

FINANCIAL STATEMENTS
DECEMBER 31, 2014



MOORHEAD PUBLIC SERVICE

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INDEPENDENT AUDITOR'S REPORT



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, 2014, 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, 2014, 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 comprise 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 28, 2015, 2015 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 28, 2015

**MOORHEAD PUBLIC SERVICE
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014**

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, 2014. 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 THE YEAR

- MPS' combined net position increased \$4.3 million, or 5.4%, from \$79.1 million to \$83.4 million. The Electric Division's net position increased \$3.4 million from \$40.9 million to \$44.3 million. The Water Division's net position increased \$0.8 million from \$38.2 million to \$39.0 million.
- Combined operating revenues increased \$0.9 million, or 2.0%, from \$44.5 million to \$45.4 million. Electric Division operating revenues increased \$0.9 million, or 2.4%, from \$37.7 million to \$38.6 million. Water Division operating revenues decreased \$36,000, or -0.5%, from \$6.9 million to \$6.8 million.
- Combined net transfers to the City of Moorhead increased \$132,000, or 1.6%, from \$8.2 million to \$8.4 million. Net Electric Division transfers increased \$130,000, or 1.7%, from \$7.8 million to \$7.9 million. Water Division transfers increased \$2,000, or 0.4%, from \$464,000 to \$466,000.

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 2014, the Electric Division's total assets increased by \$2.5 million, or 3.8%. Within total assets, current and other assets increased by \$400,000 while capital assets increased by \$2.1 million.

During 2014, the Electric Division's liabilities decreased by \$900,000, or -3.9%. 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 \$3.4 million, or 8.3%, in total net position from \$40.9 million to \$44.3 million.

During 2014, the Water Division's total assets increased \$780,000, or 1.7%. Within total assets, current and other assets decreased by \$1.6 million while capital assets increased by \$2.4 million.

During 2014, the Water Division's liabilities decreased by \$100,000, or -1.5%. 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 \$880,000, or 2.3%, from \$38.2 million to \$39.1 million.

Table 1

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

	Electric				Water				Combined			
	2014	2013	Dollar Change	Percent change	2014	2013	Dollar Change	Percent change	2014	2013	Dollar Change	Percent change
Current and Other Assets	22,156	21,782	374	1.7%	4,143	5,795	-1,652	-28.5%	26,299	27,577	-1,278	-4.6%
Capital Assets ¹	45,184	43,106	2,078	4.8%	41,466	39,031	2,435	6.2%	86,650	82,137	4,513	5.5%
Total Assets	67,340	64,888	2,452	3.8%	45,609	44,826	783	1.7%	112,949	109,714	3,235	2.9%
Long-term Debt	16,284	17,446	-1,162	-6.7%	4,374	4,588	-214	-4.7%	20,658	22,034	-1,376	-6.2%
Other Liabilities	6,733	6,502	231	3.6%	2,136	2,021	115	5.7%	8,869	8,523	346	4.1%
Total Liabilities	23,017	23,948	-931	-3.9%	6,510	6,609	-99	-1.5%	29,527	30,557	-1,030	-3.4%
Net investment in capital assets	28,042	25,561	2,481	9.7%	36,398	33,976	2,422	7.1%	64,440	59,537	4,903	8.2%
Restricted	2,136	2,200	-64	-2.9%	596	581	15	2.6%	2,732	2,781	-49	-1.8%
Unrestricted	14,145	13,178	967	7.3%	2,104	3,661	-1,557	-42.5%	16,249	16,839	-590	-3.5%
Total Net Position	44,323	40,940	3,383	8.3%	39,099	38,217	882	2.3%	83,422	79,157	4,265	5.4%

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 of the Electric and Water Divisions were \$38.6 million and \$6.8 million, respectively. The Electric Division's revenue increase of 2.4% was primarily the result of a 3.5% rate increase effective January 2014. The Water Division experienced a decrease in operating revenue of -0.5%. The decrease was caused by a decline in customer sales volumes in 2014.

Combined total expenses were \$42.2 million in 2014. Within total expenses, operating expenses (net of depreciation) increased 3.7% to \$29.5 million. In addition, net transfers to the City of Moorhead increased 1.6% to \$8.4 million.

MPS' combined net position increased by \$4.3 million, or 5.4%. The increase was the result of increases in the net positions of the Electric and Water Divisions of \$3.4 million and \$880,000, respectively. Combined total revenues of \$45.8 million exceeded combined total expenses of \$42.2 million by \$3.6 million. Capital contributions in the forms of watermain, grants, and sales tax refunds added another \$625,000 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			
	2014	2013	Dollar Change	Percent change	2014	2013	Dollar Change	Percent change	2014	2013	Dollar Change	Percent change
Operating Revenues	38,594	37,681	913	2.4%	6,814	6,850	-36	-0.5%	45,408	44,531	877	2.0%
Nonoperating Revenues	321	331	-10	-3.0%	117	2	115	5750.0%	438	333	105	31.5%
Total Revenue	38,915	38,012	903	2.4%	6,931	6,852	79	1.2%	45,846	44,864	982	2.2%
Depreciation Expense	2,186	2,001	185	9.2%	1,382	1,115	267	23.9%	3,568	3,116	452	14.5%
Other Operating Expense	25,142	24,540	602	2.5%	4,312	3,851	461	12.0%	29,454	28,391	1,063	3.7%
Nonoperating Expenses	583	690	-107	-15.5%	233	365	-132	-36.2%	816	1,055	-239	-22.7%
Total Expenses	27,911	27,231	680	2.5%	5,927	5,331	598	10.3%	33,838	32,562	1,276	3.9%
Income Before Transfers, Capital Contributions & Special Items	11,004	10,781	223	2.1%	1,004	1,521	-517	-34.0%	12,008	12,302	-294	-2.4%
Transfers from City	500	-	500	0.0%	-	-	-	0.0%	500	-	500	0.0%
Transfers to City	-8,402	-7,772	-630	8.1%	-466	-464	-2	0.4%	-8,868	-8,236	-632	7.7%
Net Transfers	-7,902	-7,772	-130	1.7%	-466	-464	-2	0.4%	-8,368	-8,236	-132	1.6%
Capital Contributions	281	491	-210	-42.8%	344	1,546	-1,202	-77.7%	625	2,037	-1,412	-69.3%
Changes in Net Position	3,383	3,500	-117	-3.3%	882	2,603	-1,721	-66.1%	4,265	6,103	-1,838	-62.4%
Beginning Net Position	40,940	37,440	3,500	9.3%	38,217	35,614	2,603	7.3%	79,157	73,054	6,103	8.4%
Ending Net Position	44,323	40,940	3,383	8.3%	39,099	38,217	882	2.3%	83,422	79,157	4,265	5.4%

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 2013 to 2014. Total capital assets at the end of 2014 were \$86.6 million compared to \$82.1 million at the end of 2013. Total capital assets increased \$4.5 million, or 5.5%. Net capital assets of the Electric Division increased by \$2.1 million, or 4.8%. Net capital assets of the Water Division increased by \$2.4 million, or 6.2%.

After depreciation, the Electric Division's increase in capital assets included a decrease in work-in-progress of \$4.3 million and an overall increase of \$6.4 million in total electric plant in-service assets.

After depreciation, the Water Division's increase in capital assets included an increase in work-in-progress of \$2.6 million and an overall net decrease of \$140,000 in total water plant in-service assets.

Table 3

MOORHEAD PUBLIC SERVICE

Capital Assets Net of Depreciation

Electric Plant				
	Balance 12/31/2013	Balance 12/31/2014	Increase (Decrease)	Percent
<u>Plant in-Service</u>				
Land	\$ 805,120	\$ 885,747	\$ 80,627	10.01%
Production Plant	7,872,316	5,649,022	(2,223,294)	-28.24%
Transmission Plant	3,475,054	9,324,291	5,849,237	168.32%
Distribution Plant	22,206,967	22,636,833	429,866	1.94%
General Plant	3,364,476	5,581,125	2,216,649	65.88%
Total Electric Plant in-Service	37,723,933	44,077,018	6,353,085	16.84%
Work-in-Progress	5,381,920	1,107,183	(4,274,737)	-79.43%
Total Electric Plant	<u>\$ 43,105,853</u>	<u>\$ 45,184,201</u>	<u>\$ 2,078,348</u>	<u>4.82%</u>
Water Plant				
	Balance 12/31/2013	Balance 12/31/2014	Increase (Decrease)	Percent
<u>Plant in-Service</u>				
Land	\$ 574,942	\$ 574,942	\$ -	0.00%
Source of Supply	4,751,595	4,649,462	(102,133)	-2.15%
Water Treatment Plant	10,024,541	9,756,058	(268,483)	-2.68%
Transmission & Distribution Plant	22,531,414	22,739,894	208,480	0.93%
General Plant	963,960	981,414	17,454	1.81%
Total Water Plant in-Service	38,846,452	38,701,770	(144,682)	-0.37%
Work-in-Progress	184,734	2,764,329	2,579,595	1396.38%
Total Water Plant	<u>\$ 39,031,186</u>	<u>\$ 41,466,099</u>	<u>\$ 2,434,913</u>	<u>6.24%</u>
Consolidated				
Total MPS	<u>\$ 82,137,039</u>	<u>\$ 86,650,300</u>	<u>\$ 4,513,261</u>	<u>5.49%</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, presents the change in the outstanding debt of MPS from 2013 to 2014. The combined total debt at the end of 2014 was \$20.7 million. The net change was an overall decrease of \$1.4 million, or -6.2%. The Electric Division's long-term debt decreased by \$1.2 million, or -6.7%. The Water Division's long-term debt decreased \$210,000, or -4.7%.

Table 4

MOORHEAD PUBLIC SERVICE

Long-Term Debt

Electric Division				
	Balance 12/31/2013	Balance 12/31/2014	Increase (Decrease)	Percent
Net OPEB Obligations	\$ 98,415	\$ 124,718	\$ 26,303	26.73%
Public Utility Revenue & Refunding Bonds	18,479,950	17,347,725	(1,132,225)	-6.13%
Total Long-Term Debt	18,578,365	17,472,443	(1,105,922)	-5.95%
Less: Current Portion				
Public Utility Revenue & Refunding Bonds	1,132,225	1,188,325	56,100	4.95%
Total Current Portion of Long-Term Debt	1,132,225	1,188,325	56,100	4.95%
Net Long-Term Debt	\$ 17,446,140	\$ 16,284,118	\$ (1,162,022)	-6.66%
Water Division				
	Balance 12/31/2013	Balance 12/31/2014	Increase (Decrease)	Percent
Net OPEB Obligations	\$ 65,610	\$ 83,146	\$ 17,536	26.73%
Notes Payable	-	545,365	545,365	100.00%
Public Utility Revenue & Refunding Bonds	4,740,050	4,522,275	(217,775)	-4.59%
Total Long-Term Debt	4,805,660	5,150,786	345,126	7.18%
Less: Current Portion				
Notes Payable	-	545,365	545,365	100.00%
Public Utility Revenue & Refunding Bonds	217,775	231,675	13,900	6.38%
Total Current Portion of Long-Term Debt	217,775	777,040	559,265	256.81%
Net Long-Term Debt	\$ 4,587,885	\$ 4,373,746	\$ (214,139)	-4.67%
Consolidated				
Total MPS	\$ 22,034,025	\$ 20,657,864	\$ (1,376,161)	-6.25%

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 218-477-8000.

MOORHEAD PUBLIC SERVICE
STATEMENT OF NET POSITION
DECEMBER 31, 2014

	Electric	Water	Total
ASSETS			
CURRENT ASSETS			
Cash and equivalents	\$ 3,137,160	\$ 862,528	\$ 3,999,688
Accounts receivable, net	2,305,845	337,020	2,642,865
Accounts receivable - unbilled revenues	2,682,600	355,800	3,038,400
Notes receivable - current	10,000	-	10,000
Accrued interest receivable	44,348	9,084	53,432
Inventories	1,142,787	193,720	1,336,507
Prepaid items	58,057	63,173	121,230
Due from special assessments			
Current	-	2,618	2,618
Delinquent	-	2,887	2,887
	<u>9,380,797</u>	<u>1,826,830</u>	<u>11,207,627</u>
RESTRICTED ASSETS			
Revenue bond account	267,795	45,966	313,761
Bond reserve account	1,868,663	550,306	2,418,969
Bond proceeds	205,749	-	205,749
	<u>2,342,207</u>	<u>596,272</u>	<u>2,938,479</u>
OTHER ASSETS, less current maturities			
Notes receivable	2,418	-	2,418
Bond operations and maintenance reserve	4,430,000	712,000	5,142,000
Other long-term investments	6,001,007	1,008,093	7,009,100
	<u>10,433,425</u>	<u>1,720,093</u>	<u>12,153,518</u>
CAPITAL ASSETS			
In-service	70,050,898	58,524,347	128,575,245
Land	885,747	574,942	1,460,689
Work-in-progress	1,107,183	2,764,329	3,871,512
	<u>72,043,828</u>	<u>61,863,618</u>	<u>133,907,446</u>
Less accumulated depreciation	<u>26,859,627</u>	<u>20,397,519</u>	<u>47,257,146</u>
	<u>45,184,201</u>	<u>41,466,099</u>	<u>86,650,300</u>
Total assets	<u>67,340,630</u>	<u>45,609,294</u>	<u>112,949,924</u>

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

	Electric	Water	Total
LIABILITIES			
CURRENT LIABILITIES			
Payable from current assets			
Accounts payable	1,029,301	304,004	1,333,305
Power costs payable	2,022,017	-	2,022,017
Sales tax payable	152,600	-	152,600
Customer deposits	175,035	-	175,035
Accrued vacations and severance pay	260,000	231,000	491,000
Due to other city funds	1,835,797	816,645	2,652,442
	<u>5,474,750</u>	<u>1,351,649</u>	<u>6,826,399</u>
Payable from restricted assets			
Accrued interest	70,132	7,794	77,926
Current maturities of leases and notes	-	545,365	545,365
Current maturities of bonds payable	1,188,325	231,675	1,420,000
	<u>1,258,457</u>	<u>784,834</u>	<u>2,043,291</u>
LONG-TERM DEBT			
Net OPEB obligation	124,718	83,146	207,864
Bonds, less current maturities	16,159,400	4,290,600	20,450,000
	<u>16,284,118</u>	<u>4,373,746</u>	<u>20,657,864</u>
 Total liabilities	 <u>23,017,325</u>	 <u>6,510,229</u>	 <u>29,527,554</u>
 NET POSITION			
NET POSITION			
Net Investment in Capital Assets	28,042,225	36,398,459	64,440,684
Restricted for:			
Debt service	2,136,458	596,272	2,732,730
Unrestricted	14,144,622	2,104,334	16,248,956
	<u>14,144,622</u>	<u>2,104,334</u>	<u>16,248,956</u>
 Total net position	 <u>\$ 44,323,305</u>	 <u>\$ 39,099,065</u>	 <u>\$ 83,422,370</u>

MOORHEAD PUBLIC SERVICE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2014

	Electric	Water	Total
OPERATING REVENUES			
Charges for services	\$ 38,005,257	\$ 6,783,579	\$ 44,788,836
Other	588,936	30,435	619,371
Total Operating Revenues	<u>38,594,193</u>	<u>6,814,014</u>	<u>45,408,207</u>
OPERATING EXPENSES			
Purchased power	19,076,764	-	19,076,764
Production of power	161,395	-	161,395
Transmission	1,650,860	-	1,650,860
Distribution	2,103,583	1,156,122	3,259,705
Source of supply and pumping	-	306,040	306,040
Water treatment	-	1,769,310	1,769,310
Customer accounts	362,075	84,679	446,754
Administrative	1,787,159	995,981	2,783,140
Depreciation and amortization	2,185,620	1,381,982	3,567,602
Total Operating Expenses	<u>27,327,456</u>	<u>5,694,114</u>	<u>33,021,570</u>
OPERATING INCOME	11,266,737	1,119,900	12,386,637
NONOPERATING REVENUES (EXPENSES)			
Interest income and market adjustments	257,406	60,853	318,259
Gain on sale of capital assets	4,736	10,000	14,736
Other income	59,088	46,026	105,114
Interest expense	(582,966)	(232,884)	(815,850)
Total Nonoperating Revenues (Expenses)	<u>(261,736)</u>	<u>(116,005)</u>	<u>(377,741)</u>
INCOME BEFORE TRANSFERS AND CONTRIBUTED CAPITAL	11,005,001	1,003,895	12,008,896
TRANSFERS OUT			
General fund	(6,050,900)	(340,068)	(6,390,968)
General fund - One-Time	(541,000)	-	(541,000)
Economic development fund	(50,000)	-	(50,000)
Capital improvement fund	(1,759,916)	(126,000)	(1,885,916)
Total Transfers Out	<u>(8,401,816)</u>	<u>(466,068)</u>	<u>(8,867,884)</u>
TRANSFERS IN	<u>500,000</u>	<u>-</u>	<u>500,000</u>
CONTRIBUTION OF CAPITAL ASSETS	<u>280,584</u>	<u>343,777</u>	<u>624,361</u>
CHANGE IN NET POSITION	3,383,769	881,604	4,265,373
NET POSITION, BEGINNING OF YEAR	<u>40,939,536</u>	<u>38,217,461</u>	<u>79,156,997</u>
NET POSITION, END OF YEAR	<u>\$ 44,323,305</u>	<u>\$ 39,099,065</u>	<u>\$ 83,422,370</u>

MOORHEAD PUBLIC SERVICE
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2014

	Electric	Water	Total
OPERATING ACTIVITIES			
Receipts from customers and users	\$ 38,780,720	\$ 6,873,093	\$ 45,653,813
Payments to suppliers	(23,370,365)	(3,304,989)	(26,675,354)
Payments to employees	(1,760,796)	(940,387)	(2,701,183)
NET CASH FROM			
OPERATING ACTIVITIES	13,649,559	2,627,717	16,277,276
NON-CAPITAL FINANCING ACTIVITIES			
Transfers to other funds	(8,401,816)	(466,068)	(8,867,884)
Transfers from other funds	500,000	-	500,000
Payments received on notes and special receivables	73,350	49,860	123,210
Decrease in due to other funds	(38,147)	(109,153)	(147,300)
NET CASH USED FOR NON-CAPITAL FINANCING ACTIVITIES	(7,866,613)	(525,361)	(8,391,974)
CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of utility plant	(4,127,800)	(3,875,431)	(8,003,231)
Proceeds related to sale of assets	4,736	10,000	14,736
Proceeds from the issuance of long-term debt	-	545,365	545,365
Debt service - principal	(1,132,225)	(217,775)	(1,350,000)
Debt service - interest and fees	(586,434)	(233,090)	(819,524)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(5,841,723)	(3,770,931)	(9,612,654)
INVESTING ACTIVITIES			
Interest received and market adjustments	251,508	60,210	311,718
Proceeds from the sale of investments	793,567	(15,529)	778,038
Purchase of investments	(1,140,166)	(9,571)	(1,149,737)
NET CASH FROM (USED FOR) ACTIVITIES	(95,091)	35,110	(59,981)
NET CHANGE IN CASH BALANCE	(153,868)	(1,633,465)	(1,787,333)
CASH BALANCE, JANUARY 1	3,291,028	2,495,993	5,787,021
CASH BALANCE, DECEMBER 31	\$ 3,137,160	\$ 862,528	\$ 3,999,688

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	\$ 11,266,737	\$ 1,119,900	\$ 12,386,637
Adjustments to reconcile operating income to net cash from operating activities			
Depreciation and amortization	2,185,620	1,381,982	3,567,602
Depreciation expensed to vehicle expense	144,418	87,312	231,730
Other income	59,088	46,027	105,115
Change in assets and liabilities			
Receivables	127,439	13,052	140,491
Inventories	(356,868)	(10,056)	(366,924)
Prepaid items	(19,604)	(9,039)	(28,643)
Net OPEB Obligations	26,303	17,536	43,839
Accounts payable	216,366	(57,055)	159,311
Accrued vacations and severance pay	60	38,058	38,118
NET CASH FROM OPERATING ACTIVITIES	<u>\$ 13,649,559</u>	<u>\$ 2,627,717</u>	<u>\$ 16,277,276</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES			
Acquisition of capital assets through contributed capital	<u>\$ 280,584</u>	<u>\$ 343,777</u>	<u>\$ 624,361</u>

MOORHEAD PUBLIC SERVICE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

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

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 2014, the allowances for uncollectible accounts were \$3,580 for electric division receivables and \$1,230 for water division receivables.

Notes receivable are stated at principal amounts and are uncollateralized. Notes receivable at year-end 2014 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

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

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.

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

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, 2014, 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, 2014, 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	\$ 2,293,132	\$ -	\$ 833,834	\$ 1,459,298	\$ -	\$ -
Money Market Funds	645,347	645,347			-	-
Total Restricted Investments	<u>\$ 2,938,479</u>	<u>\$ 645,347</u>	<u>\$ 833,834</u>	<u>\$ 1,459,298</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>\$ 12,151,100</u>	<u>\$ -</u>	<u>\$ 806,398</u>	<u>\$ 4,800,236</u>	<u>\$ 4,234,365</u>	<u>\$ 2,310,101</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	Transfers	Ending Balance
Capital assets, not being depreciated:					
Land	\$ 805,120	\$ 80,627	\$ -	\$ -	\$ 885,747
Construction work in progress	5,381,920	4,464,018	8,738,755	-	1,107,183
	<u>6,187,040</u>	<u>4,544,645</u>	<u>8,738,755</u>	<u>-</u>	<u>1,992,930</u>
Capital assets, being depreciated:					
Miscellaneous intangible plant	255,373	-	-	-	255,373
Production plant	11,873,245	-	1,977,044	(2,567,418)	7,328,783
Transmission plant	5,202,851	4,274,726	-	4,902,919	14,380,496
Distribution plant	39,820,728	3,525,133	78,476	(4,825,904)	38,441,481
General plant	6,385,416	858,269	89,323	2,490,403	9,644,765
Plant held for future use	16,071	-	16,071	-	-
	<u>63,553,684</u>	<u>8,658,128</u>	<u>2,160,914</u>	<u>-</u>	<u>70,050,898</u>
Less accumulated depreciation for:					
Miscellaneous intangible plant	255,373	-	-	-	255,373
Production plant	4,000,929	305,746	1,941,925	(684,989)	1,679,761
Transmission plant	1,727,797	312,055	-	3,016,353	5,056,205
Distribution plant	17,613,761	1,234,855	78,475	(2,965,493)	15,804,648
General plant	3,020,940	477,380	68,809	634,129	4,063,640
Plant held for future use	16,071	-	16,071	-	-
	<u>26,634,871</u>	<u>2,330,036</u>	<u>2,105,280</u>	<u>-</u>	<u>26,859,627</u>
Total capital assets, being depreciated, net	<u>36,918,813</u>	<u>6,328,092</u>	<u>55,634</u>	<u>-</u>	<u>43,191,271</u>
Capital assets, net	<u>\$ 43,105,853</u>	<u>\$ 10,872,737</u>	<u>\$ 8,794,389</u>	<u>\$ -</u>	<u>\$ 45,184,201</u>

(continued on next page)

NOTES TO FINANCIAL STATEMENTS

Capital assets for the Water Fund are as follows:

Water Fund	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Capital assets, not being depreciated:					
Land	\$ 574,942	\$ -	\$ -	\$ -	\$ 574,942
Construction work in progress	184,734	3,904,208	1,324,613	-	2,764,329
	<u>759,676</u>	<u>3,904,208</u>	<u>1,324,613</u>	<u>-</u>	<u>3,339,271</u>
Capital assets, being depreciated:					
Source of supply plant structure and improvements	8,443,338	183,396	-	-	8,626,734
Pumping plant	30,914	-	-	-	30,914
Water treatment plant	16,919,750	51,158	-	-	16,970,908
Transmission and distribution plant	30,004,707	928,292	13,651	-	30,919,348
General plant	1,814,676	161,767	-	-	1,976,443
	<u>57,213,385</u>	<u>1,324,613</u>	<u>13,651</u>	<u>-</u>	<u>58,524,347</u>
Less accumulated depreciation for:					
Source of supply plant structure and improvements	3,691,743	285,529	-	-	3,977,272
Pumping plant	30,914	-	-	-	30,914
Water treatment plant	6,895,209	319,641	-	-	7,214,850
Transmission and distribution plant	7,473,293	719,812	13,651	-	8,179,454
General plant	850,716	144,313	-	-	995,029
	<u>18,941,875</u>	<u>1,469,295</u>	<u>13,651</u>	<u>-</u>	<u>20,397,519</u>
Total capital assets, being depreciated, net	<u>38,271,510</u>	<u>(144,682)</u>	<u>-</u>	<u>-</u>	<u>38,126,828</u>
Capital assets, net	<u>\$ 39,031,186</u>	<u>\$ 3,759,526</u>	<u>\$ 1,324,613</u>	<u>\$ -</u>	<u>\$ 41,466,099</u>

NOTES TO FINANCIAL STATEMENTS

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

Business-type activities:	
Electric Division	\$ 2,330,036
Water Division	<u>1,469,296</u>
Total depreciation expense - business-type activities	<u>3,799,332</u>
Depreciation and amortization per Statement of Revenues, Expenses, and Changes in Net Position	<u>3,567,602</u>
Difference from Statement of Revenues, Expenses, and Changes in Net Position	<u>\$ 231,730</u>

Depreciation and amortization expense reflected in the Statement of Revenues, Expenses, and Changes In Net Position is \$3,567,602. The difference of \$231,730 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 the changes in debt for Moorhead Public Service as of December 31, 2014.

	Beginning Balance	Additions	Reductions	Ending Balance	Long-Term After One Year	Due Within One Year
Compensated Absences	\$ 452,882	\$ 38,118	\$ -	\$ 491,000	\$ -	\$ 491,000
Net OPEB Obligation	164,025	43,839	-	207,864	207,864	-
Notes Payable	-	545,365	-	545,365	-	545,365
Public Utility Revenue & Refunding Bonds						
Series 2007A	5,635,000	-	295,000	5,340,000	5,025,000	315,000
Series 2009A	1,795,000	-	235,000	1,560,000	1,320,000	240,000
Series 2010A	10,100,000	-	245,000	9,855,000	9,590,000	265,000
Series 2012E	<u>5,690,000</u>	<u>-</u>	<u>575,000</u>	<u>5,115,000</u>	<u>4,515,000</u>	<u>600,000</u>
	<u>\$ 23,836,907</u>	<u>\$ 627,322</u>	<u>\$ 1,350,000</u>	<u>\$ 23,114,229</u>	<u>\$ 20,657,864</u>	<u>\$ 2,456,365</u>

NOTES TO FINANCIAL STATEMENTS

The following is a summary of bonds payable for the year ended December 31, 2014:

	Interest Rates	Electric	Water	Total
Public Utility Revenue & Refunding Bonds				
Series 2007A	5.17%	\$ 2,509,800	\$ 2,830,200	\$ 5,340,000
Series 2009A	3.0% - 4.75%	1,494,000	66,000	1,560,000
Series 2010C	2.0% - 4.875%	8,228,925	1,626,075	9,855,000
Series 2012E	2.0% - 3.0%	5,115,000	-	5,115,000
		17,347,725	4,522,275	21,870,000
Less current maturities		(1,188,325)	(231,675)	(1,420,000)
		<u>\$ 16,159,400</u>	<u>\$ 4,290,600</u>	<u>\$ 20,450,000</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
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	1,419,300	408,699	370,700	145,682
2020-2024	7,999,775	1,329,664	2,125,225	488,568
2025-2027	2,892,375	157,360	952,625	69,124
	<u>\$ 17,347,725</u>	<u>\$ 3,893,675</u>	<u>\$ 4,522,275</u>	<u>\$ 1,406,100</u>

The following is a summary of notes payable for the year ended December 31, 2014:

	Interest Rates	Electric	Water	Total
Minnesota Public Facilities Authority Drinking Water SRF Bond Fund Loan MPFA-09-0036-R-FY15	1.00%	\$ -	\$ 545,365	\$ 545,365
Less current maturities		-	(545,365)	(545,365)
		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

	Electric		Water	
	Principal	Interest	Principal	Interest
2015	\$ -	\$ -	\$ 545,365	\$ 958

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. Updated studies were completed in 2011 and 2014. 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	\$	35,679
Amortization of UAAL over 30 years		25,259
Interest on OPEB Obligation		<u>7,381</u>
Total year-end ARC		68,319
Contributions made		<u>(24,480)</u>
Increase in OPEB Obligation		43,839
Net OPEB Obligation, Beginning of Year		<u>164,025</u>
Net OPEB Obligation, End of Year	\$	<u><u>207,864</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 2014 and three prior years was as follows:

Year Ended	Annual OPEB Cost	Employer Contribution	Annual OPEB Cost Contributed	Net OPEB Obligation
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
12/31/2014	68,319	24,480	36%	207,864

Funded Status and Funding Progress

As of January 1, 2014, the date of the most recent actuarial valuation, the plan was unfunded. The actuarial accrued liability for benefits was \$531,674, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$531,674. The covered payroll (annual payroll of active employees covered by the plan) was \$3,783,000, and the ratio of the UAAL to the covered payroll was 14.1%.

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 and the January 1, 2014, actuarial valuations, 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. The January 1, 2011 valuation included actuarial assumptions that projected an annual healthcare cost trend rate of 8% initially, reduced by decrements to an ultimate rate of 5% after six years. The January 1, 2014 valuation included actuarial assumptions that projected an adjusted annual healthcare cost trend rate of 7.5% for 2015, grading to 5% over 10 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

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, 2014, is as follows:

Payable	Amount
Electric Fund - Due to City of Moorhead's General, Capital Improvement, Economic Development, Sanitation, and Wastewater Funds	<u>\$ 1,835,797</u>
Water Fund - Due to City of Moorhead General Fund	<u>\$ 816,645</u>

Receivable	Amount
Water Fund - Due from City of Moorhead Special Assessment Fund	<u>\$ 5,505</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 2014, the Moorhead Public Service Commission-approved budget included an Electric Division transfer of \$5,980,900 to the general fund, a one-time general fund transfer of \$500,000 contingent upon receipt of a matching \$500,000 transfer from the city for flood mitigation costs, a one-time \$41,000 general fund transfer to be offset by a corresponding \$41,000 reduction in the capital improvement fund, and 5% of its gross income, net of certain revenues exempted from the calculation by the City Council reduced by \$41,000, to the capital improvement fund. During 2014, the Commission approved and paid an additional \$70,000 general fund transfer to make up the difference between the budgeted transfer amounts for 2013 approved by the Moorhead City Council and Moorhead Public Service. For 2014, the Electric Division's transfer to the capital improvement fund was calculated at \$1,759,916 after adjusting for the \$41,000 approved reduction. The \$50,000 annual transfer from the Electric Division to the economic development fund is provided by state law.

For 2014, 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 2014, the Water Division's transfer to the general fund was calculated at \$340,068.

NOTES TO FINANCIAL STATEMENTS

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 2012, 2013, and 2014, totaled \$156,432, \$160,504, and \$170,643, respectively.

The total employer cost for the Water Division for the years ending December 31, for 2012, 2013, and 2014, totaled \$105,670, \$107,050, and \$113,762, 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 2014, the Electric Division completed construction of the new Opportunity Substation and supplemental 115kV transmission line in the MCCARA Industrial Park that was started in 2012. Both projects expect to serve the current and future electrical needs for the southeast portion of Moorhead. In late 2013, the Electric Division began to demolish an old, inactive power station on the west edge of town near the river. It is anticipated that completion of the project will occur in the first half of 2015. As of December 31, 2014, demolition costs incurred totaled \$891,700. At the time of this report, the projected total cost of the demolition will be \$1,719,500.

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 was expected to begin in the spring of 2014 but delays in the procurement of qualifying materials delayed the start until fall of 2014. The station was initially expected to be completed in 2015 but the delay has extended the expected completion until the spring of 2016. The initial estimated cost of the project at the end of 2013 was \$6.9 million. At the time of this report, the total expected cost of the project will be \$12.0 million.

REQUIRED SUPPLEMENTARY INFORMATION

MOORHEAD PUBLIC SERVICE
SCHEDULE OF OTHER POST-EMPLOYMENT BENEFIT (OPEB) FUNDING PROGRESS
DECEMBER 31, 2014

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%
1/1/2014	\$ -	\$ 531,674	\$ 531,674	0%	\$ 3,783,000	14.1%

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 three valuations performed. As such, there are three valuations disclosed above.

The Accrued Liability as of January 1, 2014, was expected to be \$494,652. The actual Accrued Liability is \$531,674. 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, 2011:

- The health care trend rates were changed to better anticipate short-term and long-term medical increases.
- The mortality table was updated to reflect the projection of 2000 rates to 2014 based on Scale BB.

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

MOORHEAD PUBLIC SERVICE
ANALYSIS OF ELECTRIC CAPITAL ASSETS AND ACCUMULATED
DEPRECIATION/AMORTIZATION
YEAR ENDED DECEMBER 31, 2014

Electric Capital Assets					
	Balance 12/31/2013	Additions	Retirements	Transfers	Balance 12/31/2014
PLANT IN-SERVICE					
Miscellaneous					
Intangible plant	\$ 255,373	\$ -	\$ -	\$ -	\$ 255,373
Production plant					
Land	805,120	80,627	-	(29,828)	\$ 855,919
Structures and improvements	10,595,187	-	1,977,044	(2,567,418)	\$ 6,050,725
Accessory electric equipment	221,092	-	-	-	\$ 221,092
Wind turbine	1,056,966	-	-	-	\$ 1,056,966
	<u>11,873,245</u>	<u>-</u>	<u>1,977,044</u>	<u>(2,567,418)</u>	<u>\$ 7,328,783</u>
Transmission plant					
Land	-	-	-	29,828	\$ 29,828
Structures and improvements	5,202,851	4,274,726	-	4,902,919	\$ 14,380,496
	<u>5,202,851</u>	<u>4,274,726</u>	<u>-</u>	<u>4,902,919</u>	<u>14,380,496</u>
Distribution plant					
Station equipment	12,042,507	2,055,726	-	(4,825,904)	\$ 9,272,329
Poles, towers, and fixtures	2,810,786	3,415	-	-	\$ 2,814,201
Underground conduit	15,274,665	786,325	-	-	\$ 16,060,990
Line transformers	4,801,690	404,932	50,283	-	\$ 5,156,339
Services	1,822,214	-	-	-	\$ 1,822,214
Meters	1,659,481	258,462	28,193	-	\$ 1,889,750
Installations on customer premises	158,432	-	-	-	\$ 158,432
Street lighting and signal systems	1,250,953	16,273	-	-	\$ 1,267,226
	<u>39,820,728</u>	<u>3,525,133</u>	<u>78,476</u>	<u>(4,825,904)</u>	<u>\$ 38,441,481</u>
General plant					
Structures and Improvements	-	268,287	18,210	2,518,822	\$ 2,768,899
Office furniture and equipment	962,931	148,116	-	-	\$ 1,111,047
Transportation equipment	1,900,754	180,718	71,113	-	\$ 2,010,359
Stores equipment	3,681	-	-	-	\$ 3,681
Tools, shop, and garage equipment	334,550	-	-	(28,419)	\$ 306,131
Communication equipment	3,183,500	261,148	-	-	\$ 3,444,648
	<u>6,385,416</u>	<u>858,269</u>	<u>89,323</u>	<u>2,490,403</u>	<u>\$ 9,644,765</u>
Total electric plant in-service	<u>64,342,733</u>	<u>8,738,755</u>	<u>2,144,843</u>	<u>-</u>	<u>70,936,645</u>
PLANT HELD FOR FUTURE USE					
Production plant	16,071	-	16,071	-	\$ -
CONSTRUCTION WORK-IN-PROGRESS	5,381,920	4,464,018	8,738,755	-	\$ 1,107,183
	<u>\$ 69,740,724</u>	<u>\$ 13,202,773</u>	<u>\$ 10,899,669</u>	<u>\$ -</u>	<u>\$ 72,043,828</u>

Accumulated Depreciation/Amortization						
Annual Depreciation Amortization Rates	Balance 12/31/2013	Transfers	Provision	Retirements	Balance 12/31/2014	Percent of Depreciation Amortization to Plant
10.0 - 12.5 %	\$ 255,373	\$ -	\$ -	\$ -	\$ 255,373	100.00%
	-	-	-	-	-	-
2	3,298,006	(684,989)	270,548	1,941,925	941,640	15.56%
3	221,092	-	-	-	221,092	100.00%
3	481,831	-	35,198	-	517,029	48.92%
	<u>4,000,929</u>	<u>(684,989)</u>	<u>305,746</u>	<u>1,941,925</u>	<u>1,679,761</u>	
	-	-	-	-	-	-
3	<u>1,727,797</u>	<u>3,016,353</u>	<u>312,055</u>	<u>-</u>	<u>5,056,205</u>	35.16%
	<u>1,727,797</u>	<u>3,016,353</u>	<u>312,055</u>	<u>-</u>	<u>5,056,205</u>	
2	6,074,172	(2,965,493)	249,917	-	3,358,596	36.22%
3	2,501,542	-	13,004	-	2,514,546	89.35%
2	5,366,714	-	592,458	-	5,959,172	37.10%
3	1,887,341	-	147,301	50,282	1,984,360	38.48%
3	958,062	-	55,381	-	1,013,443	55.62%
4	120,389	-	136,178	28,193	228,374	12.08%
4	82,603	-	2,708	-	85,311	53.85%
3	<u>622,938</u>	<u>-</u>	<u>37,908</u>	<u>-</u>	<u>660,846</u>	52.15%
	<u>17,613,761</u>	<u>(2,965,493)</u>	<u>1,234,855</u>	<u>78,475</u>	<u>15,804,648</u>	
10	-	636,393	52,568	18,209	670,752	24.22%
10	612,629	-	93,400	-	706,029	63.55%
5 - 25	847,886	-	144,418	50,600	941,704	46.84%
10	3,681	-	-	-	3,681	100.00%
10	229,362	(2,264)	11,443	-	238,541	77.92%
6	<u>1,327,382</u>	<u>-</u>	<u>175,551</u>	<u>-</u>	<u>1,502,933</u>	43.63%
	<u>3,020,940</u>	<u>634,129</u>	<u>477,380</u>	<u>68,809</u>	<u>4,063,640</u>	
	<u>26,618,800</u>	<u>-</u>	<u>2,330,036</u>	<u>2,089,209</u>	<u>26,859,627</u>	
3	<u>16,071</u>	<u>-</u>	<u>-</u>	<u>16,071</u>	<u>-</u>	0.00%
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
	<u>\$ 26,634,871</u>	<u>\$ -</u>	<u>\$ 2,330,036</u>	<u>\$ 2,105,280</u>	<u>\$ 26,859,627</u>	

MOORHEAD PUBLIC SERVICE
ANALYSIS OF WATER CAPITAL ASSETS AND ACCUMULATED
DEPRECIATION/AMORTIZATION
YEAR ENDED DECEMBER 31, 2014

	Water Capital Assets				
	Balance 12/31/2013	Additions	Retirements	Transfers	Balance 12/31/14
PLANT IN-SERVICE					
Land	\$ 574,942	\$ -	\$ -	\$ -	\$ 574,942
Source of supply plant structures and improvements	8,443,338	183,396	-	-	8,626,734
Pumping plant	30,914	-	-	-	30,914
Water treatment plant	16,919,750	51,158	-	-	16,970,908
Transmission and distribution plant					
Towers	1,652,798	-	-	-	1,652,798
Mains	26,507,294	859,075	-	-	27,366,369
Meters	1,844,615	69,217	13,651	-	1,900,181
	30,004,707	928,292	13,651	-	30,919,348
General plant					
Office furniture and equipment	23,144	-	-	-	23,144
Transportation equipment	1,002,913	43,773	-	-	1,046,686
Tools, shop, and garage equipment	136,640	-	-	-	136,640
Laboratory equipment	333,297	26,640	-	-	359,937
SCADA equipment	318,682	91,354	-	-	410,036
	1,814,676	161,767	-	-	1,976,443
Total water plant in-service	57,788,327	1,324,613	13,651	-	59,099,289
CONSTRUCTION WORK-IN-PROGRESS	184,734	3,904,208	1,324,613	-	2,764,329
	<u>\$ 57,973,061</u>	<u>\$ 5,228,821</u>	<u>\$ 1,338,264</u>	<u>\$ -</u>	<u>\$ 61,863,618</u>

Annual Depreciation Amortization Rates	Accumulated Depreciation/Amortization					Percent of Depreciation Amortization to Plant
	Balance 12/31/2013	Transfers	Provision	Retirements	Balance 12/31/14	
%	\$ -	\$ -	\$ -	\$ -	\$ -	0.0%
2 - 25	3,691,743	-	285,529	-	3,977,272	46.1%
2	30,914	-	-	-	30,914	100.0%
2 - 3	6,895,209	-	319,641	-	7,214,850	42.5%
2	594,622	-	33,055	-	627,677	38.0%
2	6,605,082	-	563,793	-	7,168,875	26.2%
3	273,589	-	122,965	13,652	382,902	20.2%
	7,473,293	-	719,813	13,652	8,179,454	
10	13,863	-	928	-	14,791	63.9%
12	582,323	-	87,313	-	669,636	64.0%
5	94,190	-	5,968	-	100,158	73.3%
10	93,322	-	27,785	-	121,107	33.6%
14	67,018	-	22,319	-	89,337	21.8%
	850,716	-	144,313	-	995,029	
	18,941,875	-	1,469,296	13,652	20,397,519	
			73,662			
	-	-	-	-	-	
	\$ 18,941,875	\$ -	\$ 1,469,296	\$ 13,652	\$ 20,397,519	