



MMPA TRANSMISSION LLC

(a component unit of Minnesota Municipal Power Agency)

Financial Statements

December 31, 2016 and 2015

(With Independent Auditors' Report Thereon)

MMPA TRANSMISSION LLC

(a component unit of Minnesota Municipal Power Agency)

Table of Contents

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Statements of Net Position	6
Statements of Revenues, Expenses, and Changes in Net Position	7
Statements of Cash Flows	8
Notes to Financial Statements	9



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

Independent Auditors' Report

Sole Member of MMPA Transmission LLC:

We have audited the accompanying financial statements of MMPA Transmission LLC (a component unit of Minnesota Municipal Power Agency) as of December 31, 2016 and 2015 and for the years then ended, and the related notes to the financial statements, which collectively comprise MMPA Transmission LLC'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 MMPA Transmission LLC 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 5 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

MMPA TRANSMISSION LLC

(a component unit of Minnesota Municipal Power Agency)

Management's Discussion and Analysis

December 31, 2016 and 2015

Financial Statements Overview

This discussion and analysis of MMPA Transmission LLC's (the Company) financial performance provides an overview of the Company'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 Company follows the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC). The basic financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. The Company'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 Company as of the end of the 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

Summary of Financial Position

The following table summarizes the financial position of the Company as of December 31, 2016 and 2015:

<u>Condensed Statement of Net Position</u>	<u>2016</u>	<u>2015</u>	<u>Dollar change</u>	<u>Percentage change</u>
Capital assets, net	\$ 12,087,679	12,374,121	(286,442)	(2.3)%
Current assets	986,095	381,813	604,282	158.3
Total assets	<u>\$ 13,073,774</u>	<u>12,755,934</u>	<u>317,840</u>	2.5
Current liabilities	\$ 191,241	184,059	7,182	3.9
Long-term liabilities	6,761,627	6,912,417	(150,790)	(2.2)
Total liabilities	<u>6,952,868</u>	<u>7,096,476</u>	<u>(143,608)</u>	(2.0)
Net position:				
Net investment in capital assets	5,218,289	5,341,666	(123,377)	(2.3)
Unrestricted	902,617	317,792	584,825	184.0
Total net position	<u>6,120,906</u>	<u>5,659,458</u>	<u>461,448</u>	8.2
Total liabilities and net position	<u>\$ 13,073,774</u>	<u>12,755,934</u>	<u>317,840</u>	2.5

Condensed statements of net position highlights are as follows:

- The assets of the Company exceeded its liabilities at the close of 2016 by approximately \$6.1 million (net position) as compared with \$5.7 million at the end of 2015.
- Current assets at the close of 2016 and 2015 were \$1 and \$0.4 million. Current assets represent cash and cash equivalents and other receivables.

MMPA TRANSMISSION LLC

(a component unit of Minnesota Municipal Power Agency)

Management's Discussion and Analysis

December 31, 2016 and 2015

- Capital assets, net were \$12.1 and \$12.4 million at the end 2016 and 2015, respectively.
- Current liabilities were \$0.2 and \$0.2 million at the end of 2016 and 2015 and represent accounts payable in addition to debt and capital lease liabilities due within one year, respectively.
- Long-term liabilities were \$6.8 and \$6.9 million at the end of 2016 and 2015 and represent the Company's term loan and capital lease liability to Minnesota Municipal Power Agency (the Agency).

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

<u>Condensed Statement of Revenues, Expenses, and Changes in Net Position</u>	<u>2016</u>	<u>2015</u>	<u>Dollar change</u>	<u>Percentage change</u>
Operating revenues	\$ 1,107,436	438,962	668,474	152.3%
Nonoperating revenues	928	18,134	(17,206)	(94.9)%
Total revenues	<u>1,108,364</u>	<u>457,096</u>	<u>651,268</u>	142.5%
Operating expenses	305,140	301,837	3,303	1.1%
Other nonoperating expenses	341,776	346,105	(4,329)	(1.3)%
Total expenses	<u>646,916</u>	<u>647,942</u>	<u>(1,026)</u>	(0.2)%
Change in net position	461,448	(190,846)	652,294	(341.8)%
Beginning net position	<u>5,659,458</u>	<u>5,850,304</u>	<u>(190,846)</u>	(3.3)%
Ending net position	<u>\$ 6,120,906</u>	<u>5,659,458</u>	<u>461,448</u>	8.2%

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

- The Company had operating revenues of \$1.1 million and \$0.4 million in 2016 and 2015, respectively.
- Nonoperating revenues were less than \$0.1 million in both 2016 and 2015, and primarily represent interest, and equity contributions from the primary government (the Agency) in 2015.
- Operating expenses were \$0.3 million in both 2016 and 2015, and primarily represent depreciation and transmission-related expenses.
- Other nonoperating expenses were \$0.3 million in both 2016 and 2015, and represent interest expense.

MMPA TRANSMISSION LLC

(a component unit of Minnesota Municipal Power Agency)

Management's Discussion and Analysis

December 31, 2016 and 2015

Debt Administration

As of December 31, 2016 and 2015, the Company had long-term debt outstanding of approximately \$5.9 and \$6.0 million, respectively.

On July 22, 2014, the Company executed a loan agreement with the Agency, which provides for a loan of up to \$7.5 million for a term of 30 years from the closing date for the purchase of a transmission line from another entity. That closing occurred in December 2014.

MMPA TRANSMISSION LLC
(a component unit of Minnesota Municipal Power Agency)

Statements of Net Position
December 31, 2016 and 2015

Assets	<u>2016</u>	<u>2015</u>
Current assets:		
Cash and cash equivalents	\$ 902,973	323,366
Other receivables	<u>83,122</u>	<u>58,447</u>
Total current assets	<u>986,095</u>	<u>381,813</u>
Noncurrent assets:		
Capital assets:		
Capital lease asset	1,082,268	1,082,268
Land	2,799,854	2,799,854
Electric plant	8,802,410	8,802,410
Less accumulated depreciation	<u>(596,853)</u>	<u>(310,411)</u>
Total capital assets, net	<u>12,087,679</u>	<u>12,374,121</u>
Total assets	<u>\$ 13,073,774</u>	<u>12,755,934</u>
Liabilities		
Liabilities:		
Current liabilities:		
Long-term debt due within one year	\$ 134,446	129,589
Capital lease liability due within one year	<u>56,795</u>	<u>54,470</u>
Total current liabilities	<u>191,241</u>	<u>184,059</u>
Long-term debt, net	5,822,469	5,924,466
Capital lease liability	<u>939,158</u>	<u>987,951</u>
Total noncurrent liabilities	<u>6,761,627</u>	<u>6,912,417</u>
Total liabilities	<u>6,952,868</u>	<u>7,096,476</u>
Net Position		
Net position:		
Net investment in capital assets	5,218,289	5,341,666
Unrestricted	<u>902,617</u>	<u>317,792</u>
Total net position	<u>6,120,906</u>	<u>5,659,458</u>
Total liabilities and net position	<u>\$ 13,073,774</u>	<u>12,755,934</u>

See accompanying notes to financial statements.

MMPA TRANSMISSION LLC
(a component unit of Minnesota Municipal Power Agency)
Statements of Revenues, Expenses, and Changes in Net Position
Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenues	\$ 1,107,436	438,962
Operating expenses:		
Other operating expenses	18,698	15,266
Depreciation	<u>286,442</u>	<u>286,571</u>
Total operating expenses	<u>305,140</u>	<u>301,837</u>
Operating income	<u>802,296</u>	<u>137,125</u>
Nonoperating revenues (expenses):		
Interest expense	(341,776)	(346,105)
Equity contributions from primary government	—	18,097
Investment income	<u>928</u>	<u>37</u>
Total nonoperating revenues (expenses), net	<u>(340,848)</u>	<u>(327,971)</u>
Change in net position	461,448	(190,846)
Total net position, beginning of year	<u>5,659,458</u>	<u>5,850,304</u>
Total net position, end of year	<u>\$ 6,120,906</u>	<u>5,659,458</u>

See accompanying notes to financial statements.

MMPA TRANSMISSION LLC
(a component unit of Minnesota Municipal Power Agency)

Statements of Cash Flows

Years ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Receipts from sales	\$ 1,082,761	380,515
Payments for operating expenses	(18,698)	(15,266)
Net cash provided by operating activities	1,064,063	365,249
Cash flows from capital and related financing activities:		
Payments received for refunds on capital asset construction	—	42,771
Principal payments on capital lease	(46,281)	(18,627)
Principal payments on term loan	(96,746)	(46,632)
Payment of interest	(342,357)	(169,433)
Net cash used in capital and related financing activities	(485,384)	(191,921)
Cash flows from investing activities:		
Interest received	928	37
Net cash provided by investing activities	928	37
Net change in cash and cash equivalents	579,607	173,365
Cash and cash equivalents, beginning of year	323,366	150,001
Cash and cash equivalents, end of year	\$ 902,973	323,366
Cash flows from operating activities:		
Operating income	\$ 802,296	137,125
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	286,442	286,571
Changes in current assets and liabilities:		
Other receivables	(24,675)	(58,447)
Total adjustments	261,767	228,124
Net cash provided by operating activities	\$ 1,064,063	365,249
Supplemental cash flow information and noncash capital and related financing activities:		
Capital assets contributed to the Company by the Agency under an assignment and contribution agreement	\$ —	18,097
Capital assets assigned to the Company by the Agency subject to a term loan with the Agency	—	18,097
Principal and interest on capital lease obligation and interest on term loan added to principal of term loan with the Agency	—	176,672

See accompanying notes to financial statements.

MMPA TRANSMISSION LLC

(a component unit of Minnesota Municipal Power Agency)

Notes to Financial Statements

December 31, 2016 and 2015

(1) Organization and Significant Accounting Policies

(a) Organization and Operation

MMPA Transmission LLC was created as a Limited Liability Company in the State of Minnesota by Articles of Organization recorded with the Secretary of the State of Minnesota on March 15, 2013. The Minnesota Municipal Power Agency (the Agency) is the sole member of MMPA Transmission LLC (the Company).

The Company was formed to hold the transmission assets of the Agency and to participate in the Midcontinent Independent System Operator (MISO) transmission markets. To that end, the Agency and the Company entered into two assignment agreements during 2014 under which the Agency assigned its rights and obligations associated with the Agency's transmission assets to the Company. See note 2. The assets, liabilities, and net position transferred pursuant to the assignment agreements are considered a transfer of operations as defined in Governmental Accounting Standards Board (GASB) Statement No. 69, *Government Combinations and Disposals of Government Operations*, and accordingly, have been measured at the Agency's applicable carrying values as of the effective transfer dates.

(b) Basis of Accounting

The Company follows the Federal Energy Regulatory Commission'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 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 assigned or contributed to the Company under the assignment agreements are recorded at historical cost as recorded by the Agency, including capitalized interest on borrowed funds during construction. Electric plant consists of transmission assets. Depreciation is provided over the estimated useful lives by use of the straight-line method. Generally, the estimated useful life is 40 years for transmission assets. Other specialized equipment may differ.

(d) Cash Flows

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

(e) Revenue Recognition

The Company recognizes revenue on sales when transmission service is provided to and used by customers.

(f) Operating Revenues and Expenses

Operating revenues result from exchange transactions associated with the principal activity of the Company, the sale of transmission service. Operating expenses are defined as expenses directly related

MMPA TRANSMISSION LLC

(a component unit of Minnesota Municipal Power Agency)

Notes to Financial Statements

December 31, 2016 and 2015

to, or incurred in support of, the transmission of electricity to customers. All other expenses are classified as nonoperating expenses.

(g) Income Taxes

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

(h) 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.

(i) Reclassifications

Certain amounts in the 2015 financial statements have been reclassified to conform to the 2016 presentation.

(2) Related Party Transactions

The Company has entered into various agreements with the Agency to facilitate the transfer of the Agency's transmission assets to the Company. On June 24, 2014, the Company and the Agency entered into an assignment and contribution of capital agreement pertaining to the assignment of rights and obligations associated with certain transmission assets held by the Agency associated with an overhead electric transmission line between Coon Rapids and Anoka, Minnesota (the Anoka Transmission Facilities). On July 22, 2014, the Company and the Agency executed a loan agreement in a maximum principal amount of up to \$7.5 million to finance a portion of the Anoka Transmission Facilities. See also note 5.

In accordance with the June 24, 2014 assignment and contribution of capital agreement for the Anoka Transmission Facilities, the Agency assigned capital assets totaling \$11,608,840 to the Company during 2014. Of this amount, \$5,804,420 was considered a loan pursuant to the July 22, 2014 loan agreement, with the remainder of the capital assets assigned treated as an equity contribution by the Agency to the Company. During 2015, the Agency assigned capital assets totaling \$36,195 to the Company. Of this amount, \$18,097 was considered a loan, with the remainder of the capital assets assigned treated as an equity contribution by the Agency to the Company.

On December 1, 2014, the Company and the Agency entered into a partial assignment and assumption agreement for the assignment of transmission assets of the Agency pertaining to its interests under an agreement between the Agency and the City of Chaska, Minnesota (the Chaska Transmission Facilities). The Agency's interest under its agreement with the City of Chaska is in the form of a capital lease, with associated amounts representing both the assets held under capital lease and the related capital lease obligation. By virtue of the partial assignment and assumption agreement, certain of the Agency's rights and obligations associated with the Chaska Transmission Facilities were conveyed to the Company. As a result, the Company recorded a capital lease asset and capital lease liability of \$1,082,268 upon inception of the partial assignment and assumption agreement. See also note 5.

MMPA TRANSMISSION LLC

(a component unit of Minnesota Municipal Power Agency)

Notes to Financial Statements

December 31, 2016 and 2015

The partial assignment and assumption agreement also called for a onetime payment from the Company to the Agency in the amount of \$60,431 representing depreciation expense on the Chaska Transmission Facilities from January 1, 2014 through the effective date of the partial assignment and assumption agreement.

The Company has also entered into certain other agreements with the Agency related to the maintenance and control of the transmission facilities. No amounts have been recognized to date under these agreements.

(3) Cash, Cash Equivalents, and Investments

(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 Company had the following investments and maturities as of December 31, 2016 and 2015:

	December 31, 2016		
	Investment maturities (in years)		
	Less than one year	Greater than one year	No maturity
Investment type:			
Cash and cash equivalents	\$ —	—	902,973
Total	\$ —	—	902,973

	December 31, 2015		
	Investment maturities (in years)		
	Less than one year	Greater than one year	No maturity
Investment type:			
Cash and cash equivalents	\$ —	—	323,366
Total	\$ —	—	323,366

(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. Cash and cash equivalents are invested in short-term U.S. government securities and commercial paper.

MMPA TRANSMISSION LLC

(a component unit of Minnesota Municipal Power Agency)

Notes to Financial Statements

December 31, 2016 and 2015

The following table lists 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	
	Amount reported	Quality rating
		Unrated
Investment type:		
Cash and cash equivalents	\$ 902,973	902,973
Total	\$ 902,973	902,973

	December 31, 2015	
	Amount reported	Quality rating
		Unrated
Investment type:		
Cash and cash equivalents	\$ 323,366	323,366
Total	\$ 323,366	323,366

(c) Custodial Credit Risk

The Company does not have a policy related to custodial credit risk.

(d) Concentration of Credit Risk

The Company does not have an investment policy related to investing 5% or more of the Company's portfolio in the securities of a single issue.

(4) Capital Assets

Capital assets activity was as follows:

	2016			
	Beginning balance	Additions	Retirements/ Transfers	Ending balance
Nondepreciable capital assets:				
Land and land rights	\$ 2,799,854	—	—	2,799,854
Depreciable capital assets:				
Capital lease asset	1,082,268	—	—	1,082,268
Electric plant	8,802,410	—	—	8,802,410
Less accumulated depreciation for assets in service	(310,411)	(286,442)	—	(596,853)
Capital assets, net	\$ 12,374,121	(286,442)	—	12,087,679

MMPA TRANSMISSION LLC

(a component unit of Minnesota Municipal Power Agency)

Notes to Financial Statements

December 31, 2016 and 2015

	2015			
	<u>Beginning balance</u>	<u>Additions</u>	<u>Retirements/ Transfers</u>	<u>Ending balance</u>
Nondepreciable capital assets:				
Land and land rights	\$ 2,821,069	7,255	(28,470)	2,799,854
Depreciable capital assets:				
Capital lease asset	1,082,268	—	—	1,082,268
Electric plant	8,787,771	28,940	(14,301)	8,802,410
Less accumulated depreciation for assets in service	<u>(23,840)</u>	<u>(286,571)</u>	<u>—</u>	<u>(310,411)</u>
Capital assets, net	<u>\$ 12,667,268</u>	<u>(250,376)</u>	<u>(42,771)</u>	<u>12,374,121</u>

(5) Long-Term Debt

As described in note 2, the Company entered into a 30-year term loan with the Agency, which allows for borrowings up to \$7,500,000. The stated balance of the term loan was \$5,924,466 and \$6,021,606 as of December 31, 2016 and 2015 and has a stated interest rate of 5%. In addition, \$32,449, representing principal and interest for December 31, is also included in the current liability balance in the statements of net position.

Debt service requirements on the term loan are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 101,997	287,379	389,376
2018	107,097	282,279	389,376
2019	112,452	276,924	389,376
2020	118,075	271,301	389,376
2021	123,978	265,398	389,376
2022–2026	719,312	1,227,568	1,946,880
2027–2031	918,045	1,028,836	1,946,881
2032–2036	1,171,684	775,197	1,946,881
2037–2041	1,495,399	451,482	1,946,881
2042–2044	<u>1,056,427</u>	<u>79,257</u>	<u>1,135,684</u>
	<u>\$ 5,924,466</u>	<u>4,945,621</u>	<u>10,870,087</u>

MMPA TRANSMISSION LLC

(a component unit of Minnesota Municipal Power Agency)

Notes to Financial Statements

December 31, 2016 and 2015

As described in note 2, the Company recorded its proportional obligation under a partial assignment and assumption agreement with the Agency pertaining to the Chaska Transmission Facilities. Future minimum payments under the partial agreement are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 48,793	47,217	96,010
2018	51,232	44,777	96,009
2019	53,794	42,215	96,009
2020	56,484	39,526	96,010
2021	59,308	36,702	96,010
2022–2026	344,099	135,948	480,047
2027–2031	374,241	41,800	416,041
	<u>\$ 987,951</u>	<u>388,185</u>	<u>1,376,136</u>

In addition, the monthly installment of principal and interest for December which was not remitted as of December 31, is also included in the current liability balance in the statements of net position.

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

<u>Long-term liabilities as of December 31, 2016</u>	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>
Long-term debt	\$ 6,021,606	—	(97,140)	5,924,466
Less long-term debt due within one year	(97,140)	(101,997)	97,140	(101,997)
Long-term debt, net	<u>\$ 5,924,466</u>	<u>(101,997)</u>	<u>—</u>	<u>5,822,469</u>
Capital lease liability	\$ 1,034,420	—	(46,469)	987,951

<u>Long-term liabilities as of December 31, 2015</u>	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>
Long-term debt	\$ 5,868,205	245,151	(91,750)	6,021,606
Less long-term debt due within one year	(88,627)	(97,140)	88,627	(97,140)
Long-term debt, net	<u>\$ 5,779,578</u>	<u>148,011</u>	<u>(3,123)</u>	<u>5,924,466</u>
Capital lease liability	\$ 1,078,676	—	(44,256)	1,034,420

MMPA TRANSMISSION LLC

(a component unit of Minnesota Municipal Power Agency)

Notes to Financial Statements

December 31, 2016 and 2015

(6) Risk Management

The Company 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 Company participates in a public entity risk pool related to public officials' liability. The Company has a \$60,000 deductible per occurrence, with a \$200,000 annual maximum deductible for its liability coverage.

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

The Company also has automobile coverage with a \$1,000 deductible per occurrence.

The Company also carries commercial insurance for its general liability risk.

The Company also has an umbrella policy related to its general liability insurance.

Settled claims have not exceeded insurance coverage in the past year for any of the Company's insurance policies.