

# **Minnesota Municipal Power Agency**

## **Independent Auditor's Report and Financial Statements**

**December 31, 2022 and 2021**



# Minnesota Municipal Power Agency

## December 31, 2022 and 2021

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## Independent Auditor's Report

Board of Directors  
Minnesota Municipal Power Agency  
Minneapolis, Minnesota

### ***Opinion***

We have audited the financial statements of Minnesota Municipal Power Agency (the Agency), as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

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

### ***Basis for Opinion***

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

### ***Emphasis of Matter***

As discussed in Note 1 to the financial statements, during the year ended December 31, 2022, the Agency adopted Governmental Accounting Standards Board Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

### ***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 Agency's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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 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 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 management's discussion and analysis 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 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 GAAS, 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.

**FORVIS, LLP**

Lincoln, Nebraska  
April 19, 2023

## Management's Discussion and Analysis

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, 2022 and 2021. The information presented should be read in conjunction with the basic financial statements and the accompanying notes to the basic financial statements.

Minnesota Municipal Power Agency is a municipal corporation and a political subdivision of the State of Minnesota whose purpose is to secure an adequate, economical, and reliable supply of electric energy for its member municipalities. The Agency currently comprises 12 Minnesota municipalities.

### Financial Statements Overview

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 basic financial statements.

The statements of net position provide information about the nature and amount of assets and deferred outflows of resources, and obligations (liabilities) and deferred inflows of resources 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, noncapital financing, capital and related financing activities, and investing activities.

### Financial Highlights

#### *Comparison of 2022 with 2021*

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

<b>Condensed Statements of Net Position</b>				
	<b>2022</b>	<b>2021</b>	<b>Dollar</b>	<b>Percentage</b>
		<b>(Restated)</b>	<b>Change</b>	<b>Change</b>
Capital and lease assets, net	\$ 271,838,721	\$ 276,717,878	\$ (4,879,157)	(1.8)%
Current assets	108,893,016	93,507,067	15,385,949	16.5
Other noncurrent assets	46,323,695	53,383,628	(7,059,933)	(13.2)
Total assets	427,055,432	423,608,573	3,446,859	0.8
Deferred outflows of resources	2,535,719	1,081,069	1,454,650	134.6
Total assets and deferred outflows	<u>\$ 429,591,151</u>	<u>\$ 424,689,642</u>	<u>\$ 4,901,509</u>	1.2

### Condensed Statements of Net Position

	2022	2021 (Restated)	Dollar Change	Percentage Change
Current liabilities	\$ 25,231,122	\$ 23,779,979	\$ 1,451,143	6.1 %
Long-term liabilities	169,984,921	181,468,013	(11,483,092)	(6.3)
Total liabilities	195,216,043	205,247,992	(10,031,949)	(4.9)
Deferred inflows of resources	43,883,594	35,968,649	7,914,945	22.0
Total liabilities and deferred inflows	239,099,637	241,216,641	(2,117,004)	(0.9)
Net position				
Net investment in capital assets	102,905,604	97,520,100	5,385,504	5.5
Restricted	3,717,962	4,161,561	(443,599)	(10.7)
Unrestricted	83,867,948	81,791,340	2,076,608	2.5
Total net position	190,491,514	183,473,001	7,018,513	3.8
Total liabilities, deferred inflows, and net position	\$ 429,591,151	\$ 424,689,642	\$ 4,901,509	1.2

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 2022 by approximately \$190.5 million (net position) as compared with \$183.5 million at the end of 2021. Net position provides necessary liquidity to the Agency and supports its investment-grade credit rating.
- Capital and lease assets, net decreased by approximately \$4.9 million during 2022, primarily the result of depreciation and amortization on capital and lease assets in service. This was partially offset by capital asset construction expenditures of \$11.7 million in 2022.
- Current assets increased by approximately \$15.4 million from 2021 to 2022. Cash and cash equivalents increased by \$15.5 million, primarily related to the Agency's change in net position during the year.
- Other noncurrent assets, which include restricted cash, cash equivalents, and investments, prepaid expenses, and future recoverable costs, decreased by \$7.1 million from 2021 to 2022, primarily the result of the \$6.7 million decrease in future recoverable costs related to the levelization of depreciation and amortization, bond interest, and costs associated with the Agency's generating resources. In 2021, the Agency began amortizing its remaining deferred cost balance of approximately \$50 million over a seven-year period.
- Deferred outflows of resources increased by approximately \$1.5 million from 2021 to 2022, primarily as a result of the Agency's risk management activities and amortization of the Agency's deferred loss on bond refunding.
- Current liabilities increased by approximately \$1.5 million from 2021 to 2022, primarily the result of a \$1.5 million change in the value of the Agency's derivative instruments in 2022.
- Long-term liabilities decreased by approximately \$11.5 million from 2021 to 2022, primarily the result of the Agency's principal payments on debt.

- Deferred inflows of resources increased by \$7.9 million from 2021 to 2022, primarily the result of a \$6.6 million net increase in the Agency's energy adjustment accrual, and net contribution of \$1.3 million to its plant major maintenance accrual.

*Comparison of 2021 with 2020*

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

<b>Condensed Statements of Net Position</b>				
	<b>2021</b>	<b>2020*</b>	<b>Dollar</b>	<b>Percentage</b>
	<b>(Restated)</b>		<b>Change</b>	<b>Change</b>
Capital and lease assets, net	\$ 276,717,878	\$ 283,493,313	\$ (6,775,435)	(2.4)%
Current assets	93,507,067	71,004,869	22,502,198	31.7
Other noncurrent assets	53,383,628	66,870,974	(13,487,346)	(20.2)
Total assets	423,608,573	421,369,156	2,239,417	0.5
Deferred outflows of resources	1,081,069	1,166,169	(85,100)	(7.3)
Total assets and deferred outflows	<u>\$ 424,689,642</u>	<u>\$ 422,535,325</u>	<u>\$ 2,154,317</u>	0.5
Current liabilities	\$ 23,779,979	\$ 19,383,765	\$ 4,396,214	22.7
Long-term liabilities	181,468,013	192,501,584	(11,033,571)	(5.7)
Total liabilities	205,247,992	211,885,349	(6,637,357)	(3.1)
Deferred inflows of resources	35,968,649	39,503,190	(3,534,541)	(8.9)
Total liabilities and deferred inflows	<u>241,216,641</u>	<u>251,388,539</u>	<u>(10,171,898)</u>	(4.0)
Net position				
Net investment in capital assets	97,520,100	94,288,936	3,231,164	3.4
Restricted	4,161,561	3,984,725	176,836	4.4
Unrestricted	81,791,340	72,873,125	8,918,215	12.2
Total net position	<u>183,473,001</u>	<u>171,146,786</u>	<u>12,326,215</u>	7.2
Total liabilities, deferred inflows and net position	<u>\$ 424,689,642</u>	<u>\$ 422,535,325</u>	<u>\$ 2,154,317</u>	0.5

\*Amounts have not been restated due to the adoption of GASB 87.

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 2021 by approximately \$183.5 million (net position) as compared with \$171.1 million at the end of 2020. Net position provides necessary liquidity to the Agency and supports its investment-grade credit rating.
- Capital and lease assets, net decreased by approximately \$6.8 million during 2021, primarily the result of depreciation and amortization on capital and lease assets in service. This was partially offset by a net lease asset remeasurement of \$5.9 million due to the adoption of GASB 87 and a \$2.5 million land purchase in 2021.



- Current assets increased by approximately \$22.5 million from 2020 to 2021. Cash and cash equivalents increased by \$18.6 million, primarily related to the Agency's change in net position during the year, and lower debt service payments because of the 2010A bond redemption in 2020. Power sales and other receivables increased by \$3.9 million primarily because of higher rates to members in 2021.
- Other noncurrent assets, which include restricted cash, cash equivalents, and investments, prepaid expenses, and future recoverable costs, decreased by approximately \$13.5 million from 2020 to 2021, primarily the result of the \$13.1 million decrease in future recoverable costs related to the levelization of depreciation and amortization, bond interest, and costs associated with the Agency's generating resources. This includes the \$5.9 million decrease of future recoverable costs for the net lease asset remeasurement of \$5.9 million in 2021 due to the adoption of GASB 87. In 2021, the Agency began amortizing its remaining deferred cost balance of approximately \$50 million over a seven-year period.
- Deferred outflows of resources decreased by \$0.1 million from 2020 to 2021, primarily as a result of the Agency's risk management activities and amortization of the Agency's deferred loss on bond refunding.
- Current liabilities increased by approximately \$4.4 million from 2020 to 2021, primarily the result of a \$4.1 million increase of accounts payable and accrued liabilities from higher operating expenses at the end of 2021.
- Long-term liabilities decreased by approximately \$11.0 million from 2020 to 2021, primarily the result of the Agency's principal payments on debt.
- Deferred inflows of resources decreased by \$3.5 million from 2020 to 2021, primarily the result of a \$4.4 million usage of the Agency's rate stabilization fund for the February 2021 extreme cold weather event. This was partially offset by a net increase of \$1.8 million in the Agency's energy adjustment accrual, and net reduction of \$0.9 million to its plant major maintenance accrual.

The following table summarizes the changes in financial position of the Agency for the years ended December 31, 2022 and 2021:

<b>Condensed Statements of Revenues, Expenses, and Changes in Net Position</b>				
	<b>2022</b>	<b>2021</b>	<b>Dollar Change</b>	<b>Percentage Change</b>
Operating revenues, power sales	\$ 181,242,697	\$ 164,036,101	\$ 17,206,596	10.5 %
Other nonoperating revenues	966,885	298,991	667,894	223.4
Total revenues	182,209,582	164,335,092	17,874,490	10.9
Operating expenses	161,589,053	137,453,638	24,135,415	17.6
Other nonoperating expenses	6,921,592	7,350,704	(429,112)	(5.8)
Total expenses	168,510,645	144,804,342	23,706,303	16.4
Future recoverable costs	(6,680,424)	(7,204,535)	524,111	(7.3)
Change in net position	7,018,513	12,326,215	(5,307,702)	(43.1)
Beginning net position	183,473,001	171,146,786	12,326,215	7.2
Ending net position	\$ 190,491,514	\$ 183,473,001	\$ 7,018,513	3.8

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

- Operating revenues – power sales increased by approximately \$17.2 million between 2022 and 2021, primarily the result of increased energy sales and higher average rates in 2022 compared to 2021. Operating revenues – power sales consist primarily of member power sales revenue, power sales to nonmembers, and transmission revenue.
- Other nonoperating revenues increased by approximately \$0.7 million between 2022 and 2021, primarily related to higher investment income of \$1.1 million because of higher interest rates earned on cash and cash equivalents in 2022. This was partially offset by a net decrease of \$0.6 million in the fair value of investments in 2022.
- Operating expenses increased by approximately \$24.1 million between 2022 and 2021, primarily the result of a \$21.8 million increase in power acquisition expense, and a \$2.3 million increase in transmission expense. These increases are primarily attributable to higher energy market prices in 2022.
- Other nonoperating expenses decreased by approximately \$0.4 million between 2022 and 2021, related to \$0.4 million lower interest expense in 2022.
- Future recoverable costs increased by approximately \$0.5 million between 2022 and 2021, 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. In 2021, the Agency began amortizing its remaining deferred cost balance of approximately \$50 million over a seven-year period.

The following table summarizes the changes in financial position of the Agency for the years ended December 31, 2021 and 2020:

<b>Condensed Statements of Revenues, Expenses, and Changes in Net Position</b>				
	<b>2021</b>	<b>2020*</b>	<b>Dollar Change</b>	<b>Percentage Change</b>
Operating revenues, power sales	\$ 164,036,101	\$ 136,821,879	\$ 27,214,222	19.9 %
Other nonoperating revenues	298,991	4,772,085	(4,473,094)	(93.7)
Total revenues	164,335,092	141,593,964	22,741,128	16.1
Operating expenses	137,453,638	103,048,593	34,405,045	33.4
Other nonoperating expenses	7,350,704	11,950,760	(4,600,056)	(38.5)
Total expenses	144,804,342	114,999,353	29,804,989	25.9
Future recoverable costs	(7,204,535)	3,952,859	(11,157,394)	(282.3)
Change in net position	12,326,215	30,547,470	(18,221,255)	(59.6)
Beginning net position	171,146,786	140,599,316	30,547,470	21.7
Ending net position	\$ 183,473,001	\$ 171,146,786	\$ 12,326,215	7.2

\*Amounts have not been restated due to the adoption of GASB 87.

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

- Operating revenues – power sales increased by approximately \$27.2 million between 2021 and 2020, primarily the result of increased energy sales and higher average rates in 2021 compared to 2020. Operating revenues – power sales consist primarily of member power sales revenue, power sales to nonmembers, and transmission revenue.
- Other nonoperating revenues decreased by approximately \$4.5 million between 2021 and 2020, primarily related to the recognition of \$1.8 million in proceeds received for the termination of a purchased power agreement, and a \$1.5 million gain on the sale of investments in connection with the 2010A bond redemption, both occurring in 2020. In addition, the Agency had lower investment income of \$1.1 million, because of lower interest rates earned on cash and cash equivalents in 2021.
- Operating expenses increased by approximately \$34.4 million between 2021 and 2020, primarily the result of a \$25.1 million increase in power acquisition expense, a \$4.0 million increase in transmission expense, and a \$3.4 million increase in other operating expenses. These increases are primarily attributable to higher energy market prices and increased demand in 2021.
- Other nonoperating expenses decreased by approximately \$4.6 million between 2021 and 2020, primarily related to \$3.0 million lower interest expense in 2021 because of the 2010A bond redemption in 2020. In addition, there was a lower net decrease of \$0.8 million in the fair value of investments, and no loss on extinguishment of debt in 2021.
- Future recoverable costs decreased by approximately \$11.2 million between 2021 and 2020, 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. In 2021, the Agency began amortizing its remaining deferred cost balance of approximately \$50 million over a seven-year period.

### **Debt Administration**

As of December 31, 2022 and 2021, the Agency had long-term debt outstanding of approximately \$149.7 million and \$158.3, respectively.

On October 1, 2020, the Agency redeemed the remaining Series 2010A bonds in the amount of \$67.8 million.

The Agency continued to hold an A1 rating from Moody's in 2022. Fitch upgraded the Agency's bond rating from A+ to AA- in 2022.

### **Other Factors**

During February 2021, a polar vortex resulted in persistent and extreme cold weather that covered most of the United States, including the Midcontinent Independent System Operator (MISO) region. This weather event led to an increase in energy demand while some generating facilities faced fuel-supply issues and equipment failures that stressed the bulk electric system. As a result of these factors, the market experienced extreme price volatility for utilities buying or selling energy during this weather event. During this period, the Agency incurred some higher than anticipated costs to provide energy to its members, and utilized approximately \$4.4 million from its rate stabilization fund to help mitigate the impact of these additional costs.

### **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, 2022 and 2021**

	<b>2022</b>	<b>2021</b>
		<b>(Restated)</b>
<b>Assets and Deferred Outflows of Resources</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 84,540,189	\$ 69,052,676
Restricted cash and cash equivalents	3,717,962	4,161,561
Accrued interest receivable	80,056	79,220
Power sales and other receivables	13,541,148	14,064,722
Fuel inventory	1,311,252	1,034,789
Plant inventory – spares	4,011,136	3,594,346
Prepaid expenses	1,691,273	1,519,753
Total current assets	<u>108,893,016</u>	<u>93,507,067</u>
<b>Noncurrent Assets</b>		
Capital and lease assets		
Electric generation assets	421,997,302	419,860,782
Land	10,893,841	10,224,212
Less: accumulated depreciation and amortization	<u>(170,682,073)</u>	<u>(154,078,156)</u>
Property and equipment, net	262,209,070	276,006,838
Construction in progress	9,629,651	711,040
Total capital and lease assets, net	<u>271,838,721</u>	<u>276,717,878</u>
Restricted cash, cash equivalents, and investments	10,501,812	10,846,803
Prepaid expenses	406,168	440,686
Future recoverable costs	35,415,715	42,096,139
Total noncurrent assets	<u>318,162,416</u>	<u>330,101,506</u>
Total assets	<u>427,055,432</u>	<u>423,608,573</u>
<b>Deferred Outflows of Resources</b>		
Deferred outflows of resources – other	2,535,719	1,081,069
Total assets and deferred outflows of resources	<u>\$ 429,591,151</u>	<u>\$ 424,689,642</u>
<b>Liabilities, Deferred Inflows of Resources and Net Position</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 11,630,095	\$ 12,078,506
Accrued interest payable	1,713,704	1,808,471
Long-term debt due within one year	8,988,333	8,613,333
Lease liability due within one year	1,349,140	1,274,619
Derivative instruments – futures	1,549,850	5,050
Total current liabilities	<u>25,231,122</u>	<u>23,779,979</u>
<b>Noncurrent Liabilities</b>		
Long-term debt, net	157,353,386	167,487,339
Lease liability, net	12,631,535	13,980,674
Total noncurrent liabilities	<u>169,984,921</u>	<u>181,468,013</u>
Total liabilities	<u>195,216,043</u>	<u>205,247,992</u>
<b>Deferred Inflows of Resources</b>		
Rate stabilization	28,671,000	28,671,000
Other	15,212,594	7,297,649
Total liabilities and deferred inflows of resources	<u>239,099,637</u>	<u>241,216,641</u>
<b>Net Position</b>		
Net investment in capital assets	102,905,604	97,520,100
Restricted for debt service	3,717,962	4,161,561
Unrestricted	83,867,948	81,791,340
Total net position	<u>190,491,514</u>	<u>183,473,001</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 429,591,151</u>	<u>\$ 424,689,642</u>

**Minnesota Municipal Power Agency**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**Years Ended December 31, 2022 and 2021**

	<b>2022</b>	<b>2021</b> <b>(Restated)</b>
<b>Operating Revenues</b>		
Power sales to members	\$ 179,379,170	\$ 162,539,641
Power sales to nonmembers	1,863,527	1,496,460
Total operating revenues	181,242,697	164,036,101
<b>Operating Expenses</b>		
Power acquisition expense	87,143,584	65,321,061
Transmission	27,169,825	24,901,889
Other operating expenses	30,671,727	30,774,486
Depreciation and amortization	16,603,917	16,456,202
Total operating expenses	161,589,053	137,453,638
Operating income	19,653,644	26,582,463
<b>Nonoperating Revenues (Expenses)</b>		
Interest expense	(6,921,592)	(7,350,704)
Investment income	966,885	235,991
Other	-	63,000
Total nonoperating revenues (expenses), net	(5,954,707)	(7,051,713)
Change in net position before future recoverable costs	13,698,937	19,530,750
<b>Future Recoverable Costs</b>	(6,680,424)	(7,204,535)
Change in net position	7,018,513	12,326,215
<b>Net Position, Beginning of Year</b>	183,473,001	171,146,786
<b>Net Position, End of Year</b>	\$ 190,491,514	\$ 183,473,001

# Minnesota Municipal Power Agency

## Statements of Cash Flows

### Years Ended December 31, 2022 and 2021

	2022	2021 (Restated)
<b>Cash Flows from Operating Activities</b>		
Receipts from power sales	\$ 181,766,271	\$ 155,855,648
Payments for power acquisition/production and operating expenses	(138,650,041)	(116,121,534)
Net cash provided by operating activities	43,116,230	39,734,114
<b>Cash Flows from Noncapital Financing Activities</b>		
Other nonoperating receipts	-	63,000
Net cash provided by noncapital financing activities	-	63,000
<b>Cash Flows from Capital and Related Financing Activities</b>		
Construction of capital assets	(11,423,575)	(3,678,388)
Principal payments on electric revenue bonds	(8,613,334)	(8,268,333)
Principal payments on lease	(1,274,618)	(1,205,524)
Payment of interest	(8,071,828)	(8,494,587)
Net cash used in capital and related financing activities	(29,383,355)	(21,646,832)
<b>Cash Flows from Investing Activities</b>		
Proceeds from sales of investments	13,740,255	11,640,636
Purchase of investments	(11,640,256)	(11,640,636)
Interest received	1,602,537	477,646
Net cash provided by investing activities	3,702,536	477,646
Net change in cash and cash equivalents	17,435,411	18,627,928
Cash and cash equivalents, beginning of year	73,269,678	54,641,750
Cash and cash equivalents, end of year	\$ 90,705,089	\$ 73,269,678
<b>Composition of Cash and Cash Equivalents</b>		
Cash and cash equivalents	\$ 84,540,189	\$ 69,052,676
Restricted cash and cash equivalents	6,164,900	4,217,002
Cash and cash equivalents, end of year	\$ 90,705,089	\$ 73,269,678
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>		
Operating income	\$ 19,653,644	\$ 26,582,463
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	16,603,917	16,456,202
Change in deferred inflows of resources – rate stabilization	-	(4,400,000)
Change in deferred inflows of resources – other	7,914,945	865,459
Changes in current assets and liabilities		
Power sales and other receivables	523,574	(3,780,453)
Fuel inventory	(276,463)	89,990
Plant inventory – spares	(416,790)	8,977
Prepaid expenses	(137,002)	(34,730)
Accounts payable and accrued liabilities	(749,595)	3,946,206
Total adjustments	23,462,586	13,151,651
Net cash provided by operating activities	\$ 43,116,230	\$ 39,734,114
<b>Supplemental Cash Flows Information</b>		
Amortization of premium on electric revenue bonds	\$ 1,145,619	\$ 1,145,619
Capital and lease assets in accounts payable and accrued liabilities	424,900	129,394
Change in fair value of investments	(765,617)	(241,505)

# Minnesota Municipal Power Agency

## Notes to Financial Statements

December 31, 2022 and 2021

### 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, 2022, the Agency comprises 12 Minnesota municipalities.

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 2022. The power capacity charge for 2022 is approximately \$2.5 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.

**Minnesota Municipal Power Agency**  
**Notes to Financial Statements**  
**December 31, 2022 and 2021**

**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:

	<u>Megawatts</u>
Year ending December 31:	
2023	121
2024	126
2025	131
2026	131
2027	136

The Agency purchases transmission services from the Midcontinent Independent System Operator, Inc. (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 risk management activity.

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, 2030. 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) Codification Section Re10, *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.



# **Minnesota Municipal Power Agency**

## **Notes to Financial Statements**

**December 31, 2022 and 2021**

### **Note 1: Organization and Significant Accounting Policies - Continued**

#### ***Capital Assets***

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.

#### ***Lease Assets***

Lease assets are initially recorded at the initial measurement of the lease liability, plus lease payments made at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease, plus initial direct costs that are ancillary to place the assets into service. Lease assets are amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

#### ***Capital and Lease Asset Impairment***

The Agency evaluates capital and lease assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital or lease asset has occurred. If a capital or lease asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, the capital or lease asset historical cost and related accumulated depreciation or amortization are decreased proportionately such that the net decrease equals impairment loss. No asset impairment was recognized during the years ended December 31, 2022 and 2021.

#### ***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.

# Minnesota Municipal Power Agency

## Notes to Financial Statements

### December 31, 2022 and 2021

#### **Note 1: Organization and Significant Accounting Policies - Continued**

##### ***Investments and Investment Income***

The Agency's investments in money market accounts are carried at cost, which approximates fair value. All other investments are reported at fair value based on quoted market prices. Investment income consists of interest and dividend income, the net change for the year in the fair value of investments carried at fair value, and realized gains and losses from sales and maturities of investment securities.

##### ***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 and lease assets and other assets financed by long-term debt in addition to interest paid on such debt. As permitted by the application of GASB Codification Section Re10, *Regulated Operations*, 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 amortization and interest costs related to such issues.

In December 2020, the Agency's Board of Directors approved amortizing these remaining deferred costs, which amounted to approximately \$50 million at December 31, 2020, over a seven-year period beginning in 2021. In accordance with GASB Codification Section Re10, *Regulated Operations*, this amortization is factored into the Agency's rate-setting process.

For financial reporting purposes, the Agency also reports investments and restricted investments at fair value. As permitted by the application of GASB Codification Section Re10, *Regulated Operations*, 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.

The Agency's Board of Directors approved the use of \$4.4 million of the rate stabilization fund to cover higher energy costs related to the extreme cold weather event that occurred in February 2021.

# **Minnesota Municipal Power Agency**

## **Notes to Financial Statements**

### **December 31, 2022 and 2021**

#### **Note 1: Organization and Significant Accounting Policies - Continued**

##### *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 GASB Codification Section Re10, *Regulated Operations*, 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.

##### **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.

##### **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.

# **Minnesota Municipal Power Agency**

## **Notes to Financial Statements**

**December 31, 2022 and 2021**

### **Note 1: Organization and Significant Accounting Policies - Continued**

#### ***Derivative Instruments - Futures***

The Agency engages in certain futures market activities to manage future energy acquisition cost risk. The Agency may enter into energy financial futures contracts to buy or sell energy in order to manage the risk of volatility in the market price of anticipated energy transactions. The Agency does not enter into derivative instruments for speculative purposes. Fair value is estimated by comparing contract prices to forward market prices quoted by independent third-party pricing services. The Agency's derivative instruments are considered effective and are recorded as either an asset or liability on the statement of net position, with an offsetting deferred inflow or outflow of resources.

#### ***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.

#### ***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***

Certain reclassifications have been made to the 2021 financial statements to conform to the 2022 financial statement presentation. These reclassifications had no impact on the change in net position.

# Minnesota Municipal Power Agency

## Notes to Financial Statements

December 31, 2022 and 2021

### Note 1: Organization and Significant Accounting Policies - Continued

#### *Change in Accounting Principles*

During 2022, the Agency adopted GASB Statement No. 87, *Leases* (GASB 87). This statement supersedes portions of GASB Statement No. 62 and establishes new requirements for calculating and reporting the Agency's lease activities. The adoption date of GASB 87 is reflected as of January 2021 and required the Agency to remeasure its lease asset to agree to the related lease liability balance at the lease adoption date of January 1, 2021. This remeasurement increased the beginning balance of capital assets by \$5,883,103 and decreased the beginning balance of future recoverable costs by an equal amount. This remeasurement had no impact on the Agency's previously reported change in net position.

### 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	
	2022	2021
Current assets		
Cash and cash equivalents	\$ 84,540,189	\$ 69,052,676
Restricted cash and cash equivalents	3,717,962	4,161,561
	<u>88,258,151</u>	<u>73,214,237</u>
Noncurrent assets		
Restricted cash and cash equivalents	2,446,938	55,441
Restricted investments	8,054,874	10,791,362
	<u>10,501,812</u>	<u>10,846,803</u>
Total	<u>\$ 98,759,963</u>	<u>\$ 84,061,040</u>

# Minnesota Municipal Power Agency

## Notes to Financial Statements

December 31, 2022 and 2021

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

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

#### 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, 2022 and 2021:

		Maturities in Years			
	Carrying Value	Less Than 1	1 - 5	6 - 10	More Than 10
December 31, 2022					
U.S. government agencies	\$ 8,054,874	\$ 5,878,794	\$ -	\$ -	\$ 2,176,080
Money market accounts	90,705,089	90,705,089	-	-	-
	<u>\$ 98,759,963</u>	<u>\$ 96,583,883</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,176,080</u>
December 31, 2021					
U.S. government agencies	\$ 10,791,362	\$ 8,048,824	\$ -	\$ -	\$ 2,742,538
Money market accounts	73,269,678	73,269,678	-	-	-
	<u>\$ 84,061,040</u>	<u>\$ 81,318,502</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,742,538</u>

# Minnesota Municipal Power Agency

## Notes to Financial Statements

### December 31, 2022 and 2021

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

##### ***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, 2022 and 2021:

December 31, 2022				
	Carrying Value	Quality ratings		
		AA	AAA	Unrated
Investment type				
U.S. government agencies	\$ 8,054,874	\$ 8,054,874	\$ -	\$ -
Money market accounts	90,705,089	-	6,164,900	84,540,189
Total	<u>\$ 98,759,963</u>	<u>\$ 8,054,874</u>	<u>\$ 6,164,900</u>	<u>\$ 84,540,189</u>
December 31, 2021				
	Carrying Value	Quality ratings		
		AA	AAA	Unrated
Investment type				
U.S. government agencies	\$ 10,791,362	\$ 10,791,362	\$ -	\$ -
Money market accounts	73,269,678	-	4,217,002	69,052,676
Total	<u>\$ 84,061,040</u>	<u>\$ 10,791,362</u>	<u>\$ 4,217,002</u>	<u>\$ 69,052,676</u>

##### ***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, 2022 and 2021, 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.

# Minnesota Municipal Power Agency

## Notes to Financial Statements

December 31, 2022 and 2021

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

#### ***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, 2022 and 2021, the Agency had the following investment concentrations:

	<b>Portfolio Composition</b>	
	<b>December 31,</b>	
	<b>2022</b>	<b>2021</b>
Federal Home Loan Mortgage Corporation	6.0%	7.1%

#### ***Investment Income***

Investment income was comprised of the following for the years ended December 31, 2022 and 2021:

	<b>2022</b>	<b>2021</b>
Interest and dividend income	\$ 1,603,373	\$ 477,496
Net decrease in the fair value of investments	(765,617)	(241,505)
Realized gains on sales of investments	129,129	-
Net investment income	<u>\$ 966,885</u>	<u>\$ 235,991</u>



**Minnesota Municipal Power Agency**  
**Notes to Financial Statements**  
**December 31, 2022 and 2021**

**Note 3: Capital and Lease Assets**

Capital and lease assets activity was as follows:

	<b>2022</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Retirements</b>	<b>Transfers</b>	<b>Ending Balance</b>
Nondepreciable capital and lease assets					
Construction work in progress	\$ 711,040	\$ 11,723,975	\$ -	\$ (2,805,364)	\$ 9,629,651
Land	10,224,212	785	-	668,844	10,893,841
Depreciable capital and lease assets					
Telemetry and telecommunication	1,341,705	-	-	-	1,341,705
Lease asset	17,300,349	-	-	-	17,300,349
Electric plant	391,374,523	-	-	2,136,520	393,511,043
Rotable combustion turbine parts	9,844,205	-	-	-	9,844,205
Less accumulated depreciation and amortization for					
Lease assets in service	(1,655,638)	(1,676,219)	-	-	(3,331,857)
Electric plant assets in service	(152,422,518)	(14,927,698)	-	-	(167,350,216)
Capital and lease assets, net	<u>\$ 276,717,878</u>	<u>\$ (4,879,157)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 271,838,721</u>
<b>2021</b>					
	<b>Beginning Balance*</b>	<b>Additions</b>	<b>Retirements</b>	<b>Transfers</b>	<b>Ending Balance</b>
Nondepreciable capital assets					
Construction work in progress	\$ 1,143,638	\$ 3,778,414	\$ -	\$ (4,211,012)	\$ 711,040
Land	7,693,006	19,250	-	2,511,956	10,224,212
Depreciable capital and lease assets					
Telemetry and telecommunication	1,341,705	-	-	-	1,341,705
Lease asset	16,460,817	-	-	839,532	17,300,349
Electric plant	390,514,999	-	-	859,524	391,374,523
Rotable combustion turbine parts	9,844,205	-	-	-	9,844,205
Less accumulated depreciation and amortization for					
Lease assets in service	-	(1,655,638)	-	-	(1,655,638)
Electric plant assets in service	(137,621,954)	(14,800,564)	-	-	(152,422,518)
Capital and lease assets, net	<u>\$ 289,376,416</u>	<u>\$ (12,658,538)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 276,717,878</u>

\*As restated due to adoption of GASB 87.

**Minnesota Municipal Power Agency**  
**Notes to Financial Statements**  
**December 31, 2022 and 2021**

**Note 4: Long-Term Liabilities**

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

	<b>2022</b>	<b>2021</b>
Series 2009A, 1.40%, due October 1, 2009 to 2023	\$ 333,333	\$ 666,667
Series 2013, 3.00%–5.00%, due October 1, 2014 to 2023	2,180,000	4,275,000
Series 2014, 2.00%–5.00%, due October 1, 2015 to 2044	33,315,000	35,180,000
Series 2014A, 3.50%–5.00%, due October 1, 2016 to 2035	56,125,000	59,225,000
Series 2016, 2.13%–5.00%, due October 1, 2018 to 2047	<u>57,700,000</u>	<u>58,920,000</u>
Total bonds outstanding	149,653,333	158,266,667
Less current maturities	(8,988,333)	(8,613,333)
Add unamortized premium	<u>16,688,386</u>	<u>17,834,005</u>
	<u><u>\$ 157,353,386</u></u>	<u><u>\$ 167,487,339</u></u>

Debt service requirements on the outstanding bonds are as follows:

<b>Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2023	\$ 8,988,333	\$ 6,854,810	\$ 15,843,143
2024	6,760,000	6,449,944	13,209,944
2025	7,105,000	6,111,944	13,216,944
2026	7,435,000	5,780,094	13,215,094
2027	7,810,000	5,408,344	13,218,344
2028–2032	44,575,000	21,486,287	66,061,287
2033–2037	34,015,000	11,179,075	45,194,075
2038–2042	15,170,000	6,428,800	21,598,800
2043–2047	<u>17,795,000</u>	<u>2,689,450</u>	<u>20,484,450</u>
	<u><u>\$ 149,653,333</u></u>	<u><u>\$ 72,388,748</u></u>	<u><u>\$ 222,042,081</u></u>

# Minnesota Municipal Power Agency

## Notes to Financial Statements

### December 31, 2022 and 2021

#### Note 4: Long-Term Liabilities - 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 lease. The Agency also has an equipment lease agreement with the City of Chaska. Future minimum payments under these agreements are as follows:

Year	Principal	Interest	Executory Costs	Payment
2023	\$ 1,349,140	\$ 763,430	\$ 435,808	\$ 2,548,378
2024	1,428,066	684,504	435,808	2,548,378
2025	1,511,659	600,910	435,808	2,548,377
2026	1,600,198	512,372	435,808	2,548,378
2027	1,693,975	418,595	435,808	2,548,378
2028–2031	<u>6,397,637</u>	<u>644,264</u>	<u>1,504,324</u>	<u>8,546,225</u>
	<u>\$ 13,980,675</u>	<u>\$ 3,624,075</u>	<u>\$ 3,683,364</u>	<u>\$ 21,288,114</u>

Long-term liability activity for the years ended December 31, 2022 and 2021 was as follows:

December 31, 2022	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-term bonds	\$ 158,266,667	\$ -	\$ (8,613,334)	\$ 149,653,333	\$ 8,988,333
Add unamortized premium	<u>17,834,005</u>	<u>-</u>	<u>(1,145,619)</u>	<u>16,688,386</u>	<u>-</u>
Long-term bonds, net	176,100,672	-	(9,758,953)	166,341,719	8,988,333
Lease liability	<u>15,255,293</u>	<u>-</u>	<u>(1,274,618)</u>	<u>13,980,675</u>	<u>1,349,140</u>
Total long-term liabilities	<u>\$ 191,355,965</u>	<u>\$ -</u>	<u>\$ (11,033,571)</u>	<u>\$ 180,322,394</u>	<u>\$ 10,337,473</u>
December 31, 2021	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-term bonds	\$ 166,535,000	\$ -	\$ (8,268,333)	\$ 158,266,667	\$ 8,613,333
Add unamortized premium	<u>18,979,624</u>	<u>-</u>	<u>(1,145,619)</u>	<u>17,834,005</u>	<u>-</u>
Long-term bonds, net	185,514,624	-	(9,413,952)	176,100,672	8,613,333
Lease liability	<u>16,460,817</u>	<u>-</u>	<u>(1,205,524)</u>	<u>15,255,293</u>	<u>1,274,619</u>
Total long-term liabilities	<u>\$ 201,975,441</u>	<u>\$ -</u>	<u>\$ (10,619,476)</u>	<u>\$ 191,355,965</u>	<u>\$ 9,887,952</u>

# Minnesota Municipal Power Agency

## Notes to Financial Statements

### December 31, 2022 and 2021

#### Note 5: Derivatives and Financial Instruments

The Agency has entered into financial futures contracts to manage the risk of volatility of future cash flows associated with the purchase of energy because of commodity price volatility. By entering into these arrangements, the Agency will receive and make payments based on market prices without actually entering into the related commodity transactions. These arrangements are considered derivative instruments under the provisions of GASB Codification Section D40, *Derivative Instruments*. In accordance with this guidance, as the Agency's derivative instruments are considered effective hedges, the accumulated change in fair value of these derivative instruments is recognized as a deferred inflow or outflow of resources on the statements of net position. The fair value of these contracts is determined by comparing the contract price to the forward market prices quoted by an independent external pricing service. Realized gains and losses from derivative instruments are recognized as power acquisition expense on the statements of revenues, expenses and changes in net position in the month the contract expires.

Notional Values – As of December 31, 2022 and 2021, the Agency had 200 and 63 total outstanding contracts, respectively. These contracts are structured with a standard quantity of 10,000 MMBtu per contract.

Credit risk – Credit risk is the risk that results when counterparties or the clearing agent are unable or unwilling to fulfill their obligations. The Agency addresses this risk with the counterparties by executing these contracts using an independent clearing agent, which requires collateral and will spread any unfilled obligations across all participants utilizing their services. The risk of default by the clearing agent is mitigated by their membership in the commodities clearing house, which requires collateral and guaranty funds by each clearing agent to be used to offset any socialized unfilled obligations between member clearing agents.

Basis risk – Basis risk is the risk that arises when variable rates or prices of a derivative instrument and the risk exposure being managed are based on different reference rates. The Agency is exposed to this risk because of a difference in commodity value between different generating sites and delivery points or between cash market prices and the pricing points used in the MISO financial market.

# Minnesota Municipal Power Agency

## Notes to Financial Statements

### December 31, 2022 and 2021

#### Note 6: Fair Value Measurements

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

**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.

#### **Valuation Methodologies**

**U.S. Government Securities:** The fair value of U.S. government securities is derived from quoted prices on similar assets in active or non-active markets, from other observable inputs such as interest rates, yield curves, or credit spreads, and inputs that are derived from or corroborated by observable market data. U.S. treasury and other federal agency securities are included as Level 2 assets.

**Derivative Instruments:** Energy financial futures contracts uses the market approach based on monthly quoted prices from an independent external pricing service using market quotes. The market is not active to the point where identical contracts are available on a regular basis. These derivative instruments are included as Level 2 liabilities.

#### Note 7: 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:

	<b>2022</b>	<b>2021</b>
Power purchases	\$ 52,413,418	\$ 42,624,643
Production fuel	34,730,166	22,696,418
Total power acquisition expense	<u>\$ 87,143,584</u>	<u>\$ 65,321,061</u>

# **Minnesota Municipal Power Agency**

## **Notes to Financial Statements**

### **December 31, 2022 and 2021**

#### **Note 8: 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 through March 2022, when this index was changed to the Bloomberg Short-Term Bank Yield (BSBY). The facility was renewed on May 1, 2019 and again on April 1, 2022 and expires on May 6, 2025, and is secured by a pledge of the net revenues of the Agency. There were no amounts outstanding as of December 31, 2022 or 2021.

#### **Note 9: 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 10: 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.

**Minnesota Municipal Power Agency**  
**Notes to Financial Statements**  
**December 31, 2022 and 2021**

**Note 11: Concentrations**

***Major Customers***

Sales to four customers were approximately 77% and 75% of total operating revenues for the years ended December 31, 2022 and 2021, respectively. Approximately 74% and 71% of total accounts receivable were owed from four customers at December 31, 2022 and 2021, respectively.