



**FINANCIAL STATEMENTS
DECEMBER 31, 2018**

MOORHEAD PUBLIC SERVICE

Table of Contents

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	5
FINANCIAL STATEMENTS	
Statement of Net Position	11
Statement of Revenues, Expenses, and Changes in Net Position	12
Statement of Cash Flows	13
Notes to Financial Statements	14
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Changes to Total OPEB Liability and Related Ratios	36
Cost-Sharing Pension Plan Schedules	37
OTHER SUPPLEMENTARY INFORMATION	
Analysis of Electric Plant and Accumulated Depreciation/Amortization	38
Analysis of Water Plant and Accumulated Depreciation/Amortization	39
OTHER REPORTS	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with Government Auditing Standards	40
Schedule of Findings	42

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, 2018, 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.

www.eidebailly.com

Opinion

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, 2018, 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.

Emphasis of Matter

As discussed in Note 1, the financial statements of Moorhead Public Service is intended to present the financial position and the changes in financial position of only that portion of each major fund of Moorhead Public Service. They do not purport to, and do not, present fairly the financial position of the City of Moorhead as of December 31, 2018, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

As discussed in Notes 1 and 10 to the financial statements, Moorhead Public Service has adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which has resulted in a restatement of the net position as of January 1, 2018. Our opinions are not modified with respect to this matter.

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 changes in OPEB liability and related ratios, 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 inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively compromise Moorhead Public Service's financial statements. The 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 May 7, 2019, 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 solely 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 the effectiveness internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Moorhead Public Service's internal control over financial reporting and compliance.

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

Fargo, North Dakota
May 7, 2019

**MOORHEAD PUBLIC SERVICE
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018**

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, 2018. 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 \$6.8 million, or 7.0%, from \$96.6 million to \$103.4 million. The Electric Division's net position increased \$5.1 million from \$51.1 million to \$56.2 million. The Water Division's net position increased \$1.8 million from \$45.5 million to \$47.3 million.
- Combined operating revenues decreased by \$100,000, or 0.2%, remaining at \$54.0 million. Electric Division operating revenues decreased \$400,000, or 0.9%, from \$45.0 million to \$44.6 million. Water Division operating revenues increased \$300,000, or 3.5%, from \$9.0 million to \$9.3 million.
- Combined net transfers to the City of Moorhead increased \$220,000, or 2.4%, from \$9.2 million to \$9.4 million. Net Electric Division transfers increased \$200,000, or 2.4%, from \$8.6 million to \$8.6 million. Water Division transfers increased by \$20,000, or 2.8%, from \$570,000 to \$590,000.

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.

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 2018, the Electric Division's total assets increased by \$1.7 million, or 2.0%. Within total assets, current and other assets increased by \$1.5 million while capital assets increased by \$500,000.

During 2018, the Electric Division's liabilities decreased by \$3.3 million, or 9.3%. The decrease was primarily due to payments made to reduce long-term debt originally 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 \$5.1 million, or 9.9%, in total net position from \$51.1 million to \$56.2 million.

During 2018, the Water Division's total assets increased \$300,000, or 0.4%. Within total assets, current and other assets decreased by \$1.1 million while capital assets increased by \$1.6 million.

During 2018, the Water Division's liabilities decreased by \$1.3 million, or 6.7%. The decrease was primarily due to payments made to reduce long-term debt originally 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 \$1.8 million, or 3.8%, from \$45.5 million to \$47.3 million.

Table 1

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

	Electric				Water				Combined			
	2018	2017	Dollar Change	Percent change	2018	2017	Dollar Change	Percent change	2018	2017	Dollar Change	Percent change
Current and Other Assets	36,066	34,550	1,516	4.4%	6,983	8,094	(1,111)	-13.7%	43,049	42,644	405	0.9%
Deferred Outflows of Resources	455	717	(262)	-36.5%	304	478	(174)	-36.4%	759	1,195	(436)	-36.5%
Capital Assets ¹	52,078	51,601	477	0.9%	60,462	58,895	1,567	2.7%	112,540	110,496	2,044	1.8%
Total Assets	88,599	86,868	1,731	2.0%	67,749	67,467	282	0.4%	156,348	154,335	2,013	1.3%
Long-term Debt	23,982	26,131	(2,149)	-8.2%	17,819	19,108	(1,289)	-6.7%	41,801	45,239	(3,438)	-7.6%
Other Liabilities	7,844	9,137	(1,293)	-14.2%	2,249	2,482	(233)	-9.4%	10,093	11,619	(1,526)	-13.1%
Deferred Inflows of Resources	626	515	111	21.6%	417	343	74	21.6%	1,043	858	185	21.6%
Total Liabilities	32,452	35,783	(3,331)	-9.3%	20,485	21,933	(1,448)	-6.6%	52,937	57,716	(4,779)	-8.3%
Net investment in capital assets	28,857	29,819	(962)	-3.2%	43,256	40,582	2,674	6.6%	72,113	70,401	1,712	2.4%
Restricted	3,045	6,333	(3,288)	-51.9%	743	739	4	0.5%	3,788	7,072	(3,284)	-46.4%
Unrestricted	24,245	14,933	9,312	62.4%	3,265	4,212	(947)	-22.5%	27,510	19,145	8,365	43.7%
Total Net Position	56,147	51,085	5,062	9.9%	47,264	45,534	1,730	3.8%	103,411	96,619	6,792	7.0%

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 \$55.2 million in 2018. Total revenues of the Electric and Water Divisions were \$45.5 million and \$9.7 million, respectively. The Electric Division's revenue decrease of 0.9% was primarily due to a slight decrease in consumer consumption coupled with no electric rate increase for the first time in over 20 years. The Water Division experienced an increase in revenue of 2.6%. The increase was the result of a slight decrease in consumer consumption coupled with a 5.3% rate increase effective January 2018.

Combined total expenses including Transfers to the City were \$48.5 million in 2018. Within total expenses, operating expenses (net of depreciation) increased 0.9% to \$33.2 million and net transfers to the City of Moorhead increased 2.4% to \$9.4 million.

MPS' combined net position increased by \$6.8 million, or 7.0%. The increase was the result of a \$5.1 million increase in the net position of the Electric Division and a \$1.7 million increase in the net position of the Water Division. Combined total revenues of \$55.2 million exceeded combined total expenses of \$48.5 million by \$6.7 million.

Table 2

Moorhead Public Service

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

	Electric				Water				Combined			
	2018	2017	Dollar Change	Percent change	2018	2017	Dollar Change	Percent change	2018	2017	Dollar Change	Percent change
Operating Revenues	44,630	45,050	(420)	-0.9%	9,294	8,981	313	3.5%	53,924	54,031	(107)	-0.2%
Nonoperating Revenues	853	837	16	1.9%	408	476	(68)	-14.3%	1,261	1,313	(52)	-4.0%
Total Revenue	45,483	45,887	(404)	-0.9%	9,702	9,457	245	2.6%	55,185	55,344	(159)	-0.3%
Operating Expense	27,902	27,817	85	0.3%	5,319	5,107	212	4.2%	33,221	32,924	297	0.9%
Nonoperating Expenses	850	788	62	7.9%	354	369	(15)	-4.1%	1,204	1,157	47	4.1%
Depreciation Expense	2,793	2,597	196	7.5%	1,896	1,766	130	7.4%	4,689	4,363	326	7.5%
Transfers to City	8,823	8,619	204	2.4%	590	574	16	2.8%	9,413	9,193	220	2.4%
Total Expenses	40,368	39,821	547	1.4%	8,159	7,816	343	4.4%	48,527	47,637	890	1.9%
Income Before Capital Contributions, Special Items and Prior Period Adjustments	5,115	6,066	(951)	-15.7%	1,543	1,641	(98)	-6.0%	6,658	7,707	(1,049)	-13.6%
Capital Contributions	70	490	(420)	-85.7%	268	1,499	(1,231)	-82.1%	338	1,989	(1,651)	-83.0%
Prior Period OPEB Liability Adjustments	(122)	0	(122)	0.0%	(81)	0	(81)	0.0%	(203)	0	(203)	0.0%
Changes in Net Position	5,063	6,556	(1,493)	-22.8%	1,730	3,140	(1,410)	-44.9%	6,793	9,696	(2,903)	-29.9%
Beginning Net Position	51,085	44,529	6,556	14.7%	45,534	42,394	3,140	7.4%	96,619	86,923	9,696	11.2%
Ending Net Position	56,148	51,085	5,063	9.9%	47,264	45,534	1,730	3.8%	103,412	96,619	6,793	7.0%

CAPITAL ASSETS

Table 3, Capital Assets Net of Depreciation, provides a summary of the changes in the net depreciated value of MPS' capital assets. The table presents the changes in value for each division separately, and in combined form.

Total capital assets at the end of 2018 were \$112.5 million compared to \$110.5 million at the end of 2017. Total capital assets increased \$2.0 million, or 1.8%. Net capital assets of the Electric Division increased by \$500,000, or 0.9%. Net capital assets of the Water Division increased by \$1.6 million, or 2.7%.

After depreciation, the Electric Division's increase in capital assets included an increase in work-in-progress of \$900,000 and an overall decrease of \$400,000 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 \$100,000 and an overall increase of \$1.4 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 Division				
	Balance 12/31/2017	Balance 12/31/2018	Increase (Decrease)	Percent
Plant in Service				
Land	\$ 951,747	\$ 1,071,555	\$ 119,808	12.6%
Miscellaneous Intangible Plant	983,037	879,693	(103,344)	-10.5%
Production Plant	5,738,407	5,454,711	(283,696)	-4.9%
Transmission Plant	9,415,026	9,074,659	(340,367)	-3.6%
Distribution Plant	27,475,350	27,387,233	(88,117)	-0.3%
General Plant	6,716,053	7,032,484	316,431	4.7%
Total Electric Plant in Service	51,279,620	50,900,335	(379,285)	-0.7%
Work-in-Progress	321,289	1,177,538	856,249	266.5%
Total Electric Capital Assets	\$ 51,600,909	\$ 52,077,873	\$ 476,964	0.9%
Water Division				
	Balance 12/31/2017	Balance 12/31/2018	Increase (Decrease)	Percent
Plant In Service				
Land	\$ 979,967	\$ 979,967	\$ -	0.0%
Source of Supply	5,904,278	6,697,932	793,654	13.4%
Water Treatment Plant	8,822,115	8,660,919	(161,196)	-1.8%
Transmission & Distribution Plant	41,664,979	42,082,006	417,027	1.0%
General Plant	1,472,438	1,855,745	383,307	26.0%
Total Water Plant in Service	58,843,777	60,276,569	1,432,792	2.4%
Work-in-Progress	51,711	185,858	134,147	259.4%
Total Water Capital Assets	\$ 58,895,488	\$ 60,462,427	\$ 1,566,939	2.7%
Consolidated				
Total MPS Capital Assets	\$ 110,496,397	\$ 112,540,300	\$ 2,043,903	1.8%

MANAGEMENT'S DISCUSSION AND ANALYSIS

LONG-TERM DEBT

Table 4, Long-Term Debt, provides a summary of the changes in the outstanding long-term debt of MPS. The table presents the changes in value for each division separately, and in combined form.

The combined total debt at the end of 2018 was \$41.8 million. The net change was an overall decrease of \$3.4 million, or 7.6%. The Electric Division's long-term debt decreased by \$2.1 million, or 8.2%. The Water Division's long-term debt decreased by \$1.3 million, or 6.7%. Additional information on long-term debt can be found in Note 4 in the Notes to Financial Statements.

MPS reported \$3.9 million as a net pension liability for the year ending December 31, 2018. 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 12/31/2017	Balance 12/31/2018	Increase (Decrease)	Percent
OPEB Obligations	\$ 161,722	\$ 283,082	\$ 121,360	75.0%
Net Pension Liability	2,738,707	2,369,929	(368,778)	-13.5%
Notes Payable	58,100	29,050	(29,050)	-50.0%
Public Utility Revenue & Refunding Bonds	25,020,164	23,192,793	(1,827,371)	-7.3%
Total Long-Term Debt	27,978,693	25,874,854	(2,103,839)	-7.5%
Less: Current Portion				
Notes Payable	58,100	29,050	(29,050)	-50.0%
Public Utility Revenue & Refunding Bonds	1,789,250	1,864,300	75,050	4.2%
Total Current Portion of Long-Term Debt	1,847,350	1,893,350	46,000	2.5%
Net Long-Term Debt	\$ 26,131,343	\$ 23,981,504	\$ (2,149,839)	-8.2%
Water Division				
	Balance 12/31/2017	Balance 12/31/2018	Increase (Decrease)	Percent
OPEB Obligations	\$ 107,814	\$ 188,722	\$ 80,908	75.0%
Net Pension Liability	1,825,807	1,579,955	(245,852)	-13.5%
Notes Payable	13,109,252	12,413,000	(696,252)	100.0%
Public Utility Revenue & Refunding Bonds	5,203,897	4,793,435	(410,462)	-7.9%
Total Long-Term Debt	20,246,770	18,975,112	(1,271,658)	-6.3%
Less: Current Portion				
Notes Payable	733,000	730,000	(3,000)	100.0%
Public Utility Revenue & Refunding Bonds	405,750	425,700	19,950	4.9%
Total Current Portion of Long-Term Debt	1,138,750	1,155,700	16,950	1.5%
Net Long-Term Debt	\$ 19,108,020	\$ 17,819,412	\$ (1,288,608)	-6.7%
Consolidated				
Total MPS Net Long-Term Debt	\$ 45,239,363	\$ 41,800,916	\$ (3,438,447)	-7.6%

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, 2018

	Electric	Water	Total
ASSETS			
CURRENT ASSETS			
Cash and equivalents	\$ 6,382,112	\$ 1,508,663	\$ 7,890,775
Accounts receivable, net	2,262,007	480,866	2,742,873
Accounts receivable - unbilled revenues	3,048,600	553,600	3,602,200
Accrued interest receivable	104,291	19,865	124,156
Inventories	1,101,227	248,843	1,350,070
Prepaid items	50,406	47	50,453
Due from other governmental units	288,660	-	288,660
	<u>13,237,303</u>	<u>2,811,884</u>	<u>16,049,187</u>
RESTRICTED ASSETS			
Revenue bond account	428,140	100,308	528,448
Bond reserve account	2,615,223	642,577	3,257,800
Unspent bond proceeds	868	-	868
	<u>3,044,231</u>	<u>742,885</u>	<u>3,787,116</u>
OTHER ASSETS			
Notes receivable	93,092	-	93,092
Bond operations and maintenance reserve	4,686,000	870,000	5,556,000
Other long-term investments	15,005,510	2,558,472	17,563,982
	<u>19,784,602</u>	<u>3,428,472</u>	<u>23,213,074</u>
CAPITAL ASSETS			
In-service	85,480,668	85,964,548	171,445,216
Land	1,071,555	979,967	2,051,522
Work-in-progress	1,177,538	185,858	1,363,396
	<u>87,729,761</u>	<u>87,130,373</u>	<u>174,860,134</u>
Less accumulated depreciation	35,651,888	26,667,946	62,319,834
	<u>52,077,873</u>	<u>60,462,427</u>	<u>112,540,300</u>
Total assets	<u>88,144,009</u>	<u>67,445,668</u>	<u>155,589,677</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension plans	455,474	303,649	759,123
Total assets and deferred outflows	<u>\$ 88,599,483</u>	<u>\$ 67,749,317</u>	<u>\$ 156,348,800</u>

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

	Electric	Water	Total
LIABILITIES			
CURRENT LIABILITIES			
Payable from current assets			
Accounts payable	\$ 1,377,861	\$ 238,831	\$ 1,616,692
Power costs payable	1,976,785	-	1,976,785
Sales tax payable	163,601	-	163,601
Customer deposits	222,557	-	222,557
Compensated absences	473,000	315,000	788,000
Due to other city funds	1,636,061	484,797	2,120,858
	<u>5,849,865</u>	<u>1,038,628</u>	<u>6,888,493</u>
Payable from restricted assets			
Accrued interest	102,540	54,636	157,176
Current maturities of leases and notes	29,050	730,000	759,050
Current maturities of bonds payable	1,864,300	425,700	2,290,000
	<u>1,995,890</u>	<u>1,210,336</u>	<u>3,206,226</u>
LONG-TERM DEBT			
OPEB obligation	283,082	188,722	471,804
Net pension liability	2,369,929	1,579,955	3,949,884
Notes payable, less current maturities	-	11,683,000	11,683,000
Bonds payable, less current maturities	20,975,850	4,324,150	25,300,000
Premium on bonds payable	352,643	43,585	396,228
	<u>23,981,504</u>	<u>17,819,412</u>	<u>41,800,916</u>
Total liabilities	<u>31,827,259</u>	<u>20,068,376</u>	<u>51,895,635</u>
DEFERRED INFLOWS OF RESOURCES			
Pension plans	<u>625,691</u>	<u>417,128</u>	<u>1,042,819</u>
Total liabilities and deferred inflows	<u>32,452,950</u>	<u>20,485,504</u>	<u>52,938,454</u>
NET POSITION			
NET POSITION			
Net investment in capital assets	28,856,898	43,255,992	72,112,890
Restricted for:			
Debt service	3,044,231	742,885	3,787,116
Unrestricted	<u>24,245,404</u>	<u>3,264,936</u>	<u>27,510,340</u>
Total net position	<u>56,146,533</u>	<u>47,263,813</u>	<u>103,410,346</u>
Total liabilities and net position	<u>\$ 88,599,483</u>	<u>\$ 67,749,317</u>	<u>\$ 156,348,800</u>

MOORHEAD PUBLIC SERVICE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2018

	Electric	Water	Total
OPERATING REVENUES			
Charges for services	\$ 41,840,882	\$ 9,240,766	\$ 51,081,648
Other	2,789,316	53,720	2,843,036
Total operating revenues	44,630,198	9,294,486	53,924,684
OPERATING EXPENSES			
Purchased power	19,377,887	-	19,377,887
Production of power	223,727	-	223,727
Transmission	2,582,805	-	2,582,805
Distribution	2,582,413	1,369,793	3,952,206
Source of supply and pumping	-	284,022	284,022
Water treatment	-	2,089,862	2,089,862
Customer accounts	845,539	358,056	1,203,595
Administrative	2,290,050	1,217,264	3,507,314
Depreciation and amortization	2,793,083	1,895,994	4,689,077
Total operating expenses	30,695,504	7,214,991	37,910,495
OPERATING INCOME	13,934,694	2,079,495	16,014,189
NONOPERATING REVENUES (EXPENSES)			
Interest income and market adjustments	326,175	65,505	391,680
Gain on sale of capital assets	(73,129)	4,988	(68,141)
Other income	525,144	336,744	861,888
Interest expense	(776,672)	(353,524)	(1,130,196)
Total nonoperating revenues (expenses)	1,518	53,713	55,231
INCOME BEFORE TRANSFERS AND CONTRIBUTED CAPITAL	13,936,212	2,133,208	16,069,420
TRANSFERS OUT TO OTHER FUNDS			
City general fund	(6,725,000)	(463,531)	(7,188,531)
City economic development fund	(50,000)	-	(50,000)
City capital improvement fund	(2,047,765)	(126,000)	(2,173,765)
Total transfers out	(8,822,765)	(589,531)	(9,412,296)
CONTRIBUTION OF CAPITAL ASSETS	69,867	267,744	337,611
CHANGE IN NET POSITION	5,183,314	1,811,421	6,994,735
NET POSITION, BEGINNING OF YEAR (SEE FOOTNOTE 10)	50,963,219	45,452,392	96,619,113
NET POSITION, END OF YEAR	\$ 56,146,533	\$ 47,263,813	\$ 103,410,346

MOORHEAD PUBLIC SERVICE
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2018

	Electric	Water	Total
OPERATING ACTIVITIES			
Receipts from customers and users	\$ 45,120,268	\$ 9,558,015	\$ 54,678,283
Payments to suppliers	(26,612,884)	(4,129,752)	(30,742,636)
Payments to employees	(2,094,690)	(1,087,356)	(3,182,046)
NET CASH FROM OPERATING ACTIVITIES	<u>16,412,694</u>	<u>4,340,907</u>	<u>20,753,601</u>
NON-CAPITAL FINANCING ACTIVITIES			
Transfers to other funds	(8,822,765)	(589,531)	(9,412,296)
Payments received on notes and special receivables	-	2,887	2,887
New issuance of notes and special receivables	(2,079)	-	(2,079)
Decrease in due from other funds	709,942	-	709,942
Increase (decrease) in due to other funds	183,537	(157,281)	26,256
Increase in net pension liability and related deferred inflows and outflows of resources	<u>2,991</u>	<u>1,995</u>	<u>4,986</u>
NET CASH USED FOR NON-CAPITAL FINANCING ACTIVITIES	<u>(7,928,374)</u>	<u>(741,930)</u>	<u>(8,670,304)</u>
CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(3,482,880)	(3,298,318)	(6,781,198)
Proceeds related to sale of assets	-	4,988	4,988
Proceeds from the issuance of long-term debt	-	27,213	27,213
Debt service - principal	(1,818,300)	(1,129,215)	(2,947,515)
Debt service - interest and fees	(821,353)	(364,934)	(1,186,287)
Net pension liability and related deferred inflows and outflows of resources	<u>(122,101)</u>	<u>(81,401)</u>	<u>(203,502)</u>
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(6,244,634)</u>	<u>(4,841,667)</u>	<u>(11,086,301)</u>
INVESTING ACTIVITIES			
Interest received and market adjustments	318,800	64,100	382,900
Purchase of investments	(3,670,494)	(3,428)	(3,673,922)
Proceeds from the sale of investments	<u>3,289,136</u>	<u>3,428</u>	<u>3,292,564</u>
NET CASH FROM (USED FOR) INVESTING ACTIVITIES	<u>(62,558)</u>	<u>64,100</u>	<u>1,542</u>
NET CHANGE IN CASH BALANCE	2,177,128	(1,178,590)	998,538
CASH BALANCE, JANUARY 1	<u>4,204,984</u>	<u>2,687,253</u>	<u>6,892,237</u>
CASH BALANCE, DECEMBER 31	<u>\$ 6,382,112</u>	<u>\$ 1,508,663</u>	<u>\$ 7,890,775</u>

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

	<u>Electric</u>	<u>Water</u>	<u>Total</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES			
Operating income	\$ 13,934,694	\$ 2,079,495	\$ 16,014,189
Adjustments to reconcile operating income to net cash from operating activities			
Depreciation and amortization	2,793,083	1,895,994	4,689,077
Depreciation expensed to vehicle expense	209,571	103,129	312,700
Other income	525,144	336,745	861,889
Change in assets and liabilities			
Receivables	253,586	(73,216)	180,370
Inventories	362,608	(26,806)	335,802
Prepaid items	14,703	30,514	45,217
Due from others	(288,660)	-	(288,660)
OPEB obligations	121,360	80,908	202,268
Accounts payable	(1,587,395)	(134,856)	(1,722,251)
Accrued vacations and severance pay	74,000	49,000	123,000
	<u> </u>	<u> </u>	<u> </u>
NET CASH FROM OPERATING ACTIVITIES	<u>\$ 16,412,694</u>	<u>\$ 4,340,907</u>	<u>\$ 20,753,601</u>
 SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES			
Changes in capital assets through contributed capital	<u>\$ 69,867</u>	<u>\$ 267,744</u>	<u>\$ 337,611</u>

**MOORHEAD PUBLIC SERVICE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Implementation of GASB Statement No. 75

As of January 1, 2018, Moorhead Public Service adopted GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The implementation of this standard replaces the requirements of GASB Statement No. 45 Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, and requires governmental entities to calculate and report the costs and obligations associated with postemployment benefits other than pensions (OPEB) in their basic financial statements. Employers are required to recognize OPEB amounts for all benefits provided through the plan which include the OPEB Liability (trusted plan) or Total OPEB Liability (non-trusted plan), deferred outflows of resources, deferred inflows of resources, and OPEB expense. The additional disclosures required by this standard are included within Note 4.

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.

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

Moorhead Public Service 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 20 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 2018, the allowances for uncollectible accounts were \$2,340 for electric division receivables and \$1,360 for water division receivables.

Notes receivable are stated at principal amounts and are uncollateralized. Notes receivable at year-end 2018 consisted of interest-bearing loans to customers who installed dual fuel heating equipment as well as amounts due from customers enrolled in MPS' 2018 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.

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 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.

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.

NOTES TO FINANCIAL STATEMENTS

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.

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, 2018, 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.

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.

Investments

Minnesota 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, 2018, Moorhead Public Service had the following investments and maturities:

Restricted Investment Type	Fair Value	Investment Maturities (in Years)				
		Not Applicable	< 1	1 - 5	> 5 - 10	> 10
Government Bonds	\$ 2,638,498	\$ -	\$ 544,370	\$ 2,076,728	\$ 17,400	\$ -
Money Market Funds	1,148,618	1,148,618			-	-
Total Restricted Investments	<u>\$ 3,787,116</u>	<u>\$ 1,148,618</u>	<u>\$ 544,370</u>	<u>\$ 2,076,728</u>	<u>\$ 17,400</u>	<u>\$ -</u>

Unrestricted Investment Type	Fair Value	Investment Maturities (in Years)				
		Not Applicable	< 1	1 - 5	> 5 - 10	> 10
Government Bonds	<u>\$ 23,119,982</u>	<u>\$ -</u>	<u>\$ 3,722,836</u>	<u>\$ 15,340,376</u>	<u>\$ 3,849,160</u>	<u>\$ 207,610</u>

Moorhead Public Service categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

As of December 31, 2018, all of Moorhead Public Service's investments are valued using quoted market prices (Level 1 inputs).

NOTES TO FINANCIAL STATEMENTS

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. An income reserve account in an amount sufficient to cover the operation and maintenance costs of the utility for an ensuing two-month period.
4. A bond proceeds account is set up to record the unexpended bond proceeds.

As of December 31, 2018, Moorhead Public Service was in compliance with all bond resolutions.

NOTES TO FINANCIAL STATEMENTS

NOTE 3 – CAPITAL ASSETS

Capital assets for the Electric Fund are as follows:

Electric Fund	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 951,747	\$ 119,808	\$ -	\$ 1,071,555
Construction work in progress	321,289	3,624,866	2,768,617	1,177,538
	<u>1,273,036</u>	<u>3,744,674</u>	<u>2,768,617</u>	<u>2,249,093</u>
Capital assets, being depreciated:				
Miscellaneous intangible plant	1,288,813	-	-	1,288,813
Production plant	8,341,094	43,537	-	8,384,631
Transmission plant	16,073,702	92,570	-	16,166,272
Distribution plant	46,203,783	1,426,436	573,801	47,056,418
General plant	12,106,793	1,086,266	608,525	12,584,534
	<u>84,014,185</u>	<u>2,648,809</u>	<u>1,182,326</u>	<u>85,480,668</u>
Less accumulated depreciation for:				
Miscellaneous intangible plant	305,776	103,344	-	409,120
Production plant	2,602,687	327,233	-	2,929,920
Transmission plant	6,658,676	432,937	-	7,091,613
Distribution plant	18,728,433	1,514,553	573,801	19,669,185
General plant	5,390,740	624,587	463,277	5,552,050
	<u>33,686,312</u>	<u>3,002,654</u>	<u>1,037,078</u>	<u>35,651,888</u>
Total capital assets, being depreciated, net	<u>50,327,873</u>	<u>(353,845)</u>	<u>145,248</u>	<u>49,828,780</u>
Capital assets, net	<u>\$ 51,600,909</u>	<u>\$ 3,390,829</u>	<u>\$ 2,913,865</u>	<u>\$ 52,077,873</u>

Capital assets for the Water Fund are as follows:

Water Fund	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 979,967	\$ -	\$ -	\$ 979,967
Construction work in progress	51,711	3,566,062	3,431,915	185,858
	<u>1,031,678</u>	<u>3,566,062</u>	<u>3,431,915</u>	<u>1,165,825</u>
Capital assets, being depreciated:				
Source of supply plant structure and improvements	10,484,553	1,081,756	-	11,566,309
Pumping plant	30,914	-	-	30,914
Water treatment plant	17,009,765	164,330	-	17,174,095
Transmission and distribution plant	52,345,614	1,586,987	33,584	53,899,017
General plant	2,695,371	598,842	-	3,294,213
	<u>82,566,217</u>	<u>3,431,915</u>	<u>33,584</u>	<u>85,964,548</u>
Less accumulated depreciation for:				
Source of supply plant structure and improvements	4,580,275	288,102	-	4,868,377
Pumping plant	30,914	-	-	30,914
Water treatment plant	8,187,650	325,526	-	8,513,176
Transmission and distribution plant	10,680,635	1,169,960	33,584	11,817,011
General plant	1,222,933	215,535	-	1,438,468
	<u>24,702,407</u>	<u>1,999,123</u>	<u>33,584</u>	<u>26,667,946</u>
Total capital assets, being depreciated, net	<u>57,863,810</u>	<u>1,432,792</u>	<u>-</u>	<u>59,296,602</u>
Capital assets, net	<u>\$ 58,895,488</u>	<u>\$ 4,998,854</u>	<u>\$ 3,431,915</u>	<u>\$ 60,462,427</u>

NOTES TO FINANCIAL STATEMENTS

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

Business-type activities:	
Electric Division	\$ 3,002,654
Water Division	<u>1,999,123</u>
Total depreciation expense - business-type activities	\$ 5,001,777
 Depreciation and amortization per Statement of Revenues, Expenses, and Changes in Net Position	 \$ <u>4,689,077</u>
Difference from Statement of Revenues, Expenses, and Changes in Net Position	<u>\$ 312,700</u>

Depreciation and amortization expense reflected in the Statement of Revenues, Expenses, and Changes In Net Position is \$4,689,077. The difference of \$312,700 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, 2018.

	Beginning Balance	Additions	Reductions	Ending Balance	Long-Term After One Year	Due Within One Year
Compensated Absences	\$ 665,000	\$ 123,000	\$ -	\$ 788,000	\$ -	\$ 788,000
Notes Payable	13,167,352	27,213	752,515	12,442,050	11,683,000	759,050
Public Utility Revenue & Refunding Bonds						
Series 2007A	4,350,000	-	365,000	3,985,000	3,600,000	385,000
Series 2009A	805,000	-	100,000	705,000	600,000	105,000
Series 2010A	9,060,000	-	960,000	8,100,000	7,090,000	1,010,000
Series 2012E	3,250,000	-	280,000	2,970,000	2,680,000	290,000
Series 2016A	12,320,000	-	490,000	11,830,000	11,330,000	500,000
Plus (less) unamortized discount or premium	439,061	-	42,833	396,228	-	-
	<u>\$ 44,056,413</u>	<u>\$ 150,213</u>	<u>\$ 2,990,348</u>	<u>\$ 41,216,278</u>	<u>\$ 36,983,000</u>	<u>\$ 3,837,050</u>

Revenue & Refunding Bonds

The following is a summary of bonds payable for the year ended December 31, 2018:

	Interest Rates	Electric	Water	Total
Public Utility Revenue & Refunding Bonds				
Series 2007A	5.17%	\$ 1,872,950	\$ 2,112,050	\$ 3,985,000
Series 2009A	3.0% - 4.75%	705,000	-	705,000
Series 2010C	2.0% - 4.875%	6,763,500	1,336,500	8,100,000
Series 2012E	2.0% - 3.0%	2,970,000	-	2,970,000
Series 2016A	2.0% - 4.0%	10,528,700	1,301,300	11,830,000
		22,840,150	4,749,850	27,590,000
Less current maturities		(1,864,300)	(425,700)	(2,290,000)
Net bonds payable, less current maturities		20,975,850	4,324,150	25,300,000
Plus (less) unamortized discount or premium		352,643	43,585	396,228
		<u>\$ 21,328,493</u>	<u>\$ 4,367,735</u>	<u>\$ 25,696,228</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.

NOTES TO FINANCIAL STATEMENTS

The net revenues of 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.

Principal repayments on the debt to maturity are as follows:

	Electric		Water	
	Principal	Interest	Principal	Interest
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	2,086,375	525,125	483,625	130,332
2023	2,172,950	453,243	507,050	110,485
2024-2036	12,778,925	1,866,508	2,426,075	323,119
	<u>\$ 22,840,150</u>	<u>\$ 4,806,210</u>	<u>\$ 4,749,850</u>	<u>\$ 1,063,093</u>

Notes Payable

The following is a summary of notes payable for the year ended December 31, 2018:

	Interest Rates	Electric	Water	Total
Minnesota Public Facilities Authority				
Drinking Water SRF Bond Fund Loan				
MPFA-09-0036-R-FY15	1.02%	\$ -	\$ 10,270,000	\$ 10,270,000
MPFA-DWRF-L-0006-FY16	1.00%	-	2,143,000	2,143,000
Property Purchase Agreement	2.00%	29,050	-	29,050
		29,050	12,413,000	12,442,050
Less current maturities		(29,050)	(730,000)	(759,050)
		<u>\$ -</u>	<u>\$ 11,683,000</u>	<u>\$ 11,683,000</u>

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

	Electric		Water	
	Principal	Interest	Principal	Interest
2019	\$ 29,050	\$ 581	\$ 730,000	\$ 126,184
2020	-	-	715,000	118,761
2021	-	-	724,000	111,491
2022	-	-	731,000	104,130
2023	-	-	739,000	96,698
2024-2035	-	-	8,774,000	551,941
	<u>\$ 29,050</u>	<u>\$ 581</u>	<u>\$ 12,413,000</u>	<u>\$ 1,109,205</u>

OPEB Obligations

A. 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 who have reached age 55 with at least 5 years of service. 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. A separately issued report is not available.

B. Benefits Provided

Moorhead Public Service allows access to the contract groups other post-retirement benefits of blended medical premiums of \$617 for single and \$1,267 for family coverage. The implicit rate subsidy is only until Medicare eligibility. There are no subsidized post-employment medical, dental, or life benefits.

C. Employees Covered by Benefit Terms

At the valuation date of January 1, 2017, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	4
Inactive employees entitles to but not yet receiving benefit payments	-
Active employees	57
Total	<u>61</u>

D. Total OPEB Liability

Moorhead Public Service's total OPEB liability of \$471,804 was measured as of January 1, 2018 and was determined by an actuarial valuation as of January 1, 2017.

E. Actuarial Assumptions

The total OPEB liability in the January 1, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%	
Salary increases	3.00%	
Discount Rate	3.30%	
Healthcare cost trend rates	6.25% in 2018 grading to 5.00% over 5 years	
Retiree Plan Participation	Future Retirees Electing Coverage	
	Pre-65 subsidy available	N/A
	Pre-65 subsidy not available	40%

NOTES TO FINANCIAL STATEMENTS

Percent of Married Retirees
Electing Spouse Coverage

Percent Future Retirees Electing Pre-65
Spouse Coverage:

Spouse subsidy available	N/A
Spouse subsidy not available	25%

Since the plan is not funded (has no assets), the discount rate was developed by estimating the long term investment yield on the employer funds that will be used to pay benefits as they come due.

Mortality rates used were based on the RP-2014 White Collar Mortality Tables with MP-2016 Generational Improvement Scale as developed and recommended by the Society of Actuaries.

The actuarial assumptions used in the January 1, 2017 valuation were based on the results of an actuarial experience study as of January 1, 2017.

F. Changes in the Total OPEB Liability

Balance at January 1, 2017	\$ 473,038
Changes from the Prior Year:	
Service Cost	31,306
Interest Cost	15,851
Benefit Payments	(48,391)
Total Changes	<u>(1,234)</u>
Balance at January 1, 2018	<u>\$ 471,804</u>

G. Sensitivity of the Total OPEB Liability to Changes in Discount Rate and the Healthcare Cost Trend Rates

The following presents the total OPEB liability of Moorhead Public Service, as well as what Moorhead Public Service's total OPEB liability would be if it were calculated using a discount rate 1 percentage point lower and 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>
Total OPEB Liability	\$ 501,858	\$ 471,804	\$ 443,612
Discount Rate	2.30%	3.30%	4.30%

The following presents the total OPEB liability of Moorhead Public Service, as well as what Moorhead Public Service's total OPEB liability would be if it were calculated using a healthcare trend rate 1 percentage point lower and 1 percentage point higher than the current healthcare trend rate:

	1% Decrease In Healthcare Trend Rate	Healthcare Trend Rate	1% Increase In Healthcare Trend Rate
Total OPEB Liability	\$ 426,807	\$ 471,804	\$ 525,782
Healthcare Trend Rate	5.25% decreasing to 4.00% over 5 years	6.25% decreasing to 5.00% over 5 years	7.25% decreasing to 6.00% over 5 years

H. OPEB Expense and Deferred Outflows and Inflows of Resources Related to OPEB

For the year ended December 31, 2018, Moorhead Public Service recognized OPEB expense of \$47,157. At December 31, 2018, Moorhead Public Service had no deferred outflows of resources related to OPEB to report.

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, 2018, is as follows.

Payable	Amount
Electric Fund - Due to City of Moorhead's General, Capital Improvement, Economic Development, Sanitation, and Wastewater Funds	\$ 1,636,061
Water Fund - Due to City of Moorhead General Fund	\$ 484,797

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 2018, the Moorhead City Council and Moorhead Public Service Commission entered into a five-year extension to the original 2014 Electric Fund Transfer Agreement (Transfer Agreement) for years 2015 to 2018. The extension will be in effect for years 2019 through 2023.

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 2018, the Electric Division transferred the base transfer of \$6,725,000 to the General Fund, 5%, or \$2,047,765 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 2018, the Water Division transferred 5%, or \$463,531 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.

<u>Appropriation Transfers - Electric Division</u>		<u>2018</u>
City General Fund	\$	6,725,000
City Capital Improvement Fund		2,047,765
City Economic Development Fund		50,000
Total	\$	<u><u>8,822,765</u></u>

<u>Appropriation Transfers - Water Division</u>		<u>2018</u>
City General Fund	\$	463,531
City Capital Improvement Fund		126,000
Total	\$	<u><u>589,531</u></u>

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.

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. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2 percent of average salary for each of the first 10 years of service and 1.7 percent of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent of average salary for all years 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.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. If the General Employees Plan is at least 90 percent funded for two consecutive years, benefit recipients are given a 2.5 percent increase. If the plan has not exceeded 90 percent funded, or have fallen below 80 percent, benefit recipients are given a one percent increase. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30, will receive a pro rata increase.

NOTES TO FINANCIAL STATEMENTS

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. Coordinated Plan members were required to contribute 6.50% of their annual covered salary in calendar year 2018. MPS was required to contribute 7.50% for Coordinated Plan members in calendar year 2018. Contributions made by MPS to the GERS for the year ended December 31, 2018, were \$358,722. Contributions made by MPS were equal to the required contributions as set by state statute.

D. Pension Costs

At December 31, 2018, MPS reported a liability of \$3,949,884 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 \$16 million to the fund in 2018. 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 \$129,501. The net pension liability was measured as of June 30, 2018, 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, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers.

At June 30, 2018, MPS' proportion share was 0.0712% which was a decrease of 0.0003% from its proportion measured as of June 30, 2017.

MPS' proportionate share of the net pension liability	\$	3,949,884
State of Minnesota's proportionate share of the net pension liability associated with MPS		129,501
Total	\$	<u>4,079,385</u>

For the year ended December 31, 2018, the MPS recognized pension expense of \$224,280 for its proportionate share of the GERS's pension expense. In addition, MPS recognized an additional \$30,199 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At December 31, 2018, 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	\$ 104,968	\$ 114,230
Changes in actuarial assumptions	374,134	445,092
Net collective difference between projected and actual investment earnings	-	412,763
Changes in proportion	79,974	70,734
Contributions paid to PERA subsequent to the measurement date	200,047	-
Total	<u>\$ 759,123</u>	<u>\$ 1,042,819</u>

The \$200,047 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, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31,	Pension Expense Amount
2019	\$ 164,338
2020	(203,998)
2021	(325,802)
2022	(82,441)
Thereafter	-

E. Actuarial Assumptions

The total pension liability in the June 30, 2018, 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 for all plans were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25 percent per year for the General Employees Plan, 1.0 percent per year for the Police and Fire Plan, and 2.0 percent per year for the Correctional Plan.

Actuarial assumptions used in the June 30, 2018 valuation were based on the results of actuarial experience studies. The most recent six-year experience study in the General Employees Plan was completed in 2015. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

NOTES TO FINANCIAL STATEMENTS

The following changes in actuarial assumptions occurred in 2018:

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed post-retirement benefit increase was changed from 1.0 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return 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 geometric 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	36%	5.10%
International Stocks	17%	5.30%
Bonds (Fixed Income)	20%	0.75%
Alternative Assets (Private Markets)	25%	5.90%
Cash	2%	0.00%
Total	100%	

F. Discount Rate

The discount rate used to measure the total pension liability in 2018 was 7.50 percent. 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 Moorhead Public Service's proportionate share of the net pension liability calculated using the discount rate disclosed in the preceding paragraph, as well as what the Moorhead Public Service's proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

	1% Lower	Current Discount Rate	1% Higher
General Employees Fund Discount Rate	6.50%	7.50%	8.50%
Moorhead Public Service's proportionate share of GERS net pension liability	\$ 6,419,067	\$ 3,949,884	\$ 1,911,644

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.

NOTE 8 - PUBLIC EMPLOYEES DEFINED CONTRIBUTION PLAN (DEFINED CONTRIBUTION PLAN)

Fifty-eight employees, public service commission board members of Moorhead Public Service are covered by the Defined Contribution Plan, a multiple-employer deferred compensation plan administered by PERA. The Defined Contribution Plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minnesota Statutes, Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes five percent of salary which is matched by the elected official's employer. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives two percent of employer contributions and twenty-five hundredths of one percent (0.25 percent) of the assets in each member's account annually.

Total contributions made by the Moorhead Public Service during fiscal year 2018 were:

Contribution Amount		Percentage of Covered Payroll		Required
Employee	Employer	Employee	Employer	Rate
\$310,893	\$358,722	6.5%	7.5%	7.5%

NOTE 9 - 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.

NOTES TO FINANCIAL STATEMENTS

NOTE 10 – ADOPTION OF NEW STANDARD

As of January 1, 2018, MPS adopted GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The implementation of this standard replaces the requirements of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, and requires governments calculate and report the cost and obligations associated with other postemployment benefits other than pensions in their financial statements, including additional note disclosures and required supplementary information. Beginning net position was restated to retroactively remove the prior OPEB liability reported under GASB Statement No. 45 and adopt the provisions of GASB Statement No. 75 to report the beginning total OPEB liability as follows:

	Electric	Water
Net Position - December 31, 2017, as previously reported	\$ 51,085,320	\$ 45,533,793
Remove OPEB Liability previously reported under GASB Statement No. 45	161,722	107,814
Add total OPEB liability under GASB Statement No. 75 at December 31, 2017	<u>(283,823)</u>	<u>(189,215)</u>
Net Position - January 1, 2018, as restated	\$ 50,963,219	\$ 45,452,392

NOTE 11 –FUTURE IMPLEMENTATION OF APPROVED GASB STANDARDS

As of December 31, 2018, there are a number of GASB Standards that have been issued the Governmental Accounting Standards Board (GASB) that are not effective as of December 31, 2018 but will be implemented in future years.

The first statement issued but not yet implemented that will affect governmental entities is statement No. 83, Certain Asset Retirement Obligations. This statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for certain asset retirement obligations (AROs). This statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring disclosures related to those AROs. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. This statement will be implemented by governmental entities in the year ended December 31, 2019.

The second statement issued but not yet implemented that will affect governmental entities is statement No. 84, Fiduciary Activities. This statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity which meets the criteria outlined in this statement should be reported in a fiduciary fund in the basic financial statements. This statement also outlines and describes the types of fiduciary funds that should be reported. This statement will be implemented by governmental entities in the year ended December 31, 2019.

The third statement issued but not yet implemented that will affect governmental entities is statement No. 87, Leases. This statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources. This statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This statement will be implemented by governmental entities in the year ended December 31, 2020.

REQUIRED SUPPLEMENTARY INFORMATION

MOORHEAD PUBLIC SERVICE
SCHEDULE OF CHANGES TO TOTAL OPEB LIABILITY AND RELATED RATIOS
DECEMBER 31, 2018

Schedule of Changes to Total OPEB Liability and Related Ratios, Last 10 Fiscal years *

	12/31/2018
Service cost	31,306
Interest	15,851
Changes in assumptions	0
Benefit payments	<u>(48,391)</u>
Net change in total OPEB liability	(1,234)
Total OPEB Liability - beginning	473,038
Total OPEB Liability - ending	471,804
Covered employee payroll	4,375,925
Total OPEB liability as a percentage of covered employee payroll	10.8%

* GASB Statement No. 75 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.

Notes to the Schedule of Changes in the Total OPEB Liability and Related Ratios

- No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

**MOORHEAD PUBLIC SERVICE
COST SHARING PENSION PLAN SCHEDULE
DECEMBER 31, 2018**

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	6/30/2018	0.0712%	\$ 3,949,884	\$ 129,501	\$ 3,949,884	\$ 4,484,756	113.5%	79.5%
GERF	6/30/2017	0.0715%	4,564,514	57,367	4,564,514	7,092,367	155.4%	75.9%
GERF	6/30/2016	0.0706%	5,732,370	74,844	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	12/31/2018	\$ 358,722	\$ 358,722	\$ -	\$ 5,038,230	7.1%
GERF	12/31/2017	345,294	345,294	-	4,808,451	7.2%
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

MOORHEAD PUBLIC SERVICE
ANALYSIS OF CAPITAL ASSETS AND ACCUMULATED DEPRECIATION/AMORTIZATION
YEAR ENDED DECEMBER 31, 2018

Electric Capital Assets				
	Balance 12/31/2017	Additions	Retirements	Balance 12/31/2018
PLANT IN SERVICE				
Miscellaneous				
Intangible plant	\$ 1,288,813		\$ -	\$ 1,288,813
Production plant				
Land	921,919	-	-	921,919
Structures and improvements	6,855,068	-	-	6,855,068
Accessory electric equipment	221,092	-	-	221,092
Wind turbine	1,264,934	43,537	-	1,308,471
	<u>8,341,094</u>	<u>43,537</u>	<u>-</u>	<u>8,384,631</u>
Transmission plant				
Land	29,828	119,808	-	149,636
Structures and improvements	16,073,702	92,570	-	16,166,272
Distribution plant				
Station equipment	9,679,518	-	-	9,679,518
Poles, towers, and fixtures	2,758,001	-	290,500	2,467,501
Underground conduit	21,654,760	791,709	168,500	22,277,969
Line transformers	6,151,681	428,775	86,680	6,493,776
Services	1,906,102	-	-	1,906,102
Meters	2,333,247	150,733	28,121	2,455,859
Installations on customer premises	220,642	-	-	220,642
Street lighting and signal systems	1,499,832	55,219	-	1,555,051
	<u>46,203,783</u>	<u>1,426,436</u>	<u>573,801</u>	<u>47,056,418</u>
General plant				
Structures and Improvements	3,683,007	364,526	-	4,047,533
Office furniture and equipment	1,445,902	258,133	266,236	1,437,799
Transportation equipment	2,812,893	338,766	342,289	2,809,370
Stores equipment	3,681	-	-	3,681
Tools, shop, and garage equipment	306,131	23,491	-	329,622
Communication equipment	3,855,179	101,350	-	3,956,529
	<u>12,106,793</u>	<u>1,086,266</u>	<u>608,525</u>	<u>12,584,534</u>
Total electric plant in service	<u>84,965,932</u>	<u>2,768,617</u>	<u>1,182,326</u>	<u>86,552,223</u>
CONSTRUCTION WORK-IN-PROGRESS	<u>321,289</u>	<u>3,624,866</u>	<u>2,768,617</u>	<u>1,177,538</u>
	<u>\$ 85,287,221</u>	<u>\$ 6,393,483</u>	<u>\$ 3,950,943</u>	<u>\$ 87,729,761</u>

Accumulated Depreciation/Amortization						Percent of Depreciation Amortization to Plant
Annual Depreciation Amortization Rates		Balance 12/31/2017	Provision	Retirements	Balance 12/31/2018	
10.0 - 12.5	%	\$ 305,776	\$ 103,344	\$ -	\$ 409,120	31.74%
		-			-	-
2		1,748,687	285,102	-	2,033,789	29.67%
3		221,092	-	-	221,092	100.00%
3		632,908	42,131	-	675,039	51.59%
		<u>2,602,687</u>	<u>327,233</u>	<u>-</u>	<u>2,929,920</u>	
		-	-	-	-	-
3		6,658,676	432,937	-	7,091,613	43.87%
2		4,293,938	308,554	-	4,602,492	47.55%
3		2,497,700	13,118	290,500	2,220,318	89.98%
2		7,051,312	784,232	168,500	7,667,044	34.42%
3		2,296,663	193,038	86,680	2,403,021	37.00%
3		1,185,181	58,178	-	1,243,359	65.23%
4		527,684	107,391	28,121	606,954	24.71%
4		95,321	4,593	-	99,914	45.28%
3		780,634	45,449	-	826,083	53.12%
		<u>18,728,433</u>	<u>1,514,553</u>	<u>573,801</u>	<u>19,669,185</u>	
10		866,748	86,783	-	953,531	23.56%
10		949,273	89,950	266,236	772,987	53.76%
5 - 25		1,190,216	209,571	197,041	1,202,746	42.81%
10		3,681	-	-	3,681	100.00%
10		269,736	10,398	-	280,134	84.99%
6		2,111,086	227,885	-	2,338,971	59.12%
		<u>5,390,740</u>	<u>624,587</u>	<u>463,277</u>	<u>5,552,050</u>	
		<u>33,686,312</u>	<u>3,002,654</u>	<u>1,037,078</u>	<u>35,651,888</u>	
		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
		\$ 33,686,312	\$ 3,002,654	\$ 1,037,078	\$ 35,651,888	

MOORHEAD PUBLIC SERVICE
ANALYSIS OF CAPITAL ASSETS AND ACCUMULATED DEPRECIATION/AMORTIZATION
YEAR ENDED DECEMBER 31, 2018

Water Capital Assets				
	Balance 12/31/2017	Additions	Retirements	Balance 12/31/2018
PLANT IN SERVICE				
Land	\$ 979,967	\$ -	\$ -	\$ 979,967
Source of supply plant structures and improvements	10,484,553	1,081,756	-	11,566,309
Pumping plant	30,914	-	-	30,914
Water treatment plant	17,009,765	164,330	-	17,174,095
Transmission and distribution plant				
Towers	1,652,798	-	-	1,652,798
Mains	48,592,332	1,527,152	24,173	50,095,311
Meters	2,100,484	59,835	9,411	2,150,908
	52,345,614	1,586,987	33,584	53,899,017
General plant				
Office furniture and equipment	73,769	-	-	73,769
Transportation equipment	1,381,442	59,484	-	1,440,926
Tools, shop, and garage equipment	145,640	-	-	145,640
Laboratory equipment	403,321	-	-	403,321
SCADA equipment	691,199	539,358	-	1,230,557
	2,695,371	598,842	-	3,294,213
Total water plant in service	83,546,184	3,431,915	33,584	86,944,515
CONSTRUCTION WORK-IN-PROGRESS	51,711	3,566,062	3,431,915	185,858
	\$ 83,597,895	\$ 6,997,977	\$ 3,465,499	\$ 87,130,373

Accumulated Depreciation/Amortization					Percent of Depreciation Amortization to Plant
Annual Depreciation Amortization Rates	Balance 12/31/2017	Provision	Retirements	Balance 12/31/2018	
%	\$ -	\$ -	\$ -	\$ -	0.0%
2 - 25	4,580,275	288,102	-	4,868,377	42.1%
2	30,914	-	-	30,914	100.0%
2 - 3	8,187,650	325,526	-	8,513,176	49.6%
		613,628			
2	726,845	33,056	-	759,901	46.0%
2	9,226,245	1,009,027	24,173	10,211,099	20.4%
3	727,545	127,877	9,411	846,011	39.3%
	10,680,635	1,169,960	33,584	11,817,011	
10	22,637	5,990	-	28,627	38.8%
12	665,515	103,129	-	768,644	53.3%
5	118,331	5,336	-	123,667	84.9%
10	214,982	33,883	-	248,865	61.7%
14	201,468	67,197	-	268,665	21.8%
	1,222,933	215,535	-	1,438,468	
	24,702,407	1,999,123	33,584	26,667,946	
	-	-	-	-	
	\$ 24,702,407	\$ 1,999,123	\$ 33,584	\$ 26,667,946	



**Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed In Accordance with
*Government Auditing Standards***

To the Public Service Commission
Moorhead Public Service
Moorhead, Minnesota

We have audited, 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, the financial statements of each major fund of Moorhead Public Service as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise Moorhead Public Service's basic financial statements, and have issued our report thereon dated May 7, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Moorhead Public Service's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Moorhead Public Service's internal control. Accordingly, we do not express an opinion on the effectiveness of Moorhead Public Service's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Moorhead Public Service's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Fargo, North Dakota
May 7, 2019

**MOORHEAD PUBLIC SERVICE
SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2018**

FINANCIAL STATEMENT FINDINGS

None reported.