

# 2022 ANNUAL REPORT



**Northern Municipal**  
**POWER AGENCY**

*GROWING WITH YOU*

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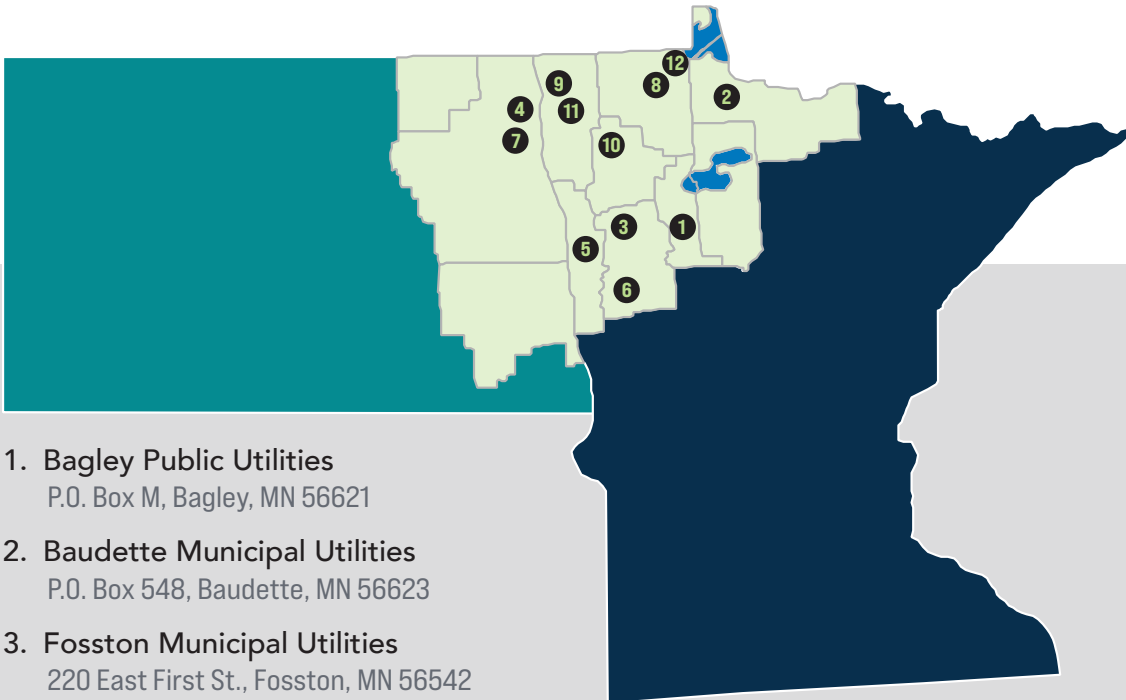
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# MUNICIPALITIES SERVED

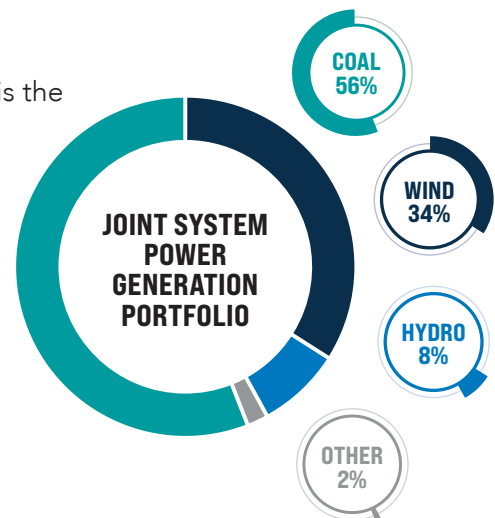


1. Bagley Public Utilities  
P.O. Box M, Bagley, MN 56621
2. Baudette Municipal Utilities  
P.O. Box 548, Baudette, MN 56623
3. Fosston Municipal Utilities  
220 East First St., Fosston, MN 56542
4. Grafton Municipal Utilities  
P.O. Box 578, Grafton, ND 58237
5. Halstad Municipal Utilities  
405 Second 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

## NMPA 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.





## PRESIDENT AND GENERAL MANAGER'S

# REPORT



**Lucas Spaeth**  
*President*



**Jasper Schneider**  
*General Manager*

We are pleased to bring you the 2022 Northern Municipal Power Agency (NMPA) annual report. We are excited to highlight the Agency and the accomplishments of the past year. For nearly 50 years, we have been the stewards of your power generation and delivery to the 12 municipalities that we serve. This is a responsibility that we take seriously and we are proud to work hand-in-hand with our directors from each of our member communities to achieve our mission.

The Agency finds itself operating from a position of strength, despite the overwhelming economic headwinds of 2022 with economic inflation, workforce challenges, and market volatility. We find ourselves with revenue that was higher than budgeted, which has allowed us to maintain stable rates for over five consecutive years. This has been accomplished by strong output from our Coyote Station in addition to higher-than-anticipated market rates and strategic attempts to mitigate market conditions by our operating agents at Minnkota Power Cooperative.

We also continue to look to the future of power supply in a rapidly changing world. Our portfolio gets adjusted to help meet our mission and obligations to our members. We balance the variables of cost, reliability, and regulations through a diverse energy portfolio that is already approximately 42% carbon-free power through our wind and hydro sources. Through our Joint System partnership with Minnkota, Project Tundra remains an exciting possibility that could ensure reliability of our system while also dramatically decarbonizing our system.

NMPA owns a load-ratio share of the Minnkota transmission system. As a Joint System, we continue to build out our power delivery transmission system by building new lines and upgrading the grid as necessary to ensure reliable operations for our communities. Technology also allows us to upgrade our power delivery system to make our grid smarter and more efficient.

While we find ourselves coming off of a successful 2022, we also recognize the many







challenges facing our industry. New regulations at the state and federal level will continue to pressure our operations. We are also seeing increasing reliability and financial risks associated with the broader marketplace, and the volatility of price and changes in fuel source stress all of our systems. NMPA also recognizes that changes in technology and consumer expectations are always evolving, and it is important our system evolves with it.

We are committed to seeing challenges as opportunities. As we look to the future and major decisions, it is important that we remain nimble and strategic in an uncertain world.

What gives us overwhelming confidence in the process is the support we have from our NMPA Board of Directors and the trust we have in our partnerships with Minnkota and our peers across the region.

Thank you for allowing us to share this annual report with you. We are grateful to be your power supplier.

Sincerely,

Lucas Spaeth  
*President*

Jasper Schneider  
*General Manager*

## NMPA BOARD OF DIRECTORS AND

# PERSONNEL



**Lucas Spaeth**  
*President*  
Halstad, Minn.



**Chris West**  
*Vice President*  
Grafton, N.D.



**Dalene Monsebroten**  
*Secretary-Treasurer*



**Bill Masterson**  
*Bagley, Minn.*



**Michael Ring**  
*Baudette, Minn.*



**Cassie Heide**  
*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.*



**Dan Trosen**  
*Warroad, Minn.*



**Jasper Schneider**  
*General Manager*



**Yvonne Bergerson**  
*Administrative Assistant*



**Delray Sparby**  
*Legal Counsel*

## NMPA recognizes David Larson for 20 years of board service



Northern Municipal Power Agency (NMPA) would like to thank and congratulate David Larson for his many years of service to the NMPA board, the Fosston community and the communities of the larger NMPA system. Larson was elected to the NMPA board in 2002. When he retired from the board in 2022, it was the end of a 20-year legacy of guidance and utility growth. Larson also served on the board's Executive Committee from 2014-2022. Thank you, David, for your dedication and commitment to our rural communities.

# RELIABILITY

## >> Coyote Station Outage

Our small-town communities rely on a continuous flow of electricity to survive and thrive. Northern Municipal Power Agency (NMPA) does everything in its ability to ensure the lights stay on through every season, and in every home, farm and business.

One of the ways NMPA keeps its communities electrified is with the precision care and maintenance of its Coyote Station coal-based power plant near Beulah, N.D. NMPA holds 30% ownership interest in the plant. Every three years, the 427-megawatt (MW) Coyote Station schedules a major maintenance outage to survey the facility, complete any necessary repairs or upgrades, and

make sure the plant continues to operate safely and efficiently.

One such maintenance outage occurred in 2022, beginning on March 30 and running through May 30. Crews and contractors completed dozens of projects over the two months the unit was offline, including a boiler cleaning, a turbine inspection and some significant cooling tower improvements.

NMPA would like to thank the hardworking teams who put safety first during this essential outage. It is because of you that we can continue to deliver dependable energy to families across North Dakota and Minnesota.





## » Performance Report

Throughout its 41-year history, Coyote Station has been a reliable and resilient resource for NMPA's members. Prudent projects and maintenance are a key reason for the coal-based facility's past success, and it will be an important part of dependable operation into the future.

In 2022, Coyote Station completed a major planned maintenance outage from March 29 to May 30. Key projects completed during the outage included an upgrade of the plant's cooling tower, turbine repairs, routine boiler maintenance and a reconditioning of the startup and auxiliary transformers. Major outages are typically scheduled on a three-year rotation to ensure plant systems are inspected and repaired on a regular basis.

Throughout the outage, Coyote Station employees maintained their industry-leading safety record. The plant, located near Beulah, N.D., has not had a lost-time incident since August of 2000. This is a testament to the plant's employees and their continued focus on safe work practices and measures. Additionally, all environmental requirements for air, land and water quality were met during the year.

In a major outage year, Coyote Station was available to produce power approximately 76% of the time. In total, the plant produced 2.2 million megawatt-hours (MWh) in 2022 and had an average net generation of 341 MW.

Plant reliability continues to be a focus as grid operators and regulators have expressed concerns about the potential for energy shortfalls in the Upper Midwest during the last year. Controlled outage events have occurred throughout the United States in recent years due in part because of inadequate resources to meet the peak demand for electricity. The Coyote Station provides needed baseload power and has the capability to operate on a 24/7 basis. The plant owners continue to assess market conditions, projections and upcoming structure changes to determine how the power plant can provide the most overall value and remain competitive in an era of increasing change.

With 2022's major outage in the rearview mirror, Coyote Station and its owners are looking forward to continued success and dependable operation for the benefit of the NMPA communities and others across the region.



### COYOTE ENERGY SALES

NMPA Coyote Net Generation Delivered (kWh)

Energy Sales: (kWh)

Municipal Participants

Other Entities

	2022	2021	2020
NMPA Coyote Net Generation Delivered (kWh)	687,818,888	714,286,140	712,650,930
Energy Sales: (kWh)			
Municipal Participants	454,532,209	448,257,867	440,545,915
Other Entities	233,286,679	266,028,273	272,105,015
	687,818,888	714,286,140	712,650,930

# >> Engineering Report

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

The 2022 system peak of 97,007 kW is 3,719 kW more than that of the 2021 yearly peak of 93,288 kW. The corresponding 2022 kWh energy sales total of 454,532,209 is 6,274,342 higher than the 448,257,867 kWh sold in 2021. This increase in energy puts sales back to just slightly below 2015 levels.

An analysis of the 2022 annual peak demand months of the 12 NMPA participants show an even split between the members with six being winter peakers (Baudette, Fosston, Halstad, Park River, Roseau, and Stephen) and six being summer peakers (Bagley, Grafton, Hawley, Thief River Falls, Warren, and Warroad). The system saw its two highest monthly peaks occur during the summer months of September and June, respectively, so the system would be considered a summer peaker as well.

2022 degree days rose significantly from 2021. This large increase in degree days did not, however, result in an equally large increase of energy sales, as 2022's total sales only increased by 1.40% from 2021 levels. The annual average degree days since the Coyote Station began operations (1982-2022) is 9,527 degree days with 2022 registering 10,134 degree days or 6.38% above the 41-year average. 2022's degree-days value is the highest that has been seen since 2019's 10,464 degree days. The heating months of October 2021 through March 2022 saw 23.60% more heating degree days than that same period of 2020-21. The cooling months of April 2022 through September 2022 saw 24.80% more cooling degree days than that same period of 2021.

The Coyote Station was operated during 2022 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 December 31, 2022, totaled \$97,220,769.38 with the Agency share totaling \$29,375,805.74 or an average cost of 42.69 mills per kWh. The average cost of net energy production for the total plant increased to 42.89 mills per kWh, up from 33.90 mills per kWh in 2021. This reflects an increase in average cost of net energy production of 26.50%.

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

During 2022, the Agency Participants' wholesale cost of power

(average cost per kWh) increased only 0.25 mills or 0.3% from 78.54 mills in 2021 to 78.79 mills in 2022. Six of the 12 NMPA Participants experienced decreases in their average wholesale power costs ranging from -0.08 to -3.54 mills/kWh. The remaining six participants saw increases of +0.02 to +1.80 mills/kWh.

Production at the Coyote Station facility decreased in 2022. Facility availability decreased to 75.84% (6,643.43 hours). By comparison, the average yearly availability over the past 33 years was 85.02%. The 2022 availability factor is 9.18% below the 33-year average. Gross generation decreased by 213,653 MWh or 8.14% below that of 2021, resulting in a capacity factor of 60.32% which is well below the 33-year average capacity factor of 74.12%.

The funds advanced by NMPA during 2022 for the operation of the Coyote Station equaled \$31,617,439 of the total of \$104,700,000 funds advanced by the entire group of Station owners. NMPA Participants contributed \$35,765,029 in revenue of the total of \$57,891,691 in revenue derived to offset NMPA's share of the cost of owning and operating the Coyote Station, the cost of the load ratio share of the Minnkota Power Cooperative transmission system, and the cost of internal Agency administrative expense.

The Power Supply Coordination Agreement between Minnkota Power Cooperative, Inc. and Northern Municipal Power Agency provides for capital credits to be allocated to the Agency whenever such credits are allocated to other Minnkota Power Cooperative members. For 2022, the total Minnkota Power operating margin was \$18,914,910 (after revenue deferral), less the non-operating margins of \$4,577,002 and less the non-allocated addition to the Resource Transition Fund of \$7,200,000, leaving a total net operating margin of \$7,137,908 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 2021, there was no operating loss, enabling the 2022 net operating margin of \$7,137,908 to be allocated. The Agency's share was \$146,187.

## COYOTE OPERATING STATISTICS

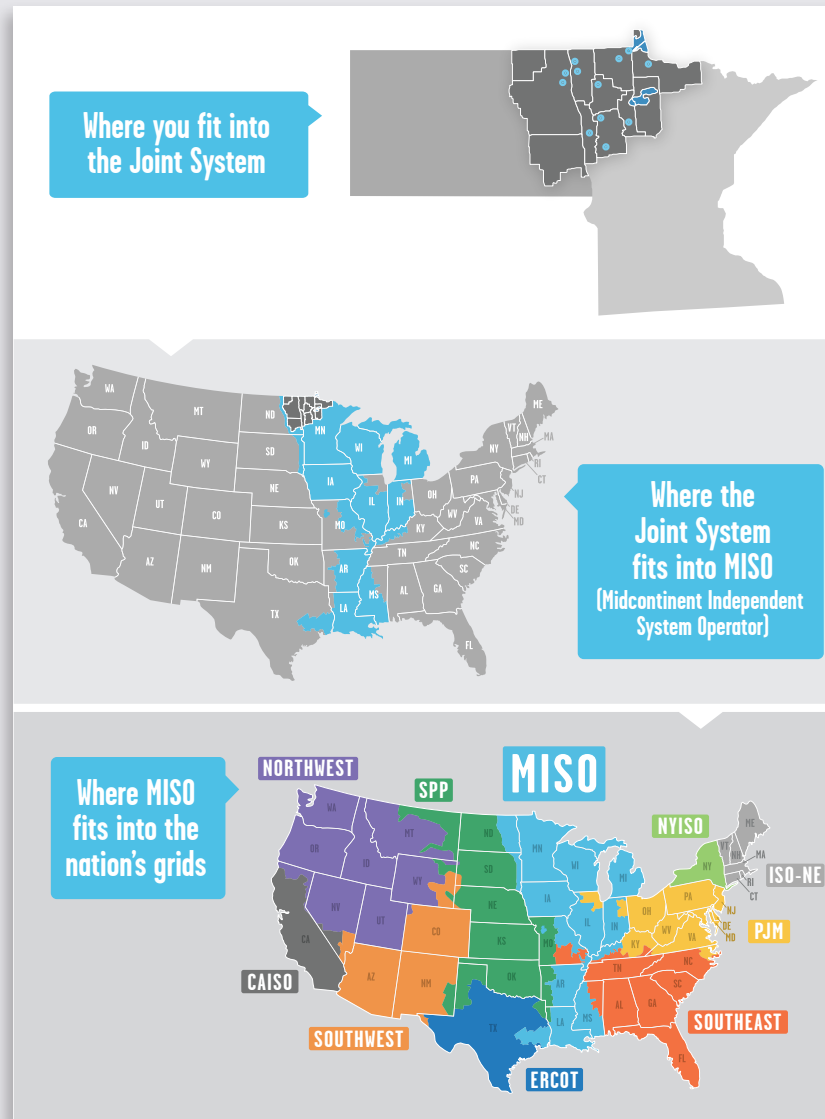
	2022	2021	2020
Hours of Operation	6,643	7,557	8,024
Hours of Outage	2,117	1,203	760
Plant Availability (Percent)	75.8	87.1	91.4
Gross Generation – Total (MWh)	2,410,847	2,624,478	2,539,013
Net Generation – Total (MWh)	2,266,725	2,455,004	2,380,114
Fuel Burned – Coal (Tons)	1,857,049	2,022,579	1,969,501
Fuel Burned – Fuel Oil (Gallons)	303,235	551,362	453,258

## >> What you should know about MISO

The Midcontinent Independent System Operator – commonly referred to as MISO – is one of the entities that helps the Joint System ensure electric reliability is upheld in our regional grid system. Essentially, MISO is a nonprofit organization that combines the transmission capacities of power utilities across several states (from Manitoba down to Louisiana), creating an “energy market” from which those utilities can buy or sell electricity. For example, if one portion of the MISO grid cannot generate enough electricity to meet the demand of its customers in Michigan, that utility can buy excess electricity from another portion of the MISO grid – including power sold by the Joint System.

What this shared capacity means is that emergency power events that happen in other parts of the MISO region can impact the Joint System. If demand is high in our region and generation resources aren’t producing, the Joint System may need to buy energy from the grid. If there isn’t much excess power in the MISO system to sell, it becomes incredibly expensive (a version of supply and demand). Recently, MISO’s energy prices have become increasingly volatile. This is because more power providers in the shared grid system have retired baseload generations resources like coal and nuclear, relying more on intermittent resources (like wind and solar) and purchases from the energy market. With less constant baseload power entering the grid, there is less total energy to go around – increasing market prices and fostering possible energy shortfalls.

The Joint System has been monitoring these changes in the MISO system and is well prepared to protect its consumers from high energy prices and grid instability. The approach is twofold:



- The Joint System continues to utilize coal-based power plants to **generate continuous baseload power** through every condition – raging blizzards, lack of wind, and darkness. In doing so, it reduces reliance on purchases from the market to meet demand.
- When needed, the Joint System strategically uses its

**robust demand response program.** Through the program, the Joint System can temporarily control the electric heating, water heating and vehicle charging loads of volunteer homes and businesses – shifting electrical demand when economical market resources are not available.



# AFFORDABILITY

## » Stable rates in 2022



Affordability is at the forefront of the electric service NMPA and the Joint System provides to its municipalities. Despite global economic challenges and inflationary pressures, NMPA plans to keep its average wholesale electricity rates flat for the sixth straight year. The Agency's board of directors approved the budgets in 2022, which anticipate no rate adjustment for the municipal members. Prices of products and services continue to rise in the region, and NMPA hopes that stable power costs will help ease the financial stress of the families of its communities.

The economy in the Joint System's service area remains strong. Many of NMPA's population centers

have welcomed new commercial businesses, and innovations in agriculture continue to make the Red River Valley a vital source of the nation's food supply. Residential growth in the region continues to outpace previous Load Forecast Study expectations. Additionally, the two states the Joint System serves – Minnesota and North Dakota – rank first and third in the nation in unemployment rates according to the U.S Bureau of Labor Statistics.

Although the energy industry is in a state of rapid transition, the Joint System's financial position remains strong, allowing NMPA to more adequately provide reliable, affordable and sustainable electricity to the region.

## SECRETARY-TREASURER'S

# REPORT



**Dalene Monsebroten**  
*Secretary-Treasurer*

The Northern Municipal Power Agency had an admirable year of operations in 2022. It was a year in which our power plant Coyote Station was scheduled to be offline for an extended maintenance outage in the spring. The spring outage allowed for a number of projects to be completed while keeping near the projected budgeted amounts due to no major unanticipated findings during the process. The employees continue to work safely with a remarkable safety record for the plant. We are grateful for the job Otter Tail Power continues to perform as Coyote Station operator. The Agency's 30% share of net energy production costs in 2022 was impacted by the outage with an increase of 26.5% costing 42.69 mills per kWh. Payments for plant O&M were approximately \$5.2 million greater than 2021. Also impacted and resulting in below-average results were plant availability and capacity of 75.84% and 60.32%, respectively.

Rates continue to be stable with another year of no increase to the wholesale rate for the 12 members. The average wholesale rate amounted to 78.79 mills/kWh, an increase of only .25 mills. With a significant increase in heating and cooling degree days, the impact to member load saw only a modest increase of 1.4% for the year, totaling 454,532,209 kWh. The associated revenues received from participants in 2022 was \$35,765,029, an increase of \$602,356. Revenue from sales to public authorities and other income increased by \$7.1 million, even with less energy available to sell into the market, primarily due to the volatility in the MISO market that led to higher prices. Purchased power increased due to the plant outage and was \$2.67 million higher than 2021.

There was no additional debt issued in 2022 with \$8.21 million of bonds maturing, which ended the year at \$72.285 million of fixed rate bonds outstanding.

Annual debt obligations remain relatively stable through 2031. NMPA transmission system debt has a final maturity date of Jan. 1, 2041, with Coyote Station debt not extending beyond Jan. 1, 2035. Project funds of \$4.846 million were spent for plant and transmission capital projects. The Agency anticipates issuing additional debt in late 2023 of approximately \$16.5 million to fund the next five years of capital projects. The calculation of debt service coverage with available funds was 1.92 for 2022. 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. It is the auditor's opinion that the financial statements fairly present, in all material respects, the net position of the Agency as of Dec. 31, 2022, and the results of its operations and its cash flows for the year ended in accordance with accounting principles generally accepted in the United States of America. 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 of the industry and NMPA member cities. I encourage you to review it in its entirety.

Thank you to NMPA member municipals for the opportunity to serve each of you, and to the NMPA board. A special thanks to David Larson, who I greatly valued and enjoyed working with all his years as director. I look forward to our continued success!

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	1,285	793	25,659,604	\$ 2,002,072	78.02
Baudette	970	758	20,495,187	1,642,444	80.14
Fosston	1,527	866	31,086,996	2,368,372	76.19
Grafton	4,170	2,265	53,411,440	4,297,511	80.46
Halstad	579	321	8,717,449	685,799	78.67
Hawley	2,228	1,184	21,327,751	1,729,074	81.07
Park River	1,427	853	19,837,881	1,657,936	83.57
Roseau	2,744	1,345	37,462,476	3,075,055	82.08
Stephen	592	331	7,488,900	606,330	80.96
Thief River Falls	8,674	5,384	146,017,450	11,676,429	79.97
Warren	1,574	885	17,965,297	1,521,377	84.68
Warroad	1,820	993	65,061,778	4,548,082	69.90
TOTAL	27,590	15,978	454,532,209	\$35,810,482	78.79

## >> Financial Coverage Ratios

City	2022	2021	2020	2019	2018
Bagley	1.20	1.16	1.10	1.12	1.14
Baudette	1.25	1.06	1.11	1.11	1.16
Fosston	1.20	1.23	1.20	1.21	1.14
Grafton	1.13	1.24	1.32	1.33	1.32
Halstad	1.47	1.40	1.34	1.22	1.23
Hawley	1.08	1.11	1.13	1.16	1.14
Park River	1.06	.97	1.01	1.06	1.11
Roseau	1.31	1.32	1.29	1.30	1.30
Stephen	0.97	1.45	1.26	1.25	1.15
Thief River Falls	1.20	1.17	1.10	1.29	1.20
Warren	1.38	1.11	1.02	.99	.96
Warroad	1.09	1.10	1.15	1.13	1.10
Average	1.20	1.19	1.17	1.18	1.16
NMPA	1.92	1.99	1.32	1.31	1.30

(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.)



# RESPONSIBILITY

## » More EV charging stations dot the Joint System region

### *NMPA supports infrastructure deployment with expertise, incentives*

The Joint System service territory is facing rapid change not only in the energy sector, but also in the transportation sector – a change that offers both an opportunity to enhance the environmental stewardship of the region and to balance and fortify the grid. The development of electric vehicles (EVs) has quickly become a norm (if not a priority) for automakers in the U.S. and worldwide. NMPA is preparing for this shift to make its way to the north by proactively supporting the development of public charging infrastructure in its communities.

With the help of EV charger vendor ZEF, NMPA applied, on behalf of its 12 communities, for state grants offered for strategically installing public charging stations in Minnesota towns. In 2022, four NMPA communities were awarded the grants, which would help offset much of the cost of a Level 3 fast charging station. As of the moment of this annual report, Warroad and Fosston, Minn., are both inching closer to the completion of these state-supported projects in their towns.

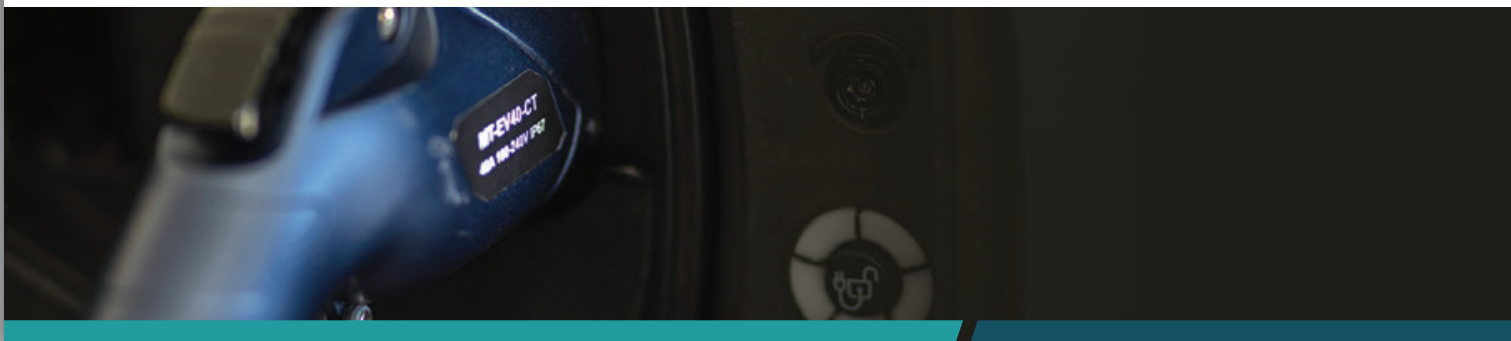
“Any time we’re talking about anything electric, I think utilities have to be not only the thought leader, but the knowledge source for the consumers that they serve,” said NMPA general manager Jasper Schneider. “If people have questions about electric vehicles and charging, we want them to turn to the utilities as experts. That’s why we’re here.”

Schneider and the NMPA board have gone a step further by offering their communities a \$10,000 grant to assist in advancing EV charging projects, whether to help with the cost a Level 3 fast charger or to nearly cover the installation of a Level 2 public charging station.

“We want to be communities that show we’re contemporary, we accept all people, we want people coming through, we want people coming here for tournaments, we want people to stop and shop and eat while their vehicle charges,” Schneider said. “The reality is the vast majority of electric vehicle charging is going to happen at the home. But you have to have the public infrastructure so people see the movement with EVs, so they feel welcomed if they do come to town, and they feel accepted if they do buy one.”

NMPA’s vision is to have public charging infrastructure in all 12 of its communities, and Schneider knows that will take some time. However, he’s pleased to note that there is already a Level 3 fast charging station in Grafton, N.D., as well as Level 2 public chargers being installed in a number of NMPA communities.

“There are still those who believe it won’t work in our part of the country. But I’ve seen a tidal-wave shift of opinion on that,” he said. “Even going back two or three years ago, you could see that people were more skeptical than they are today. That change has been fun to see.”



# NMPA CAN HELP SAVE MORE ON EV CHARGING



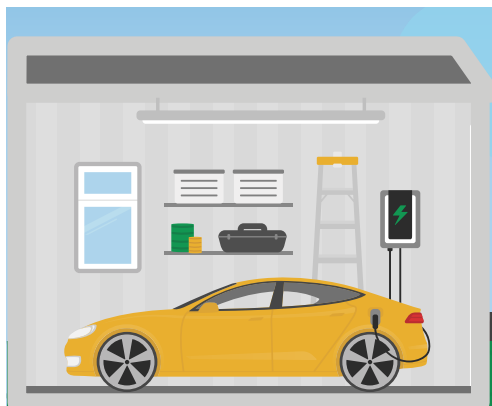
If you are interested in purchasing an EV, be sure to reach out to your NMPA-affiliated utility to learn about how to save big on charging your vehicle at home. These utilities offer large rebates on 240-volt charging infrastructure for the garage when consumers sign up for the demand response – or off-peak – program. Even more savings are delivered in the form of a special off-peak charging rate, which can be nearly half off the standard electric rate.

## REBATES

- **Value of Electricity program:** \$50/kW rebate (\$750 max per charger)
- **PowerSavers program:** \$50/kW rebate (\$500 max per charger)  
\*Combined rebates must not exceed the price of the charger
- Must be on the demand response (off-peak) program

## OFF-PEAK CHARGING RATE

- **35-50% less** than the standard electric rate
- Scheduled charging times:
  - **October through May:**  
Noon to 5 p.m. and 11 p.m. to 7 a.m.
  - **June through September:**  
Midnight to 10 a.m.



Want to see how charging an EV at home works? Check out this video by scanning the QR code!

Visit **ValueofElectricity.com** to learn more about the requirements of the rebate program, which may be different for your utility.



## 2022 NMPA POWERSAVERS SUMMARY

	<u>Incentives Paid</u>	<u>kWh Savings</u>
Baudette Public Utilities	\$10,100.00	79,856
Fosston Public Utilities	7,832.00	138,994
Hawley Municipal Utilities	564.00	6,761
Roseau Municipal Utilities	13,034.82	128,902



	<u>Incentives Paid</u>	<u>kWh Savings</u>
Thief River Falls Municipal	16,362.84	141,948
Warren Municipal Utilities	6,606.00	73,146
<b>TOTALS</b>	<b>\$54,499.66</b>	<b>569,607</b>

# COMMUNITY

## » Food for the community, food for the soul



Jenna and Hunter Gullickson sell milk to one of their store patrons in Hoople, N.D.



Diana Hahn straightens canned goods on the shelves of her grocery store in Park River, N.D.

## Rural Access Distribution Cooperative combats N.D. grocery store closures with small-town collaboration

Jenna Gullickson is the town grocer for Hoople, N.D., a community of (almost) 300 people bobbing on the north edge of Walsh County. She doesn't have many mouths to feed, but every stomach matters to her. These are her neighbors.

She cares so much that when the grocery store's former owners retired in 2015, she and her husband stepped in and bought what is now Hoople Grocery. At that time, small-town grocery stores across the state were closing down as the price of rural supply and distribution rose. Gullickson wasn't going to let that happen to Hoople.

She'd only been at the helm for a couple of years when Diana Hahn and Lori Capouch showed up at the store. Hahn, the owner of Jim's SuperValu in Park River, N.D., and Capouch, Rural Development Director for the North Dakota Association of Rural Electric Cooperatives (NDAREC), pitched a proposal for a

collaborative system of purchasing and delivering groceries to multiple small towns in Walsh County. It would eventually come to be known as the Rural Access Distribution (RAD) Cooperative, and they wanted Gullickson on board.

"I was like, yep, any help I can get!" she recalled. "I was willing to work, save money, get more product in my store – anything I could do to help out our community."

Supporters of the cooperative idea came from all corners of Walsh County – Fordville, Adams, Edinburg, Park River and Hoople. All partners knew a collaborative model would help the stores (and communities lacking stores) not only survive, but thrive. The key elements were forming a purchasing cooperative to bring their collective volume up and distributing it on one truck, aggregating from many suppliers so grocers didn't have as many separate delivery fees.



The notion of the RAD Cooperative was simple on the surface. But a lot of groundwork had already been laid in the few years before Gullickson was approached. In 2014, Capouch received a call from a rural grocery store inquiring about grants available to cover operating losses. There weren't any such grants.

"We'd never had a call from a grocery store before, and then we got about 10 calls that year. So we thought, OK, there's a problem here," Capouch said. She and her NDAREC team did some quick research and found other states were looking into why their grocery stores were declining.

Northern Municipal Power Agency (NMPA) general manager Jasper Schneider served as North Dakota state director for the U.S. Department of Agriculture's (USDA) Rural Development division from 2009-2015. At that time, he saw the evolution beginning in the small towns for which he would eventually help deliver electricity. NMPA is the power provider for 12 municipal utilities in the region, including Park River.

"The predominant demographic in those rural areas is senior citizens, who may not have the wherewithal or means to travel 50 miles to a larger town like Grand Forks," Schneider said. "The rural grocery stores are literally the lifeline in providing fresh food that is so critical to preserving that community."

Capouch surveyed stores around the state to see where the challenges were. She assembled a task force of owners and small-town community leaders and found an area of the state where there were already the beginnings of collaboration.

"Cooperatives have been the model to help people in rural places solve for issues that the private sector can't solve for, because there's no money to be made. We were looking to use cooperatives to make food access stronger in rural places. That's how we ended up in Walsh County," Capouch said. "They had a grocer who said she had backroom space for aggregating product and sorting it. And we had three grocers [Hahn, Gullickson, and Edinbug's Cindy Vargason] that were already independent and competitive, but they were already working together to make sure that everybody had the supplies that they needed."

Walsh County was also home to Fordville, a community of just over 200 people that had recently lost its store, as well as Adams, a town that was also facing obstacles. "They already understood that if they didn't work

together for food access, they were going to lose it," Capouch said.

As the partners came together, they uncovered all the ways they could get fresh, affordable food to remote communities. With pilot funding through several organizations including the Bush Foundation; the USDA; Blue Cross, Blue Shield; and a generous anonymous donor, RAD Cooperative was able to secure a large delivery truck and two climate-controlled grocery locker systems which can hold co-op deliveries (ordered online) to remote areas. One locker system is placed in Wells Drinking Well in Fordville, while the other stands near the entrance of Park River's SuperValu.

RAD Cooperative has fortified its effect on Walsh County by rolling in new members and opportunities. Businesses who don't need deliveries but want to see the co-op succeed are also doing their part by sponsoring advertising on the RAD distribution truck. The local truck company itself is supporting the effort with a special contract for the co-op.

"It is amazing how many people have contributed. It's been a hard project, but it's been an easy project at the same time because so many people care about food access and they want to participate," Capouch said. "This project just makes your heart melt."



Diana Hahn (left), owner of Jim's SuperValu in Park River, and Jenna Gullickson (right), owner of Hoople Grocery, are both board members of the Rural Access Distribution Cooperative.

PUTTING THE POWER IN

# POWERSPORTS

*Arctic Cat strengthens legacy in Thief River Falls, Minn., with diverse opportunities and product innovation*



It took Heidi McNary only a year and a half of living in Thief River Falls to capture the full Minnesota winter experience. She and her family had tried cross-country skiing, slapped on skates, tackled ice fishing – and she was about to slide into her next venture.

“I’m curling. Next week is finally my time!” she said with wide, anticipatory eyes. “I’m excited.”

The thrill of winter is what brought McNary to Thief River Falls in 2021, following the 2017 acquisition of Arctic Cat by a Fortune 500 industrial conglomerate, Textron Inc. As the Arctic Cat team found its footing with the new parent company, McNary joined Arctic Cat leadership as Senior Vice President and General Manager of Powersports.

“When Textron was looking to get into the powersports business, we really needed an iconic brand. We needed something that really resonated with customers. And there’s nothing better than Arctic Cat for that,” she said. “That was the real draw and remains the draw today – how passionate people are and how much affinity they have for the Arctic Cat brand.”

Arctic Cat has been a business staple in the community since 1960. Its current assembly facility on the south side of Thief River Falls employs more than 750 people. Between the site’s employees and the families of those employees, approximately one-third of the town is affiliated with the company. When Textron agreed to acquire Arctic Cat, the company did not take the new opportunity lightly.



"Our best customers are right here, so Textron continues to invest in the community," McNary said.

Textron's investment includes heavy investment in its employees. As a part of Textron, Arctic Cat employees were introduced to a suite of new benefits, including a 401(k) plan with company match, pay-for-performance incentive programs and educational support.

Textron also invested in new products, advancing innovation in the Arctic Cat brand. The team was thrilled to unveil its newest snowmobile platform, Catalyst, in fall 2022. The machines are built on a completely new platform from the ground up, boasting a lightweight, highly maneuverable ride that meets the power needs of snow veterans and comfort needs of those new to riding.

McNary knows the art of developing an exceptional machine. She's an engineer by training, spending most of her career in aviation development. She's accustomed to being one of the few women in a male-dominated industry, but she's using her role to bring more variety to the leadership table. Arctic Cat's leadership team includes women heading up sales, business, finance, human resources, sales operations and more. The group is more female than not.

"I'm excited about being a little bit of an impetus for more change and more inclusion and more diverse thought around who should be at the table for powersports," McNary said.

Reliable electricity is essential to keeping up with Arctic Cat's demand. Losing power for even 15 minutes can be devastating. "Having that stability and knowing that it's rock solid and that no matter what, we're not going to be down, is incredibly important to us – and more important by the day," McNary said.

Northern Municipal Power Agency (NMPA) works with Thief River Falls Municipal Utilities to make sure Textron has the reliable electricity it needs for consistent operations. NMPA General Manager Jasper Schneider says he's pleased that the Minnkota-NMPA Joint System has been able to offer stable rates for more than six consecutive years, especially at a time of global economic inflation.

"The continued investments that Minnkota and NMPA make into the Joint System in substation upgrades,



Heidi McNary serves as the senior vice president and general manager of powersports for Arctic Cat, a role she's held since 2021.

transmission improvement and power supply options ensure that our businesses in the system footprint will continue to receive reliable power in a time of tremendous industry change," Schneider said.

The trajectory of powersports is still full throttle in Thief River Falls, and Arctic Cat is making sure that opportunity is spread to everyone – to riders, to the city and to the families who call "Arctic Cat country" home.



# INDEPENDENT AUDITOR'S

# REPORT

*To the Board of Directors*

*Northern Municipal Power Agency, Thief River Falls, Minnesota*

## **Report on the Financial Statements**

We have audited the accompanying financial statements of Northern Municipal Power Agency, which comprise the statements of net position as of December 31, 2022 and 2021, 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, 2022 and 2021, 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 Opinions**

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 as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.

We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **Other Information**

Management is responsible for the other information included in the annual report. The other information comprises reports by management to members, summarized statistical data and the Board of Directors and Personnel, but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance on it.

In connection with our audits 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 to the other information exists, we are required to describe in in our report.

**BRADY, MARTZ & ASSOCIATES, P.C., GRAND FORKS, NORTH DAKOTA**  
*April 17, 2023*

# >> 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, 2022 and 2021. 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

	2022	2021	2020	2022 vs 2021	
				Dollar Change	Percent Change
Net Utility Plant	\$ 43,708,585	\$ 46,590,987	\$ 48,938,163	\$ (2,882,402)	(6.2)
Current Assets	34,126,518	42,614,772	67,444,952	(8,488,254)	(19.9)
Total Assets	77,835,103	89,205,759	116,383,115	(11,370,656)	(12.7)
Deferred Outflows of Resources	140,818	185,933	75,868	(45,115)	(24.3)
Current Liabilities	12,562,351	16,706,721	35,670,474	(4,144,370)	(24.8)
Long-term Liabilities	65,408,082	72,489,982	80,764,796	(7,081,900)	(9.8)
Total Liabilities	77,970,433	89,196,703	116,435,270	(11,226,270)	(12.6)
Deferred Inflows of Resources	5,488	194,989	23,713	(189,501)	(97.2)
Net Investment in Capital Assets	(28,576,415)	(33,904,013)	(58,061,837)	5,327,598	15.7
Restricted by Bond Agreements	22,188,126	28,091,804	54,787,150	(5,903,678)	(21.0)
Unrestricted	6,388,289	5,812,209	3,274,687	576,080	9.9
Total Net Position	\$ -	\$ -	\$ -	\$ -	-

Condensed statements of net position highlights are as follows:

- Net utility plant decreased by approximately \$2.9 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 \$2.9 million decrease in net utility plant is mainly due to an additional year's depreciation.
- Current assets decreased by approximately \$8.5 million. Current assets include cash, investments and accounts receivable. The decrease is primarily related to the use of construction funds to finance Coyote plant and transmission property additions.
- Current liabilities decreased by approximately \$4.1 million primarily due the reduction of accounts payable to Minnkota and current maturities of revenue bonds.
- Revenue bonds, net of current maturities, decreased by approximately \$7.3 million. The decrease is due to scheduled bond principal payments made in 2022.
- 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

The following table summarizes the changes in financial position of Northern for the years ended December 31, 2022, 2021 and 2020:

### Condensed Statements of Revenues and Costs

	2022	2021	2020	2022 vs 2021	
				Dollar Change	Percent Change
Revenues	\$ 57,891,691	\$ 50,163,742	\$ 59,948,440	\$ 7,727,949	15.4
Operating Costs	\$ 54,335,585	\$ 46,212,053	\$ 54,671,502	\$ 8,123,532	17.6
Interest	3,556,106	3,951,689	5,276,938	(395,583)	(10.0)
Total Costs	\$ 57,891,691	\$ 50,163,742	\$ 59,948,440	\$ 7,727,949	15.4

Condensed statements of revenues and costs highlights are as follows:

- Total revenues increased by \$7.7 million. Revenues from exempt sales to public authorities and other income increased by \$7.1 million. Revenues from participants increased by \$0.6 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 increased slightly from 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 2022, Northern was able to cover all costs with other revenue streams.
- Total operating costs increased by \$8.1 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 \$0.9 million due to lower bond principal payments. Plant operations and maintenance costs increased by \$5.2 million and purchased power costs increased by \$2.7 million primarily due the scheduled plant outage.
- Interest expense decreased by \$0.4 million in 2022.

### Debt Administration

As of December 31, 2022, Northern had debt outstanding of approximately \$72.3 million, a decrease of approximately \$8.2 million from December 31, 2021. Northern made scheduled bond principal payments of \$8.2 million on January 3, 2022. 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

As of December 31, 2022 and 2021

## NET POSITION

*Assets and Deferred Outflows of Resources***UTILITY PLANT**

Plant in Service	\$ 373,973,038	\$ 371,232,240
Transmission System	70,010,677	68,368,877
Total	443,983,715	439,601,117
Accumulated Depreciation	(400,275,130)	(393,010,130)
Net Utility Plant	43,708,585	46,590,987

**CURRENT ASSETS**

Cash	1,093,752	1,214,706
Investments – Unrestricted	5,851,222	7,762,255
Investments – Restricted	23,966,179	30,067,649
Accounts Receivable – Participants	3,215,365	3,180,027
Accounts Receivable – Minnkota	-	390,135
Total Current Assets	34,126,518	42,614,772

**TOTAL ASSETS**

77,835,103	89,205,759
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**DEFERRED OUTFLOWS OF RESOURCES**

Cost Sharing Defined Benefit Pension Plan	140,818	185,933
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*Liabilities, Deferred Inflows of Resources and Net Position***LONG-TERM LIABILITIES**

Revenue Bonds, Net of Current Maturities	65,020,000	72,285,000
Net Pension Liability	388,082	204,982
Total Long-Term Liabilities	65,408,082	72,489,982

**CURRENT LIABILITIES**

Accounts Payable		
Participants	1,093,752	1,214,706
Minnkota Power Cooperative, Inc.	2,425,546	5,306,170
Accrued Interest	1,778,053	1,975,845
Current Maturities of Revenue Bonds	7,265,000	8,210,000
Total Current Liabilities	12,562,351	16,706,721

**TOTAL LIABILITIES**

77,970,433	89,196,703
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**DEFERRED INFLOWS OF RESOURCES**

Cost Sharing Defined Benefit Pension Plan	5,488	194,989
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**NET POSITION**

Net Investment in Capital Assets	(28,576,415)	(33,904,013)
Restricted by Bond Agreements	22,188,126	28,091,804
Unrestricted	6,388,289	5,812,209
Total Net Position	\$ -	\$ -

See Notes to the Financial Statements.

## STATEMENTS OF

# REVENUES AND COSTS

*For the years ended December 31, 2022 and 2021*

	<u>2022</u>	<u>2021</u>
<b>REVENUES</b>		
Participants	\$ 35,765,029	\$ 35,162,673
Exempt Sales to Public Authorities and Other Income	<u>22,126,662</u>	<u>15,001,069</u>
Total	<u>\$ 57,891,691</u>	<u>\$ 50,163,742</u>
<b>COSTS</b>		
Plant Operations		
Fuel	\$ 19,098,239	\$ 17,832,065
Operation and Maintenance	12,519,200	7,314,686
Transmission		
Operations	1,627,524	1,308,491
Maintenance	1,573,242	1,705,091
Purchased Power	9,790,074	7,123,197
Operating Agent Fee	1,430,601	1,969,110
Administrative Expense	1,031,705	749,413
Depreciation	<u>7,265,000</u>	<u>8,210,000</u>
Total	54,335,585	46,212,053
Interest	<u>3,556,106</u>	<u>3,951,689</u>
Total	<u>\$ 57,891,691</u>	<u>\$ 50,163,742</u>

*See Notes to the Financial Statements.*

## » Statements of Cash Flows

For the Years Ended December 31, 2022 and 2021

	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from Participants	\$ 35,775,144	\$ 35,104,589
Receipts from (payments to) Minnkota Power Cooperative	(2,774,318)	1,947,151
Receipts from Other Public Authorities	19,295,328	12,074,213
Receipt of Interest	145,015	224,421
Deposits to General Reserve Fund	2,033,424	(2,033,424)
Payments for Fuel	(19,098,239)	(17,832,065)
Payments for Plant Operations and Maintenance	(12,519,200)	(7,314,686)
Payments for Transmission Operations	(1,627,524)	(1,308,491)
Payments for Transmission Maintenance	(1,573,242)	(1,705,091)
Payments for Purchased Power	(9,790,074)	(7,123,197)
Payments for Operating Agent Fee	(1,430,601)	(1,969,110)
Payments for Interest	(3,753,898)	(4,614,314)
Payments for Administrative Expense	(1,152,660)	(687,542)
Net Cash Provided (Used) by Operating Activities	<u>3,529,155</u>	<u>4,762,454</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal Paid on Debt	(8,210,000)	(26,505,000)
Addition to Utility Plant	(3,452,613)	(3,580,677)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(11,662,613)</u>	<u>(30,085,677)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from Sale of Investments	65,243,563	85,977,518
Purchase of Investments	(57,231,059)	(60,592,424)
Net Cash Provided (Used) By Investing Activities	<u>8,012,504</u>	<u>25,385,094</u>
<b>DECREASE IN CASH</b>	<u>(120,954)</u>	<u>61,871</u>
<b>CASH AT BEGINNING OF YEAR</b>	<u>1,214,706</u>	<u>1,152,835</u>
<b>CASH AT END OF YEAR</b>	<u>\$ 1,093,752</u>	<u>\$ 1,214,706</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Depreciation	\$ 7,265,000	\$ 8,210,000
Deferred Charges	(891,271)	(2,285,749)
Change in Current Assets and Liabilities:		
Accounts Receivable	354,797	(493,044)
Accounts Payable	(3,001,579)	(6,128)
Accrued Interest	(197,792)	(662,625)
Net Cash Provided (Used) by Operating Activities	<u>\$ 3,529,155</u>	<u>\$ 4,762,454</u>

See Notes to the Financial Statements.



# NOTES TO 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, 2022, 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	<u>100%</u>

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

## NOTE 2: ACCOUNTING POLICIES

### Basis of Accounting

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

### Deposits and Investments

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

### Restricted Investments

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

### 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 2022	Dec. 31 2021
Unrestricted:		
Cash – Working Fund	\$ 1,093,752	\$ 1,214,706
Operating Fund	2,361,490	2,262,269
General Reserve Fund	2,432,802	4,446,629
Reserve and Contingency Fund	1,056,930	1,053,357
Total Unrestricted	<u>6,944,974</u>	<u>8,976,961</u>
Restricted:		
Debt Service Reserve Account	5,978,646	6,072,539
Rate Stabilization Fund	6,342,478	6,340,819
2017 Coyote Project Construction Fund	-	2,305,202
2017 Plant Additions Fund	2,544,948	5,085,648
Bond Fund Interest Account	1,822,393	2,016,070
Bond Fund Principal Account	7,277,714	8,247,371
Total Restricted	<u>23,966,179</u>	<u>30,067,649</u>
Total Cash and Investments	<u>\$30,911,153</u>	<u>\$39,044,610</u>

The funds consist of \$29,817,401 of investment securities and \$1,093,752 of cash deposits at December 31, 2022, and \$37,829,904 of investment securities and \$1,214,706 of cash deposits at December 31, 2021.

As of December 31, 2022 and 2021, Northern had the following investments:

		Fair Value Measurements Using					
	12/31/22	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Rating	Agency	
Investments by Fair Value Level							
Cash & Cash Alternatives							
Treasury Money Market	\$24,039,117	\$24,039,117	\$ -	\$ -	N/A	N/A	
Certificate of Deposit	2,243,441	2,243,441	-	-	N/A	N/A	
Debt Securities							
United States Treasury Bills	2,546,019	-	2,546,019	\$ -			
Federal Home Loan Bank	988,824	-	988,824	-	Aaa	Moody's	
Total Investments							
by Fair Value Level	\$29,817,401	\$26,282,558	\$ 3,534,843	\$ -			

		Fair Value Measurements Using				
	12/31/21	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Rating	Agency
Investments by Fair Value Level						
Cash & Cash Alternatives						
Treasury Money Market	\$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	\$37,829,904	\$36,461,255	\$1,368,649	\$ -		

#### 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.

Northern maintains cash in bank deposit accounts, which at times may exceed insured limits as guaranteed by the Federal Deposit Insurance Corporation (FDIC). Northern has not experienced any losses in such accounts nor does Northern believe it is exposed to any significant credit risk on cash accounts.

#### 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
<b>Utility Plant as of 12/31/22</b>				
Plant in Service	\$ 371,232,240	\$ 1,810,813	\$ 929,985	\$ 373,973,038
Transmission System	68,368,877	1,641,800	-	70,010,677
Total Utility Plant	439,601,117	3,452,613	929,985	443,983,715
Less Accumulated Depreciation	(393,010,130)	(7,265,000)	-	(400,275,130)
Net Utility Plant	\$ 46,590,987	\$ (3,812,387)	\$ 929,985	\$ 43,708,585
<b>Utility Plant as of 12/31/21</b>				
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	\$ 48,938,163	\$ (4,629,323)	\$ 2,282,147	\$ 46,590,987

The Electric System Revenue Bond Resolution requires that revenues equal costs. At December 31, 2022 and 2021, \$(4,944,081) and \$(4,014,097), respectively were deferred against plant in service.

## NOTE 6: REVENUE BONDS

Revenue bonds payable at December 31, 2022 and 2021 are summarized below:

	Dec. 31, 2022	Dec. 31, 2021
Electric System Revenue Bonds, Series 2013A, Interest 4.13% 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
Electric System Revenue Bonds, Series 2016, Interest 5.00%, Due Annually in Varying Amounts from Jan. 1, 2021 through Jan. 1, 2031	20,310,000	22,065,000
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	25,820,000	29,980,000
Totals	\$ 72,285,000	\$ 80,495,000

Revenue bond debt service requirements to maturity are as follows:

	Principal	Interest	Total
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	5,890,000	2,530,356	8,420,356
2027	6,190,000	2,235,856	8,425,856
2028-2032	29,190,000	6,435,912	35,625,912
2033-2037	6,850,000	1,887,750	8,737,750
2038-2041	3,650,000	467,500	4,117,500
	\$ 72,285,000	\$ 23,117,442	\$ 95,402,442

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, 2022 and 2021 was as follows:

# NOTES TO FINANCIAL STATEMENTS

	Beginning Balance	Net Additions	Net Reductions	Ending Balance
Long-term liabilities, 12/31/22, Revenue bonds	\$ 80,495,000	\$ -	\$ (8,210,000)	\$ 72,285,000
Long-term liabilities, 12/31/21, Revenue bonds	\$ 107,000,000	\$ -	\$ (26,505,000)	\$ 80,495,000

## 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 percent for each of the first 10 years of service and 1.7 percent for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent 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. The postretirement increase is equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. 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 percent of their annual covered salary in fiscal year 2022. The Agency was required to contribute 7.5 percent for Coordinated Plan members. The Agency's contributions to the General Employees Fund for the year ended December 31, 2022, were \$27,494. The Agency's contributions were equal to the required contributions as set by state statute.

#### Pension Costs

At December 31, 2022, the Agency reported a liability of \$388,082 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 \$11,279.

The net pension liability was measured as of June 30, 2022, 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, 2021, through June 30, 2022 relative to the total employer contributions received from all of PERA's participating employers. The Agency's proportionate share was 0.0049% at the end of the measurement period and 0.0048% for the beginning of the period.

Agency's proportionate share of net pension liability	\$ 388,082
State of Minnesota's proportionate share of the net pension liability associated with the Agency	11,279
Total	\$ 399,361

For the year ended December 31, 2022, the Agency recognized pension expense of \$61,170 for its proportionate share of The General Employees Plan's pension expense. In addition, the Agency recognized an additional \$1,685 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, 2022, 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	\$ 3,242	\$ 4,038
Changes in actuarial assumptions	86,091	1,450
Difference between projected and actual investment earnings	8,456	-
Changes in proportion	28,782	-
Contributions paid to PERA subsequent to the measurement date	14,247	-
Total	\$140,818	\$ 5,488

The \$14,247 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, 2023. 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
2023	55,684
2024	40,594
2025	(10,291)
2026	35,096

#### Long-Term Expected Return on Investment

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 return 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	33.50%	5.10%
International Stocks	16.50%	5.30%
Bonds	25.00%	0.75%
Alternative Assets	25.00%	5.90%

#### Actuarial Assumptions

The total pension liability in the June 30, 2022, actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 6.5 percent. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of



6.5 percent was deemed to be within that range of reasonableness for financial reporting purposes.

Inflation is assumed to be 2.25 percent for the General Employees Plan. Benefit increases after retirement are assumed to be 1.25 percent for the General Employees Plan through December 31, 2054 and 1.5 percent thereafter.

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25 percent after one year of service to 3.0 percent after 27 years of service.

Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table. The tables are adjusted slightly to fit PERA's experience.

Actuarial assumptions for the General Employees Plan are reviewed every four years. The most recent four-year experience study for the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and became effective with the July 1, 2020 actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2022:

#### General Employee Fund

Changes in Actuarial Assumptions:

- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

Changes in Plan Provisions:

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

#### Discount Rate

The discount rate used to measure the total pension liability in 2022 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 net pension liability:	\$612,995	\$388,082	\$203,618

#### 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](http://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 \$1,056,930 and \$1,053,357 at December 31, 2022 and 2021, respectively. There were no outstanding or unpaid claims as of December 31, 2022 and 2021. Northern continues to carry commercial insurance for other risks of loss, including workers' compensation, property and liability, and employee health and accident. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

### NOTE 9: COMMITMENTS AND CONTINGENCIES

The United States Environmental Protection Agency has provided Otter

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

### NOTE 10: NEW ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 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. 99, *Omnibus 2022*, provides guidance on the following accounting matters:

- Classification and reporting of derivative instruments within the scope of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument.
- Clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives.
- Clarification of provisions in Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset.
- Clarification of provisions in Statement No. 96, *Subscription-Based*

# NOTES TO FINANCIAL STATEMENTS

Information Technology Arrangements, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability.

- Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt.
- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP).
- Disclosures related to nonmonetary transactions.
- Pledges of future revenues when resources are not received by the pledging government.
- Clarification of provisions in Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended, related to the focus of the government-wide financial statement.
- Terminology updates related to certain provisions of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.
- Terminology used in Statement 53 to refer to resource flows statements.

The requirements of this statement are effective as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.
- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

GASB Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*, provides guidance on accounting and financial reporting requirements for accounting changes and error corrections. Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in absence of specific transition provisions in the new pronouncement. This Statement also requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.

This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as

their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 101, *Compensated Absences*, provides guidance on the recognition and measurement guidance for compensated absences. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used. This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities. This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

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

## NOTE 11: SUBSEQUENT EVENT

Northern has evaluated subsequent events through April 17, 2023, the date which the financial statements were available to be issued.

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

Year Ended Dec. 31	Pension Plan	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Northern's Covered - Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2015	PERA	\$14,232	\$14,232	\$ -	\$189,767	7.50%
2016	PERA	16,519	16,519	-	220,247	7.50%
2017	PERA	18,672	18,672	-	248,954	7.50%
2018	PERA	18,869	18,869	-	251,592	7.50%
2019	PERA	19,573	19,573	-	260,973	7.50%
2020	PERA	25,403	25,403	-	338,707	7.50%
2021	PERA	25,936	25,936	-	345,813	7.50%
2022	PERA	27,494	27,494	-	366,587	7.50%

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

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

**See Note to the Required Supplementary Information**

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

For the Year Ended Dec. 31	Northern's Proportion of the Net Pension Liability (Asset)	Northern's Proportionate Share of the Net Pension Liability (Asset) (a)	State of Minnesota's Proportionate Share of the Net Pension Liability (if Applicable) (b)	Proportionate Share of the Net Pension Liability and State of Minnesota's Share of the Net Pension Liability (if Applicable) (a+b)	Northern's Covered-Employee Payroll	Northern's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015 PERA	0.0031%	\$160,658	\$ -	\$160,658	\$189,767	84.66%	78.20%
2016 PERA	0.0033%	267,944	3,559	271,503	220,247	121.66%	68.90%
2017 PERA	0.0036%	229,822	2,920	232,742	248,954	92.32%	75.90%
2018 PERA	0.0038%	210,808	6,871	217,679	251,592	83.79%	79.53%
2019 PERA	0.0033%	182,448	5,666	188,114	260,973	69.91%	79.53%
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%
2022 PERA	0.0049%	388,082	11,279	399,361	366,587	105.86%	76.67%

The amounts presented for each year were determined as of the measurement date of the collective net pension liability which is June 30, 2022.

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, 2022 AND 2021

#### NOTE 1: GENERAL EMPLOYEES FUND

##### 2022 Changes

Changes in Actuarial Assumptions:

- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

Changes in Actuarial Assumptions:

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

##### 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 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

##### 2017 Changes

Changes in Actuarial Assumptions:

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

##### 2016 Changes

Changes in Actuarial Assumptions:

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

##### 2015 Changes

Changes in Plan Provisions:

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

Changes in Actuarial Assumptions:

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



123 2nd Street W. • Thief River Falls, MN 56701

