



POWERING YOU



**2021
Annual Report**

NORTHERN MUNICIPAL POWER AGENCY

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.

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ON THE COVER

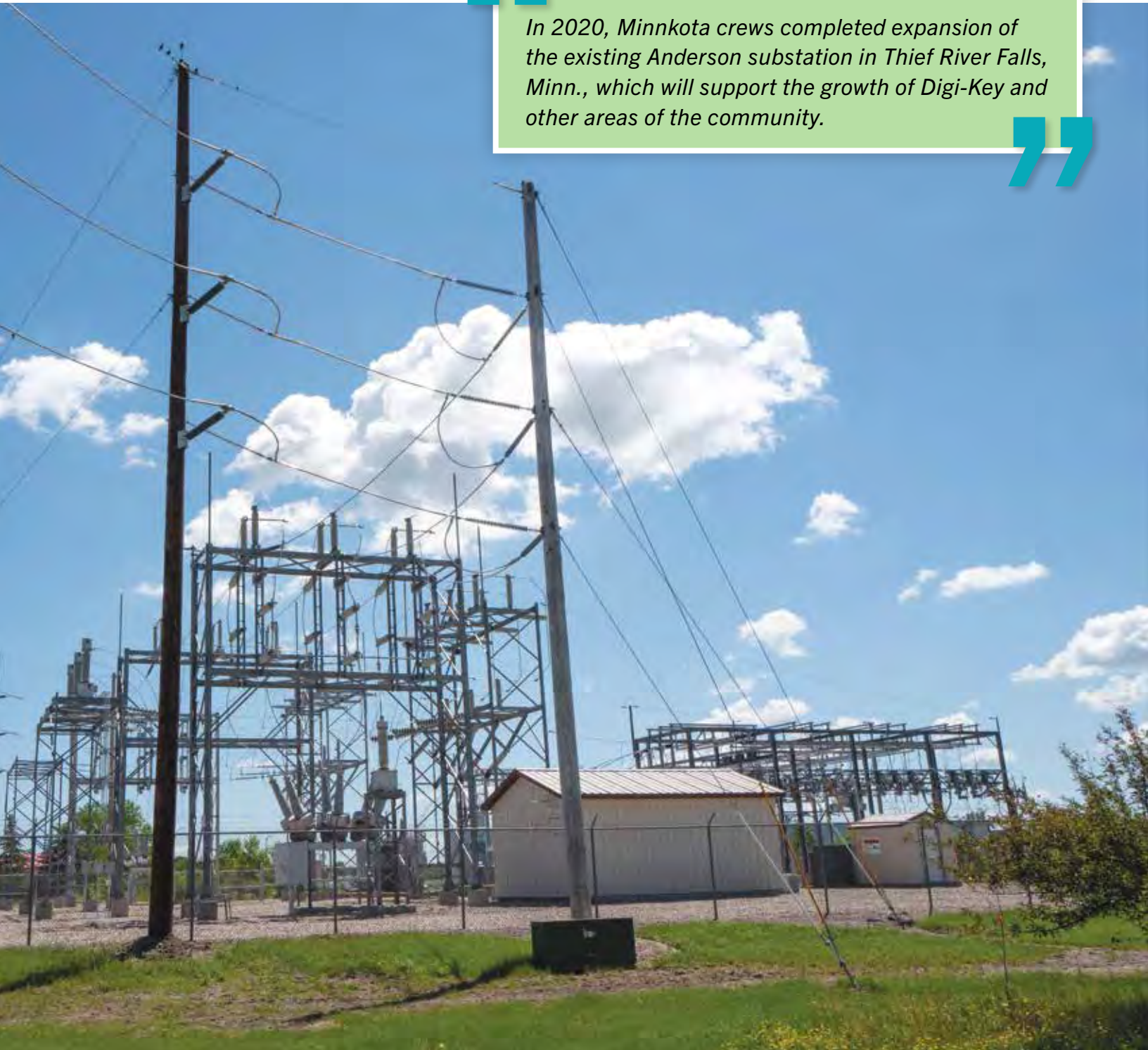
Front cover: As data mining companies seek ideal homes for their high-powered facilities, the Joint System is ready with the reliability and affordable rates the industry needs. (Photo: Core Scientific)



“

In 2020, Minnkota crews completed expansion of the existing Anderson substation in Thief River Falls, Minn., which will support the growth of Digi-Key and other areas of the community.

”



PRESIDENT AND GENERAL MANAGER'S REPORT



Lucas Spaeth
President



Jasper Schneider
General Manager

We are pleased to bring you the 2021 Northern Municipal Power Agency (NMPA) annual report which highlights our past year. NMPA is proud to be the wholesale provider of electric generation and transmission to 12 municipalities in Minnesota and North Dakota. We take great pride in responsibly generating reliable power and safely transmitting it to our municipal utilities. This affordable electricity is responsibly sourced and helps contribute to the high quality of life in the communities we call home. We accomplish our mission in partnership with Minnkota Power Cooperative. Minnkota provides similar services to 11 distribution cooperatives in the same service area as our municipalities. By utilizing Minnkota as our operating agent and collectively forming the Joint System, we can take advantage of scale and serve over 150,000 meters up and down the Red River Valley and surrounding areas.

Our largest source of generated power is a 30% ownership in the Coyote Station located in Beulah, N.D. The Coyote plant is a lignite coal-powered facility and presently meets or exceeds every environmental requirement. While Coyote serves much of our power, we also utilize hydro generation provided to us through the Western Area Power Administration and through several wind-powered generation sources as well. Our diverse power supply ensures that power can maintain reliability and rates stay predictable.

Technology also continues to transition our industry, just like it has disrupted just about every other aspect of our lives. On the generation side, we continue to see technology improvements with renewable energies and

We take great pride in responsibly generating reliable power and safely transmitting it to our municipal utilities. This affordable electricity is responsibly sourced and helps contribute to the high quality of life in the communities we call home.



NMPA is proud to be securing and implementing grant funds to help encourage and accelerate the adoption of public charging units in our NMPA communities.

battery storage. These serve as exciting potential opportunities for the future as the technology improves. We also see our member municipal utilities continue to embrace technology to improve their own operations and efficiencies. One area where we continue to see advancements in technology is with electric vehicles (EVs). While we don't see tremendous adoption in our neck of the woods (yet), we recognize the advancements that have been made and the product roadmaps for major car manufacturers are increasingly going electric. While this provides a potentially wonderful opportunity to grow our electric load, it also creates some challenges as it relates to transmission and charging infrastructure. NMPA is proud to be securing and implementing grant funds to help encourage and accelerate the adoption of public charging units in our NMPA communities. Through our **EnergizeYourDrive.com** website, we also offer additional information on how the Joint System supports EVs and different incentives for home charging capabilities as well.

With change all around us, one area that gives us tremendous confidence in the direction of our future is our governance model and our strong industry partnerships. We are grateful to work with a strong board of directors that is composed of representatives from each member municipality. They are engaged in the business of NMPA and share their talents to help ensure that we continue to meet our mission in delivering affordable, safe and reliable electricity well into the future. NMPA is also fortunate to have strong partnerships with Minnkota, our peer Joint Action Agencies across Minnesota, and our state and national associations as well.

The changing of the year is always an opportunity to reflect on the past and contemplate the future. We feel very fortunate to have had a successful 2021 and look forward to continued progress in the year ahead. We hope you enjoy our annual report and encourage you to learn more about how your power is generated and transmitted. NMPA is grateful to be your partner in powering your community.

Sincerely,

Lucas Spaeth
President

Jasper Schneider
General Manager

NMPA 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.



Rick Rone
Baudette, Minn.



David Larson
Fosston, Minn.



Don Martodam
Hawley, Minn.



Dennis Larson
Park River, N.D.



Todd Peterson
Roseau, Minn.



Todd Bazey
Stephen, Minn.



Dale Narlock
Thief River Falls, Minn.



Shannon Mortenson
Warren, Minn.



Dan Trosen
Warroad, Minn.



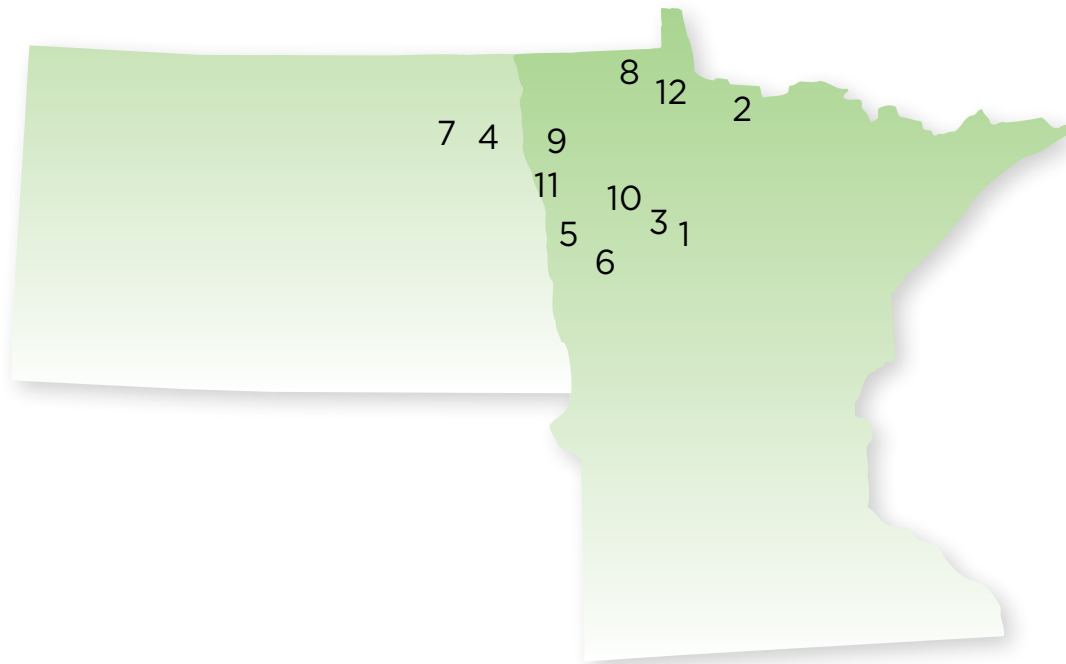
Jasper Schneider
General Manager



Yvonne Bergerson
Administrative Assistant



Delray Sparby
Legal Counsel



MUNICIPALITIES SERVED

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



THE DIGI-KEY DIFFERENCE

MAJOR FACILITY EXPANSION ALLOWS DISTRIBUTION COMPANY TO THRIVE WITHIN ITS RURAL MINNESOTA COMMUNITY

Mark Schmitke, Digi-Key manager of community relations, describes one of the several picking and packing processes that will take place in the facility expansion.

At the end of 2021, Digi-Key Manager of Community Relations Mark Schmitke hadn't yet had many opportunities to show the public the inside of the company's new Product Distribution Center expansion (PDCe) in Thief River Falls, Minn. The four-story, 2.2 million-square-foot facility was still going through some final system checks before full operation. However, site visitors could see the tour guide's pride over the intricate system of electronics picking, packing and shipping.

"If there are four parts in an order, they can be

picked from different places. One part will go into here," he said, referencing a black plastic tray before turning to point to a 70-foot-tall system of automated racking. "Then this tray will go into that 'fastbox' so that the order will get consolidated – all four parts of the order will end up in the same fastbox. When a packager is ready, those four trays will release and go straight to the packager."

Digi-Key has distribution down to a science, and the new PDCe will streamline its mission of the same-day shipping of batteries, computer parts and other electronics components to homes and businesses around the world.

It's been a long journey since ground was broken on the expansion in 2017, but Digi-Key Vice President of Order Fulfillment Chris Lauer was giddy to finally see packages rolling down the line.





"We're making a better experience for our team," Digi-Key Vice President of Order Fulfillment Chris Lauer said of the PDCe. "We're also enhancing our ability to send our customers accurate orders on time at the capacity we need."

"Feeling kind of like a kid at Christmas," Lauer laughed. "We very much love our old system. We know its capabilities – and it's very capable – and we've taken it well past its design capabilities. But the new system, just from a user experience for our team, is going to be much better."

Digi-Key's expansion houses a new best-in-class warehouse management system and OSR (order storage and retrieval system). The systems will work together to process and ship the company's 27,000 orders a day – up from 11,000 when Lauer was hired 16 years ago. In December, Digi-Key was nearly finished with the software-testing phase of the enterprise, before migrating 1.7 million parts from the original building to the

new space. At the end of the transition, employees will reap the full gifts of a more efficient, more ergonomic, smarter Product Distribution Center.

But this path to "Christmas morning" didn't come without its challenges. The project team had to navigate both a polar vortex weather event and the COVID pandemic during construction.

Lauer is grateful that a reliable flow of electricity will not be an additional worry.

"Power is the key," he said. "We have to have continuous, steady power."

The new 2.2 million-square-foot Digi-Key expansion has a base floor large enough to fit 22 football fields.

“

Anybody can do what we can do. All you need is inventory, a system and logistics. We asked ourselves, what makes us unique? And I absolutely believe it's our people that make us unique." — Chris Lauer, VP of Order Fulfillment

”

A pallet of Digi-Key boxes waits to test the new distribution center's processing system.



The Anderson substation expansion in Thief River Falls is similar to recent substation upgrades in Fargo and Grand Forks – all supporting communities on the grow.

STEPPING UP FOR POWER

The Joint System of Minnkota Power Cooperative and Northern Municipal Power Agency (NMPA) worked with Thief River Falls Municipal Utilities to ensure Digi-Key and its neighbors have the level of power required to keep operations moving. They determined the Anderson substation, originally completed in 2000, needed a second 115/15-kV transformer to create the needed capacity of the Digi-Key expansion. The substation expansion project wrapped up in June 2020, in plenty of time for the final phases of PDCE construction.

“Digi-Key and Thief River Falls have become synonymous. It’s very much a hand-in-hand partnership between Digi-Key’s expansion and growth and the electric utility,” explained NMPA CEO Jasper Schneider. “If we experience an outage, even of just a few minutes, it causes extreme disruptions for Digi-Key, and that has a monetary component to it. The city works very closely with Digi-Key to make sure that they have electric redundancy in place, that the power keeps flowing, that their rates stay competitive and that they’re well positioned for future growth.”

Much of the PDCE’s automated racking, 22 miles of conveyors, product lifts, etc. are powered by electricity. Digi-Key takes pride in using that energy wisely. The company prioritized efficiency and sustainability in the building’s design, including elements like a sun-reflecting white roof membrane and facility-wide LED lighting. In the construction process, Digi-Key also took on aggressive retrofit projects at the existing facility, such as sensor-activated LED lights, high-efficiency water heaters and more.

Just like Digi-Key’s power partners stepped up to support this economic development, other Thief River Falls entities are also adjusting for the company’s continued growth. For example, Digi-Key collaborated with the local airport to extend their cargo capabilities and include more direct flights to key shipping areas. Ultimately, the entire region benefits from Digi-Key’s continued success.

“When you have an employer of that size, it creates all sorts of other micro-economies within the community,” Schneider said. “It supports the hospitals, the clinics, the coffee shops and the restaurants. Every community wishes they had a Digi-Key, especially an entity that large that’s headed in the right direction.”

THE RIGHT PLACE

Other regions of the country have attempted to woo Digi-Key to move its facility out of rural

Minnesota and into other states. But nothing was enough to pull the company away from its roots.

"Anybody can do what we can do. All you need is inventory, a system and logistics," Lauer said. "We asked ourselves, what makes us unique? And I absolutely believe it's our people that make us unique."

Lauer spoke of the grit and ingenuity of the Digi-Key workforce, drawn largely from a 75-mile radius around Thief River Falls. He experienced a clear illustration of that can-do attitude during the February 2019 polar vortex event. Most employees were able to make it to work and keep orders shipping, but some left their shifts to find vehicles that wouldn't start in 75-below-zero wind chills. The Digi-Key maintenance team designed a solution.

"They put multiple big batteries on the top of this little Bobcat Toolcat we have. It had a Honda generator strapped to it, and it started cars no matter how cold it was," Lauer recalled. "That's the solution it takes to keep things going, and that resourcefulness is what I see in the folks around here."

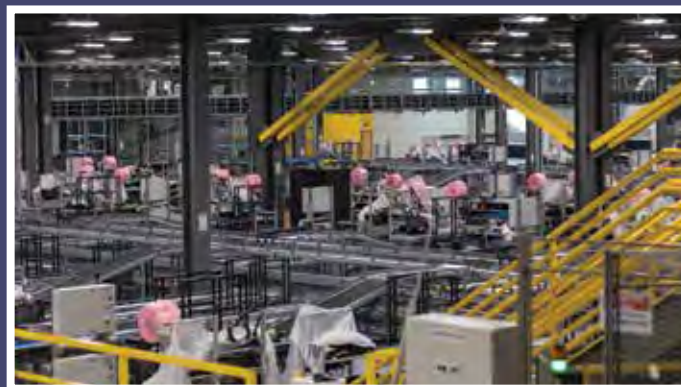
The Digi-Key team was eager to get to work in the expanded distribution center. But Digi-Key's community partners are also eager – eager to see what new heights the company will reach in their small-town corner of the world.


"When you tie it all together, it goes back to the culture of the people and their passion for ensuring that every order is important, whether it's a big order worth a lot of dollars or a really small order worth 50 cents," Lauer said. "It's not any one of us. It's all of us that carry that torch. That's the magic of northwest Minnesota and North Dakota."

By Kaylee Cusack / Photography Michael Hoeft

Digi-Key PDC Expansion by the Numbers

- 1,045,600-square-foot footprint
- 2.2 million total square footage
- 66,000 cubic yards of poured concrete
- 17,600 tons of steel
- 22+ miles of conveyor
- 58,000 sprinkler heads
- 328-foot skybridge to original 600,000-square-foot building





An aerial view of the Core Scientific data processing center in Grand Forks, N.D. (Photo: Core Scientific)

DATA MINING ARRIVES IN THE NORTH

There may be many things you don't understand about the concepts of *data mining*, *blockchain* and *cryptocurrency*. But a concept that is easier to digest is load growth, and that is what the Joint System of Minnkota Power Cooperative and Northern Municipal Power Agency (NMPA) experienced with the 2021 arrival of three data processing centers in Grand Forks – with more to come.

“Digital asset mining is experiencing incredible global growth right now, and we're thrilled that these companies are seeking a footprint in our Joint System service territory,” said NMPA CEO Jasper Schneider. “Our ability to support this kind of innovation is a huge economic development opportunity for our communities.”

Digital asset mining uses blockchain, a decentralized peer-to-peer transaction ledger that can store all types of digital information. When an entity “mines,” they use powerful computer hardware to solve complex

algorithms that confirm the validity of transactions. Those validated transactions are consolidated into “blocks” and then chained together to create a ledger of all verified transactions since the creation of the first block. As an economic incentive for miners who manage and operate the fleets of specialized computer hardware, each block contains a “reward” of cryptocurrency (like bitcoin). This reward is typically two pronged, a “block reward” that is earned for each new block created, and a transaction fee; fees charged to users who access the blockchain and submit transactions to new blocks.

The most substantial of the Joint System's new data processing loads is Core Scientific, one of the nation's largest blockchain infrastructure providers and digital asset miners. The company's work requires large facilities filled with specialized computer hardware that continuously mine digital assets – primarily bitcoin – for clients

worldwide. To be most effective, that process requires electricity and a cool climate. Grand Forks is able to supply both.

“This environment should allow our operations to experience a higher efficiency ratio over a typical year when compared to our facilities in the southeast and southwest,” a Core Scientific report explained. “Additionally, digital mining is uniquely tailored to be able to use excess local grid capacity when local consumers are not using it and curtail when the community's grid needs increase.”

The Joint System energized two other Grand Forks data mining projects in 2021 as well. All three centers will have significant power needs, as will additional data mining sites of the future. NMPA and Minnkota will ensure the facilities are supported with the reliable electric infrastructure and rate affordability necessary for the companies to find success in North Dakota and Minnesota.

NMPA SUPPORTS 'DRIVING ELECTRIC' IN MINNESOTA



Northern Municipal Power Agency (NMPA) celebrated another successful National Drive Electric Week in 2021 with help from its power partners across the region. The Agency helped coordinate and cohost *Northern Exposure: Driving Electric in Minnesota*, a large electric vehicle (EV) event held in Roseau, Minn., on Sept. 29. The



ride-and-drive gathering was a hit, with curious attendees traveling from rural communities around northern Minnesota.

Several entities – including NMPA, Minnkota Power Cooperative, Roseau Electric Cooperative and the City of Roseau – teamed up to plan the community EV party, which drew a

crowd of more than 150 people to the Roseau Electric Cooperative parking lot. Attendees signed up to drive one of three EVs, including the Mustang Mach-E available for purchase at the nearby Roseau County Ford. The waitlist filled up fast and the EVs were leaving the lot as soon as they pulled in.

Northern Exposure also brought together charging expertise from local utilities, travel corridor information from the Minnesota Department of Transportation and the latest all-electric technology from the hometown Polaris. On top of the electric delights, the first 100 attendees were treated to free event t-shirts sponsored by the Joint System, as well as a meal voucher for one of three on-site food trucks. Roseau mayor Dan Fabian also made an appearance, showing support for the afternoon of EV education.

By the end of the warm summer day, Roseau County Ford owner Paul Blomquist had taken the passenger seat for dozens of Mach-E test drives and talked with many more attendees about the exciting upcoming release of

the all-electric Ford F-150 Lightning. Wiping sweat from his brow, he couldn't contain his smile. "What a day!" he said.

NMPA made huge strides in 2021 in applying for grants to help build out charging infrastructure in its rural communities as well as laying



the groundwork for more robust EV charging programs in the future. The NMPA municipal's consumers are currently eligible for a large rebate on home charging equipment (and an incredibly low electric rate) when enrolled in their utility's voluntary off-peak program. For more information, visit [ValueofElectricity.com](https://www.valueofelectricity.com) or contact your utility.

NMPA made huge strides in 2021 in applying for grants to help build out charging infrastructure in its rural communities.



HOT WATER FOR A WARM HOME

COUPLE UTILIZES ROSEAU MUNICIPAL UTILITIES' LOW OFF-PEAK RATE WITH A LARGE-CAPACITY ELECTRIC WATER HEATER TO ENSURE GUESTS ARE ALWAYS COZY

When Ryan and Lisa Severson built their Roseau, Minn., home in 2015, two priorities rose above the rest – efficiency and family. The couple needed a house that reflected their careers as energy experts (Ryan as an assistant manager at Roseau Electric Cooperative and Lisa as an energy conservation coordinator for Minnkota Power Cooperative), but they also wanted a space to comfortably host their growing family.

“Right now we only have one son at home, but when we have the whole crew here – which is six kids and their families – we’ve never run out of hot water,” Ryan said.

That’s because the Seversons installed a large-capacity, 105-gallon Marathon electric water heater. The highly efficient equipment stores enough hot water to meet the needs of any holiday, birthday or “just because” family gathering.

“We’ll be running the dishwasher, and laundry for the towels, and everyone will be showering and getting ready,” Lisa said. “Enough hot water is something we’ve never really had to worry about.”

The Seversons’ electric water heater is set up on Roseau Municipal Utilities’ off-peak program, which allows the equipment to be turned off during high-demand times of day. The water is heated when electricity demand is low, often overnight, and remains warm until it’s needed.

“I’ve seen a couple water heaters in my day,” Ryan said, joking about his 30 years in the electricity business. “The bottom line is the efficiency has improved, because of how well they’re insulated. It’s not only when you’re at home utilizing it. If you’re not pulling any water out of it, it hardly has to run. It can go a couple days and not lose 10 degrees if you shut it off. That’s one of the things that sold us on it.”

On top of the reliability and efficiency of the large-capacity water heater, the Seversons enjoy the additional benefit of the off-peak electric rate, which is nearly half of the standard rate. They also utilize the off-peak program for their cold-climate heat pump and other electric heat circuits in their home and shop.

Joint System municipals and cooperatives across Minnesota and North Dakota also offer large rebates to cover the cost of a new electric water heater through the Value of Electricity program. Additional incentives may be available, so consumers are urged to reach out to their utility to see how they can help. If you ask Ryan how the off-peak incentives add up, he will smile knowingly and give you the simple answer. “It’s huge savings,” he said.

“Now, with all of the rebates available, it’s kind of an easy choice,” Lisa added. “Our water heater was a no-brainer based on our experience working in the industry.”

The bottom line is the efficiency has improved, because of how well they are insulated. It's not only when you're at home utilizing it. — Ryan Severson



ECO ACT PROVIDES OPPORTUNITY FOR CONSUMERS, UTILITIES

Minnesota's 2021 legislative session produced opportunities for utilities across the state, as well as opportunities for the families and businesses served by the municipal members of Northern Municipal Power Agency (NMPA).

After nearly four years of research, discussion, and development, the Energy Conservation and Optimization (ECO) Act passed into law with strong bipartisan

support. This legislation was a primary focus for the Joint System of NMPA and Minnkota Power Cooperative.

The ECO Act reforms and modernizes the existing Conservation Improvement Program (CIP), which did not recognize the benefits of efficient electrification of end-use processes, such as the adoption of electric vehicles and other emerging technologies. Conversely, the ECO Act emphasizes end-use total energy

efficiency rather than narrowly focusing on reducing electricity use. Several stakeholders are currently reviewing the administrative details of the legislation to ensure the program adequately supports consumers and contributes to the state's overall conservation goals.

NMPA will monitor the development of ECO guidelines in 2022 and is eager to begin providing additional energy benefits and savings to our members' consumers.

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VALUE OF ELECTRICITY

2021 NMPA POWERSAVERS SUMMARY



| | Incentives Paid | kWh Savings |
|-----------------------------|--------------------|----------------|
| Bagley Public Utilities | \$ 12,773.00 | 52,802 |
| Baudette Public Utilities | 6,290.20 | 59,121 |
| Fosston Public Utilities | 3,549.00 | 35,702 |
| Hawley Municipal Utilities | 621.41 | 9,119 |
| Roseau Municipal Utilities | 17,746.50 | 323,356 |
| Thief River Falls Municipal | 16,247.97 | 278,075 |
| Warren Municipal Utilities | 4,976.00 | 40,213 |
| Totals | \$62,204.08 | 798,388 |

SECRETARY-TREASURER'S REPORT



Dalene Monsebroten
Secretary-Treasurer

I would like to call attention to a few extra milestone highlights for 2021. **FORTY- FIVE** – the number of years since the member cities created the Northern Municipal Power Agency (NMPA) to search for long-term assets they could own to supply the generation for their power needs, along with the transmission lines to deliver it. It involved a lot of resources from representatives of each of the cities along the way, beginning with legislative changes at the state level to allow for the creation of “Joint Action Agencies.” Then came the search process by many of those same individuals to find the right project that would serve the growing needs for their communities. **FORTY** – April 1 marked 40 years since the first Bond Issuance of NMPA to fund the Coyote Project and Transmission Project. All Requirements Power Sales Contracts with the NMPA members were entered into along with a Power Supply Coordination Agreement with Minnkota Power Cooperative, who has since served as NMPA’s operating agent. This relationship created the Joint System, which continues

to meet the obligations as set out 40 years ago. I would like to take this moment to extend our appreciation for the work they do on the Agency’s behalf.

The Coyote plant came on-line in May of 1981 and has been the Agency’s primary source of power to serve the municipals. We are grateful for the great job Otter Tail Power has performed as Coyote Station operator with the ongoing task of improving plant operations. The installation of the ETI Coal Analyzer and CoalTracker Program implementation along with other projects will help maximize performance and reduce costs. In 2021, the Agency’s 30% share of net energy production costs saw a decrease of 2.65%. Plant availability remains favorable with the capacity factor reduced. Market demand has resulted in an upward trend of load swings and sustained lower loads which has impacts on the capacity factor.

In 2021, the average wholesale rate to participants was 78.54 mills/kWh, the second year in a row of a decrease from the prior year. This amount was .35 mills less than 2020. While there was an adjustment to wholesale rate components to achieve the same revenues, we have not had a rate increase in a number of years and do not anticipate one in the near future. While heating degree days were lower, cooling degree days increased – and with the vast majority of the members being summer peaking, it had an impact in their sales. The amount of 448,257,867 kWh was an increase in total sales to participants of 1.75% from 2020. The associated revenues received from participants in 2021 was \$35,162,673, a slight increase of 1.4% over the previous year. Total revenue of \$50,163,642, which includes sales to Minnkota and others, and investment and other income was also \$9.8 million less than 2020. This decrease was due to the reduction in annual bond principal and

interest payments.

No additional debt was issued in 2021 with the amount of fixed rate bonds outstanding at the end of 2021 amounting to \$80.495 million. NMPA transmission system debt has a final maturity date of Jan. 1, 2041, with Coyote Station debt not extending beyond Jan. 1, 2035. \$26,505,000 of bonds matured in 2021. With the initial debt of entering into the Coyote Project 40 years prior no longer outstanding, the Agency annual debt will be significantly reduced going forward. NMPA continues to meet its obligations as set forth by board policy and bond resolutions.

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, 2021, 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. The annual report also contains other important highlights and I encourage you to review it in its entirety.

Thank you to the NMPA member municipals for the opportunity to serve each of you and for your local efforts that assist in responsibly, reliably and economically “keeping the lights on.” As we review our past 40- 45-year achievements, we embrace the future that we can accomplish together!

Sincerely,

Dalene Monsebroten, *Secretary-Treasurer*

WHOLESALE POWER COSTS

| City | Population | No. of Customers | Amount Purchased (kWh) | Cost of Power w/Levy | Mills/kWh w/Levy |
|-------------------|------------|------------------|------------------------|----------------------|------------------|
| Bagley | 1,426 | 789 | 25,550,684 | \$ 2,009,298 | 78.64 |
| Baudette | 1,106 | 792 | 20,880,799 | 1,672,909 | 80.12 |
| Fosston | 1,434 | 889 | 30,958,047 | 2,361,003 | 76.26 |
| Grafton | 4,170 | 2,269 | 53,038,742 | 4,248,651 | 80.10 |
| Halstad | 597 | 312 | 7,847,507 | 645,106 | 82.21 |
| Hawley | 2,219 | 1,178 | 20,729,458 | 1,685,010 | 81.29 |
| Park River | 1,427 | 827 | 18,865,610 | 1,619,743 | 85.86 |
| Roseau | 2,744 | 1,345 | 37,060,965 | 3,031,773 | 81.81 |
| Stephen | 592 | 329 | 7,328,398 | 605,949 | 82.69 |
| Thief River Falls | 8,722 | 5,242 | 145,022,293 | 11,537,157 | 79.55 |
| Warren | 1,574 | 885 | 17,720,516 | 1,483,221 | 83.70 |
| Warroad | 1,792 | 979 | 63,254,848 | 4,307,679 | 68.10 |
| TOTAL | 27,803 | 15,836 | 448,257,867 | \$35,207,499 | 78.54 |

FINANCIAL COVERAGE RATIOS

| City | 2021 | 2020 | 2019 | 2018 | 2017 |
|-------------------|------|------|------|------|------|
| Bagley | 1.16 | 1.10 | 1.12 | 1.14 | 1.15 |
| Baudette | 1.06 | 1.11 | 1.11 | 1.16 | 1.31 |
| Fosston | 1.23 | 1.20 | 1.21 | 1.14 | 1.19 |
| Grafton | 1.24 | 1.32 | 1.33 | 1.32 | 1.23 |
| Halstad | 1.40 | 1.34 | 1.22 | 1.23 | 1.11 |
| Hawley | 1.11 | 1.13 | 1.16 | 1.14 | 1.18 |
| Park River | .97 | 1.01 | 1.06 | 1.11 | 1.08 |
| Roseau | 1.32 | 1.29 | 1.30 | 1.30 | 1.28 |
| Stephen | 1.45 | 1.26 | 1.25 | 1.15 | 1.06 |
| Thief River Falls | 1.17 | 1.10 | 1.29 | 1.20 | 1.16 |
| Warren | 1.11 | 1.02 | .99 | .96 | .95 |
| Warroad | 1.10 | 1.15 | 1.13 | 1.10 | 1.08 |
| Average | 1.19 | 1.17 | 1.18 | 1.16 | 1.16 |
| NMPA | 1.99 | 1.32 | 1.31 | 1.30 | 1.29 |

(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.)

PERFORMANCE REPORT

The Coyote Station remains a reliable, resilient and responsible power source for NMPA's members. The 427-megawatt (MW), coal-based facility had an excellent year of operation in 2021, and is positioning itself for future success through both operational and maintenance strategies.

As much of the country faced grid stability and power outage challenges in February 2021 due to Winter Storm Uri, Coyote Station ran dependably, providing tremendous value to NMPA and the overall electric grid in the Upper Midwest. Throughout the rest of the year, the market demand for Coyote Station's power increased significantly – well beyond what has been experienced in recent years. A significant focus is being placed on market conditions and how the power plant can provide the most overall value to the owners.

Coyote Station remains a leader in power plant safety, as the facility has not had a lost-time injury since August 2000 – approximately 3.5 million work-hours. For the second year in a row, plant employees were presented the Lignite Energy Council's "Lignite Louie" award

for achieving the lowest overall accident rate in the industry. While the plant owners are proud of these remarkable accomplishments, there is a recognition that safety is a job that is never done and continuous improvement is the goal.

In a year with no major maintenance outages, Coyote Station was available to produce power more than 87% of the time. In total, the plant produced 2,295,943 megawatt-hours (MWh) in 2021, which was 6.1% below budget. Additionally, all environmental requirements for air, land and water quality were met during the year.

Looking ahead, the Coyote Station is working toward replicating the successes of 2021, while recognizing that there

are also challenges on the horizon. A major scheduled maintenance outage will be conducted on the unit in 2022. Significant projects completed during these outages, which are typically planned every three years, help ensure the Coyote Station is available to energize the NMPA communities and others across the region.

A significant focus is being placed on market conditions and how the power plant can provide the most overall value to the owners.

COYOTE ENERGY SALES

| | 2021 | 2020 | 2019 |
|--|-------------|-------------|-------------|
| NMPA Coyote Net Generation Delivered (kWh) | 714,286,140 | 712,650,930 | 613,521,750 |
| Energy Sales: (kWh) | | | |
| Municipal Participants | 448,257,867 | 440,545,915 | 446,011,018 |
| Other Entities | 266,028,273 | 272,105,015 | 167,510,732 |
| | 714,286,140 | 712,650,930 | 613,521,750 |

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 vs. fiscal year projections.

The 2021 system peak of 93,288 kilowatt (kW) is 230 kW more than that of the 2020 yearly peak of 93,058 kW. The corresponding 2021 kilowatt-hour (kWh) energy sales total of 448,257,867 kWh is 7,711,952 kWh greater than the 440,545,915 kWh sold in 2020. This increase in energy puts sales back to just slightly below 2016 levels.

2021 heating degree days decreased slightly from 2020. This decrease in heating degree days did not, however, result in a decrease of energy sales as 2021's total sales grew by 1.75% from 2020 levels. The annual average heating degree days since the Coyote Station began operations (1982-2021) is 9,511 degree days with 2021 registering 8,519 degree days or 10.43% below the 40-year average. 2021's degree days value is the lowest it has been seen since the 7,824 degree days in 2016. The normal heating months of October through March saw 18.16% fewer heating degree days than that same period of 2020.

The Coyote Station was operated during 2021 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, 2021, totaled \$83,546,215.96 with the Agency share totaling \$25,451,642.74, or an average cost of 33.76 mills per kWh. The average cost of net energy production for the total plant

decreased to 33.90 mills per kWh, down from 34.83 mills per kWh in 2020. This reflects a decrease in average cost of net energy production of 2.65%.

The average power cost per kWh continues to remain stable due to controlling load demand, improving plant efficiency, 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 2021, the Agency participant's wholesale cost of power (average cost per kWh) decreased 0.35 mills or 0.44% from 78.89 mills in 2020 to 78.54 mills in 2021. Ten of the twelve NMPA participants experienced decreases in average wholesale power cost ranging from -0.26 to -2.13 mills/kWh. The remaining two participants saw increases of +0.55 to +1.35 mills/kWh.

Production at the Coyote Station facility improved slightly in 2021. Facility availability decreased to 87.14% (7,557.46 hours). By comparison, the average yearly availability over the past 32 years was 85.31%. The 2021 availability factor is 1.83% above the 32-year average. Gross generation increased by 85,476 MWh or 3.37% above that of 2020, resulting in a capacity factor of 65.63%, which is below the 32-year average capacity factor of 74.55%.

The funds advanced by NMPA during 2021 for the operation of the Coyote Station equaled \$25,146,751 of the total of \$82,400,000 funds advanced by the entire group of Station owners. NMPA participants contributed \$35,162,673 in revenue of the total of \$50,163,742 in revenue derived to offset NMPA's share of the cost of owning and operating the Coyote Station, the cost of the load ratio share of the Minnkota Power Cooperative transmission system and the cost of internal Agency administrative expense.

The Power Supply Coordination Agreement between Minnkota Power Cooperative, Inc., and NMPA provides for capital credits to be allocated to the Agency whenever such credits are allocated to other Minnkota members. For 2021, the total Minnkota operating margin was \$21,507,526 (after revenue deferral), less the nonoperating margin of \$4,304,559, leaving a total net operating margin of \$17,202,967 to offset prior year losses. 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 2020, there was no operating loss, enabling the 2021 net operating margin of \$17,202,967 to be allocated. The Agency's share was \$1,766,105.

COYOTE OPERATING STATISTICS

| | 2021 | 2020 | 2019 |
|----------------------------------|-----------|-----------|-----------|
| Hours of Operation | 7,557 | 8,024 | 5,951 |
| Hours of Outage | 1,203 | 760 | 2,809 |
| Plant Availability (Percent) | 87.1 | 91.4 | 67.9 |
| Gross Generation – Total (MWh) | 2,624,478 | 2,539,013 | 2,182,257 |
| Net Generation – Total (MWh) | 2,455,004 | 2,380,114 | 2,052,712 |
| Fuel Burned – Coal (Tons) | 2,022,579 | 1,969,501 | 1,701,981 |
| Fuel Burned – Fuel Oil (Gallons) | 551,362 | 453,258 | 569,136 |

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying financial statements of Northern Municipal Power Agency which comprise the statements of net position as of December 31, 2021 and 2020, and the related statements of revenues and costs and cash flows for the years then ended, and the related notes to the financial statements.

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, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

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

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

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 be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises reports by management, the NMPA board of directors and staff and other statistical data, but does not include the financial statements and our audit report thereon. Our opinions on the financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

BRADY, MARTZ & ASSOCIATES, P.C.
GRAND FORKS, NORTH DAKOTA
April 14, 2022

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, 2021 and 2020. 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

| | 2021 | 2020 | 2019 | 2021 vs 2020 | |
|----------------------------------|---------------|---------------|---------------|----------------|----------------|
| | | | | Dollar Change | Percent Change |
| Net Utility Plant | \$ 46,590,987 | \$ 48,938,163 | \$ 71,283,018 | \$ (2,347,176) | (4.8) |
| Current Assets | 42,614,772 | 67,444,952 | 72,330,115 | (24,830,180) | (36.8) |
| Total Assets | 89,205,759 | 116,383,115 | 143,613,133 | (27,177,356) | (23.4) |
| Deferred Outflows of Resources | 185,933 | 75,868 | 27,549 | 110,065 | 145.1 |
| Current Liabilities | 16,706,721 | 35,670,474 | 36,399,939 | (18,963,753) | (53.2) |
| Long-term Liabilities | 72,489,982 | 80,764,796 | 107,182,448 | (8,274,814) | (10.2) |
| Total Liabilities | 89,196,703 | 116,435,270 | 143,582,387 | (27,238,567) | (23.4) |
| Deferred Inflows of Resources | 194,989 | 23,713 | 58,295 | 171,276 | 722.3 |
| Net Investment in Capital Assets | (33,904,013) | (58,061,837) | (60,741,982) | 24,157,824 | 41.6 |
| Restricted by Bond Agreements | 28,091,804 | 54,787,150 | 59,061,916 | (26,695,346) | (48.7) |
| Unrestricted | 5,812,209 | 3,274,687 | 1,680,066 | 2,537,522 | 77.5 |
| Total Net Position | \$ - | \$ - | \$ - | \$ - | - |

Condensed statements of net position highlights are as follows:

- Net utility plant decreased by approximately \$2.3 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 \$2.3 million decrease in net utility plant is mainly due to an additional year's depreciation.
- Current assets decreased by approximately \$24.8 million. Current assets include cash, investments and accounts receivable. The decrease is primarily related to the use of construction funds to finance Coyote plant and transmission property additions and the reduced funds required in the bond fund interest and principal amounts for current bond payments.
- Current liabilities decreased by approximately \$19.0 million primarily due the reduction of current maturities of revenue bonds.
- Revenue bonds, net of current maturities, decreased by approximately \$8.4 million. The decrease is due to scheduled bond principal payments made in 2021.
- 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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The following table summarizes the changes in financial position of Northern for the years ended December 31, 2021, 2020 and 2019:

Condensed Statements of Revenues and Costs

| | 2021 | 2020 | 2019 | 2021 vs 2020 | |
|-----------------|--------------|--------------|--------------|----------------|----------------|
| | | | | Dollar Change | Percent Change |
| Revenues | \$50,163,742 | \$59,948,440 | \$67,850,997 | \$ (9,784,698) | (16.3) |
| Operating Costs | \$46,212,053 | \$54,671,502 | \$61,322,808 | \$ (8,459,449) | (15.5) |
| Interest | 3,951,689 | 5,276,938 | 6,528,189 | (1,325,249) | (25.1) |
| Total Costs | \$50,163,742 | \$59,948,440 | \$67,850,997 | \$ (9,784,698) | (16.3) |

Condensed statements of revenues and costs highlights are as follows:

- Total revenues decreased by \$9.8 million. Revenues from exempt sales to public authorities and other income increased by \$8.1 million. Revenues from participants increased by \$0.5 million and revenues from Minnkota Power Cooperative, Inc. (Minnkota) decreased by \$18.3 million. Revenues from exempt sales to public authorities and other income increased primarily due to volatility in the MISO market that led to higher prices than previous years. Revenues from participants remained consistent with last year. Under the Power Supply Coordination Agreement, Minnkota purchases 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. In 2021, Northern was able to cover all costs with other revenue streams effectively reducing revenues from Minnkota.
- Total operating costs decreased by \$8.5 million. Operating costs include Northern's 30% share of the Coyote generating plant fuel, operating and maintenance expenses. Costs also include Northern's share of Minnkota's transmission operating and maintenance expenses, in addition to purchased power, depreciation, operating agent fee and administrative expenses. Depreciation is provided for on a sinking fund method with depreciation equivalent to the principal payments required to pay outstanding bonds. Depreciation expense decreased by \$18.3 million due to lower bond principal payments. Pursuant to the Power Supply Coordination Agreement, additional costs for 2021, including transmission operations (\$1.3 million), purchased power (\$7.1 million), and an operating agent fee (\$2.0 million), were charged to NMPA. These charges were not previously itemized as costs to NMPA, as the addition to Minnkota revenue and operating costs tied to financial obligations under the Power Supply Coordination Agreement would have been financially offset, having no substantive impact to the overall financial statements.
- Interest expense decreased by \$1.3 million in 2021.

Debt Administration

As of December 31, 2021, Northern had debt outstanding of approximately \$80.5 million, a decrease of approximately \$26.5 million from December 31, 2020. Northern made scheduled bond principal payments of \$26.5 million on January 4, 2021. 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, 2021 and 2020

Assets and Deferred Outflows of Resources

| | 2021 | 2020 |
|---|----------------|----------------|
| UTILITY PLANT | | |
| Plant in Service | \$ 371,232,240 | \$ 367,910,116 |
| Transmission System | 68,368,877 | 65,828,177 |
| Total | 439,601,117 | 433,738,293 |
| Accumulated Depreciation | (393,010,130) | (384,800,130) |
| Net Utility Plant | 46,590,987 | 48,938,163 |
| CURRENT ASSETS | | |
| Cash | 1,214,706 | 1,152,835 |
| Investments – Unrestricted | 7,762,255 | 5,789,379 |
| Investments – Restricted | 30,067,649 | 57,425,620 |
| Accounts Receivable – Participants | 3,180,027 | 3,077,118 |
| Accounts Receivable – Minnkota | 390,135 | - |
| Total Current Assets | 42,614,772 | 67,444,952 |
| TOTAL ASSETS | 89,205,759 | 116,383,115 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Cost Sharing Defined Benefit Pension Plan | 185,933 | 75,868 |

Liabilities, Deferred Inflows of Resources and Net Position

LONG-TERM LIABILITIES

| | | |
|--|------------|------------|
| Revenue Bonds, Net of Current Maturities | 72,285,000 | 80,495,000 |
| Net Pension Liability | 204,982 | 269,796 |
| Total Long-Term Liabilities | 72,489,982 | 80,764,796 |

CURRENT LIABILITIES

| | | |
|-------------------------------------|------------|------------|
| Accounts Payable | | |
| Participants | 1,214,706 | 1,152,835 |
| Minnkota Power Cooperative, Inc. | 5,306,170 | 5,374,169 |
| Accrued Interest | 1,975,845 | 2,638,470 |
| Current Maturities of Revenue Bonds | 8,210,000 | 26,505,000 |
| Total Current Liabilities | 16,706,721 | 35,670,474 |

TOTAL LIABILITIES

| | |
|------------|-------------|
| 89,196,703 | 116,435,270 |
|------------|-------------|

DEFERRED INFLOWS OF RESOURCES

| | | |
|---|---------|--------|
| Cost Sharing Defined Benefit Pension Plan | 194,989 | 23,713 |
|---|---------|--------|

NET POSITION

| | | |
|----------------------------------|--------------|--------------|
| Net Investment in Capital Assets | (33,904,013) | (58,061,837) |
| Restricted by Bond Agreements | 28,091,804 | 54,787,150 |
| Unrestricted | 5,812,209 | 3,274,687 |
| Total Net Position | \$ - | \$ - |

See Notes to the Financial Statements.

STATEMENTS OF REVENUES AND COSTS

For the years ended December 31, 2021 and 2020

| | 2021 | 2020 |
|---|----------------------|----------------------|
| REVENUES | | |
| Participants | \$ 35,162,673 | \$ 34,709,684 |
| Minnkota Power Cooperative, Inc. | - | 18,306,901 |
| Exempt Sales to Public Authorities and Other Income | 15,001,069 | 6,931,855 |
| Total | <u>\$ 50,163,742</u> | <u>\$ 59,948,440</u> |
| COSTS | | |
| Plant Operations | | |
| Fuel | \$ 17,832,065 | \$ 18,081,650 |
| Operation and Maintenance | 7,314,686 | 7,883,190 |
| Transmission | | |
| Operations | 1,308,491 | - |
| Maintenance | 1,705,091 | 1,507,923 |
| Purchased Power | 7,123,197 | - |
| Operating Agent Fee | 1,969,110 | - |
| Administrative Expense | 749,413 | 693,739 |
| Depreciation | 8,210,000 | 26,505,000 |
| Total | 46,212,053 | 54,671,502 |
| Interest | 3,951,689 | 5,276,938 |
| Total | <u>\$ 50,163,742</u> | <u>\$ 59,948,440</u> |

See Notes to the Financial Statements.

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2021 and 2020

| | 2021 | 2020 |
|--|---------------------|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from Participants | \$ 35,104,589 | \$ 34,875,016 |
| Receipts from Minnkota Power Cooperative, Inc. | 1,947,151 | 16,569,975 |
| Receipts from Other Public Authorities | 12,074,213 | 6,179,525 |
| Receipts from Others | - | 607,013 |
| Receipt of Interest | 224,421 | 871,100 |
| Deposits to General Reserve Fund | (2,033,424) | - |
| Payments for Fuel | (17,832,065) | (18,081,650) |
| Payments for Plant Operations and Maintenance | (7,314,686) | (7,883,190) |
| Payments for Transmission Operations | (1,308,491) | - |
| Payments for Transmission Maintenance | (1,705,091) | (1,507,923) |
| Payments for Purchased Power | (7,123,197) | - |
| Payments for Operating Agent Fee | (1,969,110) | - |
| Payments for Interest | (4,614,314) | (5,902,563) |
| Payments for Administrative Expense | (687,542) | (540,653) |
| Net Cash Provided (Used) by Operating Activities | <u>4,762,454</u> | <u>25,186,650</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Principal Paid on Debt | (26,505,000) | (25,025,000) |
| Addition to Utility Plant | (3,580,677) | (4,925,536) |
| Net Cash Provided (Used) by Capital and Related Financing Activities | <u>(30,085,677)</u> | <u>(29,950,536)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from Sale of Investments | 85,977,518 | 111,574,486 |
| Purchase of Investments | (60,592,424) | (106,657,514) |
| Net Cash Provided (Used) By Investing Activities | <u>25,385,094</u> | <u>4,916,972</u> |
| INCREASE IN CASH | <u>61,871</u> | <u>153,086</u> |
| CASH AT BEGINNING OF YEAR | <u>1,152,835</u> | <u>999,749</u> |
| CASH AT END OF YEAR | <u>\$ 1,214,706</u> | <u>\$ 1,152,835</u> |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Depreciation | \$ 8,210,000 | \$ 26,505,000 |
| Deferred Charges | (2,285,749) | 769,837 |
| Change in Current Assets and Liabilities: | | |
| Accounts Receivable | (493,044) | 121,278 |
| Accounts Payable | (6,128) | (1,583,840) |
| Accrued Interest | (662,625) | (625,625) |
| Net Cash Provided (Used) by Operating Activities | <u>\$ 4,762,454</u> | <u>\$ 25,186,650</u> |

See Notes to the Financial Statements.

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, 2021, 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 2021 | Dec. 31 2020 |
|---------------------------------------|-----------------|-----------------|
| Unrestricted: | | |
| Cash – Working Fund | \$ 1,214,706 | \$ 1,152,835 |
| Operating Fund | 2,262,269 | 2,324,249 |
| General Reserve Fund | 4,446,629 | 2,412,121 |
| Reserve and Contingency Fund | 1,053,357 | 1,053,009 |
| Total Unrestricted | 8,976,961 | 6,942,214 |
| Restricted: | | |
| Debt Service Reserve Account | 6,072,539 | 10,132,378 |
| Rate Stabilization Fund | 6,340,819 | 6,338,162 |
| 2017 Coyote Project Construction Fund | 2,305,202 | 2,603,980 |
| 2017 Plant Additions Fund | 5,085,648 | 9,003,585 |
| Bond Fund Interest Account | 2,016,070 | 2,638,974 |
| Bond Fund Principal Account | 8,247,371 | 26,708,541 |
| Total Restricted | 30,067,649 | 57,425,620 |
| Total Cash and Investments | \$39,044,610 | \$64,367,834 |

The funds consist of \$37,829,904 of investment securities and \$1,214,706 of cash deposits at December 31, 2021, and \$63,214,999 of investment securities and \$1,152,835 of cash deposits at December 31, 2020.

As of December 31, 2021 and 2020, Northern had the following investments:

| | 12/31/21 | Fair Value Measurements Using | | | Rating | Agency |
|--|---------------------|--|---|---|--------|---------|
| | | 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 | \$36,461,255 | \$36,461,255 | \$ - | \$ - | N/A | N/A |
| Debt Securities | | | | | | |
| Federal Farm Credit Banks | 1,368,649 | - | 1,368,649 | - | Aaa | Moody's |
| Total Investments | | | | | | |
| by Fair Value Level | <u>\$37,829,904</u> | <u>\$36,461,255</u> | <u>\$ 1,368,649</u> | <u>\$ -</u> | | |

| | 12/31/20 | Fair Value Measurements Using | | | Rating | Agency |
|--|---------------------|--|---|---|--------|---------|
| | | 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 | \$44,679,615 | \$44,679,615 | \$ - | \$ - | N/A | N/A |
| Certificate of Deposit | 13,836,837 | 13,836,837 | - | - | N/A | N/A |
| Debt Securities | | | | | | |
| Federal Home Loan Mortgage Corp. | 2,047,495 | - | 2,047,495 | - | Aaa | Moody's |
| Federal National Mortgage | 2,651,052 | - | 2,651,052 | - | Aaa | Moody's |
| Total Investments | | | | | | |
| by Fair Value Level | <u>\$63,214,999</u> | <u>\$58,516,452</u> | <u>\$ 4,698,547</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:

- Direct obligations of the U.S. Government, its agencies or instrumentalities.
- New Housing Authority Bonds or Project Notes issued by public agencies or municipalities.
- Direct and general obligations of any state or municipalities, which are rated "Aa".
- Certificates of Deposit.
- Bankers Acceptances.
- 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 12/31/21 | | | | |
| Plant in Service | \$ 367,910,116 | \$ 1,039,977 | \$ 2,282,147 | \$ 371,232,240 |
| Transmission System | 65,828,177 | 2,540,700 | - | 68,368,877 |
| Total Utility Plant | 433,738,293 | 3,580,677 | 2,282,147 | 439,601,117 |
| Less Accumulated Depreciation | (384,800,130) | (8,210,000) | - | (393,010,130) |
| Net Utility Plant | <u>\$ 48,938,163</u> | <u>\$ (4,629,323)</u> | <u>\$ 2,282,147</u> | <u>\$ 46,590,987</u> |
| Utility Plant as of 12/31/20 | | | | |
| Plant in Service | \$ 367,782,871 | \$ 892,636 | \$ (765,391) | \$ 367,910,116 |
| Transmission System | 61,795,277 | 4,032,900 | - | 65,828,177 |
| Total Utility Plant | 429,578,148 | 4,925,536 | (765,391) | 433,738,293 |
| Less Accumulated Depreciation | (358,295,130) | (26,505,000) | - | (384,800,130) |
| Net Utility Plant | <u>\$ 71,283,018</u> | <u>\$ (21,579,464)</u> | <u>\$ (765,391)</u> | <u>\$ 48,938,163</u> |

The Electric System Revenue Bond Resolution requires that revenues equal costs. At December 31, 2021 and 2020, \$(4,014,097) and \$(1,731,950), respectively were deferred against plant in service.

NOTE 6: REVENUE BONDS

Revenue bonds payable at December 31, 2021 and 2020 are summarized below:

| | Dec. 31, 2021 | Dec. 31, 2020 |
|--|----------------------|-----------------------|
| Electric System Revenue Bonds, Series 2013A, Interest 4.00% to 5.00%, Due Annually in Varying Amounts from Jan. 1, 2023 through Jan. 1, 2031 | 26,155,000 | 26,155,000 |
| Electric System Revenue Bonds, Series 2013B, Interest 4.35%, Due Jan. 1, 2022 | 2,295,000 | 2,295,000 |
| Electric System Revenue Bonds, Series 2016, Interest 5.00%, Due Annually in Varying Amounts from Jan. 1, 2021 through Jan. 1, 2031 | 22,065,000 | 22,375,000 |
| Electric System Revenue Bonds, Series 2017, Interest 4.00% to 5.00%, Due Annually in Varying Amounts from Jan. 1, 2019 through Jan. 1, 2041 | 29,980,000 | 56,175,000 |
| Totals | <u>\$ 80,495,000</u> | <u>\$ 107,000,000</u> |

Revenue bond debt service requirements to maturity are as follows:

| | Principal | Interest | Total |
|-----------|----------------------|----------------------|-----------------------|
| 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 | 5,615,000 | 2,811,106 | 8,426,106 |
| 2026-2030 | 32,470,000 | 9,636,124 | 42,106,124 |
| 2031-2035 | 13,220,000 | 2,918,000 | 16,138,000 |
| 2036-2040 | 5,100,000 | 945,250 | 6,045,250 |
| 2041 | 980,000 | 49,000 | 1,029,000 |
| | <u>\$ 80,495,000</u> | <u>\$ 27,060,131</u> | <u>\$ 107,555,131</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, 2021 and 2020 was as follows:

| | Beginning Balance | Net Additions | Net Reductions | Ending Balance |
|--|-------------------|---------------|-----------------|----------------|
| Long-term liabilities, 12/31/21, Revenue bonds | \$107,000,000 | \$ - | \$ (26,505,000) | \$ 80,495,000 |
| Long-term liabilities, 12/31/20, Revenue bonds | \$132,025,000 | \$ - | \$ (25,025,000) | \$107,000,000 |

NOTE 7: DEFINED BENEFIT PENSION PLAN

Public Employees Retirement Association Plan Description

The Agency participates in the following cost-sharing multi-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 June 30, 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. Under Method 2, the accrual rate for Coordinated members is 1.7% for all years of service. 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.

Benefit increases are provided to benefit recipients each January. Beginning in 2019, the postretirement increase is equal to 50% of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1% and a maximum of 1.5%. Recipients that have been receiving the annuity or benefit for at least a full year as of June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

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% of their annual covered salary in fiscal year 2021. The Agency was required to contribute 7.5% for Coordinated Plan members. The Agency's contributions to the General Employees Fund for the year ended December 31, 2021, were \$25,936. The Agency's contributions were equal to the required contributions as set by state statute.

Pension Costs

At December 31, 2021, the Agency reported a liability of \$204,982 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. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the Agency totaled \$6,327. The net pension liability was measured as of June 30, 2021, 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, 2020, through June 30, 2021 relative to the total employer contributions received from all of PERA's participating employers. The Agency's proportionate share was 0.0048% at the end of the measurement period and 0.0045% for the beginning of the period.

| | |
|--|-------------------|
| Agency's proportionate share of net pension liability | \$ 204,982 |
| State of Minnesota's proportionate share of the net pension liability associated with the Agency | 6,327 |
| Total | <u>\$ 211,309</u> |

For the year ended December 31, 2021, the Agency recognized pension expense of \$21,718 for its proportionate share of The General Employees Plan's pension expense. In addition, the Agency recognized an additional \$511 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, 2021, 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 | \$ 866 | \$ 6,228 |
| Changes in actuarial assumptions | 125,157 | 3,891 |
| Difference between projected and actual investment earnings | - | 177,936 |
| Changes in proportion | 46,662 | 6,934 |
| Contributions paid to PERA subsequent to the measurement date | 13,248 | - |
| Total | <u>\$185,933</u> | <u>\$194,989</u> |

\$13,248 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, 2022. 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 |
|-------------------------|------------------------|
| 2022 | 6,095 |
| 2023 | 17,555 |
| 2024 | 2,465 |
| 2025 | (48,419) |

Actuarial Assumptions

The total pension liability in the June 30, 2021, actuarial valuation was determined using the following actuarial assumptions:

| | |
|---------------------------|----------------|
| Inflation | 2.50% per year |
| Salary Growth | 3.25% per year |
| Investment Rate of Return | 6.50% |

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabled persons 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% per year for the General Employees Plan.

Actuarial assumptions used in the June 30, 2021 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and become effective with the July 1, 2020 actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2021:

General Employee Fund

Changes in Actuarial Assumptions:

- The investment return and single discount rates were changed from 7.50% to 6.50% for financial reporting purposes
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020

Changes in Plan Provisions:

- There were no changes in plan provisions since the previous valuation

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% | 5.30% |
| Cash | 2.00% | 0.00% |

Discount Rate

The discount rate used to measure the total pension liability in 2021 was 6.50%. 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 (5.5%) | Discount Rate (6.5%) | 1% Increase in Discount Rate (7.5%) |
|---|---|-------------------------|---|
| Northern's proportionate share of the GERF net pension liability: | \$418,058 | \$204,982 | \$30,140 |

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 \$1,053,357 and \$1,053,009 at December 31, 2021 and 2020, respectively. There were no outstanding or unpaid claims as of December 31, 2021 and 2020. 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: RECLASSIFICATIONS

Certain reclassifications were made to the 2020 amounts to conform to the 2021 presentation.

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 June 15, 2021. 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, 2021. 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 June 15, 2021. Earlier application is encouraged.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*, provides guidance to address accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR), most notable, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. This statement provides exceptions and clarifications regarding hedging derivative instruments for such transactions that result from the replacement of IBOR. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs) and also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). The statement provides definitions of PPPs and APAs and provides uniform guidance on accounting and financial reporting for transactions that meet those definitions. A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 96, *Subscription-Based Information Arrangements* provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. Under this Statement, a government generally should recognize a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability. The requirements of this Statement will improve financial reporting by establishing a definition for SBITAs and providing uniform guidance for accounting and financial

reporting for transactions that meet that definition. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32* provides additional guidance for determining whether a primary government is financially accountable for a potential component unit. This Statement requires that the financial burden criterion in paragraph 7 of Statement No. 84, Fiduciary Activities, be applicable to only defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement No. 67, Financial Reporting for Pension Plans, or paragraph 3 of Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, respectively. This Statement (1) requires that a Section 457 plan be classified as either a pension plan or an other employee benefit plan depending on whether the plan meets the definition of a pension plan and (2) clarifies that Statement 84, as amended, should be applied to all arrangements organized under IRC Section 457 to determine whether those arrangements should be reported as fiduciary activities. The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately. The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021.

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

NOTE 11: SUBSEQUENT EVENT

Northern has evaluated subsequent events through April 14, 2022, 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 Contributions | 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% |
| 2020 | PERA | 25,403 | 25,403 | - | 338,707 | 7.50% |
| 2021 | PERA | 25,936 | 25,936 | - | 345,813 | 7.50% |

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

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 (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% |
| 2020 PERA | 0.0045% | 269,796 | 8,250 | 278,046 | 338,707 | 79.65% | 79.06% |
| 2021 PERA | 0.0048% | 204,982 | 6,327 | 211,309 | 345,813 | 59.28% | 87.00% |

The amounts presented for each year were determined as of the measurement date of the collective net pension liability which is June 30, 2021.

Northern implemented GASB Statement No. 68 and 71 for the 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, 2021 AND 2020

NOTE 1: GENERAL EMPLOYEES FUND

2021 Changes

Changes in Actuarial Assumptions:

- The investment return and single discount rates were changed from 7.50% to 6.50% for financial reporting purposes.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

2020 Changes

Changes in Actuarial Assumptions:

- The price inflation assumption was decreased from 2.50% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.00%.
- Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25% less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/

Teacher disabled annuitant mortality table, with adjustments.

- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100% Joint & Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint & Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

Changes in Plan Provisions:

- Augmentation for current privatized members was reduced to 2.0% for the period July 1, 2020 through December 31, 2023 and 0.0% after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

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% per year through 2044 and 2.50% per year thereafter to 1.25% 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% per year through 2030 and 2.5% per year thereafter to 1.0% per year through 2035 and 2.5% per year thereafter.



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