

Midwest Reliability Organization

Financial Statements

December 31, 2023 and 2022

Midwest Reliability Organization

Table of Contents

December 31, 2023 and 2022

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Notes to Financial Statements	6

Independent Auditors' Report

To the Board of Directors of
Midwest Reliability Organization

Opinion

We have audited the financial statements of Midwest Reliability Organization (the Organization), which comprise the statements of financial position as of December 31, 2023 and 2022, and the related statements of activities and cash flows for the years then ended and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

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

Baker Tilly US, LLP

Minneapolis, Minnesota
April 12, 2024

Midwest Reliability Organization

Statements of Financial Position

December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 5,209,768	\$ 5,336,561
Restricted cash	119,026	332,347
Prepaid expenses	430,591	472,240
Total current assets	5,759,385	6,141,148
Property, Improvements and Equipment, Net	2,472,101	2,679,184
Other Assets		
Restricted cash, noncurrent	5,427,912	4,746,594
Security deposit, noncurrent	39,858	39,858
Right-of-use assets	4,148,101	4,579,556
Investments, retirement plan	166,867	202,853
Capitalized software costs, net of accumulated amortization of \$504,689 and \$504,076, respectively	5,775	6,387
Total assets	<u>\$ 18,019,999</u>	<u>\$ 18,395,580</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable, trade	\$ 89,463	\$ 364,814
Accrued liabilities	2,729,697	2,402,325
Retirement plan contribution	1,005,263	947,573
Lease liability, current	459,358	486,891
Total current liabilities	4,283,781	4,201,603
Other Liabilities		
Postretirement medical benefit obligation	9,569	311,214
Lease liability, noncurrent	4,772,329	5,279,772
Other retirement plan liability	166,867	202,853
Total liabilities	9,232,546	9,995,442
Net Assets (Without Donor Restrictions)	<u>8,787,453</u>	<u>8,400,138</u>
Total liabilities and net assets	<u>\$ 18,019,999</u>	<u>\$ 18,395,580</u>

See notes to financial statements

Midwest Reliability Organization

Statements of Activities

Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Revenue		
Assessments	\$ 20,507,276	\$ 17,832,414
Penalty sanctions	467,997	465,606
Other	299,097	11,850
	<u>21,274,370</u>	<u>18,309,870</u>
Expenses		
Personnel expenses:		
Salaries	12,497,901	11,808,251
Payroll taxes	830,773	652,765
Employee benefits	1,338,700	1,188,645
Retirement benefits	1,817,177	1,886,088
	<u>16,484,551</u>	<u>15,535,749</u>
Meeting expenses:		
Meetings and conference calls	147,192	109,913
Travel	339,129	218,522
	<u>486,321</u>	<u>328,435</u>
Operating expenses:		
Building rent and facilities	1,046,735	1,051,505
Consulting	946,173	1,095,659
Office costs	1,778,726	1,410,722
Professional services	447,702	454,522
	<u>4,219,336</u>	<u>4,012,408</u>
Total expenses	<u>21,190,208</u>	<u>19,876,592</u>
Change in net assets without donor restrictions before postretirement benefit related changes	<u>84,162</u>	<u>(1,566,722)</u>
Postretirement Benefit Related Changes		
Postretirement medical benefit obligation changes other than net periodic cost	247,673	283,452
Other components of net periodic pension cost	55,480	86,116
	<u>303,153</u>	<u>369,568</u>
Change in net assets without donor restrictions	387,315	(1,197,154)
Net Assets Without Donor Restrictions, Beginning	<u>8,400,138</u>	<u>9,597,292</u>
Net Assets Without Donor Restrictions, Ending	<u>\$ 8,787,453</u>	<u>\$ 8,400,138</u>

See notes to financial statements

Midwest Reliability Organization

Statements of Cash Flows

Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash Flows From Operating Activities		
Change in net assets	\$ 387,315	\$ (1,197,154)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	695,516	600,897
Software amortization	612	613
Unrealized (gain)/loss on investments	(24,206)	36,325
Non-cash lease expense	(103,521)	(53,370)
Change in assets and liabilities:		
Prepaid expenses	41,649	138,188
Accounts payable, trade	(275,351)	137,571
Accrued liabilities	327,372	117,223
Retirement plan contribution	57,690	83,915
Accrued retirement plan obligations	(337,631)	(5,517)
Net cash flows from operating activities	<u>769,445</u>	<u>(141,309)</u>
Cash Flows From Investing Activities		
Purchases of investments	(27,515)	(31,389)
Sales of investments	87,707	-
Purchases of property, improvements and equipment and software	<u>(488,433)</u>	<u>(572,588)</u>
Net cash flows from investing activities	<u>(428,241)</u>	<u>(603,977)</u>
Net change in cash and cash equivalents	341,204	(745,286)
Cash, Cash Equivalents and Restricted Cash, Beginning	<u>10,415,502</u>	<u>11,160,788</u>
Cash, Cash Equivalents and Restricted Cash, Ending	<u>\$ 10,756,706</u>	<u>\$ 10,415,502</u>
Supplemental Cash Flow Disclosure		
Property, improvements and equipment additions included in accounts payable	<u>\$ -</u>	<u>\$ 18,239</u>
Acquisition of right of use asset in exchange for lease liability	<u>\$ -</u>	<u>\$ 6,232,182</u>

See notes to financial statements

Midwest Reliability Organization

Notes to Financial Statements

December 31, 2023 and 2022

1. Significant Accounting Policies

Services

Midwest Reliability Organization (the Organization) is a nonprofit organization dedicated to ensuring the reliability of the bulk power system in the north-central part of North America. The Organization is a Regional Entity under the Energy Policy Act of 2005 (United States) and operates under delegated authority from the Federal Energy Regulatory Commission (FERC) via a delegation agreement with the North American Electric Reliability Corporation (NERC). Additionally, the Organization operates in the provinces of Saskatchewan and Manitoba through other agreements. The primary focus of the Organization is ensuring compliance with reliability standards utilizing open, fair processes in the public interest and providing assessments on bulk power system reliability. In addition to the Board of Directors, the board has established three technical organizational groups comprised of stakeholders: Security Advisory Council, Compliance Monitoring and Enforcement Program Advisory Council and the Reliability Advisory Council. The Board of Directors has three committees: Finance and Audit Committee, Governance and Personnel Committee and Organizational Group Oversight Committee.

Financial Statement Presentation

As a 501(c)(3) nonprofit organization, net assets, support and revenue are classified based upon the existence or absence of donor imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed stipulations.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed stipulations that will be met by action of the Organization and/or passage of time. The Organization has no net assets with donor restrictions as of December 31, 2023 and 2022.

Cash, Cash Equivalents and Restricted Cash

The Organization considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Cash and cash equivalents are held by one financial institution, Wells Fargo, in three accounts. Restricted cash consists of amounts received from penalties assessed and collected from registered entities regarding enforcement of NERC's reliability standards, which are segregated in a separate account as such amounts are required by FERC to be used to reduce future assessments. Restricted cash, noncurrent consists of long-term board-designated assessment stabilization reserves in the amount of \$5,427,912 and \$4,746,594 as of December 31, 2023 and 2022, which have been set aside to be used to mitigate year-to-year variations in assessments. Cash on deposit in excess of federally insured limits are subject to the usual banking risks of funds in excess of those limits. The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the statements of financial position to the statement of cash flows as follows:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 5,209,768	\$ 5,336,561
Restricted cash	119,026	332,347
Restricted cash, noncurrent	<u>5,427,912</u>	<u>4,746,594</u>
Total cash, cash equivalents and restricted cash	<u>\$ 10,756,706</u>	<u>\$ 10,415,502</u>

Midwest Reliability Organization

Notes to Financial Statements
December 31, 2023 and 2022

Cash equivalents and restricted cash equivalents totaling \$10,751,072 and \$10,408,960 as of December 31, 2023 and 2022, respectively, consist of investments in government money market funds and are classified within Level 1 of the fair value hierarchy based upon the availability of quoted market prices in active markets for the mutual funds.

Property, Improvements and Equipment

Property, improvements and equipment are stated at cost less accumulated depreciation and amortization. Significant additions or improvements exceeding \$3,000 are capitalized, while expenditures for maintenance and repairs are charged to operations as incurred. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets, ranging from three to seven years. Leasehold improvements are amortized using the straight-line method over the shorter of the estimated useful life or the remaining lease term. The cost and related accumulated depreciation of assets sold or disposed of are removed from the accounts and the resulting gain or loss is included in operations.

Capitalized Software Costs

The Organization capitalizes software development costs incurred and purchased software in upgrading computer software used internally to serve its members. The Organization begins capitalization of these costs after technological feasibility has been determined. The capitalized software, once placed in service, is amortized on the straight-line method over its estimated useful life of three years. Amortization expense totaled \$612 and \$613 for the years ended December 31, 2023 and 2022, respectively.

Tax Status

The Internal Revenue Service (IRS) has determined that the Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization is also exempt from state income taxes under applicable state provisions. However, any unrelated business income may be subject to taxation.

The Organization follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the Organization for uncertain tax positions as of December 31, 2023 and 2022. The Organization's tax returns are subject to review and examination by federal and state authorities.

Revenue and Assessments

The Organization performs various services under its delegation agreement with NERC and similar agreements with other regulatory authorities to ensure compliance with mandatory reliability standards promulgated in the Energy Policy Act of 2005 (the Act) by entities who own, operate, or use the interconnected, international bulk power system. Services provided by the Organization consist of outreach and engagement, oversight and risk management and measuring the reliability and performance of the bulk power system.

Midwest Reliability Organization

Notes to Financial Statements

December 31, 2023 and 2022

The Organization's assessment revenues are derived from NERC charges of all load-serving entities within the Organization's delegated geographical area. The assessments are based on the Organization's budgeted costs of operations, which are subject to review and approval by the Organization's board of directors, the NERC Board of Trustees and the FERC. Once approved, the assessment is allocated to all load-serving entities within the Organization's delegated geographical area based on a net energy-to-load allocation formula prescribed under the Act in the United States and similar arrangements in Saskatchewan and Manitoba. Since the services performed by the Organization constitute a continuous series of activities which are substantially the same, the Organization accounts for the services it performs under its delegation authority as a single performance obligation. Assessment revenues are therefore recognized over time on a straight-line basis. Assessments are billed and collected from load-serving entities by NERC. In turn, NERC remits assessments to the Organization on a quarterly basis.

Penalty sanctions are considered a form of variable consideration and are derived from the Organization's compliance and enforcement activities. Revenue resulting from penalty sanctions is recognized at the point in time when the regulatory body, FERC, has issued an order of settlement. Penalties are typically collected within 30 days of receipt of the order of settlement.

There are no sales or other taxes collected by the Organization concurrent with revenue-producing activities and the Organization has no significant financing components contained in its delegation agreements with NERC or other regulatory authorities.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassification

Certain amounts appearing in the 2022 financial statements have been reclassified to conform with the 2023 presentation. The reclassifications have no effect on the reported amounts of total net assets or the change in total net assets.

Subsequent Events

The Organization has evaluated subsequent events through April 12, 2024 which is the date that the financial statements were approved and available to be issued.

2. Liquidity and Availability of Financial Assets

The Organization's financial assets available within one year of the statement of financial position date for general expenditure such as operating expenses as of December 31, are as follows:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 5,209,768	\$ 5,336,561
Restricted cash, current	119,026	332,347
Total	<u>\$ 5,328,794</u>	<u>\$ 5,668,908</u>

Midwest Reliability Organization

Notes to Financial Statements

December 31, 2023 and 2022

The Organization's practice is to structure its financial assets to be available as its general expenses, liabilities and obligations come due and targets a minimum of 30 days of operating expense coverage at any point in time.

Cash in excess of daily requirements is typically invested in short-term, liquid securities. The Organization also has an unsecured \$2 million line of credit. No funds have been drawn from this line since its inception.

3. NERC Transactions

The Organization has entered into a delegation agreement with NERC to enforce the Reliability Standards as set by NERC within a designated region. In connection with the current delegation agreement, the Organization has the ability to propose Reliability Standards and Regional Variances. The Organization has the authority to enforce the Reliability Standards as set by NERC and approved by regulatory authorities within the geographic boundaries. The Organization is subject to oversight from NERC and applicable regulations in the United States, Manitoba and Saskatchewan.

To ensure the delegated functions have reasonable funding, NERC is to fund the Organization with the monies necessary to carry out its activities as per the agreement. A formula is devised that allocates charges among the end users within the boundaries served by the Organization, based on net energy for load or through such other formula as provided. The Organization provides NERC with a board approved annual operating budget on or before June 30 of each year. Budgeted assessment revenues (exclusive of penalty sanctions revenue described previously) were \$20,507,276 and \$17,832,414 for years ended December 31, 2023 and 2022, respectively, which were equal to the amounts received from NERC.

4. Lease Commitments

The Organization has an operating lease for office space in St. Paul, Minnesota through October 31, 2032. In addition to the base rent, the Organization is responsible for its allocated share of common area and other maintenance costs.

Right-of-use assets represent the Organization's right to use an underlying asset for the lease term, while lease liabilities represent the Organization's obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the commencement date of a lease based on the net present value of lease payments over the lease term. Upon adoption of the new lease standard, unamortized lease incentives and deferred rent were reclassified against the right of use asset. Right-of-use assets are assessed for impairment in accordance with the Organization's long-lived asset policy. The Organization reassesses lease classification and remeasures right-of-use assets and lease liabilities when a lease is modified and that modification is not accounted for as a separate new lease or upon certain other events that require reassessment in accordance with Topic 842, *Leases*.

The Organization's lease includes an option to renew or terminate the lease. The exercise of lease renewal or early termination options is at the Organization's sole discretion. The Organization regularly evaluates the renewal and early termination options and when they are reasonably certain of exercise, the Organization includes such options in the lease term.

In determining the discount rate used to measure the right-of-use assets and lease liabilities, the Organization elected to use a risk-free rate based on U.S. Treasury notes or bond rates for a similar term.

Midwest Reliability Organization

Notes to Financial Statements
December 31, 2023 and 2022

The following table summarizes the operating lease right-of-use assets and operating lease liabilities as of December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Operating lease right-of-use assets	\$ 4,148,101	\$ 4,579,556
Operating lease liabilities:		
Current	\$ 459,358	\$ 486,891
Long-term	4,772,329	5,279,772
Total	<u>\$ 5,231,687</u>	<u>\$ 5,766,663</u>

Operating lease expense was \$1,024,724 and \$1,020,561 for the years ended December 31, 2023 and 2022, respectively.

The right-of-use assets and lease liabilities were calculated using a weighted average discount rate of 3.00%. As of December 31, 2023, the weighted average remaining lease term was 8.8 years. The table below summarizes the Company's scheduled future minimum lease payments for years ending after December 31, 2023:

Years ending December 31:	
2024	\$ 539,855
2025	601,046
2026	614,439
2027	628,178
2028	642,261
Thereafter	<u>2,599,339</u>
Total	5,625,118
Less present value discount	<u>(393,431)</u>
Total lease liabilities	5,231,687
Less current portion	<u>(459,358)</u>
Long-term lease liability	<u>\$ 4,772,329</u>

Operating cash flows from operating leases were \$622,976 and \$562,187 for years ended December 31, 2023 and 2022, respectively.

Midwest Reliability Organization

Notes to Financial Statements
December 31, 2023 and 2022

5. Property, Improvements and Equipment

The following is a schedule of property, improvements and equipment as of December 31:

	<u>2023</u>	<u>2022</u>
Equipment	\$ 3,998,903	\$ 3,524,397
Furniture	826,878	817,208
Leasehold improvements	<u>2,606,468</u>	<u>2,602,211</u>
	7,432,249	6,943,816
Less accumulated depreciation	<u>(4,960,148),</u>	<u>(4,264,632)</u>
Net property, improvements and equipment	<u>\$ 2,472,101</u>	<u>\$ 2,679,184</u>

6. Line of Credit

The Organization has a revolving line of credit from National Cooperative Service Corporation (NCSC) with an established credit limit of \$2,000,000. The interest rate is equal to the NCSC Line of Credit Rate in effect from time to time, not to exceed the Prevailing Bank Prime Rate as published in the *Money Rates* column of the eastern edition of the Wall Street Journal on the publication day immediately preceding the day on which an adjustment in the interest rate becomes effective. The Organization is required to maintain a Debt Service Coverage Ratio of not less than 1.00. The line of credit is secured by substantially all assets of the Organization and expires on February 26, 2026. There were no outstanding balances at December 31, 2023 or 2022.

Midwest Reliability Organization

Notes to Financial Statements
December 31, 2023 and 2022

7. Retirement Plans

Postretirement Health Plan

The Organization has a defined benefit postretirement health plan available to eligible current and future retirees and eligible spouses and dependents. The Midwest Reliability Organization Retiree Medical Trust is the sole source of funding for the plan benefits. Under the terms of the postretirement health plan, Midwest Reliability Organization has no obligation to make any contributions to the trust. Information regarding the plan as of December 31 was as follows:

	<u>2023</u>	<u>2022</u>
Change in projected benefit obligation:		
Benefit obligation at beginning of year	\$ 2,099,646	\$ 2,506,906
Service cost	255,116	368,734
Interest cost	103,340	69,932
Actuarial loss (gain)	(138,615) *	(812,753) **
Benefits paid	<u>(47,668)</u>	<u>(33,173)</u>
Benefit obligation at end of year	<u>2,271,819</u>	<u>2,099,646</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	1,788,432	2,195,110
Actual return on plan assets	267,877	(373,505)
Employer contribution	253,609	-
Benefits paid	<u>(47,668)</u>	<u>(33,173)</u>
Fair value of plan assets at end of year	<u>2,262,250</u>	<u>1,788,432</u>
Unfunded status recognized as a noncurrent liability	<u>\$ 9,569</u>	<u>\$ 311,214</u>
Weighted average assumptions used to calculate the benefit obligation-discount rate	4.82 %	5.02 %

* Primary sources of the actuarial gain in 2023 are: 1) Pre-65 monthly premium increases.

** Primary sources of the actuarial gain in 2022 are: 1) An increase in discount rate from 2.81% as of December 31, 2021 to 5.02% as of December 31, 2022 and 2) Pre-65 monthly premium increases.

Midwest Reliability Organization

Notes to Financial Statements

December 31, 2023 and 2022

Net periodic postretirement benefit expense for the years ending December 31 is comprised of the following:

	<u>2023</u>	<u>2022</u>
Components of net periodic benefit cost:		
Service cost	\$ 255,116	\$ 368,734
Interest cost	103,340	69,932
Expected return on plan assets	(104,940)	(122,211)
Amortization of net (gain)/loss	<u>(53,880)</u>	<u>(33,837)</u>
Net periodic benefit cost	<u>\$ 199,636</u>	<u>\$ 282,618</u>

Weighted-average assumptions used to calculate the net periodic benefit cost:

Discount rate	5.02 %	2.81 %
Expected return on plan assets	5.50	5.50
Rate of compensation increases	N/A	N/A

The mortality assumptions for the plan were based on Pri-2012 headcount weighted mortality tables under scale MP-2021 during the years ended December 31, 2023 and 2022.

The expected rates of return on plan assets are based on the weighting of the Organization's asset allocations, the 30-year rolling historical average returns and recent historical average return.

Assumed health care cost trend rates used to determine the benefit obligation at December 31 consist of the following:

	<u>2023</u>	<u>2022</u>
Health care cost trend rate assumed for next year	7.4 %	6.0 %
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.0	5.0
Year that the rate reaches the ultimate trend rate	2032	2032

Plan related changes other than net periodic cost included in retirement benefit expense consist of the following:

	<u>2023</u>	<u>2022</u>
Actuarial loss (gain) arising during the year	\$ (247,672)	\$ (283,200)
Amortization of prior year service cost	<u>-</u>	<u>-</u>
Total	<u>\$ (247,672)</u>	<u>\$ (283,200)</u>

The Organization employs a total return investment approach for plan assets with a mix of equity and debt investments used to maximize the long-term appreciation of plan assets for a prudent level of risk. The Organization's plan assets are invested in various funds, which consist of both stocks and bonds. The equity component includes investment in companies of various sizes, with an emphasis on large cap stocks and represents several investment styles. The equity portion also includes an allocation to international stocks. Investments in bonds are diversified into three portfolios that invest mainly in U.S. treasuries, high quality corporate issues and mortgage securities.

Midwest Reliability Organization

Notes to Financial Statements
December 31, 2023 and 2022

Percentage of fair value by investment category at December 31, are as follows:

	<u>2023</u>	<u>2022</u>
Equity securities	52 %	51 %
Debt securities	46	48
Other	2	1

The fair values of the Organization's postretirement health plan assets at December 31, by asset category, are as follows:

	<u>2023</u>	<u>2022</u>
	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>
Asset category:		
Cash equivalents	\$ 42,191	\$ 25,301
Mutual funds, bonds	1,041,128	858,740
Mutual funds, equities	<u>1,178,931</u>	<u>904,391</u>
Total	<u>\$ 2,262,250</u>	<u>\$ 1,788,432</u>

Cash Equivalents - Investments in cash equivalents consist of money market funds and are classified as Level 1 as they are traded in an active market for which closing prices are readily available.

Mutual Funds - Investments in mutual funds are classified as Level 1 as they are traded in an active market for which closing prices are readily available.

There have been no changes in the fair market valuation techniques and inputs as of December 31, 2023 and 2022.

While the plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Estimated future benefit payments (which reflect expected future service, as appropriate) as of December 31, 2023 are as follows:

Years ending December 31:	
2024	\$ 77,294
2025	74,611
2026	78,715
2027	58,860
2028	51,107
2029-2033	<u>642,215</u>
Total	<u>\$ 982,802</u>

It is reasonably possible that changes in these estimates could occur in the near term and that actual results could differ from these estimates and could have a material effect on the financial statements.

The Organization expects to contribute \$135,409 to the plan in 2024.

Midwest Reliability Organization

Notes to Financial Statements
December 31, 2023 and 2022

Defined Contribution Retirement Plan

The Organization sponsors a thrift savings plan for the benefit of its employees. The plan provides for employee elective salary deferrals and employer matching and discretionary profit-sharing contributions. In order to participate in the plan, employees must have attained age 20 and have completed one month of service. Employees may contribute up to the IRS limitations for their elective deferral, with a 50% matching contribution from the Organization. Employees are eligible to receive discretionary profit-sharing contributions, which vest over a period of three years, if they have worked 1,000 hours during the plan year. The Organization matched \$628,351 and \$576,190 of employee deferrals as of December 31, 2023 and 2022, respectively. In addition, the Organization elected to make employer contributions in the amounts of \$921,868 and \$879,962 for the years ended December 31, 2023 and 2022, respectively.

As noted above, the Organization maintains a thrift savings plan and discretionary age-weighted contributions may be made by MRO. MRO also has a 457B plan. The 457B plan is approved by the President and CEO, as well as the Organization's Board of Directors. To the extent the discretionary age-weighted contribution is in excess of the IRS limitations as specified by the 457B plan, and the employee is an eligible participant in the 457B plan, the excess discretionary age-weighted contribution is credited in the 457B plan. For eligible participants, MRO contributed a total nonelective amount to the 457B plan of \$31,085 and \$23,015 for the years ended December 31, 2023 and 2022, respectively. The fair values of the Organization's 457B plan assets at December 31, 2023 and 2022 are \$166,867 and \$202,853, respectively. The plan assets consist of money market funds and mutual funds, which are Level 1 investments for which quoted prices are readily available.

Midwest Reliability Organization

Notes to Financial Statements
December 31, 2023 and 2022

8. Functional Expenses

The financial statements report certain categories of expenses that are attributable to the Organization's program and supporting functions and thus require allocation. Expenses relating to building rent and facilities and depreciation have been allocated based on square footage estimates relating to office space used for program purposes versus office space used for supporting functions. Salaries, payroll taxes and employee benefits expense allocations are based on estimates of time and effort of the related employees. Additionally, information technology, meeting expenses and office costs have been allocated based on employee productivity estimates used from data in the Organization's time reporting system. Total functional expenses for the years ended December 31, are as follows:

	2023		
Description:	Program Service Expenses	Management and General Expenses	Total Expenses
Salaries	\$ 10,858,170	\$ 1,639,731	\$ 12,497,901
Payroll taxes and employee benefits	3,463,599	523,051	3,986,650
Meetings and travel	350,151	136,170	486,321
Building rent and facilities	840,643	206,092	1,046,735
Consulting	648,841	297,332	946,173
Office costs	779,470	303,128	1,082,598
Professional services	282,025	165,677	447,702
Depreciation and amortization	559,068	137,060	696,128
Total	<u>\$ 17,781,967</u>	<u>\$ 3,408,241</u>	<u>\$ 21,190,208</u>

	2022		
Description:	Program Service Expenses	Management and General Expenses	Total Expenses
Salaries	\$ 10,310,396	\$ 1,497,855	\$ 11,808,251
Payroll taxes and employee benefits	3,254,672	472,826	3,727,498
Meetings and travel	233,458	94,977	328,435
Building rent and facilities	844,474	207,031	1,051,505
Consulting	777,614	318,045	1,095,659
Office costs	575,205	234,007	809,212
Professional services	281,145	173,377	454,522
Depreciation and amortization	483,079	118,431	601,510
Total	<u>\$ 16,760,043</u>	<u>\$ 3,116,549</u>	<u>\$ 19,876,592</u>