KPMG

MINNESOTA MUNICIPAL POWER AGENCY

Financial Statements

December 31, 2016 and 2015

(With Independent Auditors' Report Thereon)

MINNESOTA MUNICIPAL POWER AGENCY

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KPMG LLP
4200 Wells Fargo Center
90 South Seventh Street
Minneapolis, MN 55402

Independent Auditors' Report

The Board of Directors
Minnesota Municipal Power Agency:

We have audited the accompanying financial statements of Minnesota Municipal Power Agency (the Agency), as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Minnesota Municipal Power Agency as of December 31, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matter

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

Minneapolis, Minnesota
April 20, 2017

Financial Statements Overview

This discussion and analysis of Minnesota Municipal Power Agency's (the Agency) financial performance provides an overview of the Agency's activities for the fiscal years ended December 31, 2016 and 2015. The information presented should be read in conjunction with the financial statements and the accompanying notes to the financial statements.

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

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

Financial Highlights

Comparison of 2016 with 2015

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

Condensed Statements of Net Position

	2016	2015	Dollar change	Percentage change
Capital assets, net	$ 322,609,589	277,474,999	45,134,590	16.3%
Current assets	65,881,280	40,613,347	25,267,933	62.2
Other noncurrent assets	86,795,342	58,857,018	27,938,324	47.5
Total assets	475,286,211	376,945,364	98,340,847	26.1
Deferred outflows of resources	1,134,529	2,359,009	(1,224,480)	(51.9)
Total assets and deferred outflows	$ 476,420,740	379,304,373	97,116,367	25.6
Current liabilities	$ 31,000,223	20,526,018	10,474,205	51.0
Long-term liabilities	326,354,968	262,673,538	63,681,430	24.2
Total liabilities	357,355,191	283,199,556	74,155,635	26.2

Condensed Statements of Net Position

	2016	2015	Dollar change	Percentage change
Deferred inflows of resources	$ 49,270,020	37,995,438	11,274,582	29.7
Total liabilities and deferred inflows	406,625,211	321,194,994	85,430,217	26.6
Net position:				
Net investment in capital assets	38,487,165	32,099,907	6,387,258	19.9
Restricted	6,595,034	5,363,890	1,231,144	23.0
Unrestricted	24,713,330	20,645,582	4,067,748	19.7
Total net position	69,795,529	58,109,379	11,686,150	20.1
Total liabilities, deferred inflows, and net position	$ 476,420,740	379,304,373	97,116,367	25.6

Condensed statements of net position highlights are as follows:

- The assets of the Agency exceeded its liabilities at the close of 2016 by approximately $69.8 million (net position) as compared with $58.1 million at the end of 2015. Net position provides necessary liquidity to the Agency and supports its investment-grade credit rating.
- Capital assets, net increased by approximately $45.1 million during 2016 primarily the result of an increase in construction costs in relation to the electric generation project located in Shakopee, Minnesota. These costs were partially offset by additional depreciation on capital assets in service.
- Current assets increased by $25.3 million from 2015 to 2016. Cash and cash equivalents increased by $22.4 million, primarily resulting from the Agency issuing long-term debt and receiving reimbursement for capital expenditures made for the Shakopee electric generation project. Restricted cash and cash equivalents increased by $1.2 million primarily from additional inflows to debt service reserve funds related to the Series 2016 bonds. Power sales and other receivables increased by $0.5 million. Derivative instruments-futures current value of $0.4 million have been reclassified as current assets in 2016, in comparison to a current liability on the statement of net position in 2015 due to favorable fluctuations in the market value of hedging positions.
- Other noncurrent assets, which include restricted cash and cash equivalents, noncurrent investments, restricted investments, prepaid expenses, and deferred costs, increased by approximately $27.9 million from 2015 to 2016, primarily the result of a $25.2 million increase in restricted investments from issuance of the Series 2016 bonds, and a $3.7 million increase in future recoverable costs related to the levelization of depreciation, bond interest, and costs associated with the Agency's generating resources. Noncurrent

investments decreased by $1.0 million from 2015 to 2016 from an investment reclassification to current short-term investments.

- Deferred outflows of resources decreased by $1.2 million from 2015 to 2016 primarily as a result of the Agency's hedging activities.
- Current liabilities increased by approximately $10.5 million from 2015 to 2016 primarily the result of a $9.9 million increase of accounts payable and accrued liabilities, which includes a $1.8 million increase of retainage payable, both of which primarily relate to construction costs incurred for the Shakopee electric generation project. Accrued interest payable increased by $0.9 million for additional interest accrued in connection with the Series 2016 bond issuance. Derivative instruments – futures decreased by $0.7 million from 2015 to 2016.
- Long-term liabilities increased by approximately $63.7 million from 2015 to 2016, primarily the result of the Agency's issuance of the $63.3 million Series 2016 bonds, and principal payments on Agency debt.
- Deferred inflows of resources increased by $11.3 million, primarily the result of the Agency receiving a $9.4 million prepaid buy-in fee from the City of Elk River, and making additional contributions to its rate stabilization account in 2016.

Comparison of 2015 with 2014

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

Condensed Statements of Net Position

	2015	2014	Dollar change	Percentage change
Capital assets, net	$ 277,474,999	279,273,679	(1,798,680)	(0.6)%
Current assets	40,613,347	59,252,913	(18,639,566)	(31.5)
Other noncurrent assets	58,857,018	57,814,783	1,042,235	1.8
Total assets	376,945,364	396,341,375	(19,396,011)	(4.9)
Deferred outflows of resources	2,359,009	1,788,969	570,040	31.9
Total assets and deferred outflows	$ 379,304,373	398,130,344	(18,825,971)	(4.7)
Current liabilities	$ 20,526,018	24,422,643	(3,896,625)	(16.0)
Long-term liabilities	262,673,538	287,433,515	(24,759,977)	(8.6)
Total liabilities	283,199,556	311,856,158	(28,656,602)	(9.2)
Deferred inflows of resources	37,995,438	37,629,591	365,847	1.0
Total liabilities and deferred inflows	321,194,994	349,485,749	(28,290,755)	(8.1)

Condensed Statements of Net Position

	2015	2014	Dollar change	Percentage change
Net position:				
Net investment in capital assets	$ 32,099,907	9,508,833	22,591,074	237.6
Restricted	5,363,890	6,298,873	(934,983)	(14.8)
Unrestricted	20,645,582	32,836,889	(12,191,307)	(37.1)
Total net position	58,109,379	48,644,595	9,464,784	19.5
Total liabilities, deferred inflows, and net position	$ 379,304,373	398,130,344	(18,825,971)	(4.7)

Condensed statements of net position highlights are as follows:

- The assets of the Agency exceeded its liabilities at the close of 2015 by approximately $58.1 million (net position) as compared with $48.6 million at the end of 2014. Net position provides necessary liquidity to the Agency and supports its investment-grade credit rating.
- Capital assets, net decreased by approximately $1.8 million during 2015 primarily the result of an increase in construction and land acquisition costs in relation to the electric generation project located in Shakopee, Minnesota. These costs were offset by additional depreciation on capital assets in service.
- Current assets decreased by $18.6 million from 2014 to 2015. Cash and cash equivalents decreased by $17.8 million, primarily the result of redeeming the Agency's unrefunded Series 2005 bonds and making capital expenditures on a generation project that have not yet been funded by long-term debt. Short-term investments decreased by $2 million. Other receivables decreased by $0.2 million and power sales receivables decreased $0.4 million. Prepaid expenses increased from 2014 to 2015 by $0.5 million.
- Other noncurrent assets, which include restricted cash and cash equivalents, noncurrent investments, restricted investments, prepaid expenses, and deferred costs, increased by approximately $1.0 million from 2014 to 2015, primarily the result of a $4.6 million increase in future recoverable costs related to the levelization of depreciation, bond interest, and costs associated with the Agency's generating resources. Noncurrent investments decreased by $1.0 million from 2014 to 2015 and restricted investments decreased by $2.4 million.
- Deferred outflows of resources increased by $0.6 million from 2014 to 2015 primarily as a result of the Agency's hedging activities.
- Current liabilities decreased by approximately $3.9 million from 2014 to 2015 primarily the result of a $4.6 million decrease of accounts payable and accrued liabilities, and a $0.3 million decrease of retainage payable. This was partially offset by an increase in derivative instruments – futures of $0.7 million, and a $0.4 million increase in accrued interest payable.

- Long-term liabilities decreased by approximately $24.8 million from 2014 to 2015, primarily the result of principal payments on Agency debt and the Agency's redemption of the remaining unrefunded Series 2005 bonds.
- Deferred inflows of resources increased by $0.4 million, primarily the result of the Agency's redemption of the remaining unrefunded Series 2005 bonds.

The following table summarizes the changes in financial position of the Agency for the years ended December 31, 2016 and 2015:

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

	2016	2015	Dollar change	Percentage change
Operating revenues, power sales	$ 111,285,445	105,383,587	5,901,858	5.6%
Other nonoperating revenues	889,572	1,100,465	(210,893)	(19.2)
Total revenues	112,175,017	106,484,052	5,690,965	5.3
Operating expenses	92,457,609	89,024,188	3,433,421	3.9
Other nonoperating expenses	11,546,887	12,621,245	(1,074,358)	(8.5)
Total expenses	104,004,496	101,645,433	2,359,063	2.3
Future recoverable costs	3,515,629	4,626,165	(1,110,536)	(24.0)
Change in net position	11,686,150	9,464,784	2,221,366	23.5
Beginning net position	58,109,379	48,644,595	9,464,784	19.5
Ending net position	$ 69,795,529	58,109,379	11,686,150	20.1

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

- Operating revenues – power sales increased by approximately $5.9 million between 2016 and 2015 primarily the result of increased energy sales to members and higher average rates in 2016. Operating revenues – power sales consist primarily of member power sales revenue, power sales to nonmembers, and transmission revenue.
- Other nonoperating revenues decreased by approximately $0.2 million between 2016 and 2015 primarily related to less investment income earned on restricted investments, and gain on extinguishment of debt, both of which resulted from the Series 2005 bond redemption in 2015. The decrease was partially offset by a net increase in fair value of investments of $0.8 million between 2016 and 2015.
- Operating expenses increased by approximately $3.4 million between 2016 and 2015 primarily the result of an $8.0 million increase in transmission expense, and a $0.2 million increase in other operating expenses, partially offset by a $4.9 million decrease in power acquisition expense.

- Other nonoperating expenses decreased by approximately $1.1 million between 2016 and 2015 primarily related to a decrease in interest expense, partially offset by an increase in amortization of premium on long-term debt.
- Future recoverable costs decreased by approximately $1.1 million between 2016 and 2015 primarily the result of the application of the Agency's policy regarding the levelization of costs for generating assets financed by debt and the application of the Agency's policy of not recognizing the change in value of investments for ratemaking purposes.

The following table summarizes the changes in financial position of the Agency for the years ended December 31, 2015 and 2014:

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

		2015	2014	Dollar change	Percentage change
Operating revenues, power sales	$	105,383,587	104,878,860	504,727	0.5%
Other nonoperating revenues		1,100,465	3,081,874	(1,981,409)	(64.3)
Total revenues		106,484,052	107,960,734	(1,476,682)	(1.4)
Operating expenses		89,024,188	88,696,787	327,401	0.4
Other nonoperating expenses		12,621,245	14,097,285	(1,476,040)	(10.5)
Total expenses		101,645,433	102,794,072	(1,148,639)	(1.1)
Future recoverable costs		4,626,165	2,267,338	2,358,827	104.0
Change in net position		9,464,784	7,434,000	2,030,784	27.3
Beginning net position		48,644,595	41,210,595	7,434,000	18.0
Ending net position	$	58,109,379	48,644,595	9,464,784	19.5

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

- Operating revenues – power sales increased by approximately $0.5 million between 2015 and 2014 primarily the result of higher transmission revenue received in 2015. Operating revenues – power sales consist primarily of member power sales revenue, power sales to nonmembers, and transmission revenue. Operating expenses did not materially change between 2015 and 2014.
- Other nonoperating revenues decreased by approximately $2.0 million between 2015 and 2014 primarily related to a decrease in fair value of investments, partially offset by an increase in investment income and a $0.4 million gain on extinguishment of debt.

- Operating expenses increased by approximately $0.3 million between 2015 and 2014 primarily the result of an increase in transmission, other operating expenses, and depreciation, partially offset by a decrease in power acquisition expense.
- Other nonoperating expenses decreased by approximately $1.5 million between 2015 and 2014 primarily related to a decrease in interest expense, partially offset by an increase in amortization of premium on long-term debt.
- Future recoverable costs increased by approximately $2.4 million between 2015 and 2014 primarily the result of the application of the Agency's policy regarding the levelization of costs for generating assets financed by debt and the application of the Agency's policy of not recognizing the change in value of investments for ratemaking purposes.

Debt Administration

As of December 31, 2016, the Agency had long-term debt outstanding of approximately $293.2 million.

On September 24, 2014, the Agency issued Electric Revenue Bonds Series 2014 in the amount of $46.4 million. The bonds were issued for the purpose of refunding the Agency's outstanding Electric Revenue Bonds Series 2004A and constructing a transmission line in Anoka, Minnesota.

On December 17, 2014, the Agency issued Electric Revenue Refunding Bonds Series 2014A in the amount of $75.3 million. The bonds were issued for the purpose of advance refunding a portion of the Agency's outstanding Electric Revenue Bonds Series 2005.

On October 1, 2015, the Agency redeemed the remaining unrefunded Series 2005 bonds in the amount of $14.0 million.

On August 25, 2016, the Agency issued Electric Revenue Bonds Series 2016 in the amount of $63.3 million. The bonds were issued for the purpose of constructing an electric generation facility in Shakopee, Minnesota.

Moody's upgraded the Agency's rating from A3 to A2 in 2014. The Agency continued to hold an A2 rating from Moody's in 2016. The Agency continued to hold an A rating from Fitch in 2016.

MINNESOTA MUNICIPAL POWER AGENCY

Statements of Net Position

December 31, 2016 and 2015

Assets		**2016**	**2015**
Current assets:			
Cash and cash equivalents	$	43,761,074	21,329,356
Restricted cash and cash equivalents		6,595,034	5,363,890
Short-term investments		1,000,000	1,000,000
Accrued interest receivable		170,527	169,253
Power sales and other receivables		8,918,683	8,409,122
Fuel inventory		1,507,433	1,354,777
Plant inventory – spares		2,226,958	1,981,104
Prepaid expenses		1,309,331	1,005,845
Derivative instruments – futures		392,240	—
Total current assets		65,881,280	40,613,347
Noncurrent assets:			
Capital assets:			
Electric generation assets		352,628,784	352,063,732
Land		7,066,719	6,116,062
Less accumulated depreciation		(99,384,108)	(87,446,358)
Property and equipment, net		260,311,395	270,733,436
Construction in progress		62,298,194	6,741,563
Total capital assets, net		322,609,589	277,474,999
Investments		—	1,000,000
Restricted cash, cash equivalents, and investments		45,253,790	20,083,836
Prepaid expenses		613,279	530,538
Future recoverable costs		40,928,273	37,242,644
Total noncurrent assets		409,404,931	336,332,017
Total assets		475,286,211	376,945,364
Deferred Outflows			
Deferred outflows of resources		1,134,529	2,359,009
Total assets and deferred outflows of resources	$	476,420,740	379,304,373
Liabilities			
Liabilities:			
Current liabilities:			
Accounts payable and accrued liabilities	$	17,259,457	7,389,957
Accrued interest payable		3,710,198	2,815,077
Long-term debt due within one year		9,113,333	8,713,333
Capital lease liability due within one year		917,235	865,561
Derivative instruments – futures		—	742,090
Total current liabilities		31,000,223	20,526,018
Long-term debt, net		307,361,707	242,763,042
Capital lease liability		18,993,261	19,910,496
Total noncurrent liabilities		326,354,968	262,673,538
Total liabilities		357,355,191	283,199,556
Deferred Inflows			
Deferred inflows of resources – rate stabilization		33,071,000	30,450,000
Deferred inflows of resources – other		16,199,020	7,545,438
Total liabilities and deferred inflows of resources		406,625,211	321,194,994
Net Position			
Net position:			
Net investment in capital assets		38,487,165	32,099,907
Restricted for debt service		6,595,034	5,363,890
Unrestricted		24,713,330	20,645,582
Total net position		69,795,529	58,109,379
Total liabilities and deferred inflows of resources and net position	$	476,420,740	379,304,373

See accompanying notes to financial statements.

MINNESOTA MUNICIPAL POWER AGENCY

Statements of Revenues, Expenses, and Changes in Net Position

Years ended December 31, 2016 and 2015

		2016	2015
Operating revenues:			
Power sales to members	$	110,109,926	104,806,467
Power sales to nonmembers		1,175,519	577,120
Total operating revenues		111,285,445	105,383,587
Operating expenses:			
Power acquisition expense		37,571,000	42,466,770
Transmission		19,104,903	11,125,853
Other operating expenses		23,843,957	23,597,219
Depreciation		11,937,749	11,834,346
Total operating expenses		92,457,609	89,024,188
Operating income		18,827,836	16,359,399
Nonoperating revenues (expenses):			
Amortization of premium on long-term debt, net		887,638	782,146
Interest expense		(12,434,525)	(13,403,391)
Investment income		816,422	1,402,545
Net (decrease) increase in fair value of investments		73,150	(680,102)
Gain on extinguishment of debt		—	378,022
Total nonoperating revenues (expenses), net		(10,657,315)	(11,520,780)
Change in net position before future recoverable costs		8,170,521	4,838,619
Future recoverable costs		3,515,629	4,626,165
Change in net position		11,686,150	9,464,784
Total net position, beginning of year		58,109,379	48,644,595
Total net position, end of year	$	69,795,529	58,109,379

See accompanying notes to financial statements.

MINNESOTA MUNICIPAL POWER AGENCY

Statements of Cash Flows

Years ended December 31, 2016 and 2015

		2016	2015
Cash flows from operating activities:			
Receipts from power sales	$	113,092,707	105,798,144
Payments for power acquisition/production and operating expenses		(80,016,530)	(81,428,973)
Net cash provided by operating activities		33,076,177	24,369,171
Cash flows from capital and related financing activities:			
Construction of capital assets		(47,931,077)	(10,704,870)
Payments received from grant for capital asset construction		—	—
Proceeds from issuance of long-term debt		74,599,637	—
Principal payments on electric revenue bonds		(8,713,333)	(8,813,334)
Other financing use – payment to refunded bond escrow agent		—	(13,985,000)
Principal payments on capital lease		(865,561)	(816,798)
Payment of interest		(12,445,119)	(12,974,330)
Payment of debt issuance costs		(170,000)	(47,000)
Payment received for prepaid new member buy-in fee		9,393,794	—
Net cash provided by (used in) capital and related financing activities		13,868,341	(47,341,332)
Cash flows from investing activities:			
Proceeds from sales of investments		12,640,256	18,145,302
Purchase of investments		(11,640,256)	(13,343,452)
Interest received		815,148	1,301,712
Net cash provided by investing activities		1,815,148	6,103,562
Net change in cash and cash equivalents		48,759,666	(16,868,599)
Cash and cash equivalents, beginning of year		26,962,587	43,831,186
Cash and cash equivalents, end of year	$	75,722,253	26,962,587
Cash components:			
Cash and cash equivalents	$	43,761,074	21,329,356
Restricted cash and cash equivalents		31,961,179	5,633,231
Cash and cash equivalents, end of year	$	75,722,253	26,962,587
Cash flows from operating activities:			
Operating income	$	18,827,836	16,359,399
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation		11,937,749	11,834,346
Deferred inflows of resources – rate stabilization		2,621,000	—
Deferred inflows of resources – other		(740,212)	365,847
Changes in current assets and liabilities:			
Power sales and other receivables		(509,561)	568,549
Fuel inventory		(152,656)	146,286
Plant inventory – spares		(245,854)	(137,560)
Prepaid expenses		(386,227)	(502,262)
Accounts payable and accrued liabilities		1,724,102	(4,265,434)
Total adjustments		14,248,341	8,009,772
Net cash provided by operating activities	$	33,076,177	24,369,171
Supplemental cash flow information and noncash capital and related financing activities:			
Amortization of premium on electric revenue bonds	$	887,638	782,146
Capital assets in accounts payable and accrued liabilities		6,665,894	360,160
Capital assets in retainage payable		1,839,665	—
Capitalized interest		995,863	—

See accompanying notes to financial statements.

(1) Organization and Significant Accounting Policies

(a) 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, 2016, the Agency comprises 12 Minnesota municipalities. In 2013, the City of Elk River, by and through the Elk River Utilities Commission, joined the Agency, becoming its 12th member. Elk River will begin purchasing all of its power and energy needs from the Agency on October 1, 2018.

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

Blended Component Units: The Agency owns 100% of Minnesota Renewable Energy, LLC. Minnesota Renewable Energy, LLC owns 100% of Oak Glen Wind Farm, LLC and 100% of Hometown BioEnergy, LLC. Oak Glen Wind Farm, LLC is responsible for the operation of Oak Glen Wind Farm, a 44 megawatt (MW) wind project located in Steele County, Minnesota. Hometown BioEnergy, LLC is responsible for the operation of the Hometown BioEnergy project, an 8 MW renewable energy project located in Le Sueur, Minnesota. The Agency owns 100% of Hometown GeoPower, LLC. Hometown GeoPower, LLC provides services to residents of the Agency's member municipalities. The Agency owns 100% of MMPA Transmission LLC. MMPA Transmission LLC holds the Agency's transmission-related assets. Complete financial statements for each of the individual component units may 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 2016. The power capacity charge for 2016 is approximately $1.1 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. Energy rates assessed by the Agency vary based on contract terms and production costs.

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

	Megawatts
Year ending December 31:	
2017	51
2018	41
2019	41
2020	41
2021	41

The Agency had an agreement with Xcel Energy Corporation (Xcel Energy) to provide transmission services through December 31, 2015. The Agency was obligated to pay for these services at rates established by the Federal Energy Regulatory Commission (FERC) at $36.50 per kilowatt per year through December 31, 2015, plus ancillary charges. Beginning in 2016, the Agency purchased transmission services from the Midcontinent Independent System Operator (MISO) at tariff based rates.

The Agency had an agreement with Rochester Public Utilities (RPU) to purchase 25 MW of capacity and energy from November 1, 2010 through May 31, 2015.

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

Additionally, the Agency has agreements for dispatching, billing, maintenance services, and other general administration. The Agency has a contract with Avant Energy, Inc. to manage the Agency, which terminates on December 31, 2026.

(b) Basis of Accounting

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

(c) Capital Assets

Capital assets are recorded at cost, including capitalized interest on borrowed funds during construction. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. The Agency capitalized interest costs of $1.0 million and $0 for the years ended December 31, 2016 and 2015, respectively.

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.

(d) Restricted Cash and Cash Equivalents

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.

(e) Investments and Short-Term Investments

Investments are reported at fair value based on quoted market prices. Short-term investments comprise certificates of deposit having an initial maturity of less than one year when purchased and banker's acceptances having an initial maturity of less than one year when purchased.

(f) Deferred Costs to Be Recovered in Future Periods

Rates charged to members include amounts sufficient to pay levelized principal and interest payments on long-term debt. For financial reporting purposes, the Agency recognizes depreciation and amortization pertaining to capital assets and other assets financed by long-term debt in addition to interest paid on such debt. As permitted by the application of the provisions of GASB 62, the Agency defers the current depreciation, amortization, and interest costs in excess of levelized principal and interest costs on long-term debt for assets placed into service prior to September 24, 2013 and after December 15, 2015. These costs will be recovered through rates charged to members in future periods when the levelized costs of principal and interest on long-term debt exceed the then current depreciation and interest costs related to such issues.

(Continued)

For financial reporting purposes, the Agency also reports investments and restricted investments at fair value. As permitted by the application of the provisions of GASB 62, the Agency defers changes in the fair value of investments and restricted investments that the Agency intends to hold to maturity.

(i) Deferred Outflows of Resources

Deferred outflows of resources represent the fair value of the Agency's derivative instruments used for hedging future power acquisition costs. Deferred outflows of resources also represent the unamortized difference between reacquisition price and net carrying amount related to the Agency's bond refunding activities. See footnote 4 for more information on the Agency's refunding activities.

(ii) Derivative Instruments – Futures

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

(iii) 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.

(iv) Deferred Inflows of Resources – Other

Deferred inflows of resources – other includes the amount accrued by the Agency for future major maintenance of its combustion turbine and steam turbine generation resources. As permitted by the application of the provisions of GASB 62, the Agency recognizes major maintenance expense for combustion turbine and steam turbine generation resources both on a per-start basis and over time. These expenses are accrued as a deferred inflow of resources. The accrued amount is reduced when the Agency performs major maintenance on its combustion turbine and steam turbine generation resources.

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

On July 18, 2016, the Agency received cash from its newest member, the City of Elk River, in the amount of $9.4 million. These funds represent a prepaid buy-in fee as outlined in the new member agreement between the City of Elk River and the Agency. The agreement includes a contingent obligation of the Agency to provide electricity services on and after October 1, 2018 to the City of Elk River. The Agency classified the receipt of funds as a deferred inflow of resources on the statement of net position.

(g) Unamortized Debt Premium/Discount

Debt premium/discount is amortized over the repayment period of the related issues using the straight-line method, which approximates the effective-interest method.

(h) Cash Flows

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.

(i) 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.

(j) 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.

(k) 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.

(l) 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.

(m) 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.

(n) Income Taxes

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

(o) Use of Estimates in the Preparation of Financial Statements

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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(p) Arbitrage

When the Agency's tax-exempt bond proceeds are invested at a higher rate of interest than the cost of borrowing, the excess of interest income over cost of borrowing is a rebate payable to the Internal Revenue Service (IRS) within five years of the date of the bond offering and every five years thereafter.

(Continued)

The Agency accrued for $0.1 million and $0 rebate payable to the IRS for the years ended December 31, 2016 and 2015, respectively.

(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	
	2016	2015
Current assets:		
Cash and cash equivalents	$ 43,761,074	21,329,356
Restricted cash and cash equivalents	6,595,034	5,363,890
Short-term investments	1,000,000	1,000,000
Subtotal	51,356,108	27,693,246
Noncurrent assets:		
Restricted cash and cash equivalents	25,366,145	269,341
Investments	—	1,000,000
Restricted investments	19,887,645	19,814,495
Subtotal	45,253,790	21,083,836
Total	$ 96,609,898	48,777,082

At December 31, 2016, all deposits for the Agency were insured or collateralized by securities held by the Agency's agent in the Agency's name.

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

- Interest bearing checking accounts
- U.S. Treasury bills, bonds, and notes
- U.S. government agencies and instrumentalities securities
- State and local securities
- Minnesota Joint Powers Investment Trusts
- Certificates of deposit
- Banker's acceptances of U.S. banks eligible for purchase by the Federal Reserve System

- Commercial paper issued by U.S. corporations or their Canadian subsidiaries, of the highest quality and maturing within 270 days
- Money market mutual funds – open-end, no-load
- Guaranteed investment contracts
- Repurchase agreements fully (100%) collateralized by U.S. securities

(a) 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, 2016 and 2015:

		December 31, 2016			December 31, 2015		
		Investment maturities (in years)			Investment maturities (in years)		
		Less than one year	Greater than one year	No maturity	Less than one year	Greater than one year	No maturity
Investment type:							
U.S. government agencies	$	5,935,857	10,269,063	—	5,938,888	10,151,758	—
U.S. Treasuries		—	—	—	—	—	—
Commercial paper		—	—	—	9,042,489	—	—
Banker's acceptances		—	—	—	—	—	—
Certificates of deposit		1,000,000	291,000	—	1,000,000	1,291,000	—
State and local bonds		—	3,391,725	—	—	3,432,849	—
Money market accounts		—	—	31,961,179	—	—	5,633,231
Cash and cash equivalents		—		43,761,074	—	—	12,286,867
Total	$	6,935,857	13,951,788	75,722,253	15,981,377	14,875,607	17,920,098

(b) 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 and cash and cash equivalents 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, 2016 and 2015:

	December 31, 2016					
			Quality ratings			
		Amount reported	AA	AAA	P-1/A-1+	Unrated
Investment type:						
U.S. government agencies	$	16,204,920	16,204,920	—	—	—
Certificates of deposit		1,291,000	—	—	—	1,291,000
Commercial paper		—	—	—	—	—
State and local bonds		3,391,725	3,391,725	—	—	—
Money market accounts		31,961,179	—	31,961,179	—	—
Cash and cash equivalents		43,761,074	—	—	—	43,761,074
Total	$	96,609,898	19,596,645	31,961,179	—	45,052,074

	December 31, 2015					
			Quality ratings			
		Amount reported	AA	AAA	P-1/A-1+	Unrated
Investment type:						
U.S. government agencies	$	16,090,646	16,090,646	—	—	—
Certificates of deposit		2,291,000	—	—	—	2,291,000
Commercial paper		9,042,489	—	—	9,042,489	—
State and local bonds		3,432,849	3,432,849	—	—	—
Money market accounts		5,633,231	—	5,633,231	—	—
Cash and cash equivalents		12,286,867	—	—	—	12,286,867
Total	$	48,777,082	19,523,495	5,633,231	9,042,489	14,577,867

(c) 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 adopted and revised investment policy addresses, among other things, custodial credit risk. At December 31, 2016 and 2015, 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.

(d) Concentration of Credit Risk

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.

The Agency measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- *Level 1*: Quoted prices for identical investments in active markets;
- *Level 2*: Observable inputs other than quoted market prices; and,
- *Level 3*: Unobservable inputs.

The Agency had the following recurring fair value measurements for the years ended December 31, 2016 and 2015:

Investments by fair value level		December 31, 2016	Fair value measurements using Level 1	Level 2	Level 3
Debt Securities:					
U.S. government agencies	$	16,204,920	—	16,204,920	—
Certificates of deposit		1,291,000	—	1,291,000	—
Commercial paper		—	—	—	—
State and local bonds		3,391,725	—	3,391,725	—
Money market accounts		31,961,179	—	31,961,179	—
Total debt securities		52,848,824	—	52,848,824	—
Total investments by fair value level		52,848,824	—	52,848,824	—

Investments by fair value level		December 31, 2015	Fair value measurements using Level 1	Level 2	Level 3
Debt Securities:					
U.S. government agencies	$	16,090,646		16,090,646	
Certificates of deposit		2,291,000		2,291,000	
Commercial paper		9,042,489		9,042,489	
State and local bonds		3,432,849		3,432,849	
Money market accounts		5,633,231		5,633,231	
Total debt securities		36,490,215	—	36,490,215	—
Total investments by fair value level		36,490,215	—	36,490,215	—

Debt securities classified in Level 1 are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 are valued using the following approaches:

- U.S. Government Agencies, and Commercial Paper: quoted prices for identical securities in markets that are not active;
- State and Local Municipal Bonds: quoted prices for similar securities in active markets;
- Certificates of Deposit: matrix pricing based on the securities’ relationship to benchmark quoted prices;
- Money Market Accounts: published fair value per share (unit) for each fund.

(3) Capital Assets

Capital assets activity was as follows:

	2016			
	Beginning balance	Additions	Retirements/ transfers	Ending balance
Nondepreciable capital assets:				
Construction work in progress	$ 6,741,563	56,126,767	(570,136)	62,298,194
Land	6,116,062	950,657	—	7,066,719
Depreciable capital assets:				
Telemetering and telecommunication	1,192,857	23,670	—	1,216,527
Capital lease asset	29,080,531	—	—	29,080,531
Electric plant	311,946,139	541,382	—	312,487,521
Rotable combustion turbine parts	9,844,205	—	—	9,844,205
Less accumulated depreciation for assets in service	(87,446,358)	(11,937,750)	—	(99,384,108)
Capital assets, net	$ 277,474,999	45,704,726	(570,136)	322,609,589

	2015			
	Beginning balance	Additions	Retirements/ transfers	Ending balance
Nondepreciable capital assets:				
Construction work in progress	$ 471,219	8,681,298	(2,410,954)	6,741,563
Land	4,222,351	1,893,711	—	6,116,062
Depreciable capital assets:				
Telemetering and telecommunication	962,290	230,567	—	1,192,857
Capital lease asset	29,080,531	—	—	29,080,531
Electric plant	310,305,095	1,641,044	—	311,946,139
Rotable combustion turbine parts	9,844,205	—	—	9,844,205
Less accumulated depreciation for assets in service	(75,612,012)	(11,834,346)	—	(87,446,358)
Capital assets, net	$ 279,273,679	612,274	(2,410,954)	277,474,999

(Continued)

(4) Long-Term Debt

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

	2016	2015
Series 2007, 4.00%–5.25%, due October 1, 2007 to 2037	22,190,000	22,785,000
Series 2009A, 1.40%, due October 1, 2009 to 2023	2,333,333	2,666,667
Series 2010A, 3.00%–5.25%, due October 1, 2011 to 2035	75,605,000	77,955,000
Series 2013, 3.00%–5.00%, due October 1, 2014 to 2023	13,375,000	14,955,000
Series 2014, 2.00%–5.00%, due October 1, 2015 to 2044	43,530,000	45,005,000
Series 2014A, 3.50%–5.00%, due October 1, 2016 to 2035	72,870,000	75,250,000
Series 2016, 2.13%–5.00%, due October 1, 2018 to 2047	63,315,000	—
Total bonds outstanding	293,218,333	238,616,667
Less current maturities	(9,113,333)	(8,713,333)
Add unamortized premium	23,256,707	12,859,708
	$ 307,361,707	242,763,042

On October 1, 2015, the Agency redeemed the remaining unrefunded Series 2005 bonds. The redemption resulted in a difference between the redemption price and net carrying amount of the redeemed bonds of $0.4 million. This difference is reported on the Agency's statement of net position as a gain on extinguishment of debt.

On August 25, 2016, the Agency issued Electric Revenue Bonds Series 2016 in the amount of $74.8 million, including net premium on the bonds. The bonds were issued for the purpose of constructing an electric generation facility in Shakopee, Minnesota.

Debt service requirements on the outstanding bonds are as follows:

Year	Principal	Interest	Total
2017	$ 9,113,333	14,052,395	23,165,728
2018	10,568,333	13,348,694	23,917,027
2019	11,043,333	12,868,965	23,912,298
2020	11,478,333	12,426,610	23,904,943
2021	12,023,333	11,880,106	23,903,439
2022–2026	60,706,668	50,851,057	111,557,725
2027–2031	70,535,000	35,765,256	106,300,256
2032–2036	70,450,000	17,553,763	88,003,763
2037–2041	16,230,000	7,094,450	23,324,450
2042-2046	17,310,000	3,544,650	20,854,650
2047-2051	3,760,000	188,000	3,948,000
	$ 293,218,333	179,573,946	468,844,279

(Continued)

The Agency has an agreement with the City of Chaska to purchase capacity, described more fully in note 1. A portion of the payments under this agreement are accounted for as a capital lease. Future minimum payments under the agreement are as follows:

Year		Principal	Interest	Executory costs	Payment
2017	$	917,235	1,133,141	435,808	2,486,184
2018		971,994	1,078,382	435,808	2,486,184
2019		1,030,022	1,020,354	435,808	2,486,184
2020		1,091,514	958,861	435,808	2,486,183
2021		1,156,678	893,698	435,808	2,486,184
2022–2026		6,905,424	3,346,454	2,179,042	12,430,920
2027–2031		7,837,629	1,047,332	1,940,131	10,825,092
	$	19,910,496	9,478,222	6,298,213	35,686,931

Long-term liability activity for the years ended December 31, 2016 and 2015 was as follows:

Long-term liabilities as of December 31, 2016		Beginning balance	Additions	Reductions	Ending balance
Long-term bonds	$	238,616,667	63,315,000	(8,713,334)	293,218,333
Less current maturities		(8,713,333)	(9,113,333)	8,713,333	(9,113,333)
Add unamortized premium, net		12,859,708	11,284,637	(887,638)	23,256,707
Long-term bonds, net	$	242,763,042	65,486,304	(887,639)	307,361,707
Capital lease liability	$	20,776,057	—	(865,561)	19,910,496

Long-term liabilities as of December 31, 2015		Beginning balance	Additions	Reductions	Ending balance
Long-term bonds	$	261,415,000	—	(22,798,333)	238,616,667
Less current maturities		(8,813,334)	(8,713,333)	8,813,334	(8,713,333)
Add unamortized premium, net		14,055,792	—	(1,196,084)	12,859,708
Long-term bonds, net	$	266,657,458	(8,713,333)	(15,181,083)	242,763,042
Capital lease liability	$	21,592,855	—	(816,798)	20,776,057

(Continued)

(5) Power Acquisition Expense

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

		2016	2015
Power purchases	$	23,905,945	31,176,098
Production fuel		13,665,055	11,290,672
Total power acquisition expense	$	37,571,000	42,466,770

(6) Credit Facilities

The Agency entered into a $5.0 million credit facility October 1, 2008. This facility was renewed in September 2011 and again in June 2013. The commitment fee is 0.45% per annum; interest on outstanding balances is tied to the prime rate. The facility was terminated upon the commencement of the new credit facility as described below.

The Agency entered into a $20.0 million credit facility May 1, 2016. The commitment fee is 0.50% per annum; interest on outstanding balances is tied to LIBOR. The facility expires on May 13, 2019. There were no amounts outstanding as of December 31, 2016 or 2015.

(7) Risk Management

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

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

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

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

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

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

(Continued)

(8) Contingencies

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

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