

Michigan South Central Power Agency

Financial Statements and
Supplementary information

June 30, 2022 and 2021

Michigan South Central Power Agency

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Independent Auditors' Report

To the Board of Directors of
Michigan South Central Power Agency

Opinion

We have audited the accompanying financial statements of Michigan South Central Power Agency, as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Michigan South Central Power Agency's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Michigan South Central Power Agency as of June 30, 2022 and 2021, and the changes in financial position and, where applicable, 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 (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Michigan South Central Power Agency and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. 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 the 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 the Michigan South Central Power Agency's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' 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 auditors' report that includes our opinions. 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 GAAS 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 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 GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout 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 the Michigan South Central Power Agency'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 the Michigan South Central Power Agency'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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Baker Tilly US, LLP

Madison, Wisconsin
October 11, 2022

Michigan South Central Power Agency

Management's Discussion and Analysis

June 30, 2022 and 2021

Unaudited

The management of the Michigan South Central Power Agency (the Agency) offers all persons interested in the Agency's financial position this narrative overview and analysis of the Agency's financial performance during the years ending June 30, 2022 and 2021. Please read this narrative in conjunction with the accompanying financial statements and the accompanying notes to financial statements.

Overview of the Financial Statements

Michigan South Central Power Agency is a public body politic and corporate of the State of Michigan. The Agency was organized on March 21, 1978, under the authority of Michigan Public Act 448 of 1976, to supply electricity to member municipalities in South Central Michigan. The Agency has four members: the Cities of Coldwater, Hillsdale and Marshall and the Village of Clinton. The Village of Union City withdrew membership from the Agency effective June 1, 2022.

This annual report consists of two parts: Management's Discussion and Analysis (this section) and the basic financial statements. These statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Agency uses the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission.

The Balance Sheet reports year end assets, deferred outflows, liabilities, deferred inflows and net position balances based on the original cost adjusted for any depreciation, amortization or unrealized gains/losses as appropriate. The Statement of Revenues, Expenses and Changes in Net Position presents information showing how the Agency's net position changed due to the Agency's business activity. The Statement of Cash Flows reports the cash provided and used for operating activities, as well as other cash sources such as investment income and cash payments for capital additions.

Agency Financial Analysis

Fiscal year 2022 was a busy year, operationally and financially. This year marked the seventeenth full year of Agency operations as a Market Participant in the Midcontinent Independent System Operator (MISO) Midwest Market Initiative energy market. This market, which commenced on April 1, 2005, is meant to coordinate the provision of reliable, cost-effective energy.

Late in fiscal year 2004, the Agency began a relationship with American Municipal Power (AMP) in order to facilitate the Agency's MISO market participation. For approximately \$177,000 in fiscal year 2022 annual fees, the Agency is able to utilize the services of AMP's energy control center. This arrangement has allowed the Agency to avoid creating and staffing its own control center.

The relationship with AMP has broadened to include the acceptance of the Agency's members as full AMP members in July of 2006 and services such as power supply planning and resource management, including the Agency's members participation in a 44 MW share of the American Municipal Power Fremont Energy Center (AFEC), a 12 MW share of the Prairie State Energy Campus, 18.7 MW of two AMP Hydro projects consisting of five hydro generation locations on existing lock and dam facilities located on the Ohio River. Regarding the hydro units, 13.4 MW of the hydro generation was in service by the end of fiscal 2018, the remaining 5.3 MW of hydro generation were placed in service during the summer of 2017. The Agency also receives 1.2 MW of power from an AMP Solar Project that was completed during fiscal 2020.

Michigan South Central Power Agency

Management's Discussion and Analysis

June 30, 2022 and 2021

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The Agency has entered into multiple fixed price purchase power agreements through AMP. The Agency has secured contracts for 5 MW on-peak starting January 1, 2018 through December 31, 2030, 10 MW on-peak starting January 1, 2018 through December 31, 2025, 4 MW around the clock (7x24) starting January 1, 2022 through December 31, 2023 and 7 MW around the clock (7x24) starting January 1, 2021 through December 31, 2023.

Beginning in fiscal 2014, the Agency entered into purchase power agreements with N.E.W. Hydro, LLC to secure long-term hydro power supply for a twenty-year term. The agreements are for 5.75 MW from two hydro units located on the Menominee River and another 3.64 MW from two hydro units located in Oconto Falls on the Oconto River in Wisconsin.

On February 10, 2014, the Agency entered into Project IV, consisting of agreements to purchase and install three natural gas generators and facilities capable of producing 13 MW of power. The purchase and installation cost was \$16.6 million dollars and was completed the summer of 2016. \$16 million was funded with a floating rate bond with an option to fix the rate if desired in the future.

On April 17, 2019, the Agency submitted a Generator Interconnection Application to MISO to obtain the right to gain the ability to potentially build a 50 MW generating facility. The application will go through several milestones before the Agency can consider if it wants to pursue this facility. The Agency is recording these costs in a preliminary survey account until the final status of the project is determined.

On June 1, 2020, the City of Coldwater purchased Project IV from the Agency. The purchase price, \$11.5 million, was the remaining balance on the Power Supply Revenue Bonds on the purchase date. Project IV had a net book value of \$14.8 million. This resulted in a net loss of \$3.3 million being recorded in June 2020.

Effective June 1, 2022, the Village of Union City withdrew membership from the Agency. The MSCPA board approved a withdrawal & allocation adjustment agreement outlining the assignment of Union City's share of existing assets and liabilities at the Agency to the City of Coldwater and the City of Marshall as transferring Members. The Village of Clinton and the City of Hillsdale were consenting Members to the agreement. The Village of Union City represented approximately 2% in terms to total Agency load in FY22.

An analysis of the Agency's financial position begins with the review of the Balance Sheet, the Statement of Revenues, Expenses and Changes in Net Position and the Statement of Cash Flows report information. A summary of the Agency's Balance Sheet is presented in Table 1. The Statement of Revenues, Expenses and Changes in Net Position are summarized in Table 2 and Table 3 presents a summary of the Statement of Cash Flows.

Michigan South Central Power Agency

Management's Discussion and Analysis

June 30, 2022 and 2021

Unaudited

Table 1
Condensed Balance Sheets

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Assets			
Current assets	\$ 23,883,791	\$ 22,826,743	\$ 23,081,699
Noncurrent assets	3,517,247	2,256,338	1,581,269
Utility plant	<u>4,381,852</u>	<u>4,520,220</u>	<u>4,658,916</u>
Total assets	31,782,890	29,603,301	29,321,884
Deferred Outflows of Resources	<u>41,670</u>	<u>187,500</u>	<u>598,615</u>
Total assets and deferred outflows of resources	<u>\$ 31,824,560</u>	<u>\$ 29,790,801</u>	<u>\$ 29,920,499</u>
Liabilities			
Current liabilities	\$ 4,155,020	\$ 3,271,532	\$ 3,582,792
Total liabilities	<u>4,155,020</u>	<u>3,271,532</u>	<u>3,582,792</u>
Deferred Inflows of Resources	<u>8,357,669</u>	<u>7,294,310</u>	<u>7,507,237</u>
Net Position			
Net investment in capital assets	4,381,851	4,520,220	4,658,916
Restricted for pensions	3,217,150	2,038,859	262,314
Unrestricted	<u>11,712,870</u>	<u>12,665,880</u>	<u>13,909,242</u>
Total net position	<u>19,311,871</u>	<u>19,224,959</u>	<u>18,830,472</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 31,824,560</u>	<u>\$ 29,790,801</u>	<u>\$ 29,920,499</u>

Michigan South Central Power Agency

Management's Discussion and Analysis

June 30, 2022 and 2021

Unaudited

Table 2

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Operating Revenues	<u>\$ 54,899,924</u>	<u>\$ 51,868,940</u>	<u>\$ 49,415,564</u>
Operating Expenses			
Depreciation expense	138,369	126,226	488,615
Other operating expenses	<u>54,387,591</u>	<u>50,778,954</u>	<u>48,092,707</u>
Total operating expenses	<u>54,525,960</u>	<u>50,905,180</u>	<u>48,581,322</u>
Operating income	<u>373,964</u>	<u>963,760</u>	<u>834,242</u>
Nonoperating Revenue (Expenses)			
Investment and miscellaneous income	19,047	28,118	112,761
Net increase (decrease) in fair value of investments	(6,099)	(22,878)	126,325
Interest and amortization expense	-	-	(356,202)
Member equity refund	(300,000)	(562,043)	(1,500,000)
Other income and (expense)	<u>-</u>	<u>(12,470)</u>	<u>(3,300,699)</u>
Total nonoperating revenue (expenses)	<u>(287,052)</u>	<u>(569,273)</u>	<u>(4,917,815)</u>
Change in net position	86,912	394,487	(4,083,573)
Net Position, Beginning	<u>19,224,959</u>	<u>18,830,472</u>	<u>22,914,045</u>
Net Position, Ending	<u>\$ 19,311,871</u>	<u>\$ 19,224,959</u>	<u>\$ 18,830,472</u>

Michigan South Central Power Agency

Management's Discussion and Analysis

June 30, 2022 and 2021

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Table 3
Condensed Statements of Cash Flows

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Cash Flows From Operating Activities			
Received sales to members and others	\$ 53,855,195	\$ 51,033,536	\$ 48,325,197
Paid to suppliers for goods and services	(57,235,966)	(53,153,186)	(48,274,207)
Paid to employees for services	-	-	(481,210)
	<u> </u>	<u> </u>	<u> </u>
Net cash flows from operating activities	(3,380,771)	(2,119,650)	(430,220)
Cash Flow From Noncapital Financing Activities			
Member equity draw	-	-	(1,500,000)
	<u> </u>	<u> </u>	<u> </u>
Cash flows from noncapital financial activities	-	-	(1,500,000)
Cash Flow From Capital and Related Financing Activities			
Capital expenditures for utility plant	(82,620)	-	-
Debt retired	-	-	(12,410,000)
Proceeds received from Project IV	-	-	11,608,533
Interest payments on long-term debt	-	-	(393,749)
	<u> </u>	<u> </u>	<u> </u>
Cash flows from capital and related financing activities	(82,620)	-	(1,195,216)
Cash Flow From Investing Activities			
Marketable Securities Sold	1,079,879	892,216	10,206,289
Purchases of investments	-	-	(185,167)
Interest income	19,047	28,118	229,779
	<u> </u>	<u> </u>	<u> </u>
Cash flows from investing activities	1,098,926	920,334	10,250,901
	<u> </u>	<u> </u>	<u> </u>
Net change in cash and cash equivalents	(2,364,465)	(1,199,316)	7,125,465
Cash and Cash Equivalents, Beginning	<u>15,541,156</u>	<u>16,740,472</u>	<u>9,615,007</u>
Cash and Cash Equivalents, Ending	<u>\$ 13,176,691</u>	<u>\$ 15,541,156</u>	<u>\$ 16,740,472</u>
Noncash Investing Activities			
Unrealized gains (losses) on investments	\$ (6,099)	\$ (22,878)	\$ 72,066
Noncash Capital and Related Financing Activities			
Loss on sale of assets	\$ -	\$ (12,470)	\$ (3,300,699)
Member equity (draw) to rate stabilization	\$ (300,000)	\$ (562,043)	\$ -

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Management's Discussion and Analysis

June 30, 2022 and 2021

Unaudited

Balance Sheets

Current assets increased \$1.1 million during fiscal year 2022 with unrestricted cash decreasing by \$3.5 million, accounts receivable increasing by \$1.2 million and prepaid items and other current assets increasing \$3.3 million. Current assets decreased by \$.3 million during fiscal year 2021. As energy costs continued to rise during fiscal year 2022, MSCPA utilized cash on hand for collateral postings to MISO.

Noncurrent assets increased by \$1.3 million in total during fiscal 2022 and pension assets increasing by \$1.2 million. Noncurrent assets decreased by \$.7 million in total during fiscal 2021 due to maturing long-term investments decreasing by \$1.1 million, preliminary survey was flat and pension assets increasing by \$1.8 million.

The decrease in fiscal 2022's utility plant number of \$.1 million is primarily due to depreciation recorded for the year. The decrease in fiscal 2021's utility plant number of \$15.4 million is primarily due to the book value sale of assets of Project IV of \$14.8 million and \$.5 million of depreciation recorded for the year.

Deferred Outflows of Resources decreased by \$.1 million during fiscal 2022 due the current year impact of GASB 68 on pension activities. Deferred Outflows of Resources decreased by \$.4 million during fiscal 2021 due the current year impact of GASB 68 on pension activities.

Total Liabilities increased by \$.9 million during fiscal 2022 primarily due to changes in accounts payable increasing \$.9 million. Total Liabilities decreased by \$.3 million during fiscal 2021 primarily due to extinguishing \$.3 million net in debt.

Deferred Inflows of Resources increased \$1.1 million during fiscal 2022, primarily due to member deferred rate stabilization funds which increased by \$.5 million and current year GASB 68 pension activities increased by \$.6 million. Deferred Inflows of Resources decreased \$.2 million during fiscal 2021, primarily due to member rate stabilization funds which increased by \$.8 million, deferred transmission utilization decreased by \$1.0 million and current year GASB 68 pension activities increased by \$.6 million.

Statements of Revenues, Expenses and Changes in Net Position

Fiscal 2022 operating revenues increased by 6% and expenses increased by 7% versus fiscal 2021. Fiscal 2022 operating revenues and expenses were higher than fiscal 2021 primarily due to higher market purchased power costs.

Operating income decreased slightly by \$.6 million in fiscal 2022. Operating income increased slightly by \$.1 million in fiscal 2021.

Investment and miscellaneous income was flat for fiscal 2022. Investment and miscellaneous income decreased \$.08 million for Fiscal 2021 primarily due to maturing investments that were either reinvested or held in short-term investments.

Net increase/decrease in the fair market of investments was flat in fiscal 2022. The Agency has continued its policy of holding investments to maturity so as minimize the effect of mark to market changes. There were no investments at the end of fiscal 2022.

Member equity refund of \$.3 million for fiscal 2022 were refunds of deferred rate stabilization funds that were distributed to the members during the year. Member equity refund of \$.6 million for fiscal 2021 were refunds of prior years' equity that were distributed to the members during the year.

Michigan South Central Power Agency

Management's Discussion and Analysis

June 30, 2022 and 2021

Unaudited

Statements of Cash Flows

Cash and cash equivalents are defined as investments which mature in 90 days or less, plus immediately accessible bank accounts for fiscal 2022. The Cash and cash equivalents amount decreased by \$2.4 million primarily due to \$1 million in proceeds of sales and maturities of investments offset by net cash outflow from other activities of \$3.4 million. For fiscal 2021, the Cash and cash equivalents amount decreased by \$1.2 million primarily due to \$.9 million in proceeds from sales and maturities of investments offset by net cash outflow from other activities of \$2.1 million.

Contacting Agency Management

This financial report is designed to provide our members, investors and creditors with a general overview of Michigan South Central Power Agency's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Michigan South Central Power Agency, 168 Division Street, Coldwater, MI 49036.

Michigan South Central Power Agency

Balance Sheets

June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and investments	\$ 13,176,693	\$ 16,627,134
Accounts receivable	5,158,000	3,956,720
Prepayments and other current assets	5,549,098	2,242,889
	<u>23,883,791</u>	<u>22,826,743</u>
Noncurrent Assets		
Preliminary survey and investigation	300,097	217,479
Net pension asset, restricted	3,217,150	2,038,859
	<u>3,517,247</u>	<u>2,256,338</u>
Capital Assets		
Utility plant (including construction work in progress)	8,677,409	8,677,409
Accumulated depreciation	(4,295,557)	(4,157,189)
	<u>4,381,852</u>	<u>4,520,220</u>
Total net capital assets	<u>4,381,852</u>	<u>4,520,220</u>
Total assets	<u>31,782,890</u>	<u>29,603,301</u>
Deferred Outflows of Resources		
Related to Pensions	<u>41,670</u>	<u>187,500</u>
Total assets and deferred outflows of resources	<u>\$ 31,824,560</u>	<u>\$ 29,790,801</u>

See notes to financial statements

Michigan South Central Power Agency

Balance Sheets

June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Liabilities, Deferred Inflows of Resources and Net Position		
Current Liabilities		
Accounts payable	\$ 4,155,020	\$ 3,271,532
Total current liabilities	<u>4,155,020</u>	<u>3,271,532</u>
Deferred Inflows of Resources		
Deferred rate stabilization	7,104,267	6,647,714
Deferred inflows related to pensions	1,253,402	646,596
Total deferred inflows of resources	<u>8,357,669</u>	<u>7,294,310</u>
Net Position		
Net investment in capital assets	4,381,851	4,520,220
Restricted for pensions	3,217,150	2,038,859
Unrestricted	<u>11,712,870</u>	<u>12,665,880</u>
Total net position	<u>19,311,871</u>	<u>19,224,959</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 31,824,560</u>	<u>\$ 29,790,801</u>

See notes to financial statements

Michigan South Central Power Agency

Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Operating Revenues		
Sales to members	\$ 54,443,370	\$ 50,540,390
Net rate stabilization application	456,554	1,328,550
	<u>54,899,924</u>	<u>51,868,940</u>
Operating Expenses		
Operations	53,890,725	50,537,620
Administration and general	496,866	241,334
Depreciation	138,369	126,226
	<u>54,525,960</u>	<u>50,905,180</u>
Operating income	<u>373,964</u>	<u>963,760</u>
Nonoperating Revenues (Expenses)		
Investment and miscellaneous income	19,047	28,118
Net increase (decrease) in the fair value of investments	(6,099)	(22,878)
Loss on sale of assets	-	(12,470)
Member equity refund	(300,000)	(562,043)
	<u>(287,052)</u>	<u>(569,273)</u>
Change in net position	86,912	394,487
Net Position, Beginning	<u>19,224,959</u>	<u>18,830,472</u>
Net Position, Ending	<u><u>\$ 19,311,871</u></u>	<u><u>\$ 19,224,959</u></u>

See notes to financial statements

Michigan South Central Power Agency

Statements of Cash Flows

Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash Flows From Operating Activities		
Received from sales to members and others	\$ 53,855,195	\$ 51,033,536
Paid to suppliers for goods and services	(57,235,966)	(53,153,186)
	<u>(3,380,771)</u>	<u>(2,119,650)</u>
Net cash flows from operating activities	(3,380,771)	(2,119,650)
Cash Flows From Capital and Related Financing Activities		
Capital expenditures for utility plant	(82,620)	-
	<u>(82,620)</u>	<u>-</u>
Cash flows from capital and related financing activities	(82,620)	-
Cash Flows From Investing Activities		
Proceeds from sales and maturities of investments	1,079,879	892,216
Interest received	19,047	28,118
	<u>1,098,926</u>	<u>920,334</u>
Cash flows from investing activities	1,098,926	920,334
Net change in cash and cash equivalents	(2,364,465)	(1,199,316)
Cash and Cash Equivalents, Beginning	15,541,156	16,740,472
Cash and Cash Equivalents, Ending	<u>\$ 13,176,691</u>	<u>\$ 15,541,156</u>
Noncash Investing Activity		
Unrealized gains on investments	\$ (6,099)	\$ (22,878)
Noncash Capital and Related Financing Activities		
Loss on sale of assets	\$ -	\$ (12,470)
Member equity (draw) refund to rate stabilization	<u>\$ (300,000)</u>	<u>\$ (562,043)</u>

See notes to financial statements

Michigan South Central Power Agency

Statements of Cash Flows

Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Reconciliation of Operating Income to		
Net Cash Flows From Operating Activities		
Operating income	\$ 373,964	\$ 963,760
Noncash items included in operating income:		
Depreciation	138,369	126,226
Changes in assets, deferred outflows, liabilities and deferred inflows:		
Accounts receivable	(1,201,281)	476,229
Prepayments and other current assets	(3,306,209)	(1,234,207)
Pension related deferrals and liabilities	(425,655)	(828,765)
Accounts payable	883,488	(283,370)
Postemployment retirement benefit	-	(27,890)
Deferred rate stabilization	156,554	(1,311,633)
	<u>\$ (3,380,771)</u>	<u>\$ (2,119,650)</u>
Reconciliation of Cash and Cash Equivalents to		
the Balance Sheet		
Current unrestricted cash and investments	<u>\$ 13,176,691</u>	<u>\$ 16,627,134</u>
Total cash and investments	13,176,691	16,627,134
Less noncash equivalents	<u>-</u>	<u>(1,085,978)</u>
Cash and cash equivalents	<u>\$ 13,176,691</u>	<u>\$ 15,541,156</u>

See notes to financial statements

Michigan South Central Power Agency

Notes to Financial Statements

June 30, 2022 and 2021

1. Summary of Significant Accounting Policies and Nature of Operations

The financial statements of Michigan South Central Power Agency (the Agency) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to enterprise funds of governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The significant accounting principles and policies utilized by the Agency are described below.

Reporting Entity

The Agency is a public body politic and corporate of the State of Michigan, organized on March 21, 1978, under the authority of Michigan Public Act 448 of 1976 (the Act), to supply electricity to member municipalities in south central Michigan. The Act provides that the Agency will establish rates and charges so as to produce revenues sufficient to cover costs (excluding depreciation) including debt service, but it may not operate its projects for profit, except insofar as any such profit will insure to the benefit of the public.

The Agency's member municipalities are the Cities of Coldwater, Hillsdale and Marshall and the Village of Clinton. Each member is a municipal corporation, organized under the laws of the State of Michigan, which owns and operates a municipal electric system. The member municipalities presently supply their customers with power purchased from the Agency. The Agency's power supply comes with multiple sources including Project IV generators, power purchased from the MISO Market, power purchase agreements from other utility companies and from the individual members existing generation facilities. Project IV consists of three natural gas fired peaking units capable of producing 13 megawatts of power. Coldwater is the only participant in Project IV. During June 2020, the Agency transferred the net book value of the Project IV assets to the City of Coldwater. In addition, the City of Coldwater issued revenue bonds for the purposes of paying off the outstanding 2014 Agency revenue bonds. After the transaction, the Agency no longer has any ownership or operation requirements for the project or any outstanding financial obligations related to the project.

In fiscal year 2021, Union City notified the Agency of their intent to terminate Membership with MSCPA. A withdrawal and allocation adjustment agreement was drafted and approved by all MSCPA Members. As of June 1, 2022, Union City is no longer a member of MSCPA. Union City was the Agency's smallest Member, representing 1.996% of the Agency's total energy purchases (mwh) during FY22.

Each member municipality has entered into the following agreements with the Agency:

- Economic Dispatch Agreement, which provides for the dispatch by the Agency of power and energy from certain existing generating facilities of the member municipalities on an economic basis and the member municipalities are required to sell to the Agency power generated by their facilities, defined as dedicated capacity.
- The Power Sales Contract, which requires the Agency to provide and the member municipalities to purchase from the Agency, all of the members' bulk power supply, as defined in the contracts.
- The Substation Agreement requires the Agency to provide and the municipalities to purchase, services of the municipalities' substation facilities for transmission, transformation and delivery of electric power and energy from the Agency to the municipalities.

Michigan South Central Power Agency

Notes to Financial Statements

June 30, 2022 and 2021

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

The Agency's accounts are maintained in accordance with the Uniform System of Accounts of the Federal Energy Regulatory Commission, as required by the Power Sales Contracts with the member municipalities and in conformity with accounting principles generally accepted in the United States of America. A separate set of plant accounts is maintained for each of the Agency's projects.

Use of Estimates

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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 reported period. Actual results could differ from those estimates.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position

Cash Equivalents

For purposes of the statement of cash flows, cash equivalents include; checking accounts, savings accounts and institutional liquid assets, with initial maturities of three months or less from the date of acquisition.

Investments

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on methods and inputs as outlined in Note 2. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Fair values may have changed significantly after year end. As of June 30, 2022, the Agency has no investment holdings.

Restricted Assets

Mandatory segregations of assets are presented as restricted assets. Such segregations are required by external parties. Current liabilities payable from these restricted assets are so classified.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivables are stated at the amount billed to members and nonmembers. Allowance for doubtful accounts is not considered necessary as the Agency has not historically experienced delays in payments for service rendered.

Prepayments and Other Current Assets

These balances represent payments in the current year that will benefit future periods, renewable energy credits and deposits made to MISO. The balance of the deposit made to MISO as of June 30, 2022 and 2021 was \$5,440,740 and \$2,134,531, respectively.

Michigan South Central Power Agency

Notes to Financial Statements

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Preliminary Survey and Investigation

The balance represents initial exploration costs related to purchasing additional capacity. The balance will be capitalized upon commencement of the project.

Deferred Outflows of Resources

A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that future time. Deferred outflows relate to the net pension liability (asset). Details of the account are included in Note 7.

Capital Assets, Utility Plant

The Agency capitalizes assets with an original cost of \$5,000 or more and a useful life of at least two years. The cost of utility plant includes direct and overhead costs.

When property subject to depreciation is retired or otherwise disposed of in the normal course of business, its cost, together with the cost of removal, less salvage, is charged to accumulated depreciation.

The cost of maintenance, repairs and replacements of minor items of property is charged to maintenance expense. The cost of replacements of property is charged to utility plant accounts.

Utility plant in service is depreciated using the straight-line method over the following useful lives:

	<u>Years</u>
Transmission facilities (composite)	55
Buildings	10-50
Transportation equipment	3-5
Furniture and fixtures	5-10
Menominee/Oconto equipment	5

Pensions

For purposes of measuring the net pension (asset) liability, deferred outflows of resources, deferred inflows of resources and pension expense, information about the fiduciary net position of the Municipal Employees Retirement System of Michigan (MERS) and additions to/deductions from MERS' fiduciary net position have been determined on the same basis as they are reported by MERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms, investments are reported at fair value.

Deferred Inflows of Resources

A deferred inflow of resources represents an acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time. See Notes 5 and 7 for details.

Michigan South Central Power Agency

Notes to Financial Statements

June 30, 2022 and 2021

Regulatory Assets

The Agency has adopted the provisions for regulatory accounting as outlined in GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre - November 30, 1989 FASB and other AICPA Pronouncements. This statement provides for the deferral of costs and revenues which will be recognized through future rate adjustments. See Note 5 for details.

Revenues and Expenses

The Agency distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering electric service in connection with the Agency's principal ongoing operations. The principal operating revenues of the Agency are charges to members for sales and services. Operating expenses for the Agency include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Agency billings are rendered and recorded monthly based on month end metered usage. No accrual for unbilled service is necessary. As all payments are received from Agency members for current service, no allowance for doubtful accounts is considered necessary.

Taxes

The Agency is exempt from State and Federal income taxes.

Comparative Data

Certain amounts presented in the prior year data may have been reclassified in order to be consistent with the current year's presentation.

Effect of New Accounting Standards on Current Period Financial Statements

The GASB has approved the following statements:

- Statement No. 91, *Conduit Debt Obligations*
- Statement No. 92, *Omnibus*
- Statement No. 93, *Replacement of Interbank Offered Rates*
- Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*
- Statement No. 96, *Subscription-Based Information Technology Arrangements*
- Statement No. 99, *Omnibus 2022*
- Statement No. 100, *Accounting changes and error correction – an amendment of GASB Statement No. 62.*
- Statement No. 101, *Compensated Absences*

Michigan South Central Power Agency

Notes to Financial Statements

June 30, 2022 and 2021

2. Cash and Investments

The Agency may make investments in U.S. Government and Federal Agency obligations, investment grade bonds, commercial paper rated at the highest classification established by at least two standard rating services, money market mutual funds, repurchase agreements and pooled investment funds. The Agency's investment policy follows Michigan Public Act 20.

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for time and savings accounts (including NOW accounts) and \$250,000 for demand deposit accounts (interest and noninterest bearing accounts). The difference between the bank balance and carrying amount is due to outstanding checks, deposits in transit and/or fair value adjustments.

Michigan Cooperative Liquid Assets Securities System (MI CLASS) reports the fair value of its underlying assets annually. Participants in the MI CLASS have the right to withdraw their funds in total upon notice. At June 30, the fair value of the MI CLASS' assets were substantially equal to the Agency's share. As of June 30, 2022 and 2021, the Agency held a balance of \$7,437,228 and \$7,119,331 in MI CLASS, respectively. MI CLASS is rated AAAM by Standard and Poor's.

There are no investments held at June 30, 2022 that are subject to fair value, custodial credit risk or interest rate risk disclosures.

Fair Value

The Agency categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The valuation methods for recurring fair value measurements as of June 30, are as follows:

- Market approach - asset-class-based matrix

Investment Type	2021			
	Total	Level 1	Level 2	Level 3
U.S. Government Agency Securities	\$ 705,243	\$ -	\$ 705,243	\$ -
Governmental Money Market	656,774	-	656,774	-
Municipal Bonds	132,150	-	132,150	-
Total	<u>\$ 1,494,167</u>	<u>\$ -</u>	<u>\$ 1,494,167</u>	<u>\$ -</u>

Custodial Credit Risk

Deposits

Custodial credit risk is the risk that in the event of a financial institution failure, the Agency's deposits may not be returned to the Agency.

Of the Agency's total bank balances, \$5,773,061 and \$7,795,666 as of June 30, 2022 and 2021 \$5,523,061 and \$7,545,666, respectively, were known to be individually exposed to custodial credit risk.

To minimize risk, the Agency's investment policy states, the Agency may only utilize depositories that have been authorized in the Banking and Depository Resolution.

Michigan South Central Power Agency

Notes to Financial Statements

June 30, 2022 and 2021

Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

As of June 30, 2021, no investments were exposed to custodial credit risk.

The Agency's investment policy limits investing to security types that have been authorized by the Board and in compliance with the Michigan Public Act 20 as amended.

Credit Risk

Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligations.

As of June 30, 2021, the Agency's investments were rated as follows:

<u>Investment Type</u>	<u>Standard & Poor's</u>	<u>Moody's</u>
U.S. Government Agency Securities	AA+	Aaa
Municipal Bonds	N/R - AA	N/R - Aa1
Michigan CLASS	AAAm	N/R

The Agency's investment policy limits investing to security types that have been authorized by the Board and in compliance with the Michigan Public Act 20 as amended.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At June 30, 2022 and 2021, the investment portfolio was concentrated as follows:

<u>Investment Type</u>	<u>Issuer</u>	<u>Percentage of Investment Portfolio</u>	
		<u>2022</u>	<u>2021</u>
U.S. Government Agency Securities	Federal Farm Credit Bank	- %	8.2%

This Agency's investment policy specifies that no single issuer shall comprise greater than 25% of the overall portfolio, excluding securities collateralizing the repurchase agreement, when measured at the last investment purchase date. No noncompliance with the policy was noted as of June 30, 2022 or 2021. Securities which are explicitly backed by the full faith and credit of the United States Government shall not be aggregated when measuring portfolio concentration.

Michigan South Central Power Agency

Notes to Financial Statements

June 30, 2022 and 2021

Interest Rate Risk

Interest rate risk is the risk changes in interest rates will adversely affect the fair value of an investment.

As of June 30, 2021, the Agency's investments were as follows:

Investment Type	Fair Value	2021	
		Maturity	
		Less Than 1 Year	1-5 Years
U.S. Government Agency Securities	\$ 705,243	\$ 705,243	\$ -
Municipal Bonds	132,150	132,150	-
Total	<u>\$ 837,393</u>	<u>\$ 837,393</u>	<u>\$ -</u>

This Agency's investment policy specifies operating funds shall be maintained in liquid investments such as money market funds, municipal investment pools and savings accounts. Investments greater than five years are not allowed, however, upon the recommendation and approval of funds held for capital purposes, not expected to be paid within five years, may be invested in securities which mature in ten years or less.

3. Restricted Assets

Net Pension Asset

Restricted assets have been reported in connection with the net pension asset balance since this balance must be used to fund employee benefits.

Restricted Net Position

The following calculation supports the restricted net position:

	2022	2021
Restricted assets:		
Net pension asset	<u>\$ 3,217,150</u>	<u>\$ 2,038,859</u>
Total restricted net position	<u>\$ 3,217,150</u>	<u>\$ 2,038,859</u>

Michigan South Central Power Agency

Notes to Financial Statements

June 30, 2022 and 2021

4. Changes in Capital Assets

A summary of changes in capital assets for 2022 and 2021 follows:

	2022			Balance June 30, 2022
	Balance July 1, 2021	Additions/ Reclassifications	Deletions/ Reclassifications	
Capital assets, not being depreciated:				
Land	\$ 979,296	\$ -	\$ -	\$ 979,296
Capital assets being depreciated:				
Transmission facilities	7,477,454	-	-	7,477,454
General plant	207,500	-	-	207,500
Menominee/Oconto	13,159	-	-	13,159
Total capital assets being depreciated	<u>7,698,113</u>	<u>-</u>	<u>-</u>	<u>7,698,113</u>
Total capital assets	<u>8,677,409</u>	<u>-</u>	<u>-</u>	<u>8,677,409</u>
Less accumulated depreciation:				
Transmission facilities	3,958,164	138,369	-	4,096,533
General plant	185,866	-	-	185,866
Menominee/Oconto	13,159	-	-	13,159
Total accumulated depreciation	<u>4,157,189</u>	<u>138,369</u>	<u>-</u>	<u>4,295,557</u>
Net capital assets	<u>\$ 4,520,220</u>			<u>\$ 4,381,852</u>
	2021			
	Balance July 1, 2020	Additions/ Reclassifications	Deletions/ Reclassifications	Balance June 30, 2021
Capital assets, not being depreciated:				
Land	\$ 979,296	\$ -	\$ -	\$ 979,296
Capital assets being depreciated:				
Transmission facilities	7,493,041	-	15,587	7,477,454
General plant	207,500	-	-	207,500
Menominee/Oconto	13,159	-	-	13,159
Total capital assets being depreciated	<u>7,713,700</u>	<u>-</u>	<u>15,587</u>	<u>7,698,113</u>
Total capital assets	<u>8,692,996</u>	<u>-</u>	<u>15,587</u>	<u>8,677,409</u>
Less accumulated depreciation:				
Transmission facilities	3,835,035	126,226	3,117	3,831,144
General plant	185,886	-	-	185,886
Menominee/Oconto	13,159	-	-	13,159
Total accumulated depreciation	<u>4,034,080</u>	<u>126,226</u>	<u>3,117</u>	<u>4,157,189</u>
Net capital assets	<u>\$ 4,658,916</u>			<u>\$ 4,520,220</u>

Michigan South Central Power Agency

Notes to Financial Statements

June 30, 2022 and 2021

5. Deferred Rate Stabilization

Management of the Agency has implemented a rate stabilization plan to provide its members with rate relief in future periods, through the withdrawal of members' accumulated resources. The balance is shown as a deferred inflow of resources on the balance sheets.

During fiscal 2022, Members requested distributions from accumulated resources of \$100,003 and made contributions totaling \$539,294.

The Agency anticipates the member contributions will be distributed to its members in an indeterminable period in the future out of currently available unrestricted funds. Accordingly, the Agency has established a deferred inflow of resources as follows:

<u>Fiscal Year</u>	<u>Balance July 1</u>	<u>Contributions</u>	<u>Interest Accrued</u>	<u>Distributions</u>	<u>Balance June 30</u>
2022	\$ 6,647,714	\$ 539,394	\$ 17,162	\$ 100,003	\$ 7,104,267
2021	7,397,304	1,117,304	16,914	1,883,808	6,647,714

6. Net Position

GASB No. 34 requires the classification of net position into three components - net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

Net investment in capital assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted - This component of net position consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position - This component of net position consists of net position that do not meet the definition of "restricted" or "net investment in capital assets."

When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first, then unrestricted resources as they are needed.

The following calculation supports the net investment in capital assets:

	<u>2022</u>	<u>2021</u>
Capital Assets		
Utility plant in service and work in progress	\$ 8,677,409	\$ 8,677,409
Allowance for depreciation	(4,295,557)	(4,157,189)
Total net investment in capital assets	<u>\$ 4,381,852</u>	<u>\$ 4,520,220</u>

Michigan South Central Power Agency

Notes to Financial Statements

June 30, 2022 and 2021

7. Employee Retirement Plan

Municipal Employees Retirement System of Michigan (MERS)

The Agency contributes to two pension plans administered by the Municipal Employees Retirement System of Michigan (MERS), a public employee retirement system that acts as a common investment and administrative agent for municipalities. Employees hired prior to January 1, 2014 are enrolled in the Agency's defined benefit multiple-employer plan. Employees hired after January 1, 2014 are enrolled in the Agency's defined contribution plan.

Agent Defined Benefit Multiple-Employer Plan

Plan Description. The employer's defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The employer participates in the MERS. MERS is an agent multiple employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine-member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by accessing the MERS website at www.mersofmich.com.

Benefits Provided. Benefits provided include plans with a multiplier of 2.0%. Vesting periods are 10 years for all divisions. Normal retirement age is 60 with reduced early retirement options at 50 with 25 years of service or at age 55 with 15 years of service. The union also has an unreduced early retirement option at age 55 with 30 years of service. Final average compensation is calculated based on 5 years. Members do not contribute to the plan.

Employees Covered by Benefit Terms. At the December 31, 2022 and 2021 valuation date, the following employees were covered by the benefit terms:

	<u>2022</u>	<u>2021</u>
Inactive employees or beneficiaries currently receiving benefits	43	40
Inactive employees entitled to but not yet receiving benefits	20	24
Active employees	-	-
Total	<u>63</u>	<u>64</u>

The pension plan is closed to new employees.

Contributions. The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees.

Net Pension Liability (Asset). The employer's Net Pension Liability (Asset) was measured as of December 31, 2022 and 2021. The total pension liability used to calculate the Net Pension Liability (Asset) was determined by an annual actuarial valuation as of those dates.

Actuarial Assumptions. The total pension liability (asset) in the December 31, 2022 and 2021 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation: 3% 2021: 2.5% 2020

Salary Increases: 3.0% in the long-term and projected to remain constant.

Michigan South Central Power Agency

Notes to Financial Statements

June 30, 2022 and 2021

Investment rate of return: 7% 2021: 7.35% 2020, net of investment expense, including inflation. Although no specific price inflation assumptions are needed for the valuation, the 3.00% long-term wage inflation assumption would be consistent with a price inflation of 3%-4%.

The mortality table used to project the mortality experience of nondisabled plan members is a 50% Male - 50% Female blend of the following tables:

1. The RP-2014 Healthy Annuitant Mortality Tables, with rates multiplied by 105%
2. The RP- 2014 Employee Mortality Tables

The Mortality table used to project the mortality experience of disabled plan members is a 50% Male - 50% Female blend of the RP-2014 Disabled Retiree Mortality Tables.

These Mortality Tables were first used for the December 31, 2015 actuarial valuations.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study in 2015. The actuarial experience study covered the period from January 1, 2009, through December 31, 2013.

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global equity	60 %	7.0 %
Global fixed income	20	4.5
Private Investments	<u>20</u>	<u>9.5</u>
Total	<u>100</u>	<u>7.0</u>

Discount Rate. The discount rate used to measure the total pension liability is 6.85 and 7.35% respectively as of the December 31, 2022 and 2021 actuarial reports. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Michigan South Central Power Agency

Notes to Financial Statements

June 30, 2022 and 2021

Changes in Net Pension Liability (Asset)

Calculating Net Pension Liability (Asset):

	2022		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at December 31, 2020	\$ 14,533,759	\$ 16,572,618	\$ (2,038,859)
Changes for the year:			
Service cost	-	-	-
Interest on total pension liability	981,310	-	981,310
Changes in benefits	-	-	-
Difference between expected and actual experience	(306,160)	-	(306,160)
Changes in assumptions	488,649	-	488,649
Employer contributions	-	275,004	(275,004)
Employee contributions	-	-	-
Net investment income	-	2,071,197	(2,071,197)
Benefit payments, including employee refunds	(1,072,549)	(1,072,549)	-
Administrative expense	-	(26,104)	26,104
Other changes	105,340	127,333	(21,993)
Net changes	196,590	1,374,881	(1,178,291)
Balance as of December 31, 2021	\$ 14,730,349	\$ 17,947,499	\$ (3,217,150)

Michigan South Central Power Agency

Notes to Financial Statements

June 30, 2022 and 2021

	2021		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at December 31, 2019	\$ 14,533,759	\$ 14,796,073	\$ (262,314)
Changes for the year:			
Service cost	-	-	-
Interest on total pension liability	1,030,263	-	1,030,263
Changes in benefits	-	-	-
Difference between expected and actual experience	(305,292)	-	(305,292)
Changes in assumptions	294,348	-	294,348
Employer contributions	-	730,356	(730,356)
Employee contributions	-	-	-
Net investment income	-	1,905,879	(1,905,789)
Benefit payments, including employee refunds	(1,033,135)	(1,033,135)	-
Administrative expense	-	(29,850)	29,850
Other changes	13,816	203,295	(189,479)
Net changes	-	1,776,545	(1,776,545)
Balance as of December 31, 2020	<u>\$ 14,533,759</u>	<u>\$ 16,572,618</u>	<u>\$ (2,038,859)</u>

Note: Immaterial differences may occur due to rounding.

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the Net Pension Liability (Asset) of the employer, calculated using the discount rate of 7.25%, as well as what the employer's Net Pension Liability (Asset) would be using a discount rate that is 1%age point lower (6.25%) or 1% higher (8.25%) than the current rate.

Sensitivity to Changes in Discount Rate 2022:

	2022		
	1% Decrease	Current Discount Rate	1% Increase
Total pension liability (a)	\$ 16,303,602	\$ 14,730,349	\$ 13,407,346
Fiduciary net position (b)	17,947,499	17,947,499	17,947,499
Net pension liability (asset) (a-b)	<u>\$ (1,643,897)</u>	<u>\$ (3,217,150)</u>	<u>\$ (4,540,153)</u>

Michigan South Central Power Agency

Notes to Financial Statements

June 30, 2022 and 2021

The following presents the Net Pension Liability (Asset) of the employer, calculated using the discount rate of 7.6%, as well as what the employer's Net Pension Liability (Asset) would be using a discount rate that is 1 percentage point lower (6.6%) or 1% higher (8.6%) than the current rate.

Sensitivity to Changes in Discount Rate 2021

	2021		
	1% Decrease	Current Discount Rate	1% Increase
Total pension liability (a)	\$ 16,072,635	\$ 14,533,759	\$ 13,238,090
Fiduciary net position (b)	16,572,618	16,572,618	16,572,618
Net pension liability (asset) (a-b)	<u>\$ (499,983)</u>	<u>\$ (2,038,859)</u>	<u>\$ (3,334,528)</u>

Note: The discount rate shown for GASB 68 purposes differs from the MERS assumed rate of return. This is because for GASB 68 purposes, the discount rate must be gross of administrative expenses, whereas for funding purposes it is net of administrative expenses.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The employer recognized pension expense of \$ (295,331) and \$ (500,490) as of June 30, 2022 and 2021, respectively. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	2022		2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in experience	\$ -	\$ 1,253,402	\$ -	\$ 646,596
Differences in assumptions	-	-	-	-
Net difference between projected and actual investment earnings	-	-	-	-
Contributions subsequent to the measurement date*	41,670	-	187,500	-
Total	<u>\$ 41,670</u>	<u>\$ 1,253,402</u>	<u>\$ 187,500</u>	<u>\$ 646,596</u>

* The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as reduction (increase) in the Net Pension Liability (Asset) for the subsequent fiscal year.

Michigan South Central Power Agency

Notes to Financial Statements

June 30, 2022 and 2021

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Years Ending June 30</u>	<u>Net Deferred Outflows and Inflows of Resources</u>
2022	\$ (191,978)
2023	(519,330)
2024	(354,106)
2025	<u>(187,988)</u>
Total	<u>\$ (1,253,402)</u>

For calendar years 2021 and 2020, the Agency's annual pension cost of \$275,004 and \$730,356, respectively, for the MERS was equal to the Agency's required and actual contributions.

The 2022 required contribution was determined as part of the December 31, 2021 actuarial valuation using the entry age normal cost method. This method seeks to provide a level pattern of cost as a percentage of salary throughout an employee's working lifetime. The actuarial assumptions included: (a) 7% investment rate of return in 2021; (b) projected salary increases of 3.0% in 2021; and (c) additional projected salary increases ranging from 0% to 0% in 2021 depending on age, attributable to seniority and merit. A level percentage of payroll amortization is used, with an amortization period not to exceed 30 years.

The 2021 required contribution was determined as part of the December 31, 2020 actuarial valuation using the entry age normal cost method. This method seeks to provide a level pattern of cost as a percentage of salary throughout an employee's working lifetime. The actuarial assumptions included: (a) 7.35% investment rate of return in 2020; (b) projected salary increases of 3% in 2020; and (c) additional projected salary increases ranging from 0% to 11 % in 2020 depending on age, attributable to seniority and merit. A level percentage of payroll amortization is used, with an amortization period not to exceed 30 years.

Defined Contribution Plan

All full-time employees hired after January 1, 2014, excluding the General Manager, are entered into the defined contribution plan administered by MERS. The MERS Defined Contribution Plan is a qualified retirement plan under Section 401(a) of the Internal Revenue Code. Employee and employer contributions are deposited into the employee's individual account and invested under their direction. Participants of the plan can make payments into the plan as desired. The Agency contributes 8% of the participant's wages. The Agency made contributions to the plan of \$0 and \$0 in 2022 and 2021, respectively. The Agency did not have any employees in FY22.

Michigan South Central Power Agency

Notes to Financial Statements

June 30, 2022 and 2021

Supplemental Retirement Plan

The Agency has entered into a supplemental retirement plan with a key employee to provide defined cash benefits for fifteen years after retirement or specified benefits to a designated beneficiary in the event of death. This plan was approved by the Board of Commissioners, who has the authority to negotiate any changes in benefits. This plan is funded on a pay as you go basis by the Agency and is ultimately financed by a key employee life insurance policy payable to the Agency. The key employee retired on June 30, 2006 and began collecting benefits on July 1, 2006.

<u>Fiscal Year End</u>	<u>Annual Cost</u>	<u>Annual Payments</u>	<u>Net Obligation</u>	<u>Payments as a Percentage of Annual Cost</u>
June 30, 2019	\$ 29,039	\$ 29,039	\$ 58,079	100 %
June 30, 2020	29,039	29,039	29,039	100
June 30, 2021	29,039	29,039	-	-

The final payment was made in June 2021.

8. Long-Term Supply Agreements

The Agency and its Members have entered into multiple development agreements with AMP to secure long-term power supply for the future. Completed projects include one base load coal generation facility, a gas generation project and two hydro generation projects. Additionally, one solar generation project was completed during Fiscal 2019.

Unit 1 of the Prairie State coal facility became operational in June 2012; unit 2 became operational near the end of 2012. The AMP Fremont Energy Center (AFEC) gas generation became operational in January 2012 with the Agency acquiring 42.59 MW of this project. The Agency secured an additional 580 KW in June 2016, bringing the cumulative total of 43.54 MW in this project. The hydro generation projects consist of five hydro generation facilities on existing lock and dam facilities located on the Ohio River, with the last facility completed in Fiscal 2018. The Agency and its Members have entered into long-term capacity and power purchase agreements with AMP for a total of 12 MW of the base load coal project, 43.54 MW of the gas project, 18.7 MW of the hydro projects and 1.2 MW of the solar project.

The Agency has entered into several fixed price purchase power agreements to meet increasing load demands. Currently, the Agency has secured the following fixed-priced contracts:

- 10 MW on-peak (5x16) starting in January 2018 and ending in December 2025,
- 5 MW on-peak (5x16) starting in January 2018 and ending in December 2030,
- 7 MW around the clock (7x24) starting January 2020 and ending in December 2023, and
- 4 MW around the clock (7x24) starting January 2022 and ending in December 2029.

The Agency has also entered into purchase power agreements with N.E.W. Hydro, LLC to secure long-term hydro power supply for a twenty-year term beginning in fiscal 2014. The agreements are for 5.75 MW from two hydro units located on the Menominee River and another 3.64 MW from two hydro units located in Oconto Falls on the Oconto River in Wisconsin.

Michigan South Central Power Agency

Notes to Financial Statements

June 30, 2022 and 2021

9. Risk Management

The Agency is exposed to various risks of loss related to torts, theft of, damage to or destruction of assets, errors and omissions, workers compensation and health care of its employees. These risks are covered through the purchase of commercial insurance with minimal deductibles. Settled claims have not exceeded the commercial liability in any of the past three years. There were no significant reductions in coverage compared to the prior year.

10. Commitments and Contingencies

From time to time, the Agency is party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and the Agency's legal counsel that the likelihood of a material adverse effect on the Agency's financial position or results of operations is remote.

11. Significant Customers

The Agency has three members who are considered significant customers. These members accounted for 95% of operating revenues for years ended June 30, 2022 and 2021.

REQUIRED SUPPLEMENTARY INFORMATION

Michigan South Central Power Agency

Schedule of Changes in the Net Pension Liability (Asset), GASB Statement No. 68

June 30, 2022

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total Pension Liability								
Service cost	\$ -	\$ -	\$ -	\$ 43,663	\$ 40,721	\$ 49,447	\$ 215,708	\$ 251,719
Interest	981,310	1,030,263	989,924	1,030,977	1,011,978	1,118,827	1,113,807	1,048,428
Changes of benefit terms								
Difference between expected and actual experience	(306,160)	(305,292)	(75,425)	3,410	(20,360)	(2,240,529)	(359,251)	-
Changes of assumptions	488,649	294,348	544,240	-	-	-	559,563	-
Benefit payments including employee refunds	(1,072,549)	(1,033,135)	(961,750)	(886,362)	(756,243)	(1,388,901)	(546,321)	(449,023)
Other	105,340	13,816	87,544	33,259	32,645	770,492	34,805	32,764
	<u>196,590</u>	<u>-</u>	<u>584,533</u>	<u>224,947</u>	<u>308,741</u>	<u>(1,690,664)</u>	<u>1,018,311</u>	<u>883,888</u>
Net change in total pension liability								
Total pension liability, beginning	<u>14,533,759</u>	<u>14,533,759</u>	<u>13,949,226</u>	<u>13,724,279</u>	<u>13,415,538</u>	<u>15,106,202</u>	<u>14,087,891</u>	<u>13,204,003</u>
Total pension Liability, ending	<u>\$ 14,730,349</u>	<u>\$ 14,533,759</u>	<u>\$ 14,533,759</u>	<u>\$ 13,949,226</u>	<u>\$ 13,724,279</u>	<u>\$ 13,415,538</u>	<u>\$ 15,106,202</u>	<u>\$ 14,087,891</u>
Plan Fiduciary Net Position								
Contributions-employer	\$ 275,004	\$ 730,356	\$ 732,784	\$ 518,926	\$ 664,832	\$ 758,929	\$ 716,430	\$ 715,363
Contributions-employee	-	-	-	-	-	-	-	-
Net Investment income	2,071,197	1,905,879	1,791,503	(550,778)	1,681,314	1,345,778	(185,247)	707,308
Benefit payments including employee refunds	(1,072,549)	(1,033,135)	(961,750)	(886,362)	(756,243)	(1,388,901)	(546,321)	(449,023)
Administrative & Other expense	101,229	173,445	(30,829)	(27,436)	(26,590)	(26,517)	(26,658)	(26,134)
	<u>1,374,881</u>	<u>1,776,545</u>	<u>1,531,708</u>	<u>(945,650)</u>	<u>1,563,313</u>	<u>689,289</u>	<u>(41,796)</u>	<u>947,514</u>
Net change in plan fiduciary net position								
Plan fiduciary net position, beginning	<u>16,572,618</u>	<u>14,796,073</u>	<u>13,264,365</u>	<u>14,210,015</u>	<u>12,646,702</u>	<u>11,957,413</u>	<u>11,999,209</u>	<u>11,051,695</u>
Plan fiduciary net position, ending	<u>\$ 17,947,499</u>	<u>\$ 16,572,618</u>	<u>\$ 14,796,073</u>	<u>\$ 13,264,365</u>	<u>\$ 14,210,015</u>	<u>\$ 12,646,702</u>	<u>\$ 11,957,413</u>	<u>\$ 11,999,209</u>
Employer net pension liability (asset)	<u>\$ (3,217,150)</u>	<u>\$ (2,038,859)</u>	<u>\$ (262,314)</u>	<u>\$ 684,861</u>	<u>\$ (485,736)</u>	<u>\$ 768,836</u>	<u>\$ 3,148,789</u>	<u>\$ 2,088,682</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	121.8%	114.0%	101.8%	95.1%	103.5%	94.3%	79.2%	85.2%
Covered Employee Payroll	-	-	403,455	545,546	694,398	1,909,529	3,347,364	3,582,831
Employer's Net Pension Liability (Asset) as a Percentage of Covered Employee Payroll	n/a	n/a	-65.0%	125.5%	-70.0%	40.3%	94.1%	58.3%

Notes to Schedule:

Above data is based on measurement date of December 31, which does not tie to the fiscal year.

See notes to required supplementary information

Michigan South Central Power Agency

Schedule of Employer Contributions, Municipal Employees' Retirement System of Michigan
Year Ended June 30, 2022

<u>Fiscal Year Ending</u>	<u>Actuarially Required Contributions*</u>	<u>Contributions in Relation to the Actuarially Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
6/30/2015	\$ 355,363	\$ 704,740	\$ (349,377)	\$ 3,437,851	20%
6/30/2016	356,430	733,197	(376,767)	3,160,330	23%
6/30/2017	373,847	763,138	(389,291)	870,444	88%
6/30/2018	291,139	588,657	(297,518)	592,631	99%
6/30/2019	135,641	415,138	(279,497)	517,539	80%
6/30/2020	50,489	1,012,893	(962,404)	134,690	752%
6/30/2021	50,790	459,226	(408,436)	-	n/a
6/30/2022	42,534	100,008	(57,474)	-	n/a

Notes to Schedule

For the Year Ended June 30, 2022

Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, open
Remaining amortization period	25 years
Asset valuation method	5 year smoothed
Inflation	2.50%
Salary Increases	3.00%
Investment rate of return	7.35%
Retirement age	60
Mortality	MP-2019 applied from the Pub- 2010 base year of 2010 Annuity Mortality Table

Above dates are on measurement date of December 31, which do not tie to the fiscal year.

* Actuarially Determined Contribution is found in the actuarial valuation in Table 5 for the plan year ended December 31 during the fiscal year.

Change in assumptions.

Amounts reported in 2020 reflect an adjustment of inflation to 2.50%, salary increases of 3.0%, an adjustment of investment rate of return to 7.35% and use of the MP-2019 applied fully generationally from the Pub-2010 base year of 2010 mortality tables

For amounts reported in 2015 and later, the expectation of retired life mortality was based on RP-2014 Mortality Tables rather than the 1994 Group Annuity Mortality Table, which was used to determine amounts reported prior to 2015.

Amounts reported in 2015 reflect an adjustment of investment rate of return to more closely reflect actual experience.

For amounts reported in 2016 and later, the asset valuation method used is 5 years rather than the 10 years used to determine amounts reported prior to 2016.