

Annual Financial Report

Elk River Municipal Utilities

Elk River, Minnesota

For the Year Ended
December 31, 2017

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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, 2017

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Elk River Municipal Utilities
Elk River, Minnesota
Public Utilities Commission and Administration
For the Year Ended December 31, 2017

COMMISSION

Name	Title
John Dietz	Chairperson
Allan Nadeau	Commissioner
Daryl Thompson	Vice-Chairperson
Mary Stewart	Commissioner
Matt Westgaard	Commissioner

ADMINISTRATION

Name	Title
Troy Adams	General Manager
Theresa Slominski	Finance and Office Manager
Eric Volk	Water Superintendent
Mark Fuchs	Line Superintendent
Mike Tietz	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, 2017

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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, 2017, 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, 2017, 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.

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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, 2017, 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.

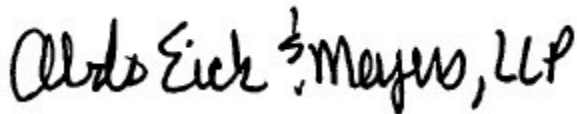
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis Page 15 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 50 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
Minneapolis, Minnesota
March 28, 2018

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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, 2017. 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 \$60,692,325 (net position). Net Position increased by \$2,497,367 or 4.3 percent. The increase is mainly due to revenues in excess of expenses during the year.
- The Utilities' cash balance at the close of the current fiscal year was \$19,138,762.
- Electric usage overall was up an average of 4.0 percent. Residential usage increased 2.4 percent, Commercial usage increased 11.2 percent, and Industrial usage increased 3.7 percent.
- Water usage overall was up an average of 4.4 percent from the prior year. Residential usage increased 8.0 percent, and Commercial usage increased 1.3 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 22 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 \$2,497,367 to \$60,692,325 in fiscal 2017 up from \$58,194,958 in fiscal 2016.

TABLE A-1
Condensed Statement of Net Position

	2017	2016	Increase (Decrease)
Assets			
Current and other	\$ 24,002,032	\$ 23,328,553	\$ 673,479
Capital	60,450,880	59,150,780	1,300,100
Total Assets	<u>84,452,912</u>	<u>82,479,333</u>	<u>1,973,579</u>
Total Deferred Outflows of Resources	<u>1,094,877</u>	<u>1,685,181</u>	<u>(590,304)</u>
Liabilities			
Current	6,823,820	6,355,909	467,911
Non-current	17,254,683	19,156,552	(1,901,869)
Total liabilities	<u>24,078,503</u>	<u>25,512,461</u>	<u>(1,433,958)</u>
Total Deferred Inflows of Resources	<u>776,961</u>	<u>457,095</u>	<u>319,866</u>
Net Position			
Net investment in capital assets	45,755,479	43,266,893	2,488,586
Restricted for debt service	997,660	997,660	-
Unrestricted	<u>13,939,186</u>	<u>13,930,405</u>	<u>8,781</u>
Total Net Position	<u>\$ 60,692,325</u>	<u>\$ 58,194,958</u>	<u>\$ 2,497,367</u>

Water and Electric Rates. Electric - The latest increase in the Utilities' electric rates was effective January 2018. The monthly base charges are based upon the type of service. The monthly charges are \$13.50 for residential, \$26.00 for commercial, and \$75.00 for industrial customers. In addition to the base charges the residential rate is \$.1370/kWh for May-September usage, and \$.1215/kWh for October-April usage; the commercial rate is \$.1314/kWh for May-September, and \$.1095/kWh for October-April; the industrial rate is \$.0667/kWh energy charge year round with a demand charge of \$17.00/KW May-September, and \$12.00/KW for October-April.

Water - The Utilities' latest increase in residential and commercial rates was effective January 2018. The monthly base charge for residential customers is \$9.04 per month. In addition to the base charge, the Utilities currently charges its residential customers \$1.81 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 \$10.84 to \$114.52. An irrigation meter is \$19.29 per month. There is also a charge per 1,000 gallons, the same tiers as the residential rates of \$1.81, \$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 minimum deposit of \$1,000 for demand customers. 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 and held by ERMU as a cash deposit.

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 \$2,497,367 in fiscal 2017. 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

	2017	2016	Increase (Decrease)
Revenues			
Operating	\$ 38,447,069	\$ 36,637,917	\$ 1,809,152
Nonoperating	700,321	594,123	106,198
Total Revenues	<u>39,147,390</u>	<u>37,232,040</u>	<u>1,915,350</u>
Expenses			
Operating	36,200,460	34,300,740	1,899,720
Nonoperating	344,573	420,451	(75,878)
Total Expenses	<u>36,545,033</u>	<u>34,721,191</u>	<u>1,823,842</u>
Income Before Contributions and Operating Transfers	2,602,357	2,510,849	91,508
Capital Contributions - Developer Infrastructure and Connection Fees	799,223	358,684	440,539
Capital Contributions of Asset From City	-	73,002	(73,002)
Grants	40,000	-	40,000
Contribution from Customers	169,051	-	169,051
Transfers From Other City Funds	-	300,000	(300,000)
Transfers to Other City Funds	<u>(1,113,264)</u>	<u>(1,089,287)</u>	<u>(23,977)</u>
Change in Net Position Before Special Item	2,497,367	2,153,248	344,119
Special Item	<u>-</u>	<u>330,923</u>	<u>(330,923)</u>
Change in Net Position	2,497,367	2,484,171	13,196
Net Position, January 1	58,194,958	55,885,878	2,309,080
Prior Period Adjustment	<u>-</u>	<u>(175,091)</u>	<u>175,091</u>
Net Position, December 31	<u>\$ 60,692,325</u>	<u>\$ 58,194,958</u>	<u>\$ 2,497,367</u>

Revenues. Table A-2 shows that operating revenue increased by 4.9 percent in 2017 for the Electric and Water Departments combined. The Electric Department operating revenue was impacted partly by the territory acquisition in September 2017 adding approximately 480 customers, and also impacted by increased construction activity resulting in new customers.

Nonoperating revenue is comprised of transmission rebate revenue in the Electric Department, and water tower lease revenue in the Water Department. 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 2017, rebates received from our 2015 filings were approximately \$11,000 per month. The Water Department is receiving lease revenue from Sprint and Verizon for antennas on the water towers. In 2017 this amount was approximately \$209,000, and will continue for the duration of the multi-year contracts.

Both Electric and Water Department other revenues were greatly impacted with an increase in new construction activity. Water Connection Fees increased approximately \$400,000 over the prior year as a result. Non-recurring items in 2016 were the sale of the security business line for a net amount of approximately \$331,000 and a transfer from the City for water main construction of \$300,000.

Total Expenses. In reviewing total expenses in Table A-2 you will notice that there was an increase of 5.5 percent overall, with the electric department increasing 4.4 percent, and the water department increasing 0.9 percent. Purchased Power is the biggest electric department expense and it was up 5.8 percent.

Capital Assets and Debt Administration

Capital Assets. The Utilities' investment in capital assets for its business-type activities as of December 31, 2017 amounts to \$60,450,880 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements and equipment. A table summarizing the balances by fund follows:

	2017	2016	Increase (Decrease)
Land	\$ 678,921	\$ 444,435	\$ 234,486
Intangible	10,375,677	9,804,951	570,726
Land Improvements	6,129	7,065	(936)
Buildings	1,931,083	2,129,112	(198,029)
Machinery and Equipment	1,598,194	1,671,535	(73,341)
Infrastructure	45,124,004	43,875,332	1,248,672
Construction in Progress	736,872	1,218,350	(481,478)
Total	\$ 60,450,880	\$ 59,150,780	\$ 1,300,100

The total increase in the Utilities' investment in capital assets for the current fiscal year was 2.2 percent.

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

- The Electric Department acquired additional territory that included approximately 480 customers, increasing Infrastructure.
- The Electric Department makes a loss of revenue payment as part of the cost of the territory acquisition, increasing Intangibles.
- Construction in progress decreased as projects started in the previous year were completed in 2017.

Additional information on the Utilities' capital assets can be found in Note 2B starting on page 36 of this report.

Long-term Debt. At year end, the Utilities had \$14,738,566 in long-term debt which decreased from \$15,935,407 in fiscal 2016. The decrease is mainly due to regularly scheduled principal payments. More detailed information about the Utilities' long-term liabilities can be found in Note 2C starting on page 37 and below:

	2017	2016	Increase (Decrease)
G.O. Revenue Bonds	\$ 1,910,000	\$ 2,230,000	\$ (320,000)
Revenue Bonds	11,325,000	11,955,000	(630,000)
Unamortized Premium on Bonds	484,706	536,331	(51,625)
Promissory Note	1,018,860	1,214,076	(195,216)
Total	\$ 14,738,566	\$ 15,935,407	\$ (1,196,841)

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, 2017

Elk River Municipal Utilities

Elk River, Minnesota
Statement of Net Position
December 31, 2017

	Electric	Water	Total
Assets			
Current Assets			
Cash and temporary investments	\$ 12,806,032	\$ 5,335,070	\$ 18,141,102
Receivables			
Accrued interest	6,668	1,667	8,335
Accounts, net of allowance	3,259,576	109,579	3,369,155
Special assessments	2,982	67,618	70,600
Other receivables	68,732	15,596	84,328
Due from other City funds	10,875	129,349	140,224
Inventories	949,694	16,276	965,970
Prepaid expenses	192,083	32,575	224,658
Total Current Assets	17,296,642	5,707,730	23,004,372
Capital Assets			
Land	519,090	159,831	678,921
Intangible	10,375,677	-	10,375,677
Land improvements	23,389	-	23,389
Buildings	2,999,362	850,241	3,849,603
Equipment and machinery	3,265,761	457,148	3,722,909
Infrastructure	47,487,089	35,655,825	83,142,914
Construction in progress	672,161	64,711	736,872
Capital Assets, Cost	65,342,529	37,187,756	102,530,285
Less Accumulated Depreciation	(25,640,860)	(16,438,545)	(42,079,405)
Total Capital Assets, Net	39,701,669	20,749,211	60,450,880
Other Assets			
Restricted cash	997,660	-	997,660
Total Assets	57,995,971	26,456,941	84,452,912
Deferred Outflows of Resources			
Deferred charges on refunding	34,532	8,633	43,165
Deferred pension resources	881,867	169,845	1,051,712
Total Deferred Outflows of Resources	916,399	178,478	1,094,877

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, 2017

	Electric	Water	Total
Current Liabilities			
Accounts payable	\$ 3,098,700	\$ 47,026	\$ 3,145,726
Salaries and benefits payable	101,571	14,563	116,134
Accrued interest payable	137,744	20,360	158,104
Due to other City funds	790,458	27,164	817,622
Due to other governments	163,029	2,002	165,031
Customer deposits payable	869,401	108,675	978,076
Unearned revenue	-	93,336	93,336
Compensated absences - current portion	150,335	26,204	176,539
Notes payable - current portion	198,252	-	198,252
Bonds payable - current portion	720,000	255,000	975,000
Total Current Liabilities	<u>6,229,490</u>	<u>594,330</u>	<u>6,823,820</u>
Non-current Liabilities			
Net other postemployment benefits liability	77,143	1,394	78,537
Compensated absences - less current portion	142,346	21,162	163,508
Notes payable - less current portion	820,608	-	820,608
Bonds payable, net - less current portion	11,609,422	1,135,284	12,744,706
Pension liability	2,890,601	556,723	3,447,324
Total Non-current Liabilities	<u>15,540,120</u>	<u>1,714,563</u>	<u>17,254,683</u>
Total Liabilities	<u>21,769,610</u>	<u>2,308,893</u>	<u>24,078,503</u>
Deferred Inflows of Resources			
Deferred pension resources	651,486	125,475	776,961
Net Position			
Net investment in capital assets	26,387,919	19,367,560	45,755,479
Restricted for debt service	997,660	-	997,660
Unrestricted	9,105,695	4,833,491	13,939,186
Total Net Position	<u>\$ 36,491,274</u>	<u>\$ 24,201,051</u>	<u>\$ 60,692,325</u>

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, 2017

	Electric	Water	Total
Operating Revenues			
Charges for services	\$ 35,373,472	\$ 2,252,751	\$ 37,626,223
LFG project	1,084,589	-	1,084,589
Generation credit	(814,341)	-	(814,341)
Connection maintenance	234,365	54,231	288,596
Customer penalties	242,739	19,263	262,002
Total Operating Revenues	<u>36,120,824</u>	<u>2,326,245</u>	<u>38,447,069</u>
Operating Expenses			
Purchased power	25,402,576	-	25,402,576
Production	873,651	500,390	1,374,041
Distribution	1,511,612	154,675	1,666,287
Depreciation	2,046,935	1,191,894	3,238,829
Customer accounts	469,412	62,690	532,102
General and administrative	3,090,285	896,340	3,986,625
Total Operating Expenses	<u>33,394,471</u>	<u>2,805,989</u>	<u>36,200,460</u>
Operating Income (Loss)	<u>2,726,353</u>	<u>(479,744)</u>	<u>2,246,609</u>
Nonoperating Revenues (Expenses)			
Interest income	79,543	31,314	110,857
Miscellaneous revenue	344,558	227,406	571,964
Interest expense and other	(294,219)	(50,354)	(344,573)
Gain on sale of capital assets	15,152	2,348	17,500
Total Nonoperating Revenues (Expenses)	<u>145,034</u>	<u>210,714</u>	<u>355,748</u>
Income (Loss) before Contributions and Transfers	<u>2,871,387</u>	<u>(269,030)</u>	<u>2,602,357</u>
Capital Contributions -			
Connection Fees	-	799,223	799,223
Grants	40,000	-	40,000
Contribution of Assets from City	169,051	-	169,051
Transfers to Other City Funds	(1,113,264)	-	(1,113,264)
Total Contributions and Transfers	<u>(904,213)</u>	<u>799,223</u>	<u>(104,990)</u>
Change in Net Position	1,967,174	530,193	2,497,367
Net Position, January 1	<u>34,524,100</u>	<u>23,670,858</u>	<u>58,194,958</u>
Net Position, December 31	<u>\$ 36,491,274</u>	<u>\$ 24,201,051</u>	<u>\$ 60,692,325</u>

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, 2017

	Electric	Water	Total
Cash Flows from Operating Activities			
Receipts from customers and users	\$ 35,680,481	\$ 2,325,049	\$ 38,005,530
Other operating cash receipts	332,851	219,519	552,370
Payments to suppliers	(28,749,027)	(884,758)	(29,633,785)
Payments to employees	(2,473,566)	(547,498)	(3,021,064)
Net Cash Provided by Operating Activities	4,790,739	1,112,312	5,903,051
Cash Flows from Noncapital Financing Activities			
Transfers to City	(1,113,264)	-	(1,113,264)
(Increase) decrease in due from other City funds	(459)	299,940	299,481
Increase in due to other City funds	34,919	3,568	38,487
Net Cash Provided (Used) by Noncapital Financing Activities	(1,078,804)	303,508	(775,296)
Cash Flows from Capital and Related Financing Activities			
Acquisition of capital assets	(3,423,737)	(877,420)	(4,301,157)
Proceeds from sale of capital assets	15,152	7,448	22,600
Proceeds from connection fees	-	799,223	799,223
Principal payments on revenue bonds	(706,000)	(244,000)	(950,000)
Interest paid on revenue bonds	(356,558)	(52,750)	(409,308)
Principal payments on promissory note	(195,216)	-	(195,216)
Net Cash Used by Capital and Related Financing Activities	(4,666,359)	(367,499)	(5,033,858)
Cash Flows from Investing Activities			
Interest on investments	77,425	30,785	108,210
Net Increase (Decrease) in Cash and Cash Equivalents	(876,999)	1,079,106	202,107
Cash and Cash Equivalents, January 1	14,680,691	4,255,964	18,936,655
Cash and Cash Equivalents, December 31	\$ 13,803,692	\$ 5,335,070	\$ 19,138,762
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position			
Cash and temporary investments	\$ 12,806,032	\$ 5,335,070	\$ 18,141,102
Restricted cash	997,660	-	997,660
Total Cash and Cash Equivalents	\$ 13,803,692	\$ 5,335,070	\$ 19,138,762

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, 2017

	Electric	Water	Total
Reconciliation of Operating Income (Loss) to			
Net Cash Provided by Operating Activities			
Operating income (loss)	\$ 2,726,353	\$ (479,744)	\$ 2,246,609
Adjustments to reconcile operating income (loss)			
to net cash provided by operating activities			
Other revenue related to operations	344,558	227,406	571,964
Bad debt expense	(2,280)	366	(1,914)
Depreciation	2,046,935	1,191,894	3,238,829
(Increase) decrease in assets/deferred outflows:			
Accounts receivable	(582,741)	(16,656)	(599,397)
Other receivables	(11,707)	(7,887)	(19,594)
Special assessments receivable	(1,358)	12,881	11,523
Inventories	(156,314)	(3,272)	(159,586)
Prepaid expenses	5,356	(4,594)	762
Deferred pension resources	603,156	(21,207)	581,949
Increase (decrease) in liabilities/deferred inflows:			
Accounts payable	256,717	(60,303)	196,414
Salaries and benefits payable	927	(920)	7
Net other postemployment benefits liability	6,598	1,394	7,992
Unearned revenue	(875)	3,590	2,715
Compensated absences payable	(16,326)	5,174	(11,152)
Due to other governments	49,951	(123)	49,828
Customer deposits payable	144,631	(1,011)	143,620
Net pension liability	(858,822)	181,438	(677,384)
Deferred pension resources	235,980	83,886	319,866
	<u>\$ 4,790,739</u>	<u>\$ 1,112,312</u>	<u>\$ 5,903,051</u>
Net Cash Provided by Operating Activities			
Noncash Capital and			
Related Financing Activities			
Amortization of Bond Premium	<u>\$ 50,796</u>	<u>\$ 829</u>	<u>\$ 51,625</u>
Amortization of Deferred Charges on Refunding	<u>\$ 6,684</u>	<u>\$ 1,671</u>	<u>\$ 8,355</u>
Disposal of Capital Assets	<u>\$ 45,880</u>	<u>\$ 30,452</u>	<u>\$ 76,332</u>
Capital Assets Purchased on Account	<u>\$ 570,725</u>	<u>\$ -</u>	<u>\$ 570,725</u>
Contribution of Capital Assets	<u>\$ 209,051</u>	<u>\$ -</u>	<u>\$ 209,051</u>

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

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Elk River Municipal Utilities
Elk River, Minnesota
Notes to the Financial Statements
December 31, 2017

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 its 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.

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.

Elk River Municipal Utilities
Elk River, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 1: Summary of Significant Accounting Policies (Continued)

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.

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.

Elk River Municipal Utilities
 Elk River, Minnesota
 Notes to the Financial Statements
 December 31, 2017

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 35 and are valued using a matrix pricing model (Level 2 inputs).

The Utility has the following recurring fair value measurements as of December 31, 2017:

- Negotiable certificates of deposit of \$3,579,824 are valued using a matrix pricing model (Level 2 inputs)

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.

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, 2017 is as follows:

	2017
Electric	\$ 109,845
Water	26,250
	\$ 136,095
Total	

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 and Prepaid items

Inventories of materials and supplies are recorded at average cost, using the first-in, first out (FIFO) method.

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

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. Donated capital assets are recorded at acquisition value at the date of donation.

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

Elk River Municipal Utilities
 Elk River, Minnesota
 Notes to the Financial Statements
 December 31, 2017

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:

Description	Lives in Years	
	Electric	Water
Production	4 - 20	25 - 50
Transmission	30	0
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.

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, 2017.

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.

Elk River Municipal Utilities
Elk River, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 1: Summary of Significant Accounting Policies (Continued)

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.

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.

Elk River Municipal Utilities
Elk River, Minnesota
Notes to the Financial Statements
December 31, 2017

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 or bonds, with the exception of irrevocable standby letters of credit issued by Federal Home Loan Banks as this type of collateral only requires collateral pledged equal to 100 percent of the deposits not covered by insurance or bonds.

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, 2017, the Utilities' carrying amount of deposits was \$15,528,074 and the bank balance was \$15,509,476. Of the bank balance \$342,946 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.

Elk River Municipal Utilities
Elk River, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 2: Detailed Notes on All Funds (continued)

Investments

The Utilities' investment balances were as follows for December 31, 2017:

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	\$ 30,064			
Non-pooled Investments						
Negotiable certificates of deposits	N/A	less than 6 months	1,464,627	\$ -	\$ 1,464,627	\$ -
Negotiable certificates of deposits	N/A	6 months to 1 year	726,425	-	726,425	-
Negotiable certificates of deposits	N/A	1 to 3 years	1,388,772	-	1,388,772	-
Total Non-pooled Investments			<u>3,579,824</u>	-	<u>3,579,824</u>	-
Total Investments			<u>\$ 3,609,888</u>	<u>\$ -</u>	<u>\$ 3,579,824</u>	<u>\$ -</u>

(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:

	2017
Deposits	\$ 15,528,074
Investments	3,609,888
Cash on Hand	<u>800</u>
Total	<u>\$ 19,138,762</u>
Cash and Temporary Investments	
Unrestricted	\$ 18,141,102
Restricted	<u>997,660</u>
Total	<u>\$ 19,138,762</u>

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 30 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.

Elk River Municipal Utilities
Elk River, Minnesota
Notes to the Financial Statements
December 31, 2017

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, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets not being Depreciated				
Land	\$ 444,435	\$ 234,486	\$ -	\$ 678,921
Intangible	9,804,951	570,726	-	10,375,677
Construction in progress	1,218,350	4,196,615	(4,678,093)	736,872
Total Capital Assets not being Depreciated	<u>11,467,736</u>	<u>5,001,827</u>	<u>(4,678,093)</u>	<u>11,791,470</u>
Capital Assets being Depreciated				
Land improvements	23,389	-	-	23,389
Buildings	3,932,733	136,764	(219,894)	3,849,603
Machinery and equipment	3,581,095	204,365	(62,551)	3,722,909
Infrastructure	79,057,635	4,094,021	(8,742)	83,142,914
Total Capital Assets being Depreciated	<u>86,594,852</u>	<u>4,435,150</u>	<u>(291,187)</u>	<u>90,738,815</u>
Less Accumulated Depreciation for				
Land improvements	(16,324)	(936)	-	(17,260)
Buildings	(1,803,621)	(119,938)	5,039	(1,918,520)
Machinery and equipment	(1,909,560)	(277,706)	62,551	(2,124,715)
Infrastructure	(35,182,303)	(2,840,249)	3,642	(38,018,910)
Total Accumulated Depreciation	<u>(38,911,808)</u>	<u>(3,238,829)</u>	<u>71,232</u>	<u>(42,079,405)</u>
Total Capital Assets being Depreciated, Net	<u>47,683,044</u>	<u>1,196,321</u>	<u>(219,955)</u>	<u>48,659,410</u>
Business-type Activities Capital Assets, Net	<u>\$ 59,150,780</u>	<u>\$ 6,198,148</u>	<u>\$ (4,898,048)</u>	<u>\$ 60,450,880</u>

Elk River Municipal Utilities
Elk River, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 2: Detailed Notes on All Funds (Continued)

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

	2017
Business-type Activities	
Electric	\$ 2,046,935
Water	1,191,894
 Total Depreciation Expense - Business-type Activities	 \$ 3,238,829

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	\$ 1,255,000
G.O. Capital Improvement					
Plan Bonds of 2010A	1,265,000	2.00 - 4.00	04/21/10	08/01/23	655,000
 Total G.O. Revenue Bonds					 \$ 1,910,000

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

Year Ending December 31,	Principal	Interest	Total
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	385,000	12,228	397,228
2023	125,000	2,500	127,500
 Total	 \$ 1,910,000	\$ 196,434	\$ 2,106,434

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 2017, 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 \$98,100 and \$36,120,824, respectively.

In 2017, annual principal and interest payment on the bonds required about 12.8% percent of revenues from the Water fund. The principal and interest paid and total customer revenues for the Water fund were \$296,750 and \$2,326,245, respectively.

Elk River Municipal Utilities
Elk River, Minnesota
Notes to the Financial Statements
December 31, 2017

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	\$ 420,000
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	<u>1,150,000</u>
Total Revenue Bonds					<u>\$ 11,325,000</u>

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

Year Ending December 31,	Principal	Interest	Total
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	710,000	219,575	929,575
2023-2027	2,550,000	862,450	3,412,450
2028-2032	2,870,000	553,994	3,423,994
2033-2036	<u>2,575,000</u>	<u>156,956</u>	<u>2,731,956</u>
Total	<u>\$ 11,325,000</u>	<u>\$ 2,894,375</u>	<u>\$ 14,219,375</u>

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 2017, annual principal and interest payment on the bonds required about 2.7% percent of revenues from the Electric fund. Principal and interest paid and total customer revenues for the Electric fund were \$964,458 and \$36,120,824, 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	<u>\$ 1,018,860</u>

Elk River Municipal Utilities
Elk River, Minnesota
Notes to the Financial Statements
December 31, 2017

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
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	\$ 1,018,860	\$ -	\$ 1,018,860

Changes in Long-term Liabilities

Long-term liability activity for the year ended December 31, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Business-type Activities					
Bonds Payable					
General obligation					
revenue bonds	\$ 2,230,000	\$ -	\$ (320,000)	\$ 1,910,000	\$ 335,000
Revenue bonds	11,955,000	-	(630,000)	11,325,000	640,000
Unamortized premium on bonds	536,331	-	(51,625)	484,706	-
Total Bonds Payable, Net	14,721,331	-	(1,001,625)	13,719,706	975,000
Notes Payable	1,214,076	-	(195,216)	1,018,860	198,252
Compensated					
Absences Payable	351,199	271,462	(282,614)	340,047	176,539
Net Pension Liability					
GERF	4,124,708	243,070	(920,454)	3,447,324	-
OPEB Liability	70,545	10,411	(2,419)	78,537	-
Business-type Activity Long-term Liabilities	\$ 20,481,859	\$ 524,943	\$ (2,402,328)	\$ 18,604,474	\$ 1,349,791

Elk River Municipal Utilities
 Elk River, Minnesota
 Notes to the Financial Statements
 December 31, 2017

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	\$ 2,904	Franchise fee rebate
Electric	City	3,600	Supplies
Electric	City	2,615	4th quarter billings
Electric	City	<u>1,756</u>	PERA aid
Total Electric Fund Receivable From City		<u>10,875</u>	
Water	City	60	Franchise fee rebate
Water	City	439	PERA aid
Water	City	<u>128,850</u>	TIF 22 Water Access Charge
Total Water Fund Receivable From City		<u>129,349</u>	
Total Receivable From City		<u><u>\$ 140,224</u></u>	
City	Electric	\$ 82,331	Shared costs
City	Electric	8,628	Supplies
City	Electric	89,668	December transfer of 4% of revenue
City	Electric	285,145	4th quarter franchise fees
City	Electric	173,336	Billed sewer on behalf of City
City	Electric	112,864	Billed garbage on behalf of City
City	Electric	<u>38,486</u>	Billed stormwater on behalf of City
Total Electric Fund Payable to City		<u>790,458</u>	
City	Water	25,583	Shared costs
City	Water	<u>1,581</u>	Supplies
Total Water Fund Payable to City		<u>27,164</u>	
Total Payable to City		<u><u>\$ 817,622</u></u>	

The transfer out of the Electric fund was the annual transfer of 4 percent of 2017 revenues to City funds. The Electric fund transferred \$1,113,264 in 2017.

Elk River Municipal Utilities
Elk River, Minnesota
Notes to the Financial Statements
December 31, 2017

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 Utility 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 1.0 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 2017. 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 2017. The Utilities contributions to the GERF for the years ending December 31, 2017, 2016 and 2015 were \$257,780, \$244,012 and \$230,074, respectively. The Utilities contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

Elk River Municipal Utilities
Elk River, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 3: Defined Benefit Pension Plans - Statewide (Continued)

D. Pension Costs

GERF Pension Costs

At December 31, 2017, the Utilities reported a liability of \$3,447,324 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 2017. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the Utilities totaled \$43,337. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. 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, 2016 through June 30, 2017 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the Utilities proportionate share was 0.054 percent which was an increase of 0.0032 percent from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the Utilities recognized pension expense of \$222,443 for its proportionate share of GERF's pension expense. In addition, the Utilities recognized an additional \$3,240 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, 2017, 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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Expected and Actual Experience	\$ 114,606	\$ 229,078
Changes in Actuarial Assumptions	579,000	345,595
Net Difference between Projected and Actual Earnings on Plan Investments	-	148,182
Changes in Proportion	229,352	54,106
Contributions to GERF Subsequent to the Measurement Date	<u>128,754</u>	<u>-</u>
Total	<u>\$ 1,051,712</u>	<u>\$ 776,961</u>

Deferred outflows of resources totaling \$128,754 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, 2018. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

2018	\$ 28,974
2019	282,198
2020	(18,836)
2021	(146,339)

Elk River Municipal Utilities
 Elk River, Minnesota
 Notes to the Financial Statements
 December 31, 2017

Note 3: Defined Benefit Pension Plans - Statewide (Continued)

E. Actuarial Assumptions

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

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 tables for all plans for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be: 1 percent per year for the GERF through 2044 and then 2.5 percent thereafter for both plans.

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

The following changes in actuarial assumptions occurred in 2017:

GERF

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

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	39.00 %	5.10 %
International Stocks	19.00	5.30
Bonds	20.00	0.75
Alternative Assets	20.00	5.90
Cash	2.00	-
Total	100.00 %	

Elk River Municipal Utilities
 Elk River, Minnesota
 Notes to the Financial Statements
 December 31, 2017

Note 3: Defined Benefit Pension Plans - Statewide (Continued)

F. Discount Rate

The discount rate used to measure the total pension liability in 2017 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota statutes. Based on these assumptions, the fiduciary net 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	\$ 5,347,056	\$ 3,447,324

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 \$268 in 2017 for loss of revenues under this agreement. All amounts paid are included in property and equipment.

In 2015, the Utilities entered into an 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.

Elk River Municipal Utilities
Elk River, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 4: Other Information (Continued)

The Utilities acquired designated service area 1 in 2015 for \$877,807 and service area 2 in 2016 for \$663,586. Service areas 3 and 4 were acquired in 2017, for \$276,776. The loss of revenue payments made were \$411,157 in 2017, and \$570,725 in 2018. 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 2017 were \$22,050 of which \$2,067 was receivable at December 31, 2017.

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 2017, the Utility contributed \$0 to the plan. Plan members receiving benefits contribute 100 percent of their premium costs. In fiscal year 2017, total member contributions were \$0.

Elk River Municipal Utilities
Elk River, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 5: Postemployment Benefits Other Than Pensions (Continued)

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.

Annual Required Contribution	\$ 10,411
Interest on Net OPEB Obligation	2,469
Adjustment to Annual Required Contribution	<u>(3,836)</u>
 Annual OPEB Cost (Expense)	 9,044
 Contributions Made	
Implicit subsidy	<u>1,052</u>
 Increase in Net OPEB Obligation	 7,992
 Net OPEB Obligation - Beginning of Year	 <u>70,545</u>
 Net OPEB Obligation - End of Year	 <u><u>\$ 78,537</u></u>

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, 2017 and the preceding two fiscal years was as follows:

Year Ending	Three Year Trend Information			
	Annual OPEB Cost	Employer Contribution	Percentage Annual OPEB Contributed	Net OPEB Obligation
12/31/2017	\$ 9,044	\$ 1,052	12 %	78,537
12/31/2016	10,559	3,055	29	70,545
12/31/2015	10,260	2,151	21	63,041

Funded Status and Funding Progress. As of January 1, 2017, the actuarial accrued liability for benefits was \$48,766, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$3,362,758 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 1.50 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.

Elk River Municipal Utilities
Elk River, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 5: Postemployment Benefits Other Than Pensions (Continued)

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.

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 "Getzen" model published by the Society of Actuaries. A rate of 6.8 percent initially, reduced to an ultimate rate of 5.4 percent, was used.

Health Insurance Premiums - 2017 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, 2017

Based on the historical and expected returns of the Utilities' short-term investment portfolio, a discount rate of 3.5 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, 2017 was thirty years.

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REQUIRED SUPPLEMENTARY INFORMATION

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2017

Elk River Municipal Utilities
Elk River, Minnesota
Required Supplementary Information
For the Year Ended December 31, 2017

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-Employee Payroll (c)	Utilities Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employee Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/17	0.0540 %	\$ 3,447,324	\$ 43,337	\$ 3,490,661	\$ 3,478,022	99.1 %	75.9 %
06/30/16	0.0508	4,124,708	53,908	4,178,616	3,151,720	130.9	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)
12/31/17	\$ 257,780	\$ 257,780	\$ -	\$ 3,437,072	7.5 %
12/31/16	244,012	244,012	-	3,253,493	7.5
12/31/15	230,074	230,074	-	3,067,659	7.5

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

Elk River Municipal Utilities
 Elk River, Minnesota
 Required Supplementary Information (Continued)
 For the Year Ended December 31, 2017

Notes to the Required Supplementary Information - General Employee Retirement Fund

Changes in Actuarial Assumptions

2017 - The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability. The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

2016 - 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.

2015 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2030 and 2.5 percent per year thereafter to 1.0 percent per year through 2035 and 2.5 percent per year thereafter.

Changes in Plan Provisions

2015 - On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised.

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
1/1/2017	\$ -	\$ 48,766	\$ 48,766	- %	\$ 3,362,758	1.50 %
1/1/2014	-	68,948	68,948	-	2,810,413	2.50
1/1/2011	-	42,681	42,681	-	2,286,547	1.87
1/1/2008	-	56,892	56,892	-	2,300,000	2.47

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SUPPLEMENTARY INFORMATION
ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2017

Elk River Municipal Utilities
Elk River, Minnesota
Supplementary Information
Schedule of Operating Revenues and Expenses
For the Year Ended December 31, 2017

	<u>Electric</u>	<u>Water</u>	<u>Total</u>
Operating Revenues			
Charges for services			
Elk River	\$ 32,364,747	\$ 2,252,751	\$ 34,617,498
Otsego	2,598,562	-	2,598,562
Big Lake	189,750	-	189,750
Dayton	220,413	-	220,413
LFG Project	1,084,589	-	1,084,589
Generation credit	(814,341)	-	(814,341)
Connection maintenance	234,365	54,231	288,596
Customer penalties	242,739	19,263	262,002
Total Operating Revenues	<u>36,120,824</u>	<u>2,326,245</u>	<u>38,447,069</u>
Operating Expenses			
Purchased power	<u>25,402,576</u>	<u>-</u>	<u>25,402,576</u>
Production			
Supervision and labor	98,582	52,845	151,427
Natural gas	34,383	-	34,383
Supplies and power for pumping	33,593	244,944	278,537
Landfill gas expense	658,511	-	658,511
Maintenance of structures	20,750	42,917	63,667
Maintenance of equipment	22,149	159,684	181,833
Maintenance of plant	5,683	-	5,683
Total	<u>873,651</u>	<u>500,390</u>	<u>1,374,041</u>
Transmission and distribution			
Supervision and labor	36,360	9,573	45,933
Maintenance of overhead lines	422,580	-	422,580
Maintenance of underground lines	209,421	-	209,421
Maintenance of station equipment	29,089	-	29,089
Transportation	187,500	11,842	199,342
Maintenance of customer service	11,775	45,135	56,910
Maintenance of customer meters	156,880	87,758	244,638
Miscellaneous	458,007	367	458,374
Total	<u>1,511,612</u>	<u>154,675</u>	<u>1,666,287</u>
Services to City	<u>202,421</u>	<u>-</u>	<u>202,421</u>
Depreciation	<u>2,046,935</u>	<u>1,191,894</u>	<u>3,238,829</u>
Customer accounts expense			
Meter reading	27,067	9,272	36,339
Billing and collection	242,204	53,052	295,256
Bad debts	(2,280)	366	(1,914)
Total	<u>266,991</u>	<u>62,690</u>	<u>329,681</u>

Elk River Municipal Utilities
Elk River, Minnesota
Supplementary Information
Schedule of Operating Revenues and Expenses (Continued)
For the Year Ended December 31, 2017

	<u>Electric</u>	<u>Water</u>	<u>Total</u>
Operating Expenses (Continued)			
General and administrative			
Salaries	\$ 732,850	\$ 177,080	\$ 909,930
Employee pensions and benefits	1,577,287	557,765	2,135,052
Dues	86,233	39,323	125,556
Office supplies and billing expense	72,907	23,469	96,376
Office utilities and maintenance	37,749	11,158	48,907
Consulting fees	49,512	7,934	57,446
Legal and audit	54,203	11,640	65,843
Environmental compliance	24,334	-	24,334
Conservation improvement project	111,532	9,647	121,179
Insurance	146,856	24,111	170,967
Telephone	19,677	5,200	24,877
Advertising	24,111	4,620	28,731
Education and meetings	117,132	16,254	133,386
Miscellaneous	35,902	8,139	44,041
Total	<u>3,090,285</u>	<u>896,340</u>	<u>3,986,625</u>
Total Operating Expenses	<u>33,394,471</u>	<u>2,805,989</u>	<u>36,200,460</u>
Operating Income (Loss)	<u>2,726,353</u>	<u>(479,744)</u>	<u>2,246,609</u>
Nonoperating Revenues (Expenses)			
Interest income	79,543	31,314	110,857
Miscellaneous revenue	344,558	227,406	571,964
Interest expense and other	(294,219)	(50,354)	(344,573)
Gain (loss) on sale of capital assets	15,152	2,348	17,500
Total Nonoperating Revenues (Expenses)	<u>145,034</u>	<u>210,714</u>	<u>355,748</u>
Income (Loss) before Contributions and Transfers	<u>2,871,387</u>	<u>(269,030)</u>	<u>2,602,357</u>
Capital Contributions -			
Developer Infrastructure and Connection Fees	-	799,223	799,223
Grants	40,000	-	40,000
Contributions from Customers	169,051	-	169,051
Transfers to Other City Funds	(1,113,264)	-	(1,113,264)
Total Contributions and Transfers	<u>(904,213)</u>	<u>799,223</u>	<u>(104,990)</u>
Change in Net Position	1,967,174	530,193	2,497,367
Net Position, January 1	<u>34,524,100</u>	<u>23,670,858</u>	<u>58,194,958</u>
Net Position, December 31	<u>\$ 36,491,274</u>	<u>\$ 24,201,051</u>	<u>\$ 60,692,325</u>

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, 2017

Summary of Operations

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Operating Revenues				
Sales of electricity	\$ 22,303,994	\$ 23,591,485	\$ 26,060,301	\$ 27,894,341
Other operating revenues (expenses)	<u>637,909</u>	<u>636,258</u>	<u>732,261</u>	<u>689,645</u>
Total Operating Revenues	<u>22,941,903</u>	<u>24,227,743</u>	<u>26,792,562</u>	<u>28,583,986</u>
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	<u>2,196,770</u>	<u>2,272,917</u>	<u>2,399,236</u>	<u>2,350,706</u>
Total Operating Expenses	<u>21,604,910</u>	<u>22,926,759</u>	<u>25,162,191</u>	<u>26,433,050</u>
Operating Income	1,336,993	1,300,984	1,630,371	2,150,936
Capital Contributions	-	-	-	-
Transfers from Other City Funds	-	-	53,741	-
Transfers to Other City Funds	(540,636)	(585,141)	(657,086)	(711,415)
Special Item	-	-	-	-
Nonoperating Revenues	<u>249,022</u>	<u>(146,352)</u>	<u>(154,956)</u>	<u>(105,604)</u>
Net Income	<u>\$ 1,045,379</u>	<u>\$ 569,491</u>	<u>\$ 872,070</u>	<u>\$ 1,333,917</u>
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

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
kWh's purchased	241,837,173	247,595,137	264,642,834	276,026,892
kWh's sold	<u>224,226,048</u>	<u>232,772,722</u>	<u>250,711,834</u>	<u>261,235,297</u>
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	2017
\$ 30,070,045	\$ 30,978,790	\$ 31,514,246	\$ 32,704,279	\$ 34,569,098	\$ 36,458,061
188,645	(132,411)	(147,561)	(152,557)	(104,702)	(337,237)
<u>30,258,690</u>	<u>30,846,379</u>	<u>31,366,685</u>	<u>32,551,722</u>	<u>34,464,396</u>	<u>36,120,824</u>
20,499,773	21,254,950	21,994,652	22,034,307	23,991,069	25,402,576
1,909,845	1,970,341	2,161,352	2,330,969	2,041,810	2,385,263
481,907	498,146	530,340	520,727	230,312	202,421
2,099,594	2,029,496	1,914,062	1,922,359	2,005,093	2,046,935
2,359,193	2,374,959	2,791,717	3,087,792	3,558,315	3,357,276
<u>27,350,312</u>	<u>28,127,892</u>	<u>29,392,123</u>	<u>29,896,154</u>	<u>31,826,599</u>	<u>33,394,471</u>
2,908,378	2,718,487	1,974,562	2,655,568	2,637,797	2,726,353
-	-	-	-	-	209,051
-	-	-	-	-	-
(816,864)	(781,162)	(797,835)	(824,743)	(1,089,287)	(1,113,264)
-	-	-	-	330,923	-
28,531	(30,658)	152,375	267,243	8,991	145,034
<u>\$ 2,120,045</u>	<u>\$ 1,906,667</u>	<u>\$ 1,329,102</u>	<u>\$ 2,098,068</u>	<u>\$ 1,888,424</u>	<u>\$ 1,967,174</u>

7.800%	3.022%	1.728%	3.776%	5.702%	5.464%
4.564%	3.684%	3.480%	0.180%	8.881%	5.883%
67.748%	68.906%	70.121%	67.690%	69.611%	70.327%

2012	2013	2014	2015	2016	2017
287,553,108	290,025,919	288,320,724	294,441,957	311,990,595	320,349,631
273,455,846	273,945,354	274,546,059	282,265,268	305,337,641	313,952,561
<u>14,097,262</u>	<u>16,080,565</u>	<u>13,774,665</u>	<u>12,176,689</u>	<u>6,652,954</u>	<u>6,397,070</u>
4.902%	5.545%	4.778%	4.136%	2.132%	1.997%
\$ 0.1100	\$ 0.1131	\$ 0.1148	\$ 0.1159	\$ 0.1132	\$ 0.1161
\$ 0.0713	\$ 0.0733	\$ 0.0763	\$ 0.0748	\$ 0.0769	\$ 0.0793
9,285	9,358	9,449	10,499	10,816	11,448
\$ 816,864	\$ 781,162	\$ 797,835	\$ 824,743	\$ 1,089,287	\$ 1,113,264

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, 2017

Summary of Operations

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
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	<u>2,160,261</u>	<u>2,059,430</u>	<u>1,945,059</u>	<u>1,988,759</u>
Total Operating Income (Loss)	<u>\$ (30,137)</u>	<u>\$ 146,999</u>	<u>\$ (31,398)</u>	<u>\$ (155,942)</u>
Percent of Change				
Sales of water	0.80%	3.58%	(13.27%)	(4.22%)

Unaudited Statistics

Miscellaneous

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
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

	<u>Gallons</u>			
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
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	<u>70,400,000</u>	<u>72,700,000</u>	<u>59,000,000</u>	<u>52,000,000</u>

2012	2013	2014	2015	2016	2017
<u>\$ 2,265,142</u>	<u>\$ 2,278,124</u>	<u>\$ 2,148,327</u>	<u>\$ 2,202,537</u>	<u>\$ 2,173,521</u>	<u>\$ 2,326,245</u>
1,130,965	1,210,797	1,267,019	1,277,466	1,325,831	1,614,095
-	-	-	5,719	-	-
<u>1,028,593</u>	<u>1,032,442</u>	<u>1,083,770</u>	<u>1,131,110</u>	<u>1,148,310</u>	<u>1,191,894</u>
<u>2,159,558</u>	<u>2,243,239</u>	<u>2,350,789</u>	<u>2,414,295</u>	<u>2,474,141</u>	<u>2,805,989</u>
<u>\$ 105,584</u>	<u>\$ 34,885</u>	<u>\$ (202,462)</u>	<u>\$ (211,758)</u>	<u>\$ (300,620)</u>	<u>\$ (479,744)</u>
23.59%	0.57%	(5.70%)	2.52%	(1.32%)	7.03%

2012	2013	2014	2015	2016	2017
847,283,200	785,377,000	782,110,000	799,974,000	801,603,000	788,182,000
727,912,000	709,760,000	672,760,000	676,842,000	666,656,000	686,534,000
14.09%	9.63%	13.98%	15.39%	16.83%	12.90%
\$ 2.67	\$ 2.90	\$ 2.75	\$ 2.75	\$ 2.71	\$ 2.95
\$ 3.11	\$ 3.21	\$ 3.19	\$ 3.25	\$ 3.26	\$ 3.39
4,542	4,613	4,676	4,672	4,903	5,011

2012	2013	2014	2015	2016	2017
46,400,000	45,000,000	47,000,000	45,000,000	46,816,000	47,470,500
30,000,000	8,000,000	3,922,000	4,000,000	4,430,000	4,125,542
16,500,000	5,000,000	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	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	1,550,000
-	2,000,000	1,000,000	3,700,000	4,000,000	4,000,000
-	-	-	700,000	7,358,000	7,000,000
7,000,000	7,000,000	7,000,000	-	-	-
-	-	-	-	-	-
<u>119,000,000</u>	<u>75,617,000</u>	<u>72,922,000</u>	<u>63,873,400</u>	<u>74,404,000</u>	<u>74,146,042</u>

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OTHER REPORT
ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2017

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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 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, 2017, and the related notes to the financial statements, and have issued our report thereon dated March 28, 2018.

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
Minneapolis, Minnesota
March 28, 2018