

**NORTHERN MUNICIPAL POWER AGENCY
THIEF RIVER FALLS, MINNESOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

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**NORTHERN MUNICIPAL POWER AGENCY
ROSTER OF BOARD OFFICIALS
FOR THE YEAR ENDED DECEMBER 31, 2014**

Participants

Bagley, Minnesota
Baudette, Minnesota
Fosston, Minnesota
Grafton, North Dakota
Halstad, Minnesota
Hawley, Minnesota
Park River, North Dakota
Roseau, Minnesota
Stephen, Minnesota
Thief River Falls, Minnesota
Warren, Minnesota
Warroad, Minnesota

Representatives

Mike Jensen
Roger Schotl
David Larson
Chris West
Lucas Spaeth
Jerald Pederson
Dennis Larson
Todd Peterson
Leonard Bazey
Barry Froiland
Shannon Mortenson
Ron Kleinschmidt

President

Jerald Pederson

Vice-President

Lucas Spaeth

Secretary-Treasurer

Dalene Monsebroten

General Manager

Darryl Tveitbakk

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, 2014 and 2013, 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, 2014 and 2013, 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 on pages 4 through 6 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

March 6, 2015

NORTHERN MUNICIPAL POWER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

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, 2014 and 2013. 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

	2014	2013	2012	2014 vs 2013	
				Dollar Change	Percent Change
Net Utility Plant	\$ 160,521,964	\$ 178,311,778	\$ 197,196,183	\$ (17,789,814)	(10.0)
Current Assets	80,335,696	80,699,320	53,479,967	(363,624)	(0.5)
Total Assets	<u>\$ 240,857,660</u>	<u>\$ 259,011,098</u>	<u>\$ 250,676,150</u>	<u>\$ (18,153,438)</u>	<u>(7.0)</u>
Current Liabilities	\$ 32,112,660	\$ 29,251,098	\$ 30,286,150	\$ 2,861,562	9.8
Revenue Bonds	208,745,000	229,760,000	220,390,000	(21,015,000)	(9.1)
Total Liabilities	<u>\$ 240,857,660</u>	<u>\$ 259,011,098</u>	<u>\$ 250,676,150</u>	<u>\$ (18,153,438)</u>	<u>(7.0)</u>
Net Investment in					
Capital Assets	\$ (69,238,036)	\$ (70,528,222)	\$ (41,328,817)	\$ 1,290,186	1.8
Restricted by Bond Agreements	64,307,988	63,091,472	17,445,867	1,216,516	1.9
Unrestricted	4,930,048	7,436,750	23,882,950	(2,506,702)	(33.7)
Total Net Position	-	-	-	-	-
Total Net Position & Liabilities	<u>\$ 240,857,660</u>	<u>\$ 259,011,098</u>	<u>\$ 250,676,150</u>	<u>\$ (18,153,438)</u>	<u>(7.0)</u>

NORTHERN MUNICIPAL POWER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

Condensed statements of net position highlights are as follows:

- Net utility plant decreased by approximately \$17.8 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 \$17.8 million decrease in net utility plant is mainly due to an additional year's depreciation offset by property additions.
- Current assets decreased by approximately \$0.4 million. Current assets include cash, investments and accounts receivable. The decrease is primarily related to the use of construction funds to finance transmission property additions.
- Current liabilities increased by approximately \$2.9 million primarily due to an increase in the accounts payable to Minnkota Power Cooperative, Inc. (Minnkota). This increase was related to more Northern costs being covered by revenue from Minnkota under the Power Supply Coordination Agreement and an increase from the prior year in joint system transmission property additions.
- Revenue bonds, net of current maturities, decreased by approximately \$21.0 million. The decrease is due to scheduled bond principal payments made in 2014.

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

Condensed Statements of Revenues and Costs

	2014	2013	2012	2014 vs 2013	
				Dollar Change	Percent Change
Revenues	\$ <u>57,777,997</u>	\$ <u>54,986,308</u>	\$ <u>58,429,303</u>	\$ <u>2,791,689</u>	<u>5.1</u>
Operating Costs	\$ 46,285,212	\$ 43,739,157	\$ 46,431,689	\$ 2,546,055	5.8
Interest	<u>11,492,785</u>	<u>11,247,151</u>	<u>11,997,614</u>	<u>245,634</u>	<u>2.2</u>
Total Costs	\$ <u>57,777,997</u>	\$ <u>54,986,308</u>	\$ <u>58,429,303</u>	\$ <u>2,791,689</u>	<u>5.1</u>

Condensed statements of revenues and costs highlights are as follows:

- Total revenues increased by \$2.8 million. Revenues from Participants decreased \$0.3 million while revenues from Minnkota were up by \$2.6 million in 2014. Revenues from Minnkota were up primarily due to there being more Coyote plant costs in 2014 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. Revenues from Exempt Sales to Public Authorities and Other Income increased by \$0.5 million.
- Total operating costs increased by over \$2.5 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 \$2.0 million due to higher bond principal payments. Operation and maintenance expense increased by \$1.1 million, while fuel decreased by \$0.6 million.

NORTHERN MUNICIPAL POWER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

- Interest expense increased by \$0.2 million in 2014.

DEBT ADMINISTRATION

As of December 31, 2014, Northern had debt outstanding of approximately \$229.8 million, a decrease of approximately \$19.1 million from December 31, 2013. Northern made scheduled bond principal payments of \$19.1 million on January 2, 2014. 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.

NORTHERN MUNICIPAL POWER AGENCY
STATEMENTS OF NET POSITION
AS OF DECEMBER 31, 2014 AND 2013

ASSETS

	2014	2013
UTILITY PLANT		
Plant in Service	\$ 352,334,517	\$ 350,174,331
Transmission System	<u>48,327,577</u>	<u>47,262,577</u>
Total	400,662,094	397,436,908
Accumulated Depreciation	<u>(240,140,130)</u>	<u>(219,125,130)</u>
Net Utility Plant	<u>160,521,964</u>	<u>178,311,778</u>
CURRENT ASSETS		
Cash	275,900	273,921
Investments - Unrestricted	6,919,440	7,346,644
Investments - Restricted	70,044,038	68,791,889
Accounts Receivable		
Participants	<u>3,096,318</u>	<u>4,286,866</u>
Total Current Assets	<u>80,335,696</u>	<u>80,699,320</u>
TOTAL ASSETS	<u>\$ 240,857,660</u>	<u>\$ 259,011,098</u>

LIABILITIES AND NET POSITION

REVENUE BONDS, Net of Current Maturities	\$ 208,745,000	\$ 229,760,000
CURRENT LIABILITIES		
Accounts Payable		
Participants	275,900	273,921
Minnkota Power Cooperative, Inc.	5,085,710	4,196,760
Accrued Interest	5,736,050	5,700,417
Current Maturities of Revenue Bonds	<u>21,015,000</u>	<u>19,080,000</u>
Total Current Liabilities	<u>32,112,660</u>	<u>29,251,098</u>
TOTAL LIABILITIES	<u>240,857,660</u>	<u>259,011,098</u>
NET POSITION		
Net Investment in Capital Assets	(69,238,036)	(70,528,222)
Restricted by Bond Agreements	64,307,988	63,091,472
Unrestricted	<u>4,930,048</u>	<u>7,436,750</u>
Total Net Position	<u>-</u>	<u>-</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 240,857,660</u>	<u>\$ 259,011,098</u>

See Notes to Financial Statements

NORTHERN MUNICIPAL POWER AGENCY
STATEMENTS OF REVENUES AND COSTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
REVENUES:		
Participants	\$ 33,538,804	\$ 33,791,498
Minnkota Power Cooperative, Inc.	9,950,302	7,354,944
Exempt Sales to Public Authorities and Other Income	<u>14,288,891</u>	<u>13,839,866</u>
Total	<u>\$ 57,777,997</u>	<u>\$ 54,986,308</u>
 COSTS:		
Plant Operations		
Fuel	\$ 14,005,157	\$ 14,615,356
Operation and Maintenance	8,382,716	7,270,859
Transmission Operations	2,433,317	2,323,331
Administrative Expense	449,022	449,611
Depreciation	<u>21,015,000</u>	<u>19,080,000</u>
Total	46,285,212	43,739,157
 Interest	 <u>11,492,785</u>	 <u>11,247,151</u>
Total	<u>\$ 57,777,997</u>	<u>\$ 54,986,308</u>

See Notes to Financial Statements

NORTHERN MUNICIPAL POWER AGENCY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from Participants	\$ 34,847,650	\$ 32,524,706
Receipts from Minnkota Power Cooperative, Inc.	9,122,167	5,662,135
Receipts from Other Public Authorities	13,566,026	13,431,579
Receipts from Others	278,911	285,399
Receipt of Interest	90,555	10,240
Payments for Fuel	(14,005,157)	(14,615,356)
Payments for Operating and Maintenance	(8,382,716)	(7,270,859)
Payments for Transmission Operations	(2,433,317)	(2,323,331)
Payments for Interest	(11,457,154)	(11,545,539)
Payments for Administrative Expense	(447,042)	(438,465)
Net Cash Provided (Used) by Operating Activities	21,179,923	15,720,509
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from Issuance of Bonds	-	28,450,000
Premium Received on Bonds Issued	-	1,720,254
Principal Paid on Debt	(19,080,000)	(18,135,000)
Addition to Utility Plant	(1,272,999)	(1,926,200)
Net Cash Provided (Used) by Capital and Related Financing Activities	(20,352,999)	10,109,054
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from Sale of Investments	119,847,456	90,905,473
Purchase of Investments	(120,672,401)	(116,723,889)
Net Cash Provided (Used) By Investing Activities	(824,945)	(25,818,416)
INCREASE IN CASH	1,979	11,147
CASH AT BEGINNING OF YEAR	273,921	262,774
CASH AT END OF YEAR	\$ 275,900	\$ 273,921
CASH FLOWS FROM OPERATING ACTIVITIES:		
Depreciation	\$ 21,015,000	\$ 19,080,000
Deferred Charges	(1,952,187)	10,350
Change in Current Assets and Liabilities:		
Accounts Receivable	1,190,548	(1,389,789)
Accounts Payable	890,929	(1,681,662)
Accrued Interest	35,633	(298,390)
Net Cash Provided (Used) by Operating Activities	\$ 21,179,923	\$ 15,720,509

See Notes to Financial Statements

NORTHERN MUNICIPAL POWER AGENCY
NOTES TO FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2014 AND 2013

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, 2014, the participants in Coyote No. 1 are as follows:

<u>Name</u>	<u>Ownership</u>
Otter Tail Power Company	35%
Northern Municipal Power Agency	30%
Montana Dakota Utilities	25%
Northwestern Corporation	<u>10%</u>
Total	<u>100%</u>

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

NOTE 2 ACCOUNTING POLICIES

Basis of Accounting

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

NORTHERN MUNICIPAL POWER AGENCY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2014 AND 2013

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.*

Recently Issued Accounting Standards

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27.* Northern will be required to report a liability for their proportionate share of the net pension liability of the defined benefit pension plan (Note 7) as well as the related pension expense and any deferred inflows or deferred outflows of resources. Northern historically has only included their required contributions as an expense. Northern will adopt GASB 68 effective January 1, 2015.

Reclassifications

Certain 2013 amounts have been reclassified to conform to the 2014 presentation.

NORTHERN MUNICIPAL POWER AGENCY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2014 AND 2013

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:

	December 31 2014	December 31 2013
Unrestricted:		
Working Fund	\$ 275,900	\$ 273,921
Operating Fund	3,044,085	3,471,097
General Reserve Fund	2,300,230	2,300,112
Reserve and Contingency Fund	1,575,125	1,575,435
Total Unrestricted	7,195,340	7,620,565
Restricted:		
Bond Fund Debt Service Reserve Account	15,751,017	15,753,749
Rate Stabilization Fund	4,631,212	4,630,748
Cost of Issuance Fund	4,635	212,634
2013 Plant Additions Fund	22,841,054	23,410,953
Bond Fund Interest Account	4,622,061	5,701,293
Bond Fund Principal Account	22,194,059	19,082,512
Total Restricted	70,044,038	68,791,889
Total Cash and Investments	\$ 77,239,378	\$ 76,412,454

The funds consist of \$76,963,478 of investment securities and \$275,900 of cash deposits at December 31, 2014, and \$76,138,533 of investment securities and \$273,921 of cash deposits at December 31, 2013.

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

	2014 Fair Value	2013 Fair Value
Treasury Money Market	\$ 54,138,120	\$ 76,138,533
US Treasury	4,462,000	-
FHL Bank Discount Note	6,302,761	-
Abbey National Na LLC C P	4,277,795	-
FNMA	7,782,802	-
Total Investments	\$ 76,963,478	\$ 76,138,533

NORTHERN MUNICIPAL POWER AGENCY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2014 AND 2013

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 12/31/14				
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 Deprec.	(219,125,130)	(21,015,000)	-	(240,140,130)
Net Utility Plant	<u>\$ 178,311,778</u>	<u>\$ (19,742,001)</u>	<u>\$ 1,952,187</u>	<u>\$ 160,521,964</u>
Utility Plant as of 12/31/13				
Plant in Service	\$ 350,550,936	\$ 1,354,000	\$ (1,730,605)	\$ 350,174,331
Transmission System	46,690,377	572,200	-	47,262,577
Total Utility Plant	397,241,313	1,926,200	(1,730,605)	397,436,908
Less Accumulated Deprec.	(200,045,130)	(19,080,000)	-	(219,125,130)
Net Utility Plant	<u>\$ 197,196,183</u>	<u>\$ (17,153,800)</u>	<u>\$ (1,730,605)</u>	<u>\$ 178,311,778</u>

NORTHERN MUNICIPAL POWER AGENCY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2014 AND 2013

The Electric System Revenue Bond Resolution requires that revenues equal costs. At December 31, 2014 and 2013, \$2,053,047 and \$2,288,148, respectively were deferred against plant in service.

NOTE 6 REVENUE BONDS

Revenue bonds payable at December 31, 2014 and 2013 are summarized below:

	December 31 2014	December 31 2013
Electric System Revenue Bonds, Series 2007A, Interest 4.125% to 5.00%, due Annually In Varying Amounts from January 1, 2015 through January 1, 2031	\$ 28,485,000	\$ 28,885,000
Electric System Revenue bonds, Series 2008A, Interest 5.00%, Due Annually in varying amounts from January 1, 2015 thru January 1, 2021	62,275,000	62,275,000
Electric System Revenue Bonds, Series 2008, Interest 5.82% Due January 1, 2017	21,955,000	24,175,000
Electric System Revenue Bonds, Series 2009A, Interest 5.00%, Due Annually in Varying Amounts from January 1, 2015 through January 1, 2016	33,820,000	50,140,000
Electric System Revenue Bonds, Series 2010A-1, Interest 2.50% to 5.00%, Due Annually in Varying Amounts from January 1, 2015 through January 1, 2020	46,220,000	46,360,000
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	\$ 229,760,000	\$ 248,840,000

NORTHERN MUNICIPAL POWER AGENCY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2014 AND 2013

Revenue bond debt service requirements to maturity are as follows:

	Principal	Interest	Total
2015	\$ 21,015,000	\$ 11,472,099	\$ 32,487,099
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
2020-2024	74,460,000	17,517,248	91,977,248
2025-2029	27,295,000	6,835,455	34,130,455
2030-2031	12,745,000	918,075	13,663,075
	<u>\$ 229,760,000</u>	<u>\$ 71,389,672</u>	<u>\$ 301,149,672</u>

The principal and interest on the bonds are payable solely from and secured solely by a pledge of (1) the proceeds of the sale of the bonds to the extent held in special funds established by the Bond Resolution, (2) the revenues of Northern subject to prior payments therefrom of operating expenses and (3) all funds and accounts established by the Bond Resolution permitting the application thereof for the purpose and on the terms and conditions set forth in the Bond Resolution.

Long-term liability activity for the years ended December 31, 2014 and 2013 was as follows:

	Beginning Balance	Net Additions	Net Reductions	Ending Balance
Long-term liabilities, 12/31/14				
Revenue bonds	\$ 248,840,000	\$ -	\$ (19,080,000)	\$ 229,760,000
Long-term liabilities, 12/31/13				
Revenue bonds	\$ 238,525,000	\$ 28,450,000	\$ (18,135,000)	\$ 248,840,000

NOTE 7 DEFINED BENEFIT PENSION PLAN

Plan Description

All employees of Northern are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF), which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

GERF members belong to the Coordinated Plan and are covered by Social Security.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute, and vest after five years of credited service. The defined retirement 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.

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Two methods are used to compute benefits for PERA's Coordinated 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 Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 1.7 percent for Coordinated Plan members for each year of service. For all GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree--no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous 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.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF. That report may be obtained on the Internet at www.mnpera.org, by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

Funding Policy

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, 2014 and 2013, Reserve and Contingency Fund assets were \$1,575,125 and \$1,575,435, respectively. There were no outstanding or unpaid claims as of December 31, 2014 and 2013.

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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.