



INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying combined financial statements of Missouri Basin Municipal Power Agency d/b/a Missouri River Energy Services and Western Minnesota Municipal Power Agency (MRES and WMMPA) as of and for the years ended December 31, 2016 and 2015, and the related notes to the combined financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of MRES and WMMPA as of December 31, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

Other Matters

Required Supplementary Information

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

Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have issued our report dated May 31, 2017 on our consideration of MRES and WMMPA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering MRES and WMMPA's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
May 31, 2017

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 2016 and 2015. 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, or 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 into 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 \$)

	2016	2015	2014	2016 Dollar Change	2015 Dollar Change
Current Assets	\$ 275	\$ 262	\$ 265	\$ 13	\$ (3)
Non-current Assets:					
Net Capital Assets	517	448	376	69	72
Other Non-current Assets	113	183	273	(70)	(90)
Total Assets	905	893	914	12	(21)
Deferred Outflows of Resources:					
Unamortized loss on reacquired debt	1	1	1	-	-
Total Assets and Deferred Outflows of Resources	\$ 906	\$ 894	\$ 915	\$ 12	\$ (21)
Current Liabilities	\$ 72	\$ 72	\$ 95	-	\$ (23)
Non-current Liabilities:					
Revenue Bonds, Net of Current Maturities	584	599	614	(15)	(15)
Revenues collected for future costs	38	37	37	1	-
Other non-current liabilities	1	1	1	-	-
Total Liabilities	695	709	747	(14)	(38)
Deferred Inflows of Resources:					
Unearned Revenue	10	15	19	(5)	(4)
Net Position:					
Net Investment in Capital Assets	(92)	(175)	(261)	83	86
Restricted Net Position	194	269	359	(75)	(90)
Unrestricted Net Position	99	76	51	23	25
Total Net Position	201	170	149	31	21
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 906	\$ 894	\$ 915	\$ 12	\$ (21)
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, 2016, increased by \$12 million or one percent compared to December 31, 2015. The largest variance was a \$69 million increase in net capital assets, from \$448 million to \$517 million. The increase in net capital assets was offset by a decrease of \$66 million in cash and investments, from \$397 million to \$331 million.

The total assets and deferred outflows of resources of MRES and WMMPA at December 31, 2015, decreased by \$21 million or two percent compared to December 31, 2014. The largest variance was an \$89 million decrease in cash and investments, from \$486 million to \$397 million. The decrease in cash and investments was offset by an increase of \$72 million in net capital assets, from \$376 million to \$448 million.

The largest asset and deferred outflow of resources of MRES and WMMPA at December 31, 2016, was net capital assets. Net capital assets totaled \$517 million or 57 percent of total assets and deferred outflows of resources at December 31, 2016, an increase of \$69 million compared to December 31, 2015. The \$69 million change in net capital assets during 2016 included a \$5 million increase in net utility plant in-service and a \$64 million increase in Construction Work in Progress (CWIP). The majority of the increase in CWIP is the additional work completed on the Red Rock Hydroelectric Project (RRHP).

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

Cash and investments were the second largest assets and deferred outflows of resources for MRES and WMMPA at December 31, 2016. Cash and investments totaled \$331 million or 37 percent of total assets and deferred outflows of resources at December 31, 2016, a decrease of \$66 million compared to December 31, 2015. The decrease in cash and investments during 2016 is largely due to expenditures for RRHP offset by the change in net position. At December 31, 2016, approximately \$218 million of total cash and investments were restricted for debt service, capital projects, and other required purposes, and the remaining \$113 million are unrestricted. The \$113 million of unrestricted cash and investments represent over seven and one-half months of the 2016 operating expenses.

Cash and investments totaled \$397 million or 44 percent of total assets and deferred outflows of resources at December 31, 2015, a decrease of \$89 million compared to December 31, 2014. The decrease in cash and investments during 2015 is largely due to expenditures for RRHP and CapX transmission projects, offset by the change in net position. At December 31, 2015, approximately \$293 million of total cash and investments were restricted for debt service, capital projects, and other required purposes, and the remaining \$104 million was unrestricted. The \$104 million of unrestricted cash and investments represent over seven and one-half months of the 2015 operating expenses.

All other assets and deferred outflows of resources of MRES and WMMPA totaled \$58 million at December 31, 2016, \$9 million higher than the prior year. Accounts receivable increased by approximately \$3 million due to higher long-term power sales and transmission sales for the month of December. The remaining increase is due to higher advances to the Missouri Basin Power Plant.

All other assets and deferred outflows of resources of MRES and WMMPA totaled \$49 million at December 31, 2015, approximately \$4 million lower than the prior year.

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, 2016, increased by \$12 million or one percent compared to December 31, 2015. Significant variances included a \$31 million increase in net position and a \$16 million decrease in revenue bonds.

The total liabilities, deferred inflows of resources, and net position of MRES and WMMPA at December 31, 2015, decreased by \$21 million or two percent compared to December 31, 2014. Significant variances included a \$21 million increase in net position, a \$23 million decrease in current liabilities, and an \$18 million decrease in revenue bonds.

The largest liability of MRES and WMMPA is long-term debt, which totaled \$584 million or 64 percent of total liabilities, deferred inflows of resources, and net position at December 31, 2016. Long-term debt decreased by approximately \$15 million during 2016. The decrease in 2016 was due to scheduled principal payments and amortization of debt premium. Long-term debt at December 31, 2015, totaled \$599 million or 67 percent of total liabilities, deferred inflows of resources, and net position, a decrease of \$15 million from the prior year. The decrease in 2015 was due to the refunding of the 2006 Bonds with the 2015 Bonds, scheduled principal payments, and amortization of debt premium.

Net position totaled \$201 million at December 31, 2016, or 22 percent of the total liabilities, deferred inflows of resources, and net position compared to \$170 million or 19 percent of total liabilities, deferred inflows of resources, and net position at December 31, 2015. During 2016 and 2015, the net position increased by \$31 million and \$22 million, respectively, which was the MRES and WMMPA change in net position for that year.

Revenues collected for future costs of \$38 million and \$37 million at December 31, 2016 and 2015, respectively, represent four percent of total liabilities, deferred inflows of resources, and net position for both years. Unearned revenues totaled \$10 million at December 31, 2016, and \$15 million at December 31, 2015, which represents two percent of total liabilities, deferred inflows of resources, and net position for both years. The MRES Board of Directors (Board) approved recognizing the unearned revenue over four years, beginning in 2015. Current liabilities totaled \$72 million, eight percent of total liabilities and net position at both December 31, 2016 and 2015.

Debt Activity

WMMPA made scheduled payments of \$12 million and did not issue any debt in 2016.

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

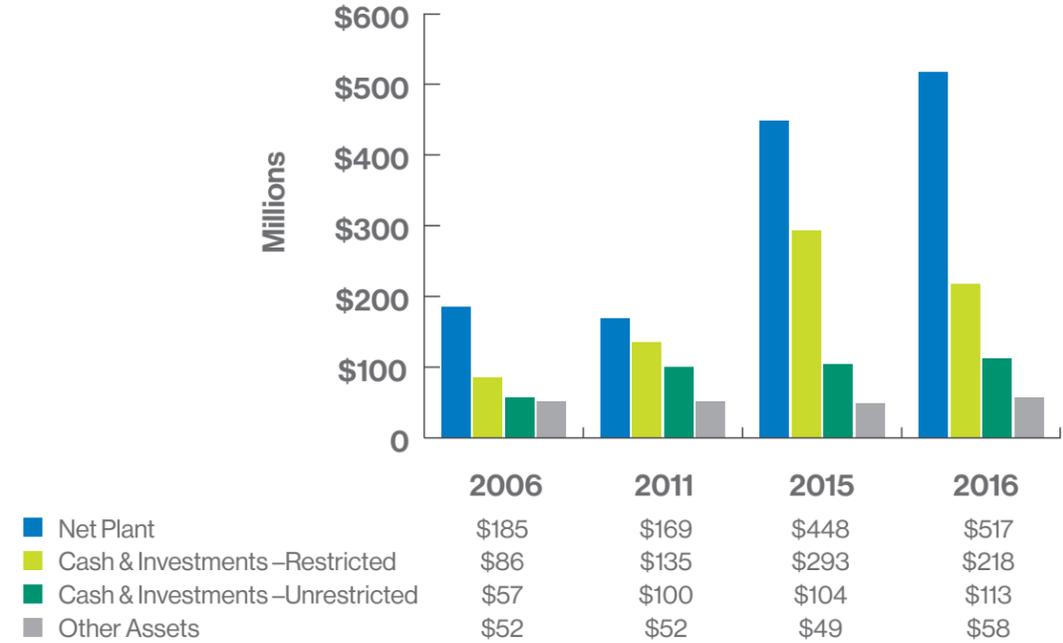
Debt Ratings

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

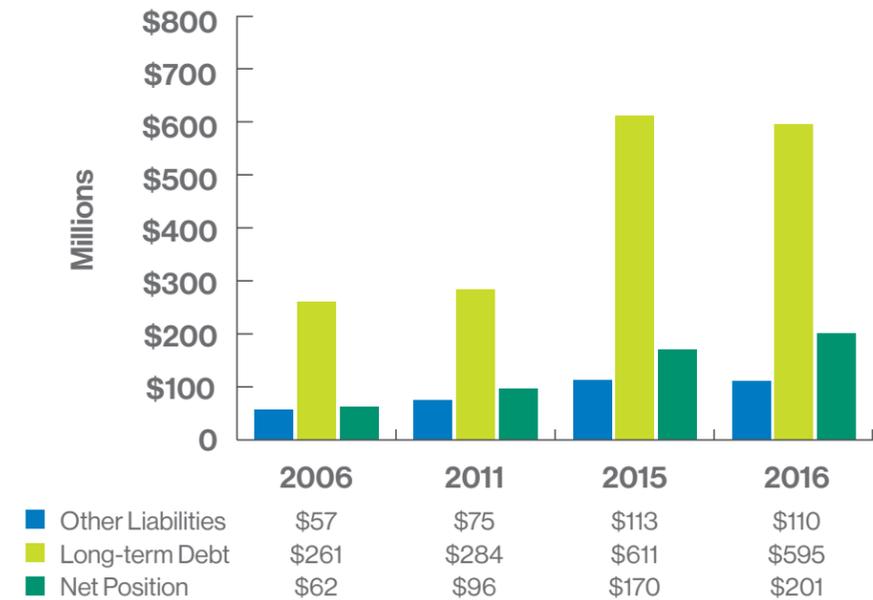
Fitch Ratings (Fitch)	AA- (stable outlook)
Moody's Investors Services (Moody's)	Aa3 (stable outlook)

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

MRES & WMMPA Assets
2006-2016



MRES & WMMPA Liabilities & Net Positions
2006-2016



Results of Operations

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

	2016	2015	2014	2016 Dollar Change	2015 Dollar Change
Operating Revenues	\$ 231	\$ 204	\$ 198	\$ 27	\$ 6
Operating Expenses	181	160	170	21	(10)
Operating Income	50	44	28	6	16
Investment and Other Income	10	9	8	1	1
Interest Expense	(29)	(29)	(21)	-	(8)
Other Non-Operating (Expenses) Income	1	(1)	(1)	2	-
Amortization of Reserves Previously Collected	5	5	5	-	-
Amortization of Cancelled Power Supply and Transmission Projects	-	(2)	(2)	2	-
Net Costs Recoverable in (for) Future Years	(6)	(4)	(7)	(2)	3
Change in Net Position	31	22	10	9	12
Ending Net Position	\$ 201	\$ 170	\$ 148	\$ 31	\$ 22
Totals may not foot due to rounding.					

Operating Revenues

Long-term power sales revenue for 2016 was approximately \$162 million compared to \$147 million and \$141 million in 2015 and 2014, respectively. The 2016 long-term power sales revenue was ten percent higher than in 2015, largely due to providing 100 percent of the Marshall, Minnesota supplemental requirements effective July 1, 2016. The 2015 long-term power sales revenue was four percent higher than in 2014, largely due to an 8.5 percent rate increase effective January 1, 2015. The average rate for long-term power sales was approximately 5.8 cents per kilowatt-hour in 2016 and 2015 compared to 5.3 cents in 2014.

Short-term power sales revenue of \$10 million was significantly higher than the less than \$1 million of 2015. The increased revenue and Megawatt hour (MWh) sales in 2016 were due to Laramie River Station (LRS) Unit 1 being down for an extended scheduled maintenance outage in 2015 and MRES not utilizing LRS for member load in the Midcontinent Independent System Operator, Inc. (MISO) effective October 1, 2015. The decision to not request transmission service from the Southwest Power Pool (SPP) for MRES members in MISO eliminated a transmission pancake and saved in excess of \$13 million in 2016 for the MISO footprint members. 2015 short-term power sales revenue of less than \$1 million was 95 percent lower than in 2014. The decrease in 2015 MWh sales was largely due to MRES executing two short-term sales agreements in 2014 to sell a portion of the generation from LRS and hedge the transactions with purchases and an extended scheduled maintenance outage for LRS Unit 1 in 2015.

The revenue received for transmission services increased by \$2 million (four percent) in 2016 compared to a \$5 million (17 percent) increase in 2015. The higher revenue in both 2016 and 2015 was largely due to increased revenue requirements from MISO for the CapX transmission projects and the pass through of higher transmission costs paid to others.

Other operating income of \$5 million in 2016 is unchanged compared to 2015. Other operating income of \$5 million in 2015 was significantly higher than the 2014 other operating income of less than \$1 million. The significant increase in other operating income in 2016 and 2015 compared to 2014 was due to the amortization of the reparations payment received from the BNSF Railway Company (BNSF) for rail overcharges resulting from a ruling from the Surface Transportation Board (STB). The payment was received in 2009 and has been classified as unearned revenue pending the outcome of BNSF appeals of the

See accompanying independent auditors' report.

STB decision. In early 2015, the owners of LRS and BNSF reached an agreement to settle the outstanding appeals. The terms of the settlement agreement are confidential. The WMPA Board, in its role as regulator, approved amortizing the reparations payments over a four-year period beginning in 2015.

Operating Expenses and Net Operating Income

Fuel expense for 2016 of \$20 million was 23 percent higher than in 2015 (\$17 million) and 43 percent lower in 2015 compared to 2014 (\$29 million). The 2016 generation at LRS was 1.5 million MWh compared to 1.3 million MWh in 2015 and 2.0 million MWh in 2014. The variance in generation between the years is largely due to planned maintenance outages of LRS Unit 1. The average fuel cost for LRS was two percent higher in 2016 than in 2015 and 16 percent lower in 2015 than in 2014. The generation at the natural gas-fired Exira Station was 40,233 MWh, 20,791 MWh, and 5,097 MWh in 2016, 2015, and 2014, respectively. The higher generation at Exira in 2016 was primarily due to Exira being in the SPP market for all of 2016 compared to 3 months in 2015.

Purchased power and other power supply operation and maintenance expense for 2016 of \$99 million was ten percent higher than in 2015 (\$90 million) and two percent lower in 2015 compared to 2014 (\$92 million). The higher 2016 purchased power and other power supply operation and maintenance expense was due to an increase in MWh purchases offset by lower market prices and lower fixed operations and maintenance expenses at LRS. The decrease in 2015 purchased power and other power supply operation and maintenance expense was due to the higher purchases in 2014 to hedge the short-term power sales and lower 2015 market prices.

All other operating expenses totaled \$61 million in 2016, \$53 million in 2015, and \$49 million in 2014. The bulk of the increase in other operating expense in 2016 compared to 2015 was the increase in transmission operations and maintenance expenses due to higher cost of transmission of electricity by other. The higher other operating expenses in 2015 compared to 2014 was largely due to increased property taxes on the CapX 2020 transmission assets.

Net operating income was \$51 million in 2016 compared to \$44 million and \$28 million in 2015 and 2014, respectively.

Non-operating Revenues and Expenses

For the year ended December 31, 2016, non-operating expenses exceeded non-operating revenues by \$20 million, compared to \$22 million and \$18 million in 2015 and 2014, respectively.

Investment income totaled \$3 million in 2016 compared to \$2 million and \$1 million in 2015 and 2014, respectively. The increase in investment income in 2016 was due to an increase in investment yields. The increase in investment income in 2015 was largely due to the additional funds available to invest as a result of unspent proceeds of the 2014 bond issue.

Interest expense was \$29 million in both 2016 and 2015 and \$21 million in 2014. The significantly higher interest expense in 2015 compared to 2014 was due to the issuance of the 2014 Bonds. The amortization of financing-related costs increased significantly in 2015 compared to 2014 due to the issuance of the 2015 Bonds and a full year of amortization of the 2014 Bonds. The five-year amortization of the cost of cancelled power supply and transmission projects started in 2011 and was completed in 2015. Debt principal requirements exceeded depreciation and amortization expense by \$6 million, \$5 million, and \$8 million in 2016, 2015, and 2014, respectively. The difference between debt principal requirements and depreciation and amortization and the deferral of unrealized gain or loss on investments reflects MRES and WMPA utilizing the accrual basis of accounting and follows the provisions of Government Accounting Standards Board (GASB) No. 62 Regulated Operations, which conforms to Accounting Standards Codification No. 980, Accounting for the Effects of Certain Types of Regulation. In general, GASB 62 relates to the deferral of revenues and expenses to or from future periods to the period that revenues are expected to be earned or expenses are expected to be recovered through the rates charged to its members.

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

See accompanying independent auditors' report.

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

	December 31	
	<u>2016</u>	<u>2015</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:		
Current Assets:		
Cash and cash equivalents (Note 5):		
Restricted	\$ 33,770,495	\$ 46,631,592
Unrestricted	<u>7,976,545</u>	<u>10,136,478</u>
Total cash and cash equivalents	<u>41,747,040</u>	<u>56,768,070</u>
Short-term investments (Note 5):		
Restricted	153,107,741	123,087,161
Unrestricted	<u>30,229,841</u>	<u>40,537,378</u>
Total short-term investments	<u>183,337,582</u>	<u>163,624,539</u>
Accounts receivable	24,034,193	21,691,777
Advances to Missouri Basin Power Project (MBPP) (Note 6)	3,760,023	3,697,982
Fuel stock	8,257,251	5,360,897
Materials and supplies	4,557,995	4,246,140
Prepayments and other current assets	<u>9,019,323</u>	<u>6,519,270</u>
Total Current Assets	<u>274,713,407</u>	<u>261,908,675</u>
Non-Current Assets:		
Long-term investments (Note 5):		
Restricted	31,270,772	123,469,191
Unrestricted	<u>74,788,285</u>	<u>53,345,248</u>
Total long-term investments	<u>106,059,057</u>	<u>176,814,439</u>
Capital assets (Note 7):		
Utility plant in service	497,965,593	491,505,167
Less-accumulated depreciation	<u>(237,799,146)</u>	<u>(235,823,076)</u>
Net utility plant in service	260,166,447	255,682,091
Construction work in progress	<u>256,336,186</u>	<u>192,405,745</u>
Net capital assets	516,502,633	448,087,836
Advances for mine development (Note 6)	2,060,664	1,098,110
Unamortized debt expense - regulatory asset	3,634,163	3,927,471
Other non-current assets	<u>1,537,881</u>	<u>927,128</u>
TOTAL ASSETS	<u>904,507,805</u>	<u>892,763,659</u>
Deferred Outflows of Resources:		
Unamortized loss on reacquired debt	<u>1,102,904</u>	<u>1,271,249</u>
Total Deferred Outflows of Resources	<u>1,102,904</u>	<u>1,271,249</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 905,610,709</u>	<u>\$ 894,034,908</u>

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

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

	December 31	
	<u>2016</u>	<u>2015</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION:		
Current Liabilities:		
Accounts payable - unrestricted	\$ 14,478,146	\$ 15,751,153
Accrued taxes	3,591,451	3,250,118
Current liabilities payable from restricted assets:		
Accounts payable - restricted	27,741,686	27,084,528
Current maturities of revenue bonds (Note 8)	11,095,000	11,795,000
Accrued interest	<u>14,310,150</u>	<u>14,356,425</u>
Total Current Liabilities	<u>71,216,433</u>	<u>72,237,224</u>
Non-Current Liabilities:		
Revenue Bonds, excluding current maturities (Note 8)	583,970,082	599,220,729
Revenues collected for future costs - regulatory liability (Note 9)	38,259,043	36,698,518
Other non-current liabilities (Note 9)	<u>1,327,820</u>	<u>897,644</u>
Total Non-Current Liabilities	<u>623,556,945</u>	<u>636,816,891</u>
Total Liabilities	<u>694,773,378</u>	<u>709,054,115</u>
Deferred Inflows of Resources:		
Unearned revenue (Note 12)	<u>9,737,207</u>	<u>14,605,810</u>
Total Deferred Inflows of Resources	<u>9,737,207</u>	<u>14,605,810</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>704,510,585</u>	<u>723,659,925</u>
Net Position:		
Net investment in capital assets	(91,776,529)	(175,025,125)
Restricted:		
Debt service	51,026,742	53,668,358
Capital additions	127,035,448	201,388,741
Other	<u>15,986,129</u>	<u>13,985,844</u>
Total Restricted	194,048,319	269,042,943
Unrestricted	<u>98,828,334</u>	<u>76,357,165</u>
Total Net Position	<u>201,100,124</u>	<u>170,374,983</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 905,610,709</u>	<u>\$ 894,034,908</u>

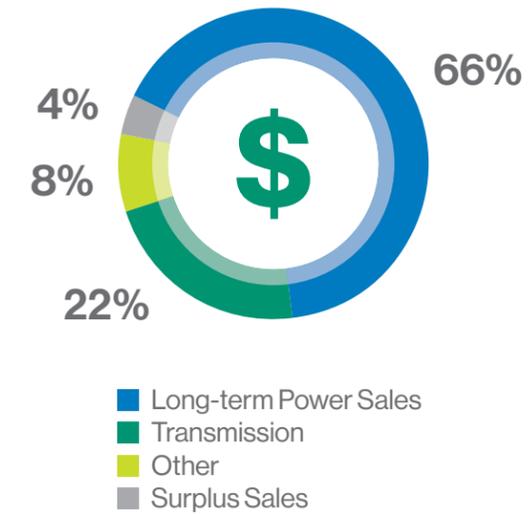
The accompanying notes to the combined financial statements are an integral part of these statements.

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

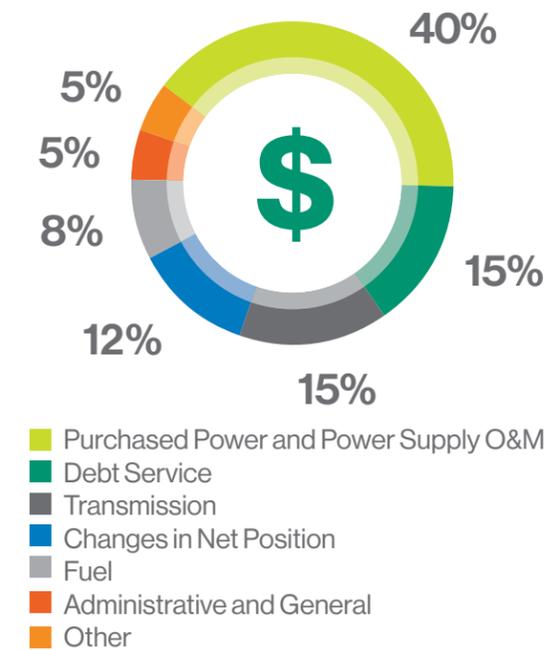
	<u>Years Ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Operating Revenues (Notes 3 and 10):		
Long-term power sales	\$ 161,683,660	\$ 147,221,263
Short-term power sales	10,561,802	486,435
Transmission services	53,588,711	51,421,348
Other operating income	<u>4,990,252</u>	<u>4,974,114</u>
Total Operating Revenues	<u>230,824,425</u>	<u>204,103,160</u>
Operating Expenses:		
Fuel	20,198,506	16,471,049
Purchased power and other power supply operation and maintenance	99,341,016	90,286,191
Depreciation and amortization	8,772,257	8,431,839
Transmission operation and maintenance	35,965,492	29,858,424
Customer information and collections	194,970	213,958
Administrative and general	11,823,362	11,417,608
Property taxes	<u>4,245,895</u>	<u>3,600,419</u>
Total Operating Expenses	<u>180,541,498</u>	<u>160,279,488</u>
Operating Income	<u>50,282,927</u>	<u>43,823,672</u>
Non-Operating Revenues (Expenses):		
Investment income	2,729,305	2,379,280
Other income	7,267,710	6,834,440
Other expense	(3,298,457)	(3,425,064)
Interest expense	(28,620,301)	(29,123,032)
Amortization of financing related costs and premium	3,693,993	3,302,433
Amortization of reserves previously collected	5,065,269	5,065,269
Amortization of canceled power supply and transmission project	-	(1,953,874)
Unrealized gain (loss) on investments	230,491	(504,771)
Net costs recoverable in (for) future years:		
Principal in excess of depreciation and amortization	(6,395,305)	(5,101,354)
Other costs recoverable in (for) future years	<u>(230,491)</u>	<u>504,771</u>
Total Non-Operating Expenses	<u>(19,557,786)</u>	<u>(22,021,902)</u>
Change in Net Position	30,725,141	21,801,770
Net Position:		
Beginning of year	<u>170,374,983</u>	<u>148,573,213</u>
End of year	<u>\$ 201,100,124</u>	<u>\$ 170,374,983</u>

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

2016 MRES Sources of Revenue



2016 MRES Uses of Revenue



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

	<u>Years Ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Cash Flows From (Used For) Operating Activities:		
Received from members and others	\$ 235,809,719	\$ 210,500,769
Paid to suppliers for goods and services	(176,903,120)	(159,301,761)
Paid to employees for operating payroll	<u>(9,007,575)</u>	<u>(8,342,475)</u>
Net Cash Flows From Operating Activities	<u>49,899,024</u>	<u>42,856,533</u>
Cash Flows From (Used For) Capital and Related Financing Activities:		
Net additions to utility plant	(75,625,429)	(89,236,353)
Net proceeds from issuance of revenue bonds	-	39,607,003
Bond issuance costs	-	(494,533)
Bonds defeased	-	(36,955,000)
Deposits to escrow account in excess of bonds defeased	-	(2,376,108)
Advances for mine development	(1,382,399)	(686,666)
Mine development repayments	341,907	152,767
Net advances for solar project	(1,462,518)	-
Revenue bond payments	(11,795,000)	(14,865,000)
Interest paid on revenue bonds	(28,666,576)	(28,661,166)
Other	<u>(410,642)</u>	<u>(17,000)</u>
Net Cash Flows Used For Capital and Related Financing Activities	<u>(119,000,657)</u>	<u>(133,532,056)</u>
Cash Flows From (Used For) Investing Activities:		
Proceeds from maturity and sale of investment securities	209,498,248	214,747,721
Purchase of investment securities	(158,225,417)	(135,414,976)
Investment income received	<u>2,807,772</u>	<u>2,257,145</u>
Net Cash Flows From (Used For) Investing Activities	<u>54,080,603</u>	<u>81,589,890</u>
Net Change in Cash and Cash Equivalents	<u>(15,021,030)</u>	<u>(9,085,633)</u>
Cash and Cash Equivalents, Beginning of Year	<u>56,768,070</u>	<u>65,853,703</u>
Cash and Cash Equivalents, End of Year	<u>\$ 41,747,040</u>	<u>\$ 56,768,070</u>

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

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

	<u>Years Ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Reconciliation of Operating Income to Net Cash Flows From Operating Activities:		
Operating income	\$ 50,282,927	\$ 43,823,672
Adjustments to reconcile operating income to net cash flows from operating activities:		
Depreciation and amortization	8,772,257	8,431,839
Amortization of proceeds previously received from Surface Transportation Board decision	(4,868,604)	(4,868,604)
Write-off of deferred charges	630,748	-
Member assessments and miscellaneous income	7,267,710	6,834,440
Other expenses	(3,298,457)	(3,425,064)
Changes in assets and liabilities:		
Accounts receivable	(2,282,416)	(436,831)
Advances to MBPP	(62,041)	(1,031,589)
Fuel stock	(2,896,354)	(479,681)
Materials and supplies	(311,855)	116,921
Prepayments and other current assets	(2,446,652)	(1,913,918)
Accounts payable and other non-current liabilities	(1,229,572)	(6,129,298)
Accrued taxes	<u>341,333</u>	<u>1,934,646</u>
Net Cash Flow From Operating Activities	<u>\$ 49,899,024</u>	<u>\$ 42,856,533</u>
Reconciliation of Cash and Cash Equivalents to Statement of Net Position:		
Restricted - Cash and cash equivalents	\$ 33,770,495	\$ 46,631,592
Unrestricted - Cash and cash equivalents	7,976,545	10,136,478
Restricted - Short-term investments	153,107,741	123,087,161
Unrestricted - Short-term investments	30,229,841	40,537,378
Restricted - Long-term investments	31,270,772	123,469,191
Unrestricted - Long-term investments	<u>74,788,285</u>	<u>53,345,248</u>
Total Cash and Investments	<u>331,143,679</u>	<u>397,207,048</u>
Less: Noncash Equivalents	<u>(289,396,639)</u>	<u>(340,438,978)</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 41,747,040</u>	<u>\$ 56,768,070</u>
Supplemental disclosure of non-cash capital and related financing activities		
Capital asset acquisition included in accounts payable	<u>\$ 663,232</u>	<u>\$ (8,356,634)</u>

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

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

1. ORGANIZATION

Missouri Basin Municipal Power Agency d.b.a. Missouri River Energy Services (MRES) is a body corporate and politic, organized under the laws of the State of Iowa. Membership consists of 60 municipalities in the states of Iowa, Minnesota, North Dakota, and South Dakota that own and operate utilities for the local distribution of electricity.

Western Minnesota Municipal Power Agency (WMMPA) is a municipal corporation and political subdivision of the State of Minnesota. The WMMPA membership consists of 23 municipalities in the state of Minnesota. All WMMPA members are also members of MRES. WMMPA owns (1) a 16.47 percent undivided interest in the Missouri Basin Power Project (MBPP), a 1,710 Megawatt (MW) coal-fired, generating facility; (2) the Exira Station (Exira), a 140-MW natural gas-fired generating facility; (3) the Watertown Power Plant (WPP), a 60 MW oil-fired, generating plant; (4) the Worthington Wind Project, four wind turbines with a total capacity of 3.7 MW; (5) the Red Rock Hydroelectric Project (RRHP), a 36.4 MW hydroelectric, generating facility currently under construction; (6) a headquarters building; and (7) varying ownership interests in transmission facilities.

Pursuant to a power supply contract, MRES 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 and Transmission Service Agreements (Notes 3 and 4).

MRES and WMMPA are not rate-regulated by any federal or state authority or subject to federal or state income taxes. MRES performs all requested administrative services on behalf of WMMPA, which has no employees of its own, under an administrative services agreement that is in effect until 2046 and may be terminated thereafter by either party upon two-years, written notice. 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 its 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 U.S. generally accepted accounting principles (GAAP) 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 complies 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).

Under GASB 62, MRES and WMMPA defer revenues and expenses for future recognition as they are recovered or returned through the rate-making process. Where applicable, the Federal Energy Regulatory Commission's (FERC) Uniform System of Accounts is used.

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 delivering electric power and energy, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition

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are reported as non-operating revenues and expenses. The other non-operating revenues are primarily related to income from providing distribution maintenance services for four of the MRES member communities and one associate, income received from the United States (U.S.) Treasury for the Build America Bonds, and revenue from hosting a refined coal project at Laramie River Station (LRS).

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 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 ASC Section 410 *Asset Retirement and Environmental Obligations*, formerly known as Statement of FASB issued Statement No. 143, "Accounting for Asset Retirement Obligations," which establishes accounting standards for the recognition and measurement of a liability for legal obligations associated with the retirement of long-lived assets. WMMPA accrued \$380,637 and \$0 in 2016 and 2015, 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 2016 and 2015.

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. 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

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

K. Amortization

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

M. Revenues Collected for Future Costs

This liability established pursuant to GASB 62 includes (1) the difference between debt principal collected in rates and

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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. 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.

O. Use of Estimates

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

P. Subsequent Events

MRES and WMMPA considered events for recognition or disclosure in the financial statements that occurred subsequent to December 31, 2016, through May 31, 2017, the date the financial statements were available for issuance. Management is not aware of a material subsequent event.

Q. Implementation of New Accounting Principles

In 2016, MRES and WMMPA implemented the provisions of the following accounting principles:

GASB Statement No. 72, *Fair Value Measurement and Application*. This Statement provides guidance for determining a fair value measurement for financial reporting purposes as well as applying fair value to certain investments and the disclosure related to all fair value measurements.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and unauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

The implementation of GASB Statements No. 72 and 76 did not have a significant impact on the financial statements of MRES and WMMPA.

R. Recently Issued Accounting Pronouncements

GASB has issued Statement No. 81, *Irrevocable Split-Interest Agreements*, Statements No. 83, *Certain Asset Retirement Obligations*, and Statement No. 84, *Fiduciary Activities*. Application of these recently issued accounting pronouncements, when effective, may restate portions of these financial statements.

S. Reclassifications

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

3. SALE AGREEMENTS

A. Power Sale Agreements

MRES and WMMPA have Long-term Power Sale Agreements with 60 members (Power Supply Members). Fifty-seven of the members (S-1 Members) have executed S-1 Power Sale Agreements (S-1 Agreements), and three members have executed Non S-1 Power Sales Agreements. The members must take and pay for all electric power and energy made available under these agreements.

The S-1 Agreements for 56 of the S-1 Members require MRES to provide and obligate the S-1 Member to purchase, all energy and capacity required by the S-1 Member in excess of the electric power and energy made available to each S-1 Member from the Western Area Power Administration (WAPA) for both 2016 and 2015. The S-1 Agreement for the other S-1 Member requires MRES to provide and obligates the S-1 Member to purchase all energy and capacity required in excess of the electric power and energy made available from WAPA and another power supplier through June 30, 2016 and all requirements in excess of power and energy provided by WAPA beginning July 1, 2016. At December 31, 2016 and December 31, 2015, the S-1 Agreements expired on January 1, 2046.

The S-1 Agreements were amended and restated in June 2016 for all 57 S-1 Members. These amended and restated S-1 Agreements are effective January 2, 2017, and expire January 1, 2057. The S-1 Members have an option, exercisable

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every five years, to cap purchases from MRES at the level of service provided by MRES two years following the exercise of the option. None of the S-1 Members have elected to cap their purchases from MRES. The next option date for capping purchases from MRES is 2027.

MRES provides 100 percent of the demand and energy requirements to one MRES member under a Non S-1 Power Sale Agreement. As of December 31, 2016 and December 31, 2015, this agreement expired on January 1, 2046. This Non S-1 Power Sale Agreement was also amended and restated in June 2016. The amended and restated agreement is effective January 2, 2017, and expires January 1, 2057.

The sale of power and energy under the other two Non S-1 Agreements is based on a 100 percent load factor, i.e., the same level of power and energy every hour. One of the Non S-1 Power Sale Agreements expires January 1, 2046, and the other expires January 1, 2030. Amended and restated agreements have not been offered to these two members.

Sales revenue associated with all Long-term Power Sale Agreements is classified in the accompanying statements as "Long-term power sales." Under terms of the Long-term Power Sale Agreements, MRES is required to establish and maintain rates that will provide sufficient revenues to cover the payments under the Power Supply Contract.

MRES has contracted to collect payments for WAPA power and energy purchased by the S-1 Members and 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 \$61,574,000 and \$60,374,000 for the 12 months ended December 31, 2016, and December 31, 2015, respectively.

The revenue requirements of the Long-term Power Sale Agreements include expenses for use of certain transmission facilities. During the first nine months of 2015, these expenses consisted of the charge levied by WAPA for use of the facilities of WAPA, WMMPA, and three other utilities. For the remainder of 2015 and all of 2016, these expenses consisted of the charge levied by SPP for use of facilities owned by WAPA, WMMPA, and several other utilities. The expenses incurred by MRES for use of these transmission facilities approximated \$11,352,000 and \$10,972,000 in 2016 and 2015, respectively.

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

B. Transmission Service Agreements

At December 31, 2016 and 2015, WMMPA and MRES had separate Transmission Service Agreements with 12 Transmission Customers. An additional 11 Transmission Customers had Transmission Service Agreements solely with MRES. At December 31, 2016, the expiration of the Transmission Service Agreements varied between January 1, 2017, and January 1, 2021. The Transmission Service Agreements automatically renewed upon expiration until terminated by either MRES or the Transmission Customer(s). The revenues collected pursuant to the Transmission Service Agreements between WMMPA, MRES, and 12 Transmission Customers were available for payments under the Power Supply Contract until January 1, 2016, and were not available for payments under the Power Supply Contract after that date.

The Transmission Customers are committed to take and pay for all transmission service made available to them. MRES is required to establish and maintain rates sufficient to meet the revenue requirements of furnishing transmission service under these agreements.

Concurrent with the approval of the amended and restated S-1 and Non S-1 Agreements discussed in Note 4A, all Transmission Service Agreements were terminated effective January 2, 2017. Effective January 2, 2017, transmission services are included in these amended and restated S-1 and Non S-1 Agreements and all transmission revenues under these agreements are pledged to WMMPA under the Power Supply Contract.

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.

B. Purchase Power Agreements

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

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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 2016 and 2015. State law and MRES and WMMPA Investment Policies require collateralization of all deposits above the FDIC limit. At December 31, 2016 and 2015, MRES and WMMPA deposits were entirely insured or collateralized. MRES also holds a collateral account with MISO which totaled \$1,250,730 and \$500,133 at December 31, 2016, and December 31, 2015, respectively. MRES holds a collateral account with SPP which totaled \$250,458 and \$0 at December 31, 2016, and December 31, 2015, respectively.

Investments

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

MRES and WMMPA funds at December 31, 2016 and 2015, are summarized as follows:

	2016		2015	
	Amortized Cost	Estimated Market Value	Amortized Cost	Estimated Market Value
Cash and Cash Equivalents:	\$ 41,747,040	\$ 41,747,040	\$ 56,768,070	\$ 56,768,070
Investment Securities				
Securities issued by U.S. Government	70,797,721	70,879,708	154,928,425	154,807,601
Securities issued by U.S. Government Agencies and Instrumentalities	193,941,506	193,566,031	173,294,506	172,886,841
Commercial Paper	24,955,565	24,950,900	12,744,692	12,744,536
Total Funds	<u>\$ 331,441,832</u>	<u>\$ 331,143,679</u>	<u>\$ 397,735,693</u>	<u>\$ 397,207,048</u>

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 debt securities, by contractual maturity, is shown under Fair Value Measurement. Expected maturities will differ from the contractual maturity, because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Investment values may have changed significantly after year end.

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 and are significant to the fair value of the assets or liabilities.

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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 also classified in Level 2 and was 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.

At December 31, 2016, the MRES and WMMPA investments were as follows:

Investment Type	Estimated Market Value	Maturity (Years)		Level of Fair Value Hierarchy
		Less than One	One through Five	
Cash and Cash Equivalents	\$ 41,747,040	\$ 41,747,040	\$ -	
Securities issued by U.S. Government	70,879,708	53,849,050	17,030,658	Level 1
Securities issued by U.S. Government Agencies and Instrumentalities	193,566,031	104,537,632	89,028,399	Level 2
Commercial Paper	24,950,900	24,950,900	-	Level 2
Total	<u>\$ 331,143,679</u>	<u>\$ 225,084,622</u>	<u>\$ 106,059,057</u>	

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

Investment Type	Estimated Market Value	Maturity (Years)		Level of Fair Value Hierarchy
		Less than One	One through Five	
Cash and Cash Equivalents	\$ 56,768,070	\$ 56,768,070	\$ -	
Securities issued by U.S. Government	154,807,601	93,920,021	60,887,580	Level 1
Securities issued by U.S. Government Agencies and Instrumentalities	172,886,841	56,959,982	115,926,859	Level 2
Commercial Paper	12,744,536	12,744,536	-	Level 2
Total	<u>\$ 397,207,048</u>	<u>\$ 220,392,609</u>	<u>\$ 176,814,439</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, its Agencies and Instrumentalities had AA+ ratings from Standard & Poor's (S&P) and/or AAA ratings from Fitch Ratings and/or Aaa ratings from Moody's Investors Service (Moody's). The commercial paper had short term ratings of A-1+ from 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 five percent or more of the total portfolio were concentrated as follows:

Issuer	% of Portfolio at December 31	
	2016	2015
Federal Home Loan Mortgage Corporation	25%	18%
U.S. Government	21%	39%
Federal Home Loan Bank	16%	10%
Federal National Mortgage Association	9%	14%
Federal Farm Credit Bank	9%	1%
Toyota Commercial Paper	6%	1%

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

INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates will adversely affect the estimated 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 the LRS, which consists of three 570-MW coal-fired, steam, electric-generating units, associated transmission facilities, intangible plant, and the Grayrocks Dam and Reservoir.

B. Coal Supply Contracts

MBPP has an agreement with Western Fuels Association, Inc. (Western Fuels) to purchase sub-bituminous coal for LRS through the year 2034. The price of this coal is fixed at an amount that will produce revenues sufficient, together with all other Western Fuels' revenues, to cover the costs of producing or acquiring and delivering the coal. MBPP is obligated to pay for a minimum amount of coal each year. The average prices of MBPP coal purchases were approximately \$18.52 and \$18.58 per ton in 2016 and 2015, respectively. MBPP purchased approximately 7.2 million and 6.4 million tons of coal during 2016 and 2015, respectively. Minimum coal purchase requirements over the next five years of the contracts for all MBPP participants are as follows:

	<u>Tons</u>
2017 . . .	6,250,000
2018 . . .	4,800,000
2019 . . .	3,100,000
2020 . . .	2,700,000
2021 . . .	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, 2016 and 2015, the balance of advances owed to WMMPA approximated \$2.4 million and \$1.4 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 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, 2016 and 2015, WMMPA advances to the MBPP operating agent, for working capital purposes totaled approximately \$3.8 million and \$3.7 million, respectively.

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7. UTILITY PLANT

Utility plant at December 31, 2016 and 2015, consisted of:

	<u>2016</u>			<u>2015</u>		
	<u>Gross Plant</u>	<u>Accumulated Depreciation</u>	<u>Net Plant</u>	<u>Gross Plant</u>	<u>Accumulated Depreciation</u>	<u>Net Plant</u>
Generation	\$ 303,818,417	\$ 179,097,167	\$ 124,721,250	\$ 298,527,337	\$ 180,432,410	\$ 118,094,927
Transmission	168,441,173	42,018,358	126,422,815	167,893,474	38,998,999	128,894,475
General	16,432,252	8,813,408	7,618,844	15,810,605	8,614,191	7,196,414
Intangible	<u>9,273,751</u>	<u>7,870,213</u>	<u>1,403,538</u>	<u>9,273,751</u>	<u>7,777,476</u>	<u>1,496,275</u>
Utility Plant in Service	497,965,593	237,799,146	260,166,447	491,505,167	235,823,076	255,682,091
Construction Work in Progress	<u>256,336,186</u>	-	<u>256,336,186</u>	<u>192,405,745</u>	-	<u>192,405,745</u>
Total Utility Plant	<u>\$ 754,301,779</u>	<u>\$ 237,799,146</u>	<u>\$ 516,502,633</u>	<u>\$ 683,910,912</u>	<u>\$ 235,823,076</u>	<u>\$ 448,087,836</u>

Utility plant activity for the years ended December 31, 2016 and 2015, was:

	<u>January 1, 2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>December 31, 2016</u>
Non-depreciable Utility Plant:					
Land	\$ 2,387,140	\$ -	\$ -	\$ -	\$ 2,387,140
Construction Work in Progress	<u>192,405,745</u>	<u>73,875,864</u>	-	<u>(9,945,423)</u>	<u>256,336,186</u>
Total Non-depreciable Utility Plant	<u>194,792,885</u>	<u>73,875,864</u>	-	<u>(9,945,423)</u>	<u>258,723,326</u>
Depreciable Utility Plant:					
Depreciable Utility Plant in Service	489,118,027	3,008,416	(6,493,413)	9,945,423	495,578,453
Accumulated Depreciation	<u>(235,823,076)</u>	<u>(8,772,257)</u>	<u>6,796,187</u>	-	<u>(237,799,146)</u>
Net Depreciable Utility Plant in Service	<u>253,294,951</u>	<u>(5,763,841)</u>	<u>302,774</u>	<u>9,945,423</u>	<u>257,779,307</u>
Net Utility Plant	<u>\$ 448,087,836</u>	<u>\$ 68,112,023</u>	<u>\$ 302,774</u>	<u>\$ -</u>	<u>\$ 516,502,633</u>

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

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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, 2016 and 2015 was as follows:

	<u>January 1, 2016</u>	<u>Debt Issued</u>	<u>Debt Refunded</u>	<u>Payments or Amortization</u>	<u>December 31, 2016</u>	<u>Amount Due within One Year</u>
Revenue Bonds	\$ 563,050,000	\$ -	\$ -	(\$11,795,000)	\$ 551,255,000	\$ 11,095,000
Unamortized Debt Premium	<u>47,965,729</u>	-	-	<u>(4,155,647)</u>	<u>43,810,082</u>	-
Revenue Bonds, Net of Unamortized Premium	<u>\$ 611,015,729</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(\$15,950,647)</u>	<u>\$ 595,065,082</u>	<u>\$ 11,095,000</u>

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

The original issue amount and the outstanding amount of the Revenue Bonds, net of unamortized debt discount and premium, at December 31, 2016 and 2015, are as follows:

	<u>Original Issue Amount</u>	<u>Amount Outstanding 2016</u>	<u>2015</u>
2006 Series A Bonds: Serial Bonds: 3.85%-5.00% due 2016 and 2017	\$ 12,890,000	\$ 6,595,000	\$ 12,890,000
2010 Series A Bonds: Serial Bonds: 3.00%-5.00% due 2017 and 2018	9,215,000	9,215,000	9,215,000
2010 Series B Bonds: Serial Bonds: 3.62% due 2016	32,515,000	-	5,500,000
2010 Series C Bonds: Term Bonds (Build America Bonds): 6.77% with annual sinking fund requirements beginning in 2031, due 2046	99,915,000	99,915,000	99,915,000
2012 Series A Bonds: Serial Bonds: 3.00%-5.00% due 2024 through 2030	49,440,000	49,440,000	49,440,000
2014 Series A Bonds: Serial Bonds: 3.00%-5.00% due 2018 through 2046	351,255,000	351,255,000	351,255,000
2015 Series A Bonds: Serial Bonds: 5% due 2031 through 2036	34,835,000	<u>34,835,000</u>	<u>34,835,000</u>
Principal Outstanding		551,255,000	563,050,000
Unamortized debt premium		<u>43,810,082</u>	<u>47,965,729</u>
Revenue Bonds, including unamortized debt premium		595,065,082	611,015,729
Less current maturities		<u>11,095,000</u>	<u>11,795,000</u>
Revenue Bonds, including unamortized debt premium and excluding current maturities		<u>\$ 583,970,082</u>	<u>\$ 599,220,729</u>

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

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Payments expected to be received from U.S. Treasury</u>
2017	\$ 11,095,000	\$ 28,354,399	\$ 39,449,399	\$ 2,204,129
2018	10,120,000	27,893,446	38,013,446	2,204,129
2019	9,850,000	27,501,396	37,351,396	2,204,129
2020	10,240,000	27,048,396	37,288,396	2,204,129
2021	10,755,000	26,523,521	37,278,521	2,204,129
2022-2026	48,750,000	124,464,980	173,214,980	11,020,647
2027-2031	62,555,000	113,318,269	175,873,269	11,015,242
2032-2036	99,190,000	92,236,643	191,426,643	10,819,570
2037-2041	127,700,000	62,891,634	190,591,634	8,364,287
2042-2046	<u>161,000,000</u>	<u>23,337,726</u>	<u>184,337,726</u>	<u>3,053,166</u>
Totals	<u>\$ 551,255,000</u>	<u>\$ 553,570,410</u>	<u>\$ 1,104,825,410</u>	<u>\$ 55,293,557</u>

The 2010 Series A and 2010 Series B Bonds are not subject to redemption prior to their scheduled maturities. The 2012 Series A, 2014 Series A, and 2015 Series A Bonds are subject to redemption at par beginning in 2023, 2024, and 2026, respectively, at the option of WMMPA. The 2010 Series C Bonds are subject to redemption prior to their stated maturity at the option of WMMPA, in whole or in part on any date. The redemption price for the 2010 Series C Bonds is the greater of 100 percent of the principal or the sum of present value of the remaining scheduled payments of principal and interest to the maturity date of the 2010 Series C Bonds. The outstanding bonds are secured by a pledge and assignment of and security interest in (1) the proceeds of the 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 \$40,462,000 and \$212,915,000, respectively.

WMMPA did not issue any debt during 2016. During 2015, WMMPA issued \$34,835,000 of 2015 Series A Bonds to advance-refund a portion of the 2006 Series A Term Bonds. The cash flow requirements on the 2006 Series A Bonds refunded was \$70.3 million from August 2015 through January 2036. The cash flow requirements on the 2015 Series A Bonds total \$66.2 million for the same period. The net present value savings resulting from the advance refunding was approximately \$2.4 million.

WMMPA has irrevocably escrowed funds to make the remaining principal and interest payments on previously issued Revenue Bonds (Escrowed Bonds). Escrowed Bonds outstanding and considered defeased totaled \$36,955,000 at December 31, 2016.

9. NON-CURRENT LIABILITIES

Non-current liability activity for the years ended December 31, 2016 and 2015 was as follows:

	<u>January 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31, 2016</u>
Revenues collected for future costs – regulatory liability	\$ 36,698,518	\$15,019,483	(\$13,458,958)	\$ 38,259,043
Other non-current liabilities	<u>897,644</u>	<u>430,176</u>	-	<u>1,327,820</u>
Total non-current liabilities	<u>\$ 37,596,162</u>	<u>\$15,449,659</u>	<u>(\$13,458,958)</u>	<u>\$ 39,586,863</u>

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

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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 2016 or 2015.

11. RETIREMENT PLAN

MRES has a defined contribution retirement plan covering substantially all of its employees that have more than one year of service. Employees vest at the rate of 20 percent per year with full vesting after six years of service. During 2016 and 2015, MRES contributed three percent and ten percent of payroll after six months and one year of service, respectively, to the plan. Employer contributions totaled approximately \$878,000 and \$818,000 for 2016 and 2015, respectively. Covered payroll was 95 percent of total payroll for both 2016 and 2015. Employees may contribute, on a voluntary basis, up to the maximum allowed by law after six months of employment. Employee contributions to the plan totaled approximately \$888,000 and \$798,000 in 2016 and 2015, respectively, or approximately nine percent of covered payroll for both 2016 and 2015. MRES acts as plan administrator, and all plan changes are approved by the MRES Board.

12. CONTINGENCIES, COMMITMENTS, AND LITIGATION GENERAL

MRES and WMPMPA are exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; natural disasters; errors and omissions; injuries to employees and others; and health care of its employees. MRES and WMPMPA 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, 2016 and 2015. The coverages and deductibles in effect were substantially the same for both 2016 and 2015. MRES and WMPMPA are unaware of any claims pending at December 31, 2016.

MRES and WMPMPA are subject to continually changing federal, state, and regional environmental, health, and safety standards, laws, and regulations. These changes may arise from continuing legislative, regulatory, and judicial action taken in response to public safety and environmental concerns. Compliance with such regulations could result in increased operating costs and reduced operation levels. An inability to comply with certain regulations could result in the complete shutdown of generating units and transmission facilities. At December 31, 2016, MRES and WMPMPA believe they are in material compliance with all environmental, health, and safety regulations.

CONTRACT COMMITMENTS

WMPMPA has entered into various contracts for the development of the RRHP and the construction of various transmission projects. As of December 31, 2016, the remaining obligation on these contract commitments totaled approximately \$135 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. A series of appeals followed and the case was repeatedly returned to the STB. On May 13, 2015, BEPC, Western Fuels, and BNSF signed a final settlement agreement. Details of the settlement are confidential, because railroad rates are now competitive and proprietary. Each of the MBPP participants held its share of the refund money that was awarded by the STB's 2009 decision, pending a final outcome of appeals. The WMPMPA share of the initial award was about \$19 million. WMPMPA recorded its portion of the settlement obligation in December 2014. The unamortized amount WMPMPA originally received from BNSF for overcharges, net of its obligation under the settlement, is currently reflected as unearned income. The balance is being amortized to income over a four-year period beginning in 2015.

CLEAN AIR ACT

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

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

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

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

On January 23, 2014, the 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. The State of Wyoming, PacifiCorp, and Powder River Basin Resource Council also appealed the FIP. See *State of Wyoming v. United States Environmental Protection Agency*, No. 14-9529; *Powder River Basin Resource Council v. EPA*, No. 14-9530; *Basin Electric Power Cooperative v. EPA*, No. 14-9533; and *PacifiCorp v. EPA*, No. 14-9534. On September 9, 2014, the 10th Circuit Court of Appeals granted a stay of enforcement pending appeal, extending the deadline for compliance for the duration of the stay for LRS and other units that are the subjects of the appeal. The appeal is ongoing.

BEPC, as Operating Agent for MBPP, the State of Wyoming, and the EPA have negotiated a tentative settlement agreement, published in the *Federal Register* on December 30, 2016. The settlement includes installing SCR equipment on Unit 1 by July 1, 2019, and selective non-catalytic reduction equipment on Unit 2 and Unit 3 by December 31, 2018. The estimated WMPMPA cost of the settlement is approximately \$60 million. The CAA requires the EPA administrator and the U.S. Attorney General to consider written comments received during the public comment period on the settlement agreement and decide whether to withdraw consent to the settlement agreement, or proceed to finalize the agreement. Once the settlement agreement is finalized, Wyoming must revise its State Implementation Plan and the EPA must then revise its FIP as it relates to LRS. When those rulemakings are completed, EPA and BEPC will file a motion to dismiss the appeal; the case is on hold until then. EPA is expected to issue a revised FIP in the summer of 2018. Until that time, the EPA or MBPP could back out for numerous reasons in which case the litigation in the 10th Circuit Court of Appeals would resume.

On January 10, 2017, EPA published final revisions to the Regional Haze regulations. According to EPA, these amendments are intended to relieve some of the administrative burdens imposed on the states by extending the deadline for states to submit the next comprehensive revision of their SIPs from 2018 to 2021 and removing the requirement for periodic progress reports to be submitted as revisions to SIPs.

CAA 111(d) "The Clean Power Plan": In October 2015, the EPA published final carbon dioxide (CO₂) performance standards for existing sources under Section 111(d) of the CAA (the CPP). The CPP requires the State of Wyoming (the State) to create and implement a SIP to reduce CO₂ emissions from fossil fuel plants by 33 percent when the initial compliance reductions begin in 2022. When the CPP is fully implemented in 2030, Wyoming will be required to achieve a 44 percent reduction in CO₂ emissions from existing fossil fuel power plants in the State. If the State fails to submit an SIP, or if the EPA rejects the State's SIP, the EPA would impose an FIP to achieve those reductions. Twenty-seven states and a number of utilities and trade organizations filed Petitions for Review with the Court of Appeals for the D.C. Circuit challenging the EPA's legal authority to issue the CPP Rule, as well as programmatic issues regarding the CPP Rule. The CPP has been stayed during the pendency of the appeals by an order of the United States Supreme Court, issued on February 9, 2016.

On September 27, 2016, the D.C. Circuit heard oral arguments in the case. Although the outcome of this litigation is unknown, it is clear that President Trump and EPA Administrator Pruitt do not intend for the CPP to continue in its current form. The Trump Administration is expected to issue an executive order directing EPA to initiate rulemaking efforts to undo the CPP. Despite the assumption that the CPP will be repealed, carbon regulation is still required by the U.S. Supreme Court decision in *Massachusetts v. EPA*. 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.

Other EPA rules: In addition, the EPA is in the process of amending other rules and regulations under the CAA in several respects. EPA is evaluating and has considered or is considering proposing regulations or amendments relating to particulate matter, nitrogen dioxide, ozone, and other hazardous air pollutants. The EPA has finalized the Cross-State Air Pollution Rule (CSAPR) Update for the 2008 ozone standards and is considering area designations for the 2015 ozone standards. Both the CSAPR Update rule and ozone standards apply to LRS. In addition, Congress has enacted legislation on the regulation of coal ash as a non-hazardous waste under the Resource Conservation and Recovery Act. LRS is in the process of complying with the coal ash rule and will continue to address new CAA regulatory requirements that may be imposed on LRS. BEPC, as operating agent for LRS, is actively monitoring and evaluating each of these various proposals to assess whether and, if so, how they will impact operations at LRS. MRES is also actively monitoring and evaluating pending proposals to assess whether and, if so, how they will impact operations at LRS or any other WMPMPA generating resources. The impacts of the various EPA proposals are indeterminable at the current time. If any of these EPA proposals become final, the impact of the new regulatory requirements will be determined, and measures will be taken to comply with applicable requirements.

EPA Section 114(a) Request: BEPC, as Operating Agent of MBPP, received a Section 114(a) letter in September 2011, from the EPA requesting information about certain capital additions at LRS. BEPC has provided all information requested. BEPC and EPA have conducted confidential discussions and have signed a tolling agreement extending the statute of limitations to June 30, 2017, for the investigation regarding specific work performed on the Unit 3 superheater in 2011. The outcome of this Section 114(a) request is indeterminable at the current time.

Western Minnesota Municipal Power Agency Statement of Net Position

	December 31	
	2016	2015
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:		
Current Assets:		
Cash and cash equivalents:		
Restricted	\$ 22,286,207	\$ 37,165,156
Unrestricted	<u>431,844</u>	<u>3,998,176</u>
Total cash and cash equivalents	<u>22,718,051</u>	<u>41,163,332</u>
Short-term investments:		
Restricted	147,394,283	116,194,102
Unrestricted	<u>10,699,243</u>	<u>8,316,351</u>
Total short-term investments	<u>158,093,526</u>	<u>124,510,453</u>
Accounts receivable	1,298,354	4,286,003
Advances to MBPP	3,760,023	3,697,982
Fuel stock	8,257,251	5,360,897
Materials and supplies	4,557,995	4,246,140
Interest receivable	355,988	455,589
Prepayments and other current assets	<u>6,759,713</u>	<u>5,225,510</u>
Total Current Assets	<u>205,800,901</u>	<u>188,945,906</u>
Non-Current Assets:		
Long-term investments:		
Restricted	31,270,772	123,469,191
Unrestricted	<u>14,260,156</u>	<u>19,049,987</u>
Total long-term investments	<u>45,530,928</u>	<u>142,519,178</u>
Capital Assets:		
Utility plant in service	492,986,526	486,508,939
Less-accumulated depreciation	<u>(233,857,014)</u>	<u>(231,739,121)</u>
Net utility plant in service	259,129,512	254,769,818
Construction work in progress	<u>256,336,186</u>	<u>192,405,745</u>
Net Capital Assets	515,465,698	447,175,563
Advances for mine development	2,060,664	1,098,110
Unamortized debt expense - regulatory asset	3,634,163	3,927,471
Other non-current assets	<u>103,598</u>	<u>468,794</u>
TOTAL ASSETS	<u>772,595,952</u>	<u>784,135,022</u>
Deferred Outflows of Resources:		
Unamortized loss on reacquired debt	<u>1,102,904</u>	<u>1,271,249</u>
Total Deferred Outflows of Resources	<u>1,102,904</u>	<u>1,271,249</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 773,698,856</u>	<u>\$ 785,406,271</u>

See accompanying independent auditors' report.

Western Minnesota Municipal Power Agency Statement of Net Position

	December 31	
	2016	2015
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION:		
Current Liabilities:		
Accounts payable - unrestricted	\$ 8,688,594	\$ 10,231,429
Accrued taxes	3,591,451	3,250,118
Current liabilities payable from restricted assets:		
Accounts payable - restricted	21,615,856	23,023,961
Current maturities of revenue bonds	11,095,000	11,795,000
Accrued interest	<u>14,310,150</u>	<u>14,356,425</u>
Total Current Liabilities	<u>59,301,051</u>	<u>62,656,933</u>
Non-Current Liabilities:		
Revenue bonds:		
Principal outstanding	540,160,000	551,255,000
Unamortized debt premium	<u>43,810,082</u>	<u>47,965,729</u>
Revenue bonds, excluding current maturities	583,970,082	599,220,729
Revenues collected for future costs - regulatory liability	38,452,289	36,999,082
Other non-current liabilities	380,637	-
Advances from MRES	<u>39,139,854</u>	<u>39,139,854</u>
Total Non-Current Liabilities	<u>661,942,862</u>	<u>675,359,665</u>
TOTAL LIABILITIES	<u>721,243,913</u>	<u>738,016,598</u>
Deferred Inflows of Resources:		
Unearned revenue	<u>9,737,207</u>	<u>14,605,810</u>
Total Deferred Inflows of Resources	<u>9,737,207</u>	<u>14,605,810</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>730,981,120</u>	<u>752,622,408</u>
Net Position:		
Net investment in capital assets	(92,813,464)	(175,937,398)
Restricted:		
Debt service	51,026,742	53,668,358
Capital additions	127,035,448	201,388,741
Other	<u>4,914,213</u>	<u>1,686,916</u>
Total Restricted	182,976,403	256,744,015
Unrestricted	<u>(47,445,203)</u>	<u>(48,022,754)</u>
Total Net Position	<u>42,717,736</u>	<u>32,783,863</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OR RESOURCES AND NET POSITION	<u>\$ 773,698,856</u>	<u>\$ 785,406,271</u>

See accompanying independent auditors' report.

Western Minnesota Municipal Power Agency

Statement of Revenues, Expenses and Changes in Net Position

	<u>Years Ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Operating Revenues:		
Revenues billed MRES	\$ 89,458,245	\$ 89,336,752
Other operating income	<u>4,877,970</u>	<u>4,867,113</u>
Total Operating Revenues	<u>94,336,215</u>	<u>94,203,865</u>
Operating Expenses:		
Fuel	20,198,506	16,471,049
Purchased power and other power supply operation and maintenance	25,817,257	28,905,611
Depreciation and amortization	8,393,688	8,042,205
Transmission operation and maintenance	2,351,066	1,810,519
Administrative and general	3,250,591	3,127,560
Property taxes	<u>4,245,895</u>	<u>3,600,419</u>
Total Operating Expenses	<u>64,257,003</u>	<u>61,957,363</u>
Operating Income	<u>30,079,212</u>	<u>32,246,502</u>
Non-Operating Revenues (Expenses):		
Investment income	2,075,577	2,033,274
Other income	4,169,950	3,957,308
Other expense	(134,522)	(492,652)
Interest expense	(28,620,301)	(29,123,032)
Amortization of financing related costs and premium	3,693,993	3,302,433
Amortization of reserves previously collected	5,065,269	5,065,269
Amortization of canceled power supply and transmission project	-	(1,953,874)
Unrealized gain (loss) on investments	123,175	(328,841)
Net costs recoverable in (for) future years:		
Principal in excess of depreciation and amortization	(6,395,305)	(5,101,354)
Other costs recoverable in (for) future years	<u>(123,175)</u>	<u>328,841</u>
Total Non-Operating Expenses	<u>(20,145,339)</u>	<u>(22,312,628)</u>
Change in Net Position	9,933,873	9,933,874
Net Position:		
Beginning of year	<u>32,783,863</u>	<u>22,849,989</u>
End of year	<u>\$ 42,717,736</u>	<u>\$ 32,783,863</u>

See accompanying independent auditors' report.