



**FINANCIAL STATEMENTS
DECEMBER 31, 2019**

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, 2019, 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.

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, 2019, 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, 2019, 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.

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 to total OPEB liability and related ratios, Cost-Sharing Pension Plan Schedules, 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 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 May 14, 2020, 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.

Report on Other Legal and Regulatory Requirements

In accordance with the Legal Compliance Audit Guide prepared by the Office of the State Auditor pursuant to Minn. Stat. §6.65, we have also issued a report dated May 14, 2020 on our consideration of Moorhead Public Service's compliance with aspects of the provisions of the Minnesota Legal Compliance Audit Guide for Political Subdivisions. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing, and not directed primarily toward obtaining knowledge of noncompliance. That report is an integral part of procedures performed in accordance with the Office of the State Auditor's Minnesota Legal Compliance Audit Guide for Political Subdivisions in considering Moorhead Public Service's compliance with certain regulatory requirements pursuant to Minn. Stat. §6.65.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Fargo, North Dakota
May 14, 2020

**MOORHEAD PUBLIC SERVICE
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019**

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, 2019. This information is presented in conjunction with the audited basic financial statements that follow this section.

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

FINANCIAL HIGHLIGHTS FOR THE YEAR

- MPS' combined net position increased \$7.5 million, or 7.3%, from \$103.4 million to \$110.9 million. The Electric Fund's net position increased \$5.6 million from \$56.2 million to \$61.8 million. The Water Fund's net position increased \$1.9 million from \$47.3 million to \$49.2 million.
- Combined operating revenues decreased by \$758,000, or 1.4%, at \$53.2 million. Electric Fund operating revenues decreased \$830,000, or 1.9%, from \$44.6 million to \$43.8 million. Water Fund operating revenues increased \$72,000, or 0.8%, from \$9.3 million to \$9.4 million.
- Combined net transfers to the City of Moorhead increased \$73,000, or 0.8%, from \$9.4 million to \$9.5 million. Net Electric Fund transfers increased \$70,000, or 0.8%, from \$8.8 million to \$8.9 million. Water Fund transfers increased by \$3,000, or 0.5%, from \$590,000 to \$593,000.

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 Funds separately, and in combined form.

During 2019, the Electric Fund's total assets increased by \$2.5 million, or 2.8%. Within total assets, current and other assets increased by \$3.5 million while capital assets decreased by \$800,000.

During 2019, the Electric Fund's liabilities decreased by \$3.1 million, or 9.7%. 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 within the Electric Fund resulted in an increase of \$5.6 million, or 10.0%, which increased the net position from \$56.2 million to \$61.8 million.

During 2019, the Water Fund's total assets increased \$500,000, or 0.8%. Within total assets, current and other assets decreased by \$1.2 million while capital assets increased by \$1.8 million.

During 2019, the Water Fund's liabilities decreased by \$1.4 million, or 6.6%. 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 Fund of \$1.9 million, or 4.0%, which increased the net position from \$47.3 million to \$49.2 million.

Table 1

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

	Electric				Water				Combined			
	2019	2018	Dollar Change	Percent change	2019	2018	Dollar Change	Percent change	2019	2018	Dollar Change	Percent change
Current and Other Assets	39,559	36,066	3,493	9.7%	5,813	6,983	(1,170)	-16.8%	45,372	43,049	2,323	5.4%
Deferred Outflows of Resources	226	455	(229)	-50.3%	150	304	(154)	-50.7%	376	759	(383)	-50.5%
Capital Assets ¹	51,308	52,078	(770)	-1.5%	62,304	60,462	1,842	3.0%	113,612	112,540	1,072	1.0%
Total Assets	91,093	88,599	2,494	2.8%	68,267	67,749	518	0.8%	159,360	156,348	3,012	1.9%
Long-term Debt ²	16,885	23,982	(7,097)	-29.6%	15,602	17,819	(2,217)	-12.4%	32,487	41,801	(9,314)	-22.3%
Other Liabilities	11,936	7,844	4,092	52.2%	3,194	2,249	945	42.0%	15,130	10,093	5,037	49.9%
Deferred Inflows of Resources	490	626	(136)	-21.7%	327	417	(90)	-21.6%	817	1,043	(226)	-21.7%
Total Liabilities	29,311	32,452	(3,141)	-9.7%	19,123	20,485	(1,362)	-6.6%	48,434	52,937	(4,503)	-8.5%
Net investment in capital assets	30,018	28,857	1,161	4.0%	46,258	43,256	3,002	6.9%	76,276	72,113	4,163	5.8%
Restricted	3,048	3,045	3	0.1%	746	743	3	0.4%	3,794	3,788	6	0.2%
Unrestricted	28,716	24,245	4,471	18.4%	2,140	3,265	(1,125)	-34.5%	30,856	27,510	3,346	12.2%
Total Net Position	61,782	56,147	5,635	10.0%	49,144	47,264	1,880	4.0%	110,926	103,411	7,515	7.3%

¹ See Table 3 for details

² See Table 4 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 fund separately, and in combined form.

Combined total revenue was \$55.2 million in 2019. Total revenues of the Electric and Water Funds were \$45.4 million and \$9.8 million, respectively. The Electric Fund's total revenue decrease of 0.3% was primarily due to a slight decrease in consumer consumption coupled with a second straight year without an electric rate increase. The Water Fund experienced an increase in revenue of 1.4%. The increase was the result of a slight decrease in consumer consumption coupled with a 5.3% rate increase effective January 2019.

Combined total expenses including Transfers to the City were \$48.2 million in 2019. Within total expenses, operating expenses (net of depreciation) decreased 1.0% to \$32.9 million and net transfers to the City of Moorhead increased 0.8% to \$9.5 million.

MPS' combined net position increased by \$7.5 million, or 7.3%. The increase was the result of a \$5.6 million increase in the net position of the Electric Fund and a \$1.9 million increase in the net position of the Water Fund. Combined total revenues of \$55.2 million exceeded combined total expenses of \$48.2 million by \$7.0 million.

Table 2

Moorhead Public Service

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

	Electric				Water				Combined			
	2019	2018	Dollar Change	Percent change	2019	2018	Dollar Change	Percent change	2019	2018	Dollar Change	Percent change
Operating Revenues	43,800	44,630	(830)	-1.9%	9,366	9,294	72	0.8%	53,166	53,924	(758)	-1.4%
Nonoperating Revenues	1,551	853	698	81.8%	474	408	66	16.2%	2,025	1,261	764	60.6%
Total Revenue	45,351	45,483	(132)	-0.3%	9,840	9,702	138	1.4%	55,191	55,185	6	0.0%
Operating Expense	27,277	27,902	(625)	-2.2%	5,596	5,319	277	5.2%	32,873	33,221	(348)	-1.0%
Nonoperating Expenses	724	850	(126)	-14.8%	312	354	(42)	-11.9%	1,036	1,204	(168)	-14.0%
Depreciation Expense	2,852	2,793	59	2.1%	1,996	1,896	100	5.3%	4,848	4,689	159	3.4%
Transfers to City	8,893	8,823	70	0.8%	593	590	3	0.5%	9,486	9,413	73	0.8%
Total Expenses	39,746	40,368	(622)	-1.5%	8,497	8,159	338	4.1%	48,243	48,527	(284)	-0.6%
Income Before Capital Contributions	5,605	5,115	490	9.6%	1,343	1,543	(200)	-13.0%	6,948	6,658	290	4.4%
Capital Contributions	30	70	(40)	-57.1%	537	268	269	100.4%	567	338	229	67.8%
Changes in Net Position	5,635	5,185	450	8.7%	1,880	1,811	69	3.8%	7,515	6,996	519	72.2%
Beginning Net Position	56,147	50,962	5,185	10.2%	47,264	45,453	1,811	4.0%	103,411	96,415	6,996	7.3%
Ending Net Position	61,782	56,147	5,635	10.0%	49,144	47,264	1,880	4.0%	110,926	103,411	7,515	7.3%

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 fund separately, and in combined form.

Total capital assets at the end of 2019 were \$113.6 million compared to \$112.5 million at the end of 2018. Total capital assets increased \$1.1 million, or 1.0%. Net capital assets of the Electric Fund decreased by \$800,000, or 1.5%. Net capital assets of the Water Fund increased by \$1.8 million, or 3.0%.

After depreciation, the Electric Fund's increase in capital assets included an increase in work-in-progress of \$110,000 and an overall decrease of \$900,000 in total electric plant in-service assets.

After depreciation, the Water Fund's increase in capital assets included an increase in work-in-progress of \$1,500,000 and an overall increase of \$350,000 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 Fund				
	Balance 12/31/2018	Balance 12/31/2019	Increase (Decrease)	Percent
Plant in Service				
Land	\$ 1,071,555	\$ 1,071,555	\$ -	0.0%
Miscellaneous Intangible Plant	879,693	776,349	(103,344)	-11.7%
Production Plant	5,454,711	5,419,871	(34,840)	-0.6%
Transmission Plant	9,074,659	8,757,765	(316,894)	-3.5%
Distribution Plant	27,387,233	27,393,666	6,433	0.0%
General Plant	7,032,484	6,605,289	(427,195)	-6.1%
Total Electric Plant in Service	50,900,335	50,024,495	(875,840)	-1.7%
Work-in-Progress	1,177,538	1,283,777	106,239	9.0%
Total Electric Capital Assets	\$ 52,077,873	\$ 51,308,272	\$ (769,601)	-1.5%
Water Fund				
	Balance 12/31/2018	Balance 12/31/2019	Increase (Decrease)	Percent
Plant In Service				
Land	\$ 979,967	\$ 979,967	\$ -	0.0%
Source of Supply	6,697,932	6,471,248	(226,684)	-3.4%
Water Treatment Plant	8,660,919	8,324,438	(336,481)	-3.9%
Transmission & Distribution Plant	42,082,006	43,148,274	1,066,268	2.5%
General Plant	1,855,745	1,707,216	(148,529)	-8.0%
Total Water Plant in Service	60,276,569	60,631,143	354,574	0.6%
Work-in-Progress	185,858	1,672,982	1,487,124	800.1%
Total Water Capital Assets	\$ 60,462,427	\$ 62,304,125	\$ 1,841,698	3.0%
Consolidated				
Total MPS Capital Assets	\$ 112,540,300	\$ 113,612,397	\$ 1,072,097	1.0%

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 fund separately, and in combined form.

The combined total long-term debt at the end of 2019 was \$32.5 million. The net change was an overall decrease of \$9.3 million, or 22.3%. The decrease was due to reclassifying long-term debt as current debt for the planned early redemption of \$7.1 million in outstanding 2010 Build America Bonds. The Electric Fund's long-term debt decreased by \$7.1 million, or 29.6%. The Water Fund's long-term debt decreased by \$2.2 million, or 12.4%. 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, 2019. 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 Fund				
	Balance 12/31/2018	Balance 12/31/2019	Increase (Decrease)	Percent
OPEB Obligations	\$ 283,082	\$ 219,193	\$ (63,889)	-22.6%
Net Pension Liability	2,369,929	2,348,624	(21,305)	-0.9%
Notes Payable	29,050	-	(29,050)	-100.0%
Public Utility Revenue & Refunding Bonds	23,192,793	21,291,452	(1,901,341)	-8.2%
Total Long-Term Debt	25,874,854	23,859,269	(2,015,585)	-7.8%
Less: Current Portion				
Notes Payable	29,050	-	(29,050)	-100.0%
Public Utility Revenue & Refunding Bonds	1,864,300	6,974,400	5,110,100	274.1%
Total Current Portion of Long-Term Debt	1,893,350	6,974,400	5,081,050	268.4%
Net Long-Term Debt	\$ 23,981,504	\$ 16,884,869	\$ (7,096,635)	-29.6%
Water Fund				
	Balance 12/31/2018	Balance 12/31/2019	Increase (Decrease)	Percent
OPEB Obligations	\$ 188,722	\$ 146,129	\$ (42,593)	-22.6%
Net Pension Liability	1,579,955	1,565,749	(14,206)	-0.9%
Notes Payable	12,413,000	11,683,000	(730,000)	100.0%
Public Utility Revenue & Refunding Bonds	4,793,435	4,363,157	(430,278)	-9.0%
Total Long-Term Debt	18,975,112	17,758,035	(1,217,077)	-6.4%
Less: Current Portion				
Notes Payable	730,000	715,000	(15,000)	100.0%
Public Utility Revenue & Refunding Bonds	425,700	1,440,600	1,014,900	238.4%
Total Current Portion of Long-Term Debt	1,155,700	2,155,600	999,900	86.5%
Net Long-Term Debt	\$ 17,819,412	\$ 15,602,435	\$ (2,216,977)	-12.4%
Consolidated				
Total MPS Net Long-Term Debt	\$ 41,800,916	\$ 32,487,304	\$ (9,313,612)	-22.3%

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, 2019

	Electric	Water	Total
ASSETS			
CURRENT ASSETS			
Cash and equivalents	\$ 11,919,917	\$ 851,079	\$ 12,770,996
Accounts receivable, net	2,614,327	534,597	3,148,924
Accounts receivable - unbilled revenues	3,071,600	583,300	3,654,900
Accrued interest receivable	102,791	18,140	120,931
Inventories	1,337,829	290,362	1,628,191
Prepaid items	138,098	16,597	154,695
Due from city funds	6,534	-	6,534
Due from other governmental units	376,166	-	376,166
	<u>19,567,262</u>	<u>2,294,075</u>	<u>21,861,337</u>
RESTRICTED ASSETS			
Revenue bond account	432,056	103,198	535,254
Bond reserve account	2,615,223	642,577	3,257,800
Unspent bond proceeds	886	-	886
	<u>3,048,165</u>	<u>745,775</u>	<u>3,793,940</u>
OTHER ASSETS			
Notes receivable	6,475	-	6,475
Bond operations and maintenance reserve	4,608,000	984,000	5,592,000
Other long-term investments	12,329,081	1,789,082	14,118,163
	<u>16,943,556</u>	<u>2,773,082</u>	<u>19,716,638</u>
CAPITAL ASSETS			
In-service	87,452,279	88,324,758	175,777,037
Land	1,071,555	979,967	2,051,522
Work-in-progress	1,283,777	1,672,982	2,956,759
	<u>89,807,611</u>	<u>90,977,707</u>	<u>180,785,318</u>
Less accumulated depreciation	38,499,339	28,673,582	67,172,921
	<u>51,308,272</u>	<u>62,304,125</u>	<u>113,612,397</u>
Total assets	<u>90,867,255</u>	<u>68,117,057</u>	<u>158,984,312</u>
DEFERRED OUTFLOWS OF RESOURCES			
OPEB	25,753	17,168	42,921
Pension Plans	199,994	133,329	333,323
	<u>225,747</u>	<u>150,497</u>	<u>376,244</u>
Total assets and deferred outflows	<u>\$ 91,093,002</u>	<u>\$ 68,267,554</u>	<u>\$ 159,360,556</u>

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

	Electric	Water	Total
LIABILITIES			
CURRENT LIABILITIES			
Payable from current assets			
Accounts payable	\$ 377,626	\$ 230,577	\$ 608,203
Power costs payable	1,955,928	-	1,955,928
Sales tax payable	151,751	-	151,751
Customer deposits	194,590	-	194,590
Compensated absences	565,000	377,000	942,000
Due to other city funds	1,619,651	379,500	1,999,151
	<u>4,864,546</u>	<u>987,077</u>	<u>5,851,623</u>
Payable from restricted assets			
Accrued interest	96,736	51,439	148,175
Current maturities of notes	-	715,000	715,000
Current maturities of bonds payable	6,974,400	1,440,600	8,415,000
	<u>7,071,136</u>	<u>2,207,039</u>	<u>9,278,175</u>
LONG-TERM DEBT			
OPEB obligation	219,193	146,129	365,322
Net pension liability	2,348,624	1,565,749	3,914,373
Notes payable, less current maturities	-	10,968,000	10,968,000
Bonds payable, less current maturities	14,001,450	2,883,550	16,885,000
Premium on bonds payable	315,602	39,007	354,609
	<u>16,884,869</u>	<u>15,602,435</u>	<u>32,487,304</u>
Total liabilities	<u>28,820,551</u>	<u>18,796,551</u>	<u>47,617,102</u>
DEFERRED INFLOWS OF RESOURCES			
OPEB	47,383	31,589	78,972
Pension plans	443,068	295,379	738,447
	<u>490,451</u>	<u>326,968</u>	<u>817,419</u>
Total liabilities and deferred inflows	<u>29,311,002</u>	<u>19,123,519</u>	<u>48,434,521</u>
NET POSITION			
NET POSITION			
Net investment in capital assets	30,017,706	46,257,968	76,275,674
Restricted for:			
Debt service	3,048,165	745,775	3,793,940
Unrestricted	28,716,129	2,140,292	30,856,421
	<u>61,782,000</u>	<u>49,144,035</u>	<u>110,926,035</u>
Total net position	<u>61,782,000</u>	<u>49,144,035</u>	<u>110,926,035</u>
Total liabilities and net position	<u>\$ 91,093,002</u>	<u>\$ 68,267,554</u>	<u>\$ 159,360,556</u>

MOORHEAD PUBLIC SERVICE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2019

	Electric	Water	Total
OPERATING REVENUES			
Charges for services	\$ 40,688,961	\$ 9,325,142	\$ 50,014,103
Other	3,111,102	40,567	3,151,669
Total operating revenues	<u>43,800,063</u>	<u>9,365,709</u>	<u>53,165,772</u>
OPERATING EXPENSES			
Purchased power	18,430,388	-	18,430,388
Production of power	217,257	-	217,257
Transmission	2,779,749	-	2,779,749
Distribution	2,821,518	1,448,573	4,270,091
Source of supply and pumping	-	314,935	314,935
Water treatment	-	2,246,374	2,246,374
Customer accounts	660,695	294,717	955,412
Administrative	2,367,386	1,291,547	3,658,933
Depreciation and amortization	2,851,967	1,995,581	4,847,548
Total operating expenses	<u>30,128,960</u>	<u>7,591,727</u>	<u>37,720,687</u>
OPERATING INCOME	13,671,103	1,773,982	15,445,085
NONOPERATING REVENUES (EXPENSES)			
Interest income and market adjustments	914,113	162,524	1,076,637
Gain on sale of capital assets	11,579	1,015	12,594
Other income	626,525	309,995	936,520
Interest expense	(724,145)	(311,897)	(1,036,042)
Total nonoperating revenues (expenses)	<u>828,072</u>	<u>161,637</u>	<u>989,709</u>
INCOME BEFORE TRANSFERS AND CONTRIBUTED CAPITAL	14,499,175	1,935,619	16,434,794
TRANSFERS OUT TO OTHER FUNDS			
City general fund	(6,850,000)	(466,863)	(7,316,863)
City economic development fund	(50,000)	-	(50,000)
City capital improvement fund	(1,993,466)	(126,000)	(2,119,466)
Total transfers out	<u>(8,893,466)</u>	<u>(592,863)</u>	<u>(9,486,329)</u>
CONTRIBUTION OF CAPITAL ASSETS	<u>29,758</u>	<u>537,466</u>	<u>567,224</u>
CHANGE IN NET POSITION	5,635,467	1,880,222	7,515,689
NET POSITION, BEGINNING OF YEAR	<u>56,146,533</u>	<u>47,263,813</u>	<u>103,410,346</u>
NET POSITION, END OF YEAR	<u>\$ 61,782,000</u>	<u>\$ 49,144,035</u>	<u>\$ 110,926,035</u>

MOORHEAD PUBLIC SERVICE
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2019

	Electric	Water	Total
OPERATING ACTIVITIES			
Receipts from customers and users	\$ 43,675,102	\$ 9,592,274	\$ 53,267,376
Payments to suppliers	(26,090,475)	(4,261,845)	(30,352,320)
Payments to employees	(2,339,275)	(1,272,140)	(3,611,415)
NET CASH FROM OPERATING ACTIVITIES	15,245,352	4,058,289	19,303,641
NON-CAPITAL FINANCING ACTIVITIES			
Transfers to other funds	(8,893,466)	(592,863)	(9,486,329)
Payments received on notes and special receivables	86,617	-	86,617
Decrease in due from other funds	282,126	-	282,126
Decrease in due to other funds	(16,410)	(105,297)	(121,707)
Increase in net pension liability and related deferred inflows and outflows of resources	73,182	48,786	121,968
NET CASH USED FOR NON-CAPITAL FINANCING ACTIVITIES	(8,467,951)	(649,374)	(9,117,325)
CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(2,256,943)	(3,408,891)	(5,665,834)
Proceeds related to sale of assets	11,579	1,015	12,594
Debt service - principal	(1,893,350)	(1,155,700)	(3,049,050)
Debt service - interest and fees	(766,990)	(319,672)	(1,086,662)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(4,905,704)	(4,883,248)	(9,788,952)
INVESTING ACTIVITIES			
Interest received and market adjustments	915,613	164,249	1,079,862
Purchase of investments	(3,934)	(2,890)	(6,824)
Proceeds from the sale of investments	2,754,429	655,390	3,409,819
NET CASH FROM INVESTING ACTIVITIES	3,666,108	816,749	4,482,857
NET CHANGE IN CASH BALANCE	5,537,805	(657,584)	4,880,221
CASH BALANCE, JANUARY 1	6,382,112	1,508,663	7,890,775
CASH BALANCE, DECEMBER 31	\$ 11,919,917	\$ 851,079	\$ 12,770,996

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	\$ 13,671,103	\$ 1,773,982	\$ 15,445,085
Adjustments to reconcile operating income to net cash from operating activities			
Depreciation and amortization	2,851,967	1,995,581	4,847,548
Depreciation expensed to vehicle expense	204,335	109,078	313,413
Other income	626,525	309,996	936,521
Change in assets and liabilities			
Receivables	(375,320)	(83,431)	(458,751)
Inventories	(236,602)	(41,519)	(278,121)
Prepaid items	(87,692)	(16,551)	(104,243)
Due from others	(376,166)	-	(376,166)
OPEB obligations	(63,889)	(42,593)	(106,482)
Accounts payable	(1,060,909)	(8,254)	(1,069,163)
Accrued vacations and severance pay	92,000	62,000	154,000
NET CASH FROM OPERATING ACTIVITIES	<u>\$ 15,245,352</u>	<u>\$ 4,058,289</u>	<u>\$ 19,303,641</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES			
Changes in capital assets through contributed capital	<u>\$ 29,758</u>	<u>\$ 537,466</u>	<u>\$ 567,224</u>

NOTES TO FINANCIAL STATEMENTS

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.

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 22 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 2019, the allowances for uncollectible accounts were \$3,760 for electric fund receivables and \$1,860 for water fund receivables.

Notes receivable are stated at principal amounts and are uncollateralized. Notes receivable at year-end 2019 consisted of amounts due from customers enrolled in MPS’ 2019/2020 Capture the Sun® purchase or licensing program. 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).

In addition, Moorhead Public Service's policy permits eligible employees to accumulate leave credit in lieu of compensation. Each employee will be paid that portion of the employee's assigned salary that is permitted by law to be paid. An employee whose salary and other forms of compensation exceeds the amount permitted by law is entitled to receive leave hours in lieu of that portion of the salary that is in excess of the amount permitted by law. The amount of leave hours will be calculated utilizing the employee's actual annual rate of pay established pursuant to the applicable compensation policy and plan. The Moorhead Public Service Commission or the General Manager is authorized to establish the assigned salary using the provisions of this policy and the compensation plan established by the Moorhead Public Service Commission.

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.

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, 2019, 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, 2019, 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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Money Market Funds	3,793,940	3,793,940	-	-	-	-
Total Restricted Investments	<u>\$ 3,793,940</u>	<u>\$ 3,793,940</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Unrestricted Investment Type	Fair Value	Investment Maturities (in Years)				
		Not Applicable	< 1	1 - 5	> 5 - 10	> 10
Government Bonds	\$ 17,966,665	\$ -	\$ 3,501,023	\$ 14,465,642	\$ -	\$ -
Money Market Funds	1,743,498	1,743,498	-	-	-	-
Total Unrestricted Investments	<u>\$ 19,710,163</u>	<u>\$ 1,743,498</u>	<u>\$ 3,501,023</u>	<u>\$ 14,465,642</u>	<u>\$ -</u>	<u>\$ -</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, 2019, 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, 2019, 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	\$ 1,071,555	\$ -	\$ -	\$ 1,071,555
Construction work-in-progress	1,177,538	2,295,975	2,189,736	1,283,777
	<u>2,249,093</u>	<u>2,295,975</u>	<u>2,189,736</u>	<u>2,355,332</u>
Capital assets, being depreciated:				
Miscellaneous intangible plant	1,288,813	-	-	1,288,813
Production plant	8,384,631	293,844	-	8,678,475
Transmission plant	16,166,272	102,346	-	16,268,618
Distribution plant	47,056,418	1,539,073	188,447	48,407,044
General plant	12,584,534	254,473	29,678	12,809,329
	<u>85,480,668</u>	<u>2,189,736</u>	<u>218,125</u>	<u>87,452,279</u>
Less accumulated depreciation for:				
Miscellaneous intangible plant	409,120	103,344	-	512,464
Production plant	2,929,920	328,684	-	3,258,604
Transmission plant	7,091,613	419,240	-	7,510,853
Distribution plant	19,669,185	1,532,640	188,447	21,013,378
General plant	5,552,050	672,394	20,404	6,204,040
	<u>35,651,888</u>	<u>3,056,302</u>	<u>208,851</u>	<u>38,499,339</u>
Total capital assets, being depreciated, net	<u>49,828,780</u>	<u>(866,566)</u>	<u>9,274</u>	<u>48,952,940</u>
Capital assets, net	<u>\$ 52,077,873</u>	<u>\$ 1,429,409</u>	<u>\$ 2,199,010</u>	<u>\$ 51,308,272</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	185,858	3,946,357	2,459,233	1,672,982
	<u>1,165,825</u>	<u>3,946,357</u>	<u>2,459,233</u>	<u>2,652,949</u>
Capital assets, being depreciated:				
Source of supply plant structure and improvements	11,566,309	93,911	71,465	11,588,755
Pumping plant	30,914	-	-	30,914
Water treatment plant	17,174,095	-	-	17,174,095
Transmission and distribution plant	53,899,017	2,256,408	27,558	56,127,867
General plant	3,294,213	108,914	-	3,403,127
	<u>85,964,548</u>	<u>2,459,233</u>	<u>99,023</u>	<u>88,324,758</u>
Less accumulated depreciation for:				
Source of supply plant structure and improvements	4,868,377	320,595	71,465	5,117,507
Pumping plant	30,914	-	-	30,914
Water treatment plant	8,513,176	336,481	-	8,849,657
Transmission and distribution plant	11,817,011	1,190,140	27,558	12,979,593
General plant	1,438,468	257,443	-	1,695,911
	<u>26,667,946</u>	<u>2,104,659</u>	<u>99,023</u>	<u>28,673,582</u>
Total capital assets, being depreciated, net	<u>59,296,602</u>	<u>354,574</u>	<u>-</u>	<u>59,651,176</u>
Capital assets, net	<u>\$ 60,462,427</u>	<u>\$ 4,300,931</u>	<u>\$ 2,459,233</u>	<u>\$ 62,304,125</u>

NOTES TO FINANCIAL STATEMENTS

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

Business-type activities:	
Electric Fund	\$ 3,056,302
Water Fund	<u>2,104,659</u>
Total depreciation expense - business-type activities	\$ 5,160,961
 Depreciation and amortization per Statement of Revenues, Expenses, and Changes in Net Position	 <u>\$ 4,847,548</u>
Difference from Statement of Revenues, Expenses, and Changes in Net Position	<u><u>\$ 313,413</u></u>

Depreciation and amortization expense reflected in the Statement of Revenues, Expenses, and Changes In Net Position is \$4,847,548. The difference of \$313,413 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, 2019.

	Beginning Balance	Additions	Reductions	Ending Balance	Long-Term After One Year	Due Within One Year
Compensated Absences	\$ 788,000	\$ 154,000	\$ -	\$ 942,000	\$ -	\$ 942,000
Notes Payable	12,442,050	-	759,050	11,683,000	10,968,000	715,000
Public Utility Revenue & Refunding Bonds						
Series 2007A	3,985,000	-	385,000	3,600,000	3,195,000	405,000
Series 2009A	705,000	-	105,000	600,000	490,000	110,000
Series 2010C	8,100,000	-	1,010,000	7,090,000	-	7,090,000
Series 2012E	2,970,000	-	290,000	2,680,000	2,380,000	300,000
Series 2016A	11,830,000	-	500,000	11,330,000	10,820,000	510,000
Plus unamortized discount or premium	396,228	-	41,619	354,609	354,609	
	<u>\$ 41,216,278</u>	<u>\$ 154,000</u>	<u>\$ 3,090,669</u>	<u>\$ 38,279,609</u>	<u>\$ 28,207,609</u>	<u>\$ 10,072,000</u>

Compensated Absences

This amount consists of payments for vacation, sick pay benefits and accumulated leave credit in lieu of compensation that will be paid out of both funds as discussed in Note 1.

Notes Payable

The following is a summary of notes payable for the year ended December 31, 2019:

	Interest Rates	Electric	Water	Total
Minnesota Public Facilities Authority				
Drinking Water SRF Bond Fund Loan				
MPFA-09-0036-R-FY15	1.02%	\$ -	\$ 9,655,000	\$ 9,655,000
MPFA-DWRF-L-0006-FY16	1.00%	-	2,028,000	2,028,000
		<u>-</u>	<u>11,683,000</u>	<u>11,683,000</u>
Less current maturities		<u>-</u>	<u>(715,000)</u>	<u>(715,000)</u>
		<u>\$ -</u>	<u>\$ 10,968,000</u>	<u>\$ 10,968,000</u>

NOTES TO FINANCIAL STATEMENTS

Principal repayments on the notes payable debt through maturity are as follows:

	Electric		Water	
	Principal	Interest	Principal	Interest
2020	\$ -	\$ -	\$ 715,000	\$ 118,761
2021	-	-	724,000	111,491
2022	-	-	731,000	104,130
2023	-	-	739,000	96,698
2024	-	-	747,000	89,184
2025-2029	-	-	3,847,000	330,485
2030-2034	-	-	4,045,000	130,923
2035	-	-	135,000	1,350
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,683,000</u>	<u>\$ 983,022</u>

Revenue & Refunding Bonds

The following is a summary of bonds payable for the year ended December 31, 2019:

	Interest Rates	Electric	Water	Total
Public Utility Revenue & Refunding Bonds				
Series 2007A	5.17%	\$ 1,692,000	\$ 1,908,000	\$ 3,600,000
Series 2009A	3.0% - 4.75%	600,000	-	600,000
Series 2010C	2.0% - 4.875%	5,920,150	1,169,850	7,090,000
Series 2012E	2.0% - 3.0%	2,680,000	-	2,680,000
Series 2016A	2.0% - 4.0%	10,083,700	1,246,300	11,330,000
		20,975,850	4,324,150	25,300,000
Less current maturities		(6,974,400)	(1,440,600)	(8,415,000)
Net bonds payable, less current maturities		14,001,450	2,883,550	16,885,000
Plus unamortized discount or premium		315,602	39,007	354,609
		<u>\$ 14,317,052</u>	<u>\$ 2,922,557</u>	<u>\$ 17,239,609</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.

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 and interest repayments on the bond debt through maturity are as follows:

	Electric		Water	
	Principal	Interest	Principal	Interest
2020	\$ 6,974,400	\$ 486,458	\$ 1,440,600	\$ 133,201
2021	1,096,450	444,820	283,550	119,836
2022	1,138,650	401,264	296,350	105,857
2023	1,187,650	355,871	312,350	91,244
2024	1,232,200	308,248	327,800	75,779
2025-2029	4,638,400	935,087	1,081,600	162,494
2030-2034	3,275,200	458,093	404,800	56,619
2035-2036	1,432,900	59,353	177,100	7,335
	<u>\$ 20,975,850</u>	<u>\$ 3,449,194</u>	<u>\$ 4,324,150</u>	<u>\$ 752,365</u>

On November 19, 2019, the Moorhead Public Service Commission gave approval to an agenda item Approve Request to Mayor and Moorhead City Council to Approve 2020 Bond Sale and the Call and Retirement of 2010C Bonds. The agenda item outlined Moorhead Public Service's intention to issue General Obligation Water Revenue Bonds of approximately \$14,000,000 in February 2020 and to call and retire approximately \$7,000,000 of outstanding debt on the 2010C Build America Bonds effective February 1, 2020.

At this time, the total Revenue Bonds to be issued are expected to total \$14,490,000 and the total principal value of the 2010C Bonds to be called and retired of \$7,090,000 was classified as short-term.

The Revenue Bond proceeds have been budgeted to finance the following capital projects:

- Design and construction in 2020-2021 of a Lime Sludge Dewatering Facility for which contracts totaling \$7,125,000 were awarded and approved in November 2019.
- Design and construction in 2020-2021 of a new Southside Water Tower and related Southside Watermain Improvements to supply the water tower for which contracts totaling \$3,176,000 were awarded in August 2019.
- Rehabilitate and paint a water tower located near Interstate Highway 94 (I-94) at an estimated cost of \$970,000.
- Watermain replacements planned to occur in 2020 and 2021 in conjunction with some of city's planned street mill and overlay projects. Preliminary replacements costs are budgeted at \$1,726,000 in 2020 and \$1,047,000 in 2021.

The call and retirement of the bonds occurred in early February 2020.

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - 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 \$712 for single and \$1,409 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, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	3
Inactive employees entitles to but not yet receiving benefit payments	-
Active employees	58
Total	<u>61</u>

D. Total OPEB Liability

Moorhead Public Service's total OPEB liability of \$365,322 was measured as of January 1, 2019 and was determined by an actuarial valuation as of January 1, 2019.

E. Actuarial Assumptions

The total OPEB liability in the January 1, 2018 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	3.80%	
Healthcare cost trend rates	6.50% decreasing to 5.00% over 6 years	
Retiree Plan Participation	Future Retirees Electing Coverage	
	Pre-65 subsidy available	N/A
	Pre-65 subsidy not available	40%

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-2018 Generational Improvement Scale as developed and recommended by the Society of Actuaries.

The actuarial assumptions used in the January 1, 2019 valuation were based on the results of an actuarial experience study as of January 1, 2019.

F. Changes in the Total OPEB Liability

Balance at January 1, 2018	\$ 471,804
Changes from the Prior Year:	
Service Cost	27,943
Interest Cost	15,515
Assumption Changes	(6,128)
Differences between Expected and Actual Experience	(84,126)
Benefit Payments	<u>(59,686)</u>
Balance at January 1, 2019	<u><u>\$ 365,322</u></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	\$ 391,543	\$ 365,322	\$ 340,957
Discount Rate	2.80%	3.80%	4.80%

NOTES TO FINANCIAL STATEMENTS

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 <u>Trend Rate</u>	Healthcare <u>Trend Rate</u>	1% Increase In Healthcare <u>Trend Rate</u>
Total OPEB Liability	\$ 329,387	\$ 365,322	\$ 408,696
Healthcare Trend Rate	5.50% decreasing to 4.00% over 6 years	6.50% decreasing to 5.00% over 6 years	7.50% decreasing to 6.00% over 6 years

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

For the year ended December 31, 2019, Moorhead Public Service recognized OPEB expense of \$32,176. At December 31, 2019, Moorhead Public Service had \$42,921 in deferred outflows of resources related to OPEB and \$78,972 in deferred inflows of resources related to OPEB.

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Liability Losses	\$ -	\$ -
Liability Gains		73,610
Assumption Changes	-	5,362
Investment Gains		N/A
Investment Losses	N/A	
Estimated Employer Contributions	42,921	
Total	<u>\$ 42,921</u>	<u>\$ 78,972</u>

Future Recognition of Deferred Flows in OPEB Expense

a. December 31, 2019	0
b. December 31, 2020	(11,282)
c. December 31, 2021	(11,282)
d. December 31, 2022	(11,282)
e. December 31, 2023	(11,282)
f. December 31, 2024	(11,282)
g. Thereafter	(22,562)

NOTE 6 – 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, 2019, is as follows.

Payable	Amount
Electric Fund - Due to City of Moorhead's General, Capital Improvement, Economic Development, Sanitation, and Wastewater Funds	<u>\$ 1,619,651</u>
Water Fund - Due to City of Moorhead General Fund	<u>\$ 379,500</u>
<hr/>	
Receivable	Amount
Electric Fund - Due from City of Moorhead General Fund	<u>\$ 6,534</u>

NOTE 7 – 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 2019, the Electric Fund transferred the base transfer of \$6,850,000 to the General Fund; 5%, or \$1,993,466 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 2019, the Water Fund transferred 5%, or \$466,863 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 Fund</u>		2019
City General Fund	\$	6,850,000
City Capital Improvement Fund		1,993,466
City Economic Development Fund		50,000
Total	\$	<u>8,893,466</u>
 <u>Appropriation Transfers - Water Fund</u>		2019
City General Fund	\$	466,863
City Capital Improvement Fund		126,000
Total	\$	<u>592,863</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 8 - PENSION PLAN

A. Plan Description

Moorhead Public Service (MPS) participates in the General Employees Retirement Plan (GERF), a 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 Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

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. 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.

General Employees Plan benefits 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 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.

Annuities, disability benefits, and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the postretirement increase will be equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

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 percent of their annual covered salary in fiscal year 2019 and MPS was required to contribute 7.50 percent for Coordinated Plan members. Contributions made by MPS to the General Employees Fund for the year ended December 31, 2019, were \$376,011. Contributions made by MPS were equal to the required contributions as set by state statute.

D. Pension Costs

At December 31, 2019, MPS reported a liability of \$3,914,373 for its proportionate share of the General Employees Fund's net pension liability. The net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2019. 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 \$121,661. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. MPS' proportionate share of the net pension liability was based on MPS' contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2018 through June 30, 2019, relative to the total employer contributions received from all of PERA's participating employers.

At June 30, 2019, MPS' proportionate share was 0.0708% percent which was a decrease of 0.0004 percent from its proportionate share measured as of June 30, 2018.

MPS' proportionate share of the net pension liability	\$ 3,914,373
State of Minnesota's proportionate share of the net pension liability associated with MPS	121,661
Total	<u>\$ 4,036,034</u>

For the year ended December 31, 2019, MPS recognized pension expense of \$340,242 for its proportionate share of the General Employees Plan's pension expense. In addition, MPS recognized an additional \$9,111 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.

NOTES TO FINANCIAL STATEMENTS

At December 31, 2019, MPS reported its proportionate share of the General Employees Plan'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	\$ 108,989	\$ -
Changes in actuarial assumptions	-	309,690
Net collective difference between projected and actual investment earnings	-	402,537
Changes in proportion	18,269	26,220
Contributions paid to PERA subsequent to the measurement date	206,065	-
Total	<u>\$ 333,323</u>	<u>\$ 738,447</u>

The \$206,065 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, 2020. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30,	Pension Expense Amount
2020	\$ (205,089)
2021	(328,034)
2022	(84,374)
2023	6,308
Thereafter	-

E. Actuarial Assumptions

The total pension liability in the June 30, 2019, actuarial valuation was determined using an individual entry-age normal actuarial cost method and 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.

Actuarial assumptions used in the June 30, 2019 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 2019. Economic assumptions were updated in 2018 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions and plan provisions occurred in 2019:

Changes in Actuarial Assumptions:

- The morality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions:

- The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The State's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

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 Equity	35.5%	5.10%
International Equity	17.5%	5.30%
Fixed Income	20.0%	0.75%
Private Markets	25.0%	5.90%
Cash Equivalents	2.0%	5.90%
Total	100.0%	

F. Discount Rate

The discount rate used to measure the total pension liability in 2019 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 positions 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.

NOTES TO FINANCIAL STATEMENTS

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 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 GERF net pension liability	\$ 6,435,019	\$ 3,914,373	\$ 1,833,079

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 9 - 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 2019 were:

Contribution Amount		Percentage of Covered Payroll		Required Rate
Employee	Employer	Employee	Employer	
\$325,876	\$376,011	6.50%	7.50%	7.50%

NOTE 10 - 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.

Other Contracted Obligations

In 2019, Moorhead Public Service solicited and awarded bids for two major water fund projects. The largest project is the design and construction in 2020-2021 of a Lime Sludge Dewatering Facility for which contracts totaling \$7,125,000 were awarded and approved in November 2019. The second major project is the design and construction in 2020-2021 of a new Southside Water Tower and related Southside Watermain Improvements to supply the water tower for which contracts totaling \$3,176,000 were awarded in August 2019.

NOTE 11 – SUBSEQUENT EVENTS

Subsequent to year-end, Moorhead Public Service has been impacted by the effects of the world-wide coronavirus pandemic. Moorhead Public Service is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation.

As of the date of issuance of these financial statements, Moorhead Public Service's management does not expect the pandemic to have a significant impact on operations, liquidity, or capital resources.

NOTES TO FINANCIAL STATEMENTS

NOTE 12 – FUTURE IMPLEMENTATION OF APPROVED GASB STANDARDS

As of December 31, 2019, 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, 2019 but will be implemented in future years.

An issued standard that has not yet been 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.

The other statement issued but not yet implemented that will significantly affect governmental entities is Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The requirements of this Statement will improve financial reporting by providing users of financial statements with more relevant information about capital assets and the cost of borrowing for a reporting period. The resulting information also will enhance the comparability of information about capital assets and the cost of borrowing for a reporting period. 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, 2019

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

	12/31/2019	12/31/2018
Service cost	27,943	31,306
Interest	15,515	15,851
Changes in assumptions	(6,128)	0
Differences between Expected and Actual Experience	(84,126)	0
Benefit payments	<u>(59,686)</u>	<u>(48,391)</u>
Net change in total OPEB liability	(106,482)	(1,234)
Total OPEB Liability - beginning	471,804	473,038
Total OPEB Liability - ending	365,322	471,804
Covered employee payroll	4,503,003	4,375,925
Total OPEB liability as a percentage of covered employee payroll	8.0%	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, 2019**

Schedule of Employer's Share of Net Pension Liability*

Pension Plan	Measurement Date	Employer's Proportion 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	6/30/2019	0.0708%	\$ 3,914,373	\$ 121,661	\$ 4,036,034	\$ 5,308,088	131.5%	80.2%
GERF	6/30/2018	0.0712%	3,949,884	129,501	4,079,385	4,484,756	109.9%	79.5%
GERF	6/30/2017	0.0715%	4,564,514	57,367	4,621,881	7,092,367	153.5%	75.9%
GERF	6/30/2016	0.0706%	5,732,370	74,844	5,807,214	6,476,607	111.5%	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.

General Employees Fund

2019 Changes

Changes in Actuarial Assumptions

- The morality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions

- The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The State's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

2018 Changes

Changes in Actuarial Assumptions

- The morality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

Changes in Plan Provisions

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Postretirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90.00 percent funding ratio to 50.00 percent of the Social Security Cost of Living Adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

**MOORHEAD PUBLIC SERVICE
COST SHARING PENSION PLAN SCHEDULE
DECEMBER 31, 2019**

2017 Changes

Changes in Actuarial Assumptions

- The combined service annuity (CSA) loads were changed from 0.80 percent for active members and 60.00 percent for vested and non-vested deferred members. The revised CSA load are now 0.00 percent for active member liability, 15.00 percent for vested deferred member liability, and 3.00 percent for non-vested deferred member liability.
- The assumed postretirement benefit increase rate was changed for 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.

Changes in Plan Provisions

- The State's contribution for the Minneapolis Employees Retirement Fund equals \$16,000,000 in 2017 and 2018, and \$6,000,000 thereafter.
- The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from \$21,000,000 to \$31,000,000 in calendar years 2019 to 2031. The state's contribution changed from \$16,000,000 to \$6,000,000 in calendar years 2019 to 2031.

2016 Changes:

Changes in Actuarial Assumptions

- The assumed postretirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter to 1.00 percent per year for all years.
- The assumed investment return was changed from 7.90 percent to 7.50 percent. The single discount rate changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2015 Changes:

Changes in Actuarial Assumptions

- The assumed postretirement benefit increase rate was changed from 1.00 percent per year through 2030 and 2.50 percent per year thereafter to 1.00 percent per year through 2035 and 2.50 percent per year thereafter.

Changes in Plan Provisions:

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increase the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised; the State's contribution of \$6.0 million, which meets the special funding situation definition, was due September 2015.

**MOORHEAD PUBLIC SERVICE
SCHEDULE OF EMPLOYER'S CONTRIBUTIONS
DECEMBER 31, 2019**

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	12/31/2019	\$ 376,011	\$ 376,011	\$ -	\$ 5,013,480	7.5%
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, 2019

	Electric Capital Assets			
	Balance 12/31/2018	Additions	Retirements	Balance 12/31/2019
PLANT IN SERVICE				
Miscellaneous				
Intangible plant	\$ 1,288,813		\$ -	\$ 1,288,813
Production plant land				
Land	921,919	-	-	921,919
Production plant				
Structures and improvements	6,855,068	282,900	-	7,137,968
Accessory electric equipment	221,092	-	-	221,092
Wind turbine	1,308,471	10,944	-	1,319,415
	8,384,631	293,844	-	8,678,475
Transmission plant land				
Land	149,636	-	-	149,636
Transmission plant				
Structures and improvements	16,166,272	102,346	-	16,268,618
Distribution plant				
Station equipment	9,679,518	413,576	-	10,093,094
Poles, towers, and fixtures	2,467,501	37,923	10,950	2,494,474
Underground conduit	22,277,969	732,154	100,750	22,909,373
Line transformers	6,493,776	242,569	51,215	6,685,130
Services	1,906,102	-	-	1,906,102
Meters	2,455,859	102,351	25,532	2,532,678
Installations on customer premises	220,642	-	-	220,642
Street lighting and signal systems	1,555,051	10,500	-	1,565,551
	47,056,418	1,539,073	188,447	48,407,044
General plant				
Structures and Improvements	4,047,533		-	4,047,533
Office furniture and equipment	1,437,799	97,928	-	1,535,727
Transportation equipment	2,809,370	136,773	29,678	2,916,465
Stores equipment	3,681	-	-	3,681
Tools, shop, and garage equipment	329,622	-	-	329,622
Communication equipment	3,956,529	19,772	-	3,976,301
	12,584,534	254,473	29,678	12,809,329
Total electric plant in service	86,552,223	2,189,736	218,125	88,523,834
CONSTRUCTION WORK-IN-PROGRESS	1,177,538	2,295,975	2,189,736	1,283,777
	\$ 87,729,761	\$ 4,485,711	\$ 2,407,861	\$ 89,807,611

Accumulated Depreciation/Amortization					
Annual Depreciation Amortization Rates	Balance 12/31/2018	Provision	Retirements	Balance 12/31/2019	Percent of Depreciation Amortization to Plant
10.0 - 12.5 %	\$ 409,120	\$ 103,344	\$ -	\$ 512,464	39.76%
	-			-	-
2	2,033,789	285,102	-	2,318,891	32.49%
3	221,092	-	-	221,092	100.00%
3	675,039	43,582	-	718,621	54.47%
	2,929,920	328,684	-	3,258,604	
	-	-	-	-	-
3	7,091,613	419,240	-	7,510,853	46.17%
2	4,602,492	295,632	-	4,898,124	48.53%
3	2,220,318	13,118	10,950	2,222,486	89.10%
2	7,667,044	801,483	100,750	8,367,777	36.53%
3	2,403,021	204,704	51,215	2,556,510	38.24%
3	1,243,359	58,178	-	1,301,537	68.28%
4	606,954	107,809	25,532	689,231	27.21%
4	99,914	4,593	-	104,507	47.36%
3	826,083	47,123	-	873,206	55.78%
	19,669,185	1,532,640	188,447	21,013,378	
10	953,531	97,829	-	1,051,360	25.98%
10	772,987	125,581	-	898,568	58.51%
5 - 25	1,202,746	204,335	20,404	1,386,677	47.55%
10	3,681	-	-	3,681	100.00%
10	280,134	10,687	-	290,821	88.23%
6	2,338,971	233,962	-	2,572,933	64.71%
	5,552,050	672,394	20,404	6,204,040	
	35,651,888	3,056,302	208,851	38,499,339	
	-	-	-	-	
	\$ 35,651,888	\$ 3,056,302	\$ 208,851	\$ 38,499,339	

MOORHEAD PUBLIC SERVICE
ANALYSIS OF CAPITAL ASSETS AND ACCUMULATED DEPRECIATION/AMORTIZATION
YEAR ENDED DECEMBER 31, 2019

	Water Capital Assets			
	Balance 12/31/2018	Additions	Retirements	Balance 12/31/2019
PLANT IN SERVICE				
Land	\$ 979,967	\$ -	\$ -	\$ 979,967
Source of supply plant structures and improvements	11,566,309	93,911	71,465	11,588,755
Pumping plant	30,914	-	-	30,914
Water treatment plant	17,174,095	-	-	17,174,095
Transmission and distribution plant				
Towers	1,652,798	-	-	1,652,798
Mains	50,095,311	2,182,916	17,526	52,260,701
Meters	2,150,908	73,492	10,032	2,214,368
	53,899,017	2,256,408	27,558	56,127,867
General plant				
Office furniture and equipment	73,769	-	-	73,769
Transportation equipment	1,440,926	73,032	-	1,513,958
Tools, shop, and garage equipment	145,640	5,900	-	151,540
Laboratory equipment	403,321	25,023	-	428,344
SCADA equipment	1,230,557	4,959	-	1,235,516
	3,294,213	108,914	-	3,403,127
Total water plant in service	86,944,515	2,459,233	99,023	89,304,725
CONSTRUCTION WORK-IN-PROGRESS	185,858	3,946,357	2,459,233	1,672,982
	\$ 87,130,373	\$ 6,405,590	\$ 2,558,256	\$ 90,977,707

Accumulated Depreciation/Amortization					Percent of Depreciation Amortization to Plant
Annual Depreciation Amortization Rates	Balance 12/31/2018	Provision	Retirements	Balance 12/31/2019	
%	\$ -	\$ -	\$ -	\$ -	0.0%
2 - 25	4,868,377	320,595	71,465	5,117,507	44.2%
2	30,914	-	-	30,914	100.0%
2 - 3	8,513,176	336,481	-	8,849,657	51.5%
2	759,901	33,056	-	792,957	48.0%
2	10,211,099	1,038,933	17,526	11,232,506	21.5%
3	846,011	118,151	10,032	954,130	43.1%
	11,817,011	1,190,140	27,558	12,979,593	
10	28,627	5,991	-	34,618	46.9%
12	768,644	109,078	-	877,722	58.0%
5	123,667	5,335	-	129,002	85.1%
10	248,865	33,885	-	282,750	66.0%
14	268,665	103,154	-	371,819	30.1%
	1,438,468	257,443	-	1,695,911	
	26,667,946	2,104,659	99,023	28,673,582	
	-	-	-	-	
	\$ 26,667,946	\$ 2,104,659	\$ 99,023	\$ 28,673,582	



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, 2019, 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 14, 2020.

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 Sallie LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota
May 14, 2020



Report on *Minnesota Legal Compliance*

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 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, Minnesota, as of and for the year ended December 31, 2019, 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 14, 2020.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. §6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe Moorhead Public Service failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Moorhead Public Service's noncompliance with the above referenced provisions.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Fargo, North Dakota
May 14, 2020

MOORHEAD PUBLIC SERVICE
SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2019

FINANCIAL STATEMENT FINDINGS

None reported.

MINNESOTA LEGAL COMPLIANCE FINDINGS

None reported.