

NEW MEXICO 20 SOCORRO

SOCORRO ELECTRIC COOPERATIVE, INC.

SOCORRO, NEW MEXICO

FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2008 AND 2007

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

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

**FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2008 AND 2007**

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of Socorro Electric Cooperative, Inc. as of March 31, 2008 and 2007, and the related statements of income and patronage capital and cash flows for the years then ended. These financial statements are the responsibility of the Cooperative's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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 March 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2008, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

June 30, 2008

SOCORRO ELECTRIC COOPERATIVE, INC.

Exhibit A

BALANCE SHEET
MARCH 31, 2008 AND 2007

ASSETS

	March 31,	
	2008	2007
PLANT AT COST		
Electric Plant in Service	\$ 53,306,794	\$ 49,651,092
Construction Work in Progress	3,459,840	1,835,475
Other Property and Equipment	8,740	10,925
	<u>\$ 56,775,374</u>	<u>\$ 51,497,492</u>
Less: Accumulated Provision for Depreciation	19,034,170	17,823,437
	<u>\$ 37,741,204</u>	<u>\$ 33,674,055</u>
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 759,513	\$ 733,554
Notes Receivable - Weatherization	159,321	188,666
Other Investments - Restricted	145,200	145,200
Other Investments	189,689	190,746
	<u>\$ 1,253,723</u>	<u>\$ 1,258,166</u>
CURRENT ASSETS		
Cash - General	\$ 1,375,709	\$ 794,246
Cash - Restricted	12,997	9,050
Temporary Cash Investments	3,064,000	5,165,000
Notes Receivable - Electrical Appliances (Less allowance for uncollectibles of \$6,460 in 2008 and \$5,579 in 2007)	31,346	42,836
Accounts Receivable (Less allowance for uncollectibles of \$1,319,839 in 2008 and \$1,011,198 in 2007)	1,802,028	1,820,061
Materials and Supplies	660,259	693,083
Other Current and Accrued Assets	69,171	135,628
	<u>\$ 7,015,510</u>	<u>\$ 8,659,904</u>
DEFERRED CHARGES		
Regulatory Assets	\$ 4,176,597	\$ 4,246,466
Other	44,691	144,540
	<u>\$ 4,221,288</u>	<u>\$ 4,391,006</u>
TOTAL ASSETS	<u>\$ 50,231,725</u>	<u>\$ 47,983,131</u>
	EQUITIES AND LIABILITIES	
EQUITIES		
Patronage Capital	\$ 14,611,891	\$ 14,373,307
Donated Capital	78,204	78,204
Other Equities - Deficit	(480,134)	(480,134)
Accumulated Other Comprehensive Gain (Loss)	(518,248)	6,781
	<u>\$ 13,691,713</u>	<u>\$ 13,978,158</u>
LONG-TERM DEBT		
RUS Mortgage Notes Less Current Maturities	\$ 15,310,662	\$ 11,525,028
FFB Mortgage Notes Less Current Maturities	14,484,743	14,744,901
CFC Mortgage Notes Less Current Maturities	2,844,413	2,997,789
	<u>\$ 32,639,818</u>	<u>\$ 29,267,718</u>
ACCUMULATED PROVISION FOR PENSIONS AND BENEFITS		
Post-Retirement Benefits	\$ 738,926	\$ 194,112
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 912,500	\$ 881,000
Notes Payable - CFC Line of Credit	157,734	1,597,293
SEC Educational Foundation	170,753	163,315
Accounts Payable - Purchased Power	1,006,801	877,790
Accounts Payable - Other	134,239	248,541
Power Cost Overcollected	271,213	300,867
Consumer Deposits and Prepayments	74,621	85,406
Other Current and Accrued Liabilities	354,852	336,238
	<u>\$ 3,082,713</u>	<u>\$ 4,490,450</u>
DEFERRED CREDITS	<u>\$ 78,555</u>	<u>\$ 52,693</u>
TOTAL EQUITIES AND LIABILITIES	<u>\$ 50,231,725</u>	<u>\$ 47,983,131</u>

See accompanying notes to financial statements

SOCORRO ELECTRIC COOPERATIVE, INC.

Exhibit B

STATEMENT OF INCOME AND PATRONAGE CAPITAL
FOR THE YEARS ENDED MARCH 31, 2008 AND 2007

	March 31,				Increase (Decrease)
	2008		2007		
	Amount	%	Amount	%	
OPERATING REVENUES					
Residential	\$ 8,524,200	43.2	\$ 7,873,599	43.3	\$ 650,601
Irrigation	38,370	0.2	49,721	0.3	(11,351)
Commercial and Industrial	10,854,936	55.2	9,989,468	55.0	865,468
Public Buildings and Other Authorities	110,046	0.6	103,101	0.6	6,945
Other Operating Revenues	152,386	0.8	153,392	0.8	(1,006)
Total Operating Revenues	<u>\$ 19,679,938</u>	<u>100.0</u>	<u>\$ 18,169,281</u>	<u>100.0</u>	<u>\$ 1,510,657</u>
OPERATING EXPENSES					
Purchased Power	\$ 11,554,562	58.7	\$ 10,236,349	56.3	\$ 1,318,213
Distribution - Operation	658,520	3.3	308,367	1.7	350,153
Distribution - Maintenance	1,023,761	5.2	748,534	4.1	275,227
Consumers' Accounts	1,142,059	5.8	1,060,155	5.8	81,904
Sales	46,331	0.2	38,973	0.2	7,358
Administrative and General	1,485,731	7.5	1,426,274	7.8	59,457
Depreciation and Amortization	1,446,835	7.4	1,306,838	7.2	139,997
Taxes	199,118	1.0	115,422	0.6	83,696
Other Deductions	103,950	0.5	90,745	0.5	13,205
Other Interest	38,946	0.2	9,806	0.1	29,140
Total Operating Expenses	<u>\$ 17,699,813</u>	<u>89.8</u>	<u>\$ 15,341,463</u>	<u>84.3</u>	<u>\$ 2,358,350</u>
OPERATING MARGINS - Before Fixed Charges	\$ 1,980,125	10.2	\$ 2,827,818	15.7	\$ (847,693)
FIXED CHARGES					
Interest on Long-Term Debt	<u>1,624,570</u>	<u>8.3</u>	<u>1,625,703</u>	<u>8.9</u>	<u>(1,133)</u>
OPERATING MARGINS - After Fixed Charges	\$ 355,555	1.9	\$ 1,202,115	6.8	\$ (846,560)
Other Capital Credits	<u>65,876</u>	<u>0.3</u>	<u>47,069</u>	<u>0.3</u>	<u>18,807</u>
NET OPERATING MARGINS	<u>\$ 421,431</u>	<u>2.2</u>	<u>\$ 1,249,184</u>	<u>7.1</u>	<u>\$ (827,753)</u>
NON-OPERATING MARGINS					
Interest Income	\$ 218,746	1.1	\$ 353,777	1.9	\$ (135,031)
Socorro Satellite Systems			(203,826)	(1.1)	203,826
Dish Network Net Margins	74,901	0.4			74,901
Other Non-Operating Income (Loss)	(10,853)	(0.1)	(11,666)	(0.1)	813
	<u>\$ 282,794</u>	<u>1.4</u>	<u>\$ 138,285</u>	<u>0.7</u>	<u>\$ 144,509</u>
NET MARGINS	<u>\$ 704,225</u>	<u>3.6</u>	<u>\$ 1,387,469</u>	<u>7.8</u>	<u>\$ (683,244)</u>
OTHER COMPREHENSIVE GAINS					
Unrealized Holding Gain (Loss) Arising During Period	(12,773)		7,017		
Adjustment for Initial Application of FASB Statement Number 158	<u>(512,256)</u>				
COMPREHENSIVE INCOME	\$ 179,196		\$ 1,394,486		
Less: Unrealized Holding (Gain) Loss on Securities	12,773		(7,017)		
Less: Adjustment for FASB Number 158	512,256				
PATRONAGE CAPITAL - BEGINNING OF YEAR	14,373,307		13,292,972		
Patronage Capital Retired	<u>(402,865)</u>		<u>(307,134)</u>		
PATRONAGE CAPITAL - End of Year	<u>\$ 14,674,667</u>		<u>\$ 14,373,307</u>		

See accompanying notes to financial statements

SOCORRO ELECTRIC COOPERATIVE, INC.

Exhibit C

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2008 AND 2007

	March 31,	
	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 641,449	\$ 1,387,469
Items to Reconcile to Net Cash Provided by Operating Activities		
Depreciation	1,601,833	1,435,597
Capital Credits - Non-Cash	(65,876)	(47,069)
Deferred Charges	169,718	19,756
Deferred Credits	25,862	(186,637)
Accounts Receivable	18,033	(198,249)
Notes Receivable	11,490	(13,155)
Power Cost Adjustment	(29,654)	394,991
Inventories and Other Current Assets	99,281	(26,315)
Accounts Payable	22,147	233,500
Customer Deposits	(10,785)	4,130
Other Current and Accrued Liabilities	18,614	7,029
Net Cash Provided by Operating Activities	<u>\$ 2,502,112</u>	<u>\$ 3,011,047</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Utility Plant	\$ (5,401,276)	\$ (4,536,156)
Plant Removal Costs in Excess of Salvage	(267,706)	(219,734)
Other Property and Investments	57,546	(46,326)
Purchases of Marketable Debt and Equity Securities		(16,292)
Net Cash Used in Investing Activities	<u>\$ (5,611,436)</u>	<u>\$ (4,818,508)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Change on CFC LOC	\$ (1,439,559)	\$ 824,008
Payments on Long-Term Debt to CFC	(143,875)	(136,321)
Payments on Long-Term Debt to RUS	(469,367)	(472,480)
Payments on Long-Term Debt to FFB	(247,158)	(227,218)
Advances on Long-Term Debt from FFB	4,264,000	826,000
Net Change in Post-Retirement Benefits	32,558	63,492
Retirement of Patronage Capital	(402,865)	(307,134)
Net Cash Provided by Financing Activities	<u>\$ 1,593,734</u>	<u>\$ 570,347</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	\$ (1,515,590)	\$ (1,237,114)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>5,968,296</u>	<u>7,205,410</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 4,452,706</u>	<u>\$ 5,968,296</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest on Long-Term Debt	<u>\$ 1,624,570</u>	<u>\$ 1,592,890</u>
Income Taxes	<u>\$ 0</u>	<u>\$ 0</u>

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES

During the years ended March 31, 2008 and 2007, the Cooperative recorded the net change in unrealized gains (losses) on investments classified as "available for sale" of (\$12,773) and \$7,017, respectively. The net change was recorded as an adjustment to other investments and in accumulated comprehensive income.

During the year ended March 31, 2008, the Cooperative recorded an adjustment to the Post-Retirement Benefit Obligation to comply with FASB Statement Number 158 of \$512,256. This net change was recorded as an adjustment to the Post-Retirement Benefit liability and in accumulated comprehensive income.

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 Uniform System of Accounts, as prescribed by the Federal Energy Regulatory Commission for Class A and B electric utilities modified for electric borrowers of the Rural Utilities Service (RUS).

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 1.4% of billing per month to the allowance. The allowance is estimated based on an aging of receivables and is tied to amounts owed in excess of 90 days. The Board of Directors 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 and temporary cash investments.

Cash and Other Investments – Restricted

The Cooperative holds cash and a certificate of deposit that are restricted for scholarships and economic development.

Electric Revenues

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

The Cooperative's tariffs for electric service include fuel adjustment clauses under which electric rates charged to customers are adjusted to reflect changes in the cost of power. 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. As of March 31, 2008 and 2007, the Cooperative has delivered power for usage, which has not yet been billed. It is estimated that 13 days are unbilled at March 31, 2008.

Income Tax Status

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

Patronage Capital Certificates

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

Group Concentrations of Credit Risk

The Cooperative's headquarters facility is located in Socorro, New Mexico. The service area includes members located in several counties surrounding the City of Socorro. The Cooperative records a receivable for electric revenues as billed on a monthly basis. The Cooperative requires a deposit from its members upon connection, which is applied to unpaid bills and fees in the event of default. The deposit accrues interest annually and is returned along with accrued interest with an established history of current payment or when the service is disconnected. As of March 31, 2008 and 2007, deposits on hand totaled \$74,621 and \$85,406, respectively.

The Cooperative maintains cash balances at various banks in the surrounding area of Socorro, New Mexico. The Federal Deposit Insurance Corporation insures the cash balances at each financial institution up to \$100,000. At various times during the year, cash balances were in excess of the FDIC coverage.

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 RUS, FFB, and the National Rural Utilities Cooperative Finance Corporation (CFC).

3. Plant at Cost

The major classes of plant are as follows:

	March 31,	
	<u>2008</u>	<u>2007</u>
Intangible	\$ 5,020	\$ 5,020
Electric Transmission Plant	190,995	190,995
Electric Distribution Plant	47,432,720	43,921,474
General Plant	5,678,059	5,533,603
Non-Utility Plant - Socorro Satellite Systems	8,740	10,925
Total Plant in Service	<u>\$ 53,315,534</u>	<u>\$ 49,662,017</u>
Construction Work in Progress	<u>3,459,840</u>	<u>1,835,475</u>
 Total Plant	 <u>\$ 56,775,374</u>	 <u>\$ 51,497,492</u>

Provision has been made for depreciation of transmission plant at straight-line composite rates of 2.75% and distribution plant at composite rates ranging from 1.90% - 4.10%.

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	9.96% - 19.90%
Transportation Equipment	10.00% - 20.00%
Store Equipment	6.00%
Tools, Shop, and Garage Equipment	20.00%
Laboratory Equipment	6.00%
Communication Equipment	12.00%
Mapping Equipment	6.00%
Miscellaneous General Plant	6.00%

Depreciation and amortization for the years ended March 31, 2008 and 2007, was \$1,601,833 and \$1,435,597, respectively, of which \$1,446,835 and \$1,306,838 was charged to depreciation expense, and \$154,998 and \$128,759 was allocated to clearing and other accounts, respectively.

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

4. Investments in Associated Organizations

Investments in associated organizations consisted of the following:

	March 31,	
	<u>2008</u>	<u>2007</u>
National Rural Utilities Cooperative Finance Corporation		
Capital Term Certificates	\$ 514,634	\$ 516,278
Patronage Capital	118,498	119,968
Membership	1,000	1,000
Federated Insurance	96,335	76,960
Southeastern Data Corporation	27,050	17,352
Other	<u>1,996</u>	<u>1,996</u>
	<u>\$ 759,513</u>	<u>\$ 733,554</u>

5. Other Investments

Other investments are held for an indefinite period of time and thus are classified as “available for sale.” Securities classified as “available for sale” are carried in the financial statements at fair value. Realized gains and losses, determined using the first-in, first-out (FIFO) method, are included in earnings; unrealized holding gains and losses are reported as a separate component of members’ equity. Amortized cost and fair value of available-for-sale securities as of March 31, 2008 and 2007, respectively, are as follows:

	Amortized <u>Cost</u>	Net Unrealized Gain (Loss) <u></u>	<u>Fair Value</u>
March 31, 2008			
Mutual Funds	\$ <u>195,681</u>	\$ <u>(5,992)</u>	\$ <u>189,689</u>
March 31, 2007			
Mutual Funds	\$ <u>183,965</u>	\$ <u>6,781</u>	\$ <u>190,746</u>

For the years ended March 31, 2008 and 2007, the Cooperative realized no gains and (losses) on the sale of securities classified as “available for sale.”

For the years ended March 31, 2008 and 2007, the Cooperative had unrealized gains and (losses) attributable to its securities classified as “available for sale” of (\$12,773) and \$7,017, respectively.

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

6. Temporary Cash Investments – At Cost

Temporary cash investments consisted of the following:

	March 31,	
	<u>2008</u>	<u>2007</u>
CFC Commercial Paper	\$ <u>3,064,000</u>	\$ <u>5,165,000</u>

7. Inventories

Inventories consisted of the following:

	March 31,	
	<u>2008</u>	<u>2007</u>
Construction Materials and Supplies	\$ 554,285	\$ 596,490
Other Materials and Supplies	<u>105,974</u>	<u>96,593</u>
	\$ <u>660,259</u>	\$ <u>693,083</u>

8. Deferred Charges

Deferred charges consisted of the following:

	March 31,	
	<u>2008</u>	<u>2007</u>
Long-Term Work Plans	\$	\$ 9,017
Debt Service Adjustment	18,493	108,341
Regulatory Assets - Tri-State Merger Costs	4,176,597	4,246,466
Other	<u>26,198</u>	<u>27,182</u>
	\$ <u>4,221,288</u>	\$ <u>4,391,006</u>

Deferred charges are being amortized to expense over applicable periods.

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

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.

Original Cost of Merger	\$ 4,633,174
Accumulated Amortization	<u>456,577</u>
Balance	\$ <u><u>4,176,597</u></u>

The Cooperative is recovering the merger cost and interest from the Cooperative members through electric rates that went into effect August, 2000.

9. Notes Receivable

Notes receivable represents loans to members for weatherization improvements to their homes. All loans are charged five percent interest for a period of time not to exceed seven years. Notes are billed monthly with the members' electric bills. The balance at March 31, 2008 and 2007, is \$159,321 and \$188,666, respectively, which includes the current portion due.

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 balance at March 31, 2008 and 2007, is \$31,346 and \$42,836, respectively.

10. Return of Capital

Under the provisions of the mortgage agreements, until the equities and margins equal or exceed 30% of the total assets of the Cooperative, the return to patrons of capital contributed by them is limited generally to 25% of the patronage capital or margins received by the Cooperative in the prior calendar year. The equities and margins of the Cooperative represent 29.2% and 29.1% of the total assets at March 31, 2008 and 2007, respectively. The Cooperative retired patronage capital of \$402,865 and \$307,134 during 2008 and 2007, respectively.

11. Patronage Capital

	March 31,	
	<u>2008</u>	<u>2007</u>
Assigned	\$ 13,970,442	\$ 12,985,838
Assignable	<u>641,449</u>	<u>1,387,469</u>
	\$ <u><u>14,611,891</u></u>	\$ <u><u>14,373,307</u></u>

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

12. Accumulated Other Comprehensive Gain (Loss)

	March 31,	
	<u>2008</u>	<u>2007</u>
Unrealized Gain (Loss) - Equity Securities	\$ (5,992)	\$ 6,781
FASB Statement No. 158 Adjustment	<u>(512,256)</u>	<u> </u>
	<u>\$ (518,248)</u>	<u>\$ 6,781</u>

13. Other Equities

	March 31,	
	<u>2008</u>	<u>2007</u>
Other Equities - Deficit	\$ <u>(480,134)</u>	\$ <u>(480,134)</u>

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

14. Mortgage Notes – RUS

Long-term debt due RUS is represented by 35-year mortgage notes payable to the United States of America. Following is a summary of long-term debt due RUS and maturing at various times between 2009 and 2041:

	March 31,	
	<u>2008</u>	<u>2007</u>
2.000% Notes	\$ 533,468	\$ 565,251
5.000% Notes	9,193,136	9,594,810
4.410% Note	4,264,000	
5.125% Notes	<u>1,801,058</u>	<u>1,836,967</u>
	\$ 15,791,662	\$ 11,997,028
Less: Current Maturities	<u>481,000</u>	<u>472,000</u>
	<u>\$ 15,310,662</u>	<u>\$ 11,525,028</u>

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

Principal and interest installments on the above notes are due in quarterly and monthly amounts. As of March 31, 2008, annual maturities of long-term debt due RUS for the next five years are as follows:

2009	\$	481,000
2010		507,000
2011		593,000
2012		622,000
2013		652,000

The Cooperative has \$15,638,000 of unadvanced funds from RUS.

15. Mortgage Notes – FFB

The long-term debt due FFB is represented by 35-year mortgage notes, guaranteed by the RUS, and payable to the Federal Financing Bank (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 2008 and 2042:

	March 31,	
	2008	2007
3.364% Notes	\$ 2,606,615	\$ 2,648,192
4.086% Notes	1,196,109	1,214,798
4.797% Notes	3,931,101	3,994,023
4.973% Notes	1,562,768	1,587,024
5.192% Notes	805,710	817,743
5.569% Notes	822,439	837,692
5.820% Notes	1,307,597	1,330,946
6.122% Notes	787,831	804,888
6.156% Notes	670,050	684,492
6.327% Notes	1,063,523	1,081,103
	<u>\$ 14,753,743</u>	<u>\$ 15,000,901</u>
Less: Current Maturities	<u>269,000</u>	<u>256,000</u>
	<u>\$ 14,484,743</u>	<u>\$ 14,744,901</u>

As of March 31, 2008, annual maturities of long-term debt due FFB for the next five years are as follows:

2009	\$	269,000
2010		279,000
2011		290,000
2012		302,000
2013		314,000

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

16. Mortgage Notes – CFC

Following is a summary of long-term debt due CFC as of March 31, 2008 and 2007, and maturing at various times from 2007 to 2032:

	March 31,	
	<u>2008</u>	<u>2007</u>
6.90% Fixed Notes	\$ 2,357,423	\$ 2,461,453
5.65% Fixed Notes	642,266	675,455
7.00% Fixed Notes	7,224	13,881
	<u>\$ 3,006,913</u>	<u>\$ 3,150,789</u>
Less: Current Maturities	162,500	153,000
	<u><u>\$ 2,844,413</u></u>	<u><u>\$ 2,997,789</u></u>

Principal and interest installments on the above notes are due quarterly. As of March 31, 2008, annual maturities of long-term debt due CFC for the next five years are as follows:

2009	\$ 162,500
2010	158,100
2011	167,800
2012	178,300
2013	172,600

17. Short-Term Borrowing

The Cooperative has a line of credit for short-term, variable rate financing from CFC in the amount of \$4,700,000. There was \$157,734 outstanding on this line of credit at March 31, 2008, with an interest rate of 5.15%. There was \$1,597,293 outstanding on this line of credit at March 31, 2007, with an interest rate of 7.15%.

18. Deferred Credits

Deferred credits consisted of the following:

	March 31,	
	<u>2008</u>	<u>2007</u>
Unclaimed Capital Credit Retirements	\$ 25,862	\$
Miscellaneous Deferred Credits	<u>52,693</u>	<u>52,693</u>
	<u><u>\$ 78,555</u></u>	<u><u>\$ 52,693</u></u>

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

19. Pension Plan

The Cooperative provides pension benefits for substantially all of its employees through the National Rural Electric Cooperative Association (NRECA) Savings Plan.

The Savings Plan has been established under Section 401-K of the Internal Revenue Code and is a defined contribution plan. The costs to the Cooperative in this plan for the years ended March 31, 2008 and 2007, were \$258,924 and \$224,523, respectively.

20. Litigation and Commitments

The Cooperative is not involved in any litigation that would have an adverse effect on the financial statements.

21. Postretirement Benefits

The Cooperative provides postretirement medical and life insurance premium coverage for eligible employees and directors.

A summary of the plan follows:

Medical Benefits – Health Insurance Premiums

Eligibility	Eligible employees who have reached age 55 with 25 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 six percent. The assumed health care cost trend rate was eight percent and nine percent for 2008 and 2007, respectively, declining to an ultimate level of five percent by 2010.

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

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 March 31, 2008 and 2007, were \$47,952 and \$26,143, respectively.

The measurement date used for the current valuations is April 1, 2005.

The weighted-average discount rate used to develop the accumulated post-retirement benefit obligation was 6.0%.

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:

	March 31,	
	<u>2008</u>	<u>2007</u>
Funded Status at End of Year:		
APBO Balance	\$ (738,926)	\$ (732,799)
Plan Assets	0	0
Funded Status at End of Year	<u>\$ (738,926)</u>	<u>\$ (732,799)</u>
Change in Benefit Obligation:		
Benefit Obligation at Beginning of Year	\$ 732,799	\$ 643,164
Service Cost	14,272	14,272
Interest Cost	39,807	39,807
Actuarial Loss		26,431
Amortization of Prior Service Cost		9,125
Benefits Paid	(47,952)	
Benefit Obligation at End of Year	<u>\$ 738,926</u>	<u>\$ 732,799</u>
Amounts Recognized as Noncurrent Assets:		
APBO	\$ (738,926)	\$ (732,799)
Unrecognized Actuarial Loss		538,687
Provision for Post-Retirement Benefits	<u>\$ (738,926)</u>	<u>\$ (194,112)</u>
Accumulated Other Comprehensive Loss:		
Unrecognized Actuarial Loss	<u>\$ 512,256</u>	

SOCORRO ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

	March 31,	
	<u>2008</u>	<u>2007</u>
Net Periodic Benefit Cost:		
Service Cost	\$ 14,272	\$ 14,272
Interest Cost	39,807	39,807
Actuarial Loss	26,431	26,431
Amortization of Prior Service Cost		9,125
Post-Retirement Benefit Expense	<u>\$ 80,510</u>	<u>\$ 89,635</u>
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income:		
Net Actuarial Loss	<u>\$ 512,256</u>	
Total Recognized in Net Periodic Benefit Cost and Other Comprehensive Income	<u>\$ 592,766</u>	<u>\$ 89,635</u>

On September 29, 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 158, *Employers' Accounting for Defined Benefit Pension and Other Post-Retirement Plans – an amendment of FASB Statement No. 87, 88, 106, and 132(R)*. SFAS No. 158 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 Cooperative adopted the recognition and disclosure provisions of SFAS No. 158 for the fiscal year ending March 31, 2008. The Cooperative will be required to adopt the measurement date provision for the fiscal year ending March 31, 2009.

The estimated actuarial loss for the post-retirement medical benefit plan that will be amortized from accumulated other comprehensive income into post-retirement benefit cost over the next year is expected to be (\$26,431).

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

2009	\$ 32,505
2010	33,968
2011	35,497
2012	37,094
2013	38,763

22. 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 Directors.

ACCOMPANYING INFORMATION

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

CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT AUDITORS' REPORT ON
ACCOMPANYING INFORMATION**

Our audits of the basic financial statements presented in the preceding section of this report were made for the purpose of forming an opinion on such financial statements taken as a whole. The accompanying information shown on pages 18 through 22 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

June 30, 2008

SOCORRO ELECTRIC COOPERATIVE, INC.

Schedule 1

**ELECTRIC PLANT IN SERVICE
FOR THE YEAR ENDED MARCH 31, 2008**

CLASSIFIED ELECTRIC PLANT IN SERVICE	Balance 4/1/2007	Additions	Retirements	Balance 3/31/2008
Intangible Plant				
Organization	\$ 5,020	\$ 0	\$ 0	\$ 5,020
Transmission Plant				
Land and Land Rights	\$ 2,229	\$	\$	\$ 2,229
Poles and Fixtures	91,376			91,376
Overhead Conductors and Devices	97,390			97,390
Total	\$ 190,995	\$ 0	\$ 0	\$ 190,995
Distribution Plant				
Land and Land Rights	\$ 37,765	\$ 1,000	\$	\$ 38,765
Station Equipment	417,770			417,770
Poles, Towers, and Fixtures	15,381,182	1,300,450	50,379	16,631,253
Overhead Conductors and Devices	10,468,102	570,156	8,444	11,029,814
Underground Conductors and Devices	2,410,943	349,377	475	2,759,845
Line Transformers	7,777,491	33,890	2,192	7,809,189
Services	4,368,309	689,565	71	5,057,803
Meters	2,145,724	255,875	20,004	2,381,595
Installations on Consumers' Premises	748,519	375,620		1,124,139
Street Lighting and Signal Systems	165,669	20,594	3,716	182,547
Total	\$ 43,921,474	\$ 3,596,527	\$ 85,281	\$ 47,432,720
General Plant				
Land and Land Rights	\$ 41,073	\$	\$	\$ 41,073
Structures and Improvements	947,629	2,886		950,515
Office Furniture and Equipment	1,346,587	78,452		1,425,039
Transportation and Power Operated Equipment	2,051,679	95,822	38,113	2,109,388
Store Equipment	6,513			6,513
Tools, Shop, and Garage Equipment	181,895			181,895
Laboratory Equipment	46,180			46,180
Communications Equipment	253,716	5,409		259,125
Miscellaneous Equipment	658,331			658,331
Total	\$ 5,533,603	\$ 182,569	\$ 38,113	\$ 5,678,059
Total Classified Electric Plant in Service	\$ 49,651,092	\$ 3,779,096	\$ 123,394	\$ 53,306,794
Construction Work in Progress	1,835,475	1,624,365		3,459,840
Other Property and Equipment	10,925	(2,185)		8,740
Total Utility Plant	\$ 51,497,492	\$ 5,401,276	\$ 123,394	\$ 56,775,374

SOCORRO ELECTRIC COOPERATIVE, INC.

Schedule 2

**ACCUMULATED PROVISION FOR DEPRECIATION
FOR THE YEAR ENDED MARCH 31, 2008**

	<u>Balance 4/1/2007</u>	<u>Accruals And Transfers</u>	<u>Retirements Net of Salvage</u>	<u>Balance 3/31/2008</u>
Transmission Plant	\$ 188,766	\$ 0	\$ 0	\$ 188,766
Distribution Plant	\$ 13,955,126	\$ 1,308,224	\$ 268,926	\$ 14,994,424
General Plant				
Structures and Improvements	\$ 415,668	\$ 18,930	\$	\$ 434,598
Office Furniture and Computer Equipment	1,371,332	74,836		1,446,168
Transportation and Power Operated Equipment	1,473,222	154,998	29,838	1,598,382
Stores Equipment	3,468	390		3,858
Tools, Shop, and Garage Equipment	177,306	4,589		181,895
Laboratory Equipment	46,181			46,181
Communications Equipment	253,716	5,408		259,124
Miscellaneous Equipment	189,209	34,458		223,667
Total General Plant	<u>\$ 3,930,102</u>	<u>\$ 293,609</u>	<u>\$ 29,838</u>	<u>\$ 4,193,873</u>
Total Classified Electric Plant in Service	\$ 18,073,994	\$ 1,601,833	\$ 298,764	\$ 19,377,063
Retirement Work in Progress	<u>(250,557)</u>	<u></u>	<u>92,336</u>	<u>(342,893)</u>
	<u>\$ 17,823,437</u>	<u>\$ 1,601,833</u>	<u>\$ 391,100</u>	<u>\$ 19,034,170</u>
Charged to Depreciation Expense		\$ 1,446,835		
Charged to Clearing and Other Accounts		<u>154,998</u>		
		<u>\$ 1,601,833</u>		
Cost of Plant Retired			\$ 123,394	
Plant Removal Cost Net of Salvage			<u>267,706</u>	
Net Loss Due to Retirements			<u>\$ 391,100</u>	

SOCORRO ELECTRIC COOPERATIVE, INC.

Schedule 3

**OTHER PROPERTY AND INVESTMENTS
MARCH 31, 2008 AND 2007**

	March 31,	
	<u>2008</u>	<u>2007</u>
INVESTMENTS IN ASSOCIATED ORGANIZATIONS		
Memberships		
National Rural Utilities Cooperative Finance Corporation	\$ 1,000	\$ 1,000
Patronage Capital		
National Rural Utilities Cooperative Finance Corporation	118,498	119,968
Federated Insurance	96,335	76,960
Southeastern Data Corporation	27,050	17,352
Capital Term Certificates		
National Rural Utilities Cooperative Finance Corporation	514,634	516,278
Other	1,996	1,996
	<u>\$ 759,513</u>	<u>\$ 733,554</u>
NOTES RECEIVABLE		
Weatherization Loans	\$ 159,321	\$ 188,666
	<u>\$ 159,321</u>	<u>\$ 188,666</u>
OTHER INVESTMENTS - RESTRICTED		
Socorro Electric Cooperative Foundation - CD	\$ 145,200	\$ 145,200
	<u>\$ 145,200</u>	<u>\$ 145,200</u>
OTHER INVESTMENTS		
Mutual Funds	\$ 189,689	\$ 190,746
	<u>\$ 189,689</u>	<u>\$ 190,746</u>
 Total Other Property and Investments	 <u>\$ 1,253,723</u>	 <u>\$ 1,258,166</u>

**TEMPORARY INVESTMENTS
MARCH 31, 2008 AND 2007**

CFC Commercial Paper	\$ <u>3,064,000</u>	\$ <u>5,165,000</u>
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SOCORRO ELECTRIC COOPERATIVE, INC.

Schedule 4

**RUS, FFB, AND CFC MORTGAGE NOTES
MARCH 31, 2008**

RUS Mortgage Notes

Date of Note	Interest Rate	Principal Amount	Amount Unadvanced	Principal Repayments	Net Obligation
07/19/1974	5%	\$ 157,000	\$	\$ 144,985	\$ 12,015
07/19/1974	5%	157,000		144,984	12,016
04/07/1975	5%	205,000		177,829	27,171
04/07/1975	5%	205,000		178,472	26,528
11/29/1977	5%	491,500		354,745	136,755
11/29/1977	5%	491,500		360,744	130,756
03/18/1980	5%	851,500		507,566	343,934
03/18/1980	5%	820,000		511,561	308,439
03/18/1980	5%	31,500		19,474	12,026
01/25/1984	5%	499,500		239,483	260,017
01/25/1984	5%	499,500		239,483	260,017
06/04/1986	5%	494,500		200,231	294,269
06/04/1986	5%	491,371		199,590	291,781
06/04/1986	5%	3,129		1,220	1,909
05/24/1988	5%	658,500		228,892	429,608
05/24/1988	5%	417,371		145,052	272,319
05/24/1988	5%	241,129		79,511	161,618
10/25/1988	2%	751,000		338,301	412,699
10/25/1988	2%	133,000		56,356	76,644
10/25/1988	2%	66,000		21,875	44,125
05/17/1994	5%	796,500		155,722	640,778
05/17/1994	5%	736,000		143,893	592,107
05/17/1994	5%	60,500		11,918	48,582
05/09/1991	5%	485,500		129,037	356,463
05/09/1991	5%	485,500		129,037	356,463
07/01/1997	5.125%	444,000		55,600	388,400
07/01/1997	5.125%	587,000		73,508	513,492
07/01/1997	5.125%	791,000		101,145	689,855
07/01/1997	5.125%	240,000		30,689	209,311
12/01/1999	5%	4,634,000		416,435	4,217,565
11/01/2006	4.41%	4,264,000			4,264,000
Unadvanced		<u>15,638,000</u>	<u>15,638,000</u>		
Total RUS		<u>\$ 36,827,000</u>	<u>\$ 15,638,000</u>	<u>\$ 5,397,338</u>	<u>\$ 15,791,662</u>

FFB Mortgage Notes

09/28/1999	6.122%	\$ 893,000	\$	\$ 105,169	\$ 787,831
11/09/1999	6.156%	759,000		88,950	670,050
05/05/2000	6.327%	1,171,000		107,477	1,063,523
11/03/2000	5.820%	1,460,000		152,403	1,307,597
04/19/2001	5.569%	910,000		87,561	822,439
12/31/2003	4.973%	1,652,000		89,232	1,562,768
11/19/2003	4.935%	1,285,000		88,891	1,196,109
05/24/2005	4.817%	2,726,000		119,385	2,606,615
11/04/2005	4.797%	4,069,000		137,899	3,931,101
05/26/2006	5.192%	<u>826,000</u>		<u>20,290</u>	<u>805,710</u>
Total FFB		<u>\$ 15,751,000</u>	<u>\$ 0</u>	<u>\$ 997,257</u>	<u>\$ 14,753,743</u>

CFC Mortgage Notes

07/19/1974	7.000%	\$ 79,000	\$	\$ 71,776	\$ 7,224
04/07/1975	6.900%	102,000		85,804	16,196
11/29/1977	6.900%	246,000		175,051	70,949
03/18/1979	6.900%	768,000		429,566	338,434
01/04/1984	5.650%	451,000		207,444	243,556
06/03/1986	6.900%	437,113		141,593	295,520
05/24/1988	5.650%	581,443		182,733	398,710
05/09/1991	6.900%	428,866		113,533	315,333
05/17/1994	6.900%	704,124		148,488	555,636
07/01/1997	6.900%	<u>883,000</u>		<u>117,645</u>	<u>765,355</u>
Total CFC		<u>\$ 4,680,546</u>	<u>\$ 0</u>	<u>\$ 1,673,633</u>	<u>\$ 3,006,913</u>

Net obligation includes \$ 481,000 due RUS, \$269,000 due FFB and \$162,500 due CFC 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 MARCH 31, 2008 AND 2007**

	March 31,		Increase (Decrease)
	<u>2008</u>	<u>2007</u>	<u></u>
Administrative and General Salaries	\$ 610,931	\$ 582,735	\$ 28,196
Office Supplies and Expenses	85,456	78,001	7,455
Outside Services Employed	53,036	51,745	1,291
Injuries and Damages	132	1,616	(1,484)
Regulatory Commission Expenses	906	908	(2)
Directors' Fees and Expenses	411,091	419,056	(7,965)
Association Dues	100,952	95,804	5,148
Miscellaneous and General	129,143	113,781	15,362
Duplicate Charges - Credit	(4,831)	(4,456)	(375)
Maintenance of General Plant	<u>98,915</u>	<u>87,084</u>	<u>11,831</u>
Total	<u>\$ 1,485,731</u>	<u>\$ 1,426,274</u>	<u>\$ 59,457</u>