



# 2023 Financials

## Independent Auditors' Report

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

### Report on the Audit of the Financial Statements

#### *Opinion*

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, 2023 and 2022, which collectively comprise MRES and WMMPA's combined statements of net position, statements of revenues, expenses, and changes in change position and statements of cash flow, and the related notes to the combined financial statements.

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, 2023 and 2022, and the changes in financial position and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of MRES and WMMPA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the combined financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about MRES and WMMPA's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

#### *Auditors' Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about MRES and WMMPA's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the required supplementary information and Management's Discussion and Analysis be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the 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 financial statements, and other knowledge we obtained during our audit of the 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 audit was conducted for the purpose of forming opinions on the financial statements as a whole. The WMMPA Statements of Net Position, and WMMPA Statements of Revenues, Expenses, and Changes in Net Position schedules, included as supplementary information, are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information are fairly stated in all material respects, in relation to the financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 4, 2024 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 and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of MRES and WMMPA's 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.

*Baker Tilly US, LLP*

Madison, Wisconsin  
April 4, 2024



## 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 2023 and 2022. 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, and conditions.
- The Combined Statements of Net Position, which provide 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 Statements of Revenues, Expenses, and Changes in Net Position, which provide the operating results of MRES and WMMPA in various categories of operating revenues and expenses and non-operating revenues and expenses.
- The Combined Statements of Cash Flow, which report 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, which 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 \$)

	2023	2022	2021	2023 Dollar Change	2022 Dollar Change
Current Assets	\$ 285	\$ 191	\$ 198	\$ 94	\$ (7)
Non-current Assets:				-	-
Net Capital Assets	716	699	703	17	(4)
Other Non-current Assets	176	261	258	(85)	3
Total Assets	1,177	1,151	1,158	26	(7)
Deferred Outflows of Resources	12	12	18	-	(6)
Total Assets and Deferred Outflows of Resources	\$ 1,189	\$ 1,163	\$ 1,177	\$ 26	\$ (13)
Current Liabilities	\$ 57	\$ 53	\$ 55	\$ 4	\$ (2)
Non-current Liabilities:					
Revenue Bonds, Net of Current Maturities	582	598	620	(16)	(22)
Asset Retirement Obligation	13	10	9	3	1
Other Non-current Liabilities	1	1	1	-	-
Total Liabilities	653	662	686	(9)	(23)
Deferred Inflows of Resources	76	72	94	4	(22)
Net Position:					
Net Investment in Capital Assets	132	99	87	33	12
Restricted Net Position	67	68	76	(1)	(8)
Unrestricted Net Position	261	262	233	(1)	29
Total Net Position	460	429	397	31	32
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 1,189	\$ 1,163	\$ 1,177	\$ 26	\$ (13)
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, 2023, increased by \$26 million or 2 percent compared to December 31, 2022. The largest variance was a \$94 million increase in other current assets, from \$191 million to \$285 million. The largest variance was an \$87 million increase in short-term investments. The deferred outflows of resources were \$12 million at both December 31, 2023 and 2022.

The total assets and deferred outflows of resources of MRES and WMMPA at December 31, 2022, decreased by \$13 million or 1 percent compared to December 31, 2021. The largest variance was a \$7 million decrease in other current assets, from \$198 million to \$191 million. The deferred outflows of resources decreased by \$6 million, from \$18 million to \$12 million.

The largest assets of MRES and WMMPA at December 31, 2023, were net capital assets. Net capital assets totaled \$716 million or 60 percent of total assets and deferred outflows of resources at December 31, 2023, an increase of \$17 million compared to December 31, 2022. The \$17 million increase in net capital assets during 2023 was primarily due to an increase in construction work in progress (CWIP) and total utility plant in service offset by an increase in accumulated depreciation. The increase in total utility plant is due to the addition of Loraine Substation and the increase in CWIP is due to the construction of Marshall Solar Plus.

Net capital assets totaled \$699 million or 60 percent of total assets and deferred outflows of resources at December 31, 2022, a decrease of \$4 million compared to December 31, 2021. The \$4 million decrease in net capital assets during 2022 was primarily due to an increase in accumulated depreciation offset by an increase in utility plant.

Cash and investments were the second largest assets and deferred outflows of resources for MRES and WMMPA at December 31, 2023. Cash and investments totaled \$388 million or 33 percent of total assets and deferred outflows of resources at December 31, 2023, an increase of \$7 million compared to December 31, 2022. Of the \$388 million, approximately \$94 million was restricted for debt service, capital projects, and other Bond Resolution-related requirements and decreased by \$1 million compared to December 31, 2022. The remaining \$294 million of total cash and investments are unrestricted and increased by \$8 million compared to December 31, 2022. The \$294 million of unrestricted cash and investments represent 17 months of the 2023 cash operating expenses.

Cash and investments were the second largest assets and deferred outflows of resources for MRES and WMMPA at December 31, 2022. Cash and investments totaled \$381 million or 33 percent of total assets and deferred outflows of resources at December 31, 2022, a decrease of \$12 million compared to December 31, 2021. Of the \$381 million, approximately \$95 million was restricted for debt service, capital projects, and other Bond Resolution-related requirements and decreased by \$6 million compared to December 31, 2021. The decrease in restricted cash and investments is largely due to capital additions paid from construction funds. The remaining \$286 million of total cash and investments are unrestricted and decreased by \$7 million compared to December 31, 2021. The \$286 million of unrestricted cash and investments represent approximately 16 months of the 2022 cash operating expenses.

All other assets and deferred outflows of resources of MRES and WMMPA totaled \$85 million at December 31, 2023, \$3 million higher than at December 31, 2022. The advances to Missouri Basin Power Project (MBPP) increased by \$2 million, the fuel stock increased by \$4 million, and unamortized loss on reacquired debt and prepayment and other current assets both increased by \$1 million, the increases were offset by a \$1 million decrease in accounts receivable and a \$3 million decrease in other non-current assets.

All other assets and deferred outflows of resources of MRES and WMMPA totaled \$82 million at December 31, 2022, \$2 million higher than at December 31, 2021. The prepayments and other current assets increased by \$4 million and other non-current assets increased by \$4 million from December 31, 2021, the increases were offset by a \$7 million decrease in unamortized loss on reacquired debt.

## 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, 2023, increased by \$26 million or 2 percent compared to December 31, 2022. Significant variances included a \$31 million increase in net position, \$5 million increase in accounts payable, offset by a \$16 million decrease in long-term debt.

See accompanying independent auditors' report.

The total liabilities, deferred inflows of resources, and net position of MRES and WMMPA at December 31, 2022, decreased by \$13 million or 1 percent compared to December 31, 2021. Significant variances included a \$22 million decrease in long-term debt and a \$23 million decrease in revenues collected for future costs, offset by a \$32 million increase in net position.

The largest liability of MRES and WMMPA is long-term debt including current maturities, which totaled \$596 million or 50 percent of total liabilities, deferred inflows of resources, and net position at December 31, 2023. Long-term debt decreased by approximately \$16 million during 2023. The decrease in 2023 was due to the scheduled principal payment and amortization of debt premium.

Long-term debt, including current maturities at December 31, 2022, totaled \$612 million or 53 percent of total liabilities, deferred inflows of resources, and net position. Long-term debt decreased by approximately \$22 million during 2022. The decrease in 2022 was due to the refinancing of the 2012 debt and the scheduled principal payment and amortization of debt premium.

Net position totaled \$460 million at December 31, 2023, or 39 percent of the total liabilities, deferred inflows of resources, and net position compared to \$429 million or 37 percent of total liabilities, deferred inflows of resources, and net position at December 31, 2022. During 2023 and 2022, the net position increased by \$31 million and \$32 million, respectively.

Revenues collected for future costs totaled \$73 million (6 percent) and \$68 million (6 percent) of total liabilities, deferred inflows of resources, and net position at December 31, 2023 and 2022, respectively. The increase is due to unrealized loss on investments being lower. Revenues collected for future costs totaled \$68 million (6 percent) and \$92 million (8 percent) of total liabilities, deferred inflows of resources, and net position at December 31, 2022 and 2021, respectively. The decrease is due to unrealized loss on investments offset by the revenue recognized from the revenue deferral.

Current liabilities, excluding the current portion of long-term debt, totaled \$44 million (4 percent) and \$39 million (3 percent) of total liabilities, deferred inflows of resources, and net position at December 31, 2023 and 2022, respectively. During 2023, current liabilities increased by \$5 million, primarily due to higher accounts payable.

### Debt Activity

During 2023, WMMPA made scheduled principal payments of \$14 million. WMMPA did not issue any additional debt during 2023.

During 2022, WMMPA refinanced \$49 million of the 2012 Series A Bonds with \$43 million of 2022 Series A Bonds (2022 Bonds). The 2022 Bonds resulted in annual savings of approximately \$823,000 through 2030, or nearly \$6.6 million total. Net present-value savings are over \$5.7 million, or 11.6 percent of the refunded bonds. Nearly \$4.2 million of the savings is attributable to the termination of an interest rate swap executed in 2020, which was an integral part of the refunding process. See additional detail in Note 9 for debt and Note 10 for the interest rate swaps to the Combined Financial Statements.

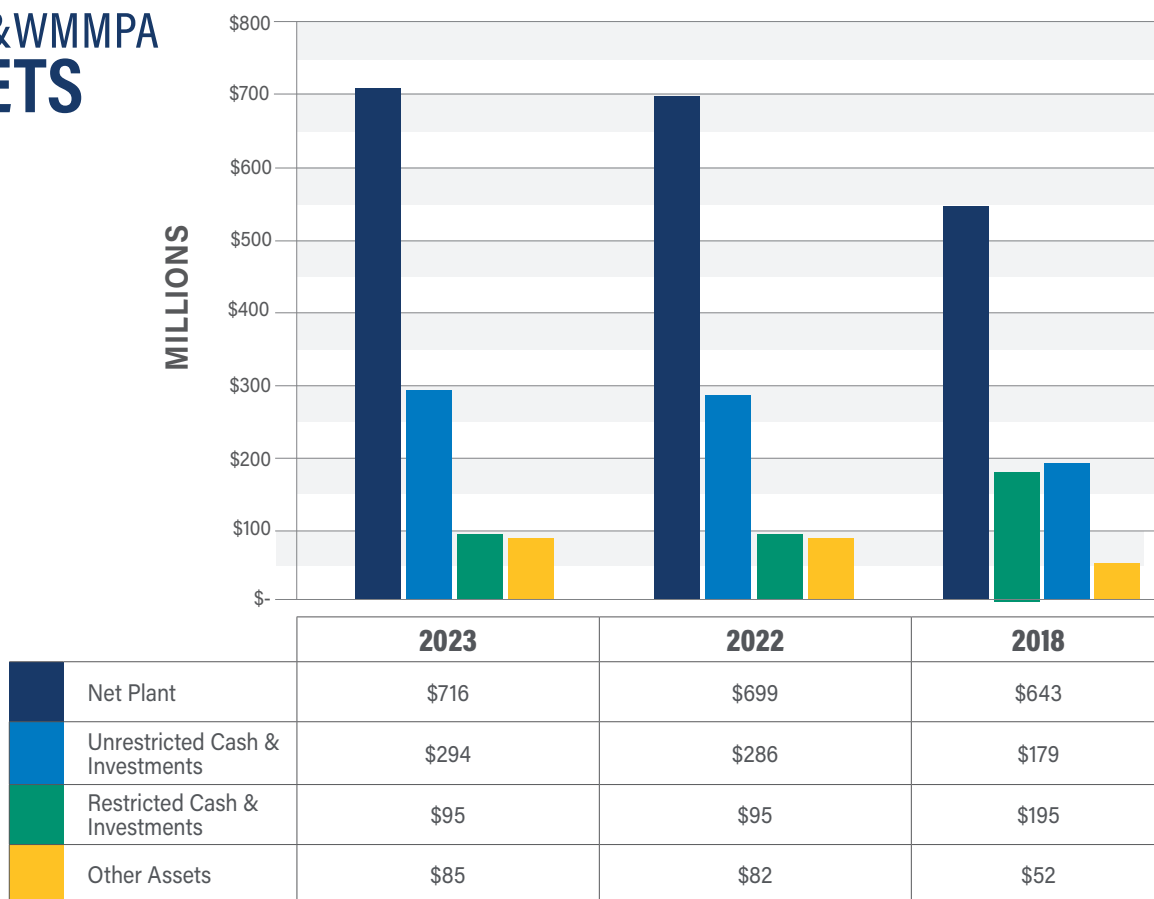
### Debt Ratings

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

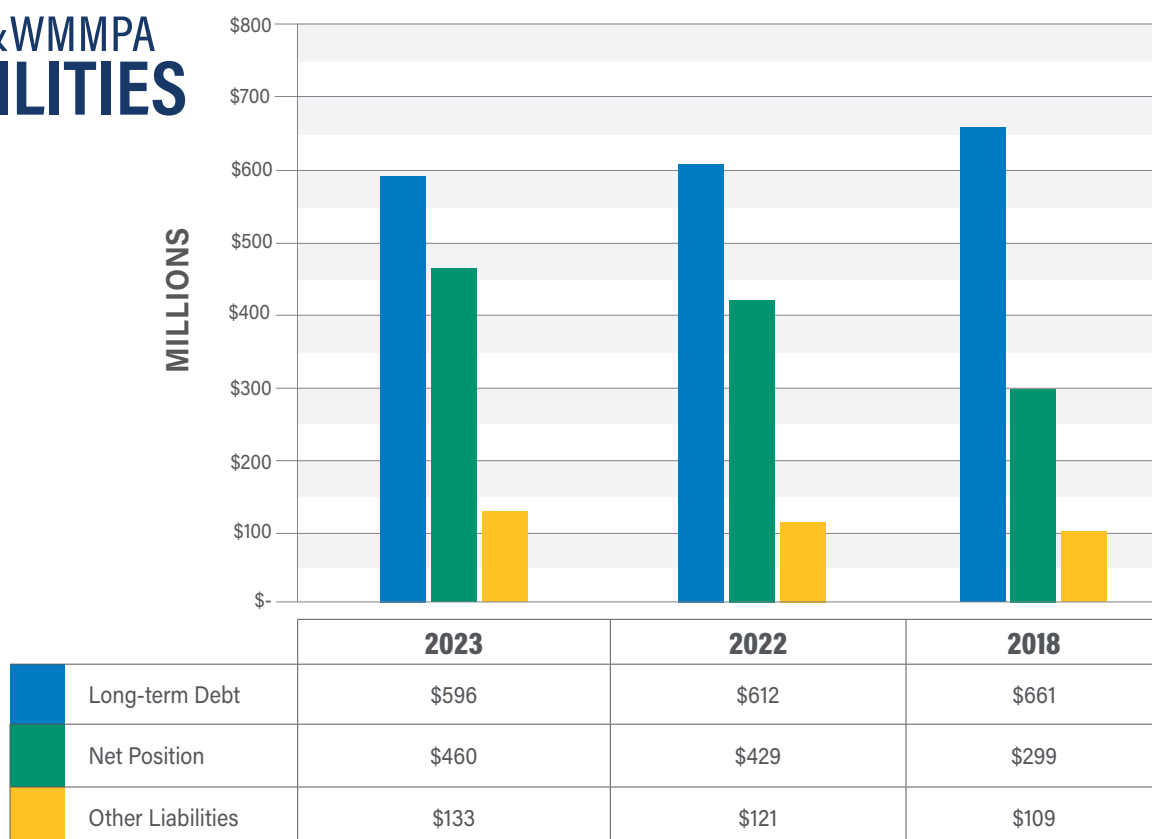
FitchRatings (Fitch)	AA- (stable outlook)
Moody's Investors Services (Moody's)	Aa2 (stable outlook)

The WMMPA revenue bonds have maintained a rating of AA- from Fitch since 2003 and were upgraded to a rating of Aa2 from Moody's in 2022.

## MRES & WMPMA ASSETS



## MRES & WMPMA LIABILITIES



## Results of Operations

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

	2023	2022	2021	2023 Dollar Change	2022 Dollar Change
Operating Revenues	\$ 261	\$ 287	\$ 287	\$ (26)	\$ -
Operating Expenses	<u>222</u>	<u>236</u>	<u>232</u>	<u>(14)</u>	<u>4</u>
Operating Income	39	51	55	(12)	(4)
Investment and Other Income	17	10	9	7	1
Interest Expense	(25)	(25)	(26)	-	1
Other Non-operating (Expenses) Income	3	(22)	(9)	25	(13)
Net costs recoverable in (for) future years	<u>(4)</u>	<u>18</u>	<u>6</u>	<u>(22)</u>	<u>12</u>
Increase in Net Position, before Capital Contributions	<u>30</u>	<u>32</u>	<u>35</u>	<u>(2)</u>	<u>(3)</u>
Capital contributions	<u>1</u>	<u>-</u>	<u>-</u>	<u>1</u>	<u>-</u>
Change in Net Position	<u>31</u>	<u>32</u>	<u>35</u>	<u>(1)</u>	<u>(3)</u>
Ending Net Position	<u>\$ 460</u>	<u>\$ 429</u>	<u>\$ 397</u>	<u>\$ 31</u>	<u>\$ 35</u>
Totals may not foot due to rounding.					

Long-term power sales revenue for 2023 was \$178 million compared to \$182 million and \$184 million in 2022 and 2021, respectively. The 2023 long-term power sales revenue was less than 2 percent lower than in 2022, due to decrease in energy sales. In 2023, MRES did implement time of use rates. The 2022 long-term power sales revenue was less than a percent lower than in 2021, due to a 5 percent decrease in rates offset by an increase in demand and energy sales. The average rate for long-term power sales to members was approximately 5.6 cents per kilowatt-hour (kWh) in 2023 and 2022 compared to 5.9 cents per kWh in 2021.

The 2023 short-term power sales revenue was \$21 million compared to \$43 million in both 2022 and 2021. The decrease in revenue in 2023 was due to \$6 million of deferred revenue being recognized in 2022 along with a decrease in megawatt hours (MWh) sold and lower market prices.

The revenue received for transmission services was \$61 million in both 2023 and 2022 compared to \$59 million in 2021.

Other operating income in 2023 was \$1.3 million compared to \$0.1 million in 2022 and \$1.2 million in 2021. The increase in other operating revenue in 2023 was due to an increase in capacity sales. The decrease in other operating revenue in 2022 was due to tax credits for refined coal received from Missouri Basin Power Project (MBPP) being discontinued during 2021.

## Operating Expenses and Net Operating Income

Fuel expense for 2023 was \$23 million compared to the \$31 million and \$24 million in 2022 and 2021, respectively. The lower fuel expense in 2023 compared to 2022 and 2021 was largely due to decreased generation at Laramie River Station (LRS), offset by the increased generation at Exira Station (Exira). The decrease in generation at LRS was due to an outage at the end of the year. The higher fuel expense in 2022 compared to 2021 was largely due to increased generation at Laramie River Station (LRS) and Exira Station (Exira). The increased generation was due to market prices being higher than the cost of generation for more hours in 2022 than in 2021. The average fuel cost for LRS was 4 percent higher in 2023 compared to 2022 and remained the same in 2022 and 2021. The 2023 generation at LRS was approximately 1.0 million Megawatt hours (MWh) compared to 1.2 million and 1.1 million MWh in 2022 and 2021, respectively. The average cost of fuel for Exira decreased by 62 percent in 2023 compared to 2022, the decrease is due to the decrease in natural gas costs. The generation at Exira was approximately 231,000 MWh, 157,000 MWh, and 125,000 MWh in 2023, 2022, and 2021, respectively.

Purchased power expense was \$93 million for both 2023 and 2022, which was 6 percent lower than in 2021 (\$99 million). The decrease in 2023 and 2022 purchased power expense compared to 2021 was due to lower market prices.

The other power supply operation and maintenance (O&M) expense was \$21 million, compared to the 2022 expense of \$26 million and the 2021 expense of \$34 million. The decrease in 2023 other power supply O&M expense was due to lower fixed O&M expenses for Marshall Wind Farm (MWF) and a decrease in natural gas cost, offset by a decrease in socialization

See accompanying independent auditors' report.



received from MBPP and increase in fixed O&M expenses for LRS. The decrease in 2022 other power supply O&M expense was due to lower fixed O&M expenses for MWF and an increase in socialization received from MBPP, offset by an increase in natural gas costs.

All other operating expenses totaled \$85 million in 2023 and \$86 million and \$75 million in 2022 and 2021, respectively. The increase in 2022 was due to an increase in depreciation and amortization expenses and an increase in administrative and general expenses. The increase in depreciation and amortization expenses is largely due to the Red Rock Hydroelectric Project being fully operational in June 2021. The increase in administrative and general expenses is largely due to the administration fees for MBPP.

Net operating income was \$39 million in 2023 compared to \$52 million and \$55 million in 2022 and 2021, respectively.

### **Non-operating Revenues and Expenses**

For the year ended December 31, 2023, non-operating expenses exceeded non-operating revenues by \$10 million, compared to \$19 million in both 2022 and 2021. The lower net non-operating expense for 2023 compared to 2022 and 2021 was due to an increase in investment income and a decrease in other expense.

Other income totaled \$6 million in 2023, 2022 and 2021.

Investment income totaled \$10 million in 2023 compared to \$4 million in 2022 and \$3 million in 2021. The increase in investment income for 2023 compared to 2022 was an increase in investment yields and a slight increase in cash and investments.

Other expense totaled \$7 million in 2023 compared to \$9 million in 2022 and \$5 million in 2021. The decrease in other expense for 2023 compared to 2022 was due to a refund to the Northern Cities Group (NCG) members of \$4.2 million in 2022, offset by the recognition of project development costs for the abandoned Gregory County Pumped Storage Project. The increase in other expense for 2022 compared to 2021 was due to a refund to the NCG members of \$4.2 million.

Interest expenses were \$25 million in 2023 and \$26 million both 2022 and 2021. The decrease in 2023 compared to 2022 was due to scheduled principal payments and no additional debt being issued. During 2023, depreciation and amortization expense exceeded debt principal requirements plus amortization of debt-related costs and premium for related assets by approximately \$3 million. During 2022, depreciation and amortization expense exceeded debt principal requirements plus amortization of debt-related costs and premium for related assets by \$4 million. During 2021, debt principal requirements plus amortization of debt-related costs and premium exceeded depreciation and amortization expense by \$0.8 million. The difference between debt principal requirements plus amortization of debt-related costs and premium, 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 following 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. The unrealized gain on investments totaled \$8 million in 2023, compared to the unrealized loss on investments of \$14 million in 2022 and \$5 million in 2021. The reason for the unrealized gain in 2023 is due to the favorable market compared to the volatile market in 2022.

### **Capital Contribution**

The capital contributions totaled \$1 million in 2023, there was not capital contributions in 2022 and 2021. The total is due to the FEMA grant money received for storm damage done to Elbow Lake Substation.

### **Change in Net Position**

The change in net position was \$31 million, \$32 million, and \$36 million in 2023, 2022, and 2021, respectively. The 2023 change in net position was \$9 million higher than budget. The favorable variance compared to budget is due to higher surplus sales, lower purchase power expenses, lower transmission expenses, higher investment income, offset by higher fuel and maintenance expenses and lower transmission revenues.

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.

See accompanying independent auditors' report.

**Missouri Basin Municipal Power Agency dba Missouri River Energy Services  
and Western Minnesota Municipal Power Agency  
Combined Statements of Net Position**

	<b>DECEMBER 31</b>	
	<b><u>2023</u></b>	<b><u>2022</u></b>
	(thousands of dollars)	
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:</b>		
<b>Current Assets:</b>		
Cash and cash equivalents (Note 5):		
Restricted	\$ 50,369	\$ 52,061
Unrestricted	15,269	12,450
Total cash and cash equivalents	65,638	64,511
Short-term investments (Note 5):		
Restricted	7,093	17,468
Unrestricted	148,867	51,127
Total short-term investments	155,960	68,595
Accounts receivable	23,501	24,579
Advances to Missouri Basin Power Project (MBPP) (Note 7)	6,925	4,805
Fuel stock	9,777	6,170
Materials and supplies	6,150	5,972
Prepayments and other current assets (Note 2)	16,694	15,667
<b>Total Current Assets</b>	<b>284,645</b>	<b>190,299</b>
<b>Non-Current Assets:</b>		
Long-term investments (Note 5):		
Restricted	36,090	25,484
Unrestricted	130,320	222,792
Total long-term investments	166,410	248,276
Capital assets (Note 8):		
Utility plant in service	1,003,252	985,153
Less-accumulated depreciation	(321,445)	(303,145)
Net utility plant in service	681,807	682,008
Construction work in progress	33,989	17,362
Net capital assets	715,796	699,370
Advances for mine development (Note 7)	515	677
Unamortized debt expense - regulatory asset	2,965	3,386
Other non-current assets (Note 9)	6,310	9,008
<b>Total Assets</b>	<b>1,176,641</b>	<b>1,151,016</b>
<b>Deferred Outflows of Resources:</b>		
Asset Retirement Obligations	3,272	3,769
Unamortized loss on reacquired debt	8,916	8,062
<b>Total Deferred Outflows of Resources</b>	<b>12,188</b>	<b>11,831</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 1,188,829</b>	<b>\$ 1,162,847</b>

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

**Missouri Basin Municipal Power Agency dba Missouri River Energy Services  
and Western Minnesota Municipal Power Agency  
Combined Statements of Net Position**

	<b>DECEMBER 31</b>	
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION:</b>	<b><u>2023</u></b>	<b><u>2022</u></b>
	(thousands of dollars)	
<b>Current Liabilities:</b>		
Accounts payable - unrestricted	\$ 14,832	\$ 8,994
Accrued taxes	2,859	2,975
Current liabilities payable from restricted assets:		
Accounts payable - restricted	13,582	14,594
Current maturities of revenue bonds (Note 10)	13,730	14,255
Accrued interest	12,361	12,029
<b>Total Current Liabilities</b>	<b>57,364</b>	<b>52,847</b>
<b>Non-Current Liabilities:</b>		
Revenue bonds:		
Principal outstanding	569,535	583,265
Unamortized debt premium	12,658	14,656
Revenue Bonds, excluding current maturities (Note 10)	582,193	597,921
Asset retirement obligation (Note 2)	12,626	9,597
Other non-current liabilities	172	732
<b>Total Non-Current Liabilities</b>	<b>594,991</b>	<b>608,250</b>
<b>Total Liabilities</b>	<b>652,355</b>	<b>661,097</b>
<b>Deferred Inflows of Resources:</b>		
Revenues collected for future costs - regulatory credit	72,793	68,130
Accumulated change in fair value of hedging derivatives	3,515	4,301
<b>Total Deferred Inflows of Resources</b>	<b>76,308</b>	<b>72,431</b>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<b>728,663</b>	<b>733,528</b>
 <b>Net Position:</b>		
Net investment in capital assets	131,754	98,642
Restricted:		
Debt service	53,317	54,365
Capital additions	128	205
Other	14,164	13,820
<b>Total Restricted</b>	<b>67,609</b>	<b>68,390</b>
Unrestricted	260,803	262,287
<b>Total Net Position</b>	<b>460,166</b>	<b>429,319</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<b>\$ 1,188,829</b>	<b>\$ 1,162,847</b>

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

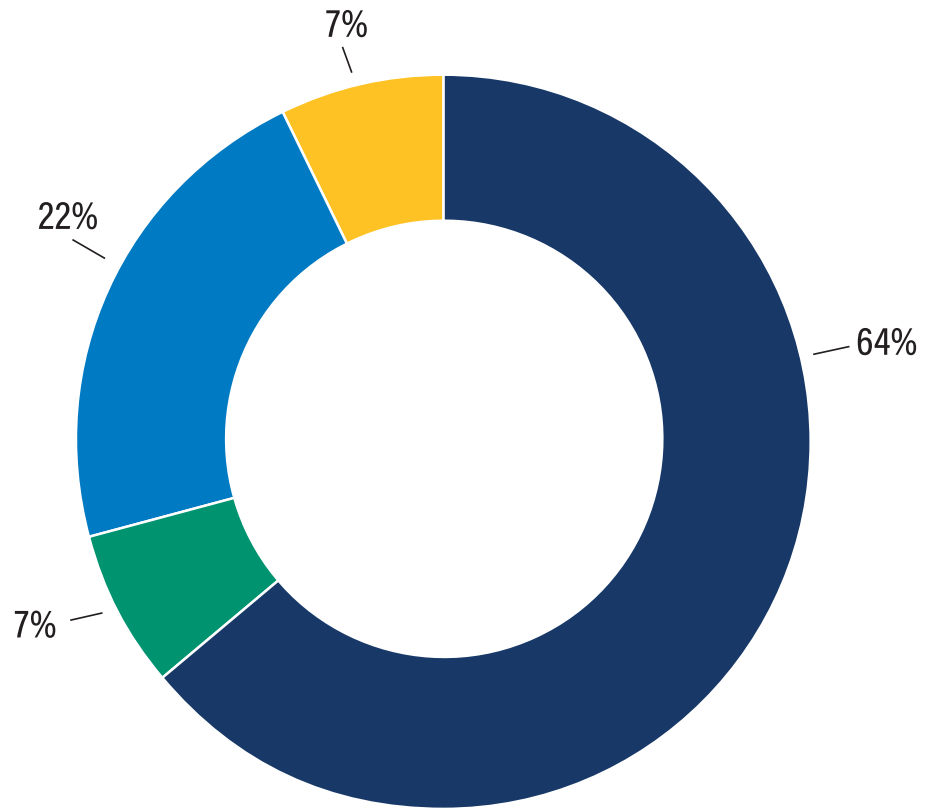
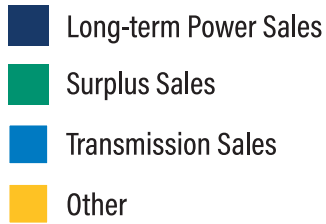
**Missouri Basin Municipal Power Agency dba Missouri River Energy Services  
and Western Minnesota Municipal Power Agency  
Combined Statements of Revenues, Expenses and Changes in Net Position**

	<b>YEARS ENDED DECEMBER 31</b>	
	<b><u>2023</u></b>	<b><u>2022</u></b>
	(thousands of dollars)	
<b>Operating Revenues (Notes 3 and 12):</b>		
Long-term power sales	\$ 178,056	\$ 182,202
Short-term power sales	21,374	43,366
Transmission services	61,063	61,393
Other operating income	1,320	104
<b>Total Operating Revenues</b>	<b>261,813</b>	<b>287,065</b>
<b>Operating Expenses:</b>		
Fuel	23,080	31,176
Purchased power	93,094	92,677
Other power supply operation and maintenance	20,852	25,825
Depreciation and amortization	19,841	19,530
Transmission operation and maintenance	41,558	43,616
Customer information and collections	231	202
Administrative and general	20,392	19,028
Property taxes	3,427	3,469
<b>Total Operating Expenses</b>	<b>222,475</b>	<b>235,523</b>
<b>Operating Income</b>	<b>39,338</b>	<b>51,542</b>
<b>Non-Operating Revenues (Expenses):</b>		
Investment income	9,679	3,953
Other income	6,424	6,382
Other expense	(6,827)	(8,885)
Interest expense	(24,722)	(25,548)
Amortization of financing related costs and premium	2,435	1,102
Unrealized gain (loss) on investments	7,800	(13,787)
Net costs recoverable in (for) future years:		
Depreciation and amortization in excess of (lower than) principal and amortization of debt related costs and premium	3,137	3,682
Unrealized gain (loss) on investments	(7,800)	13,788
<b>Total Non-Operating Expenses</b>	<b>(9,874)</b>	<b>(19,313)</b>
<b>Increase in net position, before capital contributions</b>	<b>29,464</b>	<b>32,229</b>
Capital contributions	1,383	-
<b>Change in Net Position</b>	<b>30,847</b>	<b>32,229</b>
<b>Net Position:</b>		
Beginning of year	429,319	397,090
End of year	<u>\$ 460,166</u>	<u>\$ 429,319</u>

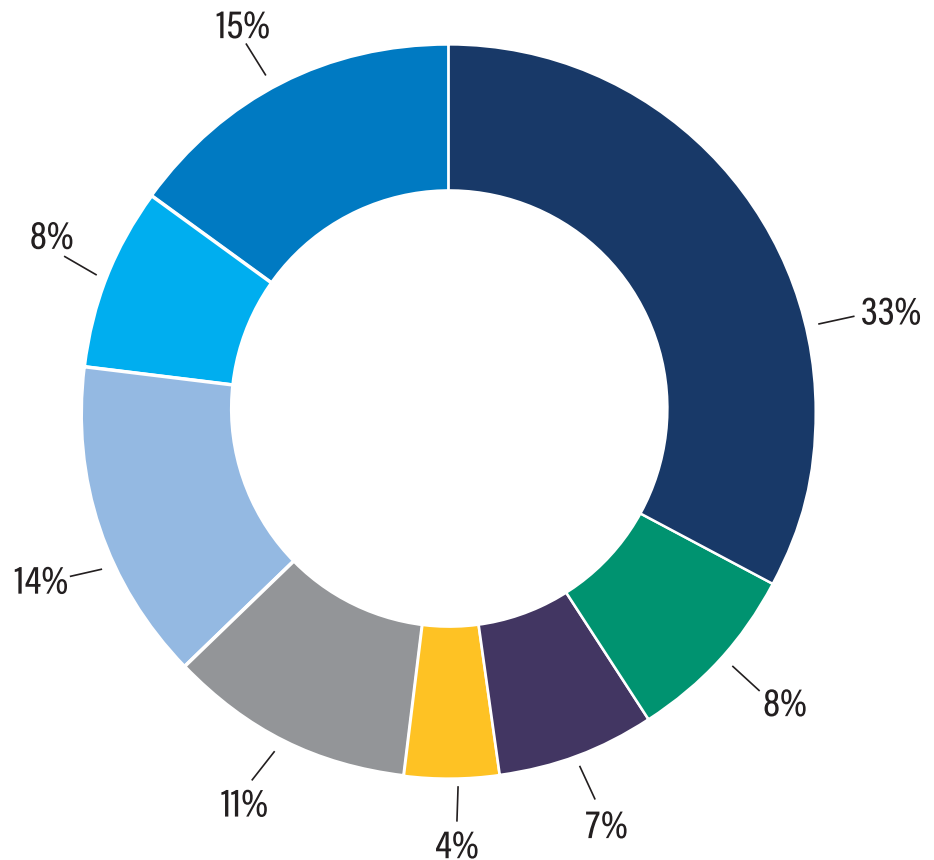
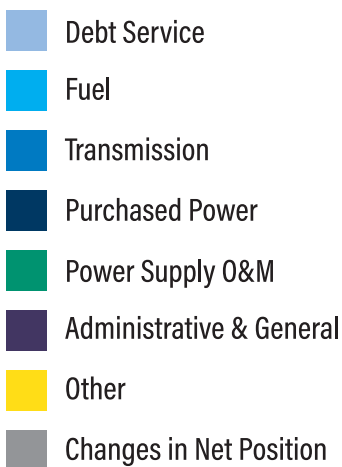
The accompanying notes to the combined financial statements are an integral part of these statements.



## 2023 SOURCES OF REVENUE



## 2023 USES OF REVENUE



**Missouri Basin Municipal Power Agency dba Missouri River Energy Services  
and Western Minnesota Municipal Power Agency  
Combined Statements of Cash Flow**

	<b>YEARS ENDED DECEMBER 31</b>	
	<b><u>2023</u></b>	<b><u>2022</u></b>
<b>Cash Flows From (Used For) Operating Activities:</b>	(thousands of dollars)	
Received from members and others	\$ 269,315	\$ 285,407
Paid to suppliers for goods and services	(194,125)	(219,306)
Paid to employees for operating payroll	(14,038)	(13,108)
<b>Net Cash Flows From Operating Activities</b>	<b>61,152</b>	<b>52,993</b>
<b>Cash Flows From (Used For) Capital and Related Financing Activities:</b>		
Net additions to utility plant	(33,842)	(13,075)
Federal Emergency Management Agency grant	1,383	-
Bond issuance costs	-	(630)
Deposits to escrow account lower than bonds defeased	-	586
Advances for mine development	-	(114)
Mine development repayments	222	321
Net advances for solar project	60	61
Revenue bond payments	(14,255)	(13,645)
Interest paid on revenue bonds	(24,390)	(26,576)
Other	(667)	(2,075)
<b>Net Cash Flows Used For Capital and Related Financing Activities</b>	<b>(71,489)</b>	<b>(55,147)</b>
<b>Cash Flows From (Used For) Investing Activities:</b>		
Proceeds from maturity and sale of investment securities	109,116	156,239
Purchase of investment securities	(106,814)	(162,103)
Investment income received	9,162	3,476
<b>Net Cash Flows From (Used For) Investing Activities</b>	<b>11,464</b>	<b>(2,388)</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>1,127</b>	<b>(4,542)</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>64,511</b>	<b>69,053</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 65,638</b>	<b>\$ 64,511</b>

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

**Missouri Basin Municipal Power Agency dba Missouri River Energy Services  
and Western Minnesota Municipal Power Agency  
Combined Statements of Cash Flow**

**YEARS ENDED DECEMBER 31**

	<b>2023</b>	<b>2022</b>
	(thousands of dollars)	
<b>Reconciliation of Operating Income to Net Cash Flows From Operating Activities:</b>		
Operating income	\$ 39,338	\$ 51,542
Adjustments to reconcile operating income to net cash flows from operating activities:		
Depreciation and amortization	19,841	19,530
Advance funds to Southwest Power Pool	-	(2,705)
Write-off of deferred charges and other investments	1,994	-
Sale (purchase) of renewable energy credits	72	(663)
Member assessments and miscellaneous income	6,424	6,382
Other expenses	(6,827)	(8,885)
Changes in assets and liabilities:		
Accounts receivable	1,078	(2,040)
Advances to MBPP	(2,180)	292
Fuel stock	(3,607)	2,266
Materials and supplies	(178)	(1,061)
Prepayments and other current assets	(510)	(960)
Accounts payable and other non-current liabilities	5,823	(4,447)
Recognition of revenue collected for future periods	-	(6,000)
Accrued taxes	(116)	(258)
<b>Net Cash Flow From Operating Activities</b>	<b>\$ 61,152</b>	<b>\$ 52,993</b>
<b>Reconciliation of Cash and Cash Equivalents to Statement of Net Position:</b>		
Cash and Cash Equivalents		
Restricted - Cash and cash equivalents	\$ 50,369	\$ 52,061
Unrestricted - Cash and cash equivalents	15,269	12,450
Short-term Investments		
Restricted - Short-term investments	7,093	17,468
Unrestricted - Short-term investments	148,867	51,127
Long-term Investments:		
Restricted - Long-term investments	36,090	25,484
Unrestricted - Long-term investments	130,320	222,792
<b>Total Cash and Investments</b>	<b>388,008</b>	<b>381,382</b>
<b>Less: Noncash Equivalents</b>	<b>(322,370)</b>	<b>(316,871)</b>
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<b>\$ 65,638</b>	<b>\$ 64,511</b>
<b>Supplemental disclosure of non-cash capital and related financing activities</b>		
Change in capital asset acquisition included in accounts payable	\$ (1,557)	\$ 2,714
Change in fair market value of derivatives	\$ (787)	\$ 1,787
Gain on termination of interest rate swap	\$ -	\$ 4,168
Bond proceeds deposited into an escrow account for purposes of refunding:		
Revenue Bonds	\$ -	\$ 6,280

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

## Missouri Basin Municipal Power Agency dba Missouri River Energy Services and Western Minnesota Municipal Power Agency Notes to Combined Financial Statements

### 1. ORGANIZATION

Missouri Basin Municipal Power Agency dba Missouri River Energy Services (MRES) is a body corporate and politic, organized under the laws of the State of Iowa. Membership consists of 61 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 24 municipalities in the state of Minnesota. All WMMPA members are also members of MRES. WMMPA owns various coal-fired, natural gas-fired, oil-fired, hydroelectric, and wind generating facilities. WMMPA also owns varying interests in transmission facilities and a headquarters building.

Pursuant to a power supply contract, MRES purchases and WMMPA sells the WMMPA entitlement in its generation and transmission facilities. MRES in turn utilizes the output and capacity of these facilities and other resources to provide power supply and transmission services to members under terms of separate Long-term Power Sale 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. The administrative services agreement expires January 1, 2057, to coincide with 59 of the 61 Power Sale Agreements. The agreement may be terminated thereafter by either party upon two years written notice.

MRES and WMMPA are two separate entities reported as a combined enterprise. The entities coexist on an equal basis with both entities together providing holistic services to their members. WMMPA owns the assets and provides financing, while MRES operates the assets and provides services. Neither entity is subordinate to the other. Therefore, the financial statements of MRES and WMMPA are combined to provide fair and accurate representation of the entities.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### A. Accounting Method

The combined financial statements of MRES and WMMPA follow authoritative sources of United States (U.S.) generally accepted accounting principles under the provisions of Governmental Accounting Standards Board (GASB) 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. MRES and WMMPA comply with all applicable GASB pronouncements, including the application of GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62). MRES and WMMPA utilize the Federal Energy Regulatory Commission's Uniform System of Accounts. Under GASB 62, MRES and WMMPA defer revenues and expenses for future recognition as they are recovered or returned through the rate-making process.

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. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- *Restricted* – This component of net position consists of constraints imposed by the WMMPA Power Supply Revenue Bond Resolution (Bond Resolution) or other contract requirements, which include investments restricted by Board policies.
- *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 revenues and expenses.

Operating revenues and expenses generally result from generating, purchasing, and transmitting electric power and energy. The principal operating revenues of MRES are revenues from members and others for the generation, purchase, and transmission of electric power and energy.

Operating expenses for MRES and WMMPA include the cost of generating, purchasing, and transmitting 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 include income from providing full-time distribution maintenance services for six MRES, member communities and one associate, and income received from the U.S. Treasury for the Build America Bonds. The other non-operating expenses include expenses from providing full-time distribution maintenance services for six MRES member communities and one associate and a \$4.2 million refund to Northern Cities Group members for transmission costs in April 2022. The \$4.2 million is a one-time refund based on the percent of revenue received from each NCG member.



**D. Capital Contributions**

Capital contributions are federal grant money received from Federal Emergency Management Agency.

**E. 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 Missouri Basin Power Project (MBPP) assets, which are capitalized in excess of \$10,000. 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. Construction work in progress (CWIP) mainly consists of transmission plant being constructed along with construction of a solar generation project.

**F. Asset Retirement and Environmental Obligation**

WMMPA adopted GASB 83, *Certain Asset Retirement Obligations (GASB 83)* effective January 1, 2019, for the retirement of all generating facilities except for MBPP. As a minority owner of MBPP, WMMPA had previously adopted Accounting Standards Codification (ASC) Section 410 *Asset Retirement and Environmental Obligations (ASC 410)* for MBPP. WMMPA recorded an Asset Retirement Obligations liability (ARO) for MBPP prior to January 1, 2019. The ARO under GASB 83 is for the closure of the Worthington Wind Project (WWP), Watertown Power Plant (WPP), and Marshall Wind Farm (MWF), to comply with contractual obligations, and are based on internal estimates. The estimated remaining useful lives for WWP, WPP, and MWF at December 31, 2023, were 4, 12, and 15 years, respectively. There is no required funding for the AROs for any of these assets.

The ARO under ASC 410 for MBPP includes the estimated cost for the reclamation of wells, landfills, and coal ash ponds at Laramie River Station (LRS). The estimated cost was provided by the Operating Agent for MBPP, Basin Electric Power Cooperative (BEPC). The ARO for all owners of LRS was \$47 million and \$29 million at December 31, 2023 and 2022, respectively. WMMPA's portion of the total was approximately \$8 million and \$5 million at December 31, 2023 and 2022, respectively.

WMMPA's asset retirement obligations activities as of and for the respective years ended December 31 are summarized below:

	<u>2023</u>	<u>2022</u>
	(thousands of dollars)	
Balance, beginning of year	\$ 9,597	\$ 9,393
Additional obligations	3,134	1,544
Accretion	249	205
Liabilities settled	(354)	(1,545)
Balance, end of year	<u>\$ 12,626</u>	<u>\$ 9,597</u>

**G. Depreciation**

MRES and WMMPA utilize straight-line depreciation for all depreciable assets. The estimated service lives for capital assets are 25 to 52 years for generation plants, 40 to 60 years for transmission plants, 52 years for intangible plants, and 5 to 50 years for general plants. Depreciation expense, expressed as a percent of depreciable utility plant in service, was 2.0 percent for both 2023 and 2022.

**H. Inventories**

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

**I. Prepayments and Other Current Assets**

Prepayments and other current assets include unamortized costs of expenses paid in advance for which the future benefits have yet to be realized. MRES and WMMPA recognize an expense or asset when such benefit is realized. Prepayments and other current assets consist of:

	<u>2023</u>	<u>2022</u>
	(thousands of dollars)	
Collateral for energy market participation	\$ 7,355	\$ 7,355
Prepaid capacity purchases	1,413	1,821
MBPP prepayment and other assets	5,157	4,354
Interest receivable	1,529	1,012
Prepaid expenses, i.e., insurance, inventory, and other expenses	1,019	844
Current portion of solar project prepayment	60	60
Current portion of MBPP mine development note receivable	161	221
Total prepayment and other current assets	<u>\$ 16,694</u>	<u>\$ 15,667</u>

**J. Investments**

Investment securities are stated at fair value based on quoted market prices or other observable inputs. Gains or losses on the sale of investment securities are recognized using the specific identification method. Unrealized gains or losses are deferred pursuant to GASB 62.

**K. Derivative Instrument**

Under GASB 53, *Accounting and Financial Reporting for Derivative Instruments*, the fair value of derivative instruments is to be reported in the financial statements. The derivative instruments recorded on WMMPA financial statements in other non-current assets are for interest rate swaps executed by WMMPA in 2020 and amended in 2021,

to hedge the interest rate risk for future refunding of outstanding bonds. WMMPA terminated the interest rate swap related to the 2012 A Bonds when the 2022 A Bonds were issued. See note 11 for further information.

**L. Restricted Assets**

Restricted assets consist of cash and investments required to be maintained or restricted by the Bond Resolution; the Assignment and Pledge Agreement among MRES, WMMPA, and the Agent Bank (Assignment and Pledge Agreement); and advances from others for specific projects. Current liabilities payable from these restricted assets are also classified as restricted. WMMPA is in compliance with all Bond Resolution funding requirements.

**M. Deferred Outflow of Resources**

A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that future time. The deferred outflows of resources include (1) AROs, and (2) the unamortized gain or loss on reacquired debt, which includes the unamortized gain on the interest rate swap.

**N. Amortization**

WMMPA unamortized debt-issuance costs and premiums are amortized over the term of the bonds. A regulatory asset is established under GASB 62 to recognize unamortized bond issuance costs for rate-making purposes. 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. WMMPA amortizes these amounts based on the straight-line method on each maturity, which approximates the effective interest rate method.

**O. Compensated Absences**

Employees are granted and accrue paid time-off in varying amounts in accordance with the MRES Human Resources Policies. Only compensated absences considered to be vested are accrued in these statements. Compensated absences of \$2.1 million and \$2.2 million were recorded in accounts payable at the end of December 31, 2023 and 2022, respectively.

**P. Deferred Inflow of Resources**

A deferred inflow of resources represents an acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time. The deferred inflow of resources includes (1) the difference between debt principal collected in rates and depreciation expense; (2) unrealized gain or loss on investments; (3) amortization of financing-related costs and premium; (4) deferred revenue (which are all considered a regulatory credit under GASB 62) and (5) the estimated fair value of hedge derivative financial instruments.

**Q. Statements of Cash Flows**

All highly liquid investments with an original maturity of three months or less are considered cash equivalents.

**R. 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 U.S. 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 or estimated at the time of closing, but since there is such a long window for true-ups, actual results may differ from estimates.

**S. Subsequent Events**

MRES and WMMPA considered events for recognition or disclosure in the financial statements that occurred subsequent to December 31, 2023, through April 4, 2024, the date the financial statements were available for issuance.

**T. Recently Issued Accounting Pronouncements**

GASB has approved GASB Statement No. 100, *Accounting Changes and Error Corrections*, Statement No. 101, *Compensated Absences*, and Statement No. 102, *Certain Risk Disclosures*. Management is in the process of evaluating the GASB statements and their impact. When they become effective, application of these standards may require restatement of portions of these financial statements.

**U. Reclassifications**

Certain prior year amounts have been reclassified to conform to current year presentation.

**3. SALE AGREEMENTS**

**Power Sale Agreements**

MRES and WMMPA have Long-term Power Sale Agreements with 61 members (Power Supply Members). Fifty-eight 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 members must take and pay for all electric power and energy made available under these agreements. Fifty-seven of the 58 S-1 Agreements provide for MRES to supply, to the extent it has power and energy available, to such MRES S-1 Members their respective Supplemental Power requirements above that supplied by Western Area Power Administration (WAPA). The electric power and energy sold to the other MRES S-1 Member is supplemental to WAPA and certain existing power supply agreements. These power supply agreements expire at various times between December 2026 and March 2033. As the power supply agreements expire, MRES will provide the electric power and energy previously provided by these agreements. Effective March 2033, the power and energy sold to this S-1 Member will be all power and energy supplemental to WAPA.

The term of the S-1 Agreements currently extends to January 1, 2057. MRES S-1 Members have an option every five years to cap their purchases from MRES at the level of service provided by MRES on the first day of the summer season following the second year following exercise of the option. No S-1 Member has ever elected to cap its purchases from MRES. The next option date for capping purchases from MRES is 2027.

MRES provides 100 percent of the demand and energy requirements to one MRES member under a Non S-1 Power Sale Agreement. This agreement expires January 1, 2057. The sale of power and energy under one of the other Non S-1 Agreements expires January 1, 2046, and is based on a 100 percent load factor, i.e., the same level of power and energy every hour. The remaining agreement extends to January 1, 2040, and requires the member to purchase all of its electric power requirements over and above purchases from WAPA and generation owned by the member from MRES. 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 and all other revenue requirements. MRES has contracted to collect payments for WAPA power and energy purchased by the members with WAPA allocations and to remit these payments to WAPA. Since MRES is only acting as agent for these members, these amounts are not reflected as revenue or expense in the Combined Statements of Revenues, Expenses, and Changes in Net Position. The power and energy purchased by these members that MRES was responsible for collecting and remitting to WAPA totaled approximately \$53 million and \$45 million for the 12 months ended December 31, 2023 and December 31, 2022, respectively.

The revenue requirements of the Long-term Power Sale Agreements expiring January 1, 2057 and January 1, 2040, include all expenses for the transmission of electric power and energy to these members. These expenses totaled \$39 million and \$41 million during 2023 and 2022, respectively.

In addition to sales under the Long-term Power Sale Agreements, MRES has arrangements to sell generating capacity to other wholesale customers on a long-term basis and wholesale power and energy in MISO and SPP on short-term firm and non-firm bases. Revenues associated with the sale of generating capacity on a long-term basis is classified in the accompanying statements as “Long-term power sales.” Revenues associated with the sale of wholesale power and energy in MISO and SPP on short-term firm and non-firm bases are classified in the accompanying statements as “Short-term power sales.”

#### 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, approximately 532 megawatts (MW), transmission, and general plant facilities owned by WMMPA and all replacement power and energy required by the Power Supply Members. The Power Supply Contract expires January 1, 2057, to coincide with the term of 59 of the 61 Long-term Power Sale Agreements.

##### B. Power Purchase Agreements

MRES has long-term power purchase agreements (PPA) with various third parties to receive the output of approximately 79 MW of wind generation, 33 MW of nuclear generation, and 1 MW of solar generation. The wind generation PPAs expire at various times between 2024 and 2029; the nuclear generation PPA expires in 2033, and the solar generation PPA expires in 2041. WMMPA acquired the Marshall Wind Farm, LLC (MWF, LLC) assets in March 2020. MWF represents 19 of the 79 MW of wind generation PPAs. See note 6 for additional details.

#### 5. INVESTMENTS

The investments for MRES and WMMPA are in accordance with the Bond Resolution, the Assignment and Pledge Agreement, 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 U.S. 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 2023 and 2022. State law and MRES and WMMPA Investment Policies require collateralization of all deposits above the FDIC limit. On December 31, 2023 and 2022, all MRES and WMMPA deposits were entirely insured or collateralized. MRES holds a collateral account with MISO, which totaled \$6.3 million at both December 31, 2023 and December 31, 2022. MRES also holds a collateral account with SPP, which totaled \$1.2 million at December 31, 2023 and \$1.1 million at December 31, 2022.

###### **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 Computershare Trust Company, N.A., National Association, as Trustee for WMMPA. MRES investments are held in the book entry system of the Fifth Third Bank 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, 2023 and 2022, are summarized as follows:

	<u>2023</u>		<u>2022</u>	
	<u>Amortized</u>		<u>Amortized</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
	<u>(thousands of dollars)</u>			
<b>Cash and Cash Equivalents:</b>	\$ 65,638	\$ 65,638	\$ 64,511	\$ 64,511
<b>Investment Securities:</b>				
Securities issued by U.S. Government	185,280	180,731	188,231	178,205
Securities issued by U.S. Government				
Agencies and Instrumentalities	138,915	135,930	139,037	133,866
Securities issued by State and Local				
Governments	<u>5,692</u>	<u>5,709</u>	<u>4,919</u>	<u>4,800</u>
<b>Total Funds</b>	<u>\$ 395,524</u>	<u>\$ 388,008</u>	<u>\$ 396,698</u>	<u>\$ 381,382</u>

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. The estimated fair value of cash and cash equivalents and investment securities, by contractual maturity, is shown under Fair Value Measurement. Expected maturities may 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.

#### ***FAIR VALUE MEASUREMENT***

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs supported by little or no market activity that are significant to the fair value of the assets or liabilities.

The tables displayed below present the fair value measurements of MRES and WMMPA assets recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at year-end. Securities issued by the U.S. Government are classified in Level 1 of the fair value hierarchy and valued using prices quoted in active markets for those securities. Securities issued by U.S. Government Agencies and Instrumentalities as well as securities issued by state and local governments were valued on institutional bond quotes and/or evaluations based on various market and industry inputs and are classified in Level 2. Certain cash and cash equivalents are valued at their outstanding balance, and thus, are not included within the fair value hierarchy.

At December 31, 2023, the MRES and WMMPA investments were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity (Years)</u>		<u>Level of Fair Value Hierarchy</u>
		<u>Less than One</u>	<u>Over One</u>	
		<u>(thousands of dollars)</u>		
Cash and Cash Equivalents – Other	\$ 2,297	\$ 2,297	\$ -	
Cash and Cash Equivalents – Money				
Market Mutual Funds	63,341	63,341	-	Level 1
Securities issued by U.S. Government	180,731	113,713	67,018	Level 1
Securities issued by U.S. Government				
Agencies and Instrumentalities	135,930	42,247	93,683	Level 2
Securities issued by State and Local				
Governments	<u>5,709</u>	<u>-</u>	<u>5,709</u>	Level 2
<b>Total</b>	<u>\$ 388,008</u>	<u>\$ 221,598</u>	<u>166,410</u>	



At December 31, 2022, the MRES and WMMPA investments were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity (Years)</u>		<u>Level of Fair Value Hierarchy</u>
		<u>Less than One</u>	<u>Over One</u>	
		<u>(thousands of dollars)</u>		
Cash and Cash Equivalents – Other	\$ 5,247	\$ 5,247	\$ -	
Cash and Cash Equivalents – Money Market Mutual Funds	59,264	59,264	-	Level 1
Securities issued by U.S. Government	178,205	25,198	153,007	Level 1
Securities issued by U.S. Government Agencies and Instrumentalities	133,866	42,147	91,719	Level 2
Securities issued by State and Local Governments	4,800	1,250	3,550	Level 2
Total	<u>\$ 381,382</u>	<u>\$ 133,106</u>	<u>248,276</u>	

### **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 and its Agencies and Instrumentalities had AA+ ratings from Standard & Poor's (S&P) and Fitch Ratings (Fitch) and Aaa ratings from Moody's Investors Service (Moody's). The securities issued by State Governments had ratings of AA- to AAA from S&P, AA to AAA from Fitch, and Aa2 or Aa1 from Moody's. The money market mutual funds included in cash and cash investments had ratings of AAAm from S&P 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 totaling 5 percent or more of the total portfolio were concentrated as follows:

<u>Issuer</u>	<u>% of Portfolio at December 31</u>	
	<u>2023</u>	<u>2022</u>
U.S. Government	47%	47%
Federal Farm Credit Bank	15	12
Federal Home Loan Bank	14	8
Federal National Mortgage Association	6	7
Federal Home Loan Mortgage Corporation	1	9

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 by percentage 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 fair value of an investment. 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 12 months. All other WMMPA funds have varying maturity limits depending on the anticipated need to make payments from the various funds.

## 6. INVESTMENT IN MARSHALL WIND FARM, LLC

WMMPA purchased MWF, LLC in March 2020. MWF, LLC owns nine wind turbines located near Marshall, Minnesota, and is capable of generating 19 MW of power. WMMPA provides financing for the operations of MWF, and it is accounted for as a blended component unit of WMMPA. The revenues and expenses of MWF, LLC were eliminated upon consolidation with WMMPA. MWF, LLC's summary financial information as of December 31, 2023 and 2022, and for the years then ended is as follows:

### Statement of Net Position

	<u>2023</u>	<u>2022</u>
	<u>(in thousands)</u>	
<b>Assets</b>		
Current assets	\$ 18	\$ 14
Net Plant	11,617	12,020
Total Assets	11,635	12,034
<b>Deferred Outflows of Resources</b>	2,006	2,185
Total Assets and Deferred Outflows of	\$ 13,641	\$ 14,219
<b>Liabilities</b>		
Current liabilities	\$ 771	\$ 204
Other non-current liabilities	2,565	2,607
Total Liabilities	3,336	2,811
Net Position	10,305	11,408
Total Liabilities and Net Position	\$ 13,641	\$ 14,219

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

<b>Revenues and Expenses</b>	<u>2023</u>	<u>2022</u>
	<u>(in thousands)</u>	
<b>Operating revenues</b>	\$ 1,179	\$ 1,406
<b>Operating expenses</b>		
Depreciation and amortization	1,103	1,065
Operation and maintenance	258	1,491
Administration and general	48	1
Total operating expenses	1,409	2,557
Operating Loss	(230)	(1,151)
Transfer from (to) WMMPA	(873)	86
Change in Net Position	(1,103)	(1,065)
<b>Net Position</b>		
Net Position, Beginning of year	11,408	12,473
Net Position, End of year	\$ 10,305	\$ 11,408

### Statement of Cash Flow

	<u>2023</u>	<u>2022</u>
	<u>(in thousands)</u>	
<b>Cash Flows</b>		
Net cash flow for noncapital financing activities	\$ 942	\$ (211)
Net cash flow from operating activities	(942)	211
Net Change in Cash	\$ -	\$ -
Cash, Beginning of year	-	-
Cash, End of year	\$ -	\$ -

## 7. MISSOURI BASIN POWER PROJECT

### A. Utility Plant

WMMPA has a 16.47 percent undivided ownership in MBPP that includes 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 \$20.39

all MBPP participants are as follows:

<u>Year</u>	<u>Tons</u>
2024	5,450,000
2025	4,000,000
2026	2,300,000
2027	1,800,000
2028	1,800,000

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. On December 31, 2023 and 2022, the balance of advances owed to WMMPA approximated \$0.7 million and \$0.9 million, respectively. These advances are expected to be fully repaid by 2029.

### C. Operating Expenses

Costs of MBPP are allocated to WMMPA based on its 16.47 percent undivided ownership interest, except for energy-related costs, which 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

WMMPA advances to the MBPP operating agent for working capital purposes totaled approximately \$7 million and \$5 million at December 31, 2023 and 2022, respectively.

## 8. UTILITY PLANT

Utility plant at December 31, 2023 and 2022, consisted of:

	<u>2023</u>			<u>2022</u>		
	Accumulated			Accumulated		
	<u>Gross Plant</u>	<u>Depreciation</u>	<u>Net Plant</u>	<u>Gross Plant</u>	<u>Depreciation</u>	<u>Net Plant</u>
	(thousands of dollars)					
Generation	\$ 782,816	\$ 232,871	\$ 549,945	\$ 774,753	\$ 218,673	\$ 556,080
Transmission	185,497	65,751	119,746	178,488	62,681	115,807
General	25,665	14,304	11,361	22,638	13,364	9,274
Intangible	9,274	8,519	755	9,274	8,427	847
Utility Plant in	1,003,252	321,445	681,807	985,153	303,145	682,008
CWIP	33,989	-	33,989	17,362	-	17,362
Total Utility Plant	<u>\$ 1,037,241</u>	<u>\$ 321,445</u>	<u>\$ 715,796</u>	<u>\$ 1,002,515</u>	<u>\$ 303,145</u>	<u>\$ 699,370</u>

Utility plant activity for the years ended December 31, 2023 and 2022, was:

	<u>January 1, 2023</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>December 31, 2023</u>
	(thousands of dollars)				
Non-depreciable Utility Plant					
Land	\$ 3,568	\$ 1,499	\$ -	\$ -	\$ 5,067
CWIP	17,362	33,424	-	(16,797)	33,989
Total Non-depreciable Utility Plant	20,930	34,923	-	(16,797)	39,056
Depreciable Utility Plant					
Depreciable Utility Plant in Service	981,585	436	(633)	16,797	998,185
Accumulated	(303,145)	(19,299)	999	-	(321,445)
Net Depreciable Utility in Service	678,440	(18,863)	366	16,797	676,740
Net Utility Plant	<u>\$ 699,370</u>	<u>\$ 16,060</u>	<u>\$ 366</u>	<u>\$ -</u>	<u>\$ 715,796</u>

	<u>January 1, 2022</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>December 31, 2022</u>
	(thousands of dollars)				
Non-depreciable Utility Plant					
Land	\$ 3,568	\$ -	\$ -	\$ -	\$ 3,568
CWIP	<u>10,457</u>	<u>13,089</u>	<u>-</u>	<u>(6,184)</u>	<u>17,362</u>
Total Non-depreciable Utility Plant	<u>14,025</u>	<u>13,089</u>	<u>-</u>	<u>(6,184)</u>	<u>20,930</u>
Depreciable Utility Plant					
Depreciable Utility Plant in Service	974,664	2,431	(1,694)	6,184	981,585
Accumulated	<u>(285,783)</u>	<u>(19,160)</u>	<u>1,798</u>	<u>-</u>	<u>(303,145)</u>
Net Depreciable Utility in Service	<u>688,881</u>	<u>(16,729)</u>	<u>104</u>	<u>6,184</u>	<u>678,440</u>
Net Utility Plant	<u>\$ 702,906</u>	<u>\$ (3,640)</u>	<u>\$ 104</u>	<u>\$ -</u>	<u>\$ 699,370</u>

## 9. OTHER NON-CURRENT ASSETS

	<u>2023</u>	<u>2022</u>
Other non-current assets consisted of:	(thousands of dollars)	
Accumulated change in fair value of hedging derivatives	\$ 3,515	\$ 4,301
Pierre Solar Project Prepayment	973	1,033
Renewable Energy Credits	1,209	1,282
Other Non-Current Assets	<u>613</u>	<u>2,392</u>
Total other non-current assets	<u>\$ 6,310</u>	<u>\$ 9,008</u>

## 10. FINANCING

### Power Supply Revenue Bonds

The Power Supply Revenue Bonds (Revenue Bonds) were issued to finance the ownership interest of WMMPA in generation, transmission, and general plant facilities.

Revenue Bond activity for the years ended December 31, 2023 and 2022, was as follows:

	January 1,	Debt	Payments or	December 31,	Amount Due
	<u>2023</u>	<u>Debt Issued</u>	<u>Refunded</u>	<u>2023</u>	<u>within One Year</u>
Revenue Bonds	\$ 597,520	\$ -	\$ -	\$ 583,265	\$ 13,730
Unamortized Debt Premium	<u>14,656</u>	<u>-</u>	<u>-</u>	<u>(1,998)</u>	<u>-</u>
Revenue Bonds, Net Unamortized	<u>\$ 612,176</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 595,923</u>	<u>\$ 13,730</u>

	January 1,	Debt	Payments or	December 31,	Amount Due
	<u>2022</u>	<u>Debt Issued</u>	<u>Refunded</u>	<u>2022</u>	<u>within One Year</u>
Revenue Bonds	\$ 617,445	\$ 43,160	\$ (49,440)	\$ 597,520	\$ 14,255
Unamortized Debt Premium	<u>16,416</u>	<u>2,763</u>	<u>(2,302)</u>	<u>14,656</u>	<u>-</u>
Revenue Bonds, Net Unamortized	<u>\$ 633,861</u>	<u>\$ 45,923</u>	<u>\$ (51,742)</u>	<u>\$ 612,176</u>	<u>\$ 14,255</u>



The original issue amount and the outstanding amount of the Revenue Bonds, net of unamortized debt premium, at December 31, 2023 and 2022, are as follows:

	<b>Original Issue Amount</b>	<b>Amount Outstanding</b>	
		<b>2023</b>	<b>2022</b>
2010 Series C Bonds: Term Bonds (Build America Bonds): 6.77% with annual sinking fund requirements beginning in 2031, due 2046	\$ 99,915	\$ 99,915	\$ 99,915
2014 Series A Bonds: Serial Bonds: 5.00% due 2021 through 2046	351,255	6,330	18,185
2015 Series A Bonds: Serial Bonds: 5.00% due 2031 through 2036	34,835	34,835	34,835
2018 Series A Bonds: Serial Bonds: 5.00% due 2025 through 2029	30,035	30,035	30,035
2018 Series A Bonds: Term Bonds: 5.00% due 2047 through 2049	52,390	52,390	52,390
2019 Series A Bonds: Serial Bonds: 1.988%-2.795% due 2021 through 2031	97,310	91,890	94,290
2019 Series A Bonds: Term Bonds: 3.156%-3.226% due 2039 through 2049	224,710	224,710	224,710
2022 Series A Bonds: Serial Bonds: 5.00% due 2024 through 2030	43,160	43,160	43,160
Principal Outstanding		583,265	597,520
Unamortized debt premium		12,658	14,656
Revenue Bonds, including unamortized debt premium		595,923	612,176
Less current maturities		13,730	14,255
Revenue Bonds, including unamortized debt premium and excluding current maturities		<u>\$ 582,193</u>	<u>\$ 597,921</u>

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

Year Ending December 31	Principal	Interest	Total	Payments expected to be received from U.S. Treasury
2024	\$ 13,730	\$ 24,416	\$ 38,146	\$ 2,233
2025	14,765	23,773	38,538	2,233
2026	15,435	23,086	38,521	2,233
2027	16,145	22,363	38,508	2,233
2028	16,890	21,603	38,493	2,233
2029-2033	96,930	97,785	194,715	11,112
2034-2038	117,270	78,460	195,730	10,501
2039-2043	141,625	50,906	192,531	6,458
2044-2048	132,155	18,050	150,205	1,143
2049	18,320	458	18,778	-
	<u>\$ 583,265</u>	<u>\$ 360,900</u>	<u>\$ 944,165</u>	<u>\$ 40,379</u>

2015 Series A Bonds and 2018 Series A Bonds are subject to redemption at par beginning in 2026 and 2029, respectively, at the option of WMMPA. The 2010 Series C Bonds and 2019 Series A 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 and 2019 Series A 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 and 2019 Series A Bonds. The 2022 Series A Bonds are not subject to redemption prior to maturity.

The outstanding bonds are secured by a pledge and assignment of and security interest in (1) the proceeds of the Revenue Bonds; (2) all funds established under the Bond Resolution; (3) all revenues received by MRES under the Power Sale Agreements; and (4) all revenues received from regional transmission organizations, except for revenues received by MRES for member-owned transmission assets. Principal and interest for the current year and total revenue pledged were approximately \$38 million and \$274 million, respectively.

The outstanding bonds contain a provision that in an event of default which has not been remedied, WMMPA will, upon demand of the Trustee, pay over or cause to be paid over to the Trustee all funds held by WMMPA in any fund other than funds in the Debt Service Reserve Account and all revenues when received. The Trustee will apply all funds received during the continuance of the event of default in the following order: (1) for payment of the reasonable and proper charges, expenses, and liabilities of the Trustee, (2) for payment of operating expenses, and (3) for payment of interest and principal on the redemption Bonds and the interest and principal components of Parity Hedging Contract Obligations. Parity Reimbursement Obligations shall not include any payments related to Subordinated Reimbursement Obligations. During 2022, WMMPA issued \$43 million of Power Supply Revenue Refunding Bonds, 2022 Series A Bonds, to advance refund the 2012 Series A Bonds. The cash flow requirements on the 2012 Series A Bonds refunded was \$60 million from January 2023 through January 2030. The cash flow requirements on the 2022 Series A Bonds total \$53 million for the same period. In conjunction with the refunding, WMMPA terminated the interest rate swap associated with the 2012 Series A Bonds. The net present value savings resulting from the advance refunding and termination of the interest rate swap was approximately \$6 million.

Escrowed Bonds outstanding and considered defeased total \$286 million and \$335 million at December 31, 2023 and 2022, respectively.

## 11. DERIVATIVE FINANCIAL INSTRUMENTS

On March 11, 2021, WMMPA executed two interest rate swap amendments related to the executed interest rates swaps. The two swaps were 1) a \$51 million swap for the 2012 Series A Bonds in which payments were expected to commence January 25, 2023, and 2) a \$35 million swap for the 2015 Series A Bonds in which payments will commence on January 21, 2026. The amendments replaced the taxable interest rate approved in the two rate swaps executed in March 2020 with a tax-exempt rate, which should more closely mirror the rate that WMMPA would expect to pay on refunding bonds when issued. WMMPA executed the interest rate swap agreements with Citibank, N.A. (Citi) to manage various risks associated with WMMPA's debt programs.

On October 19, 2022, WMMPA terminated the interest rate swap associated with the 2012 Series A Bonds. A gain of \$4 million was realized upon the termination of the interest rate swap. The gain is included in the unamortized loss on refunding and is being amortized over the remaining maturity of the 2022 Series bonds.

The interest rate swaps are a contractual agreement entered into between WMMPA and Citi under which each party agrees to exchange periodic fixed or variable payments, based upon a stated notional amount, over the stated life of the agreement. The net differential paid or received is recognized over the life of the agreement as an adjustment to interest expense. Interest rate swaps determined to be hedging derivatives are designated as cash flow hedges. The specific objectives for each category of effective hedges are summarized as:

- **Pay-Fixed, Receive-Variable Interest Rate Swaps** – WMMPA will pay a fixed rate and receive a variable rate on these swaps. On or about the effective date of the swap, WMMPA plans to issue fixed rate debt and either make or receive a termination payment, which would hedge the change in interest rates between the trade date of the swaps and the effective date of the swaps.

### **SIGNIFICANT TERMS, CHANGE IN FAIR VALUE, AND CREDIT RATINGS**

The significant terms and credit ratings of WMMPA's hedging derivatives as of December 31, 2023 and 2022, are shown in the following tables. The variable rates are quoted in terms of the Securities Industry and Financial Markets Association (SIFMA) Swap Index. S&P, Moody's, and Fitch ratings are disclosed for each swap and forward contract.

Associated Bond Issue	Initial Notional Amount	Effective Date	Maturity Date	Terms	Change in Fair Value (12/31/2023)	Fair Value (12/31/2023)
(in thousands)						
<b>Pay-Fixed, Receive-Variable Interest Rate Swaps</b>						
2015 Series A Bonds	\$ 35,000	1/21/2026	1/1/2036	Pay 0.955%; receive SIFMA Swap Index	\$ (786)	\$ 3,515

Associated Bond Issue	Initial Notional Amount	Effective Date	Maturity Date	Terms	Change in Fair Value (12/31/2022)	Fair Value (12/31/2022)
(in thousands)						
<b>Pay-Fixed, Receive-Variable Interest Rate Swaps</b>						
2015 Series A Bonds	\$ 35,000	1/21/2026	1/1/2036	Pay 0.955%; receive SIFMA Swap Index	\$ 2,770	\$ 4,301

Associated Bond Issue	Level	Counterparty Credit Ratings		
<b>Pay-Fixed, Receive-Variable Interest Rate Swaps</b>		<b>Moody's</b>	<b>S&amp;P</b>	<b>Fitch</b>
2015 Series A Bonds	Level 2	Aa3	A+	A+
Fair Value Measurements:				
Level 1 – Quoted Prices in Active Markets for Identical Assets				
Level 2 – Significant Observable Inputs				
Level 3 – Significant Unobservable Inputs				

WMMPA classified its derivative instruments in **Level 2** of the fair value hierarchy as they are valued using a market approach that considers benchmark interest rates and forward curves.

**DEBT SERVICE PAYMENTS ON UNDERLYING BOND ISSUES**

Current debt service requirements on the 2015 Series A Bonds are as follows (in thousands):

<u>Year Ending December 31,</u>	<u>Debt Service</u>
2024	\$ 1,742
2025	1,742
2026	1,742
2027	1,742
2028	1,742
2029-2033	23,669
2034-2036	20,121
Totals	<u>\$ 52,500</u>

The above debt service table does not include the impact of the swap payments, because the effective date of the swap is in 2026. The amounts that any swap payments would increase or decrease these totals would be based on the interest rates during the term of the swaps.

**RISKS**

**Credit Risk** – WMMPA is exposed to credit risk if the counterparty to an interest rate swap fails to meet the terms and obligations of its contracts.

WMMPA mitigates the credit risk associated with its swaps by entering into transactions with highly rated counterparties. The interest rate swap agreements also contain varying collateral requirements in the event of a credit rating downgrade. Swap contracts with a negative fair value do not expose WMMPA to credit risk. As of December 31, 2023 and 2022, WMMPA was not exposed to credit risk due to the swaps being recorded in the positive position. The aggregate fair value of hedging derivative instruments in asset (positive) positions was \$3.5 million and \$4.3 million as of December 31, 2023 and 2022, respectively.

**Interest Rate Risk** – WMMPA is not exposed to interest rate risk on its interest rate swaps. The pay-fixed, receive-variable interest rate swaps, WMMPA's net payment on the swap, increases as SIFMA swap index decreases.

**Basis Risk** – WMMPA is not exposed to basis risk due to participating in the pay-fixed, receive-variable interest rate swaps.

**Termination Risk** – Termination risk is the risk that the swap may be terminated prior to its scheduled maturity date as a result of certain specified events. The swaps associated with the 2015 Series A Bonds provide Citi and WMMPA with the option to terminate either swap under certain conditions at any time.

WMMPA or Citi may terminate any of the swaps if the other party fails to perform under the terms of the respective swap agreements. If any of the swaps are terminated, the associated variable-rate bonds would no longer have a synthetic fixed rate, and WMMPA would be subject to interest rate risk to the extent that the variable-rate bonds were not hedged with another swap or with variable-rate assets. Unless there is a termination option exercised by Citi, WMMPA would owe Citi a termination payment equal to the swap's negative fair value.

The swap agreements include optional early termination provisions granting WMMPA the right, but not an obligation, to terminate the interest rate swaps at par without a termination payment after an effective date or after the breach of certain counterparty credit ratings.

**Rollover Risk** – Rollover risk is the risk caused by a mismatch between the amortization of a derivative contract and the underlying hedged bonds.

None of WMMPA's effective interest rate swaps are subject to rollover risk, because the maturity dates of the swaps extend to the maturity dates of the related bonds.

**Market-access Risk** – Each swap associated with underlying variable rate debt subject to tender at the option of the bondholder is subject to market access risk.

If an early termination event occurs, WMMPA could be required to pay or to receive a substantial termination payment.

**12. RATE MATTERS**

As part of a plan to stabilize the cost of electrical energy to its members, the MRES Board of Directors (Board) has a policy to approve rates under the Long-term Power Sale Agreements that may include the use of the prior year's Net Position to fund a portion of subsequent years' operating expenses. Funds accumulated from prior years were not utilized in establishing the rates for 2022 and 2023. In 2021, the MRES Board approved deferring \$42 million of short-term power sales revenue that will be available to be utilized in subsequent years to stabilize rates. In 2022, the MRES Board approved recognizing \$6 million of the deferred revenue to stabilize rates.

**13. RETIREMENT PLANS**

MRES has a 401(k) defined contribution retirement plan covering substantially all of its employees that have more than one year of service. MRES contributes 10 percent of eligible payroll after one year of service, to the plan. Three percent of the MRES contribution is immediately vested, and the remaining 7 percent vests at the rate of 20 percent per year with full vesting after six years of service. Employer contributions totaled approximately \$1.4 million and \$1.1 million for 2023 and

2022, respectively, or approximately 9 percent of covered payroll. Covered payroll was 94 and 86 percent of total payroll for 2023 and 2022, respectively. Upon an employee's date of hire, the employee may contribute, on a voluntary basis, up to the maximum allowed by law. Employee contributions to the plan totaled approximately \$1.3 million in both 2023 and 2022, or approximately 9 and 10 percent of covered payroll for 2023 and 2022, respectively.

MRES has established a 457(b) defined contribution retirement plan covering substantially all of its employees. All contributions to the plan are voluntary employee contributions. MRES does not make any contributions to the plan.

Employee contribution to the plan totaled approximately \$0.5 million and \$0.4 million in 2023 and 2022, respectively, or approximately 3 percent of covered payroll for both 2023 and 2022.

MRES acts as plan administrator for both plans, and all plan changes are approved by the MRES Board. Employees are responsible for directing in which funds offered in the plans their balance is invested.

#### 14. 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 healthcare of MRES 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. In May 2022, a tornado caused damage to the Elbow Lake Substation and transmission lines. The transmission lines that were damaged qualified to receive funds from the Federal Emergency Management Agency (FEMA). WMMPA received approximately \$1.4 million from FEMA on February 23, 2024. In May 2023, there was damage that incurred to Unit 3 at Exira. There was a property insurance claim filed for the damage at Exira, the repair work has been completed, the estimated amount of the claim to be received is \$2.2 million. The coverages and deductibles in effect were substantially the same for both 2023 and 2022.

Effective January 1, 2021, MRES switched from a fully insured health insurance plan to a self-funded health insurance plan. MRES mitigated some of the risk of higher than normal claims with stop loss coverage. During 2022 and 2023, the health costs incurred under the self-insured plan were less than the premiums that would have been paid under a fully funded plan. 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 legislative, regulatory, and judicial action taken in response to public safety and environmental concerns. Compliance with such laws and regulations could result in increased operating costs and reduced operation levels. An inability to comply with certain laws and regulations could result in the complete shutdown of generating units and transmission facilities. At December 31, 2023, 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 construction of various transmission projects. As of December 31, 2023, the remaining obligation on these contract commitments totaled approximately \$16.3 million.

#### **CLEAN AIR ACT**

##### **CAA 111(d) Carbon Pollution Emission Guidelines for Existing Stationary Sources:**

In the past, the Environmental Protection Agency (EPA) has published various emission guidelines for states to use in establishing performance standards for regulating carbon dioxide (CO<sub>2</sub>) emissions from existing power plants under Section 111(d) of the Clean Air Act (CAA). These guidelines have been struck down by various courts, and there are currently no final guidelines in effect.

EPA issued a proposed rule in 2023 setting forth new emission guidelines to regulate CO<sub>2</sub> emissions from existing power plants. EPA is expected to issue a final rule in 2024. The final rule will almost certainly be litigated. The ultimate nature of CO<sub>2</sub> regulation for the power industry is unknown, and this issue is likely to remain unsettled for many years. Thus, it is not possible to predict the estimated financial or operational impact of any future regulations. It is clear that utilities will continue to face significant regulatory uncertainty in this area and could be subject to CO<sub>2</sub> regulations imposed by states seeking to enact their own CO<sub>2</sub> reduction plans.

**CCR Rule:** The 2015 Coal Combustion Residuals (CCR) Rule (CCR Rule) mandated closure of unlined surface impoundments upon a specified triggering event. In December 2019, EPA published proposed amendments to the CCR Rule that included new deadlines to cease waste receipt and initiate closure for unlined surface impoundments. The proposed amendments indicated all five unlined surface impoundments at LRS would be required to cease accepting CCR waste streams. On July 29, 2020, EPA released a final rule, which established April 11, 2021, as the cease waste receipt deadline for unlined surface impoundments.

BEPC, as Operating Agent for MBPP, is in the process of implementing a long-term compliance plan for the surface impoundments to meet the CCR Rule. Four surface impoundments have been retrofitted and are in compliance with the CCR Rule. The remaining surface impoundments stopped receiving waste by the April 2021 deadline and are in the process of retrofit or closure activities. The cost to close and retrofit the five surface impoundments at LRS is estimated at \$65.6 million (with \$33.5 million spent to date), which would result in costs of \$10.8 million to WMMPA.

**Ozone Transport Rule:** On March 15, 2023, EPA issued a final rule known as the Ozone Transport Rule to address the interstate transport of air pollution from several states pursuant to the "Good Neighbor" provision of the 2015 Ozone National Ambient Air Quality Standard (NAAQS). The Ozone Transport Rule imposes new requirements for reducing Nitrogen Oxide (NO<sub>x</sub>) emissions from power plants located in 23 upwind states. The reductions in NO<sub>x</sub> emissions are intended to prevent power plants in the covered states from significantly contributing to nonattainment or interfering with

maintenance of the 2015 ozone NAAQS in other states. The Ozone Transport Rule increases the stringency of EPA's current ozone-season NO<sub>x</sub> trading program. On February 16, 2024, EPA issued a proposed supplemental rule that would pull power plants in five other states, including Iowa, into the Ozone Transport Rule. EPA is expected to issue a final supplemental rule in 2024. If the supplemental rule is finalized as proposed, Exira Station Units 1, 2, and 3 would be required to maintain adequate allowances to cover their NO<sub>x</sub> emissions. It is difficult to estimate the cost to acquire additional allowances in future years due to uncertainty surrounding the continued liquidity of the NO<sub>x</sub> allowance market.



## Western Minnesota Municipal Power Agency

### Statements of Net Position

	DECEMBER 31	
	2023	2022
	(thousands of dollars)	
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:</b>		
<b>Current Assets:</b>		
Cash and cash equivalents:		
Restricted	\$ 33,496	\$ 32,011
Unrestricted	8,989	4,868
Total cash and cash equivalents	42,485	36,879
Short-term investments:		
Restricted	7,093	16,704
Unrestricted	44,246	20,044
Total short-term investments	51,339	36,748
Accounts receivable	5,472	1,189
Advances to MBPP	6,925	4,805
Fuel stock	9,777	6,170
Materials and supplies	6,150	5,972
Interest receivable	525	420
Prepayments and other current assets	6,118	5,223
<b>Total Current Assets</b>	128,791	97,406
<b>Non-Current Assets:</b>		
Long-term investments:		
Restricted	36,090	25,484
Unrestricted	33,006	49,452
Total long-term investments	69,096	74,936
Capital Assets:		
Utility plant in service	995,401	977,718
Less-accumulated depreciation	(314,880)	(297,091)
Net utility plant in service	680,521	680,627
Construction work in progress	33,989	17,362
Net Capital Assets	714,510	697,989
Advances for mine development	515	677
Unamortized debt expense - regulatory asset	2,965	3,386
Other non-current assets	4,091	6,323
<b>Total Assets</b>	919,968	880,717
<b>Deferred Outflows of Resources:</b>		
Asset Retirement Obligation	3,272	3,769
Unamortized loss on reacquired debt	8,916	8,062
<b>Total Deferred Outflows of Resources</b>	12,188	11,831
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	\$ 932,156	\$ 892,548

See accompanying independent auditors' report.

# Western Minnesota Municipal Power Agency

## Statements of Net Position

	DECEMBER 31	
	2023	2022
	(thousands of dollars)	
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION:</b>		
<b>Current Liabilities:</b>		
Accounts payable - unrestricted	\$ 16,518	\$ 14,365
Accrued taxes	2,859	2,975
Current liabilities payable from restricted assets:		
Accounts payable - restricted	4,592	2,692
Current maturities of revenue bonds	13,730	14,255
Accrued interest	12,361	12,029
<b>Total Current Liabilities</b>	<b>50,060</b>	<b>46,316</b>
<b>Non-Current Liabilities:</b>		
Revenue bonds:		
Principal outstanding	569,535	583,265
Unamortized debt premium	12,658	14,656
Revenue bonds, excluding current maturities	582,193	597,921
Asset retirement obligation	12,626	9,597
Note Payable to MRES	186,279	136,279
<b>Total Non-Current Liabilities</b>	<b>781,098</b>	<b>743,797</b>
<b>Total Liabilities</b>	<b>831,158</b>	<b>790,113</b>
<b>Deferred Inflows of Resources:</b>		
Revenues collected for future costs - regulatory credit	39,963	40,614
Accumulated change in fair value of hedging derivatives	3,515	4,301
<b>Total Deferred Inflows of Resources</b>	<b>43,478</b>	<b>44,915</b>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<b>874,636</b>	<b>835,028</b>
<b>Net Position:</b>		
Net investment in capital assets	129,232	94,363
Restricted:		
Debt service	53,317	54,365
Capital additions	128	205
Other	7,517	7,806
Total Restricted	60,962	62,376
Unrestricted	(132,674)	(99,219)
<b>Total Net Position</b>	<b>57,520</b>	<b>57,520</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<b>\$ 932,156</b>	<b>\$ 892,548</b>

See accompanying independent auditors' report.

# Western Minnesota Municipal Power Agency

## Statements of Revenues, Expenses and Changes in Net Position

	<b>YEARS ENDED DECEMBER 31</b>	
	<b><u>2023</u></b>	<b><u>2022</u></b>
	(thousands of dollars)	
<b>Operating Revenues:</b>		
Revenues billed MRES	\$ 90,481	\$ 94,950
Other operating income	1,183	1,409
<b>Total Operating Revenues</b>	<u>91,664</u>	<u>96,359</u>
<b>Operating Expenses:</b>		
Fuel	23,080	31,176
Purchased power and other power supply operation and maintenance	22,396	17,197
Depreciation and amortization	19,302	19,039
Transmission operation and maintenance	2,472	2,082
Administrative and general	6,993	6,510
Property taxes	3,427	3,469
<b>Total Operating Expenses</b>	<u>77,670</u>	<u>79,473</u>
<b>Operating Income</b>	<u>13,994</u>	<u>16,886</u>
<b>Non-Operating Revenues (Expenses):</b>		
Investment income	3,637	1,829
Other income	2,327	2,254
Other expense	(2,191)	(205)
Interest expense	(24,722)	(25,548)
Amortization of financing related costs and premium	2,435	1,102
Unrealized gain (loss) on investments	2,485	(6,015)
Net costs recoverable in (for) future years:		
Depreciation and amortization in excess of (lower than) principal and amortization of debt related costs and premium	3,137	3,682
Unrealized gain (loss) on investments	(2,485)	6,015
<b>Total Non-Operating Expenses</b>	<u>(15,377)</u>	<u>(16,886)</u>
<b>Increase in net position, before capital contributions</b>	<u>(1,383)</u>	<u>-</u>
Capital contributions	1,383	-
<b>Change in Net Position</b>	<u>-</u>	<u>-</u>
<b>Net Position:</b>		
Beginning of year	57,520	57,520
End of year	<u>\$ 57,520</u>	<u>\$ 57,520</u>

See accompanying independent auditors' report.