,957)	(913,149)
Net Activity on Line of Credit to CoBank		(460,030)
Net Activity on Line of Credit to CFC	(506,722)	506,722
Payments on Capital Lease Obligations	(40,011)	(16,195)
Payments on Post-retirement Benefits	(17,066)	(9,620)
Retirement of Patronage Capital	(316,775)	(1,929,097)
Net Cash Used In Financing Activities	\$ (446,376)	\$ (3,692,899)
NET DECREASE IN CASH AND CASH EQUIVALENTS	\$ 1,786,988	\$ (873,073)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	1,230,139	2,103,212
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 3,017,127	\$ 1,230,139
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash Paid During the Year for:		
Interest	\$ 2,122,830	\$ 2,139,977
Income Taxes	\$ 0	\$ 0
NON CASH INVESTING AND FINANCING ACTIVITIES		

The adjustment to the Post-retirement Benefit Obligation increased (decreased) the accrued Post-retirement Benefit Obligation by (\$64,200) and \$9,100, and conversely equities by the same amount for the years ended December 31, 2015 and 2014, respectively.

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 one and one-half percent. 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 and a certificate of deposit that are restricted for scholarships.

Investments

The Cooperative has adopted the generally accepted financial accounting standard which provides a framework for measuring fair value under U.S. GAAP. The standard defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The standard requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. The standard also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels.

There are three general valuation techniques that may be used to measure fair value, as described below:

Market approach – Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Prices may be indicated by pricing guides, sale transactions, market trades, or other sources;

Cost approach – Based on the amount that currently would be required to replace the service capacity of an asset (replacement cost); and

Income approach – Uses valuation techniques to convert future amounts to a single present amount based on current market expectations about the future amounts (includes present value techniques and option-pricing models). Net present value is an income approach where a stream of expected cash flows is discounted at an appropriate market interest rate.

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

Level 1 – Inputs include quoted prices in active markets for identical assets.

Level 2 – Inputs include available indirect information, such as quoted prices for similar assets in active markets, or quoted prices for identical or similar assets in markets that are not active.

Level 3 – Inputs are subjective and generally based on the entity's own assumptions on how knowledgeable parties would price assets and are developed using the best information available in the circumstances.

Electric Revenues

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

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

The Cooperative records electric revenues as billed to customers on a monthly basis. Revenue is accrued for power delivered and not billed at the end of each month. It is estimated that this unbilled revenue amounts to \$1,375,596 and \$1,174,760 at December 31, 2015 and 2014, respectively. These amounts are presented in current assets on the balance sheet.

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 2012.

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, 2015 and 2014.

Patronage Capital Certificates

Patronage capital from associated organizations is recorded at the stated amount of the certificates. The Cooperative waits until final allocations are published by its Generation and Transmission Cooperative for the year before it closes its books for the year.

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, 2015 and 2014, deposits on hand totaled \$147,660 and \$112,827, respectively.

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

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.

Reclassifications

Certain reclassifications have been made to the 2014 financial statement balances to conform to the 2015 presentation.

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.

2. Change in Accounting Principle

During 2015, the Cooperative changed its method of revenue recognition to accrue revenue for power delivered but not yet billed at the end of each period. The Cooperative believes that the new revenue recognition method more accurately reflects periodic results of operations and its accrued revenue position at year end.

The effect of the change was to increase accrued utility revenues and operating revenues by \$200,836 each and net margins for 2015 by \$200,836. The financial statements for 2014 have been retroactively restated for such change, which resulted in an increase of accrued utility revenues and operating revenues of \$34,756 each and net margins for 2014 by \$34,756. Accrued utility revenues and patronage capital have been increased accordingly in the amounts of \$1,140,004 as of the beginning of 2014 for the effect of the retrospective application of the new revenue recognition method. The restatement of the beginning patronage capital for 2014 is shown below:

	2014
Beginning Patronage Capital, Previously Reported	\$ 23,170,485
Prior Period Adjustment - Change in Accounting Principle	1,140,004
Beginning Patronage Capital, as Restated	<u>\$ 24,310,489</u>

3. 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.

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

4. Plant at Cost

The major classes of plant are as follows:

	December 31,	
	2015	2014
Intangible	\$ 5,020	\$ 5,020
Property Under Capital Lease		134,669
Electric Transmission Plant	3,205,298	3,205,289
Electric Distribution Plant	71,134,421	70,121,494
General Plant	5,844,669	5,403,785
Total Plant in Service	\$ 80,189,408	\$ 78,870,257
Construction Work in Progress	154,673	213,449
Total Plant	\$ 80,344,081	\$ 79,083,706

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%.

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%
Property under Capital Lease	20.00%
GIS Hardware/Software	20.00%

Depreciation and amortization for the year ended December 31, 2015 and 2014, was \$2,525,361 and \$2,523,774, of which \$2,314,946 and \$2,284,392 was charged to depreciation expense, and \$210,415 and \$239,382 was allocated to clearing and other accounts.

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

5. Investments in Associated Organizations

Investments in associated organizations consisted of the following:

	December 31,	
	2015	2014
National Rural Utilities Cooperative Finance Corporation		
Capital Term Certificates	\$ 504,406	\$ 504,406
Patronage Capital	184,964	184,581
Membership	1,000	1,000
Tri-State Generation and Transmission Cooperative	8,012,940	7,348,669
Federated Insurance	251,983	229,029
Southeastern Data Corporation	111,709	109,558
CoBank	105,319	95,141
Western United Electric Cooperative	75,704	75,704
Other	6,168	2,694
	<u>\$ 9,254,193</u>	<u>\$ 8,550,782</u>

6. Notes Receivable

Notes Receivable consisted of the following:

	December 31,	
	2015	2014
Energy Efficiency Loans	\$ 606	\$ 1,931
Other Member Loans	1,393	2,038
Line Extension Loans	104,794	178,882
	<u>\$ 106,793</u>	<u>\$ 182,851</u>
Less: Current Portion of Line Extension Loans	54,200	80,800
	<u>\$ 52,593</u>	<u>\$ 102,051</u>

The Cooperative has issued energy efficiency loans to members for weatherization improvements to their homes in prior years. All loans are charged 5% interest for a period of time not to exceed seven years. Notes are billed monthly with the members' electric bills.

The Cooperative also issues loans to the members for various electrical household items, such as washers, dryers, air conditioners, etc. These notes are for up to 24 months at 10% interest and are reflected in current asset portion of the balance sheet.

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.

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

The contracts mature over the next five years as follows:

2016	\$ 54,200
2017	33,400
2018	12,000
2019	4,000
2020	1,200

7. Materials and Supplies

Materials and supplies consisted of the following:

	December 31,	
	2015	2014
Construction Materials and Supplies	\$ 461,206	\$ 514,330
Other Materials and Supplies	72,661	75,437
	<u>\$ 533,867</u>	<u>\$ 589,767</u>

8. Deferred Charges

Deferred charges consisted of the following:

	December 31,	
	2015	2014
Regulatory Assets - Tri-State Merger Costs	\$ 3,498,821	\$ 3,601,679
Premium on Debt Refinance	1,349,053	1,488,602
RS Plan Prepayment	498,032	569,180
GIS Inventory	164,284	328,568
Refundable Deposit - Due after one year		111,963
Other	22,697	91,178
	<u>\$ 5,532,887</u>	<u>\$ 6,191,170</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 \$4,633,174 and is being amortized to expense over 35 years from August 1, 2000.

	December 31,	
	2015	2014
Original Cost of Merger	\$ 4,633,174	\$ 4,633,174
Accumulated Amortization	(1,134,353)	(1,031,495)
	<u>\$ 3,498,821</u>	<u>\$ 3,601,679</u>

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

The Cooperative is recovering the merger cost and interest from the Cooperative 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, 2015 and 2014 was \$71,148 and \$71,148, respectively.

Refundable Deposit represents a deposit to Tucson Electric Power for aid to construction which is refundable over a five year period. The amount due to Socorro Electric Cooperative, Inc. in 2015 is reflected as a current asset on the balance sheet.

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 32.61% of the total assets at December 31, 2015 excluding the accumulated other comprehensive loss and 32.49% including the accumulated other comprehensive loss. Capital credits totaling \$329,949 and \$1,929,097 were retired for 2015 and 2014, and were within guidelines set by RUS for return of capital.

10. Patronage Capital

Patronage Capital consisted of the following:

	December 31,	
	2015	2014
Assigned	\$ 22,586,419	\$ 21,241,298
Assignable	1,055,027	920,091
Assignable - G&T	664,271	785,860
	<hr/>	<hr/>
	\$ 24,305,717	\$ 22,947,249
Unbilled Revenue (Assignable)	1,375,596	1,174,760
	<hr/>	<hr/>
	\$ 25,681,313	\$ 24,122,009
	<hr/> <hr/>	<hr/> <hr/>

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

11. Other Equities (Deficit)

Other Equities (Deficit) consisted of the following:

	December 31,	
	2015	2014
Prior Year Operating Deficit	\$	\$ (30,879)
Retired Capital Credit Gains	13,174	
	<u>\$ 13,174</u>	<u>\$ (30,879)</u>

Future years' non-operating margins are applied to the unallocated deficits until they are fully absorbed.

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 between 2023 and 2041:

	December 31,	
	2015	2014
Fixed Rate Notes (2.000% - 5.125%)	\$ 19,495,240	\$ 19,953,122
Advance Payments	(10,548,118)	(7,002,665)
	\$ 8,947,122	\$ 12,950,457
Less: Current Maturities	477,000	448,000
	<u>\$ 8,470,122</u>	<u>\$ 12,502,457</u>

As of December 31, 2015, annual maturities of long-term debt due RUS for the next five years are as follows:

2016	\$ 477,000
2017	498,000
2018	519,000
2019	542,000
2020	565,000

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.

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

Following is a summary of long-term debt due FFB and maturing at various times between 2020 and 2045:

	December 31,	
	2015	2014
Fixed Rate Notes (2.319% - 6.327%)	\$ 28,809,737	\$ 23,432,247
Less: Current Maturities	744,000	573,000
	<u>\$ 28,065,737</u>	<u>\$ 22,859,247</u>

As of December 31, 2015, annual maturities of long-term debt due FFB for the next five years are as follows:

2016	\$ 744,000
2017	786,000
2018	820,000
2019	848,000
2020	883,000

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 quarterly installments. Following is a summary of long-term debt due CoBank and maturing at various times from 2019 to 2025:

	December 31,	
	2015	2014
Fixed Rate Notes (2.62%-3.46%)	\$ 6,605,058	\$ 7,545,015
Less: Current Maturities	967,000	940,000
	<u>\$ 5,638,058</u>	<u>\$ 6,605,015</u>

As of December 31, 2015, annual maturities of long-term debt due CoBank for the next five years are as follows:

2016	\$ 967,000
2017	996,000
2018	1,025,000
2019	1,055,000
2020	892,000

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

15. Capital Lease Payable

During the year ended December 31, 2013, the Cooperative entered into capital leases with Farm Credit Leasing Services Corporation. The economic substance of the capital leases is that the Cooperative is financing the acquisition of the assets through the lease over their terms, and accordingly, they are reflected in the Cooperative's plant assets and liabilities. The balance of capital lease payable at December 31, 2015 and 2014 were \$0 and \$40,011, respectively. The capital lease obligations matured in 2015 and assets were purchased as originally intended.

16. 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 \$506,722 outstanding on this line of credit as of December 31, 2015 and 2014. The interest rate as of December 31, 2015 and 2014 was 2.90%.

The Cooperative also has a \$4,000,000 line of credit with CoBank at an interest rate of 2.53% for the year ended December 31, 2015. As of December 31, 2015 and 2014, \$0 and \$0 were outstanding on this line of credit, respectively.

17. Deferred Credits

Deferred credits consisted of the following:

	December 31,	
	2015	2014
Unclaimed Capital Credit Retirements	\$ 324,238	\$ 328,724
Miscellaneous Deferred Credits	6,335	4,961
	<u>\$ 330,573</u>	<u>\$ 333,685</u>

18. 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.

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

The Cooperative contributions to the RS Plan in 2015 and 2014 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 \$200,872 in 2015 and \$188,771 in 2014. Pension expense for the years ended December 31, 2015 and 2014, including amortization was \$272,020 and \$259,919, 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 employer. In total, the RS Plan was over 80% funded on January 1, 2015 and 2014 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 \$130,488 and \$120,371 for the years ended December 31, 2015 and 2014, respectively.

19. 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 4.2%. The assumed health care cost trend rate was 10% for 2015 and 6.5% for 2014, declining to an ultimate level of 5.0% by 2025.

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, 2015 and 2014, were \$17,066 and \$9,620.

This information is based on the most recent actuarial valuation calculated as of December 31, 2015 and 2014.

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,	
	2015	2014
Funded Status at End of Year:		
APBO Balance	\$ (363,071)	\$ (422,038)
Plan Assets		
Funded Status at End of Year	<u>\$ (363,071)</u>	<u>\$ (422,038)</u>
Change in Benefit Obligation:		
Benefit Obligation at Beginning of Year	\$ 422,038	\$ 396,958
Service Cost	8,700	8,700
Interest Cost	13,600	16,900
Benefits Paid	(17,067)	(9,620)
Net Actuarial Loss (Gain)	<u>(64,200)</u>	<u>9,100</u>
Benefit Obligation at End of Year	<u>\$ 363,071</u>	<u>\$ 422,038</u>
Net Periodic Benefit Cost:		
Service Cost	\$ 8,700	\$ 8,700
Interest Cost	13,600	16,900
Amortization of Actuarial Loss	2,000	1,400
Amortization of Prior Service Cost		<u>2,000</u>
Post-retirement Benefit Expense	<u>\$ 24,300</u>	<u>\$ 29,000</u>
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income:		
Net Actuarial Loss	\$ (64,200)	\$ (9,100)
Amortization of Actuarial Loss		1,400
Amortization of Prior Service Cost	<u>(2,000)</u>	<u>2,000</u>
Other Comprehensive Loss	<u>\$ (66,200)</u>	<u>\$ (5,700)</u>

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

	December 31,	
	2015	2014
Amounts Not Yet Recognized in Net Periodic Post-retirement Benefit Cost:		
Unrecognized Actuarial Loss	\$ 12,617	\$ 76,817
Net Prior Service Cost	11,600	13,600
Total Other Comprehensive Loss	<u>\$ 24,217</u>	<u>\$ 90,417</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 actuarial loss and prior service cost 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 \$2,000.

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

2016	\$ 31,100
2017	40,500
2018	36,300
2019	25,700
2020	17,700
2021-2025	82,800

20. Litigation and Commitments

There is no pending or threatened litigation at December 31, 2015 that would materially affect the Cooperative's financial condition.

21. Related Party Transactions

The Cooperative purchases all of its power from Tri-State Generation and Transmission Association, Inc. As a member of Tri-State Generation and Transmission Association, Inc., the Cooperative has representation on the Board of Trustees.

22. Subsequent Events

The Cooperative has evaluated subsequent events through March 29, 2016, the date which the financial statements were available to be issued.

ACCOMPANYING INFORMATION

SOCORRO ELECTRIC COOPERATIVE, INC.

Schedule 1

**ELECTRIC PLANT IN SERVICE
FOR THE YEAR ENDED DECEMBER 31, 2015**

CLASSIFIED ELECTRIC PLANT IN SERVICE	<u>Balance 1/1/2015</u>	<u>Additions And Transfers</u>	<u>Retirements</u>	<u>Balance 12/31/2015</u>
Intangible Plant				
Organization	\$ 5,020	\$ 0	\$ 0	\$ 5,020
Transmission Plant				
Land and Land Rights	\$ 2,228	\$	\$	\$ 2,228
Poles and Fixtures	1,869,451	9		1,869,460
Overhead Conductors and Devices	1,333,610			1,333,610
Total	<u>\$ 3,205,289</u>	<u>\$ 9</u>	<u>\$ 0</u>	<u>\$ 3,205,298</u>
Distribution Plant				
Land and Land Rights	\$ 42,960	\$	\$	\$ 42,960
Station Equipment	5,074,805	21,390		5,096,195
Poles, Towers, and Fixtures	25,257,603	413,388	74,923	25,596,068
Overhead Conductors and Devices	13,613,972	766,871	82,340	14,298,503
Underground Conductors and Devices	5,529,538	(82,716)	27,655	5,419,167
Line Transformers	10,413,258	(4,194)	19,201	10,389,863
Services	5,591,096	4,009	12,744	5,582,361
Meters	3,484,706	176,614	88,718	3,572,602
Installations on Consumers' Premises	864,945	31,577	7,015	889,507
Street Lighting and Signal Systems	248,611	8,242	9,658	247,195
Total	<u>\$ 70,121,494</u>	<u>\$ 1,335,181</u>	<u>\$ 322,254</u>	<u>\$ 71,134,421</u>
General Plant				
Land and Land Rights	\$ 41,073	\$	\$	\$ 41,073
Structures and Improvements	963,499			963,499
Office Furniture and Computer Equipment	608,764	142,671		751,435
Transportation and Power Operated Equipment	2,756,346	277,425	25,993	3,007,778
Store Equipment	9,911			9,911
Tools, Shop, and Garage Equipment	90,641	40,349		130,990
Laboratory Equipment	14,148			14,148
Communications Equipment	260,060	6,432		266,492
Miscellaneous Equipment	659,343			659,343
Total	<u>\$ 5,403,785</u>	<u>\$ 466,877</u>	<u>\$ 25,993</u>	<u>\$ 5,844,669</u>
Leased Plant	<u>\$ 134,669</u>	<u>\$ (134,669)</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Classified Electric Plant in Service	\$ 78,870,257	\$ 1,667,398	\$ 348,247	\$ 80,189,408
Construction Work in Progress	<u>213,449</u>	<u>(58,776)</u>		<u>154,673</u>
Total Utility Plant	<u>\$ 79,083,706</u>	<u>\$ 1,608,622</u>	<u>\$ 348,247</u>	<u>\$ 80,344,081</u>

SOCORRO ELECTRIC COOPERATIVE, INC.

Schedule 2

**ACCUMULATED PROVISION FOR DEPRECIATION
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Balance 1/1/2015</u>	<u>Accruals And Transfers</u>	<u>Retirements</u>	<u>Balance 12/31/2015</u>
Transmission Plant	\$ 460,039	\$ 87,924	\$ 0	\$ 547,963
Distribution Plant	\$ 22,247,695	\$ 2,015,493	\$ 560,858	\$ 23,702,330
General Plant				
Structures and Improvements	\$ 718,047	\$ 124,271	\$	\$ 842,318
Office Furniture and Computer Equipment	499,878	31,100	\$	530,978
Transportation and Power Operated Equipment	2,214,155	253,220	25,993	2,441,382
Stores Equipment	6,278	248	\$	6,526
Tools, Shop, and Garage Equipment	75,530	5,728	\$	81,258
Laboratory Equipment	11,012	248	\$	11,260
Communications Equipment	197,970	15,621	\$	213,591
Miscellaneous Equipment	545,302	34,313	\$	579,615
Total General Plant	<u>\$ 4,268,172</u>	<u>\$ 464,749</u>	<u>\$ 25,993</u>	<u>\$ 4,706,928</u>
Leased Plant	\$ 42,805	\$ (42,805)	\$ 0	\$ 0
Total Classified Electric Plant in Service	\$ 27,018,711	\$ 2,525,361	\$ 586,851	\$ 28,957,221
Retirement Work in Progress	<u>(106,868)</u>	<u></u>	<u>(101,031)</u>	<u>(5,837)</u>
	<u>\$ 26,911,843</u>	<u>\$ 2,525,361</u>	<u>\$ 485,820</u>	<u>\$ 28,951,384</u>
Charged to Depreciation Expense		\$ 2,314,946		
Charged to Clearing and Other Accounts		<u>210,415</u>		
		<u>\$ 2,525,361</u>		
Cost of Plant Retired			\$ 348,247	
Plant Removal Cost Net of Salvage			<u>137,573</u>	
Net Loss Due to Retirements			<u>\$ 485,820</u>	

SOCORRO ELECTRIC COOPERATIVE, INC.

Schedule 3

**OTHER PROPERTY AND INVESTMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	December 31,	
	<u>2015</u>	<u>2014</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	
Patronage Capital		
National Rural Utilities Cooperative Finance Corporation	184,964	184,581
Federated Insurance	251,983	229,029
Southeastern Data Corporation	111,709	109,558
Tri-State Generation and Transmission Cooperative	8,012,940	7,348,669
Western United Electric Cooperative	75,704	75,704
CoBank	105,319	95,141
Cooperative Response Center	974	
Capital Term Certificates		
National Rural Utilities Cooperative Finance Corporation	504,406	504,406
Other	594	594
	<u>\$ 9,254,193</u>	<u>\$ 8,550,782</u>
NOTES RECEIVABLE		
Line Extension Contracts	\$ 50,594	\$ 98,082
Weatherization Loans	606	1,931
Energy Efficiency Loans	1,393	2,038
	<u>\$ 52,593</u>	<u>\$ 102,051</u>
OTHER INVESTMENTS - RESTRICTED		
Deferred Compensation Investment	<u>\$ 0</u>	<u>\$ 525</u>
Total Other Property and Investments	<u>\$ 9,306,786</u>	<u>\$ 8,653,358</u>

SOCORRO ELECTRIC COOPERATIVE, INC.

Schedule 4

MORTGAGE NOTES
DECEMBER 31, 2015

RUS Mortgage Notes

Date of Note	Interest Rate	Principal	Amount Unadvanced	Principal Repayments	Net
10/25/1988	2.000%	\$ 751,000	\$	\$ 527,651	\$ 223,349
10/25/1988	2.000%	133,000		91,489	41,511
10/25/1988	2.000%	66,000		36,859	29,141
07/01/1997	5.125%	444,000		130,638	313,362
07/01/1997	5.125%	587,000		171,589	415,411
07/01/1997	5.125%	791,000		237,646	553,354
07/01/1997	5.125%	240,000		72,105	167,895
11/01/2006	4.410%	4,264,000		484,411	3,779,589
11/01/2006	4.460%	1,926,000		216,939	1,709,061
11/01/2006	3.700%	4,968,000		608,273	4,359,727
11/01/2006	4.350%	2,878,000		300,316	2,577,684
11/01/2006	4.710%	4,149,000		380,799	3,768,201
11/01/2006	4.590%	1,717,000		160,045	1,556,955
Advance Payments				10,548,118	(10,548,118)
Total RUS		\$ 22,914,000	\$ 0	\$ 13,966,878	\$ 8,947,122

FFB Mortgage Notes

09/28/1999	6.122%	\$ 893,000	\$	\$ 277,489	\$ 615,511
11/09/1999	6.156%	759,000		235,065	523,935
05/05/2000	6.327%	1,171,000		286,143	884,857
11/03/2000	5.820%	1,460,000		384,682	1,075,318
04/19/2001	5.569%	910,000		237,697	672,303
12/31/2003	4.973%	1,652,000		321,380	1,330,620
11/19/2003	4.935%	1,285,000		267,478	1,017,522
05/24/2005	4.817%	2,726,000		514,745	2,211,255
11/04/2005	4.797%	4,069,000		735,739	3,333,261
05/26/2006	5.192%	826,000		136,503	689,497
05/03/2011	4.114%	3,032,000		138,528	2,893,472
12/31/2013	2.319%	8,000,000		404,265	7,595,735
08/04/2015	2.408%	6,000,000		33,549	5,966,451
Total FFB		\$ 32,783,000	\$ 0	\$ 3,973,263	\$ 28,809,737

CoBank Mortgage Notes

5/31/2013	2.620%	\$ 5,139,592	\$	\$ 1,684,877	\$ 3,454,715
5/31/2013	3.460%	3,812,363		662,020	3,150,343
Total CoBank		\$ 8,951,955	\$ 0	\$ 2,346,897	\$ 6,605,058

Net Obligation includes \$477,000 due RUS, \$744,000 due FFB and \$967,000 due CoBank payable within one year and classified as current liabilities on the balance sheet.

SOCORRO ELECTRIC COOPERATIVE, INC.

Schedule 5

**ADMINISTRATIVE AND GENERAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	December 31,		Increase (Decrease)
	<u>2015</u>	<u>2014</u>	
Administrative and General Salaries	\$ 671,802	\$ 556,799	\$ 115,003
Office Supplies and Expenses	84,741	96,617	(11,876)
Document Request	608	24,685	(24,077)
Outside Services Employed	253,286	349,981	(96,695)
District Meeting Expenses		55,756	(55,756)
Regulatory Commission Expenses	2,214	22,990	(20,776)
Directors' Fees and Expenses	54,977	42,211	12,766
Association Dues	104,837	111,162	(6,325)
Annual Meeting Expenses	166,118	17,366	148,752
Scholarship Fund Expenses	1,370		1,370
Miscellaneous Expenses	43,118	37,476	5,642
Maintenance of General Plant	<u>105,433</u>	<u>80,177</u>	<u>25,256</u>
Total	\$ <u>1,488,504</u>	\$ <u>1,395,220</u>	\$ <u>93,284</u>

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 audit 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, 2015, and the related statements of revenue and patronage capital, changes in cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 29, 2016. In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2016, 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*, §1773.33 and clarified in the RUS policy memorandum dated February 7, 2014, 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.

This report is intended solely for the information and use of the Board of Trustees, management and the RUS and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

March 29, 2016

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, 2015, 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 29, 2016.

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 29, 2016