Northern Municipal Power Agency

2015 Annual Report

Connecting Local Communities

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 percent share of the 427,000-kilowatt Coyote Station located near Beulah in western North Dakota. NMPA also owns a load-ratio share (approximately 15 percent) of the Minnkota Power Cooperative, Inc. transmission system. Minnkota of Grand Forks, N.D., is the operating agent for NMPA and purchases capacity and energy from the Coyote Station not required by NMPA members.

The NMPA headquarters building is located in Thief River Falls, Minn.

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

Officers, Board of Directors and Staff

Jerald Pederson
President
Hawley, Minn.

Lucas Spaeth
Vice President
Halstad, Minn.

Dalene Monsebroten
Secretary-Treasurer

Mike Jensen
Bagley, Minn.

Roger Schotl
Baudette, Minn.

David Larson
Fosston, Minn.

Chris West
Grafton, N.D.

Dennis Larson
Park River, N.D.

Todd Peterson
Roseau, Minn.

Leonard Bazey
Stephen, Minn.

Barry Froiland
Thief River Falls, Minn.

Shannon Mortenson
Warren, Minn.

Ron Kleinschmidt
Warroad, Minn.

Darryl Tveitbakk
General Manager

Paul Ihle
Legal Counsel

Contents

On the Cover: TEAM Industries of Bagley, the North Valley Health Center of Warren, the Seven Clans Casino of Warroad and the Sanford Thief River Falls Medical Center, all of which are key accounts for Northern Municipal Power Agency participants, have grown in the past few years.

TEAM Industries driving force behind ATVs, UTVs

When Don Ricke opened an engineering and manufacturing business in the 1960s just north of the Twin Cities in Cambridge, Minn., he remained focused on a larger goal of bringing good paying jobs to northwest Minnesota.

Mission accomplished.

The late Ricke, who grew up near Bagley, Minn., working at his family's blacksmith shop, would be pleased to see 370 people alone working at TEAM Industries in Bagley today. Overall, TEAM Industries, which started as Motek Engineering and Manufacturing in Cambridge, has about 1,150 employees at several locations mostly in Minnesota, including the cities of Detroit Lakes and Audubon.

TEAM Industries, which receives its power from NMPA participant Bagley Public Utilities, engineers and manufactures performance and reliability-enhancing components. The principal products include transmissions, transaxles, axles and four-wheel drive systems, continuously variable transmissions (CVTs) and electric vehicle drivetrains.

Now led by President & CEO David Ricke, Don's son, TEAM Industries' top customer continues to be Polaris. TEAM Industries has supplied suspension and driveline components for a wide-range of Polaris vehicles.

TEAM Industries' products go primarily into utility terrain vehicles (UTVs) and all-terrain vehicles (ATVs), along with golf carts and snowmobiles, and even electric vehicles. Among other customers are Yamaha, Kawasaki, John Deere, Club Car, E-Z-GO, Arctic Cat, Caterpillar, Toro and Harley Davidson.

Take advantage of PowerSavers

TEAM Industries took advantage of the PowerSavers program to help it become more efficient in its energy use in 2015. The company was reimbursed nearly $2,500 in incentives and saved more than 10,000 kilowatt-hours (kWh) with air conditioning tune-ups and by upgrading a variety of lighting.

TEAM Industries was one of the businesses, along with individuals, combining to save 62,696 kWh and receive $10,352 in incentives in the city of Bagley in 2015. TEAM Industries is the largest customer for Bagley Public Utilities, using more than 6 million kWh in 2015.

Power SAVERS
Working together to save energy

2015 NMPA POWERSAVERS SUMMARY

	Incentives Paid	kWh Savings
Bagley Public Utilities	$ 10,352	62,696
Baudette Municipal Utilities	12,419	144,376
Fosston Municipal Utilities	8,363	134,526
Halstad Municipal Utilities	2,641	21,473
Hawley Public Utilities	27,176	344,643
Roseau Municipal Utilities	30,577	355,051
City of Stephen Utilities	4,101	43,939
Thief River Falls Municipal Utilities	61,072	462,810
City of Warren Water & Light	4,714	37,399
Totals	$161,415	1,606,913

As a part of the PowerSavers program, participating Minnkota cooperatives and NMPA municipals have partnered to offer a comprehensive set of energy-efficiency strategies and incentives to retail consumers. Collectively, these utilities helped save more than 27 million kWh in 2015. Since the program was launched in 2010, more than 150 million kWh have been saved through PowerSavers.

Lake of the Woods Foods has big year of CIP activity

One of the top energy savers for the city of Baudette, an NMPA municipal, was Lake of the Woods Foods. The company installed new and replacement lighting fixtures, lamps and case lighting in its facility. Lake of the Woods Foods saved about 89,000 kWh and received more than $8,000 in incentives. Overall Baudette businesses saved 144,376 kWh and were reimbursed $12,419 through PowerSavers' incentives.

Businesses and individuals within the city of Thief River Falls had the most PowerSavers activity among the NMPA municipals. They saved 462,810 kWh and were paid $61,072 in incentives in 2015. Roseau businesses and individuals were next at 355,051 kWh saved and $30,577, followed by Hawley at 344,643 kWh and $27,176.

President's and General Manager's Report

In December 2014 the Coyote Station experienced an unplanned outage due to a catastrophic failure of one of two boiler feed pumps. The ensuing fire caused quite a bit of damage to the generator/boiler area of the station. Following the failure, staff did a great job of cleaning up and getting the station restored to 60 percent capacity using the remaining boiler feed pump. Coyote staff quickly isolated the failed pump from the system, repaired control wiring and other related equipment, all occurring within just a few weeks.

The unit ran almost all of 2015 at 60 percent generating capacity. Overall availability in 2015 was still high at 94.2 percent. There are more details available on Coyote Station performance elsewhere in this report.

On Aug. 3 President Obama and the Environmental Protection Agency (EPA) released the final Clean Power Plan (CPP) to reduce carbon dioxide (CO_2) emissions from power plants.

The CPP regulates greenhouse gas emissions from existing fossil fuel-based power plants under Section 111(d) of the Clean Air Act. Under the plan, CO_2 reductions will be phased in over a 2022-2029 timeline, with final targets to be achieved by 2030.

When fully implemented, the EPA expects the power sector will have reduced CO_2 emissions by 32 percent from 2005 levels. Each state will have until 2018 to develop a State Implementation Plan (SIP). In North Dakota we are concerned about the potential impact to the Coyote Station. We have testified before the North Dakota Department of Health to express our concerns. Update: (On Feb. 6, 2016, the U.S. Supreme Court granted a stay, halting implementation of the EPA's CPP pending the resolution of legal challenges to the program in court. The stay will push all compliance timelines back until legal proceedings are completed. Stay tuned.)

We will continue to work with the state of North Dakota, Coyote Station co-owners and other generator-owning utilities in the region as North Dakota develops its plan and the legal issues play out.

The 2015 Minnesota legislative session was convened on Jan. 6. Activity concluded with the adjournment of the Special Session on June 13. With a divided government, many varying energy policy proposals were discussed but very few passed into law. Together with the Minnesota Municipal Utilities Association (MMUA), other utility lobbyists, officials from our participant cities and NMPA staff, we were successful in preventing passage of a number of unfavorable energy policies, including increasing the Renewable Energy Standard to 40 percent by 2030 and increasing the Conservation Improvement Program from 1.5 percent to 2.0 percent.

There was also discussion of data privacy as it relates to Joint Action Agencies (JAA) like NMPA. We were able to convince committee chairs that subjecting JAAs to open data practices would put us at a great competitive disadvantage.

We want to thank the MMUA for its tireless efforts to turn back these attempts. We also want to thank those people from our participant cities for taking time to be in St. Paul to make our concerns known to their elected officials. We will continue to work with MMUA and other JAAs as we represent the best interests of our participant cities in the legislatures.

We appreciate the diligent efforts of our employees, our Board of Directors and our operating agent, Minnkota Power Cooperative. Our continuing success is made possible because of the experience and dedication of all of the hard-working men and women who make up the Joint System. We will continue to do all we can to provide affordable, reliable and environmentally sensitive energy services to our participants now and into the future. You can count on it.

In closing, we want to express our appreciation for the privilege of serving as the President and the General Manager of the Northern Municipal Power Agency.

Sincerely,

Jerald Pederson
President

Darryl Tveitbakk
General Manager

Jerald Pederson, President **Darryl Tveitbakk,** General Manager

Our continuing success is made possible because of the experience and dedication of all of the hard-working men and women who make up the Joint System. We will continue to do all we can to provide affordable, reliable and environmentally sensitive energy services to our participants now and into the future.

Secretary-Treasurer's Report

Dalene Monsebroten Secretary-Treasurer

Our mission of providing an adequate, economical, reliable and long-term supply of electric energy and related services to the Northern Municipal Power Agency municipal participants was evident in 2015. The Agency's Power Supply Coordination Agreement with Minnkota Power Cooperative ensures our ability to meet these obligations. As you will have read throughout the annual report, the Coyote Station operated at a reduced output level throughout 2015 without major cost impacts to the Joint System.

The average wholesale rate to participants was 74.31 mills/kWh in 2015, a 3.19 percent increase from 2014. Mild temperatures accounted for the majority of the reduction in the amount of kWh sales to participants with heating degree days almost 12 percent below the 33-year average. The Minnesota utilities that participate in the PowerSavers program met the mandate of 1.5 percent annual reduction of energy usage by conservation measures. Sales to participants were 456,823,149 kWh for 2015, which was approximately 3.5 percent less than 2014.

The amount of revenues received from participants in 2015 of $33,834,095 reflected a 5 percent rate increase in April. This accounted for a very slight increase in participant revenues even with the reduction of kWh sales. Total revenue of $54,746,684, which also includes sales to Minnkota and others and investment and other income, decreased approximately $3 million from 2014.

Otter Tail Power Company continued as operating agent of the Coyote Station in 2015. The Agency's 30 percent share of fuel and O&M costs for Coyote totaled 30.4 mills, while the average cost of net energy production rose to 30.49 mills per kWh. The increase of 23.84 percent from 2014 in average cost of net energy production was due to the plant being run at reduced output.

Agency debt at the end of 2015 was $208,745,000 of fixed rate bonds, with the final maturity date being 2031. No additional bonds were issued during the year. The coverage ratio and reserve obligations continue to be met and reviewed for opportunities to provide savings to the NMPA participants. Keeping the wholesale rates competitive and our generation and transmission systems reliable is a priority to the Board of Directors.

The annual financial audit was conducted by Brady, Martz & Associates, P.C., the independent auditors retained by the Board. The auditors indicate that the financial statements fairly present, in all material respects, the net position of the Agency as of Dec. 31, 2015, and the results of its operations and its cash flows for the year ended in accordance with generally accepted accounting principles. Included in this annual report are the management's discussion and analysis, containing highlights of the balance sheet and financial statements that are to be read in conjunction with the Independent Auditor's Report.

We value our continued relationships with the NMPA participants and our operating agent, Minnkota Power Cooperative, and strive to sustain the success of serving together to supply the electrical needs of our region's businesses and citizens.

This annual report contains a broad discussion of financial and operating information along with other highlights that occurred throughout the year. I encourage you to review the report in its entirety.

Sincerely,

Dalene Monsebroten
Secretary-Treasurer

Engineering Report

The 1981, 1985, 1989, 1992, 1997, 1998, 2002, 2007, 2008, 2009, 2010 and 2013 Bond Prospectus contain projections of the Agency participants' peak demand, energy requirements and estimated power costs for years ending on April 20, as well as on a calendar year basis. Our comparisons herein will be the calendar year actual versus fiscal year projections.

The actual system peak of 97,333 kilowatts (kW) is only 332 kW less than that of the 2014 yearly peak of 97,665 kW. The corresponding 2015 kWh energy sales total of 456,823,149 kWh is 16,367,652 kWh less than the 473,190,801 kWh sold in 2014. One major factor contributed to these changes:

- 2015 heating degree days decreased significantly or 15.9 percent from that of 2014. The annual average heating degree days since the Coyote Station began operations (1982-2015) is 9,601 degree days with 2015 registering 8,463 degree days or 11.9 percent below the 33-year average. The normal heating months of October through March saw 15.5 percent fewer heating degree days than that same period of 2014.

The Coyote Station was operated during 2015 by participating owner Otter Tail Power Company. Monthly reports are issued to all owners on incurred operating costs, inventory activity and capital expenditures. Operating costs for the year ending Dec. 31, 2015, totaled $58,571,779, with the Agency share totaling $17,647,935, or an average cost of 30.40 mills per kWh. The average cost of net energy production for the total plant rose to 30.49 mills per kWh from 24.62 mills per kWh in 2014. This reflects an increase in average cost of net energy production of 23.84 percent.

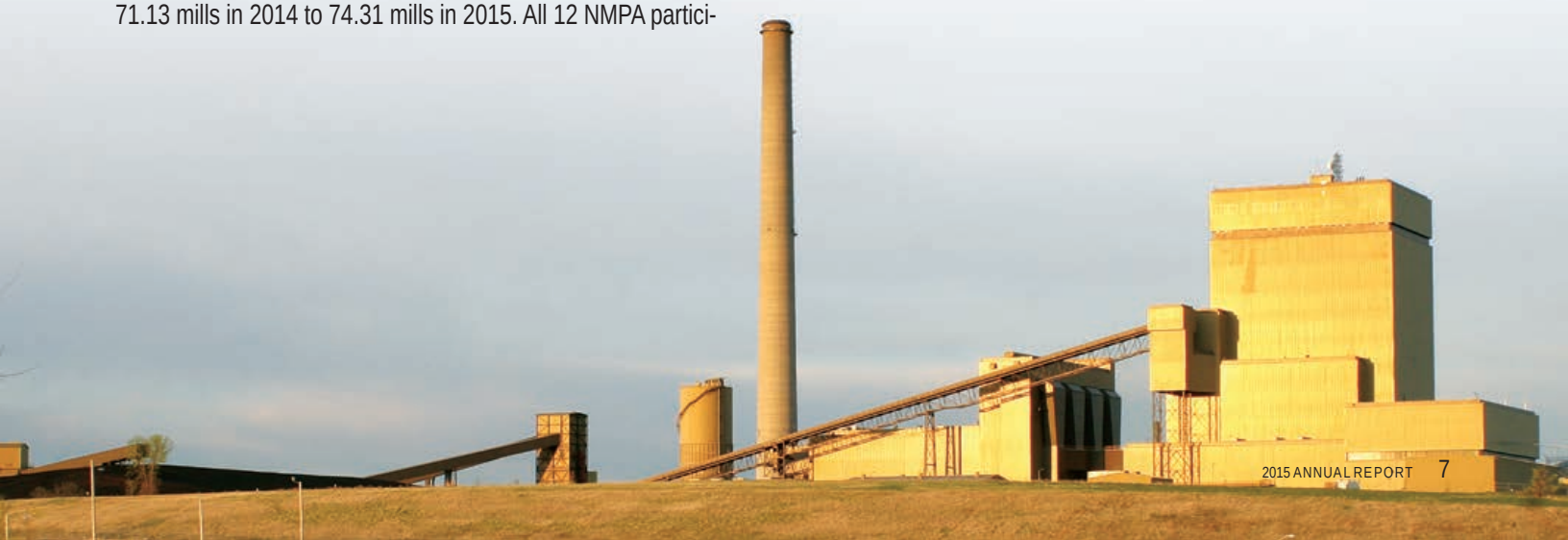
The average power cost per kWh continues to remain stable due to controlling load demand, improving plant efficiency, as well as the effects of refinancing during 1985, 1989, 1992, 1997, 1998, 2007, 2009 and 2010, and continued innovative Wholesale Power Pricing policies.

During 2015 the Agency participants' wholesale cost of power (average cost per kWh) increased 2.20 mills or 4.5 percent from 71.13 mills in 2014 to 74.31 mills in 2015. All 12 NMPA participants experienced individual average wholesale power cost increases ranging from 1.94 to 5.46 mills/kWh.

Production in the Coyote Station facility in 2015 was impacted by a forced outage in 2014. A forced outage due to a failure in a boiler feed pump turbine on Dec. 4, 2014, resulted in a facility outage for 18 days and subsequent operation of the facility at significantly reduced capacity into December 2015. Operations at reduced capacity did not affect availability in 2015, resulting in an availability factor of 94.2 percent (8,255 hours). By comparison, the average yearly availability over the past 25 years was 85.5 percent. The 2015 availability factor is 10.2 percent above the 25-year average. However, gross generation decreased by 856,052 megawatt-hours (MWh) or 29.36 percent below that of 2014, resulting in a capacity factor of 51.3 percent, which is also significantly below the 25-year average capacity factor of 77.3 percent.

The funds advanced by NMPA during 2015 for the operation of the Coyote Station equaled $21,197,757 of the total of $70,480,000 funds advanced by the entire group of Station owners. NMPA participants contributed $33,834,095 in revenue of the total of $54,746,684 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 and the NMPA provides for capital credits to be allocated to the Agency whenever such credits are allocated to other Minnkota Power members. For 2015 Minnkota Power had an operating loss of $2,452,573 and a nonoperating margin of $9,952,573 for a total margin of $7,500,000. Minnkota's 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. Due to an operating loss, there was no allocation of capital credits in 2015. At the time the accumulated operating losses are offset by operating margins, allocation of margins would resume.



The boiler feed pump turbine assembly is put back together in December 2015.

Coyote comes back strong after 2014 forced outage

The last week of 2015 was a good one for the Coyote Station.

Coyote returned to full load on Dec. 30 after being at a reduced load for more than a year after one of its two boiler feed pump turbines catastrophically failed on Dec. 4, 2014. Severe mechanical and fire damage was done to the plant in the area of the boiler feed pump failure.

The boiler feed pump turbine is unloaded onto the turbine deck on Dec. 10.

The 427-megawatt plant was producing at about 60 percent load from late December 2014 until mid-December 2015. During that time repairs were made to the turbine, gearbox and the boiler feed pumps.

The turbine returned from Houston, Texas, on Dec. 10, 2015, where it had been rebuilt. At that time efforts were extended around the clock to get the turbine installed and operational.

"Our supervisors and maintenance crews showed a phenomenal amount of hard work, dedication and tenacity to accomplish this task, which had seemed insurmountable at times," said Brad Zimmerman, plant manager. "A big thank you to everyone involved."

After the turbine returned, the unit was offline from Dec. 14, 2015, until Dec. 23, 2015, to tie in new piping, hydraulics, instrumentation and controls.

"We ran with the new turbine at reduced load due to strainers in the lines until Dec. 30, when the strainers were removed and the unit returned to full load," Zimmerman said.

The unit was performing well heading into 2016.

"Everyone is happy to see bigger numbers on the board," Zimmerman said.

The cause of the boiler feed pump incident in late 2014 was a series of valve failures, along with the right operating conditions.

"The event resulted in severe mechanical damage to the turbine, which then caused oil and steam leaks," Zimmerman said. "These leaks stemmed an oil fire, which caused severe damage to the building, roof, nearby equipment and the wiring located below. The most important part of the event was that no one was injured."

Damages to the plant totaled at least $11.3 million. However, only about $1.25

million was not covered by insurance.

NMPA has a 30 percent ownership share in the Coyote Station, which is operated by Otter Tail Power.

New mining area prepared

North American Coal prepared a new mining area for the Coyote Station in 2015. It also built the Coyote Creek Mine dragline.

The mine, which is located about 10 miles southwest of Beulah in Mercer County, is expected to produce about 2.5 million tons of coal annually when it begins operating in late spring 2016. It's the first major new mine to be permitted in North Dakota since the 1970s.

In spring 2015 Coyote Creek Mining Company began developing the mine, which covers 8,091 acres, 4,530 acres of which will be mined and the rest used for stockpiles, haul roads and other infrastructure, including the mine's shop, office and dragline.

Coyote Station owners made a decision in 2012 to switch coal providers because North American Coal can deliver coal cheaper than the previous supplier.

Performance Report

To summarize 2015 at the Coyote Station, Mechanical Supervisor Brad Klipfel quoted "A Tale of Two Cities."

"It was the best of times, it was the worst of times," Klipfel said.

Station Manager Brad Zimmerman agreed, adding: "Charles Dickens knew what he was talking about. Our challenges were obvious, but I would like to point out some very good things about 2015."

Those many good things include:

- Coyote surpassing 2,500,000 labor hours without a lost-time incident. "This is remarkable," said Zimmerman. "We also finished 2015 strong with one recordable and four incidents. I am personally very thankful for this accomplishment!"
- Despite retirements and turnover in the workforce, Coyote found 14 talented, hard-working employees to replace them.
- Even though electric production was only 60 percent for most of the year, Coyote was available 94.2 percent of the year and came in well under budget on both operating and maintenance and capital costs.
- The ability to deal with unfamiliar issues such as the need to build conveyors, rebuild pumps and redesign turbines.

"We have seen extraordinary efforts and accomplishments in the face of adversity by too many people to mention," Zimmerman said. "I have seen resourcefulness, grit and determination by a group of people who work together and coordinate very well, even on the bad days.

"Younger employees are stepping up to the plate and learning along the way from experienced employees' training. Thank you and congratulations to all of Coyote Station for surviving, being better for the experience and getting this machine back to normal."

The first grade class at Beulah Elementary gave the new dragline its name "Wiley," winning a North American Coal contest. The teacher said the students wanted to name it after the most famous coyote of all, Wile E. Coyote, "because he's always hungry!"

Coyote Operating Statistics

	2015	2014	2013
Hours of Operation	8,226	7,526	7,064
Hours of Outage	504	1,234	1,696
Plant Availability (Percent)	94.2	85.9	80.6
Gross Generation – Total (MWh)	2,060,099	2,916,151	2,811,707
Net Generation – Total (MWh)	1,916,652	2,745,040	2,650,881
Fuel Burned – Coal (Tons)	1,659,351	2,248,483	2,105,090
Fuel Burned – Fuel Oil (Gallons)	409,364	442,815	356,842
Fuel Cost – Coal ($/Ton)	21.56	20.42	22.15
Fuel Cost – Fuel Oil ($/Gallon)	2.24	3.15	3.23
Fuel Cost (Mills/kWh)	19.1	17.2	18.0
Total Production Cost (Mills/kWh)	30.5	24.7	25.8

Providing the best care

This is one of the large inpatient rooms in Thief River Falls, with the family area on the right.

The clinic entrance in Thief River Falls.

Hospital builds in Thief River Falls, Warren a big lift to northwestern Minnesota

Thanks to two new municipal medical centers in northwest Minnesota, the proverbial golden hour in emergency medicine is being met more frequently in the last three years.

New buildings and helipads and upgraded and additional services in both Thief River Falls and Warren are providing a boost to rural emergency response time in areas that can be susceptible to accidents – farming and manufacturing communities.

Rob Lovejoy is the chief operating officer at Sanford in Thief River Falls.

The North Valley Health Center in Warren, which opened in fall 2013, is a $15 million, 12-bed, 43,000-square-foot hospital and clinic. The Sanford Thief River Falls Medical Center, which opened in fall 2014, is a $57 million, 25-bed, 136,000-square-foot hospital and clinic.

Both communities, which receive their power from municipals who are participants in the Northern Municipal Power Agency, were badly in need of new facilities.

"We had a hospital that was built in 1957," North Valley interim CEO Jon Linnell said. "Infrastructure was built for the day. It was designed for the era but not for the future."

Thief River Falls outlasted its former hospital as well. The high pressure boilers were so old that the maintenance team had to build tools to repair them. One of the elevators went down in the old facility three months before the move to the new hospital. Chief Operating Officer Rob Lovejoy was told it would cost $75,000 to replace a motherboard on the essential elevator.

Since the manufacturer had no parts, the maintenance team got online and Googled the part. "They found an old motherboard for this ancient elevator system, and we called the vendor out and they put the part in," Lovejoy said. "The total cost for us was $2,500."

Lovejoy doesn't have to worry about elevator repairs at his new hospital. It's one story. The North Valley Health Center also is one story.

Below is a closer look at the facilities:

Sanford Thief River Falls Medical Center

Lovejoy said Sanford went outside of the box with the new hospital-clinic.

"We designed all of our patient rooms with what we call a mini family room," he said. "There is a clear-cut, specific space laid out to allow for families to hang out and be comfortable within the patient room.

"We had a commitment by our physicians, providers and staff to give spaces up, to give up office space. Our providers agreed to take an office space that is 6x10 in order to give more space to patient care and family care areas. Without this support, we would not have been able to accomplish staying on budget."

Highlights include an in-house MRI; electronics and sensors that control everything from lights to energy; heated sidewalks; an adaptable panel system in exterior walls for versatility and expansion; lift systems in hospital rooms; a built-in tubing system for quick transfer of samples; and a retail pharmacy.

The helipad is another key improvement in Thief River Falls health care.

Thief River Falls had a helipad on top of its former hospital, but it couldn't support today's helicopters. As a result, the hospital had to transport critical patients by ambulance to the airport, where they were transported to another facility.

"That would add easily 15 minutes to the time frame," Lovejoy said.

Sanford provides services elsewhere in town, too.

It renovated the old downtown hospital into a 16-bed behavioral health hospital and outpatient clinic. Cost of that stand-alone facility – about $4.5 million – was included in the price of the new hospital-clinic along Minnesota Highway 32. Sanford also renovated the old clinic on U.S. Highway 59 that now houses a wellness center and eye center, along with dermatology, pain management services and outreach providers.

North Valley Health Center

Linnell said North Valley Health Center, which was built south of the former hospital, doesn't pretend to be the answer to all health care needs.

"We don't do heart transplants, we don't do liver transplants, we don't do brain surgery, we don't do any of that," he said. "But what we do is take care of the people for the common needs."

NVHC provides family and specialty care, procedures, inpatient and swingbed care, physical therapy, imaging and laboratory services and a 24-hour emergency room.

Highlights include heated sidewalks; electronics and sensors that control everything from heating to cooling down to a specific room; the ability to put supplies in patient rooms from either the hallway or inside; lift systems in hospital rooms; extensive physical therapy and pain management services; ranked as one of 2014's Top 20 Most Beautiful Hospitals in the U.S. by Soliant Health; and the campus layout in relation to other services.

"We have a clinic, hospital, nursing home, assisted living and senior apartments, all within the same campus," Linnell said. "We have a medical campus here."

NVHC moved into the new building in November 2013.

"If you can get them stabilized here and move them on to where they need to go, you save lives," Linnell said. "And people deserve that, people who grow food for you to eat deserve the same capabilities of living in metro or urban areas.

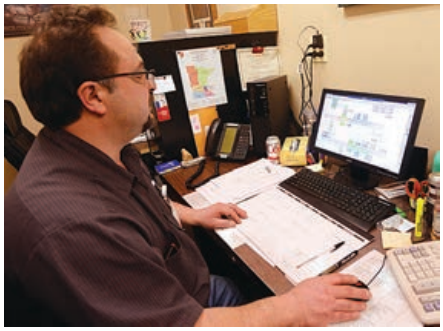
"The goal of having this in proximity with other facilities in the area, you still need that emergency room, and people realize that. Not only that but you also try to keep the elderly in the communities where they grew up, raised their children. We live in northern Minnesota and North Dakota. In the wintertime they don't have to travel to a clinic and most of your elderly need that ability to go for your colds, your flus and your immunizations and maybe rehabilitation for hip injuries or hip replacements or strokes."

NVHC has received a lot of community support for the hospital-clinic – both with donations and patient visits.

NMPA provides the electricity to power all the equipment in the hospitals. Lovejoy and Linnell both said they need and appreciate reliable power.

"We do have backup generators, of course, but without long-term reliability and readily accessible power we would be hard-pressed to serve our community needs," Lovejoy said. "Electricity to health care is like what breathing is to life. Without it, we cannot provide the needed medical services to our community."

North Valley Health Center in Warren, Minn.



Electronics help Warren control heating and cooling in rooms.

Abundant space and light surround a nurse's station in Warren.

The casino does many give-aways, one of which was this black pickup truck.

Seven Clans pieces together a gem

All-inclusive casino attracts a lot of business in Warroad

Seven Clans Casino in Warroad, Minn., had it all. Casino, hotel, restaurant. All on or near Lake of the Woods.

The only issue? They were all in separate locations. In fall 2014 they came together like a royal flush.

"At the old property we only had a gaming floor," said Donna Perkins, Seven Clans general manager. "We had a snack bar and a gift shop there. Now we have a hotel, a restaurant, a snack bar, a gift shop and a gaming floor. We have it all under one roof, and we love it."

Suites overlooking Lake of the Woods are equipped with many items one finds in their home kitchen and living room.

Red Lake Gaming opened the doors on its new, state-of-the-art facility in September 2014. More than a year later, it's showing an increase in door counts of about 5,000 people per month over the old casino. Seven Clans officials say the increase has been sparked by 60 on-site hotel rooms, which have had better than 80 percent occupancy.

"People really like the new facility," said Elaine Boucha, slot manager. "You get to stay and play and eat all under one roof. In the old building it was not very convenient."

Customers from North Dakota, Wisconsin and Minnesota enjoy coming to the new site, but 60 percent of the casino's database consists of Canadian residents. Donna Kirby came down to the casino from Lundar, Man., which is located about 100 miles north of Winnipeg, in October for a two-night stay. Earlier she had visited casinos in Red Lake and Thief River Falls.

"Everybody was telling us the machines were looser than in Thief River Falls, so we figured we would try it out," she said. "I don't think there's anything to that, but they said it was a new hotel and rooms overlooked the lake."

The Warroad facility is the oldest and

newest of Red Lake Gaming. Originally named the Lake of the Woods Casino, it opened in 1991 in a renovated fishery. In 2000, Red Lake Gaming changed the name to Seven Clans Casino – Warroad. The name was derived from the Seven Clans that represent the Red Lake Nation. Those Seven Clans are represented in the Red Lake Nation Flag.

Through the years, Red Lake Gaming has added properties in Red Lake and Thief River Falls. The three are collectively called Seven Clans Casinos.

With the new facility, Seven Clans has expanded its entertainment. Clint Black and Tanya Tucker performed to sellout crowds in 2015. The Oak Ridge Boys will perform at the Warroad facility July 9, 2016, as part of the summer concert series.

A large part of the casino's success is related directly to Lake of the Woods, said Ray Brenny, CEO of Seven Clans Casinos.

"Mainly for the Canadian customers, it's a destination," he said. "They are coming and the average stay is two nights and three days. They are looking for a little R&R, to have some fun and enjoy the lake and the entertainment and games."

Seven Clans will increase the number of ice houses on Lake of the Woods with the addition of Outfitters, a convenience store that includes live bait and tackle at their former Lakeview Restaurant site. There will also be an ice road for fishermen this winter that will connect Seven Clans Casino and Hotel to Outfitters, and from there, on to the lake.

Along with the addition of Outfitters, Brenny said the building of the casino-hotel is just phase 1 of a three-phase plan for Warroad. Phase 2 would add 150 boat docks, an RV park and a boat landing. Phase 3 includes a hotel expansion, gaming floor expansion and an events center.

"It's got to be controlled growth," Brenny said. "It means we are going to make sure the business levels are there before we start expanding."

The casino features 600 slot machines and six gaming tables. The hotel has casual dining in its 150-seat restaurant. The snack bar seats up to 50 and the full gift shop features convenience items.

Red Lake Gaming receives the electricity to run its facility from NMPA participant Warroad Municipal Utilities.

Ron Kleinschmidt, Warroad Municipal Utilities superintendent, said the new casino has resulted in a 45 percent increase in load over the old facility.

"We worked well together on the install of the system," Kleinschmidt said. "The casino has its own dedicated line out of the Warroad substation."

Seven Clans still owns the property that was once used for the casino across the Warroad River. Today it's used for employee training. The casino also still owns the Super 8, a 40-room hotel along Highway 11 in Warroad.

However, the main attraction now is the all-inclusive Seven Clans Casino and Hotel.

A patio off the restaurant provides a view of Lake of the Woods.

The 150-seat Willows restaurant has daily and nightly specials.

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, 2015 and 2014. 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

	2015	2014	2013	2015 vs 2014 Dollar Change	2015 vs 2014 Percent Change
Net Utility Plant	$144,158,888	$ 160,521,964	$ 178,311,778	$(16,363,076)	(10.2%)
Current Assets	74,443,255	80,335,696	80,699,320	(5,892,441)	(7.3%)
Total Assets	218,602,143	240,857,660	259,011,098	(22,255,517)	(9.2%)
Deferred Outflows of Resources	22,466	-	-	22,466	100.0%
Current Liabilities	30,490,282	32,112,660	29,251,098	(1,622,378)	(5.1%)
Long-term Liabilities	188,115,658	208,745,000	229,760,000	(20,629,342)	(9.9%)
Total Liabilities	218,605,940	240,857,660	259,011,098	(22,251,720)	(9.2%)
Deferred Inflows of Resources	18,669	-	-	18,669	100.0%
Net Investment in Capital Assets	(64,586,112)	(69,238,036)	(70,528,222)	4,651,924	6.7%
Restricted by Bond Agreements	60,095,964	64,307,988	63,091,472	(4,212,024)	(6.5%)
Unrestricted	4,490,148	4,930,048	7,436,750	(439,900)	(8.9%)
Total Net Position	$ -	$ -	$ -	$ -	-

Condensed statements of net position highlights are as follows:

- Net utility plant decreased by approximately $16.4 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 $16.4 million decrease in net utility plant is mainly due to an additional year's depreciation offset by property additions.
- Current assets decreased by approximately $5.9 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 $1.6 million primarily due to a decrease in the accounts payable to Minnkota Power Cooperative, Inc. (Minnkota). This decrease was related to a decrease from the prior year in joint system transmission property additions along with more Coyote construction costs reimbursed to Minnkota throughout 2015.
- Revenue bonds, net of current maturities, decreased by approximately $20.8 million. The decrease is due to scheduled bond principal payments made in 2015.
- The net pension liability, deferred outflows of resources, and deferred inflows of resources were due to the implementation of GASB 68, which required the Agency to record its share of the PERA net pension liability.

The following table summarizes the changes in financial position of Northern for the years ended December 31, 2015, 2014 and 2013:

Condensed Statements of Revenues and Costs

	2015	2014	2013	2015 vs 2014 Dollar Change	2015 vs 2014 Percent Change
Revenues	$ 54,746,684	$ 57,777,997	$ 54,986,308	$ (3,031,313)	(5.2%)
Operating Costs	$ 44,343,163	$ 46,285,212	$ 43,739,157	$ (1,942,049)	(4.2%)
Interest	10,403,521	11,492,785	11,247,151	(1,089,264)	(9.5%)
Total Costs	$ 54,746,684	$ 57,777,997	$ 54,986,308	$ (3,031,313)	(5.2%)

Condensed statements of revenues and costs highlights are as follows:

- Total revenues decreased by $3.0 million. A decrease in Revenues from Exempt Sales to Public Authorities and Other Income of $9.5 million was partially offset by an increase in Revenues from Participants of $0.3 million and an increase in Revenues from Minnkota of $6.2 million. Revenues from Exempt Sales to Public Authorities and Other Income decreased primarily due to lower surplus sales from the Coyote Plant related to boiler feed pump issues in 2015. The increase in Revenues from Participants is due to a 5% rate increase on April 1, 2015 offset by a 3.5% decrease in energy kWh sales. Revenues from Minnkota were up primarily due to there being more Coyote plant costs in 2015 for Minnkota to cover under the Power Supply Coordination Agreement. Per this Agreement, Minnkota purchases all capacity and energy in excess of Northern's requirements at a cost to satisfy Northern's revenue requirements.
- Total operating costs decreased by $1.9 million. Total operating costs include fuel and operating & maintenance expenses for Northern's 30% share of the Coyote generating plant, transmission operating expenses, administrative expenses, and depreciation. Depreciation is provided for on a sinking fund method with depreciation equivalent to the principal payments required to pay the outstanding bonds. Depreciation expense decreased $0.2 million due to lower bond principal payments. Operation and maintenance expense increased by $1.7 million due in part to pension and post-retirement medical benefit adjustments for Coyote employees. Fuel decreased by $2.9 million mainly due to the Coyote plant operating at a reduced load for most of the year resulting from the boiler feed pump issues previously mentioned.
- Interest expense decreased by $1.1 million in 2015.

Debt Administration

As of December 31, 2015, Northern had debt outstanding of approximately $208.7 million, a decrease of approximately $21.0 million from December 31, 2014. Northern made scheduled bond principal payments of $21.0 million on January 2, 2015. Northern bonds have an "A-" rating from Standard & Poor's and an "A3" rating from Moody's.

Factors Bearing on Northern's Future

Northern is subject to various federal, state and local laws, rules and regulations relating to air and water quality, hazardous and solid waste disposal, reporting of toxic releases and air emissions, and other environmental matters. These laws, rules and regulations often require Northern to undertake considerable efforts and substantial costs to obtain licenses, permits and approvals from various federal, state and local agencies. Northern cannot predict at this time whether any additional legislation or rules will be enacted which will affect its operations, and if such laws or rules are enacted, what the future cost to Northern might be because of such action.

Statements of Net Position

As of December 31, 2015 and 2014

Assets and Deferred Outflows of Resources	2015	2014
UTILITY PLANT		
Plant in Service	$ 355,828,341	$ 352,334,517
Transmission System	49,260,677	48,327,577
Total Utility Plant	$ 405,089,018	$ 400,662,094
Accumulated Depreciation	(260,930,130)	(240,140,130)
Net Utility Plant	$ 144,158,888	$ 160,521,964
CURRENT ASSETS		
Cash	$ 644,653	$ 275,900
Investments – Unrestricted	5,439,354	6,919,440
Investments – Restricted	65,297,725	70,044,038
Accounts Receivable – Participants	3,061,523	3,096,318
Total Current Assets	$ 74,443,255	$ 80,335,696
TOTAL ASSETS	$ 218,602,143	$ 240,857,660
DEFERRED OUTFLOWS OF RESOURCES		
Cost Sharing Defined Benefit Pension Plan	$ 22,466	$ -

Liabilities, Deferred Inflows of Resources and Net Position		
LONG-TERM LIABILITIES		
Revenue Bonds, Net of Current Maturities	$ 187,955,000	$ 208,745,000
Net Pension Liability	160,658	-
Total Long-Term Liabilities	$ 188,115,658	$ 208,745,000
CURRENT LIABILITIES		
Accounts Payable		
Participants	$ 644,653	$ 275,900
Minnkota Power Cooperative, Inc.	3,853,868	5,085,710
Accrued Interest	5,201,761	5,736,050
Current Maturities of Revenue Bonds	20,790,000	21,015,000
Total Current Liabilities	$ 30,490,282	$ 32,112,660
TOTAL LIABILITIES	$ 218,605,940	$ 240,857,660
DEFERRED INFLOWS OF RESOURCES		
Cost Sharing Defined Benefit Pension Plan	$ 18,669	$ -
NET POSITION		
Net Investment in Capital Assets	$ (64,586,112)	$ (69,238,036)
Restricted by Bond Agreements	60,095,964	64,307,988
Unrestricted	4,490,148	4,930,048
Total Net Position	$ -	$ -

See Notes to Financial Statements.

Statements of Revenues and Costs

For the years ended December 31, 2015 and 2014

	2015	2014
REVENUES		
Participants	$ 33,834,095	$ 33,538,804
Minnkota Power Cooperative, Inc.	16,128,278	9,950,302
Exempt Sales to Public Authorities and Other Income	4,784,311	14,288,891
Total	$ 54,746,684	$ 57,777,997
COSTS		
Plant Operations		
Fuel	$ 11,099,808	$ 14,005,157
Operation and Maintenance	10,097,949	8,382,716
Transmission Operations	1,886,127	2,433,317
Administrative Expense	469,279	449,022
Depreciation	20,790,000	21,015,000
Total	$ 44,343,163	$ 46,285,212
Interest	10,403,521	11,492,785
Total	$ 54,746,684	$ 57,777,997

See Notes to Financial Statements.

Power Sources and Energy Sales

	2015	2014	2013
NMPA Coyote Net Generation Delivered (kWh)	580,288,574	830,853,462	811,475,356
Energy Sales: (kWh)			
Municipal Participants	456,823,149	473,190,801	491,992,607
Minnkota Power Cooperative, Inc. and Other Public Authorities	123,465,425	357,662,661	319,482,749
	580,288,574	830,853,462	811,475,356

Statements of Cash Flows

For the Years Ended December 31, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Participants	$ 33,983,096	$ 34,847,650
Receipts from Minnkota Power Cooperative, Inc.	13,645,040	9,122,167
Receipts from Other Public Authorities	4,958,173	13,566,026
Receipts from Others	317,671	278,911
Receipt of Interest	343,409	90,555
Payments for Fuel	(11,099,808)	(14,005,157)
Payments for Operation and Maintenance	(10,097,949)	(8,382,716)
Payments for Transmission Operations	(1,886,127)	(2,433,317)
Payments for Interest	(10,937,810)	(11,457,154)
Payments for Administrative Expense	(100,526)	(447,042)
Net Cash Provided (Used) By Operating Activities	$ 19,125,169	$ 21,179,923
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal Paid on Debt	$ (21,015,000)	$ (19,080,000)
Addition to Utility Plant	(3,967,815)	(1,272,999)
Net Cash Provided (Used) By Capital and Related Financing Activities	$ (24,982,815)	$ (20,352,999)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Investments	$ 136,443,391	$ 119,847,456
Purchase of Investments	(130,216,992)	(120,672,401)
Net Cash Provided (Used) By Investing Activities	$ 6,226,399	$ (824,945)
INCREASE IN CASH	$ 368,753	$ 1,979
CASH AT BEGINNING OF YEAR	$ 275,900	$ 273,921
CASH AT END OF YEAR	$ 644,653	$ 275,900
CASH FLOWS FROM OPERATING ACTIVITIES		
Depreciation	$ 20,790,000	$ 21,015,000
Deferred Charges	(302,248)	(1,952,187)
Change in Current Assets and Liabilities:		
Accounts Receivable	34,795	1,190,548
Accounts Payable	(863,089)	890,929
Accrued Interest	(534,289)	35,633
Net Cash Provided (Used) By Operating Activities	$ 19,125,169	$ 21,179,923

See Notes to Financial Statements.

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, 2015 and 2014, and the related statements of revenues and costs, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of Northern Municipal Power Agency as of December 31, 2015 and 2014, 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.

Emphasis of Matter

Adoption of New Accounting Standard

As described in Note 10 to the financial statements, the Agency adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. As discussed in Note 10 to the financial statements, the Agency has accounted for the provisions of the statements entirely in 2015. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of Agency's contributions to the PERA retirement fund, and schedule of Agency's share of the net pension liability as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

BRADY, MARTZ & ASSOCIATES, P.C.
GRAND FORKS, NORTH DAKOTA
February 24, 2016

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 Power Cooperative, Inc. As of December 31, 2015, 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 Company	25
NorthWestern Corporation	10
Total	100

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

NOTE 2: ACCOUNTING POLICIES

Basis of Accounting

Northern maintains accounting records on an accrual basis in conformity with accounting principles generally accepted in the United States of America, as applicable to governmental entities, including the application of the Government 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.

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.

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. Revenues are computed and billed so that no equity is accumulated for Northern.

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 Power Cooperative'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

Northern has implemented GASB Statement No. 63, *"Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position."* This statement provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in accordance with Concepts Statement No. 4, *Elements of Financial Statements*.

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.

Reclassifications

Certain 2014 amounts have been reclassified to conform to the 2015 presentation.

NOTE 3: POWER SUPPLY COORDINATION AGREEMENT

On March 1, 1981, Northern entered into a Power Supply Coordination Agreement with Minnkota. This agreement is effective until the later of December 31, 2031, or the date on which the Coyote Plant is retired from service. The agreement provides for Minnkota to purchase all capacity and energy in excess of Northern's requirements. 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 2015	Dec. 31 2014
Unrestricted:		
Working Fund	$ 644,653	$ 275,900
Operating Fund	3,180,254	3,044,085
General Reserve Fund	683,975	2,300,230
Reserve and Contingency Fund	1,575,125	1,575,125
Total Unrestricted	$ 6,084,007	$ 7,195,340
Restricted:		
Bond Fund Debt Service Reserve Account	$ 15,827,630	$15,751,017
Rate Stabilization Fund	4,631,675	4,631,212
Cost of Issuance Fund	4,635	4,635
2013 Plant Additions Fund	17,037,209	22,841,054
Bond Fund Interest Account	4,023,647	4,622,061
Bond Fund Principal Account	23,772,929	22,194,059
Total Restricted	$ 65,297,725	$70,044,038
Total Cash and Investments	$71,381,732	$77,239,378

The funds consist of $70,737,079 of investment securities and $644,653 of cash deposits at December 31, 2015, and $76,963,478 of investment securities and $275,900 of cash deposits at December 31, 2014.

As of December 31, 2015 and 2014, the agency had the following investments:

Investment Type	2015 Fair Value	2014 Fair Value
Treasury Money Market	$50,689,136	$54,138,120
US Treasury	-	4,462,000
FHL Bank Discount Note	5,237,127	6,302,761
FHLMC Discount Note	1,751,000	-
Abbey National Na LLC C P	-	4,277,795
FNMA	13,059,816	7,782,802
Total Investments	$70,737,079	$76,963,478

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counter party, the agency will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. The agency's investments are held by the investments counter party, in the agency's name.

Credit Risk

Northern is authorized to invest in:

(a) Direct obligations of the U.S. Government, its agencies or instrumentalities.
(b) New Housing Authority Bonds or Project Notes issued by public agencies or municipalities.
(c) Direct and general obligations of any state or municipalities, which are rated "Aa".
(d) Certificates of Deposit.
(e) Bankers Acceptances.
(f) Repurchase Agreements.

Interest Rate Risk

Northern has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Northern entered into a Forward Purchase Agreement with Barclays Bank PLC on May 30, 2014 for investing funds in the bond fund principal and bond fund interest accounts. The agreement establishes a guaranteed rate of return on the investments held in the bond fund principal and bond fund interest accounts at 1.405%. The agreement expires on January 1, 2021.

NOTE 5: UTILITY PLANT

Utility plant activity was as follows:

	Beginning Balance	Additions	Adjustments	Ending Balance
Utility Plant as of 12/31/15				
Plant in Service	$ 352,334,517	$ 3,034,715	$ 459,109	$ 355,828,341
Transmission System	48,327,577	933,100	-	49,260,677
Total Utility Plant	400,662,094	3,967,815	459,109	405,089,018
Less Accumulated Depreciation	(240,140,130)	(20,790,000)	-	(260,930,130)
Net Utility Plant	$ 160,521,964	$(16,822,185)	$ 459,109	$ 144,158,888
Utility Plant as of 12/31/14				
Plant in Service	$ 350,174,331	$ 207,999	$ 1,952,187	$ 352,334,517
Transmission System	47,262,577	1,065,000	-	48,327,577
Total Utility Plant	397,436,908	1,272,999	1,952,187	400,662,094
Less Accumulated Depreciation	(219,125,130)	(21,015,000)	-	(240,140,130)
Net Utility Plant	$ 178,311,778	$(19,742,001)	$ 1,952,187	$ 160,521,964

The Electric System Revenue Bond Resolution requires that revenues equal costs. At December 31, 2015 and 2014, $2,845,334 and $2,053,047, respectively were deferred against plant in service.

NOTE 6: REVENUE BONDS

Revenue bonds payable at December 31, 2015 and 2014 are summarized below:

	2015	2014
Electric System Revenue Bonds, Series 2007A, Interest 4.125% to 5.00%, Due Annually in Varying Amounts from January 1, 2016 through January 1, 2031	$ 28,060,000	$ 28,485,000
Electric System Revenue Bonds, Series 2008A, Interest 5.00%, Due Annually in Varying Amounts from January 1, 2016 through January 1, 2021	62,275,000	62,275,000
Electric System Revenue Bonds, Series 2008, Interest 5.82%, Due January 1, 2017	19,610,000	21,955,000
Electric System Revenue Bonds, Series 2009A, Interest 5.00%, Due Annually in Varying Amounts through January 1, 2016	15,715,000	33,820,000
Electric System Revenue Bonds, Series 2010A-1, Interest 2.50% to 5.00%, Due Annually in Varying Amounts from January 1,2016 through January 1, 2020	46,080,000	46,220,000
Electric System Revenue Bonds, Series 2010A-2, Interest 5.00%, Due Annually in Varying Amounts from January 1, 2022 through January 1, 2024	6,785,000	6,785,000
Electric System Revenue Bonds, Series 2010B, Interest 2.734%, Due January 1, 2016	1,770,000	1,770,000
Electric System Revenue Bonds, Series 2013A, Interest 4.13% to 5.00%, Due Annually in Varying Amounts from January 1, 2023 through January 1, 2031	26,155,000	26,155,000
Electric System Revenue Bonds, Series 2013B, Interest 4.35%, Due January 1, 2022	2,295,000	2,295,000
Totals	$ 208,745,000	$ 229,760,000

Revenue bond debt service requirements to maturity are as follows:

	Principal	Interest	Total
2016	$ 20,790,000	$ 10,403,520	$ 31,193,520
2017	24,150,000	9,383,629	33,533,629
2018	24,325,000	8,035,826	32,360,826
2019	24,980,000	6,823,820	31,803,820
2020	26,215,000	5,578,608	31,793,608
2021-2025	53,200,000	13,812,446	67,012,446
2026-2030	28,565,000	5,568,999	34,133,999
2031	6,520,000	310,725	6,830,725
	$ 208,745,000	$ 59,917,573	$ 268,662,573

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, 2015 and 2014 was as follows:

	Beginning Balance	Net Additions	Net Reductions	Ending Balance
Long-term liabilities as of Dec. 31, 2015 revenue bonds	$ 229,760,000	$ -	$ (21,015,000)	$ 208,745,000
Long-term liabilities as of Dec. 31, 2014 revenue bonds	$ 248,840,000	$ -	$ (19,080,000)	$ 229,760,000

NOTE 7: DEFINED BENEFIT PENSION PLAN

Public Employees Retirement Association
Plan Description

The Agency participates in the following 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 Fund (GERF)

All full-time and certain part-time employees of the Agency are covered by the General Employees Retirement Fund (GERF). GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

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.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. 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. GERF Benefits

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 and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year 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.

Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

1. GERF Contributions

Basic plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2015. The Agency was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2015. The Agency's contributions to the GERF for the year ended December 31, 2015, were $14,232. The Agency's contributions were equal to the required contributions as set by state statute.

GERF Pension Costs

At December 31, 2015, the Agency reported a liability of $160,658 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015 the Agency's proportion share was 0.0031%.

For the year ended December 31, 2015, the Agency recognized pension expense of $17,892 for its proportionate share of GERF's pension expense.

At December 31, 2015, the Agency reported its proportionate share of GERF'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	$ -	$ 8,100
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	15,209	-
Changes in proportion	-	10,569
Contributions paid to PERA subsequent to the measurement date	7,257	-
Total	$22,466	$18,669

$7,257 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, 2016. 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
2016	$ (2,421)
2017	(2,421)
2018	(2,421)
2019	3,802
2020	-
Thereafter	-

Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.75% per year
Active Member Payroll Growth	3.50% per year
Investment Rate of Return	7.90%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: 1% effective every January 1st until 2034, then 2.5% for GERF.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERF was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. Experience studies have not been prepared for PERA's other plans, but assumptions are reviewed annually. There were no changes in actuarial assumptions in 2015.

The long-term expected rate of return on pension plan investments is 7.9%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis 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 arithmetic 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	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%

Discount Rate

The discount rate used to measure the total pension liability was 7.9%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. 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 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
Agency's proportionate share of the GERF net pension liability:	$252,612	$160,658	$84,719

Pension Plan Fiduciary Net Position

Detailed information about each defined benefit 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**.

For the year ended December 31, 2014:

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. Northern makes annual contributions to the pension plans equal to the amount required by state statutes. GERF Coordinated Plan members were required to contribute 6.25% of their annual covered salary in 2014. In 2014, Northern was required to contribute 7.25% of annual covered payroll for Coordinated Plan members. Northern's contributions to the Public Employees Retirement Fund for the years ended December 31, 2014, 2013 and 2012 were $12,967, $12,683, and $12,434, respectively. Northern's contributions were equal to the contractually required contributions for each year as set by state statute.

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. At December 31, 2015 and 2014, Reserve and Contingency Fund assets were $1,575,125. There were no outstanding or unpaid claims as of December 31, 2015 and 2014. 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: CHANGE IN ACCOUNTING PRINCIPLE

The Agency implemented GASB Statement No. 68 *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. As a result, the following table indicates the balances that would have related to the prior year that the Agency has chosen to include in 2015.

Prior year balance for pension accounting:	
Net Pension Liability	$ (159,715)
Pension related Deferred Outflows of Resources	6,484
Effect on current year statements from prior year balances	$ (153,231)

SCHEDULE OF AGENCY'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)	Agency's Covered - Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2015	PERA	$14,232	$14,232	$ -	$189,767	7.50%

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

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

For the Year Ended Dec. 31	Agency's Proportion of the Net Pension Liabillity (Asset)	Agency'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)	Agency's Covered-Employee Payroll	Agency'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%

The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability which is June 30, 2015.

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

Wholesale Power Costs

City	Population	No. of Customers	Amount Purchased (kWh)	Cost of Power w/Levy	Mills/kWh w/Levy
Bagley	1,413	767	26,752,893	$1,989,902	74.38
Baudette	1,106	753	21,804,464	1,588,449	72.85
Fosston	1,527	897	34,119,234	2,498,379	73.22
Grafton	4,324	2,164	58,393,136	4,290,384	73.47
Halstad	598	335	8,975,660	694,715	77.40
Hawley	2,067	1,151	21,501,034	1,624,023	75.53
Park River	1,403	812	20,256,897	1,597,605	78.87
Roseau	2,855	1,345	40,364,338	3,129,696	77.54
Stephen	663	388	8,761,858	670,365	76.51
Thief River Falls	8,722	4,839	139,048,966	10,559,369	75.94
Warren	1,563	823	18,760,784	1,513,382	80.67
Warroad	1,775	898	58,083,885	3,792,032	65.29
TOTALS	28,016	15,172	456,823,149	$33,948,301	74.31

Financial Coverage Ratios

City	2015	2014	2013	2012	2011
Bagley	1.09	1.11	1.03	1.04	1.01
Baudette	1.30	1.30	1.49	1.51	1.59
Fosston	1.08	1.15	1.23	1.19	1.23
Grafton	1.12	1.10	1.19	1.18	1.17
Halstad	1.23	1.06	1.24	1.25	1.20
Hawley	1.27	1.13	1.14	1.12	1.15
Park River	1.07	1.16	1.22	1.18	1.21
Roseau	1.29	1.31	1.29	1.31	1.25
Stephen	1.19	1.19	1.21	1.17	1.17
Thief River Falls	1.13	1.15	1.06	1.04	1.07
Warren	.95	1.13	1.04	1.02	0.79
Warroad	1.10	1.29	1.14	1.08	1.09
Average	1.17	1.17	1.19	1.18	1.16
NMPA	1.38	1.22	1.24	1.14	1.14

(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.)

Northern Municipal
Power Agency
123 Second St. W. • Thief River Falls, MN 56701