



MMPA TRANSMISSION LLC
(A Component Unit of Minnesota Municipal Power Agency)

Financial Statements

December 31, 2017 and 2016

(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
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Independent Auditors' Report

To the Sole Member of MMPA Transmission LLC:

Report on the Financial Statements

We have audited the accompanying financial statements of MMPA Transmission LLC (a component unit of Minnesota Municipal Power Agency) as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise MMPA Transmission LLC's basic financial statements for the years then ended 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, 2017 and 2016, 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 6 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, 2018

MMPA TRANSMISSION LLC
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Management's Discussion and Analysis
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(Unaudited)

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, 2017 and 2016. 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, 2017 and 2016:

<u>Condensed statement of net position</u>	<u>2017</u>	<u>2016</u>	<u>Dollar change</u>	<u>Percentage change</u>
Capital assets, net	\$ 11,801,237	12,087,679	(286,442)	(2.4)%
Current assets	715,697	986,095	(270,398)	(27.4)
Total assets	<u>\$ 12,516,934</u>	<u>13,073,774</u>	<u>(556,840)</u>	(4.3)
Current liabilities	\$ 191,397	191,241	156	0.1
Long-term liabilities	5,623,155	6,761,627	(1,138,472)	(16.8)
Total liabilities	<u>5,814,552</u>	<u>6,952,868</u>	<u>(1,138,316)</u>	(16.4)
Net position:				
Net investment in capital assets	6,098,278	5,218,289	879,989	16.9
Unrestricted	604,104	902,617	(298,513)	(33.1)
Total net position	<u>6,702,382</u>	<u>6,120,906</u>	<u>581,476</u>	9.5
Total liabilities and net position	<u>\$ 12,516,934</u>	<u>13,073,774</u>	<u>(556,840)</u>	(4.3)

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Condensed statements of net position highlights are as follows:

- The assets of the Company exceeded its liabilities at the close of 2017 by approximately \$6.7 million (net position) as compared with \$6.1 million at the end of 2016.
- Capital assets, net were \$11.8 and \$12.1 million at the end 2017 and 2016, respectively. The \$0.3 million decrease is related to depreciation on capital assets in service.
- Current assets at the close of 2017 and 2016 were \$0.7 and \$1 million. Current assets represent cash and cash equivalents and other receivables. The \$0.3 million net decrease is primarily related to transmission revenue received offset by loan and lease payments made to Minnesota Municipal Power Agency (the Agency).
- Current liabilities were \$0.2 and \$0.2 million at the end of 2017 and 2016 and represent accounts payable in addition to debt and capital lease liabilities due within one year, respectively.
- Long-term liabilities were \$5.6 and \$6.8 million at the end of 2017 and 2016 and represent the Company's term loan and capital lease liability to the Agency, respectively. The \$1.2 million decrease is related to loan and lease payments made to the Agency, including a \$1.0 million loan prepayment made in 2017.

The following table summarizes the changes in financial position of the Company for the years ended December 31, 2017 and 2016:

Condensed statement of revenues, expenses, and changes in net position	2017	2016	Dollar change	Percentage change
Operating revenues	\$ 1,228,458	1,107,436	121,022	10.9 %
Nonoperating revenues	8,093	928	7,165	772.1
Total revenues	<u>1,236,551</u>	<u>1,108,364</u>	<u>128,187</u>	11.6
Operating expenses	324,554	305,140	19,414	6.4
Other nonoperating expenses	330,521	341,776	(11,255)	(3.3)
Total expenses	<u>655,075</u>	<u>646,916</u>	<u>8,159</u>	1.3
Change in net position	581,476	461,448	120,028	26.0
Beginning net position	<u>6,120,906</u>	<u>5,659,458</u>	<u>461,448</u>	8.2
Ending net position	<u>\$ 6,702,382</u>	<u>6,120,906</u>	<u>581,476</u>	9.5

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

- The Company had operating revenues of \$1.2 million and \$1.1 million in 2017 and 2016, respectively.
- Nonoperating revenues were less than \$0.1 million in both 2017 and 2016, and represent investment income.

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- Operating expenses were \$0.3 million in both 2017 and 2016, and primarily represent depreciation and transmission-related expenses.
- Other nonoperating expenses were \$0.3 million in both 2017 and 2016, and represent interest expense.

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.
- Capital assets, net were \$12.1 and \$12.4 million at the end 2016 and 2015, respectively. The \$0.3 million decrease is related to depreciation on capital assets in service.
- Current assets at the close of 2016 and 2015 were \$1.0 and \$0.4 million. Current assets represent cash and cash equivalents and other receivables. The \$0.6 million net increase is primarily related to transmission revenue received partially offset by loan and lease payments made to the Agency.
- 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 the Agency, respectively. The \$0.1 million decrease is related to loan and lease payments made to the Agency.

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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	<u>341,776</u>	<u>346,105</u>	<u>(4,329)</u>	(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. The \$0.7 million increase is related to a full year of transmission revenue received in 2016.
- 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.

Debt Administration

As of December 31, 2017 and 2016, the Company had long-term debt outstanding of approximately \$4.8 and \$5.9 million, respectively. During 2017, the Company prepaid \$1.0 million of its loan to the Agency.

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.

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Statements of Net Position

December 31, 2017 and 2016

Assets	<u>2017</u>	<u>2016</u>
Current assets:		
Cash and cash equivalents	\$ 624,754	902,973
Other receivables	<u>90,943</u>	<u>83,122</u>
Total current assets	<u>715,697</u>	<u>986,095</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>(883,295)</u>	<u>(596,853)</u>
Total capital assets, net	<u>11,801,237</u>	<u>12,087,679</u>
Total assets	<u><u>\$ 12,516,934</u></u>	<u><u>13,073,774</u></u>
Liabilities		
Liabilities:		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 16,548	—
Long-term debt due within one year	115,615	134,446
Capital lease liability due within one year	<u>59,234</u>	<u>56,795</u>
Total current liabilities	<u>191,397</u>	<u>191,241</u>
Long-term debt, net	4,735,229	5,822,469
Capital lease liability	<u>887,926</u>	<u>939,158</u>
Total noncurrent liabilities	<u>5,623,155</u>	<u>6,761,627</u>
Total liabilities	<u>5,814,552</u>	<u>6,952,868</u>
Net Position		
Net position:		
Net investment in capital assets	6,098,278	5,218,289
Unrestricted	<u>604,104</u>	<u>902,617</u>
Total net position	<u>6,702,382</u>	<u>6,120,906</u>
Total liabilities and net position	<u><u>\$ 12,516,934</u></u>	<u><u>13,073,774</u></u>

See accompanying notes to financial statements.

MMPA TRANSMISSION LLC
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Statements of Revenues, Expenses, and Changes in Net Position
Years ended December 31, 2017 and 2016

	2017	2016
Operating revenues	\$ 1,228,458	1,107,436
Operating expenses:		
Other operating expenses	38,112	18,698
Depreciation	286,442	286,442
Total operating expenses	324,554	305,140
Operating income	903,904	802,296
Nonoperating revenues (expenses):		
Interest expense	(330,521)	(341,776)
Investment income	8,093	928
Total nonoperating revenues (expenses), net	(322,428)	(340,848)
Change in net position	581,476	461,448
Total net position, beginning of year	6,120,906	5,659,458
Total net position, end of year	\$ 6,702,382	6,120,906

See accompanying notes to financial statements.

MMPA TRANSMISSION LLC
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Statements of Cash Flows

Years ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Receipts from sales	\$ 1,220,637	1,082,761
Payments for operating expenses	<u>(21,564)</u>	<u>(18,698)</u>
Net cash provided by operating activities	<u>1,199,073</u>	<u>1,064,063</u>
Cash flows from capital and related financing activities:		
Principal payments on capital lease	(48,594)	(46,281)
Principal payments on term loan	(1,101,584)	(96,746)
Payment of interest	<u>(335,207)</u>	<u>(342,357)</u>
Net cash used in capital and related financing activities	<u>(1,485,385)</u>	<u>(485,384)</u>
Cash flows from investing activities:		
Interest received	<u>8,093</u>	<u>928</u>
Net cash provided by investing activities	<u>8,093</u>	<u>928</u>
Net change in cash and cash equivalents	(278,219)	579,607
Cash and cash equivalents, beginning of year	<u>902,973</u>	<u>323,366</u>
Cash and cash equivalents, end of year	<u>\$ 624,754</u>	<u>902,973</u>
Cash flows from operating activities:		
Operating income	\$ 903,904	802,296
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	286,442	286,442
Changes in current assets and liabilities:		
Other receivables	(7,821)	(24,675)
Accounts payable and accrued liabilities	<u>16,548</u>	<u>—</u>
Total adjustments	<u>295,169</u>	<u>261,767</u>
Net cash provided by operating activities	<u>\$ 1,199,073</u>	<u>1,064,063</u>

See accompanying notes to financial statements.

MMPA TRANSMISSION LLC
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(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. 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.

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(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) Capital Assets

Capital assets activity was as follows:

	2017			
	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	<u>(596,853)</u>	<u>(286,442)</u>	<u>—</u>	<u>(883,295)</u>
Capital assets, net	<u>\$ 12,087,679</u>	<u>(286,442)</u>	<u>—</u>	<u>11,801,237</u>

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	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

(3) 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 outstanding of the term loan was \$4,823,960 and \$5,924,466 as of December 31, 2017 and 2016, respectively, and has a stated interest rate of 5%. In addition, \$26,884 and \$32,449, representing principal and interest for December 31, 2017 and 2016, respectively, is also included in the current liability balance in the statements of net position.

During 2017, the Company prepaid \$1.0 million of its loan to the Agency.

Debt service requirements on the term loan are as follows:

Year	Principal	Interest	Total
2018	\$ 88,731	233,870	322,601
2019	93,168	229,434	322,602
2020	97,826	224,775	322,601
2021	102,717	219,884	322,601
2022	107,853	214,748	322,601
2023–2027	625,754	987,252	1,613,006
2028–2032	798,639	814,367	1,613,006
2033–2037	1,019,288	593,718	1,613,006
2038–2042	1,300,898	312,108	1,613,006
2043–2044	589,086	29,229	618,315
	\$ 4,823,960	3,859,385	8,683,345

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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>
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	62,273	33,736	96,009
2023–2027	361,304	118,743	480,047
2028–2032	<u>294,763</u>	<u>25,269</u>	<u>320,032</u>
	<u>\$ 939,158</u>	<u>340,968</u>	<u>1,280,126</u>

In addition, the monthly installment of principal and interest in an amount of \$8,002 for December which was not remitted as of each 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, 2017 and 2016 was as follows:

<u>Long-term liabilities as of December 31, 2017</u>	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>
Long-term debt	\$ 5,924,466	—	(1,100,506)	4,823,960
Less long-term debt due within one year	<u>(101,997)</u>	<u>(88,731)</u>	<u>101,997</u>	<u>(88,731)</u>
Long-term debt, net	<u>\$ 5,822,469</u>	<u>(88,731)</u>	<u>(998,509)</u>	<u>4,735,229</u>
Capital lease liability	\$ 987,951	—	(48,793)	939,158
<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	<u>(97,140)</u>	<u>(101,997)</u>	<u>97,140</u>	<u>(101,997)</u>
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

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(4) 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.