

**NORTHERN MUNICIPAL POWER AGENCY
THIEF RIVER FALLS, MINNESOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

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NORTHERN MUNICIPAL POWER AGENCY
ROSTER OF BOARD OFFICIALS
FOR THE YEAR ENDED DECEMBER 31, 2019

Participants

Bagley, Minnesota
Baudette, Minnesota
Fosston, Minnesota
Grafton, North Dakota
Halstad, Minnesota
Hawley, Minnesota
Park River, North Dakota
Roseau, Minnesota
Stephen, Minnesota
Thief River Falls, Minnesota
Warren, Minnesota
Warroad, Minnesota

Representatives

Bill Masterson
Roger Schotl
David Larson
Chris West
Lucas Spaeth
Don Martodam
Dennis Larson
Todd Peterson
Todd Bazey
Dale Narlock
Shannon Mortenson
Dan Trosen

President

Lucas Spaeth

Vice-President

Chris West

Secretary-Treasurer

Dalene Monsebroten

General Manager

Jasper Schneider

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
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

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	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	\$ -	\$ -	\$ -	\$ -	-

NORTHERN MUNICIPAL POWER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

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

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

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.

NORTHERN MUNICIPAL POWER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

- Total operating costs increased by \$5.5 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 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.

NORTHERN MUNICIPAL POWER AGENCY
STATEMENTS OF NET POSITION
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	<u>61,795,277</u>	<u>56,483,977</u>
Total	429,578,148	419,600,506
Accumulated Depreciation	<u>(358,295,130)</u>	<u>(333,270,130)</u>
Net Utility Plant	<u>71,283,018</u>	<u>86,330,376</u>
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	<u>3,198,396</u>	<u>3,126,667</u>
Total Current Assets	<u>72,330,115</u>	<u>76,372,302</u>
TOTAL ASSETS	<u>143,613,133</u>	<u>162,702,678</u>
DEFERRED OUTFLOWS OF RESOURCES		
Cost Sharing Defined Benefit Pension Plan	<u>27,549</u>	<u>56,490</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
LONG TERM LIABILITIES		
Revenue Bonds, Net of Current Maturities	107,000,000	132,025,000
Net Pension Liability	<u>182,448</u>	<u>210,808</u>
Total Long Term Liabilities	<u>107,182,448</u>	<u>132,235,808</u>
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	<u>25,025,000</u>	<u>23,865,000</u>
Total Current Liabilities	<u>36,399,939</u>	<u>30,471,480</u>
TOTAL LIABILITIES	<u>143,582,387</u>	<u>162,707,288</u>
DEFERRED INFLOWS OF RESOURCES		
Cost Sharing Defined Benefit Pension Plan	<u>58,295</u>	<u>51,880</u>
NET POSITION		
Net Investment in Capital Assets	(60,741,982)	(69,559,624)
Restricted by Bond Agreements	59,061,916	62,795,190
Unrestricted	<u>1,680,066</u>	<u>6,764,434</u>
Total Net Position	<u>\$ -</u>	<u>\$ -</u>

See notes to the financial statements

NORTHERN MUNICIPAL POWER AGENCY
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

NORTHERN MUNICIPAL POWER AGENCY
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

NORTHERN MUNICIPAL POWER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2019 AND 2018

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:

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

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.

NORTHERN MUNICIPAL POWER AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2019 AND 2018

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.

NORTHERN MUNICIPAL POWER AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2019 AND 2018

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.

NORTHERN MUNICIPAL POWER AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2019 AND 2018

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:

	December 31, 2019	December 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				Rating	Agency
	12/31/2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
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	\$ -		

NORTHERN MUNICIPAL POWER AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2019 AND 2018

	Fair Value Measurements Using				Rating	Agency
	12/31/2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
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	<u>\$ 72,335,556</u>	<u>\$ 62,582,690</u>	<u>\$ 9,752,866</u>	<u>\$ -</u>		

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.

NORTHERN MUNICIPAL POWER AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2019 AND 2018

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 Deprec.	(333,270,130)	(25,025,000)	-	(358,295,130)
Net Utility Plant	<u>\$ 86,330,376</u>	<u>\$ (15,098,293)</u>	<u>\$ 50,935</u>	<u>\$ 71,283,018</u>
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 Deprec.	(309,405,130)	(23,865,000)	-	(333,270,130)
Net Utility Plant	<u>\$ 104,734,947</u>	<u>\$ (18,040,020)</u>	<u>\$ (364,551)</u>	<u>\$ 86,330,376</u>

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:

	December 31, 2019	December 31, 2018
Electric System Revenue Bonds, Series 2010A-1, Interest 2.50% 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	<u>57,945,000</u>	<u>59,695,000</u>
Totals	<u>\$ 132,025,000</u>	<u>\$ 155,890,000</u>

NORTHERN MUNICIPAL POWER AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2019 AND 2018

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
	<u>\$ 132,025,000</u>	<u>\$ 38,874,259</u>	<u>\$ 170,899,259</u>

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.

NORTHERN MUNICIPAL POWER AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2019 AND 2018

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.

NORTHERN MUNICIPAL POWER AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2019 AND 2018

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:

NORTHERN MUNICIPAL POWER AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2019 AND 2018

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:

NORTHERN MUNICIPAL POWER AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2019 AND 2018

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.

NORTHERN MUNICIPAL POWER AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2019 AND 2018

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

NORTHERN MUNICIPAL POWER AGENCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2019 AND 2018

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.

NORTHERN MUNICIPAL POWER AGENCY
SCHEDULE OF NORTHERN'S CONTRIBUTIONS TO MN PERA RETIREMENT PLAN
LAST 10 YEARS

Year Ended December 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

NORTHERN MUNICIPAL POWER AGENCY
SCHEDULE OF NORTHERN'S SHARE OF THE NET PENSION LIABILITY
LAST 10 YEARS

For the Year Ended December 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.