

NEW MEXICO 20 SOCORRO

SOCORRO ELECTRIC COOPERATIVE, INC.

SOCORRO, NEW MEXICO

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

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

CERTIFIED PUBLIC ACCOUNTANTS

LUBBOCK, TEXAS

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FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

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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, 2017 and 2016, and the related statements of income, comprehensive income and patronage capital, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Socorro Electric Cooperative, Inc. as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accompanying Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of electric plant in service, accumulated provision for depreciation, other property and investments, 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 April 3, 2018 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

April 3, 2018

SOCORRO ELECTRIC COOPERATIVE, INC.

Exhibit A

BALANCE SHEETS
DECEMBER 31, 2017 AND 2016

ASSETS

	December 31,	
	2017	2016
PLANT AT COST		
Electric Plant in Service	\$ 80,502,207	\$ 79,319,513
Construction Work in Progress	967,524	399,781
	<u>\$ 81,469,731</u>	<u>\$ 79,719,294</u>
Less: Accumulated Provision for Depreciation	30,702,150	30,043,776
	<u>\$ 50,767,581</u>	<u>\$ 49,675,518</u>
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 10,600,335	\$ 9,736,068
Notes Receivable	31,666	38,047
	<u>\$ 10,632,001</u>	<u>\$ 9,774,115</u>
CURRENT ASSETS		
Cash - General	\$ 3,113,156	\$ 5,568,160
Cash - Restricted	251,510	284,971
Accounts and Notes Receivable (Less allowance for uncollectibles of \$567,171 in 2017 and \$640,478 in 2016)	1,746,851	1,770,195
Accrued Unbilled Revenue	584,895	535,157
Power Cost Undercollected	61,122	76,979
Debt Service Cost Undercollected		17,379
Materials and Supplies	521,310	492,645
Other Current and Accrued Assets	149,961	162,964
	<u>\$ 6,428,805</u>	<u>\$ 8,908,450</u>
DEFERRED CHARGES		
Regulatory Assets	\$ 3,277,050	\$ 3,390,702
NRECA RS Prepayment	355,737	426,885
CFC Prepayment Premium	1,069,955	1,209,504
Other	346,216	38,420
	<u>\$ 5,048,958</u>	<u>\$ 5,065,511</u>
TOTAL ASSETS	<u>\$ 72,877,345</u>	<u>\$ 73,423,594</u>
	EQUITIES AND LIABILITIES	
EQUITIES		
Patronage Capital	\$ 27,149,364	\$ 25,633,294
Donated Capital	100,940	100,940
Other Equities	71,375	51,097
Accumulated Other Comprehensive Loss	7,683	(14,817)
	<u>\$ 27,329,362</u>	<u>\$ 25,770,514</u>
LONG-TERM DEBT		
RUS Mortgage Notes Less Current Maturities	\$ 186,025	\$ 219,773
FFB Mortgage Notes Less Current Maturities	32,246,372	30,189,215
CoBank Mortgage Notes Less Current Maturities	21,031,841	22,736,791
RUS Advanced Payments	(14,084,006)	(11,429,964)
	<u>\$ 39,380,232</u>	<u>\$ 41,715,815</u>
ACCUMULATED PROVISION FOR PENSIONS AND BENEFITS		
Post-Retirement Benefits	\$ 295,905	\$ 312,590
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 2,703,000	\$ 2,538,000
Current Portion of APBO	35,600	40,500
SEC Educational Foundation	251,510	284,971
Accounts Payable - Purchased Power	1,264,349	1,211,178
Accounts Payable - Other	187,302	222,727
Debt Service Cost Overcollected	592	
Consumer Deposits and Prepayments	159,275	156,301
Accrued Employee Compensated Absences	192,840	189,437
Accrued Taxes	344,648	340,894
Other Current and Accrued Liabilities	198,618	201,843
	<u>\$ 5,337,734</u>	<u>\$ 5,185,851</u>
DEFERRED CREDITS	<u>\$ 534,112</u>	<u>\$ 438,824</u>
TOTAL EQUITIES AND LIABILITIES	<u>\$ 72,877,345</u>	<u>\$ 73,423,594</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, 2017 AND 2016**

	December 31,				Increase (Decrease)
	2017		2016		
	Amount	%	Amount	%	
OPERATING REVENUES					
Residential	\$ 10,045,855	40.7	\$ 10,117,120	41.5	\$ (71,265)
Irrigation	55,176	0.2	46,305	0.2	8,871
Commercial and Industrial	14,263,782	57.7	14,033,802	57.4	229,980
Public Buildings and Other Authorities	135,139	0.5	175,117	0.7	(39,978)
Power and Debt Cost Adjustment	(33,828)	(0.1)	(95,660)	(0.4)	61,832
Other Operating Revenues	203,138	1.0	180,106	0.6	23,032
Total Operating Revenues	<u>\$ 24,669,262</u>	<u>100.0</u>	<u>\$ 24,456,790</u>	<u>100.0</u>	<u>\$ 212,472</u>
OPERATING EXPENSES					
Purchased Power	\$ 14,389,999	58.3	\$ 14,090,014	57.6	\$ 299,985
Distribution - Operation	1,881,532	7.6	1,776,990	7.3	104,542
Distribution - Maintenance	631,312	2.6	661,831	2.7	(30,519)
Consumers' Accounts	975,681	4.0	1,086,965	4.4	(111,284)
Sales	12,713	0.1	(5,128)	0.0	17,841
Administrative and General	1,508,059	6.1	1,489,984	6.1	18,075
Depreciation and Amortization	2,313,563	9.4	2,169,745	8.9	143,818
Taxes	154,049	0.6	153,885	0.6	164
Other Deductions	113,651	0.5	110,560	0.5	3,091
Other Interest	2,828	0.0	2,704	0.0	124
Total Operating Expenses	<u>\$ 21,983,387</u>	<u>89.2</u>	<u>\$ 21,537,550</u>	<u>88.1</u>	<u>\$ 445,837</u>
OPERATING MARGINS - Before Fixed Charges	<u>\$ 2,685,875</u>	<u>10.8</u>	<u>\$ 2,919,240</u>	<u>11.9</u>	<u>\$ (233,365)</u>
FIXED CHARGES					
Interest on Long-Term Debt	<u>2,218,969</u>	<u>9.0</u>	<u>2,221,800</u>	<u>9.1</u>	<u>(2,831)</u>
OPERATING MARGINS - After Fixed Charges	<u>\$ 466,906</u>	<u>1.8</u>	<u>\$ 697,440</u>	<u>2.8</u>	<u>\$ (230,534)</u>
G&T Capital Credits	746,154	3.0	403,694	1.7	342,460
Other Capital Credits	288,801	1.2	190,087	0.8	98,714
Total Capital Credits	<u>\$ 1,034,955</u>	<u>4.2</u>	<u>\$ 593,781</u>	<u>2.5</u>	<u>\$ 441,174</u>
NET OPERATING MARGINS	<u>\$ 1,501,861</u>	<u>6.0</u>	<u>\$ 1,291,221</u>	<u>5.3</u>	<u>\$ 210,640</u>
NON-OPERATING MARGINS					
Interest Income	\$ 686,225	2.8	\$ 579,377	2.4	\$ 106,848
Realized Gain on Sale of Securities	9,163	0.0	4,461	0.0	4,702
Loss on Retired Meters	(259,141)	(1.1)	(787,343)	(3.2)	528,202
Other Non-Operating Margins	1,249	0.0	3,422	0.0	(2,173)
Total Non-Operating Margins	<u>\$ 437,496</u>	<u>1.7</u>	<u>\$ (200,083)</u>	<u>(0.8)</u>	<u>\$ 637,579</u>
NET MARGINS	<u>\$ 1,939,357</u>	<u>7.7</u>	<u>\$ 1,091,138</u>	<u>4.5</u>	<u>\$ 848,219</u>
OTHER COMPREHENSIVE INCOME					
APBO Gain	20,500		7,400		
Amortization of Loss	<u>2,000</u>		<u>2,000</u>		
COMPREHENSIVE INCOME	<u>\$ 1,961,857</u>		<u>\$ 1,100,538</u>		
Post-Retirement Benefit Adjustment	(22,500)		(9,400)		
PATRONAGE CAPITAL - BEGINNING OF YEAR	25,633,294		24,906,343		
Patronage Capital Discounted	(20,278)		(37,923)		
Patronage Capital Retired	<u>(403,009)</u>		<u>(326,264)</u>		
PATRONAGE CAPITAL - End of Year	<u>\$ 27,149,364</u>		<u>\$ 25,633,294</u>		

See accompanying notes to financial statements.

SOCORRO ELECTRIC COOPERATIVE, INC.

Exhibit C

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	December 31,	
	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 1,939,357	\$ 1,091,138
Items to Reconcile to Net Cash Provided by Operating Activities		
Depreciation	2,571,576	2,402,481
Capital Credits	(1,034,598)	(593,781)
Post-Retirement Benefit Accruals	24,000	24,400
Deferred Charges	16,553	467,378
Deferred Credits	95,288	108,251
Accounts Receivable	23,344	(97,191)
Power Cost Adjustment	15,857	65,103
Debt Cost Adjustment	17,971	30,557
Accrued Unbilled Revenue	(49,738)	65,469
Inventories and Other Current Assets	(15,662)	124,772
Accounts Payable and Other Accrued Liabilities	(11,785)	156,982
Customer Deposits	2,974	8,641
Net Cash Provided by Operating Activities	<u>\$ 3,595,137</u>	<u>\$ 3,854,200</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Utility Plant	\$ (3,850,195)	\$ (1,367,146)
Salvage in Excess of Plant Removal Costs	186,556	681,844
Notes Receivable	6,381	14,546
Other Property and Investments	170,331	111,906
Net Cash Used in Investing Activities	<u>\$ (3,486,927)</u>	<u>\$ (558,850)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Long-Term Debt to RUS	\$ (35,747)	\$ (256,294)
Advance Payments to RUS	(2,654,042)	(881,846)
Advances on Long-Term Debt from FFB	3,071,000	2,971,000
Advances on Long-Term Debt from CoBank		34,346
Payments on Long-Term Debt to FFB	(899,842)	(743,522)
Payments on Long-Term Debt to CoBank	(1,651,950)	(1,231,785)
Payments on Post-Retirement Benefits	(23,085)	(24,981)
Retirement of Patronage Capital	(403,009)	(326,264)
Net Cash Used In Financing Activities	<u>\$ (2,596,675)</u>	<u>\$ (459,346)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	\$ (2,488,465)	\$ 2,836,004
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>5,853,131</u>	<u>3,017,127</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 3,364,666</u>	<u>\$ 5,853,131</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash Paid During the Year for:		
Interest	\$ 2,083,852	\$ 2,027,221
Income Taxes	<u>\$ 0</u>	<u>\$ 0</u>

NON CASH INVESTING AND FINANCING ACTIVITIES

The adjustment to the Post-Retirement Benefit Obligation increased (decreased) the accrued Post-Retirement Benefit Obligation by \$(20,500) and (\$7,400), and conversely equities by the same amount for the years ended December 31, 2017 and 2016, respectively.

During the year ended December 31, 2016 the Cooperative paid off existing RUS debt of \$18,981,173 with an advance of CoBank funds

See accompanying notes to financial statements.

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

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

System of Accounts

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

Electric Plant, Maintenance, and Depreciation

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

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

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

Accounts Receivable

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

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

Inventories

Materials and supplies inventories are valued at average unit cost.

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

Cash and Cash Equivalents

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

Cash – Restricted

The Cooperative holds cash that is restricted for scholarships.

Electric Revenues

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

The Cooperative records electric revenues as billed to customers on a monthly basis. Revenue is not accrued for power delivered but not billed at the end of each month. However, on an annual basis, the Cooperative does estimate unbilled revenue. It is estimated that this unbilled revenue amounts to \$584,895 and \$535,157 at December 31, 2017 and 2016, 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 2014.

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, 2017 and 2016.

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

Patronage Capital Certificates

Patronage capital from associated companies is recorded at the stated amount of the certificates. At the end of each year the Cooperative receives an estimated allocation from its G&T purchased power provider. In accordance with USOA, the Cooperative records this estimated amount as income. Any differences between the estimated amounts and actual final allocations are recorded in the following years. For the years ended 2017 and 2016, the allocations were recorded as follows:

	December 31,	
	<u>2017</u>	<u>2016</u>
Final Allocation for 2017	\$ 746,154	\$
Final Allocation for 2016		403,694
	<u>\$ 746,154</u>	<u>\$ 403,694</u>

Group Concentrations of Credit Risk

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

The Cooperative requires a deposit from its members upon connection, which is applied to unpaid bills and fees in the event of default. The deposit accrues interest annually and is returned along with accrued interest with an established history of current payment or when the service is disconnected. As of December 31, 2017 and 2016, deposits on hand totaled \$159,275 and \$156,301, 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.

Reclassifications

Certain reclassifications have been made to the 2016 financial statement balances to conform to the 2017 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.

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,	
	2017	2016
Intangible	\$ 906,486	\$ 906,486
Electric Transmission Plant	2,333,961	2,325,763
Electric Distribution Plant	70,950,755	70,101,453
General Plant	6,311,005	5,985,811
Total Plant in Service	\$ 80,502,207	\$ 79,319,513
Construction Work in Progress	967,524	399,781
Total Plant	\$ 81,469,731	\$ 79,719,294

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%.

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, 2017 and 2016, was \$2,571,576 and \$2,402,481, of which \$2,313,563 and \$2,169,745 was charged to depreciation expense, and \$258,013 and \$232,736 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,	
	2017	2016
National Rural Utilities Cooperative Finance Corporation		
Capital Term Certificates	\$ 476,620	\$ 504,406
Patronage Capital	184,964	184,964
Membership	1,000	1,000
Tri-State Generation and Transmission Cooperative	9,162,788	8,416,635
Federated Insurance	304,446	271,280
Southeastern Data Corporation	117,814	117,521
CoBank	324,015	196,188
Western United Electric Cooperative	20,343	37,115
Other	8,345	6,959
	<u>\$ 10,600,335</u>	<u>\$ 9,736,068</u>

5. Notes Receivable

Notes receivable consisted of the following:

	December 31,	
	2017	2016
Energy Efficiency Loans	\$	\$ 160
Other Member Loans		159
Line Extension Loans	65,966	85,628
	<u>\$ 65,966</u>	<u>\$ 85,947</u>
Less: Current Portion of Line Extension Loans	34,300	47,900
	<u>\$ 31,666</u>	<u>\$ 38,047</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:

2018	\$ 34,300
2019	13,400
2020	10,000
2021	6,600
2022	1,800

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

6. Materials and Supplies

Materials and supplies consisted of the following:

	December 31,	
	2017	2016
Construction Materials and Supplies	\$ 446,699	\$ 420,734
Other Materials and Supplies	74,611	71,911
	<u>\$ 521,310</u>	<u>\$ 492,645</u>

7. Deferred Charges

Deferred charges consisted of the following:

	December 31,	
	2017	2016
Regulatory Assets - Tri-State Merger Costs	\$ 3,277,050	\$ 3,390,702
Premium on Debt Refinance	1,069,955	1,209,504
RS Plan Prepayment	355,737	426,885
Four Year Work Plan	201,507	
Other	144,709	38,420
	<u>\$ 5,048,958</u>	<u>\$ 5,065,511</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,	
	2017	2016
Original Cost of Merger	\$ 4,633,175	\$ 4,633,175
Accumulated Amortization	(1,356,125)	(1,242,473)
	<u>\$ 3,277,050</u>	<u>\$ 3,390,702</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, 2017 and 2016 was \$71,148.

8. Return of Capital

Under the provisions of the mortgage agreements, until the equities and margins equal or exceed 30.00% of the total assets of the Cooperative, the return to patrons of capital contributed by them is limited generally to 25.00% of the patronage capital or margins received by the Cooperative in the prior calendar year. The equities and margins of the Cooperative represent 37.49% of the total assets at December 31, 2017 excluding the accumulated other comprehensive loss and 37.50% including the accumulated other comprehensive loss. Capital credits totaling \$423,287 and \$364,187 were retired for 2017 and 2016, and were within guidelines set by RUS for return of capital.

9. Patronage Capital

Patronage capital consisted of the following:

	December 31,	
	2017	2016
Assigned	\$ 24,874,933	\$ 23,941,530
Assignable	943,382	752,913
Assignable - G&T	746,154	403,694
	\$ 26,564,469	\$ 25,098,137
Unbilled Revenue (Assignable)	584,895	535,157
	\$ 27,149,364	\$ 25,633,294

10. Other Equities

Other equities consisted of retired capital credit gains of \$71,375 and \$51,097 as of December 31, 2017 and 2016, respectively.

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

11. Mortgage Notes – RUS

Long-term debt due RUS is represented by 35-year mortgage notes payable to the United States of America. Principal and interest on the notes are paid in monthly installments. In 2016, RUS debt of \$18,891,173 was refinanced with Co-Bank. Following is a summary of long-term debt due RUS and maturing in 2023 and 2028:

	December 31,	
	2017	2016
Fixed Rate Notes (2.000%)	\$ 222,025	\$ 257,773
Less: Current Maturities	36,000	38,000
	<u>\$ 186,025</u>	<u>\$ 219,773</u>

As of December 31, 2017, annual maturities of long-term debt due RUS for the next five years are as follows:

2018	\$ 36,000
2019	36,000
2020	37,000
2021	38,000
2022	38,000

The Cooperative has made advance payments to RUS in the amount of \$14,084,006 and \$11,429,964 as of December 31, 2017 and 2016, respectively.

12. Mortgage Notes – FFB

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

Following is a summary of long-term debt due FFB and maturing at various times between 2020 and 2046:

	December 31,	
	2017	2016
Fixed Rate Notes (2.319% - 6.327%)	\$ 33,208,372	\$ 31,037,215
Less: Current Maturities	962,000	848,000
	<u>\$ 32,246,372</u>	<u>\$ 30,189,215</u>

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

As of December 31, 2017, annual maturities of long-term debt due FFB for the next five years are as follows:

2018	\$ 962,000
2019	993,000
2020	7,698,000
2021	867,000
2022	912,000

The Cooperative has no unadvanced funds with FFB at December 31, 2017.

13. Mortgage Notes – CoBank

Long-term debt due CoBank is represented by mortgage notes payable to CoBank. Principal and interest on the notes are paid in monthly installments. Following is a summary of long-term debt due CoBank and maturing at various times from 2020 to 2037:

	December 31,	
	2017	2016
Fixed Rate Notes (2.62%-3.60%)	\$ 22,736,841	\$ 24,388,791
Less: Current Maturities	1,705,000	1,652,000
	<u>\$ 21,031,841</u>	<u>\$ 22,736,791</u>

As of December 31, 2017, annual maturities of long-term debt due CoBank for the next five years are as follows:

2018	\$ 1,705,000
2019	1,760,000
2020	1,620,000
2021	1,085,000
2022	1,124,000

14. Short-Term Borrowing

The Cooperative has a line of credit for short-term, variable rate financing from National Rural Utilities Cooperative Finance Corporation (CFC) in the amount of \$4,700,000. There was \$0 and \$0 outstanding on this line of credit as of December 31, 2017 and 2016. The interest rate as of December 31, 2017 and 2016 was 2.75% and 2.50%, respectively.

The Cooperative also has a \$4,000,000 line of credit with CoBank at an interest rate of 3.67% for the year ended December 31, 2017 with a maturity date of July 31, 2018. As of December 31, 2017 and 2016, \$0 and \$0 were outstanding on this line of credit, respectively.

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

15. Deferred Credits

Deferred credits consisted of the following:

	December 31,	
	2017	2016
Unclaimed Capital Credit Retirements	\$ 525,946	\$ 430,658
Miscellaneous Deferred Credits	8,166	8,166
	<u>\$ 534,112</u>	<u>\$ 438,824</u>

16. Pension Plan

Defined Benefit Plan

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

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

The Cooperative contributions to the RS Plan in 2017 and 2016 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 \$216,498 in 2017 and \$206,002 in 2016. Pension expense for the years ended December 31, 2017 and 2016, including amortization was \$287,646 and \$277,149, 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, 2017 and 2016 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 \$133,931 and \$123,659 for the years ended December 31, 2017 and 2016, respectively.

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

17. Post-Retirement Benefits

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

A summary of the plan follows:

Medical Benefits – Health Insurance Premiums

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

Life Insurance Benefits – Group Term Life Insurance Premiums

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

Economic Assumptions

The discount rate used to develop the accumulated Post-Retirement Benefit Obligation was 4.20%. The assumed health care cost trend rate was 7.5% for 2017, declining to an ultimate level of 5.0% by 2027.

Management of the Cooperative intends to fund the plan as health care claims are required to be paid. Benefits are paid on behalf of retirees and are a function of medical insurance costs and number of retirees. Benefits paid for the years ended December 31, 2017 and 2016, were \$23,085 and \$24,981.

This information is based on the most recent actuarial valuation calculated as of January 1, 2015.

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

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

	December 31,	
	<u>2017</u>	<u>2016</u>
Funded Status at End of Year:		
APBO Balance	\$ (331,505)	\$ (353,090)
Plan Assets		
Funded Status at End of Year	<u>\$ (331,505)</u>	<u>\$ (353,090)</u>
Change in Benefit Obligation:		
Benefit Obligation at Beginning of Year	\$ (353,090)	\$ (363,071)
Service Cost	(9,600)	(9,000)
Interest Cost	(12,400)	(13,400)
Benefits Paid	23,085	24,981
Net Actuarial Gain	20,500	7,400
Benefit Obligation at End of Year	<u>\$ (331,505)</u>	<u>\$ (353,090)</u>
Net Periodic Benefit Cost:		
Service Cost	\$ 9,600	\$ 9,000
Interest Cost	12,400	13,400
Amortization of Prior Service Cost	2,000	2,000
Post-Retirement Benefit Expense	<u>\$ 24,000</u>	<u>\$ 24,400</u>
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income:		
Net Actuarial Gain	\$ (20,500)	\$ (7,400)
Amortization of Prior Service Cost	(2,000)	(2,000)
Other Comprehensive Income	<u>\$ (22,500)</u>	<u>\$ (9,400)</u>
Amounts Not Yet Recognized in Net Periodic Post-Retirement Benefit Cost:		
Unrecognized Actuarial (Gain) Loss	\$ (15,283)	\$ 5,217
Net Prior Service Cost	7,600	9,600
Total Other Comprehensive Loss	<u>\$ (7,683)</u>	<u>\$ 14,817</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 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.

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

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

2018	\$ 35,600
2019	25,200
2020	17,400
2021	18,800
2022	26,700
2023-2027	62,900

18. Litigation and Commitments

There is no pending or threatened litigation at December 31, 2017 that would materially affect the Cooperative's financial condition.

During 2017, the Cooperative entered into an agreement with Anixter to purchase TWACS substation equipment and meters in the amount of \$2,707,281. The Cooperative has \$1,496,638 remaining on this commitment at December 31, 2017.

19. 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.

20. Subsequent Events

The Cooperative has evaluated subsequent events through April 3, 2018, the date which the financial statements were available to be issued.

21. Recently Issued Accounting Pronouncement

In February 2016, the FASB issued Accounting Standards Update 2016-02, *Leases*. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be clarified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The new standard is effective for nonpublic entities for fiscal years beginning after December 15, 2019. 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, 2017**

	<u>Balance 1/1/2017</u>	<u>Additions And Transfers</u>	<u>Retirements</u>	<u>Balance 12/31/2017</u>
CLASSIFIED ELECTRIC PLANT IN SERVICE				
Intangible Plant				
Organization	\$ 906,486	\$ _____	\$ _____	\$ 906,486
Transmission Plant				
Land and Land Rights	\$ 2,228	\$ _____	\$ _____	\$ 2,228
Poles and Fixtures	989,925	19,677	11,479	998,123
Overhead Conductors and Devices	1,333,610	_____	_____	1,333,610
Total	<u>\$ 2,325,763</u>	<u>\$ 19,677</u>	<u>\$ 11,479</u>	<u>\$ 2,333,961</u>
Distribution Plant				
Land and Land Rights	\$ 42,960	\$ _____	\$ _____	\$ 42,960
Station Equipment	5,096,195	145,494	13,961	5,227,728
Poles, Towers, and Fixtures	24,150,144	354,948	54,012	24,451,080
Overhead Conductors and Devices	16,030,896	1,062,484	615,318	16,478,062
Underground Conductors and Devices	5,486,096	63,017	6,089	5,543,024
Line Transformers	10,214,388	117,136	408,219	9,923,305
Services	5,577,908	(3,901)	12,325	5,561,682
Meters	2,362,559	812,384	587,433	2,587,510
Installations on Consumers' Premises	893,529	13,737	18,640	888,626
Street Lighting and Signal Systems	246,778	_____	_____	246,778
Total	<u>\$ 70,101,453</u>	<u>\$ 2,565,299</u>	<u>\$ 1,715,997</u>	<u>\$ 70,950,755</u>
General Plant				
Land and Land Rights	\$ 41,073	\$ _____	\$ _____	\$ 41,073
Structures and Improvements	963,499	_____	_____	963,499
Office Furniture and Computer Equipment	801,479	117,388	_____	918,867
Transportation and Power Operated Equipment	3,097,449	574,845	372,282	3,300,012
Store Equipment	9,911	_____	_____	9,911
Tools, Shop, and Garage Equipment	130,452	2,974	_____	133,426
Laboratory Equipment	14,148	_____	_____	14,148
Communications Equipment	268,457	2,269	_____	270,726
Miscellaneous Equipment	659,343	_____	_____	659,343
Total	<u>\$ 5,985,811</u>	<u>\$ 697,476</u>	<u>\$ 372,282</u>	<u>\$ 6,311,005</u>
Total Classified Electric Plant in Service	\$ 79,319,513	\$ 3,282,452	\$ 2,099,758	\$ 80,502,207
Construction Work in Progress	<u>399,781</u>	<u>567,743</u>	_____	<u>967,524</u>
Total Utility Plant	<u>\$ 79,719,294</u>	<u>\$ 3,850,195</u>	<u>\$ 2,099,758</u>	<u>\$ 81,469,731</u>

SOCORRO ELECTRIC COOPERATIVE, INC.

Schedule 2

**ACCUMULATED PROVISION FOR DEPRECIATION
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Balance 1/1/2017</u>	<u>Accruals And Transfers</u>	<u>Retirements</u>	<u>Balance 12/31/2017</u>
Transmission Plant	\$ 555,416	\$ 65,902	\$ 12,751	\$ 608,567
Distribution Plant	\$ 24,388,467	\$ 2,093,465	\$ 1,551,204	\$ 24,930,728
General Plant				
Structures and Improvements	\$ 854,775	\$ 9,560	\$	\$ 864,335
Office Furniture and Computer Equipment	577,896	62,871	\$	640,767
Transportation and Power Operated Equipment	2,674,119	258,015	368,133	2,564,001
Stores Equipment	6,774	248	\$	7,022
Tools, Shop, and Garage Equipment	93,657	12,449	\$	106,106
Laboratory Equipment	11,508	248	\$	11,756
Communications Equipment	224,132	9,733	\$	233,865
Intangible Plant	80,567	24,772	\$	105,339
Miscellaneous Equipment	613,927	34,313	\$	648,240
Total General Plant	<u>\$ 5,137,355</u>	<u>\$ 412,209</u>	<u>\$ 368,133</u>	<u>\$ 5,181,431</u>
Leased Plant	\$ 0	\$ 0	\$ 0	\$ 0
Total Classified Electric Plant in Service	\$ 30,081,238	\$ 2,571,576	\$ 1,932,088	\$ 30,720,726
Retirement Work in Progress	<u>(37,462)</u>	<u> </u>	<u>(18,886)</u>	<u>(18,576)</u>
	<u>\$ 30,043,776</u>	<u>\$ 2,571,576</u>	<u>\$ 1,913,202</u>	<u>\$ 30,702,150</u>
Charged to Depreciation Expense		\$ 2,313,563		
Charged to Clearing and Other Accounts		<u>258,013</u>		
		<u>\$ 2,571,576</u>		
Cost of Plant Retired			\$ 2,099,758	
Plant Removal Cost Net of Salvage			<u>(186,556)</u>	
Net Loss Due to Retirements			<u>\$ 1,913,202</u>	

SOCORRO ELECTRIC COOPERATIVE, INC.

Schedule 3

**OTHER PROPERTY AND INVESTMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	December 31,	
	2017	2016
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	184,964	184,964
Federated Insurance	304,446	271,280
Southeastern Data Corporation	117,814	117,521
Tri-State Generation and Transmission Cooperative	9,162,788	8,416,635
Western United Electric Cooperative	20,343	37,115
CoBank	324,015	196,188
Cooperative Response Center	3,151	1,765
Capital Term Certificates		
National Rural Utilities Cooperative Finance Corporation	476,620	504,406
Other	594	594
	\$ 10,600,335	\$ 9,736,068
NOTES RECEIVABLE		
Line Extension Contracts	\$ 65,966	\$ 85,628
Weatherization Loans		160
Energy Efficiency Loans		159
Less: Current Portion of Line Extension Loans	(34,300)	(47,900)
	\$ 31,666	\$ 38,047
Total Other Property and Investments	\$ 10,632,001	\$ 9,774,115

SOCORRO ELECTRIC COOPERATIVE, INC.

Schedule 4

**MORTGAGE NOTES
DECEMBER 31, 2017**

<u>Date of Note</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Amount Unadvanced</u>	<u>Principal Repayments</u>	<u>Net</u>
RUS Mortgage Notes					
10/25/1988	2.000%	\$ 751,000	\$	\$ 584,862	\$ 166,138
10/25/1988	2.000%	133,000		101,848	31,152
10/25/1988	2.000%	66,000		41,265	24,735
Total RUS		<u>\$ 950,000</u>	<u>\$ 0</u>	<u>\$ 727,975</u>	<u>\$ 222,025</u>
FFB Mortgage Notes					
09/28/1999	6.122%	\$ 893,000	\$	\$ 336,602	\$ 556,398
11/09/1999	6.156%	759,000		285,265	473,735
05/05/2000	6.327%	1,171,000		347,920	823,080
11/03/2000	5.820%	1,460,000		463,215	996,785
04/19/2001	5.569%	910,000		287,895	622,105
12/31/2003	4.973%	1,652,000		396,859	1,255,141
11/19/2003	4.935%	1,285,000		325,444	959,556
05/24/2005	4.817%	2,726,000		642,398	2,083,602
11/04/2005	4.797%	4,069,000		928,596	3,140,404
05/26/2006	5.192%	826,000		174,658	651,342
05/03/2011	4.114%	3,032,000		240,139	2,791,861
12/31/2013	2.319%	8,000,000		762,468	7,237,532
08/04/2015	2.408%	6,000,000		310,986	5,689,014
12/12/2016	2.842%	2,971,000		62,311	2,908,689
01/26/2017	2.818%	3,071,000		51,872	3,019,128
Total FFB		<u>\$ 38,825,000</u>	<u>\$ 0</u>	<u>\$ 5,616,628</u>	<u>\$ 33,208,372</u>
CoBank Mortgage Notes					
5/31/2013	2.620%	\$ 5,139,592	\$	\$ 3,086,483	\$ 2,053,109
5/31/2013	3.460%	3,812,363		1,223,409	2,588,954
7/25/2016	3.000%	1,426,459		129,454	1,297,005
7/25/2016	3.600%	17,589,059		791,286	16,797,773
Total CoBank		<u>\$ 27,967,473</u>	<u>\$ 0</u>	<u>\$ 5,230,632</u>	<u>\$ 22,736,841</u>

Net Obligation includes \$36,000 due RUS, \$962,000 due FFB and \$1,705,000 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, 2017 AND 2016**

	December 31,		Increase (Decrease)
	<u>2017</u>	<u>2016</u>	
Administrative and General Salaries	\$ 725,371	\$ 807,900	\$ (82,529)
Office Supplies and Expenses	97,863	75,780	22,083
Injuries and Damages	7,755		7,755
Outside Services Employed	189,375	140,323	49,052
Regulatory Commission Expenses	27,591	858	26,733
Directors' Fees and Expenses	107,821	100,787	7,034
Association Dues	116,335	113,486	2,849
Annual Meeting Expenses	99,742	97,142	2,600
Scholarship Fund Expenses	4,692	1,325	3,367
Miscellaneous Expenses	31,468	46,498	(15,030)
Maintenance of General Plant	<u>100,046</u>	<u>105,885</u>	<u>(5,839)</u>
Total	\$ <u>1,508,059</u>	\$ <u>1,489,984</u>	\$ <u>18,075</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, 2017, 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 April 3, 2018. In accordance with *Government Auditing Standards*, we have also issued our report dated April 3, 2018, 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

April 3, 2018

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, 2017, 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 April 3, 2018.

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

April 3, 2018