

FINANCIAL STATEMENTS
DECEMBER 31, 2012



MOORHEAD PUBLIC SERVICE

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Independent Auditor's Report

Public Service Commission
Moorhead Public Service
Moorhead, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and each major fund of Moorhead Public Service, a component unit of the City of Moorhead, Minnesota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise Moorhead Public Service's basic financial statements as listed in the table of contents.

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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 involves 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 opinions.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and each major fund of Moorhead Public Service, as of December 31, 2012, and the respective changes in financial position and cash flows thereof for the year 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 and schedule of funding progress 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 American, which consisted of inquires of management about the methods or preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively compromise Moorhead Public Service's financial statements. The other supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements.

The other supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2013 on our consideration of Moorhead Public Service's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Moorhead Public Service's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota
April 26, 2013

**MOORHEAD PUBLIC SERVICE
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012**

This section of the Moorhead Public Service (MPS) annual financial report presents an analysis of MPS' financial performance for the calendar year ending December 31, 2012. This information is presented in conjunction with the audited basic financial statements that follow this section.

MPS is organized into two operating divisions – the Electric Division and the Water Division. This discussion and analysis presents the highlights of each division separately, and in combined form.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2012

- MPS' combined net position increased \$4.0 million, or 5.9%, increasing from \$69.0 million to \$73.0 million. The Electric Division's net position increased \$1.9 million from \$35.5 million to \$37.4 million. The Water Division's net position increased \$2.1 million from \$33.5 million to \$35.6 million.
- Combined operating revenues increased \$1.7 million, or 4.3%, from \$40.6 million to \$42.3 million. Electric Division operating revenues increased \$0.9 million, or 2.6%, from \$34.5 million to \$35.4 million. Water Division operating revenues increased \$0.9 million, or 14.3%, from \$6.1 million to \$7.0 million.
- Combined transfers to the City of Moorhead in 2012 increased \$830,000, or 11.8%, from \$7.0 million to \$7.8 million. Electric Division transfers increased \$662,000, or 9.91%, from \$6.7 million to \$7.4 million. Water Division transfers increased \$168,000, or 55%, from \$305,00 to \$473,000.

OVERVIEW OF THE FINANCIAL STATEMENT

This annual report consists of the following three parts: Management's Discussion and Analysis, Financial Statements and Other Supplementary Information. The Financial Statements include notes that provide additional detail for some of the information included in the Financial Statements.

REQUIRED FINANCIAL STATEMENTS

The Financial Statements report information utilizing generally accepted electric and water utility accounting practices. In general, these practices follow the Federal Energy Regulatory Commission's (FERC) prescribed Uniform System of Accounts (USOA). The financial statements consist of three required reports.

The *Statement of Net Position* summarizes MPS' assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to MPS' creditors (liabilities). The statement also provides information that can assist in making a variety of financial assessments about MPS' rate of return, structure, liquidity, and financial flexibility.

The *Statement of Revenues, Expenses, and Changes in Net Position* summarizes the current year's revenues and expenses. This statement quantifies the success of MPS's operations. The statement can serve as a tool in determining how well MPS covered its costs through rates, fees, and other revenues. This statement also highlights MPS' profitability and credit worthiness.

The *Statement of Cash Flows* is the third required financial statement. The primary purpose of this statement is to provide information about cash receipts and cash payments during the reporting period. This statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF MOORHEAD PUBLIC SERVICE

Table 1, Condensed Statement of Net Position, provides a summary of MPS' net position. The table presents the net positions of the Electric and Water Divisions separately, and in combined form.

During 2012, the Electric Division's total assets increased by \$6.8 million, or 11.9%. Within total assets, current and other assets increased by \$0.8 million while capital assets increased by \$6.0 million. Current and other assets were affected by a \$5.5 million increase in bond proceeds that were partially used in 2012 to fund the first phase of the construction of a new substation and a new transmission line project. Capital assets increased in part due to work completed on the first phase of the construction of a new substation and a new transmission line project.

During 2012, the Electric Division's liabilities increased by \$4.8 million, or 22.7%. The increase was primarily due to a \$1.2 million increase in payables and a \$3.4 million increase in long-term debt.

The net effect of the increase in total assets and in liabilities within the Electric Division resulted in an increase of \$1.9 million, or 5.5%, in total net position from \$35.5 million to \$37.4 million.

During 2012, the Water Division's total assets increased \$0.7 million, or 1.6%. Within total assets, current and other assets decreased by \$0.6 million while capital assets increased by \$1.3 million.

During 2012, the Water Division's liabilities decreased by \$1.4 million, or 16.8%. The decrease was primarily due to a reduction in long-term debt.

The net effect of the changes in total assets and total liabilities resulted in an increase in the net position of the Water Division of \$2.1 million, or 6.3%, from \$33.5 million to \$35.6 million.

Table 1

Moorhead Public Service Condensed Statement of Net Position (In thousands of dollars)

	Electric				Water				Combined			
	2012	2011	Dollar Change	Percent change	2012	2011	Dollar Change	Percent change	2012	2011	Dollar Change	Percent change
Current and Other Assets	21,299	20,546	753	3.7%	5,399	6,046	-647	-10.7%	26,698	26,592	106	0.4%
Capital Assets ¹	42,089	36,082	6,007	16.6%	37,351	36,032	1,319	3.7%	79,440	72,114	7,326	10.2%
Total Assets	63,388	56,628	6,760	11.9%	42,750	42,078	672	1.6%	106,138	98,706	7,432	7.5%
Long-term Debt	18,785	15,307	3,478	22.7%	4,759	5,373	-614	-11.4%	23,544	20,680	2,864	13.8%
Other Liabilities	7,163	5,846	1,317	22.5%	2,377	3,201	-824	-25.7%	9,540	9,047	493	5.4%
Total Liabilities	25,948	21,153	4,795	22.7%	7,136	8,574	-1,438	-16.8%	33,084	29,727	3,357	11.3%
Net investment in capital assets	25,702	21,922	3,780	17.2%	32,506	30,375	2,131	7.0%	58,208	52,297	5,911	11.3%
Restricted	2,213	2,227	-14	-0.6%	593	1,400	-807	-57.6%	2,806	3,627	-821	-22.6%
Unrestricted	9,525	11,326	-1,801	-15.9%	2,515	1,729	786	45.5%	12,040	13,055	-1,015	-7.8%
Total Net Position	37,440	35,475	1,965	5.5%	35,614	33,504	2,110	6.3%	73,054	68,979	4,075	5.9%

¹ See Table 3 for details

MANAGEMENT'S DISCUSSION AND ANALYSIS

Table 2, Condensed Statement of Revenues, Expenses, and Changes in Net Position, provides a summary of the changes in MPS' net position. The table presents the changes in net position for each division separately, and in combined form.

Operating revenues in the Electric and Water Divisions were \$35.3 million and \$7.0 million, respectively. In the Electric Division, the revenue increase of 2.6% was primarily the result of a 2.25% rate increase effective January 2012. The Water Division experienced an increase in operating revenue of 14.3%. The increase was caused by an increase in customer sales volumes and a 2.0% rate increase in 2012.

Combined total expenses were \$39.5 million in 2012. Within total expenses, operating expenses (net of depreciation) increased 0.1% in 2012 to \$27.5 million. In addition, transfers to the City of Moorhead increased 11.8% to \$7.8 million.

MPS' combined net position increased by \$4.1 million, or by 5.9%. The increase was the result of increases in the net positions of the Electric and Water Divisions by \$2.0 million and \$2.1 million, respectively. Combined total revenues of \$42.6 million exceeded combined total expenses of \$39.5 million by \$3.1 million. Capital contributions in the forms of watermain, grants, and sales tax refunds added another \$1.0 million to overall net position.

Table 2

Moorhead Public Service

Condensed Statement of Revenues, Expenses, and Changes in Net Position (In thousands of dollars)

	Electric				Water				Combined			
	2012	2011	Dollar Change	Percent change	2012	2011	Dollar Change	Percent change	2012	2011	Dollar Change	Percent change
Operating Revenues	35,346	34,455	891	2.6%	6,975	6,104	871	14.3%	42,321	40,559	1,762	4.3%
Nonoperating Revenues	155	267	-112	-41.9%	73	201	-128	-63.7%	228	468	-240	-51.3%
Total Revenue	35,501	34,722	779	2.2%	7,048	6,305	743	11.8%	42,549	41,027	1,522	3.7%
Depreciation Expense	1,920	1,733	187	10.8%	1,072	1,060	12	1.1%	2,992	2,793	199	7.1%
Other Operating Expense	23,597	23,795	-198	-0.8%	3,916	3,698	218	5.9%	27,513	27,493	20	0.1%
Nonoperating Expenses	689	570	119	20.9%	452	386	66	17.1%	1,141	956	185	19.4%
Transfers to City	7,372	6,710	662	9.9%	473	305	168	55.1%	7,845	7,015	830	11.8%
Total Expenses	33,578	32,808	770	2.3%	5,913	5,449	464	8.5%	39,491	38,257	1,234	3.2%
Income Before Capital Contributions & Special Items	1,923	1,914	9	0.5%	1,135	856	279	32.6%	3,058	2,770	288	10.4%
Capital Contributions	42	128	-86	-67.2%	975	60	915	1525.0%	1,017	188	829	441.0%
Changes in Net Position	1,965	2,042	-77	-3.8%	2,110	916	1,194	130.3%	4,075	2,958	1,117	451.4%
Beginning Net Position	35,475	33,433	2,042	6.1%	33,504	32,588	916	2.8%	68,979	66,021	2,958	4.5%
Ending Net Position	37,440	35,475	1,965	5.5%	35,614	33,504	2,110	6.3%	73,054	68,979	4,075	5.9%

MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSETS

Table 3, Capital Assets Net of Depreciation, shows changes in the net depreciated value of capital assets from 2011 to 2012. Total capital assets at the end of 2012 were \$79.4 million compared to \$72.1 million at the end of 2011. Total capital assets increased \$7.3 million, or 10.2%. Net capital assets in the Electric Division increased by \$6.0 million, or 16.7%. Net capital assets in the Water Division increased by \$1.3 million, or 3.7%.

After depreciation, the Electric Division's increase in capital assets included an increase in work-in-progress of \$5.4 million and an overall increase of \$0.6 million in total electric plant in-service assets.

After depreciation, the Water Division's net increase in capital assets of \$1.3 million included an increase in work-in-progress of \$1.6 million and an overall decrease of \$0.3 million in total water plant in-service assets.

Table 3

MOORHEAD PUBLIC SERVICE

Capital Assets Net of Depreciation

Electric Plant				
	Balance 12/31/2011	Balance 12/31/2012	Increase (Decrease)	Percent
<u>Plant in-Service</u>				
Land	\$ 541,882	\$ 550,734	\$ 8,852	1.63%
Production Plant	7,892,638	7,951,038	58,400	0.74%
Transmission Plant	3,117,264	3,636,060	518,796	16.64%
Distribution Plant	21,213,268	20,905,904	(307,364)	-1.45%
General Plant	2,829,464	3,159,123	329,659	11.65%
Total Electric Plant in-Service	35,594,516	36,202,859	608,343	1.71%
<u>Plant Held for Future Use</u>				
Production Plant	4,402	-	(4,402)	(4,402)
Work-in-Progress	482,598	5,886,279	5,403,681	1119.71%
Total Electric Plant	<u>\$ 36,081,516</u>	<u>\$ 42,089,138</u>	<u>\$ 6,007,622</u>	<u>16.65%</u>
Water Plant				
	Balance 12/31/2011	Balance 12/31/2012	Increase (Decrease)	Percent
<u>Plant in-Service</u>				
Land	\$ 574,942	\$ 574,942	\$ -	0.00%
Source of Supply	2,142,476	2,003,270	(139,206)	-6.50%
Pumping Plant	760	-	(760)	-100.00%
Water Treatment Plant	10,654,147	10,334,776	(319,371)	-3.00%
Transmission & Distribution Plant	21,899,968	21,793,989	(105,979)	-0.48%
General Plant	588,962	859,986	271,024	46.02%
Total Water Plant in-Service	35,861,255	35,566,963	(294,292)	-0.82%
Work-in-Progress	170,889	1,783,771	1,612,882	943.82%
Total Water Plant	<u>\$ 36,032,144</u>	<u>\$ 37,350,734</u>	<u>\$ 1,318,590</u>	<u>3.66%</u>
Consolidated				
Total MPS	<u>\$ 72,113,660</u>	<u>\$ 79,439,872</u>	<u>\$ 7,326,212</u>	<u>10.16%</u>

Additional information on capital assets can be found in Note 3 in the Notes to Financial Statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

LONG-TERM DEBT

Table 4, Long-Term Debt, shows changes in the outstanding debt of MPS from 2011 to 2012. The combined total debt at the end of 2012 was \$23.5 million. The net change was an overall increase in 2012 of \$2.9 million, or 13.9%. The Electric Division's long-term debt increased by \$3.5 million, or 22.7%. The Water Division's long-term debt decreased \$0.6 million, or 11.4%.

MOORHEAD PUBLIC SERVICE

Long-Term Debt

Electric Division				
	Balance 12/31/2011	Balance 12/31/2012	Increase (Decrease)	Percent
Net OPEB Obligations	\$ 73,036	\$ 87,614	\$ 14,578	19.96%
Capital Leases	28,399	9,690	(18,709)	-65.88%
Public Utility Revenue & Refunding Bonds	16,131,150	19,791,888	3,660,738	22.69%
Total Long-Term Debt	16,232,585	19,889,192	3,656,607	22.53%
Less: Current Portion				
Net OPEB Obligations	-	-	-	0.00%
Capital Leases	18,709	9,690	(9,019)	-0.99%
Public Utility Revenue & Refunding Bonds	906,900	1,094,350	187,450	20.67%
Total Current Portion of Long-Term Debt	925,609	1,104,040	178,431	19.28%
Net Long-Term Debt	<u>\$ 15,306,976</u>	<u>\$ 18,785,152</u>	<u>\$ 3,478,176</u>	<u>22.72%</u>
Water Division				
	Balance 12/31/2011	Balance 12/31/2012	Increase (Decrease)	Percent
Net OPEB Obligations	\$ 48,691	\$ 58,409	\$ 9,718	19.96%
Capital Leases	20,168	6,881	(13,287)	-65.88%
Public Utility Revenue & Refunding Bonds	7,030,872	4,911,248	(2,119,624)	-30.15%
Total Long-Term Debt	7,099,731	4,976,538	(2,123,193)	-29.91%
Less: Current Portion				
Net OPEB Obligations	-	-	-	0.00%
Capital Leases	13,287	6,881	(6,406)	-0.37%
Public Utility Revenue & Refunding Bonds	1,713,100	210,650	(1,502,450)	-87.70%
Total Current Portion of Long-Term Debt	1,726,387	217,531	(1,508,856)	-87.40%
Net Long-Term Debt	<u>\$ 5,373,344</u>	<u>\$ 4,759,007</u>	<u>\$ (614,337)</u>	<u>-11.43%</u>
Consolidated				
Total MPS	<u>\$ 20,680,320</u>	<u>\$ 23,544,159</u>	<u>\$ 2,863,839</u>	<u>13.85%</u>

Additional information on long-term debt can be found in Note 4 in the Notes to Financial Statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONTACTING MOORHEAD PUBLIC SERVICE'S FINANCIAL MANAGEMENT

This financial report is designed to provide MPS' rate payers, creditors, and investors with a general overview of MPS' finances and to demonstrate MPS' accountability for the money it receives. If you have questions about this report or need additional financial information, contact MPS' Administration and Finance Manager by mail at Moorhead Public Service, P. O. Box 779, Moorhead, MN 56561-0779; by e-mail at mps@mpsutility.com; or by calling 218-299-5400.

MOORHEAD PUBLIC SERVICE
STATEMENT OF NET ASSETS
DECEMBER 31, 2012

	Electric	Water	Total
ASSETS			
CURRENT ASSETS			
Cash and equivalents	\$ 2,736,197	\$ 2,007,106	\$ 4,743,303
Accounts receivable, net	1,748,999	314,095	2,063,094
Accounts receivable - unbilled revenues	2,485,500	363,000	2,848,500
Notes receivable - current	126,552	-	126,552
Accrued interest receivable	29,841	5,657	35,498
Inventories	746,001	162,739	908,740
Prepaid items	39,050	53,683	92,733
Due from other city funds	-	10,443	10,443
Due from other governmental units	25,550	699,401	724,951
Due from special assessments			
Delinquent	-	1,399	1,399
	<u>7,937,690</u>	<u>3,617,523</u>	<u>11,555,213</u>
RESTRICTED ASSETS			
Revenue bond account	274,830	55,877	330,707
Bond reserve account	1,938,306	536,897	2,475,203
Bond proceeds	3,414,393	73,414	3,487,807
	<u>5,627,529</u>	<u>666,188</u>	<u>6,293,717</u>
OTHER ASSETS, less current maturities			
Notes receivable	84,803	-	84,803
Bond operations and maintenance reserve	3,943,000	648,000	4,591,000
Other long-term investments	3,705,885	467,271	4,173,156
	<u>7,733,688</u>	<u>1,115,271</u>	<u>8,848,959</u>
CAPITAL ASSETS			
In-service	60,925,231	52,897,347	113,822,578
Land	550,734	574,942	1,125,676
Work-in-progress	5,886,279	1,783,771	7,670,050
	<u>67,362,244</u>	<u>55,256,060</u>	<u>122,618,304</u>
Less accumulated depreciation	<u>25,273,106</u>	<u>17,905,326</u>	<u>43,178,432</u>
	<u>42,089,138</u>	<u>37,350,734</u>	<u>79,439,872</u>
Total assets	<u>\$ 63,388,045</u>	<u>\$ 42,749,716</u>	<u>\$ 106,137,761</u>

Notes to Financial Statements are an integral part of this statement.

	Electric	Water	Total
LIABILITIES AND NET POSITION			
CURRENT LIABILITIES			
Payable from current assets			
Accounts payable	\$ 1,737,064	\$ 903,708	\$ 2,640,772
Power costs payable	1,965,872	-	1,965,872
Sales tax payable	146,867	-	146,867
Customer deposits	149,515	-	149,515
Accrued vacations and severance pay	259,970	231,000	490,970
Due to other city funds	1,718,508	1,016,212	2,734,720
	<u>5,977,796</u>	<u>2,150,920</u>	<u>8,128,716</u>
Payable from restricted assets			
Accrued interest	81,280	8,180	89,460
Current maturities of leases	9,690	6,881	16,571
Current maturities of bonds payable	1,094,350	210,650	1,305,000
	<u>1,185,320</u>	<u>225,711</u>	<u>1,411,031</u>
LONG-TERM DEBT,			
Net OPEB obligation	87,614	58,409	146,023
Bonds and leases, less current maturities	18,697,538	4,700,598	23,398,136
	<u>18,785,152</u>	<u>4,759,007</u>	<u>23,544,159</u>
 Total liabilities	 <u>25,948,268</u>	 <u>7,135,638</u>	 <u>33,083,906</u>
NET POSITION			
Net Investment in Capital Assets	25,701,954	32,506,018	58,207,972
Restricted for:			
Debt service	2,213,136	592,774	2,805,910
Unrestricted	9,524,687	2,515,286	12,039,973
Total net position	<u>37,439,777</u>	<u>35,614,078</u>	<u>73,053,855</u>
 Total liabilities and net position	 <u>\$ 63,388,045</u>	 <u>\$ 42,749,716</u>	 <u>\$ 106,137,761</u>

MOORHEAD PUBLIC SERVICE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2012

	Electric	Water	Total
OPERATING REVENUES			
Charges for services	\$ 34,792,923	\$ 6,923,423	\$ 41,716,346
Other	553,408	52,014	605,422
Total Operating Revenues	<u>35,346,331</u>	<u>6,975,437</u>	<u>42,321,768</u>
OPERATING EXPENSES			
Purchased power	19,296,581	-	19,296,581
Production of power	133,565	-	133,565
Transmission	44,916	-	44,916
Distribution	1,979,020	939,593	2,918,613
Source of supply and pumping	-	267,411	267,411
Water treatment	-	1,742,827	1,742,827
Customer accounts	364,048	113,894	477,942
Administrative	1,779,265	853,186	2,632,451
Depreciation and amortization	1,919,518	1,071,853	2,991,371
Total Operating Expenses	<u>25,516,913</u>	<u>4,988,764</u>	<u>30,505,677</u>
OPERATING INCOME	9,829,418	1,986,673	11,816,091
NONOPERATING INCOME (EXPENSES)			
Interest income	89,392	29,002	118,394
Loss on sale of capital assets	(80,297)	(121,829)	(202,126)
Other income	65,123	44,421	109,544
Interest expense	(608,749)	(330,119)	(938,868)
Total Nonoperating Income/(Expense)	<u>(534,531)</u>	<u>(378,525)</u>	<u>(913,056)</u>
INCOME BEFORE TRANSFERS AND CONTRIBUTED CAPITAL	9,294,887	1,608,148	10,903,035
TRANSFERS OUT			
General fund	(5,730,900)	(347,151)	(6,078,051)
Economic development fund	(50,000)	-	(50,000)
Capital improvement fund	(1,591,206)	(126,000)	(1,717,206)
Total Transfers Out	<u>(7,372,106)</u>	<u>(473,151)</u>	<u>(7,845,257)</u>
CONTRIBUTION OF CAPITAL ASSETS	<u>42,000</u>	<u>974,836</u>	<u>1,016,836</u>
CHANGE IN NET POSITION	1,964,781	2,109,833	4,074,614
NET POSITION, BEGINNING OF YEAR	<u>35,474,996</u>	<u>33,504,245</u>	<u>68,979,241</u>
NET POSITION, END OF YEAR	<u>\$ 37,439,777</u>	<u>\$ 35,614,078</u>	<u>\$ 73,053,855</u>

MOORHEAD PUBLIC SERVICE
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2012

	Electric	Water	Total
OPERATING ACTIVITIES			
Receipts from customers and users	\$ 35,114,492	\$ 7,012,567	\$ 42,127,059
Payments to suppliers	(20,815,036)	(2,226,391)	(23,041,427)
Payments to employees	(1,764,717)	(785,468)	(2,550,185)
NET CASH FROM OPERATING ACTIVITIES	12,534,739	4,000,708	16,535,447
NON-CAPITAL FINANCING ACTIVITIES			
Transfers to other funds	(7,372,106)	(473,151)	(7,845,257)
Payments received on notes and special receivables	134,174	(690,583)	(556,409)
Decrease in due from other funds	55,200	-	55,200
Increase (decrease) in due to other funds	55,827	(100,244)	(44,417)
NET CASH USED FOR NON-CAPITAL FINANCING ACTIVITIES	(7,126,905)	(1,263,978)	(8,390,883)
CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of utility plant	(8,084,545)	(1,627,415)	(9,711,960)
Proceeds from the issuance of long-term debt	6,240,000	-	6,240,000
Debt service - principal	(2,597,971)	(2,132,911)	(4,730,882)
Debt service - interest and fees	(592,559)	(344,011)	(936,570)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(5,035,075)	(4,104,337)	(9,139,412)
INVESTING ACTIVITIES			
Interest received	93,628	36,418	130,046
Proceeds from the sale of investments	2,609,270	2,743,580	5,352,850
Purchase of investments	(5,478,065)	(290,282)	(5,768,347)
NET CASH FROM (USED FOR) ACTIVITIES	(2,775,167)	2,489,716	(285,451)
NET CHANGE IN CASH BALANCE	(2,402,408)	1,122,109	(1,280,299)
CASH BALANCE, JANUARY 1	5,138,605	884,997	6,023,602
CASH BALANCE, DECEMBER 31	\$ 2,736,197	\$ 2,007,106	\$ 4,743,303

Notes to the Financial Statements are an integral part of this statement.

	Electric	Water	Total
RECONCILIATION OF OPERATING INCOME			
TO NET CASH FROM OPERATING ACTIVITIES			
Operating income	\$ 9,829,418	\$ 1,986,673	\$ 11,816,091
Adjustments to reconcile operating income to net cash from operating activities			
Depreciation and amortization	1,919,518	1,071,853	2,991,371
Depreciation expensed to vehicle expense	119,108	89,979	209,087
Other income	65,123	44,421	109,544
Change in assets and liabilities			
Receivables	(271,412)	(7,291)	(278,703)
Inventories	(165,519)	22,611	(142,908)
Prepaid items	(17,309)	(16,572)	(33,881)
Due from other governments	(25,550)	-	(25,550)
Net OPEB Obligations	14,578	9,718	24,296
Accounts payable	1,066,814	741,316	1,808,130
Accrued vacations and severance pay	(30)	58,000	57,970
NET CASH FROM			
OPERATING ACTIVITIES	<u>\$ 12,534,739</u>	<u>\$ 4,000,708</u>	<u>\$ 16,535,447</u>
SUPPLEMENTAL SCHEDULE OF NONCASH			
INVESTING AND FINANCING ACTIVITIES			
Acquisition of capital assets through contributed capital	<u>\$ 42,000</u>	<u>\$ 974,836</u>	<u>\$ 1,016,836</u>

MOORHEAD PUBLIC SERVICE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Moorhead Public Service, which is governed by the five appointed members of the Moorhead Public Service Commission, provides electric utility and water utility services to the citizens and business community of Moorhead, Minnesota. The public utility activities of the City of Moorhead are non-regulated. However, Moorhead Public Service follows the accounting requirements for similar regulated utilities to include the requirements set forth in the uniform system of accounts of the Federal Energy Regulatory Commission and the National Association of Regulatory Utility Commissioners. However, the following of these accounting requirements does not materially affect the presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America.

Reporting Entity

Moorhead Public Service's financial statements include all funds for which Moorhead Public Service is financially accountable.

Component units are legally separate organizations for which elected officials of the primary government are financially accountable. Moorhead Public Service is financially accountable if it appoints a voting majority of the organization's governing body and is either:

1. Able to impose its will on that organization, or
2. There is potential for the organization to provide specific financial benefits to, or impose financial burdens on Moorhead Public Service. Moorhead Public Service may be financially accountable if an organization is fiscally dependent on the entity.

Based upon the above criteria, there are no component units to be included within Moorhead Public Service as a reporting entity; however, Moorhead Public Service is includable as a component unit within the City of Moorhead as a reporting entity.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Moorhead Public Service reports the following major proprietary funds:

Electric – This fund accounts for the provision of electric service to the citizens and business community of Moorhead, Minnesota.

Water – This fund accounts for the provision of water utility service to the citizens and business community of Moorhead, Minnesota, and two neighboring communities.

NOTES TO FINANCIAL STATEMENTS

Moorhead Public Service has adopted GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting." Moorhead Public Service has elected to apply all applicable GASB pronouncements as well as private-sector pronouncements, issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements. Moorhead Public Service has also elected not to apply private-sector pronouncements issued after November 30, 1989.

Proprietary funds report operating revenues and expenses separately from non-operating items. Operating revenues and expenses generally result from providing services or producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

Cash Equivalents

The Fund considers all highly liquid investments with a maturity of three months or less to be cash equivalents. The carrying amount of cash equivalents approximates fair value.

Receivable and Credit Policy

Moorhead Public Service's trade receivables are uncollateralized customer obligations due under normal trade terms requiring payment within 24 days from the invoice date. Customers are charged a one-time 5% fee for late payments. The receivables are non-interest bearing. Payments on trade receivables are applied to the oldest unpaid invoices. All trade receivables are shown net of an allowance for uncollectible accounts. These allowances are equal to estimated losses that may be incurred in collection of outstanding receivables.

Notes receivable are stated at principal amounts and are uncollateralized. Notes receivable at year-end 2012 consisted of interest-bearing loans to customers who installed dual fuel heating equipment along with the remaining balance from a note agreement related to the sale of assets in August 2009. The term of all notes receivable is 60 months.

Capital Assets

Capital assets are defined by Moorhead Public Service as assets with an initial, individual cost of more than \$5,000. Utility capital assets are stated at cost. The cost of additions to utility capital assets includes contracted work, direct labor and materials, and allocable overheads. When units of property are retired, sold, or otherwise disposed of in the ordinary course of business, their cost, less net salvage, is charged to accumulated depreciation. Repairs and the replacement and renewal of items determined to be less than units of property are charged to maintenance expense.

Property, plant, and equipment are depreciated using the straight-line method over the following estimated useful lives:

Wind turbines	30 years
Substations, poles, lines, and transformers	33-35 years
Meters	25 years
Vehicles other than line trucks	8-10 years
Line trucks	12-15 years
Water buildings, wells, storage tanks, and distribution lines	50 years
Office furniture and fixtures	10 years

NOTES TO FINANCIAL STATEMENTS

Investments

Investments are stated at fair value.

Inventories

Inventories are stated at average cost.

Prepaid Items

Certain payments to vendors reflect costs applicable to future periods and are recorded as prepaid items.

Compensated Absences

It is Moorhead Public Service's policy to permit employees to accumulate earned, but unused, vacation and sick pay benefits. All employees are entitled to vacation time with pay based upon length of continuous service. Administrative employees do not have a ceiling on the total hours of vacation that may be accrued throughout the year, but their maximum at year-end is 288 hours. A maximum of 288 hours will be paid to administrative employees upon termination of employment. Union employees are allowed to carry over their current year accrual plus 80 hours of their prior year accrual, of which 40 hours must be used before April 1 of the following year. Employees shall be entitled to 50% of their accrued sick pay, up to a maximum of 650 hours, if they terminate employment for one of these four conditions: retirement, disability, survivor, or honorable conditions (25 years of service with good standing).

Debt Discount and Issuance Costs

Discounts on long-term debt are deferred and amortized on a straight-line basis over the term of the related issue. In accordance with GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities" adopted in March 2012, issuance costs are deemed to relate to services provided in the current period and, accordingly, should be expensed in the current period. This is a significant change from past practice, which was to record issuance costs as assets and amortize them over the life of the related debt issue.

Revenue Recognition

Revenue for electricity and water is recorded when services are delivered. Any unbilled services are accrued and recorded as a receivable.

Power Costs

The monthly billings from the wholesale power supplier for power costs are reflected in the accounts to the end of the month.

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS

Pension Costs

The policy is to fund pension costs accrued.

Net Position

For the year ended December 31, 2012, Moorhead Public Service 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.

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in Moorhead Public Service's financial statements.

Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

Unrestricted net position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Restricted and Unrestricted Resources

When both restricted and unrestricted resources are available for use, it is Moorhead Public Service's practice to use unrestricted resources first, and then restricted resources, in accordance with bond covenants.

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - DEPOSITS AND INVESTMENTS

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, a depositor's funds may not be returned. Moorhead Public Service does not have a formal policy to further limit exposure to custodial credit risk. In accordance with Minnesota state statutes, Moorhead Public Service maintains deposits at depository banks authorized by the Moorhead City Council, of which all are members of the Federal Reserve System. Minnesota statutes require that all Moorhead Public Service deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds (140% in the case of mortgage notes pledged). Minnesota statutes require that securities pledged as collateral be held in safekeeping by the financial officer or in a financial institution other than that furnishing the collateral. As of December 31, 2012, Moorhead Public Service's deposits were fully insured or properly collateralized.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates may adversely affect the fair value of an investment. Moorhead Public Service's investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. After the liquidity needs and scheduled maturity needs are satisfied, the balance of the funds available for investment are placed with institutions that offer the greatest safety and highest rate of return consistent with the maturities as determined by Moorhead Public Service.

Investments

Statutes authorize Moorhead Public Service to invest in obligations of the U.S. Treasury and U.S. agencies and instrumentalities, bankers' acceptances, certain repurchase agreements, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, and the state treasurer's investment pool. As of December 31, 2012, Moorhead Public Service had the following investments and maturities:

Restricted		Investment Maturities (in Years)				
Investment Type	Fair Value	Not Applicable	< 1	1 - 5	> 5 - 10	> 10
Government Bonds	\$ 2,366,579	\$ -	\$ 973,340	\$ 1,393,239	\$ -	\$ -
Money Market Funds	3,927,138	3,927,138	-	-	-	-
Total Restricted Investments	<u>\$ 6,293,717</u>	<u>\$ 3,927,138</u>	<u>\$ 973,340</u>	<u>\$ 1,393,239</u>	<u>\$ -</u>	<u>\$ -</u>
Unrestricted		Investment Maturities (in Years)				
Investment Type	Fair Value	Not Applicable	< 1	1 - 5	> 5 - 10	> 10
Government Bonds	<u>\$ 8,764,156</u>	<u>\$ -</u>	<u>\$ 759,691</u>	<u>\$ 5,518,935</u>	<u>\$ 258,615</u>	<u>\$ 2,226,915</u>

NOTES TO FINANCIAL STATEMENTS

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Beyond what is stated in state statutes, Moorhead Public Service does not have a formal policy to further limit its exposure to credit risk. Moorhead Public Service's investments in the U.S. government bonds and money market funds are not rated.

Restricted Assets

Bond resolutions related to the bonds described in Note 4 provide for the maintenance of the following:

1. A revenue bond account that will be used to pay bond principal and interest. This account is funded by an irrevocable monthly pledge of 1/12 of the interest and principal due during the following 12 months.
2. A bond reserve account to supplement the revenue bond account. This account shall contain an amount sufficient to pay the lesser of the largest sum of principal and interest due during any year or 10% of the original principal amount of all outstanding Parity Bonds.
3. A bond proceeds account is set up to record the unexpended bond proceeds.

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - CAPITAL ASSETS

Capital assets for the Electric Fund are as follows:

Electric Fund	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 541,882	\$ 8,852	\$ -	\$ 550,734
Construction work in progress	482,598	8,692,612	3,288,931	5,886,279
	<u>1,024,480</u>	<u>8,701,464</u>	<u>3,288,931</u>	<u>6,437,013</u>
Capital assets, being depreciated:				
Miscellaneous intangible plant	255,373	-	-	255,373
Production plant	11,213,975	385,160	-	11,599,135
Transmission plant	4,544,979	657,872	-	5,202,851
Distribution plant	37,491,456	1,011,708	952,330	37,550,834
General plant	5,607,925	693,042	-	6,300,967
Plant held for future use	16,071	-	-	16,071
	<u>59,129,779</u>	<u>2,747,782</u>	<u>952,330</u>	<u>60,925,231</u>
Less accumulated depreciation for:				
Miscellaneous intangible plant	255,373	-	-	255,373
Production plant	3,321,337	326,760	-	3,648,097
Transmission plant	1,427,715	139,076	-	1,566,791
Distribution plant	16,278,188	1,205,005	838,263	16,644,930
General plant	2,774,059	367,785	-	3,141,844
Plant held for future use	16,071	-	-	16,071
	<u>24,072,743</u>	<u>2,038,626</u>	<u>838,263</u>	<u>25,273,106</u>
Total capital assets, being depreciated, net	<u>35,057,036</u>	<u>709,156</u>	<u>114,067</u>	<u>35,652,125</u>
Capital assets, net	<u>\$ 36,081,516</u>	<u>\$ 9,410,620</u>	<u>\$ 3,402,998</u>	<u>\$ 42,089,138</u>

(continued on next page)

NOTES TO FINANCIAL STATEMENTS

Capital assets for the Water Fund are as follows:

Water Fund	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 574,942	\$ -	\$ -	\$ 574,942
Construction work in progress	170,889	2,615,752	1,002,870	1,783,771
	<u>745,831</u>	<u>2,615,752</u>	<u>1,002,870</u>	<u>2,358,713</u>
Capital assets, being depreciated:				
Source of supply plant structure and improvements	5,643,503	-	-	5,643,503
Pumping plant	30,914	-	-	30,914
Water treatment plant	16,928,674	-	-	16,928,674
Transmission and distribution plant	28,618,726	609,979	557,829	28,670,876
General plant	1,243,990	379,390	-	1,623,380
	<u>52,465,807</u>	<u>989,369</u>	<u>557,829</u>	<u>52,897,347</u>
Less accumulated depreciation for:				
Source of supply plant structure and improvements	3,501,027	139,206	-	3,640,233
Pumping plant	30,154	760	-	30,914
Water treatment plant	6,274,527	319,371	-	6,593,898
Transmission and distribution plant	6,718,758	594,129	436,000	6,876,887
General plant	655,028	108,366	-	763,394
	<u>17,179,494</u>	<u>1,161,832</u>	<u>436,000</u>	<u>17,905,326</u>
Total capital assets, being depreciated, net	<u>35,286,313</u>	<u>(172,463)</u>	<u>121,829</u>	<u>34,992,021</u>
Capital assets, net	<u>\$ 36,032,144</u>	<u>\$ 2,443,289</u>	<u>\$ 1,124,699</u>	<u>\$ 37,350,734</u>

NOTES TO FINANCIAL STATEMENTS

Depreciation expense was charged to functions/programs of the government as follows:

Business-type activities:	
Electric Division	\$ 2,038,626
Water Division	<u>1,161,832</u>
Total depreciation expense - business-type activities	3,200,458
 Depreciation and amortization per Statement of Revenues, Expenses, and Changes in Net Position	 <u>2,991,371</u>
Difference from Statement of Revenues, Expenses, and Changes in Net Position	<u>\$ 209,087</u>

Depreciation and amortization expense reflected in the Statement of Revenues, Expenses, and Changes In Net Position is \$2,991,371. The difference of \$209,087 is expensed to vehicle expense per the guidelines established by the Federal Energy Regulatory Commission and the National Association of Regulatory Utility Commissioners.

NOTE 4 - LONG-TERM DEBT

The following is a summary of changes in long-term debt for Moorhead Public Service for the year ended December 31, 2012.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated Absences	\$ 433,000	\$ 57,970	\$ -	\$ 490,970	\$ 490,970
Net OPEB Obligation	121,727	24,296	-	146,023	-
Capital Leases	48,567	-	31,996	16,571	16,571
Public Utility Revenue & Refunding Bonds					
Series 2002C	2,670,000	-	2,670,000	-	-
Series 2007A	6,190,000	-	270,000	5,920,000	285,000
Series 2009A	3,980,000	-	1,955,000	2,025,000	230,000
Series 2010A	10,340,000	-	-	10,340,000	240,000
Series 2012E	-	6,240,000	-	6,240,000	550,000
Plus (less) unamortized discount or premium	<u>(17,978)</u>	<u>269,022</u>	<u>72,908</u>	<u>178,136</u>	<u>-</u>
	<u>\$ 23,765,316</u>	<u>\$ 6,591,288</u>	<u>\$ 4,999,904</u>	<u>\$ 25,356,700</u>	<u>\$ 1,812,541</u>

NOTES TO FINANCIAL STATEMENTS

The following is a summary of bonds payable for the year ended December 31, 2012:

	Interest Rates	Electric	Water	Total
Public Utility Revenue & Refunding Bonds				
Series 2007A	5.17%	\$ 2,782,400	\$ 3,137,600	\$ 5,920,000
Series 2009A	3.0% - 4.75%	1,918,000	107,000	2,025,000
Series 2010C	2.0% - 4.875%	8,633,900	1,706,100	10,340,000
Series 2012E	2.0% - 3.0%	6,240,000	-	6,240,000
		19,574,300	4,950,700	24,525,000
Plus (less) unamortized discount or premium		217,588	(39,452)	178,136
		19,791,888	4,911,248	24,703,136
Less current maturities		(1,094,350)	(210,650)	(1,305,000)
		<u>\$ 18,697,538</u>	<u>\$ 4,700,598</u>	<u>\$ 23,398,136</u>

Revenue & Refunding Bonds

Moorhead Public Service is in compliance with all significant limitations and restrictions contained in the various bond indentures. Assets restricted by the provisions of the bond resolutions are set forth in Note 2.

The net revenues of the Moorhead Public Service are pledged as security for these debts. The bonds call for semiannual payments of interest and annual payments of principal on various dates through 2027.

Principal repayments on the above debt to maturity are as follows:

	Electric		Water	
	Principal	Interest	Principal	Interest
2013	\$ 1,094,350	\$ 630,106	\$ 210,650	\$ 209,727
2014	1,132,225	577,094	217,775	200,822
2015	1,188,325	549,139	231,675	191,505
2016	1,230,200	517,102	239,800	181,292
2017	1,264,600	483,485	250,400	170,617
2018-2022	7,381,325	1,808,900	1,938,675	649,660
2023-2027	6,283,275	535,049	1,861,725	213,026
	<u>\$ 19,574,300</u>	<u>\$ 5,100,875</u>	<u>\$ 4,950,700</u>	<u>\$ 1,816,649</u>

NOTES TO FINANCIAL STATEMENTS

OPEB Obligations

Moorhead Public Service engaged an actuary to determine MPS' liability for post-employment health care benefits other than pensions as of December 31, 2008, and an updated study was completed in 2011. The actuary determined the only obligation Moorhead Public Service has to record is the implied subsidy portion as described in the standard. The alternative measurement method, a simplified method of calculating the liability for plans with fewer than 100 plan members, was used.

Plan Description

All employees are allowed, upon meeting the eligibility requirements under Minn. Stat. 471.61 subd. 2b, to participate in Moorhead Public Service's health insurance plan after retirement. This plan covers active and retired employees. Benefit provisions are established through negotiations between Moorhead Public Service and the unions representing employees and are renegotiated at the end of each contract period. The retiree health plan does not issue a publicly available financial report.

Funding Policy

Moorhead Public Service has elected to fund the plan on a pay-as-you-go method.

Annual OPEB Cost and Net OPEB Obligation

Moorhead Public Service's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of 30 years. The following table shows the components of MPS' annual OPEB cost for the year, the amount actually contributed to the plan, and changes in MPS' net OPEB obligation:

Normal Cost	\$ 27,120
Amortization of UAAL over 30 years	33,458
Interest on OPEB Obligation	<u>(5,478)</u>
Total year-end ARC	53,178
Contributions made	<u>(28,882)</u>
Increase in OPEB Obligation	24,296
Net OPEB Obligation, Beginning of Year	<u>121,727</u>
Net OPEB Obligation, End of Year	<u><u>\$ 146,023</u></u>

NOTES TO FINANCIAL STATEMENTS

MPS' annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2012 and three prior years was as follows:

Year Ended	Annual OPEB Cost	Employer Contribution	Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2009	\$ 46,000	\$ 16,000	35%	\$ 58,000
12/31/2010	46,000	13,000	28%	91,000
12/31/2011	53,730	23,003	43%	121,727
12/31/2012	53,178	28,882	43%	146,023

Funded Status and Funding Progress

As of January 1, 2011, the date of the most recent actuarial valuation, the plan was unfunded. The actuarial accrued liability for benefits was \$436,164, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$436,164. The covered payroll (annual payroll of active employees covered by the plan) was \$3,392,400, and the ratio of the UAAL to the covered payroll was 12.9%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the Notes to the Financial Statements, begins with fiscal year 2008 and is updated annually to present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2011, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 8% initially, reduced by decrements to an ultimate rate of 5% after six years. Both rates included an inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on an open basis over 30 years.

NOTES TO FINANCIAL STATEMENTS

Leases

The Moorhead Public Service Electric Division entered into a capital lease agreement effective April 10, 2006, with Wells Fargo Brokerage Services, LLC, to purchase equipment. The lease is payable in 14 semi-annual installments of \$9,920 and expires on April 10, 2013, at which time the lease provides for a transfer of ownership for \$1.

The Moorhead Public Service Water Division entered into a capital lease agreement effective April 10, 2006, with Wells Fargo Brokerage Services, LLC, to purchase equipment. The lease is payable in 14 semi-annual installments of \$7,045 and expires on April 10, 2013, at which time the lease provides for a transfer of ownership for \$1.

Capitalized leased assets are as follows:

	<u>Electric</u>	<u>Water</u>	<u>Combined</u>
Equipment	\$ 152,701	\$ 101,042	\$ 253,743
Less accumulated depreciation	<u>(63,625)</u>	<u>(60,625)</u>	<u>(124,250)</u>
	<u>\$ 89,076</u>	<u>\$ 40,417</u>	<u>\$ 129,493</u>

Minimum lease payments in future years are as follows:

	<u>Electric</u>	<u>Water</u>	<u>Combined</u>
<u>Year ending December 31,</u>			
2013	\$ 9,920	\$ 7,045	\$ 16,965
Less interest (4.76% for both Electric and Water)	<u>(230)</u>	<u>(164)</u>	<u>(394)</u>
Present value of minimum lease payments	<u>\$ 9,690</u>	<u>\$ 6,881</u>	<u>\$ 16,571</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - INTERFUND PAYABLES AND RECEIVABLES

Interfund payables and receivables are used to record accrued obligations between funds. A summary of the interfund balances as of December 31, 2012, is as follows:

Payable	Amount
Electric Fund - Due to City of Moorhead's General, Capital Improvement, Economic Development, Sanitation, and Wastewater Funds	<u>\$ 1,718,508</u>
Water Fund - Due to City of Moorhead General Fund	<u>\$ 1,016,212</u>

Receivable	Amount
Water Fund - Due from City of Moorhead Special Assessment Fund	<u>\$ 10,443</u>

NOTE 6 - APPROPRIATION TRANSFERS

According to the Moorhead City Charter (City Charter), annual transfers to the general fund shall be based on gross income and are not to exceed 20% of gross income from electric utility and 5% from any other utility. The City Charter also authorizes transfers from its public utilities to the capital improvement fund in the amount of 5% of gross income.

For 2012, Moorhead City Council (City Council) resolutions provided that the Electric Division transfer \$5,730,900 to the general fund and 5% of its gross income, net of certain revenues exempted from the calculation by the City Council, to the capital improvement fund. For 2012, the Electric Division's transfer to the capital improvement fund was calculated at \$1,591,206. The \$50,000 annual transfer from the Electric Division to the economic development fund is provided by state law.

For 2012, City Council resolutions provided that the Water Division transfer 5% of its gross income to the general fund and \$126,000 to the capital improvement fund. For 2012, the Water Division's transfer to the general fund was calculated at \$347,151.

NOTE 7 - PENSION PLAN

The vast majority of Moorhead Public Service employees are members of the Public Employees Retirement Association (PERA). Pension contributions are made to the program by both the employee and the employer. PERA is a statewide contributory plan for which an individual employer's portion of plan benefits and net assets available for plan benefits are not determinable.

The total employer cost of this plan (charged to expense) for the Electric Division for the years ending December 31, for 2010, 2011, and 2012, totaled \$95,124, \$153,851, and \$156,432, respectively.

NOTES TO FINANCIAL STATEMENTS

The total employer cost for the Water Division for the years ending December 31, for 2010, 2011, and 2012, totaled \$95,124, \$103,949, and \$105,670, respectively.

Disclosure of pension information as required by GASB Statements is included within the City of Moorhead's financial statements.

NOTE 8 - COMMITMENTS

Wholesale Power Agreements

Under its wholesale power agreement, the municipality is committed to purchase a fixed amount of electric power and energy requirements from Western Area Power Administration until December 31, 2020.

The municipality is also committed to purchase its supplemental power from Missouri River Energy Services. The agreement, which runs until January 1, 2046, provides that the municipality purchase electric power in excess of that available from Western Area Power Administration, up to the level required in 2020. Beginning in 2017, and each fifth year thereafter, the municipality has the opportunity to continue receiving 100% of its supplemental power from Missouri River Energy Services or establish a maximum rate of delivery in 2020, or each fifth year thereafter.

Construction Commitments

In 2012, the Electric Division started construction on the new Opportunity Substation and 115kV transmission line in the MCCARA Industrial Park. The project will be completed in 2013 and will serve the current and future electrical needs for the southeast portion of Moorhead. The \$6 million estimated cost of the project will be funded by the issuance of bonds in 2010 and 2012. Through the end of 2012, \$4.7 million has been expended on the project.

During 2013, the Water Division will finish making enhancements to its existing river pumphouse to alleviate future flood concerns. The total estimated cost of the project is \$2.8 million. Moorhead Public Service was awarded a 75% matching grant by the Federal Emergency Management Agency (FEMA) to help cover the cost of construction. Through the end of 2012, MPS expended \$1.6 million for plans, consulting fees, and construction costs, and received \$1.0 million in grant proceeds from FEMA.

REQUIRED SUPPLEMENTARY INFORMATION

MOORHEAD PUBLIC SERVICE
SCHEDULE OF OTHER POST-EMPLOYMENT BENEFIT (OPEB) FUNDING PROGRESS
DECEMBER 31, 2012

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Simplified Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
1/1/2008	\$ -	\$ 383,098	\$ 383,098	0%	\$ 3,589,313	10.7%
1/1/2011	\$ -	\$ 436,164	\$ 436,164	0%	\$ 3,392,400	12.9%

NOTE TO THE SCHEDULE OF FUNDING PROGRESS

The standard requires a schedule of funding progress for the three most recent valuations and accompanying notes to describe factors that significantly affect the trends in the amounts reported. MPS implemented the standard as of January 1, 2008, and to date there have been two valuations performed. As such, there are two valuations disclosed above.

The Accrued Liability as of January 1, 2011, was expected to be \$461,652. The actual Accrued Liability is \$436,164. The difference between the actual and expected liability are due to changes in the claims cost methodology, claims and premium experience, retirement experience, as well as the following actuarial assumption changes since the last actuarial valuation as of January 1, 2008:

- The health care trend rates were changed to better anticipate short-term and long-term medical increases.
- The percentage of future retirees electing coverage at retirement decreased from 50% to 40% to more closely reflect experience in the last five years and expected retirements in the future.

Since the last actuarial valuation as of January 1, 2011, no changes were made in the plan provisions.

OTHER SUPPLEMENTARY INFORMATION

MOORHEAD PUBLIC SERVICE
ANALYSIS OF ELECTRIC CAPITAL ASSETS AND ACCUMULATED
DEPRECIATION/AMORTIZATION
YEAR ENDED DECEMBER 31, 2012

	Electric Capital Assets			
	Balance 12/31/2011	Additions	Retirements	Balance 12/31/2012
PLANT IN-SERVICE				
Miscellaneous				
Intangible plant	\$ 255,373	\$ -	\$ -	\$ 255,373
Production plant				
Land	541,882	8,852	-	550,734
Structures and improvements	9,935,917	385,160	-	10,321,077
Accessory electric equipment	221,092	-	-	221,092
Wind turbine	1,056,966	-	-	1,056,966
	<u>11,213,975</u>	<u>385,160</u>	<u>-</u>	<u>11,599,135</u>
Transmission plant	<u>4,544,979</u>	<u>657,872</u>	<u>-</u>	<u>5,202,851</u>
Distribution plant				
Station equipment	11,953,405	-	542,684	11,410,721
Poles, towers, and fixtures	2,810,786	-	-	2,810,786
Underground conduit	13,820,323	403,638	202,215	14,021,746
Line transformers	4,535,515	218,801	93,364	4,660,952
Services	1,702,227	75,466	-	1,777,693
Meters	1,297,791	298,349	114,067	1,482,073
Installations on customer premises	158,432	-	-	158,432
Street lighting and signal systems	1,212,977	15,454	-	1,228,431
	<u>37,491,456</u>	<u>1,011,708</u>	<u>952,330</u>	<u>37,550,834</u>
General plant				
Office furniture and equipment	1,112,192	36,360	-	1,148,552
Transportation equipment	1,834,496	187,124	-	2,021,620
Stores equipment	3,681	-	-	3,681
Tools, shop, and garage equipment	282,061	42,083	-	324,144
Communication equipment	2,375,495	427,475	-	2,802,970
	<u>5,607,925</u>	<u>693,042</u>	<u>-</u>	<u>6,300,967</u>
Total electric plant in-service	<u>59,655,590</u>	<u>2,756,634</u>	<u>952,330</u>	<u>61,459,894</u>
PLANT HELD FOR FUTURE USE				
Production plant	<u>16,071</u>	<u>-</u>	<u>-</u>	<u>16,071</u>
CONSTRUCTION WORK-IN-PROGRESS	<u>482,598</u>	<u>8,692,612</u>	<u>3,288,931</u>	<u>5,886,279</u>
	<u>\$ 60,154,259</u>	<u>\$ 11,449,246</u>	<u>\$ 4,241,261</u>	<u>\$ 67,362,244</u>

		Accumulated Depreciation/Amortization				Percent of Depreciation Amortization to Plant
Annual Depreciation Amortization Rates		Balance 12/31/2011	Provision	Retirements	Balance 12/31/2012	
10.0 - 12.5	%	\$ 255,373	\$ -	\$ -	\$ 255,373	100.00%
		-	-	-	-	-
2		2,688,810	291,562	-	2,980,372	28.88%
3		221,092	-	-	221,092	100.00%
3		411,435	35,198	-	446,633	42.26%
		<u>3,321,337</u>	<u>326,760</u>	<u>-</u>	<u>3,648,097</u>	
3		<u>1,427,715</u>	<u>139,076</u>	<u>-</u>	<u>1,566,791</u>	30.11%
2		5,939,737	338,669	542,684	5,735,722	50.27%
3		2,444,075	44,463	-	2,488,538	88.54%
2		4,556,823	545,895	202,215	4,900,503	34.95%
3		1,819,431	133,980	93,364	1,860,047	39.91%
3		852,783	51,382	-	904,165	50.86%
4		39,196	51,151	-	90,347	6.10%
4		77,187	2,708	-	79,895	50.43%
3		548,956	36,757	-	585,713	47.68%
		<u>16,278,188</u>	<u>1,205,005</u>	<u>838,263</u>	<u>16,644,930</u>	
10		679,901	125,084	-	804,985	70.09%
5 - 25		808,698	119,108	-	927,806	45.89%
10		3,681	-	-	3,681	100.00%
10		203,248	10,953	-	214,201	66.08%
6		1,078,531	112,640	-	1,191,171	42.50%
		<u>2,774,059</u>	<u>367,785</u>	<u>-</u>	<u>3,141,844</u>	
		<u>24,056,672</u>	<u>2,038,626</u>	<u>838,263</u>	<u>25,257,035</u>	
3		<u>16,071</u>	<u>-</u>	<u>-</u>	<u>16,071</u>	100.00%
		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
		<u>\$ 24,072,743</u>	<u>\$ 2,038,626</u>	<u>\$ 838,263</u>	<u>\$ 25,273,106</u>	

MOORHEAD PUBLIC SERVICE
ANALYSIS OF WATER CAPITAL ASSETS AND ACCUMULATED
DEPRECIATION/AMORTIZATION
YEAR ENDED DECEMBER 31, 2012

Water Capital Assets				
	Balance 12/31/2011	Additions	Retirements	Balance 12/31/12
PLANT IN-SERVICE				
Land	\$ 574,942	\$ -	\$ -	\$ 574,942
Source of supply plant structures and improvements	5,643,503	-	-	5,643,503
Pumping plant	30,914	-	-	30,914
Water treatment plant	16,928,674	-	-	16,928,674
Transmission and distribution plant				
Towers	1,652,798	-	-	1,652,798
Mains	25,144,992	512,661	436,000	25,221,653
Meters	1,820,936	97,318	121,829	1,796,425
	28,618,726	609,979	557,829	28,670,876
General plant				
Office furniture and equipment	13,863	-	-	13,863
Transportation equipment	856,907	130,562	-	987,469
Tools, shop, and garage equipment	102,628	34,012	-	136,640
Laboratory equipment	156,946	121,482	-	278,428
SCADA equipment	113,646	93,334	-	206,980
	1,243,990	379,390	-	1,623,380
Total water plant in-service	53,040,749	989,369	557,829	53,472,289
CONSTRUCTION WORK-IN-PROGRESS	170,889	2,615,752	1,002,870	1,783,771
	\$ 53,211,638	\$ 3,605,121	\$ 1,560,699	\$ 55,256,060

Accumulated Depreciation/Amortization					
Annual Depreciation Amortization Rates	Balance 12/31/2011	Provision	Retirements	Balance 12/31/12	Percent of Depreciation Amortization to Plant
%	\$ -	\$ -	\$ -	\$ -	0.0%
2 - 25	3,501,027	139,206	-	3,640,233	64.5%
2	30,154	760	-	30,914	100.0%
2 - 3	6,274,527	319,371	-	6,593,898	39.0%
2	528,510	33,056	-	561,566	34.0%
2	6,034,109	502,720	436,000	6,100,829	24.2%
3	156,139	58,353	-	214,492	11.9%
	6,718,758	594,129	436,000	6,876,887	
10	13,863	-	-	13,863	100.0%
12	445,180	89,980	-	535,160	54.2%
5	85,656	2,566	-	88,222	64.6%
10	60,876	10,149	-	71,025	25.5%
14	49,453	5,671	-	55,124	26.6%
	655,028	108,366	-	763,394	
	17,179,494	1,161,832	436,000	17,905,326	
	-	-	-	-	
	\$ 17,179,494	\$ 1,161,832	\$ 436,000	\$ 17,905,326	