

**FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**





# MOORHEAD PUBLIC SERVICE

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## **INDEPENDENT AUDITOR'S REPORT**

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## **Independent Auditor's Report**

To the 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, 2013, 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.

## **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, 2013, 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 America, which consisted of inquires of management about the methods of 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 25, 2014 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.



Fargo, North Dakota  
April 25, 2014

**MOORHEAD PUBLIC SERVICE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2013**

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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, 2013. 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 2013**

- MPS' combined net position increased \$6.1 million, or 8.4%, increasing from \$73.0 million to \$79.1 million. The Electric Division's net position increased \$3.5 million from \$37.4 million to \$40.9 million. The Water Division's net position increased \$2.6 million from \$35.6 million to \$38.2 million.
- Combined operating revenues increased \$2.2 million, or 5.2%, from \$42.3 million to \$44.5 million. Electric Division operating revenues increased \$2.3 million, or 6.6%, from \$35.4 million to \$37.7 million. Water Division operating revenues decreased \$125,000, or -1.8%, from \$7.0 million to \$6.9 million.
- Combined transfers to the City of Moorhead in 2013 increased \$391,000, or 5.0%, from \$7.8 million to \$8.2 million. Electric Division transfers increased \$400,000, or 5.4%, from \$7.4 million to \$7.8 million. Water Division transfers decreased \$9,000, or -1.9%, from \$473,000 to \$464,000.

**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' 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 2013, the Electric Division's total assets increased by \$1.5 million, or 2.4%. Within total assets, current and other assets increased by \$500,000 while capital assets increased by \$1.0 million.

During 2013, the Electric Division's liabilities decreased by \$2.0 million, or 7.7%. The decrease was primarily due to a reduction in long-term debt as scheduled financing payments were completed throughout the year.

The net effect of the increase in total assets and in liabilities within the Electric Division resulted in an increase of \$3.5 million, or 9.3%, in total net position from \$37.4 million to \$40.9 million.

During 2013, the Water Division's total assets increased \$2.1 million, or 4.9%. Within total assets, current and other assets increased by \$400,000 while capital assets increased by \$1.7 million.

During 2013, the Water Division's liabilities decreased by \$500,000, or 7.4%. The decrease was primarily due to a reduction in long-term debt as scheduled financing payments were completed throughout the year.

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 \$2.6 million, or 7.3%, from \$35.6 million to \$38.2 million.

**Table 1**

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

	Electric				Water				Combined			
	2013	2012	Dollar Change	Percent change	2013	2012	Dollar Change	Percent change	2013	2012	Dollar Change	Percent change
Current and Other Assets	21,782	21,299	483	2.3%	5,795	5,399	396	7.3%	27,577	26,698	879	3.3%
Capital Assets <sup>1</sup>	43,106	42,089	1,017	2.4%	39,031	37,351	1,680	4.5%	82,137	79,440	2,697	3.4%
<b>Total Assets</b>	<b>64,888</b>	<b>63,388</b>	<b>1,500</b>	<b>2.4%</b>	<b>44,826</b>	<b>42,750</b>	<b>2,076</b>	<b>4.9%</b>	<b>109,714</b>	<b>106,138</b>	<b>3,576</b>	<b>3.4%</b>
Long-term Debt	17,446	18,785	-1,339	-7.1%	4,588	4,759	-171	-3.6%	22,034	23,544	-1,510	-6.4%
Other Liabilities	6,502	7,163	-661	-9.2%	2,021	2,377	-356	-15.0%	8,523	9,540	-1,017	-10.7%
<b>Total Liabilities</b>	<b>23,948</b>	<b>25,948</b>	<b>-2,000</b>	<b>-7.7%</b>	<b>6,609</b>	<b>7,136</b>	<b>-527</b>	<b>-7.4%</b>	<b>30,557</b>	<b>33,084</b>	<b>-2,527</b>	<b>-7.6%</b>
Net investment in capital assets	25,561	25,702	-141	-0.5%	33,976	32,506	1,470	4.5%	59,537	58,208	1,329	2.3%
Restricted	2,200	2,213	-13	-0.6%	581	593	-12	-2.0%	2,781	2,806	-25	-0.9%
Unrestricted	13,178	9,525	3,653	38.4%	3,661	2,515	1,146	45.6%	16,839	12,040	4,799	39.9%
<b>Total Net Position</b>	<b>40,940</b>	<b>37,440</b>	<b>3,500</b>	<b>9.3%</b>	<b>38,217</b>	<b>35,614</b>	<b>2,603</b>	<b>7.3%</b>	<b>79,157</b>	<b>73,054</b>	<b>6,103</b>	<b>8.4%</b>

<sup>1</sup> 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 \$37.7 million and \$6.9 million, respectively. In the Electric Division, the revenue increase of 6.6% was primarily the result of a 2.0% rate increase effective January 2013 and an unusually cold November and December. The Water Division experienced a decrease in operating revenue of -1.8%. The decrease was caused by a decline in customer sales volumes in 2013.

Combined total expenses were \$40.8 million in 2013. Within total expenses, operating expenses (net of depreciation) increased 3.2% to \$28.4 million. In addition, transfers to the City of Moorhead increased 5.0% to \$8.2 million.

MPS' combined net position increased by \$6.1 million, or by 8.4%. The increase was the result of increases in the net positions of the Electric and Water Divisions by \$3.5 million and \$2.6 million, respectively. Combined total revenues of \$44.9 million exceeded combined total expenses of \$40.8 million by \$4.1 million. Capital contributions in the forms of watermain, grants, and sales tax refunds added another \$2.0 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			
	2013	2012	Dollar Change	Percent change	2013	2012	Dollar Change	Percent change	2013	2012	Dollar Change	Percent change
Operating Revenues	37,681	35,346	2,335	6.6%	6,850	6,975	-125	-1.8%	44,531	42,321	2,210	5.2%
Nonoperating Revenues	331	155	176	113.5%	2	73	-71	-97.3%	333	228	105	46.1%
<b>Total Revenue</b>	<b>38,012</b>	<b>35,501</b>	<b>2,511</b>	<b>7.1%</b>	<b>6,852</b>	<b>7,048</b>	<b>-196</b>	<b>-2.8%</b>	<b>44,864</b>	<b>42,549</b>	<b>2,315</b>	<b>5.4%</b>
Depreciation Expense	2,001	1,920	81	4.2%	1,115	1,072	43	4.0%	3,116	2,992	124	4.1%
Other Operating Expense	24,540	23,597	943	4.0%	3,851	3,916	-65	-1.7%	28,391	27,513	878	3.2%
Nonoperating Expenses	690	689	1	0.1%	365	452	-87	-19.2%	1,055	1,141	-86	-7.5%
Transfers to City	7,772	7,372	400	5.4%	464	473	-9	-1.9%	8,236	7,845	391	5.0%
<b>Total Expenses</b>	<b>35,003</b>	<b>33,578</b>	<b>1,425</b>	<b>4.2%</b>	<b>5,795</b>	<b>5,913</b>	<b>-118</b>	<b>-2.0%</b>	<b>40,798</b>	<b>39,491</b>	<b>1,307</b>	<b>3.3%</b>
Income Before Capital Contributions & Special Items	3,009	1,923	1,086	56.5%	1,057	1,135	-78	-6.9%	4,066	3,058	1,008	33.0%
Capital Contributions	491	42	449	1069.0%	1,546	975	571	58.6%	2,037	1,017	1,020	100.3%
Changes in Net Position	3,500	1,965	1,535	78.1%	2,603	2,110	493	23.4%	6,103	4,075	2,028	133.3%
Beginning Net Position	<b>37,440</b>	<b>35,475</b>	<b>1,965</b>	<b>5.5%</b>	<b>35,614</b>	<b>33,504</b>	<b>2,110</b>	<b>6.3%</b>	<b>73,054</b>	<b>68,979</b>	<b>4,075</b>	<b>5.9%</b>
<b>Ending Net Position</b>	<b>40,940</b>	<b>37,440</b>	<b>3,500</b>	<b>9.3%</b>	<b>38,217</b>	<b>35,614</b>	<b>2,603</b>	<b>7.3%</b>	<b>79,157</b>	<b>73,054</b>	<b>6,103</b>	<b>8.4%</b>

## 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 2012 to 2013. Total capital assets at the end of 2013 were \$82.1 million compared to \$79.4 million at the end of 2012. Total capital assets increased \$2.7 million, or 3.4%. Net capital assets in the Electric Division increased by \$1.0 million, or 2.4%. Net capital assets in the Water Division increased by \$1.7 million, or 4.5%.

After depreciation, the Electric Division's increase in capital assets included a decrease in work-in-progress of \$500,000 and an overall increase of \$1.5 million in total electric plant in-service assets.

After depreciation, the Water Division's increase in capital assets included a decrease in work-in-progress of \$1.6 million and an overall increase of \$3.3 million in total water plant in-service assets.

**Table 3**

### MOORHEAD PUBLIC SERVICE

#### Capital Assets Net of Depreciation

<b>Electric Plant</b>				
	Balance 12/31/2012	Balance 12/31/2013	Increase (Decrease)	Percent
<u>Plant in-Service</u>				
Land	\$ 550,734	\$ 805,120	\$ 254,386	46.19%
Production Plant	7,951,038	7,872,316	(78,722)	-0.99%
Transmission Plant	3,636,060	3,475,054	(161,006)	-4.43%
Distribution Plant	20,905,904	22,206,967	1,301,063	6.22%
General Plant	3,159,123	3,364,476	205,353	6.50%
Total Electric Plant in-Service	36,202,859	37,723,933	1,521,074	4.20%
Work-in-Progress	5,886,279	5,381,920	(504,359)	-8.57%
Total Electric Plant	<u>\$ 42,089,138</u>	<u>\$ 43,105,853</u>	<u>\$ 1,016,715</u>	<u>2.42%</u>
<b>Water Plant</b>				
	Balance 12/31/2012	Balance 12/31/2013	Increase (Decrease)	Percent
<u>Plant in-Service</u>				
Land	\$ 574,942	\$ 574,942	\$ -	0.00%
Source of Supply	2,003,270	4,751,595	2,748,325	137.19%
Water Treatment Plant	10,334,776	10,024,541	(310,235)	-3.00%
Transmission & Distribution Plant	21,793,989	22,531,414	737,425	3.38%
General Plant	859,986	963,960	103,974	12.09%
Total Water Plant in-Service	35,566,963	38,846,452	3,279,489	9.22%
Work-in-Progress	1,783,771	184,734	(1,599,037)	-89.64%
Total Water Plant	<u>\$ 37,350,734</u>	<u>\$ 39,031,186</u>	<u>\$ 1,680,452</u>	<u>4.50%</u>
<b>Consolidated</b>				
Total MPS	<u>\$ 79,439,872</u>	<u>\$ 82,137,039</u>	<u>\$ 2,697,167</u>	<u>3.40%</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 2012 to 2013. The combined total debt at the end of 2013 was \$22.0 million. The net change was an overall decrease in 2013 of \$1.5 million, or -6.4%. The Electric Division's long-term debt decreased by \$1.3 million, or -7.1%. The Water Division's long-term debt decreased \$170,000, or -3.6%.

**Table 4**

#### MOORHEAD PUBLIC SERVICE

##### Long-Term Debt

<b>Electric Division</b>				
	Balance 12/31/2012	Balance 12/31/2013	Increase (Decrease)	Percent
Net OPEB Obligations	\$ 87,614	\$ 98,415	\$ 10,801	12.33%
Capital Leases	9,690	-	(9,690)	-100.00%
Public Utility Revenue & Refunding Bonds	19,791,888	18,479,950	(1,311,938)	-6.63%
Total Long-Term Debt	19,889,192	18,578,365	(1,310,827)	-6.59%
Less: Current Portion				
Capital Leases	9,690	-	(9,690)	-0.89%
Public Utility Revenue & Refunding Bonds	1,094,350	1,132,225	37,875	3.46%
Total Current Portion of Long-Term Debt	1,104,040	1,132,225	28,185	2.55%
Net Long-Term Debt	<u>\$ 18,785,152</u>	<u>\$ 17,446,140</u>	<u>\$ (1,339,012)</u>	<u>-7.13%</u>
<b>Water Division</b>				
	Balance 12/31/2012	Balance 12/31/2013	Increase (Decrease)	Percent
Net OPEB Obligations	\$ 58,409	\$ 65,610	\$ 7,201	12.33%
Capital Leases	6,881	-	(6,881)	-100.00%
Public Utility Revenue & Refunding Bonds	4,911,248	4,740,050	(171,198)	-3.49%
Total Long-Term Debt	4,976,538	4,805,660	(170,878)	-3.43%
Less: Current Portion				
Capital Leases	6,881	-	(6,881)	-3.27%
Public Utility Revenue & Refunding Bonds	210,650	217,775	7,125	3.38%
Total Current Portion of Long-Term Debt	217,531	217,775	244	0.11%
Net Long-Term Debt	<u>\$ 4,759,007</u>	<u>\$ 4,587,885</u>	<u>\$ (171,122)</u>	<u>-3.60%</u>
<b>Consolidated</b>				
Total MPS	<u>\$ 23,544,159</u>	<u>\$ 22,034,025</u>	<u>\$ (1,510,134)</u>	<u>-6.41%</u>

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

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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### **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](mailto:mps@mpsutility.com); or by calling 218-299-5400.

**MOORHEAD PUBLIC SERVICE**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31, 2013**

	Electric	Water	Total
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and equivalents	\$ 3,291,028	\$ 2,495,993	\$ 5,787,021
Accounts receivable, net	1,896,684	283,372	2,180,056
Accounts receivable - unbilled revenues	3,219,200	422,500	3,641,700
Notes receivable - current	80,000	-	80,000
Accrued interest receivable	38,450	8,440	46,890
Inventories	785,919	183,664	969,583
Prepaid items	38,454	54,135	92,589
Due from other governmental units	-	48,140	48,140
Due from special assessments			
Current	-	4,338	4,338
Delinquent	-	2,887	2,887
	<u>9,349,735</u>	<u>3,503,469</u>	<u>12,853,204</u>
<b>RESTRICTED ASSETS</b>			
Revenue bond account	261,900	43,846	305,746
Bond reserve account	1,938,306	536,897	2,475,203
Bond proceeds	935,568	-	935,568
	<u>3,135,774</u>	<u>580,743</u>	<u>3,716,517</u>
<b>OTHER ASSETS, less current maturities</b>			
Notes receivable	5,769	-	5,769
Bond operations and maintenance reserve	4,270,000	671,000	4,941,000
Other long-term investments	5,020,841	1,039,522	6,060,363
	<u>9,296,610</u>	<u>1,710,522</u>	<u>11,007,132</u>
<b>CAPITAL ASSETS</b>			
In-service	63,553,684	57,213,385	120,767,069
Land	805,120	574,942	1,380,062
Work-in-progress	5,381,920	184,734	5,566,654
	<u>69,740,724</u>	<u>57,973,061</u>	<u>127,713,785</u>
Less accumulated depreciation	26,634,871	18,941,875	45,576,746
	<u>43,105,853</u>	<u>39,031,186</u>	<u>82,137,039</u>
Total assets	<u>\$ 64,887,972</u>	<u>\$ 44,825,920</u>	<u>\$ 109,713,892</u>

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

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	Electric	Water	Total
<b>LIABILITIES AND NET POSITION</b>			
<b>CURRENT LIABILITIES</b>			
Payable from current assets			
Accounts payable	\$ 780,171	\$ 676,059	\$ 1,456,230
Power costs payable	2,107,053	-	2,107,053
Sales tax payable	120,968	-	120,968
Customer deposits	154,395	-	154,395
Accrued vacations and severance pay	259,940	192,942	452,882
Due to other city funds	1,873,944	925,798	2,799,742
	<u>5,296,471</u>	<u>1,794,799</u>	<u>7,091,270</u>
Payable from restricted assets			
Accrued interest	73,600	8,000	81,600
Current maturities of bonds payable	1,132,225	217,775	1,350,000
	<u>1,205,825</u>	<u>225,775</u>	<u>1,431,600</u>
<b>LONG-TERM DEBT,</b>			
Net OPEB obligation	98,415	65,610	164,025
Bonds, less current maturities	17,347,725	4,522,275	21,870,000
	<u>17,446,140</u>	<u>4,587,885</u>	<u>22,034,025</u>
 Total liabilities	 <u>23,948,436</u>	 <u>6,608,459</u>	 <u>30,556,895</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	25,561,471	33,976,136	59,537,607
Restricted for:			
Debt service	2,200,206	580,743	2,780,949
Unrestricted	13,177,859	3,660,582	16,838,441
Total net position	<u>40,939,536</u>	<u>38,217,461</u>	<u>79,156,997</u>
 Total liabilities and net position	 <u>\$ 64,887,972</u>	 <u>\$ 44,825,920</u>	 <u>\$ 109,713,892</u>





**MOORHEAD PUBLIC SERVICE**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**YEAR ENDED DECEMBER 31, 2013**

	Electric	Water	Total
OPERATING REVENUES			
Charges for services	\$ 37,119,526	\$ 6,807,762	\$ 43,927,288
Other	561,422	42,189	603,611
Total Operating Revenues	<u>37,680,948</u>	<u>6,849,951</u>	<u>44,530,899</u>
OPERATING EXPENSES			
Purchased power	20,156,014	-	20,156,014
Production of power	352,550	-	352,550
Transmission	114,946	-	114,946
Distribution	1,862,906	797,142	2,660,048
Source of supply and pumping	-	287,178	287,178
Water treatment	-	1,800,828	1,800,828
Customer accounts	330,156	105,430	435,586
Administrative	1,723,238	860,894	2,584,132
Depreciation and amortization	2,001,094	1,115,461	3,116,555
Total Operating Expenses	<u>26,540,904</u>	<u>4,966,933</u>	<u>31,507,837</u>
OPERATING INCOME	11,140,044	1,883,018	13,023,062
NONOPERATING REVENUE (EXPENSES)			
Interest income and market adjustments	(58,475)	(9,389)	(67,864)
Gain (loss) on sale of capital assets	35,219	(109,065)	(73,846)
Other income	296,136	2,472	298,608
Interest expense	(632,097)	(246,324)	(878,421)
Total Nonoperating Revenues (Expenses)	<u>(359,217)</u>	<u>(362,306)</u>	<u>(721,523)</u>
INCOME BEFORE TRANSFERS AND CONTRIBUTED CAPITAL	10,780,827	1,520,712	12,301,539
TRANSFERS OUT			
General fund	(5,980,900)	(337,761)	(6,318,661)
Economic development fund	(50,000)	-	(50,000)
Capital improvement fund	(1,740,963)	(126,000)	(1,866,963)
Total Transfers Out	<u>(7,771,863)</u>	<u>(463,761)</u>	<u>(8,235,624)</u>
CONTRIBUTION OF CAPITAL ASSETS	<u>490,795</u>	<u>1,546,432</u>	<u>2,037,227</u>
CHANGE IN NET POSITION	3,499,759	2,603,383	6,103,142
NET POSITION, BEGINNING OF YEAR	<u>37,439,777</u>	<u>35,614,078</u>	<u>73,053,855</u>
NET POSITION, END OF YEAR	<u>\$ 40,939,536</u>	<u>\$ 38,217,461</u>	<u>\$ 79,156,997</u>

**MOORHEAD PUBLIC SERVICE**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2013**

	Electric	Water	Total
OPERATING ACTIVITIES			
Receipts from customers and users	\$ 37,095,699	\$ 6,823,646	\$ 43,919,345
Payments to suppliers	(23,548,312)	(3,158,466)	(26,706,778)
Payments to employees	(1,712,467)	(891,751)	(2,604,218)
NET CASH FROM OPERATING ACTIVITIES	11,834,920	2,773,429	14,608,349
NON-CAPITAL FINANCING ACTIVITIES			
Transfers to other funds	(7,771,863)	(463,761)	(8,235,624)
Payments received on notes and special receivables	125,586	655,878	781,464
Decrease in due from other funds	25,550	-	25,550
Increase (decrease) in due to other funds	155,436	(90,414)	65,022
NET CASH FROM (USED FOR) FINANCING ACTIVITIES	(7,465,291)	101,703	(7,363,588)
CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of utility plant	(2,671,327)	(1,439,684)	(4,111,011)
Proceeds related to sale of assets	35,219	-	35,219
Debt service - principal	(1,321,628)	(178,079)	(1,499,707)
Debt service - interest and fees	(639,777)	(246,504)	(886,281)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(4,597,513)	(1,864,267)	(6,461,780)
INVESTING ACTIVITIES			
Interest received and market adjustments	(67,084)	(12,172)	(79,256)
Proceeds from the sale of investments	2,491,755	85,445	2,577,200
Purchase of investments	(1,641,956)	(595,251)	(2,237,207)
NET CASH FROM (USED FOR) ACTIVITIES	782,715	(521,978)	260,737
NET CHANGE IN CASH BALANCE	554,831	488,887	1,043,718
CASH BALANCE, JANUARY 1	2,736,197	2,007,106	4,743,303
CASH BALANCE, DECEMBER 31	\$ 3,291,028	\$ 2,495,993	\$ 5,787,021

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

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	Electric	Water	Total
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES			
Operating income	\$ 11,140,044	\$ 1,883,018	\$ 13,023,062
Adjustments to reconcile operating income to net cash from operating activities			
Depreciation and amortization	2,001,094	1,115,461	3,116,555
Depreciation expensed to vehicle expense	144,313	81,137	225,450
Other income	296,136	2,472	298,608
Change in assets and liabilities			
Receivables	(881,385)	(28,777)	(910,162)
Inventories	(39,918)	(20,925)	(60,843)
Prepaid items	596	(451)	145
Due from other governments	-	-	-
Net OPEB Obligations	10,801	7,201	18,002
Accounts payable	(836,731)	(227,649)	(1,064,380)
Accrued vacations and severance pay	(30)	(38,058)	(38,088)
NET CASH FROM OPERATING ACTIVITIES	<u>\$ 11,834,920</u>	<u>\$ 2,773,429</u>	<u>\$ 14,608,349</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES			
Acquisition of capital assets through contributed capital	<u>\$ 490,795</u>	<u>\$ 1,546,432</u>	<u>\$ 2,037,227</u>

**MOORHEAD PUBLIC SERVICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

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**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

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With respect to proprietary activities, Moorhead Public Service has adopted GASB statement No. 62 “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.” 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. At the end of 2013, the allowances for uncollectible accounts were \$4,400 for electric division receivables and \$1,000 for water division receivables.

Notes receivable are stated at principal amounts and are uncollateralized. Notes receivable at year-end 2013 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.

## NOTES TO FINANCIAL STATEMENTS

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### *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

### *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).

## NOTES TO FINANCIAL STATEMENTS

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### *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.

### *Pension Costs*

The policy is to fund pension costs accrued.

### *Net Position*

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

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### 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, 2013, 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, 2013, Moorhead Public Service had the following investments and maturities:

<b>Restricted</b>		<b>Investment Maturities (in Years)</b>				
<b>Investment Type</b>	<b>Fair Value</b>	<b>Not Applicable</b>	<b>&lt; 1</b>	<b>1 - 5</b>	<b>&gt; 5 - 10</b>	<b>&gt; 10</b>
Government Bonds	\$ 2,341,405	\$ -	\$ 1,014,345	\$ 1,327,060	\$ -	\$ -
Money Market Funds	1,375,112	1,375,112	-	-	-	-
Total Restricted Investments	<u>\$ 3,716,517</u>	<u>\$ 1,375,112</u>	<u>\$ 1,014,345</u>	<u>\$ 1,327,060</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Unrestricted</b>		<b>Investment Maturities (in Years)</b>				
<b>Investment Type</b>	<b>Fair Value</b>	<b>Not Applicable</b>	<b>&lt; 1</b>	<b>1 - 5</b>	<b>&gt; 5 - 10</b>	<b>&gt; 10</b>
Government Bonds	<u>\$ 11,001,363</u>	<u>\$ -</u>	<u>\$ 1,104,648</u>	<u>\$ 4,968,317</u>	<u>\$ 2,837,119</u>	<u>\$ 2,091,279</u>



## NOTES TO FINANCIAL STATEMENTS

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### *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	\$ 550,734	\$ 254,386	\$ -	\$ 805,120
Construction work in progress	5,886,279	3,175,536	3,679,895	5,381,920
	<u>6,437,013</u>	<u>3,429,922</u>	<u>3,679,895</u>	<u>6,187,040</u>
Capital assets, being depreciated:				
Miscellaneous intangible plant	255,373	-	-	255,373
Production plant	11,599,135	274,110	-	11,873,245
Transmission plant	5,202,851	-	-	5,202,851
Distribution plant	37,550,834	2,498,746	228,852	39,820,728
General plant	6,300,967	652,653	568,204	6,385,416
Plant held for future use	16,071	-	-	16,071
	<u>60,925,231</u>	<u>3,425,509</u>	<u>797,056</u>	<u>63,553,684</u>
Less accumulated depreciation for:				
Miscellaneous intangible plant	255,373	-	-	255,373
Production plant	3,648,097	352,832	-	4,000,929
Transmission plant	1,566,791	161,006	-	1,727,797
Distribution plant	16,644,930	1,197,683	228,852	17,613,761
General plant	3,141,844	433,885	554,789	3,020,940
Plant held for future use	16,071	-	-	16,071
	<u>25,273,106</u>	<u>2,145,406</u>	<u>783,641</u>	<u>26,634,871</u>
Total capital assets, being depreciated, net	<u>35,652,125</u>	<u>1,280,103</u>	<u>13,415</u>	<u>36,918,813</u>
Capital assets, net	<u>\$ 42,089,138</u>	<u>\$ 4,710,025</u>	<u>\$ 3,693,310</u>	<u>\$ 43,105,853</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	1,783,771	2,998,085	4,597,122	184,734
	<u>2,358,713</u>	<u>2,998,085</u>	<u>4,597,122</u>	<u>759,676</u>
Capital assets, being depreciated:				
Source of supply plant structure and improvements	5,643,503	3,008,763	208,928	8,443,338
Pumping plant	30,914	-	-	30,914
Water treatment plant	16,928,674	9,091	18,015	16,919,750
Transmission and distribution plant	28,670,876	1,353,998	20,167	30,004,707
General plant	1,623,380	225,270	33,974	1,814,676
	<u>52,897,347</u>	<u>4,597,122</u>	<u>281,084</u>	<u>57,213,385</u>
Less accumulated depreciation for:				
Source of supply plant structure and improvements	3,640,233	139,404	87,894	3,691,743
Pumping plant	30,914	-	-	30,914
Water treatment plant	6,593,898	319,326	18,015	6,895,209
Transmission and distribution plant	6,876,887	616,573	20,167	7,473,293
General plant	763,394	121,296	33,974	850,716
	<u>17,905,326</u>	<u>1,196,599</u>	<u>160,050</u>	<u>18,941,875</u>
Total capital assets, being depreciated, net	<u>34,992,021</u>	<u>3,400,523</u>	<u>121,034</u>	<u>38,271,510</u>
Capital assets, net	<u>\$ 37,350,734</u>	<u>\$ 6,398,608</u>	<u>\$ 4,718,156</u>	<u>\$ 39,031,186</u>

## NOTES TO FINANCIAL STATEMENTS

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

Business-type activities:	
Electric Division	\$ 2,145,406
Water Division	<u>1,196,599</u>
Total depreciation expense - business-type activities	3,342,005
Depreciation and amortization per Statement of Revenues, Expenses, and Changes in Net Position	<u>3,116,555</u>
Difference from Statement of Revenues, Expenses, and Changes in Net Position	<u>\$ 225,450</u>

Depreciation and amortization expense reflected in the Statement of Revenues, Expenses, and Changes In Net Position is \$3,116,555. The difference of \$225,450 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, 2013.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated Absences	\$ 490,970	\$ -	\$ 38,088	\$ 452,882	\$ 452,882
Net OPEB Obligation	146,023	52,686	34,684	164,025	-
Capital Leases	16,571	-	16,571	-	-
Public Utility Revenue & Refunding Bonds					
Series 2007A	5,920,000	-	285,000	5,635,000	295,000
Series 2009A	2,025,000	-	230,000	1,795,000	235,000
Series 2010A	10,340,000	-	240,000	10,100,000	245,000
Series 2012E	6,240,000	-	550,000	5,690,000	575,000
Plus (less) unamortized discount or premium	<u>178,136</u>	<u>-</u>	<u>178,136</u>	<u>-</u>	<u>-</u>
	<u>\$ 25,356,700</u>	<u>\$ 52,686</u>	<u>\$ 1,572,479</u>	<u>\$ 23,836,907</u>	<u>\$ 1,802,882</u>

## NOTES TO FINANCIAL STATEMENTS

The following is a summary of bonds payable for the year ended December 31, 2013:

	Interest Rates	Electric	Water	Total
Public Utility Revenue & Refunding Bonds				
Series 2007A	5.17%	\$ 2,648,450	\$ 2,986,550	\$ 5,635,000
Series 2009A	3.0% - 4.75%	1,708,000	87,000	1,795,000
Series 2010C	2.0% - 4.875%	8,433,500	1,666,500	10,100,000
Series 2012E	2.0% - 3.0%	5,690,000	-	5,690,000
		18,479,950	4,740,050	23,220,000
Less current maturities		(1,132,225)	(217,775)	(1,350,000)
		<u>\$ 17,347,725</u>	<u>\$ 4,522,275</u>	<u>\$ 21,870,000</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
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	1,353,150	448,226	351,850	159,312
2019-2023	7,689,375	1,577,505	2,030,625	571,614
2024-2027	4,622,075	318,218	1,417,925	131,760
	<u>\$ 18,479,950</u>	<u>\$ 4,470,769</u>	<u>\$ 4,740,050</u>	<u>\$ 1,606,922</u>

## NOTES TO FINANCIAL STATEMENTS

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### *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	32,137
Interest on OPEB Obligation	<u>(6,571)</u>
Total year-end ARC	52,686
Contributions made	<u>(34,684)</u>
Increase in OPEB Obligation	18,002
Net OPEB Obligation, Beginning of Year	<u>146,023</u>
Net OPEB Obligation, End of Year	<u><u>\$ 164,025</u></u>

## NOTES TO FINANCIAL STATEMENTS

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MPS' annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2013 and three prior years was as follows:

Year Ended	Annual OPEB Cost	Employer Contribution	Annual OPEB Cost Contributed	Net OPEB Obligation
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	54%	146,023
12/31/2013	52,686	34,684	66%	164,025

### 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

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### 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, 2013, is as follows:

Payable	Amount
Electric Fund - Due to City of Moorhead's General, Capital Improvement, Economic Development, Sanitation, and Wastewater Funds	<u>\$ 1,873,944</u>
Water Fund - Due to City of Moorhead General Fund	<u>\$ 925,798</u>

Receivable	Amount
Water Fund - Due from City of Moorhead Special Assessment Fund	<u>\$ 7,225</u>

### NOTE 6 - APPROPRIATION TRANSFERS

According to the Moorhead City Charter (City Charter), annual transfers from MPS' net revenues to the city's general fund shall not exceed 20% of gross income from electric utility and 5% from any other utility. The City Charter also authorizes transfers from its public utilities' net revenues to the city's capital improvement fund in an amount not to exceed 5% of gross income.

For 2013, the Moorhead Public Service Commission-approved budget included an Electric Division transfer of \$5,980,900 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 2013, the Electric Division's transfer to the capital improvement fund was calculated at \$1,740,963. The \$50,000 annual transfer from the Electric Division to the economic development fund is provided by state law.

For 2013, the Moorhead Public Service Commission-approved budget included a Water Division transfer of 5% of its gross income, net of certain revenues exempted from the calculation by the City Council, to the general fund and \$126,000 to the capital improvement fund. For 2013, the Water Division's transfer to the general fund was calculated at \$337,761.

### 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.



## NOTES TO FINANCIAL STATEMENTS

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The total employer cost of this plan (charged to expense) for the Electric Division for the years ending December 31, for 2011, 2012, and 2013, totaled \$153,851, \$156,432, and \$160,504, respectively.

The total employer cost for the Water Division for the years ending December 31, for 2011, 2012, and 2013, totaled \$103,949, \$105,670, and \$107,050, 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 adding a 115kV transmission line in the MCCARA Industrial Park. Both projects expect to serve the current and future electrical needs for the southeast portion of Moorhead. The projects were expected to be completed in 2013. However, due to delays in obtaining easements, the projects are expected to be completed in 2014. The \$6.5 million estimated cost of the projects has been funded through the issuance of bonds in 2010 and 2012. Through the end of 2013, \$5.2 million has been expended on the project.

During 2013, the Water Division began the planning and design portion of a project to construct a new high-speed pumping station next to the current water treatment plant. Construction of the station is expected to begin in the spring of 2014. The station is expected to be completed in 2015. The estimated cost of the project at the end of 2013 was \$6.9 million. At the time of this report, the engineer's total estimated cost for the project is \$10.4 million which includes an estimated construction cost of \$7,188,000, contingencies of \$1,079,000, engineering fees of \$800,000, and other various costs.

## NOTES TO FINANCIAL STATEMENTS

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## **REQUIRED SUPPLEMENTARY INFORMATION**

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**MOORHEAD PUBLIC SERVICE**  
**SCHEDULE OF OTHER POST-EMPLOYMENT BENEFIT (OPEB) FUNDING PROGRESS**  
**DECEMBER 31, 2013**

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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.

Effective January 1, 2013, differing health insurance plans were offered to the three employee groups. Employees within one bargaining unit and all non-union employees are covered under a new health insurance plan while employees within the other bargaining unit remained on the existing health insurance plan.

## **OTHER SUPPLEMENTARY INFORMATION**

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**MOORHEAD PUBLIC SERVICE**  
**ANALYSIS OF ELECTRIC CAPITAL ASSETS AND ACCUMULATED**  
**DEPRECIATION/AMORTIZATION**  
**YEAR ENDED DECEMBER 31, 2013**

	Electric Capital Assets			
	Balance 12/31/2012	Additions	Retirements	Balance 12/31/2013
PLANT IN-SERVICE				
Miscellaneous				
Intangible plant	\$ 255,373	\$ -	\$ -	\$ 255,373
Production plant				
Land	550,734	254,386	-	805,120
Structures and improvements	10,321,077	274,110	-	10,595,187
Accessory electric equipment	221,092	-	-	221,092
Wind turbine	1,056,966	-	-	1,056,966
	<u>11,599,135</u>	<u>274,110</u>	<u>-</u>	<u>11,873,245</u>
Transmission plant	<u>5,202,851</u>	<u>-</u>	<u>-</u>	<u>5,202,851</u>
Distribution plant				
Station equipment	11,410,721	631,786	-	12,042,507
Poles, towers, and fixtures	2,810,786	-	-	2,810,786
Underground conduit	14,021,746	1,337,969	85,050	15,274,665
Line transformers	4,660,952	251,888	111,150	4,801,690
Services	1,777,693	44,521	-	1,822,214
Meters	1,482,073	210,060	32,652	1,659,481
Installations on customer premises	158,432	-	-	158,432
Street lighting and signal systems	1,228,431	22,522	-	1,250,953
	<u>37,550,834</u>	<u>2,498,746</u>	<u>228,852</u>	<u>39,820,728</u>
General plant				
Office furniture and equipment	1,148,552	140,008	325,629	962,931
Transportation equipment	2,021,620	113,496	234,362	1,900,754
Stores equipment	3,681	-	-	3,681
Tools, shop, and garage equipment	324,144	10,406	-	334,550
Communication equipment	2,802,970	388,743	8,213	3,183,500
	<u>6,300,967</u>	<u>652,653</u>	<u>568,204</u>	<u>6,385,416</u>
Total electric plant in-service	<u>61,459,894</u>	<u>3,679,895</u>	<u>797,056</u>	<u>64,342,733</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>5,886,279</u>	<u>3,175,536</u>	<u>3,679,895</u>	<u>5,381,920</u>
	<u>\$ 67,362,244</u>	<u>\$ 6,855,431</u>	<u>\$ 4,476,951</u>	<u>\$ 69,740,724</u>

Accumulated Depreciation/Amortization					Percent of Depreciation Amortization to Plant	
Annual Depreciation Amortization Rates	Balance 12/31/2012	Provision	Retirements	Balance 12/31/2013		
10.0 - 12.5	%	\$ 255,373	\$ -	\$ -	\$ 255,373	100.00%
		-	-	-	-	-
2		2,980,372	317,634	-	3,298,006	31.13%
3		221,092	-	-	221,092	100.00%
3		446,633	35,198	-	481,831	45.59%
		3,648,097	352,832	-	4,000,929	
3		1,566,791	161,006		1,727,797	33.21%
2		5,735,722	338,450	-	6,074,172	50.44%
3		2,488,538	13,004	-	2,501,542	89.00%
2		4,900,503	551,261	85,050	5,366,714	35.13%
3		1,860,047	138,444	111,150	1,887,341	39.31%
3		904,165	53,897	-	958,062	52.58%
4		90,347	62,694	32,652	120,389	7.25%
4		79,895	2,708	-	82,603	52.14%
3		585,713	37,225	-	622,938	49.80%
		16,644,930	1,197,683	228,852	17,613,761	
10		804,985	133,273	325,629	612,629	63.62%
5 - 25		927,806	144,313	224,233	847,886	44.61%
10		3,681	-	-	3,681	100.00%
10		214,201	15,161	-	229,362	68.56%
6		1,191,171	141,138	4,927	1,327,382	41.70%
		3,141,844	433,885	554,789	3,020,940	
		25,257,035	2,145,406	783,641	26,618,800	
3		16,071	-	-	16,071	100.00%
		-	-	-	-	
		\$ 25,273,106	\$ 2,145,406	\$ 783,641	\$ 26,634,871	

**MOORHEAD PUBLIC SERVICE**  
**ANALYSIS OF WATER CAPITAL ASSETS AND ACCUMULATED**  
**DEPRECIATION/AMORTIZATION**  
**YEAR ENDED DECEMBER 31, 2013**

	Water Capital Assets			
	Balance 12/31/2012	Additions	Retirements	Balance 12/31/13
PLANT IN-SERVICE				
Land	\$ 574,942	\$ -	\$ -	\$ 574,942
Source of supply plant structures and improvements	5,643,503	3,008,763	208,928	8,443,338
Pumping plant	30,914	-	-	30,914
Water treatment plant	16,928,674	9,091	18,015	16,919,750
Transmission and distribution plant				
Towers	1,652,798	-	-	1,652,798
Mains	25,221,653	1,285,641	-	26,507,294
Meters	1,796,425	68,357	20,167	1,844,615
	28,670,876	1,353,998	20,167	30,004,707
General plant				
Office furniture and equipment	13,863	9,281	-	23,144
Transportation equipment	987,469	49,418	33,974	1,002,913
Tools, shop, and garage equipment	136,640	-	-	136,640
Laboratory equipment	278,428	54,869	-	333,297
SCADA equipment	206,980	111,702	-	318,682
	1,623,380	225,270	33,974	1,814,676
Total water plant in-service	53,472,289	4,597,122	281,084	57,788,327
CONSTRUCTION WORK-IN-PROGRESS	1,783,771	2,998,085	4,597,122	184,734
	\$ 55,256,060	\$ 7,595,207	\$ 4,878,206	\$ 57,973,061



Accumulated Depreciation/Amortization					Percent of Depreciation Amortization to Plant
Annual Depreciation Amortization Rates	Balance 12/31/2012	Provision	Retirements	Balance 12/31/13	
%	\$ -	\$ -	\$ -	\$ -	0.0%
2 - 25	3,640,233	139,404	87,894	3,691,743	43.7%
2	30,914	-	-	30,914	100.0%
2 - 3	6,593,898	319,326	18,015	6,895,209	40.8%
2	561,566	33,056	-	594,622	36.0%
2	6,100,829	504,253	-	6,605,082	24.9%
3	214,492	79,264	20,167	273,589	14.8%
	6,876,887	616,573	20,167	7,473,293	
10	13,863	-	-	13,863	59.9%
12	535,160	81,137	33,974	582,323	58.1%
5	88,222	5,968	-	94,190	68.9%
10	71,025	22,297	-	93,322	28.0%
14	55,124	11,894	-	67,018	21.0%
	763,394	121,296	33,974	850,716	
	17,905,326	1,196,599	160,050	18,941,875	
	-	-	-	-	
	\$ 17,905,326	\$ 1,196,599	\$ 160,050	\$ 18,941,875	