Minnesota Municipal Power Agency

Independent Auditor's Report and Financial Statements

December 31, 2019 and 2018

Minnesota Municipal Power Agency

December 31, 2019 and 2018

Contents

BKD
CPAs & Advisors

1248 "O" Street, Suite 1040 | Lincoln, NE 68508-1461
402.473.7600 | Fax 402.473.7698 | bkd.com

Independent Auditor's Report

Board of Directors
Minnesota Municipal Power Agency
Minneapolis, Minnesota

We have audited the accompanying financial statements of Minnesota Municipal Power Agency (the Agency), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Minnesota Municipal Power Agency as of December 31, 2019, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Year Audited by Other Auditors

The 2018 financial statements were audited by other auditors, and their report thereon, dated April 19, 2019, expressed an unmodified opinion.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, 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.

BKD, LLP

April 23, 2020
Lincoln, Nebraska

Management's Discussion and Analysis

Financial Statements Overview

This discussion and analysis of Minnesota Municipal Power Agency's (the Agency) financial performance provides an overview of the Agency's activities for the fiscal years ended December 31, 2019 and 2018. The information presented should be read in conjunction with the financial statements and the accompanying notes to the financial statements.

The Agency follows the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC). The basic financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. The Agency's basic financial statements include the statements of net position, the statements of revenues, expenses, and changes in net position, the statements of cash flows, and notes to the financial statements.

The statements of net position provide information about the nature and amount of assets and obligations (liabilities) of the Agency as of the end of each year reported. The statements of revenues, expenses, and changes in net position report revenues and expenses. The statements of cash flows report cash receipts, cash payments, and net changes in cash resulting from operating, capital and related financing activities, and investing activities.

Financial Highlights

Comparison of 2019 with 2018

The following table summarizes the financial position of the Agency as of December 31:

Condensed Statements of Net Position

	2019	2018	Dollar Change	Percentage Change
Capital assets, net	$ 294,024,805	$ 307,388,043	$ (13,363,238)	(4.3)%
Current assets	105,557,122	42,906,059	62,651,063	146.0
Other noncurrent assets	70,820,013	108,446,034	(37,626,021)	(34.7)
Total assets	470,401,940	458,740,136	11,661,804	2.5
Deferred outflows of resources	1,416,249	1,853,889	(437,640)	(23.6)
Total assets and deferred outflows	$ 471,818,189	$ 460,594,025	$ 11,224,164	2.4

Condensed Statements of Net Position

	2019	2018	Dollar Change	Percentage Change
Current liabilities	$ 24,201,656	$ 24,930,302	$ (728,646)	(2.9)%
Long-term liabilities	267,299,647	280,287,078	(12,987,431)	(4.6)
Total liabilities	291,501,303	305,217,380	(13,716,077)	(4.5)
Deferred inflows of resources	39,717,570	37,055,849	2,661,721	7.2
Total liabilities and deferred inflows	331,218,873	342,273,229	(11,054,356)	(3.2)
Net position				
Net investment in capital assets	35,515,597	36,428,103	(912,506)	(2.5)
Restricted	6,069,712	6,410,280	(340,568)	(5.3)
Unrestricted	99,014,007	75,482,413	23,531,594	31.2
Total net position	140,599,316	118,320,796	22,278,520	18.8
Total liabilities, deferred inflows, and net position	$ 471,818,189	$ 460,594,025	$ 11,224,164	2.4

Condensed statement of net position highlights are as follows:

- The assets and deferred outflows of resources of the Agency exceeded its liabilities and deferred inflows of resources at the close of 2019 by approximately $140.6 million (net position) as compared with $118.3 million at the end of 2018. Net position provides necessary liquidity to the Agency and supports its investment-grade credit rating.
- Capital assets, net decreased by approximately $13.4 million during 2019, primarily the result of depreciation on capital assets in service.
- Current assets increased by $62.7 million from 2018 to 2019, primarily the result of the movement of $40.4 million in U.S. government agency securities from non-current to current based on their maturity date. Cash and cash equivalents increased by $23.8 million, primarily related to the Agency's change in net position during the year. Power sales and other receivables decreased by $1.8 million because of lower rates to members in December 2019 compared to December 2018.
- Other noncurrent assets, which include restricted cash, cash equivalents, and investments, prepaid expenses, and future recoverable costs, decreased by $37.6 million from 2018 to 2019, primarily the result of the movement of $40.4 million in U.S. government agency securities from non-current investments to current investments based on their maturity date. This was partially offset by a $2.5 million increase in future recoverable costs related to the levelization of depreciation, bond interest, and costs associated with the Agency's generating resources.
- Deferred outflows of resources decreased by $0.4 million from 2018 to 2019, primarily as a result of the Agency's hedging activities.
- Current liabilities decreased by approximately $0.7 million from 2018 to 2019, primarily the result of a $0.7 million decrease of accounts payable and accrued liabilities, a $0.3 million decrease in derivative instruments-futures, and a $0.1 million decrease in accrued interest payable. This was partially offset by a

$0.4 million increase in the current portion of long-term debt and $0.1 million increase in the capital lease liability due within one year.

- Long-term liabilities decreased by approximately $13.0 million from 2018 to 2019, primarily the result of the Agency's principal payments on debt.
- Deferred inflows of resources increased by $2.7 million from 2018 to 2019, primarily the result of net contributions of $1.4 million to the Agency's energy adjustment accrual, and $1.3 million to its plant major maintenance accrual.

Comparison of 2018 with 2017

The following table summarizes the financial position of the Agency as of December 31:

Condensed Statements of Net Position

	2018	2017	Dollar Change	Percentage Change
Capital assets, net	$ 307,388,043	$ 322,002,732	$ (14,614,689)	(4.5)%
Current assets	42,906,059	58,542,681	(15,636,622)	(26.7)
Other noncurrent assets	108,446,034	65,959,102	42,486,932	64.4
Total assets	458,740,136	446,504,515	12,235,621	2.7
Deferred outflows of resources	1,853,889	2,521,079	(667,190)	(26.5)
Total assets and deferred outflows	$ 460,594,025	$ 449,025,594	$ 11,568,431	2.6
Current liabilities	$ 24,930,302	$ 24,585,190	$ 345,112	1.4
Long-term liabilities	280,287,078	293,018,126	(12,731,048)	(4.3)
Total liabilities	305,217,380	317,603,316	(12,385,936)	(3.9)
Deferred inflows of resources	37,055,849	49,033,649	(11,977,800)	(24.4)
Total liabilities and deferred inflows	342,273,229	366,636,965	(24,363,736)	(6.6)
Net position				
Net investment in capital assets	36,428,103	40,397,025	(3,968,922)	(9.8)
Restricted	6,410,280	5,773,252	637,028	11.0
Unrestricted	75,482,413	36,218,352	39,264,061	108.4
Total net position	118,320,796	82,388,629	35,932,167	43.6
Total liabilities, deferred inflows and net position	$ 460,594,025	$ 449,025,594	$ 11,568,431	2.6

Condensed statement of net position highlights are as follows:

- The assets and deferred outflows of resources of the Agency exceeded its liabilities and deferred inflows of resources at the close of 2018 by approximately $118.3 million (net position) as compared with $82.4 million at the end of 2017. Net position provides necessary liquidity to the Agency and supports its investment-grade credit rating.
- Capital assets, net decreased by approximately $14.6 million during 2018, primarily the result of depreciation on capital assets in service.

- Current assets decreased by $15.6 million from 2017 to 2018. Cash and cash equivalents decreased by $19.3 million, primarily resulting from the $40.0 million purchase of U.S. government agency securities, partially offset by the remaining $11.9 million buy-in fee received from Elk River Municipal Utilities (Elk River). Restricted cash and cash equivalents increased by $0.6 million. Power sales and other receivables increased by $2.9 million.
- Other noncurrent assets, which include investments, restricted cash, cash equivalents, and investments, prepaid expenses, and future recoverable costs, increased by approximately $42.5 million from 2017 to 2018, primarily the result of a $40.1 million increase in investments, and a $4.1 million increase in future recoverable costs related to the levelization of depreciation, bond interest, and costs associated with the Agency's generating resources. This was partially offset by a $1.7 million decrease in restricted cash, cash equivalents, and investments related to the expenditure of bond funds on additional construction costs for Shakopee Energy Park.
- Deferred outflows of resources decreased by $0.7 million from 2017 to 2018, primarily as a result of the Agency's hedging activities.
- Current liabilities increased by approximately $0.3 million from 2017 to 2018, primarily the result of a $0.3 million increase of accounts payable and accrued liabilities, and a $0.4 million increase in long-term debt due within one year. This was partially offset by a $0.4 million decrease in derivative instruments-futures, and a $0.1 million decrease in accrued interest payable.
- Long-term liabilities decreased by approximately $12.7 million from 2017 to 2018, primarily the result of the Agency's principal payments on debt.
- Deferred inflows of resources decreased by $12.0 million, primarily the result of the Agency reclassifying the prepaid buy-in fee of $9.4 million received in 2016 from Elk River to a capital contribution in 2018. The Agency also withdrew $1.0 million from its energy adjustment accrual, and $1.6 million from its plant major maintenance accrual in 2018.

The following table summarizes the changes in financial position of the Agency for the years ended December 31, 2019 and 2018:

Condensed Statements of Revenues, Expenses, and Changes in Net Position

	2019	2018	Dollar Change	Percentage Change
Operating revenues, power sales	$ 140,973,294	$ 127,041,512	$ 13,931,782	11.0 %
Other nonoperating revenues	3,616,355	23,020,675	(19,404,320)	(84.3)
Total revenues	144,589,649	150,062,187	(5,472,538)	(3.6)
Operating expenses	113,027,743	105,117,186	7,910,557	7.5
Other nonoperating expenses	11,751,516	13,084,016	(1,332,500)	(10.2)
Total expenses	124,779,259	118,201,202	6,578,057	5.6
Future recoverable costs	2,468,130	4,071,182	(1,603,052)	(39.4)
Change in net position	22,278,520	35,932,167	(13,653,647)	(38.0)
Beginning net position	118,320,796	82,388,629	35,932,167	43.6
Ending net position	$ 140,599,316	$ 118,320,796	$ 22,278,520	18.8

Condensed statements of revenues, expenses, and changes in net position highlights are as follows:

- Operating revenues – power sales increased by approximately $13.9 million between 2019 and 2018, primarily the result of increased energy sales from selling a full year of power to Elk River, but partially offset by lower average rates in 2019. Operating revenues – power sales consist primarily of member power sales revenue, power sales to nonmembers, and transmission revenue.
- Other nonoperating revenues decreased by approximately $19.4 million between 2019 and 2018, primarily related to recognition of the $21.3 million capital contribution from Elk River in 2018 that did not reoccur in 2019. This was partially offset by additional investment income of $0.9 million earned on cash and cash equivalents as well as the Agency's investments.
- Operating expenses increased by approximately $7.9 million between 2019 and 2018, primarily the result of a $4.2 million increase in transmission expense, a $3.4 million increase in power acquisition expense, and a $0.3 million increase in other operating expenses. These increases are primarily attributable to the Agency providing a full year of power to Elk River.
- Other nonoperating expenses decreased by approximately $1.3 million between 2019 and 2018, primarily related to a $0.5 million decrease in interest expense, and a loss of $0.7 million on the disposition of property related to the discontinuation of development activities on potential generation projects recognized in 2018 that did not reoccur in 2019.
- Future recoverable costs decreased by approximately $1.6 million between 2019 and 2018, primarily the result of the application of the Agency's policy regarding the levelization of costs for generating assets financed by debt and the application of the Agency's policy of not recognizing the change in value of investments for ratemaking purposes.

The following table summarizes the changes in financial position of the Agency for the years ended December 31, 2018 and 2017:

Condensed Statements of Revenues, Expenses, and Changes in Net Position

	2018	2017	Dollar Change	Percentage Change
Operating revenues, power sales	$ 127,041,512	$ 113,084,961	$ 13,956,551	12.3 %
Other nonoperating revenues	23,020,675	1,288,932	21,731,743	1,686.0
Total revenues	150,062,187	114,373,893	35,688,294	31.2
Operating expenses	105,117,186	91,850,473	13,266,713	14.4
Other nonoperating expenses	13,084,016	14,114,044	(1,030,028)	(7.3)
Total expenses	118,201,202	105,964,517	12,236,685	11.5
Future recoverable costs	4,071,182	4,183,724	(112,542)	(2.7)
Change in net position	35,932,167	12,593,100	23,339,067	185.3
Beginning net position	82,388,629	69,795,529	12,593,100	18.0
Ending net position	$ 118,320,796	$ 82,388,629	$ 35,932,167	43.6

Condensed statements of revenues, expenses, and changes in net position highlights are as follows:

- Operating revenues – power sales increased by approximately $14.0 million between 2018 and 2017, primarily the result of increased energy sales to members and higher average rates in 2018. The Agency began selling power to its newest member, Elk River, on October 1, 2018. Operating revenues – power sales consist primarily of member power sales revenue, power sales to nonmembers, and transmission revenue.
- Other nonoperating revenues increased by approximately $21.7 million between 2018 and 2017 primarily related to recognition of the $21.3 million capital contribution from Elk River. Additional investment income was also earned on cash and cash equivalents as well as the Agency's investments.
- Operating expenses increased by approximately $13.3 million between 2018 and 2017, primarily the result of an $8.0 million increase in power acquisition expense, and a $3.6 million increase in other operating expenses. Transmission expense also increased by $1.2 million. These increases are primarily attributable to the Agency beginning to provide power to Elk River beginning on October 1, 2018. Depreciation expense increased by $0.5 million.
- Other nonoperating expenses decreased by approximately $1.0 million between 2018 and 2017, primarily related to a $0.8 million decrease in interest expense, and a $0.2 million decrease in losses on the disposition of property related to the discontinuation of development activities on potential generation projects.
- Future recoverable costs decreased by approximately $0.1 million between 2018 and 2017, primarily the result of the application of the Agency's policy regarding the levelization of costs for generating assets financed by debt and the application of the Agency's policy of not recognizing the change in value of investments for ratemaking purposes.

Debt Administration

As of December 31, 2019, the Agency had long-term debt outstanding of approximately $242.2 million.

The Agency continued to hold an A1 rating from Moody's and an A+ rating from Fitch in 2019.

Contact Information

This financial report is designed to provide a general overview of the Agency's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Avant Energy, Inc., 220 South Sixth Street, Suite 1300, Minneapolis, Minnesota 55402.

Minnesota Municipal Power Agency

Statements of Net Position

December 31, 2019 and 2018

Assets and Deferred Outflows of Resources	2019	2018
Current Assets		
Cash and cash equivalents	$ 42,120,439	$ 18,275,439
Restricted cash and cash equivalents	6,069,712	6,410,280
Investments	40,357,472	-
Accrued interest receivable	333,596	376,324
Power sales and other receivables	10,929,332	12,686,551
Fuel inventory	1,237,292	923,542
Plant inventory – spares	3,167,381	2,943,430
Prepaid expenses	1,341,898	1,290,493
Total current assets	105,557,122	42,906,059
Noncurrent Assets		
Capital assets		
Electric generation assets	428,166,676	427,297,380
Land	7,091,719	7,066,719
Less: accumulated depreciation	(142,181,105)	(127,715,278)
Property and equipment, net	293,077,290	306,648,821
Construction in progress	947,515	739,222
Total capital assets, net	294,024,805	307,388,043
Investments	-	40,150,569
Restricted cash, cash equivalents, and investments	18,728,441	18,635,242
Prepaid expenses	511,223	548,004
Future recoverable costs	51,580,349	49,112,219
Total noncurrent assets	364,844,818	415,834,077
Total assets	470,401,940	458,740,136
Deferred Outflows of Resources		
Deferred outflows of resources – other	1,416,249	1,853,889
Total assets and deferred outflows of resources	$ 471,818,189	$ 460,594,025
Liabilities, Deferred Inflows of Resources and Net Position		
Current Liabilities		
Accounts payable and accrued liabilities	$ 9,333,097	$ 10,069,872
Accrued interest payable	2,853,782	2,954,655
Long-term debt due within one year	10,763,333	10,368,333
Capital lease liability due within one year	1,091,514	1,030,022
Derivative instruments – futures	159,930	507,420
Total current liabilities	24,201,656	24,930,302
Noncurrent Liabilities		
Long-term debt, net	251,399,917	263,295,833
Capital lease liability, net	15,899,730	16,991,245
Total noncurrent liabilities	267,299,647	280,287,078
Total liabilities	291,501,303	305,217,380
Deferred Inflows of Resources		
Rate stabilization	33,071,000	33,071,000
Other	6,646,570	3,984,849
Total liabilities and deferred inflows of resources	331,218,873	342,273,229
Net Position		
Net investment in capital assets	35,515,597	36,428,103
Restricted for debt service	6,069,712	6,410,280
Unrestricted	99,014,007	75,482,413
Total net position	140,599,316	118,320,796
Total liabilities, deferred inflows of resources and net position	$ 471,818,189	$ 460,594,025

Minnesota Municipal Power Agency

Statements of Revenues, Expenses and Changes in Net Position

Years Ended December 31, 2019 and 2018

	2019	2018
Operating Revenues		
Power sales to members	$ 139,626,526	$ 125,589,822
Power sales to nonmembers	1,346,768	1,451,690
Total operating revenues	140,973,294	127,041,512
Operating Expenses		
Power acquisition expense	47,529,466	44,119,693
Transmission	23,144,495	18,981,200
Other operating expenses	27,887,955	27,605,846
Depreciation	14,465,827	14,410,447
Total operating expenses	113,027,743	105,117,186
Operating income	27,945,551	21,924,326
Nonoperating Revenues (Expenses)		
Interest expense	(11,694,806)	(12,188,963)
Investment income	2,602,724	1,698,778
Loss on disposition of property	-	(660,452)
Loss on bond investment redemption	(56,710)	(41,745)
Net (decrease) increase in fair value of investments	947,106	(192,856)
Capital contribution from new member	-	21,321,897
Other	66,525	-
Total nonoperating revenues (expenses), net	(8,135,161)	9,936,659
Change in net position before future recoverable costs	19,810,390	31,860,985
Future Recoverable Costs	2,468,130	4,071,182
Change in net position	22,278,520	35,932,167
Net Position, Beginning of Year	118,320,796	82,388,629
Net Position, End of Year	$ 140,599,316	$ 118,320,796

Minnesota Municipal Power Agency

Statements of Cash Flows

Years Ended December 31, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Receipts from power sales	$ 141,970,119	$ 125,014,511
Payments for power acquisition/production and operating expenses	(97,138,657)	(91,805,119)
Net cash provided by operating activities	44,831,462	33,209,392
Cash Flows from Capital and Related Financing Activities		
Construction of capital assets	(1,424,094)	(2,339,530)
Remittance of deposits held by others for capital projects	1,097,786	-
Principal payments on electric revenue bonds	(10,368,333)	(9,923,333)
Principal payments on capital lease	(1,030,023)	(971,994)
Payment of interest	(12,838,112)	(13,342,862)
Payment received for prepaid new member buy-in fee	-	11,928,103
Net cash used in capital and related financing activities	(24,562,776)	(14,649,616)
Cash Flows from Investing Activities		
Proceeds from sales of investments	15,025,636	11,940,337
Purchase of investments	(15,422,636)	(51,636,937)
Interest received	2,645,452	1,479,237
Net cash provided by (used in) investing activities	2,248,452	(38,217,363)
Net change in cash and cash equivalents	22,517,138	(19,657,587)
Cash and cash equivalents, beginning of year	25,840,479	45,498,066
Cash and cash equivalents, end of year	$ 48,357,617	$ 25,840,479
Composition of Cash and Cash Equivalents		
Cash and cash equivalents	$ 42,120,439	$ 18,275,439
Restricted cash and cash equivalents	6,237,178	7,565,040
Cash and cash equivalents, end of year	$ 48,357,617	$ 25,840,479
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Cash flows from operating activities		
Operating income	$ 27,945,551	$ 21,924,326
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	14,465,827	14,410,447
Change in deferred inflows of resources – other	2,661,721	(2,584,006)
Changes in current assets and liabilities		
Power sales and other receivables	996,825	(1,793,489)
Fuel inventory	(313,750)	449,820
Plant inventory – spares	(223,951)	(310,862)
Prepaid expenses	(14,624)	(2,858)
Accounts payable and accrued liabilities	(686,137)	1,116,014
Total adjustments	16,885,911	11,285,066
Net cash provided by operating activities	$ 44,831,462	$ 33,209,392
Supplemental Cash Flows Information		
Amortization of premium on electric revenue bonds	$ 1,132,583	$ 1,132,583
Capital assets in accounts payable and accrued liabilities	147,659	125,961
Capital assets in retainage payable	-	72,339
Change in fair value of investments	947,106	(192,856)

Minnesota Municipal Power Agency

Notes to Financial Statements

December 31, 2019 and 2018

Note 1: Organization and Significant Accounting Policies

Organization and Operation

Minnesota Municipal Power Agency (the Agency) was created as a municipal corporation and a political subdivision of the State of Minnesota by an agency agreement recorded with the Secretary of the State of Minnesota on May 11, 1992. The Agency's purpose is to secure an adequate, economical, and reliable supply of electric energy for its member municipalities. As of December 31, 2019, the Agency comprises 12 Minnesota municipalities. In 2013, the City of Elk River, by and through the Elk River Utilities Commission, joined the Agency, becoming its 12th member. Elk River began purchasing all of its power and energy needs from the Agency on October 1, 2018.

The accompanying financial statements present the Agency and its component units, entities for which the Agency is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the Agency's operations.

Blended Component Units: The Agency owns 100% of Minnesota Renewable Energy, LLC. Minnesota Renewable Energy, LLC owns 100% of Oak Glen Wind Farm, LLC and 100% of Hometown BioEnergy, LLC. Oak Glen Wind Farm, LLC is responsible for the operation of Oak Glen Wind Farm, a 44 megawatt (MW) wind project located in Steele County, Minnesota. Hometown BioEnergy, LLC is responsible for the operation of the Hometown BioEnergy project, an 8 MW renewable energy project located in Le Sueur, Minnesota. The Agency owns 100% of Hometown GeoPower, LLC. Hometown GeoPower, LLC provides services to residents of the Agency's member municipalities. The Agency owns 100% of MMPA Transmission LLC. MMPA Transmission LLC holds the Agency's transmission-related assets. Complete unaudited financial statements for each of the individual component units may be obtained from the Agency. Separate audited financial statements for MMPA Transmission LLC may also be obtained from the Agency.

The Agency sells power to its members under long-term power sales contracts. Ten of the Agency's power sales contracts with members have a term that expires December 31, 2050. Two of the Agency's power sales contracts with members have a term that expires October 31, 2040. Under the terms of these contracts, the Agency is obligated to furnish, and each member is obligated to take and pay for, the total power and energy required by each member.

The Agency has entered into agreements with various providers to purchase accredited power and energy during 2019. The power capacity charge for 2019 is approximately $1.7 million. Capacity commitments and charges include 41 MW of capacity purchased pursuant to an agreement with the City of Chaska, a member of the Agency. Under the terms of that agreement and its amendment, the Agency has agreed to make certain payments to the City of Chaska in exchange for the peaking power capacity provided by specified generation facilities owned by the City of Chaska in an amount at least sufficient, together with certain available interest income, to pay the principal of and interest on the bonded indebtedness issued by the City of Chaska for the construction of the generation facility.

Note 1: Organization and Significant Accounting Policies - Continued

Organization and Operation -Continued

Minimum commitments under the terms of the power sales agreements to purchase power capacity for the next five years are as follows:

	Megawatts
Year ending December 31:	
2020	106
2021	111
2022	116
2023	121
2024	121

The Agency purchases transmission services from the Midcontinent Independent System Operator (MISO) at tariff-based rates.

The Agency enters into contracts in connection with the purchase, generation, and sale of electric power to or from its member cities, MISO, and other wholesale market participants. A substantial portion of these contracts are for the purchase of natural gas at power plants owned and operated by the Agency and for the physical delivery of power to designated interconnection points on the electric grid as a normal course of business. Substantially all of the Agency's power purchases and sales are with MISO. The Agency also enters into futures or forward contracts to manage exposure to unfavorable trends in the prices of fuel (natural gas) and electric power, which are directly related to the business of the Agency. Open positions at the end of the year are carried at fair value in the Agency's financial statements with an offsetting deferral amount to reflect the effectiveness of the hedge.

Additionally, the Agency has agreements for dispatching, billing, maintenance services, and other general administration. The Agency has a contract with Avant Energy, Inc. to manage the Agency, which terminates on December 31, 2026. The Agency has no employees.

Basis of Accounting

The Agency follows the FERC's Uniform System of Accounts and maintains accounting records on an accrual basis in conformity with U.S. generally accepted accounting principles, including the application of Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, as the guidance relates to Regulated Operations. The guidance allows for the deferral of revenues and expenses to future periods in which the revenues are earned or the expenses are recovered through the rate-making process.

Capital Assets

Capital assets are recorded at cost, including capitalized interest on borrowed funds during construction. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. The Agency did not capitalize any interest costs in 2019 or 2018.

Note 1: Organization and Significant Accounting Policies - Continued

Capital Assets - Continued

The Agency follows a preventative and predictive approach to its maintenance of the Faribault Energy Park (FEP) facility. In doing so, it inspects the combustion turbine and steam turbine and performs major maintenance at intervals suggested by the turbine manufacturers. Periodically, one set of combustion parts is removed from the turbine and a replacement set is rotated into the turbine. The parts that have been removed are refurbished and are then ready to be rotated back into the turbine at the next major maintenance cycle. The Agency is depreciating the cost of the combustion turbine spare parts over the remaining life of the FEP asset. The amount on the statements of net position is the gross acquisition cost, with depreciation associated with the parts included in accumulated depreciation.

Equipment is recorded at cost and consists of telecommunication equipment, transportation equipment, and certain maintenance/testing equipment. Depreciation is provided over the estimated useful lives of the property and equipment by use of the straight-line method. Generally, the estimated useful life is 30 years for electric plant, 40 years for transmission assets, and 5 years for telecommunications equipment and transportation equipment. Other specialized equipment may differ.

Restricted Cash, Cash Equivalents, and Investments

The Agency's bond resolution requires the segregation of bond proceeds and prescribes the application of the Agency's revenues. Amounts classified as restricted cash and cash equivalents on the statements of net position represent cash and cash equivalents whose use is restricted by the bond resolution. It is the Agency's policy to use restricted resources first for debt service and then unrestricted resources as they are needed.

Investments

Investments are reported at fair value based on quoted market prices.

Regulated Operations

Future Recoverable Costs

Rates charged to members include amounts sufficient to pay levelized principal and interest payments on long-term debt. For financial reporting purposes, the Agency recognizes depreciation and amortization pertaining to capital assets and other assets financed by long-term debt in addition to interest paid on such debt. As permitted by the application of the regulated operations provisions of GASB Statement No. 62, the Agency defers the current depreciation, amortization, and interest costs in excess of levelized principal and interest costs on long-term debt for assets placed into service prior to September 24, 2013 and after December 15, 2015. These costs will be recovered through rates charged to members in future periods when the levelized costs of principal and interest on long-term debt exceed the then current depreciation and interest costs related to such issues.

Note 1: Organization and Significant Accounting Policies - Continued

Regulated Operations - Continued

Future Recoverable Costs - Continued

For financial reporting purposes, the Agency also reports investments and restricted investments at fair value. As permitted by the application of the provisions of GASB Statement No. 62, the Agency defers changes in the fair value of investments and restricted investments that the Agency intends to hold to maturity.

Deferred Inflows of Resources – Rate Stabilization

In setting rates, the Agency has from time to time deferred revenues from a current period to a future period to support the Agency's goal of providing stable long-term rates to members. These deferred revenues are reported as deferred inflows of resources – rate stabilization on the Agency's statements of net position.

Deferred Inflows of Resources – Other

Deferred inflows of resources – other includes the amount accrued by the Agency for future major maintenance of its combustion turbine and steam turbine generation resources. As permitted by the application of the provisions of GASB Statement No. 62, the Agency recognizes major maintenance expense for combustion turbine and steam turbine generation resources both on a per-start basis and over time. These expenses are accrued as a deferred inflow of resources. The accrued amount is reduced when the Agency performs major maintenance on its combustion turbine and steam turbine generation resources.

Deferred inflows of resources – other also includes the amount accrued by the Agency related to the operation of its Energy Adjustment Clause.

On July 18, 2016, the Agency received cash from its newest member, the City of Elk River, in the amount of $9.4 million. These funds represent a prepaid buy-in fee as outlined in the new member agreement between the City of Elk River and the Agency. The agreement includes a contingent obligation of the Agency to provide electricity services on and after October 1, 2018 to the City of Elk River. The Agency classified the receipt of funds as a deferred inflow of resources on the statements of net position. In 2018, the Agency received $11.9 million in cash for the remaining buy-in fee and began providing electricity services on October 1, 2018. The total buy-in fee of $21.3 million was recognized as a capital contribution on the statement of revenues, expenses, and changes in net position in 2018.

Unamortized Debt Premium

The Agency's debt premium is amortized over the repayment period of the related issues using the straight-line method, which approximates the effective-interest method.

Note 1: Organization and Significant Accounting Policies - Continued

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash equivalents are cash and equivalents and investments having an initial maturity of three months or less when purchased.

Power Sales Receivables

Power sales receivables represent power sales for the period between the last billing date and the end of the period that are accrued in the period earned.

Fuel Inventory and Plant Inventory – Spares

Fuel inventory and plant inventory – spares are valued on a cost basis, using the first-in, first-out (FIFO) method, which does not exceed market.

Deferred Outflows of Resources

Deferred outflows of resources include the unamortized difference between reacquisition price and net carrying amount related to the Agency's bond refunding activities. The deferred outflows of resources related to the bond refunding activities will be amortized through 2034. Deferred outflows of resources also include the offsetting deferral amount to reflect the effectiveness of the Agency's hedging derivative instruments.

Derivative Instruments – Futures

The Agency engages in certain futures market activities to hedge future power acquisition costs. The fair value of the derivative instruments is reported on the statements of net position as either an asset or liability, depending on the fair value of such instruments.

Rates

Rates and charges for providing wholesale power supply are reviewed and adopted by the Agency's board of directors. Power supply services provided by the Agency are not subject to state or federal rate regulation.

Revenue Recognition

The Agency recognizes revenue on sales when the electricity is provided to and used by the customers. The Agency reports only the net amount of operating revenues – power sales and power purchases expense resulting from its transactions with MISO as revenue.

Note 1: Organization and Significant Accounting Policies - Continued

Operating Revenues and Expenses

Operating revenues result from exchange transactions associated with the principal activity of the Agency, the sale of electricity. Reported operating revenues are affected by contributions to or distributions from the rate stabilization account. Operating expenses are defined as expenses directly related to, or incurred in support of, the production and transmission of electricity to the participating members. All other expenses are classified as nonoperating expenses.

Income Taxes

The Agency is exempt from federal and state income taxes as it is a political subdivision of the State of Minnesota.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications and Revisions

Certain reclassifications have been made to the 2018 financial statements to conform to the 2019 financial statement presentation. These reclassifications had no effect on the change in net position.

During 2019, the Agency revised the presentation of net position reported at December 31, 2018 as follows:

	As Previously Reported	Revision	As Revised
Net investment in capital assets	$ 41,273,532	$ (4,845,429)	$ 36,428,103
Restricted	6,410,280	-	6,410,280
Unrestricted	70,636,984	4,845,429	75,482,413
Total net position	$ 118,320,796	$ -	$ 118,320,796

Note 2: Cash, Cash Equivalents, and Investments

The agency agreement that established the Agency and the bond resolution, under which the Electric Revenue Bonds were issued, provides for the creation and maintenance of certain funds and accounts. The funds and accounts consist principally of deposits and investments in accordance with the agency agreement, bond resolution, and applicable state law. Funds and accounts are reported in the financial statements as follows:

	December 31	
	2019	2018
Current assets:		
Cash and cash equivalents	$ 42,120,439	$ 18,275,439
Restricted cash and cash equivalents	6,069,712	6,410,280
Investments	40,357,472	-
	88,547,623	24,685,719
Noncurrent assets:		
Investments	-	40,150,569
Restricted cash and cash equivalents	167,466	1,154,760
Restricted investments	18,560,975	17,480,482
	18,728,441	58,785,811
Total	$ 107,276,064	$ 83,471,530

At December 31, 2019 and 2018, all deposits for the Agency were insured or collateralized by securities held by the Agency's agent in the Agency's name.

In accordance with its investment policy, the Agency invests in the following types of investments, subject to the limitations and requirements of Minnesota statutes:

- Interest bearing checking accounts
- U.S. Treasury bills, bonds, and notes
- U.S. government agencies and instrumentalities securities
- State and local securities
- Minnesota Joint Powers Investment Trusts
- Certificates of deposit
- Banker's acceptances of U.S. banks eligible for purchase by the Federal Reserve System
- Commercial paper issued by U.S. corporations or their Canadian subsidiaries, of the highest quality and maturing within 270 days
- Money market mutual funds – open-end, no-load
- Guaranteed investment contracts
- Repurchase agreements fully (100%) collateralized by U.S. securities

Note 2: Cash, Cash Equivalents, and Investments - Continued

Interest Rate Risk

Interest rate risk is the risk that the fair value of investments will be adversely affected by a change in interest rates.

The Agency had the following investments and maturities as of December 31, 2019 and 2018:

		Maturities in Years			
	Carrying Value	Less Than 1	1 - 5	6 - 10	More Than 10
December 31, 2019					
U.S. government agencies	$ 56,136,447	$ 46,278,171	$ 2,112,748	$ -	$ 7,745,528
Negotiable certificates of deposit	2,782,000	-	2,782,000	-	-
Money market accounts	48,357,617	48,357,617	-	-	-
	$ 107,276,064	$ 94,635,788	$ 4,894,748	$ -	$ 7,745,528
December 31, 2018					
U.S. government agencies	$ 55,240,260	$ 5,908,158	$ 42,211,802	$ -	$ 7,120,300
State and local bonds	2,390,791	-	2,390,791	-	-
Money market accounts	25,840,479	25,840,479	-	-	-
	$ 83,471,530	$ 31,748,637	$ 44,602,593	$ -	$ 7,120,300

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit risk is measured using credit quality ratings of investments in debt securities as described by nationally recognized rating agencies such as Standard & Poor's and Moody's. The certificates of deposit are FDIC insured. The money market accounts are invested in short-term U.S. government securities and commercial paper.

The following tables list the credit quality ratings per Standard & Poor's and/or Moody's of the Agency's investments as of December 31, 2019 and 2018:

	December 31, 2019			
		Quality ratings		
	Carrying Value	AA	AAA	Unrated
Investment type:				
U.S. government agencies	$ 56,136,447	$ 50,215,747	$ -	$ 5,920,700
Certificates of deposit	2,782,000	-	-	2,782,000
Money market accounts	48,357,617	-	6,236,321	42,121,296
Total	$ 107,276,064	$ 50,215,747	$ 6,236,321	$ 50,823,996

Note 2: Cash, Cash Equivalents, and Investments - Continued

Credit Risk - Continued

	December 31, 2018			
		Quality ratings		
	Carrying Value	AA	AAA	Unrated
Investment type:				
U.S. government agencies	$ 55,240,260	$ 55,240,260	$ -	$ -
State and local bonds	2,390,791	2,390,791	-	-
Money market accounts	25,840,479	-	7,565,040	18,275,439
Total	$ 83,471,530	$ 57,631,051	$ 7,565,040	$ 18,275,439

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of a counterparty, the Agency will not be able to recover the value of the investments, collateral securities, or deposits that are in the possession of the counterparty. The Agency's investment policy addresses, among other things, custodial credit risk. At December 31, 2019 and 2018, all of the Agency's investments are insured and registered and are held by the counterparty's trust department or agent in the Agency's name.

Concentration of Credit Risk

Concentration of credit risk is the risk associated with the amount of investments the Agency has with any one issuer that exceeds 5% or more of its total investments. Investments issued or explicitly guaranteed by the U.S. Government are excluded from this requirement. The Agency does not have an investment policy related to investing 5% or more of the Agency's portfolio in the securities of a single issue. At December 31, 2019 and 2018, the Agency had the following investment concentrations:

	Portfolio Composition December 31,	
	2019	2018
Federal Farm Credit Bank	44.8%	56.6%
Federal Home Loan Mortgage Corporation	5.5%	7.1%

Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Note 2: Cash, Cash Equivalents, and Investments - Continued

Disclosures About Fair Value of Assets and Liabilities - Continued

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

The Agency's investment in money market accounts are carried at cost and thus are not included within the fair value hierarchy.

The Agency had the following recurring fair value measurements for the years ended December 31, 2019 and 2018:

December 31, 2019 Investments by Fair Value Level	Fair Value	Fair Value Measurements Using Level 1	Level 2	Level 3
U.S. government agencies	$ 56,136,447	$ -	$ 56,136,447	$ -
Negotiable certificates of deposit	2,782,000	-	2,782,000	-
Total investments by fair value level	$ 58,918,447	$ -	$ 58,918,447	$ -
Fair value of derivative instruments – futures	$ (159,930)	$ -	$ (159,930)	$ -

December 31, 2018 Investments by Fair Value Level	Fair Value	Fair Value Measurements Using Level 1	Level 2	Level 3
U.S. government agencies	$ 55,240,260	$ -	$ 55,240,260	$ -
State and local bonds	2,390,791	-	2,390,791	-
Total investments by fair value level	$ 57,631,051	$ -	$ 57,631,051	$ -
Fair value of derivative instruments – futures	$ (507,420)	$ -	$ (507,420)	$ -

Securities classified in Level 2 are valued using the following approaches:

- U.S. Government Agencies: quoted prices for identical securities in markets that are not active;
- State and Local Municipal Bonds: quoted prices for similar securities in active markets;
- Negotiable Certificates of Deposit: matrix pricing based on the securities' relationship to benchmark quoted prices.

Minnesota Municipal Power Agency

Notes to Financial Statements

December 31, 2019 and 2018

Note 3: Capital Assets

Capital assets activity was as follows:

	2019			
	Beginning Balance	Additions	Retirements/ Transfers	Ending Balance
Nondepreciable capital assets:				
Construction work in progress	$ 739,222	$ 1,531,421	$ (1,323,128)	$ 947,515
Land	7,066,719	25,000	-	7,091,719
Depreciable capital assets:				
Telemetering and telecommunication	1,331,919	-	-	1,331,919
Capital lease asset	29,080,531	-	-	29,080,531
Electric plant	387,040,725	869,296	-	387,910,021
Rotable combustion turbine parts	9,844,205	-	-	9,844,205
Less accumulated depreciation for assets in service	(127,715,278)	(14,465,827)	-	(142,181,105)
Capital assets, net	$ 307,388,043	$ (12,040,110)	$ (1,323,128)	$ 294,024,805

	2018			
	Beginning Balance	Additions	Retirements/ Transfers	Ending Balance
Nondepreciable capital assets:				
Construction work in progress	$ 3,235,409	$ 2,275,871	$ (4,772,058)	$ 739,222
Land	7,066,719	-	-	7,066,719
Depreciable capital assets:				
Telemetering and telecommunication	1,216,527	115,392	-	1,331,919
Capital lease asset	29,080,531	-	-	29,080,531
Electric plant	384,864,171	2,176,554	-	387,040,725
Rotable combustion turbine parts	9,844,205	-	-	9,844,205
Less accumulated depreciation for assets in service	(113,304,830)	(14,410,448)	-	(127,715,278)
Capital assets, net	$ 322,002,732	$ (9,842,631)	$ (4,772,058)	$ 307,388,043

Note 4: Long-Term Debt

The Agency has issued the following Electric Revenue Bonds to finance its construction activities:

	2019	2018
Series 2009A, 1.40%, due October 1, 2009 to 2023	$ 1,333,334	$ 1,666,667
Series 2010A, 3.00%–5.25%, due October 1, 2011 to 2035	67,810,000	70,540,000
Series 2013, 3.00%–5.00%, due October 1, 2014 to 2023	8,170,000	9,980,000
Series 2014, 2.00%–5.00%, due October 1, 2015 to 2044	38,695,000	40,385,000
Series 2014A, 3.50%–5.00%, due October 1, 2016 to 2035	65,040,000	67,770,000
Series 2016, 2.13%–5.00%, due October 1, 2018 to 2047	61,195,000	62,270,000
Total bonds outstanding	242,243,334	252,611,667
Less current maturities	(10,763,333)	(10,368,333)
Add unamortized premium	19,919,916	21,052,499
	$ 251,399,917	$ 263,295,833

Debt service requirements on the outstanding bonds are as follows:

Year	Principal	Interest	Total
2020	$ 10,763,333	$ 11,411,698	$ 22,175,031
2021	11,273,333	10,902,731	22,176,064
2022	11,768,333	10,398,815	22,167,148
2023	12,298,333	9,861,998	22,160,331
2024	10,235,000	9,291,631	19,526,631
2025–2029	59,140,000	38,525,231	97,665,231
2030–2034	74,555,000	23,103,788	97,658,788
2035–2039	24,960,000	8,769,113	33,729,113
2040–2044	16,500,000	5,099,750	21,599,750
2045–2049	10,750,002	1,092,500	11,842,502
	$ 242,243,334	$ 128,457,255	$ 370,700,589

Note 4: Long-Term Debt - Continued

The Agency has an agreement with the City of Chaska to purchase capacity, described more fully in Note 1. The agreement is without collateral. A portion of the payments under this agreement are accounted for as a capital lease. Future minimum payments under the agreement are as follows:

Year	Principal	Interest	Executory Costs	Payment
2020	$ 1,091,514	$ 958,861	$ 435,808	$ 2,486,183
2021	1,156,678	893,698	435,808	2,486,184
2022	1,225,731	824,644	435,808	2,486,183
2023	1,298,907	751,468	435,808	2,486,183
2024	1,376,452	673,923	435,808	2,486,183
2025–2029	8,217,489	2,034,388	2,179,042	12,430,919
2030–2034	2,624,473	109,363	632,708	3,366,544
	$ 16,991,244	$ 6,246,345	$ 4,990,790	$ 28,228,379

Long-term liability activity for the years ended December 31, 2019 and 2018 was as follows:

Long-term Liabilities as of December 31, 2019	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-term bonds:	$ 252,611,667	$ -	$ (10,368,333)	$ 242,243,334	$ 10,763,333
Add unamortized premium	21,052,499	-	(1,132,583)	19,919,916	-
Long-term bonds, net	273,664,166	-	(11,500,916)	262,163,250	10,763,333
Capital lease liability	18,021,267	-	(1,030,023)	16,991,244	1,091,514
Total long-term debt	$ 291,685,433	$ -	$ (12,530,939)	$ 279,154,494	$ 11,854,847

Long-term Liabilities as of December 31, 2018	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-term bonds:	$ 262,535,000	$ -	$ (9,923,333)	$ 252,611,667	$ 10,368,333
Add unamortized premium	22,185,082	-	(1,132,583)	21,052,499	-
Long-term bonds, net	284,720,082	-	(11,055,916)	273,664,166	10,368,333
Capital lease liability	18,993,261	-	(971,994)	18,021,267	1,030,022
Total long-term debt	$ 303,713,343	$ -	$ (12,027,910)	$ 291,685,433	$ 11,398,355

Note 5: Power Acquisition Expense

Power acquisition expense consists primarily of power purchases, production fuel, and related expenses. The Agency sells substantially all of the power and energy produced by its generating facilities into the MISO market and purchases substantially all of its power and energy needs for sales to members and others from the MISO market. The Agency reports its purchases from and sales to MISO on a net basis. The components of power acquisition expense are as follows:

	2019	2018
Power purchases	$ 32,140,181	$ 26,803,086
Production fuel	15,389,285	17,316,607
Total power acquistion expense	$ 47,529,466	$ 44,119,693

Note 6: Credit Facilities

The Agency entered into a $20.0 million credit facility on May 1, 2016. The commitment fee is 0.50% per annum; interest on outstanding balances is tied to LIBOR. The facility was renewed on May 1, 2019 and expires on May 6, 2022, and is secured by a pledge of the net revenues of the Agency. There were no amounts outstanding as of December 31, 2019 or 2018.

Note 7: Risk Management

The Agency is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters.

The Agency participates in a public entity risk pool related to public officials' liability. The Agency has a $60,000 deductible per occurrence, with a $200,000 annual maximum deductible for its liability coverage. The Agency also purchases municipal automobile coverage from the same public entity risk pool with a $1,000 deductible per occurrence.

The public entity risk pool has purchased a reinsurance policy to guard against excessive losses.

The Agency also carries commercial insurance for its risks of property loss, business interruption, and general liability. The Agency's property loss has varying deductibles based on the equipment insured that range from $250,000 to $1,500,000. The Agency's business interruption insurance has a 60 day deductible.

The Agency also has an umbrella policy related to its municipal automobile insurance and general liability insurance.

Settled claims have not exceeded insurance coverage in any of the past three years for any of the Agency's insurance policies.

Note 8: Contingencies

The Agency is a party to various contracts for the sale, purchase, and transmission of power. In the ordinary course of business, contractual disputes sometimes occur between the Agency and its counterparties. The Agency does not expect the outcome of any existing dispute resolution proceedings to have a material adverse impact on financial position, results of operations, or cash flows.

The Agency is a market participant in the MISO "Day 2" electricity markets. MISO does not provide final settlement results for a trading day until 105 days after a trading day. The financial statements reflect the Agency's best estimates of final settlement results since the commencement of "Day 2" electricity markets on April 1, 2005.

Note 9: Concentrations

Major Customers

Sales to four customers were approximately 76% of total operating revenues for the year ended December 31, 2019 and sales to three customers were approximately 58% of total operating revenues for the year ended December 31, 2018. Approximately 73% and 68% of total accounts receivable were owed from four customers at December 31, 2019 and 2018, respectively.

Note 10: Subsequent Events

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which may negatively affect the financial position, results of operations and cash flows of the Agency. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.