

# **Public Power Generation Agency**

Independent Auditor's Report and Financial Statements

December 31, 2018 and 2017



**Public Power Generation Agency**  
**December 31, 2018 and 2017**

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## Independent Auditor's Report

Board of Directors  
Public Power Generation Agency  
Hastings, Nebraska

We have audited the accompanying financial statements of Public Power Generation Agency (the Agency) as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Public Power Generation Agency as of December 31, 2018 and 2017, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### *Required Supplementary Information*

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

### *Other Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Agency's basic financial statements. The schedules of billings to members as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules of billings to members have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

***BKD, LLP***

Lincoln, Nebraska

April 3, 2019

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis on the following pages summarizes the financial highlights and focuses on factors that had a material effect on the financial condition of Public Power Generation Agency (the Agency or PPGA) and the results of operations for 2018, 2017 and 2016. This discussion should be read in conjunction with the accompanying financial highlights, the basic financial statements and notes to the financial statements.

### ***Nature of Operations***

PPGA was created in 2005 as a joint entity pursuant to the Interlocal Cooperation Act of the State of Nebraska. The Members of PPGA are Municipal Energy Agency of Nebraska, Heartland Consumers Power District, Hastings Utilities, Grand Island Utilities and Nebraska City Utilities.

PPGA was created solely for the purpose of owning, financing, acquiring, constructing and operating the Whelan Energy Center Unit 2 Plant (WEC 2 or the "Plant"). The Plant was intended to provide long-term, baseload electric power supply for the Members. PPGA participates in the Southwest Power Pool Integrated Marketplace, which launched in March 2014. This participation allows the output from the Plant to be economically dispatched into the market.

WEC 2 is a nominally rated 220 MW pulverized coal-fired sub-critical generating unit built at Whelan Energy Center near Hastings, Nebraska. WEC 2 began commercial operation on May 1, 2011. PPGA is the sole owner of the plant.

### ***Project Operating History***

The net generation, equivalent availability factor, forced outage rate, net capacity factor, net output factor and net heat rate of the Plant are shown below.

<b>Calendar Year</b>	<b>Net Generation (GWH)</b>	<b>Equivalent Availability Factor (1)</b>	<b>Forced Outage Rate (2)</b>	<b>Net Capacity Factor (3)</b>	<b>Net Output Factor (4)</b>	<b>Net Heat Rate (5)</b>
2016	919.44	90.46	1.44	46.65	66.34	10,507
2017	829.09	76.68	4.56	42.06	64.06	10,497
2018	1,062.23	79.82	17.03	53.65	66.52	10,482

- (1) The Equivalent Availability Factor incorporates the effect of deratings (losses in MW capability) and is essentially "equivalent to" the percentage of a period during which the generating unit was available for maximum net capability operation.
- (2) The Forced Outage Rate is the ratio of hours in the period that the generating unit is not capable of operating due to forced outages to the number of hours in the period.
- (3) The Net Capacity Factor is the ratio of the average annual load on the generating unit to the capacity rating of the unit.
- (4) The Net Output Factor is the ratio of the net energy generated to the net capability of the generating unit times the hours in the period, and reflects the unit availability as well as the actual need for power produced by the unit.
- (5) The Net Heat Rate is a measure of the efficiency of the generating unit and shows the amount of thermal energy in BTUs necessary to produce 1.0 net kWh. The smaller the number, the more efficient the unit.

## Summary of the Financial Statements

The financial statements, related notes to the financial statements and management's discussion and analysis provide information about PPGA's financial position and activities.

**Management's Discussion and Analysis** – provides an objective and easily readable analysis of the financial activities of PPGA based on currently known facts, decisions or conditions.

**Balance Sheets** – provides a summary of the assets, deferred outflows of resources, liabilities and deferred inflows of resources.

**Statements of Revenues and Expenses** – presents the operating results of PPGA into various categories of operating revenues and expenses and nonoperating revenues and expenses.

**Statements of Cash Flows** – reports the cash provided by and used for operating activities, as well as other cash sources such as investment income and cash payments for repayment of bonds and capital additions.

**Notes to the Financial Statements** – provide additional disclosures and information that is essential to a full understanding of the data provided in the statements.

## Financial Analysis

The following comparative condensed financial statements (in thousands) summarize PPGA's financial position and operating results for the years ended December 31, 2018, 2017 and 2016.

### Condensed Balance Sheets (in thousands)

	2018	December 31, 2017	2016	Change From 2017 to 2018	Change From 2016 to 2017
Current assets	\$ 60,208	\$ 64,808	\$ 70,424	\$ (4,600)	\$ (5,616)
Net utility plant	463,602	484,752	504,791	(21,150)	(20,039)
Net costs to be recovered from billings to members	90,965	84,233	75,594	6,732	8,639
Other noncurrent assets	52,955	50,308	49,049	2,647	1,259
Deferred loss on refunding	3,020	3,272	3,524	(252)	(252)
Total assets and deferred outflows of resources	<u>\$ 670,750</u>	<u>\$ 687,373</u>	<u>\$ 703,382</u>	<u>\$ (16,623)</u>	<u>\$ (16,009)</u>
Current liabilities	\$ 34,435	\$ 34,307	\$ 34,572	\$ 128	\$ (265)
Noncurrent liabilities	632,028	648,584	664,133	(16,556)	(15,549)
Deferred gain on refunding	4,287	4,482	4,677	(195)	(195)
Total liabilities and deferred inflows of resources	<u>\$ 670,750</u>	<u>\$ 687,373</u>	<u>\$ 703,382</u>	<u>\$ (16,623)</u>	<u>\$ (16,009)</u>

### Assets

Current assets decreased in 2018 primarily due to cash and cash equivalents being used to meet current year obligations and a lower coal inventory at December 31<sup>st</sup>. Current assets decreased in 2017 primarily due to restricted investments used for debt service and capital expenditures and a lower coal inventory as of December 31<sup>st</sup>.

Net utility plant consists primarily of the WEC 2 plant which began operations in 2011. The decrease in 2018 and 2017 was due to the depreciation expense for the Plant being higher than the capital additions in each year.

The net costs to be recovered from billings to members increased in 2018 and 2017 primarily due to depreciation and amortization expense, which is not currently billable to the members. This noncurrent asset represents the net deferred expenses that will be recovered in future periods as they become power costs and are included in the members' future billings. See footnote 1 and 4 for further explanation and details of the components making up this noncurrent asset.

Other noncurrent assets increased in 2018 primarily due to deferred outage costs for the High and Intermediate Pressure (HIP) Turbine outage which were not yet billed to members and an increase in the noncurrent investments. Other noncurrent assets increased in 2017 primarily due to the increase in deferred costs for the 2017 outage.

Deferred outflows of resources consist of deferred costs of refunded debt resulting from refunding transactions.

### ***Liabilities***

Current liabilities increased slightly in 2018 primarily due to the timing of when services were performed and the related timing of vendor invoicing and payment at year end, an increase in the amount of unearned revenue recorded at year end and an increase in the current portion of long-term debt offset by a decrease in accrued interest payable. The decrease in current liabilities during 2017 was primarily due to the amount of unearned revenue recorded each year.

Noncurrent liabilities decreased in 2018 and 2017 primarily due to the scheduled debt service payments and the amortization of the bond premiums.

Deferred inflows of resources consist of the deferred gain on refunded debt resulting from refunding transactions.

### ***Debt Activity***

PPGA did not issue any debt during 2018 and 2017.

In May 2016, PPGA issued Whelan Energy Center Unit 2 Revenue Refunding Bonds, Series 2016 A in the amount of \$140,610,000. Funds were used to refund \$153,115,000 of outstanding 2007 Series A bonds.

PPGA made scheduled principal payments in 2018 of \$13,540,000 and in 2017 of \$14,040,000.

The Whelan Energy Center Unit 2 Revenue Bonds 2009 Series B were issued as bonds designated as "Build America Bonds" under the provision of the American Recovery and Reinvestment Act of 2009, which allows the Agency to receive a U.S. Treasury subsidy equal to a portion of the amount of interest payable on those bonds. Subsidy payments are contingent on federal regulations and are subject to change as discussed in footnote 5.

## Condensed Statements of Revenues and Expenses (in thousands)

	Year Ended December 31,			Change	
	2018	2017	2016	From 2017 to 2018	From 2016 to 2017
Power sales (MWh)	1,062,229	829,088	919,439	233,141	(90,351)
Operating revenues	\$ 68,834	\$ 64,004	\$ 65,245	\$ 4,830	\$ (1,241)
Operating expenses					
Production expenses and other	27,606	23,457	24,847	4,149	(1,390)
Administration and general	1,420	1,411	1,405	9	6
Depreciation and amortization	22,067	21,746	21,858	321	(112)
Total operating expenses	51,093	46,614	48,110	4,479	(1,496)
Operating income	17,741	17,390	17,135	351	255
Total nonoperating expenses, net	(24,474)	(26,028)	(27,721)	1,554	1,693
Net costs to be recovered from billings to members	\$ (6,733)	\$ (8,638)	\$ (10,586)	\$ 1,905	\$ 1,948

### Power Sales Volumes

Power sales volumes in 2018 increased 28.1% compared to 2017. Power sales volumes in 2017 decreased 9.8% compared to 2016.

### Operating Revenues

Operating revenues consist of billings to members and fluctuate annually based on the energy charges and debt service requirements. The increase in 2018 was due primarily to the increase in MWh generated by WEC 2 and additional billings to members for the HIP Turbine outage and other capital expenditures. The decrease in MWh generated by WEC 2 resulted in the decrease in 2017.

### Operating Expenses

Production expenses vary from year to year due to costs of fuel and other production costs. The increase in operating expenses in 2018 and the decrease in operating expenses in 2017 is primarily due to the changes in MWh generated. Additionally, during 2018, PPGA incurred expenses related to the HIP Turbine outage totaling \$2,437,310.

### Net Nonoperating Expenses

This category nets all nonoperating expenses with all nonoperating revenues. The decrease in 2018 and 2017 relates to the reduced interest expense in each year and the bond issuance costs in 2016.

### General Trends and Significant Events

For 2016, on April 4 through April 7, an unplanned plant outage occurred when a 115kV surge arrester failed in the substation. The outage was extended through April 19 due to weak power markets. The Spring 2016 planned outage began April 21 and consisted of routine inspections and maintenance as well as repair of the Induced Draft Fan inlet dampers. This outage was extended to June 1 due to weak power markets. A brief outage occurred between August 1 and 2 when a circulating water pump tripped. The Fall outage began October 15 and included modifications to the fabric filter bag house and cleaning of the catalyst compartment. The outage was extended to December 8 due to weak power markets.



The Spring 2017 planned outage began April 18 and consisted of routine inspections and maintenance. The catalyst compartment was cleaned and a water leak repaired in a boiler sootblower. The outage was extended to June 8 due to the weak power market. The plant was offline between July 21 and 27 to repair a tube leak in the boiler. The Fall 2017 planned outage began on October 6 and consisted of routine inspections as well as several major items. The first layer of catalyst was replaced which had been in service since initial operation. An overhaul of the turbine steam valves was completed. The electrical generator was inspected and the generator stator was rewedged. Repair of several boiler tubes due to erosion was completed. The outage ended on December 19 after an extension due to weak power market conditions.

For 2018, a Spring outage occurred between March 23 and April 1. During the outage, routine inspections and maintenance were completed as well as replacement of the air heater seals. An unscheduled outage for a primary air (PA) fan bearing occurred between April 2 and April 15. Additionally, there was an unscheduled outage for the HIP Turbine overhaul, between July 12 and August 30, 2018.

PPGA continues to monitor the development and implementation of new or modified environmental regulations. See Note 8 for additional information.

WEC 2 is located adjacent to an existing coal-fired generation facility known as the Whelan Energy Center Unit 1 (WEC 1), which is owned and operated solely by Hastings Utilities. WEC 1 and WEC 2 are fueled by low-sulfur coal from the Powder River Basin in Wyoming, which is delivered to WEC by rail. Hastings Utilities, as Project Operating Agent, currently purchases approximately 1.1 million tons of coal each year for the combined operation of WEC 1 and WEC 2. Hastings Utilities solicits multiple suppliers in order to provide a competitive fuel price. Approximately 55% of WEC's coal supply is currently supplied under a two-year coal purchase agreement with Peabody Energy that expires on December 31, 2021. The remainder of WEC's coal supply is purchased under short-term contracts and spot purchases based upon prevailing market conditions. Rail facilities at WEC can accommodate two trains of 140 cars each. Rail services are currently provided pursuant to a contract with Burlington Northern Santa Fe (BNSF) that expires on December 31, 2021.

### ***Report Purpose and Contact Information***

This financial report is designed to provide PPGA's Members and creditors with a general overview of PPGA's financial status for 2018, 2017 and 2016. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Project Operating Agent at Public Power Generation Agency, 1228 N. Denver Avenue, P.O. Box 398, Hastings, Nebraska 68902-0398 or phone (402) 462-3508.

# Public Power Generation Agency

## Balance Sheets

December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>Assets and Deferred Outflows of Resources</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 11,977,112	\$ 25,588,655
Restricted cash and cash equivalents	32,846,133	32,530,587
Investments	7,468,548	-
Accounts receivable	6,402,242	2,914,289
Inventories	1,302,592	3,310,692
Interest receivable	70,678	325,267
Prepaid expenses	140,811	138,455
Total current assets	<u>60,208,116</u>	<u>64,807,945</u>
<b>Utility Plant</b>		
Utility plant in service	620,924,703	620,699,849
Construction in progress	93,535	184,822
Total utility plant	<u>621,018,238</u>	<u>620,884,671</u>
Less: accumulated depreciation	<u>(157,416,277)</u>	<u>(136,132,719)</u>
Net utility plant	<u>463,601,961</u>	<u>484,751,952</u>
<b>Investments and Other Noncurrent Assets</b>		
Investments	6,632,564	3,969,476
Restricted investments	43,604,453	43,831,186
Net costs to be recovered from billings to members	90,965,120	84,232,576
Other	2,717,808	2,507,367
Total investments and other noncurrent assets	<u>143,919,945</u>	<u>134,540,605</u>
<b>Deferred Outflows of Resources</b>		
Deferred loss on refunding	<u>3,020,262</u>	<u>3,271,951</u>
Total assets and deferred outflows of resources	<u>\$ 670,750,284</u>	<u>\$ 687,372,453</u>
<b>Liabilities and Deferred Inflows of Resources</b>		
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 14,185,000	\$ 13,540,000
Accounts payable	3,151,985	3,736,296
Accrued expenses	208,196	95,490
Accrued interest payable	16,357,805	16,679,636
Unearned revenue	531,676	255,117
Total current liabilities	<u>34,434,662</u>	<u>34,306,539</u>
<b>Noncurrent Liabilities</b>		
Long-term debt, net	630,615,852	647,221,179
Other	1,412,343	1,362,424
Total noncurrent liabilities	<u>632,028,195</u>	<u>648,583,603</u>
<b>Deferred Inflows of Resources</b>		
Deferred gain on refunding	<u>4,287,427</u>	<u>4,482,311</u>
Total liabilities and deferred inflows of resources	<u>\$ 670,750,284</u>	<u>\$ 687,372,453</u>

**Public Power Generation Agency**  
**Statements of Revenues and Expenses**  
**Years Ended December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>Operating Revenues</b>		
Billings to members, net	\$ 68,833,698	\$ 64,003,840
Total operating revenues	<u>68,833,698</u>	<u>64,003,840</u>
<b>Operating Expenses</b>		
Fuel and other variable production	19,193,363	17,395,230
Other production	5,975,047	6,061,779
HIP Turbine outage costs	2,437,310	-
Administrative and general	1,419,601	1,411,433
Depreciation and amortization	<u>22,067,222</u>	<u>21,746,094</u>
Total operating expenses	<u>51,092,543</u>	<u>46,614,536</u>
<b>Operating Income</b>	<u>17,741,155</u>	<u>17,389,304</u>
<b>Nonoperating Revenues (Expenses)</b>		
Interest expense	(30,352,088)	(30,995,751)
Investment income	1,426,548	540,042
Federal subsidy - Build America Bonds	4,393,476	4,377,047
Other	<u>58,365</u>	<u>50,865</u>
Total nonoperating expenses, net	<u>(24,473,699)</u>	<u>(26,027,797)</u>
<b>Change in Net Costs to be Recovered from Billings to Members</b>	<u>\$ (6,732,544)</u>	<u>\$ (8,638,493)</u>

**Public Power Generation Agency**  
**Statements of Cash Flows**  
**Years Ended December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>Operating Activities</b>		
Receipts from members	\$ 65,622,304	\$ 64,973,303
Payments to suppliers	<u>(27,448,121)</u>	<u>(27,564,975)</u>
Net cash provided by operating activities	<u>38,174,183</u>	<u>37,408,328</u>
<b>Noncapital Financing Activities</b>		
Other miscellaneous receipts	<u>58,365</u>	<u>50,865</u>
<b>Capital and Related Financing Activities</b>		
Principal payments on revenue bonds	(13,540,000)	(14,040,000)
Interest paid	(33,037,441)	(33,644,897)
Interest subsidy received	4,393,476	4,377,047
Capital expenditures for utility plant	<u>(1,120,814)</u>	<u>(1,075,829)</u>
Net cash used in capital and related financing activities	<u>(43,304,779)</u>	<u>(44,383,679)</u>
<b>Investing Activities</b>		
Interest received on investment securities	1,452,222	854,994
Purchases of investment securities	(86,225,782)	(52,062,855)
Proceeds from sale of investment securities	<u>76,549,794</u>	<u>53,387,705</u>
Net cash provided by (used in) investing activities	<u>(8,223,766)</u>	<u>2,179,844</u>
<b>Decrease in Cash and Cash Equivalents</b>	(13,295,997)	(4,744,642)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>58,119,242</u>	<u>62,863,884</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 44,823,245</u>	<u>\$ 58,119,242</u>
<b>Reconciliation of Cash and Cash Equivalents to the Balance Sheets</b>		
Cash and cash equivalents	\$ 11,977,112	\$ 25,588,655
Restricted cash and cash equivalents	<u>32,846,133</u>	<u>32,530,587</u>
Total cash and cash equivalents	<u>\$ 44,823,245</u>	<u>\$ 58,119,242</u>

**Public Power Generation Agency**  
**Statements of Cash Flows - Continued**  
**Years Ended December 31, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>Reconciliation of Operating Income to Net Cash</b>		
<b>Provided By Operating Activities</b>		
Operating income	\$ 17,741,155	\$ 17,389,304
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	22,067,222	21,746,094
Changes in operating assets and liabilities		
Accounts receivable	(3,487,953)	1,224,565
Inventories	2,008,100	(1,800,979)
Prepaid expenses	(2,356)	647
Other noncurrent assets	(478,842)	(1,571,576)
Accounts payable	(112,327)	259,382
Accrued expenses	162,625	415,993
Unearned revenue	276,559	(255,102)
<b>Net Cash Provided By Operating Activities</b>	<b>\$ 38,174,183</b>	<b>\$ 37,408,328</b>
<b>Supplemental Cash Flows Information</b>		
Capital asset acquisitions included in accounts payable	\$ 53,355	\$ 525,339

# Public Power Generation Agency

## Notes to Financial Statements

December 31, 2018 and 2017

### Note 1: Nature of Operations and Summary of Significant Accounting Policies

#### *Nature of Operations*

Public Power Generation Agency (PPGA or the Agency) was created in 2005 as a joint entity pursuant to the Interlocal Cooperation Act of the State of Nebraska. PPGA was created solely for the purpose of owning, financing, acquiring, constructing and operating the Whelan Energy Center Unit 2 (WEC 2) Plant (the “Plant”). WEC 2 is a nominally rated 220 MW pulverized coal-fired sub-critical generating unit built at the existing Whelan Energy Center near Hastings, Nebraska. WEC 2 began commercial operation in May 2011. PPGA is the sole owner of the Plant. The Plant was intended to provide long-term, baseload electric power supply for the Members. PPGA participates in the Southwest Power Pool Integrated Marketplace, which launched in March 2014. This participation allows the Plant to be economically dispatched into the market.

The Members of PPGA are:

	<u>Megawatt (MW) Allocation</u>	<u>Entitlement Share</u>
Municipal Energy Agency of Nebraska (MEAN)	80 MW	36.36%
Heartland Consumers Power District (HCPD)	80 MW	36.36%
Hastings Utilities (HU)	35 MW	15.91%
Grand Island Utilities (GIU)	15 MW	6.82%
Nebraska City Utilities (NCU)	10 MW	4.55%

Each of the Members has entered into an Amended and Restated Participation Agreement, dated October 5, 2006, with PPGA. Under the agreements, PPGA has agreed to sell to each Member, and each Member has agreed to purchase from PPGA, such Member’s respective share of the net capacity and related energy of the Plant’s output. Each Member’s share of the output is referred to as their entitlement share. The agreements allocate to the Members all of the Plant’s output, bond-related costs and other project costs based upon their respective entitlement shares, and all energy-related costs based upon energy produced and scheduled by each Member. The term of the agreements extend at least to the date as of which any project bonds remain outstanding.

In 2008, HU entered into separate agreements with MEAN and HCPD for a partial assignment of the capacity and energy from HU’s entitlement share to MEAN and HCPD, to commence upon the commercial operation date of the plant through April 2018. At the beginning of the agreement term, HU assigned 6.818% of its entitlement share to both MEAN and HCPD, for a total assignment of 13.636% of its entitlement share. The allocation assignments began decreasing in May 2013 and decreased annually until the allocation assignments decreased to zero upon the termination of the agreement on May 1, 2018.

#### *Reporting Entity*

In evaluating how to define the Agency, for financial reporting purposes, management has considered all potential component units for which financial accountability may exist. The determination of financial accountability includes consideration of a number of criteria, including: (1) the Agency’s ability to appoint a voting majority of another entity’s governing body and to impose its will on that entity, (2) the potential for that entity to provide specific financial benefits to or impose specific financial burdens on the Agency, and (3) the entity’s fiscal dependency on the Agency. Based on the above criteria, PPGA has determined that it has no reportable component units.

**Public Power Generation Agency**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Note 1: Nature of Operations and Summary of Significant Accounting Policies - Continued**

***Basis of Accounting and Presentation***

The financial statements of PPGA have been prepared on the accrual basis of accounting using the economic resources measurement focus. The Agency's accounting records are maintained in accordance with accounting principles generally accepted in the United States of America for regulated utilities and generally follow the Uniform System of Accounts for Public Utilities and Licenses prescribed by the Federal Energy Regulatory Commission (FERC). PPGA prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB).

PPGA's accounting policies also follow the provisions of GASB Codification Section Re10, *Regulated Operations*, which permits an entity with cost-based rates to defer certain costs or income that would otherwise be recognized when incurred to the extent that the rate-regulated entity is recovering or expects to recover such amounts in rates charged to its customers. This method includes the philosophy that debt service requirements, as opposed to depreciation or amortization, are a cost for rate making purposes.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

***Cash Equivalents***

PPGA considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2018, cash equivalents consisted of money market funds, repurchase agreements and commercial paper. At December 31, 2017, cash equivalents consisted of money market funds and repurchase agreements.

***Investments and Investment Income***

Investments are held in various debt service and reserve accounts that are prescribed by bond indenture. These accounts are invested in money market mutual funds, U.S. Treasury securities, U.S. Agency obligations, commercial paper, negotiable certificates of deposit and repurchase agreements. Investments in money market mutual funds and repurchase agreements are carried at cost, which approximates fair value. Investments in U.S. Treasury securities, U.S. Agency obligations, commercial paper and negotiable certificates of deposit are carried at fair value. Fair value is determined using quoted market prices.

Investment income consists of interest income, realized gains and losses on investments and the net change for the year in the fair value of investments carried at fair value.

**Public Power Generation Agency**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Note 1: Nature of Operations and Summary of Significant Accounting Policies – Continued**

***Accounts Receivable***

Accounts receivable are stated at the amount billed to Members. Accounts receivable are ordinarily due 60 days after the issuance of the invoice. Delinquent receivables are charged off as they are deemed uncollectible. Management does not believe an allowance for doubtful accounts is necessary at December 31, 2018 or 2017, as there were no delinquent accounts.

***Inventories***

Inventories consist of coal and diesel fuel. Inventories are stated at the lower of average cost or market.

***Utility Plant***

Utility plant is stated at cost which represents the actual direct cost of labor, materials, and indirect costs, including construction period interest and other overhead expenses. Depreciation of utility plant is computed using the straight-line method over the estimated useful life of the different categories of the Plant, which is generally 30 years. Included within the Plant are some minor equipment and furniture categories with estimated useful lives ranging from 3 to 15 years.

***Net Costs to be Recovered from Billings to Members***

Billings to Members are designed to recover power costs as set forth by the PPGA Participation Agreement, which principally include current operating expenses and scheduled debt principal and interest. Pursuant to the provisions of GASB Codification Section Re10, *Regulated Operations*, expenses determined in accordance with accounting principles generally accepted in the United States of America (GAAP) that are not currently billable as power costs are recorded as other assets in the accompanying balance sheets. These costs will be recovered in future periods as they become power costs and are included in future Member billings (see Note 4). Over the life of the PPGA Participation Agreement, aggregate expenses are expected to equal aggregate billable power costs.

***Deferred Outflows/Inflows of Resources***

In addition to assets, the balance sheets will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until then. The Agency has one item that qualifies for reporting in this category, the deferred loss on refunding. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.



# Public Power Generation Agency

## Notes to Financial Statements

December 31, 2018 and 2017

### Note 1: Nature of Operations and Summary of Significant Accounting Policies – Continued

#### *Deferred Outflows/Inflows of Resources - Continued*

In addition to liabilities, the balance sheets will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Agency has one item that qualifies for reporting in this category, the deferred gain on refunding. A deferred gain on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

#### *Classification of Revenues and Expenses*

Operating revenues and expenses generally result from providing energy in connection with PPGA's ongoing operations. The principal operating revenues are billings to Members for energy charges and debt service requirements. Operating expenses include fuel, purchased power, other production expenses, administrative and general expenses, and depreciation and amortization. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

#### *Income Taxes*

In accordance with certain provisions of the Interlocal Cooperation Act and non-profit corporation statutes of Nebraska and related governing laws and regulations, PPGA is exempt from federal and state income taxes.

### Note 2: Deposits and Investments

#### *Deposits*

State statutes require banks either to give bond or to pledge government securities to the Agency in the amount of the Agency's deposits. The Agency's cash deposits, including certificates of deposit, are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). Any cash deposits or certificates of deposit in excess of the \$250,000 FDIC limits are covered by collateral held in a Federal Reserve Bank pledge account or by an agent for the Agency and thus, no custodial risk exists. No legal opinion has been obtained regarding the enforceability of any collateral arrangements.

#### *Investments*

PPGA's qualified investments are defined in the bond indentures for the revenue bond issuances described in Note 5. The bond indentures identify qualified investments as direct obligations of the United States government or any of its agencies, obligations guaranteed by the United States government or any of its agencies, money market mutual funds, repurchase agreements and commercial paper.

**Public Power Generation Agency**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Note 2: Deposits and Investments - Continued**

***Investments - Continued***

At December 31, 2018 and 2017, PPGA had the following investments, maturities and credit ratings:

	Carrying Value	Maturities in Years		Credit Rating Moody's/S&P
		Less Than 1	1 - 5	
<b>December 31, 2018</b>				
Money market mutual funds	\$ 31,670,403	\$ 31,670,403	\$ -	Aaa / AAAm
U.S. Treasury securities	54,522,259	23,320,789	31,201,470	Aaa / AAA
U.S. Agency obligations	2,237,220	1,197,630	1,039,590	Aaa / AA+
Commercial paper	993,560	993,560	-	Not Rated
Negotiable certificate of deposits	449,726	449,726	-	Not Rated
Repurchase agreements	12,654,641	12,654,641	-	Not Rated
	<u>\$ 102,527,809</u>	<u>\$ 70,286,749</u>	<u>\$ 32,241,060</u>	
<b>December 31, 2017</b>				
Money market mutual funds	\$ 31,422,759	\$ 31,422,759	\$ -	Aaa / AAAm
U.S. Treasury securities	45,322,253	19,654,023	25,668,230	Aaa / AAA
U.S. Agency obligations	2,478,408	2,478,408	-	Aaa / AA+
Repurchase agreements	26,693,482	26,693,482	-	Not Rated
	<u>\$ 105,916,902</u>	<u>\$ 80,248,672</u>	<u>\$ 25,668,230</u>	

***Summary of Carrying Values***

The carrying values of deposits and investments shown above are included in the balance sheets at December 31, 2018 and 2017 as follows:

	<u>2018</u>	<u>2017</u>
Carrying Value		
Deposits	\$ 1,001	\$ 3,002
Investments	<u>102,527,809</u>	<u>105,916,902</u>
	<u>\$ 102,528,810</u>	<u>\$ 105,919,904</u>

# Public Power Generation Agency

## Notes to Financial Statements

December 31, 2018 and 2017

### Note 2: Deposits and Investments - Continued

#### Summary of Carrying Values – Continued

Included in the following balance sheet captions:

	<u>2018</u>	<u>2017</u>
Current Assets		
Cash and cash equivalents		
Operating funds	\$ 11,414,196	\$ 14,994,588
Renewal and contingency fund	39,829	20,588
Rate stabilization fund	523,087	10,573,479
Total	<u>11,977,112</u>	<u>25,588,655</u>
Restricted cash and cash equivalents		
Closure / post-closure care account	1,241,446	1,078,157
Letter of credit support fund	203,740	200,350
Debt reserve funds	687,328	228,162
Debt service funds	30,713,619	30,357,373
Construction funds	-	666,545
Total	<u>32,846,133</u>	<u>32,530,587</u>
Short-term investments		
Renewal and contingency fund	3,979,969	-
Rate stabilization fund	3,488,579	-
Total	<u>7,468,548</u>	<u>-</u>
Noncurrent Assets		
Investments		
Rate stabilization fund	6,632,564	-
Renewal and contingency fund	-	3,969,476
Total	<u>6,632,564</u>	<u>3,969,476</u>
Restricted investments		
Debt reserve funds	43,604,453	43,831,186
	<u>\$ 102,528,810</u>	<u>\$ 105,919,904</u>

**Public Power Generation Agency**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Note 2: Deposits and Investments - Continued**

***Interest Rate Risk***

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The money market mutual funds and repurchase agreements are presented as an investment with a maturity of less than one year because they are redeemable in full immediately.

***Credit Risk***

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The bond indenture requires all commercial paper to have credit ratings of P-1 from Moody's and A-1+ from S&P and all money market mutual funds to have credit ratings of AAAM or better by S&P. The bond indenture does not require any minimum ratings for the securities of the approved United States government agencies which are not explicitly guaranteed by the United States government.

***Custodial Credit Risk***

For an investment, custodial credit risk is the risk that, in the event of a failure of the counterparty, PPGA would not be able to recover the value of its investment securities that are in the possession of an outside party.

The repurchase agreements require cash or securities to be pledged as collateral. Cash is pledged at 100% of the repurchase agreement carrying value while the fair value of securities are required to be maintained at a minimum of 104% of the carrying value.

***Concentration of Credit Risk***

Concentration of credit is the risk associated with the amount of investments PPGA 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. PPGA and the bond indenture place no limit on the amount that may be invested in any one issuer. At December 31, 2018 and 2017, PPGA had the following investment concentrations:

	<b>Portfolio Composition</b>	
	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
Wells Fargo Government Money Market	30.86 %	29.67 %
Repurchase agreement - Heritage Bank	12.34	25.20

**Public Power Generation Agency**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Note 2: Deposits and Investments - Continued**

***Investment Return***

Investment return for the years ended December 31, 2018 and 2017 of \$1,426,548 and \$540,042, respectively consisted of interest income, realized gains and losses on the sale of investments and the net increase in fair value of investments carried at fair value.

***Disclosures About Fair Value of Assets and Liabilities***

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

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

The Agency's investments in money market mutual funds and repurchase agreements are carried at cost and thus are not included within the fair value hierarchy.

The Agency's investments in U.S. Treasury securities, U.S. Agency obligations, commercial paper, and negotiable certificates of deposit are measured at fair value on a recurring basis, and are classified within Level 2 of the fair value hierarchy at December 31, 2018 and 2017.

**Public Power Generation Agency**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Note 3: Utility Plant**

Utility plant activity for the years ended December 31, 2018 and 2017 was:

	<b>2018</b>				<b>Ending Balance</b>
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Transfers</b>	
Electric plant in service	\$ 580,424,662	\$ -	\$ (515,263)	\$ 729,974	\$ 580,639,373
Transmission	22,556,229	-	-	-	22,556,229
Shared facilities	17,718,958	10,143	-	-	17,729,101
Construction in progress	184,822	638,687	-	(729,974)	93,535
	<u>620,884,671</u>	<u>648,830</u>	<u>(515,263)</u>	<u>-</u>	<u>621,018,238</u>
Total utility plant	620,884,671	648,830	(515,263)	-	621,018,238
Less accumulated depreciation	(136,132,719)	(21,798,821)	515,263	-	(157,416,277)
Utility plant, net	<u>\$ 484,751,952</u>	<u>\$ (21,149,991)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 463,601,961</u>
	<b>2017</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Transfers</b>	<b>Ending Balance</b>
Electric plant in service	\$ 579,761,215	\$ 274,222	\$ (745,797)	\$ 1,135,022	\$ 580,424,662
Transmission	22,556,229	-	-	-	22,556,229
Shared facilities	17,502,058	-	-	216,900	17,718,958
Construction in progress	224,172	1,312,572	-	(1,351,922)	184,822
	<u>620,043,674</u>	<u>1,586,794</u>	<u>(745,797)</u>	<u>-</u>	<u>620,884,671</u>
Total utility plant	620,043,674	1,586,794	(745,797)	-	620,884,671
Less accumulated depreciation	(115,252,614)	(21,625,902)	745,797	-	(136,132,719)
Utility plant, net	<u>\$ 504,791,060</u>	<u>\$ (20,039,108)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 484,751,952</u>

Under the terms of the Facility Sharing and Lease Agreement entered into between PPGA and Hastings Utilities (HU), as Operating Agent, ownership of certain PPGA assets were conveyed to HU to allow for the utilization of these assets for the benefit of the Plant. In addition, PPGA financed the construction of transmission facilities and equipment to facilitate the distribution of power to the Members. Although ownership of these facilities and equipment rests with other governmental entities responsible for the transmission and distribution of energy, PPGA has elected to defer these costs and amortize them over a period of 30 years, as a component of utility plant.

**Public Power Generation Agency**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Note 4: Net Costs to be Recovered from Billings to Members**

Net costs to be recovered from billings to Members for the years ended December 31, 2018 and 2017, and the accumulated totals as of December 31, 2018 and 2017, consisted of the following:

	<b>For the Years Ended</b>		<b>Accumulated Totals as of</b>	
	<b>December 31,</b>		<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<b>Items in accordance with GAAP not currently billable to Members under the participation agreement:</b>				
Depreciation and amortization expense	\$ 21,798,821	\$ 21,625,902	\$ 160,960,969	\$ 139,162,148
Amortization of Spring 2012 outage charges	-	120,192	1,201,925	1,201,925
Amortization of Fall 2017 outage charges	268,401	-	268,401	-
Amortization of deferred gain/loss on refunding, net	56,805	56,805	369,358	312,553
Bond issue costs paid with bond proceeds	-	-	10,464,169	10,464,169
Loss on disposition of utility plant	-	-	73,260	73,260
Accrued interest included in bond refunding	-	-	1,451,790	1,451,790
Accretion of bond discount (premium), net	(2,420,327)	(2,420,327)	(12,873,056)	(10,452,729)
SO2 emissions expense	77,366	32,788	334,742	257,376
Unrealized gain (loss) on investments	(156,501)	272,667	253,333	409,834
Portion of federal subsidy not credited on Member billings	-	-	(1,291,488)	(1,291,488)
Administrative costs incurred prior to commercial operation	-	-	1,566,261	1,566,261
Restricted interest income not credited to Members	(576,811)	(554,382)	(2,347,316)	(1,770,505)
Ash disposal costs not yet billable to Members	(113,369)	284,267	170,898	284,267
Other	(277,084)	252,124	(14,889)	262,195
<b>Amounts billed to Members under the bond resolution and participation agreement</b>				
Bond principal less credits received for principal	(11,435,252)	(11,031,543)	(69,133,732)	(57,698,480)
Capital asset expenditures billed to participants	(489,505)	-	(489,505)	-
<b>Net costs to be recovered from billings to Members</b>	<b>\$ 6,732,544</b>	<b>\$ 8,638,493</b>	<b>\$ 90,965,120</b>	<b>\$ 84,232,576</b>

**Public Power Generation Agency**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Note 5: Long-term Debt**

Long-term debt at December 31, 2018 and 2017 consisted of the following:

	<b>2018</b>	<b>2017</b>
Revenue bonds		
Whelan Energy Center Unit 2 Revenue Bonds		
2009 Series A (tax-exempt), 2.25 - 5.00%, due annually beginning on January 1, 2012 with a final payment due January 1, 2018, noncallable	\$ -	\$ 4,445,000
Whelan Energy Center Unit 2 Revenue Bonds		
2009 Series B (taxable), 7.242% with sinking fund installments beginning January 1, 2019 and a lump sum payment due January 1, 2041, callable at anytime	185,185,000	185,185,000
Whelan Energy Center Unit 2 Revenue Refunding Bonds		
2015 Series A (tax-exempt), 5.00%, due annually beginning on January 1, 2018 with a final payment due January 1, 2031, callable beginning in 2025	178,250,000	187,345,000
Whelan Energy Center Unit 2 Revenue Bonds		
2015 Series B (tax-exempt), 4.00% with sinking fund installments beginning January 1, 2032, and lump sum term payments of \$27,780,000 and \$77,650,000 due January 1, 2037 and January 1, 2041, respectively, noncallable	105,430,000	105,430,000
Whelan Energy Center Unit 2 Revenue Refunding Bonds		
2016 Series A (tax-exempt), 3.00 - 5.00%, due annually beginning January 1, 2032 with a final payment due January 1, 2041, callable beginning in 2026	140,610,000	140,610,000
Total revenue bonds outstanding	609,475,000	623,015,000
Issuance premiums	36,061,531	38,515,298
Issuance discount	(735,679)	(769,119)
Current maturities of long-term debt	(14,185,000)	(13,540,000)
Long-term debt, net	\$630,615,852	\$647,221,179



**Public Power Generation Agency**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Note 5: Long-term Debt - Continued**

Long term debt activity for 2018 and 2017 is summarized below:

	<b>January 1,</b>	<b>Additions</b>	<b>Reductions</b>	<b>December 31,</b>	<b>Due Within One Year</b>
<b>2018</b>					
Revenue bonds	\$ 623,015,000	\$ -	\$ (13,540,000)	\$ 609,475,000	\$ 14,185,000
Premiums	38,515,298	-	(2,453,767)	36,061,531	-
Discounts	(769,119)	-	33,440	(735,679)	-
Total long-term debt, net	<u>\$ 660,761,179</u>	<u>\$ -</u>	<u>\$ (15,960,327)</u>	<u>\$ 644,800,852</u>	<u>\$ 14,185,000</u>
<b>2017</b>					
Revenue bonds	\$ 637,055,000	\$ -	\$ (14,040,000)	\$ 623,015,000	\$ 13,540,000
Premiums	40,969,065	-	(2,453,767)	38,515,298	-
Discounts	(802,559)	-	33,440	(769,119)	-
Total long-term debt, net	<u>\$ 677,221,506</u>	<u>\$ -</u>	<u>\$ (16,460,327)</u>	<u>\$ 660,761,179</u>	<u>\$ 13,540,000</u>

The 2009 Series B bonds were issued as bonds designated as “Build America Bonds” under the provisions of the American Recovery and Reinvestment Act of 2009, which allows the Agency to receive a U.S. Treasury subsidy equal to 35% of the amount of interest payable on those bonds. Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, refund payments to certain state and local government filers claiming refundable credits under section 6341 of the Internal Revenue Code applicable to certain qualified bonds are subject to sequestration. The refund payments processed on or after October 1, 2016 and on or before September 30, 2017 were reduced by the fiscal year 2017 sequestration rate of 6.9%; the refund payments processed on or after October 1, 2017 and on or before September 30, 2018 were reduced by the fiscal year 2018 sequestration rate of 6.6%; the refund payments processed on or after October 1, 2018 and on or before September 30, 2019 will be reduced by the fiscal year 2019 sequestration rate of 6.2%. Any future subsidy payments are contingent on federal regulations and are subject to change. The subsidy is not reflected in the table on the following page.

The revenue bonds are equally and ratably secured under the Bond Resolution and are payable on parity with one another. The bonds are special obligations of PPGA, payable from and secured by a pledge of the revenues, PPGA’s rights, title and interest under the Participation Agreements and certain funds established under the Resolution.

**Public Power Generation Agency**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Note 5: Long-term Debt - Continued**

Future principal and interest payments required to be made in accordance with the bond documents and private voluntary debt exchange agreement at December 31, 2018, are as follows:

<u>Year Ending December 31,</u>	<u>Total Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2019	\$ 14,185,000	\$ 32,309,027
2020	14,885,000	31,475,894
2021	16,245,000	30,586,273
2022	17,050,000	29,637,314
2023	17,880,000	28,641,987
2024-2028	103,495,000	126,490,819
2029-2033	133,990,000	93,282,319
2034-2038	170,475,000	54,031,011
2039-2043	121,270,000	9,619,453
	<u>\$ 609,475,000</u>	<u>\$ 436,074,097</u>

**Note 6: Closure and Post-Closure Care Costs**

As a result of coal ash produced at the WEC 2 plant site, the Agency has created an ash disposal area, including an ash pond. In accordance with regulations promulgated by the Nebraska Department of Environmental Quality (NDEQ), the Agency has calculated an estimate of the costs of closing the site, at the end of the plant's useful life, and properly disposing of the ash, and also of post-closure monitoring of the ash disposal area. These costs are currently estimated at approximately \$3,700,000 and \$3,500,000 at December 31, 2018 and 2017, respectively, and will be recognized in each period based on the estimated disposal area capacity used as of each balance sheet date. These costs were estimated based on historical experience at similar ash disposal areas and in accordance with the permit obtained from NDEQ. The estimated costs of closure and post-closure care are subject to changes including the effects of inflation, revision of laws, changes in technology, actual sequence of landfill development and closure and other variables.

The Agency has established a Closure/Post-Closure Care Account to accumulate sufficient funds for the costs of closure and post-closure of the ash disposal area. Funds are deposited into this account at a rate of \$2.50 per ton of ash placed into the disposal area. The funds in this account totaled \$1,241,446 and \$1,078,157 at December 31, 2018 and 2017, respectively. The use of these funds is restricted to the costs of closure and post-closure care of the ash disposal area by NDEQ regulations.

In the event of a pre-mature closure of the facilities, including the ash pond, the Agency would be required to immediately excavate, haul and properly dispose of all pond ash and scrubber ash remaining at that time. A study completed during 2016 by an outside engineering firm estimated these costs to be approximately \$8,600,000 for the Agency. The Agency has not recorded a liability for these pre-mature closure costs as of December 31, 2018 and 2017, as the costs are contingent on the occurrence of a pre-mature closure of the facilities, which is deemed to be remote by the Agency.

# Public Power Generation Agency

## Notes to Financial Statements

### December 31, 2018 and 2017

#### **Note 7: Related Party Transactions**

PPGA has an executed agreement for MEAN to serve as the Managing Agent of PPGA. In connection with this agreement, PPGA shall pay MEAN a monthly administrative fee for time and expense reimbursement. MEAN was paid \$21,436 and \$13,991 during 2018 and 2017, respectively, and amounts of \$3,150 and \$1,135 owed to MEAN were included in accounts payable at December 31, 2018 and 2017, respectively, in relation to this agreement.

In accordance with the PPGA Participation Agreement, effective October 5, 2006, Hastings Utilities (HU) is to serve as the Project Operating Agent of PPGA. In connection with this agreement, HU incurs certain administrative, general and other expenses on PPGA's behalf and PPGA shall reimburse HU for these expenses, including an allocation of indirect expenses as determined in accordance with the memorandum of understanding entered into between PPGA and HU. HU was paid \$6,862,528 and \$7,131,836 during 2018 and 2017, respectively, and amounts of \$1,721,503 and \$1,780,993 owed to HU were included in accounts payable at December 31, 2018 and 2017, respectively, in relation to the participation agreement.

PPGA also entered into a Facility Sharing and Lease Agreement with HU, effective January 1, 2008, for the lease of real estate and sharing of facilities for the construction and operation of WEC 2. In connection with this agreement, PPGA shall pay HU lease payments for real estate and shared facilities reimbursement until the end of the operational life of WEC 2, but in no event later than 100 years following the effective date of the agreement. Additionally, under this agreement, HU is to pay PPGA for certain shared facilities owned by PPGA. Payments under this agreement are included in the payments discussed above and are included in operating expenses on the statement of revenues and expenses, net of amounts received from HU under the agreement.

Additionally, all of the coal used at WEC 2 is obtained by HU through various short and long-term contracts and spot purchases based on market conditions.

#### **Note 8: Risk Management and Contingencies**

##### ***Risk Management***

PPGA is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; injuries and illnesses and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters. Claims have not exceeded this commercial coverage in any of the three preceding years.

PPGA is subject to claims that arise primarily in the ordinary course of the operation of the plant. It is the opinion of management that the disposition or ultimate resolution of such claims will not have a material effect on the financial position, results of operations and cash flows of PPGA.

##### ***Proposed Environmental Standards***

Any changes in the environmental regulatory requirements imposed by Federal or state law, which are applicable to generating stations, could result in increased capital and operating costs being incurred by PPGA. Until such changes are finalized and implemented, management is unable to predict when pending changes will be made to current environmental regulatory requirements and how the changes may impact PPGA.

## **Other Information**

**Public Power Generation Agency**  
**Schedule of Billings to Members**  
**Year Ended December 31, 2018**

	<b>MEAN</b>	<b>HCPD</b>	<b>HU</b>	<b>GIU</b>	<b>NCU</b>	<b>Total</b>
Operating expenses - variable	\$ 7,160,873	\$ 7,314,509	\$ 2,644,237	\$ 1,322,113	\$ 887,593	\$ 19,329,325
Station power expenses	56,560	56,889	22,813	10,482	6,988	153,732
Operating expenses - other	2,673,869	2,683,840	1,111,237	497,611	331,741	7,298,298
Indirect overhead expenses	173,564	174,271	71,780	32,278	21,519	473,412
Less: credit from investment income	(253,374)	(254,019)	(107,066)	(47,266)	(31,511)	(693,236)
Less: credit from excess debt service reserve funds	(278,679)	(281,701)	(104,170)	(51,119)	(34,079)	(749,748)
Less: credit from federal subsidy receipts	(1,610,913)	(1,617,555)	(665,749)	(299,555)	(199,704)	(4,393,476)
Less: credit from shared facilities revenue from HU	(129,678)	(130,214)	(53,586)	(24,114)	(16,076)	(353,668)
Less: credit from scrubber ash sales	(365)	(362)	(131)	(65)	(45)	(968)
Less: credit from dry flyash revenue	(19,497)	(19,925)	(7,203)	(3,601)	(2,418)	(52,644)
Less: credit from equipment use revenue from HU	(1,377)	(1,383)	(567)	(256)	(171)	(3,754)
Less: credit from miscellaneous other revenue	(364)	(364)	(159)	(68)	(45)	(1,000)
Net operation and maintenance billings	7,770,619	7,923,986	2,911,436	1,436,440	963,792	21,006,273
Capital asset / outage expenditures	1,064,296	1,064,297	465,630	199,555	133,037	2,926,815
Debt service billings, net	16,463,557	16,531,588	6,803,123	3,061,405	2,040,937	44,900,610
Total member billings	<u>\$ 25,298,472</u>	<u>\$ 25,519,871</u>	<u>\$ 10,180,189</u>	<u>\$ 4,697,400</u>	<u>\$ 3,137,766</u>	<u>\$ 68,833,698</u>

Note: The amount of billings to members is based on each Member's respective entitlement share, as detailed in Note 1, further adjusted for any contracted assignments of respective allocations between members. Additionally, billings to Members are designed to recover power costs as set forth by the PPGA Participation Agreement, which principally include operating expenses and scheduled debt principal and interest (see Notes 1 and 4 for further discussion).

**Public Power Generation Agency**  
**Schedule of Billings to Members**  
**Year Ended December 31, 2017**

	<b>MEAN</b>	<b>HCPD</b>	<b>HU</b>	<b>GIU</b>	<b>NCU</b>	<b>Total</b>
Operating expenses - variable	\$ 6,478,905	\$ 6,458,911	\$ 2,151,496	\$ 1,155,812	\$ 778,359	\$ 17,023,483
Station power expenses	82,250	83,126	29,344	14,979	9,986	219,685
Operating expenses - other	2,613,354	2,635,719	900,188	473,020	315,347	6,937,628
Indirect overhead expenses	162,505	163,850	55,708	29,390	19,593	431,046
Less: credit from investment income	(97,117)	(98,108)	(34,395)	(17,664)	(11,775)	(259,059)
Less: credit from excess debt service reserve funds	(194,310)	(195,022)	(61,344)	(34,668)	(23,112)	(508,456)
Less: credit from federal subsidy receipts	(1,651,308)	(1,664,583)	(563,764)	(298,435)	(198,957)	(4,377,047)
Less: credit from shared facilities revenue from HU	(117,652)	(118,597)	(40,162)	(21,262)	(14,175)	(311,848)
Less: credit from scrubber ash sales	(2,313)	(2,310)	(776)	(414)	(278)	(6,091)
Less: credit from dry flyash revenue	(15,306)	(15,264)	(5,068)	(2,730)	(1,838)	(40,206)
Less: credit from equipment use revenue from HU	(1,724)	(1,738)	(587)	(311)	(208)	(4,568)
Net operation and maintenance billings	7,257,284	7,245,984	2,430,640	1,297,717	872,942	19,104,567
Debt service billings, net	16,939,271	17,075,330	5,782,482	3,061,314	2,040,876	44,899,273
Total member billings	<u>\$ 24,196,555</u>	<u>\$ 24,321,314</u>	<u>\$ 8,213,122</u>	<u>\$ 4,359,031</u>	<u>\$ 2,913,818</u>	<u>\$ 64,003,840</u>

Note: The amount of billings to members is based on each Member's respective entitlement share, as detailed in Note 1, further adjusted for any contracted assignments of respective allocations between members. Additionally, billings to Members are designed to recover power costs as set forth by the PPGA Participation Agreement, which principally include operating expenses and scheduled debt principal and interest (see Notes 1 and 4 for further discussion).