

# POWER

# THAT SHOWS UP



WATCH  
YOUR  
STEP

SQUARE BUTTE  
ELECTRIC COOPERATIVE

## 2025 ANNUAL REPORT

# POWER

# THAT SHOWS UP



**ON THE COVER:** Matt Bosch, equipment operator at the Young Station, uses a flashlight to complete an inspection.

Channing Schafer, plant mechanic, grinds a piece of steel inside the Young Station's shop area.

## COOPERATIVE PROFILE

Square Butte Electric Cooperative is dedicated to delivering reliable, affordable and sustainable electricity. The cooperative owns Unit 2 of the Milton R. Young Station, a 455-megawatt, coal-based power plant located near Center, North Dakota.

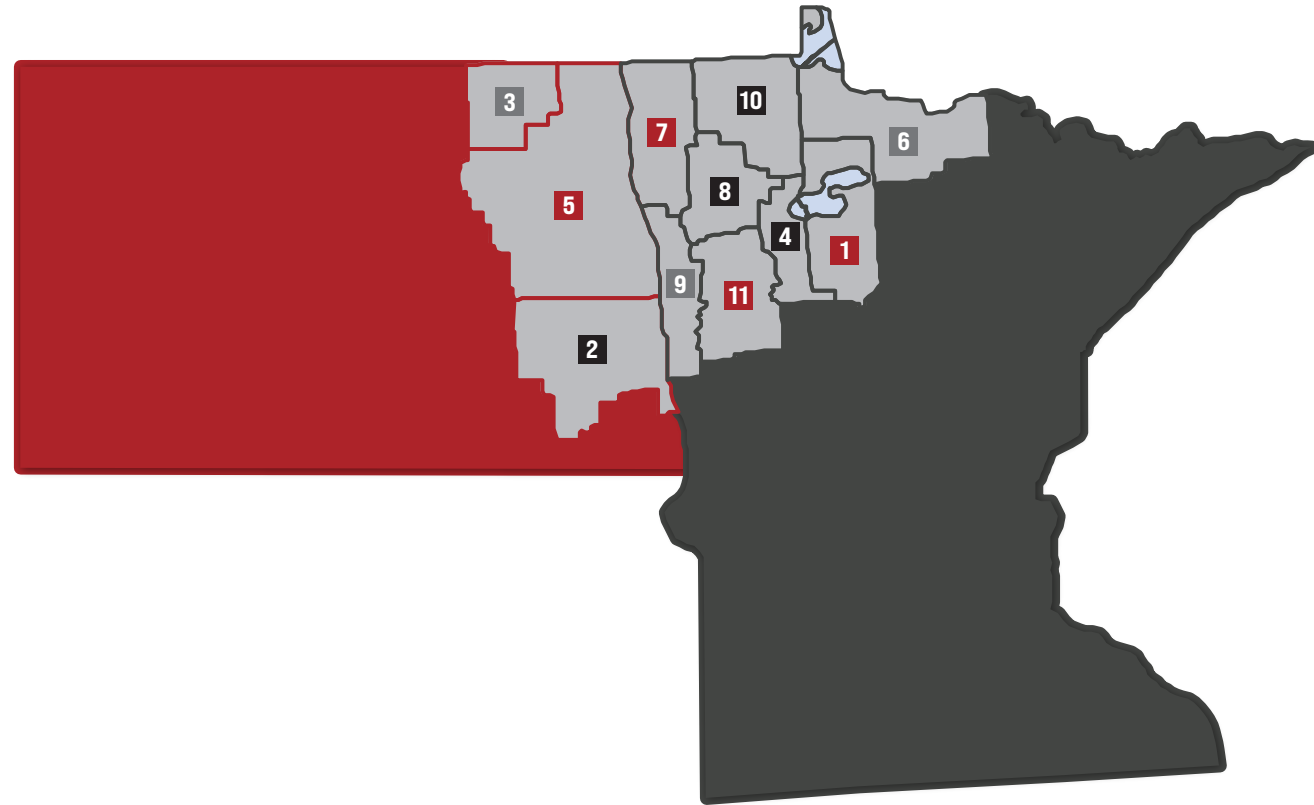
Square Butte is governed by 11 member-owner cooperatives based in eastern North Dakota and northwestern Minnesota. These same cooperatives also govern Minnkota Power Cooperative, which serves as Square Butte's agent and is responsible for operating and maintaining Unit 2.

Established on May 24, 1972, Square Butte saw its Unit 2 generating unit begin commercial operation on May 6, 1977. Currently, the station's output is evenly split between Minnkota and Minnesota Power of Duluth, Minnesota, each purchasing 50%. However, by 2027, Square Butte will transition to selling 100% of its output to Minnkota.

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# MEMBER-OWNER COOPERATIVES



- |  |  |
|--|--|
| <b>1</b> <b>Beltrami Electric Cooperative, Inc.</b><br>Bemidji, Minnesota          | <b>7</b> <b>PKM Electric Cooperative, Inc.</b><br>Warren, Minnesota              |
| <b>2</b> <b>Cass County Electric Cooperative Inc.</b><br>Fargo, North Dakota       | <b>8</b> <b>Red Lake Electric Cooperative, Inc.</b><br>Red Lake Falls, Minnesota |
| <b>3</b> <b>Cavalier Rural Electric Cooperative, Inc.</b><br>Langdon, North Dakota | <b>9</b> <b>Red River Valley Co-op Power Association</b><br>Halstad, Minnesota   |
| <b>4</b> <b>Clearwater-Polk Electric Cooperative, Inc.</b><br>Bagley, Minnesota    | <b>10</b> <b>Roseau Electric Cooperative, Inc.</b><br>Roseau, Minnesota          |
| <b>5</b> <b>Nodak Electric Cooperative, Inc.</b><br>Grand Forks, North Dakota      | <b>11</b> <b>Wild Rice Electric Cooperative, Inc.</b><br>Mahnommen, Minnesota    |
| <b>6</b> <b>North Star Electric Cooperative, Inc.</b><br>Baudette, Minnesota       |  |

# BOARD OF DIRECTORS AND OFFICERS



**Paul Aakre**  
PRESIDENT  
PKM Electric Cooperative  
Warren, Minnesota



**Larry Sollie**  
VICE PRESIDENT  
Wild Rice Electric Cooperative  
Mahnommen, Minnesota



**Murl Nord**  
SECRETARY/TREASURER  
Beltrami Electric Cooperative  
Bemidji, Minnesota



**Shawn Gust**  
Roseau Electric Cooperative  
Roseau, Minnesota



**Michael Hanson**  
North Star Electric Cooperative  
Baudette, Minnesota



**David Kent**  
Nodak Electric Cooperative  
Grand Forks, North Dakota



**Terry Kraft**  
Cass County Electric Cooperative  
Fargo, North Dakota



**John Martinson**  
Cavalier Rural Electric Cooperative  
Langdon, North Dakota



**Peter Mosbeck**  
Red Lake Electric Cooperative  
Red Lake Falls, Minnesota



**Trevor Sorby**  
Red River Valley Cooperative Power Association  
Halstad, Minnesota



**Betty Surdez**  
Clearwater-Polk Electric Cooperative  
Bagley, Minnesota



**Mac McLennan**  
GENERAL MANAGER  
Grand Forks, North Dakota



**Gerad Paul**  
GENERAL COUNSEL  
Grand Forks, North Dakota

# REPORT TO THE MEMBERS



Paul Aakre  
President



Mac McLennan  
General Manager

It's easy to look back on 2025 and see the challenges clearly: growing strain on the national electric grid, energy market volatility, equipment issues forcing plant outages. But while some perceive a year of adversity, Square Butte Electric Cooperative can't help but see the other side of the coin. In a changing energy landscape, our power showed up. This was not by luck. Our members received the electricity they needed to energize their communities because of the proactive planning and quick action of our teams, as well as many others behind the scenes who showed up when things became difficult.

To every one of those people – we thank you.

Square Butte Electric's Unit 2 generator at the Milton R. Young Station was an example of what the cooperative was able to

overcome in 2025. Considering necessary shutdowns for repairs and an extended planned maintenance outage, Unit 2 was available to generate power 72% of the time. If the time designated for planned outages was removed, that percentage would rise to 82% availability.

In 2025, Unit 2 generated 2.42 billion kilowatt-hours (kWh) with an average plant load of 386,000 kilowatts (kW), down slightly from 387,000 kW in 2024. Square Butte's average power cost was 69.0 mills per kWh compared to the budgeted 61.5 mills. However, net power costs for the year came in at \$168.8 million, or \$8.5 million under budget, primarily due to decreased fuel usage and lower operating costs.

The metrics we're always concerned with most at year's end surround safety. In that regard, 2025 was one of our

most successful years yet. Plant operator Minnkota Power Cooperative's employees navigated a hectic year of planned and unplanned projects without a single lost-time injury. In addition, Minnkota was recognized with the Energy Progress & Innovation Conference's (EPIC) Excellence in Safety award early in 2026 for its commitment to safety in preceding years. Since 2020, plant staff have only recorded one lost-time incident – an incredible feat in an industry like ours.

In the first half of the year, Young Station's Unit 1 spent extended time offline. Beyond a scheduled cleaning outage, plant staff faced challenges with turbine vibrations that took weeks to investigate and repair. By the time Unit 1 was back up to full speed, it was already time to prepare for a weeklong maintenance outage on Unit 2, set to begin on Sept. 3.

*Mike Grinsteiner, plant mechanic, tightens a bolt on a piece of equipment during the Unit 2 major outage.*



# POWER

## THAT STRENGTHENS

As the major outage kicked off, the plant was filled with nearly 400 contractors and 100 Minnkota employees every day. All needed to work together (or around each other) for extended hours to complete a long list of projects before Unit 2 came back online. The initial timeline of six weeks was driven by two large critical path projects: the replacement of Unit 2's primary crusher and the inspection of the high-pressure/intermediate-pressure (HP/IP) turbine. The inspection of the HP/IP turbine occurs once every nine years.

In addition, crews completed major inspections of the boiler, critical piping systems and the precipitator. As part of broader reliability improvements, crews also replaced the top five feet of 8,230 air heater hot-side tubes, each measuring 36 feet in length.

Minnkota's maintenance coordinators and project leaders ran into several obstacles throughout the Unit 2 outage. Between managing newly discovered work and equipment being held up by supply chain

speedbumps, an outage that was set to last six weeks ultimately extended past 10 weeks. However, the plant team was able to leverage its resources and think critically and creatively to ensure all projects were completed to the highest quality. Again – with no lost-time injuries.

While Unit 2 was offline during the outage, utilities were exposed to a volatile energy market as the cold season crept closer. In order to ensure enough power to cover the needs of our 11 member-owner cooperatives, additional energy needed to be purchased while prices at times were extremely high. These purchases were unavoidable. The situation became evidence of how important the maintenance and reliability of Unit 2 is for the financial health of our members and the power reliability of our system.

The major outage also spoke to the importance of the many steps Minnkota is taking to proactively enhance its supply chain processes. You may remember that in 2024, Minnkota formed a team dedicated to analyzing the strengths and weaknesses of supply chain planning. One result of that assessment was an in-depth plant warehouse utilization study, which was completed in 2025 and will allow the plant to better plan the procurement and storage of equipment and tools that may be impacted by long lead times and rising costs.

Looking to the future, Minnkota and its members continue to evaluate pathways to Project Tundra. This initiative would capture carbon dioxide from the Young Station and either safely store it deep underground or utilize it for enhanced oil recovery in nearby oil fields. The project

has faced hurdles over the past decade, including increasing material and labor costs, funding changes and quickly shifting political winds. Additional evaluation will be necessary in 2026 to determine the best path forward for the project. We must be prepared for additional regulatory challenges in what we know is a carbon-managed future.

Another major change during the past year was the rescindment and revision of major Environmental Protection Agency (EPA) rules that would have created significant challenges for the Young Station and other coal-based power plants across the country. This regulatory reprieve from unworkable rules regulating greenhouse gas emissions, mercury emissions and coal combustion residuals was

*LEFT: Chan Opp, assistant control operator at the Young Station, assesses the status of equipment from the plant's control center.*

*Mark Sammons, plant engineer II, uses a flashlight to inspect turbine blades.*

*The Milton R. Young Station shines brightly during an early evening near Center, North Dakota.*

# POWER

THAT ENDURES



*Minnkota Plant Technician Josh Troyna assists with the primary crusher installation – one of the largest projects during the Unit 2 major outage.*

welcome news – especially at a time when the demand for electricity is growing significantly. Coal-based power is a foundational piece of the all-of-the-above energy strategy we know will keep reliability high and costs affordable for our region. Square Butte and Minnkota will continue to watch these rules closely to ensure they remain workable and consistent with the reliability and affordability needs of the members and customers we serve.

No matter the difficulty, our power shows up. It shows up in our strategy, it shows up in our versatility, and it shows up in our people. Square Butte Electric is able to sustain its power through the strong partnerships it has built with its customers – Minnkota and Minnesota Power – and the collaboration formed with BNI Coal, a key source of our power. We are committed to being there for every farm and community that relies on us, and we thank all of you for showing up alongside us.

Paul Aakre  
President

Mac McLennan  
General Manager



*A dump truck (foreground) idles at the BNI Coal mine, while an electric dragline operates in the distance.*



*Plant Mechanic Casey Boehm fits a bearing on a fuel conditioner rotor.*

*Plant Engineer Sam Schwanberg inspects the track of a new coal feeder system, one of many key upgrades completed during the Unit 2 major outage.*

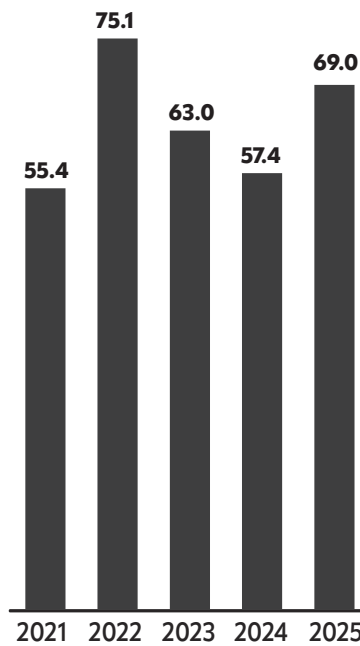


*The turbine floor at the Young Station is busy with activity during the major outage.*

# POWER SOURCES AND ENERGY SALES

	2025	2024	2023
<b>Power sources (MWh)</b>			
Net generation – Young 2	2,419,593	3,016,577	2,754,395
Total sources	2,419,593	3,016,577	2,754,395
<b>Energy sales (MWh)</b>			
Minnesota Power	1,209,797	1,508,289	1,377,197
Minnkota	1,209,796	1,508,288	1,377,198
Total sales	2,419,593	3,016,577	2,754,395

**Average Power Cost**  
(mills/kWh)

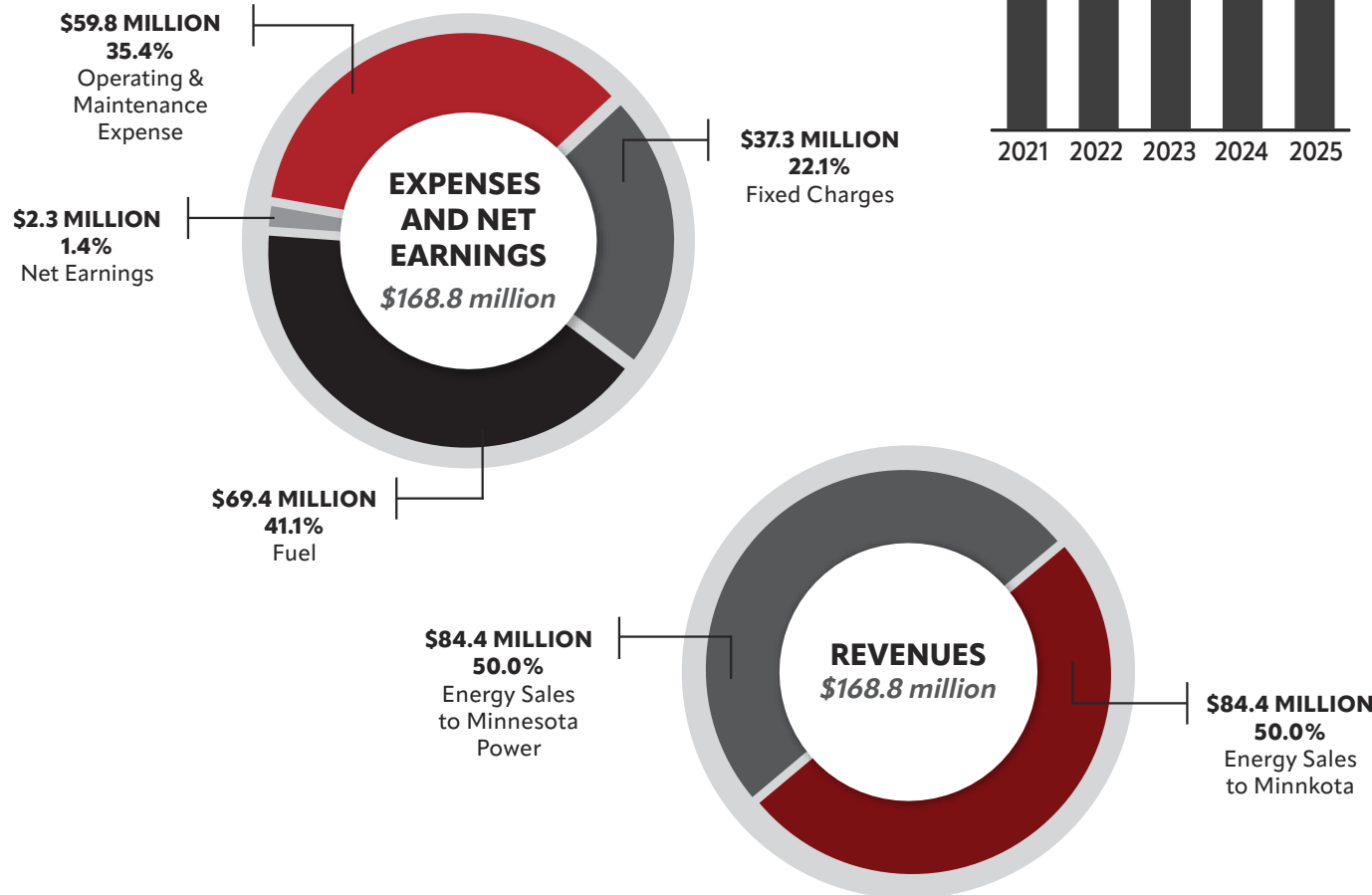
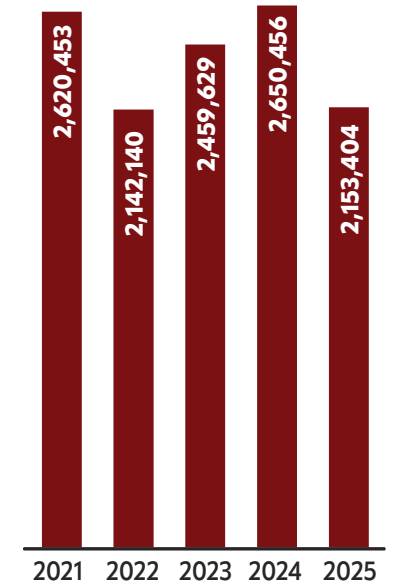


# OPERATING STATISTICS

	2025	2024	2023
Plant availability (percent)	71.5	88.9	82.6
Hours of operation	6,266	7,793	7,232
Hours of outage	2,494	991	1,528
Total hours in year	8,760	8,784*	8,760
Gross generation (MWh)	2,665,107	3,307,768	3,020,270
Net generation (MWh)	2,419,593	3,016,577	2,754,395
Station service (MWh)	245,515	291,192	265,876
Station service (percent)	9.2	8.8	8.8
Average net generation (MW)	386	387	381
Coal used (tons)	2,153,404	2,650,456	2,459,629

\*Leap Year

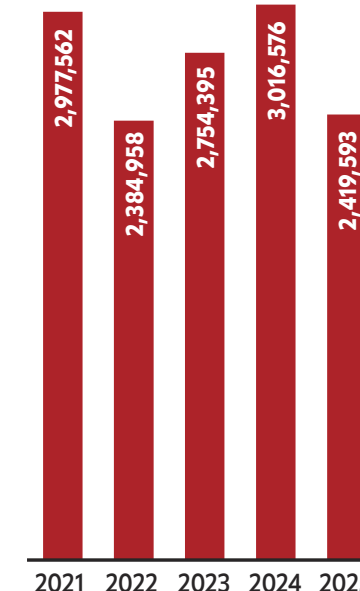
**Coal Used**  
(tons)



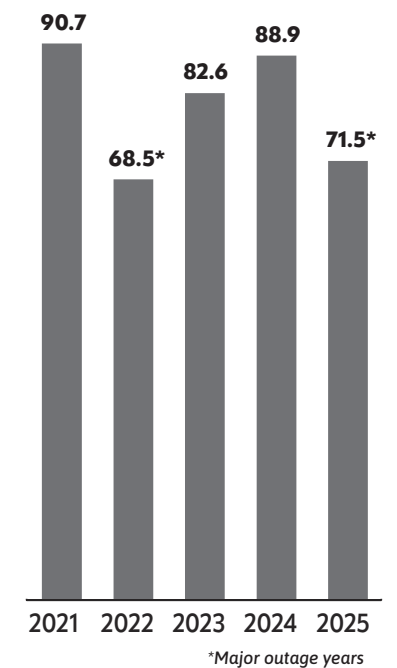
**Average Net Generation**  
(MW)



**Net Generation**  
(MWh)



**Plant Availability**  
(percent)



# TREASURER'S REPORT



Murl Nord  
Secretary-Treasurer



Square Butte's operations in 2025 were significantly shaped by the major outage at Unit 2 of the Milton R. Young Station, including an extended outage period that affected generation and overall power costs during the year. Despite these challenges, Square Butte effectively managed its operations and expenses within its cost-based structure, maintaining a stable financial position and overall performance that remained aligned with budget expectations.

The average power cost for Square Butte in 2025 was 69.0 mills per kilowatt-hour (kWh), which was above the budgeted 61.5 mills per kWh and higher than the 57.4 mills per kWh recorded in 2024. The higher-than-budgeted power cost was primarily driven by lower net generation from Unit 2 at the Young Station.

Square Butte's revenue structure is designed to cover expenses plus a calculated margin. In 2025, revenues totaled \$168.8 million, which was \$8.5 million under budget, primarily due to expenses being under budget by a similar amount. Square Butte's expenses and margin are passed on to its two customers, Minnesota Power and Minnkota Power Cooperative, each contributing \$84.4 million, or 50%, of total revenues in 2025.

Operating expenses, which include fuel, operations, maintenance and fixed charges, amounted to \$166.5 million in 2025, which was \$7.6 million under budget. Fuel costs reached \$69.4 million, which was under budget by \$2.1 million due to less fuel used. These fuel costs primarily include coal supplied by BNI Coal under a cost-plus contract and coal royalties paid to Minnkota at \$0.48 per ton. Operating and maintenance expenses totaled \$59.8

million, coming in \$4.5 million under budget, mainly due to decreased fuel usage and lower operating costs. Fixed charges, which include interest, depreciation and income taxes, amounted to \$37.3 million, which was under budget by \$1.0 million.

Net earnings after income taxes were \$2.3 million in 2025, which was \$0.9 million below budget. These earnings are calculated at 5% of Square Butte's operating and maintenance costs and also include capital credits allocated by other cooperatives.

Net electric plant stood at \$229.9 million as of Dec. 31, 2025, including \$1.8 million in construction work in progress. Net electric plant decreased by \$8.7 million during the year, primarily due to depreciation. Additional financial highlights from the Balance Sheet show current assets at \$13.4 million, long-term investments at \$5.7 million and deferred expenses at \$19.5 million. Total assets amounted to \$268.5 million at year-end, reflecting an increase of \$3.9 million from the previous year.

Long-term debt totaled \$120.2 million at the close of 2025, reflecting a \$25.5 million decrease from 2024, primarily due to principal payments. Other liabilities, including current liabilities, deferred credits and deferred income taxes, totaled \$78.4 million. Retained earnings as of Dec. 31, 2025, stood at \$69.9 million, including the \$2.3 million net earnings for the year.

This overview provides a snapshot of Square Butte's financial position in 2025. For further details, we encourage a thorough review of the financial statements, accompanying notes and the independent auditor's report included in this annual report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Murl Nord'. The signature is fluid and cursive.

Murl Nord, Secretary-Treasurer



## BALANCE SHEETS

YEARS ENDED DECEMBER 31, 2025 AND 2024

ASSETS	2025	2024
<b>ELECTRIC PLANT</b>		
Plant in service .....	\$ 842,602,631	\$ 822,932,315
Construction work in progress.....	1,789,843	1,306,352
Total electric plant .....	844,392,474	824,238,667
Less accumulated depreciation .....	(614,476,956)	(585,641,904)
<b>Net electric plant</b> .....	<u>229,915,518</u>	<u>238,596,763</u>
<b>OTHER PROPERTY AND INVESTMENTS</b>		
Investments in associated companies.....	5,686,482	6,348,396
<b>CURRENT ASSETS</b>		
Cash and cash equivalents.....	71,469	1,152,816
Accounts receivable –		
Minnkota Power Cooperative, Inc.....	2,443,358	1,047,604
Minnesota Power .....	491,143	228,261
Income taxes receivable .....	151,727	259,800
Inventories –		
Fuel .....	6,259,794	7,145,881
Materials and supplies.....	3,106,194	2,270,937
Prepayments.....	852,656	881,672
<b>Total current assets</b> .....	<u>13,376,341</u>	<u>12,986,971</u>
<b>DEFERRED EXPENSES</b> .....	19,491,935	6,672,961
<b>TOTAL ASSETS</b> .....	<u>\$ 268,470,276</u>	<u>\$ 264,605,091</u>

See Notes to the Financial Statements

## BALANCE SHEETS

YEARS ENDED DECEMBER 31, 2025 AND 2024

EQUITIES & LIABILITIES	2025	2024
<b>EQUITIES</b>		
Memberships issued .....	\$ 110	\$ 110
Retained earnings.....	69,931,126	67,629,728
<b>Total equities</b> .....	<u>69,931,236</u>	<u>67,629,838</u>
<b>LONG-TERM DEBT</b>		
Less current maturities and unamortized debt issuance costs of \$344,036 in 2025 and \$380,143 in 2024 .....	120,169,642	145,650,176
<b>OTHER NONCURRENT LIABILITIES</b>		
Deferred income taxes .....	6,609,705	6,400,957
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt.....	25,516,641	22,832,558
Lines of credit.....	23,300,000	5,000,000
Accounts payable –		
Minnkota Power Cooperative, Inc.....	6,956,999	5,482,713
Other .....	9,821,100	5,600,654
Accrued liabilities –		
Property and other taxes.....	3,940	3,763
Interest.....	528,476	542,400
<b>Total current liabilities</b> .....	<u>66,127,156</u>	<u>39,462,088</u>
<b>DEFERRED CREDITS</b> .....	5,632,537	5,462,032
<b>TOTAL EQUITIES AND LIABILITIES</b> .....	<u>\$ 268,470,276</u>	<u>\$ 264,605,091</u>

See Notes to the Financial Statements

## STATEMENTS OF REVENUES, EXPENSES AND RETAINED EARNINGS

YEARS ENDED DECEMBER 31, 2025 AND 2024

	2025	2024
<b>OPERATING REVENUES</b>		
Energy sales and other.....	\$ 168,835,186	\$ 175,174,738
<b>OPERATING EXPENSES</b>		
Fuel .....	69,407,539	74,767,134
Operating .....	38,072,789	36,865,533
Maintenance.....	21,741,192	22,487,849
Interest, net .....	7,946,582	9,595,691
Interest expense attributable to amortization of debt issuance costs .....	36,108	36,105
Depreciation .....	28,835,051	27,768,335
<b>Total expenses</b> .....	166,039,261	171,520,647
<b>OPERATING MARGIN</b> .....	2,795,925	3,654,091
Income taxes provision .....	494,527	1,148,758
<b>NET EARNINGS AFTER TAXES</b> .....	2,301,398	2,505,333
<b>RETAINED EARNINGS, BEGINNING OF YEAR</b> .....	67,629,728	65,124,395
<b>RETAINED EARNINGS, END OF YEAR</b> .....	\$ 69,931,126	\$ 67,629,728

See Notes to the Financial Statements

## STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2025 AND 2024

	2025	2024
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net earnings .....	\$ 2,301,398	\$ 2,505,333
Adjustments to reconcile net earnings to net cash provided (used) by operating activities		
Depreciation .....	28,835,051	27,768,335
Interest expense attributable to amortization of debt issuance costs .....	36,108	36,105
Deferred income taxes.....	208,748	190,493
Amortization of deferred plant expenses.....	233,138	5,410,231
Addition (reduction) of asset retirement obligations, net...	170,505	318,548
Capital credit allocations.....	(261,281)	(360,797)
Effects on operating cash flows due to changes in:		
Accounts receivable.....	(1,550,563)	6,924,877
Inventories.....	50,830	(4,036,532)
Prepayments.....	29,016	14,113
Accounts payable .....	5,694,732	(1,028,960)
Accrued liabilities .....	(13,747)	(803,814)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	35,733,935	36,937,932
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to electric plant, net .....	(20,153,806)	(2,823,611)
Additions to deferred plant expenses .....	(13,052,112)	-
Capital credits received .....	923,195	798,463
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b> ....	(32,282,723)	(2,025,148)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds (repayments) on lines of credit.....	18,300,000	(30,927,000)
Proceeds from long-term debt .....	-	22,559,000
Repayments of long-term debt.....	(22,832,559)	(25,492,797)
<b>NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES</b> ...	(4,532,559)	(33,860,797)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b> .....	(1,081,347)	1,051,987
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b> ...	1,152,816	100,829
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b> .....	\$ 71,469	\$ 1,152,816
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW</b>		
Cash paid during the year for interest paid .....	\$ 8,155,291	\$ 11,566,521

See Notes to the Financial Statements

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Nature of Operations

Square Butte Electric Cooperative (Square Butte or the Cooperative) is a North Dakota cooperative association organized in 1972 and is owned by eleven member-owner cooperatives. Membership in Square Butte is limited to organizations engaged in the business of generating, transmitting, or distributing electric power within the states of North Dakota and Minnesota.

Minnkota Power Cooperative, Inc. ("Minnkota"), acting as agent for Square Butte, operates and maintains Young 2. Substantially, all maintenance and other operating expenses of Square Butte represent costs incurred by Minnkota on Square Butte's behalf under the operating agreement discussed in Note 10. Such expenses are billed to Square Butte at cost.

### Basis of Accounting

The financial statements of Square Butte have been prepared on the basis of accounting prescribed under the Power Sales Agreements with Minnesota Power (MP) and Minnkota in accordance with accounting principles generally accepted in the United States of America (GAAP), as codified by the Financial Accounting Standards Board. The Cooperative maintains its accounting records in accordance with the chart of accounts as adopted by the Rural Utilities Service (RUS).

### Regulatory Accounting

As a result of the rate making process, the Cooperative applies Accounting Standards Codification (ASC) 980, Regulated Operations. The application of generally accepted accounting principles by the Cooperative differs in certain aspects from the application by non-regulated businesses as a result of applying ASC 980. Such differences are generally related to the time at which certain items enter into the determination of net margins in order to follow the principle of matching costs and revenues.

Revenues under the Power Sales Agreements are established at amounts sufficient to cover all costs of Square Butte plus a defined profit. Depreciation under the Power Sales Agreements includes the amount of principal applied to reduce the debt on CoBank notes, First Mortgage notes, CFC notes, and RUS notes. If straight-line depreciation had been provided for these properties based on their estimated economic useful lives, depreciation expense would have decreased by approximately \$4,300,000 and \$3,300,000 for the years 2025 and 2024, respectively. Accumulated depreciation and amortization of the properties would have been increased by approximately \$26,513,000 and \$30,849,000 at December 31, 2025 and 2024, respectively.

### Electric Plant

The electric plant is stated at book value plus the acquisition costs of formerly leased property, which includes certain indirect costs such as general and administrative expenses, interest and other financing costs. Normal repairs are charged to maintenance expense, whereas the costs of renewals and betterments of units of property are capitalized.

### Depreciation

Depreciation of property, other than that financed by the CoBank notes, First Mortgage notes, CFC notes, and RUS notes discussed above, is provided based on the straight-line method at rates designed to amortize the original cost of the properties over the estimated useful lives of each of the various classes of property or the remaining original term of the Power Sales Agreement, whichever is less. Beginning in 2011, all non-financed property is depreciated over the estimated useful life not beyond 2042.

### Cash and Cash Equivalents

For the purpose of reporting cash flows, the Cooperative considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

### Trade Receivables and Allowance for Credit Losses

Trade receivables are derived from sales to customers and are recorded at the invoice amount, less any allowance for credit losses. The net amount represents the amount expected to be collected as of the balance sheet date. Trade credit is generally extended on a short-term basis; thus, trade receivables do not bear interest. Trade receivables are uncollateralized customer obligations due under normal trade terms requiring payment within 20 days from the billing date. Management has deemed that no late fees or interest charges are assessed to the receivables. Payments on trade receivables are allocated to the earliest unpaid billings.

The allowance for credit losses is based on management's expectation of the credit losses expected to arise over the life of the asset as of the balance sheet date (including consideration of prepayments) and is updated to reflect any changes in credit risk as of each subsequent reporting date. The Cooperative estimates its allowance for credit losses starting with an evaluation of historical credit loss write-offs, applied to an analysis of outstanding aged receivables, and updated for current economic conditions, and reasonable and supportable forecasted economic conditions. No significant adjustments to the allowance calculations for current or forecasted economic conditions were made during the current year. Receivables with unusual credit risk characteristics are evaluated individually. All other receivables are considered similar and are evaluated as one portfolio segment. Management's estimate of the allowance for credit losses, as well as the separate amounts of write-offs and recoveries were immaterial with respect to the financial statements as a whole as of December 31, 2025 and 2024.

Receivables are written off as a reduction in the allowance for credit losses when deemed uncollectible. Recoveries of accounts previously written off (if any) will be recognized as an offset to credit loss expense in the year of recovery.

### Investments

Investments are patronage allocations from cooperatives and other affiliates stated at cost plus assigned capital credits less any capital paid to the Cooperative. Income from investments in cooperatives is recognized when capital credits are assigned.

### Inventories

Fuel is recorded at cost using a LIFO (last-in, first-out) basis. Material and supplies are stated at lower of average cost or net realizable value.

### Deferred Expenses

Deferred expenses consist of deferred outage expenses related to the Young 2 generation facility owned by the Cooperative, as well as deferred expenses related to the future retirement of long-lived assets. See also Note 4.

### Allowance for Funds Used During Construction (AFUDC)

The allowance for funds used during construction is capitalized interest on all construction projects with a budgeted cost greater than \$50,000. AFUDC is classified as a reduction of interest expense.

### Revenue Recognition

Revenues are primarily from electric sales to customers. Electric revenues are recognized over time as electricity is delivered to customers. Electric revenues are based on the reading of customer meters, which occurs on a systematic basis throughout each reporting period and represents the fair value of the electricity delivered.

Revenues are recognized equivalent to the value of the electricity supplied during each period, including amounts billed during each period and changes in amounts estimated to be billed at the end of each period. The Cooperative has elected to apply the invoice method to measure progress towards completing performance obligations to transfer electricity to their customers.

### Business and Credit Risk

The Cooperative maintains its cash balances in a locally owned bank. Such balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. The cash balances exceeded insurance coverage at various times during the fiscal years.

### Fair Value Measurements

The Cooperative has determined the fair value of certain assets and liabilities in accordance with GAAP, which provides a framework for measuring fair value.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. Valuation techniques should maximize the use of observable inputs and minimize the use of unobservable inputs.

A fair value hierarchy has been established, which prioritizes the valuation inputs into three broad levels. Level 1 inputs consist of quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset or liability. Level 3 inputs are unobservable inputs related to the asset or liability.

The Cooperative does not have any assets or liabilities subject to the level 1, 2, or 3 valuation as of December 31, 2025 and 2024 and does not anticipate participating in transactions of this type in the future.

The fair value of the Cooperative's long-term debt was estimated based upon

borrowing rates currently available to the Cooperative for bank loans with similar terms and average maturities. The estimated fair value of the Cooperative's long-term debt was \$138,000,000 and \$140,000,000 as of December 31, 2025 and 2024, respectively.

### Accounting Estimates

The presentation 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.

### Income Taxes

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The Cooperative's policy is to evaluate the likelihood that its uncertain tax positions will prevail upon examination based on the extent to which those positions have substantial support within the Internal Revenue Code and Regulations, Revenue Rulings, court decisions, and other evidence.

### Debt Issuance Costs

Debt issuance costs are amortized over the period the related obligation is outstanding using the effective interest method. Debt issuance costs are included within long-term debt on the balance sheet. Amortization of debt issuance costs is included in interest expense attributable to amortization of debt issuance costs in the accompanying financial statements.

## NOTE 2: ELECTRICAL PLANT

	2025	2024
Generation plant	\$ 826,018,476	\$ 806,348,160
Transmission plant	13,250,677	13,250,677
General plant	3,333,478	3,333,478
Electric plant in service	842,602,631	822,932,315
Construction work in progress	1,789,843	1,306,352
Total electric plant	<u>\$ 844,392,474</u>	<u>\$ 824,238,667</u>

The allowance for funds used during construction was \$155,952 and \$110,601 in 2025 and 2024, respectively.

## NOTE 3: INVESTMENTS IN ASSOCIATED COMPANIES

	2025	2024
Patronage capital allocations		
CoBank	\$ 4,707,318	\$ 5,408,854
Roughrider Electric Cooperative, Inc.	421,123	403,150
National Rural Utilities		
Cooperative Finance Corp. (CFC)	548,327	526,678
Minnkota Power Cooperative, Inc.	8,714	8,714
Memberships	1,000	1,000
Total investments in associated companies	<u>\$ 5,686,482</u>	<u>\$ 6,348,396</u>

## NOTE 4: DEFERRED EXPENSES

The Cooperative has expense deferral plans pertaining to outage expenditures at the Young 2 facility. The plans are in accordance with accounting principles generally accepted in the United States of America and were approved by RUS in 2019, 2022, and 2025. The total expenses are charged to operations over three and six year periods for each respective plan. The Cooperative incurred deferred outage cost expenses of \$19,264,056 and \$0 during the years ended December 31, 2025 and 2024, respectively.

The Cooperative recorded a deferred expense as a result of the timing difference of accounting for costs associated with the retirement of long-lived assets for financial reporting pursuant to accounting principles generally accepted in the United States

of America and for the purposes of rate-making. The Cooperative had total such deferred expenses of \$5,632,537 and \$5,462,032 as of December 31, 2025 and 2024, respectively.

The following is a summary of changes in the deferred expenses:

	2025	2024
Deferred expenses – January 1	\$ 6,672,961	\$ 12,083,192
Addition of long-lived assets	328,592	430,516
Retirement of long-lived assets	(158,087)	(111,968)
Deferred outage costs added	19,264,056	-
Deferred outage costs expensed	(6,615,587)	(5,728,779)
Deferred expenses – December 31	<u>\$ 19,491,935</u>	<u>\$ 6,672,961</u>

Deferred expense balances are summarized below:

	2025	2024
Young 2 deferred outage expenses	\$ 13,859,398	\$ 1,210,929
Deferred expenses – retirement of long-lived assets	5,632,537	5,462,032
Deferred expenses – December 31	<u>\$ 19,491,935</u>	<u>\$ 6,672,961</u>

## NOTE 5: LONG-TERM DEBT

The long-term debt of the Cooperative consists of:

	2025	2024
Rural Utilities Service (RUS)/Federal Financing Bank (FFB) fixed rate mortgage notes (1.92%-4.89%) due in quarterly installments through 2038	\$ 27,789,108	\$ 32,889,933
First Mortgage		
Fixed rate notes (4.48%-5.78%) due in semi-annual and quarterly installments through 2042 (based upon effective interest rate of 5.00%)	63,382,263	65,803,987
Less unamortized debt issuance costs	(329,298)	(355,010)
	<u>63,052,965</u>	<u>65,448,977</u>
CoBank mortgage notes		
Fixed and variable rate notes (5.23%-7.44%) due in quarterly installments through 2026 (based upon effective interest rate of 5.00%)	11,868,017	22,879,866
Less unamortized debt issuance costs	(14,739)	(25,133)
	<u>11,853,278</u>	<u>22,854,733</u>
National Rural Utilities Cooperative Finance Corporation (CFC) mortgage notes - fixed rates (3.55%-4.42%) due in quarterly installments through 2037	42,990,932	47,289,091
Total long-term debt	145,686,283	168,482,734
Less current maturities	(25,516,641)	(22,832,558)
Long-term debt	<u>\$ 120,169,642</u>	<u>\$ 145,650,176</u>

Scheduled maturities of long-term debt are as follows:

Years ending December 31	Amount
2026	\$ 25,516,641
2027	8,709,788
2028	9,087,474
2029	9,479,547
2030	9,158,173
Thereafter	84,078,696
Debt issuance costs	(344,036)
Total long-term debt	<u>\$ 145,686,283</u>

All loan funds advanced by RUS are deposited in a special trust bank account, the disbursements from which are restricted by the provisions of the loan agreement to purposes approved by RUS. All loan funds advanced from First Mortgage, CoBank, and CFC are deposited in the general checking bank account. At December 31, 2025, there was \$3,276,000 of RUS unadvanced loan funds to the Cooperative.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 6: REVENUES FROM CONTRACTS WITH CUSTOMERS

The revenues of the Cooperative are primarily derived from providing wholesale electric service to its customers. Revenues from contracts with customers represent over 99% of all Cooperative revenues. Below is a disaggregated view of the Cooperative's revenues from contracts with customers as well as other revenues, including their location on the statement of revenues, expenses and retained earnings for December 31, 2025 and 2024:

Operating Revenue		
REVENUE STREAMS	2025	2024
Energy sales to customers	\$168,573,905	\$ 174,813,941
Total revenue contracts with customers	168,573,905	174,813,941
Capital credit allocations	261,281	360,797
Total revenue	\$168,835,186	\$ 175,174,738
Timing of revenue recognition		
Services transferred over time	\$168,573,905	\$ 174,813,941

## Electric Revenue

Electric revenues consist of wholesale electric power sales to customers through the power sales agreement. All of the electric revenues meet the criteria to be classified as revenue from contracts with customers and are recognized over time as energy is delivered. Revenue is recognized based on the metered quantity of electricity delivered or transmitted at the applicable contractual rates.

Accounts receivable and contract balances with customers are as follows:

	Accounts Receivable	Contract Liabilities
January 01, 2024	\$ 8,460,542	\$ -
December 31, 2024	1,275,865	-
December 31, 2025	2,934,501	-

## NOTE 7: LINES OF CREDIT

The Cooperative has a line of credit agreement with U.S. Bank of North Dakota with available borrowings totaling \$5,000,000 expiring June 30, 2026. The line of credit had a variable interest rate of 5.4727% and 6.15265% at December 31, 2025 and 2024, respectively. Amounts outstanding on the line totaled \$1,300,000 and \$0 as of December 31, 2025 and 2024, respectively.

The Cooperative also has a line of credit agreement with CFC available for \$70,000,000 expiring June 30, 2029. The line had variable borrowing rates of 5.22%, 5.23% and 5.34% at December 31, 2025 and 5.88% at December 31, 2024, respectively. At December 31, 2025 and 2024, there were outstanding borrowings on this line of credit totaling \$22,000,000 and \$5,000,000, respectively.

The Cooperative also has two \$10,000,000 lines of credit available for use, one each with Minnkota and Minnesota Power. These lines have a variable interest rate (1% below the prime rate) and are automatically renewed each year. There were no amounts outstanding on these lines as of December 31, 2025 and 2024.

## NOTE 8: INCOME TAXES

Deferred tax assets and liabilities consist of the following components as of December 31, 2025 and 2024:

	2025	2024
Deferred tax assets		
Inventories	\$ (305,738)	\$ (265,931)
Total deferred tax asset	(305,738)	(265,931)
Deferred tax liability		
Depreciation	6,328,382	6,410,747
Amortization	587,061	256,141
Total deferred tax liability	6,915,443	6,666,888
Net deferred tax liabilities	\$ 6,609,705	\$ 6,400,957

The provision for income taxes charged to income for the years ended December 31, 2025 and 2024 consists of the following:

	2025	2024
Current provision	\$ 285,779	\$ 958,265
Deferred expense (benefit)	208,748	190,493
Balance	\$ 494,527	\$ 1,148,758

The 2025 and 2024 effective tax rates may differ from the federal tax rate primarily due to state income taxes.

It is the opinion of management that the Cooperative has no significant uncertain tax positions that would be subject to change upon examination. The federal income tax returns of the Cooperative are subject to examination by the IRS, generally for three years after they were filed. All required filings are current.

## NOTE 9: DEFERRED CREDITS

The deferred credits balance is made up of an asset retirement obligation resulting from the production of power at the Young 2 facility.

The FASB has issued guidance which provides accounting requirements for retirement obligations associated with tangible long-lived assets. Retirement obligations associated with long-lived assets are those for which there is a legal obligation to settle under existing or enacted law, statute, ordinance, written or oral contract or by legal constructions under doctrine of promissory estoppel.

Assets considered for potential asset retirement obligations include generating plants and transmission assets on property under easement agreement or license.

Management has determined that the Cooperative has a legal obligation to close its ash and sludge disposal ponds upon reaching the end of their useful lives resulting in the recording, at a discounted present value, a deferred expense and asset retirement obligation of \$5,632,537 and \$5,462,032 at December 31, 2025 and 2024, respectively. The deferred expenses were recognized in accordance with U.S. GAAP.

Under the power sales agreements with Minnkota and MP, the pass-through of closure costs are not due until the actual closure costs are incurred. Asset retirement obligations for generation plant are not recorded as a liability, due to the fact that governmental authorization for construction did not impose post-closure obligations.

## NOTE 10: SALES, OPERATING, AND COAL SUPPLY AGREEMENTS

Under the Power Sales Agreements dated May 29, 1998, which expire on January 2, 2027, MP was entitled to purchase 70.8333% and Minnkota was entitled to purchase 29.1667% of the entire output of Young 2 generation facility. Subsequent to the original agreement, certain options were available, and exercised, to increase Minnkota's percentage, respectively decreasing MP's percentage. Currently, MP and Minnkota each purchase 50% of the net capability of Young 2 as a result of exercising these options.

On December 30, 2009, Minnkota, Square Butte, and MP completed an agreement in which Minnkota receives additional energy and capability from Young 2. Between 2014 and 2026, Minnkota has the option to acquire MP's 50% allocation from Young 2. In 2014, Minnkota exercised this option and started purchasing an additional 22.5275% allocation of Young 2 from MP. This allocation increased to 28.022% on January 1, 2015. This allocation will increase by approximately 4.4% per year from 2022-2026. From 2027 through 2042, Minnkota will purchase 100% of the Young 2 output directly from Square Butte.

The power sales agreements provide for a pass-through on a percentage basis according to the respective entitlements to the output and capacity of Young 2, and all of Square Butte's costs, plus a margin of 5% of non-fuel operating expenses. Each purchaser is required to make full payment of the cost of power based on its percentage entitlement. The payment obligations of MP and Minnkota are several, not joint, and are not guarantees of any Square Butte obligations.

The Cooperative has an agreement with Minnkota whereby Minnkota operates Young 2. All costs associated with the operation of Young 2 are paid by the Cooperative. In addition, the Cooperative pays a minimum annual royalty of \$1,350,000 to Minnkota on coal purchased.

The Cooperative has a Coal Supply Agreement with BNI Coal Ltd. to purchase coal for Young 2. This agreement expires in 2037, with an additional 5-year extension at the Cooperative's option. The agreement provides for reimbursement to BNI Coal Ltd. of all fixed production costs and labor plus a specified profit on each ton of coal delivered. Billings from BNI Coal Ltd. to the Cooperative were approximately \$64,192,000 and \$71,157,000 for the years ended December 31, 2025 and 2024, respectively.

## NOTE 11: RELATED PARTY TRANSACTIONS

During the years ended December 31, 2025 and 2024, the Cooperative contracted services provided by Minnkota. The transactions conducted between the Cooperative and Minnkota were as follows:

	2025	2024
Energy sales	\$ 81,949,249	\$ 85,064,087
Accounts receivable from Minnkota	\$ 2,443,358	\$ 1,047,604
Accounts payable to Minnkota	\$ 6,956,999	\$ 5,482,713

## NOTE 12: SUBSEQUENT EVENTS

No significant events occurred subsequent to the Cooperative's year end. Subsequent events have been evaluated through February 3, 2026, which is the date these financial statements were available to be issued.

# INDEPENDENT AUDITOR'S REPORT

To the Members and the Board of Directors  
Square Butte Electric Cooperative, Inc.  
Grand Forks, North Dakota

## REPORT ON THE FINANCIAL STATEMENTS

### OPINION

We have audited the accompanying financial statements of Square Butte Electric Cooperative, which comprise the balance sheets as of December 31, 2025 and 2024, and the related statements of revenues, expenses and retained earnings, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Square Butte Electric Cooperative as of December 31, 2025 and 2024, and the results of its operations and 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Square Butte Electric Cooperative and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### 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 Square Butte Electric Cooperative's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### AUDITOR'S 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 auditor's 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 generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Square Butte Electric Cooperative's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Square Butte Electric Cooperative'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.

### OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2026, on our consideration of Square Butte Electric Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Square Butte Electric Cooperative's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Square Butte Electric Cooperative's internal control over financial reporting and compliance.



BRADY, MARTZ  
GRAND FORKS, NORTH DAKOTA  
February 3, 2026



**2025  
ANNUAL  
REPORT**



**Square Butte**  
ELECTRIC COOPERATIVE