Annual Financial Report

Elk River Utilities

Elk River, Minnesota

For the Year Ended
December 31, 2016

ABDO EICK & MEYERS LLP
Certified Public Accountants & Consultants

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ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
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ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
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INTRODUCTORY SECTION

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2016

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ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
PUBLIC UTILITIES COMMISSION AND ADMINISTRATION
FOR THE YEAR ENDED DECEMBER 31, 2016

COMMISSION

Name	Title
John Dietz	Chairperson
Allan Nadeau	Vice-Chairperson
Daryl Thompson	Trustee

ADMINISTRATION

Name	Title
Troy Adams	General Manager
Theresa Slominski	Finance and Office Manager
Eric Volk	Water Superintendent
Mark Fuchs	Line Superintendent
Mike O'Neill	Technical Services Superintendent
Tom Sagstetter	Conservation and Key Accounts Manager
Michelle Canterbury	Executive Administrative Assistant
Jennie Nelson	Customer Service Manager

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FINANCIAL SECTION

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2016

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ABDO
EICK &
MEYERS LLP
Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT

Public Utilities Commission
Elk River Municipal Utilities
Elk River, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the Elk River Municipal Utilities (the Utilities) of the City of Elk River, Minnesota (the City), as of and for the year ended December 31, 2016, and the related notes to the 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 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 Utilities 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 Utilities 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Utilities as of December 31, 2016, and the 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 1B, the financial statements present only the Electric and Water enterprise funds and do not purport to, and do not present fairly the financial position of the City as of December 31, 2016, the changes in its financial position, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis Page 13 and the Schedule of Employer's Share of the Net Pension Liability, the Schedule of Employer's Contributions and the Schedule of Funding Progress for Other Post-Employment Benefit Plan starting on page 48 be presented to supplement the basic financial statements. Such information, although not a part of the financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 Utilities' financial statements as a whole. The introductory section and supplemental information listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the financial statements of the Utilities. The supplemental information, except for the portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole. The introductory section and the supplemental information marked "unaudited" have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Abdo Eick & Meyers, LLP

ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
March 30, 2017

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Management's Discussion and Analysis

This section of the Elk River Municipal Utilities (the Utilities) of the City of Elk River, Minnesota annual financial report presents our analysis of the Utilities' financial performance during the fiscal year that ended December 31, 2016. Please read it in conjunction with the financial statements, which follow this section.

Financial Highlights

- The assets and deferred outflows of resources of the Utilities exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by $58,194,958 (net position). Net Position increased by $2,309,080 or 4.1 percent.

- The Utilities' cash balance at the close of the current fiscal year was $18,936,655.

- Electric usage overall was up an average of 7.5 percent. Residential usage increased 10.1 percent, Commercial usage decreased 1.9 percent, and Industrial usage increased 8.9 percent.

- Water usage overall was down slightly at 1.5 percent from the prior year. Residential usage increased 2.2 percent, and Commercial usage decreased 4.5 percent.

Overview of the Financial Statements

This annual report consists of three parts; Management's Discussion and Analysis, Financial Statements, and Supplementary Information. The Financial Statements also include notes that explain in more detail some of the information in the financial statements.

Required Financial Statements

The financial statements of the Utilities report information about the Utilities using accounting methods similar to those used by the private sector. These statements offer short-term and long-term financial information about its activities. The Statements of Net Position includes all of the Utilities' assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Utilities' creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Utilities and assessing the liquidity and financial flexibility of the Utilities. All of the current year's revenues and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Position. This statement measures the success of the Utilities' operations over the past year and can be used to determine whether the Utilities' has successfully recovered all its costs through its user fees and other charges, profitability, and credit worthiness. The final required financial statement is the Statements of Cash Flows. The primary purpose of this statement is to provide information about the Utilities' cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for and what was the change in the cash balance during the reporting period.

Financial Analysis of the Utilities

Our analysis of the Utilities begins on page 20 in the Financial Section. One of the most important questions asked about the Utilities' finances is "Is the Utilities as a whole better off or worse off as a result of this year's activities?" The Statement of Net Position, and the Statement of Revenues, Expenses and Changes in Net Position report information about the Utilities' activities in a way that will help answer this question. These two statements report the net position of the Utilities and changes in this net position. You can think of the Utilities' net position (the difference between assets and liabilities) as one way to measure financial health or financial position. Over time, increases or decreases in the Utilities' net position is one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning, and new or changed government legislation.

Net position. To begin our analysis, a summary of the Utilities' Statements of Net Position is presented in Table A-1. As can be seen from the Table, net position increased $2,309,080 to $58,194,958 in fiscal 2016 up from $55,885,878 in fiscal 2015.

TABLE A-1
Condensed Statement of Net Position

	2016	2015	Increase (Decrease)
Assets			
Current and other	$ 23,328,553	$ 21,848,337	$ 1,480,216
Capital	59,150,780	48,151,150	10,999,630
Total assets	82,479,333	69,999,487	12,479,846
Total deferred outflows	1,685,181	360,603	1,324,578
Liabilities			
Current	6,355,909	5,408,917	946,992
Non-current	19,156,552	8,557,562	10,598,990
Total liabilities	25,512,461	13,966,479	11,545,982
Total deferred inflows	457,095	507,733	(50,638)
Net position			
Net investment in capital assets	43,266,893	41,216,712	2,050,181
Restricted for debt service	997,660	490,500	507,160
Unrestricted	13,930,405	14,178,666	(248,261)
Total net position	$ 58,194,958	$ 55,885,878	$ 2,309,080

Water and electric rates. Electric - The latest increase in the Utilities' electric rates was effective January 2017. The monthly base charges are based upon the type of service. The monthly charges are $13.00 for residential, $25.00 for commercial, and $70.00 for industrial customers. In addition to the base charges the residential rate is $.1363/KWh for May-September usage, and $.1209/KWh for October-April usage; the commercial rate is $.1306/KWh for May-September usage, and $.1089/KWh for October-April usage; the industrial rate is $.0658/KWh energy charge year round with a demand charge of $16.94/KW May-September, and $11.99/KW for October-April.

Water - The Utilities' latest increase in residential and commercial rates was effective January 2017. The monthly base charge for residential customers is $8.68 per month. In addition to the base charge, the Utilities currently charges its residential customers $1.77 per 1,000 gallons up to 9,000 gallons, $3.50 per 1,000 gallons between 9,000 gallons and 15,000 gallons, and $4.00 per 1,000 gallons for usage above 15,000 gallons. Commercial customer's base charges are based upon meter size, and range from $10.63 to $112.27. An irrigation meter is $18.91 per month. There is also a charge per thousand gallons, the same tiers as the residential rates of $1.77, $3.50, and $4.00, except the graduation from the lower tier to the higher tier(s) is calculated based on previous consumption.

The Utilities requires payment of all utility bills to be paid by the due date stated on the monthly bill. A ten percent penalty is assessed for payments not received by the due date. The Utility may discontinue service of a customer not complying with the disconnect policy of the Utility after receiving a written disconnect notice. Residential and Commercial/Industrial single phase electric customers that have their service discontinued will be charged a minimum of $50.00 to have their service reconnected. Commercial/Industrial three phase electric customers that have their service discontinued will be charged a minimum of $150.00 to have their service reconnected. Residential and Commercial/Industrial water customers that have their water shut-off will be charged a fee of $100.00 to have their water turned on/reconnected. There are no reconnections after 3:30 pm and payments for reconnection /turn on are not accepted at the property site; payments must be made prior to dispatching reconnection. Customers can come in to the office between the hours of 8:00 am and 4:30 pm to make the payment by cash, money order or credit card; or pay online or by phone with a credit card. The Utilities abides by the Cold Weather Rules.

Deposit policy. Per our Deposit Policy, the Utility collects social security numbers from new accounts and utilizes a credit risk assessment tool called "Online Utility Exchange" to determine if a deposit is necessary as a proactive measure to try and reduce uncollectible accounts. The amount of the deposit required will depend on the risk identified with the customer. For residential customers, if there is a 68 percent or higher probability of non-default and no negative history (no disconnection for non-payment or late payments two or more times within 12 months) there is no deposit required. If there is a lower than 68 percent probability of non-default, a deposit appropriate to the services supplied will be required before utility service will be extended. If the customer chooses not to provide a social security number, the deposit is automatically required. Residential deposit amounts are $100 for apartments, $100 for homes with water and sewer, $150 for homes with electric only services, and $250 for homes with all services (electric, water, and sewer).

For commercial and industrial customers, a service agreement would need to be signed. Generally, a deposit of 2 times the estimated highest monthly bill will be required, with a minimum deposit of $250 for non-demand customers, and $1,000 for demand customers. If a personal guarantee is signed, a social security number is provided, and potentially could decrease the deposit to 1 month's estimated highest bill. The deposit shall be in the form of a cash deposit, or an irrevocable letter of credit. The irrevocable letter of credit will be renewed as required and failure to do so will result in a charge equal to the amount of the letter of credit applied to the monthly utility bill.

Deposits will be retained until the account is closed. The deposit will be returned to the customer within 45 days of termination of service, provided that the customer has paid in full all amounts due on the account. The appropriate interest will be applied to the account per state statutes.

Statements of revenues, expenses and changes in net position. While the Statements of Net Position shows the change in financial assets/deferred outflows and liabilities/deferred inflows, the Statements of Revenues, Expenses and Changes in Net Position, provides answers as to the nature and source of these changes. As can be seen in Table A-2, revenues in excess of expenses was the main source of the increase in net position of $2,309,080 in fiscal 2016. A closer examination of the individual categories affecting the source of changes in net position is discussed below:

TABLE A-2
Condensed Statements of Revenues, Expenses and Changes in Net Position

	2016	2015	Increase (Decrease)
Revenues			
Operating	$ 36,637,917	$ 34,754,259	$ 1,883,658
Nonoperating	594,123	576,984	17,139
Total revenues	37,232,040	35,331,243	1,900,797
Expenses			
Operating	34,300,740	32,310,449	1,990,291
Nonoperating	420,451	172,912	247,539
Total expenses	34,721,191	32,483,361	2,237,830
Income before contributions and operating transfers	2,510,849	2,847,882	(337,033)
Capital contributions - developer infrastructure and connection fees	358,684	253,934	104,750
Capital contributions of asset from City	73,002	189,669	(116,667)
Transfers from other City funds	300,000	94,703	205,297
Transfers to other City funds	(1,089,287)	(854,743)	(234,544)
Change in net position before special item	2,153,248	2,531,445	(378,197)
Special item	330,923	-	330,923
Change in net position	2,484,171	2,531,445	(47,274)
Net position, January 1	55,885,878	53,354,433	2,531,445
Prior period adjustment (note 7)	(175,091)	-	(175,091)
Net position, December 31	$ 58,194,958	$ 55,885,878	$ 2,309,080

Revenues. Table A-2 shows that operating revenue increased by 5.4 percent in 2016 for the Electric and Water Departments combined. The Electric Department operating revenue was impacted by the territory acquisition in September and October 2015 adding approximately 800 residential customers and 130 commercial customers, and the territory acquisition in September 2016 adding approximately 200 customers, mostly commercial.

Nonoperating revenue is comprised of transmission rebate revenue in the Electric Department, and water tower lease revenue in the Water Department, as well as connection fees in both departments. Regarding transmission rebates, in 2007 the Electric Utility partnered with Midwest Municipal Transmission Group (MMTG) in order to have our transmission assets recognized in the Midwest Independent Transmission System Operator (MISO) market. In doing so, our transmission assets generate a revenue rebate, which in turn helps keep our rates down. In 2016, rebates received from our 2014 filings were approximately $7,000 per month. The Water Department is receiving lease revenue from Sprint and Verizon for antennas on the water towers. In 2016 this amount was approximately $173,000, and will continue for the duration of the multi-year contracts.

Both Electric and Water Connection Fees each increased approximately $100,000 over the prior year as new construction picked up. Additionally, the security business line was sold in 2016 for a net amount of approximately $331,000.

Total expenses. In reviewing total expenses in Table A-2 you will notice that there was an increase of 6.9 percent overall, with the electric department increasing 7.2 percent, and the water department increasing 2.1 percent. Purchased Power is the biggest electric department expense and it was up 8.9 percent.

Capital Assets and Debt Administration

Capital assets. The Utilities' investment in capital assets for its business-type activities as of December 31, 2016 amounts to $59,150,780 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements and equipment. A table summarizing the balances by fund follows:

	2016	2015	Increase (Decrease)
Land	$ 444,435	$ 361,351	$ 83,084
Intangible	9,804,951	-	9,804,951
Land improvements	7,065	8,000	(935)
Buildings	2,129,112	2,015,126	113,986
Machinery and equipment	1,671,535	1,626,892	44,643
Infrastructure	43,875,332	43,949,775	(74,443)
Construction in progress	1,218,350	190,006	1,028,344
Total	$ 59,150,780	$ 48,151,150	$ 10,999,630

The total increase in the Utilities' investment in capital assets for the current fiscal year was 22.8 percent.

Major capital asset events during the current fiscal year included the following:

- The Electric Department acquired additional territory that included approximately 200 customers, increasing Infrastructure.
- The Electric Department made a down payment on their buy-in to the power contract with MMPA, resulting in the addition of an intangible asset of $9,373,794.
- Construction in progress increased as projects started in the current year were not completed and resulted in carryover projects for 2017.

Additional information on the Utilities' capital assets can be found in Note 2B starting on page 34 of this report.

Long-term debt. At year end, the Utilities had $20,481,859 in long-term debt up from $9,846,426 in fiscal 2015. The increase is largely from a new bond issue of $9,755,000 to cover the down payment to MMPA mentioned above. More detailed information about the Utilities' long-term liabilities can be found in Note 2C starting on page 35 and below:

	2016	2015	Increase (Decrease)
G.O. revenue bonds	$ 2,230,000	$ 2,535,000	$ (305,000)
Revenue bonds	11,955,000	2,985,000	8,970,000
Unamortized premium on bonds	536,331	65,234	471,097
Promissory note	1,214,076	1,408,368	(194,292)
Compensated absences payable	351,199	312,539	38,660
Net pension liability	4,124,708	2,477,244	1,647,464
OPEB liability	70,545	63,041	7,504
Total	$ 20,481,859	$ 9,846,426	$ 10,635,433

Economic Factors and Next Year's Budgets and Rates

The increased emphasis toward renewable energy and away from coal-based energy, the challenge to reduce energy and water consumption while still maintaining the existing infrastructure and the smart grid developments are all factors that point to potential increased cost in the coming years. It is the Utilities' goal to not have to rely on increasing rates to meet those increases but continue to look for ways to increase efficiencies and reduce costs, while providing excellent customer service. Elk River Municipal Utilities' mission is to provide safe, cost-effective, reliable, quality utilities in an environmentally and financially responsible manner. We have met that mission in our customer service delivery and our successful financial results, and will continue to strive to meet that mission in the future.

Contacting the Utilities Financial Manager

This financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Utilities' finances and to demonstrate the Utilities' accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Theresa Slominski, Elk River Municipal Utilities, PO Box 430, Elk River, Minnesota 55330-0430 or at 13069 Orono Parkway in Elk River, MN.

FINANCIAL STATEMENTS

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2016

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2016

	Electric	Water	Total
ASSETS			
CURRENT ASSETS			
Cash and temporary investments	$ 13,683,031	$ 4,255,964	$ 17,938,995
Receivables			
Accrued interest	4,550	1,138	5,688
Accounts, net of allowance	2,674,555	93,289	2,767,844
Special assessments	1,624	80,499	82,123
Other receivables	57,025	7,709	64,734
Due from other City funds	10,416	429,289	439,705
Inventories	793,380	13,004	806,384
Prepaid expenses	197,439	27,981	225,420
TOTAL CURRENT ASSETS	17,422,020	4,908,873	22,330,893
CAPITAL ASSETS			
Land	331,538	112,897	444,435
Intangible	9,804,951	-	9,804,951
Land improvements	23,389	-	23,389
Buildings	3,065,866	866,867	3,932,733
Equipment and machinery	3,177,803	403,292	3,581,095
Infrastructure	45,155,721	33,901,914	79,057,635
Construction in progress	36,785	1,181,565	1,218,350
CAPITAL ASSETS, COST	61,596,053	36,466,535	98,062,588
LESS ACCUMULATED DEPRECIATION	(23,639,805)	(15,272,003)	(38,911,808)
TOTAL CAPITAL ASSETS, NET	37,956,248	21,194,532	59,150,780
OTHER ASSETS			
Restricted cash	997,660	-	997,660
TOTAL ASSETS	56,375,928	26,103,405	82,479,333
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charges on refunding	41,216	10,304	51,520
Deferred pension resources	1,485,023	148,638	1,633,661
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,526,239	158,942	1,685,181

The notes to the financial statements are an integral part of this statement.

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
STATEMENT OF NET POSITION - CONTINUED
DECEMBER 31, 2016

	Electric	Water	Total
CURRENT LIABILITIES			
Accounts payable	$ 2,682,415	$ 233,076	$ 2,915,491
Salaries and benefits payable	100,644	15,483	116,127
Accrued interest payable	155,971	23,598	179,569
Due to other City funds	755,539	23,596	779,135
Due to other governments	113,078	2,125	115,203
Customer deposits payable	724,770	109,686	834,456
Unearned revenue	875	89,746	90,621
Compensated absences - current portion	156,874	23,217	180,091
Notes payable - current portion	195,216	-	195,216
Bonds payable - current portion	706,000	244,000	950,000
TOTAL CURRENT LIABILITIES	5,591,382	764,527	6,355,909
NON-CURRENT LIABILITIES			
Net other postemployment benefits liability	70,545	-	70,545
Compensated absences - less current portion	152,133	18,975	171,108
Notes payable - less current portion	1,018,860	-	1,018,860
Bonds payable, net - less current portion	12,380,218	1,391,113	13,771,331
Net pension liability	3,749,423	375,285	4,124,708
TOTAL NON-CURRENT LIABILITIES	17,371,179	1,785,373	19,156,552
TOTAL LIABILITIES	22,962,561	2,549,900	25,512,461
DEFERRED INFLOWS OF RESOURCES			
Deferred pension resources	415,506	41,589	457,095
NET POSITION			
Net investment in capital assets	23,697,170	19,569,723	43,266,893
Restricted for debt service	997,660	-	997,660
Unrestricted	9,829,270	4,101,135	13,930,405
TOTAL NET POSITION	$ 34,524,100	$ 23,670,858	$ 58,194,958

The notes to the financial statements are an integral part of this statement.

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ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2016

	Electric	Water	Total
OPERATING REVENUES			
Charges for services	$ 33,481,349	$ 2,121,380	$ 35,602,729
Security systems	177,572	-	177,572
LFG project	1,087,749	-	1,087,749
Generation credit	(804,608)	-	(804,608)
Connection maintenance	269,197	34,999	304,196
Customer penalties	253,137	17,142	270,279
TOTAL OPERATING REVENUES	34,464,396	2,173,521	36,637,917
OPERATING EXPENSES			
Purchased power	23,991,069	-	23,991,069
Production	753,870	493,385	1,247,255
Distribution	1,287,940	149,744	1,437,684
Depreciation	2,005,093	1,148,310	3,153,403
Customer accounts	534,273	75,565	609,838
General and administrative	3,254,354	607,137	3,861,491
TOTAL OPERATING EXPENSES	31,826,599	2,474,141	34,300,740
OPERATING INCOME (LOSS)	2,637,797	(300,620)	2,337,177
NONOPERATING REVENUES (EXPENSES)			
Interest income	90,804	24,917	115,721
Miscellaneous revenue	281,702	196,700	478,402
Interest expense and other	(198,194)	(57,986)	(256,180)
Gain (loss) on sale of capital assets	(80,126)	1,050	(79,076)
Bond issuance costs	(85,195)	-	(85,195)
TOTAL NONOPERATING REVENUES (EXPENSES)	8,991	164,681	173,672
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	2,646,788	(135,939)	2,510,849
CAPITAL CONTRIBUTIONS -			
DEVELOPER INFRASTRUCTURE AND CONNECTION FEES	-	358,684	358,684
CONTRIBUTION OF ASSETS FROM CITY	-	73,002	73,002
TRANSFERS FROM OTHER CITY FUNDS	-	300,000	300,000
TRANSFERS TO OTHER CITY FUNDS	(1,089,287)	-	(1,089,287)
TOTAL CONTRIBUTIONS AND TRANSFERS	(1,089,287)	731,686	(357,601)
CHANGE IN NET POSITION BEFORE SPECIAL ITEM	1,557,501	595,747	2,153,248
SPECIAL ITEM	330,923	-	330,923
CHANGE IN NET POSITION	1,888,424	595,747	2,484,171
NET POSITION, JANUARY 1	32,635,676	23,250,202	55,885,878
PRIOR PERIOD ADJUSTMENT (NOTE 7)	-	(175,091)	(175,091)
NET POSITION, DECEMBER 31	$ 34,524,100	$ 23,670,858	$ 58,194,958

The notes to the financial statements are an integral part of this statement.

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Electric	Water	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	$ 34,621,945	$ 2,213,416	$ 36,835,361
Other operating cash receipts	288,497	191,150	479,647
Payments to suppliers	(27,213,605)	(798,435)	(28,012,040)
Payments to employees	(2,243,498)	(487,884)	(2,731,382)
NET CASH PROVIDED BY OPERATING ACTIVITIES	5,453,339	1,118,247	6,571,586
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from City	-	300,000	300,000
Transfers to City	(1,089,287)	-	(1,089,287)
(Increase) decrease in due from other City funds	(396)	(205,297)	(205,693)
Increase (decrease) in due to other City funds	96,106	562	96,668
Sale of business line	330,923	-	330,923
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(662,654)	95,265	(567,389)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets	(12,422,917)	(1,415,644)	(13,838,561)
Proceeds from sale of capital assets	44,218	1,050	45,268
Proceeds from connection fees	-	358,684	358,684
Principal payments on revenue bonds	(2,227,000)	(233,000)	(2,460,000)
Proceeds of bonds issued, net of issuance costs and premium on bonds	11,545,329	-	11,545,329
Interest paid on revenue bonds	(119,657)	(60,193)	(179,850)
Principal payments on promissory note	(194,292)	-	(194,292)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(3,374,319)	(1,349,103)	(4,723,422)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on investments	88,699	24,390	113,089
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,505,065	(111,201)	1,393,864
CASH AND CASH EQUIVALENTS, JANUARY 1	13,175,626	4,367,165	17,542,791
CASH AND CASH EQUIVALENTS, DECEMBER 31	$ 14,680,691	$ 4,255,964	$ 18,936,655
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION			
Cash and temporary investments	$ 13,683,031	$ 4,255,964	$ 17,938,995
Restricted cash	997,660	-	997,660
TOTAL CASH AND CASH EQUIVALENTS	$ 14,680,691	$ 4,255,964	$ 18,936,655

The notes to the financial statements are an integral part of this statement.

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
STATEMENT OF CASH FLOWS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

	Electric	Water	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO			
NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income (loss)	$ 2,637,797	$ (300,620)	$ 2,337,177
Adjustments to reconcile operating income (loss)			
to net cash provided by operating activities			
Other revenue related to operations	281,702	196,700	478,402
Bad debt expense	1,963	-	1,963
Depreciation	2,005,093	1,148,310	3,153,403
(Increase) decrease in assets/deferred outflows:			
Accounts receivable	(83,518)	23,430	(60,088)
Other receivables	6,795	(5,550)	1,245
Special assessments receivable	4,898	(7,623)	(2,725)
Inventories	198,183	1,011	199,194
Prepaid expenses	(18,660)	1,044	(17,616)
Deferred pension resources	(1,212,074)	(120,148)	(1,332,222)
Increase (decrease) in liabilities/deferred inflows:			
Accounts payable	(95,736)	9,205	(86,531)
Salaries and benefits payable	22,614	1,310	23,924
Net other postemployment benefits liability	7,504	-	7,504
Unearned revenue	875	3,455	4,330
Compensated absences payable	25,477	13,183	38,660
Due to other governments	(26,936)	(851)	(27,787)
Customer deposits payable	235,294	20,633	255,927
Net pension liability	1,506,308	141,156	1,647,464
Deferred pension resources	(44,240)	(6,398)	(50,638)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 5,453,339	$ 1,118,247	$ 6,571,586
NONCASH CAPITAL AND			
RELATED FINANCING ACTIVITIES			
Amortization of bond premium	$ 33,681	$ 747	$ 34,428
Amortization of deferred charges on refunding	$ 6,139	$ 1,505	$ 7,644
Capital assets purchased on account	$ 411,157	$ 129,747	$ 540,904
Contribution of capital assets	$ -	$ 73,002	$ 73,002

The notes to the financial statements are an integral part of this statement.

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Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Nature of the business

The Elk River Municipal Utilities (the Utilities) is a municipal utility established by action of the City of Elk River (the City) pursuant to Minnesota statute 412.321 and consequently it's Electric and Water funds are enterprise funds of the City. The Public Utilities Commission (the Commission) members are appointed by the City Council. The Commission determines all matters of policy. The Commission appoints personnel responsible for the proper administration of all affairs relating to the Utilities. The Utilities distributes electricity and water to the residents of Elk River, Dayton, Big Lake and Otsego, Minnesota.

The Utilities has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Utilities are such that exclusion would cause the Utilities' financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. There are no component units.

B. Measurement focus, basis of accounting and basis of presentation

The accounts of the Utilities are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistently with legal and managerial requirements.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Non-exchange transactions, in which the Utilities receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Revenue from property taxes is recognized in the year for which the tax is levied. Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the Utilities must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Utilities on a reimbursement basis.

Grants and entitlements received before eligibility requirements are met are also recorded as unearned revenue.

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Proprietary funds include the following fund type:

Enterprise funds account for those operations that are financed and operated in a manner similar to private business or where the Utilities has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* 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 revenues of the Electric and Water enterprise funds are charges to customers for sales and service. Operating expenses for enterprise 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 nonoperating revenues and expenses.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The Utilities reports the following major proprietary funds:

The *Electric fund* accounts for the electric distribution operations.

The *Water fund* accounts for the water distribution system.

C. Assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position

Cash and cash equivalents

The Utilities' cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Cash balances from all funds are pooled and invested, to the extent available, in certificates of deposit and other authorized investments. Earnings from such investments are allocated on the basis of applicable participation by each of the funds.

The Utilities may also invest idle funds as authorized by Minnesota statutes, as follows:

1. Direct obligations or obligations guaranteed by the United States or its agencies.

2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, rated in one of the two highest rating categories by a statistical rating agency, and have a final maturity of thirteen months or less.

3. General obligations of a state or local government with taxing powers rated "A" or better; revenue obligations rated "AA" or better.

4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.

5. Obligation of a school district with an original maturity not exceeding 13 months and (i) rated in the highest category by a national bond rating service or (ii) enrolled in the credit enhancement program pursuant to statute section 126C.55.

6. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.

7. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.

8. Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding $10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.

9. Guaranteed Investment Contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

Broker money market funds operate in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the shares.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The Utilities 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. The Utilities recurring fair value measurements are listed in detail on page 33 and are valued using a matrix pricing model (Level 2 inputs).

Accounts receivable

Accounts receivable include amounts billed for services provided before year end. The Utilities has established a reserve for uncollectible accounts which is adjusted annually based on the receivable activity. No substantial losses from present receivable balances are anticipated. A summary of the uncollectible account balances at December 31, 2016 is as follows:

	2016
Electric	$ 109,845
Water	26,250
Total	$ 136,095

Interfund receivables and payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “interfund receivables/payables” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds”.

Inventories

Inventories are stated at lower of average cost or market on the first-in, first-out (FIFO) method.

Prepaid items

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

Restricted assets

The amounts in the restricted cash account are set aside in accordance with the issuing resolution for specific bond issues. They will be used for future debt service.

Capital assets

Capital assets are stated at cost. Capital assets are defined by the Utilities as assets with an initial individual cost of more than $5,000 and an estimated useful life in excess of two years. Expenditures for maintenance and repairs are charged to operations and expenditures that extend the useful life of the asset are capitalized and depreciated. When assets are retired or sold, the related cost and accumulated depreciation are removed from the accounts and any gain or loss on disposition is included in operations.

Major expenditures for improvements or capital asset projects are capitalized as projects are constructed.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The Utilities follow the policy of providing depreciation on the straight-line method over the estimated useful lives of the assets, which are as follows:

	Lives in Years	
Description	Electric	Water
Production	4 - 20	25 - 50
Transmission	30	-
Distribution	10 - 33	25 - 50
General	10 - 50	10 - 50
Machinery, Tools, and Equipment	5 - 10	5 - 10
Automobiles	3 - 8	3 - 8

Deferred outflows of resources

In addition to assets, the statement of net 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 a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The Utility has two items, a deferred charge on refunding and deferred pension resources, which qualify for reporting in this category. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Deferred pension resources result from actuarial calculation and current year pension contributions subsequent to the measurement date.

Long-term obligations

Long-term debt is reflected as a liability in the fund issuing the obligation. Bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Bond issuance costs are reported as an expense in the period incurred.

Compensated absences

Vacation: All vacation benefits can be carried over from year to year and will be payable upon termination. Unused vacation carryover is limited to the number of hours accrued during the previous year.

Sick Leave: Sick leave can be accumulated to a maximum of 960 hours from year to year. Upon termination or retirement, employees will have 50 percent of unused sick leave, up to a maximum of 960 hours, converted to cash and deposited into their Post Health Care Savings account.

The liability for vacation and sick pay is reported as a liability in the respective funds at year end.

Postemployment benefits other than pensions

Under Minnesota statute 471.61, subdivision 2b., public employers must allow retirees and their dependents to continue coverage indefinitely in an employer-sponsored health care plan, under the following conditions: 1) Retirees must be receiving (or eligible to receive) an annuity from a Minnesota public pension plan, 2) Coverage must continue in group plan until age 65, and retirees must pay no more than the group premium, and 3) Retirees may obtain dependent coverage immediately before retirement. All premiums are funded on a pay-as-you-go basis. The liability was actuarially determined, in accordance with GASB Statement 45, at January 1, 2014.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

Performance Metrics and Incentive Compensation

Through Utilities Performance Metric-based Incentive Compensation system (UPMIC) the Utilities employees will have an opportunity, as a group, to each earn a maximum of 2 percent of their total gross wage paid during the Measurement Period. The percentage of UMPIC is calculated using a Score Card. The Score Card has three categories: Safety, Reliability and Quality of Utility Services which are divided into various weighted factors. This incentive was created to help the Utilities to become more efficient and successful in meeting strategic goals and mission and deliver improved value to the Utilities customers. The liability at year end is recorded as part of accrued wages.

Deferred inflows of resources

In addition to liabilities, the statement of net position and fund financial statements 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. The Utility has only one type of item which qualifies for reporting in this category. The item, deferred pension resources, is reported only in the statement of net position and results from actuarial calculations.

Net position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position is displayed in three components:

a. Net investment in capital assets - Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.

b. Restricted net position - Consists of net position restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

c. Unrestricted net position - All other net position that do not meet the definition of "restricted" or "net investment in capital assets".

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

Note 2: DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

Custodial credit risk for deposits and investments is the risk that in the event of a bank failure, the Utilities' deposits and investments may not be returned or the Utility will not be able to recover collateral securities in the possession of an outside party. In accordance with Minnesota statutes and as authorized by the Commission, the Utility maintains deposits at those depository banks, all of which are members of the Federal Reserve System.

Minnesota statutes require that all Utility deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance, bonds, or irrevocable standby letter of credit from Federal Home Loan Banks.

Authorized collateral in lieu of a corporate surety bond includes:

- United States government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- General obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc., or Standard & Poor's Corporation; and
- Time deposits that are fully insured by any federal agency.

Minnesota statutes require that all collateral shall be placed in safekeeping in a restricted account at a Federal Reserve Bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The selection should be approved by the government entity.

At December 31, 2016, the Utilities' carrying amount of deposits was $15,362,053 and the bank balance was $15,400,336. Of the bank balance $354,495 was covered by federal depository insurance, and the remaining balance was covered by collateral held by the pledging financial institution's agent in the Utilities' name.

Note 2: DETAILED NOTES ON ALL FUNDS - CONTINUED

Investments

The Utilities' investment balances were as follows for December 31, 2016:

Types of Investments	Credit Quality/ Ratings (1)	Segmented Time Distribution (2)	Amount	Fair Value Measurement Using		
				Level 1	Level 2	Level 3
Pooled investments						
Broker Money Markets	N/A	less than 6 months	$ 33,324			
Non-pooled investments						
Negotiable certificates of deposits	N/A	less than 6 months	401,566	$ -	$ 401,566	$ -
Negotiable certificates of deposits	N/A	6 months to 1 year	813,501	-	813,501	-
Negotiable certificates of deposits	N/A	1 to 3 years	2,325,411	-	2,325,411	-
Total non-pooled investments			3,540,478	-	3,540,478	-
Total investments			$ 3,573,802	$ -	$ 3,540,478	$ -

(1) Ratings were provided by various credit rating agencies where applicable to indicate associated credit risk.
(2) Interest rate risk is disclosed using the segmented time distribution method.
N/A Indicates not applicable.

A reconciliation of cash and temporary investments as shown in the financial statements for the Utilities follows:

	2016
Deposits	$ 15,362,053
Investments	3,573,802
Cash on hand	800
Total	$ 18,936,655
Cash and temporary investments	
Unrestricted	$ 17,938,995
Restricted	997,660
Total	$ 18,936,655

The investments of the Utility are subject to the following risks:

- *Credit Risk*. Is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and where applicable, indicate associated credit risk. Minnesota statutes and the Utilities' investment policy limit the Utilities' investments to the list on page 28 of the notes.

- *Custodial Credit Risk*. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. According to their investment policy the Utilities' portfolio maturities shall be staggered to avoid undue concentration of assets with one broker-dealer or financial institution.

Note 2: DETAILED NOTES ON ALL FUNDS - CONTINUED

- *Concentration of Credit Risk.* Is the risk of loss attributed to the magnitude of a government's investment in a single issuer. According to their investment policy the Utilities' portfolio maturities shall be staggered to avoid undue concentration of assets in any one type of instrument.

- *Interest Rate Risk.* Is the risk that changes in interest rates will adversely affect the fair value of an investment. According to their investment policy the Utilities' will stagger maturities to avoid undue concentration of assets at a specific maturity sector.

B. Capital assets

Capital asset activity for the year ended December 31, 2016 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	$ 361,351	$ 83,084	$ -	$ 444,435
Intangible	-	9,804,951	-	9,804,951
Construction in progress	190,006	3,468,509	(2,440,165)	1,218,350
Total capital assets not being depreciated	551,357	13,356,544	(2,440,165)	11,467,736
Capital assets being depreciated				
Land improvements	23,389	-	-	23,389
Buildings	3,704,415	228,318	-	3,932,733
Machinery and equipment	3,418,127	340,101	(177,133)	3,581,095
Infrastructure	76,466,257	2,967,590	(376,212)	79,057,635
Total capital assets being depreciated	83,612,188	3,536,009	(553,345)	86,594,852
Less accumulated depreciation for				
Land improvements	(15,389)	(935)	-	(16,324)
Buildings	(1,689,289)	(114,332)	-	(1,803,621)
Machinery and equipment	(1,791,235)	(273,634)	155,309	(1,909,560)
Infrastructure	(32,516,482)	(2,764,502)	98,681	(35,182,303)
Total accumulated depreciation	(36,012,395)	(3,153,403)	253,990	(38,911,808)
Total capital assets being depreciated, net	47,599,793	382,606	(299,355)	47,683,044
Business-type activities capital assets, net	$ 48,151,150	$ 13,739,150	$ (2,739,520)	$ 59,150,780

Note 2: DETAILED NOTES ON ALL FUNDS - CONTINUED

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

	2016
Business-type Activities	
Electric	$ 2,005,093
Water	1,148,310
Total depreciation expense - business-type activities	$ 3,153,403

C. Long-term debt

General obligation revenue bonds

The City of Elk River issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. The following bonds are to be paid out of Utilities' revenues and are backed by the full faith and credit of the City.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Water Revenue Refunding Bonds of 2008	$ 3,085,000	2.75 - 3.65 %	02/20/08	02/01/22	$ 1,480,000
G.O. Capital Improvement Plan Bonds of 2010A	1,265,000	2.00 - 4.00	04/21/10	08/01/23	750,000
Total G.O. Revenue Bonds					$ 2,230,000

The annual debt service requirements to maturity for the general obligation revenue bonds are as follows:

Year Ending December 31,	Principal	Interest	Total
2017	$ 320,000	$ 74,850	$ 394,850
2018	335,000	63,948	398,948
2019	340,000	51,990	391,990
2020	355,000	39,498	394,498
2021	370,000	26,270	396,270
2022-2023	510,000	14,728	524,728
Total	$ 2,230,000	$ 271,284	$ 2,501,284

The G.O. revenue bonds were issued to finance capital improvements and are to be repaid from future revenues pledged from the Water and Electric funds and are backed by the full faith and credit of the Utilities.

In 2016, annual principal and interest payment on the bonds required about 0.3 percent of revenues from the Electric fund. The principal and interest paid and total customer revenues for the Electric fund were $96,140 and $34,464,396, respectively.

In 2016, annual principal and interest payment on the bonds required about 13.5 percent of revenues from the Water fund. The principal and interest paid and total customer revenues for the Water fund were $293,193 and $2,173,521, respectively.

Note 2: DETAILED NOTES ON ALL FUNDS - CONTINUED

Revenue bonds

The following bonds were issued to finance capital improvements in the Electric fund. They will be retired from net revenues of the fund.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
Electric Revenue Refunding Bonds, Series 2014A	$ 2,030,000	2.00-4.00 %	03/13/14	08/01/18	$ 830,000
Electric Revenue Bonds, Series 2016A	9,755,000	2.00-4.00	07/14/16	02/01/36	9,755,000
Electric Revenue Refunding Bonds, Series 2016B	1,370,000	2.00-4.00	07/14/16	02/01/22	1,370,000
Total Revenue Bonds					$ 11,955,000

The annual debt service requirements to maturity for the revenue bonds are as follows:

Year Ending December 31,	Principal	Interest	Total
2017	$ 630,000	$ 334,457	$ 964,457
2018	640,000	307,425	947,425
2019	635,000	286,375	921,375
2020	665,000	264,925	929,925
2021	680,000	242,675	922,675
2022-2026	2,720,000	934,750	3,654,750
2027-2031	2,810,000	618,056	3,428,056
2032-2036	3,175,000	240,169	3,415,169
Total	$ 11,955,000	$ 3,228,832	$ 15,183,832

The revenue bonds were issued to finance the acquisition and construction of major capital facilities and are to be repaid from future revenues pledged from the Electric fund.

In 2016, annual principal and interest payment on the bonds required about 6.5 percent of revenues from the Electric fund. Principal and interest paid and total customer revenues for the Electric fund were $2,250,517 and $34,464,396, respectively.

Promissory note

The Utilities has issued a promissory note to provide for construction of a landfill gas generator. The note is to be paid from revenue of the system and is secured by the facility.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
Landfill Generator Note	$ 3,521,000	- %	03/19/02	02/19/22	$ 1,214,076

Note 2: DETAILED NOTES ON ALL FUNDS - CONTINUED

The annual debt service requirements to maturity for the generator note are as follows:

Year Ending December 31,	Principal	Interest	Total
2017	$ 195,216	$ -	$ 195,216
2018	198,252	-	198,252
2019	200,916	-	200,916
2020	203,952	-	203,952
2021	206,616	-	206,616
2022	209,124	-	209,124
Total	$ 1,214,076	$ -	$ 1,214,076

Changes in long-term liabilities

Long-term liability activity for the year ended December 31, 2016 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Business-type activities					
Bonds payable					
General obligation revenue bonds	$ 2,535,000	$ -	$ (305,000)	$ 2,230,000	$ 320,000
Revenue bonds	2,985,000	11,125,000	(2,155,000)	11,955,000	630,000
Unamortized premium on bonds	65,234	505,525	(34,428)	536,331	-
Total bonds payable, net	5,585,234	11,630,525	(2,494,428)	14,721,331	950,000
Notes payable	1,408,368	-	(194,292)	1,214,076	195,216
Compensated absences payable	312,539	182,294	(143,634)	351,199	180,091
Net pension liability					
GERF	2,477,244	1,884,181	(236,717)	4,124,708	-
OPEB liability	63,041	10,559	(3,055)	70,545	-
Business-type activity long-term liabilities	$ 9,846,426	$ 13,707,559	$ (3,072,126)	$ 20,481,859	$ 1,325,307

Current refunding

On July 14, 2016 the Utilities issued $1,370,000 of 2016B Electric Revenue Refunding Bonds. The bonds bear an average coupon rate of 2.63 percent and were used to call $1,750,000 of the outstanding principal of the 2007A Electric Revenue Bonds. As a result of the refunding issue, the Utilities will save $121,254 in debt service payments and achieve an economic gain (the present value of the difference between the old and the new debt service) of $94,737.

Note 2: DETAILED NOTES ON ALL FUNDS - CONTINUED

D. Interfund receivables, payables and transfers

The composition of interfund balances at year end is as follows:

Receivable Fund	Payable Fund	Amount	Purpose
Electric	City	$ 2,172	Sales tax/franchise fees
Electric	City	4,025	Supplies
Electric	City	2,464	4th quarter billings
Electric	City	1,755	PERA aid
Total Electric fund receivable from City		10,416	
Water	City	300,000	Watermain project
Water	City	439	PERA aid
Water	City	128,850	TIF 22 Water Access Charge
Total Water fund receivable from City		429,289	
Total receivable from City		$ 439,705	
City	Electric	$ 89,032	Shared costs
City	Electric	5,916	Supplies
City	Electric	81,292	December transfer of 4% of revenue
City	Electric	264,788	4th quarter franchise fees
City	Electric	165,493	Billed sewer on behalf of City
City	Electric	111,086	Billed garbage on behalf of City
City	Electric	37,932	Billed stormwater on behalf of City
Total Electric fund payable to City		755,539	
City	Water	22,258	Shared costs
City	Water	1,338	Supplies
Total Water fund payable to City		23,596	
Total payable to City		$ 779,135	

Interfund transfers completed in 2016 are detailed as follows:

Transfer out	Transfer from Other City Funds	Transfer to Other City Funds
Electric	$ -	$ 1,089,287
Water	300,000	-
Total transfers out	$ 300,000	$ 1,089,287

The transfer out of the Electric fund was the annual transfer of 4 percent of 2016 revenues to City funds. The transfer into the Water fund was for reimbursement related to the watermain project.

Note 3: DEFINED BENEFIT PENSION PLANS - STATEWIDE

A. Plan description

The Utilities 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.

General Employees Retirement Fund (GERF)

All full-time and certain part-time employees of the Utilities 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 Minnesota 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 percent funded for two consecutive years are given 2.5 percent increases. Members in plans that have not exceeded 90 percent funded, or have fallen below 80 percent, are given 1 percent 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.

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 percent of average salary for each of the first ten years of service and 2.7 percent 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 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent 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.

GERF contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.50 percent, respectively, of their annual covered salary in calendar year 2016. The Utilities was required to contribute 11.78 percent of pay for Basic Plan members and 7.50 percent for Coordinated Plan members in calendar year 2016. The Utilities contributions to the GERF for the years ending December 31, 2016, 2015 and 2014 were $244,012, $230,074 and $203,953, respectively. The Utilities contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

Note 3: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED

D. Pension costs

GERF pension costs

At December 31, 2016, the Utilities reported a liability of $4,124,708 for its proportionate share of the GERF's net pension liability. The Utilities net pension liability reflected a reduction due to the State of Minnesota's contribution of $6 million to the fund in 2016. 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 the Utilities totaled $53,908. 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 Utilities proportion of the net pension liability was based on the Utilities 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 Utilities proportionate share was 0.0508 percent which was an increase of 0.003 percent from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the Utilities recognized pension expense of $507,909 for its proportionate share of GERF's pension expense. In addition, the Utilites recognized an additional $16,074 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $6 million to the GERF.

At December 31, 2016, the Utilities reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 13,409	$ 348,884
Changes in actuarial assumptions	890,251	-
Net difference between projected and actual earnings on plan investments	473,653	-
Changes in proportion	124,523	108,211
Contributions to GERF subsequent to the measurement date	131,825	-
Total	$ 1,633,661	$ 457,095

Deferred outflows of resources totaling $131,825 related to pensions resulting from the Utility's contributions to GERF 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 GERF pensions will be recognized in pension expense as follows:

2017	$ 273,260
2018	184,636
2019	437,860
2020	148,985

Note 3: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED

E. Actuarial assumptions

The total pension liability in the June 30, 2016 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 the GERF and RP-2000 tables for the PEPFF for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: 1 percent per year for all future years for the GERF.

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 GERF was completed in 2015. The experience study for PEPFF was for the period July 1, 2004, through June 30, 2009.

The following changes in actuarial assumptions occurred in 2016:

GERF

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2035 and 2.5 percent per year thereafter to 1.0 percent per year for all future years.

- The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent.

- 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 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic stocks	45.00 %	5.50 %
International stocks	15.00	6.00
Bonds	18.00	1.45
Alternative assets	20.00	6.40
Cash	2.00	0.50
Total	100.00 %	

Note 3: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED

F. Discount rate

The discount rate used to measure the total pension liability was 7.5 percent, a reduction from the 7.90 percent used in 2015. 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 GERF was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension liability sensitivity

The following presents the Utilities 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 Utilities 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:

	Utilities Proportionate Share of NPL		
	1 Percent Decrease (6.50%)	Current (7.50%)	1 Percent Increase (8.50%)
GERF	$ 5,858,308	$ 4,124,708	$ 2,696,694

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 4: OTHER INFORMATION

A. Territorial acquisition agreement

In 1991, the Utilities entered into a 20 year agreement to transfer ownership of electric plant and electric service to customers in certain areas receiving electric service from Anoka Electric Cooperative, Inc. (AEC). In 2010 the Utility completed the final purchase under this agreement.

The agreed cost of property purchased from AEC is net book value. The Utilities also pays AEC for loss of revenue for each area acquired based on a formula outlined in the agreement.

In addition, the Utilities will compensate AEC for the loss of revenue from the future sale of electricity to electric customers in the areas acquired from AEC for a period of ten years from the date of sale of each individual area.

The Utilities paid $214 in 2016 for loss of revenues under this agreement. All amounts paid are included in property and equipment.

In 2015, the Utilities entered into a 10 year agreement to transfer ownership of electric plant and electric service to customers in eight designated areas receiving service from Connexus Energy. Specific payment terms have been negotiated for 5 years, and if any of the eight areas are not acquired within this timeframe, the payment terms may be renegotiated.

The agreed cost of property purchased from Connexus Energy is net book value, integration expenses, and a loss of revenue payment. The loss of revenue payment for each area acquired is based on a formula outlined in the agreement, payable for the subsequent ten years after initial purchase.

Note 4: OTHER INFORMATION - CONTINUED

The Utilities acquired designated service areas 1 and 2 in 2015 and 2016, respectively, for $877,807 and $663,583, respectively. The first loss of revenue payment was made in 2017 for $411,157 in accordance with the agreement. All amounts paid are included in property and equipment, and loss of revenue payments are included in intangible assets.

B. Risk management

The Utilities is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the Utilities carries commercial insurance. The Utilities obtains insurance through participation in the League of Minnesota Cities Insurance Trust (LMCIT), which is a risk sharing pool with approximately 800 other governmental units. The Utilities pays an annual premium to LMCIT for its workers compensation and property and casualty insurance. The LMCIT is self-sustaining through member premiums and will reinsure for claims above a prescribed dollar amount for each insurance event. Settled claims have not exceeded the Utilities' coverage in any of the past three fiscal years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported (IBNRs). The Utilities' management is not aware of any incurred but not reported claims.

C. Commitments

The Utilities has received notice from their power supplier regarding the existing all requirements power contract exercising their right to give ten years notice to cancel the contract. The cancellation date would be effective September 30, 2018. On May 14, 2013 the Utilities signed a new agreement with Minnesota Municipal Power Agency (MMPA).

The Utilities entered into an agreement in 2007 with Central Minnesota Municipal Power Agency (CMMPA) to acquire an interest in the CAPX Initiative Brookings Project, a power transmission line in Minnesota. The project is a 250 mile, 345 kV AC transmission line with a rating of 2,300 MW, between Brookings, South Dakota, and the Southeast Twin Cities. In 2011 there was increased opportunity for investment, and subsequent agreements provide the Utilities with an ownership share of $5.6 million or 18.89 percent. The return on this investment through CMMPA is designed to provide approximately $124,000 annually over the 40 year project life. The transmission payments for 2016 were $51,478 of which $7,141 was receivable at December 31, 2016.

Note 5: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description. Elk River Municipal Utilities (the Utilities) administers a multi-employer defined benefit healthcare plan ("the Retiree Health Plan"). The plan provides lifetime healthcare insurance for eligible retirees and their spouses through the Utilities group health insurance plan, which covers both active and retired members. Benefit provisions are reviewed intermittently through the relationship with the Utilities' insurance broker. The Retiree Health Plan does not issue a publicly available financial report.

Funding Policy. Contribution requirements are also reviewed at the time changes are made to the plan. The Utility contributes none of the cost of current-year premiums for eligible retired plan members and their spouses. For fiscal year 2016, the Utility contributed $0 to the plan. Plan members receiving benefits contribute 100 percent of their premium costs. In fiscal year 2016, total member contributions were $0.

Annual OPEB Cost and Net OPEB Obligation. The Utilities' annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The Utility has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Utilities annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Utilities' net OPEB obligation to the Retiree Health Plan:

Note 5: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS - CONTINUED

Annual required contribution	$ 11,682
Interest on net OPEB obligation	2,522
Adjustment to annual required contribution	(3,645)
Annual OPEB Cost (expense)	10,559
Contributions made	
Direct (explicit) subsidy	-
Implicit subsidy	(3,055)
Increase in net OPEB obligation	7,504
Net OPEB obligation - beginning of year	63,041
Net OPEB obligation - end of year	$ 70,545

The Utilities' annual OPEB cost, the amount and percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for December 31, 2016 and the preceding two fiscal years was as follows:

	Three Year Trend Information			
Year Ending	Annual OPEB Cost	Employer Contribution	Percentage Annual OPEB Contributed	Net OPEB Obligation
12/31/2016	$ 10,559	$ 3,055	29 %	70,545
12/31/2015	10,260	2,151	21	63,041
12/31/2014	9,890	-	-	54,932

Funded Status and Funding Progress. As of December 31, 2014, the actuarial accrued liability for benefits was $68,948, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was $2,810,413 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 2.50 percent.

The projection of future benefit payments for an ongoing plan involves 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 the healthcare cost trend. 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, presents 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.

Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and 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 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.

Note 5: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS - CONTINUED

The following simplifying assumptions were made:

Retirement age for active employees - Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 60, or at the first subsequent year in which the member would qualify for benefits.

Participation Rate - It is assumed that 10 percent of active participants continue coverage until age 65. Participants are assumed to continue in their current coverage type (single or family). It is assumed that 100 percent of retirees will continue their current coverage until age 65.

Life Expectancy - Life expectancies were based on mortality tables from the National Center for Health Statistics. The 2000 United States Life Tables for Males and for Females were used.

Turnover - Non-group-specific age-based turnover data from GASB Statement 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Healthcare cost trend rate - The expected rate of increase in healthcare insurance premiums was based on projections of the Office of the Actuary at the Centers for Medicare & Medicaid Services. A rate of 7.5 percent initially, reduced to an ultimate rate of 5.0 percent after eight years, was used.

Health insurance premiums - 2014 health insurance premiums for retirees were used per the valuation report.

Withdrawal - The probability that an employee will remain employed until the assumed retirement age was determined using non-group specific age-based turnover data provided in Table 1 in Paragraph 35b of GASB 45.

Disability - None

Actuarial Method - Projected Unit Credit with 30-year amortization of the unfunded liability.

Valuation date - January 1, 2014

Based on the historical and expected returns of the Utilities’ short-term investment portfolio, a discount rate of 4.0 percent was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level dollar amount over an open basis. The remaining amortization period at December 31, 2014 was thirty years.

Note 6: SPECIAL ITEM - DISCONTINUED OPERATION

The Utilities agreed to a sale of its security business on September 30th, 2016. As a result of the sale of the security business, the Utilities has a gain of $330,293 reported as a special item on the financial statements. The gain includes the price of acquisition less the costs associated with the sale.

Note 7: PRIOR PERIOD ADJUSTMENT - WATER FUND

A prior period adjustment was recorded in the Water fund to reduce capital contribution of assets from the City recognized in 2015.

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REQUIRED SUPPLEMENTARY INFORMATION

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2016

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2016

Schedule of Employer's Share of PERA Net Pension Liability - General Employees Retirement Fund

	Required Supplementary Information						
Fiscal Year Ending	Utilities Proportion of the Net Pension Liability	Utilities Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with the Utilities (b)	Total (a+b)	Utilities Covered Payroll (c)	Utilities Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/16	0.0508 %	$ 4,124,708	$ 53,908	$ 4,178,616	$ 3,151,720	132.6 %	68.9 %
06/30/15	0.0478	2,477,244	-	2,477,244	2,811,834	88.1	78.2

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

Schedule of Employer's PERA Contributions - General Employees Retirement Fund

	Required Supplementary Information				
Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Utilities Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
12/31/16	$ 244,012	$ 244,012	$ -	$ 3,253,493	7.5 %
12/31/15	230,074	230,074	-	3,067,653	7.5

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

Schedule of Funding Progress for the Other Postemployment Benefit Plan

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2014	$ -	$ 68,948	$ 68,948	- %	$ 2,810,413	2.50 %
12/31/2011	-	42,681	42,681	-	2,286,547	1.87
12/31/2008	-	56,892	56,892	-	2,300,000	2.47

SUPPLEMENTARY INFORMATION

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2016

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
SUPPLEMENTARY INFORMATION
SCHEDULE OF OPERATING REVENUES AND EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016

	Electric	Water	Total
OPERATING REVENUES			
Charges for services			
Elk River	$ 30,662,101	$ 2,121,380	$ 32,783,481
Otsego	2,402,850	-	2,402,850
Big Lake	188,074	-	188,074
Dayton	228,324	-	228,324
Security systems	177,572	-	177,572
LFG Project	1,087,749	-	1,087,749
Generation credit	(804,608)	-	(804,608)
Connection maintenance	269,197	34,999	304,196
Customer penalties	253,137	17,142	270,279
TOTAL OPERATING REVENUES	34,464,396	2,173,521	36,637,917
OPERATING EXPENSES			
Purchased power	23,991,069	-	23,991,069
Production			
Supervision and labor	99,369	53,996	153,365
Natural gas	38,548	-	38,548
Supplies and power for pumping	39,827	244,942	284,769
Landfill gas expense	526,269	-	526,269
Maintenance of structures	23,607	40,369	63,976
Maintenance of equipment	13,925	154,078	168,003
Maintenance of plant	12,325	-	12,325
Total	753,870	493,385	1,247,255
Transmission and distribution			
Supervision and labor	37,867	9,401	47,268
Maintenance of overhead lines	329,124	-	329,124
Maintenance of underground lines	182,790	-	182,790
Maintenance of station equipment	48,161	-	48,161
Transportation	155,756	10,475	166,231
Maintenance of customer service	5,322	43,041	48,363
Maintenance of customer meters	113,772	86,803	200,575
Miscellaneous	415,148	24	415,172
Total	1,287,940	149,744	1,437,684
Services to City	230,312	-	230,312
Depreciation	2,005,093	1,148,310	3,153,403
Customer accounts expense			
Meter reading	31,923	7,810	39,733
Billing and collection	270,075	67,755	337,830
Bad debts	1,963	-	1,963
Total	303,961	75,565	379,526

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
SUPPLEMENTARY INFORMATION
SCHEDULE OF OPERATING REVENUES AND EXPENSES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

	Electric	Water	Total
OPERATING EXPENSES - CONTINUED			
General and administrative			
Salaries	$ 717,476	$ 167,573	$ 885,049
Employee pensions and benefits	1,694,375	286,017	1,980,392
Dues	118,544	40,477	159,021
Office supplies and billing expense	70,516	24,162	94,678
Office utilities and maintenance	28,610	9,012	37,622
Consulting fees	115,129	3,451	118,580
Legal and audit	40,757	8,863	49,620
Environmental compliance	21,249	-	21,249
Conservation improvement project	110,839	8,941	119,780
Insurance	154,982	23,358	178,340
Telephone	22,704	5,835	28,539
Advertising	1,776	3,087	4,863
Education and meetings	131,924	19,296	151,220
Miscellaneous	25,473	7,065	32,538
Total	3,254,354	607,137	3,861,491
TOTAL OPERATING EXPENSES	31,826,599	2,474,141	34,300,740
OPERATING INCOME (LOSS)	2,637,797	(300,620)	2,337,177
NONOPERATING REVENUES (EXPENSES)			
Interest income	90,804	24,917	115,721
Miscellaneous revenue	281,702	196,700	478,402
Interest expense and other	(198,194)	(57,986)	(256,180)
Gain (loss) on sale of capital assets	(80,126)	1,050	(79,076)
Bond issuance costs	(85,195)	-	(85,195)
TOTAL NONOPERATING REVENUES (EXPENSES)	8,991	164,681	173,672
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	2,646,788	(135,939)	2,510,849
CAPITAL CONTRIBUTIONS -			
DEVELOPER INFRASTRUCTURE AND CONNECTION FEES	-	358,684	358,684
CONTRIBUTION OF ASSETS FROM CITY	-	73,002	73,002
TRANSFERS FROM OTHER CITY FUNDS	-	300,000	300,000
TRANSFERS TO OTHER CITY FUNDS	(1,089,287)	-	(1,089,287)
TOTAL CONTRIBUTIONS AND TRANSFERS	(1,089,287)	731,686	(357,601)
CHANGE IN NET POSITION BEFORE SPECIAL ITEM	1,557,501	595,747	2,153,248
SPECIAL ITEM	330,923	-	330,923
CHANGE IN NET POSITION	1,888,424	595,747	2,484,171
NET POSITION, JANUARY 1	32,635,676	23,250,202	55,885,878
PRIOR PERIOD ADJUSTMENT (NOTE 7)	-	(175,091)	(175,091)
NET POSITION, DECEMBER 31	$ 34,524,100	$ 23,670,858	$ 58,194,958

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
ELECTRIC FUND
SUMMARY OF OPERATIONS AND UNAUDITED STATISTICS
FOR THE YEARS ENDED DECEMBER 31, 2008 THROUGH DECEMBER 31, 2016

SUMMARY OF OPERATIONS

	2008	2009	2010	2011
OPERATING REVENUES				
Sales of electricity	$ 22,303,994	$ 23,591,485	$ 26,060,301	$ 27,894,341
Other operating revenues (expenses)	637,909	636,258	732,261	689,645
TOTAL OPERATING REVENUES	22,941,903	24,227,743	26,792,562	28,583,986
OPERATING EXPENSES				
Purchased power	14,778,270	16,161,444	18,373,386	19,604,951
Distribution	2,162,797	1,937,096	1,892,212	1,960,742
Services to the City	409,222	428,508	434,415	474,934
Depreciation	2,057,851	2,126,794	2,062,942	2,041,717
Other operating expenses	2,196,770	2,272,917	2,399,236	2,350,706
TOTAL OPERATING EXPENSES	21,604,910	22,926,759	25,162,191	26,433,050
OPERATING INCOME	1,336,993	1,300,984	1,630,371	2,150,936
TRANSFERS FROM OTHER CITY FUNDS	-	-	53,741	-
TRANSFERS TO OTHER CITY FUNDS	(540,636)	(585,141)	(657,086)	(711,415)
SPECIAL ITEM	-	-	-	-
NONOPERATING REVENUES	249,022	(146,352)	(154,956)	(105,604)
NET INCOME	$ 1,045,379	$ 569,491	$ 872,070	$ 1,333,917
PERCENT OF CHANGE				
Sales of electricity	16.380%	5.772%	10.465%	7.038%
Purchased power	21.372%	9.360%	13.687%	6.703%
PERCENT OF REVENUES				
Purchased power	64.416%	66.706%	68.576%	68.587%

UNAUDITED STATISTICS

MISCELLANEOUS

	2008	2009	2010	2011
KWh's purchased	241,837,173	247,595,137	264,642,834	276,026,892
KWh's sold	224,226,048	232,772,722	250,711,834	261,235,297
Line loss	17,611,125	14,822,415	13,931,000	14,791,595
Percent of line loss	7.282%	5.987%	5.264%	5.359%
REVENUES PER KWh SOLD	$ 0.0995	$ 0.1013	$ 0.1039	$ 0.1068
COST PER KWh PURCHASED	$ 0.0611	$ 0.0653	$ 0.0694	$ 0.0710
NUMBER OF CUSTOMERS	9,203	9,170	9,207	9,227
TOTAL CONTRIBUTION/TRANSFERS TO CITY	$ 540,636	$ 585,141	$ 657,086	$ 711,415

	2012	2013	2014	2015	2016
	$ 30,070,045	$ 30,978,790	$ 31,514,246	$ 32,704,279	$ 34,569,098
	188,645	(132,411)	(147,561)	(152,557)	(104,702)
	30,258,690	30,846,379	31,366,685	32,551,722	34,464,396
	20,499,773	21,254,950	21,994,652	22,034,307	23,991,069
	1,909,845	1,970,341	2,161,352	2,330,969	2,041,810
	481,907	498,146	530,340	520,727	230,312
	2,099,594	2,029,496	1,914,062	1,922,359	2,005,093
	2,359,193	2,374,959	2,791,717	3,087,792	3,558,315
	27,350,312	28,127,892	29,392,123	29,896,154	31,826,599
	2,908,378	2,718,487	1,974,562	2,655,568	2,637,797
	-	-	-	-	-
	(816,864)	(781,162)	(797,835)	(824,743)	(1,089,287)
	-	-	-	-	330,923
	28,531	(30,658)	152,375	267,243	8,991
	$ 2,120,045	$ 1,906,667	$ 1,329,102	$ 2,098,068	$ 1,888,424
	7.800%	3.022%	1.728%	3.776%	5.702%
	4.564%	3.684%	3.480%	0.180%	8.881%
	67.748%	68.906%	70.121%	67.690%	69.611%

	2012	2013	2014	2015	2016
	287,553,108	290,025,919	288,320,724	294,441,957	311,990,595
	273,455,846	273,945,354	274,546,059	282,265,268	305,337,641
	14,097,262	16,080,565	13,774,665	12,176,689	6,652,954
	4.902%	5.545%	4.778%	4.136%	2.132%
	$ 0.1100	$ 0.1131	$ 0.1148	$ 0.1159	$ 0.1132
	$ 0.0713	$ 0.0733	$ 0.0763	$ 0.0748	$ 0.0769
	9,285	9,358	9,449	10,499	10,816
	$ 816,864	$ 781,162	$ 797,835	$ 824,743	$ 1,089,287

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
WATER FUND
SUMMARY OF OPERATIONS AND UNAUDITED STATISTICS
FOR THE YEARS ENDED DECEMBER 31, 2008 THROUGH DECEMBER 31, 2016

SUMMARY OF OPERATIONS

	2008	2009	2010	2011
OPERATING REVENUES				
Sales of water	$ 2,130,124	$ 2,206,429	$ 1,913,661	$ 1,832,817
OPERATING EXPENSES				
Operating expenses less depreciation	1,185,413	1,102,437	989,736	1,008,562
Services to City	-	-	-	-
Depreciation	974,848	956,993	955,323	980,197
TOTAL OPERATING EXPENSES	2,160,261	2,059,430	1,945,059	1,988,759
TOTAL OPERATING INCOME (LOSS)	$ (30,137)	$ 146,999	$ (31,398)	$ (155,942)
PERCENT OF CHANGE				
Sales of water	0.80%	3.58%	(13.27%)	(4.22%)

UNAUDITED STATISTICS
MISCELLANEOUS

	2008	2009	2010	2011
WATER PUMPED (gallons)	854,133,000	782,951,000	686,289,000	651,907,000
WATER SOLD (gallons)	727,029,000	708,286,000	627,209,000	599,701,000
Percent of line loss	14.88%	9.54%	8.61%	8.01%
Revenues per 1,000 gallons pumped	$ 2.48	$ 2.81	$ 2.79	$ 2.81
Revenues per 1,000 gallons sold	$ 2.93	$ 3.12	$ 3.05	$ 3.06
Number of customers	4,508	4,467	4,511	4,515

WATER SUPPLIER SERVICES

	2008	2009	2010	2011
Flushing hydrants	30,000,000	33,000,000	35,000,000	34,000,000
Back washing	8,400,000	8,400,000	9,000,000	8,000,000
Fire department use	5,000,000	1,000,000	3,000,000	4,000,000
New water main disinfectant and flushing	2,000,000	2,000,000	3,000,000	4,000,000
Flushing seasonal well	-	-	4,000,000	-
Meter inaccuracy	-	1,300,000	-	-
Street and Sewer Maintenance	-	-	-	-
Water tower paint and clean/maintenance	-	-	-	2,000,000
Well maintenance	-	-	-	-
Water line and irrigation leaks	-	-	-	-
Frozen pipes bursting in abandoned homes	25,000,000	27,000,000	5,000,000	-
Water Supplier Services	70,400,000	72,700,000	59,000,000	52,000,000

2012		2013		2014		2015		2016
$	2,265,142	$	2,278,124	$	2,148,327	$	2,202,537	$	2,173,521
	1,130,965		1,210,797		1,267,019		1,277,466		1,325,831
	-		-		-		5,719		-
	1,028,593		1,032,442		1,083,770		1,131,110		1,148,310
	2,159,558		2,243,239		2,350,789		2,414,295		2,474,141
$	105,584	$	34,885	$	(202,462)	$	(211,758)	$	(300,620)
	23.59%		0.57%		(5.70%)		2.52%		(1.32%)

2012		2013		2014		2015		2016
	847,283,200		785,377,000		782,110,000		799,974,000		801,603,000
	727,912,000		709,760,000		672,760,000		676,842,000		666,656,000
	14.09%		9.63%		13.98%		15.39%		16.83%
$	2.67	$	2.90	$	2.75	$	2.75	$	2.71
$	3.11	$	3.21	$	3.19	$	3.25	$	3.26
	4,542		4,613		4,676		4,672		4,903

Gallons				
2012	2013	2014	2015	2016
46,400,000	45,000,000	47,000,000	45,000,000	46,816,000
30,000,000	8,000,000	3,922,000	4,000,000	4,430,000
16,500,000	5,000,000	5,000,000	5,000,000	5,000,000
9,000,000	5,000,000	5,000,000	5,000,000	5,000,000
3,600,000	-	-	-	-
6,500,000	3,000,000	3,000,000	-	-
-	617,000	1,000,000	473,400	1,800,000
-	2,000,000	1,000,000	3,700,000	4,000,000
-	-	-	700,000	7,358,000
7,000,000	7,000,000	7,000,000	-	-
-	-	-	-	-
119,000,000	75,617,000	72,922,000	63,873,400	74,404,000

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OTHER REPORT

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2016

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ABDO EICK & MEYERS LLP
Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT
ON MINNESOTA LEGAL COMPLIANCE

Public Utilities Commission
Elk River Municipal Utilities
Elk River, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Elk River Municipal Utilities (the Utilities) of the City of Elk River, Minnesota (the City) as of and for the year ended December 31, 2016, and the related notes to the financial statements, and have issued our report thereon dated March 30, 2017.

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minnesota Statute §6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because the Utilities has not established a tax increment financing district.

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

This report is intended solely for the information and use of the Public Utilities Commission, City Council, management and the Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Abdo Eick & Meyers, LLP

ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
March 30, 2017

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