San Miguel Power Association, Inc.

December 31, 2021

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

Name	Office	Address
Rube Felicelli	President	Telluride, Colorado
Dave Alexander	Vice President	Norwood, Colorado
Doylene Garvey	Secretary/Treasurer	Nucla, Colorado
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KELSO
LYNCH
Certified Public Accountants

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, 2021 and 2020 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, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion
We conducted our audits in accordance with auditing standards generally accepted in the United State 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.

Kelso Lynch, P.C., P.A.
6700 Squibb Road, Suite 215, Mission, Kansas 66202 P.O. Box 1085, Mission, Kansas 66222-0085
913 831 1150 www.kelsolynch.com

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 14, 2022 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 14, 2022

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, 2021 and 2020 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 14, 2022.

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) 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 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 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 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 14, 2022

San Miguel Power Association, Inc.
Balance Sheets
At December 31, 2021 and 2020

Assets

	2021	2020
Utility Plant		
Electric plant in service - at cost	$ 89,988,204	$ 87,899,480
Construction work-in-progress	9,137,038	4,859,147
	99,125,242	92,758,627
Less accumulated provision for depreciation and amortization	(34,913,837)	(32,926,738)
Net utility plant	64,211,405	59,831,889
Other Assets and Investments		
Subordinated certificates	514,909	514,909
Investments in associated organizations	17,045,000	17,172,897
Non-utility property	2,000	2,000
Other investments	2,453,280	950,000
Total other assets and investments	20,015,189	18,639,806
Current Assets		
Cash and cash equivalents	3,694,487	11,253,661
Temporary cash investments	-	200,479
Accounts receivable		
Customers, net of allowance accounts of $47,583 and $48,826	3,214,621	3,384,329
Materials and supplies	1,527,076	1,323,124
Other current and accrued assets	145,450	117,716
Total current assets	8,581,634	16,279,309
Deferred Charges		
Deferred charges	114,364	114,688
Total deferred charges	114,364	114,688
Total assets	$ 92,922,592	$ 94,865,692

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

Members' Equity and Liabilities

	2021	2020
Members' Equity		
Patronage capital	$ 43,428,597	$ 42,835,075
Other equities	3,014,243	2,153,910
Total members's equity	46,442,840	44,988,985
Long-Term Debt		
Mortgage notes payable	34,946,207	36,512,634
Other long-term debt	-	1,503,280
Less: current maturities	(1,633,000)	(3,070,000)
Total long-term debt	33,313,207	34,945,914
Current Liabilities		
Current maturities on long-term debt	1,633,000	3,070,000
Accounts payable	2,878,394	2,795,493
Notes payable - lines of credit	-	2,500,000
Accrued liabilities		
Taxes	471,374	503,547
Interest	219,545	223,791
Other	2,992,985	2,358,095
Total current liabilities	8,195,298	11,450,926
Other Liabilities		
Deferred credits	4,971,247	3,479,867
Total other liabilities	4,971,247	3,479,867
Total members' equity and liabilities	$ 92,922,592	$ 94,865,692

San Miguel Power Association, Inc.
Statements of Revenue and Patronage Capital
For the Years Ended December 31, 2021 and 2020

	2021		2020	
Operating Revenue	$ 31,173,002	100.00%	$ 29,665,277	100.00%
Operating Expenses				
Cost of power	16,506,881	52.95%	16,048,453	54.10%
Transmission	86,007	0.28%	79,370	0.27%
Distribution - operations	3,312,724	10.63%	3,382,909	11.40%
Distribution - maintenance	1,509,463	4.84%	1,442,991	4.86%
Consumer accounts	1,254,590	4.02%	1,267,824	4.27%
Customer service and information	534,171	1.71%	444,714	1.50%
Administrative and general	3,197,817	10.26%	2,952,830	9.95%
Depreciation	2,600,569	8.34%	2,577,642	8.69%
Other deductions	8,163	0.03%	19,169	0.06%
Total operating expenses	29,010,385	93.06%	28,215,902	95.10%
Operating Margins Before Fixed Charges	2,162,617	6.94%	1,449,375	4.90%
Fixed Charges				
Interest on long-term debt	1,203,341	3.86%	1,172,485	3.96%
Other interest	30,156	0.10%	107,741	0.37%
Total fixed charges	1,233,497	3.96%	1,280,226	4.33%
Operating Margins After Fixed Charges	929,120	2.98%	169,149	0.57%
G & T and Other Capital Credits	572,526	1.84%	441,666	1.49%
Net Operating Margins	1,501,646	4.82%	610,815	2.06%
Nonoperating Income (Expense)				
Interest income	109,098	0.35%	68,535	0.23%
Impairment of long-lived assets	-	0.00%	(1,829,364)	(6.17%)
Miscellaneous income (expense)	(15,332)	(0.05%)	19,183	0.07%
Total nonoperating income	93,766	0.30%	(1,741,646)	(5.87%)
Net Margins (Loss) for the Year	1,595,412	5.12%	(1,130,831)	(3.83%)
Patronage Capital at Beginning of Year	42,835,075		44,465,906	
Retirement of Capital Credits	(1,001,890)		(500,000)	
Patronage Capital at End of Year	$ 43,428,597		$ 42,835,075	

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, 2021 and 2020

	2021	2020
Cash Flows From (Used For) Operating Activities		
Net margins (loss)	$ 1,595,412	$ (1,130,831)
Adjustments to reconcile net margins (loss) to net cash provided by operating activities		
Depreciation and amortization	2,600,569	2,909,588
Impairment of long-lived assets	-	1,829,364
G & T and other capital credits	(572,526)	(441,666)
Forgiveness of long-term debt	(1,503,280)	-
Changes in operating assets and liabilities		
(Increase) decrease in operating assets		
Accounts receivable	169,708	(392,004)
Materials and supplies	(203,952)	(268,812)
Other assets	(27,410)	(32,176)
Increase in operating liabilities		
Accounts payable	82,901	283,457
Interest payable	(4,246)	23,656
Accrued taxes	(32,173)	(17,721)
Accrued liabilities	634,890	334,631
Deferred credits	1,491,380	409,041
Net cash from operating activities	4,231,273	3,506,527
Cash Flows From (Used For) Investing Activities		
Net changes of property and equipment	(6,980,085)	(3,948,863)
Change in non-utility property	-	72,981
Patronage capital recovery	700,145	672,817
Temporary cash investments	200,479	(80)
Other investing activities	(1,503,002)	389,250
Net cash used for investing activities	(7,582,463)	(2,813,895)
Cash Flows From (Used For) Financing Activities		
Principal payments on long-term debt	(1,566,427)	(1,351,843)
Long-term loan advances	-	9,033,980
Payments on line of credit	(2,500,000)	-
Retirement of capital credits	(1,001,890)	(500,000)
Other financing activities	860,333	(5,922)
Net cash from (used for) financing activities	(4,207,984)	7,176,215
Net Increase (Decrease) in Cash and Cash Equivalents	(7,559,174)	7,868,847
Cash and Cash Equivalents at Beginning of Year	11,253,661	3,384,814
Cash and Cash Equivalents at End of Year	$ 3,694,487	$ 11,253,661
Supplemental Cash Flows Information		
Cash paid for interest	$ 1,237,743	$ 1,256,570

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, 2021 and 2020 were as follows:

	2021	2020	
Receivables	**End of Year**	**End of Year**	**Beginning of Year**
Customers	$ 3,214,621	$ 3,384,329	$ 2,992,325

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.

Customer Revenue	2021	2020
Electric		
Residential	$ 17,974,544	$ 17,628,566
Commercial and Industrial	12,434,223	11,365,959
Other	764,235	670,752
Total electric energy revenue	$ 31,173,002	$ 29,665,277

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.

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 2018.

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.

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.

Note 3 - Electric Plant and Depreciation
Listed below are the major classes of the utility plant as of December 31, 2021 and 2020:

	Plant Balances	
	2021	2020
Intangible plant	$ 3,957	$ 3,957
Transmission plant	4,817,652	4,457,100
Distribution plant	66,812,738	65,374,331
General plant	18,353,857	18,064,092
Total	$ 89,988,204	$ 87,899,480

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%.

Note 4 - Subordinated Certificates

	2021	2020
Capital term certificates	$ 477,609	$ 477,609
Loan term certificates	37,300	37,300
Total	$ 514,909	$ 514,909

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, 2021 and 2020:

	2021	2020
Patronage capital - Tri-State G&T	$ 15,813,139	$ 15,964,726
Patronage capital - Western United	881,836	794,925
Patronage capital - CFC	278,118	272,445
Other investments in associated organizations	71,907	140,801
Total	$ 17,045,000	$ 17,172,897

Note 6 - Non-utility Property

Non-utility property consisted of the following at December 31, 2021 and 2020:

	2021	2020
Coal land	$ 2,000	$ 2,000
Telluride warehouse	34,279	34,279
Fiber optics - conduit	324,666	324,666
Fiber optics	2,942,622	2,942,622
Total non-utility property	3,303,567	3,303,567
Accumulated depreciation		
Telluride warehouse	34,279	34,279
Fiber optics - conduit	324,666	324,666
Fiber optics	2,942,622	2,942,622
Total accumulated depreciation	3,301,567	3,301,567
Net non-utility property	$ 2,000	$ 2,000

During 2020, The Association determined that the fair value of the non-utility property associated with the fiber optics - conduit and fiber optics, was less than the net book value as these assets are nonfunctional and not expected to produce future cash flows. An impairment loss was recorded in the amount of $1,829,364 during 2020.

Note 7 - Deferred Charges

Deferred charges consisted of the following at December 31, 2021 and 2020:

	2021	2020
Work plan	$ 103,808	$ 103,808
Other deferred charges	10,556	10,880
Total	$ 114,364	$ 114,688

Note 8 - Members' Equity

	Patronage Capital		Other	
	Allocated	Unallocated	Equities	Total
Balance, December 31, 2019	$ 44,731,805	$ (265,899)	$ 2,159,832	$ 46,625,738
Net margin (loss)		(1,130,831)		(1,130,831)
Allocation, 2019	1,016,214	(1,016,214)		
Retirement of capital credits	(500,000)		137,270	(362,730)
Other changes			(143,192)	(143,192)
Balance, December 31, 2020	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
Balance, December 31, 2021	$ 44,589,545	$ (1,160,948)	$ 3,014,243	$ 46,442,840

Patronage capital consisted of the following at December 31, 2021 and 2020:

	2021	2020
Assigned to date	$ 44,589,545	$ 45,248,019
Assignable/loss carryforward	(1,160,948)	(2,412,944)
Total	$ 43,428,597	$ 42,835,075

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% and 47% of the total assets as of December 31, 2021 and 2020, respectively.

Note 9 - Long-Term Debt and Short-Term Lines of Credit

Long-term debt - Long-term debt at December 31, 2021 and 2020 consisted of the following:

Description	2021	2020
Mortgage notes payable - NRUCFC; fixed interest rates from 4.45% to 4.85%; notes due at various times to July 2029.	$ 4,533,409	$ 5,030,394
Mortgage notes payable - FFB; fixed interest rates from 1.364% to 5.940%; notes due at various times to December 31, 2052.	30,095,896	31,121,991
Other long-term debt - SBA PPP Loan - Citizens Bank; fixed interest rate of 1.0%, note due May 2022.	-	1,503,280
Mortgage note payable - CoBank; fixed interest rate of 3.06%; note due at July 2028.	316,902	360,249
Total	$ 34,946,207	$ 38,015,914

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

For The Year Ending	Amounts
December 31, 2022	$ 1,633,000
December 31, 2023	$ 1,685,000
December 31, 2024	$ 1,750,000
December 31, 2025	$ 1,815,000
December 31, 2025	$ 1,890,000

As of both December 31, 2021 and 2020, FFB had unadvanced loan funds of $1,643,300, for construction purposes, for which a loan agreement has been executed.

As of both December 31, 2021 and 2020, the Association had unadvanced loan funds with CFC of $4,000,000 for which a loan agreement has been executed.

Other long-term debt - In May 2020, the Association applied for and received a loan through the Small Business Administration (SBA) Paycheck Protection Program as defined in the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The loan amount was $1,503,280, facilitated by Citizens Bank. Under the CARES Act provisions, the loan can be forgiven if the Association complies with certain labor requirements including maintaining at least the same number of full-time equivalent employees from the time of application of the loan until the time of application for forgiveness. The Association met the requirements and received forgiveness of the loan from the SBA in 2021. Forgiveness of the full amount of the loan was initially recorded as non-operating revenue by the Association in its Statements of Revenue and Patronage Capital in 2021. As noted below, the Association subsequently received RUS permission to defer the revenue to future periods.

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. As of December 31, 2021 and 2020, $0 and $2,500,000 had been drawn and remained outstanding, respectively. The interest rate was 2.45% as of both December 31, 2021 and 2020.

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, 2022. Nothing had been drawn as of December 31, 2021 and 2020, respectively.

Note 10 - Other Accrued Liabilities
Other accrued liabilities consisted of the following at December 31, 2021 and 2020:

	2021	2020
Customers' deposits	$ 1,932,694	$ 1,532,371
Accrued vacation, holiday and sick pay	802,798	666,837
Other current liabilities	257,493	158,887
Total	$ 2,992,985	$ 2,358,095

Note 11 - Deferred Credits
Deferred credits consisted of the following at December 31, 2021 and 2020:

	2021	2020
Customers' advances for construction	$ 2,280,150	$ 1,828,913
Solar array	114,050	161,528
Deferred revenue *	2,053,280	950,000
Deferred revenue - surcharges	523,767	539,426
Total	$ 4,971,247	$ 3,479,867

* 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, and $400,000 of revenue deferred in prior years was amortized back in to revenue.

Note 12 - 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 2021 and 2020 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 $716,373 in 2021 and $710,545 in 2020. There have been no significant changes that affect the comparability of the 2021 and 2020 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, 2021 and 2020 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 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, 2021 and 2020 were $379,112 and $350,563, respectively.

Note 13 - 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 $16,158,720 and $15,467,083 for the years ended December 31, 2021 and 2020, respectively. The amount payable for purchased power is $1,814,581 and $1,921,484 at December 31, 2021 and 2020, 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 14 - Contingencies and Subsequent Events

The Association has evaluated subsequent events through April 14, 2022, 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.

On January 30, 2020, the World Health Organization (WHO) declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it a pandemic. Actions taken to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas, and forced closures of public places and businesses. The coronavirus and actions taken to mitigate it could have an adverse impact on the economies and financial markets of the geographical area in which the Association operates. During 2020 and 2021 the Association's leadership promptly responded to the immediate and significant effects related to the coronavirus outbreak. Actions were taken to mitigate and minimize the overall impact to the organization's operations. The Association experienced a decline in kWh sales from the previous year, some impacts to supply chain pricing and resource availability as well as other operational issues. The full and future effects of the pandemic are still unknown; however, the Association has taken several measures to address the possibility of further decline in sales and the uncertainty of the collectability of accounts receivable as individuals and businesses may be adversely impacted by the outbreak.

Note 15 - 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 classified as either financing or operating, with classification affecting the pattern of expense recognition in the income statement. Entities are permitted to elect not to restate comparative periods in the period of adoption. A practical expedient may be elected which eliminates the need to reassess expiring or existing contracts to identify potential leases. The practical expedient also eliminates the need to reassess classification on existing or expiring leases. The new standard is effective for nonpublic entities for fiscal years beginning after December 15, 2021. The Association is evaluating the impact of the new standard on the financial statements.