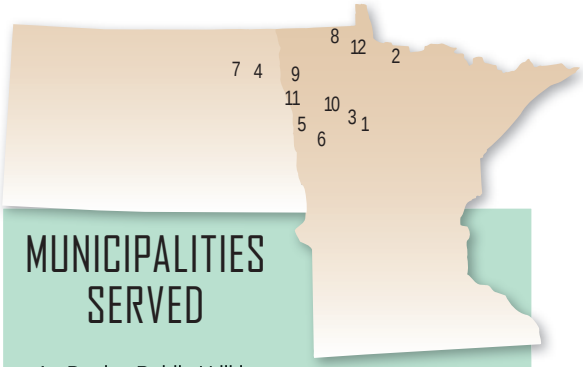
Northern Municipal Power Agency

2018 Annual Report

PREPARING FOR CHANGE



MUNICIPALITIES SERVED

1. Bagley Public Utilities
   P.O. Box M, Bagley, MN 56621
2. Baudette Municipal Utilities
   P.O. Box 548, Baudette, MN 56623
3. Fosston Municipal Utilities
   220 East First St., Fosston, MN 56542
4. Grafton Municipal Utilities
   P.O. Box 578, Grafton, ND 58237
5. Halstad Municipal Utilities
   405 Second Ave. West, Halstad, MN 56548
6. Hawley Public Utilities
   P.O. Box 69, Hawley, MN 56549
7. Park River Municipal Utilities
   P.O. Box C, Park River, ND 58270
8. Roseau Municipal Utilities
   P.O. Box 307, Roseau, MN 56751
9. City of Stephen Utilities
   P.O. Box 630, Stephen, MN 56757
10. Thief River Falls Municipal Utilities
    P.O. Box 528, Thief River Falls, MN 56701
11. City of Warren Water and Light
    120 East Bridge Ave., Warren, MN 56762
12. Warroad Municipal Utilities
    P.O. Box 50, Warroad, MN 56763

AGENCY PROFILE

Founded in 1976, the Northern Municipal Power Agency (NMPA) is the energy supplier for 12 municipal utilities in eastern North Dakota and northwestern Minnesota. Each of the participants has a representative on the NMPA board of directors.

The Agency owns a 30 percent share of the 427,000-kilowatt Coyote Station located near Beulah in western North Dakota. NMPA also owns a load-ratio share (approximately 15 percent) of the Minnkota Power Cooperative, Inc. transmission system. Minnkota of Grand Forks, N.D., is the operating agent for NMPA and markets capacity and energy from the Coyote Station not required by NMPA members.

The NMPA headquarters building is located in Thief River Falls, Minn.

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ON THE COVER

New NMPA General Manager Jasper Schneider talks with the NMPA board in Thief River Falls.

CIP UPDATE

Digi-Key of Thief River Falls had a busy 2018 with Conservation Improvement Program-related upgrades.

The company received more than $108,000 through PowerSavers incentives for renovations in 2018. The upgrades resulted in a kilowatt-hour savings of 1,305,749.

PowerSavers, which includes participating NMPA municipals and Minnkota member cooperatives, provides a consistent set of energy efficiency and conservation programs to end-use consumers and businesses.

Another business that had big savings was Team Industries of Bagley. It received more than $24,000 in incentives and had savings of 301,735 kWh.

Thief River Falls led the municipals with more than $134,000 in incentives paid and 1,713,869 kWh savings.

2018 NMPA POWERSAVERS SUMMARY

	Incentives Paid	kWh Savings
Bagley Public Utilities	$ 37,540.87	510,844
Baudette Public Utilities	11,281.28	148,543
Fosston Public Utilities	4,012.30	79,780
Hawley Municipal Utilities	25,591.54	317,869
Roseau Municipal Utilities	30,394.01	507,827
City of Stephen Utilities	330.99	6,464
Thief River Falls Municipal Utilities	134,236.60	1,713,869
City of Warren Water & Light	35,936.62	539,315
Totals	$279,324.21	3,824,511

OFFICERS, BOARD OF DIRECTORS AND STAFF

Lucas Spaeth
President
Halstad, Minn.

Chris West
Vice President
Grafton, N.D.

Dalene Monsebroten
Secretary-Treasurer
Finance Manager
Interim General Manager

Bill Masterson
Bagley, Minn.

Roger Schotl
Baudette, Minn.

David Larson
Fosston, Minn.

Don Martodam
Hawley, Minn.

Dennis Larson
Park River, N.D.

Todd Peterson
Roseau, Minn.

Leonard Bazey
Stephen, Minn.

Dale Narlock
Thief River Falls, Minn.

Shannon Mortenson
Warren, Minn.

Dan Trosen
Warroad, Minn.

Yvonne Bergerson
Administrative Assistant

Delray Sparby
Legal Counsel

Lucas Spaeth
President

Dalene Monsebroten
Interim General Manager

It is clear that the future will be different from the past. We are committed to aligning our board and staff with the resources necessary to be as prosperous going forward as we have been historically.

The Northern Municipal Power Agency remains steady in its mission to its municipal participants. The NMPA Board of Directors understands the importance of risk assessment and control. Planning sessions were held in 2018 to develop a business plan to set the strategic direction for the staff. It remains our goal to position the Agency for the best opportunities to succeed. We understand the importance of establishing and maintaining relationships with our peers in the process.

The American Public Power Association (APPA) and the Minnesota Municipal Utilities Association (MMUA) are great assets and partners along with our operating agent, Minnkota Power Cooperative. At the forefront is the ability to achieve benefits from economies of scale. These relationships will be even more valuable in the changing environment of our industry. Strengthening the staff and board by sharing ideas, outcomes and resources allows progress and change to develop in the most economically responsible way for the benefit of our membership. We will continue to be diligent in researching opportunities for growth, change and improvements that will assist us in obtaining our focus of reliable, economic, environmentally responsible delivery of energy to those we serve.

Continued efforts with our peers involving legislative impacts to the industry continue to be a priority. We are diligent in awareness of issues at both the federal and state level. Cybersecurity, physical security and safety are central to providing our services. A city's ability to have local control over right of way, reimbursement of costs and safety have been threatened due to changes FCC made impacting pole attachment policies from which municipals were previously exempt. APPA is in the forefront of efforts to support the municipals in preserving its exemption and maintaining local control. As we plan for our future, we are devoted to our environmental responsibilities in addressing our needs and costs. The value of our continued access to the federal WAPA hydropower is discussed with our legislators along with the preservation of our ability to issue tax exempt bonds to fund our capital

projects. The removal of our ability to advance refund-existing debt that occurred in the Tax Cuts and Jobs Act of 2017 will impose additional costs and should be reinstated.

The participants served by NMPA are community-owned, locally controlled, not-for-profit public power utilities. The "Value of Public Power" is significant to the communities they serve. Public power gives 33 percent more back to the community than private utilities. With the vastly changing industry, it will become even more important to know the local benefits provided from operating a "Public Power" utility. The "Value of Electricity" is an important message for the NMPA/Minnkota Joint System membership. During board planning sessions, NMPA acknowledged this need and plans to commit to providing these educational resources concerning the "Values."

Cost of Service studies for all the NMPA participants were completed early in the year. The need for continued review of how industry changes and developments impact our rates is critical. With technology advancing at a rapid pace, the future will require modifications in how revenues are received to ensure fixed costs continue to be recovered. We are also aware of this at the wholesale level and are addressing changes to our rate components. Capital expenditures for power delivery projects have increased significantly over the past years as we continue to keep our reliability to the participants' customers a priority. Service improvement projects and aging system needs comprise the majority of our capital budget along with some spent for uprates, new loads and compliance/environmental, efficiency and facility improvements. Coyote Station had a great year under the operation of Otter Tail Power, achieving the second-highest year of output in the plant's history. Continued capital expenditures for power generation are likewise necessary, and also include investment in compliance/environmental as well as other improvements. $5.8 million was spent in 2018 for NMPA's share of capital projects. Commitment to being steadfast in addressing reliability of service while being attentive to controlling costs remains a priority.

Another priority addressed was a Succession Plan Policy. The Board's Executive Committee put in extra time to develop a policy due to the anticipated retirement of longtime General Manager Darryl Tveitbakk. The board reviewed and implemented the policy in the final quarter when his retirement occurred and the search for his replacement began. The extra efforts and commitments from the entire board are greatly valued. We are very appreciative of Darryl Tveitbakk's dedication and service as general manager for nearly 20 years and wish him the best during his retirement.

It is clear that the future will be different from the past. We are committed to aligning our board and staff with the resources necessary to be as prosperous going forward as we have been historically. We are grateful for the opportunity to serve as the President and General Manager of the Northern Municipal Power Agency.

Sincerely,

Lucas Spaeth
President

Dalene Monsebroten
Interim General Manager

Thank You

After spending 43 years in the electric power industry, it's time to move on to the next chapter in my life.

I will miss the many professionals who I've had the privilege to work with and to call friends on a local and national level. I have more good memories than I can count. I wish every one of my friends continued success.

Thanks!

Darryl

Board plans for the future

Northern Municipal Power Agency board members and management, with a boost from the Minnesota Municipal Utilities Association (MMUA), came together for board planning sessions in 2018.

Developed during the sessions was an NMPA Business Plan.

In order to "provide an adequate, economical, reliable and long-term supply of electric energy and related services to its members" based upon quality values to operate within after assessment of risks, the business plan was created to identify strategic initiatives and to assist with a framework for the direction of NMPA staff and board activities.

NMPA General Manager Darryl Tveitbakk, Finance Manager Dalene Monsebroten and MMUA Executive Director Jack Kegal worked with the board of directors and advisors during four meetings throughout the year. MMUA helped with brainstorming and facilitating the structure of the meetings.

"The board has evolved in a short time; we have developed some focus items which will assist recently hired General Manager Jasper Schneider. The board has prioritized establishing more value to participants, practical financial decisions, building equity, education of directors and participants, growing our participant classes, strategies for future base loads, internal policies, NMPA strong relationship in the Joint System and participants needs and services," said Lucas Spaeth, NMPA president.

"NMPA board of directors highly favor low-cost power but realize the economies set forth by having safe and 100% reliable power now and into the future. Directors have worked to learn more about our wholesale needs all the while mindfully keeping an eye on the effect it will have on consumers."

The 2019 strategic initiatives include:

- Develop and provide educational initiatives for NMPA board members and local governing bodies
- Evaluate potential services that could be implemented on a fee-for-service basis
- Conduct an organizational financial assessment
- Strengthen internal policies

Among objectives are:

- Better education of NMPA board members and participant governing bodies regarding the value of NMPA and Public Power and the issues critical to NMPA's future success
- Research of potential fee-for-service programs
- NMPA financial assessment
- Development of strategy for load growth
- Future power supply strategy
- Internal policies reviewed and strengthened or developed
- Board business planning

SECRETARY-TREASURER'S REPORT

The Northern Municipal Power Agency remains steady in its mission to provide an adequate, economical, reliable and long-term supply of electric energy and related services to the 12 municipal participants. Minnkota Power Cooperative continues to serve as the operating agent, which together with the Power Supply Coordination Agreement, affords NMPA to meet its obligations to the participants in a financially responsible manner.

In 2018, the average wholesale rate to participants was 78.55 mills/kWh, a .4% decrease from 2017. Temperatures for the heating season caused the annual average heating degree days to be 3.6% above the 37-year average, and 16.1% above 2017. This resulted in an increase in total sales to participants of 2.3% over 2017 at 452,701,895 kWh.

Eight NMPA participants participated in the Power Savers program. The program was originally established to coordinate Joint System efforts of meeting the state of Minnesota Conservation Improvement Program mandate of 1.5% annual reduction of energy usage. Due to the change in the size of those utilities required to participate, only two participants were obligated, but six additional utilities continued to offer the program to their customers.

The amount of revenues received from participants in 2018 of $35,515,430 reflected a 2% increase from 2017 due to the increase in kWh sales. Total revenue of $63,531,331, which includes sales to others, and investment and other income, saw an upturn from 2017. This was primarily due to the increase in operation and maintenance resulting from a rise in net generation and pension and post-retirement medical benefit adjustments for Coyote employees.

We appreciate Otter Tail Power Company's service as operating agent of the Coyote Station for the Coyote partners. For 2018, the Agency's 30% share of fuel and O&M costs for Coyote was 30.28 mills, while the average cost of net energy production dropped to 30.30 mills per kWh, resulting in a decrease of 8.28% in average cost of net energy production.

At the end of 2018, NMPA had outstanding debt issued as fixed rate bonds in the amount of $155,890,000 with the final maturity date of 2041. NMPA meets the coverage ratio and reserve obligations set forth by board policy and bond resolutions. In 2018, $24.3 million of bonds matured.

The annual financial audit was conducted by Brady, Martz and Associates P.C., the independent auditors retained by the board of directors. The auditors indicate that the financial statements fairly present, in all material respects, the net position of the Agency as of Dec. 31, 2018, and the results of its operations and its cash flows for the year ended in accordance with generally accepted accounting principles. Included in this annual report are the Management's Discussion and Analysis, containing highlights of the balance sheet and financial statements which are to be read in conjunction with the Auditor's Report.

We value our relationships with the NMPA participants and Minnkota Power Cooperative; our continued success in serving the electrical needs of the customer base in our region is dependent on our efforts. We appreciate the opportunity to serve together!

This Annual Report contains a broad discussion of financial and operating information along with other highlights. I encourage you to review the report in its entirety.

Sincerely,

Dalene Monsebroten
Secretary-Treasurer

Employees monitor the jail pods at the Pennington County Justice Center.

Beefing up security

NEW PENNINGTON COUNTY JUSTICE CENTER IS STATE OF THE ART

David Casanova is the PREA/ transition coordinator for the jail.

Pennington County prisoners used to walk across the street from the Law Enforcement Center to the county courthouse for appearances.

Not only was this unsafe, it was sometimes chaotic.

"You can look at the court calendar any day you want to look at it, and it will tell you whose hearing is when, so if you're a friend or an enemy of someone we have here, they might be sitting out there waiting, and they've done that," said Darryl Tveitbakk, Pennington County commissioner.

"Now we're not chain-ganging them across the street for court. They never see the public; it's safer for our staff, much safer for the inmates and the public. We're a block from the high school when you walk those people across. This is the big security fix that was needed."

Prisoners no longer walk across the street. The recently completed $18 million Pennington County Justice Center is a secured facility that houses court rooms. Prisoners are escorted from jail to an elevator on the same floor, fitted with shackles and taken to the second-floor courtrooms.

Security is one of the biggest improvements Pennington County and its correctional facilities have noticed with the new Justice Center. The 92-bed, 77,000-square-foot facility has heightened security and significantly more capacity.

The nearly 60,000-square-foot addition and the renovation of existing space is a big upgrade for inmates and staff at the facility, which is served by Thief River Falls Municipal Utilities.

In addition to the prisoners, probation officers, prosecutors and judges stay safe. They have underground parking below the Justice Center. A secured

elevator takes them into the building, allowing for a safe entrance and exit.

The pods in the cells have four or eight two-bed rooms. Inmates can visit at tables in the pod and have communication bulletin boards for jail news and information. Inmates can also text or video-call friends and family for a fee right from the pod.

On the first level of the Justice Center, dispatch is front and center in the original portion of the building. There are offices for the county attorney, probation officers and the county boardroom. An investigative wing houses the Bureau of Criminal Apprehension, Drug Task Force and also offices for police and sheriff's investigations.

The second level has two courtrooms, a jury room and office space for the judges and court staff.

The exterior design expression for the building echoes the modern "floating box" style of the existing courthouse, communicating the transparency of the judicial process and the contemporary outlook of the rural county. Views from public spaces are framed with projecting boxes clad on the interior sides with wood-look metal planks. Cast-stone elements at the base of the building and around the judge's chambers convey the security, longevity and solemnity traditional in courthouse design.

It's quite an upgrade.

David Casanova, PREA/transition coordinator at the Justice Center, said the jail has a two-part exit system. The jail staff controls the interior doors and dispatch employees control the exterior doors.

"There is a lot of controlled movement in the jail setting, like the doors. You always have to wait to get in," Casanova said.

That's a minor inconvenience for those who wanted better security for both prisoners and the public in Thief River Falls.

The Pennington County Justice Center has a new library, workout facility and kitchen. It also has two courtrooms.

Revamped to recycle

Jon Steiner talks while a conveyor of garbage passes by in Fosston, Minn.

SIX COUNTIES BRING GARBAGE TO UNIQUE FOSSTON FACILITY

Jon Steiner likes to tell the story about a county commissioner from outside their partnership group who came to see the Polk County Solid Waste Management facility in Fosston, Minn. Steiner manages the facility as Polk County's environmental services administrator.

Fosston is home to six counties' regional waste and recyclable material processing facility that was just recently expanded and upgraded. The commissioner wanted to check out how the new optical sorters worked. The optical sorters are a series of machines that use light beams to scan materials which pass under them to detect what kind of plastic they are made from.

If it detects the type of plastic its programmed to eject, it triggers a burst of air to blow the item onto a specific conveyor belt. Each conveyor belt carries a different type of plastic to individual bins to be baled and marketed.

It takes the optical scanner a millisecond to make each decision.

Because the new equipment wasn't up and running, Steiner asked one of the equipment installers to turn the first optical sorter on to test it for the commissioner. He grabbed a few nearby plastic soda bottles and threw them on the conveyor belt to show the commissioner how the system works.

"We fired up the machine for him," Steiner said. "It was dead quiet in here. We put the pop bottles on the belt and watched them going zipping down the line. It sounded like a .22 going off, a loud crack and all you could see was dust off the bottle."

The commissioner watched each plastic bottle go down the conveyor and disappear in a cloud of dust.

“We chose equipment that worked for the garbage and then adapted it back for the recyclables.”

– Jon Steiner, Polk County environmental services administrator

“He kept insisting they were being disintegrated. We had to show him, walk him around to the back side where you could see the bottles coming out on that quality control line. He thought for sure we were destroying them.”

Not a lot is destroyed at the Polk County Materials Recovery Facility, which handles recycling and garbage for Polk County and five other counties – Beltrami, Clearwater, Hubbard, Mahnomen and Norman. Large items such as couches and beds are sent to the landfill down the road.

Polk County’s operation is an innovative way to deal with garbage. In addition to sorting waste that residents have recycled, it pulls recyclables out of waste and turns leftover garbage into energy. The management and disposal of waste has changed over the years. Small community dumps and burn pits have given way to high-tech regional material recovery facilities and waste-to-energy incineration plants like the Polk County facility, which is the second-largest customer for Fosston Municipal Utilities.

Steiner said 20 to 25 percent of the material that comes in the door at the Polk County site gets used again or recycled. Recycled materials are sold; what’s left is incinerated. The resulting ash is hauled to the Polk County Sanitary Landfill in Gentilly, where it is stockpiled, screened and reused in road construction projects.

The incinerator part of the process isn’t new. It’s been burning trash for decades. The steam from waste combustion is sold to businesses in the Fosston industrial park. Similar waste processing and combustion operations are also located in Minnesota, with the idea that it will be less expensive in the long term to recycle more materials from the trash and then burn the remaining waste for energy.

The nearly $11 million facility expansion and upgrade has allowed it to speed up its process and pull clean cardboard, aluminum and ferrous metals and multiple types of plastic containers out of garbage. The same equipment also is used to process recyclable materials, and another optical sorter is used when processing recyclables to clean paper to be recycled. Steiner said it’s the only facility in the state that uses the same equipment to sort recycling and garbage.

“We chose equipment that worked for the garbage and then adapted it back for the recyclables,” Steiner said. “It does the same thing.”

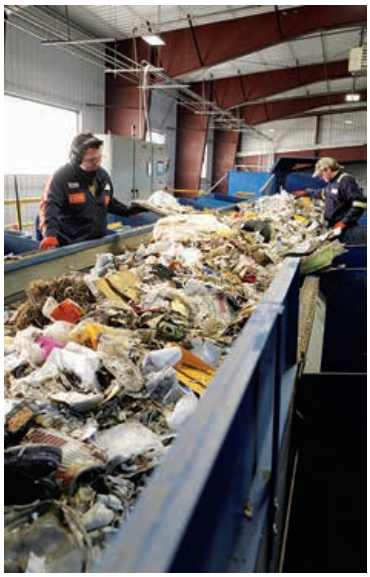
To upgrade the equipment and process additional materials Polk County added an 18,000-square-foot building addition, which included space for a new tip floor for incoming materials and the new equipment.

“The one unique thing with our project is we kept operating all through construction, so it slowed the construction process down when we were trying to work around things and trying to replace equipment while we were backing trucks up and pulling trucks out,” Steiner said. “It’s a lot easier to have a blank canvas.”

Steiner said Polk County waste has added six to seven employees over the last several years in anticipation of the new equipment and processes, and needs to add a few more. After about a year and a half of construction, the new equipment went live on Dec. 5, 2018.

The Polk County facility can now process more material, process it faster and deliver a cleaner recyclable material, which is important when the waste and markets are continually changing.

Employees sort garbage at the Polk County facility.



The optical scanner moves plastic one direction or another.

Darryl Tveitbakk
retiring general manager

Tveitbakk retires as GM;

Clearbrook native spends more than 23 years with NMPA

Sitting across from two bond insurance underwriters donning slick-looking suits, Northern Municipal Power Agency (NMPA) General Manager Darryl Tveitbakk was first in line for the presentations to the men.

The 25th floor meeting room gave Tveitbakk a scenic window view of New York Harbor, the Statue of Liberty and Ellis Island.

Tveitbakk, who grew up on a dairy farm near Clearbrook, Minn., found his thoughts drifting after his part of the presentation concluded. He couldn't help it, apparently mesmerized by the view.

"I thought, what the hell is a dairy farmer's kid from Clearbrook doing here?" he said. "It was way beyond where I thought I'd be."

A decade later, Tveitbakk smiled and laughed as he reflected on the anecdote just weeks before his retirement after more than 23 years with NMPA. Only the second permanent general manager in history, Tveitbakk retired Nov. 5.

"Having the opportunity to work on some of the bonding things we've done over the years, the financial things we've done over the years, has been fun," Tveitbakk said.

"Even though I at first felt this was way out of my league, you learn fast. I think doing those things was a major responsibility but was also a highlight."

Dalene Monsebroten, the finance manager at NMPA, said Tveitbakk was the right person for the job.

"He's a huge advocate of public power," she said, "and he's very knowledgeable on the technical side of things. He's great at communicating with the governmental side, legislative and constituents. He's very well-rounded."

The well-roundedness came through schooling at the old AVTI (now Northland Community and Technical College) after spending a couple of years at the University of Minnesota. He earned degrees in audio communications and industrial electronics.

That allowed him to land a job at the city of Thief River Falls as a technician in the utility department. He spent 17 years with the city before taking a position at Northland as a professor of electronics. After being laid off, he found himself without a job in 1993.

He went to Minnkota and asked the vice president of marketing and communications if he had any job openings. A business acquaintance of the manager, Tveitbakk was eventually hired to do a study on NMPA for the cooperative. He must have done a good job, as NMPA hired him as director of customer service in 1995.

He was promoted to general manager in 1999.

Tveitbakk says he feels good about finishing his career in the same county in which his grandfather homesteaded after immigrating from Norway in the early 1900s. On the wall of Tveitbakk's NMPA office was a letter from President Woodrow Wilson, approving his grandfather's homestead.

Next to the letter was a map of where the farm was located on the east end of Pennington County. Tveitbakk likes to uncover the history of everything in his path and the paths of his ancestors. He has an early 1900s picture of the location of the condo he owns just four blocks from Target Field in the Warehouse District of downtown Minneapolis.

In addition to the condo, Tveitbakk and wife Deborah will spend time at their cabin in the woods near Clearbrook. Their three boys and three granddaughters live in the Twin Cities area.

NMPA can thank Deborah for keeping her husband in the Thief River Falls area.

"In college, during my second year, I met this little girl from Red Lake Falls. That's really why I stayed here." Tveitbakk plans to remain in Thief River Falls. However, he thought it was time to move into another chapter of life.

"I enjoyed working here. I will miss it, but I'm going to be 69 years old. . . . Every day I'm here is one day I'm not retired."

Schneider takes over

Fargo native comes to NMPA with co-op background

Jasper Schneider
new general manager

Jasper Schneider is excited to work with North Dakota and Minnesota municipal utilities.

His new position as general manager of the Northern Municipal Power Agency based out of Thief River Falls, Minn., will be rewarding – both professionally and personally, he said.

"This is an opportunity to be hands on, working with utilities," Schneider said. "We will also be closer to family and friends and not travel quite as much."

A Fargo native, Schneider graduated from Jamestown College, which is now the University of Jamestown, and the Hamline University School of Law. He comes to NMPA from the Mandan, N.D.-based National Information Solutions Cooperative (NISC), where he served as a vice president since 2015. Before that, Schneider was acting administrator of the U.S. Department of Agriculture's Rural Utilities Service.

He was a member of the North Dakota House of Representatives from 2006-09. He also spent time as North Dakota rural development state director for the U.S. Department of Agriculture.

Jasper and Kim Schneider have four children. The family will join him in Thief River Falls after the school year.

"It's been a real exciting opportunity and transition," Schneider said. "I have worked in the utility industry for a long time and this is an opportunity to work more hands on the wholesale power side of things in the part of the country I absolutely love.

"When you grow up in Fargo, you're kind of half Minnesotan. We've always had a lake place in Becker County by Detroit Lakes, so I grew up rooting for the Twins and Vikings."

As general manager, Schneider replaces Darryl Tveitbakk, who retired Nov. 5, 2018. Dalene Monsebroten served as interim general manager until Schneider was hired.

Of the 12 participants in the NMPA system, 10 are from Minnesota and two are from North Dakota.

"I like to think I still have one foot in the North Dakota world because we do have Park River and Grafton, and certainly our power generation is from the Coyote Station in Beulah," he said. "I also have one foot in the Minnesota world. My background is the co-ops, as RUS administrator and working at NISC, which is a co-op itself and serves almost all of the Minnkota systems.

"The more I think about NMPA, the more intrigued and impressed I am. The relationship with Minnkota with the Joint System is a model that has worked well for 30 years."

In 1981, Minnkota entered into a Power Supply Agreement with NMPA. Under the agreement, Minnkota transferred its title of its 30 percent undivided ownership of the Coyote Station. NMPA also purchased a load-ratio share of Minnkota's transmission system and continues to provide capital for all future transmission additions and improvements.

"More and more people are conscious about where their power comes from and how they use their power," Schneider said. "They want more control, and it's been driven by the internet of things, smart homes, all that stuff. People don't necessarily just flip the light on and don't think about it anymore. The game is changing."

Joint System works on blinks

Minnkota Power Cooperative and NMPA completed 258 miles of blink outage mitigation in 2018 and approximately 820 miles since 2014.

The projects address blink outage issues on the Joint System subtransmission system (69 kV and below). A significant portion of the 2,100-mile system has aged beyond 50 years of service and was not built to meet the heightened expectations of today's consumers.

Structures are fitted with several pieces of equipment to help reduce blink outages: a hanging lightning arrester, a polymer post-top insulator, a raptor deterrent (poletop helmet) and a climbing animal deterrent (pole wrap).

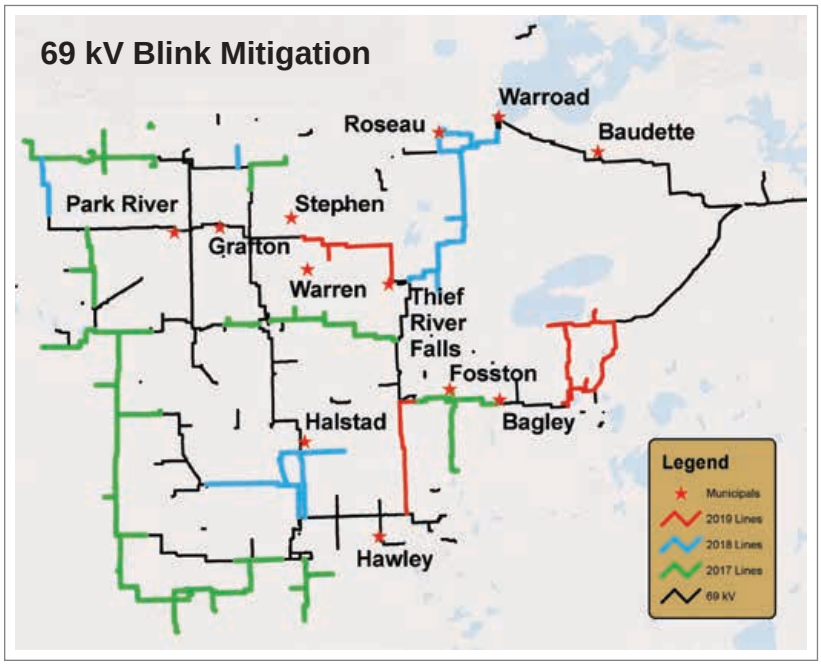
Minnkota monitors these stretches of line and routinely reviews the effectiveness of the blink mitigation efforts. Early results show an average 50 percent improvement in the performance of each treated line section – a significant accomplishment.

Warroad's municipal was directly affected by the Moranville/Falun/Pencer/Malung/Stafford/Polaris blink outage mitigation project in 2018. In Roseau, the Polaris/Roseau/Salol blink outage mitigation project was helpful as well.

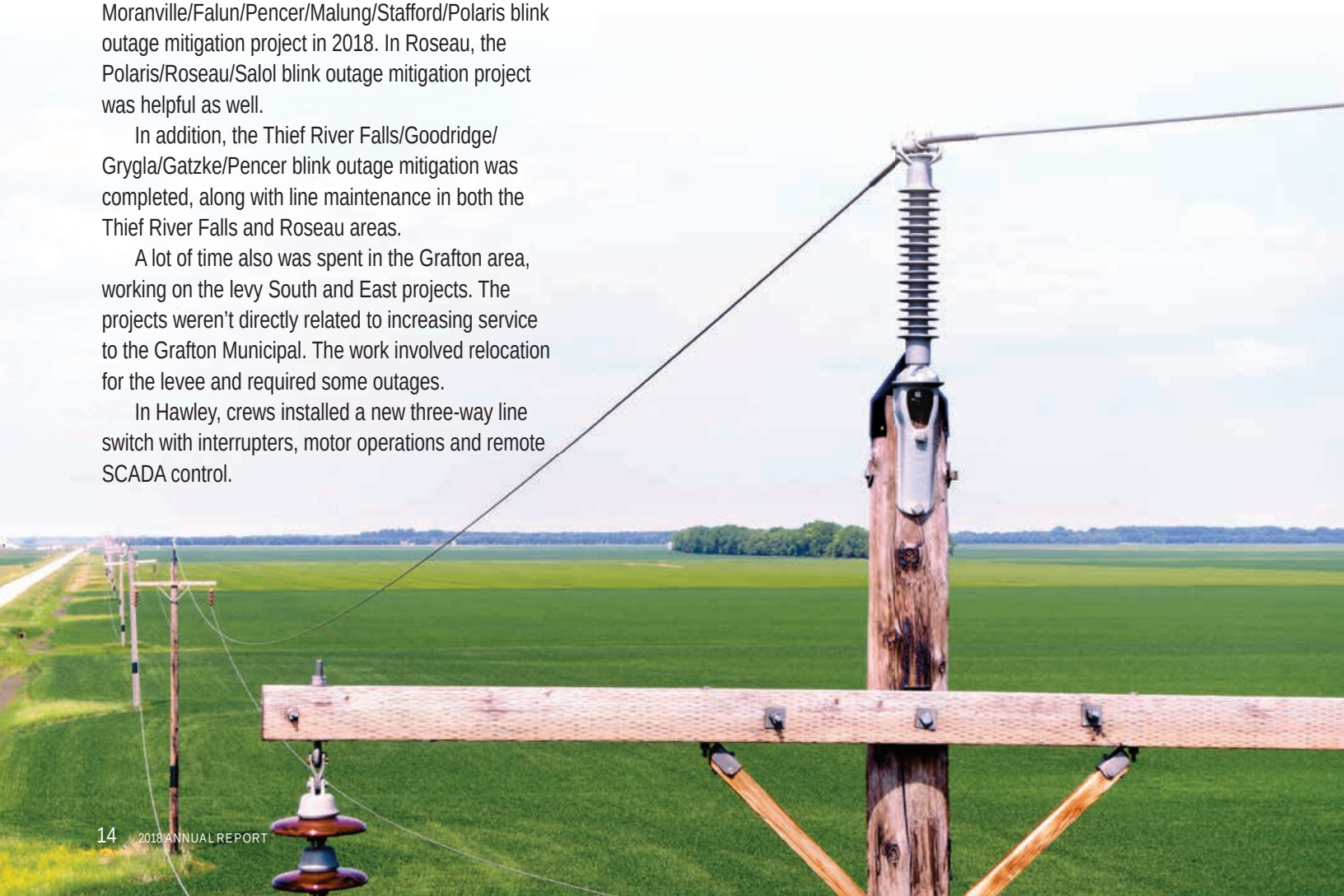
In addition, the Thief River Falls/Goodridge/Grygla/Gatzke/Pencer blink outage mitigation was completed, along with line maintenance in both the Thief River Falls and Roseau areas.

A lot of time also was spent in the Grafton area, working on the levy South and East projects. The projects weren't directly related to increasing service to the Grafton Municipal. The work involved relocation for the levee and required some outages.

In Hawley, crews installed a new three-way line switch with interrupters, motor operations and remote SCADA control.



Minnkota and NMPA completed 258 miles of blink outage mitigation in 2018.



The 1981, 1985, 1989, 1992, 1997, 1998, 2002, 2007, 2008, 2009, 2010, 2013, 2016 and 2017 Bond Prospectus contain projections of the Agency Participants' peak demand, energy requirements and estimated power costs for years ending on April 1, as well as on a calendar year basis. Our comparisons herein will be the calendar year actual vs. fiscal year projections.

The actual system peak of 91,105 kW is 3,171 kW less than that of the 2017 yearly peak of 94,276 kW. The corresponding 2018 kWh energy sales total of 452,701,895 kWh is 10,020,837 kWh greater than the 442,681,058 kWh sold in 2017. This increase in energy sales reverses a trend of steadily declining sales over the last few years.

2018 heating degree-days increased significantly from 2017. This increase in heating degree days resulted in increased energy sales as 2018's total sales rose by 2.26% over 2017 levels. The annual average heating degree-days since the Coyote Station began operations (1982-2018) is 9,534 degree-days with 2018 registering 9,877 degree-days, or 3.6% above the 37-year average. The normal heating months of October through March saw 16.1% more heating degree days than that same period of 2017.

The Coyote Station was operated during 2018 by participating owner, Otter Tail Power Company. Monthly reports are issued to all owners on incurred operating costs, inventory activity and capital expenditures. The operating costs for the year ending Dec. 31, 2018, totaled $93,051,936.94 with the Agency share totaling $27,954,852.37 or an average cost of 30.28 mills per kWh. The average cost of net energy production for the total plant dropped to 30.30 mills per kWh from 33.04 mills per kWh in 2017. This reflects a decrease in average cost of net energy production of 8.28%.

The average power cost per kWh continues to remain stable due to controlling load demand, improving plant efficiency, as well as the effects of refinancing during 1985, 1989, 1992, 1997, 1998, 2007, 2009, 2010, 2013, 2016, and 2017 and continued innovative Wholesale Power Pricing policies.

During 2018 the Agency Participant's wholesale cost of power (average cost per kWh) decreased 0.33 mills or 0.4% from 78.89 mills in 2017 to 78.55 mills in 2018. The 12 NMPA participants experienced varying average wholesale power cost changes ranging from 1.06 to +0.77 mills/kWh.

Production at the Coyote Station facility greatly improved in 2018 as there were only minor outages due to equipment failure and/or unscheduled maintenance. Facility availability improved to 89.93% (7,878 hours). By comparison, the average yearly availability over the past 29 years was 85.64%. The 2018 availability factor is 4.28% above the 29-year average. Gross generation increased by 465,958 MWH or 16.77% above that of 2017, resulting in a capacity factor of 81.94% which is above the 29-year average capacity factor of 75.91%.

Funds advanced by NMPA during 2018 for the operation of the Coyote Station equaled $29,766,447 of the total of $99,100,000 funds advanced by the entire group of Station owners. NMPA Participants contributed $35,515,430 in revenue of the total of $63,531,331 in revenue derived to offset NMPA's share of the cost of owning and operating the Coyote Station, the cost of the load ratio share of the Minnkota Power Cooperative transmission system and the cost of internal Agency administrative expense.

The Power Supply Coordination Agreement between Minnkota Power Cooperative, Inc. and Northern Municipal Power Agency provides for capital credits to be allocated to the Agency whenever such credits are allocated to other Minnkota Power Cooperative members. For 2018 Minnkota Power had an operating margin of $2,434,299 and a nonoperating margin of $7,664,701 for a total margin of $10,099,000. Minnkota margin allocation policy is that margins received from operations, provided there are no accumulated prior years' operating losses, are to be allocated back to patrons. Due to prior years' losses totaling $5,391,044, there were no allocation of capital credits in 2018. When the accumulated operating losses are offset by operating margins, allocation of margins would resume.

Coyote Operating Statistics

	2018	2017	2016
Hours of Operation	7,854	7,451	6,689
Hours of Outage	906	1,309	2,095
Plant Availability (Percent)	89.7	85.1	76.2
Gross Generation – Total (MWh)	3,244,766	2,778,798	2,587,585
Net Generation – Total (MWh)	3,063,293	2,616,371	2,440,646
Fuel Burned – Coal (Tons)	2,501,699	2,154,856	2,011,974
Fuel Burned – Fuel Oil (Gallons)	807,222	1,079,680	777,659
Fuel Cost (Mills/MWh)	20.76	23.30	20.18
Total Production Cost (Mills/MWh)	30.30	33.15	32.50

Coyote Station had a nonmajor outage year in 2018.

The unit generated 3,063,293 megawatt-hours (MWh) net for the year, which was above the budget by 116,435 MWh, or about 4% over budget.

This was the second-highest all-time net megawatts produced for Coyote Station.

"We had a great year for generation in 2018," said Brad Zimmerman, plant manager.

Coyote's safety record was again excellent. There were only six incidents, with one being OSHA recordable, and zero lost-time accidents. Employees have worked more than 3 million man-hours without a lost-time accident. The last one was in 2000.

"For Coyote to have a year like we had is a real testament to our employees and their efforts," Zimmerman said. "They continue to work to improve themselves and the plant. We have a great community of people out here and we continue to foster a good, safe and productive environment."

The net plant heat rate for 2018 came in at 11,412 Btu/kWh, just above the targeted heat rate of 11,275 Btu/kWh. Loads were fairly strong all year with an average online load of 390.0 MW. The plant had a total of 139 derates, which totaled 171,625 MWh for the year. The big hitters were boiler deslagging and cyclone operations.

These same issues attributed to the higher-than-expected heat rate along with air heater problems. A total of 2,501,699 tons of lignite coal were burned in 2018. This came in at 111,997 tons over the budgeted amount of 2,389,702 tons.

Total fuel oil burned for generation was 824,321 gallons, which was 481,209 gallons over the budgeted amount of 343,112 gallons. The large quantity of fuel oil burned was primarily due to maintaining flame intensity during poor cyclone operations and plant startups.

Coal quality consistency was difficult to maintain throughout the year and was the main issue with poor cyclone operations. Unit availability was 89.7% with a net capacity factor of 81.9%.

Several small projects were completed in 2018. A CEMS analyzer was replaced along with some roof replacements and cooling tower mist eliminator replacements. An online coal analyzer was also put in service. Most of the project-related work was in preparation for a spring 2019 outage.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Northern Municipal Power Agency
Thief River Falls, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of Northern Municipal Power Agency, which comprise the statements of net position as of December 31, 2018 and 2017, and the related statements of revenues and costs, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 the entity'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 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 financial statements referred to above present fairly, in all material respects, the financial position of Northern Municipal Power Agency as of December 31, 2018 and 2017, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of Northern's contributions to the MN PERA retirement plan, and schedule of Northern's share of the net pension liability as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

BRADY, MARTZ & ASSOCIATES, P.C.
GRAND FORKS, NORTH DAKOTA
March 8, 2019

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Statement Overview

This discussion and analysis of Northern Municipal Power Agency's (Northern) financial performance provides an overview of Northern's activities for the fiscal years ended December 31, 2018 and 2017. The information presented should be read in conjunction with the basic financial statements and the accompanying notes to the financial statements.

The basic financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Northern's basic financial statements include the statements of net position, the statements of revenues and costs, and the statements of cash flows.

The statements of net position provide information about the nature and amount of assets and obligations (liabilities) of Northern as of the end of the year. The statements of revenues and costs report revenues and expenses for the current year. The statements of cash flows report cash receipts, cash payments, and net changes in cash resulting from operating, capital and related financing activities, and investing activities.

Financial Highlights

The following table summarizes the financial position of Northern as of December 31:

Condensed Statements of Net Position

				2018 vs 2017	
	2018	2017	2016	Dollar Change	Percent Change
Net Utility Plant	$86,330,376	$104,734,947	$130,623,045	$(18,404,571)	(17.6)
Current Assets	76,372,302	83,186,037	62,238,319	(6,813,735)	(8.2)
Total Assets	162,702,678	187,920,984	192,861,364	(25,218,306)	(13.4)
Deferred Outflows of Resources	56,490	75,338	118,585	(18,848)	(25.0)
Current Liabilities	30,471,480	31,834,176	32,148,541	(1,362,696)	(4.3)
Long-term Liabilities	132,235,808	156,119,822	160,802,944	(23,884,014)	(15.3)
Total Liabilities	162,707,288	187,953,998	192,951,485	(25,246,710)	(13.4)
Deferred Inflows of Resources	51,880	42,324	28,464	9,556	22.6
Net Investment in Capital Assets	(69,559,624)	(75,480,053)	(54,061,955)	5,920,429	7.8
Restricted by Bond Agreements	62,795,190	69,638,427	49,197,237	(6,843,237)	(9.8)
Unrestricted	6,764,434	5,841,626	4,864,718	922,808	15.8
Total Net Position	$ -	$ -	$ -	$ -	-

Condensed statements of net position highlights are as follows:

- Net utility plant decreased by approximately $18.4 million. Net utility plant includes Northern's 30% share of the Coyote generating station and Northern's approximate load-ratio share of the related transmission system. The $18.4 million decrease in net utility plant is mainly due to an additional year's depreciation.
- Current assets decreased by approximately $6.8 million. Current assets include cash, investments and accounts receivable. The decrease is primarily related to the use of construction funds to finance Coyote plant and transmission property additions.
- Current liabilities decreased by approximately $1.4 million primarily due to the payment of Northern's estimated share of 2018 transmission property additions to Minnkota in October 2018.
- Revenue bonds, net of current maturities, decreased by approximately $23.9 million. The decrease is due to scheduled bond principal payments made in 2018.
- The net pension liability, deferred outflows of resources, and deferred inflows of resources are due to the implementation of GASB 68, which requires Northern to record its share of the Public Employee's Retirement Associaton net pension liability.

The following table summarizes the changes in financial position of Northern for the years ended December 31, 2018, 2017 and 2016:

Condensed Statements of Revenues and Costs

	2018	2017	2016	2018 vs 2017 Dollar Change	2018 vs 2017 Percent Change
Revenues	$ 63,531,331	$ 61,699,156	$ 66,780,186	$ 1,832,175	3.0
Operating Costs	$ 55,826,892	$ 54,028,293	$ 57,471,289	$ 1,798,599	3.3
Interest	7,704,439	7,670,863	9,308,897	33,576	0.4
Total Costs	$ 63,531,331	$ 61,699,156	$ 66,780,186	$ 1,832,175	3.0

Condensed statements of revenues and costs highlights are as follows:

- Total revenues increased by $1.8 million. Revenues from exempt sales to public authorities and other income increased by $3.4 million. Revenues from participants increased by $0.7 million and revenues from Minnkota Power Cooperative, Inc. (Minnkota) decreased by $2.3 million. Revenues from exempt sales to public authorities and other income increased primarily due to higher surplus sales from the Coyote plant. The increase in Revenues from participants is due to a 2.3% increase in energy kWh sales. Revenues from Minnkota were down primarily due to there being less Coyote plant costs in 2018 for Minnkota to cover under the Power Supply Coordination Agreement. Per this Agreement, Minnkota purchases all capacity and energy in excess of Northern's requirements at a cost to satisfy Northern's revenue requirements, subject to limitations pursuant to Federal tax law.
- Total operating costs increased by $1.8 million. Total operating costs include fuel and operating & maintenance expenses for Northern's 30% share of the Coyote generating plant, transmission operating expenses, administrative expenses, and depreciation. Depreciation is provided for on a sinking fund method with depreciation equivalent to the principal payments required to pay the outstanding bonds. Depreciation expense decreased $0.5 million due to slightly lower bond principal payments. Operation and maintenance expense increased by $1.4 million due in part to pension and post-retirement medical benefit adjustments for Coyote employees and fuel increased by $0.8 million mainly due to an increase in net generation in 2018.
- Interest expense increased by $0.1 million in 2018.

Debt Administration

As of December 31, 2018, Northern had debt outstanding of approximately $155.9 million, a decrease of approximately $24.3 million from December 31, 2017. Northern made scheduled bond principal payments of $24.3 million on January 3, 2018. Northern bonds have an "A-" rating from Standard & Poor's and an "A3" rating from Moody's.

Factors Bearing on Northern's Future

Northern is subject to various federal, state and local laws, rules and regulations relating to air and water quality, hazardous and solid waste disposal, reporting of toxic releases and air emissions, and other environmental matters. These laws, rules and regulations often require Northern to undertake considerable efforts and substantial costs to obtain licenses, permits and approvals from various federal, state and local agencies. Northern cannot predict at this time whether any additional legislation or rules will be enacted which will affect its operations, and if such laws or rules are enacted, what the future cost to Northern might be because of such action.

STATEMENTS OF NET POSITION

As of December 31, 2018 and 2017

Assets and Deferred Outflows of Resources	2018	2017
UTILITY PLANT		
Plant in Service	$ 363,116,529	$ 360,829,100
Transmission System	56,483,977	53,310,977
Total	419,600,506	414,140,077
Accumulated Depreciation	(333,270,130)	(309,405,130)
Net Utility Plant	86,330,376	104,734,947
CURRENT ASSETS		
Cash	910,079	859,048
Investments – Unrestricted	5,688,396	5,729,108
Investments – Restricted	66,647,160	73,338,102
Accounts Receivable – Participants	3,126,667	3,259,779
Total Current Assets	76,372,302	83,186,037
TOTAL ASSETS	162,702,678	187,920,984
DEFERRED OUTFLOWS OF RESOURCES		
Cost Sharing Defined Benefit Pension Plan	56,490	75,338

Liabilities, Deferred Inflows of Resources and Net Position		
LONG-TERM LIABILITIES		
Revenue Bonds, Net of Current Maturities	132,025,000	155,890,000
Net Pension Liability	210,808	229,822
Total Long-Term Liabilities	132,235,808	156,119,822
CURRENT LIABILITIES		
Accounts Payable		
Participants	910,079	859,048
Minnkota Power Cooperative, Inc.	1,844,431	2,950,453
Accrued Interest	3,851,970	3,699,675
Current Maturities of Revenue Bonds	23,865,000	24,325,000
Total Current Liabilities	30,471,480	31,834,176
TOTAL LIABILITIES	162,707,288	187,953,998
DEFERRED INFLOWS OF RESOURCES		
Cost Sharing Defined Benefit Pension Plan	51,880	42,324
NET POSITION		
Net Investment in Capital Assets	(69,559,624)	(75,480,053)
Restricted by Bond Agreements	62,795,190	69,638,427
Unrestricted	6,764,434	5,841,626
Total Net Position	$ -	$ -

See Notes to the Financial Statements.

STATEMENTS OF REVENUES AND COSTS

For the years ended December 31, 2018 and 2017

	2018	2017
REVENUES		
Participants	$ 35,515,430	$ 34,810,272
Minnkota Power Cooperative, Inc.	13,602,730	15,865,596
Exempt Sales to Public Authorities and Other Income	14,413,171	11,023,288
Total	$ 63,531,331	$ 61,699,156
COSTS		
Plant Operations		
Fuel	$ 19,194,411	$ 18,403,057
Operation and Maintenance	10,572,036	9,194,864
Transmission Operations	1,508,369	1,501,190
Administrative Expense	687,076	604,182
Depreciation	23,865,000	24,325,000
Total	55,826,892	54,028,293
Interest	7,704,439	7,670,863
Total	$ 63,531,331	$ 61,699,156

See Notes to the Financial Statements.

POWER SOURCES AND ENERGY SALES

	2018	2017	2016
NMPA Coyote Net Generation Delivered (kWh)	905,979,000	790,401,800	749,016,430
Energy Sales: (kWh)			
Municipal Participants	452,701,895	442,681,058	448,446,930
Other Entities	453,277,105	347,720,742	300,569,500
	905,979,000	790,401,800	749,016,430

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Participants	$ 35,693,813	$ 34,883,049
Receipts from Minnkota Power Cooperative, Inc.	11,347,813	16,024,268
Receipts from Other Public Authorities	13,292,890	9,072,004
Receipts from Others	586,889	462,880
Receipt of Interest	852,672	243,606
Payments for Fuel	(19,194,411)	(18,403,057)
Payments for Operation and Maintenance	(10,572,036)	(9,194,864)
Payments for Transmission Operations	(1,508,369)	(1,501,190)
Payments for Interest	(7,552,145)	(8,616,277)
Payments for Administrative Expense	(636,044)	(471,458)
Net Cash Provided (Used) By Operating Activities	22,311,072	22,498,961
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Issuance of Bonds	-	59,695,000
Bonds Refunded	-	(40,015,000)
Premium Received on Bonds Issued	-	6,397,435
Principal Paid on Debt	(24,325,000)	(24,150,000)
Addition to Utility Plant	(4,666,695)	(3,516,455)
Net Cash Provided (Used) By Capital and Related Financing Activities	(28,991,695)	(1,589,020)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Investments	109,138,961	112,877,342
Purchase of Investments	(102,407,307)	(133,654,559)
Net Cash Provided (Used) By Investing Activities	6,731,654	(20,777,217)
INCREASE IN CASH	51,031	132,724
CASH AT BEGINNING OF YEAR	859,048	726,324
CASH AT END OF YEAR	$ 910,079	$ 859,048
CASH FLOWS FROM OPERATING ACTIVITIES		
Depreciation	$ 23,865,000	$ 24,325,000
Deferred Charges	(784,344)	(1,298,782)
Change in Current Assets and Liabilities:		
Accounts Receivable	133,112	(37,892)
Accounts Payable	(1,054,991)	456,049
Accrued Interest	152,295	(945,414)
Net Cash Provided (Used) By Operating Activities	$ 22,311,072	$ 22,498,961

See Notes to the Financial Statements.

WHOLESALE POWER COSTS

City	Population	No. of Customers	Amount Purchased (kWh)	Cost of Power w/Levy	Mills/kWh w/Levy
BAGLEY	1,427	778	27,349,835	$2,139,024	78.21
BAUDETTE	1,106	782	22,234,791	1,776,544	79.90
FOSSTON	1,508	893	33,134,659	2,537,081	76.57
GRAFTON	4,324	2,282	56,400,290	4,468,161	79.22
HALSTAD	597	324	9,128,792	756,366	82.86
HAWLEY	2,232	1,163	21,432,850	1,755,060	81.89
PARK RIVER	1,403	819	20,051,789	1,685,472	84.06
ROSEAU	2,855	1,426	39,200,940	3,177,805	81.06
STEPHEN	646	388	8,017,659	661,259	82.48
TRFALLS	8,722	4,940	138,858,129	11,032,324	79.45
WARREN	1,563	823	18,321,506	1,552,067	84.71
WARROAD	1,871	961	58,570,655	4,019,538	68.63
TOTAL	28,254	15,579	452,701,895	$35,560,701	78.55

FINANCIAL COVERAGE RATIOS

City	2018	2017	2016	2015	2014
Bagley	1.14	1.15	1.11	1.09	1.11
Baudette	1.16	1.31	1.33	1.30	1.30
Fosston	1.14	1.19	1.19	1.08	1.15
Grafton	1.32	1.23	1.08	1.12	1.10
Halstad	1.23	1.11	1.22	1.23	1.06
Hawley	1.14	1.18	1.16	1.27	1.13
Park River	1.11	1.08	1.03	1.07	1.16
Roseau	1.30	1.28	1.29	1.29	1.31
Stephen	1.15	1.06*	1.06	1.19	1.19
Thief River Falls	1.20	1.16	1.23	1.13	1.15
Warren	.96	.95	.93	.95	1.13
Warroad	1.10	1.08	1.23	1.10	1.29
Average	1.16	1.16	1.16	1.17	1.17
NMPA	1.30	1.29	1.28	1.38	1.22

(The coverage ratio measures the ability of the Agency and member cities to pay current purchased power expense and debt service with current year's net revenues.)

** Estimated.*

NOTE 1: ORGANIZATION

Northern Municipal Power Agency (Northern) is a municipal corporation and a political subdivision of the State of Minnesota. Its membership consists of ten Minnesota and two North Dakota municipalities each of which owns and operates a municipal electric utility distribution system.

Northern was incorporated on December 14, 1976, for the purpose of providing a means for its members to secure an adequate, economical and reliable long-term supply of electric energy.

In April 1981, Northern purchased a 30% interest in the Coyote Station plant near Beulah, North Dakota and related transmission facilities from Minnkota. As of December 31, 2018, the participants in Coyote No. 1 are as follows:

Name	Percent of Ownership
Otter Tail Power Company	35%
Northern Municipal Power Agency	30%
Montana-Dakota Utilities	25%
Northwestern Corporation	10%
Total	100%

Otter Tail Power Company is the operating agent for the Coyote Station plant.

NOTE 2: ACCOUNTING POLICIES

Basis of Accounting

Northern maintains accounting records on an accrual basis in conformity with accounting principles generally accepted in the United States of America, as applicable to governmental entities, including the application of the Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, as the guidance relates to regulated operations. The guidance allows for deferral of revenues and expenses to future periods in which the revenues are earned or the expenses are recovered through the rate-making process.

Deposits and Investments

Deposits and investments include cash and money market funds. Investments are reported on fair value based on quoted market prices as well as observable market based inputs or unobservable inputs that are corroborated by market data.

Restricted Investments

Northern's bond resolution requires the segregation of bond proceeds and prescribes the application of Northern's revenues. Amounts classified as restricted funds on the statements of net position represent investments whose use is restricted by bond resolution. It is Northern's policy to use restricted resources first for debt service, and then unrestricted resources as they are needed.

Fair Value Measurements

Northern accounts for all assets and liabilities that are being measured and reported on a fair value basis in accordance with generally accepted accounting principles (GAAP). GAAP defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurements.

When fair value measurements are required, various data is used in determining those values. This statement requires that assets and liabilities that are carried at fair value must be classified and disclosed in the following levels based on the nature of the data used:

Level 1: Quoted market prices in active markets for identical assets or liabilities.
Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
Level 3: Unobservable inputs that are not corroborated by market data.

Revenue

Revenues as defined by the Electric System Revenue Bond Resolution are established at amounts sufficient to cover operating costs (excluding depreciation) and debt service on revenue bonds, less capitalized interest.

Utility Plant

Utility plant includes all direct acquisition costs and other costs related to the acquisition of a 30% interest in the Coyote Station plant and the related transmission facilities, along with Northern's approximate load-ratio share of Minnkota's transmission system. Bond expenses, including premiums and discounts, and interest expense (less interest earned on investment securities) are included in the cost of the utility plant.

Depreciation is provided for on a sinking fund method with depreciation equivalent to the principal payments required to pay the outstanding bonds.

Cash Flows

For purposes of the Statements of Cash Flows, Northern considers cash to be demand deposits.

Income Taxes

Northern is exempt from federal and state income taxes, as it is a political subdivision of the State of Minnesota.

Net Position

Net Investment in Capital Assets consists of Net Utility Plant less Revenue Bonds. Restricted Net Position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted Net Position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Accounting Estimates

The preparation of the 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 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.

NOTE 3: POWER SUPPLY COORDINATION AGREEMENT

On March 1, 1981, Northern entered into a Power Supply Coordination Agreement with Minnkota. In 2017, this agreement was amended to be effective until the later of December 31, 2041, or the date on which the operating and engineering committee under the Agreement for Sharing Ownership caused the Coyote Plant to be retired from service. The agreement provides for Minnkota to purchase all capacity and energy in excess of Northern's requirements, subject to limitations pursuant to Federal tax law. Minnkota is the operating agent for Northern.

NOTE 4: CASH AND INVESTMENTS

The bond resolution under which the revenue bonds were issued provides for the creation and maintenance of certain funds and accounts as follows:

	Dec. 31 2018	Dec. 31 2017
Unrestricted:		
Cash – Working Fund	$ 910,079	$ 859,048
Operating Fund	2,341,644	2,437,834
General Reserve Fund	2,341,905	2,303,531
Reserve and Contingency Fund	1,004,847	987,743
Total Unrestricted	6,598,475	6,588,156
Restricted:		
Debt Service Reserve Account	9,896,446	9,887,641
Rate Stabilization Fund	6,100,433	6,007,081
Cost of Issuance Fund	15,138	28,158
2013 Plant Additions Fund	7,702	4,325,378
2017 Coyote Project Construction Fund	8,956,652	10,423,102
2017 Plant Additions Fund	13,760,325	14,471,212
Bond Fund Interest Account	3,210,602	3,699,702
Bond Fund Principal Account	24,699,862	24,495,828
Total Restricted	66,647,160	73,338,102
Total Cash and Investments	$73,245,635	$79,926,258

The funds consist of $72,335,556 of investment securities and $910,079 of cash deposits at December 31, 2018, and $79,067,210 of investment securities and $859,048 of cash deposits at December 31, 2017.

As of December 31, 2018, Northern had the following investments:

	12/31/18	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Rating	Agency
Investments by Fair Value Level						
Cash & Cash Alternatives						
Treasury Money Market	$34,976,895	$34,976,895	$ -	$ -	N/A	N/A
Certificate of Deposit	$27,605,795	$27,605,795	$ -	$ -	N/A	N/A
Debt Securities						
Federal Home Loan Mortgage Corp.	3,952,623	-	3,952,623	-	Aaa	Moody's
Federal National Mortgage	5,800,243	-	5,800,243	-	Aaa	Moody's
Total Investments by Fair Value Level	$72,335,556	$62,582,690	$ 9,752,866	$ -		

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counter party, Northern will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. Northern's investments are held by the investments counter party, in Northern's name.

Credit Risk

Northern is authorized to invest in:

(a) Direct obligations of the U.S. Government, its agencies or instrumentalities.
(b) New Housing Authority Bonds or Project Notes issued by public agencies or municipalities.
(c) Direct and general obligations of any state or municipalities, which are rated "Aa".
(d) Certificates of Deposit.
(e) Bankers Acceptances.
(f) Repurchase Agreements.

Interest Rate Risk

Northern has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Northern entered into a Forward Purchase Agreement with Barclays Bank PLC on May 30, 2014 for investing funds in the bond fund principal and bond fund interest accounts. This agreement was amended on September 27, 2017 to include the 2017 Bonds. The amended agreement establishes a guaranteed rate of return on the investments held in the bond fund principal and bond fund interest accounts at 1.455%. The agreement expires on January 1, 2026.

NOTE 5: UTILITY PLANT

Utility plant activity was as follows:

	Beginning Balance	Additions	Adjustments	Ending Balance
Utility Plant as of 12/31/18				
Plant in Service	$ 360,829,100	$ 2,651,980	$ (364,551)	$ 363,116,529
Transmission System	53,310,977	3,173,000	-	56,483,977
Total Utility Plant	414,140,077	5,824,980	(364,551)	419,600,506
Less Accumulated Depreciation	(309,405,130)	(23,865,000)	-	(333,270,130)
Net Utility Plant	$ 104,734,947	$(18,040,020)	$ (364,551)	$ 86,330,376
Utility Plant as of 12/31/17				
Plant in Service	$ 364,352,298	$ 2,005,915	$(5,529,113)	$ 360,829,100
Transmission System	51,350,877	1,960,100	-	53,310,977
Total Utility Plant	415,703,175	3,966,015	(5,529,113)	414,140,077
Less Accumulated Depreciation	(285,080,130)	(24,325,000)	-	(309,405,130)
Net Utility Plant	$ 130,623,045	$(20,358,985)	$ (5,529,113)	$ 104,734,947

The Electric System Revenue Bond Resolution requires that revenues equal costs. At December 31, 2018 and 2017, $(2,430,019) and $(2,794,570), respectively were deferred against plant in service.

NOTE 6: REVENUE BONDS

Revenue bonds payable at December 31, 2018 and 2017 are summarized below:

	Dec. 31, 2018	Dec. 31, 2017
Electric System Revenue Bonds, Series 2007A, Interest 4.125% to 5.00%, Due Annually in Varying Amounts from Jan. 1, 2018 through Jan. 1, 2020	$ -	$ 485,000
Electric System Revenue Bonds, Series 2008A, Interest 5.00%, Due Annually in Varying Amounts from Jan. 1, 2018 through Jan. 1, 2021	-	23,665,000
Electric System Revenue Bonds, Series 2010A-1, Interest 5.00%, Due Annually in Varying Amounts from Jan. 1, 2019 through Jan. 1, 2020	45,370,000	45,545,000
Electric System Revenue Bonds, Series 2013A, Interest 4.00% to 5.00%, Due Annually in Varying Amounts from Jan. 1, 2023 through Jan. 1, 2031	26,155,000	26,155,000
Electric System Revenue Bonds, Series 2013B, Interest 4.35%, Due Jan. 1, 2022	2,295,000	2,295,000
Electric System Revenue Bonds, Series 2016, Interest 5.00%, Due Annually in Varying Amounts from Jan. 1, 2021 through Jan. 1, 2031	22,375,000	22,375,000
Electric System Revenue Bonds, Series 2017, Interest 4.00% to 5.00%, Due Annually in Varying Amounts from Jan. 1, 2019 through Jan. 1, 2041	59,695,000	59,695,000
Totals	$155,890,000	$180,215,000

Revenue bond debt service requirements to maturity are as follows:

	Principal	Interest	Total
2019	$ 23,865,000	$ 7,703,939	$ 31,568,939
2020	25,025,000	6,528,189	31,553,189
2021	26,505,000	5,276,939	31,781,939
2022	8,210,000	3,951,689	12,161,689
2023	7,265,000	3,556,106	10,821,106
2024-2028	31,825,000	12,696,530	44,521,530
2029-2033	24,100,000	5,034,556	29,134,556
2034-2038	6,290,000	1,545,250	7,835,250
2039-2041	2,805,000	285,000	3,090,000
	$ 155,890,000	$ 46,578,198	$ 202,468,198

The principal and interest on the bonds are payable solely from and secured solely by a pledge of (1) the proceeds of the sale of the bonds to the extent held in special funds established by the Bond Resolution, (2) the revenues of Northern subject to prior payments therefrom of operating expenses and (3) all funds and accounts established by the Bond Resolution permitting the application thereof for the purpose and on the terms and conditions set forth in the Bond Resolution.

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

	Beginning Balance	Net Additions	Net Reductions	Ending Balance
Long-term liabilities, 12/31/18, Revenue bonds	$ 180,215,000	$ -	$ (24,325,000)	$ 155,890,000
Long-term liabilities, 12/31/17, Revenue bonds	$ 184,685,000	$ 59,695,000	$ (64,165,000)	$ 180,215,000

NOTE 7: DEFINED BENEFIT PENSION PLAN

Public Employees Retirement Association

Plan Description

Northern participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and

administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

1. General Employees Retirement Plan (General Employees Plan (accounted for in the General Employees Fund))

All full-time and certain part-time employees of the Agency are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature. Vested Terminated employees who are entitled to benefits, but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

1. General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after July 1, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2% for each of the first 10 years of service and 1.7% for each additional year. The rates are 2.2% and 2.7%, respectively, for Basic members. Under Method 2, the accrual rate for Coordinated members is 1.7% for all years of service, and 2.7% for Basic members. The accrual rates for former Municipal Employees Retirement Fund (MERF) members is 2.0% for each of the first 10 years of service and 2.5% for each additional year. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

Beginning January 1, 2019, benefit recipients will receive a future annual increase equal to 50 percent of the Social Security Cost of Living Adjustment, not less than 1.0 percent and not more than 1.5 percent. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age (not applicable to Rule of 90 retirees, disability benefit recipients, or survivors). A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase.

Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature.

1. General Employees Fund Contributions

Coordinated plan members were required to contribute 6.5 percent of their annual covered salary in fiscal year 2018. The Agency was required to contribute 7.5 percent for Coordinated Plan members. The Agency's contributions to the General Employees Fund for the year ended December 31, 2018, were $18,869.

Pension Costs

At December 31, 2018, the Agency reported a liability of $210,808 for its proportionate share of the General Employees Fund's net pension liability. The Agency's net pension liability reflected a reduction due to the State of Minnesota's contribution of $16 million to the fund in 2018. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the Agency totaled $6,871. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Agency's proportion of the net pension liability was based on the Agency's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017, through June 30, 2018 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the Agency's proportionate share was 0.0038% which was an increase of 0.0002% from its proportion as of June 30, 2017.

Post-retirement benefit increases were changed from 1.0% per year with a provision to increase to 2.5% upon attainment of a 90% funding ratio to 50% of the Social Security Cost of Living Adjustment, not less than 1.0% and not more than 1.5%, beginning January 1, 2019.

For the year ended December 31, 2018, the Agency recognized pension expense of $15,418 for its proportionate share of The General Employees Plan's pension expense. In addition, the Agency recognized an additional $1,602 as pension expense (and grant revenue) for its proportionate share of the state of Minnesota's contribution of $16 million to the General Employees Fund.

At December 31, 2018, the Agency reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 5,298	$5,339
Changes in actuarial assumptions	17,488	22,833
Difference between projected and actual investment earnings	-	23,708
Changes in proportion	24,347	-
Contributions paid to PERA subsequent to the measurement date	9,357	-
Total	$56,490	$51,880

$9,357 reported as deferred outflows of resources related to pensions resulting from Agency contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31	Pension Expense Amount
2019	$15,784
2020	(2,759)
2021	(13,372)
2022	(4,400)

Actuarial Assumptions

The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

The total pension liability for each of the defined benefit cost-sharing plans was determined by an actuarial valuation as of June 30, 2018, using the entry age normal actuarial cost method. Inflation is assumed to be 2.50 percent for the General Employees Plan. Salary growth assumptions in the General Employees Plan decrease in annual increments from 11.25 percent after one year of service, to 3.25 percent after 26 years of service.

Mortality rates for all plans were based on RP-2014 mortality tables. The tables are adjusted slightly to fit PERA's experience. Actuarial assumptions for the General Employees Plan are reviewed every four to six years. The most recent six-year experience study for the General Employees Plan was completed in 2015. Economic assumptions were updated in 2014 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions occurred in 2018:

General Employee Fund

- The mortality project scale was changed from MP-2015 to MP-2017
- The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return using a building block method in which best-estimate ranges of expected future rates of returns are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	36.00%	5.10%
International Stocks	17.00%	5.30%
Bonds	20.00%	0.75%
Alternative Assets	25.00%	5.90%
Cash	2.00%	0.00%

Discount Rate

The discount rate used to measure the total pension liability in 2018 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on this assumption, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of

current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension Liability Sensitivity

The following presents the Agency's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the Agency's proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
Northern's proportionate share of the GERF net pension liability:	$342,591	$210,808	$102,026

Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at **www.mnpera.org.**

NOTE 8: RISK MANAGEMENT

Northern is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and others; and natural disasters. The Reserve and Contingency Fund was established to fund uninsured risks of loss. Reserve and Contingency Fund assets were $1,004,847 and $987,743 at December 31, 2018 and 2017, respectively. There were no outstanding or unpaid claims as of December 31, 2018 and 2017. Northern continues to carry commercial insurance for other risks of loss, including workers' compensation, property and liability, and employee health and accident. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years

NOTE 9: COMMITMENTS AND CONTINGENCIES

The United States Environmental Protection Agency has provided Otter Tail Power Company (the operator of the Coyote Station at Beulah, North Dakota) with a Request to Provide Information Pursuant to the Clean Air Act concerning Coyote and other plants owned or operated by Otter Tail Power Company. The Environmental Protection Agency is requesting the information to determine whether the emission source is complying with the Clean Air Act. Potential penalties could be authorized by the Clean Air Act if violations were noted but since the request is in preliminary stages, it is not possible to predict if any violations and subsequent penalties would be enforced. Northern believes the Coyote Station has been operating in accordance with the Clean Air Act and expects no violations to be found.

NOTE 10: RECLASSIFICATIONS

Northern has evaluated subsequent events through March 8, 2019, the date which the financial statements were available to be issued.

SCHEDULE OF NORTHERN'S CONTRIBUTIONS TO MN PERA RETIREMENT PLAN – LAST 10 YEARS

Year Ended Dec. 31	Pension Plan	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Northern's Covered - Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2015	PERA	$14,232	$14,232	$ -	$189,767	7.50%
2016	PERA	$16,519	$16,519	$ -	$220,247	7.50%
2017	PERA	$18,672	$18,672	$ -	$248,954	7.50%
2018	PERA	$18,869	$18,869	$ -	$251,592	7.50%

The amounts presented for each year were determined as of the Agency's year end, which is December 31st.

Northern implemented GASB Statement No. 68 for its fiscal year ended December 31, 2015. Information for the prior years is not available.

See Note to the Required Supplementary Information

SCHEDULE OF NORTHERN'S SHARE OF THE NET PENSION LIABILITY – LAST 10 YEARS

For the Year Ended Dec. 31	Northern's Proportion of the Net Pension Liability (Asset)	Northern's Proportionate Share of the Net Pension Liability (Asset) (a)	State of Minnesota's Proportionate Share of the Net Pension Liability (if Applicable) (b)	Proportionate Share of the Net Pension Liability and State of Minnesota's Share of the Net Pension Liability (if Applicable (a+b)	Northern's Covered-Employee Payroll	Northern's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015 PERA	0.0031%	$160,658	$ -	$160,658	$189,767	84.66%	78.20%
2016 PERA	0.0033%	$267,944	$3,559	$271,503	$220,247	121.66%	68.90%
2017 PERA	0.0036%	$229,822	$2,920	$232,742	$248,954	92.32%	75.90%
2018 PERA	0.0038%	$210,808	$6,871	$217,679	$251,592	83.79%	79.53%

The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability which is June 30, 2018.

Northern implemented GASB Statement No. 68 and 71 for its fiscal year ended December 31, 2015. Information for the prior years is not available.

See Note to the Required Supplementary Information

NORTHERN MUNICIPAL POWER AGENCY
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF DECEMBER 31, 2018 AND 2017

NOTE 1: GENERAL EMPLOYEES FUND

2018 Changes

Changes in Actuarial Assumptions:

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

2017 Changes

Changes in Actuarial Assumptions:

- The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15.0% for vested deferred member liability and 3.0% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

2016 Changes

Changes in Actuarial Assumptions:

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

2015 Changes

Changes in Plan Provisions:

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by $1.1 billion and increased the fiduciary plan net position by $892 million. Upon consolidation, state and employer contributions were revised.

Changes in Actuarial Assumptions:

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2030 and 2.5 percent per year thereafter to 1.0 percent per year through 2035 and 2.5 percent per year thereafter.

Northern Municipal
Power Agency

123 Second St. W. • Thief River Falls, MN 56701