

**DELANO WATER, LIGHT, AND POWER COMMISSION**  
**(A COMPONENT UNIT OF THE CITY OF DELANO, MINNESOTA)**

**FINANCIAL STATEMENTS AND**  
**STATISTICAL INFORMATION**

**YEAR ENDED DECEMBER 31, 2016**

**DELANO WATER, LIGHT, AND POWER COMMISSION  
TABLE OF CONTENTS  
YEAR ENDED DECEMBER 31, 2016**

**INTRODUCTORY SECTION**

<b>ORGANIZATION SCHEDULE</b>	<b>1</b>
------------------------------	----------

**FINANCIAL SECTION**

<b>INDEPENDENT AUDITORS' REPORT</b>	<b>2</b>
-------------------------------------	----------

<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	<b>5</b>
---	----------

**FINANCIAL STATEMENTS**

<b>STATEMENT OF NET POSITION</b>	<b>9</b>
----------------------------------	----------

<b>STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION</b>	<b>11</b>
--	-----------

<b>STATEMENT OF CASH FLOWS</b>	<b>12</b>
--------------------------------	-----------

<b>NOTES TO BASIC FINANCIAL STATEMENTS</b>	<b>14</b>
--	-----------

**REQUIRED SUPPLEMENTARY INFORMATION**

<b>PERA SCHEDULE OF THE COMMISSION'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY</b>	<b>29</b>
---	-----------

<b>PERA SCHEDULE OF COMMISSION CONTRIBUTIONS</b>	<b>30</b>
--	-----------

**SUPPLEMENTARY INFORMATION**

<b>SCHEDULE OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION BY FUND</b>	<b>31</b>
---	-----------

<b>SCHEDULE OF OPERATING REVENUES BY FUND</b>	<b>32</b>
---	-----------

<b>SCHEDULE OF OPERATING EXPENSES BY FUND</b>	<b>33</b>
---	-----------

<b>SCHEDULE OF NON-OPERATING INCOME AND EXPENSES BY FUND</b>	<b>34</b>
--	-----------

**OTHER INFORMATION**

<b>SCHEDULE OF LARGEST UTILITY USERS (UNAUDITED)</b>	<b>35</b>
--	-----------

## **INTRODUCTORY SECTION**

**DELANO WATER, LIGHT, AND POWER COMMISSION  
 ORGANIZATION SCHEDULE  
 DECEMBER 31, 2016**

Board of Commissioners	Title	Term Expires
Jon Ness	Chairman	02/28/2018
Adam Steffl	Vice Chair	02/29/2016
Randy Keranen	Secretary	02/28/2017
Derek Schansberg	Commissioner	02/28/2017
Betsy Stolfa	Commissioner	02/28/2018
<u>City Council</u>		
Dale Graunke	Mayor	12/31/2018
Jason Franzen	Council	12/31/2018
Jack Russek	Council	12/31/2016
Holly Schrupp	Council	12/31/2018
Betsy Stolfa	Council	12/31/2016
<u>Administration</u>		
Paul Twite	General Manager	Hired in 2015

## **FINANCIAL SECTION**

## INDEPENDENT AUDITORS' REPORT

Board of Commissioners  
Delano Water, Light, and Power Commission  
Delano, Minnesota

### **Report on the Financial Statements**

We have audited the accompanying financial statements of each major fund of the Delano Water, Light, and Power Commission (the Commission), a component unit of the City of Delano, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Commission'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.

### ***Auditors' Responsibility***

Our responsibility is to express our opinions 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 the 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.

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the Delano Water, Light, and Power Commission as of December 31, 2016, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Report on Summarized Comparative Information***

We have previously audited the Delano Water, Light, and Power Commission's 2015 financial statements of each major fund and we expressed unmodified opinions on those financial statements in our report dated February 19, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

***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 the Commission's proportionate share of net pension liability, and schedule of the Commission's pension contributions, as listed in the table of contents, 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 the Delano Water, Light, and Power Commission's basic financial statements. The supplementary fund schedules and schedule of largest utility users are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary fund schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary fund schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Matters (Continued)**

*Other Information (Continued)*

The other information, as listed in the table of contents, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2017, on our consideration of Delano Water, Light, and Power Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Delano Water, Light, and Power Commission's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
February 17, 2017



**DELANO WATER, LIGHT, AND POWER COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2016**

This discussion and analysis of Delano Water, Light, and Power Commission's (Commission) performance provides an overview of the Commission's activities for the year ended December 31, 2016. The information presented should be read in connection with the financial statements and the accompanying notes to the financial statements.

Delano Water, Light, and Power Commission's financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The financial statements include the statement of net position, the statement of revenues, expenses, and change in net position, and the statement of cash flows.

The statement of net position provides information about the nature of assets, deferred outflows, obligations (liabilities), and deferred inflows of Delano Water, Light, and Power Commission as of the end of the year. The statement of revenues, expenses, and change in net position reports revenues and expenses for each utility for the current year. The statement of cash flows reports cash receipts, cash payments, and net changes in cash resulting from operating, non-capital financing activities, capital and related financing activities, and investing activities.

**FINANCIAL HIGHLIGHTS**

- The assets and deferred outflows of resources of the Delano Water, Light, and Power Commission exceeded liabilities and deferred inflows of resources at the close of 2016 in the amount of \$19,841,126 (net position). This is an increase of \$401,910 over net position at the close of 2015, mostly due to investments in water main infrastructure as part of street improvement projects performed in conjunction with the City of Delano.
- By far, the largest portion of the Delano Water, Light and Power Commission's net position (approximately 96%) reflects its investment in utility plant assets (e.g. buildings, structures and improvements, generating plant equipment, station equipment, distribution lines and distribution mains, meters, furniture and equipment, transportation equipment, power operated equipment, and communication equipment), less the related debt used to acquire those assets that is still outstanding. The Delano Water, Light, and Power Commission uses the utility plant assets to provide services to our customers, consequently, these assets are not available for future spending.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The Delano Water, Light, and Power Commission is a political subdivision of the City of Delano, Minnesota and is responsible for the full operation and management of the electric and water system of the City. The annual report of the Delano Water, Light, and Power Commission includes the basic financial statements, the independent auditors' report, and notes detailing the financial statements and this management's discussion and analysis report. This report also includes supplementary information for each of the Delano Water, Light, and Power Commission's funds as well as other information.

**DELANO WATER, LIGHT, AND POWER COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2016**

**BASIC FINANCIAL STATEMENTS REQUIRED**

The financial statements report information about the Delano Water, Light, and Power Commission using accepted accounting methods.

The statement of net position includes the Delano Water, Light, and Power Commission's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position, and provides information regarding the nature and amount of investments in various assets and obligations to creditors.

The statement of revenues, expenses, and change in net position accounts for all the current year's revenues and expenses.

The statement of cash flows provides information about the Delano Water, Light, and Power Commission's cash receipts and cash payments during the reporting period.

**CONDENSED FINANCIAL STATEMENTS**

A summary of the statement of net position is presented below:

**TABLE 1  
CONDENSED STATEMENT OF NET POSITION**

	<u>2016</u>	<u>2015</u>	<u>Change</u>
Net Utility Plant	\$ 25,133,209	\$ 24,593,465	\$ 539,744
Current Assets	3,133,706	2,652,175	481,531
Other Assets	163,466	184,645	(21,179)
Total Assets	<u>28,430,381</u>	<u>27,430,285</u>	<u>1,000,096</u>
Deferred Outflows of Resources	<u>549,617</u>	<u>122,826</u>	<u>426,791</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 28,979,998</u>	<u>\$ 27,553,111</u>	<u>\$ 1,426,887</u>
Current and Other Liabilities	\$ 1,245,226	\$ 1,284,344	\$ (39,118)
Noncurrent Liabilities	7,100,630	6,011,374	1,089,256
Total Liabilities	<u>8,345,856</u>	<u>7,295,718</u>	<u>1,050,138</u>
Deferred Inflows of Resources	793,016	818,177	(25,161)
Net Position:			
Net Investment in Utility Plant	19,080,983	19,268,220	(187,237)
Unrestricted	760,143	170,996	589,147
Total Net Position	<u>19,841,126</u>	<u>19,439,216</u>	<u>401,910</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 28,979,998</u>	<u>\$ 27,553,111</u>	<u>\$ 1,452,048</u>

**DELANO WATER, LIGHT, AND POWER COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2016**

**CONDENSED FINANCIAL STATEMENTS (CONTINUED)**

A summary of the statement of revenues, expenses, and change in net position is presented below:

**TABLE 2  
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION**

	<u>2016</u>	<u>2015</u>	<u>Change</u>
Total Operating Revenues	\$ 6,818,123	\$ 6,245,512	\$ 572,611
Operating Expenses:			
Production	3,743,709	3,828,358	(84,649)
Distribution	205,566	176,974	28,592
General and Administration	1,392,004	1,310,950	81,054
Depreciation and Amortization	<u>1,061,877</u>	<u>1,035,526</u>	<u>26,351</u>
Total Operating Expenses	<u>6,403,156</u>	<u>6,351,808</u>	<u>51,348</u>
Operating Loss	414,967	(106,296)	521,263
Non-Operating Income	391,719	390,712	1,007
Non-Operating Expenses	<u>(461,302)</u>	<u>(392,627)</u>	<u>(68,675)</u>
Income (Loss) before Contributions	345,384	(108,211)	453,595
Capital Contributions	<u>56,526</u>	<u>212,500</u>	<u>(155,974)</u>
Change in Net Position	401,910	104,289	297,621
Net Position - Beginning of Year	<u>19,439,216</u>	<u>19,334,927</u>	<u>104,289</u>
Net Position - End of Year	<u>\$ 19,841,126</u>	<u>\$ 19,439,216</u>	<u>\$ 401,910</u>

**FINANCIAL STATEMENT ANALYSIS**

Total gross investment in utility plant increased from \$38,804,154 in 2015 to \$40,365,296 in 2016. Some of the projects and purchases that contributed to this increase are as follows: Water services were upgraded on Buffalo Street, First Street and Railroad Avenues. Electric infrastructure was expanded in the latest additions to Clover Springs and Parkview Hills. Additionally, DMU assisted in the moving of the 12 inch water main that ran through the site for the planned intermediate school.

Total operating revenues increased by \$572,611 from 2015 to 2016. Operating expenses increased by \$51,348 from 2015 to 2016. Electric Fund operating revenues increased \$523,706 from 2015 primarily as the result of a 5 percent rate increase implemented effective January 1, 2016. Also, Electric Fund Revenues were impacted by a negative yearly average Power Cost Adjustment of 0.539¢, resulting in returning \$313,340 from our customers for the year 2016.

**DELANO WATER, LIGHT, AND POWER COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2016**

**UTILITY PLANT ASSETS AND LONG-TERM DEBT ACTIVITY**

Delano Water, Light, and Power Commission made capital asset additions to the utility plant and construction in progress in the amount of \$1,689,424 for the year ended December 31, 2016. These additions consisted of upgrades to underground distribution infrastructure for both electric and water, new catalytic converters for Commission's generators, the purchase of vehicles and as well as changes made to the school campus infrastructure during phase 1 of the planned development. Current year depreciation expense was \$1,061,877. Further information on the Commission's capital assets can be found in Note 3 to the financial statements.

Delano Water, Light, and Power Commission's long-term debt consisted mainly of revenue bonds payable in the amount of \$5,340,000, a lease purchase agreement in the amount of \$257,200, as well as a long-term liability in the amount of \$456,526 related to the acquisition of additional service territory from Wright-Hennepin Electric Cooperative. Further information on the Commission's debt activity can be found in Note 4 to the financial statements.

**REQUEST FOR INFORMATION**

This financial report is designed to provide a general overview of the Delano Water, Light, and Power Commission's finances for all of those with an interest in the Commission's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Delano Water, Light, and Power Commission, P.O. Box 65, Delano, MN 55328 or by phone at (763) 972-0557.

## **FINANCIAL STATEMENTS**

**DELANO WATER, LIGHT, AND POWER COMMISSION**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31, 2016**  
**(WITH SUMMARIZED FINANCIAL INFORMATION AS OF DECEMBER 31, 2015)**

	2016			2015
	Electric	Water	Total	Total
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>				
<b>CURRENT ASSETS</b>				
Cash and Cash Equivalents	\$ 980,204	\$ 636,352	\$ 1,616,556	\$ 1,092,097
Accounts Receivable - Customer	552,712	278,678	831,390	779,778
Miscellaneous Receivables	40,059	345	40,404	62,268
Prepaid Expenses	6,155	1,397	7,552	6,832
Inventory	561,732	76,072	637,804	711,200
Total Current Assets	<u>2,140,862</u>	<u>992,844</u>	<u>3,133,706</u>	<u>2,652,175</u>
<b>OTHER ASSETS</b>				
Advances to Other Funds	163,466	-	163,466	184,645
<b>UTILITY PLANT</b>				
Utility Plant Capital Investment	20,336,376	18,839,641	39,176,017	37,772,678
Intangible Assets - Service Territory				
Acquisition	506,770	-	506,770	500,245
Construction Work in Progress	677,104	5,405	682,509	531,231
Total	<u>21,520,250</u>	<u>18,845,046</u>	<u>40,365,296</u>	<u>38,804,154</u>
Less: Accumulated Depreciation	<u>(9,900,731)</u>	<u>(5,331,356)</u>	<u>(15,232,087)</u>	<u>(14,210,689)</u>
Net Utility Plant	<u>11,619,519</u>	<u>13,513,690</u>	<u>25,133,209</u>	<u>24,593,465</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Pension Related Amounts	<u>417,709</u>	<u>131,908</u>	<u>549,617</u>	<u>122,826</u>
Total Assets and Deferred Outflows Resources	<u>\$ 14,341,556</u>	<u>\$ 14,638,442</u>	<u>\$ 28,979,998</u>	<u>\$ 27,553,111</u>

See accompanying Notes to Basic Financial Statements.

**DELANO WATER, LIGHT, AND POWER COMMISSION**  
**STATEMENT OF NET POSITION (CONTINUED)**  
**DECEMBER 31, 2016**  
**(WITH SUMMARIZED FINANCIAL INFORMATION AS OF DECEMBER 31, 2015)**

<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	2016			2015
	Electric	Water	Total	Total
<b>CURRENT LIABILITIES</b>				
Current Portion of Long-Term Debt	\$ 145,830	\$ 370,000	\$ 515,830	\$ 435,245
Accounts Payable	311,895	188,402	500,297	549,535
Accrued Compensation Payable	-	-	-	28,242
Compensated Absences, Current Portion	20,210	5,053	25,263	77,121
Interest Payable	-	10,191	10,191	-
Customer Deposits	90,105	-	90,105	87,895
Unearned Revenue	-	103,540	103,540	106,306
Total Current Liabilities	568,040	677,186	1,245,226	1,284,344
<b>LONG-TERM LIABILITIES</b>				
Long-Term Debt	972,896	4,565,000	5,537,896	4,890,000
Compensated Absences	60,632	15,157	75,789	81,613
Net Pension Liability	1,005,844	317,635	1,323,479	855,116
Advances from Other Funds	-	163,466	163,466	184,645
Total Long-Term Liabilities	2,039,372	5,061,258	7,100,630	6,011,374
Total Liabilities	2,607,412	5,738,444	8,345,856	7,295,718
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Regulatory Collections to Cover Future Costs	635,795	-	635,795	711,648
Pension Related Amounts	119,487	37,734	157,221	106,529
Total Deferred Inflows of Resources	755,282	37,734	793,016	818,177
<b>NET POSITION</b>				
Net Investment in Capital Assets	10,502,293	8,578,690	19,080,983	19,268,220
Unrestricted	476,569	283,574	760,143	170,996
Total Net Position	10,978,862	8,862,264	19,841,126	19,439,216
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 14,341,556	\$ 14,638,442	\$ 28,979,998	\$ 27,553,111

**DELANO WATER, LIGHT, AND POWER COMMISSION**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION**  
**YEAR ENDED DECEMBER 31, 2016**  
**(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED DECEMBER 31, 2015)**

	2016			2015
	Electric	Water	Total	Total
<b>OPERATING REVENUES</b>				
Sales	\$ 5,721,419	\$ 1,034,107	\$ 6,755,526	\$ 6,191,657
Other Operating Revenues	62,597	-	62,597	53,855
Total Operating Revenues	<u>5,784,016</u>	<u>1,034,107</u>	<u>6,818,123</u>	<u>6,245,512</u>
<b>OPERATING EXPENSES</b>				
Production	3,572,584	171,125	3,743,709	3,828,358
Distribution	136,503	69,063	205,566	176,974
Administrative and General Expenses	1,110,648	281,356	1,392,004	1,310,950
Depreciation and Amortization	661,464	400,413	1,061,877	1,035,526
Total Operating Expenses	<u>5,481,199</u>	<u>921,957</u>	<u>6,403,156</u>	<u>6,351,808</u>
<b>OPERATING INCOME (LOSS)</b>	302,817	112,150	414,967	(106,296)
<b>NON-OPERATING INCOME</b>	148,709	243,010	391,719	390,712
<b>NON-OPERATING EXPENSES</b>	<u>(231,671)</u>	<u>(229,631)</u>	<u>(461,302)</u>	<u>(392,627)</u>
<b>INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS</b>	219,855	125,529	345,384	(108,211)
<b>CONTRIBUTIONS</b>	<u>56,526</u>	<u>-</u>	<u>56,526</u>	<u>212,500</u>
<b>CHANGE IN NET POSITION</b>	276,381	125,529	401,910	104,289
Net Position - Beginning of Year	<u>10,702,481</u>	<u>8,736,735</u>	<u>19,439,216</u>	<u>19,334,927</u>
<b>NET POSITION - END OF YEAR</b>	<u><u>\$ 10,978,862</u></u>	<u><u>\$ 8,862,264</u></u>	<u><u>\$ 19,841,126</u></u>	<u><u>\$ 19,439,216</u></u>

See accompanying Notes to Basic Financial Statements.



**DELANO WATER, LIGHT, AND POWER COMMISSION**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2016**  
**(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED DECEMBER 31, 2015)**

	2016			2015
	Electric	Water	Total	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash Received from Customers	\$ 5,746,464	\$ 1,041,911	\$ 6,788,375	\$ 6,271,640
Cash Paid to Suppliers and Others	(3,887,732)	(280,185)	(4,167,917)	(4,039,487)
Cash Paid to Employees	(870,090)	(299,446)	(1,169,536)	(1,130,242)
Net Cash Provided by Operating Activities	988,642	462,280	1,450,922	1,101,911
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>				
Other Non-Capital Income	143,326	238,533	381,859	487,403
Payments In Lieu of Taxes	(106,000)	-	(106,000)	(106,000)
Net Cash Provided (Used) by Non-Capital Financing Activities	37,326	238,533	275,859	381,403
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Acquisition and Construction of Utility Plant, Net	(330,502)	(1,089,296)	(1,419,798)	(1,085,044)
Net Cash Activity in State Conservation Program Escrow	(75,074)	-	(75,074)	(8,690)
Collections from Customers for Service Territory Escrow	55,747	-	55,747	39,121
Proceeds from Loan Payable	-	900,000	900,000	-
Principal Paid on Revenue Bond Maturities	(80,245)	(355,000)	(435,245)	(365,000)
Interest Paid on Long-Term Debt	(22,089)	(212,957)	(235,046)	(254,813)
Net Cash Used by Capital and Related Financing Activities	(452,163)	(757,253)	(1,209,416)	(1,674,426)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest Received on Investment	5,383	1,711	7,094	9,615
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	579,188	(54,729)	524,459	(181,497)
Cash and Cash Equivalents - Beginning of Year	401,016	691,081	1,092,097	1,273,594
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 980,204</u>	<u>\$ 636,352</u>	<u>\$ 1,616,556</u>	<u>\$ 1,092,097</u>

See accompanying Notes to Basic Financial Statements.

**DELANO WATER, LIGHT, AND POWER COMMISSION**  
**STATEMENT OF CASH FLOWS (CONTINUED)**  
**YEAR ENDED DECEMBER 31, 2016**  
**(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED DECEMBER 31, 2015)**

	2016			2015
	Electric	Water	Total	Total
<b>RECONCILIATION OF OPERATING INCOME</b>				
<b>(LOSS) TO CASH PROVIDED (USED) BY</b>				
<b>OPERATING ACTIVITIES</b>				
Operating Income (Loss)	\$ 302,817	\$ 112,150	\$ 414,967	\$ (106,296)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation	661,464	400,413	1,061,877	1,035,526
Other Expenditures Included in Cash Flow from Operating	(21,679)	(6,483)	(28,162)	(31,814)
(Increase) Decrease in Assets:				
Accounts Receivable - Customer and Miscellaneous	(37,552)	7,804	(29,748)	26,128
Prepaid Expenses	(176)	(544)	(720)	1,090
Inventory	73,452	(56)	73,396	105,042
Advances to Other Funds	21,179	-	21,179	152,925
(Increase) Decrease in Deferred Outflows:				
Pensions	(325,589)	(101,202)	(426,791)	(84,310)
Increase (Decrease) in Liabilities:				
Accounts Payable	(20,632)	(26,396)	(47,028)	32,931
Salaries and Benefits Payable	(22,593)	(5,649)	(28,242)	28,242
Advances from Other Funds	-	(21,179)	(21,179)	(152,925)
Compensated Absences	(46,146)	(11,536)	(57,682)	(6,631)
Net Pension Liability	364,506	103,857	468,363	(4,526)
Increase (Decrease) in Deferred Inflows:				
Pensions	39,591	11,101	50,692	106,529
Net Cash Provided (Used) by Operating Activities	<u>\$ 988,642</u>	<u>\$ 462,280</u>	<u>\$ 1,450,922</u>	<u>\$ 1,101,911</u>
<b>NONCASH CAPITAL ACTIVITIES</b>				
Capital Asset Additions included in Accounts Payable and Long-Term Liabilities	<u>\$ 263,726</u>	<u>\$ -</u>	<u>\$ 263,726</u>	<u>\$ 523,331</u>

See accompanying Notes to Basic Financial Statements.

**DELANO WATER, LIGHT, AND POWER COMMISSION**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization and Operation**

The Water, Light, and Power Commission (the Commission or Delano Municipal Utilities) is a component unit of the City of Delano, Minnesota (the City) established under Minnesota Statute 412.321 to manage, control, and operate the light, power, and water utilities of the City. The Commission is governed by a five-member Board of Commissioners. Board members are appointed by the City Council to three-year terms. The basic financial statements presented here are also included in the financial statements of the City.

The accounting policies of the Commission conform to generally accepted accounting principles.

The Commission reports the following major funds:

- The Electric Fund accounts for the operations of the Delano Municipal Utilities owned electric system.
- The Water Fund accounts for the operations of the Delano Municipal Utilities owned water system.

**Financial Reporting Entity**

The Commission's basic financial statements include all funds, departments, agencies, boards, commissions, and other organizations over which Commission officials exercise oversight responsibility.

Component units are legally separate entities for which the Commission (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit include whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit.

Based on these criteria, there are no organizations considered to be component units of the Commission.

**DELANO WATER, LIGHT, AND POWER COMMISSION**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of Accounting**

The accrual basis of accounting is used by the Commission. Under this method, revenues are recorded when earned and expenses are recorded when the related fund liability is incurred.

Proprietary funds distinguish operating revenues and expenses from other items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Commission is charges to customers for sales of electricity and water. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as other revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first, and then unrestricted resources as they are needed.

**Measurement Focus**

The accounting and reporting treatment applied to the utility plant assets and long-term liabilities associated with a fund are determined by its measurement focus. All proprietary funds are accounted for on a full accrual, economic resource basis. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheet. The Commission's net position is reported in three parts: (1) net investment in capital assets; (2) restricted net position; and (3) unrestricted net position.

**Utility Plant**

Utility plant is recorded at cost, including cost of labor and materials on self-constructed assets. Depreciation is calculated using the straight-line method over the assets' estimated useful lives, ranging from 5 to 50 years.

During the current period, Commission employees worked on projects that were related to the improvement of utility plant assets. As such, the wages relating to that portion of time devoted to these projects has been capitalized as part of the respective project cost. The total amount of capitalized wages was \$176,914 for 2016. The Commission does not capitalize interest relating to its work in progress as the amounts are immaterial.

**DELANO WATER, LIGHT, AND POWER COMMISSION  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Investments**

Investments are stated at their fair value as determined by quoted market prices, except for money market investments and participating interest-earning investment contracts that have a remaining maturity at time of purchase of one year or less which are recorded at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors. Money market investments are short-term, highly liquid debt instruments including commercial paper, banker's acceptances, and U.S. Treasury and agency obligations. Investments in external investment pools are valued at net asset value per share.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, cash equivalents are defined as short-term, highly liquid investments that are both:

- A. Readily convertible to known amounts of cash, or
- B. So near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

The Commission's policy considers cash equivalents to be those that meet the above criteria and have maturities of three months or less when purchased.

Cash and cash equivalents consist of checking, savings, certificates of deposit, money market accounts, and cash on hand.

**Accounts Receivable**

At December 31, 2016, there is no allowance for doubtful accounts reflected in the basic financial statements. Accounts receivable are uncollateralized.

**Inventories**

Inventory is stated at average cost.

**Deferred Outflows of Resources**

Deferred outflows of resources represent items which are related to the Commission's net pension liability and are to be recognized as outflows in future periods.

**Advances to/from Other Funds**

Effective December 31, 2010, the Electric Fund advanced \$375,000 to the Water Fund. The Water Fund will repay the advance through December 31, 2025 via annual principal payments ranging from \$25,000 to \$35,000 plus interest at 2.05%.

**DELANO WATER, LIGHT, AND POWER COMMISSION**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Compensated Absences**

Accumulated unpaid vacation amounts are accrued when incurred.

In accordance with the Commission's policy, for employees hired prior to June 1, 1995, sick pay is accrued at 8 hours per month to be accumulated up to 90 days for usage. When leaving employment with the Commission, the employee will be paid 100% of accrued time up to and including 45 days. For employees hired June 1, 1995, or after, sick pay is accrued at 8 hours per month to be accumulated up to 90 days for usage. When leaving employment with the commission, employees hired after June 1, 1995, will not be paid for any unused accrued sick time. The accrued sick pay amount is \$14,356 as of December 31, 2016.

**Pensions**

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

**Deferred Inflows of Resources**

Deferred inflows of resources represent regulatory collections for amounts which are permit payments that have been collected from developers and new property owners for future capital expenditures related to the acquisition of a service territory from another utility as well as state conservation programs. Deferred inflows of resources also represent items which are related to the Commission's net pension liability and are to be recognized as inflows in future periods.

**Bond Discounts**

Bond discounts are amortized over the life of the bonds. Bonds payable are reported net of the applicable discount.

**Net Position**

Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources in the government-wide financial statements and is classified into three components:

- a) Net investment in capital assets - This component consists of capital assets net of accumulated depreciation and reduced by the amount of outstanding balance of bonds or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- b) Restricted net position - Net position with constraints placed on the use either by 1) external groups such as creditors, grantors, or laws or regulations of other governments; or 2) law through constitutional provisions or enabling legislation are reflected in this component.
- c) Unrestricted net position - All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

**DELANO WATER, LIGHT, AND POWER COMMISSION**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Payments In Lieu of Taxes**

The Commission made payments during the year to the City of Delano in lieu of paying taxes to the City. This amount totaled \$106,000 in 2016 and is presented in the basic financial statements as a non-operating expense.

**Comparative Data**

The basic financial statements include certain prior year summarized comparative information in total but not at the level of detail required for a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Commission's financial statements for the year ended December 31, 2015, from which the summarized information was derived. Certain comparative information has been reclassified to conform to the current year presentation.

**NOTE 2 CASH AND INVESTMENTS**

These amounts are classified within the balance sheet as follows:

Current Cash and Cash Equivalents	<u>\$ 1,616,556</u>
-----------------------------------	---------------------

A. Deposits

In accordance with Minnesota Statutes, the Commission maintains deposits at financial institutions authorized by the Delano City Council. All such depositories are members of the Federal Reserve System. Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral.

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned to it. The Commission does not have a deposit policy for custodial credit risk and follows Minnesota Statutes for deposits.

Minnesota Statutes require that all 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 corporate surety bonds.

Authorized collateral include: U.S. government treasury bills, notes or bonds; issues of a U.S. government agency; general obligations of a state or local government rated "A" or better; revenue obligations of a state or local government rated "AA" or better; irrevocable standby letter of credit issued by a Federal Home Loan Bank; and time deposits insured by a federal agency. Minnesota Statutes require securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust department of a commercial bank or other financial institution not owned or controlled by the depository.

**DELANO WATER, LIGHT, AND POWER COMMISSION**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 2 CASH AND INVESTMENTS (CONTINUED)**

At December 31, 2016, all of the Commission's deposits at banks were covered by federal depository insurance or surety bonds and collateral in accordance with Minnesota Statutes.

**B. Investments**

The Commission's investment policy allows investment of funds in either certificates of deposit or money market funds, at specified banks or investment brokers. Certificates of deposit should have a maturity of no longer than five years.

Concentration of Credit Risk - The Commission places no limits on the amount the Commission may invest in any one issuer or type of investment. At December 31, 2014, there were no investments which individually comprised more than 5% of the Commission's total investments.

The Commission currently does not have any investments.

**NOTE 3 CAPITAL ASSETS**

A summary of capital asset activity for the year ended December 31, 2016 is as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Capital Assets, Not Being Depreciated				
Construction Work in Progress	\$ 531,231	\$ 1,682,898	\$ (1,531,621)	\$ 682,508
Intangible Asset (Service Territory)	500,245	6,526	-	506,771
Total Capital Assets, Not Being Depreciated	1,031,476	1,689,424	(1,531,621)	1,189,279
Capital Assets, Being Depreciated				
Utility Plant:				
Electric	20,040,686	352,171	(56,481)	20,336,376
Water	17,731,992	1,107,649	-	18,839,641
Total Utility Plant	37,772,678	1,459,820	(56,481)	39,176,017
Less: Accumulated Depreciation	(14,210,689)	(1,061,876)	40,478	(15,232,087)
Net Plant in Service	23,561,989	397,944	(16,003)	23,943,930
Net Utility Plant	\$ 24,093,220	\$ 2,087,368	\$ (1,547,624)	\$ 24,632,964



**DELANO WATER, LIGHT, AND POWER COMMISSION**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 4 LONG-TERM LIABILITIES**

Long-term liabilities outstanding at December 31, 2016 are comprised of the following:

Description of Issue	Interest Rate	Issue Date	Final Maturity	Original Issue	Principal Outstanding 2016
<b>Loans Payable</b>					
Water General Obligation Loan	4.1425%	October 2005	2025	\$ 7,160,000	\$ 4,035,000
Electric Revenue Loan	4.1425%	October 2005	2025	700,000	405,000
Water GO Revenue Bonds	2.0 - 3.0%	July 2016	2036	900,000	900,000
<b>Other Long-Term Liabilities</b>					
Service Territory Acquisition	N/A	December 2013	2024	500,245	456,526
Lease Purchase Agreement	2.1000%	December 2016	2021	257,200	257,200
Total					<u>\$ 6,053,726</u>

Principal and Interest payments required on existing long-term debt are:

Year Ending December 31,	Service Territory Acquisition		Lease Purchase Agreement	
	Principal	Interest	Principal	Interest
2017	\$ 56,526	\$ -	\$ 49,304	\$ 4,928
2018	50,000	-	50,364	3,883
2019	50,000	-	51,417	2,815
2020	50,000	-	52,508	1,725
2021	50,000	-	53,607	613
2022-2026	200,000	-	-	-
2027-2031	-	-	-	-
2032-2036	-	-	-	-
Total	<u>\$ 456,526</u>	<u>\$ -</u>	<u>\$ 257,200</u>	<u>\$ 13,964</u>

Revenue Bonds Payable		Total	
Principal	Interest	Principal	Interest
\$ 410,000	\$ 236,853	\$ 515,830	\$ 241,781
460,000	215,909	560,364	219,792
485,000	194,073	586,417	196,888
505,000	171,284	607,508	173,009
525,000	147,316	628,607	147,929
2,430,000	339,882	2,630,000	339,882
245,000	49,200	245,000	49,200
280,000	18,837	280,000	18,837
<u>\$ 5,340,000</u>	<u>\$ 1,373,354</u>	<u>\$ 6,053,726</u>	<u>\$ 1,387,318</u>

**DELANO WATER, LIGHT, AND POWER COMMISSION**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 4 LONG-TERM LIABILITIES (CONTINUED)**

A summary of long-term debt activity for the year ended December 31, 2016 is as follows:

Description	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Revenue Bonds Payable	\$ 4,825,000	\$ 900,000	\$ 385,000	\$ 5,340,000	\$ 410,000
Lease Purchase Agreement	-	257,200	-	257,200	49,304
Service Territory Acquisition	500,245	6,526	50,245	456,526	56,526
Compensated Absences	158,734	69,350	127,032	101,052	25,263
Total Debt	<u>\$ 5,483,979</u>	<u>\$ 1,233,076</u>	<u>\$ 562,277</u>	<u>\$ 6,154,778</u>	<u>\$ 541,093</u>

In August 2014 the Commission entered into an agreement with the Wright-Hennepin Cooperative Electric Association to acquire service territory previously served by the Co-op. The agreement went into effect in January 2015 and included four different service areas. Under the terms of the agreement once any given service area reached 7,500 kWh usage in total for a fiscal year, the Commission would be required to pay the Co-op a fee for that year and the subsequent nine years in an amount equal to 2.8¢ per kWh of energy sold for that year in that service area. In 2015 two of the four service areas reached the minimum kWh sold of 7,500 and thus triggered the ten-year liability. Based on the actual payments for 2015 and 2016 revenue (made in 2016 and 2017) as well as other factors, the total ten-year liability was estimated at \$506,771. No interest payments or accruals are required as a part of the agreement.

**NOTE 5 DEFINED-BENEFIT PENSION PLAN - STATEWIDE**

A. Plan Description

The Commission participates in the following cost-sharing multiple-employer defined benefit pension plans 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.

1. General Employees Retirement Fund (GERF)

All full-time and certain part-time employees of the Commission 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.

**DELANO WATER, LIGHT, AND POWER COMMISSION**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 5 DEFINED-BENEFIT PENSION PLAN - STATEWIDE (CONTINUED)**

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.

1. GERF Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated 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 percent 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.

1. GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2016. The Commission was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2016. The Commission's contributions to the GERF for the year ended December 31, 2016, were \$73,268. The Commission's contributions were equal to the required contributions as set by state statute.

**DELANO WATER, LIGHT, AND POWER COMMISSION  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 5 DEFINED-BENEFIT PENSION PLAN - STATEWIDE (CONTINUED)**

D. Pension Costs

1. GERP Pension Costs

At December 31, 2016, the Commission reported a liability of \$1,323,479 for its proportionate share of the GERP's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Commission's proportion of the net pension liability was based on the Commission's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015 through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the Commission's proportion was .0163%, which was a decrease of .0002% from its proportion measured as of June 30, 2015.

There were no provision changes during the measurement period.

For the year ended December 31, 2016, the Commission recognized pension expense of \$165,619 for its proportionate share of the GERP's pension expense.

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

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ -	\$ 107,513
Changes in Actuarial Assumptions	259,138	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	251,202	-
Changes in Proportion and Differences		
Between Commission Contributions and Proportionate Share of Contributions	-	49,708
Commission Contributions Subsequent to the Measurement Date	39,277	-
Total	<u>\$ 549,617</u>	<u>\$ 157,221</u>

**DELANO WATER, LIGHT, AND POWER COMMISSION  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 5 DEFINED-BENEFIT PENSION PLAN - STATEWIDE (CONTINUED)**

D. Pension Costs (Continued)

\$39,277 reported as deferred outflows of resources related to pensions resulting from Commission 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:

Year Ended June 30	Pension Expenses Amount
2017	\$ 89,993
2018	89,993
2019	125,328
2020	47,805

E. Actuarial Assumptions

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

Inflation	2.70% 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 for all future years for the General Employees Plan.

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015. The experience study for Police and Fire Plan was for the period July 1, 2004 through June 30, 2009. Experience studies have not been prepared for the Correctional Plan, but assumptions are reviewed annually.

**DELANO WATER, LIGHT, AND POWER COMMISSION  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 5 DEFINED-BENEFIT PENSION PLAN - STATEWIDE (CONTINUED)**

E. Actuarial Assumptions (Continued)

The following changes in actuarial assumptions occurred in 2016 for the General Employees Fund:

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

The long-term expected rate of return on pension plan investments is 7.5%. 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 below:

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

F. Discount Rate

The discount rate used to measure the total pension liability was 7.5%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions 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.

**DELANO WATER, LIGHT, AND POWER COMMISSION  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 5 DEFINED-BENEFIT PENSION PLAN - STATEWIDE (CONTINUED)**

G. Pension Liability Sensitivity

The following presents the Commission's 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 the Commission's 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:

Description	1% Decrease in Discount Rate	Current Discount Rate	1% Increase in Discount Rate
<u>GERF Discount Rate</u>	6.50%	7.50%	8.50%
Commission's Proportionate Share of the GERF Net Pension Liability	\$ 1,879,733	\$ 1,323,479	\$ 865,278

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](http://www.mnpera.org); by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

**NOTE 6 RISK MANAGEMENT**

The Commission is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; business interruption; error or omissions; employee's injuries and illnesses; or natural disasters. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

**NOTE 7 COMMITMENTS**

Under authorization of state statutes, the Commission joined Central Municipal Power Agency/Services (CMPAS) with other municipal utilities to purchase electrical power through contracts for the mutual advantage of the governments. The governing body consists of members from each of the member utilities who are elected by the respective local utility commissions. Complete financial statements may be obtained by contacting CMPAS at 459 South Grove Street, Blue Earth, Minnesota, 56013.

The Commission signed a pre-execution subscription agreement with CMPAS (formerly CMMPA) to purchase 0.73MW of electrical power from the Wolf Wind project in Rushmore, MN. CMPAS has a 6.25MW subscription that is allocated among its members based on load share ratio. The contractual period for this contract is March 1, 2005 to December 31, 2020.

**DELANO WATER, LIGHT, AND POWER COMMISSION**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 7 COMMITMENTS (CONTINUED)**

In September 2003, the Commission signed a pre-execution subscription agreement with CMPAS (formerly CMMPA) to purchase electrical power from a new power plant constructed by the Omaha Public Power District (OPPD) and to provide a share of the construction funding. This new plant was completed and operational in 2009. The life of the contract is 40 years after the date of completion. The Commission has committed to purchase 2.4 megawatts from this 600 megawatt plant. The Commission's share of construction costs approximate \$3,300,000. These construction costs are expected to be paid to CMMPA or OPPD via electricity purchase rates over the life of the 40-year contract. If other participants in this project were to default, the Commission could be held responsible for up to 160% of its stated commitment.

The Commission is committed to purchase power from Xcel Energy to meet its power requirements via an On Peak product through CMPAS (formerly CMMPA). This agreement (NSP 5x16) is a 3.0MW block of energy for the Commission and the initial contractual period was January 1, 2012 to December 31, 2015. In 2015 the Commission extended the agreement to December 31, 2020.

In 2010, the Commission signed a pre-execution subscription agreement with CMPAS (formerly CMMPA) to purchase 1.0MW of electrical power from the Iberdrola Wind project in Rugby, SD. CMMPA has a 13.1MW subscription that is allocated among its members based on agreed upon levels of commitment. The contractual period for this contract is January 1, 2011, to December 31, 2025. In 2011, the Commission signed another agreement with CMPAS to purchase an additional 2.6MW of electrical power from the Iberdrola Wind Project for a total commitment of 3.6MW.

In 2012, the Commission signed an agreement to commit to purchasing power from the WPPI/Point Beach Nuclear Project. This agreement is for 1.20 MW of energy annually and extends through March 8, 2033.

In April 2007, the Commission and other municipal utilities signed an unsecured guaranty of a stand-by letter of credit between Utilities Plus (a component unit of CMPAS) and a bank. The letter of credit is to be used by Utilities Plus for payment of transmission or transmission service obligations to Midwest Independent Transmission System Operator, Inc. (MISO). The Commission's share of the guaranty is not to exceed \$434,734. Additionally, the Commission's guaranty only applies to transactions involving the Commission's purchase of electricity, transmission, and transmission services from Utilities Plus. No changes were made to this agreement during 2016 and there is no outstanding balance on the line of credit.



**DELANO WATER, LIGHT, AND POWER COMMISSION**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 8 MAJOR CUSTOMERS**

During the year ended December 31, 2016, net sales to one customer totaled \$608,553, representing 10.73% of total electric sales.

**NOTE 9 RELATED PARTIES**

An employee of the Commission is also a member of CMPAS Board of Directors.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**DELANO WATER, LIGHT, AND POWER COMMISSION  
PERA SCHEDULE OF THE COMMISSION'S PROPORTIONATE SHARE  
OF THE NET PENSION LIABILITY  
YEAR ENDED DECEMBER 31, 2015**

	<b>Measurement Date June 30,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Commission's Proportion of the Net Pension Liability	0.0163%	0.0165%	0.0183%
Commission's Proportionate Share of the Net Pension Liability	\$ 1,323,479	\$ 855,116	\$ 859,642
Commission's Covered-Employee Payroll	1,008,407	968,376	995,462
Commission's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered-Employee Payroll	131.24%	88.30%	86.36%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.90%	78.70%	83.20%

**DELANO WATER, LIGHT, AND POWER COMMISSION  
PERA SCHEDULE OF COMMISSION CONTRIBUTIONS  
YEAR ENDED DECEMBER 31, 2015**

	<b>Fiscal Year Ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Statutorily Required Contribution	\$ 73,268	\$ 74,844	\$ 72,171
Contributions in Relation to the Statutorily Required Contribution	(73,268)	(74,844)	(72,171)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 Commission's Covered-Employee Payroll	 \$ 976,907	 \$ 997,920	 \$ 995,462
Contributions as a Percentage of Covered Employee Payroll	7.50%	7.50%	7.25%

## **SUPPLEMENTARY INFORMATION**

**DELANO WATER, LIGHT, AND POWER COMMISSION**  
**SCHEDULE OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION BY FUND**  
**YEAR ENDED DECEMBER 31, 2016**  
**(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED DECEMBER 31, 2015)**

	Electric Fund		Water Fund	
	2016	2015	2016	2015
<b>OPERATING REVENUES</b>				
Sales	\$ 5,721,419	\$ 5,206,455	\$ 1,034,107	\$ 985,202
Other Operating Revenues	62,597	53,855	-	-
Total Operating Revenues	<u>5,784,016</u>	<u>5,260,310</u>	<u>1,034,107</u>	<u>985,202</u>
<b>OPERATING EXPENSES</b>				
Production	3,572,584	3,662,470	171,125	165,888
Distribution	136,503	88,678	69,063	88,296
Administrative and General Expenses	1,110,648	1,064,713	281,356	246,237
Depreciation and Amortization	661,464	636,866	400,413	398,660
Total Operating Expenses	<u>5,481,199</u>	<u>5,452,727</u>	<u>921,957</u>	<u>899,081</u>
<b>OPERATING INCOME (LOSS)</b>	302,817	(192,417)	112,150	86,121
<b>NON-OPERATING INCOME</b>	148,709	189,386	243,010	201,326
<b>NON-OPERATING EXPENSES</b>	<u>(231,671)</u>	<u>(148,835)</u>	<u>(229,631)</u>	<u>(243,792)</u>
<b>INCOME (LOSS) BEFORE CONTRIBUTIONS</b>	219,855	(151,866)	125,529	43,655
<b>CONTRIBUTIONS</b>	<u>56,526</u>	<u>212,500</u>	<u>-</u>	<u>-</u>
<b>CHANGE IN NET POSITION</b>	276,381	60,634	125,529	43,655
Net Position - Beginning of Year	<u>10,702,481</u>	<u>10,641,847</u>	<u>8,736,735</u>	<u>8,693,080</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 10,978,862</u>	<u>\$ 10,702,481</u>	<u>\$ 8,862,264</u>	<u>\$ 8,736,735</u>

**DELANO WATER, LIGHT, AND POWER COMMISSION**  
**SCHEDULE OF OPERATING REVENUES BY FUND**  
**YEAR ENDED DECEMBER 31, 2016**  
**(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED DECEMBER 31, 2015)**

	Electric Fund		Water Fund	
	2016	2015	2016	2015
<b>OPERATING REVENUES</b>				
Residential	\$ 2,220,581	\$ 1,990,827	\$ 775,038	\$ 736,531
Commercial	371,985	346,856	117,143	109,902
Industrial	3,077,612	2,816,703	141,926	138,769
Street and Security Lighting	51,241	52,069	-	-
Capacity and Energy Sales	62,597	53,855	-	-
Total Operating Revenues	<u>\$ 5,784,016</u>	<u>\$ 5,260,310</u>	<u>\$ 1,034,107</u>	<u>\$ 985,202</u>

**DELANO WATER, LIGHT, AND POWER COMMISSION**  
**SCHEDULE OF OPERATING EXPENSES BY FUND**  
**YEAR ENDED DECEMBER 31, 2016**  
**(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED DECEMBER 31, 2015)**

	Electric Fund		Water Fund	
	2016	2015	2016	2015
<b>PRODUCTION EXPENSES</b>				
Salaries	\$ 70,239	\$ 62,178	\$ 23,730	\$ 19,610
Fuel Oil	-	11,547	-	-
Natural Gas	1,572	321	-	-
Maintenance of Buildings	50,787	52,895	-	-
Maintenance of Engines	4,712	10,039	-	-
Maintenance of Substation	2,851	24,978	-	-
Purchased Power	3,391,496	3,443,276	20,566	20,886
Insurance	44,514	44,815	11,129	11,203
Connection Fee	-	-	13,077	12,432
Water Treatment	-	-	98,873	97,211
Miscellaneous	6,413	12,421	3,750	4,546
Total Production Expenses	<u>3,572,584</u>	<u>3,662,470</u>	<u>171,125</u>	<u>165,888</u>
<b>DISTRIBUTION EXPENSES</b>				
Salaries	88,516	49,448	40,647	67,570
Maintenance of Wells, Mains and Hydrants	-	-	15,847	8,189
Maintenance of Lines	34,988	30,976	-	-
Maintenance of Transformers	2,437	2,661	-	-
Maintenance of Lighting	10,348	3,479	-	-
Maintenance of Meters	214	2,114	54	1,912
Maintenance of Facilities	-	-	12,515	10,625
Total Distribution Expenses	<u>136,503</u>	<u>88,678</u>	<u>69,063</u>	<u>88,296</u>
<b>ADMINISTRATIVE AND GENERAL EXPENSES</b>				
Salaries	436,797	458,006	94,463	96,263
Meter Reading and Collections	18,228	17,291	17,725	17,090
Maintenance	16,628	40,941	-	-
Transportation Expense	11,688	15,793	-	-
Office Expense	67,142	71,760	15,810	16,576
Commission Expense	7,692	13,277	1,898	3,319
Outside Services Employed	22,639	13,630	16,467	4,165
Insurance/Med/Life/Disability	292,419	250,137	72,967	62,534
Employee Payroll Expense	192,705	131,896	51,864	38,691
Other Expenses	2,076	10,828	1,548	250
Dues/Conventions/Safety/Drug	42,634	41,154	8,614	7,349
Total Administrative and General Expenses	<u>1,110,648</u>	<u>1,064,713</u>	<u>281,356</u>	<u>246,237</u>
<b>DEPRECIATION AND AMORTIZATION EXPENSE</b>				
Depreciation Expense	<u>661,464</u>	<u>636,866</u>	<u>400,413</u>	<u>398,660</u>
Total Operating Expenses	<u>\$ 5,481,199</u>	<u>\$ 5,452,727</u>	<u>\$ 921,957</u>	<u>\$ 899,081</u>



**DELANO WATER, LIGHT, AND POWER COMMISSION**  
**SCHEDULE OF NON-OPERATING INCOME AND EXPENSES BY FUND**  
**YEAR ENDED DECEMBER 31, 2016**  
**(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED DECEMBER 31, 2015)**

	Electric Fund		Water Fund	
	2016	2015	2016	2015
<b>NON-OPERATING INCOME</b>				
City Billing	\$ 38,566	\$ 38,206	\$ -	\$ -
Interest	5,383	7,726	1,711	1,889
Sale of Scrap Inventory	2,669	10,653	-	-
Penalties	31,133	31,280	23,311	23,271
Permits and Fees	1,516	1,512	211,450	148,843
Contract Labor	38,804	46,855	5,786	24,193
Miscellaneous Service Revenue	-	-	(409)	-
Miscellaneous Income	30,638	53,154	1,161	3,130
Total Non-Operating Income	<u>\$ 148,709</u>	<u>\$ 189,386</u>	<u>\$ 243,010</u>	<u>\$ 201,326</u>
<b>NON-OPERATING EXPENSES</b>				
Interest - Other	\$ 451	\$ 92	\$ 3,998	\$ 6,297
Interest - Long-Term Debt	21,638	23,132	219,150	225,292
Loss on Asset Disposal	81,903	-	-	-
Payments in Lieu of Taxes	106,000	106,000	-	-
Other Miscellaneous Expenses	21,679	19,611	6,483	12,203
Total Non-Operating Expenses	<u>\$ 231,671</u>	<u>\$ 148,835</u>	<u>\$ 229,631</u>	<u>\$ 243,792</u>

**OTHER INFORMATION**

**DELANO WATER, LIGHT, AND POWER COMMISSION**  
**SCHEDULE OF LARGEST UTILITY USERS**  
**YEAR ENDED DECEMBER 31, 2016**  
**(UNAUDITED)**

Customer	Revenues	% of Total Sales
LANDSCAPE STRUCTURES	\$ 608,553	10.73 %
DELANO SCHOOLS	376,666	6.64
SIL-PRO, LLC	423,667	7.47
COBORNS	256,662	4.53
MODERN MOLDING	165,376	2.92
RANDYS SANITATION	164,827	2.91
SOLAR PLASTICS	113,459	2.00
ARCTIC FOX	107,150	1.89
J AND E PRECISION MACHINING CO.	62,317	1.10
LD FOODS	54,218	0.96
Electric: Total Sales	<u>\$ 5,670,178</u>	

(Not including CIP, tax, and street/security lights)