Financial Statements

Midcontinent Independent System Operator, Inc.
Years Ended December 31, 2015 and 2014
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

EY
Building a better working world

Ernst & Young LLP
Suite 4000
111 Monument Circle
Indianapolis, IN 46204

Tel: +1 317 681 7000
Fax: +1 317 681 7216
ey.com

Report of Independent Auditors

To the Board of Directors of
Midcontinent Independent System Operator, Inc.

We have audited the accompanying financial statements of Midcontinent Independent System Operator, Inc. (the Company), which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Midcontinent Independent System Operator, Inc. at December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

March 11, 2016

Midcontinent Independent System Operator, Inc.

Balance Sheet
(Dollars In Thousands)

	December 31	
Assets	**2015**	**2014**
Current assets:		
Cash and cash equivalents *(Note 5)*	$ **76,609**	$ 67,161
Restricted cash *(Note 5)*	**564,510**	674,304
Cash - deposits *(Note 5)*	**97,781**	60,097
Accounts receivable *(Note 6)*	**23,172**	24,947
Deferred regulatory assets *(Note 4)*	**11,060**	7,967
Prepayments	**9,833**	10,198
Other	**3,650**	3,193
Total current assets	**786,615**	847,867
Fixed assets:		
Fixed assets *(Note 7)*	**519,845**	496,859
Accumulated depreciation and amortization	**(393,694)**	(369,270)
	126,151	127,589
Projects in development	**30,307**	41,061
Net fixed assets	**156,458**	168,650
Other assets:		
Deferred note offering fee	**655**	749
Deferred regulatory assets *(Note 4)*	**12,703**	18,362
Total assets	$ **956,431**	$ 1,035,628
Liabilities		
Current liabilities:		
Accounts payable	$ **2,778**	$ 3,645
Accrued liabilities *(Note 8)*	**120,418**	83,379
Accrued interest	**2,891**	2,782
Restricted deposits	**499,642**	535,772
Market participant liability	**29,497**	106,402
FERC assessment liability	**17,211**	19,325
Current portion of capitalized leases *(Note 12)*	**1,115**	1,023
Current portion of notes payable *(Note 14)*	**20,000**	-
Deferred revenue	**6,209**	6,143
Total current liabilities	**699,761**	758,471
Long-term liabilities:		
Accrued liabilities	**13,200**	11,237
Restricted deposits	**21,226**	16,526
Capitalized leases, net of current portion *(Note 12)*	**5,842**	6,957
Deferred revenue	**36,402**	42,437
Notes payable *(Note 14)*	**180,000**	200,000
Total long-term liabilities	**256,670**	277,157
Total liabilities	$ **956,431**	$ 1,035,628

See accompanying notes.

Midcontinent Independent System Operator, Inc.

Statement of Operations and Changes in Net Assets

(Dollars In Thousands)

	Year Ended December 31	
	2015	2014
Revenues:		
Cost recovery adder	**$ 271,256**	$ 250,913
FERC assessment	**46,073**	41,039
Other tariff services revenue	**2,160**	3,048
Engineering studies income	**5,328**	4,040
Grant revenue	**3,189**	4,251
Other	**2,675**	2,329
Total revenues	**330,681**	305,620
General and administrative expenses:		
Salaries and benefits	**140,777**	128,233
Depreciation and amortization	**51,381**	50,009
Outside services	**41,149**	37,106
Occupancy/telecommunications	**14,076**	14,915
Insurance	**1,977**	1,959
FERC assessment	**46,073**	41,039
Computer maintenance	**17,296**	17,178
Other	**14,181**	13,095
Total general and administrative expenses	**326,910**	303,534
Other income (expense):		
Interest income	**1,458**	843
Interest expense	**(8,253)**	(8,463)
Other (expense) income	**(97)**	1,652
Total other expense, net	**(6,892)**	(5,968)
Deferral of regulatory asset, net	**3,121**	3,882
Change in net assets	**$ -**	$ -

See accompanying notes.

IESO-N-0057513

Midcontinent Independent System Operator, Inc.

Statements of Cash Flows

(Dollars In Thousands)

	Year Ended December 31	
	2015	**2014**
Operating activities		
Change in net assets	$ -	$ -
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	**51,381**	50,009
Net gain on sale of assets	**-**	(2,334)
Amortization of regulatory assets, net	**(3,121)**	(3,882)
Deferred revenue	**(5,969)**	(8,721)
(Increase) decrease in operating assets:		
Cash - deposits	**(37,685)**	(15,349)
Accounts receivable	**1,775**	1,852
Prepayments	**365**	(1,522)
Other	**(457)**	(442)
Increase (decrease) in operating liabilities:		
Accounts payable	**(867)**	58
Accrued liabilities	**40,393**	18,886
Accrued interest	**109**	(334)
FERC assessment liability	**(2,114)**	5,067
Net cash and cash equivalents provided by operating activities	**43,810**	43,288
Investing activities		
Capital expenditures	**(34,798)**	(46,463)
Proceeds from sale of asset	**-**	4,431
Net cash and cash equivalents used in investing activities	**(34,798)**	(42,032)
Financing activities		
Change in restricted cash	**109,794**	(136,416)
Change in restricted deposits	**(31,430)**	119,488
Change in market participant liability	**(76,905)**	12,865
Payments on notes and capital leases	**(1,023)**	(19,423)
Net cash and cash equivalents provided by (used in) financing activities	**436**	(23,486)
Net increase (decrease) in cash and cash equivalents	**9,448**	(22,230)
Cash and cash equivalents, beginning of period	**67,161**	89,391
Cash and cash equivalents, end of period	**$ 76,609**	$ 67,161
Supplemental cash flow information		
Noncash capital expenditures	**$ 2,056**	$ 3,447
Cash paid during the period for interest	**$ 8,145**	$ 8,797

See accompanying notes.

1. Organization and Significant Developments

On December 19, 2001, Midcontinent Independent System Operator, Inc. (MISO or the Company) became the nation's first Regional Transmission Organization approved by the Federal Energy Regulatory Commission (the FERC or the Commission). As a Regional Transmission Organization, MISO provides transmission service on behalf of its members that own transmission assets. In addition, MISO is a North American Electric Reliability Corporation (NERC) certified reliability coordinator. In that capacity, MISO monitors the flow of electricity over the transmission systems of its members that own transmission assets.

MISO was incorporated as a Delaware non-stock, nonprofit corporation in March 1998. The Company is governed by an independent Board of Directors. Membership in MISO is open to owners of electric transmission facilities, as well as other participants in the electric energy market. Fifty-two transmission owners with more than 65,800 miles of transmission lines, 180,711 megawatts of electric generation, and approximately $31.4 billion in installed gross transmission assets are currently participating in MISO.

On December 15, 2001, the Company began providing reliability coordination services to the transmission-owning members of MISO and their customers. On the same date, MISO also began providing operations planning, generation interconnection, maintenance coordination, long-term regional planning, market monitoring, and dispute resolution services. The Company commenced substantially all operations on February 1, 2002, the date MISO began providing regional transmission service under its FERC-accepted Open Access Transmission and Energy Markets Tariff (the Tariff).

1. Organization and Significant Developments (continued)

On April 1, 2005, MISO formally began operating a market-based, congestion management system, which features the day-ahead energy market, real-time energy market, and financial transmission rights market. The day-ahead and real-time energy markets are designed to reliably make the most efficient use of all generation and transmission resources within the region based on bids and offers submitted by market participants. The day-ahead and real-time energy markets price transmission system congestion through the use of Locational Marginal Pricing algorithms. The financial transmission rights market provides a means of hedging Locational Marginal Pricing-based congestion costs.

On January 6, 2009, MISO began operating a market for ancillary services, which integrates the procurement and use of regulation and contingency reserves with the existing real-time energy market. MISO also became a NERC-certified Balancing Authority on January 6, 2009.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP).

Regulation

MISO is subject to regulation by the FERC and accounts for the effects of regulation in its financial statements in accordance with Accounting Standards Codification (ASC) 980, *Regulated Operations*. This statement sets forth the application of generally accepted accounting principles for those companies whose rates are established by, or are subject to approval by, an independent third-party regulator. Under ASC 980, regulated companies defer costs and credits on the balance sheets as regulatory assets and liabilities when it is probable that those costs and credits will be recognized in the rate-setting process in a period different from the period in which they would have been reflected in income and expense by an unregulated company. These deferred regulatory assets and liabilities are then reflected in the statements of operations and changes in net assets in the period in which the same amounts are reflected in rates charged for service.

2. Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with U.S. 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 reporting period. Actual results could differ from those estimates.

Concentration of Credit Risk

Financial instruments that subject the Company to credit risk consist primarily of accounts receivable and uninsured cash balances. The Company maintained cash balances in excess of insured Federal Deposit Insurance Corporation limits at December 31, 2015 and 2014, and from time to time through December 31, 2015. No allowance has been recorded for accounts receivable at December 31, 2015 and 2014, as management considers all accounts receivable reported in these financial statements to be probable of collection. Furthermore, MISO, per the Tariff, limits distribution of funds owed to market participants to the amount received from market participants. As such, MISO is not exposed to nonpayment for Tariff services.

Fixed Assets

Fixed assets, consisting primarily of software, telecommunications equipment, computer equipment, buildings, leasehold improvements, and furniture and fixtures, are recorded at cost and are depreciated on a straight-line basis over the estimated useful lives of the assets. The major classes and lives include the following: buildings and improvements, 20 years; computer hardware, 3 years or 6 years; computer software, 5 years or 7 years; furniture and fixtures, 7 years; and telecommunications equipment, 7 years. Cost consists of materials and supplies, labor, related taxes, and capitalized interest. There was $1,414 and $999 of interest capitalized in fixed assets for the years ended December 31, 2015 and 2014, respectively. The depreciation policy for leaseholds is the shorter of the life of the asset or the remaining term of the lease. Maintenance and repair costs are charged to expense when incurred. The costs incurred to acquire and develop computer software for internal use, including financing costs, are capitalized. Costs incurred prior to the determination of feasibility of developed software and following the in-service date of developed software are expensed. Effective January 31, 2015, the Company received approval from the FERC to amortize the cost of land on straight-line basis over a five-year period.

2. Summary of Significant Accounting Policies (continued)

Leases

MISO applies the provisions of ASC 840, *Leases*, to all transactions that qualify for lease accounting.

Pension

MISO accounts for its defined benefit pension plan (the MISO floor offset plan) in accordance with ASC 715, *Retirement Benefits*. This standard requires employers to fully recognize the obligations associated with single-employer, defined benefit pension, retiree health care, and other postretirement plans in their financial statements. Rate-regulated entities may recognize regulatory assets or liabilities as a result of timing differences between the recognition of costs and costs recovered through the rate-making process.

Fair Value Measurements

The Company uses a three-tier fair value hierarchy in accordance with ASC 820, *Fair Value Measurement*, which prioritizes the inputs used in measuring fair value. These tiers include Level 1, defined as valuation based on unadjusted quoted prices for identical assets or liabilities in active markets; Level 2, defined as valuation based on quoted prices for assets or liabilities with similar attributes in active markets or other inputs that are observable for the asset or liability, either directly or indirectly in and Level 3, defined as valuation based upon other unobservable inputs that are significant to the fair value measurement.

The Company's investments associated with its pension plan consist of mutual funds and debt securities that are publicly traded and for which market prices are readily available; thus, these investments are categorized as Level 1. Also included in Level 1 assets are mutual fund investments under a Supplemental Executive Retirement Plan. The Company estimates the fair value of these investments on a recurring basis using market prices that are readily available. The estimated fair value of notes payable is discussed in Note 14.

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition

Pursuant to the Tariff, MISO recognizes as revenue amounts both billed and unbilled for which MISO has incurred costs as of the period-end. The Schedule 10 – ISO Cost Recovery Adder, Schedule 16 – Financial Transmission Rights Administrative Service Cost Recovery Adder, and Schedule 17 – Energy Market Support Administrative Service Cost Recovery Adder of the Tariff provide for recovery of all costs, including capital and operating expenses, of MISO. MISO also recognizes as revenue amounts billed to participants for initial membership, training, and annual dues.

MISO also recognizes revenue and an offsetting expense for the annual FERC Assessment Fee (the Assessment Fee). The annual fee is assessed on the megawatt hours of transmission usage for each transmission provider as reported on FERC Form 582. The FERC generally invoices transmission providers in July of each year, and payment is due in August. MISO bills the Assessment Fee monthly in advance based on an estimated rate per megawatt hour applied to each individual transmission customer's actual megawatt hours of transmission usage for that month. MISO recognizes the revenue and an offsetting expense each month as the Assessment Fee is billed. Assessment Fee revenue of $46,073 and $41,039 was recorded in 2015 and 2014, respectively. In 2015, the Company decreased accounts receivable and the corresponding FERC Assessment liability as a result of a FERC ruling on October 29, 2015 regarding the Schedule 10-FERC costs owed by Duke Energy Ohio, Inc. and Duke Energy Kentucky Inc. (Duke Energy) and American Transmission Systems Inc. after their withdrawal from MISO.

MISO also performs engineering studies on behalf of its customers. MISO is reimbursed for its costs of performing the studies and recognizes revenue as the costs are incurred, subject to a recoverability assessment. The amounts of $5,328 and $4,040 were recognized as revenue from engineering studies for the years ended December 31, 2015 and 2014, respectively.

MISO has been awarded a number of economic development grants by the state of Indiana, as well as a United States Department of Energy (DOE) grant. Revenue is recognized on these grants based on the terms of the agreement, which generally are based on a percentage of program costs incurred. MISO recognized revenue associated with these programs of $3,189 and $4,251 in 2015 and 2014, respectively.

(Dollars In Thousands)

2. Summary of Significant Accounting Policies (continued)

The Company recorded deferred revenue associated with withdrawal obligations paid by transmission owners that have withdrawn from MISO. Each transmission owner can receive credits for service up to the amount of the original exit fee until the year expiring, noted in the table below. Amounts are amortized ratably over the period from the year of withdrawal through expiration. The table also notes the exit fees and remaining balances in the current and prior years.

Company	Year of Withdrawal	Year Expiring	Original Exit Fee	Balance as of December 31, 2015	Balance as of December 31, 2014
E.ON U.S. LLC subsidiaries, Louisville Gas & Electric and Kentucky Utilities	2006	2014	$ 33,237	$ –	$ –
American Transmission Systems, Inc.	2011	2026	38,116	**26,470**	29,011
Duke Energy	2011	2026	13,794	**10,116**	11,035
Total			$ 85,147	$ **36,586**	$ 40,046

The Company also recorded $6,025 and $8,534 as deferred revenue at December 31, 2015 and 2014, respectively. This balance consists primarily of grant revenue and amounts billed in advance for annual member dues.

2. Summary of Significant Accounting Policies (continued)

Subsequent Events

Management has evaluated events and transactions occurring since December 31, 2015. There are no events or transactions that have occurred that require disclosure in these financial statements after December 31, 2015 through March 11, 2016, the date the financial statements were available to be issued.

ASU No. 2015-03, Interest – Imputation of Interest (Subtopic 835-30)

In April 2015, the FASB issued ASU No. 2015-03, which simplifies the presentation of debt issuance costs by requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. The standard is effective for annual reporting periods beginning after December 15, 2015 and interim periods therein, and requires the use of the full retrospective approach. Early adoption is permitted for financial statements that have not been previously issued. As of December 31, 2015 MSIO had approximately $655 in deferred note fees classified in other non-current assets that would be reclassified to reduce the related debt liabilities upon adoption of ASU No. 2015-03. The Company will adopt this ASU effective January 1, 2016.

3. Members' Preservation of Withdrawal Notice

Some members provide a notice of withdrawal to MISO in accordance with the terms of the MISO Transmission Owners Agreement. Such notices allow these companies to preserve their options with respect to withdrawal of their facilities from MISO. Should these companies withdraw, they would then be responsible to pay their proportionate share of certain outstanding financial obligations of MISO and for certain other obligations as required by the terms of the MISO Transmission Owners Agreement and the Tariff. Below is a listing of members that provided a notice of withdrawal.

Member	Date	Status of Withdrawal	Load %
Montana-Dakota Utilities, Co.	October 23, 2015	Reevaluating membership in MISO	Less than 1%
Southern Illinois Power Cooperative	December 23, 2015	Reevaluating membership in MISO	Less than 1%
Indianapolis Power and Light Co.	December 28, 2015	Working through the MISO stakeholder process, FERC and other regulatory and social processes to effect positive change for Indianapolis Power and Light Co. and its customers	Approx. 3%

(Dollars In Thousands)

4. Regulatory Assets and Liabilities

The following regulatory assets and liabilities were included in the deferred regulatory assets and liabilities lines on the balance sheets:

Transmission:	Current Schedule 10	Ameren/ Illinois Power Payments	South Region Schedule 10	Total
December 31, 2013	$ 1,092	$ 949	$ 19,182	$ 21,223
Amortization	-	(949)	(3,837)	(4,786)
Current Year Deferral	(424)	-	-	(424)
December 31, 2014	668	-	15,345	16,013
Amortization	-	-	(3,836)	(3,836)
Current Year Deferral	1,639	-	-	1,639
December 31, 2015	**$ 2,307**	**$ -**	**$ 11,509**	**$ 13,816**

Markets/Other:	Current Market Costs Sch. 16	Current Market Costs Sch. 17	Pension Plan	South Region Sch. 16 & 17	Total
December 31, 2013	$ (217)	$ (1,829)	$ 649	$ 9,258	$ 7,861
Amortization	-	-	-	(1,851)	(1,851)
Current Year Deferral	185	3,472	649	-	4,306
December 31, 2014	(32)	1,643	1,298	7,407	10,316
Amortization	-	-	-	(1,851)	(1,851)
Current Year Deferral	77	1,377	28	-	1,482
December 31, 2015	**$ 45**	**$ 3,020**	**$ 1,326**	**$ 5,556**	**$ 9,947**

Regulatory Assets Total:	Current	Non-Current	Total
Transmission	$ 6,143	$ 7,673	$ 13,816
Markets	4,917	3,703	8,620
Other	-	1,327	1,327
Total	$ 11,060	$ 12,703	$ 23,763

The Current Schedule 10, 16 and 17 rates are based on forecasted billing units and expenditures. Differences between revenue collected and actual costs for the month are included in subsequent months' rate calculations. These costs are classified as deferred regulatory assets and will be recovered in a subsequent period.

4. Regulatory Assets and Liabilities (continued)

Ameren Services Company (Ameren) joined MISO and MISO paid $26,075 to Ameren, including $18,000 to reimburse the exit fee that Ameren paid in 2001 to withdraw from MISO, $949 in interest on the exit fee, and $7,126 to reimburse Ameren for expenditures it made to develop Alliance Regional Transmission Organization and to comply with the requirements of FERC Order 2000. The $7,126 and $949 were deferred costs to be recovered over a 10-year period. All deferred costs associated with the settlement agreement have been recovered as of April 30, 2014.

Illinois Power Company joined MISO and MISO paid $15,452, including $6,382 to reimburse the exit fee that Illinois Power Company paid in 2001 to withdraw from MISO, $373 in interest on the exit fee, and $8,697 to reimburse Illinois Power Company for expenditures it made to develop Alliance Regional Transmission Organization and to comply with the requirements of FERC Order 2000. The $8,697 and $373 were deferred costs to be recovered over a 10-year period. All deferred costs associated with the settlement agreement have been recovered as of September 30, 2014.

The operating costs associated with integrating the South Region, including Entergy and additional entities located within the Entergy and MISO footprint, are being deferred in order to align the recovery of costs associated with the integration effort with those that benefit from the integration of the South Region. The deferred cost of the integration was $28,440, consisting of internal and external operational staff, extended regulatory proceedings travel, and customer outreach. MISO will recover the deferred integration costs under appropriate Schedules 10, 16, and 17 over a five-year period beginning January 1, 2014.

(Dollars In Thousands)

5. Cash and Cash Equivalents

The Company considers all highly liquid investment instruments that mature within three months or less to be cash equivalents. Cash and cash equivalents had the following balances, which approximate fair value, as of December 31:

	2015	2014
Cash and cash equivalents	**$ 76,609**	$ 67,161
Restricted cash:		
Market funds	**25,173**	19,905
Market participant customer payments	**4,324**	86,497
Collateral deposits	**521,064**	552,384
Collection on the FERC Assessment Fee	**13,949**	15,518
Total restricted cash and cash equivalents	**564,510**	674,304
Cash - deposits	**97,781**	60,097
Total	**$ 738,900**	$ 801,562

Restricted cash for market funds consists of activity for two funds: the Day-Ahead Excess Congestion Fund and the Financial Transmission Rights Auction Residual Fund. The Day-Ahead Excess Congestion Fund consists of excess cash received after the funding of Financial Transmission Rights. The Financial Transmission Rights Auction Residual Fund represents excess payments received for Financial Transmission Rights sold in the monthly and annual auctions. Both funds are accumulated during the calendar month and distributed to market participants per formulas in the Tariff after the end of each calendar month.

As of December 31, 2015 and 2014, the Company had collected $4,324 and $86,497, respectively, in market participant payments due to other market participants and/or MISO transmission owners. These funds are scheduled to be paid in a subsequent period.

The cash collateral deposits represent funds from customers that provide cash collateral as a form of financial assurance to secure the customers' performance under the terms and conditions of the Tariff related to the purchase of transmission service, market services, ancillary services, and related products or services.

5. Cash and Cash Equivalents (continued)

Interest earned on the deposits is paid to the customer quarterly on January 31, April 30, July 31, and October 31 of each year. At December 31, 2015 and 2014, $521,064 and $552,384, respectively, were held in security for customer deposits, which include interest payable of $195 and $86, respectively.

MISO bills to its market participants the Assessment Fee monthly and accumulates the cash in a segregated account for use in paying the annual Assessment Fee in August of each year. As of December 31, 2015 and 2014, the amount restricted for this use was $13,949 and $15,518, respectively.

All restricted cash items are offset by liabilities on the balance sheets. The cash and cash equivalent collateral deposits less interest are offset in restricted deposits. Collection on the Assessment Fee is offset by the FERC assessment liability. The remainder of restricted cash and cash equivalents is offset in the market participant liability.

Market participants that request a generation interconnection or facility upgrade study must pay the costs incurred to perform an impact assessment study. Furthermore, a deposit is required before the study is undertaken. At December 31, 2015 and 2014, the cash deposits balance was comprised of $97,781 and $60,097, respectively, for generation interconnection studies and facility upgrade studies. An offsetting liability equal to the deposit balance is recorded in accrued liabilities. As expenses are incurred, revenue is recognized and deducted from the deposits for services performed by MISO for these impact assessment studies.

(Dollars In Thousands)

6. Accounts Receivable

MISO's receivables at December 31, 2015 and 2014, consist of the following:

	2015	2014
Billed:		
Schedules 10/16/17	**$ 2,684**	$ 6,433
Grant receivable	**146**	86
Other Tariff services receivable	**90**	320
Other receivables	**222**	174
	3,142	7,013
Unbilled:		
Schedules 10/16/17	**16,765**	14,126
FERC Assessment Fee	**3,265**	3,808
	20,030	17,934
	$ 23,172	$ 24,947

7. Fixed Assets

Fixed assets at December 31, 2015 and 2014, consist of the following:

	2015	2014
Land	**$ 4,440**	$ 4,440
Buildings and improvements	**91,517**	74,788
Computer hardware	**65,451**	61,456
Computer software	**336,091**	336,032
Furniture and fixtures	**5,995**	3,798
Telecommunication and network equipment	**16,351**	16,345
	519,845	496,859
Less accumulated depreciation and amortization	**(393,694)**	(369,270)
	$ 126,151	$ 127,589

Accumulated amortization of capitalized software costs was $302,336 and $296,470 at December 31, 2015 and 2014, respectively. Amortization expense recorded for capitalized software costs during 2015 and 2014 was $21,361 and $21,746, respectively. Total depreciation and amortization expense related to fixed assets was $45,599 and $43,268 for 2015 and 2014, respectively.

(Dollars In Thousands)

7. Fixed Assets (continued)

Effective January 31, 2015, the Company received approval from the FERC to amortize land costs and collect funds through the Tariff. Therefore, in accordance with ASC 980, the Company began amortizing the cost of land of $4,413 on a straight-line basis over a five-year period.

At December 31, 2015 and 2014, the balance of projects in development was $30,307 and $41,061, respectively. These amounts included funds expended to develop projects to improve internal business processes, improve IT infrastructure, and enhance operations systems.

8. Current Accrued Liabilities

Current accrued liabilities at December 31, 2015 and 2014, consist of the following:

	2015	2014
Engineering study deposits	**$ 94,981**	$ 58,397
Employee benefits	**16,277**	13,312
Employee vacation	**1,950**	2,058
Property taxes	**975**	905
Other operating/capital accrued liabilities	**6,235**	8,707
Total	**$ 120,418**	$ 83,379

9. Medical Plan

MISO has a self-funded employee health care plan that offers health benefits to all eligible full-time employees. MISO established a Voluntary Employee Beneficiary Association trust to which the Company contributes funds in amounts that are expected to be required to provide the plan with sufficient funds to pay benefits and administration expenses. The balance in the trust was $353 and $774 as of December 31, 2015 and 2014, respectively.

10. Retirement Plans

The Company offers a defined contribution 401(k) retirement plan for all full-time employees as of their date of hire. The Company currently matches 50% of the first 6% of the employee contribution. For December 31, 2015 and 2014, the Company match was $2,516 and $2,033, respectively. Employees are 100% vested in the employer's contribution after two years of employment.

The Company also has a defined contribution retirement plan covering all full-time employees. The Company contributes an amount equal to 6% of an employee's salary into the plan for the employee's retirement. For December 31, 2015 and 2014, the cost of this plan was $5,209 and $4,958, respectively. Contributions are subject to a vesting schedule. Employees are 100% vested after five years of employment.

The Company has a Supplemental Executive Retirement Plan for officers and a plan under Section 457(b) of the Internal Revenue Code. Benefits payable under these plans are based upon the participant's salary and age. The investment balance at December 31, 2015 and 2014, is $3,650 and $3,193, respectively, and is recorded in other current assets. An offsetting liability is also recorded in accrued liabilities. Expense relating to the Supplemental Executive Retirement Plan of $620 and $765 was recorded for the years ended December 31, 2015 and 2014, respectively.

The Company has also adopted a Directors' Deferred Compensation Plan that permits non-employee directors to receive a portion of their fees and retainers as members of the Board of Directors and committees of the Board of Directors in a form other than direct payments. For the years ended December 31, 2015 and 2014, $1,168 and $1,028, respectively, were recorded in accrued liabilities.

MISO assumed a defined benefit pension plan (the MISO Floor Offset Plan) established for Mid-Continent Area Power Pool (MAPPCOR) employees who became employees of MISO under the terms and conditions of an asset purchase agreement completed in November 2001. Effective April 15, 2006, the MISO Floor Offset Plan was frozen.

(Dollars In Thousands)

10. Retirement Plans (continued)

The following tables set forth the funded status of the MISO Floor Offset Plan and amounts recognized in the financial statements as of December 31, 2015 and 2014. The measurement date used to determine pension benefits was December 31, 2015 and 2014. The benefit obligation, funded status, and accrued benefit costs at December 31, 2015 and 2014, were as follows:

Actuarial present value of benefit obligations:

	2015	2014
Projected benefit obligation	**$ 3,919**	$ 3,947
Fair value of plan assets	**2,708**	2,617
Unfunded status	**1,211**	1,330
Accrued benefit cost, reflected in accrued liabilities	**$ 1,211**	$ 1,330

The accumulated benefit obligation for the pension plan was $3,919 and $3,947 as of December 31, 2015 and 2014, respectively. The accumulated benefit obligation is equal to the projected benefit obligation as a result of the plan freeze in 2006.

The Company made contributions of $160 and $150 during 2015 and 2014, respectively, to the pension plan and expects to make contributions in 2016 of approximately $200 to the pension plan.

Weighted-average assumptions used to calculate the net periodic pension cost and benefit obligation, as of January 1 and December 31:

	2015	2014
Settlement (discount) rate at January 1	**4.00%**	3.75%
Expected return on plan assets	**8.00%**	8.00%
Net periodic pension cost/(income)	**$11**	($24)
Benefits paid	**$106**	$102

(Dollars In Thousands)

10. Retirement Plans (continued)

The expected return on plan assets is based on the market-related value of plan assets at the beginning of the plan year and the assumed long-term investment rate, adjusted for expected contributions and benefit payments during 2015. Receivable contributions not yet paid as of the plan's year-end may not be considered plan assets.

Plan assets – percentage of fair value by category:

	2015	2014
Asset category		
Equity securities	**62%**	62%
Debt securities	**36**	35
Cash and cash equivalents	**2**	3
Total	**100%**	100%

The investment objective of the MISO Floor Offset Plan portfolio is to meet or exceed the actuarial assumptions pertaining to this floor offset plan. The following asset allocation guidelines have been established for this plan:

	Minimum	Maximum	Target
Cash equivalents	–%	5%	–%
Fixed income (bonds)	30	50	40
Equity (common stocks)	50	70	60

The above asset allocation guidelines are designed to achieve satisfactory investment returns while gaining the risk control of diversification. In addition, the guidelines have a minimum and maximum range to provide the trustee/investment manager with the flexibility to respond to a change in market conditions.

Estimated future benefit payments, which reflect expected future service:		
Fiscal 2016	$	451
Fiscal 2017		174
Fiscal 2018		175
Fiscal 2019		363
Fiscal 2020		162
Fiscal 2021–2025		994

(Dollars In Thousands)

11. Income Taxes

The Company has received approval for its not-for-profit status under Section 501(a) of the Internal Revenue Code and is tax-exempt as an organization described in Internal Revenue Code Section 501(c)(4). MISO has incurred no unrelated business tax.

12. Leases

Capital Leases

The Company has a lease agreement for a facility for which the capitalized costs are $15,777 and are included in fixed assets. Accumulated amortization on all leased assets is $11,635 and $10,847 at December 31, 2015 and 2014, respectively. Amortization from capital leases is included in depreciation and amortization expense in the statements of operations and changes in net assets.

The following is a schedule of minimum lease payments for each of the next five years and thereafter:

2016	$ 1,677
2017	1,677
2018	1,677
2019	1,677
2020	1,677
Thereafter	277
Total minimum lease payments	8,662
Less amount representing interest	(1,705)
Present value of net minimum capital lease payments	6,957
Less current portion	(1,115)
Long-term portion	$ 5,842

(Dollars In Thousands)

12. Leases (continued)

Operating Leases

The Company leases office space and equipment under noncancelable operating leases. Total expense incurred under all operating leases was $3,743 and $4,077 for the years ended December 31, 2015 and 2014, respectively.

Future minimum lease payments under noncancelable operating leases are as follows:

2016	$ 3,359
2017	3,231
2018	3,173
2019	3,185
2020	3,043
Thereafter	21,355
Total	$ 37,346

13. Bank Line of Credit

The Company has a credit agreement with PNC Bank and JPMorgan Chase Bank, N.A. The credit agreement is set to expire on June 13, 2016. The maximum amount available under the line was $50,000 at December 31, 2015. There was no outstanding balance at December 31, 2015 or 2014. Borrowings are payable on demand. Advances bear interest at either the floating rate or Eurodollar rate. The line of credit contains certain restrictive financial and other covenants, including limitations on indebtedness, participation in mergers, sale of assets, investments, acquisitions, liens, and prepayment of indebtedness.

(Dollars In Thousands)

14. Long-Term Notes

Long-term debt consisted of the following:

	December 31 2015	December 31 2014
2020 notes payable, bear interest semiannually at 4.32%, with defined principal payments, maturing on February 10, 2020	**$ 100,000**	$ 100,000
2033 notes payable, bear interest semiannually at 3.96%, with defined principal payments, maturing on March 26, 2033	**100,000**	100,000
	200,000	200,000
Less current portion	**20,000**	–
Total long-term debt	**$ 180,000**	$ 200,000

Maturities of long-term debt are as follows:

Year ended December 31	
2016	$ 20,000
2017	20,000
2018	20,000
2019	20,000
Thereafter	120,000
	$ 200,000

On January 16, 2004, MISO issued notes with a face value of $125,000 to a group of institutional lenders. The notes were unsecured senior obligations of the Company that matured on January 16, 2014. The notes contained certain restrictive covenants, including limitations on payments, liens, leases, distributions, purchases, and certain investments. The final $17,857 payment was paid on January 16, 2014.

14. Long-Term Notes (continued)

On February 10, 2010, the Company issued notes with a face value of $100,000 to a group of institutional lenders. The notes are unsecured senior obligations of the Company that mature on February 10, 2020, with mandatory principal payments of $20,000 payable beginning on February 10, 2016, and on each February 10 thereafter, up to and including February 10, 2020, and bear interest at 4.32% per annum, payable semiannually on February 10 and August 10 of each year, commencing August 10, 2010. The notes have no mandatory sinking fund requirement but are redeemable, in whole or in part, at the option of the Company. The notes contain certain restrictive covenants, including limitations on payments, liens, leases, distributions, purchases, and certain investments. The net proceeds are being used to (1) construct a new backup control room and data center; (2) construct a new primary data center; (3) install, test, integrate, and monitor Synchrophasors; and (4) fund other corporate purposes.

On March 26, 2013, the Company issued notes with a face value of $100,000 to a group of institutional lenders. The notes are unsecured senior obligations of the Company that mature on March 26, 2033, with mandatory principal payments of $20,000 payable beginning on March 26, 2029, and on each March 26 thereafter, up to and including March 26, 2033, and bear interest at 3.96% per annum, payable semiannually on March 26 and September 26 of each year, commencing September 26, 2013. The notes have no mandatory sinking fund requirement but are redeemable, in whole or in part, at the option of the Company. The notes contain certain restrictive covenants, including limitations on payments, liens, leases, distributions, purchases, and certain investments. The Company incurred note offering fees aggregating $412.

Note offering fees are deferred and amortized as a component of interest expense over the term of the notes. The net proceeds are being used to fund the deferral of costs otherwise recoverable and complete other tasks associated with the normal business of MISO.

On October 1, 2004, MISO received proceeds of a $2,000 loan from the Indiana Economic Development Corporation. The obligation was divided into a $1,500 nonforgivable piece and a $500 forgivable piece. The nonforgivable piece matured on October 1, 2014. The final quarterly payment of $42 was paid on September 19, 2014. The forgivable piece also matured on October 1, 2014. Payment on the forgivable piece was deferred until maturity and then deemed paid as MISO met the community investment goals identified in the agreement. The $500 forgivable piece was recognized as revenue for the year ended December 31, 2014.

(Dollars In Thousands)

14. Long-Term Notes (continued)

Management has estimated the fair value of the 2020 notes payable and the 2033 notes payable based on the trading prices of similarly rated securities at December 31, 2015 and 2014, and are classified as Level 2. The fair values for each note payable are presented in the following table:

	December 31, 2015		December 31, 2014	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
2020 notes	**$ 100,000**	**$ 125,122**	$ 100,000	$ 106,476
2033 notes	**100,000**	**114,330**	100,000	114,990
Total	**$ 200,000**	**$ 239,452**	$ 200,000	$ 221,466

15. Grants

The American Recovery and Reinvestment Act of 2009 includes various provisions that fund the development of the electric power industry at the federal and state level. During 2009, MISO submitted an application for a Smart Grid Investment Grant to provide its customers with tools to help them more efficiently use electricity and also to upgrade its delivery system infrastructure. On April 1, 2010, MISO entered into an award agreement with the DOE. The final award amount is 50% of the total cost of $34,543. On July 24, 2015, MISO submitted its final reimbursement request to the DOE. As of December 31, 2015, $16,579 has been received in reimbursement from the DOE, with $538 being received during 2015. The capital reimbursements will be amortized to income over five years to offset depreciation expense.

16. Commitments and Contingencies

There are various claims against the Company incident to its operations. It is the opinion of management that, while unable to predict the outcome of these matters, the ultimate resolution of these matters will not have a material adverse effect on the Company's financial position or results of operations.

The Company has self-reported operational and administrative noncompliance with the Electric Reliability Standards to regulatory agencies in 2015. The Company also underwent an Electric Reliability Standards audit in 2015, the results of which are not final, but management's opinion is that the audits will not result in a material impact to the financial statements.

The Company enters into a variety of contracts with third parties. Management has evaluated these contracts against the provisions of ASC 440, *Commitments*, and determined that these contracts are not required to be recorded or disclosed in the financial statements as obligations of the Company.

EY | Assurance | Tax | Transactions | Advisory

About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization and may refer to one or more of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

ey.com