

**San Miguel Power Association, Inc.**

**December 31, 2022**

Financial Statements

**KELSO LYNCH, P.C., P.A.**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**San Miguel Power Association, Inc.**

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**San Miguel Power Association, Inc.**

**Officers, Board of Directors, and General Manager/CEO**

<b>Name</b>	<b>Office</b>	<b>Address</b>
Rube Felicelli	President	Telluride, Colorado
Dave Alexander	Vice President	Norwood, Colorado
Doylene Garvey	Secretary/Treasurer	Nucla, Colorado
Debbie Cokes	Alternate Secretary/Treasurer	Ridgway, Colorado
Tobin Brown	Director	Telluride, Colorado
Kevin Cooney	Director	Telluride, Colorado
Terry Rhoades	Director	Silverton, Colorado
Brad Zaporski	General Manager/CEO	Telluride, Colorado

## **Independent Auditor's Report**

The Board of Directors  
San Miguel Power Association, Inc.  
Nucla, Colorado

### **Opinion**

We have audited the accompanying financial statements of San Miguel Power Association, Inc. (the Association) (a Colorado corporation), which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of revenue and patronage capital, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

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

### **Responsibilities of Management for the Financial Statements**

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

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

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism through the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of San Miguel Power Association, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about San Miguel Power Association, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 13, 2023 on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Association's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.

*Kelso Lynch, P.C., P.A.*

Mission, Kansas  
April 13, 2023

**Independent Auditor's 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**

The Board of Directors  
San Miguel Power Association, Inc.  
Nucla, Colorado

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 San Miguel Power Association, Inc. (the Association), which comprise the balance sheets as of December 31, 2022 and 2021 and the related statements of revenue and patronage capital, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated April 13, 2023.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Association's internal control over financial reporting (internal control) as a basis for designing 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 the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association'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 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 the Association's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Kelso Lynch, P.C., P.A.*

Mission, Kansas  
April 13, 2023

**San Miguel Power Association, Inc.**  
**Balance Sheets**  
**At December 31, 2022 and 2021**

**Assets**

	<b>2022</b>	<b>2021</b>
<b>Utility Plant</b>		
Electric plant in service - at cost	\$ 92,355,815	\$ 89,988,204
Construction work-in-progress	8,907,688	9,137,038
	101,263,503	99,125,242
Less accumulated provision for depreciation and amortization	(37,045,515)	(34,913,837)
Net utility plant	64,217,988	64,211,405
<b>Other Assets and Investments</b>		
Subordinated certificates	514,909	514,909
Investments in associated organizations	16,933,989	17,045,000
Non-utility property	2,000	2,000
Other investments	2,053,280	2,053,280
Total other assets and investments	19,504,178	19,615,189
<b>Current Assets</b>		
Cash and cash equivalents	4,074,280	4,094,487
Accounts receivable		
Customers, net of allowance accounts of \$45,343 and \$47,583, respectively	3,439,991	3,214,621
Materials and supplies	2,128,219	1,527,076
Other current and accrued assets	157,729	145,450
Total current assets	9,800,219	8,981,634
<b>Deferred Charges</b>		
Deferred charges	117,997	114,364
Total deferred charges	117,997	114,364
Total assets	\$ 93,640,382	\$ 92,922,592

### Members' Equity and Liabilities

	<b>2022</b>	<b>2021</b>
<b>Members' Equity</b>		
Patronage capital	\$ 43,099,763	\$ 43,428,597
Other equities	3,651,828	3,014,243
Total members's equity	46,751,591	46,442,840
<b>Long-Term Debt</b>		
Mortgage notes payable	34,939,986	34,946,207
Less: current maturities	(1,731,000)	(1,633,000)
Total long-term debt	33,208,986	33,313,207
<b>Current Liabilities</b>		
Current maturities on long-term debt	1,731,000	1,633,000
Accounts payable	2,792,850	2,878,394
Accrued liabilities		
Taxes	517,532	471,374
Interest	201,317	219,545
Other	3,211,425	2,992,985
Total current liabilities	8,454,124	8,195,298
<b>Other Liabilities</b>		
Deferred credits	5,225,681	4,971,247
Total other liabilities	5,225,681	4,971,247
Total members' equity and liabilities	\$ 93,640,382	\$ 92,922,592

**San Miguel Power Association, Inc.**  
**Statements of Revenue and Patronage Capital**  
**For the Years Ended December 31, 2022 and 2021**

	<u>2022</u>		<u>2021</u>	
<b>Operating Revenue</b>	\$ 30,925,532	100.00%	\$ 31,173,002	100.00%
<b>Operating Expenses</b>				
Cost of power	16,337,687	52.83%	16,506,881	52.95%
Transmission	79,565	0.26%	86,007	0.28%
Distribution - operations	3,836,073	12.40%	3,312,724	10.63%
Distribution - maintenance	1,796,497	5.81%	1,509,463	4.84%
Consumer accounts	1,236,254	4.00%	1,254,590	4.02%
Customer service and information	526,968	1.70%	534,171	1.71%
Administrative and general	3,113,439	10.07%	3,197,817	10.26%
Depreciation	2,626,140	8.49%	2,600,569	8.34%
Other deductions	10,000	0.03%	8,163	0.03%
Total operating expenses	<u>29,562,623</u>	<u>95.59%</u>	<u>29,010,385</u>	<u>93.06%</u>
<b>Operating Margins Before Fixed Charges</b>	<u>1,362,909</u>	<u>4.41%</u>	<u>2,162,617</u>	<u>6.94%</u>
<b>Fixed Charges</b>				
Interest on long-term debt	1,175,834	3.80%	1,203,341	3.86%
Other interest	1,632	0.01%	30,156	0.10%
Total fixed charges	<u>1,177,466</u>	<u>3.81%</u>	<u>1,233,497</u>	<u>3.96%</u>
<b>Operating Margins After Fixed Charges</b>	185,443	0.60%	929,120	2.98%
<b>G &amp; T and Other Capital Credits</b>	<u>177,366</u>	<u>0.57%</u>	<u>572,526</u>	<u>1.84%</u>
<b>Net Operating Margins</b>	<u>362,809</u>	<u>1.17%</u>	<u>1,501,646</u>	<u>4.82%</u>
<b>Nonoperating Income (Expense)</b>				
Interest income	216,752	0.70%	109,098	0.35%
Miscellaneous income (expense)	91,605	0.30%	(15,332)	(0.05%)
Total nonoperating income	<u>308,357</u>	<u>1.00%</u>	<u>93,766</u>	<u>0.30%</u>
<b>Net Margins for the Year</b>	671,166	<u>2.17%</u>	1,595,412	<u>5.12%</u>
<b>Patronage Capital at Beginning of Year</b>	43,428,597		42,835,075	
<b>Retirement of Capital Credits</b>	<u>(1,000,000)</u>		<u>(1,001,890)</u>	
<b>Patronage Capital at End of Year</b>	<u>\$ 43,099,763</u>		<u>\$ 43,428,597</u>	

The accompanying notes are an integral part of these financial statements.

**San Miguel Power Association, Inc.**  
**Statements of Cash Flows**  
**For the Years Ended December 31, 2022 and 2021**

	<b>2022</b>	<b>2021</b>
<b>Cash Flows From (Used For) Operating Activities</b>		
Net margins (loss)	\$ 671,166	\$ 1,595,412
Adjustments to reconcile net margins (loss) to net cash provided by operating activities		
Depreciation and amortization	2,626,140	2,600,569
G & T and other capital credits	(177,366)	(572,526)
Forgiveness of long-term debt	-	(1,503,280)
Changes in operating assets and liabilities		
(Increase) decrease in operating assets		
Accounts receivable	(225,370)	169,708
Materials and supplies	(601,143)	(203,952)
Other assets	(15,912)	(27,410)
Increase in operating liabilities		
Accounts payable	(85,544)	82,901
Interest payable	(18,228)	(4,246)
Accrued taxes	46,158	(32,173)
Accrued liabilities	218,440	634,890
Deferred credits	254,434	1,491,380
Net cash from operating activities	2,692,775	4,231,273
 <b>Cash Flows From (Used For) Investing Activities</b>		
Net changes of property and equipment	(2,632,723)	(6,980,085)
Patronage capital recovery	288,377	700,145
Temporary cash investments	-	200,479
Other investing activities	-	(1,103,002)
Net cash used for investing activities	(2,344,346)	(7,182,463)
 <b>Cash Flows From (Used For) Financing Activities</b>		
Principal payments on long-term debt	(1,649,521)	(1,566,427)
Long-term loan advances	1,643,300	-
Payments on line of credit	-	(2,500,000)
Retirement of capital credits	(1,000,000)	(1,001,890)
Other financing activities	637,585	860,333
Net cash used for financing activities	(368,636)	(4,207,984)
 <b>Net Decrease in Cash and Cash Equivalents</b>	(20,207)	(7,159,174)
 <b>Cash and Cash Equivalents at Beginning of Year</b>	4,094,487	11,253,661
<b>Cash and Cash Equivalents at End of Year</b>	\$ 4,074,280	\$ 4,094,487
 <b>Supplemental Cash Flows Information</b>		
Cash paid for interest	\$ 1,195,694	\$ 1,237,743

The accompanying notes are an integral part of these financial statements.

**San Miguel Power Association, Inc.**  
**Notes to Financial Statements**  
**December 31, 2022 and 2021**

**Note 1 - Summary of Significant Accounting Policies**

San Miguel Power Association, Inc. (the Association) is an electric power distribution system serving residences and businesses in southwest Colorado.

Accounting policies - As a regulated enterprise with a member elected Board of Directors, the Association accounts for such regulation under professional accounting standards ASC 980, *Regulated industries*. The accounting records of the Association are maintained in accordance with the Uniform System of Accounts prescribed by the Rural Utilities Service (RUS). As a result, the application of accounting principles generally accepted in the United States of America by the Association differs in certain respects from such application of those principles by nonregulated enterprises. Such differences primarily concern the time at which various items enter into the determination of net margins in order to follow the principle of matching costs and revenue. The more significant policies of the Association are described below.

Cash equivalents - The Association considers all short-term investments with an original maturity of three months or less to be cash equivalents.

Accounts receivable - The Association extends credit to its customers who are primarily located in southwest Colorado. The Association carries its receivables at cost less an allowance for doubtful accounts based on past history of bad debt write-offs, collections, and current credit conditions. Electric receivables are considered past due if the Association has not received payment by the due date. It is the Association's policy that accounts are written off if they remain uncollected and all collection efforts have been exhausted. Recoveries of trade receivables previously written off are recorded when received and do not accrue interest.

Contract receivables from contracts with customers for the years ended December 31, 2022 and 2021 were as follows:

	<u>2022</u>	<u>2021</u>	
	<u>End of Year</u>	<u>End of Year</u>	<u>Beginning of Year</u>
<b>Receivables</b>			
Customers	\$ 3,439,991	\$ 3,214,621	\$ 3,384,329

Materials and supplies - Materials and supplies are priced at the lower of cost or market. Cost is determined using the average cost method applied on a first-in, first-out basis.

Investments - Investments in associated organizations are carried at cost plus allocated equities. Other investments are generally carried at cost.

Recognition of revenue - Electric revenue and the related cost of power is recognized when electricity is consumed by the ultimate customer. Customers are billed monthly and electric revenue is recognized over the period of time the services are provided to the consumer.

The Association uses a single five-step model to identify and recognize revenue from contracts with members (Member Revenue) upon transfer of control of promised goods or services to customers in an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. The following table summarizes the Association's revenue by member class, including a reconciliation to the Association's reportable operating revenue on the Statements of Revenue and Patronage Capital.

**San Miguel Power Association, Inc.**  
**Notes to Financial Statements**  
**December 31, 2022 and 2021**

<u>Customer Revenue</u>	<u>2022</u>	<u>2021</u>
<b>Electric</b>		
Residential	\$ 18,152,364	\$ 17,974,544
Commercial and Industrial	12,368,802	12,434,223
Other	404,366	764,235
Total electric energy revenue	<u>\$ 30,925,532</u>	<u>\$ 31,173,002</u>

Property, plant, and equipment - Costs associated with utility plant additions and improvements are capitalized based upon the RUS guidelines established in Bulletin 1767B-2. This results in the capitalization of direct costs such as labor and materials and also includes capitalization of indirect costs including labor, material charges, taxes, insurance, transportation, depreciation, pensions, and other related expenses. These costs are accumulated in work in process accounts and are capitalized to the proper plant accounts at the completion of the construction activity. Certain special equipment additions, as defined by RUS, are capitalized when purchased along with an estimated installation charge. The cost of depreciable property, when retired, is computed at the average unit cost along with removal costs less salvage. The net retirement cost is charged to accumulated depreciation. Maintenance and repairs, including minor items of property, are charged to maintenance expense as incurred. Depreciation is recognized on the straight-line basis based on the useful life of the assets and is accounted for under the group depreciation method for transmission and distribution plant, and specific identification for general plant. The right of use assets are amortized over the life of the individual leases on a straight-line basis.

Income taxes - In conformity with its by-laws, the Association conducts its operations on a cooperative basis. Annual revenue, in excess of the cost of providing service, is allocated in the form of capital credits to the members' capital accounts on the basis of patronage.

The Association has a letter of exemption from federal income tax, issued by the Internal Revenue Service and files IRS Form 990 annually. An evaluation of whether or not it has any uncertain tax positions is determined on an annual basis by the Association. While the Association believes it has adequately provided for all tax positions, amounts asserted by taxing authorities could be different than the positions taken by the Association. The Association recognizes any interest and penalties assessed by taxing authorities in income tax expense and, with few exceptions, is no longer subject to federal, state, and local income tax examinations for years prior to 2019.

Use of estimates - 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Taxes - The Association collects taxes from its members on behalf of taxing authorities. Revenue is presented net of taxes collected in the statements of revenue and patronage capital.

Reclassification - Certain prior year amounts have been reclassified to conform to the current year presentation.

**Note 2 - Cash and Temporary Cash**

The Association maintains its cash in bank deposit accounts, which at times exceed federally insured limits. The Association has not experienced any losses in such accounts. The Association believes it is not exposed to any significant credit risk on cash and cash equivalents.

**San Miguel Power Association, Inc.**  
**Notes to Financial Statements**  
**December 31, 2022 and 2021**

**Note 3 - Electric Plant and Depreciation**

Listed below are the major classes of the utility plant as of December 31, 2022 and 2021:

	<b>Plant Balances</b>	
	<b>2022</b>	<b>2021</b>
Intangible plant	\$ 3,957	\$ 3,957
Transmission plant	5,177,955	4,817,652
Distribution plant	68,224,748	66,812,738
General plant	18,788,733	18,353,857
Right of use assets - leases	160,422	-
Total	<u>\$ 92,355,815</u>	<u>\$ 89,988,204</u>

Transmission plant is depreciated, under the straight-line composite basis, at the annual rate of 2.76%.

Distribution plant is depreciated, under the straight-line composite basis, at the annual rate of 3%.

General plant is depreciated over the estimated useful life of the assets, under the straight-line composite basis, at various rates ranging from 2% to 20%.

The right of use assets are amortized on a straight-line basis over the life of the leases.

**Note 4 - Subordinated Certificates**

	<b>2022</b>	<b>2021</b>
Capital term certificates	\$ 477,609	\$ 477,609
Loan term certificates	37,300	37,300
Total	<u>\$ 514,909</u>	<u>\$ 514,909</u>

The capital term certificates yield 5%, and the loan term certificate yields 3%. All of the certificates have various maturity dates through 2080.

**Note 5 - Investments in Associated Organizations**

Investments in associated organizations consisted of the following at December 31, 2022 and 2021:

	<b>2022</b>	<b>2021</b>
Patronage capital - Tri-State G&T	\$ 15,610,110	\$ 15,813,139
Patronage capital - Western United	978,379	881,836
Patronage capital - CFC	280,403	278,118
Other investments in associated organizations	65,097	71,907
Total	<u>\$ 16,933,989</u>	<u>\$ 17,045,000</u>

**San Miguel Power Association, Inc.**  
**Notes to Financial Statements**  
**December 31, 2022 and 2021**

**Note 6 - Deferred Charges**

Deferred charges consisted of the following at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Work plan	\$ 103,808	\$ 103,808
Other deferred charges	14,189	10,556
Total	<u>\$ 117,997</u>	<u>\$ 114,364</u>

**Note 7 - Members' Equity**

	<u>Patronage Capital</u>		<u>Other</u>	<u>Total</u>
	<u>Allocated</u>	<u>Unallocated</u>	<u>Equities</u>	
<b>Balance, December 31, 2020</b>	\$ 45,248,019	\$ (2,412,944)	\$ 2,153,910	\$ 44,988,985
Net margin		1,595,412		1,595,412
Allocation, 2020	343,416	(343,416)		
Retirement of capital credits	(1,001,890)		289,608	(712,282)
Other changes			570,725	570,725
<b>Balance, December 31, 2021</b>	<u>44,589,545</u>	<u>(1,160,948)</u>	<u>3,014,243</u>	<u>46,442,840</u>
Net margin		671,166		671,166
Allocation, 2021	447,459	(447,459)		
Retirement of capital credits	(1,000,000)		277,881	(722,119)
Other changes			359,704	359,704
<b>Balance, December 31, 2022</b>	<u>\$ 44,037,004</u>	<u>\$ (937,241)</u>	<u>\$ 3,651,828</u>	<u>\$ 46,751,591</u>

Patronage capital consisted of the following at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Assigned to date	\$ 44,037,004	\$ 44,589,545
Assignable/loss carryforward	<u>(937,241)</u>	<u>(1,160,948)</u>
Total	<u>\$ 43,099,763</u>	<u>\$ 43,428,597</u>

Under the provisions of the RUS mortgage agreement, until the equities and margins equal or exceed 30% of the total assets of the Association, the retirement of capital credits is generally limited to 25% of the patronage capital or margins from the prior calendar year. The CFC mortgage agreement provisions differ slightly. This limitation does not usually apply to capital credit retirements made exclusively to estates.

The total equities of the Association are approximately 50% of the total assets as of both December 31, 2022 and 2021.

**San Miguel Power Association, Inc.**  
**Notes to Financial Statements**  
**December 31, 2022 and 2021**

**Note 8 - Long-Term Debt and Short-Term Lines of Credit**

Long-term debt - Long-term debt at December 31, 2022 and 2021 consisted of the following:

<u>Description</u>	<u>2022</u>	<u>2021</u>
Mortgage notes payable - CFC; fixed interest rates from 4.55% to 4.85%; notes due at various times to July 2029.	\$ 4,015,079	\$ 4,533,409
Mortgage notes payable - FFB; fixed interest rates from 1.364% to 5.940%; notes due at various times to December 31, 2052.	30,652,714	30,095,896
Mortgage note payable - CoBank; fixed interest rate of 3.06%; note due at July 2028.	272,193	316,902
Total	<u>\$ 34,939,986</u>	<u>\$ 34,946,207</u>

Estimated maturities on long-term debt for the next five years are as follows:

<u>For The Year Ending</u>	<u>Amounts</u>
December 31, 2023	\$ 1,731,000
December 31, 2024	\$ 1,805,000
December 31, 2025	\$ 1,875,000
December 31, 2026	\$ 1,925,000
December 31, 2027	\$ 1,840,000

As of December 31, 2022, the Association had unadvanced loan funds with CFC of \$4,000,000 for which a loan agreement has been executed.

Short-term lines of credit - The Association has a \$7,500,000 line of credit agreement with a variable interest rate, perpetual in nature, established with CFC. Nothing had been drawn and remained outstanding as of December 31, 2022 and 2021, respectively.

The Association also has a \$1,000,000 line of credit agreement, with a variable interest rate, established with CoBank. The agreement expires on July 31, 2023. Nothing had been drawn and remained outstanding as of December 31, 2022 and 2021, respectively.

**Note 9 - Other Accrued Liabilities**

Other accrued liabilities consisted of the following at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Customers' deposits	\$ 1,995,412	\$ 1,932,694
Accrued vacation, holiday and sick pay	456,749	458,817
Accrued payroll	284,400	343,981
Accrued employee health insurance	297,791	239,933
Operating lease liability	160,422	-
Other current liabilities	16,651	17,560
Total	<u>\$ 3,211,425</u>	<u>\$ 2,992,985</u>

The operating lease liability is secured by the assets leased.

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**Note 10 - Deferred Credits**

Deferred credits consisted of the following at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Customers' advances for construction	\$ 2,331,591	\$ 2,280,150
Solar array	108,898	114,050
Deferred revenue *	2,053,280	2,053,280
Deferred revenue - surcharges	621,049	424,217
Customer prepayments	110,863	99,550
Total	<u>\$ 5,225,681</u>	<u>\$ 4,971,247</u>

\* Approved by RUS

The deferred revenue represents revenue earned in prior years but will not be recognized as revenue until future periods per the plans approved by RUS and allowed for under ASC 980, *Regulated Industries*. The deferrals were implemented in order to cover shortfalls in revenue by abnormal weather conditions or general economic conditions. Cash in an amount equal to the deferred revenue is set aside as special funds in Other Investments on the Balance Sheet. The deferred revenue will be amortized back into revenue in future periods in accordance with the plans approved by RUS. During the year ended December 31, 2021, an additional \$1,503,280 was deferred to future periods for a grand total of \$2,453,280, and \$400,000 of revenue deferred in prior years was amortized back into revenue. No additional revenue was deferred or recognized during the year ended December 31, 2022.

**Note 11 - Pension Plans**

The Retirement Security Plan (RS Plan), sponsored by the National Rural Electric Cooperative Company (NRECA), is a defined benefit pension plan qualified under Section 401 and tax exempt under Section 501(a) of the Internal Revenue Code. It is considered a multi-employer plan under the accounting standards. The RS Plan Sponsor's Employer Identification Number is 53-0116145 and the RS Plan Number is 333.

A unique characteristic of a multi-employer 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.

At the December 2012 meeting of the I&FS Committee of the NRECA Board of Directors, the I&FS Committee approved an option to allow participants in the RS plan to make a prepayment and reduce the future required contribution.

The Association's contributions to the RS plan in 2022 and 2021 represented less than 5% of the total contributions made to the plan by all participating employers. The Association made contributions of the RS Plan of \$600,461 in 2022 and \$716,373 in 2021. There have been no significant changes that affect the comparability of the 2022 and 2021 contributions.

In the RS Plan, a "zone status" determination is not required, and therefore not determined under the Pension Protections Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the Retirement Security Plan was over 80% funded at both January 1, 2022 and 2021 based on the PPA funding target and PPA actuarial value of assets on those dates.

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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 the plan experience.

Employees of the Association can participate in the NRECA 401(k) plan, provided they meet plan specifications. The Association will contribute matching contributions. The Association's contribution for the years ended December 31, 2022 and 2021 were \$422,544 and \$379,112, respectively.

**Note 12 - Related Party Transactions**

The Association is a member of Tri-State Generation and Transmission Association, Inc. (Tri-State), which is an electric generation and transmission cooperative. Under its wholesale power agreement, the Association is committed to purchase its electric power and energy requirements from Tri-State until December 31, 2050.

Purchased power from Tri-State amounted to \$15,656,901 and \$16,158,720 for the years ended December 31, 2022 and 2021, respectively. The amount payable for purchased power is \$1,808,895 and \$1,814,581 at December 31, 2022 and 2021, respectively.

Other related-party transactions consisted of normal routine business conducted through organizations which the Association is a member and normal sales to its members.

**Note 13 - Contingencies and Subsequent Events**

The Association has evaluated subsequent events through April 13, 2023, which is the date these financial statements were available to be issued. Management concluded that no other subsequent events have occurred that would require recognition or disclosure in the financial statements.

The Association entered in to an agreement with Tri-State in a prior year to contribute to the construction of a 115KV transmission project that runs through the Association's territory to serve the Association's members. The construction has been completed in full. The payments owed to Tri-State are due over future time periods per the agreement and the Association assesses and collects a surcharge on it's monthly member utility billings to be used to satisfy this obligation. The excess of the amounts collected less funds sent to Tri-State per the agreement are set aside in the line item Deferred Revenue-Surcharges in Deferred Credits in the Balance Sheets.