



MEMBER DRIVEN.
MEMBER FOCUSED.
2018 ANNUAL REPORT



PIERRE, S.D.

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This report and combined financial statements and notes are available at mrenergy.com[®].
Visit mrenergy.com for more information about MRES, our programs, and our services.

Members on cover (left to right):
Valley City, N.D. | Orange City, Iowa | Watertown, S.D. | Luverne, Minn.

OUR MISSION

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

OUR VISION

To be the preferred provider of energy and energy services that adds value to member organizations.

OUR CORE VALUES

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

RELIABILITY.

We are there when you need us.

ACCOUNTABILITY.

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

HONESTY.

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

COMPETENCE.

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

CREATIVITY.

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

The Core Purpose of MRES is to enhance the value of member utilities to their customers and communities through the provision of energy and energy services.

ABOUT US

MRES provides electricity and other energy-related services to 61 municipal electric utilities in four states. We serve 18 municipal electric utilities in Iowa, 25 in Minnesota, six in North Dakota, and 12 in South Dakota. Each of these members owns and operates its own local municipal electric distribution system. Collectively, the 61 members serve approximately 170,000 customers and have a population of approximately 320,000.

For more than 50 years, MRES has worked together with our members to meet the needs of their customers and to help those communities thrive and prosper. In 2018, we supplied approximately 60 percent of our members' total energy needs. Most of the remainder is hydropower provided by Western Area Power Administration (WAPA).

MRES is governed by a 13-member Board of Directors (Board) elected by and from the ranks of our member communities.

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

WMMPA is governed by a seven-member board of directors. The directors serve as representatives of the 24 WMMPA members.

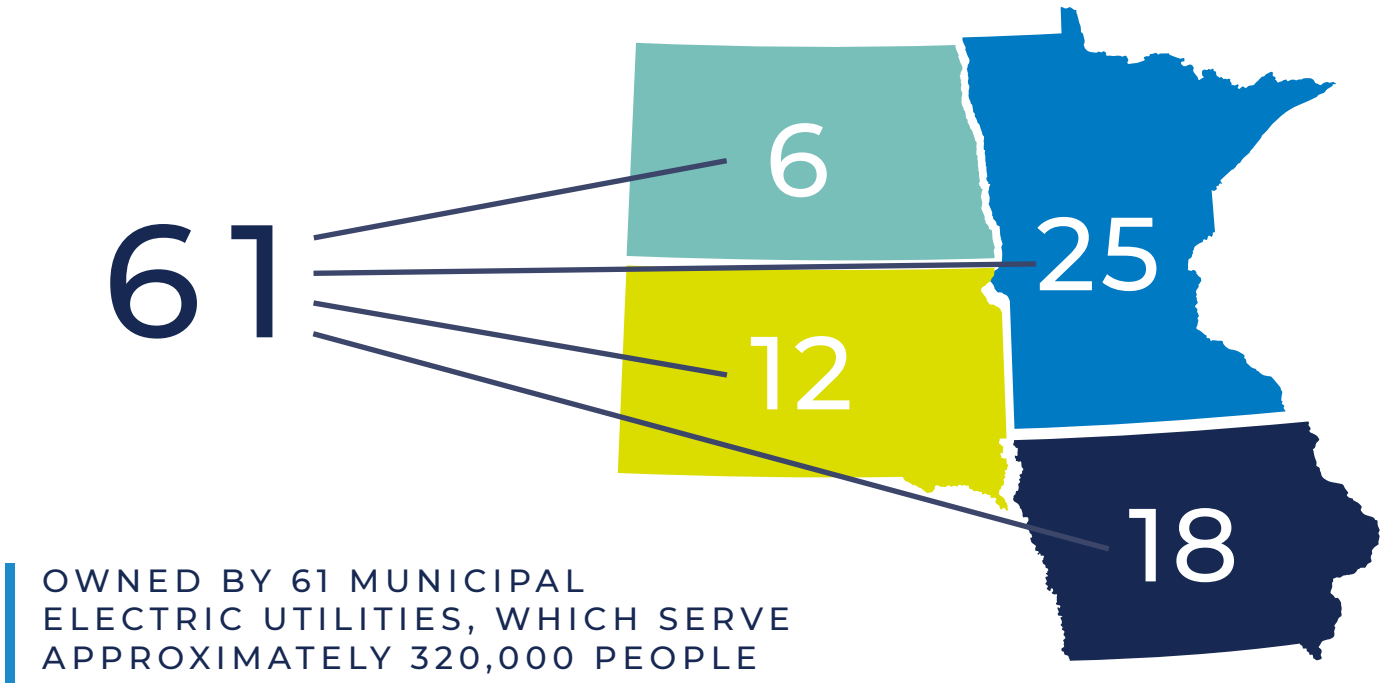


ST. JAMES, MINN.



STAPLES, MINN.

MEMBER MAP



OUR MEMBERS

IOWA	Alton Atlantic Denison Hartley Hawarden Kimballton Lake Park Manilla Orange City Paullina Pella Primghar Remsen Rock Rapids Sanborn Shelby Sioux Center Woodbine
MINNESOTA	Adrian Alexandria Barnesville Benson Breckenridge Detroit Lakes Elbow Lake Henning Hutchinson Jackson Lake Park Lakefield Luverne Madison Marshall Melrose Moorhead Ortonville Sauk Centre St. James Staples Wadena Westbrook Willmar Worthington
NORTH DAKOTA	Cavalier Hillsboro Lakota Northwood Riverdale Valley City
SOUTH DAKOTA	Beresford Big Stone City Brookings Burke Faith Flandreau Fort Pierre Pickstown Pierre Vermillion Watertown Winner



PELLA, IOWA

MESSAGE FROM THE CEO & CHAIR OF THE BOARD

61. That's the number we think about day in and day out. Sixty-one members of different sizes and varying needs, but all working toward a common goal of enabling a future that includes affordable and environmentally sensitive power, high reliability, and services that bring many benefits to the customers and community.

Today, it's more important than ever for public power utilities to connect with customers and to distinguish and position the utility as a trusted energy provider and advisor in the community. Our members play an important role supporting their local communities, and our number one job is to support our members.

We are focused and driven to enhance the value of member utilities to their customers and communities through the provision of energy and energy services. In short, we put our members first.

In 2018, prudent long-term financial planning again yielded strong results. MRES and WMMPA achieved the largest-ever net surplus and highest-ever debt service coverage (DSC).

We recorded a net surplus of \$51 million, which was approximately \$23 million higher than budget, and \$4 million higher than the 2017 net surplus of \$47 million. We achieved DSC of 226 percent in 2018, compared to 193 percent in 2017, topping the Board-established minimum target of 140 percent.

In 2018, WMMPA issued approximately \$82 million in Power Supply Revenue Series A Bonds. The proceeds from the bonds will be used to finance the construction of the Red Rock Hydroelectric Project (RRHP) and fund capital additions for existing transmission projects. The bonds carry an all-in true interest cost of 3.88 percent, which is the lowest borrowing cost in the history of WMMPA, based on the average maturity of the bonds.

We also retained our AA-/Aa3 bond ratings from FitchRatings (Fitch) and from Moody's Investors Service (Moody's), respectively. Those strong ratings are a testament to our financial strength and those of our members, and sound management practices. WMMPA is one of just a few joint-action agencies in the nation, and the only one in the Midwest, with ratings that high.

In 2018, crews continued to work on both upstream and downstream areas of construction at RRHP. Although inclement weather and flooding delayed the plant's upstream progress, we still expect to energize the plant in 2020.

We had many other notable successes in 2018. The following are among our top accomplishments:

- We will decrease our members' power supply rates by 3.2 percent in 2019.
- We welcomed Willmar, Minn., as our 61st member. Under a power sale agreement, Willmar will purchase from MRES all of the electricity it needs to supplement its existing purchases beginning June 1, 2019.
- To balance our capacity between the Southwest Power Pool (SPP) and the Midcontinent Independent System Operator (MISO) markets, we approved two sales – one for 150 megawatts (MW) of capacity and a second sale of 35 MW of capacity to other utilities in SPP. We also completed long-term capacity purchases to meet our shortfall in MISO.
- WMMPA became the sole owner of the Irv Simmons Transmission Project when it purchased ownership interests from two other utilities. The Irv Simmons Project is located near Fort Pierre, S.D., which is an MRES member.
- We now offer a suite of smart grid services to our members, which includes meter data management, online customer portals, outage management lite, and data analytics.
- We improved the security of our networks against physical and cyber security risks.

- Our Bright Energy Solutions® (BES) program reduced peak load by almost 8.4 MW in 2018, and it has provided peak demand savings of more than 65 MW since its inception in 2008.
- We conducted a member survey and created member focus groups that help us understand our members' concerns and challenges, learn about changes in their operations and customer base, examine their use of MRES programs and services, and more. Those findings are then incorporated into our strategic planning initiatives and used to develop services that meet our members' needs.
- We achieved many positive legislative outcomes, demonstrating our ability to work with legislators and other regulatory officials to achieve solutions that support public power communities.
- We launched a Value of Public Power campaign aimed at helping members educate their customers about the value and benefits provided by their local public power utility.
- We conducted a follow-up employee survey and created four employee groups to work on employee engagement.

It's true that our industry is constantly changing, but what has remained consistent over the last 50 years is Missouri River's focus on, and commitment to, our members. We are excited to continue to help them achieve their goals and meet the evolving needs of their communities.

Thank you to our members, Boards of Directors, and employees for helping make 2018 an outstanding year for MRES and WMMPA. We are looking forward to achieving even more in 2019 and beyond.



THOMAS J. HELLER
Chief Executive Officer, MRES

A handwritten signature in black ink that reads "Thomas J. Heller".



HAROLD SCHIEBOUT
Chair of the Board, MRES

A handwritten signature in black ink that reads "Harold Schiebout".

BOARD OF DIRECTORS
MISSOURI RIVER ENERGY SERVICES



HAROLD SCHIEBOUT

Chair
43 years of service
Sioux Center Municipal Utilities,
Sioux Center, Iowa



DONALD JOHNSTON

First Vice Chair
42 years of service
Flandreau Municipal Utilities,
Flandreau, S.D.



BILL SCHWANDT

Second Vice Chair
27 years of service
Moorhead Public Service,
Moorhead, Minn.



JAMES HOYE

Third Vice Chair
19 years of service
Rock Rapids Municipal Utilities,
Rock Rapids, Iowa



DAVID SCHELKOPH

Fourth Vice Chair
2 years of service
Valley City Public Works,
Valley City, N.D.



BRAD ROOS

Secretary/Treasurer
31 years of service
Marshall Municipal Utilities,
Marshall, Minn.



SCOTT HAIN

Director
8 years of service
Worthington Public Utilities,
Worthington, Minn.



STEVE LEHNER

Director
11 years of service
Watertown Municipal Utilities Department,
Watertown, S.D.



STEVE MEYER**Director**

13 years of service
Brookings Municipal Utilities,
Brookings, S.D.



VERNELL ROBERTS**Director**

4 years of service
Detroit Lakes Public Utilities,
Detroit Lakes, Minn.



LEON SCHOCHENMAIER**Director**

11 years of service
Pierre Municipal Utilities,
Pierre, S.D.



RORY WEIS**Director**

2 years of service
Denison Municipal Utilities,
Denison, Iowa



ROB WOLFINGTON**Director**

1 year of service
Benson Municipal Utilities,
Benson, Minn.

BOARD OF DIRECTORS
WESTERN MINNESOTA MUNICIPAL POWER AGENCY



BILL SCHWANDT
President
26 years of service
Moorhead Public Service,
Moorhead, Minn.



BRAD ROOS
Vice President
13 years of service
Marshall Municipal Utilities,
Marshall, Minn.



SCOTT HAIN
Secretary
13 years of service
Worthington Public Utilities,
Worthington, Minn.



VERNELL ROBERTS
Treasurer
11 years of service
Detroit Lakes Public Utilities,
Detroit Lakes, Minn.



TED CASH
Director
1 year of service
ALP Utilities,
Alexandria, Minn.



GUY SWENSON
Director
4 years of service
Barnesville Municipal Utilities,
Barnesville, Minn.



ROB WOLFINGTON
Director
6 years of service
Benson Municipal Utilities,
Benson, Minn.

MISSOURI RIVER ENERGY SERVICES
SENIOR MANAGEMENT



THOMAS J. HELLER
Chief Executive Officer
27 years of service



DEB BIRGEN
Director
Legislative & Governmental Relations
17 years of service



DAN HARMELINK
General Counsel & Director
Legal
1 year of service



JONI LIVINGSTON
Director
Member Services & Communications
20 years of service



JEFF PETERS
Director
Federal & Distributed
Power Programs
28 years of service



MERLIN SAWYER
Director
Finance & Chief Financial Officer
32 years of service



RAY WAHLE
Director
Power Supply & Operations
40 years of service



GENERATION FACILITIES



WAPA FEDERAL
HYDROELECTRIC RESOURCE



2020 MRES
HYDROELECTRIC RESOURCE



NUCLEAR RESOURCE



NATURAL GAS RESOURCE



WIND ENERGY RESOURCE



COAL RESOURCE



DIESEL RESOURCE
(EXCLUDES MUNICIPAL CAPACITY)



SOLAR RESOURCE

MRES is a not-for-profit joint-action agency. That means we work together with our members for the common good.

COMPARATIVE HIGHLIGHTS

FINANCIAL:

	2018	2017	2013
Operating Revenues (millions)	\$269	\$256	\$178
Operating Revenues, including WAPA Member Revenue (millions)	\$313	\$308	\$239
Operating Expenses (millions)	\$197	\$191	\$142
Plant in Service (millions)	\$521	\$507	\$389
Cash and Investments (millions) - Restricted	\$180	\$150	\$71
Cash and Investments (millions) - Unrestricted	\$193	\$147	\$109
Total Assets (millions)	\$1,070	\$932	\$488
Net Position (millions)	\$299	\$248	\$138

Debt Outstanding (millions)	\$661	\$580	\$258
Debt as Percent of Capitalization	69%	70%	65%
Principal Payments (millions)	\$10	\$11	\$14
Average Cost of Debt	3.8%	3.8%	4.3%
Debt Service Coverage	226%	193%	171%
Equity Percent of Capitalization	31%	30%	35%

POWER SUPPLY MEMBER ENERGY REQUIREMENTS:

Energy Provided by MRES (GWh)	3,120	2,970	2,643
Energy from WAPA (GWh)	1,869	1,867	1,862
Energy Provided by Others (GWh)	165	145	576
Total Energy Requirements (GWh)	5,154	4,982	5,081

Energy from Owned Coal	15%	17%	22%
Energy from Owned Natural Gas	2%	1%	0%
Energy from Nuclear	5%	5%	5%
Energy from Renewable Resources (Hydro, Wind, and Solar)	41%	42%	41%
Member Energy Provided by Others	3%	3%	11%
Member Energy from Market Purchases	34%	32%	13%

POWER SUPPLY MEMBER PEAK DEMAND (MW):

MRES Peak Demand	541	527	482
Total Member Town Gate Peak Demand	940	925	929

MEMBER Average Wholesale Rates (cents per kWh):

Member Power Supply and Transmission Rate	6.9	7.0	6.2
Member Blended Cost of Energy Supplied by MRES & WAPA	5.2	5.5	5.2



VERMILLION, S.D.

POWER SUPPLY & OPERATIONS

POWER PLANT IMPROVEMENTS

Laramie River Station's (LRS) Unit 1 is currently undergoing a retrofit with a Selective Catalytic Reduction (SCR) system that will be in operation before July 1, 2019. Units 2 and 3 were retrofitted with Selective Non-Catalytic Reduction (SNCR) systems by the end of 2018. The SCR and the SNCRs will reduce emissions of nitrogen oxides in compliance with the 2016 Regional Haze Federal Implementation Plan between Missouri Basin Power Project (MBPP) and the Environmental Protection Agency.

At the Exira Station, another MRES power plant, MRES installed a water filtration system, which allows the plant to capture and reuse plant process and drain water, rather than discharge it. We took additional steps to capture and filter the water to reuse.

NERC COMPLIANCE ASSISTANCE

Currently, eight MRES members are North American Electric Reliability Corporation (NERC) registered entities and own Bulk Electric System facilities. These members must comply with reliability standards set by NERC. Members subject to NERC reliability standards are required to have a Transmission Operator (TOP) and a Transmission Planner (TP) that will fulfill the member's reliability obligations on their behalf. In 2018, MRES assisted the affected members

in securing agreements for TOP services with other entities, and MRES registered as a TP and agreed to assume responsibility for the planning and tasks necessary to meet the NERC criteria on behalf of a few of our members.

ACQUISITION OF TRANSMISSION INTERCONNECTION

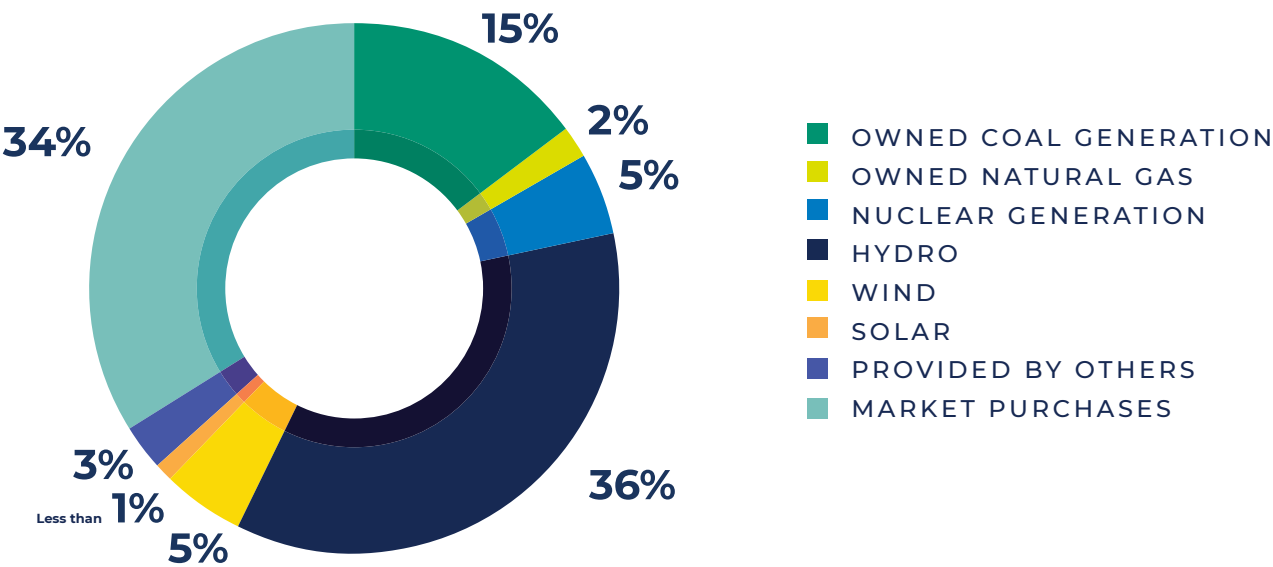
MRES staff was successful in obtaining a transmission interconnection at Marshall, Minn., in the amount of 50 MW through the purchase of Marshall Cogen LLC during 2018. Work has started to investigate the construction of a five-reciprocating engine generation project in Marshall to reduce the shortfall of capacity in the MISO market. Should MRES move forward with the project, the expected commercial operation would be no later than third quarter of 2022.

41% of our members' power supply comes from renewable energy, compared to regional averages of 28%.



46% of members' power supply mix comes from carbon-free resources, compared to the regional average of 38%.

MRES MEMBER 2018 SOURCES OF ENERGY



POWER SUPPLY & OPERATIONS

BALANCING LOADS IN TWO MARKETS

The regional operation of the electric system ensures that the supply of electricity constantly matches load to maintain reliable operation of the power system. If load and generation fall out of balance, local or even widespread blackouts can occur. MRES operates its generation resources according to regional rules to help maintain the balance between load and generation.

When WAPA moved its transmission system into the SPP, the Board made the decision to no longer purchase transmission service for MRES generation in SPP to MRES load in the MISO area, at a substantial cost savings. However, this created an excess of MRES generation in the SPP area and a shortage of generation in the MISO area. To remedy this situation, MRES sold 185 MW of capacity in SPP to two regional utilities.

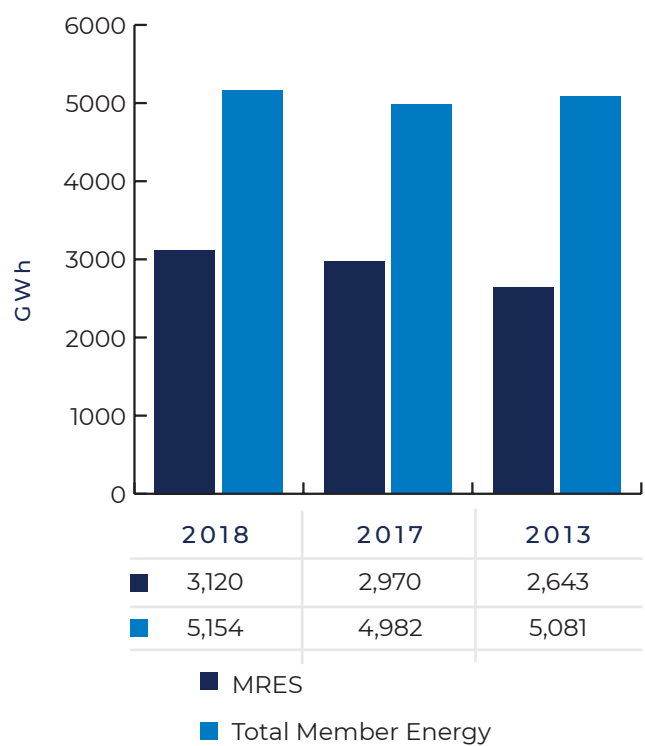
To help accommodate our capacity shortfall in the MISO market, we completed long-term purchases of capacity from other utilities. We also extended the Reserved Capacity Agreement with Pella, Iowa, that

will allow us to use its 28-MW diesel generation plant for the purposes of additional capacity in the MISO market. In addition, MRES increased its load through the addition of Willmar, Minn., which will begin June 1, 2019, and a new ethanol facility in Atlantic, Iowa.

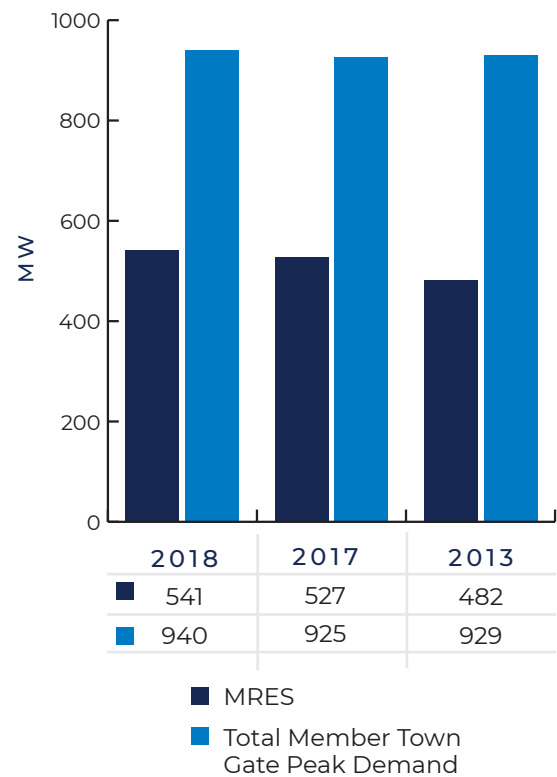
FERC ORDER 496

In 2018, we spent a considerable amount of time preparing for our appeal of the Federal Energy Regulatory Commission's (FERC) Order on GFA 496. In September of 2017, FERC concluded that MRES and two other utilities were not eligible for "carve-out treatment" (or relief from the assessment of congestion and marginal loss charges) under the Nebraska Public Power District's Transmission Service Agreement. Since then, MRES submitted a petition for review in June 2018 and a final brief filed in December 2018. In March of 2019, the Court of Appeal for the District of Columbia ruled in favor of FERC and against MRES. MRES is currently requesting the Court to reconsider the case.

MRES MEMBER ENERGY REQUIREMENTS
(2013-2018)



MRES MEMBER PEAK DEMAND
(2013-2018)





welcome
to

 **Alton**
love where you live.

ALTON, IOWA

POWER SUPPLY & OPERATIONS

EXCEPTIONAL RELIABILITY

Our members play an important role in providing low-cost and reliable power to help improve the quality of life in their communities. Twelve public power utilities that are members of MRES earned national recognition from the American Public Power Association (APPA) for achieving exceptional electric reliability in 2018. Of those 12, five (in red) are served by the MRES distribution maintenance crews. They are:

Benson (Minn.) Municipal Utilities | **Henning (Minn.) Power and Light** | **Hutchinson (Minn.) Utilities Commission**
Jackson (Minn.) Municipal Utilities | **Luverne (Minn.) Municipal Utilities** | **Marshall (Minn.) Municipal Utilities**
Melrose (Minn.) Public Utilities | **Olivia (Minn.) Municipal Utilities** | **Ortonville (Minn.) Municipal Utilities**
Sauk Centre (Minn.) Municipal Utilities | **Watertown (S.D.) Municipal Utilities** | **Willmar (Minn.) Municipal Utilities**

“This recognition demonstrates public power’s exceptional reliability, and it is a testament to the hard work of line workers in each of these communities to ensure that the lights stay on for all of their customers. Reliable electric service is a top priority for MRES and every member.”

Tom Heller, MRES CEO

TRANSMISSION COST RECOVERY

Regional transmission organizations, such as MISO and SPP, provide cost recovery to transmission owners (TO) whose facilities are part of the regional transmission network. MRES is a TO in MISO and SPP. MRES members save approximately \$2.5 million annually through transmission ownership compared to taking transmission service if facilities were owned by an investor-owned utility. Several MRES members also own transmission facilities that qualify for cost recovery in MISO and SPP, and are currently receiving payments for these transmission facilities. MRES prepares the required cost recovery documents for 13 of these members and also acts as an agent on their behalf with MISO and SPP.

SHARPENING THE FOCUS ON CYBER SECURITY

Utilities are modernizing power plants and transmission grids to improve reliability and resiliency. Their networks are increasingly connected and interconnected, which together raises the risk of potential cyber attacks. MRES is working to identify threats to our physical facilities and other utility operations and to prepare accordingly. To help mitigate potential issues, MRES has:

- Deployed two-factor authentication for all remote access to the MRES computer networks.
- Conducted external penetration tests on the MRES network and performed regular vulnerability assessments on our computer systems.
- Provided ongoing cyber security awareness training for MRES employees.



During 2018, crews continued to work on the Red Rock Hydroelectric Project. Some of the major accomplishments were:

- Placed concrete for the intake structure and downstream Penstock #1
- Completed placement of structural concrete for the powerhouse
- Installed electrical and mechanical equipment in the powerhouse
- Installed roofing and exterior windows and doors at the powerhouse
- Began installation of the turbines and generators and installed the turbine tower assembly for Unit #1
- Flooded the tailrace in order to remove the downstream cofferdam
- Completed excavation and installation of bracing for Penstock #2

Photo courtesy of USACE

POWER SUPPLY & OPERATIONS

RED ROCK HYDROELECTRIC PROJECT TIMELINE



JANUARY 2011

An option agreement with Nelson Energy executed. Project work begins.

SPRING 2013

Iowa General Assembly passes HF630 – legislation that extends exemptions from state sales and use taxes to hydroelectric conversion equipment. Gov. Terry Branstad signs bill into law.

MARCH 2014

MRES and WMMPA Boards approve moving forward with RRHP.

AUGUST 2014

RRHP official groundbreaking ceremonies held and begin site construction.

APRIL 2011

FERC issues major license for RRHP.

FIRST QUARTER 2014

Corps completes 408 Permit and approves 404 Permit – final regulatory hurdle before construction of RRHP can begin.

JUNE 2014

WMMPA completes bond issue to partially fund RRHP and other projects.

MAY 2015

Installed the secant pile support structure that holds back the existing downstream earthen dam and ensures stability of the dam during excavation of the powerhouse.



JULY 2015

Completed work on the 240-foot diaphragm wall, which holds back the existing Red Rock earthen dam on the upstream side of the dam.

AUGUST 2017

Crews complete largest pour of concrete – 2,000 cubic yards or 200 truckloads.

JUNE 2018

Installation of turbine rotating parts begins.
WMMPA issues bonds to finance completion of RRHP.

NOVEMBER 2018

Second turbine assembly installed.

2020

Completion expected.

MARCH 2017

Installation of turbine-embedded components begins.

LATE 2017

Crews complete the first phase of the transmission line and tie-in to the Pella West Substation and energized the line for the first time.

SEPTEMBER 2018

First turbine assembly installed.

DECEMBER 2018

First generator stator installed.



GAVINS POINT DAM, S.D.

FEDERAL & DISTRIBUTED POWER PROGRAMS

WESTERN AREA POWER ADMINISTRATION

For more than 50 years, the Western Area Power Administration (WAPA) has served all but two of our members by supplying clean, reliable, cost-based hydroelectric power. WAPA is one of four power marketing administrations (PMAs) located throughout the U.S. with the responsibility to market electric power, primarily from multi-purpose water projects operated by the U.S. Army Corps of Engineers and the Bureau of Reclamation, to millions of Americans served by public power and rural electric cooperative utilities.

The PMAs play a crucial part in the country's electricity infrastructure, and will continue to do so as America transitions to a clean energy economy. For this reason, we support the continuation of non-profit ownership of the federal hydro generation and transmission system in the region and we continue to protect the interests of our members who are existing PMA customers. MRES members represent approximately 25 percent of WAPA's load in the Upper Great Plains Region.

Our members in the Pick-Sloan Missouri Basin – Eastern Division, experienced a total savings of \$17 million due to two WAPA rate decreases in 2017 and in 2018. The savings resulted from the repayment of drought costs from previous years.

Starting in 2008, an adder was created to repay the deferred costs incurred during periods of below-normal generation as a consequence of drought conditions. The drought adder component of the firm power rate dropped to zero on Jan. 1, 2018, as the remaining unpaid drought costs were fully repaid a year ahead of schedule.

WAPA expects no changes to its power supply rates for 2019.

WESTERN STATES POWER CORPORATION

In 2018, we provided funding of \$14.6 million to Western States Power Corporation (WSPC), which is comprised of 23 utilities representing members from 10 different states. MRES is a member of WSPC.

The organization advances the monies to WAPA to help fund capital projects, such as timely replacements and repairs to their facilities, for the six main stem dams along the Missouri River. These advances are returned within two months in the form of bill credits to MRES. Since 2001, WSPC has advanced \$432 million to the federal hydropower agencies in the Upper Great Plains region with MRES contributing more than \$120 million of that total.

Since joining WSPC in 2001, MRES has advanced \$120 million.

MEMBER SERVICES & COMMUNICATIONS

At MRES, we strive to respond quickly to the needs and expectations of our members and to serve as their trusted energy partner. We provide a variety of services that help our members adapt to changing technologies and evolving customer preferences.

SAVING ENERGY AND IMPROVING THE BOTTOM LINE

Bright Energy Solutions offers a suite of energy-efficiency cash incentive programs designed to help our members' residential and business customers reduce their electric energy costs and operate more efficiently. It also is a least-cost resource for MRES and delays the need to build more expensive generating facilities. During 2018, these projects cut nearly 8.4 MW from MRES peak load in 2018 at a cost of \$500 per kilowatt (kW). Since 2008, BES has provided more than 65 MW of peak demand savings at an average cost of \$558 per kW.

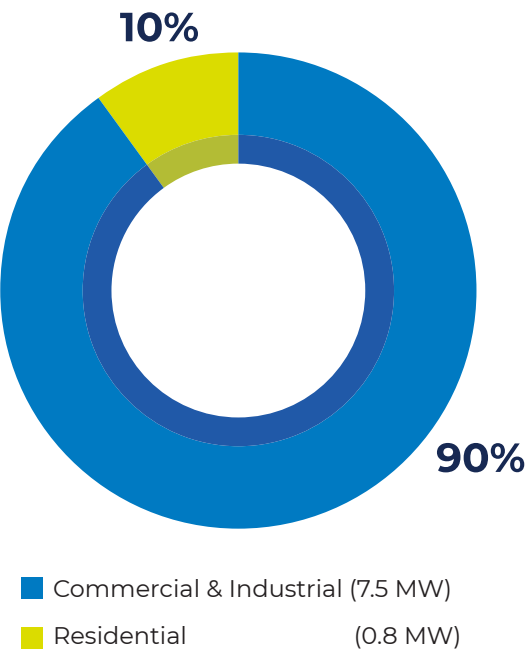


DIVING DEEPER INTO KEY ACCOUNTS

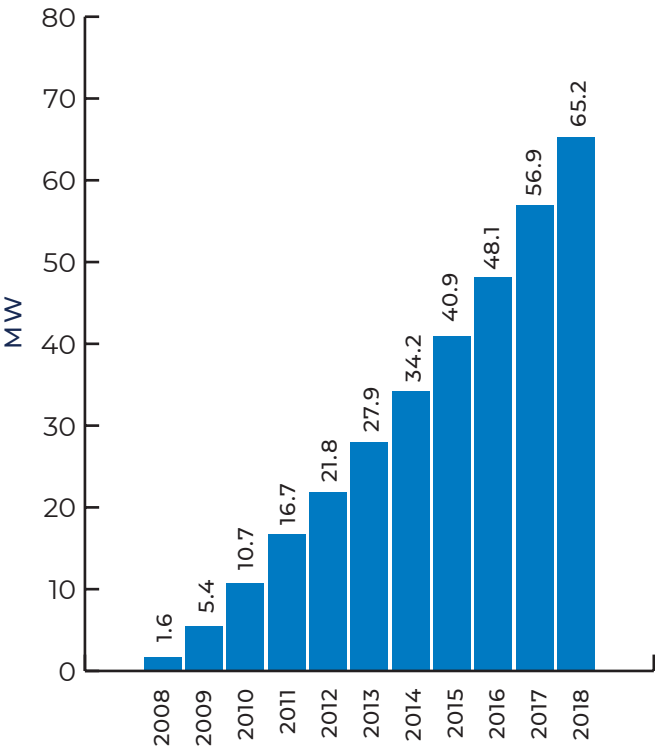
Listening to our members' key account customers is vital to maintaining strong relationships and developing successful and valuable programs geared toward those customers' goals. During the first half of 2018, the BES team assisted members in surveying 50 of the members' top retail customers about renewable and carbon reduction goals, distributed generation, green energy rates, electric vehicles, expansion plans, electrification opportunities, energy-tracking software, and new technologies. The feedback from these key accounts will help MRES and our members better understand their needs, and translate that new information into plans of action in 2019 and beyond.

2018 BES DEMAND SAVINGS

2018 PEAK DEMAND SAVINGS BY CUSTOMER CLASS



BES CUMULATIVE MW SAVED





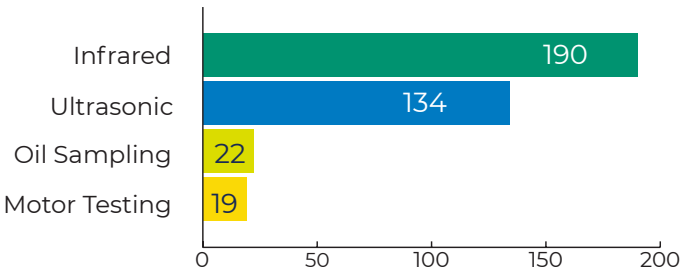
ERECTED MCMXIV

MEMBER SERVICES & COMMUNICATIONS

PROACTIVE MAINTENANCE

Our Proactive Maintenance Program is designed to inspect and test the equipment of members and their customers, and thereby detect potential problems before they cause a power outage or equipment failure. In 2018, our energy services technicians provided a total of 365 digital infrared, ultrasonic, motor testing, and oil sampling services.

2018 PROACTIVE MAINTENANCE PROGRAMS, BY NUMBER OF SERVICES



VALUE OF PUBLIC POWER

The more our members can connect and build goodwill with their customers, the more customers will see the value of their local public power utility. That’s why we ramped up our efforts to provide turn-key monthly marketing materials for our members to educate their customers on the benefits of their local public power utility. In 2018, we provided our members with a full suite of customizable infographics, videos, bill stuffers, articles, social media content, and press releases. The messaging focused on reliability, affordability, community ownership, safety, local control, and environmental responsibility.

We also developed customized public power videos for 20 of our member communities. These videos feature member utility managers and key staff who discuss the benefits of their community-owned utility. The videos have been used during local council meetings, on social media and websites, local cable stations, and when meeting with local legislators.

MRES earned an Award of Excellence from the American Public Power Association for its Value of Public Power social media engagement campaign.

RELIABLE ENERGY

ALWAYS IN THE FORECAST

As weather changes, you can count on our crews to be there when you need us. You may think a bit more about where your power comes from this time of year, but we’re working year round to provide:

Power that is affordable and dependable – there when you need us

Community owned and controlled – local people making community a top priority

Not-for-profit structure that answers to customers, and reinvests in the system

Environmentally conscious – and always striving for efficiency

PROVIDING POWER IS OUR SERVICE.
EMPOWERING THE COMMUNITY IS OUR MISSION.



ROCK RAPIDS, IOWA



ALEXANDRIA, MINN.

MEMBER SERVICES & COMMUNICATIONS

CRISIS COMMUNICATIONS FROM THE INSIDE OUT

Today we live in a world where every organization is vulnerable to crises. Having a crisis communications plan can mean the difference between ruining a reputation or preserving it, or even strengthening it.

In 2018, our Board adopted a crisis communications plan to help us prepare for and manage communications during an emergency or crisis to ensure overall safety and stability for both internal and external stakeholders. This same template also was shared with our members to use and to customize to meet their own circumstances and needs.

EDUCATIONAL AND LEADERSHIP OPPORTUNITIES

In 2018, we offered 12 educational meetings and workshops reaching nearly 500 member representatives, industry professionals, and customers. Some of the forums are the annual and area meetings,

Municipal Leadership Academy, MRES Technology Days, customer service workshops, and policymaker dinners. These meetings and workshops offer the perfect opportunity for members to hear updates on MRES projects and priorities, develop skills and services to meet customer expectations, improve on operational and leadership excellence, and keep abreast of changing technologies.

We also offer six electronic discussion groups (EDG) that help our members stay connected with peers to discuss everyday needs and concerns, and share knowledge learned and new ideas. MRES hosts EDGs for managers, customer service, accounting/finance, BES, IT, and communications personnel.

INVESTING IN A NEW WORKFORCE

SCHOLARSHIP PROGRAM

The MRES scholarship program is an invaluable way for member communities to support local students' efforts to further their education beyond high school. It also helps build the workforce of our future by increasing awareness of public power careers in our local communities. For 17 years, MRES has awarded five \$1,000 scholarships to students enrolled full-time in an energy-related field of study at a two- or four-year college, university, or vocational technical school. Another \$5,000 in scholarships is awarded to students enrolled in a powerline/line worker program. To date, we've awarded scholarships to 166 students.

"Thank you for your generous support of my education. I have already begun to find a passion for the power industry and I'm actually planning on working on a senior design project sponsored by MRES and its members. I hope to one day help students further their education. Once I graduate, I hope to find a career in the power field."

—GRANT METZGER

South Dakota State University

SCHOOL PROGRAM

Engaging students about energy efficiency and increasing energy awareness is critical to developing positive energy-saving habits for future generations. That's why 23 of our members offer the BES Power TeamSM classroom training and student kit that teaches 4th and 5th grade students about electricity, power supply, renewable energy, and careers in the utility field. The program reached nearly 2,000 teachers, students, and their families during the 2017-2018 school year. Funding for the program is provided by MRES and the participating member communities.

LEGAL & REGULATORY

MRES WEIGHS IN ON PROPOSALS TO ROLL BACK REGULATORY RULES

The MRES Legal staff spent a considerable amount of effort in 2018 monitoring and commenting on numerous regulatory activities proposed by the Environmental Protection Agency (EPA). Among other things, the federal agency in August issued a new proposal, the Affordable Clean Energy (ACE) rule. The proposed ACE rule is designed to replace the Clean Power Plan with revised emissions guidelines that states must use in setting performance standards for limiting carbon dioxide (CO₂) emissions from existing fossil-fueled power plants. Other Obama-era regulations being replaced or revised by EPA include the CO₂ New Source Performance Standards rule for new fossil-fueled power plants, the Coal Combustion Residuals (CCR) rule for the safe disposal of CCRs from coal-fired power plants, the Mercury and Air Toxics Standards rule for regulating hazardous air pollutants from coal and oil-fired power plants, and the “Waters of the United States” rule for determining federally jurisdictional waters.

MBPP PROJECT AGREEMENTS EXTENDED

WMMPA and other participants in the MBPP extended their participation agreements from 2027 to 2042. MBPP includes the Laramie River Station, the Grayrocks Dam and Reservoir, and certain transmission facilities.

PRESERVING CURRENT MUNICIPAL EXEMPTIONS

MRES is working with its congressional delegation and other stakeholders to preserve the current public power exemption from pole attachment regulation. Current federal law requires the Federal Communications Commission (FCC) to regulate the rates, terms, and conditions for pole attachments by telecommunications systems, but not municipal utilities.

In late September the FCC adopted a Report and Order that resulted in FCC pole attachment oversight and regulation of public power utilities. In November, APPA filed a petition for review with the U.S. Court of Appeals for the District of Columbia Circuit challenging the FCC report and order. The case has been moved to the U.S. Court of Appeals for the Ninth Circuit, where it is currently pending. MRES is planning to file an amicus brief in support of APPA's challenge to the FCC's rule.

This issue is particularly important to our members' city councils and municipal officials as they want to bring the best technology and services to their communities installed in the most responsible way. Any new technology should be installed at locations that make the most appropriate use of the rights-of-way, that are safe and structurally sound, and that do not financially burden the city.



MARSHALL, MINN.



DENISON, IOWA

LEGISLATIVE & GOVERNMENTAL RELATIONS

ENGAGING WITH POLICYMAKERS

MRES has developed a solid and effective government relations strategy that has helped build awareness and support for public power issues that impact MRES and our 61 members at both the state and federal levels.

In 2018, MRES staff and lobbyists spent considerable time at the various state capitols advocating for our members on issues of concern to municipal utilities. Here are some of the activities that occurred at the state level in 2018:

- Monitored legislative bills in Iowa, Minnesota, and South Dakota and kept membership informed through the MRES website and legislative newsletter. North Dakota legislators did not meet in regular session during 2018. However, MRES monitored all key interim committees and energy discussions.
- Participated in the Minnesota Municipal Utilities Association and the Iowa Association of Municipal Utilities legislative conferences and receptions.
- Continued participation in state associations' legislative committees.
- Sponsored the MRES® Power Lunch in February at the South Dakota Capitol.

Some of the key issues in 2018 included: passage of an Omnibus Energy bill in Iowa, which repealed energy efficiency reporting for municipal utilities; passage of an Iowa bill requiring appraisals before a city may consider selling a city-owned utility; revising Property Assessed Clean Energy (PACE) loans in Minnesota; defeating attempts at third party sales behind the meter in Minnesota; and passage of bills revising the process for ballot measures in South Dakota.



Representatives from MRES member communities traveled to Washington, D.C., to participate in the 2018 APPA Legislative Rally in February. The annual rally is an opportunity for municipal electric system representatives to meet with lawmakers to discuss issues that affect public power and their customers.

At the federal level, MRES staff enhanced the organization's political presence by attending numerous events to advance the agenda of public power:

- Participated in the APPA Legislative Rally along with 11 member communities and five associate communities to discuss continued access to tax-exempt financing and advance refinancing, the federal power program, and wireless pole attachments.
- Urged MRES members and associates to encourage U.S. Senators and U.S. Representatives to oppose the sale of the PMA's transmission assets and to support retaining the tax-exempt status of municipal bonds. Also, MRES members urged their federal delegation to sign on to a "Dear Colleague" letter opposing the sale of PMAs.
- Continued participation in federal association legislative committees including the Transmission Access Policy Study Group, the National Hydropower Association, the Freight Rail Customer Alliance, and APPA.
- Attended the APPA Policy Makers Fly-in in Washington, D.C., in July with members.

MRES staff, on average, contacted about
80% of the member legislators & nearly
70% of key legislators during 2018.

FINANCES

Our goal of maintaining a strong financial position, rate stability, and high bond ratings guides our organization to make decisions in the best interest of our members and the communities we serve. In 2018, we achieved the largest-ever net surplus and highest-ever debt service coverage (DSC) for MRES and WMMPA.

At the end of 2018, MRES and WMMPA recorded a net surplus of \$51 million, which was approximately \$23 million higher than budget, and \$4 million higher than the 2017 net surplus of \$47 million.

MRES achieved DSC of 226 percent in 2018, compared to 193 percent in 2017. The five-year DSC average is 168 percent. The Board-established target for the minimum average DSC is 140 percent.

Members of MRES will see an effective rate decrease of 3.2 percent in the power supply rates they pay to MRES for 2019. The decrease comes as a result of elimination of the 3.2 percent charge for market losses. The reduction is possible due to a combination of factors, including continued low market prices and losses, energy hedges executed to reduce exposure to the market, and the addition of sales to Willmar, Minn., beginning in 2019. No power supply rate increases are projected for 2020 or 2021.

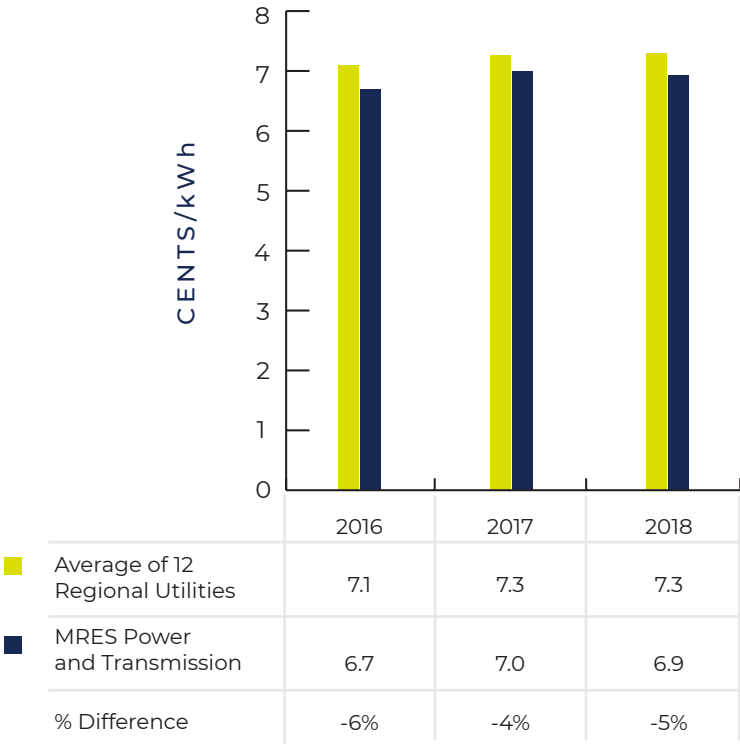
Long-term power sales revenue for 2018 was approximately \$183 million compared to \$176 million and \$162 million in 2017 and 2016, respectively. The 2018 long-term power sales revenue was 4 percent higher than in 2017, largely due to increased demand and energy sales. The average rate for long-term power sales was approximately 5.9 cents per kilowatt-hour (kWh) in 2018 and 2017, compared to 5.8 cents per kWh in 2016.

MRES sold approximately 3 million megawatt-hours (MWh) to its members in 2018, more than in any previous year in the organization’s history. The 2018 MWh sales were 5 percent higher than in 2017 due to an increase in consumption.

The MRES and WMMPA Boards approved an economic development rate discount effective Jan. 1, 2019. The new rate was set to assist members with local economic development in their communities by providing a tool to help attract new retail customers or encourage the expansion of facilities by existing customers.

Along with achieving strong financial results, MRES maintained competitive rates that were 5% lower than the regional utility average in 2018.

WHOLESALE COMPARISON DATA - 2018





SIOUX CENTER, IOWA

At Dec. 31, 2018, MRES and WMMPA had unrestricted/discretionary cash and investments in excess of \$193 million, which is more than \$40 million higher than the discretionary fund target level. Funds in excess of target levels are earmarked to pay cash for capital additions (instead of issuing debt) or redeeming debt early, when economically feasible. The resulting benefit from paying cash for capital additions or redeeming debt early is to further ensure long-term rate stability for MRES members and their retail customers. These unrestricted funds are used to ensure financial stability by establishing and maintaining adequate reserves for operating capital, rate stability, emergency expenditures and capital improvements for MRES power supply and transmission facilities.

In 2018, the Boards established a discretionary fund for the purposes of funding potential

decommissioning expenses for LRS, Watertown Power Plant, and the Worthington Wind Project. The decommissioning fund target of \$22 million was fully funded at December 31, 2018.

MRES successfully completed the SPP verification of risk management policies, practices, and procedures pertaining to activities in SPP markets. All requirements outlined in the credit policy of their tariff have been met.

In 2018, MRES implemented a number of strategies to reduce financial and cyber threats, including instituting positive pay with its local bank that reduces the potential for check fraud and acquiring a separate insurance policy to protect against emerging issues with cyber security.

FINANCES

In 2018, WMMPA issued approximately \$82 million of Power Supply Revenue Series A Bonds. The proceeds from the bonds will be used to finance the completion of RRHP, fund capital additions for existing transmission projects, and pay the cost of issuance for the 2018 bonds. The all-in true interest cost of the debt offering was 3.88 percent with an average maturity of just under 22 years. The final maturity of the bonds is January 2049. Based on the average maturity of the bonds, this is the lowest borrowing cost in the history of WMMPA.

“The strong demand for the bonds and the low interest rates achieved are a reflection of investors’ high regard for WMMPA, MRES, and the MRES members,” said MRES Finance Director and CFO Merlin Sawyer. “The debt service savings will help keep MRES members’ power supply costs among the lowest in the region.”

Rating agencies consistently recognize our financial strength, strong credit quality, diverse member base, and sound financial policies. WMMPA’s revenue bonds maintained a rating of Aa3 with a stable outlook from Moody’s, and a rating of AA- with a stable outlook from Fitch. Strong credit ratings allow MRES to borrow money at lower interest rates, and therefore hold down costs for the organization. WMMPA is one of a just a handful of joint action agencies in the country, and the only one in the Midwest, with ratings in the double-A category from either Moody’s or Fitch.

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

- Low-cost competitive power
- Strong, long-term contracts with members
- Diversity provided by 60 members with an estimated average overall electric system rating quality in the “A” category
- Members’ WAPA hydroelectric allocations and improved resource diversity
- Sound financial policies, resulting in ample liquidity and DSC
- Strong consolidated credit quality

RETAIL RATE STUDIES

In 2018, staff completed 13 retail rate studies and signed up 16 new studies. Since MRES established its retail rate study program in 1998, 255 studies have been completed. Studies have been conducted for electric, water, and wastewater utilities. These rate studies help members ensure they are receiving the appropriate revenues based on the costs to serve each customer class. The rate studies also demonstrated that MRES members have very competitive retail rates. Member electric rates are 10 to 20 percent lower than regional investor-owned utility rates. Also in 2018, MRES assisted two members with implementing retail demand rates for larger non-residential customers. These members had not billed for demand in the past.

Pictured below, from left: Bill Schwandt, WMMPA board president and general manager of Moorhead (Minn.) Public Service; Jennifer Chang, Moody’s; Vern Cochran, RRHP plant supervisor; Dan Aschenbach, Moody’s; Dan Cohen, senior underwriter, Citi; Nick Fanning, MRES resource engineer; Harold Schiebout, MRES board chair; Tom Heller, MRES CEO; Merlin Sawyer, MRES director of finance and CFO; Tim Miller, MRES manager of financial analysis and rates; and Frank Hogan, financial advisor, Dougherty & Company.





HUMAN RESOURCES

MRES continued to work on its strategic priority to attract, retain, and cultivate people who work for the organization.

IN 2018, MRES:

- Recorded no lost-time or Occupational Safety and Health Administration recordable incidents.
- Added a 457b retirement plan.
- Enhanced employee skills and development through emotional intelligence, project management, and leadership training.
- Updated all job descriptions.
- Established a new employee award program.

MRES completed a follow-up employee survey, first conducted in 2017, to gather updated information about employee engagement and satisfaction. Overall, the results of the survey were positive but in an effort to enhance employee engagement, four employee groups were established. These groups were formed to develop recommendations to further improve employee engagement.



MRES POWER Awards are given annually for outstanding achievements by employees. 2018 POWER Award recipients are, from left: Human Resources Manager Tammie Krumm, Senior Transmission Engineer – Tariff & Rates John Weber, and Resource Engineer II Nick Fanning.



BERESFORD, S.D.



BARNESVILLE, MINN.



KIMBALLTON, IOWA



HUTCHINSON, MINN.



MADISON, MINN.



CAVALIER, N.D.



FINANCIALS

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying combined financial statements of Missouri Basin Municipal Power Agency d/b/a Missouri River Energy Services (MRES) and Western Minnesota Municipal Power Agency (WMMPA) as of and for the years ended December 31, 2018 and 2017, and the related notes to the combined financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of MRES and WMMPA as of December 31, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the combined financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the combined financial statements, and other knowledge we obtained during our audit of the combined financial statements. We do not express an opinion or provide any assurance on the information, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have issued our report dated April 3, 2019 on our consideration of MRES's and WMMPA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters, including those systems applicable to MRES and WMMPA. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MRES's and WMMPA's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
April 3, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

(UNAUDITED - SEE INDEPENDENT AUDITORS' REPORT)

The discussion and analysis on the following pages summarize the financial highlights and focus 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 2018 and 2017. 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 provide 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 \$)

	2018	2017	2016	2018 Dollar Change	2017 Dollar Change
Current Assets	\$ 244	\$ 248	\$ 274	\$ (4)	\$ (26)
Non-current Assets:					
Net Capital Assets	643	577	517	66	60
Other Non-current Assets	182	106	113	76	(7)
Total Assets	1,069	931	904	138	27
Deferred Outflows of Resources:					
Unamortized loss on reacquired debt	1	1	1	-	-
Total Assets and Deferred Outflows of Resources	\$ 1,070	\$ 932	\$ 905	\$ 138	\$ 27
Current Liabilities	\$ 70	\$ 70	\$ 71	\$ -	\$ (1)
Non-current Liabilities:					
Revenue Bonds, Net of Current Maturities	651	570	584	81	(14)
Revenues collected for future costs	43	38	38	5	-
Other non-current liabilities	5	1	1	4	-
Total Liabilities	770	679	694	91	(15)
Deferred Inflows of Resources:					
Unearned Revenue	-	5	10	(5)	(5)
Net Position:					
Net Investment in Capital Assets	(32)	(17)	(92)	(15)	75
Restricted Net Position	155	129	194	26	(65)
Unrestricted Net Position	176	136	99	40	37
Total Net Position	299	248	201	51	47
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 1,070	\$ 932	\$ 905	\$ 138	\$ 27

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, 2018, increased by \$138 million or 15 percent compared to December 31, 2017. The largest variance was a \$77 million increase in net cash and investments, from \$296 million to \$373 million. Other significant variances included an increase of \$66 million in net capital assets, from \$577 million to \$643 million.

The total assets and deferred outflows of resources of MRES and WMMPA at December 31, 2017, increased by \$27 million or 3 percent compared to December 31, 2016. The largest variance was a \$60 million increase in net capital assets, from \$517 million to \$577 million. Other significant variances included an increase of \$33 million in unrestricted cash and investments, from \$113 million to \$146 million, and a decrease of \$68 million in restricted cash and investments, from \$218 million to \$150 million.

The largest asset of MRES and WMMPA at December 31, 2018, was net capital assets. Net capital assets totaled \$643 million or 60 percent of total assets and deferred outflows of resources at December 31, 2018, an increase of \$66 million compared to December 31, 2017. The \$66 million change in net capital assets during 2018 was mainly due to the \$60 million increase in Construction Work in Progress (CWIP). The increase in CWIP is largely due to the additional work completed on the Red Rock Hydroelectric Project (RRHP).

Net capital assets totaled \$577 million or 62 percent of total assets and deferred outflows of resources at December 31, 2017, an increase of \$60 million compared to December 31, 2016. The \$60 million change in net capital assets during 2017 was due to an increase in CWIP. The increase in CWIP is largely due to the additional work completed on the RRHP.

Cash and investments were the second largest assets and deferred outflows of resources for MRES and WMMPA at December 31, 2018. Cash and investments totaled \$373 million or 35 percent of total assets and deferred outflows of resources at December 31, 2018, an increase of \$77 million compared to December 31, 2017. The increase in cash and investments during 2018 is largely due to the debt issuance in July 2018 and the change in net position, offset by expenditures for RRHP and other capital projects. At December 31, 2018, approximately \$180 million of total cash and investments were restricted for debt service, capital projects, and other Bond Resolution related requirements and increased by \$30 million compared to December 31, 2017. The remaining \$193 million of total cash and investments are unrestricted and increased by \$47 million compared to December 31, 2017. The \$193 million of unrestricted cash and investments represent 12 months of the 2018 operating expenses of \$197 million.

Cash and investments totaled \$296 million or 32 percent of total assets and deferred outflows of resources at December 31, 2017, a decrease of \$35 million compared to December 31, 2016. The decrease in cash and investments during 2017 was largely due to expenditures for RRHP offset by the change in net position. At December 31, 2017, approximately \$150 million of total cash and investments were restricted for debt service, capital projects, and other required purposes. The remaining \$146 million of total cash and investments are unrestricted and increased by \$33 million compared to December 31, 2016. The \$146 million of unrestricted cash and investments represent over nine months of the 2017 operating expenses.

All other assets and deferred outflows of resources of MRES and WMMPA totaled \$53 million at December 31, 2018, \$6 million lower than at December 31, 2017. The largest reduction from December 31, 2017, included a \$3 million decrease in Missouri Basin Power Project (MBPP) prepayments and \$1 million decrease in fuel inventory at the natural gas-fired Exira Station (Exira).

All other assets and deferred outflows of resources of MRES and WMMPA totaled \$59 million at December 31, 2017, \$1 million higher than at December 31, 2016.

See accompanying independent auditors' report.

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, 2018, increased by \$138 million or 15 percent compared to December 31, 2017. Significant variances included an \$81 million increase in revenue bonds and a \$51 million increase in net position.

The total liabilities, deferred inflows of resources, and net position of MRES and WMMPA at December 31, 2017, increased by \$27 million or 3 percent compared to December 31, 2016. Significant variances included a \$47 million increase in net position offset by a \$15 million decrease in total revenue bonds and a \$5 million decrease in unearned revenue.

The largest liability of MRES and WMMPA is long-term debt including current maturities, which totaled \$661 million or 62 percent of total liabilities, deferred inflows of resources, and net position at December 31, 2018. Long-term debt increased by approximately \$81 million during 2018. The increase in 2018 was due to the issuance of the 2018 Bonds offset by the scheduled principal payments and amortization of debt premium.

Long-term debt, including current maturities at December 31, 2017, totaled \$580 million or 62 percent of total liabilities, deferred inflows of resources, and net position, a decrease of \$15 million from the prior year. The decrease in 2017 was scheduled principal payments and amortization of debt premium.

Net position totaled \$299 million at December 31, 2018, or 28 percent of the total liabilities, deferred inflows of resources, and net position compared to \$248 million or 27 percent of total liabilities, deferred inflows of resources, and net position at December 31, 2017. During 2018 and 2017, the net position increased by \$51 million and \$47 million, respectively, which was the MRES and WMMPA change in net position.

Revenues collected for future costs of \$43 and \$38 million at December 31, 2018 and 2017, respectively, represent 4 percent of total liabilities, deferred inflows of resources, and net position for both years. The increase in revenues collected for future costs is due to an increase in the amortization of debt premium.

Other non-current liabilities increased by \$4 million at December 31, 2018, compared to December 31, 2017. The increase is due to the asset retirement obligation for MBPP.

The \$5 million reduction in unearned revenues from December 31, 2017, to December 31, 2018, was due to 2018 being the final year of amortizing the reparations payment received from the BNSF Railway Company (BNSF) for rail overcharges resulting from a ruling from the Surface Transportation Board (STB). The MRES Board of Directors approved recognizing the unearned revenue over four years, beginning in 2015 and ending in 2018. Current liabilities, excluding the current portion of long-term debt, totaled \$60 million (6 percent) of total liabilities, deferred inflows of resources, and net position at both December 31, 2018 and 2017, respectively.

DEBT ACTIVITY

During 2018, WMMPA issued \$82 million of 2018 Series A Bonds and made scheduled principal payments of \$10 million. The 2018 Bonds will be used to fund the remaining development of RRHP and capital additions to existing transmission facilities. No proceeds from the 2018 Bonds will be used for capital improvements for existing generating facilities. WMMPA made scheduled payments of \$11 million and did not issue any debt in 2017.

DEBT RATINGS

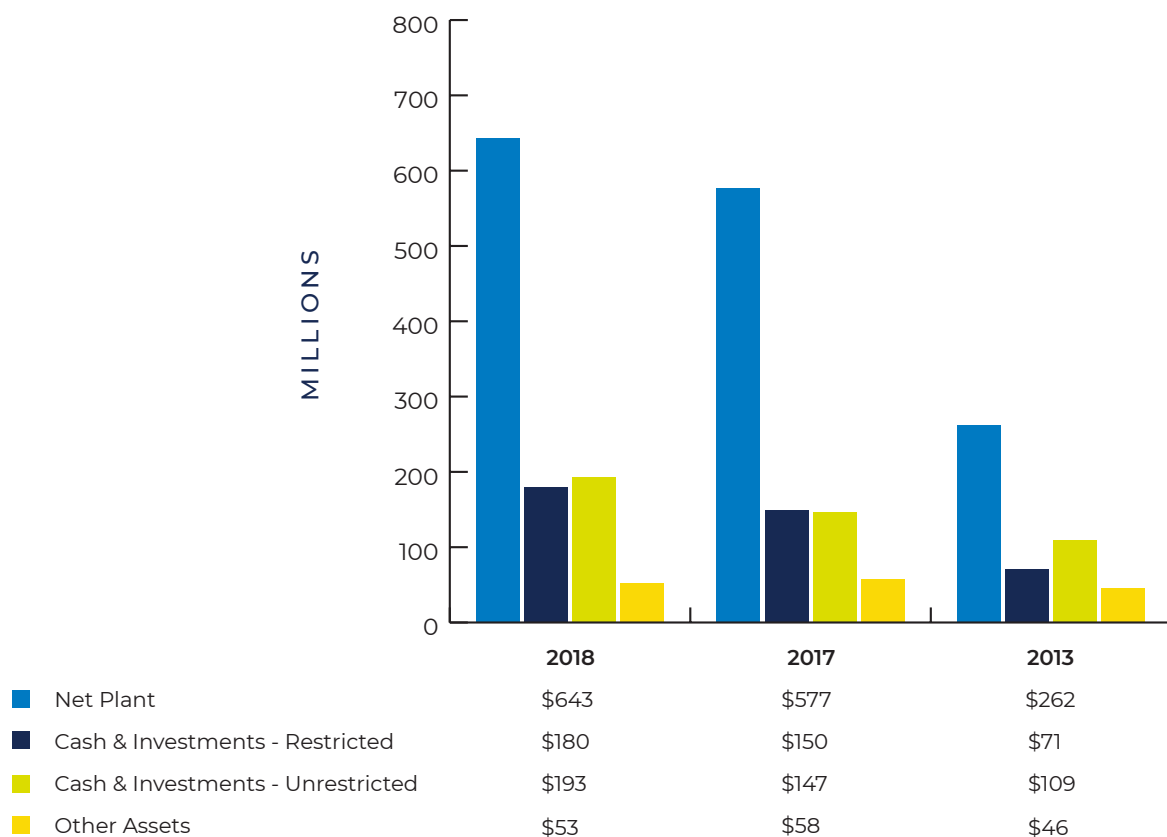
Following are the current underlying ratings for outstanding WMMPA revenue bonds:

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

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

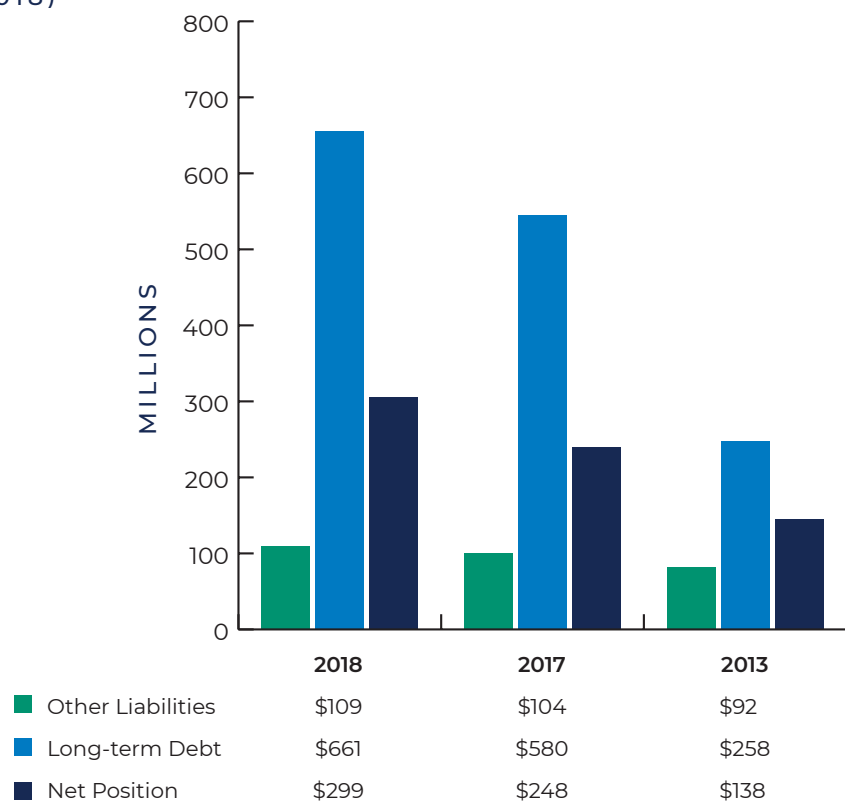
MRES & WMMPA ASSETS

(2013-2018)



MRES & WMMPA LIABILITIES & NET POSITIONS

(2013-2018)



RESULTS OF OPERATIONS

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

	2018	2017	2016	2018 Dollar Change	2017 Dollar Change
Operating Revenues	\$ 269	\$ 256	\$ 231	\$ 14	\$ 25
Operating Expenses	197	191	181	6	10
Operating Income	73	65	50	8	15
Investment and Other Income	13	10	10	3	-
Interest Expense	(30)	(28)	(29)	(2)	1
Other Non-operating (Expenses) Income	1	1	1	-	-
Amortization of canceled power supply and transmission projects	-	-	-	-	-
Net costs recoverable in (for) future years	(6)	(1)	(1)	(5)	-
Change in Net Position	51	47	31	4	16
Ending Net Position	\$ 299	\$ 248	\$ 201	\$ 51	\$ 47

Totals may not foot due to rounding.

OPERATING REVENUES

Long-term power sales revenue for 2018 was approximately \$183 million compared to \$176 million and \$162 million in 2017 and 2016, respectively. The 2018 long-term power sales revenue was 4 percent higher than in 2017, largely due to increased demand and energy sales. The 2017 long-term power sales revenue was 9 percent higher than in 2016, largely due to providing 100 percent of the Marshall, Minn., supplemental requirements for a full year in 2017. The average rate for long-term power sales was approximately 5.9 cents per kilowatt-hour (kWh) in 2018 and 2017 compared to 5.8 cents per kWh in 2016. The power supply rates for 2018 were unchanged from 2017.

The 2018 short-term power sales revenue of \$24 million was \$10 million higher than the \$14 million in 2017. The increased revenue is due to higher capacity and energy sales. The 2017 short-term power sales revenue of \$14 million was \$3 million higher than the \$11 million of 2016. The increased revenue is due to higher sales in Southwest Power Pool (SPP).

The revenue received for transmission services decreased by \$3 million (6 percent) in 2018 compared to a \$7 million (14 percent) increase in 2017. The decreased revenue in 2018 was due to the pass through of lower transmission costs paid to others in SPP and Midcontinent Independent System Operator, Inc. (MISO). The \$7 million in increased revenue in 2017 was due to the pass through of higher transmission costs paid to others in both SPP and MISO.

Other operating income of \$5 million in 2018 is unchanged compared to 2017 and 2016. Other operating income of \$5 million includes the amortization of the reparations payment received from BNSF for rail overcharges.

OPERATING EXPENSES AND NET OPERATING INCOME

Fuel expense for 2018 of \$17 million was 5 percent lower than in 2017 (\$18 million) and 12 percent lower in 2017 compared to 2016 (\$20 million). The 2018 generation at Laramie River Station (LRS) was 1.2 million megawatt-hours (MWh) compared to 1.4 million MWh in 2017 and 1.5 million MWh in 2016. The variance in generation between the years is due to planned and unplanned maintenance outages of LRS Unit 1 and increasing or decreasing generation based on market prices. The scheduled tri-annual maintenance outage for 2018 for LRS unit 1 included an extended outage for the installation of Selective Catalytic Reduction (SCR) equipment. The average fuel cost for LRS was 6 percent higher in 2018 than in 2017 and 4 percent lower in 2017 than in 2016. The generation at Exira was 82,627 MWh, 45,191 MWh, and 40,233 MWh in 2018, 2017, and 2016, respectively. The higher generation at Exira in 2018 was due to selling Exira into the SPP market more frequently.

See accompanying independent auditors' report.

Purchased power and other power supply operation and maintenance (O&M) expense for 2018 of \$116 million was 9 percent higher than in 2017 (\$106 million) and 7 percent higher in 2017 compared to 2016 (\$99 million). The increased 2018 purchased power and other power supply O&M expense compared to 2017 was largely due to higher MWh market purchases offset by lower market prices. The increase in the MWh was due to the scheduled tri-annual maintenance and SCR-related outage for LRS Unit 1. The increased 2017 purchased power and other power supply O&M expense compared to 2016 was largely due to higher MWh market purchases offset by lower market prices.

All other operating expenses totaled \$64 million in 2018, \$67 million in 2017, and \$61 million in 2016. The decrease in 2018 was largely due to a decrease in transmission O&M expense. The lower transmission O&M expense in 2018 was largely due to lower corporate income taxes resulting from the Tax Cuts and Jobs Act of 2017. The decrease in transmission O&M expenses is also due to a decrease in the SPP and MISO transmission expense, which was passed through to members. The bulk of the increase in other operating expense in 2017 compared to 2016 was the increase in transmission O&M expenses due to higher costs of transmission of electricity paid by the members.

Net operating income was \$73 million in 2018 compared to \$65 million and \$51 million in 2017 and 2016, respectively.

NON-OPERATING REVENUES AND EXPENSES

For the year ended December 31, 2018, non-operating expenses exceeded non-operating revenues by \$22 million, compared to \$18 million and \$20 million in 2017 and 2016, respectively. The variance from 2017 to 2018 was largely due to higher interest expense due to issuance of the 2018 Bonds and 2017 being the final year for amortizing reserves previously collected offset by increased investment yields.

Investment income totaled \$6 million in 2018 compared to \$3 million in 2017 and 2016. The variance in investment income from the 2016 through 2018 timeframe was an increase in investment yields and an increase in cash and investments. The increase in cash and investments was due to increased unrestricted funds and unexpended funds of the 2018 bond issuance.

Interest expense was \$30 million in 2018, \$28 million in 2017, and \$29 million in 2016. The increase in 2018 is due to the 2018 bond issuances. Debt principal requirements plus amortization of debt-related costs and premium exceeded depreciation and amortization expense by \$5 million in both 2018 and 2017 and \$6 million in 2016. 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.

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

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

	DECEMBER 31	
	2018	2017
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:		
Current Assets:		
Cash and cash equivalents (Note 5):		
Restricted	\$ 54,970,906	\$ 52,047,611
Unrestricted	14,103,976	17,203,475
Total cash and cash equivalents	69,074,882	69,251,086
Short-term investments (Note 5)		
Restricted	63,887,384	68,903,991
Unrestricted	66,018,880	59,507,223
Total short-term investments	129,906,264	128,411,214
Accounts receivable	21,554,722	22,872,721
Advances to Missouri Basin Power Project (MBPP) (Note 6)	5,350,848	5,068,505
Fuel Stock	5,666,566	6,800,976
Materials and supplies	4,432,276	4,481,981
Prepayments and other current assets	7,975,290	10,782,416
Total Current Assets	243,960,848	247,668,899
Non-Current Assets:		
Long-term investments (Note 5):		
Restricted	61,203,200	28,814,865
Unrestricted	113,374,289	69,857,633
Total long-term investments	174,577,489	98,672,498
Capital assets (Note 7):		
Utility plant in service	520,512,111	506,542,696
Less-accumulated depreciation	(253,522,250)	(245,778,930)
Net utility plant in service	266,989,861	260,763,766
Construction work in progress	376,247,703	316,432,152
Net capital assets	643,237,564	577,195,918
Advances for mine development (Note 6)	1,471,712	1,687,005
Unamortized debt expense - regulatory asset	3,841,626	3,373,794
Other non-current assets	1,551,154	2,334,284
TOTAL ASSETS	1,068,640,393	930,932,398
Deferred Outflows of Resources:		
Unamortized loss on reacquired debt	939,416	994,287
Total Deferred Outflows of Resources	939,416	994,287
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 1,069,579,809	\$ 931,926,685

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

DECEMBER 31

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION:

Current Liabilities:

	2018	2017
Accounts payable - unrestricted	\$ 13,568,843	\$ 17,076,899
Accrued taxes	3,437,736	3,503,080
Current liabilities payable from restricted assets:		
Accounts payable - restricted	27,396,130	25,044,385
Current maturities of revenue bonds (Note 8)	9,850,000	10,120,000
Accrued interest	15,795,344	14,044,248
Total Current Liabilities	70,048,053	69,788,612

Non-Current Liabilities:

Revenue bonds:		
Principal outstanding	602,615,000	530,040,000
Unamortized debt premium	48,795,862	39,788,203
Revenue Bonds, excluding current maturities (Note 8)	651,410,862	569,828,203
Revenues collected for future costs - regulatory liability (Note 9)	43,411,581	37,627,573
Other non-current liabilities (Note 9)	5,399,459	1,335,945
Total Non-Current Liabilities	700,221,902	608,791,721
Total Liabilities	770,269,955	678,580,333

Deferred Inflows of Resources:

Unearned revenue (Note 12)	-	4,868,603
Total Deferred Inflows of Resources	-	4,868,603
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	770,269,955	683,448,936

Net Position:

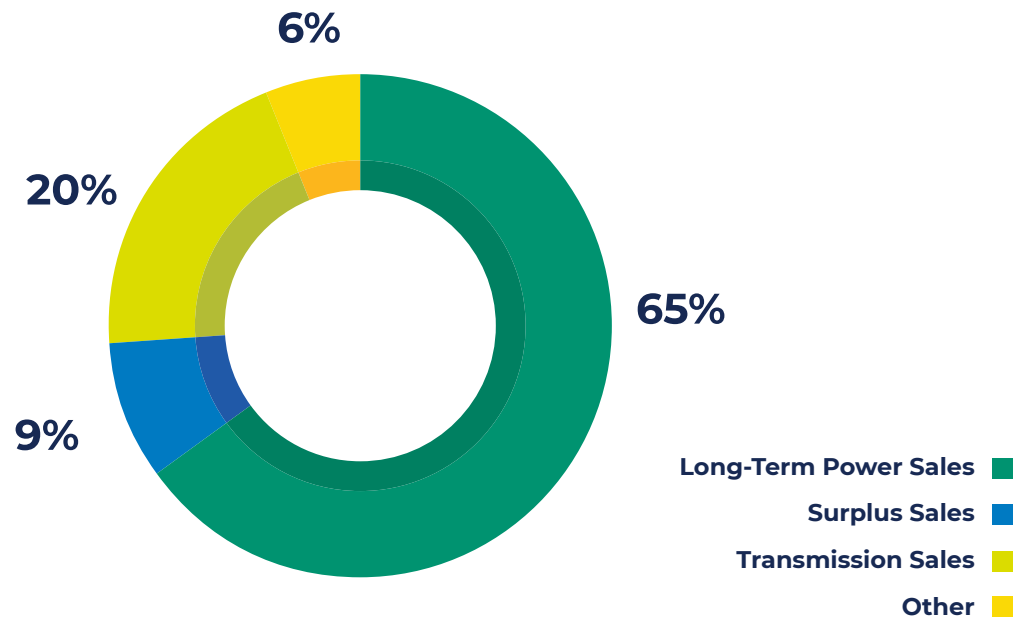
Net investment in capital assets	(31,792,185)	(16,931,119)
Restricted:		
Debt service	52,082,254	49,825,143
Capital additions	85,438,347	58,403,570
Other	17,899,344	20,996,036
Total Restricted	155,419,945	129,224,749
Unrestricted	175,682,094	136,184,119
Total Net Position	299,309,854	248,477,749
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 1,069,579,809	\$ 931,926,685

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

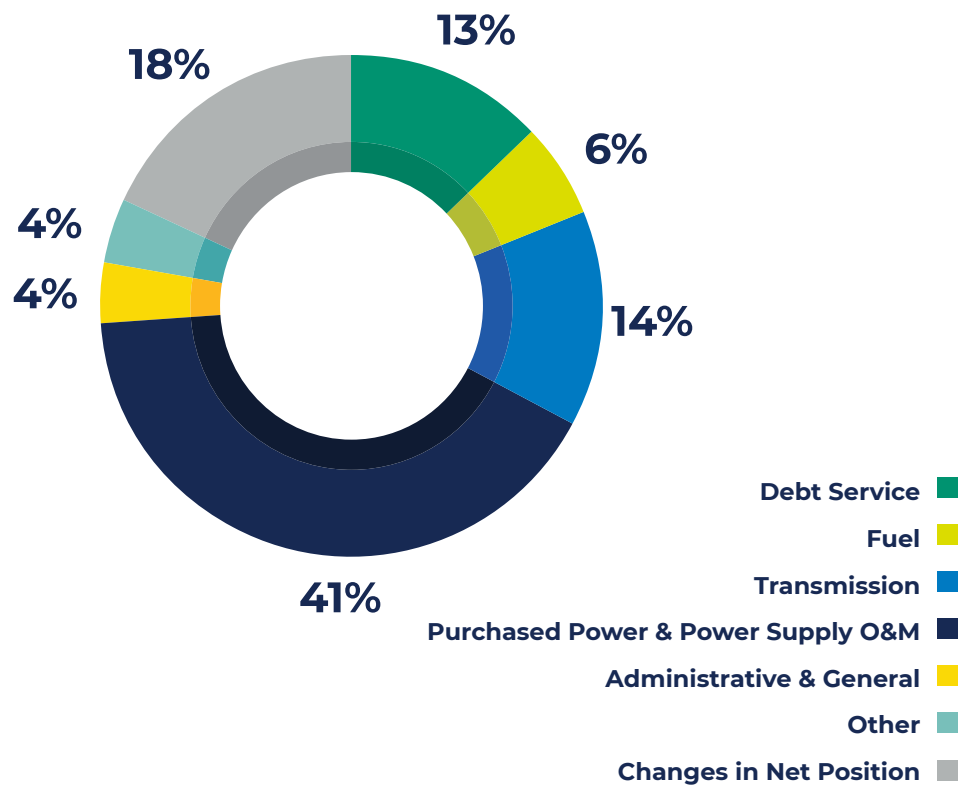
YEARS ENDED DECEMBER 31

	2018	2017
Operating Revenues (Notes 3 and 10):		
Long-term power sales	\$ 183,424,362	\$ 176,396,060
Short-term power sales	23,624,368	13,605,010
Transmission services	57,411,119	60,815,189
Other operating income	4,973,817	5,122,820
Total Operating Revenues	269,433,666	255,939,079
Operating Expenses:		
Fuel	16,814,482	17,765,441
Purchased power and other power supply operation and maintenance	116,001,478	106,085,893
Depreciation and amortization	8,946,280	8,844,026
Transmission operation and maintenance	38,402,385	41,641,686
Customer information and collections	244,072	222,353
Administrative and general	12,440,255	12,322,386
Property taxes	3,741,122	3,837,609
Total Operating Expenses	196,590,074	190,719,394
Operating Income	72,843,592	65,219,685
Non-Operating Revenues (Expenses):		
Investment income	5,854,745	3,349,817
Other income	6,743,846	6,918,381
Other expense	(3,641,141)	(3,387,281)
Interest expense	(29,644,541)	(28,088,496)
Amortization of financing related costs and premium	3,975,494	3,649,034
Unrealized gain (loss) on investments	484,119	(914,986)
Net costs recoverable in (for) future years:		
Principal in excess of depreciation and amortization	(5,299,890)	(5,348,784)
Amortization of reserves previously collected	-	5,065,269
Other costs recoverable in (for) future years	(484,119)	914,986
Total Non-Operating Expenses	(22,011,487)	17,842,060
Change in Net Position	50,832,105	47,377,625
Net Position:		
Beginning of year	248,477,749	201,100,124
End of year	\$ 299,309,854	\$ 248,477,749

2018 SOURCES OF REVENUE



2018 USES OF REVENUE



Missouri Basin Municipal Power Agency dba Missouri River Energy Services Western Minnesota Municipal Power Agency Combined Statement of Cash Flow

	<u>YEARS ENDED DECEMBER 31</u>	
	<u>2018</u>	<u>2017</u>
Cash Flows From (Used For) Operating Activities:		
Received from members and others	\$ 277,495,511	\$ 263,672,106
Paid to suppliers for goods and services	(182,172,380)	(181,954,819)
Paid to employees for operating payroll	(10,458,391)	(9,631,800)
Net Cash Flows From Operating Activities	<u>84,864,740</u>	<u>72,085,487</u>
Cash Flows From (Used For) Capital and Related Financing Activities:		
Net additions to utility plant	(71,151,666)	(68,827,397)
Net proceeds from issuance of revenue bonds	95,732,870	-
Bond issuance costs	(737,677)	-
Advances for mine development	(293,917)	-
Mine development repayments	453,943	361,359
Net advances for solar project	61,928	62,239
Revenue bond payments	(10,120,000)	(11,095,000)
Interest paid on revenue bonds	(27,893,445)	(28,354,398)
Other	800,202	(1,376,208)
Net Cash Flows Used For Capital and Related Financing Activities	<u>(13,147,762)</u>	<u>(109,229,405)</u>
Cash Flows From (Used For) Investing Activities:		
Proceeds from maturity and sale of investment securities	229,284,774	216,041,254
Purchase of investment securities	(306,200,696)	(154,643,313)
Purchase of other investments	(167,684)	-
Investment income received	5,190,424	3,250,023
Net Cash Flows From (Used For) Investing Activities	<u>(71,893,182)</u>	<u>64,647,964</u>
Net Change in Cash and Cash Equivalents	<u>(176,204)</u>	<u>27,504,046</u>
Cash and Cash Equivalents, Beginning of Year	<u>69,251,086</u>	<u>41,747,040</u>
Cash and Cash Equivalents, End of Year	<u>\$ 69,074,882</u>	<u>\$ 69,251,086</u>

Missouri Basin Municipal Power Agency dba Missouri River Energy Services Western Minnesota Municipal Power Agency Combined Statement of Cash Flow (Continued)

	YEARS ENDED DECEMBER 31	
	2018	2017
Reconciliation of Operating Income to Net Cash Flows From Operating Activities:		
Operating income	\$ 72,843,592	\$ 65,219,685
Adjustments to reconcile operating income to net cash flows from operating activities:		
Depreciation and amortization	8,946,280	8,844,026
Amortization of proceeds previously received from Surface Transportation Board decision	(4,868,604)	(4,868,604)
Write-off of deferred charges	78,003	475,962
Member assessments and miscellaneous income	6,743,846	6,918,381
Other expenses	(3,641,141)	(3,387,281)
Changes in assets and liabilities:		
Accounts receivable	1,317,999	814,646
Advances to MBPP	(227,076)	(1,308,482)
Fuel stock	1,134,410	1,456,275
Materials and supplies	49,705	76,014
Prepayments and other current assets	3,471,137	(1,643,002)
Accounts payable and other non-current liabilities	(918,067)	(423,762)
Accrued taxes	(65,344)	(88,371)
Net Cash Flow From Operating Activities	<u>\$ 84,864,740</u>	<u>\$ 72,085,487</u>
Reconciliation of Cash and Cash Equivalents to Statement of Net Position:		
Restricted - Cash and cash equivalents	\$ 54,970,906	\$ 52,047,611
Unrestricted - Cash and cash equivalents	14,103,976	17,203,475
Restricted - Short-term investments	63,887,384	68,903,991
Unrestricted - Short-term investments	66,018,880	59,507,223
Restricted - Long-term investments	61,203,200	28,814,865
Unrestricted - Long-term investments	113,374,289	69,857,633
Total Cash and Investments	<u>373,558,635</u>	<u>296,334,798</u>
Less: Noncash Equivalents	<u>(304,483,753)</u>	<u>(227,083,712)</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 69,074,882</u>	<u>\$ 69,251,086</u>
Supplemental disclosure of non-cash capital and related financing activities		
Capital asset acquisition included in accounts payable	\$ 3,014	\$ 680,165

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

1. ORGANIZATION

Missouri Basin Municipal Power Agency d.b.a. Missouri River Energy Services (MRES) is a body corporate and politic, organized under the laws of the State of Iowa. Membership consists of 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 (1) a 16.47 percent undivided interest in the Missouri Basin Power Project (MBPP), a 1,710 megawatt (MW) coal-fired, generating facility; (2) the Exira Station, a 140 MW natural gas-fired, generating facility; (3) the Watertown Power Plant, a 60 MW oil-fired, generating plant; (4) the Worthington Wind Project, four wind turbines with a total capacity of 3.7 MW; (5) the Red Rock Hydroelectric Project (RRHP), a 36.4 MW hydroelectric, generating facility currently under construction; (6) a headquarters building; and (7) varying ownership interests in transmission facilities.

Pursuant to a power supply contract, MRES 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. As of December 31, 2017, the administrative services agreement was in effect until January 1, 2046. In March 2018, the agreement was extended to January 1, 2057, to coincide with the term of 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 WMMPA and MRES 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 (FERC) 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. Unspent debt proceeds at year-end are classified as restricted and are not included in this component.
- *Restricted* – This component of net position consists of constraints imposed by the WMMPA Power Supply Revenue Bond Resolution (Bond Resolution).
- *Unrestricted* – This component consists of the portion of the net position of MRES and WMMPA that does not meet the definition of "restricted" or "net investments in capital assets."

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

B. Revenue Recognition

Revenue is accrued through the end of each month.

C. Operating Revenues and Expenses

MRES and WMMPA distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from generating, purchasing, and 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 distribution maintenance services for four of the MRES member communities and one associate, income received from the U.S. Treasury for the Build America Bonds, and revenue from hosting a refined coal project at LRS.

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

D. Utility Plant

Utility plant is stated at cost. MRES and WMMPA capitalize assets with a cost in excess of \$1,000 and life of more than one year, with the exception of MBPP assets, which are capitalized in excess of \$10,000. If interest during construction is recorded, it is recorded in accordance with GASB 62. Interest during construction is not accrued on transmission assets that FERC has approved, including Construction Work in Progress (CWIP) in rate base or if the MRES and WMMPA Boards of Directors (Boards) have approved collecting interest during construction through current rates. The cost of utility plant retired plus the cost of removal less salvage is charged to accumulated depreciation. Repairs and maintenance of units of property are charged to operations. WMMPA uses the provisions of Accounting Standards Codification (ASC) Section 410 *Asset Retirement and Environmental Obligations*, formerly known as Statement of Financial Accounting Standards Board issued Statement No. 143, "Accounting for Asset Retirement Obligations," which establishes accounting standards for the recognition and measurement of a liability for legal obligations associated with the retirement of long-lived assets. WMMPA accrued \$4,202,893 and \$380,637 at December 31, 2018 and 2017, respectively, for asset retirement obligations, which are included in other non-current liabilities on the Statements of Net Position.

E. Depreciation

WMMPA and MRES utilize straight-line depreciation for all depreciable assets. The estimated service lives for capital assets are 25 to 52 years for generation plant, 40 to 60 years for transmission plant, 52 years for intangible plant, and five to 50 years for general plant. Depreciation expense, expressed as a percent of depreciable utility plant in service, was 1.8 percent for both 2018 and 2017.

F. Inventories

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

G. Prepayments and Other Assets

Prepayments and other 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 assets are for (1) collateral for participating energy markets; (2) WMMPA's portion of prepayments and other assets recorded on MBPP financial statements; (3) interest receivable for investments; (4) other prepaid operating costs, such as insurance; and (5) prepayment for a solar project.

H. Investments

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

I. Restricted Assets

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

J. Deferred Outflow and Inflow of Resources

Under GASB 65, *Items Previously Reported as Assets and Liabilities*, (GASB 65), 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. 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.

K. Amortization

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

L. 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.

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

M. Revenues Collected for Future Costs

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

N. Other Non-Current Liabilities

This liability includes (1) deferred compensation and (2) ASC 410, "*Asset Retirement and Environmental Obligations*", established accounting standards for recognition and measurement of a liability for an asset retirement obligation and the associated asset retirement cost. In accordance with the requirements of ASC 410, MRES and WMMPA recognize asset retirement obligations for the reclamation of wells, landfills, and coal ash ponds at LRS. The significant 2018 additions were largely attributed to a U.S. Court of Appeals for the District of Columbia Court ruling that struck down provisions in the Disposal of Coal Combustion Residuals for Electric Utilities that allowed unlined and clay-lined impoundments to receive coal ash. In addition, cost estimates to close previously established asset retirement obligations were updated.

O. Statements of Cash Flows

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

P. 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 MISO and SPP energy markets. MISO and SPP may true-up revenues and expenses from prior years. MRES accrues revenue and expenses that are known at the time of closing, but since there is such a long window for true-ups, actual results may differ from estimates.

Q. Subsequent Events

MRES and WMMPA considered events for recognition or disclosure in the financial statements that occurred subsequent to December 31, 2018, through April 3, 2019, the date the financial statements were available for issuance. Management is not aware of a material subsequent event.

R. Recently Issued Accounting Pronouncements

GASB has approved GASB Statement No. 83, *Certain Asset Retirement Obligations*, Statement No. 84, *Fiduciary Activities*, Statement No. 87, *Leases*, and Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. When they become effective, application of these standards may restate portions of these financial statements.

S. Reclassifications

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

3. SALE AGREEMENTS

A. Power Sale Agreements

MRES and WMMPA have Long-term Power Sale Agreements with 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 Power Sale Agreements (S-1) 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, Willmar, Minn. (Willmar), starting June 1, 2019, will be 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 Willmar 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 elected to cap their purchases from MRES. The next option date for capping purchases from MRES is 2027.

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

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 was amended in October 2017, was effective January 1, 2018, and extends to January 1, 2040. Beginning January 1, 2018, this agreement requires the member to purchase all of its electric power requirements over and above purchases from WAPA and generation owned by the member. During 2017, the sale of power and energy under this agreement was based on a 100-percent load factor. Sales revenue associated with all Long-term Power Sale Agreements is classified in the accompanying statements as "Long-term power sales." Under terms of the Long-term Power Sale Agreements, MRES is required to establish and maintain rates that will provide sufficient revenues to cover the payments under the Power Supply Contract and all other revenue requirements.

MRES has contracted to collect payments for WAPA power and energy purchased by the S-1 Members and to remit these payments to WAPA. Since MRES is only acting as agent for the S-1 Members, these amounts are not reflected as revenue or expense in the Combined Statements of Revenues, Expenses, and Changes in Net Position. The power and energy purchased by the S-1 Members that MRES was responsible for collecting and remitting to WAPA totaled approximately \$43,744,000 and \$52,315,000 for the 12 months ended December 31, 2018, and December 31, 2017, respectively. The reduced amounts collected in 2018 reflect a rate reduction from WAPA.

The revenue requirements of the Long-term Power Sale Agreements expiring January 1, 2057, and January 1, 2040, include all expenses for transmission of electric power and energy to these members. These expenses totaled \$35,758,000 and \$38,310,000 during 2018 and 2017, 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 these sales 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, transmission, and general plant facilities owned by WMMPA and all replacement power and energy required by the Power Supply Members. In March 2018, the Power Supply Contract was extended to January 1, 2057, to coincide with the term of 59 of the 61 Long-term Power Sale Agreements.

B. Purchase Power Agreements

MRES has long-term Purchase Power 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.

5. INVESTMENTS

The investments for MRES and WMMPA are in accordance with the Bond Resolution; the Assignment and Pledge Agreement among MRES, WMMPA, and the Agent Bank; the MRES Investment Policy; the WMMPA Investment Policy (which conforms to the Bond Resolution); and applicable state law. These documents allow investment in securities issued by the 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 2018 and 2017. State law and MRES and WMMPA Investment Policies require collateralization of all deposits above the FDIC limit. At December 31, 2018 and 2017, all MRES and WMMPA deposits were entirely insured or collateralized. MRES holds a collateral account with MISO, which totaled \$1,758,908 and \$1,752,356 at December 31, 2018, and December 31, 2017, respectively. MRES also holds a collateral account with SPP, which totaled \$358,627 and \$352,845 at December 31, 2018, and December 31, 2017, respectively.

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Investments

Investment custodial credit risk is the risk that in the event of the failure of the counterparty, MRES and WMMPA will not be able to recover the value of their investment or collateral securities that are in the possession of an outside party. WMMPA investments are held by Wells Fargo Bank, National Association, as a Trustee for WMMPA. MRES investments are held in the book entry system of the 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, 2018 and 2017, are summarized as follows:

	2018		2017	
	Amortized Cost	Estimated Market Value	Amortized Cost	Estimated Market Value
Cash and Cash Equivalents	\$ 69,074,882	\$ 69,074,882	\$ 69,251,086	\$ 69,251,086
Investment Securities				
Securities Issued by U.S. Government	76,243,386	75,948,251	44,420,559	44,200,149
Securities issued by U.S. Government Agencies and Instrumentalities	228,969,388	228,535,502	173,899,751	172,910,922
Commercial Paper	-	-	9,976,651	9,972,641
Total Funds	\$ 374,287,656	\$ 373,558,635	\$ 297,548,047	\$ 296,334,798

Investments are stated at estimated market value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Estimated market values are based on quoted market prices. The estimated market 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 were valued on institutional bond quotes and/or evaluations based on various market and industry inputs and are classified in Level 2. Commercial Paper is classified in Level 2 and is on a curve-based approach using various market and industry inputs. Cash and Cash Equivalents are valued at outstanding balance, and thus, are not included within the fair value hierarchy.

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

At December 31, 2018, the MRES and WMMPA investments were as follows:

<u>Investment Type</u>	<u>Estimated Market Value</u>	<u>Maturity (Years)</u>		<u>Level of Fair Value Hierarchy</u>
		<u>Less than One</u>	<u>One through Five</u>	
Cash and Cash Equivalents	\$ 69,074,882	\$ 69,074,882	\$ -	
Securities Issued by U.S. Government	75,948,251	61,156,487	14,791,764	Level 1
Securities issued by U.S. Government Agencies and Instrumentalities	228,535,502	68,749,777	159,785,725	Level 2
Total	<u>\$ 373,558,635</u>	<u>\$ 198,981,146</u>	<u>\$ 174,577,489</u>	

At December 31, 2017, the MRES and WMMPA investments were as follows:

<u>Investment Type</u>	<u>Estimate Market Value</u>	<u>Maturity (Years)</u>		<u>Level of Fair Value Hierarchy</u>
		<u>Less than One</u>	<u>One through Five</u>	
Cash and Cash Equivalents	\$ 69,251,086	\$ 69,251,086	\$ -	
Securities Issued by U.S. Government	44,200,149	22,173,784	22,026,365	Level 1
Securities issued by U.S. Government Agencies and Instrumentalities	172,910,922	96,264,789	76,646,133	Level 2
Commercial Paper	9,972,641	9,972,641	-	Level 2
Total	<u>\$ 296,334,798</u>	<u>\$ 197,662,300</u>	<u>\$ 98,672,498</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/or AAA ratings from FitchRatings and/or Aaa ratings from Moody's Investors Service (Moody's). The commercial paper had short-term ratings of A-1+ from S&P and P-1 from Moody's. The money market mutual funds 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>2018</u>	<u>2017</u>
Federal Home Loan Bank	40%	28%
U.S. Government	25%	19%
Federal Home Loan Mortgage Corporation	16%	24%
Federal National Mortgage Association	12%	12%
Federal Farm Credit Bank	8%	11%

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.

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INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates will adversely affect the estimated market 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. 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 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 \$17.72 and \$18.16 per ton in 2018 and 2017, respectively. MBPP purchased approximately 6.0 million and 5.7 million tons of coal during 2018 and 2017, respectively. Minimum coal purchase requirements over the next five years of the contracts for all MBPP participants are as follows:

Year	Tons
2019	6,350,000
2020	5,700,000
2021	5,700,000
2022	5,200,000
2023	2,700,000

Western Fuels entered into various agreements that provide for development and ownership of the Dry Fork Mine. In connection with the development and acquisition of the Dry Fork Mine, the MBPP participants provided financing to Western Fuels. At December 31, 2018 and 2017, the balance of advances owed to WMMPA approximated \$1.9 million and \$2.1 million, respectively. These advances are expected to be fully repaid in 2026.

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

At December 31, 2018 and 2017, WMMPA advances to the MBPP operating agent for working capital purposes totaled approximately \$5.4 million and \$5.1 million, respectively.

7. UTILITY PLANT

Utility plant at December 31, 2018 and 2017, consisted of:

	2018			2017		
	Gross Plant	Accumulated Depreciation	Net Plant	Gross Plant	Accumulated Depreciation	Net Plant
Generation	\$ 319,378,966	\$ 186,804,860	\$ 132,574,106	\$ 308,235,920	\$ 183,000,950	\$ 125,234,970
Transmission	174,838,274	48,724,351	126,113,923	172,080,099	45,301,874	126,778,225
General	17,021,120	10,019,908	7,001,212	16,952,926	9,513,155	7,439,771
Intangible	9,273,751	7,973,131	1,300,620	9,273,751	7,962,951	1,310,800
Utility Plant in Service	520,512,111	253,522,250	266,989,861	506,542,696	245,778,930	260,763,766
Construction Work in Progress	376,247,703	-	376,247,703	316,432,152	-	316,432,152
Total Utility Plant	<u>\$ 896,759,814</u>	<u>\$ 253,522,250</u>	<u>\$ 643,237,564</u>	<u>\$ 822,974,848</u>	<u>\$ 245,778,930</u>	<u>\$ 577,195,918</u>

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

Utility plant activity for the years ended December 31, 2018 and 2017, was:

	<u>January 1, 2018</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>December 31, 2018</u>
Non-depreciable Utility Plant:					
Land	\$ 2,387,140	\$ -	\$ -	\$ -	\$ 2,387,140
CWIP	316,432,152	72,897,079	-	(13,081,528)	376,247,703
Total Non-depreciable Utility Plant	<u>318,819,292</u>	<u>72,897,079</u>	<u>-</u>	<u>(13,081,528)</u>	<u>378,634,843</u>
Depreciable Utility Plant:					
Depreciable Utility Plant in Service	504,155,556	2,079,857	(1,191,970)	13,081,528	518,124,971
Accumulated Depreciation	(245,778,930)	(8,946,280)	1,202,960	-	(253,522,250)
Net Depreciable Utility Plant in Service	<u>258,376,626</u>	<u>(6,866,423)</u>	<u>10,990</u>	<u>13,081,528</u>	<u>264,602,721</u>
Net Utility Plant	<u>\$ 577,195,918</u>	<u>\$ 66,030,656</u>	<u>\$ 10,990</u>	<u>\$ -</u>	<u>\$ 643,237,564</u>

	<u>January 1, 2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>December 31, 2017</u>
Non-depreciable Utility Plant:					
Land	\$ 2,387,140	\$ -	\$ -	\$ -	\$ 2,387,140
CWIP	256,336,186	68,705,031	-	(8,609,065)	316,432,152
Total Non-depreciable Utility Plant	<u>258,723,326</u>	<u>68,705,031</u>	<u>-</u>	<u>(8,609,065)</u>	<u>318,819,292</u>
Depreciable Utility Plant:					
Depreciable Utility Plant in Service	495,578,453	798,672	(830,634)	8,609,065	504,155,556
Accumulated Depreciation	(237,799,146)	(8,844,026)	864,242	-	(245,778,930)
Net Depreciable Utility Plant in Service	<u>257,779,307</u>	<u>(8,045,354)</u>	<u>33,608</u>	<u>8,609,065</u>	<u>258,376,626</u>
Net Utility Plant	<u>\$ 516,502,633</u>	<u>\$ 60,659,677</u>	<u>\$ 33,608</u>	<u>\$ -</u>	<u>\$ 577,195,918</u>

8. 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, 2018 and 2017, was as follows:

	<u>January 1, 2018</u>	<u>Debt Issued</u>	<u>Payments or Amortization</u>	<u>December 31, 2018</u>	<u>Amount Due within One Year</u>
Revenue Bonds	\$ 540,160,000	\$ 82,425,000	\$ (10,120,000)	\$ 612,465,000	\$ 9,850,000
Unamortized Debt Premium	<u>39,788,203</u>	<u>13,307,870</u>	<u>(4,300,211)</u>	<u>48,795,862</u>	<u>-</u>
Revenue Bonds, Net of Unamortized Premium	<u>\$ 579,948,203</u>	<u>\$ 95,732,870</u>	<u>\$ (14,420,211)</u>	<u>\$ 661,260,862</u>	<u>\$ 9,850,000</u>

	<u>January 1, 2017</u>	<u>Debt Issued</u>	<u>Payments or Amortization</u>	<u>December 31, 2017</u>	<u>Amount Due within One Year</u>
Revenue Bonds	\$ 551,255,000	\$ -	\$ (11,095,000)	\$ 540,160,000	\$ 10,120,000
Unamortized Debt Premium	<u>43,810,052</u>	<u>-</u>	<u>(4,021,879)</u>	<u>39,788,203</u>	<u>-</u>
Revenue Bonds, Net of Unamortized Premium	<u>\$ 595,065,082</u>	<u>\$ -</u>	<u>\$ (15,116,879)</u>	<u>\$ 579,948,203</u>	<u>\$ 10,120,000</u>

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The original issue amount and the outstanding amount of the Revenue Bonds, net of unamortized debt premium, at December 31, 2018 and 2017, are as follows:

	Original Issue Amount	Amount Outstanding	
		2018	2017
2010 Series A Bonds: Serial Bonds: 3.00%-5.00% due 2017 and 2018	\$ 9,215,000	\$ -	\$ 4,715,000
2010 Series C Bonds: Term Bonds (Build America Bonds): 6.77% with annual sinking fund requirements beginning in 2031, due 2046	99,915,000	99,915,000	99,915,000
2012 Series A Bonds: Serial Bonds: 3.00%-5.00% due 2024 through 2030	49,440,000	49,440,000	49,440,000
2014 Series A Bonds: Serial Bonds: 3.00%-5.00% due 2018 through 2046	351,255,000	345,850,000	351,255,000
2015 Series A Bonds: Serial Bonds: 5% due 2031 through 2036	34,835,000	34,835,000	34,835,000
2018 Series A Bonds: Serial Bonds: 5% due 2025 through 2029	30,035,000	30,035,000	-
2018 Series A Bonds: Term Bonds: 5% due 2047 through 2049	52,390,000	52,390,000	-
Principal Outstanding		612,465,000	540,160,000
Unamortized debt premium		48,795,862	39,788,203
Revenue Bonds, including unamortized debt premium		661,260,862	579,948,203
Less current maturities		9,850,000	10,120,000
Revenue Bonds, including unamortized debt premium and excluding current maturities		<u>\$ 651,410,862</u>	<u>\$ 569,828,203</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 by the U.S. Treasury
2019	\$ 9,850,000	\$ 31,508,166	\$ 41,358,166	\$ 2,220,702
2020	10,240,000	31,169,646	41,409,646	2,220,702
2021	10,755,000	30,644,771	41,399,771	2,220,702
2022	11,290,000	30,093,645	41,383,645	2,220,702
2023	11,855,000	29,515,021	41,370,021	2,220,702
2024-2028	68,770,000	137,929,178	206,699,178	11,103,509
2029-2033	86,235,000	119,319,821	205,554,821	11,013,549
2034-2038	110,080,000	94,662,396	204,742,396	10,445,734
2039-2043	139,860,000	61,474,787	201,334,787	6,423,899
2044-2048	135,210,000	20,066,268	155,276,268	1,137,689
2049	18,320,000	458,000	18,778,000	-
Total	<u>\$ 612,465,000</u>	<u>\$ 586,841,699</u>	<u>\$ 1,199,306,699</u>	<u>\$ 51,227,890</u>

The 2012 Series A, 2014 Series A, 2015 Series A, and 2018 Series A Bonds are subject to redemption at par beginning in 2023, 2024, 2026, and 2029, respectively, at the option of WMMPA. The 2010 Series C Bonds are subject to redemption prior to their stated maturity at the option of WMMPA, in whole or in part, on any date. The redemption price for the 2010 Series C Bonds is the greater of 100 percent of the principal or the sum of present value of the remaining scheduled payments of principal and interest to the maturity date of the 2010 Series C Bonds. The outstanding bonds are secured by a pledge and assignment of and security interest in (1) the proceeds of the 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 \$38,013,000 and \$274,272,000, respectively.

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During 2018, WMMPA issued \$82,425,000 of Power Supply Revenue Bonds 2018 Series A Bonds (2018 Bonds). The proceeds from the 2018 Bonds will be used to finance the construction of RRHP, fund capital additions for existing transmission projects, and pay the cost of issuance for the 2018 Bonds. WMMPA did not issue any debt in 2017.

9. NON-CURRENT LIABILITIES

Non-current liability activity for the years ended December 31, 2018 and 2017, was as follows:

	January 1, 2018	Additions	Reductions	December 31, 2018
Revenues collected for future costs – regulatory liability	\$ 37,627,573	\$ 13,443,208	\$ (7,659,200)	\$ 43,411,581
Other non-current liabilities	1,335,945	4,063,514	-	5,399,459
Total non-current liabilities	<u>\$ 38,963,518</u>	<u>\$ 17,506,722</u>	<u>\$ (7,659,200)</u>	<u>\$ 48,811,040</u>

	January 1, 2017	Additions	Reductions	December 31, 2017
Revenues collected for future costs – regulatory liability	\$ 38,259,043	\$ 12,950,761	\$ (13,582,231)	\$ 37,627,573
Other non-current liabilities	1,327,820	8,125	-	1,335,945
Total non-current liabilities	<u>\$ 39,586,863</u>	<u>\$ 12,958,886</u>	<u>\$ (13,582,231)</u>	<u>\$ 38,963,518</u>

10. RATE MATTERS

As part of a plan to stabilize the cost of electrical energy to its members, the MRES 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 either 2018 or 2017.

11. RETIREMENT PLAN

MRES has a 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 contributions are 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 \$995,000 and \$922,000 for 2018 and 2017, respectively. Covered payroll was 95 and 94 percent of total payroll for 2018 and 2017, 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 \$1,044,000 and \$995,000 in 2018 and 2017, respectively, or approximately 8 percent of covered payroll for 2018 and 10 percent of covered payroll for 2017. MRES acts as plan administrator, and plan changes are approved by the MRES Board.

12. 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. No claims have been filed or judgments awarded during the years ended December 31, 2018 and 2017. The coverages and deductibles in effect were substantially the same for both 2018 and 2017. MRES and WMMPA are unaware of any claims pending at December 31, 2018.

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, 2018, MRES and WMMPA believe they are in material compliance with all environmental, health, and safety regulations.

MRES has intervened in several dockets at FERC. The outcome of these dockets is currently indeterminable. If the MRES position is accepted by FERC in these dockets, a significant monetary refund to MRES is possible. If the MRES position is not accepted by FERC, the impact on the financial statements is expected to be immaterial.

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CONTRACT COMMITMENTS

WMMPA has entered into various contracts for the development of the RRHP and the construction of various transmission projects. As of December 31, 2018, the remaining obligation on these contract commitments totaled approximately \$54 million.

LRS RAIL TRANSPORTATION COSTS

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

In February 2009, the STB ordered BNSF to immediately reduce rates and refund nearly \$120 million for excessive rates paid between 2004 and 2009. In May 2015, after a series of appeals, BEPC, Western Fuels, and BNSF signed a confidential settlement agreement. The WMMPA share of the initial award was about \$19 million. The unamortized amount WMMPA originally received from BNSF for overcharges, net of its obligation under the settlement, was reflected as unearned income. The balance was amortized to income over a four-year period beginning in 2015 and ending in 2018.

CLEAN AIR ACT

Regional Haze: The Clean Air Act (CAA), under its Regional Haze provisions, requires facilities that commenced construction between 1962 and 1977, which includes LRS, to identify and apply Best Available Retrofit Technology (BART) to control sulfur dioxide (SO₂) and nitrogen oxides (NO_x) if their emission rates for those pollutants exceed a certain designated level. LRS has installed over-fire air technology and low-NO_x burners for all three units to address the BART requirements.

On January 23, 2014, the U.S. Environmental Protection Agency (EPA) disapproved that portion of the Wyoming State Implementation Plan (SIP) for NO_x removal and issued a final rule imposing a Federal Implementation Plan (FIP) with more stringent emission limits, which impacts LRS. Under the FIP, the MBPP participants are required to install Selective Catalytic Reduction (SCR) equipment on LRS units 1, 2, and 3 by March 2019. BEPC, as Operating Agent on behalf of the MBPP participants, appealed this decision to the 10th Circuit Court of Appeals (10th Circuit). On September 9, 2014, the 10th Circuit granted a stay of enforcement pending appeal, extending the deadline for compliance for the duration of the litigation. The appeal is ongoing.

BEPC, as Operating Agent for MBPP, the State of Wyoming (the State), and the EPA negotiated a settlement agreement, published in the Federal Register on December 30, 2016. In the settlement, MBPP agreed to install SCR equipment on Unit 1 by July 1, 2019, and Selective Non-Catalytic Reduction (SNCR) equipment on Unit 2 and Unit 3 by December 31, 2018. The installations of the SNCR equipment is complete on Unit 2 and Unit 3. The installation of the SCR on Unit 1 is in progress as of April 4, 2019. The estimated cost of the settlement to WMMPA is approximately \$38 million. The settlement is not final until the EPA revises its FIP as it relates to LRS. The EPA promulgated its proposed FIP revision on October 11, 2018. EPA will promulgate a final rule sometime in 2019, after which parties opposing the FIP revision will have 60 days to file an appeal in the 10th Circuit. Should no appeal be filed, the BART settlement will be final. Until that time, the EPA or MBPP could back out for numerous reasons, in which case, the litigation in the 10th Circuit would resume.

CAA 111(d) Carbon Pollution Emission Guidelines for Existing Stationary Sources: In October 2015, the EPA published final carbon dioxide (CO₂) performance standards for existing sources under Section 111(d) of the CAA, known as the Clean Power Plan (the CPP). The CPP would require the State to create and implement an SIP to reduce CO₂ emissions from fossil fuel plants by 33 percent by 2022 and 44 percent by 2030. Following numerous legal challenges to the CPP, the U.S. Supreme Court issued a stay of the CPP on February 9, 2016.

On August 31, 2018, the EPA promulgated a proposed rule known as the Affordable Clean Energy Rule (ACE Rule) to replace the CPP. EPA is expected to promulgate the final ACE Rule in 2019. The merits of the appeal of the CPP have not yet been ruled on by the courts, and the case continues to be held in abeyance while the ACE Rule is processed through EPA's regulatory channels.

Like the CPP, the ACE Rule will almost certainly be litigated. While the ACE Rule in its proposed form would be less costly than the CPP, it is difficult or impossible to provide an accurate estimate of the cost of compliance if the ACE Rule survives judicial scrutiny. The ultimate nature of CO₂ regulation for the power industry is unknown, and this issue is likely to remain unsettled for a number of 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 CO₂ regulations imposed by states seeking to enact their own CO₂ reduction plans.

CCR Rule: The 2015 Coal Combustion Residuals Rule (CCR Rule) mandated closure of unlined surface impoundments upon a specified triggering event. If, after multiple levels of monitoring and an alternate source demonstration, a statistically significant level of contamination could not be attributed to another source, an owner was required to retrofit or close an unlined surface impoundment. BEPC, as Operating Agent for MBPP, undertook detection monitoring of its unlined surface impoundments in 2016 and 2017. The monitoring indicated a statistically significant increase (SSI) in a station ash pond, and

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

it could not be determined whether the SSI could be attributed to an alternate source. BEPC concluded the CCR Rule may require corrective action for the pond and proceeded with applicable design and engineering work.

On August 21, 2018, the D.C. Circuit Court of Appeals (D.C. Circuit Court) vacated provisions of the CCR Rule that allowed for continued operation of unlined coal ash surface impoundments. The CCR Rule was remanded back to EPA to reissue the CCR Rule in line with the D.C. Circuit Court's holding. The deadline to initiate closure of unlined surface impoundments under the CCR Rule was extended to October 31, 2020, under a final rule issued by EPA on July 17, 2018.

Because of the August 21, 2018, D.C. Circuit Court ruling, the specific corrective action requirements and timeline are not known at this time but will likely include retrofit or closure of the LRS unlined surface impoundments. The cost or the extent of corrective action required is not known at this time.

EPA Section 114(a) Request: BEPC, as Operating Agent for MBPP, received a Section 114(a) letter in September 2011, from the EPA requesting information about certain capital additions at LRS. Discussions with the EPA focused on whether work performed on the Unit 3 superheater constituted ordinary maintenance or capital improvements that required a permit to construct. In July 2018, BEPC and EPA agreed to an administrative settlement, implemented through a consent agreement and final order. The settlement required MBPP to pay a \$200,000 penalty, operate its existing emission control equipment to further reduce SO₂ emissions from Unit 3, and retire some of Unit 3's SO₂ allowances for the reduced emissions. WMMPA's portion of the settlement penalty was approximately \$33,000. The investigation is now closed.

Western Minnesota Municipal Power Agency

Statements of Net Position

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:	<u>2018</u>	<u>2017</u>
Current Assets:		
Cash and cash equivalents:		
Restricted	\$ 41,565,181	\$ 34,824,581
Unrestricted	8,393,795	10,778,007
Total cash and cash equivalents	<u>49,958,976</u>	<u>45,602,588</u>
Short-term investments:		
Restricted	58,385,033	68,800,444
Unrestricted	11,516,651	8,973,568
Total short-term investments	<u>69,901,684</u>	<u>77,774,012</u>
Advances to MBPP	5,350,848	5,068,505
Fuel stock	5,666,566	6,800,976
Materials and supplies	4,432,276	4,481,981
Interest receivable	719,297	336,617
Prepayments and other current assets	4,323,315	7,795,091
Total Current Assets	<u>140,352,962</u>	<u>147,859,770</u>
Non-Current Assets:		
Long-term investments:		
Restricted	61,203,200	28,814,865
Unrestricted	60,551,972	15,890,867
Total long-term investments	<u>121,755,172</u>	<u>44,705,732</u>
Capital Assets:		
Utility plant in service	515,141,645	501,146,419
Less-accumulated depreciation	<u>(249,164,199)</u>	<u>(241,531,969)</u>
Net utility plant in service	265,977,446	259,614,450
Construction work in progress	<u>376,247,703</u>	<u>316,432,152</u>
Net Capital Assets	642,225,149	576,046,602
Advances for mine development	1,471,712	1,687,005
Unamortized debt expense - regulatory asset	3,841,626	3,373,794
Other non-current assets	<u>269,520</u>	<u>995,769</u>
TOTAL ASSETS	<u>909,916,141</u>	<u>774,668,672</u>
Deferred Outflows of Resources:		
Unamortized loss on reacquired debt	<u>939,416</u>	<u>994,287</u>
Total Deferred Outflows of Resources	<u>939,416</u>	<u>994,287</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 910,855,557</u>	<u>\$ 775,662,959</u>

See accompanying independent auditors' report.

Western Minnesota Municipal Power Agency

Statements of Net Position

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION:	2018	2017
Current Liabilities:		
Accounts payable - unrestricted	\$ 15,322,650	\$ 24,043,490
Accrued taxes	3,437,736	3,503,080
Current liabilities payable from restricted assets:		
Accounts payable - restricted	23,164,598	18,855,908
Current maturities of revenue bonds	9,850,000	10,120,000
Accrued interest	15,795,344	14,044,248
Total Current Liabilities	67,570,328	70,566,726
Non-Current Liabilities:		
Revenue bonds:		
Principal outstanding	602,615,000	530,040,000
Unamortized debt premium	48,795,862	39,788,203
Revenue bonds, excluding current maturities	651,410,862	569,828,203
Revenues collected for future costs - regulatory liability	43,872,407	38,227,327
Other non-current liabilities	4,202,893	380,637
Note Payable to MRES	86,278,854	39,139,854
Total Non-Current Liabilities	785,765,016	647,576,021
Total Liabilities	853,335,344	718,142,747
Deferred Inflows of Resources:		
Unearned revenue	-	4,868,603
Total Deferred Inflows of Resources	-	4,868,603
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	853,335,344	723,011,350
Net Position:		
Net investment in capital assets	(33,018,170)	(18,080,435)
Restricted:		
Debt service	52,082,254	49,825,143
Capital additions	85,438,347	58,403,570
Other	3,436,370	9,857,936
Total Restricted	140,956,971	118,086,649
Unrestricted	(50,418,588)	(47,354,605)
Total Net Position	57,520,213	52,651,609
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 910,855,557	\$ 775,662,959

See accompanying independent auditors' report.

Western Minnesota Municipal Power Agency

Statements of Revenues, Expenses and Changes in Net Position

	2018	2017
Operating Revenues:		
Revenues billed MRES	\$ 80,489,096	\$ 83,387,113
Other operating income	4,870,288	4,997,573
Total Operating Revenues	85,359,384	88,384,686
Operating Expenses:		
Fuel	16,814,482	17,765,441
Purchased power and other power supply operation and maintenance	21,055,908	23,736,253
Depreciation and amortization	8,525,604	8,420,250
Transmission operation and maintenance	2,644,004	2,737,423
Administrative and general	3,255,941	3,135,377
Property taxes	3,741,122	3,837,609
Total Operating Expenses	56,037,061	59,632,353
Operating Income	29,322,323	28,752,333
Non-Operating Revenues (Expenses):		
Investment income	3,191,932	2,201,743
Other income	3,538,871	3,804,433
Other expense	(215,585)	(101,659)
Interest expense	(29,644,541)	(28,088,496)
Amortization of financing related costs and premium	3,975,494	3,649,034
Unrealized gain (loss) on investments	345,191	(508,478)
Net costs recoverable in (for) future years:		
Principal in excess of depreciation and amortization	(5,299,890)	(5,348,784)
Amortization of reserves previously collected	-	5,065,269
Other costs recoverable in (for) future years	(345,191)	508,478
Total Non-Operating Expenses	(24,453,719)	(18,818,460)
Change in Net Position	4,868,604	9,933,873
Net Position:		
Beginning of year	52,651,609	42,717,736
End of year	\$ 57,520,213	\$ 52,651,609

See accompanying independent auditors' report.



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