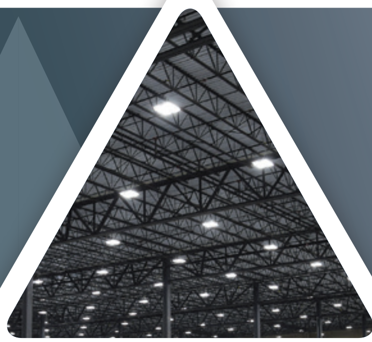
Northern Municipal
POWER AGENCY

POWERING YOUR FUTURE



2019
Annual Report

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% share of the 427,000-kilowatt Coyote Station located near Beulah in western North Dakota. NMPA also owns a load-ratio share (approximately 15%) 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.

CONTENTS

ON THE COVER

On the cover: (Left) As Digi-Key continues its expansion efforts, the company is working closely with Thief River Falls Municipal Utilities to install LED lighting and other energy efficient systems. (Right) Reliable electricity is delivered to the NMPA participants through a network of transmission lines, including this 230-kilovolt (kV) line. Major projects were completed in 2019 to ensure the long-term reliability of these power delivery systems.

NMPA INTRODUCES NEW LOGO, BRANDING

A new decade. A new look. A new logo.

NMPA unveiled its new visual identity at the company's annual meeting held virtually on May 20, 2020. It is believed to be the first branding change for NMPA since the early 1980s.

The logo includes an arrow-like icon pointing north, bold green and blue colors and modern typography. The design aims to be flexible and adaptable to print, digital and textile applications. More importantly, it represents an NMPA that is united with its participants and ready to move forward as the industry faces unprecedented transformation.

"If we want to position NMPA as a utility of the future, it is important that we look the part," said Jasper Schneider, NMPA general manager. "Our new logo better emphasizes our forward-thinking mindset as we strive to grow and drive innovation in our local communities."

OFFICERS, BOARD OF DIRECTORS AND STAFF

Lucas Spaeth
President
Halstad, Minn.

Chris West
Vice President
Grafton, N.D.

Dalene Monsebroten
Secretary-Treasurer

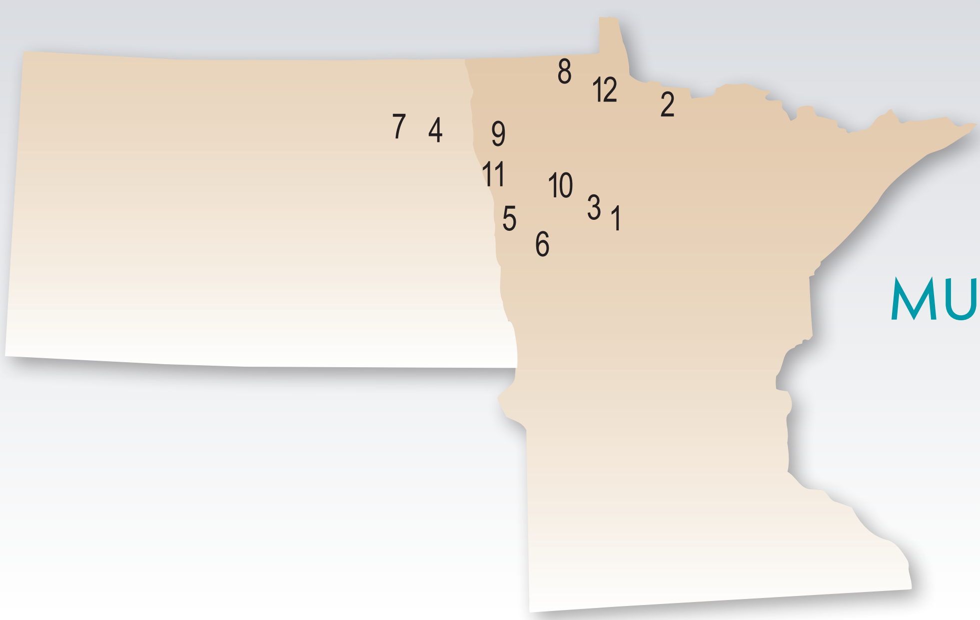
Bill Masterson
Bagley, Minn.

Roger Schotl
Baudette, Minn.

David Larson
Fosston, Minn.

Don Martodam
Hawley, Minn.

Dennis Larson
Park River, N.D.



MUNICIPALITIES SERVED

Todd Peterson
Roseau, Minn.

Todd Bazey
Stephen, Minn.

Dale Narlock
Thief River Falls, Minn.

Shannon Mortenson
Warren, Minn.

Dan Trosen
Warroad, Minn.

Jasper Schneider
General Manager

Yvonne Bergerson
Administrative Assistant

Delray Sparby
Legal Counsel

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

PRESIDENT AND GENERAL MANAGER'S REPORT

Lucas Spaeth
President

Jasper Schneider
General Manager

We recognize the future will be different than the past, but we are grateful to have built strong partnerships to tackle the challenges together and build on the possibilities.

We are pleased to bring you the 2019 Northern Municipal Power Agency (NMPA) annual report. NMPA has a long record of meeting our mission in delivering a reliable, economical and long-term power supply to our member municipalities. While we are proud of our 40-year record, like most industries, the electric utility industry continues to evolve and change. Our focus for this past year has been to manage this change by not only meeting our obligations, but also by preparing for the future. We are very optimistic about the opportunities and grateful for the leadership from our board of directors and the many industry partnerships we have formed.

In the summer of 2019, the NMPA board of directors met for our annual business planning session to discuss strategy around these issues and plan for the future. From that meeting, some clear themes developed including: 1. Managing our generation future; 2. Exploring additional services; 3. Building a strong NMPA.

One of the benefits of NMPA is the longstanding partnership we have with Minnkota Power Cooperative. As our operating agent, Minnkota submitted an Integrated Resource Plan (IRP) in 2019 to the state of Minnesota that outlines the projected energy needs for the NMPA and Minnkota service areas, in addition to where we anticipate that power supply will come from. This forecasting ensures NMPA will continue to meet our mission in delivering power and make necessary business decisions as we explore the generation options of the future. Recently, the NMPA board of directors also put into notice a bylaw change that establishes an additional membership class. We are hopeful that once formally approved, this additional membership class will allow NMPA the flexibility to sell excess power to other municipalities in the region.

NMPA was formed because of the economies of scale we offer in delivering power. We continue to explore what other services NMPA could offer that would provide strength-in-numbers for other services needed in the utility industry. Over the past year, NMPA has begun to lay the foundation for potential additional services such as cybersecurity, electric vehicles and other technologies that enable the modern utility. While delivering power continues to be our core mission, we know that NMPA has the ability to play a leadership role in offering other services where it may provide value.

We also firmly believe that for NMPA to evolve and serve our members for the next 40 years, we must continue to build a stronger organization and boost our efforts in telling the NMPA story. Over the past year, NMPA has implemented a number of items to strengthen our internal policies, improve our communications and provide additional educational opportunities for our directors. We are pleased that a number of new directors were able to attend MMUA and APPA events to network and learn best practices from peer systems around the country. Recently, the NMPA board of directors also took action to establish three additional committees to dive deeper into technology, marketing and policies and procedures. We are confident that the new committees will drive additional director engagement and provide a valuable sounding board for NMPA staff to execute on our business plan.

The Coyote Station continues to be NMPA's largest asset and source of power. Coyote is a lignite-coal-based generating plant located near Beulah, N.D. We are 30% owners along with Otter Tail Power, Montana-Dakota Utilities and Northwestern Energy. The plant has been in operation since 1981 and this past year, it had a planned outage for maintenance that lasted longer than expected due to some unforeseen repairs. Additional information on the Coyote outage and repairs can be found in the Operations Report included in this report. While the plant is fully operational now, the coal industry continues to be challenged by governmental regulations. NMPA works very closely with our state, national and Joint System partners to monitor proposed legislation and advocate where needed.

Through our agreements with Minnkota, the Joint System affords NMPA the opportunity to offer a diverse mix of electric generation to our member municipalities. In addition to coal, we are also able to offer a substantial amount of renewable power through wind and hydro sources as well. NMPA continues to work closely with our co-owners and Minnkota to evaluate our energy needs and plan for the future. In addition to generating the power, transmitting the power in a safe and reliable manner to our communities is also critical. In this regard, NMPA owns a load-ratio share of the Minnkota transmission system. As the operating agent for the transmission, Minnkota has made a number of upgrades to the system to update the infrastructure, reduce outages, improve safety and support industry growth.

As we build the next chapter of NMPA, we also know it is important to maintain a modern look. We are excited to share with you in this report the new NMPA logo and hope you enjoy the new take and fresh direction. Change seems to be the one constant, and we are committed to aligning our strategic direction to ensure that we meet the mission of NMPA while building on some exciting opportunities that are before us. We recognize the future will be different than the past, but we are grateful to have built strong partnerships to tackle the challenges together and build on the possibilities. We hold a lot of gratitude for all of the support and we are thankful to serve as your president and general manager.

Sincerely,

Lucas Spaeth
President

Jasper Schneider
General Manager

Served by

Fosston Municipal Utilities

Fosston, Minn.

- **Town population: 1,508**
- **Meters served: 893**

Keeping it clean

SOAP COMPANY FINDS BIG OPPORTUNITIES IN FOSSTON

By Kaylee Cusack, communications specialist
Minnkota Power Cooperative

A few years back, Pete and Heidi Danos stood in the middle of a busy street fair in a Chicago suburb, their booth filled with an array of bar soaps and their company name displayed loud and proud: DIRTY KNEES SOAP CO.

On the surface, the name was clean. But the Danoses wanted to put the dirty designation to the test.

"We started getting feedback on the name, which came in very different ways," Pete said from under the brim of his Dirty Knees Soap Co. hat. "We had people who would stop by and say, 'Dirty Knees. That's a great name.' Or," he continued, shifting to a jokingly judgmental inflection and single raised eyebrow, "'Dirty Knees?'"

This was the start of the pair's business journey, which began in the Chicago area after the birth of their twins. That's where the name truly came from – chasing around two little crawlers on hands and knees.

"I just started by making a batch of soap and handed it out a little bit and realized, wait a minute, we've got something good," Heidi said.

Once Dirty Knees started getting soap into a few stores in the Chicago area, the Danoses got the itch to move the family to Heidi's hometown of Fosston, Minn., and press the gas pedal on entrepreneurship. Pete admits that he thought it would be harder to build out the brand in a Minnesota town of 1,500. Fosston is one of the 12 municipals served through the NMPA system.

"But then, through strategic efforts, we decided to really focus online," he said. "With the unfortunate trend of brick-and-mortar shops closing down and the big box shops taking over, that trend showed us that we needed to focus on online marketing, online space, newsletters, Facebook, Instagram and things of that nature."

The risk paid off. Soon, Heidi and Pete's "something good" evolved into a booming business of bar soaps, body washes, beard oils, body butters and lotions. Since emphasizing online, the operation has grown a couple hundred percent year over year.

"All the fears were kind of washed away naturally," Pete punned.

Raising the bar

The backyard shop where Heidi crafts and packs creations like Minnesota Wood bar soap, Bare Naked lotion and Bean All Over body butter is unlike any other shop environment. Visitors experience an aromatic mix of earthy spice and clean linens and shelves methodically lined with bottles, boxes and tins marked with the Dirty Knees logo.

When this space came on the market three years ago, it was just in time. After three years back in Fosston, the company landed a wholesale deal with Whole Foods and needed a larger and more efficient production area.

"The way that we positioned the machinery and the processes allows us to do as much as we can, while still keeping the integrity of small batches with limited ingredients, without mass production, so you're still getting top quality," Pete said.

Heidi says her modest ingredient lists allow her to put more of the good stuff in a bottle. Each soap, lotion, body wash and cream contains fewer than 10 ingredients (compared to the average 15-20 in other brands) and, because of the simplicity of the recipes and process, they can keep the customer cost at a boutique bargain.

"We keep our retail prices accessible as we

Dirty Knees creates, bottles and packages all of its products in the Danos family's home in Fosston.

> **"I just started by making a batch of soap and handed it out a little bit and realized, wait a minute, we've got something good."**
> – Heidi Danos, Dirty Knees Soap Co.

Above: Pete and Heidi Danos display a tray of charcoal-swirled Minnesota Wood bar soaps – one of their bestselling products.
Below: The full product line can be ordered through **DirtyKneesSoap.com**.

want to make it available to as many people as possible," Heidi said.

Heidi and Pete's fans have driven the development of their product line. When a friend asked for a lotion that wouldn't irritate her sensitive Scandinavian skin, Heidi whipped it up. When online customers started requesting body wash versions of their favorite bar soap scents, Heidi made it happen.

"Then we had our bearded mascot over here, so we now have beard oil," Heidi said with a glance to bewhiskered Pete. "It's all just grown very organically."

Broadband boost

Dirty Knees Soap Co. couldn't leverage its dynamic customer feedback and engagement without a reliable connection to the internet and electricity.

The Danoses have had reliable internet access since they moved back to Fosston, but things ramped up when Garden Valley Telephone Co. ran a fiber upgrade through town in 2016. The Minnesota cooperative is extending its system even farther now after receiving a $20 million USDA rural broadband loan in 2018, part of a larger nationwide effort to connect rural America to high-speed services.

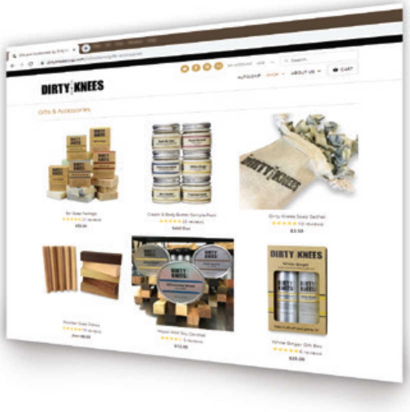
That speed has helped the Dirty Knees duo pick up the pace on the dozen different web-based platforms they need to run and market the business, encompassing the online storefront, bookkeeping/accounting, social media, blogs, newsletters, email tools, etc.

When asked if she could do it all without strong internet, Heidi was matter-of-fact. "It would be impossible," she said. "There's no way I could do it."

With broadband, Dirty Knees sees 75% of its sales from online orders, shipping to all corners of the country with single orders, large store orders and its new subscription service – a popular addition that has grown 150% over last year.

As the business continues to thrive, Pete and Heidi are looking for expansion opportunities. For now, they are happy to be in the heart of rural Minnesota, using their artisanship and tongue-in-cheek style to foster a national Dirty Knees following.

"The name sparks something in people. We do sell a lot in Minnesota, but we're also shipping it all over," Heidi said. "I think of it like buying a Kentucky bourbon in California. We're sending Minnesota Wood all over the place, too!"



SECRETARY-TREASURER'S REPORT

Dalene Monsebroten
Secretary-Treasurer

Our mission to provide an adequate, economical, reliable and long-term supply of electric energy and related services to the 12 municipal participants continues to be the focus of the Northern Municipal Power Agency. NMPA works diligently with our operating agent, Minnkota Power Cooperative, to meet our obligations to the participants in an environmentally and financially responsible manner.

In 2019, the average wholesale rate to participants was 79.09 mills/kilowatt-hour (kWh), a minimal increase from 2018 of .7%. While heating and cooling degree days both saw slight increases, the corresponding energy sales were 1.5% lower than 2018. Technology advancements in energy efficiency have made an impact to the end-use customer's usage. NMPA participants are offered participation in the Joint System's PowerSavers Program. The program continues to meet the state of Minnesota Conservation Improvement Program mandate of 1.5% annual reduction of energy usage. Total sales to participants amounted to 446,011,018 kWh with the number of customers remaining steady.

The amount of revenues received from participants in 2019 of $35,274,242 was also a slight decrease from 2018. Total revenue increased by $4.3 million. This is accounted for with the additional costs incurred for operation and maintenance at the Coyote plant during the scheduled outage. The outage required an extension of approximately seven weeks with the development of additional items to address. This amounted to an increase of approximately $2 million over budgeted capital costs and $2.7 additional O&M expenditures, and notable increases in average cost of net energy production. You will see further information regarding plant operations in the performance report article of this annual report.

With all the additional projects at the plant, it was a very busy year for Otter Tail Power Company as operating agent of the Coyote Station for the Coyote partners. Coyote had zero OSHA recordable accidents in 2019 and over 3 million man hours without a lost-time accident. We are grateful for their diligence in safety efforts and commend Otter Tail for achieving these standards on a continual basis.

The end of 2019 saw outstanding debt amounting to $132,025,000 in fixed-rate bonds. Final maturity of current debt extends to January 2041. NMPA has consistently exceeded the required coverage ratio of 1.1 by incurring a coverage ratio of 1.3 for the past five years. The Agency also continues to meet the reserve obligations set forth by board policy and bond resolutions. In 2019, $23.9 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, 2019, 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.

Our relationships with the NMPA participants and Minnkota Power Cooperative are greatly valued. Our continued success in serving the electrical needs of the customer base in our region is dependent on our joint 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

Bright ideas shine in NMPA cities

The lights are shining brighter and more efficiently at many businesses powered by the NMPA participants.

That's because the companies all had the same bright idea in 2019: upgrade to high-efficiency LED lighting. Working with their local municipal utilities through the PowerSavers program resulted in energy savings, lower bills and better-quality light for employees and customers.

Through PowerSavers, seven Minnesota-based NMPA participants offer a consistent set of energy efficiency programs to residential and business consumers. Incentives are provided for the installation of qualifying equipment or systems.

One of the fastest and easiest ways for a home or business to use energy more wisely is by switching to LED lighting. LEDs typically use about 80% less energy than traditional lighting solutions.

Two of the largest lighting projects completed within the NMPA system in 2019 were at Walmart and Digi-Key in Thief River Falls, Minn. Walmart completed a major upgrade of its lighting resulting in 369,623 kilowatt-hours (kWh) saved annually. At Digi-Key, progress was made during the year on the company's 1-million-square-foot expansion. The global electronic components distributor installed new lighting that will save 95,236 kWh annually.

In Warren, Minn., North Star Manor's assisted living and long-term care facilities installed LED lighting and realized 135,191 kWh in annual savings.

Variable Frequency Drives (VFDs) are another popular energy-efficiency solution for businesses. The systems control the speed of electric motors and help reduce the amount of energy drawn by the motor. In Fosston, Minn., J. Rettenmaier installed VFDs in its facility, which will result in 65,858 kWh saved. The company researches and processes organic fibers from plant-based materials.

In addition to supporting consumers in meeting their energy usage goals, PowerSavers helps the participating NMPA and Minnkota utilities comply with Minnesota's Conservation Improvement Program (CIP) requirements. In 2019, NMPA worked closely with its partners to advocate for reforms to the program, which include moving away from an energy savings program and toward a program that incorporates total energy efficiency and new technologies, like electric vehicles. A bill passed the Senate during the 2019 legislative session, but an agreement with the House version of the bill could not be reached. CIP reform will be a key focus during the state's 2020 legislative session.

LED lights shine in Digi-Key's new production distribution center. The company is in the midst of a major expansion project, which is scheduled to be completed in 2021.

2019 NMPA POWERSAVERS SUMMARY

Power SAVERS
Working together to save energy

	Incentives Paid	kWh Savings
Bagley Public Utilities	$ 8,588.11	148,278
Baudette Public Utilities	10,838.00	202,762
Fosston Public Utilities	13,472.66	310,869
Hawley Municipal Utilities	7,060.91	76,302
Roseau Municipal Utilities	13,768.14	193,716
Thief River Falls Municipal	47,738.92	836,852
Warren Municipal Utilities	15,888.89	272,900
Totals	$117,355.63	2,041,679

PERFORMANCE REPORT

Production in the Coyote Station facility in 2019 was impacted by the plant's regularly scheduled three-year maintenance outage, which was projected to last from late March to early June. During this outage period, it was discovered that there was an issue with cracked blades on the high-pressure turbine rotor. New blades had to be manufactured overseas, reinstalled in the rotor at a facility in Charlotte, N.C., and then the entire rotor shipped back to the plant. In addition to fixing the turbine, many other important projects and routine maintenance were completed during the outage.

This turbine issue extended the outage into early July. The total time of the outage was approximately 104 days. Due to the length of this outage, the plant only had an availability factor of 67.67% (5,928 hours out of a possible 8,760 hours) in 2019. By comparison, the average yearly availability over the past 30 years is 85.21%. This translates to an availability factor that is 17.27% lower than the 30-year average.

As a direct result of the maintenance outage rotor blade issue, gross generation decreased by 1,062,499,099 kWh or 48.69% below that of 2018, resulting in a capacity factor of only 54.88%, which is significantly below the 30-year average capacity factor of 75.61%. Outside of the extended and overbudget major outage, the plant ran quite well the remainder of the year.

Plant employees have maintained their excellent safety record. There were no OSHA recordable incidents or lost-time injuries experienced in 2019. There has been emphasis on hiring and training, closely monitoring and evaluating boiler performance and operation, and a great effort to bring costs down as much as possible.

The generator floor was a center for activity as the Coyote Station underwent major turbine repairs during its 2019 outage.

Disassembled parts from the Coyote Station's turbine and generator are organized on the floor as major turbine repairs are completed.

ENGINEERING REPORT

The 1981, 1985, 1989, 1992, 1997, 1998, 2002, 2007, 2008, 2009, 2010, 2013, 2016 and 2017 Bond Prospectuses 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 versus fiscal year projections.

The 2019 system peak of 92,015 kilowatt (kW) is 910 kW more than that of the 2018 yearly peak of 91,105 kW. The corresponding 2019 kilowatt-hour (kWh) energy sales total of 446,011,018 kWh is 6,690,877 kWh less than the 452,701,895 kWh sold in 2018. This decrease in energy sales comes after a slight increase in sales from 2017 to 2018 and puts sales back to just slightly above 2017 levels.

2019 heating degree days increased moderately from that of 2018. This increase in heating degree days did not result in increased energy sales, as 2019's total sales fell by 1.48% over 2018 levels. The annual average heating degree days since the Coyote Station began operations (1982-2019) is 9,559 degree days with 2019 registering 10,464 degree days or 9.47% above the 38-year average. 2019's degree days value is the highest it has been seen since the 11,280 degree days value recorded in 1996. The normal heating months of October through March saw 12.23% more heating degree days than that same period of 2018.

The Coyote Station was operated during 2019 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, 2019, totaled $92,140,442.24 with the Agency share totaling $27,714,518.86 or an average cost of 44.66 mills per kWh. The average cost of net energy production for the total plant rose to 44.69 mills per kWh, up from 30.30 mills per kWh in 2018. This reflects an increase in average cost of net energy production of 47.49%.

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 2019, the Agency participant's wholesale cost of power (average cost per kWh) increased 0.54 mills or 0.7% from 78.55 mills in 2018 to 79.09 mills in 2019. The 12 NMPA participants experienced varying average wholesale power cost changes ranging from -0.82 to +2.51 mills/kWh.

The funds advanced by NMPA during 2019 for the operation of the Coyote Station equaled $34,190,108 of the total of $113,700,000 funds advanced by the entire group of Station owners. NMPA participants contributed $35,229,641 in revenue of the total of $67,850,997 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 expenses.

The Power Supply Coordination Agreement between Minnkota Power Cooperative, Inc., and NMPA provides for capital credits to be allocated to the Agency whenever such credits are allocated to other Minnkota members. For 2019, the total Minnkota operating margin was $11,714,000 (after revenue deferral), less the nonoperating margin of $8,725,254, leaving a total net operating margin to offset prior year losses of $2,988,746. 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. In 2018, the cumulative operating loss of $2,956,745 dating back to 2015 was retired, enabling the 2019 net operating margin of $32,001 to be allocated. The Agency's share was $3,231.

COYOTE OPERATING STATISTICS

	2019	2018	2017
Hours of Operation	5,951	7,854	7,451
Hours of Outage	2,809	906	1,309
Plant Availability (Percent)	67.9	89.7	85.1
Gross Generation – Total (MWh)	2,182,257,000	3,244,766	2,778,798
Net Generation – Total (MWh)	2,052,712,000	3,063,293	2,616,371
Fuel Burned – Coal (Tons)	1,701,981	2,501,699	2,154,856
Fuel Burned – Fuel Oil (Gallons)	569,136	807,222	1,079,680

Rebuilding for reliability

2019 LINE REBUILD PROJECT IMPROVES SERVICE TO THE CITY OF ROSEAU

Nearly 20,000 feet of power line conductor sped off a reel toward the sky during a sunny morning in August 2019 south of Roseau, Minn.

Lineworkers were stringing the aluminum wire as part of a complete rebuild of 15 miles of 69-kilovolt (kV) transmission line. Crews disassembled the aging line earlier that summer before setting and stringing the new wooden structures placed about 350 feet apart. The line was operational by the end of summer 2019.

Minnkota employees work on the Malung to Stafford line section.

Northern Municipal Power Agency owns a load-ratio share of the Minnkota transmission system, which provides service to the 12 participating municipal utilities. Line rebuild projects will become a summer routine in upcoming years as Minnkota begins to wind down its blink outage mitigation projects. A multiyear effort, blink mitigation included adding technologies to more than 1,000 miles of existing lines to limit exposure to momentary outages. While reliability and performance could be improved on some existing lines through blink mitigation, others were identified as needing a full rebuild.

The rebuilds started in 2018 with improvements in the Fargo and Lakota, N.D., areas. Nearly 100 miles of line is scheduled to be rebuilt by 2022.

"At a cost of about $5.5 million, the Roseau-area project provides the city and the surrounding region with better reliability," said John Thompson, project lead. It included the replacement of a 3-mile stretch of 69-kV line from the Malung switch to the Stafford switch and a 12-mile stretch of 69-kV line from Stafford to the Badger substation.

"We've been doing a lot of blink mitigation," Thompson said. "Now these are some of the early projects for total rebuild. It will increase the capacity and reduce the blinks because of the added overhead shield wire for lightning protection."

Better design

At an average height of 60 feet, the new standard 69-kV transmission structure in the Joint System is about 20 feet taller than the original structures. In addition to an improved structure design and new conductor, the project will include static wire to protect from lightning strikes.

The line's original copper wire was being replaced with aluminum wire, which meets Minnkota standards. Overhead copper lines are among the

Mike Howard, Minnkota electrician, hooks up conductor on the Malung switch.

oldest on the Joint System and have increased maintenance requirements. All copper conductor on the Joint System will be replaced by 2022.

"The copper wire is going to be stored for security as it comes down," Thompson said. "It will be salvaged based on the weight."

As operating agent, Minnkota took on a large share of the project itself in the Roseau area, with contractors helping with such items as framing of the structures and material handling and kitting. The Minnkota Transmission Department set and installed wire on all the structures.

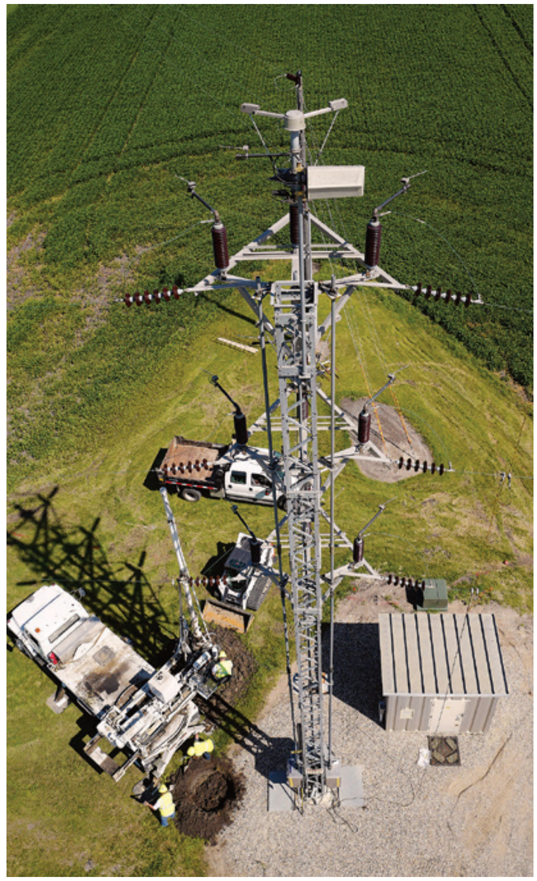
Minnkota also is resetting the Stafford switch during construction, moving it several feet to the west and adding height to the structure to make room for the static wire.

The new conductor was strung with a four-drum puller, which has its own engine that drives the drum. It is equipped with rope used as the pulling line. The line was pulled through the travelers in the sag section and attached to the conductor. The conductor was then pulled in by winding the pulling line back onto the drum.

Minnkota's 69-kV rebuild program utilizes the 69-kV Transmission System Study, which is completed by the Transmission Planning Department every five years.

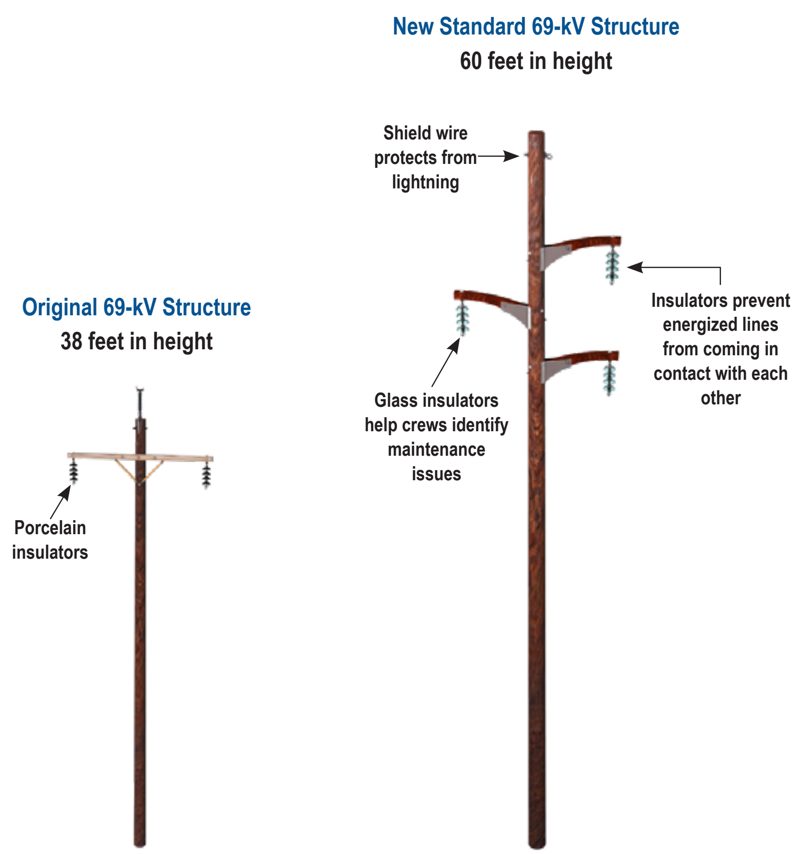
The study reviews several factors, including the capacity, performance, condition and age of every 69-kV transmission line in the Joint System. The 69-kV rebuild program team annually reviews the proposed projects from the study to recommend the priority order.

The Joint System hopes to rebuild about 20-30 miles of line per year at an annual cost of $6-7 million.



As part of the line rebuild efforts near Roseau, Minn., crews also had to make modifications to the Stafford switch to accommodate the new, taller structures.

Nick Bye, Minnkota lineworker, holds a piece of conductor during line-stringing activities south of Roseau, Minn.



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, 2019 and 2018. 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

	2019	2018	2017	2019 vs 2018 Dollar Change	2019 vs 2018 Percent Change
Net Utility Plant	$ 71,283,018	$ 86,330,376	$104,734,947	$ (15,047,358)	(17.4)
Current Assets	72,330,115	76,372,302	83,186,152	(4,042,187)	(5.3)
Total Assets	143,613,133	162,702,678	187,921,099	(19,089,545)	(11.7)
Deferred Outflows of Resources	27,549	56,490	75,338	(28,941)	(51.2)
Current Liabilities	36,399,939	30,471,480	31,834,176	5,928,459	19.5
Long-term Liabilities	107,182,448	132,235,808	156,119,822	(25,053,360)	(18.9)
Total Liabilities	143,582,387	162,707,288	187,953,998	(19,124,901)	(11.8)
Deferred Inflows of Resources	58,295	51,880	42,324	6,415	12.4
Net Investment in Capital Assets	(60,741,982)	(69,559,624)	(75,480,053)	8,817,642	12.7
Restricted by Bond Agreements	59,061,916	62,795,190	69,638,427	(3,733,274)	(5.9)
Unrestricted	1,680,066	6,764,434	5,841,626	(5,084,368)	(75.2)
Total Net Position	$ -	$ -	$ -	$ -	-

Condensed statements of net position highlights are as follows:

- Net utility plant decreased by approximately $15.0 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 $15.0 million decrease in net utility plant is mainly due to an additional year's depreciation.
- Current assets decreased by approximately $4.0 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 increased by approximately $5.9 million primarily due to Northern's share of 2019 transmission property additions to Minnkota in December 2019.
- Revenue bonds, net of current maturities, decreased by approximately $25.0 million. The decrease is due to scheduled bond principal payments made in 2019.
- 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 Association net pension liability.

The following table summarizes the changes in financial position of Northern for the years ended December 31, 2019, 2018 and 2017:

Condensed Statements of Revenues and Costs

	2019	2018	2017	2019 vs 2018 Dollar Change	2019 vs 2018 Percent Change
Revenues	$67,850,997	$ 63,531,331	$ 61,699,156	$ 4,319,666	6.8
Operating Costs	$61,322,808	$ 55,826,892	$ 54,028,293	$ 5,495,916	9.8
Interest	6,528,189	7,704,439	7,670,863	(1,176,250)	(15.3)
Total Costs	$67,850,997	$ 63,531,331	$ 61,699,156	$ 4,319,666	6.8

Condensed statements of revenues and costs highlights are as follows:

- Total revenues increased by $4.3 million. Revenues from exempt sales to public authorities and other income decreased by $5.0 million. Revenues from participants decreased by $0.3 million and revenues from Minnkota Power Cooperative, Inc. (Minnkota) increased by $9.6 million. Revenues from exempt sales to public authorities and other income decreased primarily due to lower surplus sales from the Coyote plant. Revenues from participants remained consistent with last year. Revenues from Minnkota were up primarily due to there being more Coyote plant costs in 2019 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 $5.5 million. Total operating costs include fuel and operating and 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 increased $1.2 million due to higher bond principal payments. Operation and maintenance expense increased by $5.6 million due in part to the outage maintenance in 2019 and fuel decreased by $1.2 million mainly due to a decrease in net generation in 2019.
- Interest expense decreased by $1.2 million in 2019.

Debt Administration

As of December 31, 2019, Northern had debt outstanding of approximately $132.0 million, a decrease of approximately $23.9 million from December 31, 2018. Northern made scheduled bond principal payments of $23.9 million on January 2, 2019. 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, 2019 and 2018

Assets and Deferred Outflows of Resources	2019	2018
UTILITY PLANT		
Plant in Service	$ 367,782,871	$ 363,116,529
Transmission System	61,795,277	56,483,977
Total	429,578,148	419,600,506
Accumulated Depreciation	(358,295,130)	(333,270,130)
Net Utility Plant	71,283,018	86,330,376
CURRENT ASSETS		
Cash	999,749	910,079
Investments – Unrestricted	5,805,959	5,688,396
Investments – Restricted	62,326,011	66,647,160
Accounts Receivable – Participants	3,198,396	3,126,667
Total Current Assets	72,330,115	76,372,302
TOTAL ASSETS	143,613,133	162,702,678
DEFERRED OUTFLOWS OF RESOURCES		
Cost Sharing Defined Benefit Pension Plan	27,549	56,490

Liabilities, Deferred Inflows of Resources and Net Position	2019	2018
LONG-TERM LIABILITIES		
Revenue Bonds, Net of Current Maturities	107,000,000	132,025,000
Net Pension Liability	182,448	210,808
Total Long Term Liabilities	107,182,448	132,235,808
CURRENT LIABILITIES		
Accounts Payable		
Participants	999,749	910,079
Minnkota Power Cooperative, Inc.	7,111,095	1,844,431
Accrued Interest	3,264,095	3,851,970
Current Maturities of Revenue Bonds	25,025,000	23,865,000
Total Current Liabilities	36,399,939	30,471,480
TOTAL LIABILITIES	143,582,387	162,707,288
DEFERRED INFLOWS OF RESOURCES		
Cost Sharing Defined Benefit Pension Plan	58,295	51,880
NET POSITION		
Net Investment in Capital Assets	(60,741,982)	(69,559,624)
Restricted by Bond Agreements	59,061,916	62,795,190
Unrestricted	1,680,066	6,764,434
Total Net Position	$ -	$ -

See Notes to the Financial Statements.

STATEMENTS OF REVENUES AND COSTS

For the years ended December 31, 2019 and 2018

	2019	2018
REVENUES		
Participants	$ 35,229,641	$ 35,515,430
Minnkota Power Cooperative, Inc.	23,246,220	13,602,730
Exempt Sales to Public Authorities and Other Income	9,375,136	14,413,171
Total	$ 67,850,997	$ 63,531,331
COSTS		
Plant Operations		
Fuel	$ 17,996,427	$ 19,194,411
Operation and Maintenance	16,193,681	10,572,036
Transmission Operations	1,437,240	1,508,369
Administrative Expense	670,460	687,076
Depreciation	25,025,000	23,865,000
Total	61,322,808	55,826,892
Interest	6,528,189	7,704,439
Total	$ 67,850,997	$ 63,531,331

See Notes to the Financial Statements.

POWER SOURCES AND ENERGY SALES

	2019	2018	2017
NMPA Coyote Net Generation Delivered (kWh)	613,521,750	905,979,000	790,401,800
Energy Sales: (kWh)			
Municipal Participants	446,011,018	452,701,895	442,681,058
Other Entities	167,510,732	453,277,105	347,720,742
	613,521,750	905,979,000	790,401,800

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Participants	$ 35,202,512	$ 35,693,813
Receipts from Minnkota Power Cooperative, Inc.	28,437,797	11,347,813
Receipts from Other Public Authorities	7,416,132	13,292,890
Receipts from Others	578,565	586,889
Receipt of Interest	1,284,903	852,672
Payments for Fuel	(17,996,427)	(19,194,411)
Payments for Operating and Maintenance	(16,193,681)	(10,572,036)
Payments for Transmission Operations	(1,437,240)	(1,508,369)
Payments for Interest	(7,116,064)	(7,552,145)
Payments for Administrative Expense	(580,789)	(636,044)
Net Cash Provided (Used) by Operating Activities	29,595,708	22,311,072
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal Paid on Debt	(23,865,000)	(24,325,000)
Addition to Utility Plant	(9,844,625)	(4,666,695)
Net Cash Provided (Used) by Capital and Related Financing Activities	(33,709,625)	(28,991,695)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Investments	151,879,747	109,138,961
Purchase of Investments	(147,676,160)	(102,407,307)
Net Cash Provided (Used) By Investing Activities	4,203,587	6,731,654
INCREASE IN CASH	89,670	51,031
CASH AT BEGINNING OF YEAR	910,079	859,048
CASH AT END OF YEAR	$ 999,749	$ 910,079
CASH FLOWS FROM OPERATING ACTIVITIES		
Depreciation	$ 25,025,000	$ 23,865,000
Deferred Charges	(126,022)	(784,344)
Change in Current Assets and Liabilities:		
Accounts Receivable	(71,729)	133,112
Accounts Payable	5,356,334	(1,054,991)
Accrued Interest	(587,875)	152,295
Net Cash Provided (Used) by Operating Activities	$ 29,595,708	$ 22,311,072

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	1,422	792	26,009,928	$ 2,078,934	79.93
Baudette	1,106	789	22,093,368	1,784,594	80.78
Fosston	1,508	863	32,245,407	2,487,253	77.14
Grafton	4,324	2,282	55,240,702	4,330,931	78.40
Halstad	597	318	8,717,475	742,514	85.18
Hawley	2,236	1,165	20,897,688	1,741,779	83.35
Park River	1,403	822	20,088,921	1,681,727	83.71
Roseau	2,855	1,345	38,543,566	3,147,907	81.67
Stephen	646	360	7,594,725	645,417	84.98
Thief River Falls	8,722	5,025	137,771,573	11,035,419	80.10
Warren	1,563	823	18,119,042	1,546,669	85.36
Warroad	1,871	969	58,688,623	4,051,098	69.03
TOTAL	28,253	15,553	446,011,018	$35,274,242	79.09

FINANCIAL COVERAGE RATIOS

City	2019	2018	2017	2016	2015
Bagley	1.12	1.14	1.15	1.11	1.09
Baudette	1.11	1.16	1.31	1.33	1.30
Fosston	1.21	1.14	1.19	1.19	1.08
Grafton	1.33	1.32	1.23	1.08	1.12
Halstad	1.22	1.23	1.11	1.22	1.23
Hawley	1.16	1.14	1.18	1.16	1.27
Park River	1.06	1.11	1.08	1.03	1.07
Roseau	1.30	1.30	1.28	1.29	1.29
Stephen*	1.25	1.15	1.06	1.06	1.19
Thief River Falls	1.29	1.20	1.16	1.23	1.13
Warren	.99	.96	.95	.93	.95
Warroad	1.13	1.10	1.08	1.23	1.10
Average	1.18	1.16	1.16	1.16	1.17
NMPA	1.30	1.30	1.29	1.28	1.38

(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, 2019, 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 2019	Dec. 31 2018
Unrestricted:		
Cash – Working Fund	$ 999,749	$ 910,079
Operating Fund	2,379,084	2,341,644
General Reserve Fund	2,395,070	2,341,905
Reserve and Contingency Fund	1,031,805	1,004,847
Total Unrestricted	6,805,708	6,598,475
Restricted:		
Debt Service Reserve Account	10,051,382	9,896,446
Rate Stabilization Fund	6,252,326	6,100,433
Cost of Issuance Fund	-	15,138
2013 Plant Additions Fund	10	7,702
2017 Coyote Project Construction Fund	3,457,084	8,956,652
2017 Plant Additions Fund	14,076,120	13,760,325
Bond Fund Interest Account	25,629,883	3,210,602
Bond Fund Principal Account	176,487	24,699,862
2013 Bond Fund Series	674,719	-
2016 Bond Fund Series	559,375	-
2017 Bond Fund Series	1,448,625	-
Total Restricted	62,326,011	66,647,160
Total Cash and Investments	$69,131,719	$73,245,635

The funds consist of $68,131,970 of investment securities and $999,749 of cash deposits at December 31, 2019, and $72,335,556 of investment securities and $910,079 of cash deposits at December 31, 2018.

As of December 31, 2019 and 2018, Northern had the following investments:

		Fair Value Measurements Using				
	12/31/19	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	$37,505,541	$37,505,541	$ -	$ -	N/A	N/A
Certificate of Deposit	$22,595,988	$22,595,988	$ -	$ -	N/A	N/A
Debt Securities						
Federal Home Loan Mortgage Corp.	2,019,982	-	2,019,982	-	Aaa	Moody's
Federal National Mortgage	6,010,459	-	6,010,459	-	Aaa	Moody's
Total Investments by Fair Value Level	$68,131,970	$60,101,529	$ 8,030,441	$ -		

		Fair Value Measurements Using				
	12/31/18	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 12/31/19				
Plant in Service	$ 363,116,529	$ 4,615,407	$ 50,935	$ 367,782,871
Transmission System	56,483,977	5,311,300	-	61,795,277
Total Utility Plant	419,600,506	9,926,707	50,935	429,578,148
Less Accumulated Depreciation	(333,270,130)	(25,025,000)	-	(358,295,130)
Net Utility Plant	$ 86,330,376	$(15,098,293)	$ 50,935	$ 71,283,018
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

The Electric System Revenue Bond Resolution requires that revenues equal costs. At December 31, 2019 and 2018, $(2,497,341) and $(2,439,409), respectively were deferred against plant in service.

NOTE 6: REVENUE BONDS

Revenue bonds payable at December 31, 2019 and 2018 are summarized below:

	Dec. 31, 2019	Dec. 31, 2018
Electric System Revenue Bonds, Series 2010A, Interest 2.5% to 5.00%, Due Annually in Varying Amounts from January 1, 2012 through January 1, 2020	$ 23,255,000	$ 45,370,000
Electric System Revenue Bonds, Series 2013A, Interest 4.13% to 5.00%, Due Annually in Varying Amounts from January 1, 2023 through January 1, 2031	26,155,000	26,155,000
Electric System Revenue Bonds, Series 2013B, Interest 4.35%, Due January 1, 2022	2,295,000	2,295,000
Electric System Revenue Bonds, Series 2016, Interest 5.00%, Due Annually in Varying Amounts from January 1, 2021 through January 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 January 1, 2019 through January 1, 2041	57,945,000	59,695,000
Totals	$ 132,025,000	$ 155,890,000

Revenue bond debt service requirements to maturity are as follows:

	Principal	Interest	Total
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	7,635,000	3,192,856	10,827,856
2025-2029	30,975,000	11,135,730	42,110,730
2030-2034	18,785,000	3,857,250	22,642,250
2035-2039	5,710,000	1,230,750	6,940,750
2040-2041	1,915,000	144,750	2,059,750
	$ 132,025,000	$ 38,874,259	$ 170,899,259

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, 2019 and 2018 was as follows:

	Beginning Balance	Net Additions	Net Reductions	Ending Balance
Long-term liabilities, 12/31/19, Revenue bonds	$ 155,890,000	$ -	$ (23,865,000)	$ 132,025,000
Long-term liabilities, 12/31/18, Revenue bonds	$ 180,215,000	$ -	$ (24,325,000)	$ 155,890,000

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 2019. 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, 2019, were $19,573.

Pension Costs

At December 31, 2019, the Agency reported a liability of $182,448 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 2019. 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 $5,666. The net pension liability was measured as of June 30, 2019, 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, 2018, through June 30, 2019 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019, the Agency's proportionate share was 0.0033% which was a decrease of 0.0005% from its proportionate share measured as of June 30, 2018.

For the year ended December 31, 2019, the Agency recognized pension expense of $9,183 for its proportionate share of The General Employees Plan's pension expense. In addition, the Agency recognized an additional $424 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, 2019, 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	$ 5,288	$ -
Changes in actuarial assumptions	-	15,636
Difference between projected and actual investment earnings	-	21,856
Changes in proportion	12,474	20,803
Contributions paid to PERA subsequent to the measurement date	9,787	-
Total	$27,549	$58,295

$9,787 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, 2020. 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
2020	(9,525)
2021	(20,138)
2022	(11,166)
2023	296

Actuarial Assumptions

The total pension liability in the June 30, 2019 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%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25 percent per year for the General Employees Plan.

Actuarial assumptions used in the June 30, 2019 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was complete in 2019. Economic assumptions were updated in 2018 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions and plan provisions occurred in 2019:

General Employee Fund

Changes in Actuarial Assumptions:

- The mortality projection scale was changed from MP-2017 to MP-2018

Changes in Plan Provisions:

- The employer supplemental contribution was changed prospectively, decreasing from $31.0 million to $21.0 million per year. The State's special funding contribution was changed prospectively, requiring $16.0 million due per year through 2031.

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	35.50%	5.10%
International Stocks	25.00%	5.90%

Bonds	20.00%	0.75%
Alternative Assets	17.50%	5.90%
Cash	2.00%	0.00%

Discount Rate

The discount rate used to measure the total pension liability in 2019 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:	$299,937	$182,448	$85,440

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 $1,031,805 and $1,004,847 at December 31, 2019 and 2018, respectively. There were no outstanding or unpaid claims as of December 31, 2019 and 2018. 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: NEW ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 87, Leases, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

GASB Statement No. 91, Conduit Debt Obligations, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement clarifies the existing definition of a conduit debt obligation; establishes that a conduit debt obligation is not a liability of the issuer; establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improves required note disclosures. This Statement also addresses arrangements – often characterized as leases—that are associated with conduit debt obligations. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

GASB Statement No. 92, Omnibus 2020, provides additional guidance to improve consistency of authoritative literature by addressing practice issues identified during the application of certain GASB statements. This statement provides accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activity of public entity risk pools, fair value measurements and derivative instruments. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

Management has not yet determined what effect these statements will have on the entity's financial statements.

NOTE 11: SUBSEQUENT EVENT

Northern has evaluated subsequent events through March 17, 2020, 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%
2019	PERA	19,573	19,573	-	260,973	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%
2019 PERA	0.0033%	182,448	5,666	188,114	260,973	69.91%	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, 2019.

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, 2019 AND 2018

NOTE 1: GENERAL EMPLOYEES FUND

2019 Changes

Changes in Actuarial Assumptions:

- The mortality projection scale was changed from MP-2017 to MP-2018.

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.

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, 2019 and 2018, 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, 2019 and 2018, 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 17, 2020

Northern Municipal
POWER AGENCY
120 2nd St. W. • Thief River Falls, MN 56701