

FINANCIAL STATEMENTS
DECEMBER 31, 2017



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, 2017, and the related notes to the financial statements, which collectively comprise Moorhead Public Service's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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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, 2017, 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, 2017, 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 funding progress, schedule of employer's share of net pension liability, and schedule of employer contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Moorhead Public Service's financial statements. The analysis of electric plant and accumulated depreciation/amortization and analysis of water plant and accumulated depreciation/amortization is presented for purposes of additional analysis and is not a required part of the financial statements.

The analysis of electric plant and accumulated depreciation/amortization and analysis of water plant and accumulated depreciation/amortization is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the analysis of electric plant and accumulated depreciation/amortization and analysis of water plant and accumulated depreciation/amortization is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2018, on our consideration of Moorhead Public Service's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Moorhead Public Service's internal control over financial reporting and compliance.

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

Fargo, North Dakota
May 4, 2018

**MOORHEAD PUBLIC SERVICE
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

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, 2017. This information is presented in conjunction with the audited basic financial statements that follow this section.

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

FINANCIAL HIGHLIGHTS FOR THE YEAR

- MPS' combined net position increased \$9.7 million, or 11.2%, from \$86.9 million to \$96.6 million. The Electric Division's net position increased \$6.6 million from \$44.5 million to \$51.1 million. The Water Division's net position increased \$3.1 million from \$42.4 million to \$45.5 million.
- Combined operating revenues increased \$4.5 million, or 9.0%, from \$49.5 million to \$54.0 million. Electric Division operating revenues increased \$3.6 million, or 8.6%, from \$41.4 million to \$45.0 million. Water Division operating revenues increased \$0.9 million, or 10.7%, from \$8.1 million to \$9.0 million.
- Combined net transfers to the City of Moorhead increased \$262,000, or 2.9%, from \$8.9 million to \$9.2 million. Net Electric Division transfers increased \$219,000, or 2.6%, from \$8.4 million to \$8.6 million. Water Division transfers increased \$43,000, or 8.1%, from \$531,000 to \$574,000.

OVERVIEW OF THE FINANCIAL STATEMENT

This annual report consists of the following three parts: Management's Discussion and Analysis, Financial Statements and Other Supplementary Information. The Financial Statements include notes that provide additional detail for some of the information included in the Financial Statements.

REQUIRED FINANCIAL STATEMENTS

The Financial Statements report information utilizing generally accepted electric and water utility accounting practices. In general, these practices follow the Federal Energy Regulatory Commission's (FERC) prescribed Uniform System of Accounts (USOA). The financial statements consist of three required reports.

The ***Statement of Net Position*** summarizes MPS' assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to MPS' creditors (liabilities). The statement also provides information that can assist in making a variety of financial assessments about MPS' rate of return, structure, liquidity, and financial flexibility.

The ***Statement of Revenues, Expenses, and Changes in Net Position*** summarizes the current year's revenues and expenses. This statement quantifies the success of MPS's operations. The statement can serve as a tool in determining how well MPS covered its costs through rates, fees, and other revenues. This statement also highlights MPS' profitability and credit worthiness.

The ***Statement of Cash Flows*** is the third required financial statement. The primary purpose of this statement is to provide information about cash receipts and cash payments during the reporting period. This statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF MOORHEAD PUBLIC SERVICE

Table 1, Condensed Statement of Net Position, provides a summary of MPS' net position. The table presents the net positions of the Electric and Water Divisions separately, and in combined form.

During 2017, the Electric Division's total assets increased by \$4.6 million, or 5.6%. Within total assets, current and other assets increased by \$3.0 million while capital assets increased by \$1.6 million.

During 2017, the Electric Division's liabilities decreased by \$2.0 million, or 5.2%. The decrease was primarily due to payments made to reduce long-term debt originally incurred to pay for major construction projects.

The net effect of the changes in total assets and total liabilities within the Electric Division resulted in an increase of \$6.6 million, or 14.2%, in total net position from \$44.5 million to \$51.1 million.

During 2017, the Water Division's total assets increased \$1.9 million, or 2.9%. Within total assets, current and other assets decreased by \$300,000 while capital assets increased by \$2.4 million.

During 2017, the Water Division's liabilities decreased by \$1.2 million, or 5.4%. The decrease was primarily due to payments made to reduce long-term debt originally incurred to pay for major construction projects.

The net effect of the changes in total assets and total liabilities resulted in an increase in the net position of the Water Division of \$3.1 million, or 7.4%, from \$42.4 million to \$45.5 million.

Table 1

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

	Electric				Water				Combined			
	2017	2016	Dollar Change	Percent change	2017	2016	Dollar Change	Percent change	2017	2016	Dollar Change	Percent change
Current and Other Assets	35,267	32,342	2,925	9.0%	8,572	8,925	(353)	-4.0%	43,839	41,267	2,572	6.2%
Capital Assets ¹	51,601	49,952	1,649	3.3%	58,895	56,655	2,240	4.0%	110,496	106,607	3,889	3.6%
Total Assets	86,868	82,294	4,574	5.6%	67,467	65,580	1,887	2.9%	154,335	147,874	6,461	4.4%
Long-term Debt	26,131	28,659	(2,528)	-8.8%	19,108	20,535	(1,427)	-6.9%	45,239	49,194	(3,955)	-8.0%
Other Liabilities	9,652	9,106	546	6.0%	2,825	2,651	174	6.6%	12,477	11,757	720	6.1%
Total Liabilities	35,783	37,765	(1,982)	-5.2%	21,933	23,186	(1,253)	-5.4%	57,716	60,951	(3,235)	-5.3%
Net investment in capital assets	29,819	28,733	1,086	3.8%	40,582	37,569	3,013	8.0%	70,401	66,302	4,099	6.2%
Restricted	6,334	8,545	(2,211)	-25.9%	739	804	(65)	-8.1%	7,073	9,349	(2,276)	-24.3%
Unrestricted	14,933	7,251	7,682	105.9%	4,212	4,021	191	4.8%	19,145	11,272	7,873	69.8%
Total Net Position	51,085	44,529	6,556	14.7%	45,534	42,394	3,140	7.4%	96,619	86,923	9,696	11.2%

¹ See Table 3 for details

MANAGEMENT'S DISCUSSION AND ANALYSIS

Table 2, Condensed Statement of Revenues, Expenses, and Changes in Net Position, provides a summary of the changes in MPS' net position. The table presents the changes in net position for each division separately, and in combined form.

Combined total revenue was \$55.3 million in 2017. Total revenues of the Electric and Water Divisions were \$45.9 million and \$9.4 million, respectively. The Electric Division's revenue increase of 9.5% was primarily the result of a 3.5% rate increase effective January 2017 combined with the second full year of transmission revenue received as a benefit of MPS joining the Southwest Power Pool (SPP) in late 2015. The Water Division experienced an increase in revenue of 11.9%. The increase was the result of increased customer sales volume in 2017 along with a 6.5% rate increase effective January 2017.

Combined total expenses were \$47.6 million in 2017. Within total expenses, operating expenses (net of depreciation) increased 1.1% to \$33.0 million. In addition, net transfers to the City of Moorhead increased 2.9% to \$9.2 million.

MPS' combined net position increased by \$9.7 million, or 11.2%. The increase was the result of a \$6.6 million increase in the net position of the Electric Division and a \$3.1 million increase in the net position of the Water Division. Combined total revenues of \$55.3 million exceeded combined total expenses of \$47.6 million by \$7.7 million.

Table 2

Moorhead Public Service

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

	Electric				Water				Combined			
	2017	2016	Dollar Change	Percent change	2017	2016	Dollar Change	Percent change	2017	2016	Dollar Change	Percent change
Operating Revenues	45,050	41,466	3,584	8.6%	8,981	8,116	865	10.7%	54,031	49,582	4,449	9.0%
Nonoperating Revenues	837	437	400	91.5%	476	339	137	40.4%	1,313	776	537	69.2%
Total Revenue	45,887	41,903	3,984	9.5%	9,457	8,455	1,002	11.9%	55,344	50,358	4,986	9.9%
Operating Expense	27,817	28,595	(778)	-2.7%	5,107	4,685	422	9.0%	32,924	33,280	(356)	-1.1%
Nonoperating Expenses	788	691	97	14.0%	369	338	31	9.2%	1,157	1,029	128	12.4%
Depreciation Expense	2,597	2,586	11	0.4%	1,766	1,361	405	29.8%	4,363	3,947	416	10.5%
Transfers to City	8,619	8,400	219	2.6%	574	531	43	8.1%	9,193	8,931	262	2.9%
Total Expenses	39,821	40,272	(451)	-1.1%	7,816	6,915	901	13.0%	47,637	47,187	450	1.0%
Income Before Capital Contributions, Special Items and Prior Period Adjustments	6,066	1,631	4,435	271.9%	1,641	1,540	101	6.6%	7,707	3,171	4,536	143.0%
Capital Contributions	490	1,188	(698)	-58.8%	1,499	1,057	442	41.8%	1,989	2,245	(256)	-11.4%
Special Items	0	(215)	215	-100.0%	0	0	0	0.0%	0	(215)	215	-100.0%
Changes in Net Position	6,556	2,604	3,952	151.8%	3,140	2,597	543	20.9%	9,696	5,201	4,495	31.6%
Beginning Net Position	44,529	41,925	2,604	6.2%	42,394	39,797	2,597	6.5%	86,923	81,722	5,201	6.4%
Ending Net Position	51,085	44,529	6,556	14.7%	45,534	42,394	3,140	7.4%	96,619	86,923	9,696	11.2%

MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSETS

Table 3, Capital Assets Net of Depreciation, shows changes in the net depreciated value of capital assets from 2016 to 2017. Total capital assets at the end of 2017 were \$110.5 million compared to \$106.6 million at the end of 2016. Total capital assets increased \$3.9 million, or 3.7%. Net capital assets of the Electric Division increased by \$1.6 million, or 3.3%. Net capital assets of the Water Division increased by \$2.2 million, or 4.0%.

After depreciation, the Electric Division's increase in capital assets included a decrease in work-in-progress of \$3.1 million and an overall increase of \$4.8 million in total electric plant in-service assets.

After depreciation, the Water Division's increase in capital assets included a decrease in work-in-progress of \$0.5 million and an overall increase of \$2.7 million in total water plant in-service assets.

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

Table 3

MOORHEAD PUBLIC SERVICE

Capital Assets Net of Depreciation

Electric Plant				
	Balance 12/31/2016	Balance 12/31/2017	Increase (Decrease)	Percent
<u>Plant in-Service</u>				
Land	\$ 951,747	\$ 951,747	\$ -	0.00%
Miscellaneous Intangible Plant	504,026	983,037	479,011	95.04%
Production Plant	5,214,191	5,738,407	524,216	10.05%
Transmission Plant	9,852,324	9,415,026	(437,298)	-4.44%
Distribution Plant	23,739,699	27,475,350	3,735,651	15.74%
General Plant	6,231,424	6,716,053	484,629	7.78%
Total Electric Plant in-Service	46,493,411	51,279,620	4,786,209	10.29%
Work-in-Progress	3,458,783	321,289	(3,137,494)	-90.71%
Total Electric Plant	<u>\$ 49,952,194</u>	<u>\$ 51,600,909</u>	<u>\$ 1,648,715</u>	<u>3.30%</u>
Water Plant				
	Balance 12/31/2016	Balance 12/31/2017	Increase (Decrease)	Percent
<u>Plant in-Service</u>				
Land	\$ 674,367	\$ 979,967	\$ 305,600	45.32%
Source of Supply	4,901,185	5,904,278	1,003,093	20.47%
Pumping Plant	-	-	-	0.00%
Water Treatment Plant	9,147,641	8,822,115	(325,526)	-3.56%
Transmission & Distribution Plant	40,083,079	41,664,979	1,581,900	3.95%
General Plant	1,314,415	1,472,438	158,023	12.02%
Total Water Plant in-Service	56,120,687	58,843,777	2,723,090	4.85%
Work-in-Progress	534,620	51,711	(482,909)	-90.33%
Total Water Plant	<u>\$ 56,655,307</u>	<u>\$ 58,895,488</u>	<u>\$ 2,240,181</u>	<u>3.95%</u>
Consolidated				
Total MPS	<u>\$ 106,607,501</u>	<u>\$ 110,496,397</u>	<u>\$ 3,888,896</u>	<u>3.65%</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

LONG-TERM DEBT

Table 4, Long-Term Debt, presents the change in the outstanding debt of MPS from 2016 to 2017. The combined total debt at the end of 2017 was \$45.2 million. The net change was an overall decrease of \$4.0 million, or 8.0%. The Electric Division's long-term debt decreased by \$2.5 million, or 8.8%. The Water Division's long-term debt decreased by \$1.4 million, or 7.0%. Additional information on long-term debt can be found in Note 4 in the Notes to Financial Statements.

MPS reported \$4.6 million as a net pension liability for the year ending December 31, 2017. Additional information on net pension liability debt can be found in Note 7 in the Notes to Financial Statements.

Table 4

MOORHEAD PUBLIC SERVICE

Long-Term Debt

Electric Division				
	Balance 12/31/2016	Balance 12/31/2017	Increase (Decrease)	Percent
Net OPEB Obligations	\$ 159,228	\$ 161,722	\$ 2,494	1.57%
Net Pension Liability	3,439,421	2,738,707	(700,714)	-20.37%
Public Utility Revenue & Refunding Bonds	26,689,719	25,020,164	(1,669,555)	-6.26%
Total Long-Term Debt	30,288,368	27,978,693	(2,309,675)	-7.63%
Less: Current Portion				
Public Utility Revenue & Refunding Bonds	1,629,800	1,789,250	159,450	9.78%
Total Current Portion of Long-Term Debt	1,629,800	1,847,350	217,550	13.35%
Net Long-Term Debt	<u>\$ 28,658,568</u>	<u>\$ 26,131,343</u>	<u>\$ (2,527,225)</u>	<u>-8.82%</u>
Water Division				
	Balance 12/31/2016	Balance 12/31/2017	Increase (Decrease)	Percent
Net OPEB Obligations	\$ 106,152	\$ 107,814	\$ 1,662	1.57%
Net Pension Liability	2,292,949	1,825,807	(467,142)	-20.37%
Notes Payable	13,658,111	13,109,252	(548,859)	100.00%
Public Utility Revenue & Refunding Bonds	5,504,010	5,203,897	(300,113)	-5.45%
Total Long-Term Debt	21,561,222	20,246,770	(1,314,452)	-6.10%
Less: Current Portion				
Notes Payable	731,216	733,000	1,784	100.00%
Public Utility Revenue & Refunding Bonds	295,200	405,750	110,550	37.45%
Total Current Portion of Long-Term Debt	1,026,416	1,138,750	112,334	10.94%
Net Long-Term Debt	<u>\$ 20,534,806</u>	<u>\$ 19,108,020</u>	<u>\$ (1,426,786)</u>	<u>-6.95%</u>
Consolidated				
Total MPS	<u>\$ 49,193,374</u>	<u>\$ 45,239,363</u>	<u>\$ (3,954,011)</u>	<u>-8.04%</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONTACTING MOORHEAD PUBLIC SERVICE'S FINANCIAL MANAGEMENT

This financial report is designed to provide MPS' rate payers, creditors, and investors with a general overview of MPS' finances and to demonstrate MPS' accountability for the money it receives. If you have questions about this report or need additional financial information, contact MPS' Administration and Finance Manager by mail at Moorhead Public Service, P. O. Box 779, Moorhead, MN 56561-0779; by e-mail at mps@mpsutility.com; or by calling 218-477-8000.

MOORHEAD PUBLIC SERVICE
STATEMENT OF NET POSITION
DECEMBER 31, 2017

	Electric	Water	Total
ASSETS			
CURRENT ASSETS			
Cash and equivalents	\$ 4,204,984	\$ 2,687,253	\$ 6,892,237
Accounts receivable, net	2,350,293	448,950	2,799,243
Accounts receivable - unbilled revenues	3,213,900	512,300	3,726,200
Accrued interest receivable	96,916	18,460	115,376
Inventories	1,463,835	222,037	1,685,872
Prepaid items	65,109	30,562	95,671
Due from other governmental units	709,942	-	709,942
Due from special assessments-delinquent	-	2,887	2,887
	<u>12,104,979</u>	<u>3,922,449</u>	<u>16,027,428</u>
RESTRICTED ASSETS			
Revenue bond account	421,408	96,880	518,288
Bond reserve account	2,615,223	642,577	3,257,800
Unspent bond proceeds	<u>3,296,736</u>	<u>-</u>	<u>3,296,736</u>
	<u>6,333,367</u>	<u>739,457</u>	<u>7,072,824</u>
OTHER ASSETS			
Notes receivable	91,013	-	91,013
Bond operations and maintenance reserve	4,588,000	792,000	5,380,000
Other long-term investments	<u>11,433,016</u>	<u>2,639,900</u>	<u>14,072,916</u>
	<u>16,112,029</u>	<u>3,431,900</u>	<u>19,543,929</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension plans	<u>716,677</u>	<u>477,784</u>	<u>1,194,461</u>
CAPITAL ASSETS			
In-service	84,014,185	82,566,217	166,580,402
Land	951,747	979,967	1,931,714
Work-in-progress	<u>321,289</u>	<u>51,711</u>	<u>373,000</u>
	<u>85,287,221</u>	<u>83,597,895</u>	<u>168,885,116</u>
Less accumulated depreciation	<u>33,686,312</u>	<u>24,702,407</u>	<u>58,388,719</u>
	<u>51,600,909</u>	<u>58,895,488</u>	<u>110,496,397</u>
Total assets	<u>\$ 86,867,961</u>	<u>\$ 67,467,078</u>	<u>\$ 154,335,039</u>

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

	Electric	Water	Total
LIABILITIES			
CURRENT LIABILITIES			
Payable from current assets			
Accounts payable	\$ 2,719,103	\$ 373,687	\$ 3,092,790
Power costs payable	2,233,342	-	2,233,342
Sales tax payable	159,938	-	159,938
Customer deposits	215,816	-	215,816
Accrued vacations and compensated absences	399,000	266,000	665,000
Due to other city funds	1,452,524	642,078	2,094,602
	<u>7,179,723</u>	<u>1,281,765</u>	<u>8,461,488</u>
Payable from restricted assets			
Accrued interest	109,100	61,334	170,434
Current maturities of leases and notes	58,100	733,000	791,100
Current maturities of bonds payable	1,789,250	405,750	2,195,000
	<u>1,956,450</u>	<u>1,200,084</u>	<u>3,156,534</u>
LONG-TERM DEBT			
Net OPEB obligation	161,722	107,814	269,536
Net pension liability	2,738,707	1,825,807	4,564,514
Notes payable, less current maturities	-	12,376,252	12,376,252
Bonds payable, less current maturities	22,840,150	4,749,850	27,590,000
Premium on bonds payable	390,764	48,297	439,061
	<u>26,131,343</u>	<u>19,108,020</u>	<u>45,239,363</u>
DEFERRED INFLOWS OF RESOURCES			
Pension plans	<u>515,125</u>	<u>343,416</u>	<u>858,541</u>
Total liabilities	<u>35,782,641</u>	<u>21,933,285</u>	<u>57,715,926</u>
NET POSITION			
NET POSITION			
Net investment in capital assets	29,819,381	40,582,339	70,401,720
Restricted for:			
Debt service	6,333,367	739,457	7,072,824
Unrestricted	<u>14,932,572</u>	<u>4,211,997</u>	<u>19,144,569</u>
Total net position	<u>51,085,320</u>	<u>45,533,793</u>	<u>96,619,113</u>
Total liabilities and net position	<u>\$ 86,867,961</u>	<u>\$ 67,467,078</u>	<u>\$ 154,335,039</u>

MOORHEAD PUBLIC SERVICE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2017

	Electric	Water	Total
OPERATING REVENUES			
Charges for services	\$ 41,332,127	\$ 8,929,350	\$ 50,261,477
Other	3,717,710	51,770	3,769,480
Total operating revenues	<u>45,049,837</u>	<u>8,981,120</u>	<u>54,030,957</u>
OPERATING EXPENSES			
Purchased power	19,586,149	-	19,586,149
Production of power	208,337	-	208,337
Transmission	2,820,849	-	2,820,849
Distribution	2,246,772	1,113,369	3,360,141
Source of supply and pumping	-	349,990	349,990
Water treatment	-	2,283,528	2,283,528
Customer accounts	719,643	271,293	990,936
Administrative	2,235,007	1,089,088	3,324,095
Depreciation and amortization	2,597,465	1,766,368	4,363,833
Total operating expenses	<u>30,414,222</u>	<u>6,873,636</u>	<u>37,287,858</u>
OPERATING INCOME	14,635,615	2,107,484	16,743,099
NONOPERATING REVENUES (EXPENSES)			
Interest income and market adjustments	280,001	60,288	340,289
Gain on sale of capital assets	21,695	61,847	83,542
Other income	535,705	354,625	890,330
Interest expense	(788,019)	(368,618)	(1,156,637)
Total nonoperating revenues (expenses)	<u>49,382</u>	<u>108,142</u>	<u>157,524</u>
INCOME BEFORE TRANSFERS AND CONTRIBUTED CAPITAL	14,684,997	2,215,626	16,900,623
TRANSFERS OUT TO OTHER FUNDS			
City general fund	(6,600,000)	(448,307)	(7,048,307)
City economic development fund	(50,000)	-	(50,000)
City capital improvement fund	(1,968,696)	(126,000)	(2,094,696)
Total transfers out	<u>(8,618,696)</u>	<u>(574,307)</u>	<u>(9,193,003)</u>
CONTRIBUTION OF CAPITAL ASSETS	<u>489,767</u>	<u>1,498,613</u>	<u>1,988,380</u>
CHANGE IN NET POSITION	6,556,068	3,139,932	9,696,000
NET POSITION, BEGINNING OF YEAR	<u>44,529,252</u>	<u>42,393,861</u>	<u>86,923,113</u>
NET POSITION, END OF YEAR	<u>\$ 51,085,320</u>	<u>\$ 45,533,793</u>	<u>\$ 96,619,113</u>

MOORHEAD PUBLIC SERVICE
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2017

	Electric	Water	Total
OPERATING ACTIVITIES			
Receipts from customers and users	\$ 44,372,386	\$ 9,234,757	\$ 53,607,143
Payments to suppliers	(25,244,088)	(3,853,969)	(29,098,057)
Payments to employees	(2,215,238)	(1,065,880)	(3,281,118)
NET CASH FROM OPERATING ACTIVITIES	16,913,060	4,314,908	21,227,968
NON-CAPITAL FINANCING ACTIVITIES			
Transfers to other funds	(8,618,696)	(574,307)	(9,193,003)
Payments received on notes and special receivables	-	10,338	10,338
New issuance of notes and special receivables	(75,753)	-	(75,753)
Decrease in due from other funds	327,425	-	327,425
Increase in due to other funds	19,287	13,960	33,247
Increase in net pension liability and related deferred inflows and outflows of resources	(44,128)	(29,418)	(73,546)
NET CASH USED FOR NON-CAPITAL FINANCING ACTIVITIES	(8,391,865)	(579,427)	(8,971,292)
CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of utility plant	(3,943,933)	(2,596,301)	(6,540,234)
Proceeds related to sale of assets	21,695	61,847	83,542
Proceeds from the issuance of long-term debt	58,100	182,357	240,457
Debt service - principal	(1,669,554)	(1,031,330)	(2,700,884)
Debt service - interest and fees	(853,276)	(375,779)	(1,229,055)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(6,386,968)	(3,759,206)	(10,146,174)
INVESTING ACTIVITIES			
Interest received and market adjustments	244,367	53,501	297,868
Purchase of investments	(2,886,102)	(199,886)	(3,085,988)
Proceeds from the sale of investments	2,212,000	64,487	2,276,487
NET CASH USED FOR INVESTING ACTIVITIES	(429,735)	(81,898)	(511,633)
NET CHANGE IN CASH BALANCE	1,704,492	(105,623)	1,598,869
CASH BALANCE, JANUARY 1	2,500,492	2,792,876	5,293,368
CASH BALANCE, DECEMBER 31	\$ 4,204,984	\$ 2,687,253	\$ 6,892,237

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	\$ 14,635,615	\$ 2,107,484	\$ 16,743,099
Adjustments to reconcile operating income to net cash from operating activities			
Depreciation and amortization	2,597,465	1,766,368	4,363,833
Depreciation expensed to vehicle expense	187,520	88,365	275,885
Other income	535,705	354,626	890,331
Change in assets and liabilities			
Receivables	(503,214)	(100,989)	(604,203)
Inventories	(310,831)	(16,170)	(327,001)
Prepaid items	(29,888)	(30,520)	(60,408)
Due from others	(709,942)	-	(709,942)
Net OPEB obligations	2,494	1,662	4,156
Accounts payable	490,861	122,536	613,397
Accrued vacations and severance pay	17,275	21,546	38,821
NET CASH FROM OPERATING ACTIVITIES	<u>\$ 16,913,060</u>	<u>\$ 4,314,908</u>	<u>\$ 21,227,968</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES			
Changes in capital assets through contributed capital	<u>\$ 489,767</u>	<u>\$ 1,498,613</u>	<u>\$ 1,988,380</u>

MOORHEAD PUBLIC SERVICE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Moorhead Public Service, which is governed by the five appointed members of the Moorhead Public Service Commission, provides electric utility and water utility services to the citizens and business community of Moorhead, Minnesota. The public utility activities of the City of Moorhead are non-regulated. However, Moorhead Public Service follows the accounting requirements for similar regulated utilities to include the requirements set forth in the uniform system of accounts of the Federal Energy Regulatory Commission and the National Association of Regulatory Utility Commissioners. However, the following of these accounting requirements does not materially affect the presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America.

Reporting Entity

Moorhead Public Service's financial statements include all funds for which Moorhead Public Service is financially accountable.

Component units are legally separate organizations for which elected officials of the primary government are financially accountable. Moorhead Public Service is financially accountable if it appoints a voting majority of the organization's governing body and is either:

1. Able to impose its will on that organization, or
2. There is potential for the organization to provide specific financial benefits to, or impose financial burdens on Moorhead Public Service. Moorhead Public Service may be financially accountable if an organization is fiscally dependent on the entity.

Based upon the above criteria, there are no component units to be included within Moorhead Public Service as a reporting entity; however, Moorhead Public Service is includable as a component unit within the City of Moorhead as a reporting entity.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Moorhead Public Service reports the following major proprietary funds:

Electric – This fund accounts for the provision of electric service to the citizens and business community of Moorhead, Minnesota.

Water – This fund accounts for the provision of water utility service to the citizens and business community of Moorhead, Minnesota, and one neighboring community.

NOTES TO FINANCIAL STATEMENTS

Proprietary funds report operating revenues and expenses separately from non-operating items. Operating revenues and expenses generally result from providing services or producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

Cash Equivalents

The Fund considers all highly liquid investments with a maturity of three months or less to be cash equivalents. The carrying amount of cash equivalents approximates fair value.

Receivable and Credit Policy

Moorhead Public Service's trade receivables are uncollateralized customer obligations due under normal trade terms requiring payment within 24 days from the invoice date. Customers are charged a one-time 5% fee for late payments. The receivables are non-interest bearing. Payments on trade receivables are applied to the oldest unpaid invoices. All trade receivables are shown net of an allowance for uncollectible accounts. These allowances are equal to estimated losses that may be incurred in collection of outstanding receivables. At the end of 2017, the allowances for uncollectible accounts were \$2,510 for electric division receivables and \$1,220 for water division receivables.

Notes receivable are stated at principal amounts and are uncollateralized. Notes receivable at year-end 2017 consisted of interest-bearing loans to customers who installed dual fuel heating equipment as well as amounts due from customers enrolled in MPS' 2017 Capture the Sun® purchase or licensing program. The term of all dual fuel notes receivable is 60 months and the term of the Capture the Sun® purchase or licensing commitments receivables is 12 months. Due to the high likelihood of collection of these items, there is not an allowance for uncollectible accounts.

Capital Assets

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

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

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

NOTES TO FINANCIAL STATEMENTS

Investments

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

Inventories

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

Prepaid Items

Certain payments to vendors reflect costs applicable to future periods and are recorded as prepaid items.

Compensated Absences

It is Moorhead Public Service's policy to permit employees to accumulate earned, but unused, vacation and sick pay benefits. All employees are entitled to vacation time with pay based upon length of continuous service. Administrative employees do not have a ceiling on the total hours of vacation that may be accrued throughout the year, but their maximum at year-end is 300 hours. A maximum of 300 hours will be paid to administrative employees upon termination of employment. Union employees are allowed to carry over their current year accrual plus 80 hours of their prior year accrual, of which 40 hours must be used before April 1 of the following year. Employees shall be entitled to 50% of their accrued sick pay, up to a maximum of 650 hours, if they terminate employment for one of these four conditions: retirement, disability, survivor, or honorable conditions (25 years of service with good standing).

Revenue Recognition

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

Power & Transmission Costs

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

Pensions

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

NOTES TO FINANCIAL STATEMENTS

Deferred Inflows of Resources and Deferred Outflows of Resources

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

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

Net Position

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in Moorhead Public Service's financial statements.

Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

Unrestricted net position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Restricted and Unrestricted Resources

When both restricted and unrestricted resources are available for use, it is Moorhead Public Service's practice to use unrestricted resources first, and then restricted resources, in accordance with bond covenants.

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – DEPOSITS AND INVESTMENTS

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, a depositor's funds may not be returned. Moorhead Public Service does not have a formal policy to further limit exposure to custodial credit risk. In accordance with Minnesota state statutes, Moorhead Public Service maintains deposits at depository banks authorized by the Moorhead City Council, of which all are members of the Federal Reserve System. Minnesota statutes require that all Moorhead Public Service deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds (140% in the case of mortgage notes pledged). Minnesota statutes require that securities pledged as collateral be held in safekeeping by the financial officer or in a financial institution other than that furnishing the collateral. As of December 31, 2017, Moorhead Public Service's deposits were fully insured or properly collateralized.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates may adversely affect the fair value of an investment. Moorhead Public Service's investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. After the liquidity needs and scheduled maturity needs are satisfied, the balance of the funds available for investment are placed with institutions that offer the greatest safety and highest rate of return consistent with the maturities as determined by Moorhead Public Service.

Investments

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, 2017, 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	\$ 3,336,583	\$ -	\$ 655,677	\$ 1,904,355	\$ 776,551	\$ -
Money Market Funds	3,736,241	3,736,241			-	-
Total Restricted Investments	<u>\$ 7,072,824</u>	<u>\$ 3,736,241</u>	<u>\$ 655,677</u>	<u>\$ 1,904,355</u>	<u>\$ 776,551</u>	<u>\$ -</u>

Unrestricted Investment Type	Fair Value	Investment Maturities (in Years)				
		Not Applicable	< 1	1 - 5	> 5 - 10	> 10
Government Bonds	\$ 19,452,916	\$ -	\$ 1,191,398	\$ 10,476,839	\$ 7,074,954	\$ 709,725

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, 2017, all of Moorhead Public Service's investments are valued using quoted market prices (Level 1 inputs)

NOTES TO FINANCIAL STATEMENTS

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Beyond what is stated in state statutes, Moorhead Public Service does not have a formal policy to further limit its exposure to credit risk. Moorhead Public Service's investments in the U.S. government bonds and money market funds are not rated.

Restricted Assets

Bond resolutions related to the bonds described in Note 4 provide for the maintenance of the following:

1. A revenue bond account that will be used to pay bond principal and interest. This account is funded by an irrevocable monthly pledge of 1/12 of the interest and principal due during the following 12 months.
2. A bond reserve account to supplement the revenue bond account. This account shall contain an amount sufficient to pay the lesser of the largest sum of principal and interest due during any year or 10% of the original principal amount of all outstanding Parity Bonds.
3. An income reserve account in an amount sufficient to cover the operation and maintenance costs of the utility for an ensuring two-month period.
4. A bond proceeds account is set up to record the unexpended bond proceeds.

NOTES TO FINANCIAL STATEMENTS

NOTE 3 – CAPITAL ASSETS

Capital assets for the Electric Fund are as follows:

Electric Fund	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 951,747	\$ -	\$ -	\$ 951,747
Construction work in progress	3,458,783	4,440,614	7,578,108	321,289
	<u>4,410,530</u>	<u>4,440,614</u>	<u>7,578,108</u>	<u>1,273,036</u>
Capital assets, being depreciated:				
Miscellaneous intangible plant	759,399	529,414	-	1,288,813
Production plant	7,506,733	834,361	-	8,341,094
Transmission plant	16,018,447	55,255	-	16,073,702
Distribution plant	41,216,412	5,098,036	110,665	46,203,783
General plant	11,131,567	1,061,042	85,816	12,106,793
	<u>76,632,558</u>	<u>7,578,108</u>	<u>196,481</u>	<u>84,014,185</u>
Less accumulated depreciation for:				
Miscellaneous intangible plant	255,373	50,403	-	305,776
Production plant	2,292,542	310,145	-	2,602,687
Transmission plant	6,166,123	492,553	-	6,658,676
Distribution plant	17,476,713	1,362,387	110,667	18,728,433
General plant	4,900,143	569,497	78,900	5,390,740
	<u>31,090,894</u>	<u>2,784,985</u>	<u>189,567</u>	<u>33,686,312</u>
Total capital assets, being depreciated, net	<u>45,541,664</u>	<u>4,793,123</u>	<u>6,914</u>	<u>50,327,873</u>
Capital assets, net	<u>\$ 49,952,194</u>	<u>\$ 9,233,737</u>	<u>\$ 7,585,022</u>	<u>\$ 51,600,909</u>

NOTES TO FINANCIAL STATEMENTS

Capital assets for the Water Fund are as follows:

Water Fund	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 674,367	\$ 305,600	\$ -	\$ 979,967
Construction work in progress	534,620	4,094,914	4,577,823	51,711
	<u>1,208,987</u>	<u>4,400,514</u>	<u>4,577,823</u>	<u>1,031,678</u>
Capital assets, being depreciated:				
Source of supply plant structure and improvements	9,271,305	1,237,683	24,435	10,484,553
Pumping plant	30,914	-	-	30,914
Water treatment plant	17,009,765	-	-	17,009,765
Transmission and distribution plant	49,683,441	2,697,958	35,785	52,345,614
General plant	2,471,373	336,582	112,584	2,695,371
	<u>78,466,798</u>	<u>4,272,223</u>	<u>172,804</u>	<u>82,566,217</u>
Less accumulated depreciation for:				
Source of supply plant structure and improvements	4,370,120	234,590	24,435	4,580,275
Pumping plant	30,914	-	-	30,914
Water treatment plant	7,862,124	325,526	-	8,187,650
Transmission and distribution plant	9,600,362	1,116,058	35,785	10,680,635
General plant	1,156,958	178,559	112,584	1,222,933
	<u>23,020,478</u>	<u>1,854,733</u>	<u>172,804</u>	<u>24,702,407</u>
Total capital assets, being depreciated, net	<u>55,446,320</u>	<u>2,417,490</u>	<u>-</u>	<u>57,863,810</u>
Capital assets, net	<u>\$ 56,655,307</u>	<u>\$ 6,818,004</u>	<u>\$ 4,577,823</u>	<u>\$ 58,895,488</u>

NOTES TO FINANCIAL STATEMENTS

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

Business-type activities:	
Electric Division	\$ 2,784,985
Water Division	<u>1,854,733</u>
Total depreciation expense - business-type activities	\$ 4,639,718
 Depreciation and amortization per Statement of Revenues, Expenses, and Changes in Net Position	 <u>\$ 4,363,833</u>
Difference from Statement of Revenues, Expenses, and Changes in Net Position	<u><u>\$ 275,885</u></u>

Depreciation and amortization expense reflected in the Statement of Revenues, Expenses, and Changes In Net Position is \$4,363,833. The difference of \$275,885 is expensed to vehicle expense per the guidelines established by the Federal Energy Regulatory Commission and the National Association of Regulatory Utility Commissioners.

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – LONG-TERM DEBT

The following is a summary of the changes in debt for Moorhead Public Service as of December 31, 2017.

	Beginning Balance	Additions	Reductions	Ending Balance	Long-Term After One Year	Due Within One Year
Compensated Absences	\$ 626,179	\$ 38,821	\$ -	\$ 665,000	\$ -	\$ 665,000
Net OPEB Obligation	265,380	4,156	-	269,536	269,536	-
Net Pension Liability	5,732,370	-	1,167,856	4,564,514	4,564,514	-
Notes Payable	13,658,111	240,457	731,216	13,167,352	12,376,252	791,100
Public Utility Revenue & Refunding Bonds						
Series 2007A	4,695,000	-	355,000	4,340,000	3,975,000	365,000
Series 2009A	1,065,000	-	260,000	805,000	705,000	100,000
Series 2010A	9,330,000	-	260,000	9,070,000	8,110,000	960,000
Series 2012E	3,890,000	-	640,000	3,250,000	2,970,000	280,000
Series 2016A	12,730,000	-	410,000	12,320,000	11,830,000	490,000
Plus (less) unamortized discount or premium	483,729	-	44,668	439,061	-	-
	<u>\$ 52,475,769</u>	<u>\$ 283,434</u>	<u>\$ 3,868,740</u>	<u>\$ 48,890,463</u>	<u>\$ 44,800,302</u>	<u>\$ 3,651,100</u>

Revenue & Refunding Bonds

The following is a summary of bonds payable for the year ended December 31, 2017:

	Interest Rates	Electric	Water	Total
Public Utility Revenue & Refunding Bonds				
Series 2007A	5.17%	\$ 2,044,500	\$ 2,305,500	\$ 4,350,000
Series 2009A	3.0% - 4.75%	805,000	-	805,000
Series 2010C	2.0% - 4.875%	7,565,100	1,494,900	9,060,000
Series 2012E	2.0% - 3.0%	3,250,000	-	3,250,000
Series 2016A	2.0% - 4.0%	10,964,800	1,355,200	12,320,000
		24,629,400	5,155,600	29,785,000
Plus (less) unamortized discount or premium		390,764	48,297	439,061
		25,020,164	5,203,897	30,224,061
Less current maturities		(1,789,250)	(405,750)	(2,195,000)
		<u>\$ 23,230,914</u>	<u>\$ 4,798,147</u>	<u>\$ 28,029,061</u>

Moorhead Public Service is in compliance with all significant limitations and restrictions contained in the various bond indentures. Assets restricted by the provisions of the bond resolutions are set forth in Note 2.

NOTES TO FINANCIAL STATEMENTS

The net revenues of Moorhead Public Service are pledged as security for these debts. The bonds call for semiannual payments of interest and annual payments of principal on various dates through 2036.

Principal repayments on the debt to maturity are as follows:

	Electric		Water	
	Principal	Interest	Principal	Interest
2018	\$ 1,789,250	\$ 758,864	\$ 405,750	\$ 197,706
2019	1,864,300	710,616	425,700	182,998
2020	1,926,825	657,521	443,175	167,004
2021	2,010,775	593,197	464,225	149,155
2022	2,086,375	525,125	483,625	130,332
2023-2027	9,037,825	1,516,058	2,202,175	334,272
2028-2036	5,914,050	803,693	730,950	99,332
	<u>\$ 24,629,400</u>	<u>\$ 5,565,074</u>	<u>\$ 5,155,600</u>	<u>\$ 1,260,799</u>

Notes Payable

The following is a summary of notes payable for the year ended December 31, 2017:

	Interest Rates	Electric	Water	Total
Minnesota Public Facilities Authority				
Drinking Water SRF Bond Fund Loan				
MPFA-09-0036-R-FY15	1.02%	\$ -	\$ 10,879,000	\$ 10,879,000
MPFA-DWRF-L-0006-FY16	1.00%		2,230,252	2,230,252
Property Purchase Agreement	2.00%	58,100	-	58,100
		58,100	13,109,252	13,167,352
Less current maturities		(58,100)	(733,000)	(791,100)
		<u>\$ -</u>	<u>\$ 12,376,252</u>	<u>\$ 12,376,252</u>

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

	Electric		Water	
	Principal	Interest	Principal	Interest
2018	\$ 58,100	\$ 1,162	\$ 733,000	\$ 133,206
2019	-	-	740,000	127,764
2020	-	-	726,000	120,241
2021	-	-	733,000	112,861
2022	-	-	740,000	105,410
2023-2027	-	-	3,817,000	412,622
2028-2035	-	-	5,620,252	244,187
	<u>\$ 58,100</u>	<u>\$ 1,162</u>	<u>\$ 13,109,252</u>	<u>\$ 1,256,291</u>

NOTES TO FINANCIAL STATEMENTS

OPEB Obligations

Moorhead Public Service engaged an actuary to determine MPS' liability for post-employment health care benefits other than pensions as of December 31, 2008. Updated studies were completed in 2011, 2014, and 2017. The actuary determined the only obligation Moorhead Public Service has to record is the implied subsidy portion as described in the standard. The alternative measurement method; a simplified method of calculating the liability for plans with fewer than 100 plan members, was used.

Plan Description

All employees are allowed to, upon meeting the eligibility requirements under Minn. Stat. 471.61 subd. 2b, participate in Moorhead Public Service's health insurance plan after retirement. This plan covers active and retired employees. Benefit provisions are established through negotiations between Moorhead Public Service and the unions representing employees and are renegotiated at the end of each contract period. The retiree health plan does not issue a publicly available financial report.

Funding Policy

Moorhead Public Service has elected to fund the plan on a pay-as-you-go method.

Annual OPEB Cost and Net OPEB Obligation

Moorhead Public Service's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of 30 years. The following table shows the components of MPS' annual OPEB cost for the year, the amount actually contributed to the plan, and changes in MPS' net OPEB obligation:

Normal Cost	\$	28,198
Amortization of UAAL over 30 years		15,061
Interest on OPEB Obligation		<u>9,288</u>
Total year-end ARC		52,547
Contributions made		<u>(48,391)</u>
Increase in OPEB Obligation		4,156
Net OPEB Obligation, Beginning of Year		<u>265,380</u>
Net OPEB Obligation, End of Year	\$	<u><u>269,536</u></u>

NOTES TO FINANCIAL STATEMENTS

MPS' annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2017 and three prior years was as follows:

Year Ended	Annual OPEB Cost	Employer Contribution	Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2014	\$ 68,319	\$ 24,480	36%	\$ 207,864
12/31/2015	67,474	32,243	48%	243,095
12/31/2016	66,705	44,420	67%	265,380
12/31/2017	52,547	48,391	92%	269,536

Funded Status and Funding Progress

As of January 1, 2017, the date of the most recent actuarial valuation, the plan was unfunded. The actuarial accrued liability for benefits was \$441,999, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$441,999. The covered payroll (annual payroll of active employees covered by the plan) was \$4,428,000, and the ratio of the UAAL to the covered payroll was 10.4%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the Notes to the Financial Statements, begins with fiscal year 2008 and is updated annually to present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2011, the January 1, 2014, and the January 1, 2017 actuarial valuations, the projected unit credit actuarial cost method was used. The 2011 and 2014 actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses), while the 2017 actuarial assumptions included a 3.5% investment rate of return (net of administrative expenses) which is a blended rate of the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date.

The January 1, 2011 valuation included actuarial assumptions that projected an annual healthcare cost trend rate of 8% initially, reduced by decrements to an ultimate rate of 5% after six years. The January 1, 2014 valuation included actuarial assumptions that projected an adjusted annual healthcare cost trend rate of 7.5% for 2015, grading to 5% over 10 years. The January 1, 2017 valuation included actuarial assumptions that projected an adjusted annual healthcare cost trend rate of 6.5% for 2017, grading to 5% over 6 years. All rates included an inflation assumption.

The UAAL is being amortized as a level percentage of projected payroll on an open basis over 30 years.

NOTES TO FINANCIAL STATEMENTS

NOTE 5 – INTERFUND PAYABLES AND RECEIVABLES

Interfund payables and receivables are used to record accrued obligations between funds. A summary of the interfund balances as of December 31, 2017, is as follows.

Payable	Amount
Electric Fund - Due to City of Moorhead's General, Capital Improvement, Economic Development, Sanitation, and Wastewater Funds	<u>\$ 1,452,524</u>
Water Fund - Due to City of Moorhead General Fund	<u>\$ 642,078</u>

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

NOTES TO FINANCIAL STATEMENTS

NOTE 6 – APPROPRIATION TRANSFERS

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

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

In 2017, the Electric Division transferred the base transfer of \$6,600,000 to the General Fund, 5%, or \$1,968,696 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 2017, the Water Division transferred 5%, or \$448,307 of its gross income net of certain revenues exempted from the calculation by the City Council to the General Fund and \$126,000 to the Capital Improvement Fund.

<u>Appropriation Transfers - Electric Division</u>		<u>2017</u>
City General Fund	\$	6,600,000
City Capital Improvement Fund		1,968,696
City Economic Development Fund		50,000
Total	\$	<u>8,618,696</u>
 <u>Appropriation Transfers - Water Division</u>		 <u>2017</u>
City General Fund	\$	448,307
City Capital Improvement Fund		126,000
Total	\$	<u>574,307</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 7 - PENSION PLAN

A. Plan Description

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

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

B. Benefits Provided

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

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

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

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

C. Contributions

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

Coordinated Plan members were required to contribute 6.50% of their annual covered salary in calendar year 2017. MPS was required to contribute 7.50% for Coordinated Plan members in calendar year 2017. Contributions made by MPS to the GERF for the year ended December 31, 2017, were \$345,294. Contributions made by MPS were equal to the required contributions as set by state statute.

D. Pension Costs

NOTES TO FINANCIAL STATEMENTS

At December 31, 2017, MPS reported a liability of \$4,564,514 for its proportionate share of the GERF's net pension liability. MPS' net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2017. 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 \$ 57,367. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. MPS' proportion of the net pension liability was based on the MPS' contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, MPS' proportion share was 0.0715% which was an increase of 0.0009% from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the MPS recognized pension expense of \$205,496 for its proportionate share of the GERF's pension expense. In addition, MPS recognized an additional \$1,657 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

At December 31, 2017, MPS reported its proportionate share of the GERF'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	\$ 150,431	\$ 288,208
Changes in actuarial assumptions	748,269	457,593
Difference between projected and actual investment earnings	14,448	-
Changes in proportion	113,111	112,740
MPS's contributions to GERF subsequent to the measurement date	<u>168,202</u>	<u>-</u>
Total	<u>\$ 1,194,461</u>	<u>\$ 858,541</u>

The \$168,202 reported as deferred outflows of resources related to pensions resulting from MPS' contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Years Ended June 30,</u>	<u>Pension Expense Amount</u>
2018	\$ 171,983
2019	231,731
2020	(55,942)
2021	(180,053)
Thereafter	-

NOTES TO FINANCIAL STATEMENTS

E. Actuarial Assumptions

The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP 2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1% per year through 2044 and then 2.5% thereafter for the GERP.

Actuarial assumptions used in the June 30, 2017 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015.

The following changes in actuarial assumptions occurred in 2017:

- The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15.0% for vested deferred member liability, and 3.0% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	39%	5.10%
International Stocks	19%	5.30%
Bonds	20%	.75%
Alternative Assets	20%	5.90%
Cash	2%	0.0%
Total	100%	

F. Discount Rate

The discount rate used to measure the total pension liability in 2017 was 7.5. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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 1 percentage point lower or 1 percentage point higher than the current discount rate:

	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
GERF discount rate	6.50%	7.50%	8.50%
City's proportionate share of the GERF net pension liability	\$ 7,079,899	\$ 4,564,514	\$ 2,505,213

H. Pension Plan Fiduciary Net Position

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

NOTE 8 - 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.

NOTE 9 –FUTURE IMPLEMENTATION OF APPROVED GASB STANDARDS

As of December 31, 2017, 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, 2017 but will be implemented in future years.

The first statement issued but not yet implemented that will affect the City is statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). The requirements of this statement will improve the decision-usefulness of information in employer and governmental non-employer contributing entity financial reports and will enhance its value for assessing accountability and inter-period equity by requiring recognition of the entire OPEB liability and a more comprehensive measure of OPEB expense. This statement will be implemented at the City in the year ended December 31, 2018.

NOTES TO FINANCIAL STATEMENTS

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

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

The fourth statement issued but not yet implemented that will affect the City is statement No. 85, Omnibus. This statement addresses several accounting issues which included blended component units, goodwill, fair value measurement and application, and postemployment benefits among other items. This statement will be implemented at the City in the year ended December 31, 2018.

The fifth statement issued but not yet implemented that will affect the City is statement No. 86, Certain Debt Extinguishment Issues. This statement aims to improve consistency in reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement will be implemented at the City in the year ended December 31, 2018.

The sixth statement issued but not yet implemented that will affect the City 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 at the City in the year ended December 31, 2020.

REQUIRED SUPPLEMENTARY INFORMATION

MOORHEAD PUBLIC SERVICE
SCHEDULE OF OTHER POST-EMPLOYMENT BENEFIT (OPEB) FUNDING PROGRESS
DECEMBER 31, 2017

Other Post-Employment Benefit (OPEB) Funded Status and Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability (AAL) Simplified Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
1/1/2011	\$ -	\$ 436,164	\$ 436,164	0%	\$ 3,392,400	12.9%
1/1/2014	\$ -	\$ 531,674	\$ 531,674	0%	\$ 3,783,000	14.1%
1/1/2017	\$ -	\$ 441,999	\$ 441,999	0%	\$ 4,248,471	10.4%

NOTE TO THE SCHEDULE OF FUNDING PROGRESS

The standard requires a schedule of funding progress for the three most recent valuations and accompanying notes to describe factors that significantly affect the trends in the amounts reported. MPS implemented the standard as of January 1, 2008, and to date there have been four valuations performed. As such, there are four valuations disclosed above.

The Accrued Liability as of January 1, 2017, was expected to be \$616,511. The actual Accrued Liability is \$441,999. The difference between the actual and expected liability are due to changes in the claims cost methodology, claims and premium experience, retirement experience, as well as the following actuarial assumption changes since the last actuarial valuation as of January 1, 2014:

- The health care trend rates were changed to better anticipate short-term and long-term medical increases.
- The mortality table was updated from RP 2000 Combined Healthy Table projected to 2014 with Scale BB to the RP-2014 adjusted to 2006 White Collar Mortality Tables with MP-2016 Generational Improvement Scale.
- The withdrawal and retirement tables for all employees were updated.
- The discount rate was changed from 4.50% to 3.50%.

Effective January 1, 2013, differing health insurance plans were offered to the three employee groups. Employees within one bargaining unit and all non-union employees are covered under a new health insurance plan while employees within the other bargaining unit remained on the existing health insurance plan. Since the last actuarial valuation as of January 1, 2014, the following plan provisions have changed:

- The years of service required to be eligible for a benefit (implicit rate subsidy) was increased from three years to five years.

MOORHEAD PUBLIC SERVICE
COST-SHARING PENSION PLAN SCHEDULES
DECEMBER 31, 2017

Schedule of Employer's Share of Net Pension Liability

Pension Plan	Measurement Date	Employer's Proportion (Percentage) of the Net Pension Liability	Employer's Proportionate Share (Amount) of the Net Pension Liability (a)	Proportionate Share (Amount) of the Net Pension Liability Associated With MPS (b)	Total (c) (a+b)	Employer's Covered-Employee Payroll (d)	Employer's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll (a/d)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
GERF	6/30/2017	0.0715%	\$ 4,564,514	N/A	\$ 4,564,514	\$ 7,092,367	155.4%	75.9%
GERF	6/30/2016	0.0706%	5,732,370	N/A	5,732,370	6,664,177	116.3%	68.9%
GERF	6/30/2015	0.0686%	3,555,208	N/A	3,555,208	6,393,326	179.8%	78.2%

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

Schedule of Employer's Contributions

Pension Plan	Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered-Employee Payroll (c)	Contributions as a Percentage of Covered-Employee Payroll (b/c)
GERF	12/31/2017	\$ 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 in 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, 2017

	Electric Capital Assets			
	Balance 12/31/2016	Additions	Retirements	Balance 12/31/2017
PLANT IN-SERVICE				
Miscellaneous				
Intangible plant	\$ 759,399	\$ 529,414	\$ -	\$ 1,288,813
Production plant				
Land	921,919	-	-	921,919
Structures and improvements	6,050,725	804,343	-	6,855,068
Accessory electric equipment	221,092	-	-	221,092
Wind turbine	1,234,916	30,018	-	1,264,934
	<u>7,506,733</u>	<u>834,361</u>	<u>-</u>	<u>8,341,094</u>
Transmission plant				
Land	29,828	-	-	29,828
Structures and improvements	16,018,447	55,255	-	16,073,702
Distribution plant				
Station equipment	9,679,518	-	-	9,679,518
Poles, towers, and fixtures	2,797,501	-	39,500	2,758,001
Underground conduit	17,226,987	4,432,773	5,000	21,654,760
Line transformers	5,807,222	381,354	36,895	6,151,681
Services	1,906,102	-	-	1,906,102
Meters	2,196,155	166,362	29,270	2,333,247
Installations on customer premises	220,642	-	-	220,642
Street lighting and signal systems	1,382,285	117,547	-	1,499,832
	<u>41,216,412</u>	<u>5,098,036</u>	<u>110,665</u>	<u>46,203,783</u>
General plant				
Structures and Improvements	3,463,405	219,602	-	3,683,007
Office furniture and equipment	1,342,102	103,800	-	1,445,902
Transportation equipment	2,421,371	477,338	85,816	2,812,893
Stores equipment	3,681	-	-	3,681
Tools, shop, and garage equipment	306,131	-	-	306,131
Communication equipment	3,594,877	260,302	-	3,855,179
	<u>11,131,567</u>	<u>1,061,042</u>	<u>85,816</u>	<u>12,106,793</u>
Total electric plant in-service	<u>77,584,305</u>	<u>7,578,108</u>	<u>196,481</u>	<u>84,965,932</u>
CONSTRUCTION WORK-IN-PROGRESS	<u>3,458,783</u>	<u>4,440,614</u>	<u>7,578,108</u>	<u>321,289</u>
	<u>\$ 81,043,088</u>	<u>\$ 12,018,722</u>	<u>\$ 7,774,589</u>	<u>\$ 85,287,221</u>

Accumulated Depreciation/Amortization					
Annual Depreciation Amortization Rates	Balance 12/31/2016	Provision	Retirements	Balance 12/31/2017	Percent of Depreciation Amortization to Plant
10.0 - 12.5 %	\$ 255,373	\$ 50,403	\$ -	\$ 305,776	23.73%
	-			-	-
2	1,479,672	269,015	-	1,748,687	25.51%
3	221,092	-	-	221,092	100.00%
3	591,778	41,130	-	632,908	50.03%
	<u>2,292,542</u>	<u>310,145</u>	<u>-</u>	<u>2,602,687</u>	
	-	-	-	-	-
3	6,166,123	492,553	-	6,658,676	41.43%
2	3,985,384	308,554	-	4,293,938	44.36%
3	2,524,082	13,118	39,500	2,497,700	90.56%
2	6,406,207	650,105	5,000	7,051,312	32.56%
3	2,152,114	181,445	36,896	2,296,663	37.33%
3	1,127,003	58,178	-	1,185,181	62.18%
4	452,448	104,507	29,271	527,684	22.62%
4	90,728	4,593	-	95,321	43.20%
3	738,747	41,887	-	780,634	52.05%
	<u>17,476,713</u>	<u>1,362,387</u>	<u>110,667</u>	<u>18,728,433</u>	
10	786,620	80,128	-	866,748	23.53%
10	866,793	82,480	-	949,273	65.65%
5 - 25	1,081,596	187,520	78,900	1,190,216	42.31%
10	3,681	-	-	3,681	100.00%
10	259,338	10,398	-	269,736	88.11%
6	1,902,115	208,971	-	2,111,086	54.76%
	<u>4,900,143</u>	<u>569,497</u>	<u>78,900</u>	<u>5,390,740</u>	
	<u>31,090,894</u>	<u>2,784,985</u>	<u>189,567</u>	<u>33,686,312</u>	
	-	-	-	-	
	<u>\$ 31,090,894</u>	<u>\$ 2,784,985</u>	<u>\$ 189,567</u>	<u>\$ 33,686,312</u>	

MOORHEAD PUBLIC SERVICE
ANALYSIS OF CAPITAL ASSETS AND ACCUMULATED DEPRECIATION/AMORTIZATION
YEAR ENDED DECEMBER 31, 2017

	Water Capital Assets			
	Balance 12/31/2016	Additions	Retirements	Balance 12/31/2017
PLANT IN-SERVICE				
Land	\$ 674,367	\$ 305,600	\$ -	\$ 979,967
Source of supply plant structures and improvements	9,271,305	1,237,683	24,435	10,484,553
Pumping plant	30,914	-	-	30,914
Water treatment plant	17,009,765	-	-	17,009,765
Transmission and distribution plant				
Towers	1,652,798	-	-	1,652,798
Mains	45,971,523	2,648,217	27,408	48,592,332
Meters	2,059,120	49,741	8,377	2,100,484
	49,683,441	2,697,958	35,785	52,345,614
General plant				
Office furniture and equipment	73,769	-	-	73,769
Transportation equipment	1,312,927	181,099	112,584	1,381,442
Tools, shop, and garage equipment	145,640	-	-	145,640
Laboratory equipment	403,321	-	-	403,321
SCADA equipment	535,716	155,483	-	691,199
	2,471,373	336,582	112,584	2,695,371
Total water plant in-service	79,141,165	4,577,823	172,804	83,546,184
CONSTRUCTION WORK-IN-PROGRESS	534,620	4,094,914	4,577,823	51,711
	\$ 79,675,785	\$ 8,672,737	\$ 4,750,627	\$ 83,597,895

Annual Depreciation Amortization Rates	Accumulated Depreciation/Amortization				Percent of Depreciation Amortization to Plant
	Balance 12/31/2016	Provision	Retirements	Balance 12/31/2017	
%	\$ -	\$ -	\$ -	\$ -	0.0%
2 - 25	4,370,120	234,590	24,435	4,580,275	43.7%
2	30,914	-	-	30,914	100.0%
2 - 3	7,862,124	325,526 560,116	-	8,187,650	48.1%
2	693,789	33,056	-	726,845	44.0%
2	8,296,870	956,783	27,408	9,226,245	19.0%
3	609,703	126,219	8,377	727,545	34.6%
	9,600,362	1,116,058	35,785	10,680,635	
10	16,647	5,990	-	22,637	30.7%
12	689,734	88,365	112,584	665,515	48.2%
5	112,995	5,336	-	118,331	81.2%
10	181,099	33,883	-	214,982	53.3%
14	156,483	44,985	-	201,468	29.1%
	1,156,958	178,559	112,584	1,222,933	
	23,020,478	1,854,733	172,804	24,702,407	
	-	-	-	-	
	\$ 23,020,478	\$ 1,854,733	\$ 172,804	\$ 24,702,407	



**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, 2017, 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 4, 2018.

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.

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Compliance and Other Matters

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

Purpose of this Report

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

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

Fargo, North Dakota
May 8, 2018

**MOORHEAD PUBLIC SERVICE
SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2017**

FINANCIAL STATEMENT FINDINGS

None reported.