



STRONGER TOGETHER

Annual Report 2015



**MISSOURI
RIVER**
ENERGY SERVICES®



ABOUT

MISSOURI RIVER ENERGY SERVICES AND WESTERN MINNESOTA MUNICIPAL POWER AGENCY

Today Missouri River Energy Services (MRES) provides electricity and other energy-related services to 60 municipal electric utilities in four states. We serve 18 municipal electric utilities in Iowa, 24 in Minnesota, six in North Dakota, and 12 in South Dakota. Each of these members owns and operates its own local municipal electric distribution system. Collectively, the 60 members serve approximately 156,000 customers and have a population of approximately 300,000.

For more than 50 years, MRES has worked together with our members to meet the needs of their customers and to help these communities thrive and prosper. In 2015, we supplied 52 percent of our members' total energy needs. Most of the remainder is hydropower provided by Western Area Power Administration (WAPA).

MRES is governed by a 13-member board of directors elected by and from the ranks of our member communities.

Western Minnesota Municipal Power Agency (WMMPA) finances the construction and acquisition of generation and transmission facilities for MRES. MRES performs all requested administrative services on behalf of WMMPA under an administrative services agreement.

WMMPA is governed by a seven-member board of directors. The directors serve as representatives of the 23 WMMPA members.

MISSOURI RIVER ENERGY SERVICES IS A NOT-FOR-PROFIT JOINT-ACTION AGENCY.
That means we work together with our members for the common good.

CONTENTS

1	CHAIRMAN AND CEO MESSAGE	13	FISCAL RESPONSIBILITY
3	MRES MEMBERS	15	MEMBER SERVICES
5	MRES GENERATION FACILITIES	17	ENVIRONMENTAL AWARENESS
6	COMPARATIVE HIGHLIGHTS	18	HUMAN RESOURCES
7	ENERGY & ENERGY SERVICES	19	LEGISLATIVE & REGULATORY ADVOCACY
11	TRANSMISSION	21	BOARDS OF DIRECTORS
12	FEDERAL HYDROPOWER	23	INDEPENDENT AUDITORS' REPORT

THE CORE PURPOSE

of Missouri River Energy Services is to enhance the value of member utilities to their customers and communities through the provision of energy and energy services.

OUR MISSION: MRES is dedicated to supplying its members with reliable, cost-effective, long-term energy and energy services in a fiscally responsible and environmentally sensitive manner. MRES is an extension of its members, and through joint action, members will remain competitive while enhancing their relationships with their customers.

OUR VISION: To be the preferred provider of energy and energy services that add value to member organizations.



L: Thomas J. Heller, Chief Executive Officer, MRES | R: Harold Schiebout, Chairman of the Board, MRES

MESSAGE FROM THE CHAIRMAN OF THE BOARD AND THE CEO

Stronger Together.

Fifty years ago, leaders of local municipal utilities joined together to establish what is now Missouri River Energy Services, one of the first multi-state joint-action agencies in the United States. They had a clear vision for the kind of organization they wanted to create, and they believed that by pooling resources and talent, they could accomplish together what would be difficult and costly to do alone.

We are now an organization 60-members strong representing communities in Iowa, Minnesota, North Dakota, and South Dakota. Through our joint-action agency, our members own generation and transmission resources and share the cost of related member services to achieve economies of scale. We are proud of what we have accomplished over the last five decades.

Our highest priority is serving our members, and we do that by providing cost-effective, reliable energy and energy services, managing our resources wisely, and delivering services that help our members and their communities thrive. It's been our mission for the past 50 years and will continue to be at the core of what we do every day in the years to come.

We know we can achieve more together, and 2015 has been no exception. Even as we faced uncertain environmental regulations, energy market transitions, and lower load growth, we continued to enhance the value of our members to their communities.

Here's how we remained stronger together over the last 12 months:

- Refinanced \$35 million of revenue bonds for a total savings of more than \$4 million in interest.
- Maintained strong financial ratings of Aa3 and AA- from Moody's Investors Service (Moody's) and Fitch Ratings (Fitch), respectively.
- Continued construction of the Red Rock Hydroelectric Project (RRHP), a renewable resource that will provide power to more than 18,000 homes.
- Completed construction of the CapX 2020 (CapX) Alexandria substation project and energized the Brookings County and Fargo lines.
- Integrated MRES generation and about half of the member load into the Southwest Power Pool (SPP), resulting in a transition to a 24-hour operation center.

- Reviewed and coordinated the completion of all but one of our WAPA member power supply contracts.
- Reduced power supply needs of city governments, homeowners, and businesses by 6.7 megawatts (MW) through the Bright Energy Solutions® program.
- Distributed incentives of nearly \$2.5 million to homeowners and businesses who invested in energy efficient equipment.
- Revised our MRES Scholarship program to include support for regional lineworker training.
- Provided member and policymaker education on an amendment to the S-1 Power Sale Agreement and other industry issues at the MRES® Legal Seminar, Municipal Power Leadership Academy, Area Meetings, Policymakers Dinners, webinars, and personal meetings with individual members.

Looking forward, we know challenges and opportunities are on the horizon. Some of those complex challenges include complying with environmental regulations while remaining cost competitive, attracting and retaining a qualified staff, properly aligning our resources and managing growth, mitigating cybersecurity concerns, and focusing on technological

advances and changing customer preferences. We will continue to make smart investments that maintain reliability and affordability, reduce our environmental impacts, and most importantly – strengthen our communities.

This report highlights our outstanding fiscal year 2015 results. To all of our members, boards of directors, and employees, we extend our deepest thanks. We recognize that these relationships are the foundation for our success. This is an exciting time for MRES and our members, and we look forward to fulfilling our commitment to our members, their customers, and the communities they serve. One thing is certain: MRES and its members can, and will, remain stronger together.

It all comes down to a few key things—cost-effectiveness, reliability, stewardship, and accountability. Those are the things we can be counted on to do for our members.



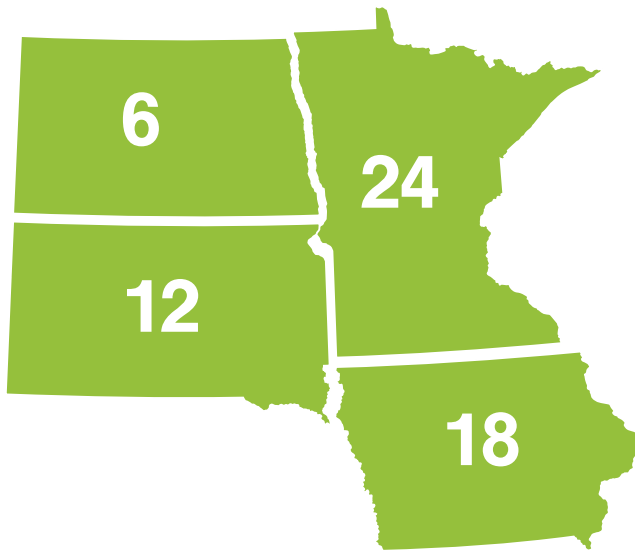
Harold Schiebout
Chairman of the Board, MRES



Thomas J. Heller
Chief Executive Officer, MRES

MISSOURI RIVER ENERGY SERVICES

MEMBERS



60 Owned by
60 Municipal
Electric Utilities

300,000
Approximate people



Iowa

Alton
Atlantic
Denison
Hartley
Hawarden
Kimballton
Lake Park
Manilla
Orange City
Paullina
Pella
Primghar
Remsen
Rock Rapids
Sanborn
Shelby
Sioux Center
Woodbine

Minnesota

Adrian
Alexandria
Barnesville
Benson
Breckenridge
Detroit Lakes
Elbow Lake
Henning
Hutchinson
Jackson
Lake Park
Lakefield
Luverne
Madison
Marshall
Melrose
Moorhead
Ortonville
St. James
Sauk Centre
Staples
Wadena
Westbrook
Worthington

North Dakota

Cavalier
Hillsboro
Lakota
Northwood
Riverdale
Valley City

South Dakota

Beresford
Big Stone City
Brookings
Burke
Faith
Flandreau
Fort Pierre
Pickstown
Pierre
Vermillion
Watertown
Winner

Our Core Values

MRES is an organization where excellence of work and integrity of character are daily expectations for all employees, board members, and others associated with MRES on a professional basis. The following Core Values describe those expectations in greater detail:

Reliability. We are there when you need us.

Accountability. We can be counted on to do what we say we will.

Honesty. We will give our members the whole story—bad news along with the good.

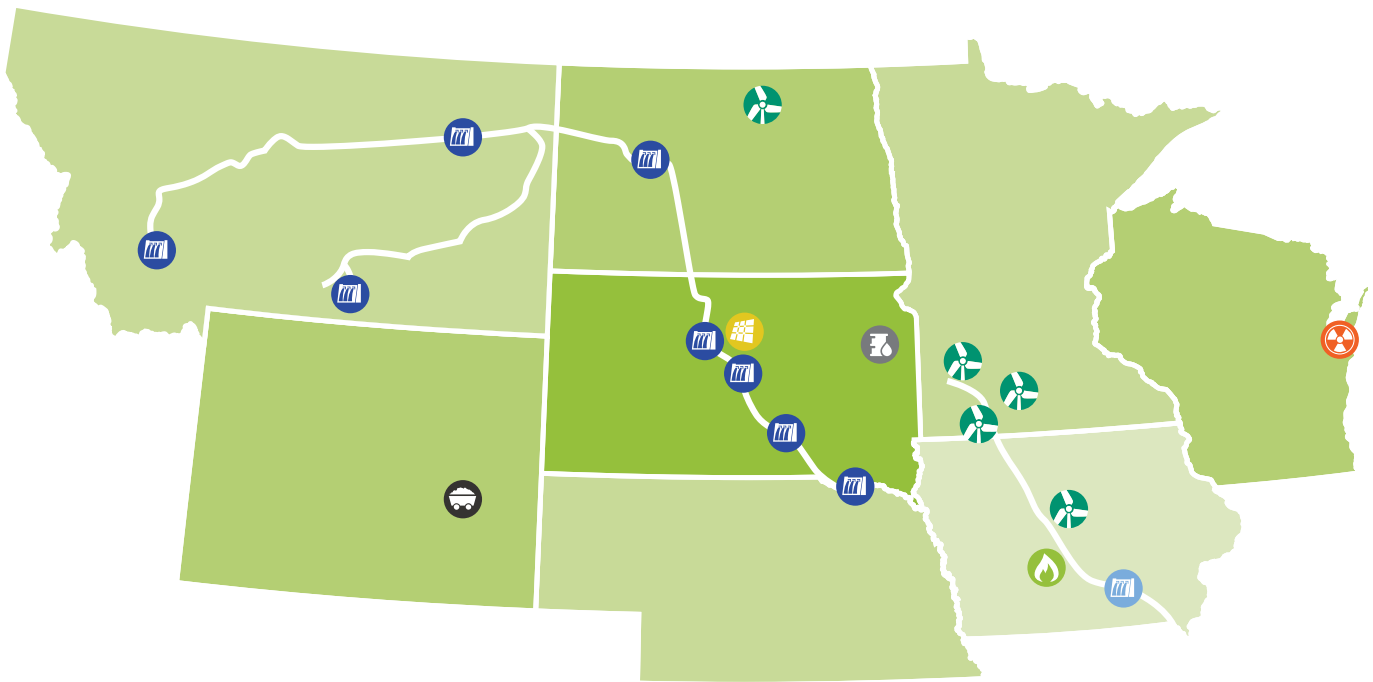
Competence. Excellence in work product and performance will be the objective of every MRES employee with the end result being the achievement of the MRES corporate goals consistent with member expectations.

Creativity. We will recognize problems that limit the success of our members and strive to solve them. Creative solutions are encouraged and failure will be viewed as a temporary setback to be learned from for future problem-solving efforts.





MISSOURI RIVER ENERGY SERVICES GENERATION FACILITIES



**WAPA Federal
Hydroelectric
Resource**



**2018 MRES
Hydroelectric
Resource**



**Nuclear
Resource**



**Natural Gas
Resource**



**Wind Energy
Resource**



**Coal
Resource**



**Diesel
Resource
(Excludes
Municipal
Capacity)**



**MRES Solar
Resource
Under
Development**

COMPARATIVE HIGHLIGHTS

FINANCIAL:

	2015	2014	2010	2005
Operating Revenues (\$000)	\$204,103	\$198,343	\$141,309	\$95,341
Operating Expenses (\$000)	\$160,279	\$170,001	\$108,439	\$86,206
Other Income (\$000)	\$17,581	\$14,928	\$4,385	\$5,239
Other Expenses (\$000)	\$39,603	\$32,822	\$13,682	\$12,033
Plant in Service (\$000)	\$491,505	\$461,653	\$364,680	\$324,162
Cash and Investments (\$000) - Restricted	\$286,295	\$384,985	\$146,529	\$91,043
Cash and Investments (\$000) - Unrestricted	\$110,912	\$101,145	\$89,259	\$31,430
Total Assets (\$000)	\$889,789	\$907,514	\$450,389	\$351,732
Net Position (\$000)	\$170,375	\$148,573	\$78,669	\$73,848

Debt Outstanding (\$000)	\$611,016	\$628,870	\$299,302	\$220,943
Debt as Percent of Capitalization	78%	81%	79%	75%
Principal Payments (\$000)	\$14,865	\$14,165	\$15,640	\$11,925
Average Cost of Debt	3.9%	4.1%	4.6%	5.1%

Power Supply Revenue from Members (\$000)	\$161,818	\$155,251	\$118,475	\$70,132
Member WAPA Power Expense (\$000)	\$60,374	\$60,394	\$60,303	\$29,604

POWER SUPPLY MEMBER ENERGY REQUIREMENTS:

Energy Provided by MRES (GWh)	2,539	2,645	2,144	1,790
Energy from WAPA (GWh)	1,862	1,860	1,858	1,795
Energy Provided by Others (GWh)	587	578	583	421
Total Energy Requirements (GWh)	4,988	5,083	4,584	4,005
Energy from Owned Coal Generation	23%	26%	35%	43%
Energy from Owned Natural Gas	0%	0%	0%	0%
Energy from Nuclear Generation	6%	5%	0%	0%
Energy from Renewable Resources (WAPA and Wind)	42%	42%	45%	45%
Member Energy Provided by Others	12%	11%	13%	10%
Member Energy from Market Purchases	17%	16%	7%	2%

POWER SUPPLY MEMBER PEAK DEMAND (MW):

MRES Peak Demand	459	490	396	352
Total Member Town Gate Peak Demand	902	923	809	738

AVERAGE WHOLESALE RATES (CENTS PER kWh):

Member Power Supply Rate	6.4	5.9	5.5	3.9
Member Blended Cost of Energy Supplied by MRES and WAPA	5.1	4.8	4.5	2.8



STRONGER TOGETHER

Energy & Energy Services

Provide adequate, cost-effective, and reliable energy services to meet present day and future energy needs.

With our members in mind, MRES works diligently to provide safe and reliable energy to the 60 municipal utilities we serve.

Much of our work in 2015 focused on the construction of the Red Rock Hydroelectric Project (RRHP). The facility will become the second largest hydroelectric power plant in the State of Iowa, with a licensed capacity of 36.4 MW and an estimated peak capacity of 55 MW. RRHP is a run-of-release project on the Des Moines River, and is located in close proximity to Pella, Iowa, one of our member utilities. When complete in 2018, the project will provide enough clean, reliable, and renewable hydroelectric energy to meet the needs of about 18,000 homes.

To date, construction crews have:

- Completed work on the 240-foot diaphragm wall, which holds back the existing Red Rock earthen dam on the upstream side of the dam and will provide a channel for water to enter the intake structure that will send water to the hydroelectric turbine/generator.
- Installed the secant pile support structure that holds back the existing downstream earthen dam and ensures stability of the dam during excavation for the powerhouse.
- Excavated soil and bedrock in preparation for the construction of the powerhouse and tail-race. Explosives were used to remove more than 32,000 cubic yards of bedrock.

Nearly 34 percent of the construction work at the site was completed by the end of 2015.

RED ROCK HYDROELECTRIC PROJECT FACTS

36.4 Megawatts
licensed
capacity

55 Megawatts
estimated
peak capacity

LOCATED
on the Des Moines River
near Pella, Iowa



MRES EARNS SAFETY AWARD FOR RRHP CONSTRUCTION

MRES earned a safety award from Liberty Mutual Insurance for outstanding safety during the ongoing construction of the RRHP. Liberty Mutual awards its Silver Safety Award to companies for projects that have an incident rate at least 60 percent better than the industry average. Ames Construction is the general contractor for RRHP.

MRES CEO Tom Heller, in accepting the award during a luncheon for the construction workers sponsored by MRES, thanked the workers for their commitment and dedication to be safe on the job. “There are many worksite challenges in a project of this magnitude,” Heller said. “Without a strong focus on safety, there could be a lot of potential for accidents.”

INDEPENDENT REVIEW PANEL APPROVES CONSTRUCTION WORK AT RRHP

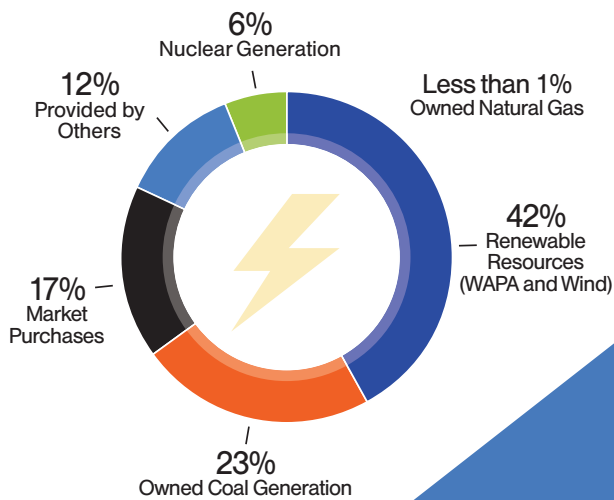
A four-member panel of experts in dam and hydroelectric project design and construction approved the construction work thus far at RRHP. An Independent External Peer Review Panel was on site in early January to review reports, tour the facilities, observe construction activities, and examine various construction elements. The panel noted that the “quality of work by the contractor, and the control of the construction being maintained by MWH, the design engineer, and the owner are commendable.”

“At MRES and at Ames Construction, our first concern is to protect workers and the public.”

MRES CEO TOM HELLER



MRES MEMBER SOURCES OF ENERGY 2015



NEW RESOURCES UNDER DEVELOPMENT

Over the past decade, MRES has taken strides in renewable energy development within its membership area. In addition to our hydropower development, we also have approximately 86 MW of wind power. The latest renewable energy investment is a one-MW solar project under development in Pierre, S.D. MRES also is studying the opportunity to develop a pumped hydro-storage project.

MRES RENEWABLE RESOURCES

85.7 ^{MW}
Wind Energy

MRES is building 36.4 MW of clean, renewable hydropower at an existing U.S. Army Corps of Engineers (USACE) dam that will become operational in 2018. This investment in renewable generation will cost approximately \$380 million.

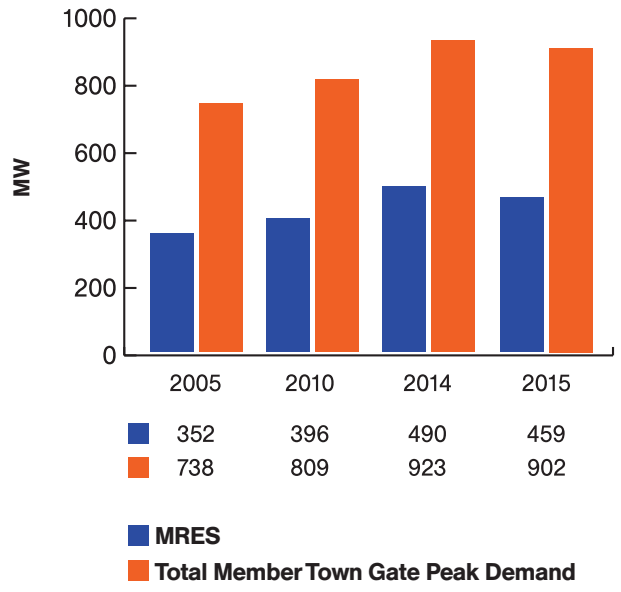
36.4 ^{MW}
Hydropower
2018



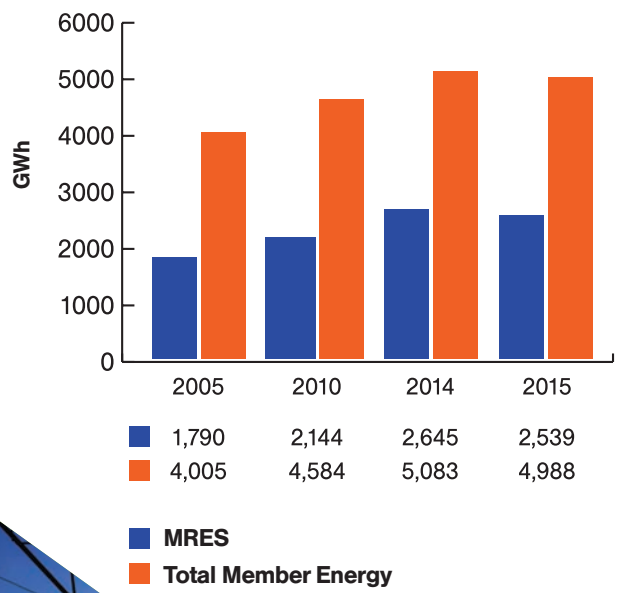
**ADVANCED METERING
ENABLES TWO-WAY
COMMUNICATION BETWEEN
UTILITIES AND CUSTOMERS**

Several members participate in the advanced metering infrastructure (AMI) program offered by MRES. This latest technology allows utilities to read meters more often in order to provide customers with electric and water consumption information in greater detail. When fully developed, the AMI system will give customers more control over their power bill, help utilities pinpoint outages and restore power faster, and help integrate renewable energy into the power system. Four members are now deploying AMI in their communities using the MRES program, which provides centralized equipment to leverage economies of scale.

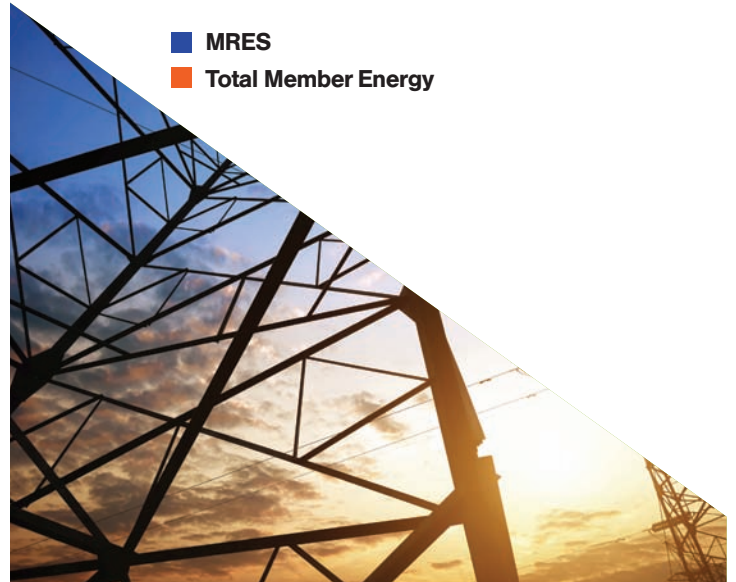
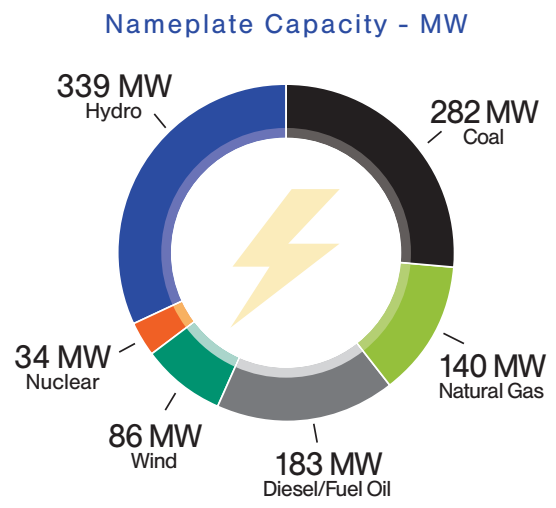
**MRES MEMBER
PEAK DEMAND (MW)
2005-2015**



**MRES MEMBER
ENERGY REQUIREMENTS (GWh)
2005-2015**



**GENERATION CAPACITY SERVING
MRES MEMBERS BY FUEL TYPE**



STRONGER TOGETHER Transmission

Provide for the adequate, reliable, and cost-effective transmission of energy.

CAPX2020 ENERGIZED

Two major high-voltage transmission lines spanning almost 500 miles were energized in early 2015 under the CapX banner, the largest transmission expansion in the upper Midwest in more than 40 years.

The Brookings County-Hampton project was energized in late March. This is a 250-mile, 345-kilovolt (kV) line between the Brookings County Substation near Brookings, S.D. and the Hampton Substation near Hampton, Minn., south of the Twin Cities. The second line, which runs between the Bison Substation near Fargo, N.D. and the Monticello Substation near Monticello, Minn., was energized in early April.

In all, CapX encompasses six major projects that will develop more than 800 miles of new transmission facilities at a cost of approximately \$2.2 billion, of which WMMPA invested more than \$105 million. MRES is one of the 11 regional utilities participating in the effort. The projects have been in the works for more than a decade.

ENTRY INTO SPP

On Oct. 1, MRES officially became part of the Southwest Power Pool (SPP), which is one of the nation's regional transmission organizations. MRES became a member of a similar organization, the Midcontinent Independent System Operator, Inc. (MISO) in 2003 when MISO was created in a region including half of the MRES member load. It became necessary to join SPP after WAPA joined SPP and the SPP footprint expanded to include the remaining MRES members.

Transmission facilities owned by WAPA, Basin Electric, WMMPA, and two other utilities, which MRES used to deliver power to its members, were placed into the SPP transmission network on Oct. 1. MRES now uses the SPP energy market and transmission network to meet the power supply needs of its members.



As a result of moving to the SPP market, MRES transitioned to a 24-hour scheduling operation staffed by MRES employees. The expanded operations center will also accommodate energy scheduling and generation operation requirements in both SPP and MISO.

Entry into the SPP market prompted MRES to offer an amendment to its Power Sale Agreements with its 57 S-1 members and one of its non-S-1 members. The primary purpose of the amendment is to update the contract language to accurately reflect the way MRES now provides power supply to its members. Since the Power Sale Agreements provide security for power supply and transmission project financing, the amendments include an 11-year extension of the contracts through Jan. 1, 2057, compared to the current contract term through Jan. 1, 2046. The longer term of the agreements will help WMMPA secure low interest rates on future financing and will help keep rates low by securing financing that more closely matches the useful life of capital assets. The amended Power Sale Agreements were offered to members in October 2015.

Western States Power Corporation was formed in April 1995 by a group of preference power customers as a not-for-profit corporation to explore opportunities for non-federal activities, including federal hydroelectric system improvements, transmission and related facilities, and planning and administration. The organization is comprised of 23 utilities representing members from 11 states.



STRONGER TOGETHER

Federal Hydropower

Support the continuation of non-profit ownership of the federal hydro generation and transmission system and protect the interests of existing firm power customers of the power marketing administrations (PMAs).

MRES has been proactively working with various interest groups to protect our members' hydropower allocations. In 2015, we worked with Western States Power Corporation (WSPC) to provide input on the development of a 20-year hydropower rehabilitation plan for the six federal main stem dams on the Missouri River. As part of that effort, staff from both MRES and WSPC met with the USACE Northwestern Division and Omaha District to share their concerns.

We also continued our efforts to coordinate the review of the new preference power contracts offered by WAPA. The current contracts held by our members are set to expire on Dec. 31, 2020. All but one of the contracts have been completed, and the new contracts for firm electric service will begin Jan. 1, 2021 and expire Dec. 31, 2050.

\$4.4 Million. The amount MRES advanced to WSPC in 2015

SINCE 2001, MRES HAS ADVANCED ALMOST \$90 MILLION TO WSPC.



STRONGER TOGETHER

Fiscal Responsibility

Maintain a strong financial position critical to achieving rate stability, a positive bond rating, and a fiscally responsible organization.

In 2015, WMMPA closed on 2015 Power Supply Revenue Refunding Bonds totaling \$35 million, which saved more than \$4 million in interest.

In mid summer, Moody's and Fitch reaffirmed WMMPA's bond ratings of Aa3 and AA-, respectively, with a stable outlook for both. WMMPA's revenue bonds have maintained a rating of Aa3 from Moody's since 2012, and a rating of AA- from Fitch since 2003. Strong credit ratings allow MRES to hold down costs by borrowing money at lower interest rates. WMMPA is the only wholesale electric supplier in the Midwest with ratings in the AA category from both Moody's and Fitch.

Rating agencies listed these factors as contributing to WMMPA's bond ratings:

- **Strong, long-term contracts with members**
- **Diversity provided by 60 members**
- **Diverse, low-cost power-supply resources**
- **Members' WAPA hydroelectric allocations**
- **Sound financial policies, resulting in ample liquidity and debt-service coverage**
- **History of adjusting rates quickly, when necessary**

The MRES Board of Directors approved an 8.5 percent rate increase, which took effect in January 2015, for long-term power and energy. The rate increase was necessary to help pay for higher purchased power expenses and increased fixed operation and maintenance costs in 2015, due to an extended scheduled maintenance outage at Unit 1 of the Laramie River Station (LRS). In addition, interest expense will be higher due to long-term debt issued in July 2014. That debt was used to provide funds to construct RRHP.

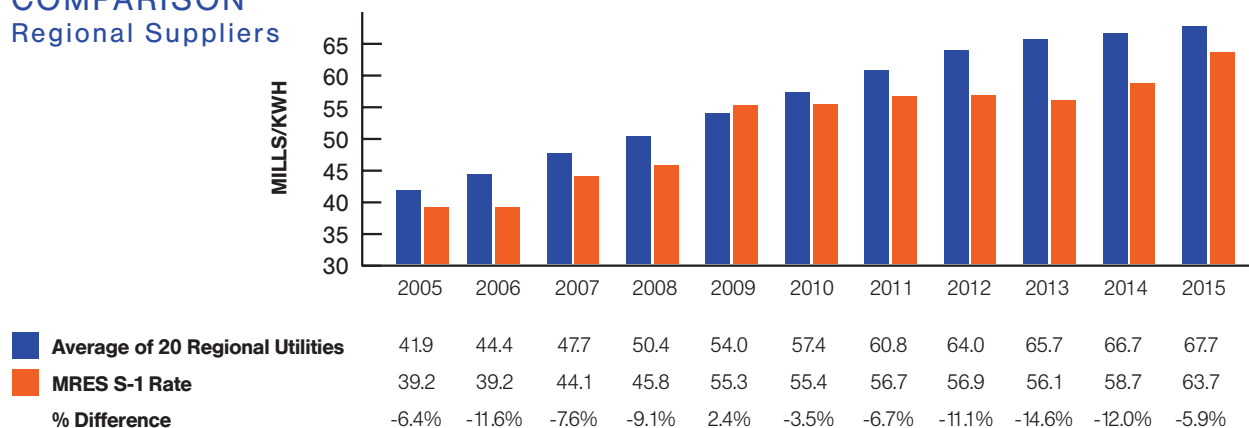
The average long-term wholesale power rate was approximately 6.4 cents per kilowatt-hour (kWh) in 2015 compared to 5.9 cents per kWh in 2014, and 5.6 cents per kWh in 2013.

For the 2015 calendar year, MRES and WMMPA posted a combined change in net position of \$22 million, compared to the budgeted change in net position of \$15 million, a favorable variance of \$7 million. The favorable variance was largely due to the amortization of the funds returned by BNSF Railway Company (BNSF) for rail overcharges, lower purchased power expense, lower transmission expense, and offset by lower long-term power sales revenue and higher Missouri Basin Power Project's (MBPP) operations and maintenance expense.



WHOLESALE RATE COMPARISON

Regional Suppliers



DISPUTE WITH BNSF SETTLED

MBPP, Western Fuels Association, and BNSF settled a dispute that began more than 10 years ago over rates charged to deliver coal to LRS in Wheatland, Wyo. Although the terms of the settlement agreement are confidential, the WMMPA and MRES Boards decided to use the net proceeds to replenish a portion of the funds used to equity fund the WMMPA debt service reserve fund, which will reduce interest costs on WMMPA bonds. This action will result in savings of about \$1.5 million per year, of which about 40 percent is a direct result of the remaining Surface Transportation Board award.

RETAIL RATE STUDIES HELP MEMBERS PREPARE FOR THE FUTURE

Over the past 18 years, MRES has completed more than 200 electric, water, and wastewater studies for its members. When the rate study

program started in 1998, one major focus was to prepare for the possibility of retail competition. Members adjusted rates so that customer bills more closely reflected the costs of providing service. After the threat of competition diminished in this region, the next big focus was on recovering rapidly increasing power costs due to several factors, including a drought in the Missouri River basin that reduced WAPA's ability to generate hydropower. Member costs also increased as a result of additional generation and transmission facilities being constructed by MRES and other utilities in the region. In the past few years, the focus has been shifting to the potential rate impacts of customer distributed generation, such as solar and wind, that could reduce energy sales and hamper member utilities' ability to collect fixed costs from all customers. MRES continues to analyze possible rate options to help members prepare for the future.

MRES staff completed 11 retail rate studies in 2015.

STRONGER TOGETHER**Member Services***Protect, preserve, and promote locally owned member energy systems.***MRES SCHOLARSHIP PROGRAM**

MRES revised its scholarship program for graduating high school seniors from MRES member communities to place more emphasis on students who may be pursuing careers in the electric industry. The new plan reduced the traditional scholarships to five recipients, and awarded only to those students pursuing studies closely related to the electric utility industry. The remaining five scholarships are now designated specifically for and awarded to students who are enrolled in a regional lineworker program.

EDUCATIONAL OPPORTUNITIES

Members benefit from workshops and other training options offered by MRES to increase their knowledge about utility-related topics, update them on issues important to MRES and its members, and to network with other colleagues. Some of the MRES®-sponsored events included Technology Days, Annual Meeting, Legal Seminar, Municipal Power Leadership Academy, Area Meetings, and Policymaker Dinners.

In September, MRES held the first annual Municipal Power Leadership Academy, which was geared toward utility and city managers, mid-level managers, city council members, and utility board members. Nearly 50 people representing 26 member communities attended the event.

COMMUNICATIONS AND PUBLICATIONS

MRES staff produce several publications designed to keep members and other key audiences informed. In 2015, MRES communications staff published four issues of *MRES® Today*, which is mailed to utility managers and policymakers, legislators, and more. *MRES® at a Glance* is emailed to managers as needed and provides quick, easy-to-read articles on industry events and other related happenings from MRES. MRES staff also produced the award-winning MRES Annual Report, and various other departmental and project brochures. Short videos summarizing the monthly board meetings also are sent to utility managers.

\$435,000

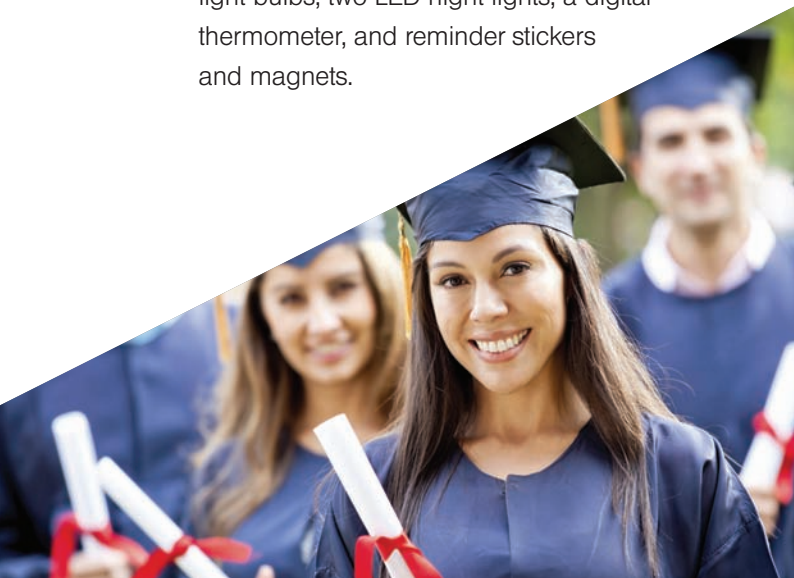
Since its inception in 1998, the MRES scholarship program has distributed \$435,000 to 136 students.



BRIGHT ENERGY SOLUTIONS® POWER TEAM PROGRAM SPARKS INTEREST

For many years, MRES has supported our members' efforts in the classroom. Our latest program is one that teaches 4th and 5th grade students about electricity, power supply, renewable energy, and careers in the utility field. The Bright Energy Solutions Power Team program provided hands-on learning to generate immediate and long-term resource savings by bringing interactive, real-world education home to students and their families. The program reached 1,860 teachers, students, and their families during the 2014-2015 school year. Funding was provided by MRES and the 15 participating communities.

A take-home Power Team Kit containing high-efficiency equipment and testing devices was provided to students and their families to use and install within their homes. The kit contained two 23-watt compact fluorescent light bulbs, two LED night lights, a digital thermometer, and reminder stickers and magnets.



“The lessons were easy to follow and there was a lot of good information. I enjoyed hearing the kids be so excited about the kits and what they were doing at home.”

RYAN ZINK, TEACHER
JEFFERSON ELEMENTARY SCHOOL
WATERTOWN, S.D.

“I liked the whole program. It was fun to work with my daughter and see her excitement when she discovered ways that we could save on energy.”

JILL SCHEITEL, PARENT
WORTHINGTON MIDDLE SCHOOL
WORTHINGTON, MINN.

50 Years

MRES CELEBRATES 50 YEARS DURING ANNUAL MEETING

During our 50th Annual meeting, MRES honored several leaders from within the MRES membership with awards. **John Perino of Alexandria, Minn., was the 2015 recipient of the Maurice A. TePaske Public Official Award.**

The prestigious award is given to policy makers who not only serve their member utility, but who also extend their service for the promotion of MRES and public power.

Recipients of the 2015 Community Leader Awards were Randy Thompson of Worthington, Minn., Kenneth Norman of Moorhead, Minn., and Mitch Wimmer of Detroit Lakes, Minn.

The Community Leader Award honors individuals who have provided many years of leadership and service to their communities and local utilities.



VALUE OF PUBLIC POWER SHARED WITH LOCAL COMMUNITIES

Public power means local residents and businesses benefit from electricity and other services provided by a utility owned by their municipality and its citizens. MRES helps its members quantify and highlight the value and benefits of public power utilities through the Municipal Power AdvantageSM program. The program features a written report that includes financial and non-financial benefits of the specific utility and ways to communicate those benefits to city councils or governing boards, policy makers, and customers. To date, three utilities have finalized reports, and another is under development.

STRONGER TOGETHER

Environmental Awareness

Assure reasonable environmental sensitivity in MRES choices for generating resources, services provided, and strategic legislative positions.

HELPING MEMBERS AND THEIR CUSTOMERS SAVE ENERGY AND MONEY.

The Bright Energy Solutions[®] program, which is administered by MRES, helps our members' customers make energy-efficient improvements to their homes and businesses by providing cash incentives or rebates.

In 2015, 57 of our 60 members participated in the Bright Energy Solutions program, helping MRES meet conservation objectives.

IMPACT OF THE BRIGHT ENERGY SOLUTIONS PROGRAM

5,949 Total number of project rebates

6.7 Megawatts Reduced power supply needs

\$2,386,000
incentives paid

THE SAFETY OF MRES EMPLOYEES AND THE PUBLIC ALWAYS HAS BEEN AND WILL REMAIN A PRIORITY.

MRES is committed to creating and maintaining a safe work environment and to providing the appropriate safety training and equipment for all employees. MRES employees encounter a wide variety of potentially hazardous conditions while working with energized powerlines and other electrical equipment, in power plants, on construction sites, and in customer facilities. These varying environments make it even more important to maintain a strong focus on safety. MRES provides for training appropriate to each work group, provides personal protective equipment, offers a workplace ergonomics program, and encourages employees to identify and correct unsafe working conditions.

During 2015, there were no accidents involving MRES employees that resulted in lost time, including power plant employees, distribution maintenance crews, technical services staff, field representatives, and office staff. MRES thanks its employees for their dedication to safety.

STRONGER TOGETHER

Human Resources

Attract and retain qualified employees

Each year MRES recognizes MRES employees for their outstanding work.

2015 POWER Awards

Tasha Altmann, Paralegal

Roger King, Public Relations Coordinator

Jerry Tielke, Manager, Operations

Terry Wolf, Manager, Transmission Services



Tom Heller, MRES CEO (far left) and Harold Schiebout, MRES Board Chairman (far right) are pictured with the 2015 POWER Award recipients. They include (from second to left) Jerry Tielke, Tasha Altmann, Terry Wolf, and Roger King.

MRES initiated a Well-Being Committee that incorporates five elements — Purpose, Social, Physical, Financial, and Community. Eight employees from various departments serve on the committee and organize several activities to promote a healthy lifestyle.

Giving back to the community plays an important role in our work culture. MRES employees packed brown-bag lunches for Lunch is Served, Inc., a local non-profit organization that delivers sack lunches to working men and women in the Sioux Falls area. Employees also collected food and cleaning items for the Ronald McDonald House during the holiday season. A number of our employees also volunteer in local schools and at various charitable events in the surrounding communities to help others in need.

For nearly 40 years, MRES employees have generously supported our community through United Way. In 2015, MRES and its employees received an Appreciation Award from the Sioux Empire United Way. On a per contributor basis, our employees are among the leaders in donating to this charity.



STRONGER TOGETHER

Legislative and Regulatory Advocacy

Promote and maintain political awareness to enhance the political presence of MRES and its members for the purpose of advancing the legislative agenda.

“Public power utilities are facing significant changes in laws governing the way they do business, and we need to do all we can to educate legislators about EPA regulations, energy efficiency, distributed generation, cost burdens to ratepayers, and other issues.”

DEB BIRGEN, DIRECTOR OF
LEGISLATIVE AND GOVERNMENTAL
RELATIONS

MRES raised awareness of public power through visits with its state legislators and its federal congressional delegation. At the state level, MRES staff and lobbyists met with legislators in member communities and state capitols, and testified on relevant bills during legislative hearings. MRES also hosted legislative networking events in Iowa, Minnesota, North Dakota, and South Dakota.

MRES staff, and member utility policymakers and managers, visited with federal lawmakers during the American Public Power Association's (APPA) Legislative Rally in March and throughout the year to communicate issues of importance to public power, MRES, and its members and their customers.

MRES ADVOCATES ON CLEAN POWER PLAN, EXPLAINS ITS IMPACT ON MEMBERSHIP

In 2015, the U.S. Environmental Protection Agency (EPA) finalized the Clean Power Plan (CPP) regulations to reduce carbon dioxide (CO₂) emissions from existing power plants. EPA's new rules are intended to reduce emissions of CO₂ from electricity generation (based on 2005



George Schneidermann (left), a board member representing Rock Rapids Municipal Utilities, meets with Sen. Chuck Grassley (R-Iowa; right) during APPA's Legislative Rally. Also pictured is Harold Schiebout (center), MRES Board Chairman.

emission levels) by 32 percent by 2030, when the CPP would be fully phased in and compliance with final standards is anticipated. EPA published the proposed CPP in June 2014. The rule was finalized and published, together with related proposals for implementation, in October 2015.

In 2015, MRES legislative and legal staff:

- Participated in national- and state-level discussions on implementation issues regarding the CPP with policymakers, stakeholders, and regional and national organizations in many venues.
- Worked with congressional offices to recommend positive changes to the rules.
- Attended state-led CPP stakeholder group meetings in Iowa and Minnesota.
- Conducted individual meetings with state regulators from Iowa, Minnesota, North Dakota, South Dakota, and Wyoming.

In early 2016, the U.S. Supreme Court granted a stay to suspend the implementation of the CPP until pending legal challenges are resolved. Because the ultimate outcome of this litigation cannot be accurately predicted, MRES will continue to work with stakeholders, lawmakers, and regulators to protect and advance reasonable energy policies to ensure the continued reliability and affordability of electricity while moving toward a clean energy future at a reasonable pace.

COURT AFFIRMS MUNICIPAL PREFERENCE IN WMMPA HYDRO-PERMITTING CASE

A federal appeals court unanimously ruled that WMMPA is entitled to a statutory municipal preference for a permit to develop a hydroelectric project. The U.S. Circuit Court of Appeals for the District of Columbia ruled that the Federal Energy Regulatory Commission (FERC) incorrectly disregarded municipal preference when it granted a preliminary permit for an Iowa hydroelectric project to a private company.

The case began in 2013 when WMMPA and the private developer simultaneously filed applications for a preliminary permit to study the feasibility of a hydro project in Polk County, Iowa. FERC then held a random drawing, granting the permit to the private developer. WMMPA objected to the drawing because the Federal Power Act requires FERC to give preference to the preliminary permit applications of municipalities over those of competitors if both applications are “equally well adapted.”

“Western Minnesota is very pleased with the Court’s decision. The ruling is an affirmation of the municipal preference principle that is so important to public power entities everywhere.”

MRES CEO TOM HELLER

STRONGER TOGETHER

Boards of Directors

MISSOURI RIVER ENERGY SERVICES


Harold Schiebout, Chairman

40 years of service
Sioux Center Municipal Utilities
Sioux Center, Iowa


Scott Hain, Director

5 years of service
Worthington Public Utilities
Worthington, Minnesota


Donald Johnston, First Vice Chairman

39 years of service
Flandreau Municipal Utilities
Flandreau, South Dakota


Steve Lehner, Director

8 years of service
Watertown Municipal Utilities Department
Watertown, South Dakota


Bill Schwandt, Second Vice Chairman

24 years of service
Moorhead Public Service
Moorhead, Minnesota


Steve Meyer, Director

10 years of service
Brookings Municipal Utilities
Brookings, South Dakota


James Hoye, Third Vice Chairman

16 years of service
Rock Rapids Municipal Utilities
Rock Rapids, Iowa


Mark Ramthun, Director

9 years of service
Denison Municipal Utilities
Denison, Iowa


Norris Severtson, Fourth Vice Chairman

14 years of service
Lakota Municipal Light Plant
Lakota, North Dakota


Vernell Roberts, Director

1 year of service
Detroit Lakes Public Utilities
Detroit Lakes, Minnesota


Brad Roos, Secretary/Treasurer

28 years of service
Marshall Municipal Utilities
Marshall, Minnesota


Leon Schochenmaier, Director

8 years of service
Pierre Municipal Utilities
Pierre, South Dakota


Al Crowser, Director

23 years of service
ALP Utilities
Alexandria, Minnesota


Marty Sunderman, Director (retired July 31, 2015)

3 years of service (MRES Board) and 9 years of service (WMMPA Board)
Sauk Centre Public Utilities Commission, Sauk Centre, Minnesota

**WESTERN MINNESOTA
MUNICIPAL POWER AGENCY**



Bill Schwandt, President
23 years of service
Moorhead Public Service
Moorhead, Minnesota



Al Crowser, Vice President
22 years of service
ALP Utilities
Alexandria, Minnesota



Scott Hain, Secretary
10 years of service
Worthington Public Utilities
Worthington, Minnesota



Vernell Roberts, Treasurer
8 years of service
Detroit Lakes Public Utilities
Detroit Lakes, Minnesota



Brad Roos, Director
10 years of service
Marshall Municipal Utilities
Marshall, Minnesota



Guy Swenson, Director
1 year of service
Barnesville Municipal Utilities
Barnesville, Minnesota



Rob Wolfington, Director
3 years of service
Benson Municipal Utilities
Benson, Minnesota

**MISSOURI RIVER ENERGY
SERVICES SENIOR MANAGEMENT**



Tom Heller
Chief Executive Officer
24 years of service



Deb Birgen
Director
Legislative & Governmental Relations
14 years of service



Joni Livingston
Director
Member Services & Communications
17 years of service



Jeff Peters
Director
Federal & Distributed Power Programs
25 years of service



Merlin Sawyer
Director
Finance & Chief Financial Officer
29 years of service



Mrg Simon
Director
Legal
19 years of service



Ray Wahle
Director
Power Supply & Operations
37 years of service



Baker Tilly Virchow Krause, LLP
 Ten Terrace Ct, PO Box 7398
 Madison, WI 53707-7398
 tel 608 249 6622
 fax 608 249 8532
 bakertilly.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
 Missouri Basin Municipal Power Agency
 d/b/a Missouri River Energy Services and
 Western Minnesota Municipal Power Agency
 Sioux Falls, South Dakota

Report on the Financial Statements

We have audited the accompanying combined financial statements of Missouri Basin Municipal Power Agency d/b/a Missouri River Energy Services and Western Minnesota Municipal Power Agency (MRES and WMMPA) as of and for the years ended December 31, 2015 and 2014, and the related notes to the combined 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 combined 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 the combined 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 combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Audit Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to MRES and WMMPA's preparation and fair presentation of the combined 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 MRES and WMMPA'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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of MRES and WMMPA as of December 31, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors
Missouri Basin Municipal Power Agency
d/b/a Missouri River Energy Services and
Western Minnesota Municipal Power Agency

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the combined financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 combined financial statements, and other knowledge we obtained during our audit of the combined 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.

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the combined financial statements as a whole. The Western Minnesota Municipal Power Agency Statement of Net Position, and Western Minnesota Municipal Power Agency Statement of Revenues, Expenses, and Changes in Net Position schedules included as supplemental information, as identified in the table of contents are presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the detailed schedules included as supplemental information, as identified in the table of contents are fairly stated in all material respects in relation to the combined financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have issued our report dated April 6, 2016 on our consideration of MRES and WMMPA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering MRES and WMMPA's internal control over financial reporting and compliance.



Madison, Wisconsin
April 6, 2016

Management's Discussion and Analysis

(Unaudited - See Independent Auditors' Report)

The discussion and analysis on the following pages summarize the financial highlights and focuses on factors that had a material effect on the financial condition of Missouri River Energy Services (MRES) and Western Minnesota Municipal Power Agency (WMMPA) and the results of operations during 2015 and 2014. This discussion should be read in conjunction with the accompanying financial statements and notes thereto.

The financial portion of this annual report consists of the following:

- Management's Discussion and Analysis, which provides an objective and easily readable analysis of the financial activities of MRES and WMMPA, based on currently known facts, decisions or conditions.
- The Combined Statement of Net Position, which provides a summary of the assets, deferred outflows of resources, liabilities and deferred inflows of resources as well as further analysis on changes in current and long-term assets and liabilities.
- The Combined Statement of Revenues, Expenses and Changes in Net Position, which presents the operating results of MRES and WMMPA into various categories of operating revenues and expenses and non-operating revenues and expenses.
- The Combined Statement of Cash Flow, which reports the cash provided by and used for operating activities, as well as other cash sources such as investment income and cash payments for repayment of bonds and capital additions.
- The Notes to the Combined Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

Financial Position

Condensed Statement of Net Position as of December 31 (Million \$)

	2015	2014	2013	2015 Dollar Change	2014 Dollar Change
Current Assets	\$ 258	\$ 258	\$ 132	\$ -	\$ 126
Non-current Assets:					
Net Capital Assets	448	376	262	72	114
Other Non-current Assets	<u>183</u>	<u>273</u>	<u>93</u>	<u>(90)</u>	<u>180</u>
Total Assets	<u>889</u>	<u>907</u>	<u>487</u>	<u>(18)</u>	<u>420</u>
Deferred Outflows of Resources:					
Unamortized loss on reacquired debt	<u>1</u>	<u>1</u>	<u>1</u>	<u>-</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 890</u>	<u>\$ 908</u>	<u>\$ 488</u>	<u>(\$ 18)</u>	<u>\$ 420</u>
Current Liabilities	\$ 68	\$ 88	\$ 56	(\$20)	\$32
Non-current Liabilities:					
Revenue Bonds, Net of Current Maturities	599	614	239	(15)	375
Revenues collected for future costs	37	37	35	-	2
Other non-current liabilities	<u>1</u>	<u>1</u>	<u>1</u>	<u>-</u>	<u>-</u>
Total Liabilities	705	740	331	(35)	409
Deferred Inflows of Resources:					
Unearned Revenue	15	19	19	(4)	-
Net Position:					
Net Investment in Capital Assets	(145)	(238)	20	93	(259)
Restricted Net Position	245	336	52	(91)	284
Unrestricted Net Position	<u>70</u>	<u>51</u>	<u>66</u>	<u>19</u>	<u>(15)</u>
Total Net Position	<u>170</u>	<u>149</u>	<u>138</u>	<u>21</u>	<u>10</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 890</u>	<u>\$ 908</u>	<u>\$ 488</u>	<u>(\$ 18)</u>	<u>\$ 419</u>
Totals may not foot due to rounding.					

See accompanying independent auditors' report.

Assets and Deferred Outflows of Resources

The total assets and deferred outflows of resources of MRES and WMMPA at December 31, 2015, decreased by \$18 million or two percent compared to December 31, 2014. The largest variance was an \$89 million decrease in cash and investments, from \$486 million to \$397 million. The decrease in cash and investments was offset by an increase of \$72 million in net capital assets, from \$376 million to \$448 million.

The total assets and deferred outflows of resources of MRES and WMMPA at December 31, 2014, increased by \$420 million or 86 percent compared to December 31, 2013. The largest variance was a \$306 million increase in cash and investments, from \$180 million to \$486 million. Net capital assets increased by \$114 million, from \$262 million to \$376 million, at December 31, 2014, compared to December 31, 2013.

The largest asset and deferred outflows of resources of MRES and WMMPA at December 31, 2015, was net capital assets. Net capital assets totaled \$448 million or 50 percent of total assets and deferred outflows of resources at December 31, 2015, an increase of \$72 million, compared to December 31, 2014. The \$72 million net change in net capital assets during 2015 included a \$30 million increase in utility plant in service and a \$47 million increase in CWIP offset by a \$5 million increase in accumulated depreciation. The increase in utility plant in service is largely due to portions of the CapX Fargo and CapX Brookings transmission projects being placed into service in 2015. The majority of the increase in CWIP is primarily the additional work completed on RRHP (\$68 million), offset by the net decrease in the CWIP for the CapX projects (\$29 million).

Net capital assets totaled \$376 million or 41 percent of total assets and deferred outflows of resources at December 31, 2014, an increase of \$114 million compared to December 31, 2013. The \$114 million net change in net capital assets during 2014 included a \$73 million increase in utility plant in service and a \$47 million increase in CWIP offset by a \$7 million increase in accumulated depreciation. The increase in utility plant in service is largely due to portions of the CapX Fargo and CapX Brookings transmission projects being placed into service in 2014. The increase in CWIP is primarily the additional work completed on RRHP (\$87 million), offset by the net decrease in the CWIP for CapX projects (\$38 million).

Cash and investments was the second largest asset and deferred outflows of resources for MRES and WMMPA at December 31, 2015. Cash and investments totaled \$397 million or 45 percent of total assets and deferred outflows of resources at December 31, 2015, a decrease of \$89 million, compared to December 31, 2014. The decrease in cash and investments during 2015 is largely due to expenditures for RRHP and CapX transmission projects, offset by the change in net position. At December 31, 2015, approximately \$286 million of total cash and investments was restricted for debt service, capital projects and other required purposes, and the remaining \$111 million is unrestricted. The \$111 million of unrestricted cash and investments represents over eight months of the 2015 operating expenses.

Cash and investments totaled \$486 million or 54 percent of total assets and deferred outflows of resources at December 31, 2014, an increase of \$306 million, compared to December 31, 2013. The increase in cash and investments during 2014 is largely due to the issuance of \$351 million of Power Supply Bonds and the change in net position, offset by expenditures for CapX transmission projects and RRHP. At December 31, 2014, approximately \$385 million of total cash and investments was restricted for debt service, capital projects and other required purposes, and the remaining \$101 million is unrestricted. During 2014, MRES and WMMPA transferred approximately \$13 million of unrestricted cash and investments to equity fund the Debt Service Reserve Account (DSRA) increase due to the 2014 Bond issue. Equity funding the DSRA reduced the amount of the 2014 Bond issue and improved the debt/equity position of MRES and WMMPA. The \$101 million of unrestricted cash and investments represents over seven months of the 2014 operating expenses.

All other assets and deferred outflows of resources of MRES and WMMPA totaled \$45 million at December 31, 2015, \$1 million higher than the prior year.

All other assets and deferred outflows of resources of MRES and WMMPA totaled \$46 million at December 31, 2014, approximately \$1 million lower than the prior year.

Liabilities, Deferred Inflows of Resources and Net Position

The total liabilities, deferred inflows of resources and net position of MRES and WMMPA at December 31, 2015, decreased by \$18 million or two percent compared to December 31, 2014. Significant variances included a \$21 million increase in net position, a \$20 million decrease in current liabilities and a \$15 million decrease in revenue bonds.

The total liabilities, deferred inflows of resources and net position of MRES and WMMPA at December 31, 2014, increased by \$420 million or 86 percent compared to December 31, 2013. Significant variances included a \$375 million increase in revenue bonds, a \$30 million increase in current liabilities and a \$10 million increase in net position.

The largest liability of MRES and WMMPA is long-term debt, which totaled \$599 million or 67 percent of total liabilities, deferred inflows of resources and net position at December 31, 2015. Long-term debt decreased by approximately \$18 million during 2015. The decrease in 2015 was due to the refunding of the 2006 Bonds with the 2015 Bonds, scheduled principal payments and amortization of debt premium. Long-term debt at December 31, 2014, totaled \$614 million or 68 percent of total liabilities, deferred inflows of resources and net position, an increase of \$375 million from the prior year. The increase was due to the issuance of the 2014 Bonds offset by scheduled principal payments and amortization of debt premium.

Net position totaled \$170 million at December 31, 2015, or 19 percent of the total liabilities, deferred inflows of resources and net position compared to \$148 million or 16 percent of total liabilities, deferred inflows of resources and net position at December 31, 2014. During 2015 and 2014, the net position increased by \$22 million and \$10 million, respectively, which was the MRES and WMMPA change in net position for that year.

Revenues collected for future costs of \$37 million at December 31, 2015 and 2014, represent four percent of total liabilities, deferred inflows of resources and net position for both years. Unearned revenues totaled \$15 million at December 31, 2015, and \$19 million at December 31, 2014, which represents two percent of total liabilities, deferred inflows of resources and net position for both years. The Board has approved recognizing the unearned revenue over four years, beginning in 2015. Current liabilities represent the remaining eight percent (\$68 million) of total liabilities and net position at December 31, 2015, and 10 percent (\$88 million) for 2014. The decrease in current liabilities is largely due to a decrease in accounts payable for capital projects offset by an increase in accrued property taxes. Restricted accounts payable decreased by \$11 million in 2015 compared to the prior year, due to lower accounts payable for the RRHP project at December 31, 2015 compared to December 31, 2014. Total accounts payable increased by \$26 million at the end of 2014 compared to the prior year, largely due to the increase of accounts payable for the RRHP and CapX projects

Debt Activity

During 2015, WMMPA issued \$35 million of Power Supply Revenue Bonds and made scheduled payments of \$15 million during 2015. The 2015 bond issuance refunded a portion of the 2006 Series A Power Supply Revenue Bonds and had a net present value savings of \$2 million, seven percent of the refunded bonds.

During 2014, WMMPA issued \$351 million of 2014 Bonds and made scheduled principal payments of \$14 million. The 2014 Bonds repaid the \$40 million outstanding balance of the 2013 Bonds and will be used to partially fund development of the RRHP, complete construction of the CapX 2020 transmission projects, fund capital additions to existing generation and transmission facilities and pay issuance costs.

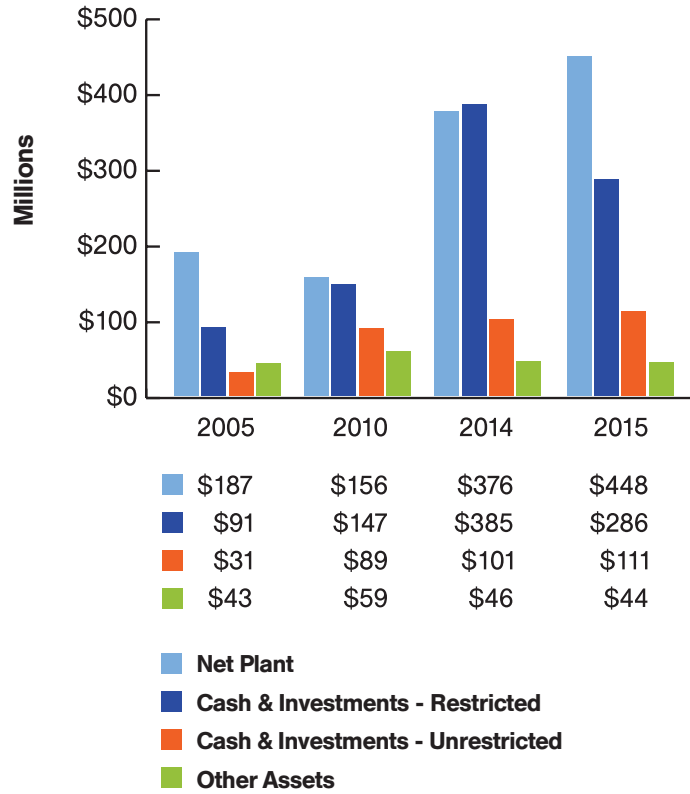
Debt Ratings

Following are the current underlying ratings for outstanding WMMPA revenue bonds:

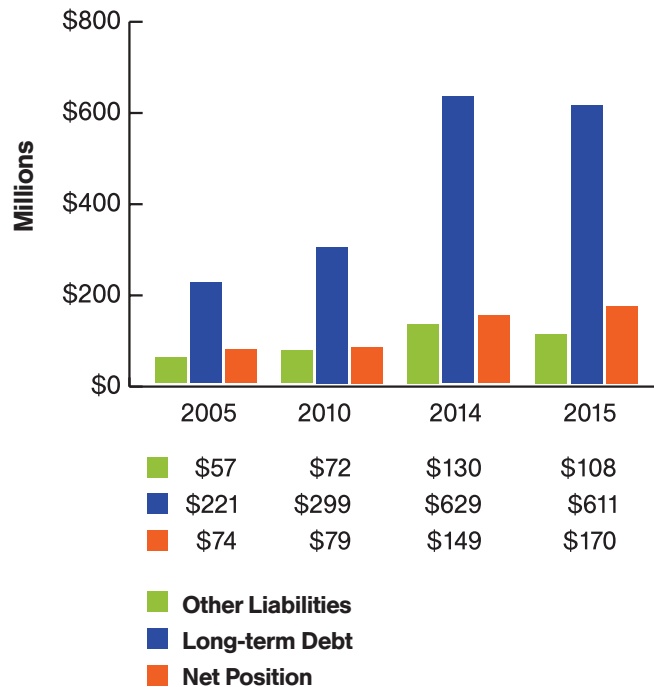
Fitch Ratings (Fitch)	AA- (stable outlook)
Moody's Investors Services (Moody's)	Aa3 (stable outlook)

The WMMPA revenue bonds have maintained a rating of AA- from Fitch since 2003 and a rating of Aa3 from Moody's since 2012.

MRES & WMMPA ASSETS 2005-2015



MRES & WMMPA LIABILITIES & NET POSITIONS 2005-2015



See accompanying independent auditors' report.

Results of Operations

Condensed Statement of Revenues, Expenses and Changes in Net Position (Million \$)

	2015	2014	2013	2015 Dollar Change	2014 Dollar Change
Operating Revenues	\$ 204	\$ 198	\$ 178	\$ 6	\$ 20
Operating Expenses	<u>160</u>	<u>170</u>	<u>142</u>	<u>(10)</u>	<u>28</u>
Operating Income	44	28	36	16	(8)
Investment and Other Income	9	8	7	1	1
Interest Expense	(29)	(21)	(14)	(8)	(7)
Other Non-Operating (Expenses) Revenue	(1)	(1)	(3)	-	2
Amortization of reserves previously collected	5	5	5	-	-
Amortization of cancelled power supply and transmission projects	(2)	(2)	(2)	-	-
Net costs recoverable in (for) future years	<u>(4)</u>	<u>(7)</u>	<u>(6)</u>	<u>3</u>	<u>(1)</u>
Change in Net Position	<u>22</u>	<u>10</u>	<u>23</u>	<u>12</u>	<u>(13)</u>
Ending Net Position	<u>\$ 170</u>	<u>\$ 148</u>	<u>\$ 138</u>	<u>\$ 22</u>	<u>\$ 10</u>
Totals may not foot due to rounding.					

Operating Revenues

Long-term power sales revenue for 2015 was approximately \$162 million, compared to \$155 million and \$148 million in 2014 and 2013, respectively. The 2015 long-term power sales revenue was four percent higher than in 2014, largely due to an 8.5 percent rate increase effective January 1, 2015. There was a five percent increase in 2014 revenue compared to 2013 due to a four percent rate increase effective January 1, 2014. The average rate for long-term power sales was approximately 6.4 cents per kilowatt-hour in 2015 compared to 5.9 cents in 2014 and 5.6 cents in 2013.

Short-term power sales revenue of less than \$1 million was 95 percent lower than in 2014 and 83 percent lower than in 2013. The decrease in 2015 MWh sales was largely due to MRES executing two short-term sales agreements in 2014 to sell a portion of the generation from Laramie River Station (LRS) and hedge the transactions with purchases and an extended scheduled maintenance outage for LRS Unit 1 in 2015.

The revenue received for transmission services increased by \$5 million (17 percent) in 2015 compared to a \$5 million (17 percent) increase from 2013 to 2014. The increase in transmission revenue in 2015 and 2014 was largely due to increased revenue from the CapX projects and higher transmission costs paid to others.

Other operating income of \$5 million in 2015 was significantly higher than the 2014 other operating income of less than \$1 million. The significant increase in other operating income compared to the prior year was due to the amortization of the reparations payment received from the BNSF Railway Company (BNSF) for rail overcharges resulting from a ruling from the Surface Transportation Board (STB). The payment was received in 2009 and has been classified as unearned revenue pending the outcome of BNSF appeals of the STB decision. In early 2015, the owners of LRS and BNSF reached an agreement to settle the outstanding appeals. The terms of the settlement agreement are confidential. The Board of Directors, in its role as regulator, approved amortizing the reparations payments over a four year period beginning in 2015.

Operating Expenses and Net Operating Income

Fuel expense for 2015 of \$17 million was 43 percent lower than in 2014 (\$29 million) and 16 percent higher in 2014 compared to 2013 (\$25 million). The 2015 generation at LRS was 1 million MWh compared to 2 million MWh in 2014 and 2013. The decreased generation in 2015 compared to 2014 and 2013 was due to an extended triennial scheduled maintenance outage on LRS Unit 1. The average fuel cost for LRS was 16

percent lower in 2015 than in 2014 and 14 percent higher in 2014 than in 2013. The generation at natural gas-fired Exira was 20,791 MWh, 5,097 MWh and 10,081 MWh in 2015, 2014 and 2013, respectively. The higher generation at Exira in 2015 was primarily due to replacing LRS generation during outages when it was more economical to run Exira than purchase energy from the market. Purchased power and other power supply operation and maintenance expense for 2015 of \$90 million was two percent lower than in 2014 (\$92 million) and 30 percent higher in 2014 than in 2013 (\$71 million). The decrease in 2015 purchased power expense in 2015 was due to the higher purchases in 2014 to hedge the short-term power sales and lower 2015 market. The higher 2014 purchased power expense was due to increased prices paid for market purchases and purchases made to hedge the short-term power sales discussed above. All other operating expenses totaled \$53 million in 2015, \$49 million in 2014 and \$46 million in 2013. A majority of the increase in other operating expense in 2015 compared to 2014 was the increase in fixed operations and maintenance expense at LRS. Administrative and general expenses increased by 15 percent in 2015 compared to 2014. The increase is due to higher computer and outside services expenses. Transmission expenses remained stable in 2015 compared to 2014. Transmission expenses in 2014 increased by 4 percent compared to 2013.

Net operating income was \$44 million in 2015 compared to \$28 million and \$36 million in 2014 and 2013, respectively.

Non-operating Revenues and Expenses

For the year ended December 31, 2015, non-operating expenses exceeded non-operating revenues by \$22 million, compared to \$18 million and \$13 million in 2014 and 2013, respectively.

Investment income totaled \$2 million in 2015, \$1 million in 2014 and 2013. The increase in investment income in 2015 was due to the additional funds available to invest as a result of unexpended proceeds of the 2014 bond issue.

Interest expense was \$29 million, \$21 million and \$14 million in 2015, 2014 and 2013, respectively. The higher interest expense for 2015 and 2014 compared to 2013 was due to the issuance of the 2014 Bonds. The amortization of financing related costs increased in 2015 compared to 2014 due to the issuance of the 2015 Bonds and a full year of amortization of the 2014 Bonds. The five year amortization of reserves previously collected and cost of cancelled power supply and transmission projects started in 2011 and was completed in 2015. Debt principal requirements exceeded depreciation and amortization expense by \$5 million, \$8 million and \$7 million in 2015, 2014 and 2013, respectively. The difference between debt principal requirements and depreciation and amortization and the deferral of unrealized gain or loss on investments reflects MRES and WMMPA utilizing the accrual basis of accounting and follows the provisions of Government Accounting Standards Board (GASB) No. 62 *Regulated Operations*, which conforms to Accounting Standards Codification No. 980, Accounting for the Effects of Certain Types of Regulation. In general, GASB 62 relates to the deferral of revenues and expenses to or from future periods to the period that revenues are expected to be earned or expenses are expected to be recovered through the rates charged to its members.

Other income totaled \$7 million in 2015 and 2014 and \$5 million in 2013. The majority of the reason that other income increased in 2015 and 2014 compared to 2013 was due to revenue from LRS for being a host for refined coal project that qualifies for federal tax credits.

This financial report is designed to provide members, investors and creditors with a general overview of the finances of MRES and WMMPA. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to: Missouri River Energy Services, 3724 West Avera Drive, Sioux Falls, SD 57108-5750.

Missouri Basin Municipal Power Agency d.b.a. Missouri River Energy Services

Western Minnesota Municipal Power Agency

Combined Statement of Net Position

	<u>December 31</u>	
	<u>2015</u>	<u>2014</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:		
Current Assets:		
Cash and cash equivalents (Note 5):		
Restricted	\$ 46,631,592	\$ 58,061,783
Unrestricted	<u>10,136,478</u>	<u>7,791,920</u>
Total cash and cash equivalents	<u>56,768,070</u>	<u>65,853,703</u>
Short-term investments (Note 5):		
Restricted	116,194,102	131,287,054
Unrestricted	<u>47,430,437</u>	<u>23,220,298</u>
Total short-term investments	<u>163,624,539</u>	<u>154,507,352</u>
Accounts receivable	21,691,777	21,254,946
Advances to Missouri Basin Power Project (MBPP) (Note 6)	3,697,982	2,666,393
Fuel stock	5,360,897	4,881,216
Materials and supplies	4,246,140	4,363,061
Other current assets	<u>2,273,450</u>	<u>4,306,992</u>
Total Current Assets	<u>257,662,855</u>	<u>257,833,663</u>
Non-Current Assets:		
Long-term investments (Note 5):		
Restricted	123,469,191	195,636,217
Unrestricted	<u>53,345,248</u>	<u>70,132,924</u>
Total long-term investments	<u>176,814,439</u>	<u>265,769,141</u>
Capital assets (Note 7):		
Utility plant in service	491,505,167	461,653,010
Less-accumulated depreciation	<u>(235,823,076)</u>	<u>(231,322,411)</u>
Net utility plant in service	255,682,091	230,330,599
Construction work in progress	<u>192,405,745</u>	<u>145,310,957</u>
Net capital assets	448,087,836	375,641,556
Advances for mine development (Note 6)	1,098,110	740,437
Unamortized debt expense - regulatory asset	3,927,471	4,296,177
Other non-current assets	<u>927,128</u>	<u>2,862,401</u>
TOTAL ASSETS	<u>888,517,839</u>	<u>907,143,375</u>
Deferred Outflows of Resources:		
Unamortized loss on reacquired debt	<u>1,271,249</u>	<u>370,402</u>
Total Deferred Outflows of Resources	<u>1,271,249</u>	<u>370,402</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 889,789,088</u>	<u>\$ 907,513,777</u>

The accompanying notes to the combined financial statements are an integral part of these statements.

**Missouri Basin Municipal Power Agency d.b.a. Missouri River Energy Services
Western Minnesota Municipal Power Agency
Combined Statement of Net Position**

	<u>December 31</u>	
	<u>2015</u>	<u>2014</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION:		
Current Liabilities:		
Accounts payable - unrestricted	\$ 11,505,333	\$ 19,518,996
Accrued taxes	3,250,118	1,315,472
Current liabilities payable from restricted assets:		
Accounts payable - restricted	27,084,528	37,967,284
Current maturities of revenue bonds (Note 8)	11,795,000	14,865,000
Accrued interest	<u>14,356,425</u>	<u>13,894,559</u>
Total Current Liabilities	<u>67,991,404</u>	<u>87,561,311</u>
Non-Current Liabilities:		
Revenue bonds (Note 8):		
Revenue bonds, excluding current maturities (Note 8)	599,220,729	614,004,659
Revenues collected for future costs - regulatory liability	36,698,518	37,167,203
Other non-current liabilities	<u>897,644</u>	<u>732,977</u>
Total Non-Current Liabilities	<u>636,816,891</u>	<u>651,904,839</u>
Total Liabilities	<u>704,808,295</u>	<u>739,466,150</u>
Deferred Inflows of Resources:		
Unearned revenue (Note 11)	<u>14,605,810</u>	<u>19,474,414</u>
Total Deferred Inflows of Resources	<u>14,605,810</u>	<u>19,474,414</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>\$ 719,414,105</u>	<u>\$ 758,940,564</u>
Net Position:		
Net investment in capital assets	(144,586,427)	(235,418,777)
Restricted:		
Debt service	53,668,358	56,131,628
Capital additions	184,092,789	267,860,349
Other	<u>7,092,785</u>	<u>9,131,234</u>
Total Restricted	244,853,932	333,123,211
Unrestricted	<u>70,107,478</u>	<u>50,868,779</u>
Total Net Position	<u>170,374,983</u>	<u>148,573,213</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 889,789,088</u>	<u>\$ 907,513,777</u>

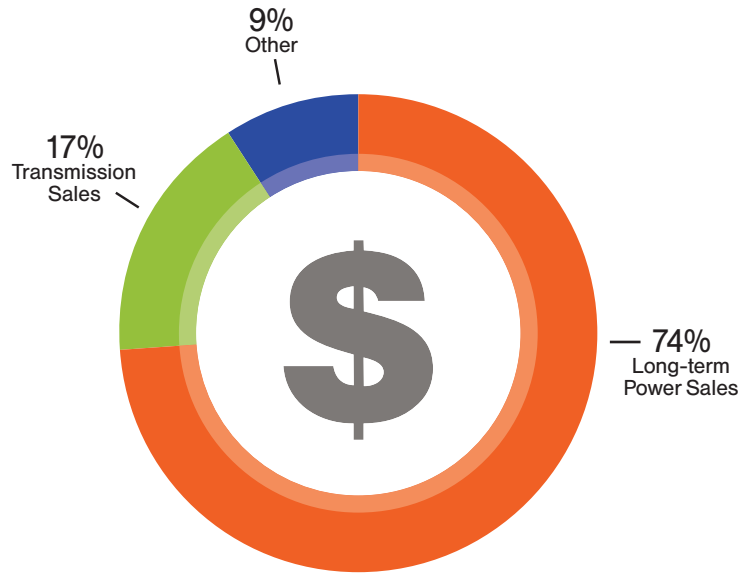
The accompanying notes to the combined financial statements are an integral part of these statements.

Missouri Basin Municipal Power Agency d.b.a. Missouri River Energy Services
Western Minnesota Municipal Power Agency
Combined Statement of Revenues, Expenses and Changes in Net Position

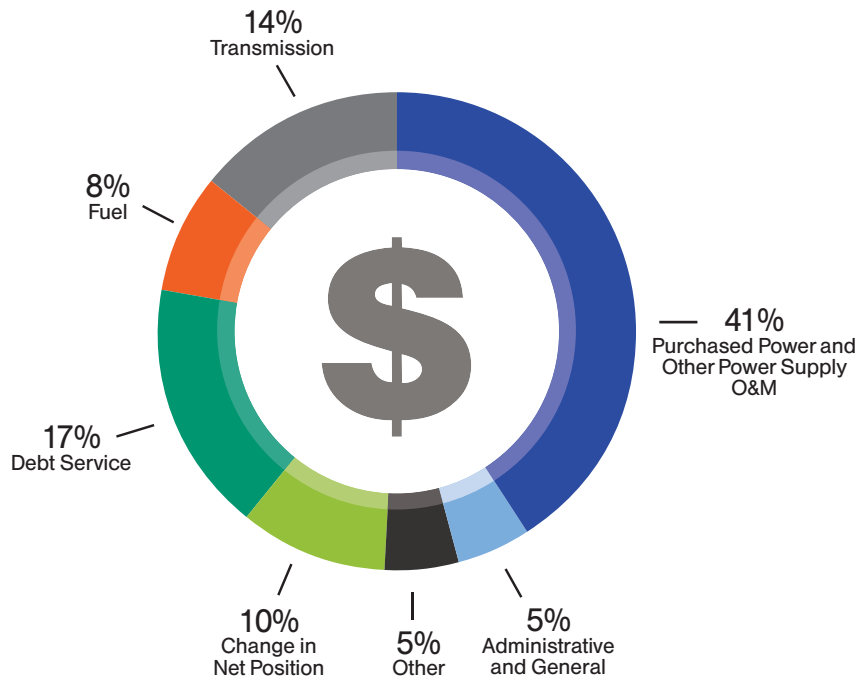
	<u>Years Ended December 31</u>	
	<u>2015</u>	<u>2014</u>
Operating Revenues (Notes 3 and 9):		
Long-term power sales	\$ 161,818,269	\$ 155,251,386
Short-term power sales	486,435	11,324,907
Transmission services	36,824,342	31,568,499
Other operating income	<u>4,974,114</u>	<u>197,924</u>
Total Operating Revenues	<u>204,103,160</u>	<u>198,342,716</u>
Operating Expenses:		
Fuel	16,471,049	28,811,619
Purchased power and other power supply operation and maintenance	90,286,191	92,236,552
Depreciation and amortization	8,431,839	7,338,975
Transmission operation and maintenance	29,858,424	29,853,093
Customer information and collections	213,958	154,149
Administrative and general	11,417,608	9,955,346
Property taxes	<u>3,600,419</u>	<u>1,651,366</u>
Total Operating Expenses	<u>160,279,488</u>	<u>170,001,100</u>
Operating Income	<u>43,823,672</u>	<u>28,341,616</u>
Non-Operating Revenues (Expenses):		
Investment income	2,379,280	1,133,402
Other income	6,834,440	7,196,238
Other expense	(3,425,064)	(2,733,300)
Interest expense	(29,123,032)	(20,667,363)
Amortization of financing related costs, premium and discount	3,302,433	1,534,259
Amortization of reserves previously collected	5,065,269	5,065,269
Amortization of canceled power supply and transmission project	(1,953,874)	(1,953,874)
Unrealized gain (loss) on investments	(504,771)	25,854
Net costs recoverable in (for) future years:		
Principal in excess of depreciation and amortization	(5,101,354)	(7,468,220)
Other costs recoverable in (for) future years	<u>504,771</u>	<u>(25,854)</u>
Total Non-Operating Expenses	<u>(22,021,902)</u>	<u>(17,893,589)</u>
Change in Net Position	21,801,770	10,448,027
Net Position:		
Beginning of year	<u>148,573,213</u>	<u>138,125,186</u>
End of year	<u>\$ 170,374,983</u>	<u>\$ 148,573,213</u>

The accompanying notes to the combined financial statements are an integral part of these statements.

2015 SOURCES OF REVENUE



2015 USES OF REVENUE



Missouri Basin Municipal Power Agency d.b.a. Missouri River Energy Services Western Minnesota Municipal Power Agency Combined Statement of Cash Flow

	<u>Years Ended December 31</u>	
	<u>2015</u>	<u>2014</u>
Cash Flows From (Used For) Operating Activities:		
Received from members and others	\$ 210,500,769	\$ 205,491,872
Paid to suppliers for goods and services	(159,301,761)	(153,396,875)
Paid to employees for operating payroll	<u>(8,342,475)</u>	<u>(7,750,038)</u>
Net Cash Flows From Operating Activities	<u>42,856,533</u>	<u>44,344,959</u>
Cash Flows From (Used For) Capital and Related Financing Activities:		
Net additions to utility plant	(89,236,353)	(95,540,411)
Net proceeds from issuance of revenue bonds	39,607,003	392,224,619
Bond issuance costs	(494,533)	(2,190,000)
Bonds defeased	(36,955,000)	—
Deposits to escrow account in excess of bonds defeased	(2,376,108)	—
Net proceeds from short-term debt	—	34,940,000
Payment on short-term debt	—	(40,000,000)
Net refunds (payments) from development of capital projects	(18,599)	(237,622)
Advances for mine development	(686,666)	(781,015)
Mine development repayments	152,767	34,314
Revenue bond payments	(14,865,000)	(14,165,000)
Interest paid on revenue bonds	(28,661,166)	(13,335,485)
Other	<u>1,599</u>	<u>2,657</u>
Net Cash Flows Used For Capital and Related Financing Activities	<u>(133,532,056)</u>	<u>260,952,057</u>
Cash Flows From (Used For) Investing Activities:		
Proceeds from maturity and sale of investment securities	214,747,721	130,979,871
Purchase of investment securities	(135,414,976)	(432,192,897)
Investment income received	<u>2,257,145</u>	<u>776,226</u>
Net Cash Flows From (Used For) Investing Activities	<u>81,589,890</u>	<u>(300,436,800)</u>
Net Change in Cash and Cash Equivalents	<u>(9,085,633)</u>	<u>4,860,216</u>
Cash and Cash Equivalents, Beginning of Year	<u>65,853,703</u>	<u>60,993,487</u>
Cash and Cash Equivalents, End of Year	<u>\$ 56,768,070</u>	<u>\$ 65,853,703</u>

The accompanying notes to the combined financial statements are an integral part of these statements.

**Missouri Basin Municipal Power Agency d.b.a. Missouri River Energy Services
Western Minnesota Municipal Power Agency
Combined Statement of Cash Flow (continued)**

	<u>Years Ended December 31</u>	
	<u>2015</u>	<u>2014</u>
Reconciliation of Operating Income to Net Cash Flows From Operating Activities:		
Operating income	\$ 43,823,672	\$ 28,341,616
Adjustments to reconcile operating income to net cash flows from operating activities:		
Depreciation and amortization	8,431,839	7,338,975
Amortization of proceeds previously received from Surface Transportation Board decision	(4,868,604)	—
Member assessments and miscellaneous income	6,834,440	7,196,238
Other expenses	(3,425,064)	(2,640,252)
Changes in assets and liabilities:		
Accounts receivable	(436,831)	(150,233)
Advances to MBPP	(1,031,589)	723,807
Fuel stock	(479,681)	(677,585)
Materials and supplies	116,921	43,869
Other current assets	2,331,902	1,074,271
Accounts payable and other non-current liabilities	(10,375,118)	3,027,222
Accrued taxes	1,934,646	(36,120)
Unearned revenue	—	<u>103,151</u>
Net Cash Flow From Operating Activities	<u>\$ 42,856,533</u>	<u>\$ 44,344,959</u>
Reconciliation of Cash and Cash Equivalents to Statement of Net Position:		
Restricted - Cash and Cash Equivalents	\$ 46,631,592	\$ 58,061,783
Unrestricted - Cash and Cash Equivalents	10,136,478	7,791,920
Restricted - Short-term Investments	116,194,102	131,287,054
Unrestricted - Short-term Investments	47,430,437	23,220,298
Restricted - Long-term Investments	123,469,191	195,636,217
Unrestricted - Long-term Investments	<u>53,345,248</u>	<u>70,132,924</u>
Total Cash and Investments	<u>397,207,048</u>	<u>486,130,196</u>
Less: Noncash Equivalents	<u>(340,438,978)</u>	<u>(420,276,493)</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 56,768,070</u>	<u>\$ 65,853,703</u>

The accompanying notes to the combined financial statements are an integral part of these statements.

Missouri Basin Municipal Power Agency d.b.a. Missouri River Energy Services

Western Minnesota Municipal Power Agency

Notes to Combined Financial Statements

1. ORGANIZATION

Missouri Basin Municipal Power Agency d.b.a. Missouri River Energy Services (MRES) is a body corporate and politic, organized under the laws of the State of Iowa. Membership consists of 60 municipalities in the states of Iowa, Minnesota, North Dakota and South Dakota that own and operate utilities for the local distribution of electricity. Western Minnesota Municipal Power Agency (WMMPA) is a municipal corporation and political subdivision of the State of Minnesota. The WMMPA membership consists of 23 municipalities in the state of Minnesota. All WMMPA members are also members of MRES. WMMPA owns (1) a 16.47 percent undivided interest in the Missouri Basin Power Project (MBPP), a 1,710 megawatt (MW) coal-fired generating facility; (2) the Exira Station (Exira), a 140 MW natural gas-fired generating facility; (3) the Watertown Power Plant (WPP), a 60 MW oil-fired generating plant; (4) the Worthington Wind Project, four wind turbines with a total capacity of 3.7 MW; (5) the Red Rock Hydroelectric Project (RRHP), a 36.4 MW hydroelectric generating facility currently under construction; (6) a headquarters building and (7) varying ownership interests in transmission facilities. Pursuant to a power supply contract, MRES has purchased the WMMPA entitlement in its generation and transmission facilities and MRES has, in turn, sold the output and capacity of these facilities to certain members under terms of separate Long-term Power Sale Agreements and Transmission Service Agreements (Notes 3 and 4). MRES and WMMPA are not rate-regulated by any federal or state authority, or subject to federal or state income taxes. MRES performs all requested administrative services on behalf of WMMPA, which has no employees of its own, under an administrative services agreement that is in effect until 2046 and may be terminated thereafter by either party upon two years written notice. The financial statements of MRES and WMMPA have been combined to reflect the contractual and economic relationship between the two organizations (Note 4).

2. SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Method

The combined financial statements of MRES and WMMPA are presented in conformity with generally accepted accounting principles and accounting records are maintained in accordance with the Uniform System of Accounts for Public Utilities and Licensees prescribed by the Federal Energy Regulatory Commission (FERC). All material intercompany balances and transactions between MRES and WMMPA have been eliminated from the combined statements.

In reporting financial activity, MRES and WMMPA apply the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), except for those that conflict with or contradict Government Accounting Standards Board (GASB) pronouncements.

MRES and WMMPA use the accrual basis of accounting and follow the provisions of GASB No. 62 - Regulated Operations (GASB 62), which conforms to ASC No. 980 - Accounting for the Effects of Certain Types of Regulation. In general, GASB 62 relates to the deferral of revenues and expenses to or from future periods to the period that revenues are expected to be earned or expenses that are expected to be recovered through the rates charged to its members.

Net Position is classified into three components:

- *Net investment in capital assets* – This component consists of net capital assets reduced by the outstanding balances of revenue bonds attributable to the acquisition, construction or improvement of capital assets. Unspent debt proceeds at year end are classified as restricted and are not included in this component.
- *Restricted* – This component of net position consists of constraints imposed by the WMMPA Power Supply Revenue Bond Resolution (Bond Resolution).
- *Unrestricted* – This component consists of the portion of the net position of MRES and WMMPA that does not meet the definition of "restricted" or "net investments in capital assets."

When both restricted and unrestricted resources are available for use, it is the policy of MRES and WMMPA to use restricted resources first, then unrestricted resources as they are needed.

B. Revenue Recognition

Revenue is accrued through the end of each month.

C. Operating Revenues and Expenses

MRES and WMMPA distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from generating, purchasing and delivering electric power and energy. The principal operating revenues of MRES are revenues from members and others for the generation, purchase and delivery of electric power and energy. Operating expenses for MRES and WMMPA include the cost of generating, purchasing and delivering electric power and energy, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The other non-operating revenues are primarily related to income from providing distribution maintenance services for four of the MRES member communities and one associate, income received from the United States (U.S.) Treasury for the Build America Bonds and revenue from hosting a refined coal project at Laramie River Station (LRS) that qualifies for a federal tax credit. A majority of the non-operating expenses are related to providing distribution maintenance services for four of MRES's member communities and one associate.

Missouri Basin Municipal Power Agency d.b.a. Missouri River Energy Services

Western Minnesota Municipal Power Agency

Notes to Combined Financial Statements

D. Utility Plant

Utility plant is stated at cost. MRES and WMMPA capitalize assets with a cost in excess of \$1,000 and life of more than one year, with the exception of MBPP assets, which are capitalized in excess of \$10,000. Interest during construction is recorded in accordance with ASC Section 835 *Capitalization of Interest*. MRES and WMMPA accrue interest during construction if the construction period is expected to exceed 12 months. Interest during construction is not accrued on transmission assets that FERC has approved including Construction Work in Progress in rate base or if the MRES Board has approved collecting interest during construction through current rates. The cost of utility plant retired, plus the cost of removal, less salvage, is charged to accumulated depreciation. Repairs and maintenance of units of property are charged to operations. MRES and WMMPA use the provisions of ASC Section 410 *Asset Retirement and Environmental Obligations*, formerly known as Statement of FASB issued Statement No. 143, "Accounting for Asset Retirement Obligations," which establishes accounting standards for the recognition and measurement of a liability for legal obligations associated with the retirement of long-lived assets.

E. Depreciation

WMMPA and MRES utilize straight line depreciation for all depreciable assets. The estimated service lives for capital assets are 25 to 52 years for generation plant, 40 to 60 years for transmission plant, 52 years for intangible plant and 5 to 50 years for general plant. Depreciation expense, expressed as a percent of depreciable utility plant in service, was 1.8 percent and 1.7 percent for 2015 and 2014, respectively.

F. Inventories

Fuel stock inventory, materials and supplies are stated at weighted average cost.

G. Investments

Investment securities are stated at market value based on quoted market prices. Gains or losses on the sale of investment securities are recognized using the specific identification method.

H. Restricted Assets

Restricted assets consist of cash and investments required to be maintained or restricted by the Bond Resolution. Current liabilities payable from these restricted assets are also classified as restricted. WMMPA is in compliance with all Bond Resolution funding requirements.

I. Amortization

Under GASB 65, *Items Previously Reported as Assets and Liabilities*, bond issuance costs are to be expensed in the period incurred. However, MRES unamortized debt issuance costs and premium are amortized over the term of the bonds for rate-making purposes. A regulatory asset is established under GASB 62 to recognize unamortized bond issuance costs. Additionally, gains and losses resulting from the defeasance or early redemption of bonds are recorded as deferred outflow and amortized over the term of the new debt as allowed through the application of the provisions of GASB 65. WMMPA amortizes these amounts based on the straight-line method, which approximates the effective interest rate method.

J. Compensated Absences

Employees are granted and accrue paid time off in varying amounts in accordance with the MRES Personnel Policies. Only compensated absences considered to be vested are accrued in these statements.

K. Revenues Collected for Future Costs

This liability established pursuant to GASB 62 includes (1) the difference between debt principal collected in rates and depreciation expense; (2) the unamortized balance of funds collected for renewal and replacement of the utility plant and significant unplanned replacement power costs; (3) unrealized gain or loss on investments and (4) amortization of debt.

L. Statements of Cash Flows

All highly liquid investments with a remaining maturity of three months or less at the date of purchase are considered cash equivalents.

M. Use of Estimates

Management has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues and expenses to prepare these combined financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from the estimates. MRES participates in the Midcontinent Independent System Operator, Inc. (MISO) and the Southwest Power Pool (SPP) energy markets. MISO and SPP may true-up revenues and expenses from prior years. MRES accrues revenue and expenses that are known at the time of closing but since there is such a long window for true-ups, actual results may differ from estimates.

N. Deferred Outflow and Inflow of Resources

MRES and WMMPA follows GASB 65, *Items Previously Reported as Assets and Liabilities*, which reclassify as deferred outflows of resources or deferred inflows of resources or recognize outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Missouri Basin Municipal Power Agency d.b.a. Missouri River Energy Services Western Minnesota Municipal Power Agency Notes to Combined Financial Statements

O. Subsequent Events

MRES and WMMPA considered events for recognition or disclosure in the financial statements that occurred subsequent to December 31, 2015, through April 6, 2016, the date the financial statements were available for issuance. Management is not aware of a material subsequent event.

P. Recently Issued Accounting Pronouncements

GASB has issued Statement No. 72, Fair Value Measurement and Application and Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. Application of these recently issued accounting pronouncements, when effective, may restate portions of these financial statements.

Q. Reclassifications

Certain amounts in the prior year's financial statements have been reclassified to conform to current year presentation.

3. SALE AGREEMENTS

A. Power Sale Agreements

MRES and WMMPA have Long-term Power Sale Agreements with 60 members (Power Supply Members). Fifty-seven of the members (S-1 Members) have executed S-1 Power Sale Agreements (S-1 Agreements), and three members have executed Non S-1 Power Sales Agreements. The S-1 Agreements for 56 of the S-1 Members require MRES to provide and obligate the S-1 Member to purchase, all energy and capacity required by the S-1 Member in excess of the electric power and energy made available to each S-1 Member from the Western Area Power Administration (WAPA). The S-1 Agreement for the other S-1 Member requires MRES to provide and obligates the S-1 Member to purchase all energy and capacity required in excess of the electric power and energy made available from WAPA and another power supplier through June 30, 2016, and all requirements in excess of power and energy provided by WAPA after June 30, 2016. The S-1 Agreements expire on January 1, 2046. S-1 Members have an option, exercisable every five years, to cap purchases from MRES at the level of service provided by MRES two years following the exercise of the option. None of the S-1 Members have elected to cap their purchases from MRES. The next option date for capping purchases from MRES is 2017.

In December 2015, MRES and WMMPA offered amended and restated S-1 Agreements to all S-1 Members. These amended and restated S-1 Agreements would be effective January 2, 2017, and expire January 1, 2057. The MRES and WMMPA Boards are expected to approve these amended and restated S-1 Agreements extensions in June 2016.

The sale of power and energy under two of the Non S-1 Agreements during 2015 and 2014 was based on a 100 percent load factor, i.e., the same level of power and energy every hour. MRES provides 100 percent of the demand and energy requirements under the other Non S-1 Power Sale Agreement. Two of the Non S-1 Power Sales Agreements expire January 1, 2046, and the other January 1, 2030. An amended and restated Non S-1 Agreement has been offered to the MRES member that purchases 100 percent of the demand and energy requirements from MRES on terms similar to the amended and restated S-1 Agreements. Amended agreements have not been offered to the two members that purchase power and energy on a 100 percent load factor.

Sales revenue associated with all Long-term Power Sale Agreements is classified in the accompanying statements as "Long-term power sales." Under terms of the Long-term Power Sale Agreements, MRES is required to establish and maintain rates that will provide sufficient revenues to cover the payments under the Power Supply Contract. MRES has contracted to collect payments for WAPA power and energy purchased by the S-1 Members and remits these payments to WAPA. Since MRES is only acting as agent for the S-1 Members, these amounts are not reflected as revenue or expense in the Combined Statements of Revenues, Expenses and Changes in Net Position. The WAPA power and energy purchased by the S-1 Members that MRES was responsible for collecting and remitting to WAPA totaled approximately \$60,374,000 and \$60,394,000 for the 12 months ended December 31, 2015, and December 31, 2014, respectively.

The revenue requirements of the Long-term Power Sale Agreements include expenses for use of certain transmission facilities. During the first nine months of 2015, these expenses consisted of the charge levied by WAPA for use of the facilities of WAPA, WMMPA and three other utilities. For the remainder of 2015, these expenses consisted of the charge levied by Southwest Power Pool (SPP) for use of facilities owned by WAPA, WMMPA and several other utilities. The expenses incurred by MRES for use of these transmission facilities approximated \$10,972,000 and \$12,613,000 in 2015 and 2014, respectively. The reduction in expenses in 2015 compared to 2014 was due to not requesting transmission service over the SPP facilities for MRES members located in MISO effective October 1, 2015.

In addition to sales under the Long-term Power Sale Agreements, MRES has arrangements to sell wholesale power and energy to other customers, MISO or SPP on short-term firm and non-firm bases. Revenues associated with these sales are classified in the accompanying statements as "Short-term power sales."

**Missouri Basin Municipal Power Agency d.b.a. Missouri River Energy Services
Western Minnesota Municipal Power Agency
Notes to Combined Financial Statements**

B. Transmission Service Agreements

WMMPA and MRES have a Transmission Service Agreement with 12 Transmission Customers. An additional 11 Transmission Customers have Transmission Service Agreements solely with MRES. The expiration of the Transmission Service Agreements varies between January 1, 2016, and January 1, 2021. The Transmission Service Agreements automatically renew upon expiration until terminated by either MRES or the Transmission Customer(s). The revenues collected pursuant to the Transmission Service Agreements between WMMPA, MRES and 12 Transmission Customers are available for payments under the Power Supply Contract until January 1, 2016, and are not available for payments under the Power Supply Contract after that date. If the amended and restated S-1 and Non S-1 Agreements discussed in Note 4A are approved by the members, MRES and WMMPA, all Transmission Service Agreements would be terminated, and the revenues currently collected under these agreements would be collected under the amended and restated S-1 and Non S-1 Agreements. Also, revenues would be pledged under the Power Supply Contract. MRES provides transmission service for all electric power and energy requirements of the Transmission Customers. The Transmission Customers are committed to take and pay for all transmission service made available to them. Further, MRES is required to establish and maintain rates sufficient to meet the revenue requirements of furnishing transmission service.

4. SUPPLY CONTRACTS

A. Power Supply Contract

Under the Power Supply Contract, WMMPA is obligated to sell to MRES, and MRES is obligated to buy from WMMPA, on a take-and-pay basis, entitlement in the generation, transmission and general plant facilities owned by WMMPA and all replacement power and energy required by the Power Supply Members. These members must take and pay for all electric power and energy made available under these agreements (Note 3A).

B. Purchase Power Agreements

MRES has twenty-year Purchase Power Agreements (PPA) with various third parties to receive the output of approximately 79 MW of wind generation and 33 MW of nuclear generation. The wind generation PPAs expire between 2024 and 2029, and the nuclear generation PPA expires in 2033.

5. INVESTMENTS

The investments for MRES and WMMPA are in accordance with the Bond Resolution; the Assignment and Pledge Agreement among MRES, WMMPA and the Agent Bank; the MRES Investment Policy; the WMMPA Investment Policy (which conforms to the Bond Resolution) and applicable state law. These documents allow investment in securities issued by the United States Government, its agencies and instrumentalities, certain state and local government securities, specified corporate obligations and certain bank instruments.

CUSTODIAL CREDIT RISK

Deposits

Deposit custodial credit risk is the risk that in the event of a financial institution failure, the entity's deposits may not be returned to MRES or WMMPA. Deposits in each bank were insured by the Federal Deposit Insurance Corporation (FDIC) in the aggregate amount of \$250,000 for interest-bearing and noninterest-bearing accounts in 2015 and 2014. State law and MRES and WMMPA Investment Policies require collateralization of all deposits above the FDIC limit. At December 31, 2015 and 2014, MRES and WMMPA deposits were entirely insured or collateralized. MRES also holds a collateral account with MISO which totaled \$500,000 and \$125,000 at December 31, 2015 and December 31, 2014, respectively.

Investments

Investment custodial credit risk is the risk that in the event of the failure of the counterparty, MRES and WMMPA will not be able to recover the value of their investment or collateral securities that are in the possession of an outside party. WMMPA investments are held by Wells Fargo Bank, National Association, as a Trustee for WMMPA. MRES investments are held in the book entry system of the Federal Reserve Bank of Minneapolis in the name of the MRES custodian, First Premier Bank. MRES is identified as the owner of these investments in the records of First Premier Bank.

MRES and WMMPA funds at December 31, 2015 and 2014, are summarized as follows:

	2015		2014	
	<u>Amortized Cost</u>	<u>Estimated Market Value</u>	<u>Amortized Cost</u>	<u>Estimated Market Value</u>
Cash and Cash Equivalents:	\$ 56,768,070	\$ 56,768,070	\$ 65,853,703	\$ 65,853,703
Investment Securities:				
Securities issued by U.S. Government	154,928,425	154,807,601	155,463,778	155,549,975
Securities issued by U.S. Government Agencies and Instrumentalities	173,273,916	172,866,251	208,862,537	208,757,166
Commercial Paper	<u>12,765,282</u>	<u>12,765,126</u>	<u>55,974,052</u>	<u>55,969,352</u>
Total Funds	<u>\$ 397,735,693</u>	<u>\$ 397,207,048</u>	<u>\$ 486,154,070</u>	<u>\$ 486,130,196</u>

Missouri Basin Municipal Power Agency d.b.a. Missouri River Energy Services Western Minnesota Municipal Power Agency Notes to Combined Financial Statements

Investments are stated at estimated market value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Estimated market values are based on quoted market prices. The amortized cost and estimated market value of cash and cash equivalents and debt securities, by contractual maturity, are shown below. Expected maturities will differ from the contractual maturity, because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Investment values may have changed significantly after year end.

CREDIT RISK

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The securities issued by the U.S. Government, its Agencies and Instrumentalities had AA+ ratings from Standard & Poor's and/or AAA ratings from Fitch Ratings and/or Aaa ratings from Moody's Investors Service (Moody's). The commercial paper had short term ratings of A-1+ from Standard & Poor's and P-1 from Moody's. The money market mutual funds had ratings of AAAM from Standard & Poor's and Aaa -mf ratings from Moody's. The MRES and WMMPA Investment Policies limit investments to certain issuers, types of institutions and ratings, of which all outstanding investments are in compliance.

CONCENTRATIONS OF CREDIT RISK

Concentration of credit risk is the risk of loss attributed to the magnitude of the investment in a single issuer by MRES or WMMPA. Investments held with issuers, excluding the U.S. Government, each totaling five percent or more of the total portfolio, were concentrated as follows:

<u>Issuer</u>	<u>% of Portfolio at December 31</u>	
	<u>2015</u>	<u>2014</u>
Federal Home Loan Mortgage Corporation	18%	11%
Federal Home Loan Bank	10%	16%
Federal National Mortgage Association	14%	14%

The MRES and WMMPA Investment Policies do not limit the amount of the portfolio that can be invested in securities issued by the U.S. Government or agencies of the U.S. Government. The MRES Investment Policy and state law restrict investments of commercial paper and prime bankers' acceptances by the amount of portfolio as well as by the amount of a single issuer. Both the MRES and WMMPA Investment Policies address diversification of investments to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, issuer or class of security.

INTEREST RATE RISK

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

At December 31, 2015, the MRES and WMMPA investments were as follows:

<u>Investment Type</u>	<u>Estimated Market Value</u>	<u>Maturity (Years)</u>		
		<u>Less than One</u>	<u>One through Five</u>	<u>Greater than Five</u>
Cash and Cash Equivalents	\$ 56,768,070	\$ 56,768,070	\$ —	\$ —
Securities issued by U.S. Government	154,807,601	93,920,021	60,887,580	—
Securities issued by U.S. Government Agencies and Instrumentalities	172,866,251	56,959,982	115,906,269	—
Commercial Paper	<u>12,765,126</u>	<u>12,744,536</u>	<u>20,590</u>	<u>—</u>
Total	<u>\$ 397,207,048</u>	<u>\$ 220,392,609</u>	<u>\$ 176,814,439</u>	<u>\$ —</u>

At December 31, 2014, the MRES and WMMPA investments were as follows:

<u>Investment Type</u>	<u>Estimated Market Value</u>	<u>Maturity (Years)</u>		
		<u>Less than One</u>	<u>One through Five</u>	<u>Greater than Five</u>
Cash and Cash Equivalents	\$ 65,853,703	\$ 65,853,703	\$ —	\$ —
Securities issued by U.S. Government	155,549,975	37,032,488	118,517,487	—
Securities issued by U.S. Government Agencies and Instrumentalities	208,757,166	61,505,512	147,251,654	—
Commercial Paper	<u>55,969,352</u>	<u>55,969,352</u>	<u>—</u>	<u>—</u>
Total	<u>\$ 486,130,196</u>	<u>\$ 220,361,055</u>	<u>\$ 265,769,141</u>	<u>\$ —</u>

**Missouri Basin Municipal Power Agency d.b.a. Missouri River Energy Services
Western Minnesota Municipal Power Agency
Notes to Combined Financial Statements**

The maximum maturity under the MRES Investment Policy for operating funds is 397 days. All other MRES funds may have longer maturities consistent with liquidity needs. The maximum maturity under the WMMPA Investment Policy for operating funds is twelve months. All other WMMPA funds have varying maturity limits depending on the anticipated need to make payments from the various funds.

6. MISSOURI BASIN POWER PROJECT

A. Utility Plant

WMMPA has a 16.47 percent undivided ownership in MBPP that includes the LRS, which consists of three 570 MW coal-fired steam electric generating units, associated transmission facilities, intangible plant and the Grayrocks Dam and Reservoir.

B. Coal Supply Contracts

MBPP has an agreement with Western Fuels Association, Inc. (Western Fuels) to purchase sub-bituminous coal for LRS through the year 2034. The price of this coal is fixed at an amount that will produce revenues sufficient, together with all other Western Fuels' revenues, to cover the costs of producing or acquiring and delivering the coal. MBPP is obligated to pay for a minimum amount of coal each year. The average prices of MBPP coal purchases were approximately \$18.65 and \$20.10 per ton in 2015 and 2014, respectively. MBPP purchased approximately 6.4 million tons of coal during both 2015 and 2014. Minimum coal purchase requirements over the next five years of the contracts for all MBPP participants are as follows:

	<u>Tons</u>
2016 . . .	7,157,902
2017 . . .	5,700,000
2018 . . .	2,700,000
2019 . . .	2,700,000
2020 . . .	2,700,000

Western Fuels entered into various agreements that provide for development and ownership of the Dry Fork Mine. In connection with the development and acquisition of the Dry Fork Mine, the MBPP participants provided financing to Western Fuels. At December 31, 2015 and 2014, the balance of advances owed to WMMPA approximated \$1.4 million and \$1.0 million, respectively. These advances are expected to be fully repaid in 2021.

C. Operating Expenses

Costs of MBPP are allocated to WMMPA based on its 16.47 percent undivided ownership interest, except for energy-related costs and refined coal credit revenues that are allocated based on scheduled generation and adjusted for the relative effects of the LRS heat rate and plant efficiency at the time generation is scheduled. Such costs are included in operating expenses in the Combined Statements of Revenues, Expenses and Changes in Net Position.

D. Advances to MBPP

At December 31, 2015 and 2014, WMMPA advances to the MBPP operating agent, for working capital purposes, totaled approximately \$3.7 million and \$2.7 million, respectively.

7. UTILITY PLANT

Utility plant at December 31, 2015 and 2014 consisted of:

	2015			2014		
	<u>Gross Plant</u>	<u>Accumulated Depreciation</u>	<u>Net Plant</u>	<u>Gross Plant</u>	<u>Accumulated Depreciation</u>	<u>Net Plant</u>
Generation	\$298,527,337	\$180,432,410	\$118,094,927	\$299,330,006	\$179,626,955	\$119,703,051
Transmission	167,893,474	38,998,999	128,894,475	138,230,232	36,088,845	102,141,387
General	15,810,605	8,614,191	7,196,414	14,819,021	7,921,874	6,897,147
Intangible	<u>9,273,751</u>	<u>7,777,476</u>	<u>1,496,275</u>	<u>9,273,751</u>	<u>7,684,737</u>	<u>1,589,014</u>
Utility Plant in Service	491,505,167	235,823,076	255,682,091	461,653,010	231,322,411	230,330,599
Construction Work in Progress	<u>192,405,745</u>	—	<u>192,405,745</u>	<u>145,310,957</u>	—	<u>145,310,957</u>
Total Utility Plant	<u>\$683,910,912</u>	<u>\$235,823,076</u>	<u>\$448,087,836</u>	<u>\$606,963,967</u>	<u>\$231,322,411</u>	<u>\$375,641,556</u>

Missouri Basin Municipal Power Agency d.b.a. Missouri River Energy Services
Western Minnesota Municipal Power Agency
Notes to Combined Financial Statements

Utility plant activity for the years ended December 31, 2015 and 2014, was:

	<u>January 1, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>December 31, 2015</u>
Non-depreciable Utility Plant:					
Land	\$ 2,387,140	\$ -	\$ -	\$ -	\$ 2,387,140
Construction Work in Progress	<u>145,310,957</u>	<u>80,345,902</u>	<u>-</u>	<u>(33,251,114)</u>	<u>192,405,745</u>
Total Non-depreciable Utility Plant	<u>147,698,097</u>	<u>80,345,902</u>	<u>-</u>	<u>(33,251,114)</u>	<u>194,792,885</u>
Depreciable Utility Plant:					
Depreciable Utility Plant in Service	459,265,870	533,818	(3,932,775)	33,251,114	489,118,027
Accumulated Depreciation	<u>(231,322,411)</u>	<u>(8,431,700)</u>	<u>3,931,035</u>	<u>-</u>	<u>(235,823,076)</u>
Net Depreciable Utility Plant in Service	<u>227,943,459</u>	<u>(7,897,882)</u>	<u>(1,740)</u>	<u>33,251,114</u>	<u>253,294,951</u>
Net Utility Plant	<u>\$ 375,641,556</u>	<u>\$ 72,448,020</u>	<u>(\$ 1,740)</u>	<u>\$ -</u>	<u>\$ 448,087,836</u>

	<u>January 1, 2014</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>December 31, 2014</u>
Non-depreciable Utility Plant:					
Land	\$ 2,387,140	\$ -	\$ -	\$ -	\$ 2,387,140
Construction Work in Progress	<u>98,260,137</u>	<u>120,453,901</u>	<u>-</u>	<u>(73,403,081)</u>	<u>145,310,957</u>
Total Non-depreciable Utility Plant	<u>100,647,277</u>	<u>120,453,901</u>	<u>-</u>	<u>(73,403,081)</u>	<u>147,698,097</u>
Depreciable Utility Plant:					
Depreciable Utility Plant in Service	386,447,031	223,166	(807,408)	73,403,081	459,265,870
Accumulated Depreciation	<u>(224,788,189)</u>	<u>(7,338,975)</u>	<u>804,753</u>	<u>-</u>	<u>(231,322,411)</u>
Net Depreciable Utility Plant in Service	<u>161,658,842</u>	<u>(7,115,809)</u>	<u>(2,655)</u>	<u>73,403,081</u>	<u>227,943,459</u>
Net Utility Plant	<u>\$ 262,306,119</u>	<u>\$ 113,338,092</u>	<u>(\$ 2,655)</u>	<u>\$ -</u>	<u>\$ 375,641,556</u>

8. FINANCING

Power Supply Revenue Bonds

The Power Supply Revenue Bonds (Power Supply Bonds) were issued to finance the ownership interest of WMMPA in generation, transmission and general plant facilities. Power Supply Bond activity for the years ended December 31, 2015 and 2014, was as follows:

	<u>January 1, 2015</u>	<u>Debt Issued</u>	<u>Debt Refunded</u>	<u>Payments or Amortization</u>	<u>December 31, 2015</u>	<u>Amount Due within One Year</u>
Power Supply Bonds	\$ 580,035,000	\$ 34,835,000	(\$ 36,955,000)	(\$ 14,865,000)	\$ 563,050,000	\$ 11,795,000
Unamortized Debt Premium	<u>48,834,659</u>	<u>4,772,003</u>	<u>(1,526,628)</u>	<u>(4,114,305)</u>	<u>47,965,729</u>	<u>-</u>
Power Supply Bonds, Net of Unamortized Premium	<u>\$ 628,869,659</u>	<u>\$ 39,607,003</u>	<u>(\$ 38,481,628)</u>	<u>(\$ 18,979,305)</u>	<u>\$ 611,015,729</u>	<u>\$ 11,795,000</u>

	<u>January 1, 2014</u>	<u>Debt Issued</u>	<u>Debt Refunded</u>	<u>Payments or Amortization</u>	<u>December 31, 2014</u>	<u>Amount Due within One Year</u>
Power Supply Bonds	\$ 248,005,000	\$ 386,195,000	\$ -	(\$ 54,165,000)	\$ 580,035,000	\$ 14,865,000
Unamortized Debt Premium	<u>10,287,457</u>	<u>40,969,619</u>	<u>-</u>	<u>(2,422,417)</u>	<u>48,834,659</u>	<u>-</u>
Power Supply Bonds, Net of Unamortized Premium	<u>\$ 258,292,457</u>	<u>\$ 427,164,619</u>	<u>\$ -</u>	<u>(\$ 56,587,417)</u>	<u>\$ 628,869,659</u>	<u>\$ 14,865,000</u>

Missouri Basin Municipal Power Agency d.b.a. Missouri River Energy Services
Western Minnesota Municipal Power Agency
Notes to Combined Financial Statements

The original issue amount and the outstanding amount of the Power Supply Bonds, net of unamortized debt discount and premium, at December 31, 2015 and 2014, are as follows:

	Original Issue Amount	Amount Outstanding	
		2015	2014
2003 Series B Bonds: 5.00% Serial Bonds due 2014-2015	\$ 29,030,000	\$ —	\$ 14,865,000
2006 Series A Bonds: Serial Bonds: 3.85%-5.00% due 2016 and 2017	12,890,000	12,890,000	12,890,000
2006 Series A Bonds: 5.00% Term Bonds with annual sinking fund requirements beginning in 2031, due 2036	36,955,000	—	36,955,000
2010 Series A Bonds: Serial Bonds: 3.00%-5.00% due 2017 and 2018	9,215,000	9,215,000	9,215,000
2010 Series B Bonds: Serial Bonds: 1.86%-3.62% due 2012 through 2016	32,515,000	5,500,000	5,500,000
2010 Series C Bonds: Term Bonds (Build America Bonds): 6.77% with annual sinking fund requirements beginning in 2031, due 2046	99,915,000	99,915,000	99,915,000
2012 Series A Bonds: Serial Bonds: 3.00%-5.00% due 2024 through 2030	49,440,000	49,440,000	49,440,000
2014 Series A Bonds: Serial Bonds: 3.00%-5.00% due 2018 through 2046	351,255,000	351,255,000	351,255,000
2015 Series A Bonds: Serial Bonds: 5% due 2031 through 2036	34,835,000	<u>34,835,000</u>	<u>—</u>
Principal Outstanding		563,050,000	580,035,000
Unamortized debt premium		<u>47,965,729</u>	<u>48,834,659</u>
Revenue Bonds, including unamortized debt premium		611,015,729	628,869,659
Less current maturities		<u>11,795,000</u>	<u>14,865,000</u>
Revenue Bonds, including unamortized debt premium and excluding current maturities		<u>\$ 599,220,729</u>	<u>\$ 614,004,659</u>

Future Debt service payments for the outstanding Power Supply Bonds are as follows:

Year Ending December 31	Principal	Interest	Total	Payments expected to be received from U.S. Treasury
2016	\$ 11,795,000	\$ 28,666,576	\$ 40,461,576	\$ 2,194,659
2017	11,095,000	28,354,399	39,449,399	2,194,659
2018	10,120,000	27,893,446	38,013,446	2,194,659
2019	9,850,000	27,501,396	37,351,396	2,194,660
2020	10,240,000	27,048,396	37,288,396	2,194,660
2021-2025	52,770,000	126,997,880	179,767,880	10,973,298
2026-2030	52,185,000	116,022,604	168,207,604	10,973,298
2031-2035	94,480,000	97,126,271	191,606,271	10,832,500
2036-2040	121,650,000	69,511,347	191,161,347	9,179,614
2041-2046	<u>188,865,000</u>	<u>33,114,669</u>	<u>221,979,669</u>	<u>4,318,647</u>
Totals	<u>\$ 563,050,000</u>	<u>\$ 582,236,984</u>	<u>\$ 1,145,286,984</u>	<u>\$ 57,250,654</u>

The 2010 Series A and 2010 Series B Power Supply Bonds are not subject to redemption prior to their scheduled maturities. The 2012 Series A, 2014 Series A and 2015 Series A Power Supply Bonds, are subject to redemption at par beginning in 2023, 2024 and 2026, respectively, at the option of WMMPA. The 2010 Series C Bonds are subject to redemption prior to their stated maturity, at the option of WMMPA, in whole or in part on any date. The redemption price for the 2010 Series C Bonds is the greater of 100 percent of the principal or the sum of present value of the remaining scheduled payments of principal and interest to the maturity date of the 2010 Series C Bonds. The outstanding bonds are secured by a pledge and assignment of and security interest in (1) the proceeds of the Power Supply Bonds; (2) all funds established under the Bond Resolution; (3) all revenues received by MRES under the Power Sale Agreements; (4) all revenues received from regional transmission organizations, except for revenues received by MRES for member owned transmission assets and (5) all revenues through January 1, 2016, received under the Transmission Service Agreements among WMMPA, MRES and 12 Transmission Customers payable to WMMPA under the Power Supply Contract. Principal and interest for the current year and total revenue pledged were approximately \$43,500,000 and \$192,205,000, respectively.

During 2015, WMMPA issued \$34,835,000 of Power Supply Revenue Bonds, 2015 Series A Bonds, to advance refund a portion of the 2006 Series A Term Bonds. The cash flow requirements on the 2006 Series A Bonds refunded was \$70.3 million from August 2015 through January 2036. The cash flow requirements on the 2015 Series A Bonds total \$66.2 million for the same period. The net present value savings resulting from the advance refunding was approximately \$2.4 million.

During 2014, WMMPA issued \$351,255,000 of Power Supply Revenue Bonds, 2014 Series A Bonds (2014 Bonds). The proceeds from the 2014 Bonds were used to repay advances from the Revolving Credit Agreement and will be used to finance the construction of RRHP, finish completion of the CapX facilities and fund capital additions for other existing generation and transmission projects.

Missouri Basin Municipal Power Agency d.b.a. Missouri River Energy Services Western Minnesota Municipal Power Agency Notes to Combined Financial Statements

WMMPA has irrevocably escrowed funds to make the remaining principal and interest payments on previously issued Power Supply and Transmission Project Bonds (Escrowed Bonds). Escrowed Bonds outstanding and considered defeased totaled \$59,550,000 at December 31, 2015.

Non-current liability activity for the years ended December 31, 2015 and 2014, was as follows:

	<u>January 1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31, 2015</u>
Revenues collected for future costs – regulatory liability	\$ 37,167,203	\$ 15,955,200	(\$ 16,423,885)	\$ 36,698,518
Other non-current liabilities	<u>732,977</u>	<u>218,215</u>	<u>(53,548)</u>	<u>897,644</u>
Total non-current liabilities	<u>\$ 37,900,180</u>	<u>\$ 16,173,415</u>	<u>(\$ 16,477,433)</u>	<u>\$ 37,596,162</u>

	<u>January 1, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31, 2014</u>
Revenues collected for future costs – regulatory liability	\$ 34,738,397	\$ 17,359,166	(\$14,930,360)	\$ 37,167,203
Other non-current liabilities	<u>814,476</u>	<u>159,170</u>	<u>(240,669)</u>	<u>732,977</u>
Total non-current liabilities	<u>\$ 35,552,873</u>	<u>\$ 17,518,336</u>	<u>(\$ 15,171,029)</u>	<u>\$ 37,900,180</u>

9. RATE MATTERS

As part of a plan to stabilize the cost of electrical energy to its members, the MRES Board of Directors has a policy to approve rates under the Long-term Power Sale Agreements that may include the use of prior years' Net Position to fund a portion of subsequent years' operating expenses. Funds accumulated from prior years were not utilized in establishing the rates for either 2015 or 2014.

10. RETIREMENT PLAN

MRES has a defined contribution retirement plan covering substantially all of its employees that have more than one year of service. Employees vest at the rate of 20 percent per year with full vesting after six years of service. MRES contributes 3 percent and 10 percent of payroll after six months and one year of service, respectively, to the plan. Employer contributions totaled approximately \$818,000 and \$740,000 for 2015 and 2014, respectively. Covered payroll was 95 percent and 94 percent of total payroll for 2015 and 2014, respectively. Employees may contribute, on a voluntary basis, up to the maximum allowed by law after six months of employment. Employee contributions to the plan totaled approximately \$798,000 and \$700,000 in 2015 and 2014, respectively, or approximately 9 percent of covered payroll for 2015 and 2014. MRES acts as plan administrator and all changes to the plan are approved by the MRES Board of Directors.

11. CONTINGENCIES, COMMITMENTS, AND LITIGATION GENERAL

MRES and WMMPA are exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; natural disasters; errors and omissions; injuries to employees and others and health care of its employees. MRES and WMMPA carry commercial insurance, subject to certain limits and deductibles, to reduce the financial impact if claims for these risks are asserted or judgments awarded. No claims have been filed or judgments awarded during the years ended December 31, 2015 and 2014. The coverages and deductibles in effect were substantially the same for both 2015 and 2014. MRES and WMMPA are unaware of any claims pending at December 31, 2015.

MRES and WMMPA are subject to continually changing federal, state and regional environmental, health and safety standards, laws and regulations. These changes may arise from continuing legislative, regulatory and judicial action taken in response to public safety and environmental concerns. Compliance with such regulations could result in increased operating costs and reduced operation levels. An inability to comply with certain regulations could result in the complete shutdown of generating units and transmission facilities. At December 31, 2015, MRES and WMMPA believe they are in material compliance with all environmental, health and safety regulations.

CONTRACT COMMITMENTS

WMMPA has entered into various contracts for the development of the RRHP and the construction of various transmission projects. As of December 31, 2015, the remaining obligation on these contract commitments totaled approximately \$99.1 million.

LRS RAIL TRANSPORTATION COSTS

In October 2004, Western Fuels and Basin Electric Power Cooperative (Basin Electric), on behalf of the MBPP owners, filed a complaint with the Surface Transportation Board (STB) alleging that the BNSF Railway Company (BNSF) rates were unreasonably high for transporting coal from the Powder River Basin to LRS, and asked the STB to set reasonable rates.

In February 2009, the STB ordered BNSF to immediately reduce rates and refund nearly \$120 million for excess rates paid between 2004 and 2009. A series of appeals followed and the case was repeatedly returned to the STB. On May 13, 2015, Basin Electric, Western Fuels and BNSF signed a final settlement agreement. Details of the settlement are confidential because railroad rates are now competitive and proprietary. Each of the MBPP participants held its share of the refund money that was awarded by the STB's 2009 decision, pending a final outcome of appeals. The MRES share of the initial award was about \$19 million. WMMPA recorded its portion of the settlement obligation in December 2014. The unamortized amount WMMPA originally received from BNSF for overcharges, net of its obligation under the settlement, is currently reflected as unearned income. The balance is being amortized to income over a four year period effective in 2015.

Missouri Basin Municipal Power Agency d.b.a. Missouri River Energy Services

Western Minnesota Municipal Power Agency

Notes to Combined Financial Statements

CLEAN AIR ACT

Acid Rain: The 1990 Amendments to the Clean Air Act (Act) require, among other things, significant reductions in the emission of sulfur dioxide and oxides of nitrogen, and the potential impacts of mercury and other hazardous air pollutants from fossil-fueled electric generating units. The Act requires that sulfur dioxide emissions be reduced in two phases over a ten-year period. The MBPP facilities or WPP were not affected by Phase I.

MBPP and Exira are Phase II plants. WPP and member-owned generating units under contract with MRES are not subject to Phase II. MBPP is in full compliance with the requirements of Phase II Acid Rain and Title V Operating Permit sulfur dioxide emissions limits of the Act. MRES and WMMPA hold or will hold sufficient allowances to allow MBPP to operate at its historical annual capacity factors. In addition, MRES and WMMPA hold or will hold sufficient allowances to allow for the continued operation of Exira. In the event that the actual generation exceeds projections, it may be necessary to reduce sulfur dioxide emissions or acquire additional allowances.

MBPP and Exira are also in compliance with the nitrogen oxide emissions limitations imposed under the Act. Other non-nitrogen oxide related compliance costs under the Act are believed to be insignificant and are not expected to impact future energy production capabilities of MBPP, Exira or WPP.

Regional Haze: The Act, under its Regional Haze provisions, also requires facilities that commenced construction between 1962 and 1977, which includes LRS, to identify and apply Best Available Retrofit Technology (BART) to control sulfur dioxide and mono-nitrogen oxides (NO_x) if their emission rates for those pollutants exceed a certain designated level. LRS has installed over-fire air technology and low-NO_x burners for all three units to address the BART requirements.

On January 23, 2014, the United States Environmental Protection Agency (EPA) disapproved that portion of the Wyoming State Implementation Plan (SIP) for NO_x removal, and issued a final rule imposing a Federal Implementation Plan (FIP) with more stringent emission limits, which impacts LRS. Under the FIP, the MBPP participants are required to install Selective Catalytic Reduction equipment on LRS units 1, 2 and 3 by March 2019. Basin Electric, as Operating Agent on behalf of the MBPP participants, appealed this decision to the 10th Circuit Court of Appeals. The State of Wyoming, PacifiCorp and Powder River Basin Resource Council also appealed the FIP. *See State of Wyoming v. United States Environmental Protection Agency*, No. 14-9529; *Powder River Basin Resource Council v. EPA*, No. 14-9530; *Basin Electric Power Cooperative v. EPA*, No. 14-9533 and *PacifiCorp v. EPA*, No. 14-9534. On September 9, 2014, the 10th Circuit Court of Appeals granted a stay of enforcement pending appeal, extending the deadline for compliance for the duration of the stay for LRS and other units that are the subject of the appeal. The appeal is ongoing, and oral arguments are expected to occur during the May term of court. It is unknown when the 10th Circuit will decide the cases, or the ultimate outcome.

CAA 111(d) "The Clean Power Plan": In October 2015, the EPA published final carbon dioxide (CO₂) performance standards for existing sources under Section 111(d) of CAA (the CPP). The CPP requires the State of Wyoming (the State) to create and implement an SIP to reduce CO₂ emissions from fossil fuel plants by 33 percent when the initial compliance reductions begin in 2022. When the CPP is fully implemented in 2030, Wyoming will be required to achieve a 44 percent reduction in CO₂ emissions from existing fossil fuel power plants in the State. If the State fails to submit an SIP, or if the EPA rejects Wyoming's SIP, the EPA would impose an FIP to achieve those reductions. Twenty-seven states and a number of utilities and trade organizations filed Petitions for Review with the Court of Appeals for the D.C. Circuit challenging the EPA's legal authority to issue the CPP Rule, as well as programmatic issues regarding the CPP Rule. The CPP has been stayed during the pendency of the appeals by an order of the United States Supreme Court, issued on February 9, 2016. The D.C. Circuit is presently scheduled to hear oral arguments in the case on June 2, 2016. The outcome of this litigation is unknown, and it is not possible to predict when the litigation will be completed or the estimated impact of the regulations. MRES also actively engaged at the state level with regulators and interested stakeholders regarding the development of state rules to implement the EPA's CO₂ regulations during the pendency of the appeals.

Other EPA rules: In addition, the EPA is in the process of amending other rules and regulations under the Act in several respects. EPA is evaluating (and has considered or is considering proposing) regulations or amendments relating to sulfur oxides, ozone and hazardous air pollutants. The EPA issued the Mercury and Air Toxics Standards (MATS) rule in April 2012, and LRS installed pollution control equipment to meet those standards by the June 1, 2015, compliance date. On June 29, the U.S. Supreme Court overturned the MATS rule. In addition, the EPA has finalized the coal ash rule and ozone standards that apply to LRS. LRS is in the process of complying with the coal ash rule and will continue to address new CAA regulatory requirements that may be imposed on LRS. Basin Electric, as operating agent for LRS, is actively monitoring and evaluating each of these various proposals to assess whether, and if so, how they will impact operations at LRS. MRES is also actively monitoring and evaluating pending proposals to assess whether and, if so, how they will impact operations at LRS or any other WMMPA generating resources. MRES is also actively engaged at the state level with regulators and interested stakeholders regarding the development of state rules to implement the EPA's CO₂ regulations during the pendency of the appeals. The impacts of the various EPA proposals are indeterminable at the current time. If any of these EPA proposals become final, the impact of the new regulatory requirements will be determined, and measures will be taken to comply with applicable requirements.

EPA Section 114(a) Request: Basin Electric, as Operating Agent of MBPP, received a Section 114(a) letter in September 2011, from the EPA requesting information about certain capital additions at LRS. Basin Electric has provided all information requested. The outcome of this Section 114(a) request is indeterminable at the current time.

Western Minnesota Municipal Power Agency Statement of Net Position

	<u>December 31</u>	
	<u>2015</u>	<u>2014</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:		
Current Assets:		
Cash and cash equivalents:		
Restricted	\$ 37,165,156	\$ 46,727,342
Unrestricted	<u>3,998,176</u>	<u>2,193,920</u>
Total cash and cash equivalents	<u>41,163,332</u>	<u>48,921,262</u>
Short-term investments:		
Restricted	116,194,102	127,508,883
Unrestricted	<u>8,316,351</u>	<u>15,488,164</u>
Total short-term investments	<u>124,510,453</u>	<u>142,997,047</u>
Accounts receivable	4,286,003	8,833,619
Advances to MBPP	3,697,982	2,666,393
Fuel stock	5,360,897	4,881,216
Materials and supplies	4,246,140	4,363,061
Interest receivable	455,589	411,780
Prepayments	836,837	1,543,525
Other current assets	<u>142,853</u>	<u>1,408,786</u>
Total Current Assets	<u>184,700,086</u>	<u>216,026,689</u>
Non-Current Assets:		
Long-term investments:		
Restricted	123,469,191	195,636,217
Unrestricted	<u>19,049,987</u>	<u>31,103,962</u>
Total long-term investments	<u>142,519,178</u>	<u>226,740,179</u>
Capital assets:		
Utility plant in service	486,508,939	457,127,700
Less-accumulated depreciation	<u>(231,739,121)</u>	<u>(227,606,071)</u>
Net utility plant in service	254,769,818	229,521,629
Construction work in progress	<u>192,405,745</u>	<u>145,310,957</u>
Net capital assets	447,175,563	374,832,586
Advances for mine development	1,098,110	740,437
Unamortized debt expense - regulatory asset	3,927,471	4,296,177
Other non-current assets	<u>468,794</u>	<u>2,503,547</u>
TOTAL ASSETS	<u>779,889,202</u>	<u>825,139,615</u>
Deferred Outflows of Resources:		
Unamortized loss on reacquired debt	<u>1,271,249</u>	<u>370,402</u>
Total Deferred Outflows of Resources	<u>1,271,249</u>	<u>370,402</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 781,160,451</u>	<u>\$ 825,510,017</u>

See accompanying independent auditors' report.

Western Minnesota Municipal Power Agency

Statement of Net Position

	<u>December 31</u>	
	<u>2015</u>	<u>2014</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION:		
Current Liabilities:		
Accounts payable - unrestricted	\$ 5,985,609	\$ 12,839,725
Advances to MRES - current portion	—	16,200,975
Accrued taxes	3,250,118	1,315,472
Current liabilities payable from restricted assets:		
Accounts payable - restricted	23,023,961	33,483,104
Current maturities of revenue bonds	11,795,000	14,865,000
Accrued interest	<u>14,356,425</u>	<u>13,894,559</u>
Total Current Liabilities	<u>58,411,113</u>	<u>92,598,835</u>
Non-Current Liabilities:		
Revenue bonds:		
Principal outstanding	551,255,000	565,170,000
Unamortized debt premium	<u>47,965,729</u>	<u>48,834,659</u>
Revenue bonds, excluding current maturities	599,220,729	614,004,659
Revenues collected for future costs - regulatory liability	36,999,082	37,291,837
Advances from MRES	<u>39,139,854</u>	<u>39,290,283</u>
Total Non-Current Liabilities	<u>675,359,665</u>	<u>690,586,779</u>
TOTAL LIABILITIES	<u>733,770,778</u>	<u>783,185,614</u>
Deferred Inflows of Resources:		
Unearned revenue	<u>14,605,810</u>	<u>19,474,414</u>
Total Deferred Inflows of Resources	<u>14,605,810</u>	<u>19,474,414</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>\$ 748,376,588</u>	<u>\$ 802,660,028</u>
Net Position:		
Net investment in capital assets	(145,498,700)	(236,227,747)
Restricted:		
Debt service	53,668,358	56,131,628
Capital additions	184,092,789	267,860,349
Other	<u>1,686,916</u>	<u>(1,497,198)</u>
Total Restricted	239,448,063	322,494,779
Unrestricted	<u>(61,165,500)</u>	<u>(63,417,043)</u>
Total Net Position	<u>32,783,863</u>	<u>22,849,989</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 781,160,451</u>	<u>\$ 825,510,017</u>

See accompanying independent auditors' report.

Western Minnesota Municipal Power Agency

Statement of Revenues, Expenses and Changes in Net Position

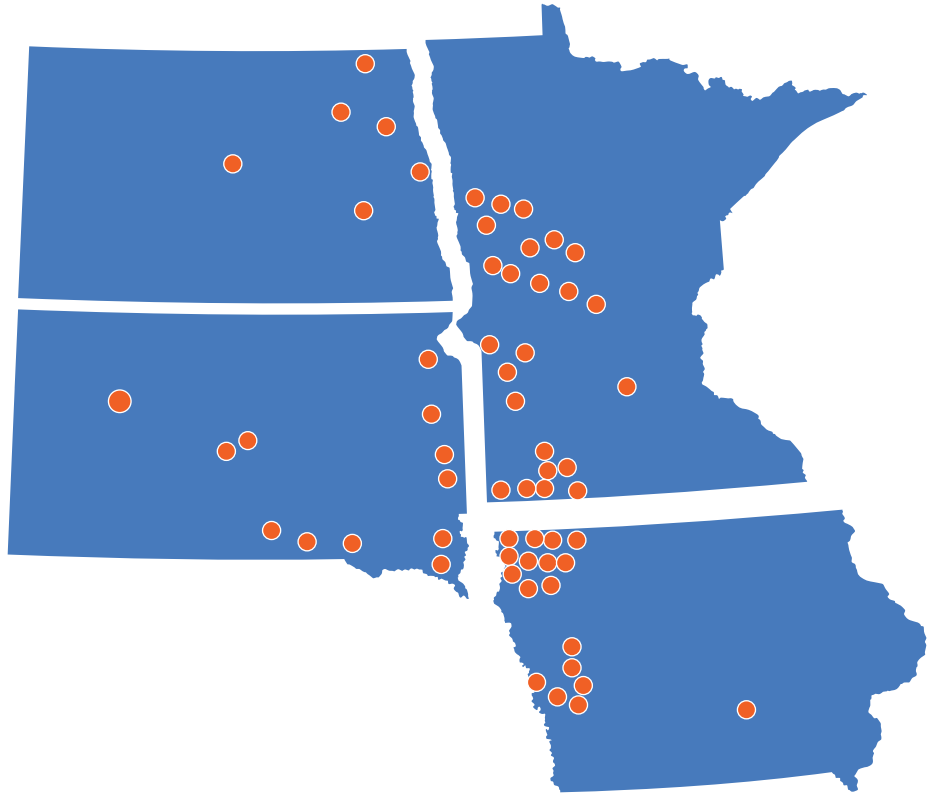
	<u>Years Ended December 31</u>	
	<u>2015</u>	<u>2014</u>
Operating Revenues:		
Revenues billed MRES	\$ 89,336,752	\$ 95,971,966
Other operating income	<u>4,867,113</u>	<u>72,462</u>
Total Operating Income	<u>94,203,865</u>	<u>96,044,428</u>
Operating Expenses:		
Fuel	16,471,049	28,811,619
Purchased power and other power supply operation and maintenance	28,905,611	31,282,512
Depreciation and amortization	8,042,205	6,977,165
Transmission operation and maintenance	1,810,519	1,289,497
Administrative and general	3,127,560	2,838,809
Property taxes	<u>3,600,419</u>	<u>1,649,858</u>
Total Operating Expenses	<u>61,957,363</u>	<u>72,849,460</u>
Operating Revenues	<u>32,246,502</u>	<u>23,194,968</u>
Non-Operating Revenues (Expenses):		
Investment income	2,033,274	882,407
Other income	3,957,308	4,570,871
Other expense	(492,652)	(93,048)
Interest expense	(29,123,032)	(20,667,363)
Amortization of financing related costs, premium and discount	3,302,433	1,534,259
Amortization of reserves previously collected	5,065,269	5,065,269
Amortization of canceled power supply and transmission project	(1,953,874)	(1,953,874)
Unrealized gain (loss) on investments	(328,841)	91,970
Net costs recoverable in (for) future years:		
Principal in excess of depreciation and amortization	(5,101,354)	(7,468,220)
Other costs recoverable in (for) future years	<u>328,841</u>	<u>(91,970)</u>
Total Non-Operating Expenses	<u>(22,312,628)</u>	<u>(18,129,699)</u>
Change in Net Position	9,933,874	5,065,269
Net Position:		
Beginning of year	<u>22,849,989</u>	<u>17,784,720</u>
End of year	<u>\$ 32,783,863</u>	<u>\$ 22,849,989</u>

See accompanying independent auditors' report.

MRES is dedicated to supplying its members with reliable, cost-effective, long-term energy and energy services in a fiscally responsible and environmentally sensitive manner. MRES is an extension of its members, and through joint action, members will remain competitive while enhancing their relationships with their customers.



Our Mission



STRONGER TOGETHER





3724 West Avera Drive | Sioux Falls, SD 57108-5750

P: (605) 338-4042 or (800) 678-4042 | F: (605) 978-9360

mrenergy.com | redrockhydroproject.com | brightenergysolutions.com



©2016. Missouri River Energy Services. All rights reserved.

No portion of this publication may be copied or duplicated in any format without the expressed permission of MRES.