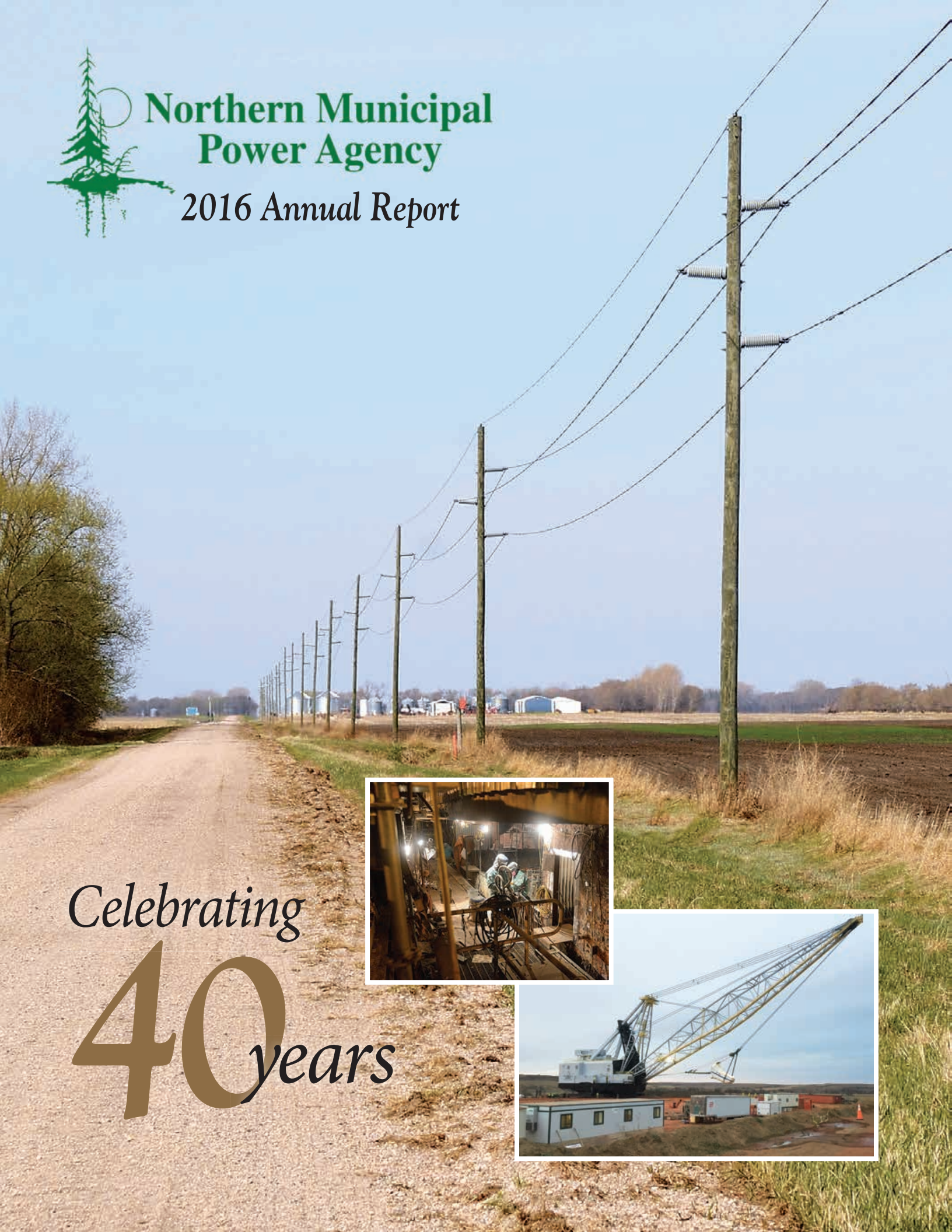
Northern Municipal Power Agency

2016 Annual Report



Celebrating 40 years

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.

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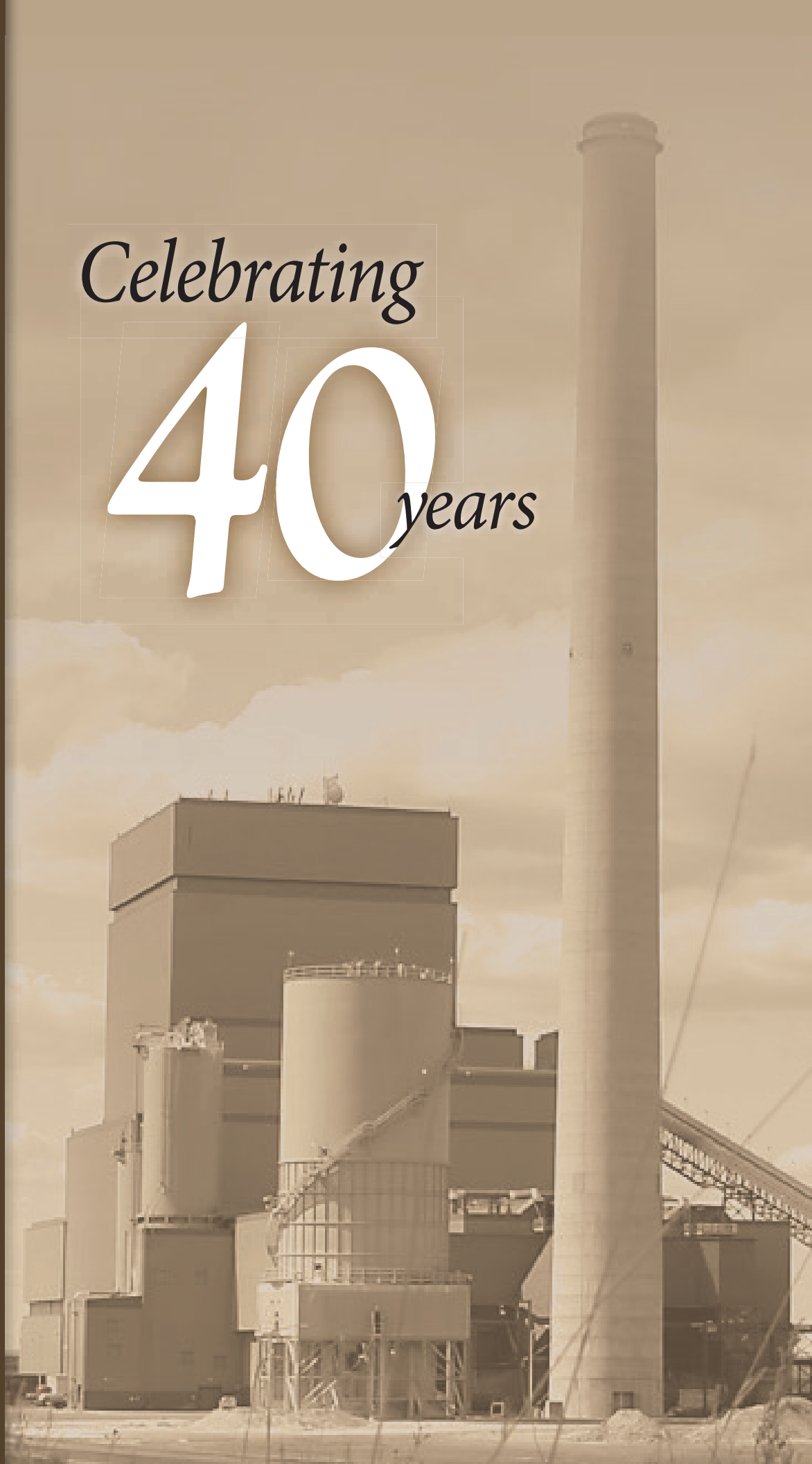
On the Cover: The Coyote Station had a lot going on in 2016. In addition to a major outage, the plant welcomed a new coal supplier, mine and dragline. North American Coal Corporation owns the Coyote Creek Mine and dragline.



"Our 12 participants pride themselves on long-term local ownership, local regulation and great service."

– Darryl Tveitbakk, NMPA general manager

The Northern Municipal Power Agency celebrated its 40th anniversary in 2016.

Many names and faces have changed, but the Agency's goal of providing an adequate, economical, reliable and long-term supply of electric energy and related services to its members hasn't wavered since the Agency was formed on Dec. 1, 1976.

Names from the past include Lloyd Meyer, who was the first NMPA president before being succeeded by John T. Anderson.

Today such names as incoming president Lucas Spaeth and the incoming assistant vice president, Chris West, are among leaders.

NMPA's association with Minnkota Power Cooperative is nearly as long as the Agency's life.

Shortly after its formation, NMPA went looking for additional power alternatives and began talking to a number of providers. At first, the organization decided to participate in the initial phase of the East Side Project, which was a proposed power plant in South Dakota.

Later on, NMPA was able to purchase some of its power requirements through the local distribution cooperatives with the Minnkota system. Anderson and Bob Dahl then held meetings with Minnkota's Andy Freeman, Lyle Lund and Marvin Gebhardt to discuss a long-term answer.

Out of those talks came a $268 million deal in which NMPA assumed Minnkota's 30 percent share of the Coyote Station just prior to the plant coming online in 1981. As part of the arrangement, the NMPA purchased a load-ratio share of the Minnkota transmission system for $12 million.

The agreement allowed the NMPA to receive its power requirements from the Coyote Station, with Minnkota purchasing the remainder.

With that, the Minnkota-NMPA Joint System was created.

The Joint System has many accomplishments, including a reliable power generation and delivery system, an excellent load management system and a strong financial partnership with Minnkota that ensures a long-term supply of competitively priced power.

"Our 12 participants pride themselves on long-term local ownership, local regulation and great service," said Darryl Tveitbakk, NMPA general manager. "In fact, the average municipal electric utility associated with NMPA was formed more than 100 years ago."

President's and General Manager's Report

Jerald Pederson, President

Darryl Tveitbakk, General Manager

Coyote Station, our main source of power, had an outage year in 2016.

Many projects were completed during this major outage.

One of the big improvements was the addition of the over-fired air system. After operating all of 2015 at "half load" due to a boiler feed pump failure and fire, a replacement was installed and continues to operate well. Necessary changes to the plant conveyor system were made and we transitioned to our new coal supplier, Coyote Creek Mine, following the 2016 planned outage.

Please note that there is more detailed information on the station overhaul and 2016 operations contained in this report. We want to thank the management and staff at Coyote Station and the many contractors and their employees for completing the modifications and repairs during this major overhaul outage. Well done!

In November 2016 the country elected President Trump who immediately set out to undo many of the initiatives of the previous administration by issuing Executive Orders. The Clean Power Plan was among the issues addressed by one of these orders. Where this goes is not certain at this time. We do, however, believe there will be more time to determine what will be the best course in the future. As this plays out in the courts and Congress, we will be diligent. We will also continue to work with state officials in both North Dakota and Minnesota.

The 2016 Minnesota legislative session was convened historically later than usual on March 8 and adjourned on May 23. This was largely considered to be a "do-nothing" session of the legislature. Together with the Minnesota Municipal Utilities Association (MMUA), other utility lobbyists, officials from our participant cities and NMPA staff, we were successful in preventing a number of bad ideas from gaining traction.

We want to thank the MMUA for its tireless efforts on our behalf. We also want to thank those 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 Joint Action Agencies as we represent the best interests of our participant cities in the legislatures of both North Dakota and Minnesota.

At the end of 2016, Jerry Pederson, NMPA board president, retired. Jerry was a longtime member of the board and served well in his position as president. From the time Jerry joined the NMPA board as Hawley's director, he was engaged and active in the business of the Agency. I want to thank him for his service and his hard work and dedication to the Agency. We wish him all the best in his retirement.

Throughout our 40-year history, joint action has been our strength, and we will build on our successes together to continue to meet the electric needs of our NMPA participants.

Finally, we want to thank the NMPA board of directors and our staff for their hard work in 2016. We also thank the management and staff of our operating agent, Minnkota Power Cooperative. As the NMPA and the rest of the electric industry enter 2017, we face both opportunities and challenges posed by changing technologies and regulatory policies. Throughout our 40-year history, joint action has been our strength, and we will build on our successes together to continue to meet the electric needs of our NMPA participants. 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.

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

NMPA Board Presidents

Lloyd Meyer
December 1976 - December 1980

John T. Anderson
January 1981 - December 1998

Russell Earls
January - December 1999

Mylo Einarson
January 2000 to December 2011

Tom Larson
January 2012 to October 2014

Jerald Pederson
November 2014 to December 31, 2016

Lucas Spaeth
January 1, 2017 to present

Jerald retires

The Northern Municipal Power Agency lost a longtime advocate and leader at the end of 2016.

Jerald Pederson, who started working with the Northern Municipal Power Agency in 1981 as an adviser to the board of directors out of the city of Hawley, Minn., retired from the organization after about 10 years on the board.

He spent the last two-plus years as president.

"It was a learning experience," Pederson said. "There were a lot of good people who I met, and got to know the electric industry."

Asked why he decided to leave now, the 80-year-old Pederson said: "I figured it's time for some younger people to get involved."

Pederson's highlights include trips out to the Coyote Station and coal mine and extending the NMPA contracts with all 12 participants. A member of the Hawley Public Utilities Commission for 35 years, Pederson also has resigned from that position.

"It was interesting," Pederson said of the long-term appointment with the Hawley PUC. "We not only had the electrical, but we had gas and the water and also we have a licensing bureau that was under the PUC. We sold license plates. It's a good moneymaker for the city."

Pederson is proud of Hawley's growth, which called for significant new and improved infrastructure for things such as new businesses and a housing development he lives in called Prairie Hills Estates.

"I think it's a great thing for Hawley that we entered the NMPA, because I look at some of these cities around us that are kind of struggling; having your own utility is a big advantage for the city," Pederson said. "It's worked out really well."

A Starbuck, Minn., native who was an educator and a former longtime Hawley High School principal, Pederson said he enjoyed working with NMPA General Manager Darryl Tveitbakk and Secretary-Treasurer Dalene Monsebroten.

"Darryl is getting ready to retire and trying to find somebody who is going to fit that position is going to be very difficult," Pederson said. "It's a unique situation; there are not a lot of these power agencies around."

Lucas Spaeth of Halstad replaced Pederson as president of the board.

"Jerry Pederson is a very good advocate for public power and local governance for municipal-owned power," Spaeth said. "He worked many years protecting and strengthening the municipal of Hawley and NMPA's stake for local municipal power utilities. He looked objectively for local and regional ways to make each community better. He also ran a very efficient meeting. He will be missed on NMPA's board."

Coyote Creek Mine begins operation

Coyote Creek Mine began operation in June 2016 near Beulah, N.D. Coyote Station owners announced in October 2012 that they had entered into an agreement with Coyote Creek Mining Company, a subsidiary of the North American Coal Corporation based in Dallas, for lignite coal supply beginning in 2016.

Coyote Creek is the first major new lignite mine to be permitted in North Dakota since the 1970s. In spring of 2015, the company began developing the new mine site. It covers 8,091 acres, 4,530 acres of which will be mined and the rest used for stockpiles, haul roads and other infrastructure.

"To our management team and our employees, it is more than just a contract — it is a dedication to customer service that keeps both Coyote Station and Coyote Creek Mine successful," said David Straley, manager of government and public affairs for North American Coal.

The refurbished dragline operating in the mine was assembled over 15 months and completed in November 2015. It has an interesting history that dates back to 1972. It's a Marion 8400, one of three units ever built.

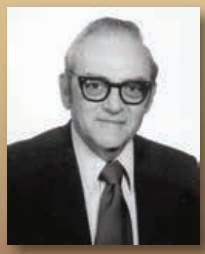
The 8400 started its life at Fording Coal in Elkford, British Columbia, and operated there for 30 years. It had logged about 150,000 hours at that point.

Then & Now

1976

With all the capacity from the Garrison Dam generation committed, the Western Area Power Association announces a freeze of power allotments to municipal utilities and other power organizations. Several municipal utilities in eastern North Dakota and northwestern Minnesota seek a reliable and low-cost supplemental power source to meet their growing needs.

Dec. 1, 1976



The Northern Municipal Power Agency is organized. Lloyd Meyer, Baudette, is elected president with John T. Anderson, Thief River Falls, as vice president, and Gerald Wigness, Thief River Falls, as treasurer.

Dec. 14, 1976

NMPA is incorporated as a political subdivision of the state of Minnesota, the first such joint action agency formed in the state.

Dec. 22, 1976

NMPA adopts its bylaws

Northern Municipal Power Agency

Coyote Creek Mine dragline "Wiley" removes overburden to expose the coal seam.

(Left insert) The excavator loads material to be transported and used for pond construction. *(Right insert)* **A haul truck receives the first** loader bucket of coal from the new mine.

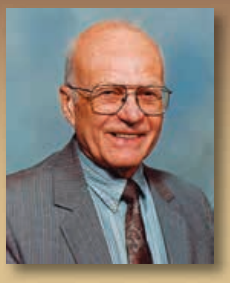
Minnkota Power
MPC COOPERATIVE, INC.
Your Touchstone Energy® Partner

1977-1981

NMPA members develop arrangements with several of the Minnkota Power Cooperative member-owner distribution cooperatives to buy excess power from them at rates 20 percent above the wholesale rates paid to Minnkota.

January 1981
John T. Anderson of Thief River Falls becomes president of the board of directors.

January 1981



March 1, 1981

NMPA acquires Minnkota's 30 percent share of the Coyote Station in Beulah, N.D., completing the deal before the new plant goes online on May 1, 1981. The $268 million buyout price reimburses Minnkota for its investment in the project, which includes the power plant and the 345-kV transmission line upgrade. To provide the power to its member communities, NMPA also purchases a load-ratio share of the Minnkota transmission system at a cost of $12 million.

2016 spring outage

The Coyote Station shut down for a 11-plus-week spring outage in 2016.

One of the major projects completed during this planned outage, which went from March 20 to June 8, was tying the No. 1 conveyor to the plant's coal system to prepare for delivering coal from Coyote Creek Mine.

"After a yearlong battle to get the boiler feed pump repaired from the overspeed damage, the plant personnel engaged into preparation for the major outage in the spring," said Brad Zimmerman, plant manager. "During the spring maintenance outage an advanced over-fired air system was installed in the boiler, the conveyor system was tied over to Coyote Creek Mine (the new coal supplier) and countless other tasks were accomplished."

In addition to a high-pressure water wash, major boiler work included:

One of the two circulating water pumps is prepared for shipment to be rebuilt at an off-site location.

- Inspecting and repairing the boiler convection pass tube pendants
- Installing an advanced over-fired air system to reduce nitrogen oxides
- Replacing the lower 40 feet of wall tubes due to crack indications (far right, page 9).
- Replacing reentrant throat boiler tubes
- Replacing six cyclone air control dampers

In addition to countless smaller tasks, some other major projects that were completed during the outage include:

- Turbine foam clean
- Air heater basket replacement
- Induced-draft fan refurbishment (10,000 hp)
- Low-pressure feedwater heater replacements (two 25,000 pounds heat exchangers)
- Ultrafiltration water treatment system installation
- Turbine valve inspection and maintenance
- Generator testing
- Circulating water pump refurbishment (Two 1750 hp pumps, total flow of 150,000 gpm)
- Ovation controls system upgrade
- Boiler circulating pump replacement (1,000 hp)

After a significant amount of work and repair to the plant during the major outage, the plant experienced two start-up failures, which led to the outage lasting 8.78 days longer than planned.

Then & Now

April 23, 1981

NMPA and Minnkota create a Joint System under the name Minnkota/Northern Generation and Transmission System.

January 1999

After 19 years, John T. Anderson retires from dual position of NMPA general manager and president of the board of directors. Darryl Tveitbakk replaces Anderson as general manager.

January 1999

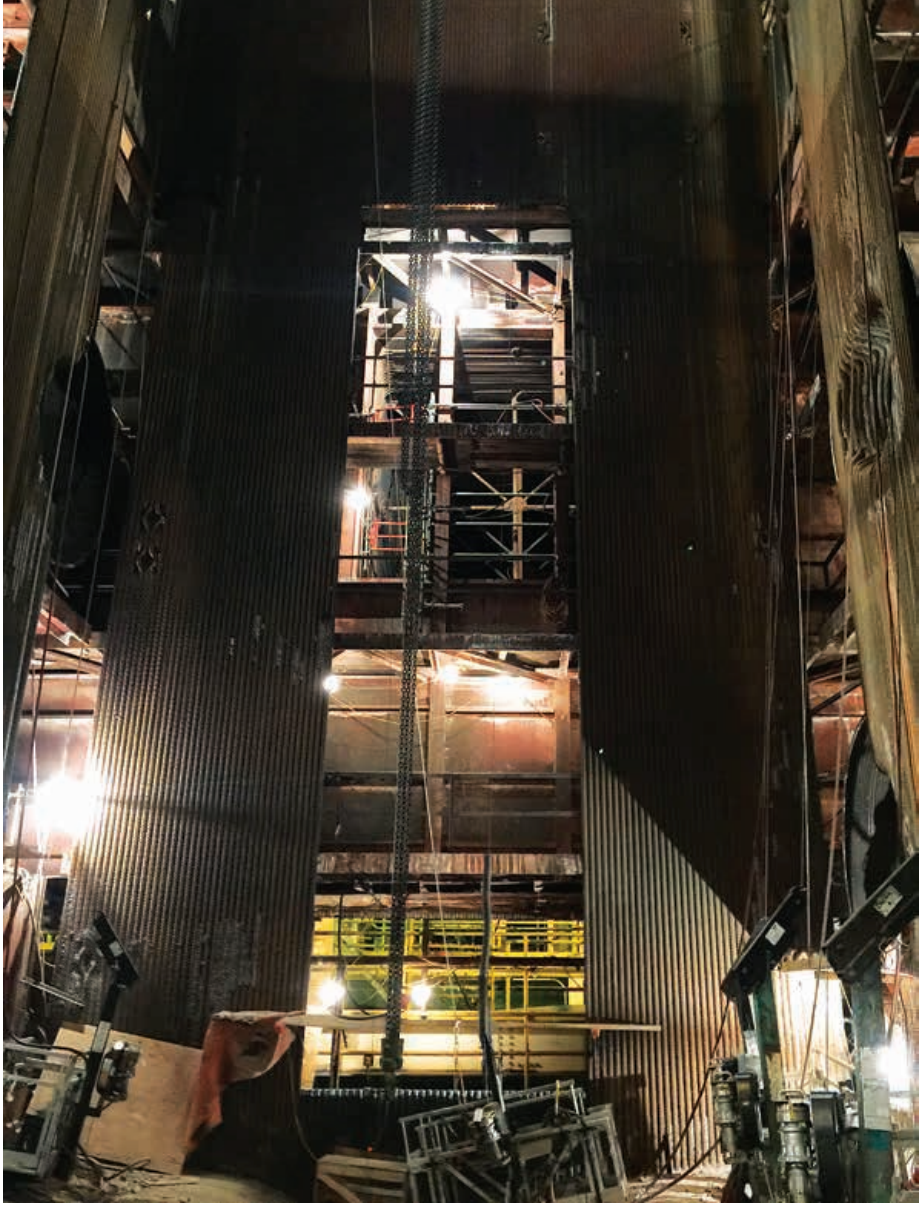
Russell Earls of Fosston becomes president of the board.

January 2000

Mylo Einarson of Grafton becomes president of the board.

The new UF filter skid serves as part of the water treatment process when water is pumped to the Coyote Station from the Missouri River.

Part of the wall was removed to allow one of the two feedwater heaters to be replaced.



Several wall panels inside the lower furnace area of the boiler were removed, exposing the external steel. On the right and the left are the cyclone burner openings.

25 Years 1976 - 2001

December 2001

NMPA marks its 25th anniversary.

Tom Larson of Park River becomes president of the board.

January 2012

NORTH AMERICAN COAL CORPORATION

October 2012

Coyote Station owners, including NMPA, reach agreement with the North American Coal Corporation to become the plant's coal supplier beginning in 2016.

Performance Report

A new conveyor delivers coal into the preexisting coal storage barn.

The year 2016 focused as much on improvements as kilowatt-hours being made at the Coyote Station.

The major outage year resulted in many projects being completed.

These included the addition of the over-fired air system, a new ultrafiltration pretreatment system, boiler lower wall replacement, a chemical foam clean on the HP turbine blades, LP feedwater heater replacement, circulating water pump liquid end replacement, air heater hot and intermediate basket replacement, an Ovation Evergreen upgrade and the transition to the Coyote Creek Mine.

Other outages included a windbox leak on #9 cyclone shortly after the major outage, and a boiler wash outage in September.

The three-day wash outage scheduled in December was moved to January 2017. Because of this rescheduled wash outage, the plant had its second-longest continuous run in history at 120 days, 9 hours, 14 minutes.

The plant also had its highest single-day net generation of 10,398 megawatt-hours (MWh). In 2016 Coyote Station generated 2,440,646 MWh; this was 147,640 MWh under the budgeted goal of 2,588,286 MWh, or about 5.7 percent under budget.

Coyote's safety record was nearly spotless. It included one OSHA recordable incident and zero lost-time accidents. As a result, the Coyote Station celebrated more than 2.5 million man-hours worked without a lost time accident.

The net plant heat rate (NPHR) for 2016 remained slightly above the targeted value of 11,275 Btu/kWh at 11,439 Btu/kWh. This higher heat rate can be directly related to the number of derates experienced throughout the year, fuel conditioners being out of adjustment and tuning the boiler after the major outage and switching over to a new coal mine.

Coal quality issues were apparent after the switch due to the mining of outcropping coal seams. Multiple surveys and studies have been done on the coal pits to help deliver better quality coal to the plant.

The plant saw a significant decrease in NPHR and increase in MWh from 2015 to 2016. This is a good trend following the boiler feed pump fire that caused the unit to operate at "half load" in 2015. Major outage projects and replacements have contributed to this trend, along with boiler tuning and better operating procedures.

A total of 2,011,974 tons of lignite coal were burned in 2016. This came in at 79,804 tons under the budgeted amount of 2,091,778 tons.

Then & Now

December 2013

The new power sales agreements with all participants begins, extending the agreements to 2055.

November 2014

Jerald Pederson of Hawley becomes president of the board.

January 2016

The Coyote Creek Mine begins selling coal to the Coyote Station.

January 2017

Lucas Spaeth of Halstad becomes president of the board.

Engineering Report

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

The actual system peak of 92,771 kW is 4,562 kW less than that of the 2015 yearly peak of 97,333 kW. The corresponding 2016 kWh energy sales total of 448,446,930 kWh is 8,376,219 kWh less than the 456,823,149 kWh sold in 2015. One major factor contributed to these changes:

- 2016 heating degree days decreased significantly or 7.6 percent from that of 2015. The annual average heating degree days since the Coyote Station began operations (1982-2016) is 9,550 degree-days with 2016 registering 7,824 degree-days or 18.1 percent below the 35-year average. The normal heating months of October through March saw 7.55 percent fewer heating degree days than that same period of 2015.

The Coyote Station was operated during 2016 by participating owner, Otter Tail Power Company. Monthly reports are issued to all owners on incurred operating costs, inventory activity and capital expenditures. The operating costs for the year ending Dec. 31, 2016, totaled $79,536,885 with the Agency share totaling $24,112,837.62 or an average cost of 32.19 mills per kWh. The average cost of net energy production for the total plant rose to 32.50 mills per kWh from 30.49 mills per kWh in 2015. This reflects an increase in average cost of net energy production of 6.69 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, 2010, 2013 and 2016 and continued innovative Wholesale Power Pricing policies.

During 2016 the Agency participants' wholesale cost of power (average cost per kWh) increased 2.70 mills or 3.63 percent from 74.31 mills in 2015 to 77.01 mills in 2016. All 12 NMPA participants experienced individual average wholesale power cost increases ranging from 1.87 to 3.99 mills/kWh.

Production in the Coyote Station facility in 2016 was impacted by an outage from mid-March to early June (approximately 81 days) due to the regularly scheduled three-year maintenance outage and the switch in coal provider that took place during that time. Availability factor therefore suffered a reduction to 76.2 percent (6,689 hours). By comparison the average yearly availability over the past 27 years was 85.5 percent. The 2016 availability factor is 9.3 percent below the 27-year average. However, gross generation increased by 527,486 MWh or 25.6 percent above that of 2015, resulting in a capacity factor of 65.1 percent which is also significantly below the 27-year average capacity factor of 75.9 percent.

The funds advanced by NMPA during 2016 for the operation of the Coyote Station equaled $31,001,176 of the total of $102,400,000 funds advanced by the entire group of Station owners. NMPA participants contributed $34,422,856 in revenue of the total of $66,780,186 in revenue derived to offset NMPA's share of the cost of owning and operating the Coyote Station, the cost of the load-ratio share of the Minnkota Power Cooperative transmission system, and the cost of internal Agency administrative expense.

The Power Supply Coordination Agreement between Minnkota Power Cooperative, Inc. and Northern Municipal Power Agency provides for capital credits to be allocated to the Agency whenever such credits are allocated to other Minnkota Power Cooperative members. For 2016 Minnkota Power had an operating loss of $1,840,507 and a nonoperating margin of $11,070,507 for a total margin of $9,230,000. 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 2016. At the time the accumulated operating losses are offset by operating margins, allocation of margins would resume.

Coyote Operating Statistics

	2016	2015	2014
Hours of Operation	6,689	8,226	7,526
Hours of Outage	2,095	504	1,234
Plant Availability (Percent)	76.2	94.2	85.9
Gross Generation – Total (MWh)	2,587,585	2,060,099	2,916,151
Net Generation – Total (MWh)	2,440,646	1,916,652	2,745,040
Fuel Burned – Coal (Tons)	2,011,974	1,659,351	2,248,483
Fuel Burned – Fuel Oil (Gallons)	777,659	409,364	442,815
Fuel Cost (Mills/kWh)	20.18	19.1	17.2
Total Production Cost (Mills/kWh)	32.50	30.5	24.7

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.

Dale Narlock
Thief River Falls, Minn.

Shannon Mortenson
Warren, Minn.

Ron Kleinschmidt
Warroad, Minn.

Darryl Tveitbakk
General Manager

Paul Ihle
Legal Counsel

Delray Sparby
Legal Counsel

Secretary-Treasurer's Report

For 40 years, the Northern Municipal Power Agency has strived to provide an adequate, economical, reliable and long-term supply of electric energy and related services to its 12 municipal participants. The Agency's Power Supply Coordination Agreement with Minnkota Power Cooperative continues to ensure our ability to meet these obligations to the participants.

The average wholesale rate to participants was 77.01 mills/kWh in 2016, a 3.63 percent increase from 2015. Mild temperatures again accounted for a large portion of the reduction in the amount of kWh sales to participants with a decrease in heating degree days of 7.6 percent from 2015. The state of Minnesota Conservation Improvement Program mandate of 1.5 percent annual reduction of energy usage by conservation measures was again met by the utilities participating in the PowerSavers program. Total sales to participants were 448,446,930 kWh for 2016, which was approximately 1.2 percent less than 2015.

The amount of revenues received from participants in 2016 of $34,422,856 reflected a 3.3 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 $66,780,186, which also includes sales to Minnkota and others, and investment and other income, increased substantially from 2015 due to there being more energy available for off-system sales along with the sellback requirement of meeting the financial obligations of the Agency.

Otter Tail Power Company continues to serve the Coyote Partners as operating agent of the Coyote Station. For 2016, the Agency's 30 percent share of Fuel and O&M Costs for Coyote was 32.19 mills, while the average cost of net energy production rose to 32.50 mills per kWh. The increase of 6.69 percent in average cost of net energy production reflects the scheduled outage projects and resulting plant availability. The board and others were able to view firsthand the efforts of the Coyote Station operating agent and the new coal provider and were impressed with the performance of both. We greatly appreciate their diligence in the operations.

The Agency has debt outstanding at the end of 2016 of $184,685,000 of fixed rate bonds with the final maturity date of 2031. This reflects $25.6 million of outstanding 2007 bonds, which the Agency had an opportunity to refinance at a lower rate, helping to stabilize wholesale rates. The coverage ratio and reserve obligations continue to be met. Further review for opportunities to provide additional savings to the NMPA participants is ongoing. Keeping the wholesale rates competitive and our generation and transmission systems reliable is a priority to the board.

The annual financial audit was conducted by Brady, Martz and Associates P.C., the independent auditors retained by the board of directors. The auditors indicate that the financial statements fairly present, in all material respects, the net position of the Agency as of Dec. 31, 2016, 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 Auditor's Report.

We value our continued relationships with the NMPA participants and 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 occurring throughout the year. I encourage you to review the report in its entirety.

Sincerely,
Dalene Monsebroten, Secretary-Treasurer

Dalene Monsebroten
Secretary-Treasurer

NMPA completes financing

Northern Municipal Power Agency (NMPA) closed a bond deal on May 5, 2016, in Chicago for bonds sold on April 6, 2016.

NMPA received significant savings in refunding the Series 2007A bonds – $25,645,000 maturing Jan. 1, 2021, through 2031, that had an average interest rate of 4.66 percent. Taking advantage of favorable market conditions, the $22,375,000 Electric System Revenue Bonds, Series 2016 financing resulted in:

- $3,001,000 net present value savings.
- Present value debt service savings of 11.7 percent of the amount of bonds refunded.
- An interest rate of 2.59 percent.
- Bonds maturing Jan. 1, 2021, through 2031.

The refunding savings were much better than expected. When the NMPA's board authorized the refunding in March 2016, net present value savings were estimated at $2.0 million, compared to the actual $3.0 million.

Jim Palubicki has been in the business for more than 40 years.

Palubickis invest in small-town Minnesota

Family rewards customers with grocery store that belies Fosston's population

Jim and Nina Palubicki planned to be living in Arizona and relaxing after more than 40 years in the grocery business.

They have put those retirement dreams on hold.

Instead they are key players in a dream-like grocery store for a city of about 1,500. The Palubickis' daughter, Leah, has built a 43,000-square-foot store in Fosston, Minn., that also includes a pharmacy, Caribou Coffee, a bistro with on-sale beer, the local Red Poppy and a liquor store.

A customer is greeted by dry concrete as she enters the store after a snowfall.

Small-town Minnesota. Big-time grocery store.

All are up and running at Palubicki's Family Market and Spirits along U.S. Highway 2 in Fosston, which is about 70 miles east of Grand Forks. The Caribou Coffee opened first in December 2016, followed by the grocery store, liquor store and pharmacy.

Fosston Municipal Utilities powers Palubicki's, which took advantage of more than $53,000 in energy efficiency rebates through the PowerSavers program. The program provided energy expertise during the planning stages of the new store. Fosston is one of the Northern Municipal Power Agency municipals in PowerSavers, which also includes Minnkota's eight Minnesota cooperatives.

The grocery store employs 106, up from 70 when it was in a building next door to the new facility.

Doug Hoialmen, a Fosston City Council member,

was asked about the new grocery store, which replaced a 18,000-square-foot store that began as a 5,000-square-foot area before a series of remodels.

"It's got wide aisles," Hoialmen said of the new building. "It's set up nicely; it's easy to find what you're looking for. And I found a few items I didn't find in the old store that I like. I like hot food, and there are a few things they're carrying now that I really appreciate."

Want a piping-hot pizza? You can get one in 2 to 3 minutes. And you can sit down in the bistro and have a beer with it. The Palubickis aren't competing for the bar crowd; they close the bistro at 8 p.m., but they do think the on-sale beer sales boost pizza sales.

In addition to wide aisles and bright lights, the store has many of the latest technologies, including LED lighting, a fogger for produce, heated outside and entryway concrete to protect the store floors from sand and snow, occupancy sensors for lighting in low-traffic areas, energy-efficient refrigeration cases and computerized temperature controls that notify the Palubickis and a refrigeration company if attention is needed.

The Snow Melt sidewalk system has been a big hit.

"We can get rid of sand and snow," Jim Palubicki said. "Customers can drive right up with their elderly mother or father, let them off and they can get right out on dry concrete with the cart."

Leah bought the business from her parents about seven years ago. She said after a couple of good years and with box stores popping up in many northwestern Minnesota cities, the family decided something different was needed to compete.

While Leah owns the business, it's a family affair. Sisters Meghan and Tara both work at the store. Meghan runs The Red Poppy and Tara runs the produce, dairy and frozen areas, along with the Caribou and specialty products.

The Palubickis' other daughter, Alison, works in homeopathic care in town, but Jim hopes she will be involved in the business as well. Leah's nieces

Sloane Peterson, Brandy Garrison and Feadotia Piatkoff, left to right, get a pizza ready for a customer.

Above: Leah Palubicki is the store owner.

Left: Meghan Palubicki runs The Red Poppy in the store.

Workers serve a customer while a couple enjoys a beverage in the bistro area across from the Caribou Coffee.

Food supplier Super-Valu helped the Palubickis design the building, which was built in less than a year.

and nephews, from 12 years old and up, also help at the store. Mom Nina works in the office.

In addition to family, the Palubickis stress healthy living. They have a large section of organic and gluten-free items that covers two aisles. On a wall in the immaculate store is the following saying, "Shop Well, Live Well, Eat Well."

Palubicki's has become a destination grocery store for people in the area. One goal is to attract those who have about the same distance to drive to Fosston as they do to drive to stores in larger cities such as Detroit Lakes, Crookston and Thief River Falls.

Getting them in the door is the key. Leah said she can read customers' lips as they walk in the store for the first time: "Wow."

Hoialmen said: "I'm a little surprised by how big it is, but not surprised that it's nice and well-designed. They are very intelligent and do their research."

Food supplier Super-Valu helped the Palubickis design the store, which took less than a year to build. Kraus-Anderson was the general contractor, but the family made sure as many local trades as possible were involved in the construction. Even the school band came over to stock shelves to help pay for a trip.

"We've had an unbelievable reception from the people," said Jim Palubicki, who now hopes to retire in six to seven years. "The space, the size, the selection, the looks. We've had a lot of compliments and a lot of letters."

After all, the store is something to write home about.

Power SAVERS
Working together to save energy

2016 NMPA POWERSAVERS SUMMARY

	Incentives Paid	kWh Savings
Bagley Public Utilities	$ 28,282.85	337,568
Baudette Public Utilities	4,352.84	110,872
Fosston Public Utilities	40,876.43	471,251
Halstad Municipal Utilities	3,140.90	22,453
Hawley Municipal Utilities	7,107.01	65,416
Roseau Municipal Utilities	24,261.12	324,801
City of Stephen Utilities	8,209.10	147,071
Thief River Falls Municipal Utilities	117,362.66	1,732,283
City of Warren Water & Light	26,309.72	311,055
Totals	$259,902.63	3,522,770

PowerSavers payout for 2016

The PowerSavers program paid out $259,902.63 in rebates to residential and business customers of the participating municipals in 2016.

Thief River Falls individuals and businesses were paid $117,362.66 in rebates to lead the way. Fosston was the next highest at $40,876.43 incentives paid.

Thief River Falls' Arctic Cat saved 839,849 kWh and received $53,575.60.

Combined, individuals and businesses of those municipals saved 3,522,770 kWh by becoming more efficient in 2016. Thief River Falls at 1,732,283 kWh saved led the way, followed by Fosston at 471,251 and Bagley at 337,568.

Team Industries of Bagley was paid $23,924 in rebates and saved 287,696 kWh.

The bottle shop has state-of-the-art heating and cooling systems.

Wholesale Power Costs

City	Population	No. of Customers	Amount Purchased (kWh)	Cost of Power w/Levy	Mills/kWh w/Levy
Bagley	1,417	773	26,447,783	$2,030,322	76.77
Baudette	1,011	765	21,751,492	1,667,219	76.65
Fosston	1,527	897	33,776,902	2,543,489	75.30
Grafton	4,324	2,165	56,092,983	4,334,443	77.27
Halstad	598	327	8,656,085	692,092	79.95
Hawley	2,067	1,161	20,652,580	1,635,489	79.19
Park River	1,403	812	20,023,556	1,659,173	82.86
Roseau	2,855	1,440	39,366,351	3,150,835	80.04
Stephen	660	383	8,114,697	653,094	80.48
Thief River Falls	8,765	4,950	137,408,193	10,757,797	78.29
Warren	1,563	823	18,217,301	1,520,171	83.45
Warroad	1,781	956	57,939,007	3,890,845	67.15
TOTAL	27,971	15,452	448,446,930	$34,534,969	77.01

Financial Coverage Ratios

City	2016	2015	2014	2013	2012
Bagley	1.11	1.09	1.11	1.03	1.04
Baudette	1.33	1.30	1.30	1.49	1.51
Fosston	1.19	1.08	1.15	1.23	1.19
Grafton	1.08	1.12	1.10	1.19	1.18
Halstad	1.22	1.23	1.06	1.24	1.25
Hawley	1.16	1.27	1.13	1.14	1.12
Park River	1.03	1.07	1.16	1.22	1.18
Roseau	1.29	1.29	1.31	1.29	1.31
Stephen	1.06	1.19	1.19	1.21	1.17
Thief River Falls	1.23	1.13	1.15	1.06	1.04
Warren	.93	.95	1.13	1.04	1.02
Warroad	1.23	1.10	1.29	1.14	1.08
Average	1.16	1.17	1.17	1.19	1.18
NMPA	1.28	1.38	1.22	1.24	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.)

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, 2016 and 2015. 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

				2016 vs 2015	
	2016	2015	2014	Dollar Change	Percent Change
Net Utility Plant	$130,623,045	$ 144,158,888	$160,521,964	$(13,535,843)	(9.4%)
Current Assets	62,238,319	74,443,255	80,335,696	(12,204,936)	(16.4%)
Total Assets	192,861,364	218,602,143	240,857,660	(25,740,779)	(11.8%)
Deferred Outflows of Resources	118,585	22,466	-	96,119	100.0%
Current Liabilities	32,148,541	30,490,282	32,112,660	1,658,259	5.4%
Long-term Liabilities	160,802,944	188,115,658	208,745,000	(27,312,714)	(14.5%)
Total Liabilities	192,951,485	218,605,940	240,857,660	(25,654,455)	(11.7%)
Deferred Inflows of Resources	28,464	18,669	-	9,795	100.0%
Net Investment in Capital Assets	(54,061,955)	(64,586,112)	(69,238,036)	10,524,157	16.3%
Restricted by Bond Agreements	49,197,237	60,095,964	64,307,988	(10,898,727)	(18.1%)
Unrestricted	4,864,718	4,490,148	4,930,048	374,570	8.3%
Total Net Position	$ -	$ -	$ -	$ -	-

Condensed statements of net position highlights are as follows:

- Net utility plant decreased by approximately $13.6 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 $13.6 million decrease in net utility plant is mainly due to an additional year's depreciation offset by property additions.
- Current assets decreased by approximately $12.2 million. Current assets include cash, investments and accounts receivable. The decrease is primarily related to the use of construction funds to finance Coyote plant and transmission property additions.
- Current liabilities increased by approximately $1.7 million primarily due to an increase in the current maturities of revenue bonds.
- Revenue bonds, net of current maturities, decreased by approximately $27.4 million. The decrease is due to the refunding of bonds in May 2016 as well as scheduled bond principal payments made in 2016.
- 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, 2016, 2015 and 2014:

Condensed Statements of Revenues and Costs

	2016	2015	2014	2016 vs 2015 Dollar Change	2016 vs 2015 Percent Change
Revenues	$ 66,780,186	$ 54,746,684	$ 57,777,997	$ 12,033,502	22.0%
Operating Costs	$ 57,471,289	$ 44,343,163	$ 46,285,212	$ 13,128,126	29.6%
Interest	9,308,897	10,403,521	11,492,785	(1,094,624)	(10.5%)
Total Costs	$ 66,780,186	$ 54,746,684	$ 57,777,997	$ 12,033,502	22.0%

Condensed statements of revenues and costs highlights are as follows:

- Total revenues increased by $12.0 million. Revenues from Exempt Sales to Public Authorities and Other Income increased by $8.0 million. Revenues from Participants increased by $0.6 million and Revenues from Minnkota Power Cooperative, Inc. (Minnkota) increased by $3.4 million. Revenues from Exempt Sales to Public Authorities and Other Income increased primarily due to higher surplus sales from the Coyote Plant. The increase in Revenues from Participants is due to a 3.3% rate increase on April 1, 2016 offset by a 1.8% decrease in energy kWh sales. Revenues from Minnkota were up primarily due to there being more Coyote plant costs in 2016 for Minnkota to cover under the Power Supply Coordination Agreement. Per this Agreement, Minnkota purchases all capacity and energy in excess of Northern's requirements at a cost to satisfy Northern's revenue requirements, subject to limitations pursuant to Federal tax law.
- Total operating costs increased by $13.1 million. Total operating costs include fuel and operating & maintenance expenses for Northern's 30% share of the Coyote generating plant, transmission operating expenses, administrative expenses, and depreciation. Depreciation is provided for on a sinking fund method with depreciation equivalent to the principal payments required to pay the outstanding bonds. Depreciation expense increased $3.4 million due to higher bond principal payments. Operation and maintenance expense increased by $5.8 million and fuel increased by $4.0 million mainly due to the Coyote plant operating at full load compared to a reduced load for most of the prior year due to boiler feed pump issues.
- Interest expense decreased by $1.1 million in 2016.

Debt Administration

As of December 31, 2016, Northern had debt outstanding of approximately $184.7 million, a decrease of approximately $24.1 million from December 31, 2015. Northern made scheduled bond principal payments of $20.8 million on January 4, 2016. Refunding of 2007A Bonds was done in May 2016 which resulted in a net decrease in bonds payable of $3.3 million. 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, 2016 and 2015

Assets and Deferred Outflows of Resources	2016	2015
UTILITY PLANT		
Plant in Service	$ 364,352,298	$ 355,828,341
Transmission System	51,350,877	49,260,677
Total Utility Plant	$ 415,703,175	$ 405,089,018
Accumulated Depreciation	(285,080,130)	(260,930,130)
Net Utility Plant	$ 130,623,045	$ 144,158,888
CURRENT ASSETS		
Cash	$ 726,324	$ 644,653
Investments – Unrestricted	4,447,782	5,439,354
Investments – Restricted	53,842,326	65,297,725
Accounts Receivable – Participants	3,221,887	3,061,523
Total Current Assets	$ 62,238,319	$ 74,443,255
TOTAL ASSETS	$ 192,861,364	$ 218,602,143
DEFERRED OUTFLOWS OF RESOURCES		
Cost Sharing Defined Benefit Pension Plan	$ 118,585	$ 22,466

Liabilities, Deferred Inflows of Resources and Net Position		
LONG-TERM LIABILITIES		
Revenue Bonds, Net of Current Maturities	$ 160,535,000	$ 187,955,000
Net Pension Liability	267,944	160,658
Total Long-Term Liabilities	$ 160,802,944	$ 188,115,658
CURRENT LIABILITIES		
Accounts Payable		
Participants	$ 726,324	$ 644,653
Minnkota Power Cooperative, Inc.	2,627,128	3,853,868
Accrued Interest	4,645,089	5,201,761
Current Maturities of Revenue Bonds	24,150,000	20,790,000
Total Current Liabilities	$ 32,148,541	$ 30,490,282
TOTAL LIABILITIES	$ 192,951,485	$ 218,605,940
DEFERRED INFLOWS OF RESOURCES		
Cost Sharing Defined Benefit Pension Plan	$ 28,464	$ 18,669
NET POSITION		
Net Investment in Capital Assets	$ (54,061,955)	$ (64,586,112)
Restricted by Bond Agreements	49,197,237	60,095,964
Unrestricted	4,864,718	4,490,148
Total Net Position	$ -	$ -

See Notes to the Financial Statements.

Statements of Revenues and Costs

For the years ended December 31, 2016 and 2015

	2016	2015
REVENUES		
Participants	$ 34,422,856	$ 33,834,095
Minnkota Power Cooperative, Inc.	19,543,718	16,128,278
Exempt Sales to Public Authorities and Other Income	12,813,612	4,784,311
Total	$ 66,780,186	$ 54,746,684
COSTS		
Plant Operations		
Fuel	$ 15,098,323	$ 11,099,808
Operation and Maintenance	15,902,853	10,097,949
Transmission Operations	1,765,264	1,886,127
Administrative Expense	554,849	469,279
Depreciation	24,150,000	20,790,000
Total	$ 57,471,289	$ 44,343,163
Interest	9,308,897	10,403,521
Total	$ 66,780,186	$ 54,746,684

See Notes to the Financial Statements.

Power Sources and Energy Sales

	2016	2015	2014
NMPA Coyote Net Generation Delivered (kWh)	749,016,430	580,288,574	830,853,462
Energy Sales: (kWh)			
Municipal Participants	448,446,930	456,823,149	473,190,801
Minnkota Power Cooperative, Inc. and Other Public Authorities	300,569,500	123,465,425	357,662,661
	749,016,430	580,288,574	830,853,462

Statements of Cash Flows

For the Years Ended December 31, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Participants	$ 34,374,605	$ 33,983,096
Receipts from Minnkota Power Cooperative, Inc.	18,342,318	13,645,040
Receipts from Other Public Authorities	7,450,551	4,958,173
Receipts from Others	395,001	317,671
Receipt of Interest	390,120	343,409
Payments for Fuel	(15,098,323)	(11,099,808)
Payments for Operation and Maintenance	(15,902,853)	(10,097,949)
Payments for Transmission Operations	(1,765,264)	(1,886,127)
Payments for Interest	(9,865,569)	(10,937,810)
Payments for Administrative Expense	(473,178)	(100,526)
Net Cash Provided (Used) By Operating Activities	$ 17,847,408	$ 19,125,169
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Issuance of Bonds	$ 22,375,000	$ -
Bonds Refunded	(25,645,000)	-
Premium Received on Bonds Issued	3,178,114	-
Principal Paid on Debt	(20,790,000)	(21,015,000)
Addition to Utility Plant	(9,330,936)	(3,967,815)
Net Cash Provided (Used) By Capital and Related Financing Activities	$ (30,212,822)	$ (24,982,815)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Investments	$ 130,254,036	$ 136,443,391
Purchase of Investments	(117,806,951)	(130,216,992)
Net Cash Provided (Used) By Investing Activities	$ 12,447,085	$ 6,226,399
INCREASE IN CASH	$ 81,671	$ 368,753
CASH AT BEGINNING OF YEAR	$ 644,653	$ 275,900
CASH AT END OF YEAR	$ 726,324	$ 644,653
CASH FLOWS FROM OPERATING ACTIVITIES		
Depreciation	$ 24,150,000	$ 20,790,000
Deferred Charges	(4,440,487)	(302,248)
Change in Current Assets and Liabilities:		
Accounts Receivable	(160,364)	34,795
Accounts Payable	(1,145,069)	(863,089)
Accrued Interest	(556,672)	(534,289)
Net Cash Provided (Used) By Operating Activities	$ 17,847,408	$ 19,125,169

See Notes to the 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, 2016 and 2015, 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, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of Agency's contributions to the MN PERA retirement plan, 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 27, 2017

NOTE 1: ORGANIZATION

Northern Municipal Power Agency (Northern) is a municipal corporation and a political subdivision of the State of Minnesota. Its membership consists of ten Minnesota and two North Dakota municipalities each of which owns and operates a municipal electric utility distribution system.

Northern was incorporated on December 14, 1976, for the purpose of providing a means for its members to secure an adequate, economical and reliable long-term supply of electric energy.

In April 1981, Northern purchased a 30% interest in the Coyote Station plant near Beulah, North Dakota and related transmission facilities from Minnkota. As of December 31, 2016, 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 as well as observable market based inputs or unobservable inputs that are corroborated by market data.

Restricted Investments

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

Fair Value Measurements

Northern accounts for all assets and liabilities that are being measured and reported on a fair value basis in accordance with generally accepted accounting principles (GAAP). GAAP defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurements.

When fair value measurements are required, various data is used in determining those values. This statement requires that assets and liabilities that are carried at fair value must be classified and disclosed in the following levels based on the nature of the data used:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

Revenue

Revenues as defined by the Electric System Revenue Bond Resolution are established at amounts sufficient to cover operating costs (excluding depreciation) and debt service on revenue bonds, less capitalized interest. 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'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 2015 amounts have been reclassified to conform to the 2016 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, subject to limitations pursuant to Federal tax law. Minnkota is the operating agent for Northern.

NOTE 4: CASH AND INVESTMENTS

The bond resolution under which the revenue bonds were issued provides for the creation and maintenance of certain funds and accounts as follows:

	Dec. 31 2016	Dec. 31 2015
Unrestricted:		
Working Fund	$ 726,324	$ 644,653
Operating Fund	2,000,011	3,180,254
General Reserve Fund	1,300,678	683,975
Reserve and Contingency Fund	1,146,978	1,575,125
Refunding Series 2016 - Bond Fund	115	-
Total Unrestricted	$ 5,174,106	$ 6,084,007
Restricted:		
Bond Fund Debt Service Reserve Account	$ 11,250,223	$15,827,630
Rate Stabilization Fund	5,632,139	4,631,675
Cost of Issuance Fund	-	4,635
2013 Plant Additions Fund	7,901,098	17,037,209
Bond Fund Interest Account	4,300,430	4,023,647
Bond Fund Principal Account	24,758,436	23,772,929
Total Restricted	$ 53,842,326	$65,297,725
Total Cash and Investments	$ 59,016,432	$71,381,732

The funds consist of $58,290,108 of investment securities and $726,324 of cash deposits at December 31, 2016, and $70,737,079 of investment securities and $644,653 of cash deposits at December 31, 2015.

As of December 31, 2016, the Agency had the following investments:

		Fair Value Measurments Using				
	12/31/16	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Rating	Agency
Investments by Fair Value Level						
Cash & Cash Alternatives						
Treasury Money Market	$52,497,978	$52,497,978	$ -	$ -	N/A	N/A
Debt Securities						
Federal National Mortgage	5,792,130	-	5,792,130	-	AAA	Moody's
Total Investments by Fair Value Level	$58,290,108	$52,497,978	$5,792,130	$ -		

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 12/31/16				
Plant in Service	$ 355,828,341	$ 4,062,507	$ 4,461,450	$ 364,352,298
Transmission System	49,260,677	2,090,200	-	51,350,877
Total Utility Plant	405,089,018	6,152,707	4,461,450	415,703,175
Less Accumulated Depreciation	(260,930,130)	(24,150,000)	-	(285,080,130)
Net Utility Plant	$ 144,158,888	$(17,997,293)	$ 4,461,450	$ 130,623,045
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

The Electric System Revenue Bond Resolution requires that revenues equal costs. At December 31, 2016 and 2015, $(1,641,457) and $2,845,334, respectively were deferred against plant in service.

NOTE 6: REVENUE BONDS

Revenue bonds payable at December 31, 2016 and 2015 are summarized below:

	Dec. 31, 2016	Dec. 31, 2015
Electric System Revenue Bonds, Series 2007A, Interest 4.125% to 5.00%, Due Annually in Varying Amounts from January 1, 2017 through January 1, 2020	$ 1,975,000	$ 28,060,000
Electric System Revenue Bonds, Series 2008A, Interest 5.00%, Due Annually in Varying Amounts from January 1, 2017 through January 1, 2021	62,275,000	62,275,000
Electric System Revenue Bonds, Series 2008, Interest 5.82%, Due January 1, 2017	17,110,000	19,610,000
Electric System Revenue Bonds, Series 2009A, Interest 5.00%, Due Annually in Varying Amounts through January 1, 2016	-	15,715,000
Electric System Revenue Bonds, Series 2010A-1, Interest 5.00%, Due Annually in Varying Amounts from January 1, 2017 through January 1, 2020	45,715,000	46,080,000
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
Electric System Revenue Bonds, Series 2013A, Interest 4.00% to 5.00%, Due Annually in Varying Amounts from January 1, 2023 through January 1, 2031	26,155,000	26,155,000
Electric System Revenue Bonds, Series 2013B, Interest 4.35%, Due January 1, 2022	2,295,000	2,295,000
Electric System Revenue Bonds, Series 2016, Interest 5.00%, Due Annually in Varying Amounts from January 1, 2021 through January 1, 2031	22,375,000	-
Totals	$ 184,685,000	$ 208,745,000

Revenue bond debt service requirements to maturity are as follows:

	Principal	Interest	Total
2017	$ 24,150,000	$ 9,308,898	$ 33,458,898
2018	24,325,000	7,942,377	32,267,377
2019	24,980,000	6,730,370	31,710,370
2020	26,215,000	5,485,158	31,700,158
2021	27,715,000	4,177,689	31,892,689
2022-2026	29,055,000	10,892,363	39,947,363
2027-2031	28,245,000	4,222,268	32,467,268
	$ 184,685,000	$ 48,759,123	$ 233,444,123

On May 4, 2016, Northern issued $22.4 million of 2016 revenue bonds and redeemed $25.6 million of 2007 revenue bonds. The net present value of savings on this refunding was $3,001,974.

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, 2016 and 2015 was as follows:

	Beginning Balance	Net Additions	Net Reductions	Ending Balance
Long-term liabilities, 12/31/16, revenue bonds	$ 208,745,000	$ 22,375,000	$ (46,435,000)	$ 184,685,000
Long-term liabilities, 12/31/15, revenue bonds	$ 229,760,000	$ -	$ (21,015,000)	$ 208,745,000

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 2016. The Agency was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2016. The Agency's contributions to the GERF for the year ended December 31, 2016, were $16,519. The Agency's contributions were equal to the required contributions as set by state statute.

GERF Pension Costs

At December 31, 2016, the Agency reported a liability of $267,944 for its proportionate share of the GERF's net pension liability. The Agency's net pension liability reflected a reduction due to the State of Minnesota's contribution of $6 million to the fund in 2016. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the Agency totaled $3,559. The net pension liability was measured as of June 30, 2016, 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, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016 the Agency's proportion share was 0.0033% which was an increase of 0.0002% from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the Agency recognized pension expense of $39,729 for its proportionate share of the General Employees Plan's pension expense. In addition, the Agency recognized an additional $1,061 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $6 million to the General Employees Fund. 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, 2016, 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	$ -	$21,418
Changes in actuarial assumptions	52,464	-
Difference between projected and actual investment earnings	50,121	-
Changes in proportion	7,774	7,046
Contributions paid to PERA subsequent to the measurement date	8,226	-
Total	$118,585	$28,464

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

$8,226 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, 2017. 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
2017	$21,998
2018	21,998
2019	28,221
2020	9,678
2021	-
Thereafter	-

Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP 2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: 1% per year for all future years for GERF.

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the GERF Plan was completed in 2015. Experience studies have not been prepared for PERA's other plans, but assumptions are reviewed annually.

The following changes in actuarial assumptions occurred in 2016:

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

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table :

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability in 2016 was 7.50%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the GERF was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension Liability Sensitivity

The following presents the Agency's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the Agency's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
Agency's proportionate share of the GERF net pension liability:	$380,559	$267,944	$175,179

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.

NOTE 8: RISK MANAGEMENT

Northern is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and others; and natural disasters. The Reserve and Contingency Fund was established to fund uninsured risks of loss. Reserve and Contingency Fund assets were $1,146,978 and $1,575,125 at December 31, 2016 and 2015, respectively. There were no outstanding or unpaid claims as of December 31, 2016 and 2015. 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.

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%
2016	PERA	$16,519	$16,519	$ -	$220,247	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.

See Note to the Required Supplementary Information

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%
2016 PERA	0.0033%	$267,944	$3,559	$271,503	$220,247	121.66%	68.90%

The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability which is June 30, 2016.

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

See Note to the Required Supplementary Information

NORTHERN MUNICIPAL POWER AGENCY
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF DECEMBER 31, 2016 AND 2015

NOTE 1: GENERAL EMPLOYEES FUND

2016 Changes

Changes in Actuarial Assumptions:

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

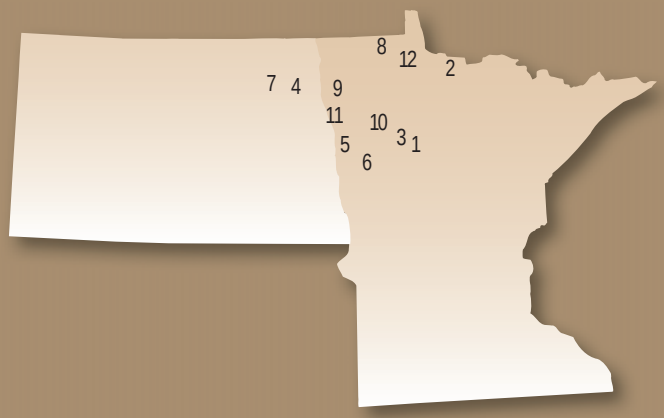
2015 Changes

Changes in Plan Provisions:

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

Changes in Actuarial Assumptions:

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



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

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