



# 2017

## ANNUAL REPORT





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## LETTER FROM OUR BOARD PRESIDENT

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**Tim Stoner:** *President, CMMPA Board of Directors and General Manager, Blue Earth Light and Water*

Last year was a busy and successful one, filled with important milestones and accomplishments that helped our members. During 2017, we:

- Started selling subscriptions for our community solar project, R4 Solar
- Negotiated two major new power contracts
- Procured more than \$20 million in wholesale power
- Mapped several members' distribution systems
- Developed resource plans for several members
- Assessed the financial viability of replacing a member's hydroelectric generator

Our organization, the Central Minnesota Municipal Power Agency (CMMPA), celebrated its 30th year of operations. Our utility-services agent, the Central Municipal Power Agency and Services (CMPAS), marked 19 years of service.

None of that would have been possible without the passionate and dedicated leadership of Steve Thompson, who retired from CMMPA and CMPAS at the end of the year. Steve had a distinguished 38-year career in the electricity business, including 18 at CMMPA and CMPAS, where he nurtured the organizations through their respective early growth years. We wish him well.

Under Steve's direction, CMMPA/CMPAS also participated in their first baseload coal project (Nebraska City Unit 2) and their first major transmission project (the CAPX 2020 Brookings to Twin Cities 345 kV line). Steve also guided the diversification of our power supply by executing long-term power purchases, including nuclear and wind.

As the board looks to CMMPA's and CMPAS's future, we have high confidence in the current leadership team. They inherited a strong organization, and they work hard every day to make it stronger still.

Sincerely,

**Tim Stoner**

President, CMMPA Board of Directors and  
General Manager, Blue Earth Light and Water



## ABOUT OUR AGENCY

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Central Minnesota Municipal Power Agency (CMMPA) serves as a municipal, non-profit, project-based, partial or full-requirements joint power agency. CMMPA formed a utility services agent, Central Municipal Power Agency/ Services (CMPAS), to provide energy management and consulting services to public power members and affiliates.

CMPAS provides a wide range of services including strategic management, long-term power supply planning and procurement, project development and administration, accounting, and finance. The Agency also offers Midcontinent Independent System Operator (MISO) market-related services, including daily energy scheduling and related services. CMPAS's specialized expertise in long-term power supply planning and energy markets is important for CMMPA's long-term success.

## MUNICIPAL COMPASS TO POWER

### MISSION

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**Identify strategies that** minimize wholesale power costs, manage future risks, and maintain stable and competitive rates while allowing utility boards flexibility and autonomy to customize their own electricity portfolio.

### VISION

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**Serve in a consultative** role as a municipal electricity portfolio adviser by offering specialized planning and procurement services for power supply and transmission.

### COMMITMENT

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**Deliver unbiased, independent** portfolio system solutions as a municipal utility's fiduciary and strategic adviser to best serve their municipal customers.



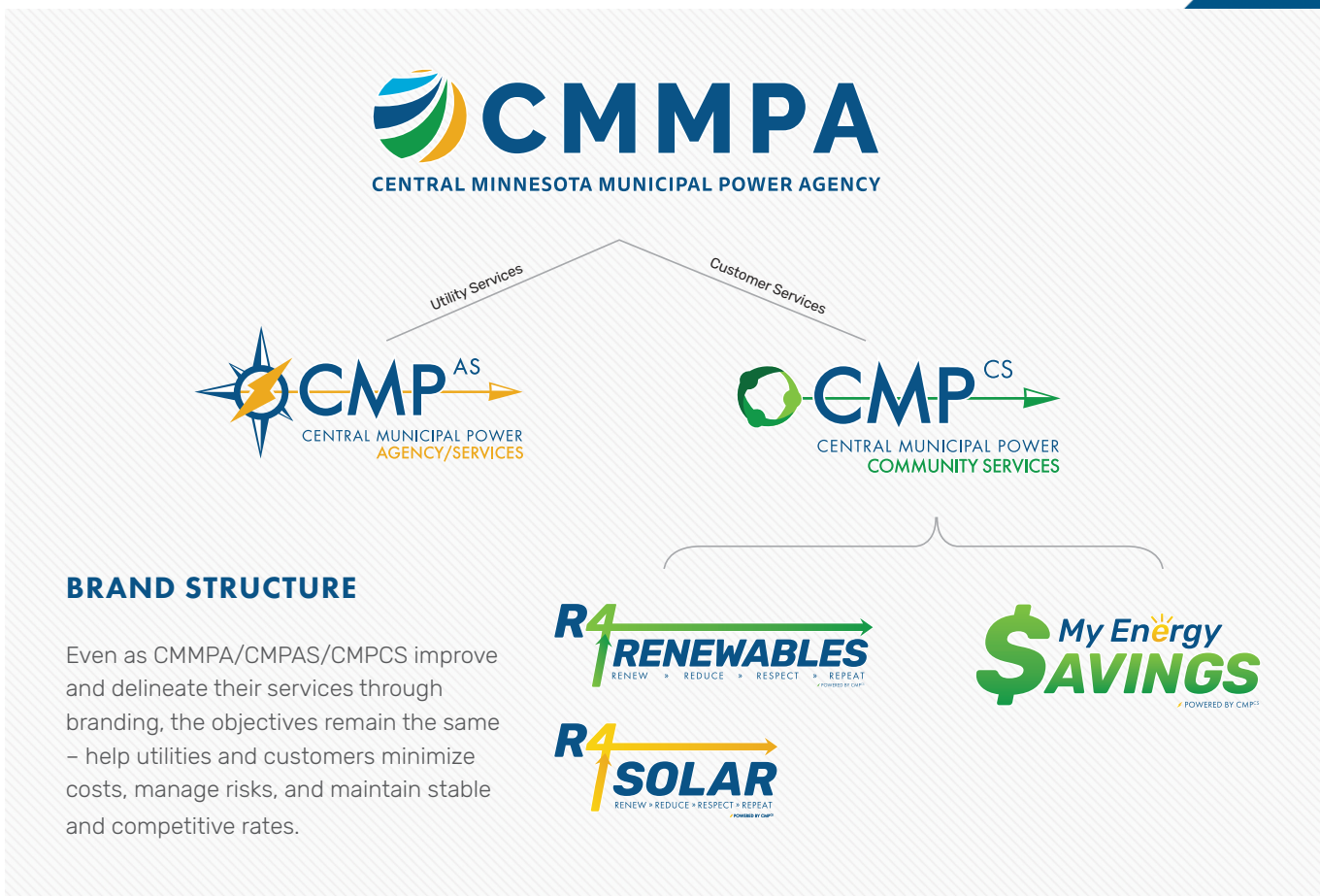
## POWERING A BRIGHTER FUTURE

In time for Central Minnesota Municipal Power Agency's (CMMPA) 30-year anniversary, its logo is being revitalized to complement the logo of its management and consulting services agent, Central Municipal Power Agency/Services (CMPAS – pronounced "compass"). The revitalized CMMPA logo and corresponding tagline represents the continuity between the utility projects handled by CMPAS and community service projects of CMMPA's recently launched consumer-services division.

CMPAS created a separate customer and community services division named Central Municipal Power Community Services (CMPCS). The parallel division concentrates on customer retail services, such as the long-standing conservation improvement/energy efficiency and green pricing programs and its recently introduced community solar program. The circle of CMPCS's logo signifies how CMPAS works "together" with CMMPA's

member utilities and their customers on retail energy services. The separation of CMPCS's customer-oriented projects from CMPAS's utility-focused services will help retail customers more easily navigate information resources from CMMPA's two divisions.

Under the new CMPCS brand, the previously known Savings Plus name and logo were changed to My Energy Savings. The change more directly describes conservation improvement and energy efficiency offerings and makes energy savings even more personal. The program offers customers efficiency rebates, consultations, and information regarding best practices to control power costs.







## MEET OUR BOARD

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CMPAS currently manages the portfolios of 12 member municipalities and provides power supply related services to non-member affiliates in Minnesota and Iowa. With headquarters in Blue Earth, Minnesota, the Agency is governed by a 12-member board comprised of a representative from each member city.



**Richard A. Heinemann**  
*CMPAS General Counsel*



  
**Bob Elston**  
Sleepy Eye, MN



  
**Crystal Johnson**  
Granite Falls, MN



  
**David Meyer**  
Glencoe, MN



  
**Joel Grejtak**  
Fairfax, MN



  
**Nate Zimmerman**  
Janesville, MN



  
**Paul Twite**  
Delano, MN




  
**Randy Eggert**  
Kenyon, MN



  
**Scott Johnson**  
Springfield, MN



  
**Steve Nasby**  
Windom, MN



  
**Theresa Coleman**  
Kasson, MN



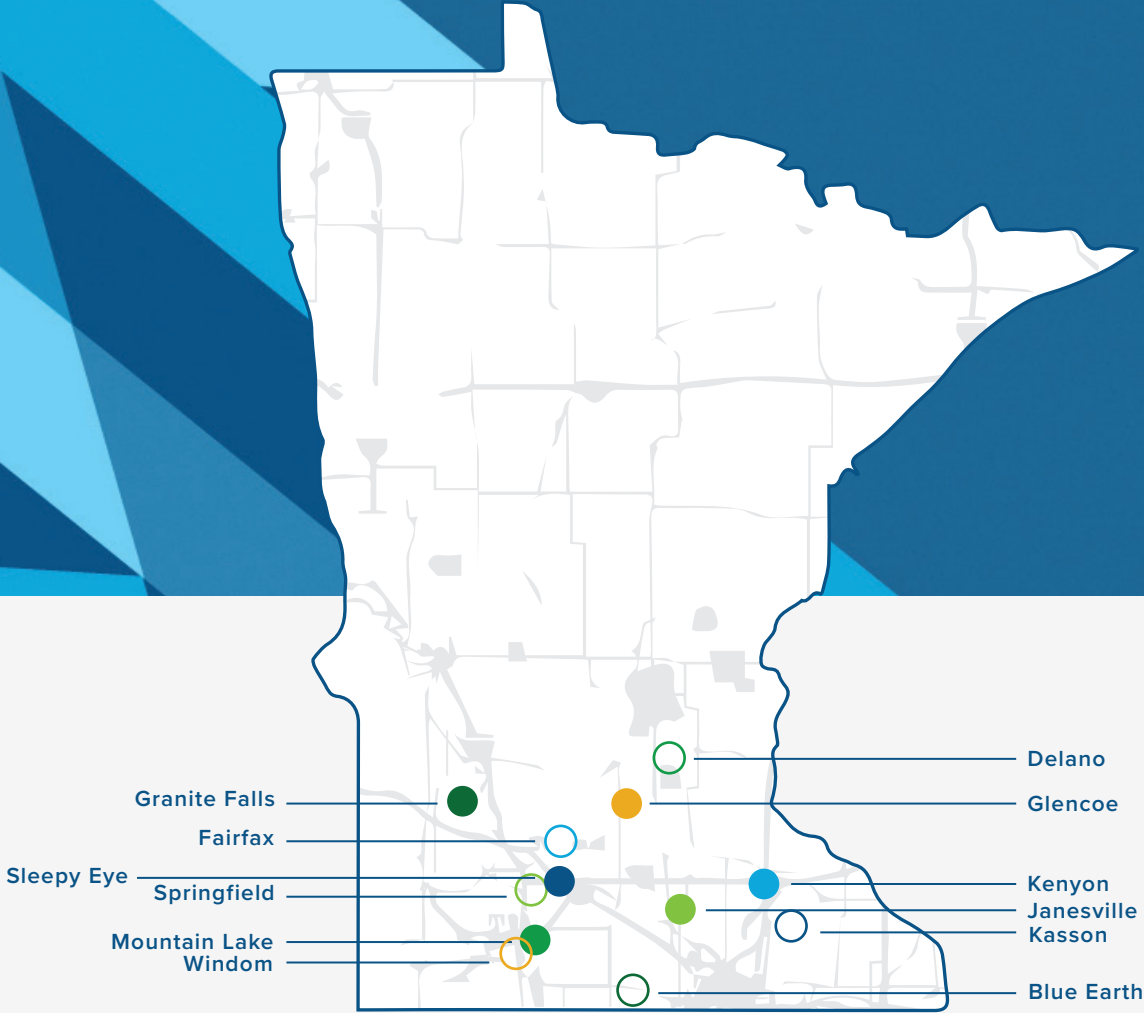
  
**Tim Stoner**  
Blue Earth, MN



  
**Wendy Meyer**  
Mountain Lake, MN



# OUR MEMBERS



**Our Affiliates:**

- |                 |               |               |             |                  |
|-----------------|---------------|---------------|-------------|------------------|
| Cedar Falls, IA | Montezuma, IA | Indianola, IA | Waverly, IA | Independence, IA |
|                 | Eldridge, IA  | Elk River, MN | Willmar, MN |                  |

# EARNING PEARLS, CMMPA/CMPAS HEADS TOWARD DIAMONDS

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Lore and tradition refer to the 30th anniversary as the “Pearl Anniversary.” Upon reaching 30 years, people’s lives often demonstrate a commitment to a particular calling. Much like pearls and people, Central Minnesota Municipal Power Agency (CMMPA) celebrates 30 years of answering the call to deliver price-competitive portfolio solutions that keep public power utilities strong and durable.

Over the years, the durability and flexibility of CMMPA’s chosen project-based business model has allowed utilities to belong as a partial- or full-requirements member, or as an affiliate. As utilities retain their ownership of local resources and legacy assets, CMMPA helps each participant manage their individualized power portfolio while aggregating the needs of its 12 members and affiliates in Minnesota and Iowa.

## PERPETUATION OF MUNICIPALLY OWNED ELECTRIC SYSTEMS

Early documents show six municipal utilities joined together in 1987 to form CMMPA. Thirty years later, the Agency continues to abide by its original tenets to serve as a “partial-requirements agency with an emphasis on independence of operation, economical supply of energy for its consumer owners, and perpetuation of municipally owned electric systems in Minnesota.”

The Agency’s first matter of business involved renegotiating and managing a single power supply contract with its neighboring investor-owned utility, Northern States Power (presently known as Xcel Energy). For ten years, the agency had no permanent staff. Instead, member cities’ managers, administrators, and superintendents took charge of the day-to-day management of the power supply contract.

In 1998, before the expiration of the NSP contract, members created a second joint action agency to operate as their energy management and consulting services agent. Initially named Utilities Plus, the agent is now known as Central Municipal Power Agency/Services (CMPAS – pronounced “compass”).

Working alongside members, CMPAS conducted a 2002 planning study that identified options for generation resources and quantities that would optimize each utility’s existing portfolio. After review and evaluation, ten members

signed a CMPAS-sponsored contract for baseload power from Omaha Public Power District’s Nebraska City Unit 2 Coal Station (NC2).

Each participant holds contractual rights to specific amounts of power from NC2. As applied through the project-based model, CMPAS directly assigns cost to participants by their proportional, contractual obligation without impacting the electric rate structures of non-participating members.

Sleepy Eye Commissioner Bob Weiss praises the Agency for its ability to cater to independent-minded utilities by accommodating legacy assets, partial requirements, and local preferences. “CMMPA/CMPAS offers in-depth analysis of options, lets the utility choose what is best for the community, and then handles the rest,” said Weiss.

Over the years, CMMPA has been instrumental in helping public power utilities adapt to industry changes. For example, when utilities needed to navigate emerging wholesale power market rules in 2006, CMMPA/CMPAS hired an energy-market services team to help members and non-member affiliates schedule their energy requirements in the Midcontinent Independent System Operator (MISO) market.

## TRANSMISSION

When members began experiencing the significant increase in transmission rates over a short time before 2006, they turned to CMPAS to find solutions to mitigate the cost. The ensuing analyses showed transmission prices would double from 2006 to 2020.

In this context, CMPAS determined that municipal utilities could no longer be content to remain “renters” of the transmission system. So, CMPAS successfully built a coalition of public power partners and embarked on a 3.9 percent investment in the CAPX 2020 Project.





**FROM TOP LEFT TO RIGHT** CMPAS Board Members Dave Meyer, Glencoe; Tim Stoner, Blue Earth; Randy Eggert, Kenyon; and Wendy Meyer, Mountain Lake. The CMPAS board meets in-person or by conference call on a monthly basis to discuss the financing of portfolio projects, cost-sharing of industry expertise, the coordination of needs, and industry trends. As a power agency and utility services organization, CMPAS collaborates around a project-oriented business model that positions members and affiliates in a mutually beneficial way.

Among the first steps to move from renter to owner, the Agency needed to earn acceptance as a co-investor from incumbent transmission owners (TOs) and gain approval from the Federal Energy Regulatory Commission (FERC). As CMMPA sought to use financial cost-recovery mechanisms on the same basis as investor-owned utilities with a TO designation, it endured four different interventions by the other TOs.

After a nine-year process, the FERC approved CMMPA for transmission ownership in what is considered precedent-setting decisions for other utilities to follow.

The result of CMMPA's \$35 million transmission investment will save its members and affiliates at least \$52 million over the project's 40-year life. The 15 participants in Minnesota and Iowa will realize \$27 million in savings. Moreover, the agency's proportional share of the investment provides \$25 million in recovery that reduces its overall operating costs by nearly \$1/MWh.

To mitigate looming transmission costs, CMPAS continues to seek new transmission opportunities. Presently, CMPAS members need another investment of approximately \$60 million to more effectively hedge against future cost increases.

Along with local perseverance and fortitude from member and affiliate utilities, Wendy Meyer, CMPAS/CMMPA board member and Mountain Lake City Administrator, observed that the Agency received tremendous support from great public power partners such as the Midwest Municipal Transmission Group and others.

"We are thankful the Spiegel McDiarmid legal team, led by Robert Jablon, obtained rulings that will help municipal utilities adapt and thrive," Meyer said. "The path is now clear for other public power utilities to follow, and to this day, transmission ownership remains a long-term hedging tool to protect public-power customers."

# EARNING PEARLS, CMMPA/CMPAS HEADS TOWARD DIAMONDS

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## FROM BASELOAD CONTRACTS TO COMMUNITY SOLAR SUBSCRIPTIONS

"When an outsider looks at CMMPA members' individualized power supply portfolios, they will notice they look very different from each other, and the combined portfolios look different today compared to 30 years ago," said Christopher Kopel, CMPAS's CEO and former COO.

**"CMPAS has worked hard to help utilities navigate regulatory and technology changes by proactively analyzing, planning, and managing each member's portfolio. This active management has led to an Agency portfolio that is 48 percent carbon free and well-positioned against natural gas and market price volatility as well as potential carbon risks."**

During the first 15 years of its existence, the Agency managed one NSP power purchase agreement that existed alongside hydropower allocations from the Western Area Power Administration. When CMMPA/CMPAS was designated as a MISO market participant in 2006, it started an ongoing portfolio diversification process as depicted in the graphic of the Agency's wholesale power portfolios over time (See power portfolios on page 18).

The most common and oldest generation assets owned by members are internal combustion generating units fueled by diesel oil and/or natural gas. These assets meet utility capacity market requirements and can get utilities through

emergency situations. The newest addition to member utility portfolios comes in the form of community solar subscriptions, marketed as R4 Solar.

Through upstream and downstream contracts arranged and managed by CMPAS, six CMMPA members sell community solar subscriptions from local solar billboards and the Lemond Community Solar Project near Owatonna, MN. The Lemond Project is a source of great public power pride since it exists as a collaborative project between CMPAS and Southern MN Municipal Power Agency.

Presently, CMMPA/CMPAS is concluding a 2020 Power Supply Coalition effort with the goal of lowering portfolio costs and mitigating long-term risks. Long-term power supply contracts signed in 2017 means that approximately 75 percent of the utilities' portfolio costs will have long-term price certainty at favorable prices. The agency is working on a wind resource component as the final piece for the participants' long-term portfolio.





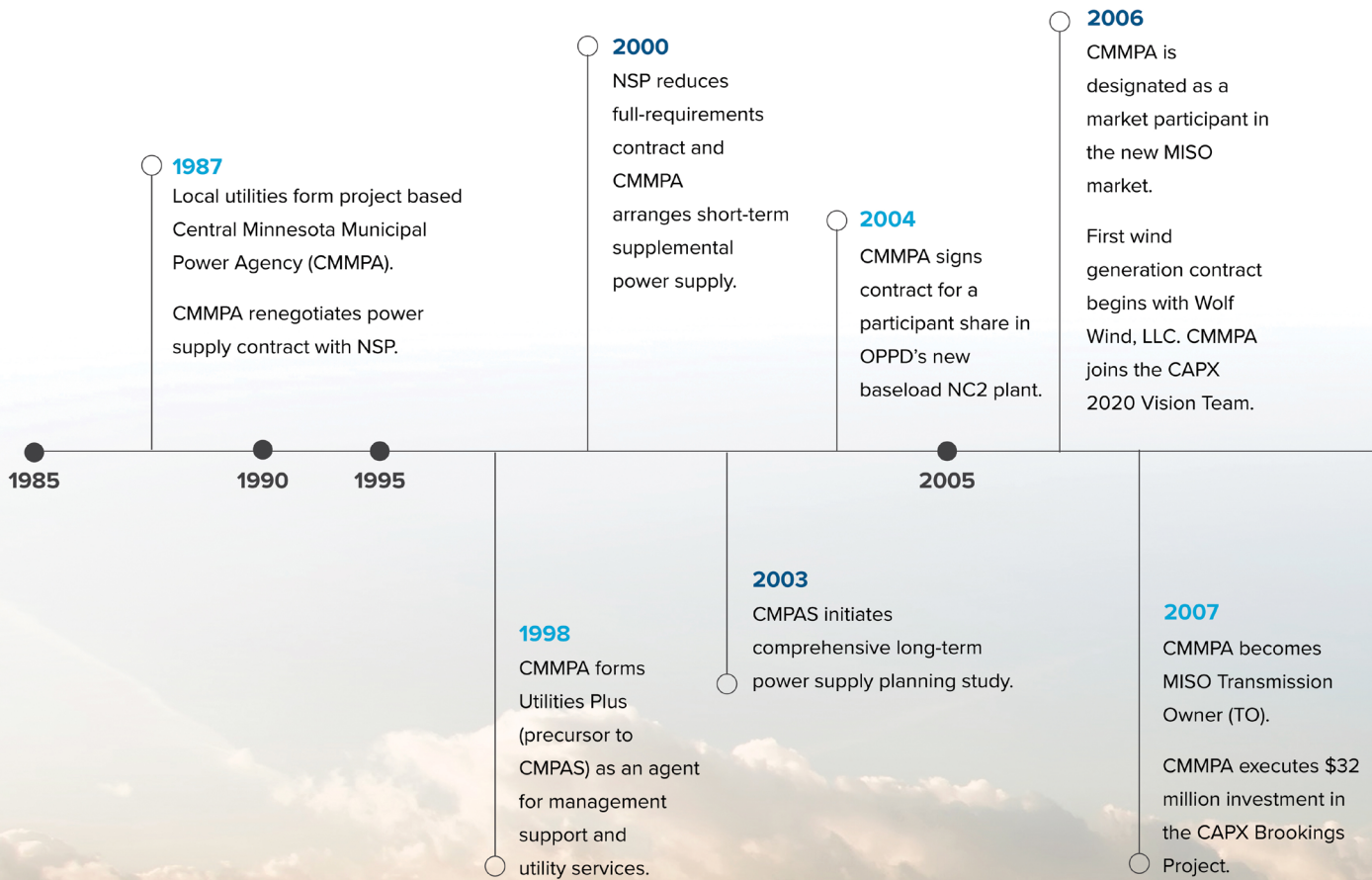
## COMMITMENT

Originally registered in Glencoe, CMMPA/CMPAS eventually moved to Blue Earth and recently opened a satellite office in Eden Prairie. Although the location changed, the Agency never strayed from its project-based model and mission to identify strategies that minimize wholesale power costs, manage future risks, and maintain stable and competitive rates while allowing utility boards' flexibility and autonomy to customize their electricity portfolio.

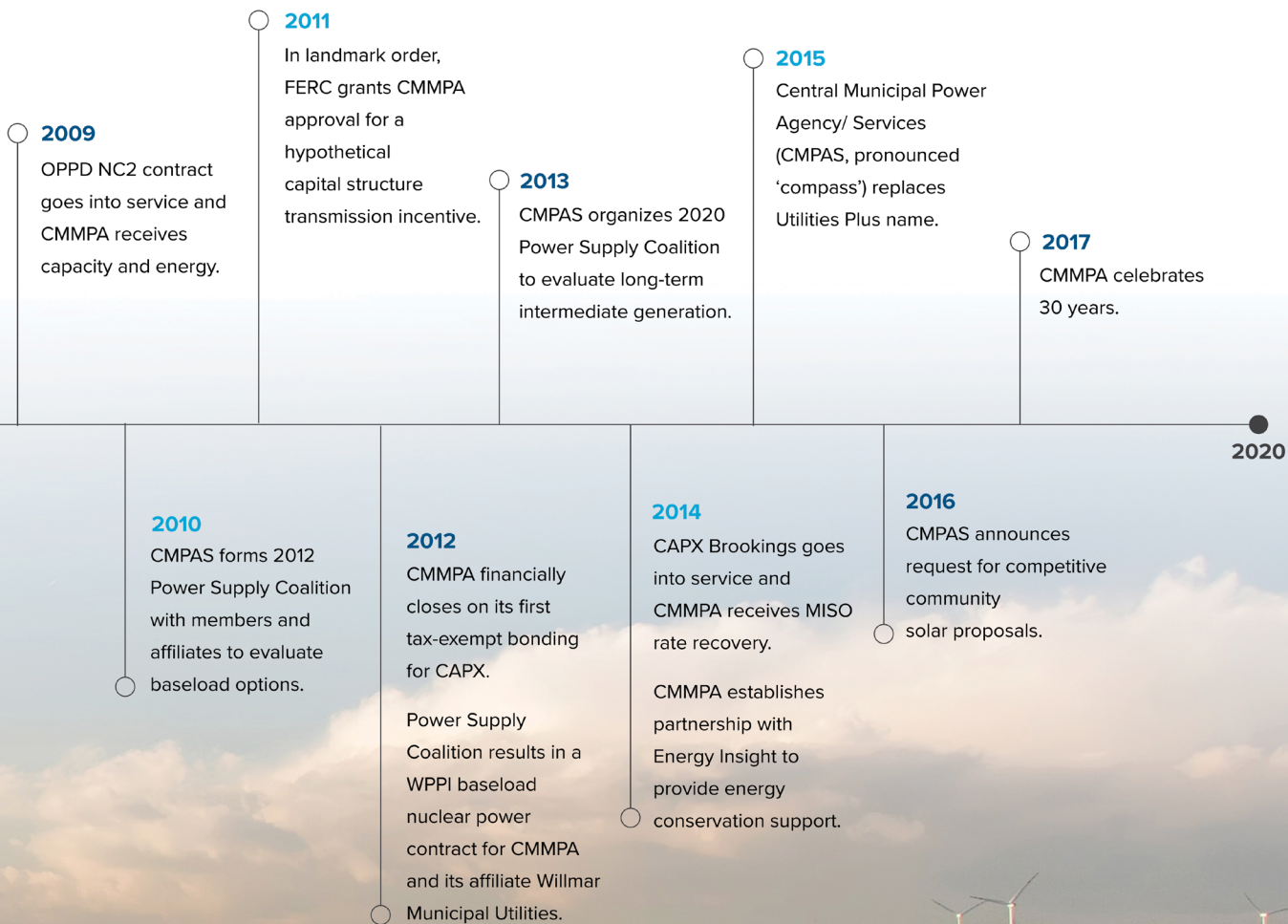
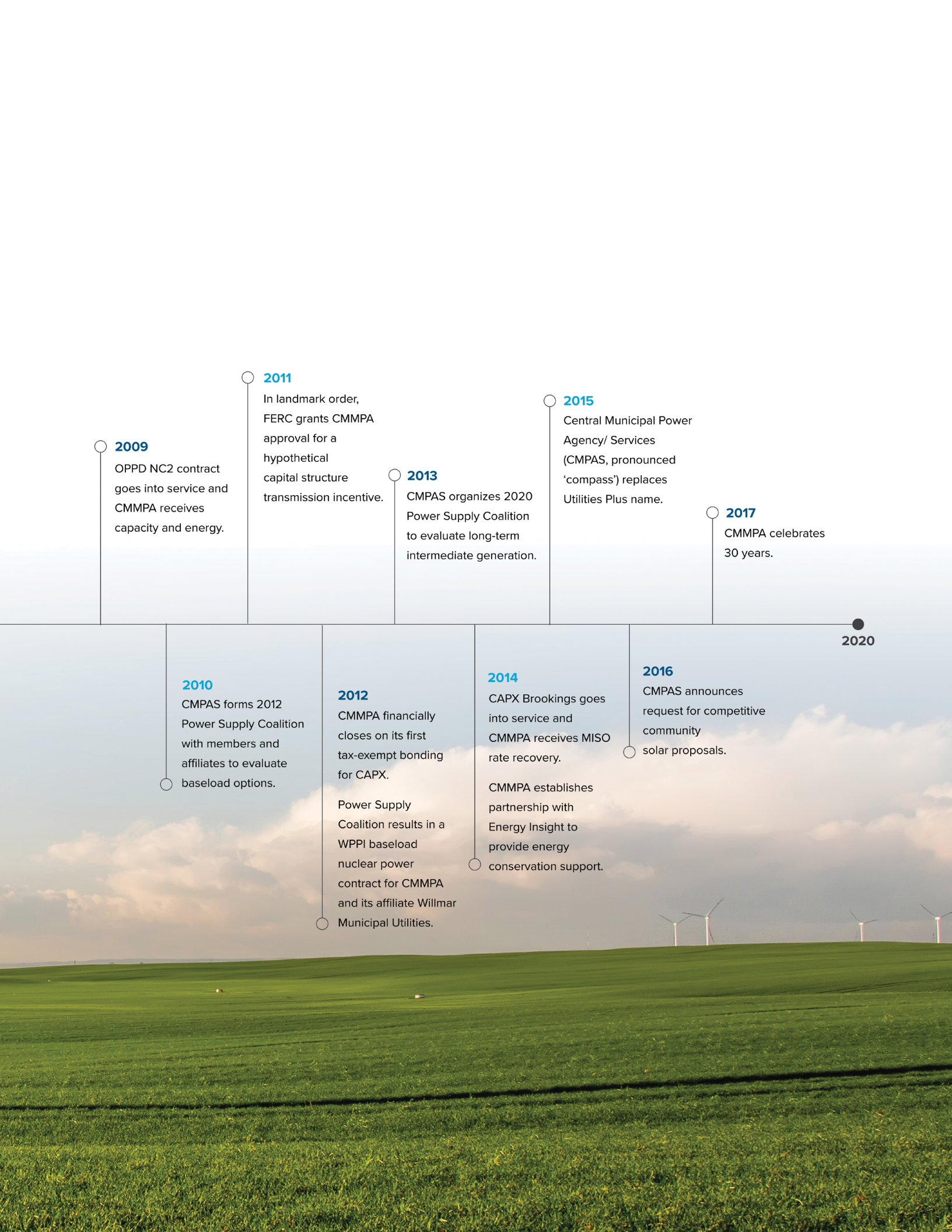
Aligned with its mission, the team of 11 employees at CMMPA/CMPAS provides consultative advice for portfolio planning, development, and management; energy market scheduling and related services; operational and administrative support; individual and coalition power supply and transmission studies; and energy efficiency and distribution mapping programs.

With the passage of 30 years, CMMPA has worked hard to live up to its calling as a strategic and fiduciary advisor that delivers unbiased, independent portfolio system solutions that best serve the customers of municipal utility members. With that commitment in mind, CMMPA heads toward its 50-year diamond anniversary by powering a brighter future for the perpetuation of strong public power utilities.

## AGENCY TIMELINE









## HIGHLIGHTS OF 2017 FOR CMMPA/CMPAS

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### PLANNING AND DEVELOPMENT

#### Power Supply

As a result of strategic alliances and planning, CMPAS closed on a fixed-price seasonal power purchase in the fourth quarter of 2017. Over a four-year period, 30 utilities in 3 states participated in a CMPAS 2020 Power Supply Coalition. Beginning in 2021, approximately, 71,000 MWh will be supplied annually to 10 public power participants bringing more price certainty to their individual portfolios.

#### R4 Solar

Six members offered the R4 Solar Program to their customers. In its first year, this community solar program developed by CMPAS sold 211 subscriptions or panels to 64 customers in 6 cities. For customers, R4 Solar represents a price-competitive, hassle-free, and environmentally sound alternative to installing rooftop solar panels on homes and businesses.

#### Transmission

In the quest to continue neutrally investing in transmission projects, the Agency is exploring new transmission projects.

#### My Energy Savings

The ten members participating in the conservation and energy efficiency program branded My Energy Savings helped residential and commercial/industrial customers achieve 1.85 percent in energy savings equaling 5.7 million kWh. Those same members made efficiency improvements to their local utility systems that account for 3.15 percent in energy savings or nearly 10 million kWh. Altogether, energy efficiency initiatives in the ten cities achieved more than 15 million kWh in energy savings.





## ACCOUNTING AND FINANCE

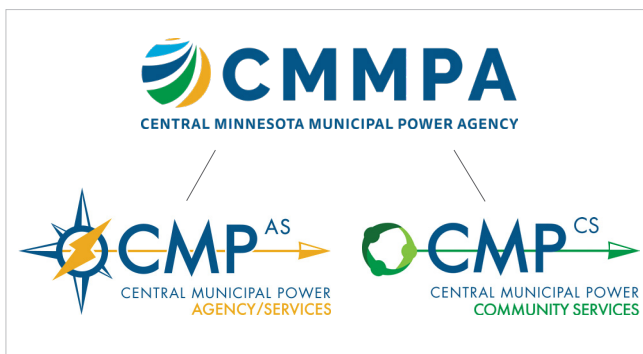
CMPMA began a new relationship with Baker Tilly Virchow Krause, LLP (Baker Tilly), a nationally recognized accounting and advisory firm, to conduct its 2017 financial audit.

### Transmission

As a result of CMPMA investing in the CAPX 2020 Brookings project on behalf of agency members and a half dozen affiliate public power utilities, the Agency annually submits an Attachment O to the Midcontinent Independent System Operator (MISO). The Attachment O provides the formula rate for recovery of a utility's transmission revenue requirements. CMPAS also files an Attachment O for member and affiliate transmission assets.

## COMMUNICATIONS

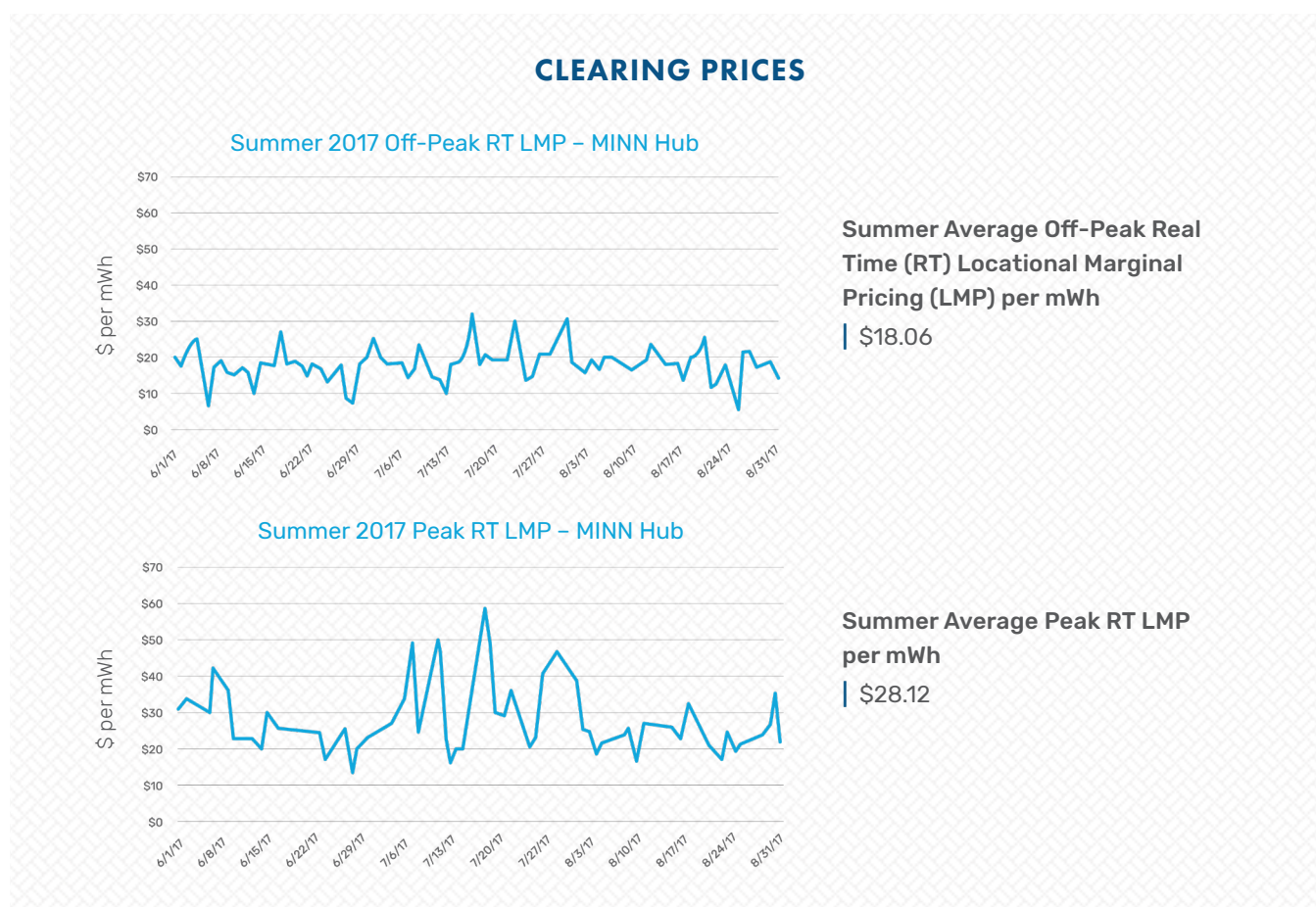
In time for Central Minnesota Municipal Power Agency's (CMPMA) 30-year anniversary, logos were revitalized to complement the logo of its management and consulting services agent, Central Municipal Power Agency/Services (CMPAS – pronounced "compass"). We hope that you agree that the new family of logos convey the consistent quality that the agency works to achieve every day.



## OPTIMIZING MEMBER PORTFOLIOS

Wholesale power accounts for about 60 percent of the retail price of electricity delivered by CMPMPA members. If we can shave \$1 or \$2 off the price of each unit of wholesale power, that is a meaningful savings that will be reflected in the bills our members send to their customers.

Although brief periods of sharp price volatility occurred in 2017, such as when a generator or transmission line went down unexpectedly, power prices in our regional power market, the Midcontinent Independent System Operator (MISO), were fairly stable last year.



In recent years, the power market has been shifting, driven by the closure of coal-fired generation and the construction of new wind and gas-fired generation. New transmission projects also have come online, remapping power pathways in our state and region. New regulations, shifting economics, and fresh cyberthreats all shape the power business these days.

Today's power market is very different from what it was when CMPMPA and CMPAS began operating.

Many of these changes play to CMPAS's expertise in long-term power-supply planning and energy markets. Last year, we signed a decade-long wholesale power-supply contract at an attractive price for about 20 megawatts (MW) of power that will flow to members for 16 hours a day during weekdays (known as a 5 x 16 contract).





Those power contracts, along with additional customized power-supply contracts for two members for summer dispatch, will help keep members supplied with stable, low-cost, reliable, wholesale power for years to come. These long-term contracts support our members' efforts to keep retail electric prices as low as possible.

Acting as agent for our members, CMPAS is active in MISO every day, searching for low-cost, reliable power options. If we are successful, our members are successful. We design and maintain a generation portfolio that mitigates risks and manages around turbulence in the market. Last year, we procured about 400,000 megawatt-hours (mWh) of wholesale power, valued at about \$22 million, for our members.

**"Our mantra is, 'low cost, low risk, and low volatility,'"** said Chad Hanson, Supervisor of Operations and Analytics. **"We conduct a lot of evaluations and analyses of loads and prices to find the sweet spot of low cost, low risk, and low volatility."**

## OPTIMIZING MEMBER PORTFOLIOS

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Members require stable, low-cost power, and Chad and his team respond to that need. Thanks to their diligence and market savvy, our wholesale power costs compare favorably to other agencies in MISO. While wholesale power costs for other agencies are rising, ours are lower than they were ten years ago (See Wholesale Power Costs figure).

**Our members also feel strongly about choice and optionality. They don't want to be locked into inflexible long-term contracts where they are required to take power whether they need it or not.**

That's why CMMPA and its management agent, CMPAS, constitute "project-based agencies," where each member has a unique power-supply portfolio and autonomy over the composition of their portfolios. We provide members with information and power-supply options, and they choose what works best for them.

At yearend 2017, CMPAS's power portfolio was about 48 percent carbon-free, which provides an important hedge against market volatility, particularly for natural gas, as well as insulates our members from potential carbon risks.

Beyond generation, transmission is another driver of the price our members pay for power.

The Upper Midwest has seen a lot of transmission construction in recent years, and we have been active in that buildout.

Our 3.9 percent ownership of the CAPX 2020 transmission project, made for \$35 million, will save our members at least \$52 million over the project's 40-year lifetime. Owning transmission brings revenue to offset transmission rates that utilities would otherwise pay as renters. Since transmission rates have increased faster than the rate of inflation (6 percent transmission rate increase compared to 2 percent inflation), transmission ownership is proving to be a wise choice that will help our members hold down their retail electric prices.

Wholesale power, whatever its cost, has no value if you can't bring it to where it is needed. As the power pathways in the Upper Midwest continue to be remapped, we expect further upward pressure on transmission prices. In 2017, we began investigating potential new transmission investments, to increase efficiencies and further lower costs.

In our region, the place where value is created is shifting incrementally toward transmission. We are racing to get there before our rivals, so we can strike better deals on our members' behalf.

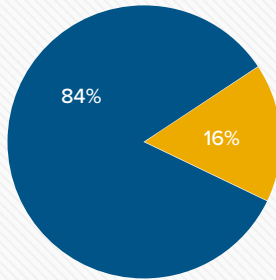


## WHOLESALE POWER PORTFOLIOS

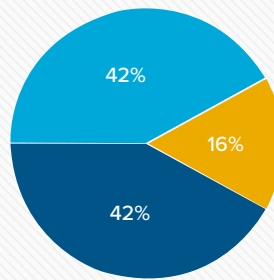
### Energy Information

- WAPA Hydropower
- Coal
- Market
- Nuclear
- Short-term Fixed Price 5x16 PPA
- Renewable

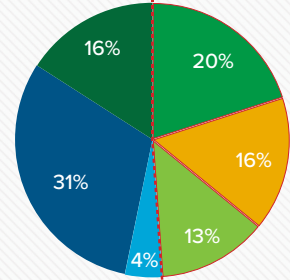
Pre 2003 Energy



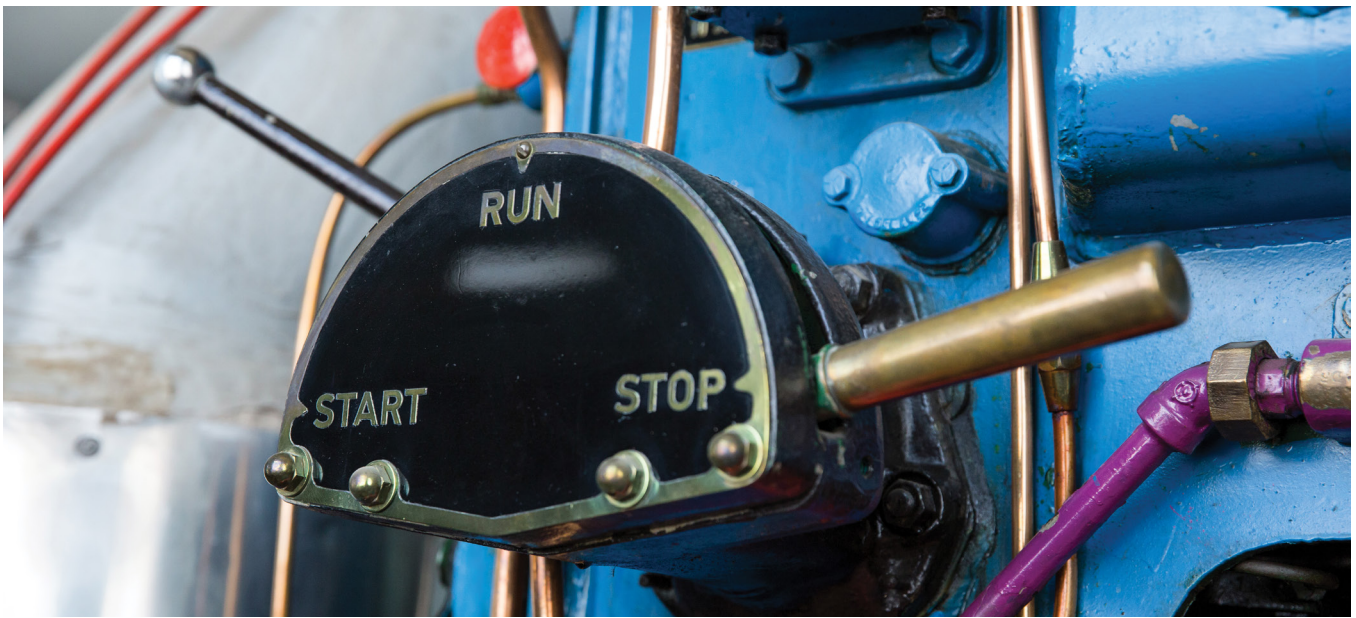
Post 2003 Energy



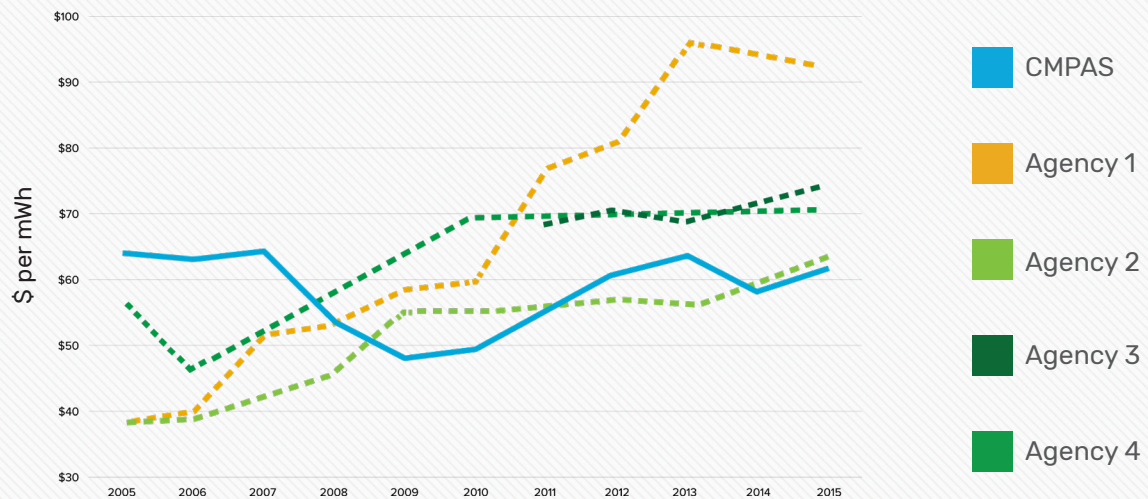
2017 Energy



49% Carbon Free



## WHOLESALE POWER COSTS



# COMMUNITY SPOTLIGHT

## R4 SOLAR PROGRAM PROVIDES EMISSION-FREE ELECTRICITY

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In the power business, when you say, “resources,” several adjectives about generating and delivering electricity come to mind: reliable, cost competitive, and environmentally sound.

To help members meet and exceed environmental expectations, we developed a community solar subscription program for their customers. We analyzed the costs and benefits of building our own project or participating in a community solar project with our public power neighbor, the Southern Minnesota Municipal Power Agency (SMMPA). Eventually, six CMPAS members decided to offer their customers an opportunity to participate in that program, for aggregate electric demand of about 280 kilowatts (kW).

We launched that community solar program, called R4 Solar. CMPAS members participating in R4 Solar are: Blue Earth Light and Water; Granite Falls Municipal Utilities; Janesville Municipal Utilities; Kasson Public Utilities; Kenyon Municipal Utilities; and Sleepy Eye Public Utilities.

R4 Solar demonstrates the difference between a project-based joint action agency (JAA), like CMPAS, and other JAAs, which obligate all members to a proportional share of all projects that are undertaken.

We don’t approach members with a pre-baked plan and try to convince them to participate. Rather, we start by talking to members to make sure we understand their needs, wants, and expectations. What we hear drives the action plans we create.

The four Rs in the R4 Solar program’s name stand for Renew, Reduce, Respect, and Repeat. When you consider the values that cause members and customers to support emission-free electricity, those four Rs really summarize the story.

Community-based solar projects like R4 Solar play an important role in meeting member and customer expectations. Some customers want to purchase clean, renewable solar power, but for one reason or another can’t. Perhaps the cost of a rooftop-solar array was too high. Maybe there were restrictions on what could be attached to a home’s roof. Or their roofs might not face the right direction for optimal solar generation.

A community solar project removes all of those impediments and lets our members’ customers fulfill their goals — electric service the way they want it.

“R4 Solar is a good alternative to rooftop solar, which is very expensive and not practical for some customers,” said Theresa Coleman, a CMPAS board member and the administrator for the City of Kasson. “Whether you participate in R4 Solar or not, we all benefit from electricity that is emission-free.”

Nate Zimmerman, general manager of Janesville Utilities, agreed. **“R4 Solar is a fabulous program that fits well with a utility of our size. Some of our customers have a strong interest in solar power, and they are okay paying a premium for it. But not everyone feels the same way, and we didn’t want to force it on our customers.”**







## MAPPING AND PLANNING MEMBERS' DISTRIBUTION SYSTEMS

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If you don't have a map, it can be difficult to get from Point A to Point B effectively. That's certainly true for summer car trips with the family. However, it's even truer when it comes to electric distribution systems.

**"A few years ago, when our system was bumping up against the limits of our transformer capacity, our consulting engineer recommended building a new substation at the cost of about \$2 million,"** recalled Tim Stoner of Blue Earth Light and Water. **"We called Vignesh at CMPAS to see if he had a better idea."**

He did, and his recommendation deferred a \$2 million capital cost for Blue Earth and its customers.

Instead of building a new substation, Vignesh Subramanian, CMPAS's systems engineer, mapped and planned Blue Earth's electric distribution system, creating the essential foundation for system improvements that could increase efficiencies, prevent construction of a new substation, and save the utility and its customers money.

Rather than building a \$2 million new substation, Blue Earth built capacitor banks and made system improvements. The substation alternative cut line losses by 50 percent, increased large commercial customers' power factors by almost 40 percent, and saved everyone money. These benefits happened as a result of Vignesh's mapping and planning.







These moves also helped the environment: increasing the efficiency of the electric network lowered carbon dioxide emissions by about 1,348 tons, according to a calculator maintained by the U.S. Environmental Protection Agency.

We provide these distribution mapping and planning services as a member benefit, at no additional cost. If members had to contract with a third-party electrical firm, they could have been charged between \$70,000 and \$200,000 for those services.

Blue Earth was our first member to take advantage of these services. That distribution planning and mapping project, completed in 2015, provided the basis for installation of capacitor banks on its system and

behind its large commercial customers' meters, which took place last year. The utility realized a net benefit of about \$25,000, and the project recovered its investment in nine months.

Our ultimate goal would be to map all of our members' distribution systems, then conduct engineering planning work on those systems to identify where and how we could improve those systems.

# COMMUNITY SPOTLIGHT

## FIRST THINGS FIRST: DISTRIBUTION MAPPING SERVICES

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Members were generous in their praise for the distribution mapping and planning work Vignesh performed in 2017.

"I can't say enough about how Vignesh has supported us," said Blue Earth's Tim Stoner. "His work was extremely helpful. He took us from paper-based maps of our distribution system to a dynamic, digital visualization of our system. He really helped us get into the 21st century."

Added Nate Zimmerman of Janesville: "We have been relying on paper maps and rough computer-assisted design (CAD) maps, but honestly, what we had wasn't great. CMPAS put something in front of me that I had been seeking. They took the big picture out of my head and mapped it so I could sequence the work."

"CMPAS really shines because they help us on a customized, individual basis. For example, Blue Earth has an overhead system, and capacitor banks can make a huge difference there. But Janesville's system is almost entirely underground. Capacitor banks are less important to me than conducting a fuse coordination study and designing and placing fault indicators so we can shorten power-restoration times when we have an outage."

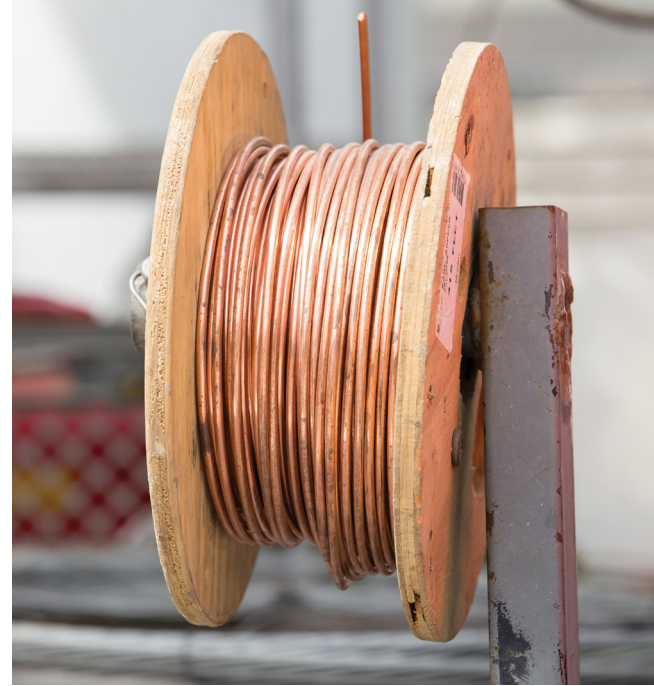
**"CMPAS has 12 utility members with 12 different legacies and 12 sets of unique needs,"** Nate continued. **"There's no cookie-cutter approach to their work, and that makes all of us stronger together."**

A few years ago, CMPAS began offering distribution mapping and planning to its members, to help them transition away from static, paper-based distribution maps to dynamic, electronic maps. Electronic maps allow members to visualize in real-time the operation of their distribution systems so they can see how well their systems are operating.

Distribution mapping and planning is necessary for any member than wants to upgrade its network to reduce line losses and increase power factors, both of which can bring meaningful operational and financial benefits.

We're delighted that word is getting around. In 2017, other members, including Sleepy Eye, Windom, and Mountain Lake, saw how Blue Earth's system operations improved with the distribution mapping. They signed on to have their systems mapped. Two other members, Kasson and Springfield, also began the mapping process last year.







## PROVIDING PERSONALIZED SERVICES

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Since our founding 30 years ago, members told us they wanted and needed a partner that would provide them with customized services. Our members were wary of being locked into inflexible, “one size fits all” contracts with an all-requirements joint action agency.

“Providing personalized services” has been our watchword since the beginning. In 2017, we delivered on that promise in several ways:

- Managed cost-of-service studies for four members to help them understand their actual costs in case they needed to adjust their prices.
- Assessed the costs and payback for a proposed refurbishment of a hydroelectric generator at Granite Falls.
- Developed resource plans for ten members so they could select their portfolio of generating and non-generating resources to meet their communities’ needs and expectations.
- Solicited competitive bids and analyzed request for proposals (RFPs) for our community solar program, and helped members market the program as R4 Solar.

By working individually with each member, we can gain a better understanding of their specific needs, wants, and preferences. Some communities feel it is important to maximize the amount of carbon-free electricity they provide. Others opt for the lowest-cost option.

The electricity business today is more dynamic than it has ever been. A decade ago, baseload, coal-fired power plants were commonplace in the Upper Midwest. Today, those units are being replaced with smaller, gas-fired units. Large windfarms have sprouted up, generating carbon-free electricity at an increasingly competitive price.

The old rules of the game no longer apply. Today, being nimble has replaced being big as a determinant of success.



**“As the cost of renewables continues to decline, and electricity storage projects start to pencil out, we’re going to see a lot more changes in the business,”** said Kyle Haemig, CMPAS’s economist and resource planner. **“Electric vehicles could become not only a means of transportation but also a type of electricity storage.”**

That’s why Kyle and his colleagues are deeply involved in power procurement and power economics. The days of “set it and forget it” are gone. CMPAS works hard to help utility managers, commissions, and councils make the best decisions possible for their cities.





# COMMUNITY SPOTLIGHT

## IF WE DIDN'T HAVE CMPAS...

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Theresa Coleman thought for a moment. **"If we didn't have CMPAS, we'd either have to hire one or more full-time staffers or take our chances with a less-flexible, full-requirements contract with another joint action agency. Or we could buy power from an investor-owned utility or an electric cooperative."**

**"But we're not interested any of those options. That's why we're members of CMPAS,"** she continued.

Theresa is the administrator for the City of Kasson. She also sits on the CMPAS board. She brings a unique perspective to her work: she is a former public utilities commissioner in Lanesboro, where she oversaw that city's utility.

"Small cities are stretched so thin," she said. "We need to partner with others to attain a critical mass so we can compete with larger entities. If being part of a larger group like CMPAS helps us better serve our customers, then why wouldn't we be members of CMPAS?"

The City of Kasson, which serves about 2,600 customers, went a decade without performing a cost-of-service study, Theresa recalled. "We just kept adding new assumptions to last year's assumptions. You do that for a decade, and you can lose sight of your actual costs. Are you charging customers too much? Too little? You can't tell without a cost-of-service study, which could cost \$10,000 or more."

Theresa asked if CMPAS could arrange for a cost-of-service study. That study, completed last year as a CMPAS member benefit, with no additional cost, allowed the City of Kasson to lower its electricity prices by 5.5 percent to large commercial customers and one percent to residential customers.

"That might not sound like a lot, but in my community, every dollar helps," Theresa said. "The price reductions are one way we are demonstrating value to our customer-owners. Being part of CMPAS helps us do that."







## HELPING OTHERS

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There's service ethos in people who work for locally owned utilities, a willingness to go the extra mile to help others in need. Shining a light on people who have this tireless commitment to service reminds all of us why we work for municipal utilities.

Here are two such stories of service.

### DETERMINED PURSUIT PAYS OFF FOR DELANO MUNICIPAL UTILITY

Paul Twite, general manager of Delano Municipal Utilities, is a creative fellow and embodies his town's slogan, "Spirit of Community." Painted in 10-foot high letters on Delano's water tower, it's also etched in his heart.

"Minnesota law requires us to achieve 1.5 percent energy savings annually and carves out a spending requirement for 0.2 percent of gross sales revenue on energy-efficiency programs to benefit income-qualified customers," he said recently. "But spending that money isn't as easy as you might think."

A few years back, Paul approached the local Boy Scout troop, the high school football team, and students on the high school dean's list with an innovative service project: Go door-to-door in the community to distribute a free kit of six compact fluorescent bulbs, which would lower electric use and, hopefully, customer's bills.

Since the program was not targeted enough to low-income customers, Paul refined the idea: Recruit high-school students to direct-install high-efficiency refrigerators for income-qualified customers. He thought it was the perfect mix of high-tech and high-touch, but after one year, the school district cautioned against the project because it exposed the district to potential liability since it was not a school-sanctioned activity.





Undeterred, Paul asked two economics professors at the University of St. Thomas, “Can we put together a semester-long project analyzing energy efficiency upgrades to Delano’s streetlights?” The answer, this time, was a resounding “Yes!”

The college course coupled classroom learning in two classes, public-sector economics and managerial decision making, with hands-on accounting that included counting the city’s streetlight fixtures and calculating benefits of switching to light-emitting diode (LED) streetlight fixtures. LED fixtures last for as long as 20 years compared to an average of about five years for conventional streetlight fixtures, and they produce much brighter lighting while using far less electricity.

In addition to helping Paul meet his 1.5 percent energy savings requirement, the two professors received their school’s Curricular Innovation in Sustainability Award. Moreover, the students got some real-life experience applying concepts taught in the classroom.

The City of Delano accepted the recommendations from the students and professors, who projected the city could save \$854,000 over ten years by replacing all its streetlights with light-emitting diodes (LEDs).

One student involved with the project, Anna Kate Nolan, said, “This project has allowed us to analyze real-world

data, collaborate with classmates, and present solutions to problems that affect real communities. We are applying skills we cultivated in the classroom to projects that advance the common good.”

That’s what public power is all about. Looking out for the common good. Making efficient use of all available resources — electrical, intellectual, community, personal, and financial. Selfless service. Local control.

Because Delano Municipal Utilities is owned by those it serves, it keeps its money on Main Street, ready to invest in energy-efficiency upgrades. It doesn’t send its money to investors on Wall Street. Thanks to Paul’s determination, the streetlights are brighter in Delano. And that’s good for everyone.



## HELPING OTHERS

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### SLEEPY EYE LINEMEN JOIN CARAVAN TO RESTORE FLORIDIANS' POWER

On a Thursday afternoon last September, linemen Jeff Meyer and Jose Saenz were nearing the end of their shift at Sleepy Eye Public Utilities when an urgent call came in. Hurricane Irma, a Category-Four hurricane, was bearing down on Florida. Widespread destruction and power outages were expected. Utilities there needed all available linemen, troublemen and other skilled field personnel to help rebuild what Irma was expected to destroy.

Irma was as destructive as feared: It turned out the lights for about 6.7 million Floridians, including about 827,000 who were served by public power utilities like Sleepy Eye.

Thirty-six hours after getting the call, Jeff and Jose were part of a caravan of about 30 workers from other locally-owned utilities in Minnesota driving across the country to help their utility brethren in Florida. In all, over 2,000 workers from 19 states traveled to Florida to help rebuild the electric system and restore power.

Rendering mutual aid is a time-honored tradition among all electric utilities, whether they are municipals, cooperatives, or shareholder-owned. When an extreme event like a tornado, hurricane, wildfire, or earthquake hits a region,

utility field workers from outside that region travel to the affected areas to help restore power and rebuild the damaged electric networks.

It wasn't like Sleepy Eye had a lot of extra linemen sitting around with nothing to do. Their five-man crew already was down one, as a member was home with a newborn baby. Sending 50 percent of the remaining field workers to help out-of-state utilities posed a certain risk: What if an outage hit Sleepy Eye?

"Going to Florida was Jeff and Jose's decision," said Bob Elston, public works director for Sleepy Eye. "The reason we help others when they need it is that we hope people would return the favor if we need it."







Departing Rochester, Minnesota, at 9 AM on Saturday, September 9, Jeff and Jose drove for two days, staying in Paducah, Kentucky, and Cartersville, Georgia, on their way to Florida. But they had to wait until Irma passed through Florida. “It wasn’t all bad,” said Jose. “We got to watch the Vikings beat the Saints on Monday Night Football.”

“Once we crossed into Florida, there were so many vehicles coming into the state that the four-lane highway we were on was a parking lot,” recalled Jeff. “Even though we left Cartersville, Georgia, at 3 AM, it looked like a lot of other people had the same idea — ‘let’s start driving early so we can beat the traffic!’ ”

Mutual aid is hard and dangerous work, even for those accustomed to taxing physical labor. Workers are operating in unfamiliar surroundings. Not all utilities follow exactly the same protocol in designing their networks of wires and transformers. One false move can be life-threatening.

Jose, Jeff, and the other mutual aid workers got up each morning at 5 AM, and by 6:30 they were on their way to their assigned job sites, where they remained for about 14 hours, clearing trees, changing transformers, setting poles, and reattaching lines.

Jose and Jeff worked for about 1.5 days in the Central Florida city of Kissimmee, helping KUA crews, then spent a week in the City of Lake Worth. Lake Worth was more heavily damaged than Kissimmee, and there were fewer crews there, so Jose and Jeff stayed there longer.

“It’s all about service,” said Jose. “We’ve got each other’s back. We volunteered, we didn’t wait to be appointed, because that’s how we roll.”

Jose continued: “I still remember how good it felt when we got to one neighborhood and people in the street said, ‘Hey, the Minnesota people are here — we’re going to get our power on today!’ People were bringing us Gatorade and water because it is really hot and humid in Florida in September, and they were so grateful people had come to help restore power.”

This was the first mutual aid callout for Jeff and Jose, but they said they’d go again if there was a need. “Sure, we get a little extra in our paycheck, but this isn’t about the money,” Jeff said. “It’s about helping brothers and sisters who need us.”

Sleepy Eye Public Utilities, with 1,800 customers and a staff of 11, was the smallest Minnesota public power utility to send a mutual aid crew to Florida. Among public power utility employees, Jeff and Jose traveled the farthest, an estimated 1,570 miles, to help restore power in Florida.

While they had some good stories about their road trip, both agreed their mutual aid experience left an indelible mark on them. “Next time we get a mutual aid call to help another utility, we’re on it!” said Jose.

## LOOKING AHEAD

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With Steve's retirement in January, the board of directors followed its succession plan and immediately appointed the Agency's Chief Operating Officer, Christopher Kopel, to interim chief executive officer (CEO). On June 6, the board appointed Chris as CEO.

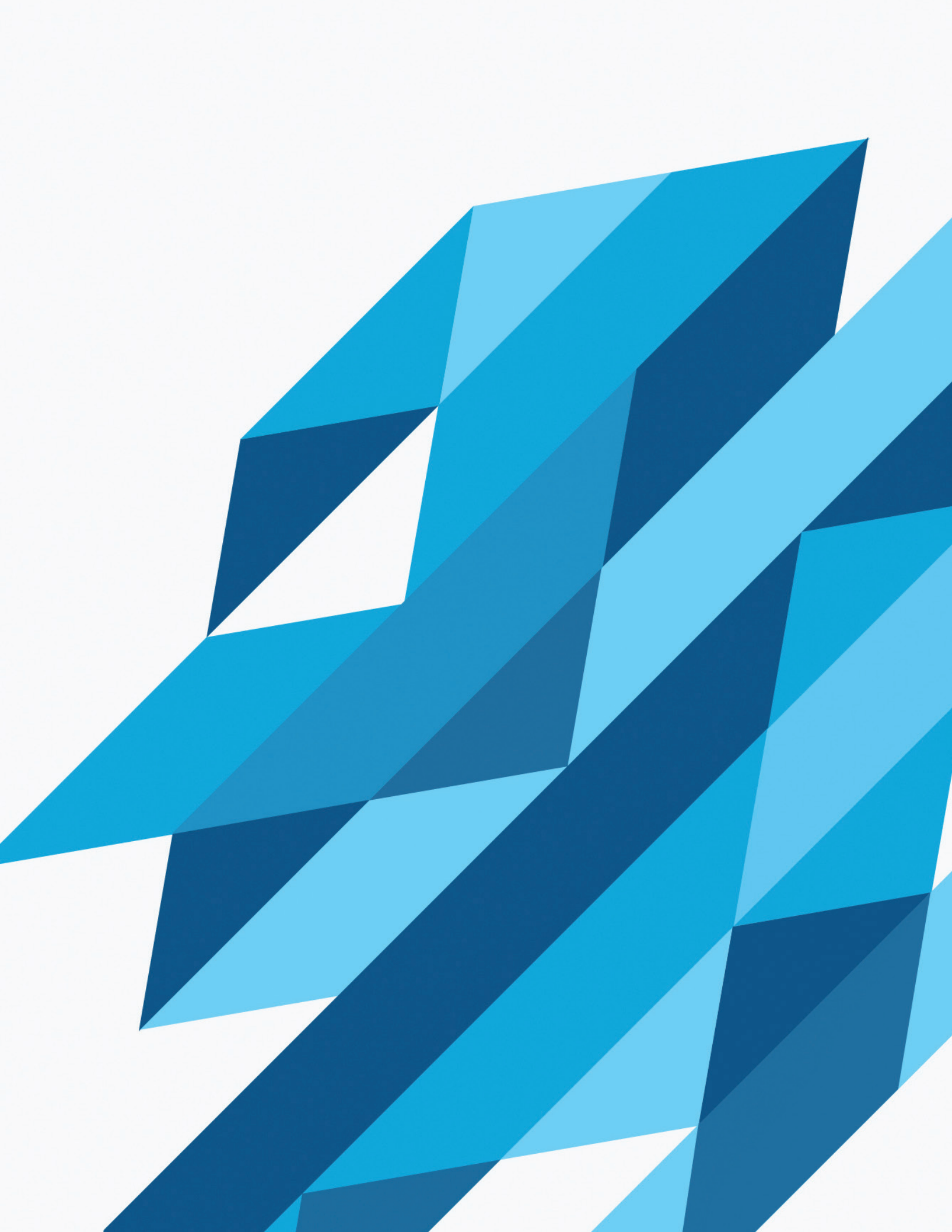
Chris brings more than 25 years of power industry experience and continued stability through his tenure at CMPAS. In 2013, he joined the Agency as Chief Operating Officer (COO) and directed transmission, wholesale power supply, strategic planning and human resources. As CEO, Chris will continue providing strategic leadership.

As fiscal 2018 unfolds, CMPAS continues to focus on its core planning and management functions to help utilities optimize their power portfolios for the benefit of local customers. Our staff works closely with each utility manager and their team to create economies of scale; leverage purchasing power, and navigate through the increasing complexities of the energy market and the electric grid.

### Some projects for 2018 include:

- updating our energy market reports so utilities can view their position at a glance and use other tools,
- analyzing hedging opportunities to stabilize price swings within utility portfolios,
- providing expertise and information to help utilities by negotiating better energy and capacity contract rates,
- working with our board to update bylaws and governance policies,
- exploring transmission opportunities, and
- helping utilities determine next steps for their distribution mapping and planning goals.

Through collaboration and comprehensive planning and analysis, CMPAS delivers strategic projects and services that translate to lower rates for customers. As CMPAS enters our 31st year, we are well-positioned to carry on our tradition of serving as a municipal compass to power.





**CENTRAL MINNESOTA MUNICIPAL  
POWER AGENCY**

Blue Earth, Minnesota

**FINANCIAL STATEMENTS**

Including Independent Auditors' Report

As of and for the Year Ended December 31, 2017

# CENTRAL MINNESOTA MUNICIPAL POWER AGENCY

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Central Minnesota Municipal Power Agency  
Blue Earth, Minnesota

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of Central Minnesota Municipal Power Agency, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Central Minnesota Municipal Power 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.

### ***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 Central Minnesota Municipal Power Agency'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 Central Minnesota Municipal Power Agency'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 Central Minnesota Municipal Power Agency as of December 31, 2017, and the respective change in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matter***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the required supplementary information 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.

*Baker Tilly Virchow Krause, LLP*

Minneapolis, Minnesota  
May 1, 2018



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**CENTRAL MINNESOTA MUNICIPAL POWER AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
UNAUDITED  
YEARS ENDED DECEMBER 31, 2017 AND 2016**

**Corporate Structure.** The Central Minnesota Municipal Power Agency (the "Agency" or "CMMPA") is a municipal power agency created in 1987 pursuant to Minnesota Statutes, Sections 453.51 to 453.62. The Agency was established to serve the mutual needs of its members and has the power and authority to finance and acquire facilities for the generation and transmission of electric energy. The Agency is governed by a twelve-member board of directors. Each member municipality is entitled to have representation on the board of directors and all current officers were elected at the annual meeting in January 2017.

**Agency Members.** In 2017, there were twelve Agency members, comprised of municipal utilities located in Minnesota that own and operate electric distribution systems. Some systems are governed by statutory utility commissions appointed by the respective city councils. With statutory commissions, the city councils retain the ultimate authority for utility decisions. Some systems are governed by a utility board or commission under a home rule charter or other authorization that gives the board or commission separate or exclusive authority for utility decisions. In 2017, the Agency's members included Blue Earth, Delano, Fairfax, Glencoe, Granite Falls, Janesville, Kasson, Kenyon, Mountain Lake, Sleepy Eye, Springfield, and Windom.

**Legal Authority.** The enabling statutes permit the Agency to undertake projects for the generation, production, transmission, purchase, sale, exchange, or interchange of electric energy. The Agency has authority to issue bonds to finance projects. Bonds issued by the Agency may be taxable or tax exempt, and constitute an obligation of the Agency secured by a pledge of project revenues.

**Related Entity.** Central Municipal Power Agency Services ("CMPAS") is a municipal services company that was created in 1998 through the joint powers agreement of CMMPA and Midwest Municipal Gas Agency. CMPAS assists the Agency's members with the purchase and sale of capacity and energy on a short term or other basis, as requested, and arranges for transmission of such purchases and sales. CMMPA and CMPAS currently share management and staffing, and a common board of commissioners.

**Overview of Financial Statements.** This section provides a basic introduction to the Agency's financial statements, which consist of the statement of net position, statement of revenues, expenses and changes in net position, and statement of cash flows. The notes to the financial statements provide information that is necessary to understand the data in the financial statements.

The statement of net position includes all restricted and unrestricted assets and all liabilities of the Agency, with the difference reported as net position. The statements of revenues, expenses and changes in net position are reported on an accrual accounting basis. All the current year's revenues and expenses are taken into account, regardless of when cash is received or paid. As a result, certain items reported as revenues and expenses in this statement will not be included in current cash flow. The statement of cash flows provides cash flow activities during the current year, cash and cash equivalents as of the beginning of the year and the end of the year, and a reconciliation of net cash.



**CENTRAL MINNESOTA MUNICIPAL POWER AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
UNAUDITED  
YEARS ENDED DECEMBER 31, 2017 AND 2016**

Project activity undertaken by CMMPA is summarized below:

- The Agency entered into a participation power agreement with the Omaha Public Power District (OPPD), pursuant to which the Agency has acquired rights to receive and obligations to pay for 2.17% of Nebraska City Power Station No. 2 (NC2). OPPD completed construction of NC2 and the power plant went on-line May 1, 2009. The Agency's share of the 630 MW coal-fired unit is approximately 14.4 MW. The Agency and ten members entered into power sales agreements pursuant to which members are entitled to receive and obligated to pay for their respective pro rata shares of CMMPA's participation share in NC2.
- The Agency, in 2011, acquired a 3.6% ownership interest (increased to a 4.1% interest in 2013) in the Capx Brookings Transmission Line, connecting Brookings, SD to the southeastern section of the Minneapolis/St. Paul metropolis. CMMPA is one of five parties owning an interest in the project. The other parties include Great River Energy, Xcel Energy, Missouri River Energy Services, and Otter Tail Power Company. Financing in the form of tax-exempt long-term bonds were issued in June of 2012 to finance CMMPA's portion of the construction of this line. Total bonds issued were \$32,670,000, to be paid back from the proceeds of the tariff revenue associated with the project. It is anticipated that the tariff revenue will more than offset the ongoing debt service and operational costs of this project. However, during any period in which tariff revenues do not offset total costs (net of reserve adjustments), the participants are committed to pay for and charge rates supporting any shortfalls. The participants in this project include members Blue Earth, Fairfax, Granite Falls, Janesville, Kenyon, Mountain Lake, Sleepy Eye, Springfield, and Windom. Also, participating in this project are Willmar and Elk River in Minnesota and the cities of Independence, Indianola, Montezuma and Waverly in Iowa. Construction of the project began in May of 2012 and was completed in 2015.

The Agency must comply with Minnesota regulations that require CMMPA, as well as other electric companies, to include renewable resources in their portfolio of power resources. To meet initial renewable energy requirements, the Agency has entered into the following arrangements:

- CMMPA is purchasing 6.25 MW of wind power for a 15-year period beginning in December 2005 from Wolf Wind LLC.
- CMMPA is purchasing 4.25 MW of wind power from Rugby Wind LLC for 15-year period beginning December 15, 2010.
- CMMPA is purchasing 13.1 MW of wind power for a 15-year period ending in February, 2027 from Rugby Wind LLC.

The Agency has contracts with its members to take and pay for the contracted wind power resources.

**CENTRAL MINNESOTA MUNICIPAL POWER AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
UNAUDITED  
YEARS ENDED DECEMBER 31, 2017 AND 2016**

In 2017, the Agency engaged a new auditor, Baker Tilly Virchow Krause, LLP. Presentation, formatting, and terminology may differ slightly from previous years.

**Net Position.** As of the year-ended December 31, 2017, the balance of the Agency's net position was \$12,520,277, which is \$75,274 higher than the amount of net position for year-end 2016 of \$12,445,003. Current assets for the years ending 2017 and 2016 were \$58,421,389 and \$58,020,718 respectively. Assets increased \$400,671 primarily attributed to increased A&G recovery offset by depreciation. Total Liabilities for the years ending 2017 and 2016 were \$38,693,710 and \$41,054,512 respectively. Total Liabilities decreased \$2,090,802 from 2017 to 2016 primarily attributed to the 2017 bond payment, decrease in pension liability, and amortization. Deferred Inflow of Resources for the years ending 2017 and 2016 were \$7,323,819 and \$5,137,162 respectively. Total deferred inflows increased \$2,186,657 from 2017 to 2016 primarily attributed to increase in rate stabilization.

The Agency's unrestricted assets for the years ending 2017 and 2016 were comprised of cash and cash equivalents, and accounts receivable associated with sales of electricity to members and non-members as well as certain other member services. The Agency's unrestricted liabilities for the years ended 2017 and 2016 were associated with accounts payable, accrued liabilities, and other payables, also associated with sales of electricity to both members and non-members and other member services.

**TABLE 1  
CONDENSED STATEMENT OF NET POSITION**

	<u>2017</u>	<u>2016</u>	<u>Change</u>
Current Assets	\$ 20,482,557	\$ 19,188,503	\$ 1,294,054
Noncurrent Assets	8,035,399	7,951,437	83,962
Capital Assets, Net	<u>29,903,433</u>	<u>30,880,778</u>	<u>(977,345)</u>
Total Assets	58,421,389	58,020,718	400,671
Deferred Outflow of Resources	386,417	615,959	(229,542)
Current Liabilities	5,378,614	4,009,499	1,369,115
Noncurrent Liabilities	<u>33,585,096</u>	<u>37,045,013</u>	<u>(3,459,917)</u>
Total Liabilities	38,963,710	41,054,512	(2,090,802)
Deferred Inflow of Resources	7,323,819	5,137,162	2,186,657
Net Position:			
Net Investment in Capital Assets	1,004,595	449,174	555,421
Restricted	3,717,980	3,572,706	145,274
Unrestricted	<u>7,797,702</u>	<u>8,423,123</u>	<u>(625,421)</u>
Total Net Position	<u>\$ 12,520,277</u>	<u>\$ 12,445,003</u>	<u>\$ 75,274</u>



**CENTRAL MINNESOTA MUNICIPAL POWER AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
UNAUDITED  
YEARS ENDED DECEMBER 31, 2017 AND 2016**

**TABLE 2  
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

	<u>2017</u>	<u>2016</u>	<u>Change</u>
Total Operating Revenue	\$ 33,197,400	\$ 34,268,635	\$ (1,071,235)
Operating Expenses			
Purchased Power, Transmission, and Sch	29,422,837	31,059,885	(1,637,048)
General and Administrative	3,214,251	3,206,123	8,128
Depreciation and Amortization	<u>1,827,364</u>	<u>1,813,019</u>	<u>14,345</u>
Total Operating Expenses	34,464,452	36,079,027	(1,614,575)
Nonoperating Income	<u>1,342,326</u>	<u>1,876,656</u>	<u>(534,330)</u>
Change in Net Position	75,274	66,264	9,010
Net Position, Beginning of Year	12,445,003	12,378,739	66,264
Net Position, End of Year	<u>\$ 12,520,277</u>	<u>\$ 12,445,003</u>	<u>\$ 75,274</u>

**Revenues and Expenses.** The Agency's operating revenues from power sales to members and nonmembers totaled \$33,197,400 and \$34,268,635 at December 31, 2017 and 2016, respectively. Revenues from the Agency's operation decreased \$1,071,235 from fiscal year 2017 to 2016 primarily attributed to the end of the TOD Energy contract in 2016, and properly recording member capacity sales in 2017, and offset by increased A&G Transmission recovery. Operating expenses for the years ending 2017 and 2016 were \$34,464,452 and \$36,079,027 respectively. The expenses decreased \$1,614,575 from 2017 to 2016 primarily attributed to the end of the TOD Energy contract, and properly recording member capacity in 2017, and offset by an increase in Transmission expense due to load growth and rate increases.

**Operations.** The Agency operates in the Midwest Independent Transmission System Operator (MISO) service territory and became a MISO market participant for its members during 2005.

**Contact Information.** This annual report is designed to provide a general overview of CMMPA finances for citizens, customers and others. Questions concerning any of the information contained in this report and requests for additional information should be directed to the Agency by mail at 459 So. Grove, Blue Earth, MN 56013, or by phone at (763) 710-3960.

# CENTRAL MINNESOTA MUNICIPAL POWER AGENCY

## STATEMENT OF NET POSITION As of December 31, 2017

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<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 6,056,853
Restricted Assets	
Redemption account	4,377,462
Designated funds	4,652,468
Accounts receivable	3,975,878
Interest receivable	37,225
Prepayments and other current assets	52,876
Regulatory assets	<u>1,329,795</u>
Total Current Assets	<u>20,482,557</u>
<b>NONCURRENT ASSETS</b>	
Investments	145,817
Restricted Assets	
Reserve account	2,086,876
Construction account	2,829,747
Collateral deposits	1,707,905
Regulatory assets	1,265,054
Capital assets, net of accumulated depreciation	<u>29,903,433</u>
Total Noncurrent Assets	<u>37,938,832</u>
Total Assets	<u>58,421,389</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pension related	<u>386,417</u>



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<b>LIABILITIES</b>	
<b>CURRENT LIABILITIES</b>	
Accounts payable	\$ 2,564,136
Accrued liabilities	146,228
Current Liabilities Payable from Restricted Assets	
Current portion of revenue bonds	1,905,000
Accrued interest	763,250
Total Current Liabilities	<u>5,378,614</u>
<b>NONCURRENT LIABILITIES</b>	
Revenue bonds	28,625,000
Unamortized debt premium	3,181,693
Customer deposits	508,000
Net pension liability	1,270,403
Total Noncurrent Liabilities	<u>33,585,096</u>
Total Liabilities	<u>38,963,710</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred credits	7,092,922
Pension related	230,897
Total Deferred Inflows of Resources	<u>7,323,819</u>
<b>NET POSITION</b>	
Net investment in capital assets	1,004,595
Restricted for:	
Debt service	3,717,980
Unrestricted	<u>7,797,702</u>
<b>TOTAL NET POSITION</b>	<u>\$ 12,520,277</u>

# CENTRAL MINNESOTA MUNICIPAL POWER AGENCY

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION For the Year Ended December 31, 2017

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### OPERATING REVENUES

Power sales	\$ 29,247,362
Transmission revenue	<u>3,950,038</u>
Total Operating Revenues	<u>33,197,400</u>

### OPERATING EXPENSES

Purchased power	21,438,426
Scheduling	174,509
Transmission	7,809,902
General and administrative	3,214,251
Depreciation	965,353
Amortization	<u>862,011</u>
Total Operating Expenses	<u>34,464,452</u>

### OPERATING LOSS (1,267,052)

### NONOPERATING REVENUES (EXPENSES)

Investment income and other	245,113
Membership dues and assessments	2,491,143
Interest expense	<u>(1,393,930)</u>
Total Nonoperating Revenues (Expenses)	<u>1,342,326</u>

### CHANGE IN NET POSITION 75,274

NET POSITION - Beginning of Year	<u>12,445,003</u>
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NET POSITION - END OF YEAR	<u>\$ 12,520,277</u>
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See accompanying notes to financial statements.



# CENTRAL MINNESOTA MUNICIPAL POWER AGENCY

## STATEMENT OF CASH FLOWS For the Year Ended December 31, 2017

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### CASH FLOWS FROM OPERATING ACTIVITIES

Received from sales to members and others	\$ 35,841,397
Received for future operating expenses	1,300,000
Paid to suppliers for goods and services	(30,901,862)
Paid to employees for services	<u>(1,991,687)</u>
Net Cash Flows from Operating Activities	<u>4,247,848</u>

### CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Capital expenditures for utility plant, net with refunds	11,992
Debt retired	(1,215,000)
Interest payments on long-term debt	<u>(1,556,875)</u>
Cash Flows from Capital and Related Financing Activities	<u>(2,759,883)</u>

### CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	<u>207,675</u>
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<b>Net Change in Cash and Cash Equivalents</b>	<b>1,695,640</b>
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CASH AND CASH EQUIVALENTS – Beginning of Year	<u>20,015,671</u>
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<b>CASH AND CASH EQUIVALENTS – END OF YEAR</b>	<b><u>\$ 21,711,311</u></b>
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### NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES

Amortization of bond premium	<u>\$ 132,576</u>
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**RECONCILIATION OF OPERATING LOSS TO NET CASH****FLows FROM OPERATING ACTIVITIES**

Operating loss	\$ (1,267,052)
Nonoperating income	2,491,143
Noncash items included in operating loss	
Depreciation	965,353
Other operating and amortization expenses	862,011
Changes in assets, deferred outflows, liabilities, and deferred inflows	
Accounts receivable	557,854
Prepayments and other current assets	938
Regulatory assets	(405,741)
Pension related deferrals and liabilities	100,979
Accounts payable	(303,480)
Other accrued liabilities	<u>1,245,843</u>

**NET CASH FLOWS FROM OPERATING ACTIVITIES** \$ 4,247,848

**RECONCILIATION OF CASH AND CASH EQUIVALENTS TO  
THE STATEMENT OF NET POSITION**

Cash and cash equivalents	\$ 6,056,853
Designated funds	4,652,468
Redemption account	4,377,462
Reserve account	2,086,876
Construction account	2,829,747
Collateral deposits	1,707,905
Noncurrent investments	<u>145,817</u>
Total Cash and Investments	21,857,128
Less: Noncash equivalents	<u>(145,817)</u>

**CASH AND CASH EQUIVALENTS** \$ 21,711,311

# CENTRAL MINNESOTA MUNICIPAL POWER AGENCY

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2017

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### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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The financial statements of Central Minnesota Municipal Power Agency have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to enterprise funds of governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The significant accounting principles and policies utilized by the Agency are described below.

#### ***REPORTING ENTITY***

The Central Minnesota Municipal Power Agency is a municipal power agency created in 1987 pursuant to Minnesota Statutes, Sections 453.51 to 453.62. The Agency was established to serve the mutual needs of its members and has the power and authority to finance and acquire facilities for the generation and transmission of electric energy. The Agency is governed by a 12-member board of directors appointed by their municipalities.

Central Municipal Power Agency/Services (CMPAS) operates as a municipal utilities service company for its members and non-member municipal utilities whether located in Minnesota or other states. Services include utility management services, monitoring and control services, capacity purchases and sales, metering services and dispatching of electricity.

CMPAS shared a common board of directors with the Central Minnesota Municipal Power Agency. Hereafter, the Central Minnesota Municipal Power Agency and CMPAS are collectively referred to as “the Agency.”

As of December 31, 2017, the Agency had twelve agency members, which were comprised of municipal utilities located in Minnesota that own and operate electric distribution systems. In 2017, the Agency’s members included Blue Earth, Delano, Fairfax, Glencoe, Granite Falls, Janesville, Kasson, Kenyon, Mountain Lake, Sleepy Eye, Springfield, and Windom. The membership agreements require members to provide a minimum notice of five years before they can effectively terminate their membership with the Agency. As of December 31, 2017, no member had given notice of intent to terminate their membership agreement.

#### ***MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION***

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

#### ***USE OF ESTIMATES***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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 reported period. Actual results could differ from those estimates.



# CENTRAL MINNESOTA MUNICIPAL POWER AGENCY

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2017

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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#### ***ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION***

##### ***Cash and Cash Equivalents***

For purposes of the statement of cash flows, cash equivalents are cash and investments which have original maturities of three months or less from the date of acquisition.

##### ***Investments***

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Market values may have changed significantly after year end.

##### ***Restricted Assets***

Mandatory segregations of assets required by bond agreements and other external parties are presented as restricted assets. Current liabilities payable from these restricted assets are so classified.

##### ***Designated Funds***

The Agency has elected to internally designate cash for the purposes of use toward specific projects or rate stabilization. These funds are not legally restricted and could be used for other purposes if the need arose. Use of the funds is at the board's discretion. The Agency has \$4,652,468 of designated funds as of December 31, 2017. The balance of designated cash includes \$2,000,000 of proceeds from the sale of the Agency's share of Utilities Plus Energy Services, Inc in 2016. In addition, \$2,117,873 is set aside for Agency rate stabilization and \$534,595 for the NC2 operating fund. Current year activity of the rate stabilization and NC2 operating fund can be found in Note 9.

##### ***Accounts Receivable and Allowance for Doubtful Accounts***

Accounts receivable are stated at the amount billed to members and non-members. Allowance for doubtful accounts is not considered necessary as the Agency has not historically experienced losses in payments for services rendered.

##### ***Collateral Deposits***

These balances represent cash resources posted as collateral with electric market independent system operators, including the Midwest Independent Systems Operator (MISO) and Southwest Power Pool (SPP).

##### ***Deferred Outflows of Resources***

A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resource (expense) related to the net pension liability until a future time. Details of the account are included in Note 10.

# CENTRAL MINNESOTA MUNICIPAL POWER AGENCY

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2017

---

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

---

#### ***ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (cont.)***

##### ***Capital Assets***

Capital assets are generally defined as assets having an initial, individual cost of more than \$2,500 and an estimated useful life in excess of one year. Capital assets are recorded at historical cost. Major outlays for capital assets are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period. Capital assets are depreciated using the straight-line method over the following useful lives:

	<u>Years</u>
Building and improvements	5 - 40
All other capital assets	3 - 15
Transmission assets	40

##### ***Net Pension Liability***

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

##### ***Regulatory Assets and Deferred Inflows of Resources***

The Agency has adopted the provisions for regulatory accounting as outlined in GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre - November 30, 1989 FASB and other AICPA Pronouncements*. This statement provides for the deferral of costs and revenues which will be recognized through future rate adjustments. A deferred inflow of resources represents an acquisition of net position that applies to a future period and, therefore, will not be recognized as an inflow of resources (revenue) until that time.

##### ***Accrued Liabilities***

The Agency records a liability for paid time off as the benefits payable to employees. The Agency compensates all employees upon termination for unused paid time off. The financial statements reflect a liability of \$182,383 for unused paid time off as of December 31, 2017. Employees earn paid time off based on the personnel policies of the Agency.

##### ***Customer Deposits***

Other payables represent collateral amounts posted to MISO on behalf of non-members. Upon release of the collateral, the deposits will be refunded.

# CENTRAL MINNESOTA MUNICIPAL POWER AGENCY

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2017

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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#### ***ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (cont.)***

##### ***Long-term Obligations***

Long-term debt and other obligations are reported as liabilities. Bond premiums are amortized over the life of the bonds using the straight-line method.

##### ***REVENUES AND EXPENSES***

The Agency distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses result from the principal operating activities of the Agency, which consist of charges to members and non-members for sales and services associated with the procurement and delivery of electricity and revenues from transmission services. Operating expenses for the Agency include the cost of power sales, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Agency billings are rendered and recorded monthly based on member contract participation and expenses. No accrual for unbilled service is necessary.

##### ***INCOME TAXES***

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

##### ***NET POSITION***

GASB No. 34 requires the classification of net position into three components - net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

Net investment in capital assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted – This component of net position consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position – This component of net position consists of net position that do not meet the definition of “restricted” or “net investment in capital assets.”

When both restricted and unrestricted resources are available for use, it is the Agency’s policy to use restricted resources first, then unrestricted resources as they are needed.



# CENTRAL MINNESOTA MUNICIPAL POWER AGENCY

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2017

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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#### ***EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT-PERIOD FINANCIAL STATEMENTS***

GASB has approved GASB Statement No. 83, *Certain Asset Retirement Obligations* and Statement No. 87, *Leases*. Upon adoption, application of these standards may restate portions of these financial statements.

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### NOTE 2 – CASH AND INVESTMENTS

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Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for time and savings accounts (including NOW accounts) and \$250,000 for demand deposit accounts (interest and noninterest bearing accounts). The difference between the bank balance and carrying amount is due to outstanding checks or deposits in transit.

In the agency's fair value assessment as of December 31, 2017, the investment was measured at net asset value.

#### ***Custodial Credit Risk***

Custodial credit risk is the risk that in the event of a bank failure, the bank deposits may not be returned to it in full.

In accordance with Minnesota statutes, the Agency maintains deposits at depository banks authorized by its board of commissioners.

Minnesota statutes require that all deposits be protected by insurance, surety bond or collateral. The market value of the collateral pledged must equal 110% of the deposits not covered by insurance or bonds. The Agency's deposits were sufficiently collateralized as of December 31, 2017.

Authorized collateral includes certain U.S. Government Securities, state or local government obligations, and other securities authorized by Minn. Stat. 118.A.03. Minnesota statutes require that securities pledged as collateral be held in safekeeping a financial institution other than that furnishing the collateral.

The Agency may also invest idle funds as authorized by Minnesota statutes as follows:

- > Direct obligations or obligations guaranteed by the United States or its agencies
- > Shares of investment companies registered under the Federal Investment Company Act of 1940 and rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less
- > General obligations rated "A" or better; revenue obligations rated "AA" or better
- > General obligations of the Minnesota Housing Finance Agency rated "A" or better
- > Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System
- > Commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less

# CENTRAL MINNESOTA MUNICIPAL POWER AGENCY

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2017

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### NOTE 2 – CASH AND INVESTMENTS (cont.)

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#### ***Custodial Credit Risk*** (cont.)

- > Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories
- > Repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a “depository” by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. Government Securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker- dealers
- > Any security which is an obligation of a school district with an original maturity not exceeding 13 months and (i) rated in the highest category by a national bond rating service or (ii) enrolled in the credit enhancement program pursuant to section 126C.55

#### ***Credit Risk***

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Minnesota Statutes restrict the types of investments that the Agency may hold. The investment held by the Agency was rated Aaa-mf by Moody’s and AAAM by Standard & Poor’s.

#### ***Interest Rate Risk***

Interest rate risk is the risk changes in interest rates will adversely affect the fair value of an investment.

As of December 31, 2017, the Agency’s investments were as follows:

	Weighted Average Maturity	Fair Value
<b>Investments</b>		
Wells Fargo 100% Treasury Money Market Fund	46 days	\$ 10,577,685

The Agency’s investment policy follows investments allowable by Minnesota statutes.

# CENTRAL MINNESOTA MUNICIPAL POWER AGENCY

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2017

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### NOTE 3 – COMMITMENTS

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#### *LONG-TERM CONTRACTS*

The Agency has contracts with various agencies and local government units to purchase or sell energy in the normal course of business operations.

The Agency has entered into numerous electric purchase contracts with amounts totaling approximately 107 Megawatts (MW) for the purpose of fixing the cost on the Agency's electric power purchases. These electric purchase contracts result in the Agency paying fixed costs ranging from \$35.00 to \$50.00 per MWh. These contracts expire periodically from 2017 through 2033. In addition, the Agency has entered into fixed price contracts for power generated by solar and wind resources where the amount of energy received will depend on weather variables. The solar and wind contracts expire periodically from 2018 through December 2027.

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### NOTE 4 – PROJECTS IN OPERATION

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As a project-oriented agency, each Agency member may individually decide in which projects it wishes to participate. The Agency may also allow non-members to participate in projects. The participants are entitled to receive and are obligated to pay for their respective pro rata shares of the Agency's interest in each individual project. Each project is financially independent of other projects.

#### *CAPX INITIATIVE*

The Agency entered into a Transmission Project Memorandum of Understanding dated August 24, 2006, along with five other energy companies to construct power transmission lines in the state of Minnesota, the largest portion of which consists of 220 miles of new power transmission lines between Brookings, South Dakota, and the Twin Cities. The CapX Initiative is one of several transmission projects arising from the CapX 2020 Initiative, the purpose of which is to enhance the reliability of electrical power transmission for customers in Minnesota and the surrounding region.

The Agency and nine members and six non-members entered into participation agreements pursuant to which such members and non-members acquired a 4.1% interest in the CapX initiative, which was completed in 2015. Pursuant to the participation agreements, participants are obligated to pay for and are entitled to receive their respective pro rata shares of the Agency's participation share in the CapX Initiative.

#### *NEBRASKA CITY POWER STATION No. 2*

The Agency entered into a participation power agreement dated January 15, 2004 with the Omaha Public Power District (OPPD), pursuant to which the Agency has acquired rights to receive and obligations to pay for 2.17% of Nebraska City Power Station No. 2 (NC2). OPPD completed construction of NC2 and the project began commercial operation in 2009. The Agency's share of the 663 MW coal-fired units is approximately 14.4 MW. The Agency and ten members of the Agency entered into power sales agreements pursuant to which such members are entitled to receive and obligated to pay for their respective pro rata shares of the Agency's participation share in NC2.



# CENTRAL MINNESOTA MUNICIPAL POWER AGENCY

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2017

### **NOTE 5 – REGULATORY ASSETS**

The Agency has the following regulatory assets at December 31, 2017:

	Balance 1/1/17	Increase	Decrease	Balance 12/31/17	Current
Power participation costs in NC2	\$ 281,101	\$ -	\$ 8,693	\$ 272,408	\$ 8,693
Pre-development costs for CapX	1,706,633	-	853,317	853,316	853,316
Transmission under recovery	403,385	1,421,850	356,110	1,469,125	467,786
<b>Totals</b>	<b>\$ 2,391,119</b>	<b>\$ 1,421,850</b>	<b>\$ 1,218,120</b>	<b>\$ 2,594,849</b>	<b>\$ 1,329,795</b>

In 2012, the Federal Energy Regulatory Commission (FERC) ordered certain pre-development costs incurred for the CapX project that were expensed in prior years to be capitalized and amortized over a five year period beginning in 2014.

The Agency is a Midcontinent Independent System Operator transmission owner and submits an Attachment O on an annual basis to recover its annual transmission revenue requirement based upon a forecast test year. Differences between the Agency's annual transmission revenue requirements based on forecasted amounts and the Agency's actual costs are recovered in future transmission rates up to two years following the end of the test year. Amounts anticipated to be collected within the next year are classified on the statement as current regulatory assets.

### **NOTE 6 – CAPITAL ASSETS**

A summary of changes in capital asset for 2017 follows:

	Balance 1/1/17	Additions	Deletions	Balance 12/31/17
Non depreciable capital assets				
Land	\$ 15,622	\$ -	\$ -	\$ 15,622
Depreciable capital assets				
Transmission lines	32,139,208	(122,869)	-	32,016,339
Land improvements	9,365	-	-	9,365
Buildings	604,754	-	-	604,754
Furniture and equipment	888,369	110,879	-	999,248
Vehicles	55,532	-	-	55,532
Total Depreciable Assets	33,697,228	(11,990)	-	33,685,238
Less: Accumulated depreciation	(2,832,074)	(965,353)	-	(3,797,427)
Depreciable capital assets, net	30,865,154	(977,343)	-	29,887,811
Total Capital Assets	\$ 30,880,776	\$ (977,343)	\$ -	\$ 29,903,433

During 2017, the Agency received refunds related to the CapX project as a result of the closeout of construction costs and participant allocations. The refund received is presented as a reduction of previously recorded capitalized costs.

# CENTRAL MINNESOTA MUNICIPAL POWER AGENCY

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2017

### **NOTE 7 – LONG-TERM DEBT AND OTHER LONG-TERM OBLIGATIONS**

#### **REVENUE BONDS**

In 2012, the Agency issued \$32,670,000 CAPX Revenue Bonds, Series 2012, which bears interest at 5% per annum. The debt service on these bonds is solely payable from and secured solely by a pledge and assignment of and security interest in the transmission project agreements, the transmission asset assignment agreements (but only to the extent related to the CAPX Brookings Project), and upstream project agreements; and certain funds established by the Brookings Transmission Bond Resolution. Under the Brookings Transmission Bond Resolution, operating and maintenance expenses relating to the CAPX Brookings Project and budgeted Agency working capital amounts will be paid for from the transmission revenues prior to the application of the remaining transmission revenues to the payment of debt service on the bonds.

The following schedule shows the future payments required on the CAPX 2012 revenue bonds:

	Principal	Interest	Total
2018	\$ 1,905,000	\$ 1,478,875	\$ 3,383,875
2019	1,925,000	1,383,125	3,308,125
2020	1,975,000	1,285,625	3,260,625
2021	1,095,000	1,208,875	2,303,875
2022	1,095,000	1,154,125	2,249,125
2023 – 2027	5,535,000	4,943,125	10,478,125
2028 – 2032	5,635,000	3,548,375	9,183,375
2033 – 2037	5,785,000	2,121,375	7,906,375
2038 – 2042	5,580,000	663,750	6,243,750
Totals	<u>\$ 30,530,000</u>	<u>\$ 17,787,250</u>	<u>\$ 48,317,250</u>

#### **LONG-TERM OBLIGATIONS SUMMARY**

The following is a schedule of changes in the Agency's long-term liabilities:

	Balance 1/1/17	Additions	Retirements	Balance 12/31/17	Due Within One Year
Revenue bonds	\$ 31,745,000	\$ -	\$ 1,215,000	\$ 30,530,000	\$ 1,905,000
Premium on bonds	3,314,263	-	132,576	3,181,687	-
Net pension liability	1,477,750	-	207,347	1,270,403	-
Totals	<u>\$ 36,537,013</u>	<u>\$ -</u>	<u>\$ 1,554,923</u>	<u>\$ 34,982,090</u>	<u>\$ 1,905,000</u>

All revenues generated by the CapX project are pledged as security of the revenue bonds until the bonds are defeased. Principal and interest paid for 2017 was \$2,771,875. Total gross revenues as defined was \$3,998,378. Annual principal and interest payments are expected to require 48% of gross revenues on average.

# CENTRAL MINNESOTA MUNICIPAL POWER AGENCY

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2017

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### NOTE 8 – NET POSITION

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The Agency's net investment in capital assets is determined as follows at December 31, 2017:

Capital Assets	\$ 29,903,433
Less: Capital related debt	30,530,000
Unamortized bond premium	3,181,693
Sub-totals	<u>33,711,693</u>
Add: Bond funded restricted cash	
Construction account	2,829,747
Reserve account	1,983,108
Sub-totals	<u>4,812,855</u>
Total Net Investment in Capital Assets	<u>\$ 1,004,595</u>

#### **RESTRICTED ACCOUNTS**

Certain proceeds of the Agency's debt, as well as certain resources set aside for repayment of Agency debt, are classified as restricted assets on the statement of net position because their use is limited. The following accounts are reported as restricted assets:

Redemption – Used to segregate resources accumulated for debt service payments over the next twelve months. The account is required to be funded with the balance of the next principal and interest payment as the payment becomes due.

Reserve – Amounts in the debt service reserve account are to be applied to make up any deficiencies in the redemption account. The account is required to be funded at the minimum level of \$1,983,108.

Construction – Used to report debt proceeds restricted for use in construction of transmission capital assets.



# CENTRAL MINNESOTA MUNICIPAL POWER AGENCY

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2017

### NOTE 8 – NET POSITION (cont.)

The Agency's restricted net position is determined as follows at December 31, 2017:

Redemption account	\$ 4,377,462
Reserve account	2,086,876
Construction account	2,829,747
Sub-totals	<u>9,294,085</u>
Less: Bond funded restricted cash	
Construction account	2,829,747
Reserve account	1,983,108
Sub-totals	<u>4,812,855</u>
Less: Accrued interest payable from restricted assets	<u>763,250</u>
Total Restricted Net Position	<u>\$ 3,717,980</u>

### NOTE 9 – DEFERRED CREDITS

The Agency has the following deferred credits at December 31, 2017:

	Balance 1/1/17	Increase	Decrease	Balance 12/31/17
Rate stabilization fund	\$ 1,370,000	\$ 807,873	\$ -	\$ 2,117,873
NC2 operating fund	534,595	-	-	534,595
CapX project fund	<u>3,080,454</u>	<u>1,300,000</u>	<u>-</u>	<u>4,380,454</u>
Totals	<u>\$ 4,985,049</u>	<u>\$ 2,107,873</u>	<u>\$ -</u>	<u>\$ 7,092,922</u>

The Agency's board of directors has approved the establishment of a rate stabilization fund. Approvals of deferred revenues occur from time to time as the board evaluates earnings and forecasted costs. During the year ended December 31, 2017, the board approved additions to the rate stabilization fund totaling \$807,873.

The Agency's board of directors has approved the establishment of an operating fund for the NC2 project. The board approved a minimum funding level of \$400,000 to provide rate stabilization for participants in the NC2 project.

The Agency's board of directors has established the CapX project fund. The purpose of the fund is to ensure the availability of resources to fund future debt service as principal requirements increase later in the term of the bonds. The board approved the addition of \$1,300,000 to the fund for the year ended December 31, 2017.

# CENTRAL MINNESOTA MUNICIPAL POWER AGENCY

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2017

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### NOTE 10 – RETIREMENT PLAN

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#### ***DEFINED BENEFIT PENSION PLAN***

##### ***Plan Description***

The Agency participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with *Minnesota Statutes* Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

All full-time employees of the Agency are covered by the General Employees Plan. General Employees Plan members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

##### ***Benefits Provided***

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state Legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service, and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years, and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

# CENTRAL MINNESOTA MUNICIPAL POWER AGENCY

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2017

### NOTE 10 – RETIREMENT PLAN (cont.)

#### **DEFINED BENEFIT PENSION PLAN** (cont.)

##### **Contributions**

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature.

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2017. The Agency was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2017. The Agency contributions to the General Employees Fund for the year ended December 31, 2017, were \$96,003. The contributions were equal to the required contributions as set by state statute.

##### **Pension Costs**

At December 31, 2017, the Agency reported a liability of \$1,270,403 for its proportionate share of the General Employees Fund's net pension liability. The Agency's net pension liability reflected a reduction due to the state of Minnesota's contribution of \$6 million to the fund in 2017. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the Agency totaled \$15,950. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Agency's proportion of the net pension liability was based on the Agency's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the Agency's proportion was 0.0199%, which was an increase of 0.0017% from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the Agency recognized pension expense of \$199,100 for its proportionate share of the General Employees Plan's pension expense. In addition, the Agency recognized an additional \$461 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

At December 31, 2017, the Agency reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 41,869	\$ 75,444
Changes in actuarial assumptions	192,897	127,358
Net difference between projected and actual investment earnings	-	8,961
Changes in proportion	100,483	19,134
Contributions paid to PERA subsequent to the measurement date	51,168	-
Totals	\$ 386,417	\$ 230,897



# CENTRAL MINNESOTA MUNICIPAL POWER AGENCY

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2017

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### NOTE 10 – RETIREMENT PLAN (cont.)

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#### ***DEFINED BENEFIT PENSION PLAN*** (cont.)

##### ***Pension Costs*** (cont.)

The \$51,168 reported as deferred outflows of resources related to pensions resulting from the Agency contributions to subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	
2018	\$ 67,586
2019	85,308
2020	5,384
2021	<u>(53,926)</u>
	<u>\$ 104,352</u>

##### ***Actuarial Assumptions***

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be 1% per year for the General Employees Plan through 2044 and then 2.5% thereafter.

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of actuarial experience studies. The most recent four year experience study in the General Employees Plan was completed in 2015.

The following changes in actuarial assumptions occurred in 2017. The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15.0% for vested deferred member liability and 3.0% for non-vested deferred member liability. The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

# CENTRAL MINNESOTA MUNICIPAL POWER AGENCY

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2017

### NOTE 10 – RETIREMENT PLAN (cont.)

#### **DEFINED BENEFIT PENSION PLAN** (cont.)

##### **Actuarial Assumptions** (cont.)

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	39%	5.10%
International Stocks	19%	5.30%
Bonds	20%	0.75%
Alternative Assets	20%	5.90%
Cash	2%	0.0%
	<u>100%</u>	

##### **Discount Rate**

The discount rate used to measure the total pension liability in 2017 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at the rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net positions of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

##### **Pension Liability Sensitivity**

The following presents the Agency's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the Agency's proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate at December 31, 2017:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
The Agency proportionate share of the General Employees Fund net pension liability	\$1,970,489	\$1,270,403	\$697,255

##### **Pension Plan Fiduciary Net Position**

Detailed information about each pension plan's fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at [www.mnpera.org](http://www.mnpera.org).

# CENTRAL MINNESOTA MUNICIPAL POWER AGENCY

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2017

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### **NOTE 11 – RISK MANAGEMENT**

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

The Agency has purchased commercial coverage through Insurance Agency of Blue Earth. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The Agency has joined together with other municipalities and cities in the League of Minnesota Cities General Property and Casualty Insurance Plan. These are public entity risk pools currently operating as a common risk management and insurance program for member municipalities and cities. The municipality pays annual premiums for these plans. Premiums are used to purchase reinsurance through commercial companies. The administrators of these plans believe assessment to participating utilities and cities for future losses sustained is remote. There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

The Agency is self-insured for unemployment compensation.

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### **NOTE 12 – SIGNIFICANT CUSTOMERS**

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The Agency has three significant customers who were responsible for 33% of operating revenues in 2017.

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### **NOTE 13 – RELATED PARTY TRANSACTIONS**

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The Agency has a contract with a vendor to house its data server. An employee of the Agency is also a partner of the vendor. The Agency paid \$77,902 to the vendor during 2017.

The Agency utilized a vendor for IT services who had a familial relationship with an employee in management. The Agency paid \$39,626 to the vendor during 2017.



## **REQUIRED SUPPLEMENTAL INFORMATION**

# CENTRAL MINNESOTA MUNICIPAL POWER AGENCY

## SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY For the Year Ended December 31, 2017

Plan Fiscal Year Ending	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Asset as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
6/30/15	0.0190%	\$ 984,679	\$ 1,115,904	88.24%	78.20%
6/30/16	0.0182%	1,477,750	1,285,252	114.98%	68.90%
6/30/17	0.0199%	1,270,403	1,280,043	92.25%	75.90%

## SCHEDULE OF EMPLOYER CONTRIBUTIONS For the Year Ended December 31, 2017

Fiscal Year Ending	Contractually Required Contributions	Contributions in Relation to the Contractually Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
12/31/15	\$ 82,263	\$ (82,263)	\$ -	\$ 1,003,211	8.20%
12/31/16	84,569	(84,569)	-	1,145,224	7.38%
12/31/17	96,003	(96,003)	-	1,347,209	7.13%

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION For the Year Ended December 31, 2017

*Changes of benefit terms:* There were no changes of benefit terms for any participating employer in PERA.

*Changes of assumptions:* The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15.0% for vested deferred member liability and 3.0% for non-vested deferred member liability. The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2044 and 2.5% per year thereafter.

See independent auditors' report and accompanying notes to the required supplementary information.



## **CMPA's Contact Information**

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