

FINANCIAL STATEMENTS
DECEMBER 31, 2016



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 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, 2016, and the related notes to the financial statements, which collectively comprise Moorhead Public Service's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of each major fund of Moorhead Public Service, as of December 31, 2016, 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, schedule of funding progress, schedule of employer's share of net pension liability, and schedule of employer contributions 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 inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 analysis of electric plant and accumulated depreciation/amortization and analysis of water plant and accumulated depreciation/amortization is presented for purposes of additional analysis and is not a required part of the financial statements.

The analysis of electric plant and accumulated depreciation/amortization and analysis of water plant and accumulated depreciation/amortization 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 analysis of electric plant and accumulated depreciation/amortization and analysis of water plant and accumulated depreciation/amortization 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 June 7, 2017, 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.

Eide Bailly LLP

Fargo, North Dakota
June 7, 2017

**MOORHEAD PUBLIC SERVICE
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016**

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, 2016. 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 \$5.2 million, or 6.4%, from \$81.7 million to \$86.9 million. The Electric Division's net position increased \$2.6 million from \$41.9 million to \$44.5 million. The Water Division's net position increased \$2.6 million from \$39.8 million to \$42.4 million.
- Combined operating revenues increased \$3.0 million, or 6.5%, from \$46.5 million to \$49.5 million. Electric Division operating revenues increased \$2.3 million, or 6.0%, from \$39.1 million to \$41.4 million. Water Division operating revenues increased \$0.7 million, or 9.5%, from \$7.4 million to \$8.1 million.
- Combined net transfers to the City of Moorhead increased \$225,000, or 2.6%, from \$8.7 million to \$8.9 million. Net Electric Division transfers increased \$190,000, or 2.3%, from \$8.2 million to \$8.4 million. Water Division transfers increased \$35,000, or 7.1%, from \$496,000 to \$531,000.

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 2016, the Electric Division's total assets increased by \$16.3 million, or 24.7%. Within total assets, current and other assets decreased by \$12.2 million while capital assets increased by \$4.1 million. The increase in current assets was primarily due to the receipt of bonding proceeds that will be used through 2017 to finish the integration of former Oakport Township customers into MPS' service territory.

During 2016, the Electric Division's liabilities increased by \$13.7 million, or 57.0%. The increase was primarily due to an increase in long-term debt incurred to pay for major construction projects.

The net effect of the changes in total assets and total liabilities within the Electric Division resulted in an increase of \$2.6 million, or 6.2%, in total net position from \$41.9 million to \$44.5 million.

During 2016, the Water Division's total assets increased \$9.0 million, or 16.0%. Within total assets, current and other assets increased by \$3.0 million while capital assets increased by \$6.0 million. Most of the increase was due to the completion of the new high service pumping station and the completion of water main replacement projects.

During 2016, the Water Division's liabilities increased by \$6.4 million, or 38.5%. The increase was primarily due to an increase in long-term debt incurred to pay for major construction projects.

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 6.5%, from \$39.8 million to \$42.4 million.

Table 1

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

	Electric				Water				Combined			
	2016	2015	Dollar Change	Percent change	2016	2015	Dollar Change	Percent change	2016	2015	Dollar Change	Percent change
Current and Other Assets	32,342	20,178	12,164	60.3%	8,925	5,870	3,055	52.0%	41,267	26,048	15,219	58.4%
Capital Assets ¹	49,952	45,805	4,147	9.1%	56,655	50,667	5,988	11.8%	106,607	96,472	10,135	10.5%
Total Assets	82,294	65,983	16,311	24.7%	65,580	56,537	9,043	16.0%	147,874	122,520	25,354	20.7%
Long-term Debt	28,659	17,208	11,451	66.5%	20,535	14,375	6,160	42.9%	49,194	31,583	17,611	55.8%
Other Liabilities	9,106	6,850	2,256	32.9%	2,651	2,365	286	12.1%	11,757	9,215	2,542	27.6%
Total Liabilities	37,765	24,058	13,707	57.0%	23,186	16,740	6,446	38.5%	60,951	40,798	20,153	49.4%
Net investment in capital assets	28,733	29,645	-912	-3.1%	37,569	36,943	626	1.7%	66,302	66,588	-286	-0.4%
Restricted	8,546	2,140	6,406	299.3%	804	598	206	34.4%	9,350	2,738	6,612	241.5%
Unrestricted	7,251	10,139	-2,888	-28.5%	4,021	2,255	1,766	78.3%	11,272	12,394	-1,122	-9.1%
Total Net Position	44,529	41,925	2,604	6.2%	42,394	39,797	2,597	6.5%	86,923	81,722	5,201	6.4%

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.

Combined total revenue was \$50.4 million in 2016. Total revenues of the Electric and Water Divisions were \$41.9 million and \$8.4 million, respectively. The Electric Division's revenue increase of 5.5% was primarily the result of a 2.5% rate increase effective January 2016 combined with a full year of new transmission revenue received as a benefit of MPS joining the Southwest Power Pool (SPP) in late 2015. The Water Division experienced an increase in revenue of 9.5%. The increase was the result of increased customer sales volume in 2016 along with a 6.5% rate increase effective January 2016.

Combined total expenses were \$47.2 million in 2016. Within total expenses, operating expenses (net of depreciation) increased 8.8% to \$33.3 million. In addition, net transfers to the City of Moorhead increased 2.6% to \$8.9 million.

MPS' combined net position increased by \$5.2 million, or 6.4%. The increase was the result of a \$2.6 million increase in the net position of the Electric Division and a \$2.6 million increase in the net position of the Water Division. Combined total revenues of \$50.4 million exceeded combined total expenses of \$47.2 million by \$3.2 million.

Moorhead Public Service

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

	Electric				Water				Combined			
	2016	2015	Dollar Change	Percent change	2016	2015	Dollar Change	Percent change	2016	2015	Dollar Change	Percent change
Operating Revenues	41,466	39,123	2,343	6.0%	8,116	7,414	702	9.5%	49,582	46,537	3,045	6.5%
Nonoperating Revenues	437	590	-153	-25.9%	339	309	30	9.7%	776	899	-123	-13.7%
Total Revenue	41,903	39,713	2,190	5.5%	8,455	7,723	732	9.5%	50,358	47,436	2,922	6.2%
Operating Expense	28,595	26,379	2,216	8.4%	4,685	4,197	488	11.6%	33,280	30,576	2,704	8.8%
Nonoperating Expenses	691	565	126	22.3%	338	269	69	25.7%	1,029	834	195	23.4%
Depreciation Expense	2,586	2,532	54	2.1%	1,361	1,330	31	2.3%	3,947	3,862	85	2.2%
Transfers to City	8,400	8,210	190	2.3%	531	496	35	7.1%	8,931	8,706	225	2.6%
Total Expenses	40,272	37,686	2,586	6.9%	6,915	6,292	623	9.9%	47,187	43,978	3,209	7.3%
Income Before Capital Contributions, Special Items and Prior Period Adjustments	1,631	2,027	-396	-19.5%	1,540	1,431	109	7.6%	3,171	3,458	-287	-8.3%
Capital Contributions	1,188	176	1,012	575.0%	1,057	123	934	759.3%	2,245	299	1,946	650.8%
Special Items	-215	-2,246	2,031	-90.4%		714	-714	-100.0%	-215	-1,532	1,317	-86.0%
Prior Period Net Pension Liability Adjustments		-2,355	2,355	-100.0%		-1,570	1,570	-100.0%		-3,925	3,925	-100.0%
Changes in Net Position	2,604	-2,398	5,002	-208.6%	2,597	698	1,899	272.1%	5,201	-1,700	6,901	456.5%
Beginning Net Position	41,925	44,323	-2,398	-5.4%	39,797	39,099	698	1.8%	81,722	83,422	-1,700	-2.0%
Ending Net Position	44,529	41,925	2,604	6.2%	42,394	39,797	2,597	6.5%	86,923	81,722	5,201	6.4%

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 2015 to 2016. Total capital assets at the end of 2016 were \$106.6 million compared to \$96.5 million at the end of 2015. Total capital assets increased \$10.1 million, or 10.5%. Net capital assets of the Electric Division increased by \$4.1 million, or 9.1%. Net capital assets of the Water Division increased by \$6.0 million, or 11.8%.

After depreciation, the Electric Division's increase in capital assets included an increase in work-in-progress of \$3.0 million and an overall increase of \$1.2 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 \$11.0 million and an overall increase of \$17.0 million in total water plant in-service assets.

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

Table 3

MOORHEAD PUBLIC SERVICE

Capital Assets Net of Depreciation

Electric Plant				
	Balance 12/31/2015	Balance 12/30/2016	Increase (Decrease)	Percent
<u>Plant in-Service</u>				
Land	\$ 885,747	\$ 951,747	\$ 66,000	7.45%
Miscellaneous Intangible Plant	-	504,026	504,026	100.00%
Production Plant	5,475,425	5,214,191	(261,234)	-4.77%
Transmission Plant	9,974,698	9,852,324	(122,374)	-1.23%
Distribution Plant	23,464,645	23,739,699	275,054	1.17%
General Plant	5,496,459	6,231,424	734,965	13.37%
Total Electric Plant in-Service	45,296,974	46,493,411	1,196,437	2.64%
Work-in-Progress	507,735	3,458,783	2,951,048	581.22%
Total Electric Plant	<u>\$ 45,804,709</u>	<u>\$ 49,952,194</u>	<u>\$ 4,147,485</u>	<u>9.05%</u>
Water Plant				
	Balance 12/31/2015	Balance 12/30/2016	Increase (Decrease)	Percent
<u>Plant in-Service</u>				
Land	\$ 577,368	\$ 674,367	\$ 96,999	16.80%
Source of Supply	4,975,922	4,901,185	(74,737)	-1.50%
Water Treatment Plant	9,454,190	9,147,641	(306,549)	-3.24%
Transmission & Distribution Plant	23,075,550	40,083,079	17,007,529	73.70%
General Plant	1,012,698	1,314,415	301,717	29.79%
Total Water Plant in-Service	39,095,728	56,120,687	17,024,959	43.55%
Work-in-Progress	11,571,075	534,620	(11,036,455)	-95.38%
Total Water Plant	<u>\$ 50,666,803</u>	<u>\$ 56,655,307</u>	<u>\$ 5,988,504</u>	<u>11.82%</u>
Consolidated				
Total MPS	<u>\$ 96,471,512</u>	<u>\$ 106,607,501</u>	<u>\$ 10,135,989</u>	<u>10.51%</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

LONG-TERM DEBT

Table 4, Long-Term Debt, presents the change in the outstanding debt of MPS from 2015 to 2016. The combined total debt at the end of 2016 was \$49.2 million. New debt was incurred during 2016 to partially fund the construction of capital projects and to extend electric service. The net change was an overall increase of \$17.6 million, or 55.8%. The Electric Division's long-term debt increased by \$11.8 million, or 64.3%. The Water Division's long-term debt increased by \$6.3 million, or 41.5%. Additional information on long-term debt can be found in Note 4 in the Notes to Financial Statements.

MPS reported \$5,732,370 in net pension liability as of June 30, 2016 due to the second year of implementing GASB Statement No. 68 for the year ending December 31, 2016. Additional information on net pension liability debt can be found in Note 7 in the Notes to Financial Statements.

Table 4

MOORHEAD PUBLIC SERVICE

Long-Term Debt

Electric Division				
	Balance 12/31/2015	Balance 12/30/2016	Increase (Decrease)	Percent
Net OPEB Obligations	\$ 145,857	\$ 159,228	\$ 13,371	9.17%
Net Pension Liability	2,133,124	3,439,421	1,306,297	61.24%
Public Utility Revenue & Refunding Bonds	16,159,400	26,689,719	10,530,319	65.17%
Total Long-Term Debt	18,438,381	30,288,368	11,849,987	64.27%
Less: Current Portion				
Public Utility Revenue & Refunding Bonds	1,230,200	1,629,800	399,600	32.48%
Total Current Portion of Long-Term Debt	1,230,200	1,629,800	399,600	32.48%
Net Long-Term Debt	\$ 17,208,181	\$ 28,658,568	\$ 11,450,387	66.54%
Water Division				
	Balance 12/31/2015	Balance 12/30/2016	Increase (Decrease)	Percent
Net OPEB Obligations	\$ 97,238	\$ 106,152	\$ 8,914	9.17%
Net Pension Liability	1,422,084	2,292,949	870,865	61.24%
Notes Payable	9,432,783	13,658,111	4,225,328	100.00%
Public Utility Revenue & Refunding Bonds	4,290,600	5,504,010	1,213,410	28.28%
Total Long-Term Debt	15,242,705	21,561,222	6,318,517	41.45%
Less: Current Portion				
Notes Payable	628,000	731,216	103,216	100.00%
Public Utility Revenue & Refunding Bonds	239,800	295,200	55,400	23.10%
Total Current Portion of Long-Term Debt	867,800	1,026,416	158,616	18.28%
Net Long-Term Debt	\$ 14,374,905	\$ 20,534,806	\$ 6,159,901	42.85%
Consolidated				
Total MPS	\$ 31,583,086	\$ 49,193,374	\$ 17,610,288	55.76%

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, 2016

	Electric	Water	Total
ASSETS			
CURRENT ASSETS			
Cash and equivalents	\$ 2,500,492	\$ 2,792,876	\$ 5,293,368
Accounts receivable, net	2,350,979	428,461	2,779,440
Accounts receivable - unbilled revenues	2,710,000	431,800	3,141,800
Accrued interest receivable	61,282	11,673	72,955
Inventories	1,153,004	205,867	1,358,871
Prepaid items	35,222	42	35,264
Due from other governmental units	327,425	10,338	337,763
Due from special assessments			
Delinquent	-	2,887	2,887
	<u>9,138,404</u>	<u>3,883,944</u>	<u>13,022,348</u>
RESTRICTED ASSETS			
Revenue bond account	459,307	85,389	544,696
Bond reserve account	2,615,223	642,577	3,257,800
Bond proceeds	5,470,837	75,978	5,546,815
	<u>8,545,367</u>	<u>803,944</u>	<u>9,349,311</u>
OTHER ASSETS, less current maturities			
Notes receivable	15,260	-	15,260
Bond operations and maintenance reserve	4,831,000	776,000	5,607,000
Other long-term investments	8,303,914	2,456,014	10,759,928
	<u>13,150,174</u>	<u>3,232,014</u>	<u>16,382,188</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension Plans	<u>1,507,835</u>	<u>1,005,224</u>	<u>2,513,059</u>
CAPITAL ASSETS			
In-service	76,632,558	78,466,798	155,099,356
Land	951,747	674,367	1,626,114
Work-in-progress	3,458,783	534,620	3,993,403
	<u>81,043,088</u>	<u>79,675,785</u>	<u>160,718,873</u>
Less accumulated depreciation	31,090,894	23,020,478	54,111,372
	<u>49,952,194</u>	<u>56,655,307</u>	<u>106,607,501</u>
Total assets	<u>\$ 82,293,974</u>	<u>\$ 65,580,433</u>	<u>\$ 147,874,407</u>

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

	Electric	Water	Total
LIABILITIES			
CURRENT LIABILITIES			
Payable from current assets			
Accounts payable	2,087,320	251,151	2,338,471
Power costs payable	2,404,857	-	2,404,857
Sales tax payable	139,721	-	139,721
Customer deposits	205,440	-	205,440
Accrued vacations and severance pay	381,725	244,454	626,179
Due to other city funds	1,433,237	628,118	2,061,355
	<u>6,652,300</u>	<u>1,123,723</u>	<u>7,776,023</u>
Payable from restricted assets			
Accrued interest	174,357	68,495	242,852
Current maturities of leases and notes	-	731,216	731,216
Current maturities of bonds payable	1,629,800	295,200	1,925,000
	<u>1,804,157</u>	<u>1,094,911</u>	<u>2,899,068</u>
 LONG-TERM DEBT			
Net OPEB obligation	159,228	106,152	265,380
Net Pension Liability	3,439,421	2,292,949	5,732,370
Net Notes Payable	-	12,926,895	12,926,895
Bonds, less current maturities	24,629,400	5,155,600	29,785,000
Premium on Bonds Payable	430,519	53,210	483,729
	<u>28,658,568</u>	<u>20,534,806</u>	<u>49,193,374</u>
 DEFERRED INFLOWS OF RESOURCES			
Pension Plans	<u>649,697</u>	<u>433,132</u>	<u>1,082,829</u>
 Total liabilities	<u>37,764,722</u>	<u>23,186,572</u>	<u>60,951,294</u>
 NET POSITION			
NET POSITION			
Net Investment in Capital Assets	28,733,310	37,569,162	66,302,472
Restricted for:			
Debt service	8,545,367	803,944	9,349,311
Unrestricted	<u>7,250,575</u>	<u>4,020,755</u>	<u>11,271,330</u>
 Total net position	<u>44,529,252</u>	<u>42,393,861</u>	<u>86,923,113</u>
 Total liabilities and net position	<u>\$ 82,293,974</u>	<u>\$ 65,580,433</u>	<u>\$ 147,874,407</u>

MOORHEAD PUBLIC SERVICE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2016

	Electric	Water	Total
OPERATING REVENUES			
Charges for services	\$ 38,953,270	\$ 8,075,252	\$ 47,028,522
Other	2,513,115	40,823	2,553,938
Total Operating Revenues	<u>41,466,385</u>	<u>8,116,075</u>	<u>49,582,460</u>
OPERATING EXPENSES			
Purchased power	20,576,629	-	20,576,629
Production of power	367,543	-	367,543
Transmission	2,180,387	-	2,180,387
Distribution	2,271,511	833,975	3,105,486
Source of supply and pumping	-	235,564	235,564
Water treatment	-	1,925,301	1,925,301
Customer accounts	645,139	261,610	906,749
Administrative	2,553,945	1,428,379	3,982,324
Depreciation and amortization	2,585,547	1,361,034	3,946,581
Total Operating Expenses	<u>31,180,701</u>	<u>6,045,863</u>	<u>37,226,564</u>
OPERATING INCOME	10,285,684	2,070,212	12,355,896
NONOPERATING REVENUES (EXPENSES)			
Interest income and market adjustments	(53,641)	7,353	(46,288)
Gain on sale of capital assets	22,695	14,805	37,500
Other income	414,814	317,218	732,032
Interest expense	(637,292)	(338,144)	(975,436)
Total Nonoperating Revenues (Expenses)	<u>(253,424)</u>	<u>1,232</u>	<u>(252,192)</u>
INCOME BEFORE TRANSFERS AND CONTRIBUTED CAPITAL	10,032,260	2,071,444	12,103,704
TRANSFERS OUT			
General fund	(6,475,000)	(405,141)	(6,880,141)
Economic development fund	(50,000)	-	(50,000)
Capital improvement fund	<u>(1,875,152)</u>	<u>(126,000)</u>	<u>(2,001,152)</u>
Total Transfers Out	<u>(8,400,152)</u>	<u>(531,141)</u>	<u>(8,931,293)</u>
CONTRIBUTION OF CAPITAL ASSETS SPECIAL ITEMS	1,187,730	1,056,956	2,244,686
	<u>(215,132)</u>	<u>-</u>	<u>(215,132)</u>
CHANGE IN NET POSITION	2,604,706	2,597,259	5,201,965
NET POSITION, BEGINNING OF YEAR	41,924,546	39,796,602	81,721,148
NET POSITION, END OF YEAR	<u>\$ 44,529,252</u>	<u>\$ 42,393,861</u>	<u>\$ 86,923,113</u>

MOORHEAD PUBLIC SERVICE
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2016

	Electric	Water	Total
OPERATING ACTIVITIES			
Receipts from customers and users	\$ 41,696,154	\$ 8,393,100	\$ 50,089,254
Payments to suppliers	(24,112,883)	(3,058,997)	(27,171,880)
Payments to employees	(2,468,849)	(1,439,011)	(3,907,860)
NET CASH FROM OPERATING ACTIVITIES	15,114,422	3,895,092	19,009,514
NON-CAPITAL FINANCING ACTIVITIES			
Transfers to other funds	(8,400,152)	(531,141)	(8,931,293)
Payments received on notes and special receivables	32,002	-	32,002
New issuance of notes and special receivables	-	(10,338)	(10,338)
Decrease in due from other funds	373,045	-	373,045
Increase (decrease) in due to other funds	88,140	(74,350)	13,790
Increase in net pension liability and related deferred inflows and outflows of resources	390,675	260,451	651,126
NET CASH USED FOR NON-CAPITAL FINANCING ACTIVITIES	(7,516,290)	(355,378)	(7,871,668)
CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of utility plant	(5,925,919)	(6,378,465)	(12,304,384)
Proceeds related to sale of assets	22,695	14,805	37,500
Proceeds from the issuance of long-term debt	11,774,066	6,394,108	18,168,174
Debt service - principal	(1,243,747)	(955,370)	(2,199,117)
Debt service - interest and fees	(528,867)	(298,657)	(827,524)
NET CASH FROM (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	4,098,228	(1,223,579)	2,874,649
INVESTING ACTIVITIES			
Interest received and market adjustments	(76,955)	5,773	(71,182)
Purchase of investments	(11,014,231)	(1,383,393)	(12,397,624)
NET CASH USED FOR INVESTING ACTIVITIES	(11,091,186)	(1,377,620)	(12,468,806)
NET CHANGE IN CASH BALANCE	605,174	938,515	1,543,689
CASH BALANCE, JANUARY 1	1,895,318	1,854,361	3,749,679
CASH BALANCE, DECEMBER 31	\$ 2,500,492	\$ 2,792,876	\$ 5,293,368

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	\$ 10,285,684	\$ 2,070,212	\$ 12,355,896
Adjustments to reconcile operating income to net cash from operating activities			
Depreciation and amortization	2,585,547	1,361,034	3,946,581
Depreciation expensed to vehicle expense	165,485	85,884	251,369
Other income	414,814	317,219	732,033
Change in assets and liabilities			
Receivables	142,380	(40,194)	102,186
Inventories	275,153	11,201	286,354
Prepaid items	49,751	18,661	68,412
Due from others	(327,425)	-	(327,425)
Net OPEB Obligations	13,371	8,914	22,285
Accounts payable	1,437,937	81,708	1,519,645
Accrued vacations and severance pay	71,725	(19,546)	52,179
NET CASH FROM OPERATING ACTIVITIES	<u>\$ 15,114,422</u>	<u>\$ 3,895,093</u>	<u>\$ 19,009,515</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES			
Changes in capital assets through contributed capital and special items	<u>\$ (215,132)</u>	<u>\$ -</u>	<u>\$ (215,132)</u>

MOORHEAD PUBLIC SERVICE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

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 one neighboring community.

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 2016, the allowances for uncollectible accounts were \$2,980 for electric division receivables and \$1,160 for water division receivables.

Notes receivable are stated at principal amounts and are uncollateralized. Notes receivable at year-end 2016 consisted of interest-bearing loans to customers who installed dual fuel heating equipment as well as amounts due from customers enrolled in MPS' 2016 Capture the Sun® purchase or licensing program. The term of all dual fuel notes receivable is 60 months and the term of the Capture the Sun® purchase or licensing commitments receivables is 12 months. Due to the high likelihood of collection of these items, there is not an allowance for uncollectible accounts.

Capital Assets

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

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

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

NOTES TO FINANCIAL STATEMENTS

Investments

Investments in securities are reported at fair value. Fair value is determined based on quoted market prices if available or estimated fair value using quoted market prices for similar securities. Interest, dividends, gains and losses, both realized and unrealized, on investments in debt and equity securities are included in other income (other expense) as appropriate.

Inventories

Inventories consisting primarily of materials, chemicals, and fuel are stated at the lower of cost or market. Cost is determined using the average cost method of inventory valuation.

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 300 hours. A maximum of 300 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).

Revenue Recognition

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

Power & Transmission Costs

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

Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTES TO FINANCIAL STATEMENTS

Deferred Inflows of Resources and Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Moorhead Public Service has two items that qualify for reporting in this category. They are the contributions made to pension plans after the measurement date and prior to the fiscal year-end and changes in the net pension liability not included in pension expense reported in the statement of net position.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Moorhead Public Service has one item that qualifies for reporting in this category. The item is to recognize the change in the net position liability that is not included in pension expense reported in the statement of net position.

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, 2016, 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, 2016, 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	\$ 3,290,201	\$ -	\$ 899,595	\$ 1,568,157	\$ 822,449	\$ -
Money Market Funds	6,059,110	6,059,110			-	-
Total Restricted Investments	<u>\$ 9,349,311</u>	<u>\$ 6,059,110</u>	<u>\$ 899,595</u>	<u>\$ 1,568,157</u>	<u>\$ 822,449</u>	<u>\$ -</u>
Unrestricted		Investment Maturities (in Years)				
Investment Type	Fair Value	Not Applicable	< 1	1 - 5	> 5 - 10	> 10
Government Bonds	<u>\$ 16,366,928</u>	<u>\$ -</u>	<u>\$ 251,430</u>	<u>\$ 8,586,103</u>	<u>\$ 6,563,217</u>	<u>\$ 966,178</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	\$ 885,747	\$ 66,000	\$ -	\$ -	\$ 951,747
Construction work in progress	507,735	6,941,206	3,990,158	-	3,458,783
	<u>1,393,482</u>	<u>7,007,206</u>	<u>3,990,158</u>	<u>-</u>	<u>4,410,530</u>
Capital assets, being depreciated:					
Miscellaneous intangible plant	255,373	504,026	-	-	759,399
Production plant	7,459,400	47,333	-	-	7,506,733
Transmission plant	15,567,871	450,576	-	-	16,018,447
Distribution plant	39,720,572	1,636,983	141,143	-	41,216,412
General plant	10,036,571	1,285,240	190,244	-	11,131,567
	<u>73,039,787</u>	<u>3,924,158</u>	<u>331,387</u>	<u>-</u>	<u>76,632,558</u>
Less accumulated depreciation for:					
Miscellaneous intangible plant	255,373	-	-	-	255,373
Production plant	1,983,975	308,567	-	-	2,292,542
Transmission plant	5,593,173	572,950	-	-	6,166,123
Distribution plant	16,255,927	1,361,929	141,143	-	17,476,713
General plant	4,540,112	507,586	147,555	-	4,900,143
	<u>28,628,560</u>	<u>2,751,032</u>	<u>288,698</u>	<u>-</u>	<u>31,090,894</u>
Total capital assets, being depreciated, net	<u>44,411,227</u>	<u>1,173,126</u>	<u>42,689</u>	<u>-</u>	<u>45,541,664</u>
Capital assets, net	<u>\$ 45,804,709</u>	<u>\$ 8,180,332</u>	<u>\$ 4,032,847</u>	<u>\$ -</u>	<u>\$ 49,952,194</u>

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	\$ 577,368	\$ 96,999	\$ -	\$ -	\$ 674,367
Construction work in progress	11,571,075	7,435,421	18,471,876	-	534,620
	<u>12,148,443</u>	<u>7,532,420</u>	<u>18,471,876</u>	<u>-</u>	<u>1,208,987</u>
Capital assets, being depreciated:					
Source of supply plant structure and improvements	9,144,721	126,584	-	-	9,271,305
Pumping plant	30,914	-	-	-	30,914
Water treatment plant	16,991,975	17,790	-	-	17,009,765
Transmission and distribution plant	31,964,122	17,769,869	50,550	-	49,683,441
General plant	2,092,701	460,634	81,962	-	2,471,373
	<u>60,224,433</u>	<u>18,374,877</u>	<u>132,512</u>	<u>-</u>	<u>78,466,798</u>
Less accumulated depreciation for:					
Source of supply plant structure and improvements	4,168,799	201,321	-	-	4,370,120
Pumping plant	30,914	-	-	-	30,914
Water treatment plant	7,537,785	324,339	-	-	7,862,124
Transmission and distribution plant	8,888,572	762,340	50,550	-	9,600,362
General plant	1,080,003	158,917	81,962	-	1,156,958
	<u>21,706,073</u>	<u>1,446,917</u>	<u>132,512</u>	<u>-</u>	<u>23,020,478</u>
Total capital assets, being depreciated, net	<u>38,518,360</u>	<u>16,927,960</u>	<u>-</u>	<u>-</u>	<u>55,446,320</u>
Capital assets, net	<u>\$ 50,666,803</u>	<u>\$ 24,460,380</u>	<u>\$ 18,471,876</u>	<u>\$ -</u>	<u>\$ 56,655,307</u>

NOTES TO FINANCIAL STATEMENTS

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

Business-type activities:	
Electric Division	\$ 2,751,032
Water Division	<u>1,446,917</u>
Total depreciation expense - business-type activities	\$ 4,197,949
 Depreciation and amortization per Statement of Revenues, Expenses, and Changes in Net Position	 <u>\$ 3,946,581</u>
Difference from Statement of Revenues, Expenses, and Changes in Net Position	<u><u>\$ 251,368</u></u>

Depreciation and amortization expense reflected in the Statement of Revenues, Expenses, and Changes In Net Position is \$3,946,581. The difference of \$251,368 is expensed to vehicle expense per the guidelines established by the Federal Energy Regulatory Commission and the National Association of Regulatory Utility Commissioners.

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – LONG-TERM DEBT

The following is a summary of the changes in debt for Moorhead Public Service as of December 31, 2016.

	Beginning Balance	Additions	Reductions	Ending Balance	Long-Term After One Year	Due Within One Year
Compensated Absences	\$ 574,000	\$ 52,179	\$ -	\$ 626,179	\$ -	\$ 626,179
Net OPEB Obligation	243,095	22,285	-	265,380	265,380	-
Net Pension Liability	3,555,208	2,177,162	-	5,732,370	5,732,370	-
Notes Payable	9,432,783	4,939,221	713,893	13,658,111	12,926,895	731,216
Public Utility Revenue & Refunding Bonds						
Series 2007A	5,025,000	-	330,000	4,695,000	4,340,000	355,000
Series 2009A	1,320,000	-	255,000	1,065,000	805,000	260,000
Series 2010A	9,590,000	-	260,000	9,330,000	9,070,000	260,000
Series 2012E	4,515,000	-	625,000	3,890,000	3,250,000	640,000
Series 2016A	-	12,730,000	-	12,730,000	12,320,000	410,000
Plus (less) unamortized discount or premium	-	498,950	15,221	483,729	-	-
	<u>\$ 34,255,086</u>	<u>\$ 20,419,797</u>	<u>\$ 2,199,114</u>	<u>\$ 52,475,769</u>	<u>\$ 48,709,645</u>	<u>\$ 3,282,395</u>

Revenue & Refunding Bonds

The following is a summary of bonds payable for the year ended December 31, 2016:

	Interest Rates	Electric	Water	Total
Public Utility Revenue & Refunding Bonds				
Series 2007A	5.17%	\$ 2,206,650	\$ 2,488,350	\$ 4,695,000
Series 2009A	3.0% - 4.75%	1,042,000	23,000	1,065,000
Series 2010C	2.0% - 4.875%	7,790,550	1,539,450	9,330,000
Series 2012E	2.0% - 3.0%	3,890,000	-	3,890,000
Series 2016A	2.0% - 4.0%	11,330,000	1,400,000	12,730,000
		26,259,200	5,450,800	31,710,000
Plus (less) unamortized discount or premium		430,519	53,210	483,729
		26,689,719	5,504,010	32,193,729
Less current maturities		(1,629,800)	(295,200)	(1,925,000)
		<u>\$ 25,059,919</u>	<u>\$ 5,208,810</u>	<u>\$ 30,268,729</u>

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.

In 2016, Moorhead Public Service issued new 20-year bonds totaling \$12,730,000. The actual proceeds from the sale of the bond issue included a premium of \$498,950. The proceeds were used to finance multiple capital projects and to extend service to new developments.

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 2036.

NOTES TO FINANCIAL STATEMENTS

Principal repayments on the debt to maturity are as follows:

	Electric		Water	
	Principal	Interest	Principal	Interest
2017	\$ 1,629,800	\$ 864,027	\$ 295,200	\$ 217,650
2018	1,789,250	758,864	405,750	197,706
2019	1,864,300	710,616	425,700	182,998
2020	1,926,825	657,521	443,175	167,004
2021	2,010,775	593,197	464,225	149,155
2022-2026	10,030,500	1,864,443	2,459,500	439,681
2027-2036	7,007,750	980,433	957,250	124,255
	<u>\$ 26,259,200</u>	<u>\$ 6,429,101</u>	<u>\$ 5,450,800</u>	<u>\$ 1,478,449</u>

Notes Payable

The following is a summary of notes payable for the year ended December 31, 2016:

	Interest Rates	Electric	Water	Total
Minnesota Public Facilities Authority				
Drinking Water SRF Bond Fund Loan				
MPFA-09-0036-R-FY15	1.02%	\$ -	\$ 11,482,216	\$ 11,482,216
MPFA-DWRF-L-0006-FY16	1.00%	-	2,175,895	2,175,895
		-	13,658,111	13,658,111
Less current maturities		-	(731,216)	(731,216)
		<u>\$ -</u>	<u>\$ 12,926,895</u>	<u>\$ 12,926,895</u>

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

	Electric		Water	
	Principal	Interest	Principal	Interest
2017	\$ -	\$ -	\$ 731,216	\$ 125,843
2018	-	-	714,601	131,634
2019	-	-	721,453	124,366
2020	-	-	707,156	117,029
2021	-	-	714,008	109,837
2022-2026	-	-	3,680,367	438,790
2027-2035	-	-	6,389,310	301,900
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,658,111</u>	<u>\$ 1,349,399</u>

In 2016, Moorhead Public Service added \$4,939,221 in notes payable. The proceeds from the additional notes payable issue were used by the Water Division to complete the construction of a new High Service Pump Station that was started in 2015 and to replace water mains as part of the city of Moorhead's Corridor Investment Management Strategy (CIMS) project.

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 to, upon meeting the eligibility requirements under Minn. Stat. 471.61 subd. 2b, 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		20,087
Interest on OPEB Obligation		<u>10,939</u>
Total year-end ARC		66,705
Contributions made		<u>(44,420)</u>
Increase in OPEB Obligation		22,285
Net OPEB Obligation, Beginning of Year		<u>243,095</u>
Net OPEB Obligation, End of Year	\$	<u><u>265,380</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 2016 and three prior years was as follows:

Year Ended	Annual OPEB Cost	Employer Contribution	Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2013	\$ 52,686	\$ 34,684	66%	\$ 164,025
12/31/2014	68,319	24,480	36%	207,864
12/31/2015	67,474	32,243	48%	243,095
12/31/2016	66,705	44,420	67%	265,380

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, 2016, is as follows:

Payable	Amount
Electric Fund - Due to City of Moorhead's General, Capital Improvement, Economic Development, Sanitation, and Wastewater Funds	<u>\$ 1,433,237</u>
Water Fund - Due to City of Moorhead General Fund	<u>\$ 628,118</u>

Receivable	Amount
Water Fund - Due from City of Moorhead Special Assessment Fund	<u>\$ 2,887</u>

NOTES TO FINANCIAL STATEMENTS

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 the 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 an amount not to exceed 5% of gross income.

Late in 2014, the Moorhead City Council and Moorhead Public Service Commission entered into an Electric Fund Transfer Agreement (Transfer Agreement) for years 2015 to 2018. The Transfer Agreement provides a reasonable and predictable approach for the annual determination of the Electric Fund transfer to the General Fund. The Transfer Agreement formula for calculating the annual transfer for future years is based on a Net Revenue Transfer Multiplier applied to net kilowatt hour sales from a previous year, subject to a base transfer floor.

In 2016, the Electric Division transferred the base transfer of \$6,475,000 to the General Fund, 5%, or \$1,875,152 of its gross income net of certain revenues exempted from the calculation by the City Council to the Capital Improvement Fund, and \$50,000 to the Economic Development Fund, as provided by state law.

In 2016, the Water Division transferred 5%, or \$405,141 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.

Appropriation Transfers - Electric Division	2016	2015	Net Change
General Fund	\$ 6,475,000	\$ 6,350,000	\$ 125,000
General Fund - Special One-Time	-	-	-
Economic Development Fund	50,000	50,000	-
Capital Improvement Fund	1,875,152	1,810,108	65,044
Total	<u>\$ 8,400,152</u>	<u>\$ 8,210,108</u>	<u>\$ 190,044</u>

Appropriation Transfers - Water Division	2016	2015	Net Change
General Fund	\$ 405,141	\$ 369,930	\$ 35,211
Capital Improvement Fund	126,000	126,000	-
Total	<u>\$ 531,141</u>	<u>\$ 495,930</u>	<u>\$ 35,211</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 7 - PENSION PLAN

A. Plan Description

Moorhead Public Service (MPS) participates in the General Employees Retirement Fund (GERF) cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

All full-time and certain part-time employees of MPS are covered by the General Employees Retirement Fund (GERF). GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

B. Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

Benefits to pension plan members are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

C. Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2016. MPS was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2016. Contributions made by MPS to the GERF for the year ended December 31, 2016, were \$335,637. Contributions made by MPS were equal to the required contributions as set by state statute.

NOTES TO FINANCIAL STATEMENTS

D. Pension Costs

At December 31, 2016, MPS reported a liability of \$5,732,370 for its proportionate share of the GERS's net pension liability. MPS' net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2016. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with MPS totaled \$ 74,844. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. MPS' proportion of the net pension liability was based on the MPS' contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, MPS' proportion share was 0.0706 % which was an increase of 0.0020 % from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the MPS recognized pension expense of \$651,126 for its proportionate share of the GERS's pension expense. In addition, MPS recognized an additional \$74,844 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

At December 31, 2016, MPS reported its proportionate share of the GERS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 16,966	\$ 465,670
Changes in actuarial assumptions	1,236,334	-
Difference between projected and actual investment earnings	1,088,028	448,049
Changes in proportion		169,110
MPS's contributions to GERS subsequent to the measurement date	<u>171,731</u>	<u>-</u>
Total	<u>\$ 2,513,059</u>	<u>\$ 1,082,829</u>

The \$171,731 reported as deferred outflows of resources related to pensions resulting from MPS' contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Years Ended June 30,</u>	<u>Pension Expense Amount</u>
2017	\$ 342,571
2018	211,675
2019	497,189
2020	207,064
Thereafter	-

NOTES TO FINANCIAL STATEMENTS

E. Actuarial Assumptions

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

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

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

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015.

The following changes in actuarial assumptions occurred in 2016:

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

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

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

NOTES TO FINANCIAL STATEMENTS

F. Discount Rate

The discount rate used to measure the total pension liability in 2016 was 7.5% - a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension Liability Sensitivity

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

	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
GERF discount rate	6.50%	7.50%	8.50%
City's proportionate share of the GERF net pension liability	\$ 8,141,664	\$ 5,732,370	\$ 3,747,767

H. Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

NOTES TO 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, 2050.

The municipality is also committed to purchase its supplemental power from Missouri River Energy Services. The agreement, which runs until January 1, 2057, 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 2027, 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.

Construction Commitments

During 2017, the Water Division is expected to complete the final phase of a \$2.6 million water main replacement project that was started in 2016 and is expected to be completed in 2017. Construction totaling \$2.2 million was completed in 2016. There are no other commitments that will extend beyond 2017.

NOTE 9 – SPECIAL ITEMS

In 2014, the Electric Division started a project to demolish and remediate the old, inactive Elm Street power station on the west edge of town near the river. The entire project was completed in late 2015. Through calendar year 2015, demolition and remediation costs of \$2,245,985 were incurred. In 2015 it became evident by actions taken by the Moorhead City Council in June 2015 that their intention was to enter into an agreement to lease the prime real estate property to a non-profit entity for a nominal fee. As a result, it was determined there would be little or no likelihood of MPS recapturing any of the demolition and remediation costs and the costs to date were expensed as a special item. In early 2016, a final retainage payment of \$215,132 was made. This final payment is reflected in the 2016 financial statements as a special item.

NOTES TO FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

MOORHEAD PUBLIC SERVICE
SCHEDULE OF OTHER POST-EMPLOYMENT BENEFIT (OPEB) FUNDING PROGRESS
DECEMBER 31, 2016

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.

MOORHEAD PUBLIC SERVICE
COST-SHARING PENSION PLAN SCHEDULES
DECEMBER 31, 2016

Schedule of Employer's Share of Net Pension Liability

Pension Plan	Measurement Date	Employer's Proportion (Percentage) of the Net Pension Liability	Employer's Proportionate Share (Amount) of the Net Pension Liability (a)	Proportionate Share (Amount) of the Net Pension Liability Associated With MPS (b)	Total (c) (a+b)	Employer's Covered-Employee Payroll (d)	Employer's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll (a/d)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
GERF	6/30/2016	0.0706%	\$ 5,732,370	N/A	\$ 5,732,370	\$ 6,664,177	116.3%	68.9%
GERF	6/30/2015	0.0686%	3,555,208	N/A	3,555,208	6,393,326	179.8%	78.2%

* GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, Moorhead Public Service will present information for those years for which information is available.

Schedule of Employer's Contributions

Pension Plan	Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered-Employee Payroll (c)	Contributions as a Percentage of Covered-Employee Payroll (b/c)
GERF	12/31/2016	\$ 335,637	\$ 335,637	\$ -	\$ 4,567,832	7.3%
GERF	12/31/2015	311,115	311,115	-	4,192,691	7.4%

* GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, Moorhead Public Service will present information for those years for which information is available.

OTHER SUPPLEMENTARY INFORMATION

Electric Capital Assets				
	Balance 12/31/2015	Additions	Retirements	Balance 12/31/2016
PLANT IN-SERVICE				
Miscellaneous				
Intangible plant	\$ 255,373	\$ 504,026	\$ -	\$ 759,399
Production plant				
Land	855,919	66,000	-	921,919
Structures and improvements	6,050,725	-	-	6,050,725
Accessory electric equipment	221,092	-	-	221,092
Wind turbine	1,187,583	47,333	-	1,234,916
	<u>7,459,400</u>	<u>47,333</u>	<u>-</u>	<u>7,506,733</u>
Transmission plant				
Land	29,828	-	-	29,828
Structures and improvements	15,567,871	450,576	-	16,018,447
	<u>15,567,871</u>	<u>450,576</u>	<u>-</u>	<u>16,018,447</u>
Distribution plant				
Station equipment	9,594,532	84,986	-	9,679,518
Poles, towers, and fixtures	2,814,201	-	16,700	2,797,501
Underground conduit	16,580,868	686,319	40,200	17,226,987
Line transformers	5,315,791	545,755	54,324	5,807,222
Services	1,906,102	-	-	1,906,102
Meters	2,047,115	178,959	29,919	2,196,155
Installations on customer premises	158,432	62,210	-	220,642
Street lighting and signal systems	1,303,531	78,754	-	1,382,285
	<u>39,720,572</u>	<u>1,636,983</u>	<u>141,143</u>	<u>41,216,412</u>
General plant				
Structures and Improvements	2,768,899	694,506	-	3,463,405
Office furniture and equipment	1,193,307	148,795	-	1,342,102
Transportation equipment	2,229,027	382,588	190,244	2,421,371
Stores equipment	3,681	-	-	3,681
Tools, shop, and garage equipment	306,131	-	-	306,131
Communication equipment	3,535,526	59,351	-	3,594,877
	<u>10,036,571</u>	<u>1,285,240</u>	<u>190,244</u>	<u>11,131,567</u>
Total electric plant in-service	<u>73,925,534</u>	<u>3,990,158</u>	<u>331,387</u>	<u>77,584,305</u>
CONSTRUCTION WORK-IN-PROGRESS	<u>507,735</u>	<u>6,941,206</u>	<u>3,990,158</u>	<u>3,458,783</u>
	<u>\$ 74,433,269</u>	<u>\$ 10,931,364</u>	<u>\$ 4,321,545</u>	<u>\$ 81,043,088</u>

MOORHEAD PUBLIC SERVICE
ANALYSIS OF CAPITAL ASSETS AND ACCUMULATED DEPRECIATION/AMORTIZATION
YEAR ENDED DECEMBER 31, 2016

		Accumulated Depreciation/Amortization				Percent of Depreciation Amortization to Plant
Annual Depreciation Amortization Rates		Balance 12/31/2015	Provision	Retirements	Balance 12/31/2016	
10.0 - 12.5	%	\$ 255,373	\$ -	\$ -	\$ 255,373	33.63%
		-	-	-	-	-
2		1,210,657	269,015	-	1,479,672	24.45%
3		221,092	-	-	221,092	100.00%
3		552,226	39,552	-	591,778	47.92%
		<u>1,983,975</u>	<u>308,567</u>	<u>-</u>	<u>2,292,542</u>	
		-	-	-	-	-
3		5,593,173	572,950	-	6,166,123	38.49%
		<u>5,593,173</u>	<u>572,950</u>	<u>-</u>	<u>6,166,123</u>	
2		3,667,459	317,925	-	3,985,384	41.17%
3		2,527,664	13,118	16,700	2,524,082	90.23%
2		5,815,491	630,916	40,200	6,406,207	37.19%
3		2,041,539	164,899	54,324	2,152,114	37.06%
3		1,068,825	58,178	-	1,127,003	59.13%
4		347,683	134,684	29,919	452,448	20.60%
4		88,020	2,708	-	90,728	41.12%
3		699,246	39,501	-	738,747	53.44%
		<u>16,255,927</u>	<u>1,361,929</u>	<u>141,143</u>	<u>17,476,713</u>	
10		728,686	57,934	-	786,620	22.71%
10		796,408	70,385	-	866,793	64.58%
5 - 25		1,063,666	165,485	147,555	1,081,596	44.67%
10		3,681	-	-	3,681	100.00%
10		248,940	10,398	-	259,338	84.71%
6		1,698,731	203,384	-	1,902,115	52.91%
		<u>4,540,112</u>	<u>507,586</u>	<u>147,555</u>	<u>4,900,143</u>	
		<u>28,628,560</u>	<u>2,751,032</u>	<u>288,698</u>	<u>31,090,894</u>	
		-	-	-	-	
		<u>\$ 28,628,560</u>	<u>\$ 2,751,032</u>	<u>\$ 288,698</u>	<u>\$ 31,090,894</u>	

NOTES TO FINANCIAL STATEMENTS

Water Capital Assets				
	Balance 12/31/2015	Additions	Retirements	Balance 12/31/2016
PLANT IN-SERVICE				
Land	\$ 577,368	\$ 96,999	\$ -	\$ 674,367
Source of supply plant structures and improvements	9,144,721	126,584	-	9,271,305
Pumping plant	30,914	-	-	30,914
Water treatment plant	16,991,975	17,790	-	17,009,765
Transmission and distribution plant				
Towers	1,652,798	-	-	1,652,798
Mains	28,314,027	17,696,670	39,174	45,971,523
Meters	1,997,297	73,199	11,376	2,059,120
	31,964,122	17,769,869	50,550	49,683,441
General plant				
Office furniture and equipment	23,144	50,625	-	73,769
Transportation equipment	1,111,575	283,314	81,962	1,312,927
Tools, shop, and garage equipment	145,640	-	-	145,640
Laboratory equipment	359,936	43,385	-	403,321
SCADA equipment	452,406	83,310	-	535,716
	2,092,701	460,634	81,962	2,471,373
Total water plant in-service	60,801,801	18,471,876	132,512	79,141,165
CONSTRUCTION WORK-IN-PROGRESS	11,571,075	7,435,421	18,471,876	534,620
	\$ 72,372,876	\$ 25,907,297	\$ 18,604,388	\$ 79,675,785

Accumulated Depreciation/Amortization					Percent of Depreciation Amortization to Plant
Annual Depreciation Amortization Rates	Balance 12/31/2015	Provision	Retirements	Balance 12/31/2016	
%	\$ -	\$ -	\$ -	\$ -	0.0%
2 - 25	4,168,799	201,321	-	4,370,120	47.1%
2	30,914	-	-	30,914	100.0%
2 - 3	7,537,785	324,339	-	7,862,124	46.2%
2	660,733	33,056	-	693,789	42.0%
2	7,732,164	603,880	39,174	8,296,870	18.0%
3	495,675	125,405	11,377	609,703	29.6%
	8,888,572	762,341	50,551	9,600,362	
10	15,719	928	-	16,647	22.6%
12	685,813	85,884	81,962	689,735	52.5%
5	106,125	6,869	-	112,994	77.6%
10	151,554	29,545	-	181,099	44.9%
14	120,792	35,691	-	156,483	29.2%
	1,080,003	158,917	81,962	1,156,958	
	21,706,073	1,446,918	132,513	23,020,478	
	-	-	-	-	
	\$ 21,706,073	\$ 1,446,918	\$ 132,513	\$ 23,020,478	