Elk River Municipal Utilities

Annual Financial Report

For the Year Ended December 31, 2015

a century of service **100** YEARS a future of growth

Annual Financial Report

Elk River Utilities

Elk River, Minnesota

For the Year Ended
December 31, 2015

ABDO EICK & MEYERS LLP
Certified Public Accountants & Consultants

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ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA

ANNUAL FINANCIAL REPORT

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ELK RIVER, MINNESOTA
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ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA

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ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
PUBLIC UTILITIES COMMISSION AND ADMINISTRATION
DECEMBER 31, 2015

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

ADMINISTRATION

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

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FINANCIAL SECTION

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2015

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Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT

Public Utilities Commission
Elk River Municipal Utilities
Elk River, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the Elk River Municipal Utilities (the Utilities) of the City of Elk River, Minnesota (the City), as of and for the year ended December 31, 2015, 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 of the City as of December 31, 2015, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1B, the financial statements present only the Electric and Water enterprise funds and do not purport to, and do not present fairly the financial position of the City as of December 31, 2015, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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Other Matters

Change in Accounting Standards

As described in Note 6 to the financial statements, the Utilities adopted the provisions of Governmental Accounting Standard Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68,* for the year ended December 31, 2015. Adoption of the provisions of these statements results in significant change to the classifications of the components of the financial statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis Page 13 and the Schedule of Employer's Shares of the Net Pension Liability, the Schedule of Employer's Contributions and the Schedule of Funding Progress for Other Post-Employment Benefit Plan starting on page 48 be presented to supplement the basic financial statements. Such information, although not a part of the financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Utilities' financial statements as a whole. The introductory section and supplemental information listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the financial statements of the Utilities. The supplemental information, except for the portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole. The introductory section and the supplemental information marked "unaudited" have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Abdo Eick & Meyers, LLP

ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
March 31, 2016

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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, 2015. 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 $55,885,878 (net position). Net Position increased by $2,531,445 or 4.5 percent.

- The Utilities' cash balance at the close of the current fiscal year was $17,542,791.

- Electric usage overall was up an average of 3 percent. Residential usage increased 1.9 percent, Commercial usage increased 2.9 percent, and Industrial usage increase 3.2 percent.

- Water usage overall was up an average of less than 1 percent, at 0.61 percent from the prior year. Residential usage decreased 6 percent, and Commercial usage increased 7 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 private sector companies. These statements offer short-term and long-term financial information about its activities. The Statements of Net Position includes all of the Utilities' assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Utilities' creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Utilities and assessing the liquidity and financial flexibility of the Utilities. All of the current year's revenues and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Position. This statement measures the success of the Utilities' operations over the past year and can be used to determine whether the Utilities' has successfully recovered all its costs through its user fees and other charges, profitability, and credit worthiness. The final required financial statement is the Statements of Cash Flows. The primary purpose of this statement is to provide information about the Utilities' cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for and what was the change in the cash balance during the reporting period.

Financial Analysis of the Utilities

Our analysis of the Utilities begins on page 20 in the Financial Section. One of the most important questions asked about the Utilities' finances is "Is the Utilities as a whole better off or worse off as a result of this year's activities?" The Statements of Net Position, and the Statements 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 assets and deferred inflows increased $2,531,445 to $55,885,878 in fiscal 2015 up from $53,354,433 in fiscal 2014.

TABLE A-1
Condensed Statement of Net Position

	* 2015	2014	Increase (Decrease)
Assets			
Current and other	$ 21,848,337	$ 20,288,649	$ 1,559,688
Capital	48,151,150	48,254,028	(102,878)
Total assets	69,999,487	68,542,677	1,456,810
Total deferred outflows	360,603	67,284	293,319
Liabilities			
Current	5,408,917	5,269,454	139,463
Non-current	8,557,562	7,284,918	1,272,644
Total liabilities	13,966,479	12,554,372	1,412,107
Total deferred inflows	507,733	-	507,733
Net position			
Net investment in capital assets	41,216,712	40,218,203	998,509
Restricted for debt service	490,500	490,500	-
Unrestricted	14,178,666	15,346,886	(1,168,220)
Total net position	$ 55,885,878	$ 56,055,589	$ (169,711)

*GASB Statement No. 68 was implemented for the year ended December 31, 2015 and required a $2,701,156 restatement of beginning net position. Prior year amounts were not restated causing a variance in ending net position at December 31, 2014 and beginning net position on January 1, 2015. See financial statement Note 6.

Water and electric rates. Electric - The latest increase in the Utilities' electric rates was effective January 2015. There was no electric rate increase in 2016. The monthly base charges are based upon the type of service. The monthly charges are $12.00 for residential, $20.00 for commercial, and $60.00 for industrial customers. In addition to the base charges the residential rate is $.1360/KWh for May-September usage, and $.1205/KWh for October-April usage; the commercial rate is $.1304/KWh for May-September usage, and $.1087/KWh for October-April usage; the industrial rate is $.0649/KWh energy charge year round with a demand charge of $16.94/KW May-September, and $11.99/KW for October-April.

Water - The Utilities' latest increase in residential and commercial rates was effective January 2016. The monthly base charge for residential customers is $8.64 per month. In addition to the base charge, the Utilities currently charges its residential customers $1.72 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 $10.37 to $109.53. An irrigation meter is $46.11 for every month the meter is utilized. There is also a charge per thousand gallons, the same tiers as the residential rates of $1.72, $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 3:30pm 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 8:00am and 4:30pm 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 that identifies the guarantor of their business and the guarantor's social security number. Generally, a deposit of 2 times the estimated highest monthly bill will be required, with a minimum deposit of $250 for non-demand customers, and $1,000 for demand customers. The deposit shall be in the form of a cash deposit, or an irrevocable letter of credit. The irrevocable letter of credit will be renewed as required and failure to do so will result in a charge equal to the amount of the letter of credit applied to the monthly utility bill.

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

Statements of revenues, expenses and changes in net position. While the Statements of Net Position shows the change in financial assets/deferred outflows and liabilities/deferred inflows, the Statements of Revenues, Expenses and Changes in Net Position, provides answers as to the nature and source of these changes. As can be seen in Table A-2, revenues in excess of expenses was the main source of the increase in net position of $2,531,445 in fiscal 2015. 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

	* 2015	2014	Increase (Decrease)
Revenues			
Operating	$ 34,754,259	$ 33,515,012	$ 1,239,247
Nonoperating	576,984	494,455	82,529
Total revenues	35,331,243	34,009,467	1,321,776
Expenses			
Operating	32,310,449	31,742,912	567,537
Nonoperating	172,912	284,129	(111,217)
Total expenses	32,483,361	32,027,041	456,320
Income before contributions and operating transfers	2,847,882	1,982,426	865,456
Capital contributions - developer infrastructure and connection fees	253,934	375,329	(121,395)
Capital contributions of asset from City	189,669	175,091	14,578
Transfers from other City funds	94,703	329,490	(234,787)
Transfers to other City funds	(854,743)	(822,835)	(31,908)
Change in net position	2,531,445	2,039,501	491,944
Net position, January 1	53,354,433	54,016,088	(661,655)
Net position, December 31	$ 55,885,878	$ 56,055,589	$ (169,711)

*GASB Statement No. 68 was implemented for the year ended December 31, 2015 and required a $2,701,156 restatement of beginning net position. Prior year amounts were not restated causing a variance in ending net position at December 31, 2014 and beginning net position on January 1, 2015. See financial statement Note 6.

Revenues. Table A-2 shows that operating revenue increased by 3.7 percent in 2015 for the Electric and Water Departments combined. The Electric Department operating revenue was impacted by the territory acquisition in September and October adding approximately 800 residential customers and 130 commercial customers. The additional revenue resulting from these new customers was $314,754.

Nonoperating revenue is comprised of transmission rebate revenue in the Electric Department, and water tower lease revenue in the Water Department, as well as connection fees in both departments. Regarding transmission rebates, in 2007 the Electric Utility partnered with Midwest Municipal Transmission Group (MMTG) in order to have our transmission assets recognized in the Midwest Independent Transmission System Operator (MISO) market. In doing so, our transmission assets generate a revenue rebate, which in turn helps keep our rates down. In 2015, rebates received from our 2013 filings were approximately $5,500 per month. 2014 had a sizable catch up distribution for the Brookings transmission line, which was not repeated in 2015.The Water Department is receiving lease revenue from Sprint and Verizon for antennas on the water towers. In 2015 this amount was approximately $158,000, and will continue for the duration of the multi-year contracts.

Water Connection Fees decreased approximately $100,000, and Electric Connection Fees increased approximately $13,000. 2014 Connection Fees were higher with the resurgence in new construction as the economy had begun rebounding.

Total expenses. In reviewing total expenses in Table A-2 you will notice that there was an increase of 1.4 percent overall, with both electric and water departments having marginal increases. Purchased Power is the biggest electric department expense and it was up just under 1 percent.

Capital Assets and Debt Administration

Capital assets. The Utilities' investment in capital assets for its business-type activities as of December 31, 2015 amounts to $48,151,150 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements and equipment. A table summarizing the balances by fund follows:

	2015	2014	Increase (Decrease)
Land	$ 361,351	$ 361,303	$ 48
Land improvements	8,000	8,936	(936)
Buildings	2,015,126	2,096,195	(81,069)
Machinery and equipment	1,626,892	1,582,080	44,812
Infrastructure	43,949,775	43,389,804	559,971
Construction in progress	190,006	815,710	(625,704)
Total	$ 48,151,150	$ 48,254,028	$ (102,878)

The total decrease in the Utilities' investment in capital assets for the current fiscal year was 0.2 percent.

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

- The Electric Department acquired additional territory that included approximately 1,000 customers, increasing Infrastructure.
- Construction in progress decreased as projects started in the prior year were completed and there were not as many carryover projects for 2015.

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

Long-term debt. At year end, the Utilities had $7,369,182 in long-term debt down from $8,460,327 in fiscal 2014. More detailed information about the Utilities' long-term liabilities can be found in Note 2C starting on page 35 and below:

	2015	2014	Increase (Decrease)
G.O. revenue bonds	$ 2,535,000	$ 2,835,000	$ (300,000)
Revenue bonds	2,985,000	3,585,000	(600,000)
Unamortized premium on bonds	65,234	83,233	(17,999)
Promissory note	1,408,368	1,599,876	(191,508)
Compensated absences payable	312,539	302,286	10,253
OPEB liability	63,041	54,932	8,109
Total	$ 7,369,182	$ 8,460,327	$ (1,091,145)

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, 2015

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2015

	Electric	Water	Total
ASSETS			
CURRENT ASSETS			
Cash and temporary investments	$ 12,685,126	$ 4,367,165	$ 17,052,291
Receivables			
Accrued interest	2,445	611	3,056
Accounts, net of allowance	2,593,000	116,719	2,709,719
Special assessments	6,522	72,876	79,398
Other receivables	63,820	2,159	65,979
Due from other City funds	10,020	223,992	234,012
Inventories	991,563	14,015	1,005,578
Prepaid expenses	178,779	29,025	207,804
TOTAL CURRENT ASSETS	16,531,275	4,826,562	21,357,837
CAPITAL ASSETS			
Land	265,071	96,280	361,351
Land improvements	23,389	-	23,389
Buildings	2,883,212	821,203	3,704,415
Equipment and machinery	3,043,801	374,326	3,418,127
Infrastructure	42,756,591	33,709,666	76,466,257
Construction in progress	125,997	64,009	190,006
CAPITAL ASSETS, COST	49,098,061	35,065,484	84,163,545
LESS ACCUMULATED DEPRECIATION	(21,846,450)	(14,165,945)	(36,012,395)
TOTAL CAPITAL ASSETS, NET	27,251,611	20,899,539	48,151,150
OTHER ASSETS			
Restricted cash	490,500	-	490,500
TOTAL ASSETS	44,273,386	25,726,101	69,999,487
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charges on refunding	47,355	11,809	59,164
Deferred pension resources	272,949	28,490	301,439
TOTAL DEFERRED OUTFLOWS OF RESOURCES	320,304	40,299	360,603

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, 2015

	Electric	Water	Total
CURRENT LIABILITIES			
Accounts payable	$ 2,366,994	$ 94,124	$ 2,461,118
Salaries and benefits payable	78,030	14,173	92,203
Accrued interest payable	49,892	26,563	76,455
Due to other City funds	659,433	23,034	682,467
Due to other governments	140,014	2,976	142,990
Customer deposits payable	489,476	89,053	578,529
Unearned revenue	-	86,291	86,291
Compensated absences - current portion	153,002	16,555	169,557
Notes payable - current portion	194,307	-	194,307
Bonds payable - current portion	692,000	233,000	925,000
TOTAL CURRENT LIABILITIES	4,823,148	585,769	5,408,917
NON-CURRENT LIABILITIES			
Net other postemployment benefits liability	63,041	-	63,041
Compensated absences - less current portion	130,528	12,454	142,982
Notes payable - less current portion	1,214,061	-	1,214,061
Bonds payable, net - less current portion	3,024,375	1,635,859	4,660,234
Net pension liability	2,243,115	234,129	2,477,244
TOTAL NON-CURRENT LIABILITIES	6,675,120	1,882,442	8,557,562
TOTAL LIABILITIES	11,498,268	2,468,211	13,966,479
DEFERRED INFLOWS OF RESOURCES			
Deferred pension resources	459,746	47,987	507,733
NET POSITION			
Net investment in capital assets	22,174,223	19,042,489	41,216,712
Restricted for debt service	490,500	-	490,500
Unrestricted	9,970,953	4,207,713	14,178,666
TOTAL NET POSITION	$ 32,635,676	$ 23,250,202	$ 55,885,878

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, 2015

	Electric	Water	Total
OPERATING REVENUES			
Charges for services	$ 31,629,131	$ 2,141,096	$ 33,770,227
Security systems	251,488	-	251,488
LFG project	1,075,148	-	1,075,148
Generation credit	(805,579)	-	(805,579)
Connection maintenance	163,195	42,543	205,738
Customer penalties	238,339	18,898	257,237
TOTAL OPERATING REVENUES	32,551,722	2,202,537	34,754,259
OPERATING EXPENSES			
Purchased power	22,034,307	-	22,034,307
Production	928,923	465,181	1,394,104
Distribution	1,402,046	168,132	1,570,178
Depreciation	1,922,359	1,131,110	3,053,469
Customer accounts	856,076	67,487	923,563
General and administrative	2,752,443	582,385	3,334,828
TOTAL OPERATING EXPENSES	29,896,154	2,414,295	32,310,449
OPERATING INCOME (LOSS)	2,655,568	(211,758)	2,443,810
NONOPERATING REVENUES (EXPENSES)			
Interest income	95,533	24,666	120,199
Miscellaneous revenue	279,487	177,298	456,785
Interest expense and other	(116,676)	(65,135)	(181,811)
Gain (loss) on sale of capital assets	8,899	-	8,899
TOTAL NONOPERATING REVENUES (EXPENSES)	267,243	136,829	404,072
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	2,922,811	(74,929)	2,847,882
CAPITAL CONTRIBUTIONS -			
DEVELOPER INFRASTRUCTURE AND CONNECTION FEES	-	253,934	253,934
CONTRIBUTION OF ASSETS FROM CITY	-	189,669	189,669
TRANSFERS FROM OTHER CITY FUNDS	-	94,703	94,703
TRANSFERS TO OTHER CITY FUNDS	(824,743)	(30,000)	(854,743)
CHANGE IN NET POSITION	2,098,068	433,377	2,531,445
NET POSITION, JANUARY 1 AS RESTATED (NOTE 6)	30,537,608	22,816,825	53,354,433
NET POSITION, DECEMBER 31	$ 32,635,676	$ 23,250,202	$ 55,885,878

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, 2015

	Electric	Water	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	$ 32,460,951	$ 2,218,848	$ 34,679,799
Other operating cash receipts	326,880	252,022	578,902
Payments to suppliers	(25,682,803)	(777,734)	(26,460,537)
Payments to employees	(2,003,949)	(530,331)	(2,534,280)
NET CASH PROVIDED BY OPERATING ACTIVITIES	5,101,079	1,162,805	6,263,884
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from City	-	94,703	94,703
Transfers to City	(824,743)	(30,000)	(854,743)
(Increase) decrease in due from other City funds	(1,730)	234,787	233,057
Increase (decrease) in due to other City funds	47,353	5,083	52,436
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(779,120)	304,573	(474,547)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets	(2,345,925)	(764,695)	(3,110,620)
Proceeds from sale of capital assets	8,899	-	8,899
Proceeds from connection fees	-	253,934	253,934
Principal payments on revenue bonds	(672,000)	(228,000)	(900,000)
Interest paid on revenue bonds	(136,360)	(67,079)	(203,439)
Principal payments on promissory note	(191,508)	-	(191,508)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(3,336,894)	(805,840)	(4,142,734)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on investments	93,451	24,146	117,597
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,078,516	685,684	1,764,200
CASH AND CASH EQUIVALENTS, JANUARY 1	12,097,110	3,681,481	15,778,591
CASH AND CASH EQUIVALENTS, DECEMBER 31	$ 13,175,626	$ 4,367,165	$ 17,542,791
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION			
Cash and temporary investments	$ 12,685,126	$ 4,367,165	$ 17,052,291
Restricted cash	490,500	-	490,500
TOTAL CASH AND CASH EQUIVALENTS	$ 13,175,626	$ 4,367,165	$ 17,542,791

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, 2015

	Electric	Water	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income (loss)	$ 2,655,568	$ (211,758)	$ 2,443,810
Adjustments to reconcile operating income (loss) to net cash provided by operating activities			
Other revenue related to operations	279,487	177,298	456,785
Bad debt expense	42,846	-	42,846
Depreciation	1,922,359	1,131,110	3,053,469
(Increase) decrease in assets/deferred outflows:			
Accounts receivable	(127,006)	(10,734)	(137,740)
Other receivables	21,561	62,064	83,625
Special assessments receivable	(1,079)	(25,697)	(26,776)
Due from other governments	25,832	-	25,832
Inventories	(12,434)	2,466	(9,968)
Prepaid expenses	(3,092)	(670)	(3,762)
Deferred pension resources	(272,949)	(28,490)	(301,439)
Increase (decrease) in liabilities/deferred inflows:			
Accounts payable	244,041	58,761	302,802
Salaries and benefits payable	(72,884)	(8,607)	(81,491)
Net other postemployment benefits liability	8,109	-	8,109
Unearned revenue	-	12,660	12,660
Compensated absences payable	71,274	(61,021)	10,253
Due to other governments	10,716	276	10,992
Customer deposits payable	37,314	52,742	90,056
Net pension liability	(188,330)	(35,582)	(223,912)
Deferred pension resources	459,746	47,987	507,733
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 5,101,079	$ 1,162,805	$ 6,263,884
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES			
Amortization of bond premium	$ 17,181	$ 818	$ 17,999
Amortization of deferred charges on refunding	$ 6,472	$ 1,648	$ 8,120
Contribution of capital assets	$ -	$ 189,669	$ 189,669

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

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Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Nature of the business

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

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

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

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

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

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

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

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

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

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

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

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The Utilities reports the following major proprietary funds:

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

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

C. Assets, liabilities, deferred outflows of resources, 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.

Investments for the Utilities are reported at fair value.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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, 2015 is as follows:

	2015
Electric	$ 109,845
Water	26,250
Total	$ 136,095

Interfund receivables and payables

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

Inventories

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

Prepaid items

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

Restricted assets

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

Capital assets

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

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

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

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

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Deferred outflows of resources

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

Long-term obligations

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

Compensated absences

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

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

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

Postemployment benefits other than pensions

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

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.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 financial 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 statements of net position and results from actuarial calculations.

Net position

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

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

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

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

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

Note 2: DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

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

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

Authorized collateral in lieu of a corporate surety bond includes:

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

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

At December 31, 2015, the Utilities' carrying amount of deposits was $14,012,796 and the bank balance was $14,035,614. Of the bank balance $500,000 was covered by federal depository insurance, and the remaining balance was covered by collateral held by the pledging financial institution's agent in the Utilities' name.

Note 2: DETAILED NOTES ON ALL FUNDS - CONTINUED

Investments

The Utilities' investment balances were as follows for December 31, 2015:

Types of Investments	Credit Quality/ Ratings (1)	Segmented Time Distribution (2)	Fair Value and Carrying Amount
Pooled investments			
Broker Money Markets	N/A	less than 6 months	$ 32,695
Non-pooled investments			
Brokered CD's	N/A	less than 6 months	707,701
Brokered CD's	N/A	6 months to 1 year	1,097,667
Brokered CD's	N/A	1 to 5 years	1,691,132
Total non-pooled investments			3,496,500
Total investments			$ 3,529,195

(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 or available.

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

	2015
Deposits	$ 14,012,796
Investments	3,529,195
Cash on hand	800
Total	$ 17,542,791
Cash and temporary investments	
Unrestricted	$ 17,052,291
Restricted	490,500
Total	$ 17,542,791

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

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

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

Note 2: DETAILED NOTES ON ALL FUNDS - CONTINUED

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

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

B. Capital assets

Capital asset activity for the year ended December 31, 2015 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	$ 361,303	$ 48	$ -	$ 361,351
Construction in progress	815,710	1,650,484	(2,276,188)	190,006
Total capital assets not being depreciated	1,177,013	1,650,532	(2,276,188)	551,357
Capital assets being depreciated				
Land improvements	23,389	-	-	23,389
Buildings	3,674,600	29,815	-	3,704,415
Machinery and equipment	3,218,436	419,949	(220,258)	3,418,127
Infrastructure	73,233,475	3,232,782	-	76,466,257
Total capital assets being depreciated	80,149,900	3,682,546	(220,258)	83,612,188
Less accumulated depreciation for				
Land improvements	(14,453)	(936)	-	(15,389)
Buildings	(1,578,405)	(110,884)	-	(1,689,289)
Machinery and equipment	(1,636,356)	(154,879)	-	(1,791,235)
Infrastructure	(29,843,671)	(2,786,770)	113,959	(32,516,482)
Total accumulated depreciation	(33,072,885)	(3,053,469)	113,959	(36,012,395)
Total capital assets being depreciated, net	47,077,015	629,077	(106,299)	47,599,793
Business-type activities capital assets, net	$ 48,254,028	$ 2,279,609	$ (2,382,487)	$ 48,151,150

Note 2: DETAILED NOTES ON ALL FUNDS - CONTINUED

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

	2015
Business-type Activities	
Water	$ 1,131,110
Electric	1,922,359
Total depreciation expense - business-type activities	$ 3,053,469

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	$ 1,695,000
G.O. Capital Improvement Plan Bonds of 2010A	1,265,000	2.00 - 4.00	04/21/10	08/01/23	840,000
Total G.O. Revenue Bonds					$ 2,535,000

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

Year Ending December 31,	Principal	Interest	Total
2016	$ 305,000	$ 84,333	$ 389,333
2017	320,000	74,850	394,850
2018	335,000	63,948	398,948
2019	340,000	51,990	391,990
2020	355,000	39,497	394,497
2021-2023	880,000	40,997	920,997
Total	$ 2,535,000	$ 355,615	$ 2,890,615

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 2015, annual principal and interest payment on the bonds required about 13 percent of revenues from the Water fund. The principal and interest paid and total customer revenues for the Water fund were $295,079 and $2,202,537, respectively.

In 2015, 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 $97,760 and $32,551,722, respectively.

Note 2: DETAILED NOTES ON ALL FUNDS - CONTINUED

Revenue bonds

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

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
Electric Revenue Bonds, Series 2007A	2,875,000	4.00	03/28/07	02/01/22	$ 1,750,000
Electric Revenue Refunding Bonds, Series 2014A	2,030,000	2.00-4.00	03/13/14	08/01/18	1,235,000
Total Revenue Bonds					$ 2,985,000

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

Year Ending December 31,	Principal	Interest	Total
2016	$ 620,000	$ 90,400	$ 710,400
2017	635,000	73,500	708,500
2018	660,000	56,000	716,000
2019	250,000	37,800	287,800
2020	260,000	27,600	287,600
2021-2022	560,000	22,600	582,600
Total	$ 2,985,000	$ 307,900	$ 3,292,900

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 2015, annual principal and interest payment on the bonds required about 2.2 percent of revenues from the Electric fund. Principal and interest paid and total customer revenues for the Electric fund were $710,600 and $32,551,722, respectively.

Promissory note

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

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
Landfill Generator Note	$ 3,521,000	- %	03/19/02	02/19/22	$ 1,408,368

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
2016	$ 194,307	$ -	$ 194,307
2017	195,216	-	195,216
2018	198,252	-	198,252
2019	200,916	-	200,916
2020	203,952	-	203,952
2021-2022	415,725	-	415,725
Total	$ 1,408,368	$ -	$ 1,408,368

Changes in long-term liabilities

Long-term liability activity for the year ended December 31, 2015 was as follows:

	Beginning Balance	Increases		Decreases	Ending Balance	Due Within One Year
Business-type activities						
Bonds payable						
General obligation revenue bonds	$ 2,835,000	$ -		$ (300,000)	$ 2,535,000	$ 305,000
Revenue bonds	3,585,000	-		(600,000)	2,985,000	620,000
Unamortized premium on bonds	83,233	-		(17,999)	65,234	-
Total bonds payable, net	6,503,233	-		(917,999)	5,585,234	925,000
Notes payable	1,599,876	-		(191,508)	1,408,368	194,307
Compensated absences payable	302,286	173,269		(163,016)	312,539	169,557
Net pension liability						
GERF	-	2,913,612	*	(436,368)	2,477,244	-
OPEB liability	54,932	10,260		(2,151)	63,041	-
Business-type activity long-term liabilities	$ 8,460,327	$ 3,097,141		$(1,711,042)	$ 9,846,426	$ 1,288,864

* Includes 1/1/2015 pension liability balance related to GASB Statement No. 68 implementation. See Note 6 for further deatil.

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 - General fund	$ 1,710	Sales tax/franchise fees
Electric	City - Nonmajor	70	Sales tax/franchise fees
Electric	City - Nonmajor	1,910	Supplies
Electric	City - Sewer	1,003	4th quarter billings
Electric	City - Garbage	1,809	4th quarter billings
Electric	City - Storm Water	1,762	4th quarter billings
Electric	City - General fund	1,756	PERA aid
Total Electric fund receivable from City		10,020	
Water	City - Nonmajor	94,703	Watermain project
Water	City - General fund	439	PERA aid
Water	City - Capital projects fund	128,850	TIF 22 Water Access Charge
Total Water fund receivable from City		223,992	
Total receivable from City		$ 234,012	
City - General fund	Electric	$ 81,070	Shared costs
City - Nonmajor	Electric	12,541	Shared costs
City - Nonmajor	Electric	61,437	December transfer of 3% of revenue
City - Nonmajor	Electric	207,294	4th quarter franchise fees
City - Sewer	Electric	149,888	Billed sewer on behalf of City
City - Garbage	Electric	110,332	Billed garbage on behalf of City
City - Stormwater	Electric	36,871	Billed stormwater on behalf of City
Total Electric fund payable to City		659,433	
City - General fund	Water	23,034	Shared costs
Total payable to City		$ 682,467	

Interfund transfers completed in 2015 are detailed as follows:

Transfer out	Transfer from Other City Funds	Transfer to Other City Funds
Electric	$ -	$ 824,743
Water	94,703	30,000
Total transfers out	$ 94,703	$ 854,743

The transfer out of the Electric fund was the annual transfer of 3 percent of 2015 revenues to City funds. The transfer out of the Water fund was for its share of bonding. The transfer into the Water fund was for reimbursement related to the watermain project.

Note 3: DEFINED BENEFIT PENSION PLANS - STATEWIDE

A. Plan description

The Utilities participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota statutes, chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

General Employees Retirement Fund (GERF)

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

B. Benefits provided

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

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

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

GERF benefits

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

C. Contributions

Minnesota statutes, chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

GERF contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.50 percent, respectively, of their annual covered salary in calendar year 2015. 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 2015. The Utilities contributions to the GERF for the years ending December 31, 2015, 2014 and 2013 were $230,074, $203,953 and $185,983, respectively. The Utilities contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

Note 3: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED

D. Pension costs

GERF pension costs

At December 31, 2015, the Utilities reported a liability of $2,477,244 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2014 through June 30, 2015 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the Utilities proportionate share was 0.0478 percent which was a decrease of 0.0040 percent from its proportion measured as of June 30, 2014.

For the year ended December 31, 2015, the Utilities recognized pension expense of $212,456 for its proportionate share of GERF's pension expense.

At December 31, 2015, the Utilities reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 24,896	$ 124,895
Changes in actuarial assumptions	152,351	
Net difference between projected and actual earnings on plan investments	-	220,522
Changes in proportion	-	162,316
Contributions to GERF subsequent to the measurement date	124,192	-
Total	$ 301,439	$ 507,733

Deferred outflows of resources totaling $124,192 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, 2016. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

2016	$ (100,162)
2017	(100,162)
2018	(188,786)
2019	58,624

Note 3: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED

E. Actuarial assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.75% per year
Active member payroll growth	3.50% per year
Investment rate of return	7.90%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: 1 percent effective every January 1st until 2034, then 2.5 percent for GERF.

Actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies. The experience study in the GERF was for the period July 1, 2004 through June 30, 2008, with an update of economic assumptions in 2014. Experience studies have not been prepared for PERA's other plans, but assumptions are reviewed annually.

There were no changes in actuarial assumptions in 2015.

The long-term expected rate of return on pension plan investments is 7.9 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

F. Discount rate

The discount rate used to measure the total pension liability was 7.9 percent. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. 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.

Note 3: DEFINED BENEFIT PENSION PLANS – STATEWIDE – CONTINUED

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 (6.90%)	Current (7.90%)	1 Percent Increase (8.90%)
GERF	$ 3,895,108	$ 2,477,244	$ 1,306,306

H. Pension plan fiduciary net position

Detailed information about each defined benefit 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; by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or (800) 652-9026.

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 $211 in 2015, respectively, for loss of revenues under this agreement. All amounts paid are included in property and equipment.

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

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

The Utilities acquired the first of the designated service areas in 2015 for $877,807. The first loss of revenue payment will be made in 2017. All amounts paid are included in property and equipment.

Note 4: OTHER INFORMATION - CONTINUED

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 2015 were $42,532 of which $24,353 was receivable at December 31, 2015.

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 also are 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 2015, the Utility contributed $0 to the plan. Plan members receiving benefits contribute 100 percent of their premium costs. In fiscal year 2015, total member contributions were $0.

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

Note 5: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS - CONTINUED

Annual required contribution	$ 11,240
Interest on net OPEB obligation	2,197
Adjustment to annual required contribution	(3,177)
Annual OPEB Cost (expense)	10,260
Contributions made	
Direct (explicit) subsidy	-
Implicit subsidy	(2,151)
Increase in net OPEB obligation	8,109
Net OPEB obligation - beginning of year	54,932
Net OPEB obligation - end of year	$ 63,041

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, 2015 and the preceding two fiscal years was as follows:

	Three Year Trend Information			
Year Ending	Annual OPEB Cost	Employer Contribution	Percentage Annual OPEB Contributed	Net OPEB Obligation
12/31/2015	$ 10,260	$ 2,151	21 %	63,041
12/31/2014	9,890	-	-	54,932
12/31/2013	6,073	1,391	23	45,042

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

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

Note 5: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS - CONTINUED

The following simplifying assumptions were made:

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

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

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

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

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

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

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

Disability - None

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

Valuation date - January 1, 2014

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

Note 6: CHANGE IN ACCOUNTING STANDARDS

During 2015, the Utilities implemented several new accounting pronouncements issued by the Governmental Accounting Standards Board (GASB), including Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68,* for the year ended December 31, 2015. These standards required a retroactive implementation which resulted in the restatement of beginning balances in the December 31, 2014 financial statements. Changes related to these standards are reflected in the financial statements and schedules and related disclosures are included in Note 3.

As a result of the restatement of beginning balances, the following schedule reconciles the previously reported December 31, 2014 balances to the December 31, 2015 financial statements:

	December 31, 2015		
Fund	Net Position January 1, 2015 as Previously Reported	Prior Period Restatement (1)	Net Position January 1, 2015 as Restated
Business-type activities			
Electric	$ 32,969,053	$ (2,431,445)	$ 30,537,608
Water	23,086,536	(269,711)	22,816,825
Total business-type activities	$ 56,055,589	$ (2,701,156)	$ 53,354,433

(1) To record beginning net pension liability and deferred outflow of resources at December 31, 2014.

REQUIRED SUPPLEMENTARY INFORMATION

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2015

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2015

Schedule of funding progress for the retiree health plan

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

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)	Utilities Proportionate Share of the Net Pension Liability Associated with the City (b)	Total (a+b)	Utilities Covered Payroll (c)	Utilities Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/15	0.0478 %	$ 2,477,244	$ -	$ 2,477,244	$ 3,067,653	80.8 %	78.7 %

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)
12/31/15	$ 230,074	$ 230,074	$ -	$ 3,067,653	7.5 %

SUPPLEMENTARY INFORMATION

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2015

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
SUPPLEMENTARY INFORMATION
SCHEDULE OF OPERATING REVENUES AND EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015

	Electric	Water	Total
OPERATING REVENUES			
Charges for services			
Elk River	$ 28,833,769	$ 2,141,096	$ 30,974,865
Otsego	2,377,276	-	2,377,276
Big Lake	190,727	-	190,727
Dayton	227,359	-	227,359
Security systems	251,488	-	251,488
LFG Project	1,075,148	-	1,075,148
Generation credit	(805,579)	-	(805,579)
Connection maintenance	163,195	42,543	205,738
Customer penalties	238,339	18,898	257,237
TOTAL OPERATING REVENUES	32,551,722	2,202,537	34,754,259
OPERATING EXPENSES			
Purchased power	22,034,307	-	22,034,307
Production			
Supervision and labor	57,646	20,944	78,590
Natural gas	47,185	-	47,185
Supplies and power for pumping	52,780	266,474	319,254
Landfill gas expense	704,577	-	704,577
Maintenance of structures	37,945	35,767	73,712
Maintenance of equipment	11,902	141,996	153,898
Maintenance of plant	16,888	-	16,888
Total	928,923	465,181	1,394,104
Transmission and distribution			
Supervision and labor	24,772	10,143	34,915
Maintenance of overhead lines	397,124	-	397,124
Maintenance of underground lines	167,637	-	167,637
Maintenance of station equipment	62,536	-	62,536
Transportation	135,339	16,676	152,015
Maintenance of customer service	7,169	73,061	80,230
Maintenance of customer meters	83,765	68,230	151,995
Miscellaneous	523,704	22	523,726
Total	1,402,046	168,132	1,570,178
Services to City	520,727	5,719	526,446
Depreciation	1,922,359	1,131,110	3,053,469
Customer accounts expense			
Meter reading	36,808	1,650	38,458
Billing and collection	255,695	60,118	315,813
Bad debts	42,846	-	42,846
Total	335,349	61,768	397,117

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
SUPPLEMENTARY INFORMATION
SCHEDULE OF OPERATING REVENUES AND EXPENSES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2015

	Electric	Water	Total
OPERATING EXPENSES - CONTINUED			
General and administrative			
Salaries	$ 659,318	$ 147,926	$ 807,244
Employee pensions and benefits	1,267,179	265,605	1,532,784
Dues	91,613	42,984	134,597
Office supplies and billing expense	144,234	32,270	176,504
Office utilities and maintenance	21,102	8,948	30,050
Consulting fees	36,842	-	36,842
Legal and audit	43,446	8,292	51,738
Environmental compliance	24,208	-	24,208
Conservation improvement project	67,697	8,763	76,460
Insurance	174,161	28,116	202,277
Telephone	26,997	6,797	33,794
Advertising	7,155	3,406	10,561
Education and meetings	127,400	20,612	148,012
Miscellaneous	61,091	8,666	69,757
Total	2,752,443	582,385	3,334,828
TOTAL OPERATING EXPENSES	29,896,154	2,414,295	32,310,449
OPERATING INCOME (LOSS)	2,655,568	(211,758)	2,443,810
NONOPERATING REVENUES (EXPENSES)			
Interest income	95,533	24,666	120,199
Miscellaneous revenue	279,487	177,298	456,785
Interest expense and other	(116,676)	(65,135)	(181,811)
Gain (loss) on sale of capital assets	8,899	-	8,899
TOTAL NONOPERATING REVENUES (EXPENSES)	267,243	136,829	404,072
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	2,922,811	(74,929)	2,847,882
CAPITAL CONTRIBUTIONS -			
DEVELOPER INFRASTRUCTURE AND CONNECTION FEES	-	253,934	253,934
CONTRIBUTION OF ASSETS FROM CITY	-	189,669	189,669
TRANSFERS FROM OTHER CITY FUNDS	-	94,703	94,703
TRANSFERS TO OTHER CITY FUNDS	(824,743)	(30,000)	(854,743)
CHANGE IN NET POSITION	2,098,068	433,377	2,531,445
NET POSITION, JANUARY 1 AS RESTATED (NOTE 6)	30,537,608	22,816,825	53,354,433
NET POSITION, DECEMBER 31	$ 32,635,676	$ 23,250,202	$ 55,885,878

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
ELECTRIC FUND
SUMMARY OF OPERATIONS AND UNAUDITED STATISTICS
FOR THE YEARS ENDED DECEMBER 31, 2007 THROUGH DECEMBER 31, 2015

SUMMARY OF OPERATIONS

	2007	2008	2009
OPERATING REVENUES			
Sales of electricity	$ 19,164,797	$ 22,303,994	$ 23,591,485
Other operating revenues (expenses)	501,746	637,909	636,258
TOTAL OPERATING REVENUES	19,666,543	22,941,903	24,227,743
OPERATING EXPENSES			
Purchased power	12,176,034	14,778,270	16,161,444
Distribution	1,829,971	2,162,797	1,937,096
Services to the City	358,029	409,222	428,508
Depreciation	1,920,798	2,057,851	2,126,794
Other operating expenses	1,977,973	2,196,770	2,272,917
TOTAL OPERATING EXPENSES	18,262,805	21,604,910	22,926,759
OPERATING INCOME	1,403,738	1,336,993	1,300,984
TRANSFERS FROM OTHER CITY FUNDS	-	-	-
TRANSFERS TO OTHER CITY FUNDS	(483,000)	(540,636)	(585,141)
NONOPERATING REVENUES	710,858	249,022	(146,352)
NET INCOME	$ 1,631,596	$ 1,045,379	$ 569,491
PERCENT OF CHANGE			
Sales of electricity	16.185%	16.380%	5.772%
Purchased power	20.530%	21.372%	9.360%
PERCENT OF REVENUES			
Purchased power	61.912%	64.416%	66.706%

UNAUDITED STATISTICS

MISCELLANEOUS

	2007	2008	2009
KWh's purchased	$ 225,973,086	$ 241,837,173	$ 247,595,137
KWh's sold	211,298,886	224,226,048	232,772,722
Line loss	14,674,200	17,611,125	14,822,415
Percent of line loss	6.494%	7.282%	5.987%
REVENUES PER KWh SOLD	$ 0.0907	$ 0.0995	$ 0.1013
COST PER KWh PURCHASED	$ 0.0539	$ 0.0611	$ 0.0653
NUMBER OF CUSTOMERS	8,945	9,203	9,170
TOTAL CONTRIBUTION/TRANSFERS TO CITY	$ 483,000	$ 540,636	$ 585,141

	2010	2011	2012	2013	2014	2015
	$ 26,060,301	$ 27,894,341	$ 30,070,045	$ 30,978,790	$ 31,514,246	$ 32,704,279
	732,261	689,645	188,645	(132,411)	(147,561)	(152,557)
	26,792,562	28,583,986	30,258,690	30,846,379	31,366,685	32,551,722
	18,373,386	19,604,951	20,499,773	21,254,950	21,994,652	22,034,307
	1,892,212	1,960,742	1,909,845	1,970,341	2,161,352	2,330,969
	434,415	474,934	481,907	498,146	530,340	520,727
	2,062,942	2,041,717	2,099,594	2,029,496	1,914,062	1,922,359
	2,399,236	2,350,706	2,359,193	2,374,959	2,791,717	3,087,792
	25,162,191	26,433,050	27,350,312	28,127,892	29,392,123	29,896,154
	1,630,371	2,150,936	2,908,378	2,718,487	1,974,562	2,655,568
	53,741	-	-	-	-	-
	(657,086)	(711,415)	(816,864)	(781,162)	(797,835)	(824,743)
	(154,956)	(105,604)	28,531	(30,658)	152,375	267,243
	$ 872,070	$ 1,333,917	$ 2,120,045	$ 1,906,667	$ 1,329,102	$ 2,098,068
	10.465%	7.038%	7.800%	3.022%	1.728%	3.776%
	13.687%	6.703%	4.564%	3.684%	3.480%	0.180%
	68.576%	68.587%	67.748%	68.906%	70.121%	67.690%

	2010	2011	2012	2013	2014	2015
	$ 264,642,834	$ 276,026,892	$ 287,553,108	$ 290,025,919	$ 288,320,724	$ 294,441,957
	250,711,834	261,235,297	273,455,846	273,945,354	274,546,059	282,265,268
	13,931,000	14,791,595	14,097,262	16,080,565	13,774,665	12,176,689
	5.264%	5.359%	4.902%	5.545%	4.778%	4.136%
	$ 0.1039	$ 0.1068	$ 0.1100	$ 0.1131	$ 0.1148	$ 0.1159
	$ 0.0694	$ 0.0710	$ 0.0713	$ 0.0733	$ 0.0763	$ 0.0748
	9,207	9,227	9,285	9,358	9,449	10,499
	$ 657,086	$ 711,415	$ 816,864	$ 781,162	$ 797,835	$ 824,743

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
WATER FUND
SUMMARY OF OPERATIONS AND UNAUDITED STATISTICS
FOR THE YEARS ENDED DECEMBER 31, 2007 THROUGH DECEMBER 31, 2015

SUMMARY OF OPERATIONS

	2007	2008	2009
OPERATING REVENUES			
Sales of water	$ 2,113,166	$ 2,130,124	$ 2,206,429
OPERATING EXPENSES			
Operating expenses less depreciation	1,191,346	1,185,413	1,102,437
Services to City	-	-	-
Depreciation	921,450	974,848	956,993
TOTAL OPERATING EXPENSES	2,112,796	2,160,261	2,059,430
TOTAL OPERATING INCOME (LOSS)	$ 370	$ (30,137)	$ 146,999
PERCENT OF CHANGE			
Sales of water	20.76%	0.80%	3.58%

UNAUDITED STATISTICS
MISCELLANEOUS

	2007	2008	2009
WATER PUMPED (gallons)	873,742,000	854,133,000	782,951,000
WATER SOLD (gallons)	783,948,000	727,029,000	708,286,000
Percent of line loss	10.28%	14.88%	9.54%
Revenues per 1,000 gallons pumped	$ 2.41	$ 2.48	$ 2.81
Revenues per 1,000 gallons sold	$ 2.70	$ 2.93	$ 3.12
Number of customers	4,413	4,508	4,467

WATER SUPPLIER SERVICES

	2007	2008	2009
Flushing hydrants	$ 27,000,000	$ 30,000,000	$ 33,000,000
Back washing	8,400,000	8,400,000	8,400,000
Fire department use	1,000,000	5,000,000	1,000,000
New water main disinfectant and flushing	1,000,000	2,000,000	2,000,000
Flushing seasonal well	-	-	-
Meter inaccuracy	-	-	1,300,000
Street and Sewer Maintenance	-	-	-
Water tower paint and clean/maintenance	-	-	-
Well maintenance	-	-	-
Water line and irrigation leaks	-	-	-
Frozen pipes bursting in abandoned homes	-	25,000,000	27,000,000
Water Supplier Services	37,400,000	70,400,000	72,700,000

2010	2011	2012	2013	2014	2015
$ 1,913,661	$ 1,832,817	$ 2,265,142	$ 2,278,124	$ 2,148,327	$ 2,202,537
989,736	1,008,562	1,130,965	1,210,797	1,267,019	1,277,466
-	-	-	-	-	5,719
955,323	980,197	1,028,593	1,032,442	1,083,770	1,131,110
1,945,059	1,988,759	2,159,558	2,243,239	2,350,789	2,414,295
$ (31,398)	$ (155,942)	$ 105,584	$ 34,885	$ (202,462)	$ (211,758)
(13.27%)	(4.22%)	23.59%	0.57%	(5.70%)	2.52%

2010	2011	2012	2013	2014	2015
686,289,000	651,907,000	847,283,200	785,377,000	782,110,000	799,974,000
627,209,000	599,701,000	727,912,000	709,760,000	672,760,000	676,842,000
8.61%	8.01%	14.09%	9.63%	13.98%	15.39%
$ 2.79	$ 2.81	$ 2.67	$ 2.90	$ 2.75	$ 2.75
$ 3.05	$ 3.06	$ 3.11	$ 3.21	$ 3.19	$ 3.25
4,511	4,515	4,542	4,613	4,676	4,762

Gallons					
2010	2011	2012	2013	2014	2015
$ 35,000,000	$ 34,000,000	$ 46,400,000	$ 45,000,000	$ 47,000,000	$ 45,000,000
9,000,000	8,000,000	30,000,000	8,000,000	3,922,000	4,000,000
3,000,000	4,000,000	16,500,000	5,000,000	5,000,000	5,000,000
3,000,000	4,000,000	9,000,000	5,000,000	5,000,000	5,000,000
4,000,000	-	3,600,000	-	-	-
-	-	6,500,000	3,000,000	3,000,000	-
-	-	-	617,000	1,000,000	473,400
-	2,000,000	-	2,000,000	1,000,000	3,700,000
-	-	-	-	-	700,000
-	-	7,000,000	7,000,000	7,000,000	-
5,000,000	-	-	-	-	-
59,000,000	52,000,000	119,000,000	75,617,000	72,922,000	63,873,400

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OTHER REPORT

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2015

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ABDO EICK & MEYERS LLP
Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

Public Utilities Commission
Elk River Municipal Utilities
Elk River, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Elk River Municipal Utilities (the Utilities) of the City of Elk River, Minnesota (the City) as of and for the year ended December 31, 2015, and the related notes to the financial statements, and have issued our report thereon dated March 31, 2016.

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

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

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

Abdo Eick & Meyers, LLP

ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
March 31, 2016

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