




Minnesota Municipal Power Agency

Independent Auditor's Report and Financial Statements

December 31, 2024 and 2023



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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, 2024 and 2023, 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, 2024 and 2023, 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.

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.

Board of Directors
Minnesota Municipal Power Agency

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 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 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 Mazars, LLP

Lincoln, Nebraska
April 9, 2025

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, 2024 and 2023. 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 2024 with 2023

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

Condensed Statements of Net Position				
	2024	2023	Dollar Change	Percentage Change
Capital and lease assets, net	\$ 272,059,098	\$ 266,585,724	\$ 5,473,374	2.1 %
Current assets	154,925,623	141,098,328	13,827,295	9.8
Other noncurrent assets	29,750,126	37,236,127	(7,486,001)	(20.1)
Total assets	456,734,847	444,920,179	11,814,668	2.7
Deferred outflows of resources	3,239,998	10,605,100	(7,365,102)	(69.4)
Total assets and deferred outflows	\$ 459,974,845	\$ 455,525,279	\$ 4,449,566	1.0

Condensed Statements of Net Position

	2024	2023	Dollar Change	Percentage Change
Current liabilities	\$ 24,327,195	\$ 30,059,141	\$ (5,731,946)	(19.1)%
Long-term liabilities	<u>151,114,376</u>	<u>163,044,249</u>	<u>(11,929,873)</u>	(7.3)
Total liabilities	175,441,571	193,103,390	(17,661,819)	(9.1)
Deferred inflows of resources	<u>39,464,523</u>	<u>40,314,649</u>	<u>(850,126)</u>	(2.1)
Total liabilities and deferred inflows	<u>214,906,094</u>	<u>233,418,039</u>	<u>(18,511,945)</u>	(7.9)
Net position				
Net investment in capital assets	121,379,496	107,366,037	14,013,459	13.1
Restricted	3,541,701	3,386,318	155,383	4.6
Unrestricted	<u>120,147,554</u>	<u>111,354,885</u>	<u>8,792,669</u>	7.9
Total net position	<u>245,068,751</u>	<u>222,107,240</u>	<u>22,961,511</u>	10.3
Total liabilities, deferred inflows, and net position	<u>\$ 459,974,845</u>	<u>\$ 455,525,279</u>	<u>\$ 4,449,566</u>	1.0

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 2024 by approximately \$245.1 million (net position) as compared with \$222.1 million at the end of 2023. Net position provides necessary liquidity to the Agency and supports its investment-grade credit rating.
- Capital and lease assets, net increased by approximately \$5.5 million during 2024, primarily the result of capital asset construction expenditures, including two land purchases made for future solar projects totaling approximately \$22.1 million. This was partially offset by \$18.5 million of depreciation and amortization on capital and lease assets in service.
- Current assets increased by approximately \$13.8 million from 2023 to 2024. Cash and cash equivalents increased by \$9.6 million, primarily related to the Agency's change in net position during the year, but partially offset by capital asset construction expenditures made in 2024. Power sales and other receivables increased by \$3.9 million primarily because of the Hometown BioEnergy, LLC \$4.2 million renewable natural gas tax credit accrued for at the end of 2024.
- Other noncurrent assets, which include restricted cash, cash equivalents, and investments, prepaid expenses and future recoverable costs decreased by \$7.5 million from 2023 to 2024, primarily the result of the \$6.9 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. The Agency is amortizing its remaining deferred cost balance of approximately \$21 million over a three-year period as of the end of 2024.
- Deferred outflows of resources decreased by approximately \$7.4 million from 2023 to 2024, primarily as a result of the Agency's risk management activities and amortization of the Agency's deferred loss on bond refunding.
- Current liabilities decreased by approximately \$5.7 million from 2023 to 2024, primarily the result of the Agency's risk management activities, and a decrease of \$1.1 million in accounts payable and accrued liabilities in 2024.

- Long-term liabilities decreased by approximately \$11.9 million from 2023 to 2024, primarily the result of the Agency's principal payments on debt and risk management activities.
- Deferred inflows of resources decreased by \$0.9 million from 2023 to 2024, primarily the result of \$1.2 million in plant major maintenance accrual funds used, partially offset by a \$0.3 million net increase in the Agency's energy adjustment accrual.

Comparison of 2023 with 2022

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

Condensed Statements of Net Position				
	2023	2022	Dollar Change	Percentage Change
Capital and lease assets, net	\$ 266,585,724	\$ 271,838,721	\$ (5,252,997)	(1.9)%
Current assets	141,098,328	108,893,016	32,205,312	29.6
Other noncurrent assets	<u>37,236,127</u>	<u>46,323,695</u>	<u>(9,087,568)</u>	(19.6)
Total assets	444,920,179	427,055,432	17,864,747	4.2
Deferred outflows of resources	<u>10,605,100</u>	<u>8,142,967</u>	<u>2,462,133</u>	30.2
Total assets and deferred outflows	<u>\$ 455,525,279</u>	<u>\$ 435,198,399</u>	<u>\$ 20,326,880</u>	4.7
Current liabilities	\$ 30,059,141	\$ 29,842,767	\$ 216,374	0.7 %
Long-term liabilities	<u>163,044,249</u>	<u>170,980,524</u>	<u>(7,936,275)</u>	(4.6)
Total liabilities	193,103,390	200,823,291	(7,719,901)	(3.8)
Deferred inflows of resources	<u>40,314,649</u>	<u>43,883,594</u>	<u>(3,568,945)</u>	(8.1)
Total liabilities and deferred inflows	<u>233,418,039</u>	<u>244,706,885</u>	<u>(11,288,846)</u>	(4.6)
Net position				
Net investment in capital assets	107,366,037	102,905,604	4,460,433	4.3
Restricted	3,386,318	3,717,962	(331,644)	(8.9)
Unrestricted	<u>111,354,885</u>	<u>83,867,948</u>	<u>27,486,937</u>	32.8
Total net position	<u>222,107,240</u>	<u>190,491,514</u>	<u>31,615,726</u>	16.6
Total liabilities, deferred inflows and net position	<u>\$ 455,525,279</u>	<u>\$ 435,198,399</u>	<u>\$ 20,326,880</u>	4.7

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 2023 by approximately \$222.1 million (net position) as compared with \$190.5 million at the end of 2022. Net position provides necessary liquidity to the Agency and supports its investment-grade credit rating.
- Capital and lease assets, net decreased by approximately \$5.3 million during 2023, primarily the result of depreciation and amortization on capital and lease assets in service. This was partially offset by capital asset construction expenditures of \$12.0 million in 2023.
- Current assets increased by approximately \$32.2 million from 2022 to 2023. Cash and cash equivalents increased by \$33.1 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 \$9.1 million from 2022 to 2023, primarily the result of the \$7.4 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 \$2.5 million from 2022 to 2023, 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 \$0.2 million from 2022 to 2023, primarily the result of the 2009A and 2013 bond redemptions that resulted in a \$2.2 million decrease in the current portion of long-term debt. There was also a \$1.2 million increase in the value of the Agency's derivative instruments and an increase of \$1.3 million in accounts payable and accrued liabilities in 2023.
- Long-term liabilities decreased by approximately \$7.9 million from 2022 to 2023, primarily the result of the Agency's principal payments on debt.
- Deferred inflows of resources decreased by \$3.6 million from 2022 to 2023, primarily the result of a \$3.7 million net decrease in the Agency's energy adjustment accrual, and net contribution of \$0.1 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, 2024 and 2023:

Condensed Statements of Revenues, Expenses, and Changes in Net Position				
	2024	2023	Dollar Change	Percentage Change
Operating revenues, power sales	\$ 171,797,468	\$ 181,252,429	\$ (9,454,961)	(5.2)%
Other nonoperating revenues	6,710,402	5,360,982	1,349,420	25.2
Total revenues	<u>178,507,870</u>	<u>186,613,411</u>	<u>(8,105,541)</u>	(4.3)
Operating expenses	141,845,673	141,072,010	773,663	0.5
Other nonoperating expenses	6,807,662	6,506,639	301,023	4.6
Total expenses	148,653,335	147,578,649	1,074,686	0.7
Future recoverable costs	<u>(6,893,024)</u>	<u>(7,419,036)</u>	<u>526,012</u>	(7.1)
Change in net position	22,961,511	31,615,726	(8,654,215)	(27.4)
Beginning net position	<u>222,107,240</u>	<u>190,491,514</u>	<u>31,615,726</u>	16.6
Ending net position	<u><u>\$ 245,068,751</u></u>	<u><u>\$ 222,107,240</u></u>	<u><u>\$ 22,961,511</u></u>	10.3

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

- Operating revenues – power sales decreased by \$9.5 million between 2023 and 2024, as energy quantities and rates were lower in 2024. Operating revenues – power sales consist primarily of member power sales revenue, power sales to nonmembers, and transmission revenue.
- Other nonoperating revenues increased by approximately \$1.3 million between 2023 and 2024, primarily related to higher investment income because of higher average interest rates earned on cash and cash equivalents in 2024 as well as higher cash balances.
- Operating expenses increased by approximately \$0.8 million between 2023 and 2024, primarily the result of a \$1.3 million increase in depreciation and amortization, and a \$1.1 million increase in other operating expenses. This was partially offset by a \$1.6 million decrease in transmission expense in 2024.
- Other nonoperating expenses increased by approximately \$0.3 million between 2023 and 2024, primarily related to the \$0.6 million in income taxes paid for the Minnesota Renewable Energy (MRE), LLC change in tax status, partially offset by lower interest expense of \$0.3 million in 2024.
- Future recoverable costs increased by approximately \$0.5 million between 2023 and 2024, 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 Agency is amortizing its remaining deferred cost balance of approximately \$21 million over a three-year period as of the end of 2024.

The following table summarizes the changes in financial position of the Agency for the years ended December 31, 2023 and 2022:

Condensed Statements of Revenues, Expenses, and Changes in Net Position				
	2023	2022	Dollar Change	Percentage Change
Operating revenues, power sales	\$ 181,252,429	\$ 181,242,697	\$ 9,732	— %
Other nonoperating revenues	5,360,982	966,885	4,394,097	454.5
Total revenues	<u>186,613,411</u>	<u>182,209,582</u>	<u>4,403,829</u>	2.4
Operating expenses	141,072,010	161,589,053	(20,517,043)	(12.7)
Other nonoperating expenses	6,506,639	6,921,592	(414,953)	(6.0)
Total expenses	147,578,649	168,510,645	(20,931,996)	(12.4)
Future recoverable costs	(7,419,036)	(6,680,424)	(738,612)	11.1
Change in net position	31,615,726	7,018,513	24,597,213	350.5
Beginning net position	<u>190,491,514</u>	<u>183,473,001</u>	<u>7,018,513</u>	3.8
Ending net position	<u>\$ 222,107,240</u>	<u>\$ 190,491,514</u>	<u>\$ 31,615,726</u>	16.6

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

- Operating revenues – power sales increased by less than \$0.1 million between 2022 and 2023, as energy quantities and rates were essentially unchanged between 2022 and 2023. Operating revenues – power sales consist primarily of member power sales revenue, power sales to nonmembers, and transmission revenue.
- Other nonoperating revenues increased by approximately \$4.4 million between 2022 and 2023, primarily related to higher investment income of \$3.8 million because of higher interest rates earned on cash and cash equivalents in 2023 as well as higher cash balances. In addition, there was a net increase of \$0.6 million in the fair value of investments from 2022 to 2023.
- Operating expenses decreased by approximately \$20.5 million between 2022 and 2023, primarily the result of a \$27.7 million decrease in power acquisition expense. This was partially offset by a \$5.1 million increase in other operating expenses, \$1.4 million increase in transmission expense, and \$0.6 million increase in depreciation and amortization. The net decrease is primarily attributable to lower energy market prices in 2023.
- Other nonoperating expenses decreased by approximately \$0.4 million between 2022 and 2023, related to \$0.4 million lower interest expense in 2023.
- Future recoverable costs decreased by approximately \$0.7 million between 2022 and 2023, 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, 2024 and 2023, the Agency had long-term debt outstanding of approximately \$133.9 and \$140.7 million, respectively.

Moody's upgraded the Agency's bond rating from A1 to Aa3 in 2023. Fitch upgraded the Agency's bond rating from A+ to AA- in 2022. The Agency continued to hold these ratings in 2024.

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, 2024 and 2023

	<u>2024</u>	<u>2023</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current Assets		
Cash and cash equivalents	\$ 127,186,102	\$ 117,614,247
Restricted cash and cash equivalents	3,541,701	3,386,318
Accrued interest receivable	75,628	78,095
Power sales and other receivables	16,169,668	12,249,793
Fuel inventory	1,064,528	1,623,747
Plant inventory – spares	4,862,454	4,445,139
Prepaid expenses	2,025,542	1,700,989
Total current assets	<u>154,925,623</u>	<u>141,098,328</u>
Noncurrent Assets		
Capital and lease assets		
Generation assets	440,818,095	442,240,668
Land	33,014,257	10,893,841
Less: accumulated depreciation and amortization	<u>(206,464,172)</u>	<u>(187,925,779)</u>
Property and equipment, net	267,368,180	265,208,730
Construction in progress	4,690,918	1,376,994
Total capital and lease assets, net	<u>272,059,098</u>	<u>266,585,724</u>
Restricted cash, cash equivalents, and investments	8,309,340	8,719,297
Prepaid expenses	337,131	520,150
Future recoverable costs	21,103,655	27,996,680
Total noncurrent assets	<u>301,809,224</u>	<u>303,821,851</u>
Total assets	<u>456,734,847</u>	<u>444,920,179</u>
Deferred Outflows of Resources		
Deferred outflows of resources – other	<u>3,239,998</u>	<u>10,605,100</u>
Total assets and deferred outflows of resources	<u>\$ 459,974,845</u>	<u>\$ 455,525,279</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 11,748,120	\$ 12,897,136
Accrued interest payable	1,527,987	1,612,487
Long-term debt due within one year	7,105,000	6,760,000
Lease liability due within one year	1,511,659	1,428,066
Derivative instruments – futures	2,434,429	7,361,452
Total current liabilities	<u>24,327,195</u>	<u>30,059,141</u>
Noncurrent Liabilities		
Long-term debt, net	141,422,567	149,492,851
Lease liability, net	9,691,809	11,203,469
Derivative instruments – futures	-	2,347,929
Total noncurrent liabilities	<u>151,114,376</u>	<u>163,044,249</u>
Total liabilities	<u>175,441,571</u>	<u>193,103,390</u>
Deferred Inflows of Resources		
Rate stabilization	28,671,000	28,671,000
Other	10,793,523	11,643,649
Total liabilities and deferred inflows of resources	<u>214,906,094</u>	<u>233,418,039</u>
Net Position		
Net investment in capital assets	121,379,496	107,366,037
Restricted for debt service	3,541,701	3,386,318
Unrestricted	120,147,554	111,354,885
Total net position	<u>245,068,751</u>	<u>222,107,240</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 459,974,845</u>	<u>\$ 455,525,279</u>

Minnesota Municipal Power Agency
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Operating Revenues		
Power sales to members	\$ 166,382,483	\$ 177,557,609
Power sales to nonmembers	5,414,985	3,694,820
Total operating revenues	<u>171,797,468</u>	<u>181,252,429</u>
Operating Expenses		
Power acquisition expense	59,370,672	59,430,501
Transmission	27,002,481	28,596,430
Other operating expenses	36,934,127	35,801,373
Depreciation and amortization	18,538,393	17,243,706
Total operating expenses	<u>141,845,673</u>	<u>141,072,010</u>
Operating income	<u>29,951,795</u>	<u>40,180,419</u>
Nonoperating Revenues (Expenses)		
Interest expense	(6,174,814)	(6,506,639)
Investment income	6,630,347	5,360,982
Income tax on MRE tax status change	(632,848)	-
Other	80,055	-
Total nonoperating revenues (expenses), net	<u>(97,260)</u>	<u>(1,145,657)</u>
Change in net position before future recoverable costs and contributions in aid of construction	29,854,535	39,034,762
Future Recoverable Costs	(6,893,024)	(7,419,036)
Contributions in Aid of Construction	4,185,173	-
Plant Costs Recovered Through Contributions in Aid of Construction	<u>(4,185,173)</u>	<u>-</u>
Change in net position	22,961,511	31,615,726
Net Position, Beginning of Year	<u>222,107,240</u>	<u>190,491,514</u>
Net Position, End of Year	<u>\$ 245,068,751</u>	<u>\$ 222,107,240</u>

Minnesota Municipal Power Agency
Statements of Cash Flows
Years Ended December 31, 2024 and 2023

	2024	2023
Cash Flows from Operating Activities		
Receipts from power sales	\$ 172,062,767	\$ 182,543,784
Payments for power acquisition/production and operating expenses	(125,289,844)	(126,923,046)
Net cash provided by operating activities	<u>46,772,923</u>	<u>55,620,738</u>
Cash Flows from Noncapital Financing Activities		
Payment for income tax on MRE tax status change	(632,848)	-
Other nonoperating receipts	80,055	-
Net cash used in noncapital financing activities	<u>(552,793)</u>	<u>-</u>
Cash Flows from Capital and Related Financing Activities		
Construction of capital assets	(28,213,149)	(12,067,768)
Principal payments on electric revenue bonds	(6,760,000)	(8,988,333)
Principal payments on lease	(1,428,067)	(1,349,140)
Payment of interest	(7,134,447)	(7,618,241)
Net cash used in capital and related financing activities	<u>(43,535,663)</u>	<u>(30,023,482)</u>
Cash Flows from Investing Activities		
Proceeds from sales of investments	11,640,337	11,640,337
Purchase of investments	(11,640,637)	(11,640,337)
Interest received	6,689,417	5,384,529
Net cash provided by investing activities	<u>6,689,117</u>	<u>5,384,529</u>
Net change in cash and cash equivalents	9,373,584	30,981,785
Cash and cash equivalents, beginning of year	121,686,874	90,705,089
Cash and cash equivalents, end of year	<u>\$ 131,060,458</u>	<u>\$ 121,686,874</u>
Composition of Cash and Cash Equivalents		
Cash and cash equivalents	\$ 127,186,102	\$ 117,614,247
Restricted cash and cash equivalents	3,874,356	4,072,627
Cash and cash equivalents, end of year	<u>\$ 131,060,458</u>	<u>\$ 121,686,874</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 29,951,795	\$ 40,180,419
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	18,538,393	17,243,706
Change in deferred inflows of resources – other	(850,126)	(3,568,945)
Changes in current assets and liabilities		
Power sales and other receivables	265,300	1,291,355
Fuel inventory	559,219	(312,495)
Plant inventory – spares	(417,315)	(434,003)
Prepaid expenses	(141,534)	(123,698)
Accounts payable and accrued liabilities	(1,132,809)	1,344,399
Total adjustments	<u>16,821,128</u>	<u>15,440,319</u>
Net cash provided by operating activities	<u>\$ 46,772,923</u>	<u>\$ 55,620,738</u>
Supplemental Cash Flows Information		
Amortization of premium on electric revenue bonds	\$ 965,284	\$ 1,100,535
Capital and lease assets in accounts payable and accrued liabilities	337,019	353,227
Change in fair value of investments	(56,603)	(21,586)
Change in fair value of derivative instruments - futures	7,274,952	(2,552,283)

Minnesota Municipal Power Agency
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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, 2024, 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. Eleven of the Agency's power sales contracts with members have a term that expires December 31, 2060. One of the Agency's power sales contracts with a member has 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 2024. The power capacity charge for 2024 is approximately \$3.4 million. Capacity commitments and charges include 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.

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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:	
2025	130
2026	130
2027	135
2028	140
2029	145

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 that will not result in the physical delivery of the respective commodity being contracted 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.

Capital Assets

The Agency follows a preventative and predictive approach to its maintenance of its generation resources. For the Faribault Energy Park (FEP) facility the Agency inspects the combustion turbine and steam turbine and performs major maintenance based on the condition of the unit and/or 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.

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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, 2024 and 2023.

Restricted Cash, Cash Equivalents, and Investments

The Agency's bond indenture 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 indenture. It is the Agency's policy to use restricted resources first for debt service and then unrestricted resources as they are needed.

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.

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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.

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.

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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 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.

Recovery of Plant Costs

Contributions in aid of construction are received from third parties to offset the costs associated with expansion of the Agency's electric system. The Agency follows FERC guidelines for recording contributions in aid of construction. These guidelines direct the reduction of electric plant by the amount of these contributions. In order to comply with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, while continuing to follow FERC guidelines, contributions in aid of construction are recorded as income and offset by an expense in the same amount representing the recovery of plant costs.

Income Taxes

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

**Minnesota Municipal Power Agency
Notes to Financial Statements
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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.

Note 2. Cash, Cash Equivalents, and Investments

The agency agreement that established the Agency and the bond indenture, 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 indenture, and applicable state law. Funds and accounts are reported in the financial statements as follows:

	December 31	
	2024	2023
Current assets		
Cash and cash equivalents	\$ 127,186,102	\$ 117,614,247
Restricted cash and cash equivalents	3,541,701	3,386,318
	<u>130,727,803</u>	<u>121,000,565</u>
Noncurrent assets		
Restricted cash and cash equivalents	332,655	686,309
Restricted investments	7,976,685	8,032,988
	<u>8,309,340</u>	<u>8,719,297</u>
Total	<u>\$ 139,037,143</u>	<u>\$ 129,719,862</u>

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.

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The Agency had the following investments and maturities as of December 31, 2024 and 2023:

	Carrying Value	Maturities in Years			
		Less Than 1	1 - 5	6 - 10	More Than 10
December 31, 2024					
U.S. government agencies	\$ 7,976,685	\$ 5,881,469	\$ -	\$ 2,095,216	\$ -
Money market accounts	131,060,458	131,060,458	-	-	-
	<u>\$ 139,037,143</u>	<u>\$ 136,941,927</u>	<u>\$ -</u>	<u>\$ 2,095,216</u>	<u>\$ -</u>
December 31, 2023					
U.S. government agencies	\$ 8,032,988	\$ 5,863,483	\$ -	\$ 2,169,505	\$ -
Money market accounts	121,686,874	121,686,874	-	-	-
	<u>\$ 129,719,862</u>	<u>\$ 127,550,357</u>	<u>\$ -</u>	<u>\$ 2,169,505</u>	<u>\$ -</u>

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 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, 2024 and 2023:

Investment type	December 31, 2024			
	Carrying Value	Quality ratings		
		AA	AAA	Unrated
U.S. government agencies	\$ 7,976,685	\$ 7,976,685	\$ -	\$ -
Money market accounts	131,060,458	-	3,874,357	127,186,101
Total	<u>\$ 139,037,143</u>	<u>\$ 7,976,685</u>	<u>\$ 3,874,357</u>	<u>\$ 127,186,101</u>
Investment type	December 31, 2023			
	Carrying Value	Quality ratings		
		AA	AAA	Unrated
U.S. government agencies	\$ 8,032,988	\$ 8,032,988	\$ -	\$ -
Money market accounts	121,686,874	-	4,072,627	117,614,247
Total	<u>\$ 129,719,862</u>	<u>\$ 8,032,988</u>	<u>\$ 4,072,627</u>	<u>\$ 117,614,247</u>

**Minnesota Municipal Power Agency
Notes to Financial Statements
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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, 2024 and 2023, 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, 2024 and 2023, the Agency did not have any investment concentrations greater than 5%.

Investment Income

Investment income was comprised of the following for the years ended December 31, 2024 and 2023:

	2024	2023
Interest and dividend income	\$ 6,686,950	\$ 5,382,568
Net decrease in the fair value of investments	(56,603)	(21,586)
Net investment income	<u>\$ 6,630,347</u>	<u>\$ 5,360,982</u>

Minnesota Municipal Power Agency
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Note 3. Capital and Lease Assets

Capital and lease assets activity was as follows:

	2024				
	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Nondepreciable capital and lease assets					
Construction work in progress	\$ 1,376,994	\$ 24,186,305	\$ (174,538)	\$ (20,697,843)	\$ 4,690,918
Land	10,893,841	-	-	22,120,416	33,014,257
Depreciable capital and lease assets					
Telemetry and telecommunication	1,341,705	-	-	19,266	1,360,971
Lease asset	16,460,817	-	-	-	16,460,817
Plant	414,593,941	-	-	(1,441,839)	413,152,102
Rotable combustion turbine parts	9,844,205	-	-	-	9,844,205
Less accumulated depreciation and amortization for					
Lease assets in service	(5,403,871)	(1,592,982)	-	624,924	(6,371,929)
Plant assets in service	(182,521,908)	(16,945,411)	-	(624,924)	(200,092,243)
Capital and lease assets, net	<u>\$ 266,585,724</u>	<u>\$ 5,647,912</u>	<u>\$ (174,538)</u>	<u>\$ -</u>	<u>\$ 272,059,098</u>
	2023				
	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Nondepreciable capital and lease assets					
Construction work in progress	\$ 9,629,651	\$ 11,990,709	\$ -	\$ (20,243,366)	\$ 1,376,994
Land	10,893,841	-	-	-	10,893,841
Depreciable capital and lease assets					
Telemetry and telecommunication	1,341,705	-	-	-	1,341,705
Lease asset	17,300,349	-	-	(839,532)	16,460,817
Plant	393,511,043	-	-	21,082,898	414,593,941
Rotable combustion turbine parts	9,844,205	-	-	-	9,844,205
Less accumulated depreciation and amortization for					
Lease assets in service	(3,331,857)	(2,072,014)	-	-	(5,403,871)
Plant assets in service	(167,350,216)	(15,171,692)	-	-	(182,521,908)
Capital and lease assets, net	<u>\$ 271,838,721</u>	<u>\$ (5,252,997)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 266,585,724</u>

Minnesota Municipal Power Agency
Notes to Financial Statements
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Note 4. Long-Term Liabilities

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

	<u>2024</u>	<u>2023</u>
Series 2014, 2.00%–5.00%, due October 1, 2015 to 2044	\$ 29,340,000	\$ 31,375,000
Series 2014A, 3.50%–5.00%, due October 1, 2016 to 2035	49,490,000	52,870,000
Series 2016, 2.13%–5.00%, due October 1, 2018 to 2047	<u>55,075,000</u>	<u>56,420,000</u>
Total bonds outstanding	133,905,000	140,665,000
Less current maturities	(7,105,000)	(6,760,000)
Add unamortized premium	<u>14,622,567</u>	<u>15,587,851</u>
	<u>\$ 141,422,567</u>	<u>\$ 149,492,851</u>

Debt service requirements on the outstanding bonds are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	8,150,000	5,062,694	13,212,694
2029	8,470,000	4,741,219	13,211,219
2030–2034	48,730,000	17,333,599	66,063,599
2035–2039	18,955,000	8,453,850	27,408,850
2040–2044	16,500,000	5,099,750	21,599,750
2045–2047	<u>10,750,000</u>	<u>1,092,500</u>	<u>11,842,500</u>
	<u>\$ 133,905,000</u>	<u>\$ 59,083,994</u>	<u>\$ 192,988,994</u>

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:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Executory Costs</u>	<u>Payment</u>
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	1,793,302	319,267	435,808	2,548,377
2029	1,898,510	214,060	435,808	2,548,378
2030–2031	<u>2,705,824</u>	<u>110,936</u>	<u>632,708</u>	<u>3,449,468</u>
	<u>\$ 11,203,468</u>	<u>\$ 2,176,140</u>	<u>\$ 2,811,748</u>	<u>\$ 16,191,356</u>

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Long-term liability activity for the years ended December 31, 2024 and 2023 was as follows:

December 31, 2024	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-term bonds	\$ 140,665,000	\$ -	\$ (6,760,000)	\$ 133,905,000	\$ 7,105,000
Add unamortized premium	15,587,851	-	(965,284)	14,622,567	-
Long-term bonds, net	156,252,851	-	(7,725,284)	148,527,567	7,105,000
Lease liability	12,631,535	-	(1,428,067)	11,203,468	1,511,659
Total long-term liabilities	<u>\$ 168,884,386</u>	<u>\$ -</u>	<u>\$ (9,153,351)</u>	<u>\$ 159,731,035</u>	<u>\$ 8,616,659</u>
December 31, 2023	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-term bonds	\$ 149,653,333	\$ -	\$ (8,988,333)	\$ 140,665,000	\$ 6,760,000
Add unamortized premium	16,688,386	-	(1,100,535)	15,587,851	-
Long-term bonds, net	166,341,719	-	(10,088,868)	156,252,851	6,760,000
Lease liability	13,980,675	-	(1,349,140)	12,631,535	1,428,066
Total long-term liabilities	<u>\$ 180,322,394</u>	<u>\$ -</u>	<u>\$ (11,438,008)</u>	<u>\$ 168,884,386</u>	<u>\$ 8,188,066</u>

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 and discounted using established interest rate indexes. 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.

Cash Flow Hedges – Cash flow hedges are derivative instruments associated with a hedgeable item that significantly reduces an identified financial risk by substantially offsetting a change in cash flows or fair values of the hedgeable item. At December 31, 2024, the fair value of derivative instruments – futures is \$(2,434,429) classified as a current liability and \$0 classified as a noncurrent liability on the statement of net position, with an offsetting deferred outflow of resources. At December 31, 2023, the fair value of derivative instruments – futures is \$(7,361,452) classified as a current liability and \$(2,347,929) classified as a noncurrent liability on the statement of net position, with an offsetting deferred outflow of resources. The change in fair value of derivative instruments – futures was an increase of \$7,274,952 for 2024, and a decrease of \$2,522,283 for 2023.

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Notional Values – As of December 31, 2024 and 2023, the Agency had 378 and 842 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.

The Agency's derivative instruments – futures at December 31, 2024 consist of cash flow hedges with the following terms:

	Notional Amount	Fair Value	Maturity Date
Pay-fixed, receivable variable commodity swap	120,000 MMBtu	\$ (182,100)	1/1/2025
Pay-fixed, receivable variable commodity swap	240,000 MMBtu	(302,546)	2/1/2025
Pay-fixed, receivable variable commodity swap	230,000 MMBtu	(322,757)	3/1/2025
Pay-fixed, receivable variable commodity swap	160,000 MMBtu	(170,996)	4/1/2025
Pay-fixed, receivable variable commodity swap	250,000 MMBtu	(221,949)	5/1/2025
Pay-fixed, receivable variable commodity swap	450,000 MMBtu	(267,840)	6/1/2025
Pay-fixed, receivable variable commodity swap	620,000 MMBtu	(271,342)	7/1/2025
Pay-fixed, receivable variable commodity swap	580,000 MMBtu	(239,924)	8/1/2025
Pay-fixed, receivable variable commodity swap	380,000 MMBtu	(156,998)	9/1/2025
Pay-fixed, receivable variable commodity swap	240,000 MMBtu	(142,707)	10/1/2025
Pay-fixed, receivable variable commodity swap	210,000 MMBtu	(79,147)	11/1/2025
Pay-fixed, receivable variable commodity swap	300,000 MMBtu	(76,123)	12/1/2025
		<u>\$ (2,434,429)</u>	

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The Agency's derivative instruments – futures at December 31, 2023 consist of cash flow hedges with the following terms:

	Notional Amount	Fair Value	Maturity Date
Pay-fixed, receivable variable commodity swap	240,000 MMBtu	\$ (513,065)	1/1/2024
Pay-fixed, receivable variable commodity swap	380,000 MMBtu	(819,864)	2/1/2024
Pay-fixed, receivable variable commodity swap	360,000 MMBtu	(721,827)	3/1/2024
Pay-fixed, receivable variable commodity swap	300,000 MMBtu	(417,031)	4/1/2024
Pay-fixed, receivable variable commodity swap	390,000 MMBtu	(515,127)	5/1/2024
Pay-fixed, receivable variable commodity swap	570,000 MMBtu	(682,427)	6/1/2024
Pay-fixed, receivable variable commodity swap	810,000 MMBtu	(949,944)	7/1/2024
Pay-fixed, receivable variable commodity swap	740,000 MMBtu	(858,514)	8/1/2024
Pay-fixed, receivable variable commodity swap	510,000 MMBtu	(599,712)	9/1/2024
Pay-fixed, receivable variable commodity swap	390,000 MMBtu	(481,281)	10/1/2024
Pay-fixed, receivable variable commodity swap	360,000 MMBtu	(364,985)	11/1/2024
Pay-fixed, receivable variable commodity swap	450,000 MMBtu	(437,675)	12/1/2024
Pay-fixed, receivable variable commodity swap	240,000 MMBtu	(281,316)	1/1/2025
Pay-fixed, receivable variable commodity swap	200,000 MMBtu	(230,236)	2/1/2025
Pay-fixed, receivable variable commodity swap	200,000 MMBtu	(225,517)	3/1/2025
Pay-fixed, receivable variable commodity swap	160,000 MMBtu	(131,771)	4/1/2025
Pay-fixed, receivable variable commodity swap	220,000 MMBtu	(166,369)	5/1/2025
Pay-fixed, receivable variable commodity swap	300,000 MMBtu	(207,505)	6/1/2025
Pay-fixed, receivable variable commodity swap	400,000 MMBtu	(276,973)	7/1/2025
Pay-fixed, receivable variable commodity swap	360,000 MMBtu	(250,733)	8/1/2025
Pay-fixed, receivable variable commodity swap	240,000 MMBtu	(203,540)	9/1/2025
Pay-fixed, receivable variable commodity swap	180,000 MMBtu	(160,481)	10/1/2025
Pay-fixed, receivable variable commodity swap	180,000 MMBtu	(96,182)	11/1/2025
Pay-fixed, receivable variable commodity swap	240,000 MMBtu	(117,306)	12/1/2025
		<u>\$ (9,709,381)</u>	

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

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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 use 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:

	2024	2023
Power purchases	\$ 40,599,903	\$ 38,062,214
Production fuel	18,770,769	21,368,287
Total power acquisition expense	\$ 59,370,672	\$ 59,430,501

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 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, 2024 or 2023.

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.

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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, with infrequent resettlements occurring more than 105 days after a trading day. The financial statements reflect the Agency's best estimates of final settlement results.

Note 11. Concentrations

Major Customers

Sales to four customers were approximately 77% of total operating revenues for both of the years ended December 31, 2024 and 2023. Approximately 72% and 76% of total customer accounts receivable were owed from four customers at December 31, 2024 and 2023, respectively.