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MDU RESOURCES GROUP INC

Form 11-K

June 26, 2003

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 11-K

X ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2002

OR

TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-3480

MDU RESOURCES GROUP, INC.  
401(k) RETIREMENT PLAN  
(Full title of the plan)

MDU RESOURCES GROUP, INC.  
(Name of issuer of securities held pursuant to the plan)

MDU RESOURCES GROUP, INC.  
SCHUCHART BUILDING  
918 EAST DIVIDE AVENUE  
P.O. BOX 5650  
BISMARCK, NORTH DAKOTA 58506-5650  
(Address of the plan and address of the issuer's principal  
executive offices)

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-- December 31, 2002 and 2001  
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Supplemental Schedule:

Schedule H, Line 4i - Schedule of Assets (Held at  
End of Year)

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Independent Auditors' Report

Signature

Exhibit:

Consent of Independent Public Accountants

Statement Furnished Pursuant to Section 906 of  
Sarbanes-Oxley Act of 2002

MDU RESOURCES GROUP, INC.  
401(k) RETIREMENT PLAN

## STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS December 31,

	2002	2001
Assets:		
Investments (Notes 3 and 5)	\$203,125,630	\$207,862,768
Cash and cash equivalents (Note 4)	1,833,636	2,189,126
	204,959,266	210,051,894
Receivables:		
Employer contributions	2,411,697	1,275,226
Participant contributions	84,239	166,424
Dividends	1,338,641	1,276,410
Net assets available for benefits	\$208,793,843	\$212,769,954

The accompanying notes are an integral part  
of these financial statements.

MDU RESOURCES GROUP, INC.  
401(k) RETIREMENT PLAN

## STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS Year ended December 31, 2002

Additions to Net Assets  
Attributed to:

Investment income:	
Dividends	\$ 5,118,625
Interest	713,375
	5,832,000
Contributions:	
Employers	6,268,011
Employees	12,304,211
Employee rollover	2,906,148

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	21,478,370
Total additions	27,310,370
Deductions from Net Assets Attributed to:	
Net depreciation in fair value of investments (Note 3)	19,591,633
Distributions to terminated participants	11,633,121
Administrative expenses	61,727
Total deductions	31,286,481
Net decrease in net assets available for benefits	(3,976,111)
Net assets available for benefits at beginning of year	212,769,954
Net assets available for benefits at end of year	\$208,793,843

The accompanying notes are an integral part  
of this financial statement.

MDU RESOURCES GROUP, INC.  
401(k) RETIREMENT PLAN

## NOTES TO FINANCIAL STATEMENTS

### 1. Description of the Plan

The following description of the MDU Resources Group, Inc. 401(k) Retirement Plan (the Plan) provides only general information. Participants should refer to the plan document for a more complete description of the Plan's provisions.

#### General --

The Plan, formerly the MDU Resources Group, Inc. Tax Deferred Compensation Savings Plan, was initially adopted by the Board of Directors of MDU Resources Group, Inc. (the Company) on August 4, 1983, to be effective January 1, 1984. The Plan is a defined contribution plan. On January 1, 1999, the name was changed and the Plan was amended to reflect the merger of the MDU Resources Group, Inc. Tax Deferred Compensation Savings Plan for Collective Bargaining Unit Employees (the Bargaining Plan) into the Plan. Each participant in the Bargaining Plan automatically became a participant in the Plan. The merger and the transfer of assets were effectuated in accordance with Sections 401(a)(12), 411(d)(6) and 414(l) of the Internal Revenue Code of 1986, as amended (the Code) and the regulations thereunder.

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The Company and any of its direct or indirect subsidiaries that participate in the Plan are the Employers (the Employers). The fiscal year of the Plan is the calendar year. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended.

The Board of Directors of the Company may, at any time, amend, modify or terminate the Plan, and the Boards of Directors of the Employers may, at any time, terminate participation in the Plan with respect to the respective Employer. The Company has delegated to the Employee Benefits Administrative Committee (the Committee) the authority to amend or modify the Plan; however, certain amendments identified in the plan document are subject to approval by the Board of Directors of the Company.

The Committee is the plan administrator. The Committee consists of those individuals serving from time to time in the position of or related position of the following: Chief Administrative Officer of the Company, Chief Financial Officer of the Company, Vice President - Human Resources of the Company, and any number of other individuals appointed by the Chief Executive Officer of the Company who are employed by the Company or an Affiliate of the Company. The recordkeeper and trustee of the Plan are New York Life Investment Management LLC (the Recordkeeper) and New York Life Trust Company (the Trustee), respectively.

The Plan contains three parts: 1) The Deferred Savings feature, which allows an eligible employee to elect a pre-tax deferral of a portion of current compensation into a tax-exempt trust and allows Employers to provide for employer matching contributions (standard and effective January 1, 2003 prevailing wage law qualified) based on the amount of the eligible employee's pre-tax deferral contribution, 2) The MDU Resources Group, Inc. Employee Stock Ownership Plan (ESOP) feature, which is the part of the Plan related to participation in the ESOP, and 3) The Profit Sharing/Special Contribution feature, which allows the Employers to make discretionary contributions to the individual accounts of eligible employees, based on attainment of pre-determined earnings levels, and nondiscretionary contributions based on compensation of eligible employees.

### Deferred Savings

#### Eligibility --

Generally employees may participate in the Plan upon hire if they are at least 18 years of age and regular full-time or part-time employees. Effective January 1, 2003, certain employees who perform services for an Employer under a public contract that is subject to the Davis-Bacon Act or similar prevailing state wage law and who otherwise meet the Plan's eligibility requirements may participate in the Plan.

#### Contributions --

The Plan allows participants who are highly compensated employees to elect pre-tax deferral contributions varying from one percent through 22 percent and participants who are not highly compensated employees to elect pre-tax deferral contributions varying from one percent to 50 percent, in one percent increments, of eligible compensation for each pay period, up to a

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maximum pre-tax deferral contribution of \$11,000 for the 2002 Plan year. The Plan also allows participants who are eligible to make pre-tax deferral contributions and will have attained age 50 before the close of the Plan year to make catch-up elective deferrals of up to \$1,000 for 2002. All participant contributions are credited to the participant's Savings Contribution Account. In addition, the Plan accepts rollover contributions from an eligible retirement plan or an individual retirement account that holds only assets distributed from a qualified plan. Such savings contributions on behalf of a participant are credited to the participant's Rollover Account. Rollover contributions may not include after-tax employee contributions.

An election is made by each participant to allocate contributions in one percent increments to any or all of the following 14 currently available investment options:

- MDU Resources Group, Inc. Common Stock
- New York Life Anchor Account - Stable Value Option
- Baron Asset Fund - Growth Mutual Fund
- Davis New York Venture Fund - Growth Mutual Fund
- Dodge & Cox Balanced Fund - Growth and Income Mutual Fund
- Eclipse Indexed Bond Fund - Income Mutual Fund
- Eclipse Indexed Equity Fund - Growth and Income Mutual Fund
- Eclipse Small Cap Value Fund - Growth Mutual Fund
- Janus Balanced Fund - Growth and Income Mutual Fund
- Janus Fund - Growth Mutual Fund
- Janus Overseas Fund - International Equity Mutual Fund
- Royce Total Return Fund - Small-Cap Value Fund
- RS Emerging Growth Fund - Growth Mutual Fund
- Templeton Foreign Fund - International Equity Mutual Fund

### Employer Contributions --

Each participant's Employer may elect to provide a standard matching contribution, equal to a percentage of such participant's monthly pre-tax deferral contributions up to a specified percent of the participant's compensation as provided under the Plan or as adopted by the Employer and approved by the Committee. In addition, the participant's Employer may make an additional discretionary variable matching contribution to a participant's Matching Contribution Account based on the Employer's attainment of pre-determined earnings levels. Standard matching contributions and variable matching contributions are credited to such participant's Matching Contribution Account. All matching contributions are initially invested in common stock of the Company but can be transferred, at the participant's discretion, to other investment options.

The Employers remit all authorized contributions made by the participants to the Trustee to be held in trust and invested for the respective accounts of the participants, pursuant to the terms of a trust agreement effective January 1, 1998. Contributions for common stock, including the Employers' matching contributions, are used by the Trustee to purchase shares of MDU Resources Group, Inc. common stock directly on the open market. All such market purchases may be made at such prices as the Trustee may determine in its sole and absolute discretion. The Trustee may also purchase shares of authorized but unissued common stock directly from the Company if the Company chooses to issue new stock.

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### Vesting --

A participant's interest in a Savings Contribution Account, Rollover Account or a Matching Contribution Account is at all times fully vested and nonforfeitable. Participant accounts are valued on a daily basis.

### Distributions and Withdrawals --

The amount credited to a participant's Savings Contribution Account, Rollover Account and Matching Contribution Account shall become payable to the participant or the participant's beneficiary/beneficiaries, as applicable, upon death, retirement, disability, or other termination of employment with the Employers. The distribution of such amounts will be in accordance with the Plan, based on the method of payment elected by the participant or designated beneficiary/beneficiaries. Effective April 1, 2002, the Plan was amended to allow only single sum distributions.

A participant may make in-service withdrawals (hardship or age 59 1/2) from such participant's Savings Contribution Account or Matching Contribution Account under certain conditions.

### Participant Loans --

A participant may be eligible to obtain a loan from the Plan. The maximum amount available for a loan is the lesser of \$50,000 or one-half of the participant's vested account balance, subject to certain limitations. Loans must be repaid over specified periods through payroll deduction and bear interest at a commercially reasonable rate in effect at the time the loan is made, as determined by the Committee.

### ESOP

#### Eligibility --

Participation in the ESOP feature of the Plan is limited to participants in the ESOP as of January 1, 1988 (1988 Effective Date) or the date as of which an ESOP Account was established under the Plan, whichever is later.

#### Contributions --

As of the 1988 Effective Date, ESOP Accounts have been suspended and no additional contributions shall be made by the Company or participants to such accounts, other than to reflect dividends or other earnings.

#### Vesting --

A participant's interest in an ESOP Account is at all times fully vested and nonforfeitable.

#### Distributions --

Distributions are consistent with the Deferred Savings feature previously mentioned, except for participant loans which are not available to ESOP Accounts.

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Each participant with an ESOP Account may diversify within the Plan their entire ESOP account balance.

### Profit Sharing/Special Contributions

#### Contributions --

Profit sharing contributions are made based on the discretion of the Board of Directors of the Company or Board of Directors of any of the Employers. Special contributions are nondiscretionary contributions made to certain eligible employees equal to a certain percent of their eligible compensation. Profit sharing/special contributions are credited to such a participant's Profit Sharing Account. Participants may choose to invest profit sharing/special contributions allocated to their individual accounts in any or all of the available investment options.

#### Vesting --

A participant's interest in a Profit Sharing Account is 100 percent vested after completing three years of service.

#### Distributions and Withdrawals --

The vested portion of the Profit Sharing Account is distributed in the same manner as the Deferred Savings feature previously mentioned.

#### Loans --

Loans may be made from the vested portion of the Profit Sharing Account in the same manner as the Deferred Savings feature previously mentioned.

#### Forfeited Accounts --

At December 31, 2002, forfeited nonvested Profit Sharing Accounts totaled approximately \$70,000. These forfeited nonvested accounts will be used to reinstate the profit sharing contributions of any reemployed participants pursuant to the terms of the Plan, reduce the employer profit sharing contributions to the Plan or reduce administrative expenses incurred by the Plan.

## 2. Summary of Significant Accounting Policies

### Basis of Accounting --

The financial statements of the Plan are maintained on an accrual basis.

### Investment Valuation --

Investments held by the Plan are carried at fair value. Fair value for the New York Life Anchor Account and Eclipse Money Market funds approximates cost. The Plan's other investment valuations are based on published market quotations. Participant loans are valued based upon remaining unpaid principal balance plus any accrued but unpaid interest.

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### Benefit Payments --

Distributions to Plan participants are recorded when paid.

### Contributions --

Employer and participant contributions are recorded by the Plan when received or determined to be receivable. Participant contributions are deposited with the Plan by the Employers through payroll reductions.

### Administrative Expenses --

Administrative expenses of the Plan related to Trustee, recordkeeping, legal and audit fees are paid primarily by the Employers. Fees or commissions associated with each of the investment options other than MDU Resources Group, Inc. common stock are paid primarily by participants as a deduction from the amount invested or an offset to investment earnings and were approximately \$335,000 for the year ended December 31, 2002. Administrative expenses of the Plan related to MDU Resources Group, Inc. common stock commissions and loan fees were paid by the Plan and were approximately \$62,000 for the year ended December 31, 2002.

### Use of Estimates --

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

### Other --

Securities transactions are recorded on a trade date basis. Dividend income is recorded on the ex-dividend date. Interest income is recorded as earned.

## 3. Investments

The following presents investments that represent 5 percent or more of the Plan's net assets at December 31:

	2002	2001
MDU Resources Group, Inc.		
Common Stock	\$144,211,284*	\$155,540,995*
Eclipse Indexed Equity Fund	16,483,860	20,562,897
Dodge & Cox Balanced Fund	10,951,757	**

\* Includes both participant and nonparticipant-directed investments

\*\*Investment did not represent 5 percent or more of Plan's net assets at December 31, 2001.

During 2002, the fair value of the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) depreciated as follows:

MDU Resources Group, Inc. Common Stock	\$11,667,428
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Mutual Funds	7,924,205
	\$19,591,633

### 4. Cash and Cash Equivalents

Cash and cash equivalents represents funds temporarily invested in the Eclipse Money Market Fund to provide liquidity for fund reallocations and distributions of MDU Resources Group, Inc. common stock.

### 5. Nonparticipant-directed Investments

Information about the net assets and the significant components of the changes in net assets relating to the nonparticipant-directed investments is as follows:

	December 31, 2002	December 31, 2001
Net assets, at fair value:		
MDU Resources Group, Inc.		
Common Stock	\$43,964,961*	\$46,657,077*
Eclipse Money Market Fund	936,518	880,856
Employer receivable	265,278	239,692
Dividends receivable	409,679	381,514
	\$45,576,436	\$48,159,139

\* Represents 5 percent or more of the Plan's net assets at December 31.

	Year Ended December 31, 2002
Changes in net assets:	
Contributions	\$ 3,987,551
Dividends	1,564,597
Interest	10,234
Net depreciation	(3,759,387)
Distributions to participants	(1,738,812)
Transfers to participant-directed options	(2,641,793)
Administrative expenses	(5,093)
	\$ (2,582,703)

### 6. Federal Income Taxes

The Internal Revenue Service (IRS) has determined and informed the Company by a letter dated March 26, 2003, that the Plan and related trust are designed for qualification as exempt from federal income taxes in accordance with applicable sections of the Code. The IRS based its determination on the application the Plan submitted on February 22, 2002. Although the Plan has been amended since submitting the determination letter application, the Company believes that the Plan is designed and is currently being operated in compliance with the applicable requirements of the Code. The Plan will take all necessary steps to maintain its qualified tax status.

### 7. Related-Party Transactions

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The New York Life Anchor Account is managed by the New York Life Stable Value Group and the Eclipse Indexed Bond Fund, Eclipse Indexed Equity Fund, Eclipse Money Market Fund and the Eclipse Small Cap Value Fund are managed by New York Life Investment Management LLC, which are related parties to the Recordkeeper. These arrangements therefore qualify as party-in-interest transactions.

### 8. Prohibited Transactions

There were no non-exempt prohibited transactions with respect to the Plan during the plan year ending December 31, 2002.

### SUPPLEMENTAL

#### SCHEDULE

#### MDU RESOURCES GROUP, INC. 401(k) RETIREMENT PLAN

EMPLOYER IDENTIFICATION NUMBER (41-0423660) - PLAN NUMBER (004)  
SCHEDULE H, LINE 4i - SCHEDULE OF ASSETS (HELD AT END OF YEAR)  
December 31, 2002

Issuer	Description	Cost	Current Value
MDU Resources Group, Inc.			
Common Stock *	5,587,419 shares	\$108,867,379	\$144,211,284
Mutual Funds:			
Baron Asset Fund	117,048 units	5,612,983	4,028,790
Davis New York Venture Fund	3,481 shares	73,454	72,894
Dodge & Cox Balanced Fund	180,276 units	11,643,850	10,951,757
Eclipse Indexed Bond Fund *	437,578 units	4,689,116	4,795,853
Eclipse Indexed Equity Fund *	816,437 units	24,417,096	16,483,860
Eclipse Small Cap Value Fund *	110,702 units	1,384,502	1,271,967
Janus Balanced Fund	111,978 units	2,256,580	2,002,175
Janus Fund	123,313 units	3,581,146	2,197,440
Janus Overseas Fund	56,788 units	1,389,451	868,284
RS Emerging Growth Fund	87,882 units	1,964,752	1,682,935
Templeton Foreign Fund	226,952 units	2,197,144	1,885,974
Money Market Fund:			
Eclipse Money Market Fund *	1,833,636 units	1,833,636	1,833,636
Pooled Separate Account:			

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New York Life			
Anchor Account *	8,902,412 units	8,902,412	8,902,412
Participant Loan Funds *	5.25% to 5.75%	---	3,770,005
		\$178,813,501	\$204,959,266

\*Indicates party-in-interest investment

### INDEPENDENT AUDITORS' REPORT

To MDU Resources Group, Inc.:

We have audited the accompanying statements of net assets available for benefits of MDU Resources Group, Inc. 401(k) Retirement Plan (the Plan) as of December 31, 2002 and 2001, and the related statement of changes in net assets available for benefits for the year ended December 31, 2002. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2002 and 2001, and the changes in net assets available for benefits for the year ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule listed in the Contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This schedule is the responsibility of the Plan's management. Such schedule has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as whole.

/s/ DELOITTE & TOUCHE LLP

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DELOITTE & TOUCHE LLP

Minneapolis, Minnesota  
June 6, 2003

SIGNATURE

The Plan. Pursuant to the requirements of the Securities Exchange Act of 1934, the Employee Benefits Administrative Committee has duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

MDU Resources Group, Inc.  
401(k) Retirement Plan

Date: June 26, 2003

By /s/ WARREN L. ROBINSON  
Warren L. Robinson  
Chairman, Employee Benefits  
Administrative Committee