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

Financial Statements

December 31, 2014

(With Independent Auditors' Report Thereon)

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

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

Independent Auditors' Report

Sole Member of MMPA Transmission LLC:

Report on Financial Statements

We have audited the accompanying financial statements of MMPA Transmission LLC (a component unit of Minnesota Municipal Power Agency), which comprise the statement of net position as of December 31, 2014, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise MMPA Transmission LLC's basic financial statements.

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 audit. We conducted our audit 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, 2014, and the results of its operations and its cash flows for the year 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 4 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 managements' 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 24, 2015

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

Management's Discussion and Analysis

December 31, 2014

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 year ended December 31, 2014. 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. 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 statement of net position, the statement of revenues, expenses, and changes in net position, the statement of cash flows, and notes to the financial statements.

The statement of net position provides information about the nature and amount of assets and obligations (liabilities) of the Company as of the end of the year reported. The statement of revenues, expenses, and changes in net position reports revenues and expenses. The statement of cash flows reports 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, 2014:

Condensed Statement of Net Position

Capital assets, net	$	12,667,268
Current assets		150,001
Total assets	$	12,817,269
Current liabilities	$	152,967
Long-term liabilities		6,813,998
Total liabilities		6,966,965
Net position:		
Net investment in capital assets		5,722,289
Unrestricted		128,015
Total net position		5,850,304
Total liabilities and net position	$	12,817,269

Condensed statements of net position highlights are as follows:

- The assets of the Company exceeded its liabilities at the close of 2014 by approximately $5.9 million (net position).
- Current assets at the close of 2014 were $0.2 million. Current assets represent cash and cash equivalents.
- Capital assets, net were $12.7 million at the end 2014.

- Current liabilities were $0.2 million at the end of 2014 and represent accounts payable in addition to debt and capital lease liabilities due within one year.
- Long-term liabilities were $6.8 million at the end of 2014 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 year ended December 31, 2014:

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

Operating revenues	$ —
Nonoperating revenues	5,954,421
Total revenues	5,954,421
Operating expenses	84,271
Other nonoperating expenses	19,846
Total expenses	104,117
Change in net position	5,850,304
Beginning net position	—
Ending net position	$ 5,850,304

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

- The Company did not have operating revenues in 2014.
- Nonoperating revenues were $6.0 million in 2014 and primarily represent equity contributions from the primary government (the Agency).
- Operating expenses were $0.1 million in 2014 and primarily represent transmission-related expenses.
- Other nonoperating expenses were less than $0.1 million and represent interest expense.

Debt Administration

As of December 31, 2014, the Company had long-term debt outstanding of approximately $5.9 million.

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)

Statement of Net Position

December 31, 2014

Assets

Current assets:		
Cash and cash equivalents	$	150,001
Total current assets		150,001
Noncurrent assets:		
Capital assets:		
Capital lease asset		1,082,268
Land		2,821,069
Electric plant		8,787,771
Less accumulated depreciation		(23,840)
Total capital assets, net		12,667,268
Total assets	$	12,817,269

Liabilities

Liabilities:		
Current liabilities:		
Accounts payable and accrued liabilities	$	20,084
Long-term debt due within one year		88,627
Capital lease liability due within one year		44,256
Total current liabilities		152,967
Long-term debt, net		5,779,578
Capital lease liability		1,034,420
Total noncurrent liabilities		6,813,998
Total liabilities		6,966,965

Net Position

Net position:		
Net investment in capital assets		5,722,289
Unrestricted		128,015
Total net position		5,850,304
Total liabilities and net position	$	12,817,269

See accompanying notes to financial statements.

MMPA TRANSMISSION LLC
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Statement of Revenues, Expenses, and Changes in Net Position

Year ended December 31, 2014

Operating revenues	$ —
Operating expenses:	
Transmission expense incurred under assignment and assumption agreement with primary government	60,431
Depreciation	23,840
Total operating expenses	84,271
Operating loss	(84,271)
Nonoperating revenues (expenses):	
Interest expense	(19,846)
Equity contributions from primary government	5,954,420
Investment income	1
Total nonoperating revenues (expenses), net	5,934,575
Change in net position	5,850,304
Total net position, beginning of year	—
Total net position, end of year	$ 5,850,304

See accompanying notes to financial statements.

MMPA TRANSMISSION LLC
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Statement of Cash Flows

Year ended December 31, 2014

Cash flows from operating activities:		
Receipts from sales	$	—
Payments for operating expenses		—
Net cash provided by operating activities		—
Cash flows from investing activities:		
Cash received from primary government		150,000
Interest received		1
Net cash provided by investing activities		150,001
Net change in cash and cash equivalents		150,001
Cash and cash equivalents, beginning of year		—
Cash and cash equivalents, end of year	$	150,001
Cash flows from operating activities:		
Operating loss	$	(84,271)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation		23,840
Transmission expense incurred under assignment agreement with primary government added to term loan with the Agency		60,431
Total adjustments		84,271
Net cash provided by operating activities	$	—
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	$	5,804,420
Capital assets assigned to the Company by the Agency subject to a term loan with the Agency		5,804,420
Capital assets and capital lease obligation assigned to the Company by the Agency		1,082,268
Installment representing interest expense and amortization of capital lease obligation added to term loan with the Agency		3,354

See accompanying notes to financial statements.

(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 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 GASB 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 are 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 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.

(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.

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.

The partial assignment and assumption agreement also called for a one-time 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. Such amount has been included in 2014 operating expenses.

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.

During 2014, the Company received additional equity contributions of $150,000 from the Agency in cash.

(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, 2014:

	December 31, 2014		
	Investment maturities (in years)		
	Less than one year	Greater than one year	No maturity
Investment type:			
Cash and cash equivalents	$ —	—	150,001
Total	$ —	—	150,001

(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.

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, 2014:

	December 31, 2014	
		Quality rating
	Amount reported	Unrated
Investment type:		
Cash and cash equivalents	$ 150,001	150,001
Total	$ 150,001	150,001

(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:

	Beginning balance	Additions	Retirements/ Transfers	Ending balance
Nondepreciable capital assets:				
Land and land rights	$ —	2,821,069	—	2,821,069
Depreciable capital assets:				
Capital lease asset	—	1,082,268	—	1,082,268
Electric plant	—	8,787,771	—	8,787,771
Less accumulated depreciation for assets in service	—	(23,840)	—	(23,840)
Capital assets, net	$ —	12,667,268	—	12,667,268

(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 balance of the term loan was $5,868,205 as of December 31, 2014 and has a stated interest rate of 5%.

Debt service requirements on the term loan are as follows:

Year	Principal	Interest	Total
2015	$ 88,627	284,925	373,552
2016	93,059	280,494	373,553
2017	97,711	275,841	373,552
2018	102,597	270,955	373,552
2019	107,727	265,825	373,552
2020–2024	625,022	1,242,739	1,867,761
2025–2029	797,705	1,070,057	1,867,762
2030–2034	1,018,096	849,666	1,867,762
2035–2039	1,299,376	568,386	1,867,762
2040–2044	1,638,285	209,364	1,847,649
	$ 5,868,205	5,318,252	11,186,457

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:

Year		Principal	Interest	Total
2015	$	44,256	51,753	96,009
2016		46,469	49,540	96,009
2017		48,793	47,217	96,010
2018		51,232	44,777	96,009
2019		53,794	42,215	96,009
2020–2024		312,108	167,939	480,047
2025–2029		398,338	81,710	480,048
2030–2031		123,686	4,327	128,013
	$	1,078,676	489,478	1,568,154

Long-term liability activity for the year ended December 31, 2014 was as follows:

Long-term liabilities as of December 31, 2014		Beginning balance	Additions	Reductions	Ending balance
Long-term debt	$	—	5,868,205	—	5,868,205
Less long-term debt due within one year		—	(88,627)	—	(88,627)
Long-term bonds, net	$	—	5,779,578	—	5,779,578
Capital lease liability	$	—	1,078,676		1,078,676

(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.