

Northern Illinois Municipal Power Agency

Independent Auditor's Report and Financial Statements

December 31, 2022 and 2021



Northern Illinois Municipal Power Agency
December 31, 2022 and 2021

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Independent Auditor's Report

Board of Directors
Northern Illinois Municipal Power Agency

Opinion

We have audited the financial statements of Northern Illinois Municipal Power Agency (the Agency), as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Northern Illinois Municipal Power Agency, as of December 31, 2022 and 2021, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 the Agency and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. 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 the Agency's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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 GAAS 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 GAAS, 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 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 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 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, 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.

FORVIS, LLP

Lincoln, Nebraska
April 14, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the Northern Illinois Municipal Power Agency's ("NIMPA" or the "Agency") financial performance provides an overview of the Agency's activities for the fiscal years ended December 31, 2022 and 2021. It should be read in conjunction with the basic financial statements and the accompanying notes.

NIMPA is a joint municipal electric power agency, created by contract on May 24, 2004, for the purpose of effecting the joint development of electric energy resources for the production, transmission and distribution of electric power and energy for its members. To assist in achieving this objective, NIMPA has an undivided interest in Prairie State Generating Company, LLC ("Prairie State"), which entitles NIMPA to approximately 120 megawatts of capacity and output of Prairie State's generating units and a proportionate share of Prairie State's coal reserves and mining facilities.

Financial Statements

NIMPA's activities are accounted for using the economic resources measurement focus and the accrual basis of accounting. NIMPA's accounting records are maintained in accordance with accounting principles generally accepted in the United States of America for regulated utilities and generally follow the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC). NIMPA prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB).

The statements of net position report year-end assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position balances. The statements of revenues, expenses and changes in net position and cash flows present information about NIMPA's business activities. Over time, consistent collections from Members, reasonable operating costs of Prairie State, as defined herein, and reductions of long-term debt are indicators of the Agency's financial strength.

Condensed Statements of Net Position (in thousands)

| | 2022 | 2021 | 2020 |
|---|------------|------------|------------|
| Current assets | \$ 21,649 | \$ 23,649 | \$ 26,258 |
| Noncurrent assets | 70,188 | 72,819 | 77,545 |
| Utility plant, net | 348,768 | 358,836 | 369,680 |
| Deferred outflows of resources | 11,163 | 11,860 | 12,490 |
| Total assets and deferred outflows of resources | \$ 451,768 | \$ 467,164 | \$ 485,973 |
| Current liabilities | \$ 22,295 | \$ 23,189 | \$ 22,172 |
| Noncurrent liabilities | 405,962 | 421,938 | 437,519 |
| Deferred inflows of resources | 3,786 | 4,412 | 10,757 |
| Net position | 19,725 | 17,625 | 15,525 |
| Total liabilities, deferred inflows of resources and net position | \$ 451,768 | \$ 467,164 | \$ 485,973 |

Utility plant, net decreased approximately \$10.1 million during 2022. The decrease was primarily a result of depreciation expense of approximately \$12.2 million offset by net capital additions of approximately \$2.1 million. Utility plant, net decreased approximately \$10.8 million during 2021. The decrease was primarily a result of depreciation expense of approximately \$12.8 million offset by net capital additions of approximately \$2.0 million. Noncurrent liabilities decreased in both 2022 and 2021 primarily as a result of scheduled debt service payments on the Agency's revenue bonds.

Condensed Statements of Revenues, Expenses and Changes in Net Position (in thousands)

| | <u>2022</u> | <u>2021</u> | <u>2020</u> |
|---|------------------|------------------|------------------|
| Operating revenues | \$ 62,391 | \$ 62,925 | \$ 59,574 |
| Purchased power, fuel, and production expense | 19,136 | 21,278 | 17,950 |
| Transmission and local facilities | 1,086 | - | - |
| Other operating expenses | <u>24,345</u> | <u>22,377</u> | <u>22,015</u> |
| Total operating expenses | <u>44,567</u> | <u>43,655</u> | <u>39,965</u> |
| Total operating income | <u>17,824</u> | <u>19,270</u> | <u>19,609</u> |
| Interest expense | (20,552) | (21,236) | (21,876) |
| Investment income | 902 | 11 | 179 |
| Other nonoperating income | <u>3,926</u> | <u>4,055</u> | <u>4,188</u> |
| Total nonoperating expenses | <u>(15,724)</u> | <u>(17,170)</u> | <u>(17,509)</u> |
| Change in Net Position | 2,100 | 2,100 | 2,100 |
| Net Position at Beginning of Year | <u>17,625</u> | <u>15,525</u> | <u>13,425</u> |
| Net Position at End of Year | <u>\$ 19,725</u> | <u>\$ 17,625</u> | <u>\$ 15,525</u> |

Sales to the three Illinois municipalities – Batavia, Geneva and Rochelle (the “Members”) – decreased in 2022 approximately \$0.3 million or 0.57%, reflecting a decrease in total operating and nonoperating expenses of approximately the same percentage. Sales to these municipalities increased in 2021 approximately \$3.2 million or 5.4%, reflecting an increase in total operating and nonoperating expenses of approximately the same percentage.

Purchased power, fuel and production expenses decreased approximately \$2.1 million or 10.1% during 2022. The decrease was primarily a result of lower energy and fuel costs. Purchased power, fuel and production expenses increased approximately \$3.3 million or 18.5% during 2021. The increase was primarily a result of higher energy and production costs.

Other operating expenses increased approximately \$2.0 million or 8.8% during 2022. The increase was mainly the result of higher maintenance and future recoverable costs. Other operating expenses increased approximately \$0.4 million or 1.6% during 2021. This was mainly the result of a \$0.4 million increase in future recoverable costs.

Contact Information

This financial report is designed to provide a general overview of NIMPA's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Avant Energy, Inc., 220 South Sixth Street, Suite 1300, Minneapolis, Minnesota 55402.

Northern Illinois Municipal Power Agency
Statements of Net Position
December 31, 2022 and 2021
(in thousands)

| | 2022 | 2021 |
|--|-------------|-------------|
| Assets and Deferred Outflows of Resources | | |
| Current Assets | | |
| Unrestricted cash and cash equivalents | \$ 10,224 | \$ 13,618 |
| Municipality accounts receivable | 5,262 | 4,730 |
| Fuel stock and material inventory | 5,010 | 4,432 |
| Accrued interest receivable and other current assets | 1,153 | 869 |
| Total current assets | 21,649 | 23,649 |
| Noncurrent Assets | | |
| Restricted cash and cash equivalents | 60,253 | 59,313 |
| Regulatory assets | 7,312 | 10,841 |
| Other | 2,623 | 2,665 |
| Total noncurrent assets | 70,188 | 72,819 |
| Utility Plant | | |
| Utility plant in service | 473,614 | 472,923 |
| Less: accumulated depreciation | (128,892) | (116,666) |
| | 344,722 | 356,257 |
| Construction work in progress | 4,046 | 2,579 |
| Total utility plant, net | 348,768 | 358,836 |
| Deferred Outflows of Resources | | |
| Deferred loss on refunding | 10,382 | 10,928 |
| Deferred costs for asset retirement obligation | 781 | 932 |
| Total deferred outflows of resources | 11,163 | 11,860 |
| Total assets and deferred outflows of resources | \$ 451,768 | \$ 467,164 |
| Liabilities, Deferred Inflows of Resources and Net Position | | |
| Current Liabilities | | |
| Current maturities of revenue bonds | \$ 13,820 | \$ 13,205 |
| Accrued interest on revenue bonds | 6,787 | 7,014 |
| Accounts payable and accrued liabilities | 1,688 | 2,970 |
| Total current liabilities | 22,295 | 23,189 |
| Noncurrent Liabilities | | |
| Long-term revenue bonds, net | 403,826 | 419,973 |
| Other noncurrent liabilities | 2,136 | 1,965 |
| Total noncurrent liabilities | 405,962 | 421,938 |
| Deferred Inflows of Resources | | |
| Reductions of future billings | 3,786 | 4,412 |
| Net Position | | |
| Net investment in capital assets | (28,246) | (33,156) |
| Restricted | 23,611 | 22,781 |
| Unrestricted | 24,360 | 28,000 |
| Total net position | 19,725 | 17,625 |
| Total liabilities, deferred inflows of resources and net position | \$ 451,768 | \$ 467,164 |

Northern Illinois Municipal Power Agency
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2022 and 2021
(in thousands)

| | <u>2022</u> | <u>2021</u> |
|---|------------------|------------------|
| Operating Revenues | | |
| Sales to members | \$ 62,391 | \$ 62,676 |
| Other operating revenues | <u>-</u> | <u>249</u> |
| Total operating revenues | <u>62,391</u> | <u>62,925</u> |
| Operating Expenses | | |
| Purchased power | 2,613 | 3,303 |
| Fuel | 9,235 | 10,448 |
| Production | 7,288 | 7,527 |
| Transmission and local facilities | 1,086 | - |
| Other operating | 835 | 918 |
| Maintenance | 7,502 | 6,102 |
| Depreciation and amortization | 12,499 | 12,892 |
| Future recoverable costs | <u>3,509</u> | <u>2,465</u> |
| Total operating expenses | <u>44,567</u> | <u>43,655</u> |
| Operating Income | <u>17,824</u> | <u>19,270</u> |
| Nonoperating Revenues (Expenses) | | |
| Interest expense on revenue bonds | (20,552) | (21,236) |
| Investment income | 902 | 11 |
| Interest rate subsidy (Build America Bonds) | <u>3,926</u> | <u>4,055</u> |
| Total nonoperating expenses | <u>(15,724)</u> | <u>(17,170)</u> |
| Change in Net Position | 2,100 | 2,100 |
| Net Position at Beginning of Year | <u>17,625</u> | <u>15,525</u> |
| Net Position at End of Year | <u>\$ 19,725</u> | <u>\$ 17,625</u> |

Northern Illinois Municipal Power Agency
Statements of Cash Flows
Years Ended December 31, 2022 and 2021
(in thousands)

| | 2022 | 2021 |
|--|------------------|------------------|
| Cash Flows From Operating Activities | | |
| Receipts from municipalities | \$ 61,229 | \$ 56,766 |
| Other operating receipts | - | 1 |
| Payments for purchased power | (2,575) | (3,203) |
| Payments for fuel | (9,906) | (10,109) |
| Payments for production | (7,399) | (7,321) |
| Payments for transmission and local facilities | (1,923) | 248 |
| Payments for security collateral deposit | (6) | - |
| Payments for other operating expenses | (1,277) | (873) |
| Payments for maintenance | (7,637) | (6,064) |
| | <u>30,506</u> | <u>29,445</u> |
| Net cash provided by operating activities | | |
| Cash Flows From Capital and Related Financing Activities | | |
| Additions to utility plant | (1,908) | (1,886) |
| Subsidy received on Build America Bonds | 3,926 | 4,055 |
| Principal payments on long-term debt | (13,205) | (12,610) |
| Interest payments | (22,538) | (23,273) |
| | <u>(33,725)</u> | <u>(33,714)</u> |
| Net cash used in capital and related financing activities | | |
| Cash Flows From Investing Activities | | |
| Interest income and other | 765 | 11 |
| | <u>765</u> | <u>11</u> |
| Net cash provided by investing activities | | |
| Net Change in Cash and Cash Equivalents | (2,454) | (4,258) |
| Cash and Cash Equivalents at Beginning of Period | <u>72,931</u> | <u>77,189</u> |
| Cash and Cash Equivalents at End of Period | <u>\$ 70,477</u> | <u>\$ 72,931</u> |
| Composition of Cash and Cash Equivalents | | |
| Unrestricted cash and cash equivalents | \$ 10,224 | \$ 13,618 |
| Restricted cash and cash equivalents | 60,253 | 59,313 |
| | <u>\$ 70,477</u> | <u>\$ 72,931</u> |

Northern Illinois Municipal Power Agency
Statements of Cash Flows - Continued
Years Ended December 31, 2022 and 2021
(in thousands)

| | 2022 | 2021 |
|--|-------------|-------------|
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities | | |
| Operating income | \$ 17,824 | \$ 19,270 |
| Non-Cash Items Included in Operating Income | | |
| Depreciation | 12,274 | 12,721 |
| Amortization of deferred costs for asset retirement obligation | 225 | 171 |
| Future recoverable costs | 3,509 | 2,465 |
| Loss on disposal of utility plant | 33 | 83 |
| Changes in Operating Assets and Liabilities | | |
| Municipality accounts receivable | (532) | 296 |
| Fuel stock and material inventory | (578) | 341 |
| Accounts payable | (1,187) | 533 |
| Deferred inflows of resources | (626) | (6,345) |
| Other | (436) | (90) |
| Net cash provided by operating activities | \$ 30,506 | \$ 29,445 |
| Supplemental Cash Flow Information | | |
| Utility plant additions included in accounts payable | \$ 487 | \$ 156 |
| Amortization of bond premiums | \$ 2,327 | \$ 2,385 |

Northern Illinois Municipal Power Agency

Notes to Financial Statements

December 31, 2022 and 2021

Note 1: Organization and Significant Accounting Policies

Organization and Nature of Operations

Northern Illinois Municipal Power Agency (“NIMPA” or the “Agency”) is a joint municipal electric power agency and a body politic and corporate, municipal corporation and unit of local government of the State of Illinois. NIMPA’s members currently consist of three Illinois municipalities: Batavia, Geneva, and Rochelle (the “Members”).

NIMPA’s Board of Directors (the “Board”) is comprised of representatives from each of the Members. The Board directs and makes all significant decisions relating to the operations of the Agency. NIMPA uses the capacity and energy from Prairie State Generating Company, LLC, to meet the Agency’s obligations to deliver capacity and energy to its Members under take-or-pay power sales agreements.

All of NIMPA’s general management and administrative services are provided by Avant Energy, through a master services agreement between the parties. NIMPA has no employees.

Prairie State Generating Company

Prairie State Generating Company, LLC (“Prairie State”) is a coal fired generating station consisting of two generating units having a combined capacity of approximately 1,600 MW, coal reserves adjacent to the plant site and coal mining facilities. NIMPA’s undivided interest in Prairie State entitles NIMPA to approximately 120 megawatts of capacity and output of Prairie State’s generating units and a proportionate share of Prairie State’s coal reserves and mining facilities.

Reporting Entity

In evaluating how to define the Agency for financial reporting purposes, management has considered all potential component units for which financial accountability may exist. The determination of financial accountability includes consideration of a number of criteria, including: (1) the Agency’s ability to appoint a voting majority of another entity’s governing body and to impose its will on that entity, (2) the potential for that entity to provide specific financial benefits to or impose specific financial burdens on the Agency and (3) the entity’s fiscal dependency on the Agency. Based upon the above criteria, NIMPA has determined that it has no reportable component units.

Northern Illinois Municipal Power Agency
Notes to Financial Statements
December 31, 2022 and 2021

Note 1: Organization and Significant Accounting Policies - Continued

Basis of Presentation

NIMPA's activities are accounted for using the economic resources measurement focus and the accrual basis of accounting. NIMPA's accounting records are maintained in accordance with accounting principles generally accepted in the United States of America for regulated utilities and generally follow the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC). NIMPA prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB).

Utility Plant

The Agency's share of all costs associated with the development and construction of, and capital improvements to Prairie State were capitalized, including interest expense incurred, net of interest income earned on tax exempt bond proceeds and Build America Bond subsidies earned, during the construction period. The Agency generally capitalizes costs associated with other capital projects when such costs are in excess of \$150,000 and have at least a five year useful life.

At December 31, 2022 and 2021, construction work in progress (CWIP) includes construction costs for ongoing utility plant capital improvements at Prairie State.

Mine development costs were \$19.6 million and \$19.3 million at December 31, 2022 and 2021, respectively. The mine is depreciated in conjunction with the plant.

Cash and Cash Equivalents

NIMPA considers all highly liquid investments with an original maturity of three months or less at the time of purchase to be cash equivalents. At December 31, 2022 and 2021, cash equivalents consisted of money market mutual funds.

Investments and Investment Income

NIMPA maintains various funds issued under its Trust Indenture, dated August 1, 2007 (the "Trust Indenture"), which are periodically invested in cash equivalents and securities. Investments in money market mutual funds are carried at cost, which approximates fair value.

Investment income consists of interest income and realized and unrealized gains and losses on investments.

Northern Illinois Municipal Power Agency
Notes to Financial Statements
December 31, 2022 and 2021

Note 1: Organization and Significant Accounting Policies - Continued

Municipality Accounts Receivable

Accounts receivable are stated at the amount billed to the Members. Accounts receivable invoices are typically issued on the first business day of each month and are due 15 days after issuance. Management does not believe an allowance for doubtful accounts is necessary at December 31, 2022 and 2021.

Fuel Stock and Material Inventory

Fuel stock is recorded as NIMPA's proportionate amount of Prairie State's unused coal inventory and is valued at weighted average cost. Material inventory is the recorded average cost of supplies held in Prairie State's mine and plant warehouses. The cost of fuel is expensed as consumed. Material inventory is either capitalized into Utility Plant if used in a capital project or expensed if used in production.

Rates

NIMPA sets rates in accordance with the Trust Indenture. The Trust Indenture requires the establishment of rates that, together with other available funds, are reasonably expected to pay NIMPA's operating costs (excluding depreciation and amortization). NIMPA's debt service requirements are designed to be relatively equal over the life of the bonds to help provide stable rates to the Members. Rates are not subject to state or federal regulation. The debt service included in rates provides for full cost recovery of the utility plant assets over a period not exceeding the utility plant's assets' useful lives.

Revenue Recognition

Revenues are recognized on an accrual basis when energy is delivered, while the Members are billed using budgeted rates. Differences between the accrued rate and the billed rate are collected from, or returned to, the Members in subsequent periods. The amount to be returned to the members was approximately \$2.2 million and \$2.8 million at December 31, 2022 and 2021, respectively, and is included in reduction of future billings on the Statements of Net Position. The amount to be collected from or paid back to Members will be collected or paid back in subsequent periods under the direction of the Board.

Regulated Operations

Regulatory assets are expenses incurred that will be recovered in future rates and reduction of future billings are collections from members that will benefit future periods. As a rate regulated entity, NIMPA's financial statements reflect the actions of the Board of Directors that result in the recognition of revenues and expenses in different time periods than enterprises that are not rate regulated in accordance with the provisions of GASB Codification Section Re 10, *Regulated Operations*.

Northern Illinois Municipal Power Agency
Notes to Financial Statements
December 31, 2022 and 2021

Note 1: Organization and Significant Accounting Policies - Continued

Regulated Operations - Continued

Under the terms of the power sales contracts with the Members, costs in excess of the amounts currently billed to members are to be recovered from future revenues (a regulatory asset) by setting rates sufficient to provide funds for the related debt service requirements. These non-cash costs, which primarily include depreciation and amortization expenses in excess of current principal payments, will be recovered over the lives of the bonds. The lives of the bonds do not exceed the utility plant useful life.

If rate recovery of generation-related costs becomes unlikely, whether due to competition or regulatory action, regulatory accounting as defined by GASB Codification Section Re 10, *Regulated Operations* may no longer apply to NIMPA's operations. This potential accounting change could result in either full recovery of net generation-related regulatory assets or a non-cash write-off. Based on NIMPA's current regulatory environment, management believes that the Agency's future recoverable costs are probable of future recovery.

In addition to the reductions of future billings resulting from the difference in budgeted and actual Member rates previously mentioned, NIMPA also has amounts recorded as reductions of future billings in the amount of approximately \$1.6 million at both December 31, 2022 and 2021, respectively, relating to NIMPA's allocation of certain PSGC assets for which NIMPA has not yet been billed for. These reductions of future billings will be reduced in future years when those assets are consumed in the normal course of PSGC's operations.

Net Position Classification

Net position is required to be classified into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

Net investment in capital assets- This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets.

Restricted - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), contributors, or law or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Northern Illinois Municipal Power Agency
Notes to Financial Statements
December 31, 2022 and 2021

Note 1: Organization and Significant Accounting Policies - Continued

Net Position Classification - Continued

Unrestricted - This component of net position consists of the net amount of the assets, liabilities and deferred inflows and outflows of resources that do not meet the definition of “restricted” or “net investment in capital assets.”

When both restricted and unrestricted resources are available for use, it is NIMPA’s policy to use restricted resources first, then unrestricted as they are needed. At December 31, 2022 and 2021, NIMPA’s net position can be broken down into the following components (in thousands):

| | 2022 | 2021 |
|----------------------------------|-------------|-------------|
| Net investment in capital assets | \$ (28,246) | \$ (33,156) |
| Restricted for debt service | 11,218 | 10,789 |
| Restricted by Board resolution | 12,393 | 11,992 |
| Unrestricted | 24,360 | 28,000 |
| | \$ 19,725 | \$ 17,625 |

The Trust Indenture restricts the debt service, debt service reserve and bond financed construction projects accounts. Under the provisions of GASB Codification Section Re 10, *Regulated Operations*, a governmental utility’s own governing board can establish restrictions on asset use.

Expenses

Operating expenses are defined as expenses directly related to, or incurred in support of, the production and transmission of electricity to the participating communities NIMPA serves. Future recoverable costs represent the regulatory effect of operating and nonoperating income and expenses deferred to future periods.

Regional Transmission Organizations (RTOs)

NIMPA is a transmission dependent utility of both Midcontinent Independent System Operator, Inc. (“MISO”) and PJM Interconnection, LLC (“PJM”). MISO and PJM are independent organizations whose purposes are to ensure the reliability of their respective integrated, regional electrical transmission systems, to facilitate a regional wholesale marketplace, to provide non-discriminatory access to the transmission system and to maintain and improve electric system reliability.

NIMPA records all net sales through MISO and PJM (Net Market Sales) to purchased power on the Statements of Revenues, Expenses and Changes in Net Position.

Northern Illinois Municipal Power Agency
Notes to Financial Statements
December 31, 2022 and 2021

Note 1: Organization and Significant Accounting Policies - Continued

Income Taxes

NIMPA, as a unit of local government of the State of Illinois, is exempt from federal and state income taxes.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires NIMPA to make estimates and assumptions that affect the reported amounts of assets, liabilities and deferred inflows and outflows of resources at the date of the financial statements and the reported amounts of revenues, expenses and other changes in net position during the reporting period. Actual results could differ from those estimates.

Note 2: Prairie State

NIMPA is part of a consortium known as the Prairie State Generating Company, LLC (Prairie State). Prairie State includes a pulverized coal-fired generating station and associated mine, rail, water, coal combustion waste storage and ancillary support that is located in Washington and Randolph Counties in southwest Illinois. The generating station consists of two supercritical boiler units (“Unit 1” and “Unit 2”) with a nominal net output capacity of 800 MW each. Construction commenced on Prairie State in the fall of 2007. Units 1 and 2 commenced commercial operation on June 6, 2012 and November 3, 2012, respectively.

NIMPA owns a 7.6% share of Prairie State. NIMPA’s utility plant in service and accumulated depreciation related to Prairie State at December 31, 2022 and 2021 was approximately \$473.6 million and \$472.9 million and \$128.9 million and \$116.7 million, respectively. Batavia, Geneva, and Rochelle have a 45.83%, 29.17% and 25.00% entitlement share of NIMPA’s ownership interest in Prairie State, respectively.

Note 3: Deposits and Investments

Deposits

NIMPA’s cash deposits are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). At December 31, 2022, uninsured and uncollateralized deposits in excess of the FDIC limit were approximately \$8.8 million.

Northern Illinois Municipal Power Agency
Notes to Financial Statements
December 31, 2022 and 2021

Note 3: Deposits and Investments - Continued

Investments

At December 31, 2022 and 2021, NIMPA had the following investments and maturities (in thousands):

| | Carrying Value | Maturities in Years | | Credit Ratings (S&P) |
|---------------------------|-------------------|---------------------|------|----------------------------|
| | | Less Than 1 | 1-5 | |
| December 31, 2022 | | | | |
| Money market mutual funds | \$ 61,396 | \$ 61,396 | \$ - | Aaa-mf |
| December 31, 2021 | | | | |
| Money market mutual funds | \$ 60,450 | \$ 60,450 | \$ - | Aaa-mf |

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. NIMPA's investment policy requires that funds remain sufficiently liquid to meet operating requirements which may be reasonably anticipated, but does not provide limitations on the maturities of the various types of investments.

Credit Risk

Credit risk is the risk that an issuer, or other counterparty to an investment, will not fulfill its obligations. NIMPA's investment policy establishes requirements for all investments in debt obligations to be rated at the time of purchase at one of the three highest classifications established by at least two standard rating services.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of a failure of the counterparty, NIMPA would not be able to recover the value of its investment securities that are in the possession of an outside party.

Concentration of Credit Risk

Concentration of credit risk is the risk associated with the amount of investments NIMPA has with any one issuer that exceeds 5% or more of its total investments. Investments issued or explicitly guaranteed by the U.S. Government are excluded from this requirement. NIMPA's investment policy places no limits on the amount of its investment portfolio that may be invested in any one issuer.

Northern Illinois Municipal Power Agency
Notes to Financial Statements
December 31, 2022 and 2021

Note 3: Deposits and Investments - Continued

Summary of Carrying Values

Following is a reconciliation of NIMPA's deposit and investment balances at December 31, 2022 and 2021 (in thousands):

| | <u>2022</u> | <u>2021</u> |
|-------------|------------------|------------------|
| Deposits | \$ 9,081 | \$ 12,481 |
| Investments | <u>61,396</u> | <u>60,450</u> |
| Total | <u>\$ 70,477</u> | <u>\$ 72,931</u> |

The carrying value of deposits and investments are included in the statements of net position at December 31, 2022 and 2021 as follows (in thousands):

| | <u>2022</u> | <u>2021</u> |
|--|------------------|------------------|
| Current Assets | | |
| Unrestricted cash and cash equivalents | \$ 10,224 | \$ 13,618 |
| Noncurrent Assets | | |
| Restricted cash and cash equivalents | <u>60,253</u> | <u>59,313</u> |
| Total | <u>\$ 70,477</u> | <u>\$ 72,931</u> |

Investment Income

There were no fair value changes in 2022 and 2021. To the extent any unrealized gains or losses are realized in the future, those realized gains or losses are refundable or recoverable through NIMPA's rate-making methodology. Accordingly, any unrealized losses at December 31, 2022 and 2021 would have been included in regulatory assets as future recoverable costs on NIMPA's December 31, 2022 and 2021 statements of net position.

Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities

Northern Illinois Municipal Power Agency
Notes to Financial Statements
December 31, 2022 and 2021

Note 3: Deposits and Investments - Continued

Disclosures About Fair Value of Assets and Liabilities - Continued

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

The Agency's investments in money market mutual funds are carried at cost and thus are not included within the fair value hierarchy. NIMPA did not have any investments recorded at fair value at December 31, 2022 and 2021.

Note 4: Capital Assets

Capital asset activity for the years ended December 31, 2022 and 2021, was as follows (in thousands):

| December 31, 2022 | Beginning Balance | Additions | Transfers | Retirements | Ending Balance |
|-------------------------------|------------------------------|--------------------|------------------|--------------------|---------------------------|
| Utility plant in service | \$ 472,923 | \$ - | \$ 772 | \$ (81) | \$ 473,614 |
| Construction work in progress | 2,579 | 2,239 | (772) | - | 4,046 |
| Total capital assets | 475,502 | 2,239 | - | (81) | 477,660 |
| Less accumulated depreciation | (116,666) | (12,274) | - | 48 | (128,892) |
| | <u>\$ 358,836</u> | <u>\$ (10,035)</u> | <u>\$ -</u> | <u>\$ (33)</u> | <u>\$ 348,768</u> |

| December 31, 2021 | Beginning Balance | Additions | Transfers | Retirements | Ending Balance |
|-------------------------------|------------------------------|--------------------|------------------|--------------------|---------------------------|
| Utility plant in service | \$ 470,898 | \$ - | \$ 2,129 | \$ (104) | \$ 472,923 |
| Construction work in progress | 2,748 | 1,960 | (2,129) | - | 2,579 |
| Total capital assets | 473,646 | 1,960 | - | (104) | 475,502 |
| Less accumulated depreciation | (103,966) | (12,721) | - | 21 | (116,666) |
| | <u>\$ 369,680</u> | <u>\$ (10,761)</u> | <u>\$ -</u> | <u>\$ (83)</u> | <u>\$ 358,836</u> |

Northern Illinois Municipal Power Agency
Notes to Financial Statements
December 31, 2022 and 2021

Note 4: Capital Assets - Continued

NIMPA's ownership interest in Prairie State includes an interest in coal reserves with an original cost, net of depletion, of \$4.5 million and \$4.7 million at December 31, 2022 and 2021, respectively. Depletion is expensed based on the amount of the coal reserves that are mined.

Note 5: Committed Line of Credit

In March 2017, NIMPA executed an Amended and Restated Committed Line of Credit Note with PNC Bank. On November 10, 2021, NIMPA executed a Second Amended and Restated Committed Line of Credit Note (Note). Under this Note, NIMPA may draw funds and/or post standby letters of credit up to a revised maximum amount of \$15.0 million. NIMPA had a \$2.5 million letter of credit posted at both December 31, 2022 and 2021. The Note has an expiration date of November 10, 2026, and can be extended for one additional year, at the request of NIMPA and the approval of PNC Bank.

Note 6: Long-Term Revenue Bonds

NIMPA has issued Power Project Revenue Bonds to finance the construction of Prairie State. Long-term revenue bonds issued and outstanding at December 31, 2022 and 2021 consist of the following (in thousands):

| Bond Series | Interest Rates | Due Date January 1, | 2022 | 2021 |
|-------------------------|-----------------------|--------------------------------|-------------------|-------------------|
| 2009 Series C | 5.688% - 6.859% | 2017 - 2039 | \$ 99,720 | \$ 103,640 |
| 2010 Series A | 7.620% - 7.820% | 2018 - 2040 | 65,850 | 67,795 |
| 2016 Series A | 3.000% - 5.000% | 2018 - 2041 | 226,855 | 234,195 |
| | | | <u>392,425</u> | <u>405,630</u> |
| Less current maturities | | | <u>(13,820)</u> | <u>(13,205)</u> |
| Long-term revenue bonds | | | 378,605 | 392,425 |
| Unamortized premium | | | 25,221 | 27,548 |
| | | | <u>\$ 403,826</u> | <u>\$ 419,973</u> |

Northern Illinois Municipal Power Agency
Notes to Financial Statements
December 31, 2022 and 2021

Note 6: Long-Term Revenue Bonds - Continued

Changes in NIMPA's noncurrent liabilities, including revenue bonds, were as follows for the years ended December 31, 2022 and 2021:

| 2022 | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|------------------------------|------------------------------|----------------------|---------------------------|---------------------------|--------------------------------|
| Revenue bonds | \$ 405,630 | \$ - | \$ (13,205) | \$ 392,425 | \$ 13,820 |
| Issuance premiums | <u>27,548</u> | <u>-</u> | <u>(2,327)</u> | <u>25,221</u> | <u>-</u> |
| Total long-term debt, net | 433,178 | - | (15,532) | 417,646 | 13,820 |
| Other noncurrent liabilities | <u>1,965</u> | <u>174</u> | <u>(3)</u> | <u>2,136</u> | <u>-</u> |
| Total | <u><u>\$ 435,143</u></u> | <u><u>\$ 174</u></u> | <u><u>\$ (15,535)</u></u> | <u><u>\$ 419,782</u></u> | <u><u>\$ 13,820</u></u> |
| 2021 | | | | | |
| Revenue bonds | \$ 418,240 | \$ - | \$ (12,610) | \$ 405,630 | \$ 13,205 |
| Issuance premiums | <u>29,933</u> | <u>-</u> | <u>(2,385)</u> | <u>27,548</u> | <u>-</u> |
| Total long-term debt, net | 448,173 | - | (14,995) | 433,178 | 13,205 |
| Other noncurrent liabilities | <u>1,956</u> | <u>23</u> | <u>(14)</u> | <u>1,965</u> | <u>-</u> |
| Total | <u><u>\$ 450,129</u></u> | <u><u>\$ 23</u></u> | <u><u>\$ (15,009)</u></u> | <u><u>\$ 435,143</u></u> | <u><u>\$ 13,205</u></u> |

The 2009 Series C Bonds maturing on January 1, 2024 and 2039, totaling approximately \$99.7 million and all of the 2010 Series A Bonds are callable at any time at a Make Whole Redemption Price. A Make Whole Redemption Price is the greater of 100% of the principal amount of the sum or the present value of the remaining scheduled payments of principal and interest to the maturity date of the bonds redeemed. All of the 2009 Series C Bonds and 2010 Series A Bonds are callable at any time at a Make Whole Redemption Price if an Extraordinary Event occurs. An Extraordinary Event is a material adverse change to Section 54AA or 6431 of the Internal Revenue Service Code which pertain to Build America Bonds. The 2016 Series A Bonds are callable on or after December 1, 2026 at a redemption price of 100%.

Northern Illinois Municipal Power Agency
Notes to Financial Statements
December 31, 2022 and 2021

Note 6: Long-Term Revenue Bonds - Continued

Debt service requirements including sinking fund requirements at December 31, 2022, are as follows (in thousands):

| | <u>Principal</u> | <u>Interest</u> |
|-------------|-------------------|-------------------|
| 2023 | \$ 13,820 | \$ 21,976 |
| 2024 | 14,470 | 21,184 |
| 2025 | 15,155 | 20,354 |
| 2026 | 15,880 | 19,455 |
| 2027 | 16,655 | 18,514 |
| 2028 - 2032 | 96,050 | 76,885 |
| 2033 - 2037 | 118,820 | 48,346 |
| 2038 - 2042 | 101,575 | 13,127 |
| | <u>\$ 392,425</u> | <u>\$ 239,841</u> |

Build America Bonds

The 2009 Series C Bonds and 2010 Series A Bonds are designated as Build America Bonds (BABs) under Section 54AA(d) of the Internal Revenue Code. NIMPA receives a subsidy payment from the United States treasury equal to a percentage of the interest payable on the BABs. NIMPA received approximately \$4.0 million and \$4.1 million in 2022 and 2021 respectively. Any future subsidy payments are contingent on federal regulations and are subject to change. Subsidy payments received are included in other non-operating income on the Statements of Revenues, Expenses and Changes in Net Position. The subsidy is not reflected in the table above.

Rate Covenant

NIMPA sets rates that generate funds adequate for operating costs and aggregate debt service in accordance with the Trust Indenture.

Note 7: Accounting for Asset Retirement Obligations

Asset retirement obligations represent legal obligations associated with the retirement of tangible long-lived assets that are incurred upon the acquisition, construction, development or normal operation of the assets. NIMPA's asset retirement obligations consist of costs associated with the future cost of mine reclamation and closure at Prairie State. NIMPA's share in Prairie State's asset retirement obligations as of December 31, 2022 and 2021 totaled approximately \$2.1 million and \$2.0 million, respectively, and were measured as of those dates. Prairie State has posted surety bonds as security for the mine reclamation and closure.

Northern Illinois Municipal Power Agency
Notes to Financial Statements
December 31, 2022 and 2021

Note 7: Accounting for Asset Retirement Obligations - Continued

Asset retirement obligations are recognized in the period in which they are incurred, if a reasonable estimate of fair value can be made. The asset retirement obligations are accreted to their present value at the end of each reporting period. The associated estimated asset retirement costs are included as a deferred outflow of resources and amortized over their estimated useful life. The Agency uses an expected cash flow approach to measure the obligations. NIMPA’s asset retirement obligations have no impact on the change in net position because of the Agency applying the provisions of GASB Codification Section Re 10, *Regulated Operations*.

The following table presents the details of the Agency’s asset retirement obligations for the years ended December 31, 2022 and 2021 (in thousands):

| | Beginning Balance | Liabilities Incurred | Liabilities Settled | Accretion | Cash Flow Revisions | Ending Balance |
|------|------------------------------|---------------------------------|--------------------------------|------------------|--------------------------------|---------------------------|
| 2022 | \$ 1,965 | \$ - | \$ (3) | \$ 98 | \$ 76 | \$ 2,136 |
| 2021 | \$ 1,956 | \$ - | \$ (6) | \$ 89 | \$ (74) | \$ 1,965 |

Note 8: Commitments and Contingencies

Capital Expenditures

NIMPA anticipates its share of future capital expenditures for Prairie State Units 1 and 2 to total approximately \$11.5 million for the years 2023 through 2027. The projected capital expenditures are of a normal and recurring nature. NIMPA anticipates funding the projected capital improvements with a combination of internally generated funds and existing borrowed funds.

Litigation

The Agency is subject to claims and disputes that arise in the normal course of business. It is the opinion of management that the disposition or ultimate resolution of any such matters will not have a material adverse effect on the financial statements of the Agency.

Environmental Matters

Illinois Climate and Equitable Jobs Act or “CEJA”

The Illinois Climate and Equitable Jobs Act was signed into law on September 15, 2021. CEJA established decarbonization targets that require Prairie State and all other public-owned (municipalities and cooperative owned) coal-fired generating units to permanently reduce CO2e emissions to zero by December 31, 2045. CEJA also requires a 45% reduction of CO2e emissions by December 31, 2035, and if that emission reduction level is not achieved, then “the plant shall retire one or more units or otherwise reduce its CO2e emissions by 45% from existing emissions by

Northern Illinois Municipal Power Agency

Notes to Financial Statements

December 31, 2022 and 2021

Note 8: Commitments and Contingencies - Continued

Environmental Matters – Continued

Illinois Climate and Equitable Jobs Act or “CEJA” - Continued

June 30, 2038.” CO₂e is defined as the “aggregate group of 6 greenhouse gases: carbon dioxide, nitrous oxide, methane, hydrofluorocarbons, perfluorocarbons, and sulfur hexafluoride.” The practical implication of this 45% reduction is that Prairie State will need to reduce its CO₂e emissions to approximately 7.4 million short tons by June 30, 2038; this could be achieved through the installation of carbon capture, unit closure or other operational changes. Prairie State may continue emitting greenhouse gasses after any applicable deadline (2035 or 2045) if its ongoing operation is necessary to serve as an emergency backup to operations. The Agency continues to evaluate the impacts of this legislation on future operations.

The Cross State Air Pollution Rule

On April 6, 2022, the United States Environmental Protection Agency (EPA) issued a proposed rule that would modify its existing Cross-State Air Pollution Rule (CSAPR) program by further limiting the emission of nitrogen oxides (NO_x) from stationary sources located in 26 states, including Illinois. The proposal would implement EPA’s 2015 National Ambient Air Quality Standards (NAAQS) for ozone of 70 parts per billion by imposing Federal Implementation Plans (FIPs) on specified states, including Illinois. The proposed rule would require upwind states to prevent sources located within their borders from contributing significantly to nonattainment or interfering with maintenance of the NAAQS in downwind states. The EPA is also making changes to the trading program. NIMPA and its Prairie State partners continue to monitor the EPA’s activities, but based on the preliminary assessment, PSGC expects to remain compliant with the standard and anticipates minimal and primarily financial impact of the rule changes.

The Mercury and Air Toxics Standards (“MATS”)

The Mercury and Air Toxics Standards (“MATS”) rule sets emission limits for hazardous air pollutants (“HAPS”), including mercury, particulate matter (“PM”), and hydrochloric acid (“HCl”) for electric generating units greater than 25 MW. The Prairie State Generating Station as originally constructed is in compliance with the rule. On February 17, 2023, the EPA reaffirmed the original scientific, economic and legal underpinnings of the rule, which was issued in 2012. Although the agency did not change the standards, it indicated that it would undertake a “risk and technology” review to determine whether more stringent limits are warranted. NIMPA and its Prairie State partners continue to monitor the EPA’s review.

Clean Power Plan

The United States Supreme Court issued a decision in *West Virginia v. EPA* in 2022 holding that Congress did not grant the EPA authority under the Clean Air Act to devise emissions caps based on the generation shifting approach taken by the Agency in the Clean Power Plan. The Court did not completely bar the EPA from regulating greenhouse gases, but ruled that the agency used vague language to wield substantial power that Congress had not granted to it. The case was remanded to the D.C. Circuit. It is anticipated that the EPA will propose new rules in 2023.