

Annual Financial Report

Elk River Municipal Utilities

Elk River, Minnesota

For the Year Ended
December 31, 2019

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Elk River Municipal Utilities
Elk River, Minnesota
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INTRODUCTORY SECTION
ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2019

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Elk River Municipal Utilities
Elk River, Minnesota
Public Utilities Commission and Administration
For the Year Ended December 31, 2019

COMMISSION

Name	Title
John Dietz	Chairperson
Allan Nadeau	Vice-Chair
Mary Stewart	Commissioner
Matt Westgaard	Commissioner
Paul Bell	Commissioner

ADMINISTRATION

Name	Title
Troy Adams	General Manager
Theresa Slominski	Administrations Director
Melissa Karpinski	Finance Manager
Dave Ninow	Water Superintendent
Mark Fuchs	Operations Director
Tom Geiser	Electric Superintendent
Mike Tietz	Technical Services Superintendent
Tom Sagstetter	Conservation and Key Accounts Manager
Michelle Canterbury	Executive Administrative Manager
Jennie Nelson	Customer Service Manager

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FINANCIAL SECTION
ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2019

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INDEPENDENT AUDITOR'S REPORT

Public Utilities Commission
Elk River Municipal Utilities
Elk River, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the Elk River Municipal Utilities (the Utilities) of the City of Elk River, Minnesota (the City), as of and for the year ended December 31, 2019, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Utilities preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utilities internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Utilities as of December 31, 2019, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Emphasis of Matter

As discussed in Note 1B, the financial statements present only the Electric and Water enterprise funds and do not purport to, and do not present fairly the financial position of the City as of December 31, 2019, the changes in its financial position, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

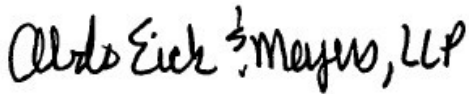
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis Page 15 and the Schedule of Employer's Share of the Net Pension Liability, the Schedule of Employer's Contributions and the Schedule of Changes in the Employer's OPEB Liability and Related Ratios starting on page 50 be presented to supplement the basic financial statements. Such information, although not a part of the financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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



ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
March 31, 2020

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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, 2019. 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 \$67,409,812 (net position). Net Position increased by \$2,916,305 or 4.5 percent. The increase is mainly due to revenues in excess of expenses during the year.
- The Utilities' cash balance at the close of the current fiscal year was \$23,835,666.
- Electric usage overall was down an average of 1.6 percent. Residential usage increased .3 percent, Commercial usage decreased 5.9 percent, and Industrial usage decreased 1.8 percent.
- Water usage overall was down an average of 10.1 percent from the prior year. Residential usage decreased 11.6 percent, and Commercial usage decreased 8.6 percent.

Overview of the Financial Statements

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

Required Financial Statements

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

Financial Analysis of the Utilities

Our analysis of the Utilities begins on page 22 in the Financial Section. One of the most important questions asked about the Utilities' finances is "Is the Utilities as a whole better off or worse off as a result of this year's activities?" The Statement of Net Position, and the Statement of Revenues, Expenses and Changes in Net Position report information about the Utilities' activities in a way that will help answer this question. These two statements report the net position of the Utilities and changes in the net position. You can think of the Utilities' net position (the difference between assets and liabilities) as one way to measure financial health or financial position. Over time, increases or decreases in the Utilities' net position is one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning, and new or changed government legislation.

Net Position. To begin our analysis, a summary of the Utilities' Statements of Net Position is presented in Table A-1. As can be seen from the Table, net position increased \$2,916,305 to \$67,409,812 in fiscal 2019 up from \$64,493,507 in fiscal 2018.

TABLE A-1
Condensed Statement of Net Position

	2019	2018	Increase (Decrease)
Assets			
Current and other	\$ 27,684,972	\$ 25,143,528	\$ 2,541,444
Capital	71,997,590	72,584,672	(587,082)
Total Assets	<u>99,682,562</u>	<u>97,728,200</u>	<u>1,954,362</u>
Total Deferred Outflows of Resources	<u>311,650</u>	<u>656,321</u>	<u>(344,671)</u>
Liabilities			
Current	7,783,912	7,546,521	237,391
Non-current	24,191,512	25,535,347	(1,343,835)
Total Liabilities	<u>31,975,424</u>	<u>33,081,868</u>	<u>(1,106,444)</u>
Total Deferred Inflows of Resources	<u>608,976</u>	<u>809,146</u>	<u>(200,170)</u>
Net Position			
Net investment in capital assets	49,526,317	48,668,538	857,779
Restricted for debt service	1,261,359	1,261,359	-
Unrestricted	<u>16,622,136</u>	<u>14,563,610</u>	<u>2,058,526</u>
Total Net Position	<u>\$ 67,409,812</u>	<u>\$ 64,493,507</u>	<u>\$ 2,916,305</u>

Water and Electric Rates. Electric - The Utilities' electric rates had a zero-rate increase, effective January 2020. The monthly base charges are based upon the type of service. The monthly charges are \$13.50 for residential, \$30.00 for non-demand, \$75.00 for demand and \$100.00 for large industrial demand customers. In addition to the base charges the residential rate is \$.1270/kWh for June-October usage, and \$.1160/kWh for November-May usage; the non-demand rate is \$.1230/kWh for June-October, and \$.1030/kWh for November-May; the demand rate is \$.06510/kWh energy charge year round with a demand charge of \$15.50/kW June-October, and \$11.50/kW for November-May; the large industrial demand rate is \$.0644/kWh energy charge year round with a demand charge of \$15.00/kW June-October, and \$11.00/kW November-May.

Water - The Utilities' latest increase in residential and commercial rates was effective January 2020. The monthly base charge for residential customers is \$9.40 per month. In addition to the base charge, the Utilities currently charges its residential customers \$1.89 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 \$11.28 to \$119.15. An irrigation meter is \$20.07 per month. There is also a charge per 1,000 gallons, the same tiers as the residential rates of \$1.89, \$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 Utilities may discontinue service of a customer not complying with the disconnect policy of the Utilities after receiving a written disconnect notice. Residential and Commercial/Industrial single phase electric customers that have their service discontinued will be charged a minimum of \$50.00 to have their service reconnected. Commercial/Industrial three phase electric customers that have their service discontinued will be charged a minimum of \$150.00 to have their service reconnected. Residential and Commercial/Industrial water customers that have their water shut-off will be charged a fee of \$100.00 to have their water turned on/reconnected. There are no reconnections after 3:30 pm and payments for reconnection/turn on are not accepted at the property site; payments must be made prior to dispatching reconnection. Customers can come into the office between the hours of 8:00 am and 4:30 pm to make the payment by cash, money order or credit card; or pay online or by phone with a credit card. The Utilities abides by the Cold Weather Rules.

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

For commercial and industrial customers, a service agreement would need to be signed. Generally, a deposit of 2 times the estimated highest monthly bill will be required, with a minimum deposit of \$250 for non-demand customers, and minimum deposit of \$1,000 for demand customers. The deposit shall be in the form of a cash deposit, or an irrevocable letter of credit. The irrevocable letter of credit will be renewed as required and failure to do so will result in a charge equal to the amount of the letter of credit applied to the monthly utility bill and held by the Utilities as a cash deposit.

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

Statements of Revenues, Expenses and Changes in Net Position. While the Statements of Net Position shows the change in financial assets/deferred outflows and liabilities/deferred inflows, the Statements of Revenues, Expenses and Changes in Net Position, provides answers as to the nature and source of these changes. As can be seen in Table A-2, revenues in excess of expenses was the main source of the increase in net position of \$2,916,305 in fiscal 2019. 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

	2019	2018	Increase (Decrease)
Revenues			
Operating	\$ 40,398,303	\$ 41,295,726	\$ (897,423)
Nonoperating	1,012,656	971,575	41,081
Total Revenues	<u>41,410,959</u>	<u>42,267,301</u>	<u>(856,342)</u>
Expenses			
Operating	37,225,537	37,825,690	(600,153)
Nonoperating	676,098	520,679	155,419
Total Expenses	<u>37,901,635</u>	<u>38,346,369</u>	<u>(444,734)</u>
Income Before Contributions and Operating Transfers	3,509,324	3,920,932	(411,608)
Capital Contributions - Developer Infrastructure and Connection Fees	428,662	716,810	(288,148)
Grants	10,000	-	10,000
Contribution from Customers	125,764	352,104	(226,340)
Transfers to Other City Funds	<u>(1,157,445)</u>	<u>(1,188,664)</u>	<u>31,219</u>
Change in Net Position	2,916,305	3,801,182	(884,877)
Net Position, January 1	<u>64,493,507</u>	<u>60,692,325</u>	<u>3,801,182</u>
Net Position, December 31	<u><u>\$ 67,409,812</u></u>	<u><u>\$ 64,493,507</u></u>	<u><u>\$ 2,916,305</u></u>

Revenues. Table A-2 shows that operating revenue decreased by 2.2 percent in 2019 for the Electric and Water Departments combined. The Electric Department operating revenue was impacted partly by the decrease in rates. Both the Electric Department and the Water Department were impacted by the cooler summer weather in 2019.

Nonoperating revenue is comprised of transmission rebate revenue in the Electric Department, and water tower lease revenue in the Water Department. Regarding transmission rebates, in 2007 the Electric Department 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 2019, rebates received from our 2017 filings averaged approximately \$31,000 per month. The Water Department is receiving lease revenue from Sprint and Verizon for antennas on the water towers. In 2019 this amount was approximately \$227,000 and will continue for the duration of the multi-year contracts.

Total Expenses. In reviewing total expenses in Table A-2 you will notice that there was decrease of 1.2 percent overall, with the electric department decreasing 1.4 percent, and the water department increasing 1.4 percent. Purchased Power is the biggest electric department expense and it was down 7.0 percent.

Capital Assets and Debt Administration

Capital Assets. The Utilities' investment in capital assets for its business-type activities as of December 31, 2019 amounts to \$71,997,590 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements and equipment. A table summarizing the balances by fund follows:

	2019	2018	Increase (Decrease)
Land	\$ 678,921	\$ 678,921	\$ -
Intangible	23,280,122	23,114,072	166,050
Land Improvements	4,258	5,194	(936)
Buildings	1,791,905	1,875,488	(83,583)
Machinery and Equipment	1,596,804	1,573,941	22,863
Infrastructure	43,633,872	44,869,586	(1,235,714)
Construction in Progress	1,011,708	467,470	544,238
Total	<u>\$ 71,997,590</u>	<u>\$ 72,584,672</u>	<u>\$ (587,082)</u>

The total decrease in the Utilities' investment in capital assets for the current fiscal year was 0.8 percent.

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

- The Electric Department makes a loss of revenue payment as part of the cost of the territory acquisition increasing Intangibles.
- The Electric and Water Department purchased new transportation equipment increasing Machinery and Equipment, with the main increase due to the purchase of a new Bucket Truck for the Electric Department.
- Construction in progress increased as projects started in the current year were not completed in 2019.

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

Long-term Debt. At year end, the Utilities had \$22,497,728 in long-term debt which decreased from \$23,950,944 in fiscal 2018. The decrease is mainly due to regularly scheduled principal payments. More detailed information about the Utilities' long-term liabilities can be found in Note 2C starting on page 37 and below:

	2019	2018	Increase (Decrease)
G.O. Revenue Bonds	\$ 1,235,000	\$ 1,575,000	\$ (340,000)
Revenue Bonds	19,825,000	20,685,000	(860,000)
Unamortized Premium on Bonds	818,036	870,336	(52,300)
Promissory Note	619,692	820,608	(200,916)
Total	<u>\$ 22,497,728</u>	<u>\$ 23,950,944</u>	<u>\$ (1,453,216)</u>

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 Finance 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 Melissa Karpinski, 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, 2019

Elk River Municipal Utilities

Elk River, Minnesota
Statement of Net Position
December 31, 2019

	Electric	Water	Total
Assets			
Current Assets			
Cash and temporary investments	\$ 14,881,922	\$ 7,692,385	\$ 22,574,307
Receivables			
Accrued interest	6,891	1,723	8,614
Accounts, net of allowance	2,277,497	114,084	2,391,581
Special assessments	3,629	28,469	32,098
Other receivables	105,463	6,449	111,912
Due from other City funds	7,402	128,850	136,252
Inventories	981,962	9,644	991,606
Prepaid expenses	154,832	22,411	177,243
Total Current Assets	18,419,598	8,004,015	26,423,613
Capital Assets			
Land	519,090	159,831	678,921
Intangible	24,114,139	-	24,114,139
Land improvements	23,389	-	23,389
Buildings	3,054,428	889,966	3,944,394
Equipment and machinery	3,675,895	482,820	4,158,715
Infrastructure	51,156,644	36,115,322	87,271,966
Construction in progress	677,530	334,178	1,011,708
Capital Assets, Cost	83,221,115	37,982,117	121,203,232
Less Accumulated Depreciation	(30,444,533)	(18,761,109)	(49,205,642)
Total Capital Assets, Net	52,776,582	19,221,008	71,997,590
Other Assets			
Restricted cash	1,261,359	-	1,261,359
Total Assets	72,457,539	27,225,023	99,682,562
Deferred Outflows of Resources			
Deferred charges on refunding	21,164	5,291	26,455
Deferred pension resources	244,246	40,949	285,195
Total Deferred Outflows of Resources	265,410	46,240	311,650

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, 2019

	Electric	Water	Total
Current Liabilities			
Accounts payable	\$ 3,205,772	\$ 129,059	\$ 3,334,831
Salaries and benefits payable	138,648	21,733	160,381
Accrued interest payable	282,496	13,063	295,559
Due to other City funds	862,386	35,955	898,341
Due to other governments	159,286	2,358	161,644
Customer deposits payable	884,299	151,225	1,035,524
Unearned revenue	3,000	100,952	103,952
Compensated absences	358,161	36,567	394,728
Notes payable - current portion	203,952	-	203,952
Bonds payable - current portion	924,000	271,000	1,195,000
Total Current Liabilities	<u>7,022,000</u>	<u>761,912</u>	<u>7,783,912</u>
Non-current Liabilities			
Other postemployment benefits liability	174,950	42,822	217,772
Notes payable - less current portion	415,740	-	415,740
Bonds payable, net - less current portion	20,080,411	602,625	20,683,036
Net pension liability	2,456,809	418,155	2,874,964
Total Non-current Liabilities	<u>23,127,910</u>	<u>1,063,602</u>	<u>24,191,512</u>
Total Liabilities	<u>30,149,910</u>	<u>1,825,514</u>	<u>31,975,424</u>
Deferred Inflows of Resources			
Deferred pension resources	<u>520,934</u>	<u>88,042</u>	<u>608,976</u>
Net Position			
Net investment in capital assets	31,173,643	18,352,674	49,526,317
Restricted for debt service	1,261,359	-	1,261,359
Unrestricted	<u>9,617,103</u>	<u>7,005,033</u>	<u>16,622,136</u>
Total Net Position	<u>\$ 42,052,105</u>	<u>\$ 25,357,707</u>	<u>\$ 67,409,812</u>

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

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Elk River Municipal Utilities
Elk River, Minnesota
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2019

	Electric	Water	Total
Operating Revenues			
Charges for services	\$ 36,538,150	\$ 2,235,222	\$ 38,773,372
LFG project	1,102,835	-	1,102,835
Substation credit	4,800	-	4,800
Connection maintenance	194,295	50,583	244,878
Customer penalties	254,553	17,865	272,418
Total Operating Revenues	<u>38,094,633</u>	<u>2,303,670</u>	<u>40,398,303</u>
Operating Expenses			
Purchased power	24,851,301	-	24,851,301
Production	1,020,807	516,444	1,537,251
Distribution	1,525,827	223,547	1,749,374
Depreciation	2,856,258	1,147,149	4,003,407
Customer accounts	528,743	63,382	592,125
General and administrative	3,772,150	719,929	4,492,079
Total Operating Expenses	<u>34,555,086</u>	<u>2,670,451</u>	<u>37,225,537</u>
Operating Income (Loss)	<u>3,539,547</u>	<u>(366,781)</u>	<u>3,172,766</u>
Nonoperating Revenues (Expenses)			
Interest income	159,014	38,097	197,111
Miscellaneous revenue	568,635	248,960	817,595
Interest expense and other	(643,159)	(32,939)	(676,098)
Gain/(Loss) on sale of capital assets	(2,050)	-	(2,050)
Total Nonoperating Revenues	<u>82,440</u>	<u>254,118</u>	<u>336,558</u>
Income (loss) before Contributions and Transfers	<u>3,621,987</u>	<u>(112,663)</u>	<u>3,509,324</u>
Capital Contributions -			
Connection Fees	-	428,662	428,662
Grants	10,000	-	10,000
Contribution from Customers	125,764	-	125,764
Transfers to Other City Funds	(1,157,445)	-	(1,157,445)
Total Contributions and Transfers	<u>(1,021,681)</u>	<u>428,662</u>	<u>(593,019)</u>
Change in Net Position	2,600,306	315,999	2,916,305
Net Position, January 1	<u>39,451,799</u>	<u>25,041,708</u>	<u>64,493,507</u>
Net Position, December 31	<u>\$ 42,052,105</u>	<u>\$ 25,357,707</u>	<u>\$ 67,409,812</u>

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

Elk River Municipal Utilities
Elk River, Minnesota
Statement of Cash Flows
For the Year Ended December 31, 2019

	Electric	Water	Total
Cash Flows from Operating Activities			
Receipts from customers and users	\$ 37,495,498	\$ 2,379,526	\$ 39,875,024
Other operating cash receipts	515,237	246,901	762,138
Payments to suppliers	(29,007,568)	(853,238)	(29,860,806)
Payments to employees	(2,618,202)	(629,176)	(3,247,378)
Net Cash Provided by Operating Activities	6,384,965	1,144,013	7,528,978
Cash Flows from Noncapital Financing Activities			
Transfers to City	(1,157,445)	-	(1,157,445)
Decrease in due from other City funds	5,990	439	6,429
Increase in due to other City funds	68,173	12,357	80,530
Net Cash Provided (Used) by Noncapital Financing Activities	(1,083,282)	12,796	(1,070,486)
Cash Flows from Capital and Related Financing Activities			
Acquisition of capital assets	(2,824,703)	(352,031)	(3,176,734)
Proceeds from sale of capital assets	15,000	-	15,000
Proceeds from connection fees	-	428,662	428,662
Principal payments on bonds	(940,000)	(260,000)	(1,200,000)
Interest paid on bonds	(640,370)	(35,830)	(676,200)
Principal payments on promissory note	(200,916)	-	(200,916)
Net Cash Used by Capital and Related Financing Activities	(4,590,989)	(219,199)	(4,810,188)
Cash Flows from Investing Activities			
Interest on investments	153,140	36,624	189,764
Net Increase in Cash and Cash Equivalents	863,834	974,234	1,838,068
Cash and Cash Equivalents, January 1	15,279,447	6,718,151	21,997,598
Cash and Cash Equivalents, December 31	<u>\$ 16,143,281</u>	<u>\$ 7,692,385</u>	<u>\$ 23,835,666</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position			
Cash and temporary investments	\$ 14,881,922	\$ 7,692,385	\$ 22,574,307
Restricted cash	1,261,359	-	1,261,359
Total Cash and Cash Equivalents	<u>\$ 16,143,281</u>	<u>\$ 7,692,385</u>	<u>\$ 23,835,666</u>

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

Elk River Municipal Utilities
Elk River, Minnesota
Statement of Cash Flows (Continued)
For the Year Ended December 31, 2019

	Electric	Water	Total
Reconciliation of Operating Income (Loss) to			
Net Cash Provided by Operating Activities			
Operating income (loss)	\$ 3,539,547	\$ (366,781)	\$ 3,172,766
Adjustments to reconcile operating income (loss)			
to net cash provided by operating activities			
Other revenue related to operations	568,635	248,960	817,595
Bad debt expense	11,828	-	11,828
Depreciation	2,856,258	1,147,149	4,003,407
(Increase) decrease in assets/deferred outflows:			
Accounts receivable	(541,177)	12,645	(528,532)
Other receivables	(53,398)	(2,059)	(55,457)
Special assessments receivable	1,203	18,378	19,581
Inventories	(177,027)	5,471	(171,556)
Prepaid expenses	19,453	2,221	21,674
Deferred pension resources	279,368	56,948	336,316
Increase (decrease) in liabilities/deferred inflows:			
Accounts payable	(66,123)	42,461	(23,662)
Salaries and benefits payable	21,898	450	22,348
Net other postemployment benefits liability	92,537	24,663	117,200
Unearned revenue	3,000	3,883	6,883
Compensated absences payable	15,955	(15,178)	777
Due to other governments	9,479	(505)	8,974
Customer deposits payable	(62,161)	40,950	(21,211)
Pension liability	26,450	(36,233)	(9,783)
Deferred pension resources	(160,760)	(39,410)	(200,170)
Net Cash Provided by Operating Activities	<u>\$ 6,384,965</u>	<u>\$ 1,144,013</u>	<u>\$ 7,528,978</u>
Noncash Capital and			
Related Financing Activities			
Amortization of Bond Premium	<u>\$ 51,471</u>	<u>\$ 829</u>	<u>\$ 52,300</u>
Amortization of Deferred Charges on Refunding	<u>\$ 6,684</u>	<u>\$ 1,671</u>	<u>\$ 8,355</u>
Loss on Disposal of Capital Assets	<u>\$ (17,050)</u>	<u>\$ -</u>	<u>\$ (17,050)</u>
Book Value of Disposed Capital Assets	<u>\$ 337,641</u>	<u>\$ -</u>	<u>\$ 337,641</u>
Capital Assets Purchased on Account	<u>\$ 867,324</u>	<u>\$ 18,288</u>	<u>\$ 885,612</u>
Contribution of Capital Assets	<u>\$ 125,764</u>	<u>\$ -</u>	<u>\$ 125,764</u>
Contribution of Grants	<u>\$ 10,000</u>	<u>\$ -</u>	<u>\$ 10,000</u>

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

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Elk River Municipal Utilities
Elk River, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 1: Summary of Significant Accounting Policies

A. Nature of the Business

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

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

B. Measurement Focus, Basis of Accounting and Basis of Presentation

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

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

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

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

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

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

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

The Utilities reports the following major proprietary funds:

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

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

Elk River Municipal Utilities
Elk River, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 1: Summary of Significant Accounting Policies (Continued)

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

C. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position

Cash and Cash Equivalents

The Utilities' cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The proprietary funds' portion in the government-wide cash and temporary investments pool is considered to be cash and cash equivalents for purposes of the statements of cash flows.

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

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

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, rated in one of the two highest rating categories by a statistical rating agency, and have a final maturity of thirteen months or less.
3. General obligations of a state or local government with taxing powers rated "A" or better; revenue obligations rated "AA" or better.
4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.
5. Obligation of a school district with an original maturity not exceeding 13 months and (i) rated in the highest category by a national bond rating service or (ii) enrolled in the credit enhancement program pursuant to statute section 126C.55.
6. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
7. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
8. Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
9. Guaranteed Investment Contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

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

Elk River Municipal Utilities
Elk River, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 1: Summary of Significant Accounting Policies (Continued)

The Utilities categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Utilities recurring fair value measurements are listed in detail on page 35 and are valued using a matrix pricing model (Level 2 inputs).

The Utilities has the following recurring fair value measurements as of December 31, 2019:

- Negotiable certificates of deposit of \$3,759,927 are valued using a matrix pricing model (Level 2 inputs)

Restricted Assets

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

Accounts Receivable

Accounts receivable include amounts billed for services provided before year end. The Utilities has established a reserve for uncollectible accounts which is adjusted annually based on the receivable activity. No substantial losses from present receivable balances are anticipated. A summary of the uncollectible account balances at December 31, 2019 is as follows:

	<u>2019</u>
Electric	\$ 25,355
Water	<u>250</u>
Total	<u><u>\$ 25,605</u></u>

Interfund Receivables and Payables

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

Inventories and Prepaid items

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

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

Capital Assets

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

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

Elk River Municipal Utilities
Elk River, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 1: Summary of Significant Accounting Policies (Continued)

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

Description	Lives in Years	
	Electric	Water
Production	4 - 20	25 - 50
Transmission	30	0
Distribution	10 - 33	25 - 50
General	10 - 50	10 - 50
Machinery, Tools, and Equipment	5 - 10	5 - 10
Automobiles	3 - 8	3 - 8

Deferred Outflows of Resources

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

Compensated Absences

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

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

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

Postemployment Benefits other than Pensions

Under Minnesota statute 471.61, subdivision 2b., public employers must allow retirees and their dependents to continue coverage indefinitely in an employer-sponsored health care plan, under the following conditions: 1) Retirees must be receiving (or eligible to receive) an annuity from a Minnesota public pension plan, 2) Coverage must continue in group plan until age 65, and retirees must pay no more than the group premium, and 3) Retirees may obtain dependent coverage immediately before retirement. All premiums are funded on a pay-as-you-go basis. The liability was actuarially determined, in accordance with GASB Statement 75, at December 31, 2018.

Elk River Municipal Utilities
Elk River, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 1: Summary of Significant Accounting Policies (Continued)

Pensions

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

The total pension expense for all plans recognized by the Utilities for the year ended December 31, 2019 was \$422,390. The components of pension expense are noted in the plan summaries in Note 3.

Long-term Obligations

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

Performance Metrics and Incentive Compensation

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

Deferred Inflows of Resources

In addition to liabilities, the statement of net position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Utilities has only one type of item which qualifies for reporting in this category. The item, deferred pension resources, is reported only in the statement of net position and results from actuarial calculations.

Net Position

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

- a. Net investment in capital assets - Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.
- b. Restricted net position - Consists of net position restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
- c. Unrestricted net position - All other net position that do not meet the definition of "restricted" or "net investment in capital assets".

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

Elk River Municipal Utilities
Elk River, Minnesota
Notes to the Financial Statements
December 31, 2019

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 Utilities 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 Utilities maintains deposits at those depository banks, all of which are members of the Federal Reserve System.

Minnesota statutes require that all Utilities deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds, with the exception of irrevocable standby letters of credit issued by Federal Home Loan Banks as this type of collateral only requires collateral pledged equal to 100 percent of the deposits not covered by insurance or bonds.

Authorized collateral in lieu of a corporate surety bond includes:

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

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

At December 31, 2019, the Utilities' carrying amount of deposits was \$20,042,093 and the bank balance was \$20,029,187. Of the bank balance \$350,111 was covered by federal depository insurance, and the remaining balance was covered by collateral held by the pledging financial institution's agent in the Utilities' name.

Elk River Municipal Utilities
Elk River, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 2: Detailed Notes on All Funds (continued)

Investments

The Utilities' investment balances were as follows for December 31, 2019:

Types of Investments	Credit Quality/ Ratings (1)	Segmented Time Distribution (2)	Amount	Fair Value Measurement Using		
				Level 1	Level 2	Level 3
Pooled Investments						
Broker Money Markets	N/A	less than 1 year	\$ 32,846	\$ -	\$ -	\$ -
Non-pooled Investments						
Negotiable certificates of deposits	N/A	less than 1 year	2,225,375	-	2,225,375	-
Negotiable certificates of deposits	N/A	1 - 5 years	1,534,552	-	1,534,552	-
Total Non-pooled Investments			3,759,927	-	3,759,927	-
Total Investments			<u>\$ 3,792,773</u>	<u>\$ -</u>	<u>\$ 3,759,927</u>	<u>\$ -</u>

(1) Ratings were provided by various credit rating agencies where applicable to indicate associated credit risk.

(2) Interest rate risk is disclosed using the segmented time distribution method.

N/A Indicates not applicable.

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

	2019
Deposits	\$ 20,042,093
Investments	3,792,773
Cash on Hand	<u>800</u>
Total	<u>\$ 23,835,666</u>
Cash and Temporary Investments	
Unrestricted	\$ 22,574,307
Restricted	<u>1,261,359</u>
Total	<u>\$ 23,835,666</u>

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

- *Credit Risk.* Is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and where applicable, indicate associated credit risk. Minnesota statutes and the Utilities' investment policy limit the Utilities' investments to the list on page 30 of the notes.
- *Custodial Credit Risk.* The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. According to their investment policy the Utilities' portfolio maturities shall be staggered to avoid undue concentration of assets with one broker-dealer or financial institution.

Elk River Municipal Utilities
Elk River, Minnesota
Notes to the Financial Statements
December 31, 2019

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, 2019 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets not being Depreciated				
Land	\$ 678,921	\$ -	\$ -	\$ 678,921
Intangible	23,279,955	834,184	-	24,114,139
Construction in progress	467,470	2,058,365	(1,514,127)	1,011,708
Total Capital Assets not being Depreciated	24,426,346	2,892,549	(1,514,127)	25,804,768
Capital Assets being Depreciated				
Land improvements	23,389	-	-	23,389
Buildings	3,917,328	27,066	-	3,944,394
Machinery and equipment	3,969,945	375,809	(187,039)	4,158,715
Infrastructure	85,787,544	1,686,064	(201,642)	87,271,966
Total Capital Assets being Depreciated	93,698,206	2,088,939	(388,681)	95,398,464
Less Accumulated Depreciation for				
Intangible	(165,883)	(668,134)	-	(834,017)
Land improvements	(18,195)	(936)	-	(19,131)
Buildings	(2,041,840)	(110,649)	-	(2,152,489)
Machinery and equipment	(2,396,004)	(316,374)	150,467	(2,561,911)
Infrastructure	(40,917,958)	(2,907,314)	187,178	(43,638,094)
Total Accumulated Depreciation	(45,539,880)	(4,003,407)	337,645	(49,205,642)
Total Capital Assets being Depreciated, Net	48,158,326	(1,914,468)	(51,036)	46,192,822
Business-type Activities Capital Assets, Net	<u>\$ 72,584,672</u>	<u>\$ 978,081</u>	<u>\$ (1,565,163)</u>	<u>\$ 71,997,590</u>

Elk River Municipal Utilities
Elk River, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 2: Detailed Notes on All Funds (Continued)

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

	<u>2019</u>
Business-type Activities	
Electric	\$ 2,856,258
Water	<u>1,147,149</u>
Total Depreciation Expense - Business-type Activities	<u><u>\$ 4,003,407</u></u>

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	\$ 780,000
G.O. Capital Improvement Plan Bonds of 2010A	1,265,000	2.00 - 4.00	04/21/10	02/01/23	<u>455,000</u>
Total G.O. Revenue Bonds					<u><u>\$ 1,235,000</u></u>

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

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 355,000	\$ 39,498	\$ 394,498
2021	370,000	26,270	396,270
2022	385,000	12,228	397,228
2023	<u>125,000</u>	<u>2,499</u>	<u>127,499</u>
Total	<u><u>\$ 1,235,000</u></u>	<u><u>\$ 80,495</u></u>	<u><u>\$ 1,315,495</u></u>

In 2019, annual principal and interest payment on the bonds required about 0.3% percent of revenues from the Electric fund. The principal and interest paid and total customer revenues for the Electric fund were \$96,160 and \$38,094,633, respectively.

In 2019, annual principal and interest payment on the bonds required about 12.8% percent of revenues from the Water fund. The principal and interest paid and total customer revenues for the Water fund were \$295,830 and \$2,303,670, respectively.

Elk River Municipal Utilities
Elk River, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 2: Detailed Notes on All Funds (Continued)

Revenue Bonds

The revenue bonds were issued to facilitate the membership buy-in with MMPA, the new power provider, and are to be repaid from future revenue pledged from 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 2016A	\$ 9,755,000	2.00 - 4.00 %	07/14/16	02/01/36	\$ 9,345,000
Electric Revenue Refunding Bonds, Series 2016B	1,370,000	2.00 - 4.00	07/14/16	02/01/22	705,000
Electric Revenue Bonds, Series 2018A	10,000,000	3.50 - 5.00	09/26/18	08/01/48	9,775,000
Total Revenue Bonds					<u>\$ 19,825,000</u>

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

Year Ending December 31,	Principal	Interest	Total
2020	\$ 840,000	\$ 652,431	\$ 1,492,431
2021	865,000	621,431	1,486,431
2022	900,000	589,081	1,489,081
2023	680,000	560,531	1,240,531
2024	705,000	535,906	1,240,906
2025 - 2029	3,905,000	2,320,556	6,225,556
2030 - 2034	4,515,000	1,711,981	6,226,981
2035 - 2039	3,160,000	1,016,081	4,176,081
2040 - 2044	2,200,000	611,656	2,811,656
2045 - 2048	2,055,000	189,589	2,244,589
Total	<u>\$ 19,825,000</u>	<u>\$ 8,809,243</u>	<u>\$ 28,634,243</u>

In 2019, annual principal and interest payment on the bonds required about 3.9% percent of revenues from the Electric fund. Principal and interest paid and total customer revenues for the Electric fund were \$1,484,210 and \$38,094,633, 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	12/01/22	<u>\$ 619,692</u>

Elk River Municipal Utilities
Elk River, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 2: Detailed Notes on All Funds (Continued)

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

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 203,952	\$ -	\$ 203,952
2021	206,616	-	206,616
2022	209,124	-	209,124
Total	<u>\$ 619,692</u>	<u>\$ -</u>	<u>\$ 619,692</u>

Changes in Long-term Liabilities

Long-term liability activity for the year ended December 31, 2019 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-type Activities					
Bonds Payable					
General obligation					
revenue bonds	\$ 1,575,000	\$ -	\$ (340,000)	\$ 1,235,000	\$ 355,000
Revenue bonds	20,685,000	-	(860,000)	19,825,000	840,000
Unamortized premium					
on bonds	<u>870,336</u>	<u>-</u>	<u>(52,300)</u>	<u>818,036</u>	<u>-</u>
Total Bonds Payable, Net	<u>23,130,336</u>	<u>-</u>	<u>(1,252,300)</u>	<u>21,878,036</u>	<u>1,195,000</u>
Notes Payable	820,608	-	(200,916)	619,692	203,952
Compensated					
Absences Payable	<u>393,951</u>	<u>292,251</u>	<u>(291,474)</u>	<u>394,728</u>	<u>394,728</u>
Business-type Activity					
Long-term					
Liabilities	<u>\$ 24,344,895</u>	<u>\$ 292,251</u>	<u>\$ (1,744,690)</u>	<u>\$ 22,892,456</u>	<u>\$ 1,793,680</u>

Elk River Municipal Utilities
Elk River, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 2: Detailed Notes on All Funds (Continued)

D. Interfund Receivables, Payables and Transfers

Interfunds

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

Receivable Fund	Payable Fund	Amount	Purpose
Electric	City	\$ 3,008	December billings
Electric	City	4,394	Plant hangers for downtown street lights
Total Electric Fund Receivable From City		<u>7,402</u>	
Water	City	<u>128,850</u>	TIF 22 Water Access Charge
Total Receivable From City		<u>\$ 136,252</u>	
City	Electric	\$ 132,579	Shared costs
City	Electric	10,668	Supplies
City	Electric	82,413	December transfer of 4% of revenue
City	Electric	274,777	4th quarter franchise fees
City	Electric	180,405	Billed sewer on behalf of City
City	Electric	138,531	Billed garbage on behalf of City
City	Electric	43,013	Billed stormwater on behalf of City
Total Electric Fund Payable to City		<u>862,386</u>	
City	Water	33,144	Shared costs
City	Water	<u>2,811</u>	Supplies
Total Water Fund Payable to City		<u>35,955</u>	
Total Payable to City		<u>\$ 898,341</u>	

Transfers

The transfer out of the Electric fund was the annual transfer of 4 percent of 2019 Elk River revenues to City funds. The Electric fund transferred \$1,157,445 in 2019.

Elk River Municipal Utilities
Elk River, Minnesota
Notes to the Financial Statements
December 31, 2019

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 Plan (GERP)

All full-time and certain part-time employees of the Utilities are covered by the General Employees Retirement Plan (GERP). GERP members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

B. Benefits Provided

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

GERP Benefits

GERP 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 Plan members. Members hired prior to July 1, 1989 receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2 percent of average salary for each of the first 10 years of service and 1.7 percent of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent for average salary for all years 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.

Annuities, disability benefits and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the postretirement increase will be equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

C. Contributions

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2019 and the Utilities was required to contribute 7.50 percent for Coordinated Plan members. The Utilities contributions to the General Employees Fund for the years ending December 31, 2019, 2018 and 2017 were \$285,668, \$265,424, and \$257,780, respectively. The Utilities contributions were equal to the required contributions for each year as set by state statute.

Elk River Municipal Utilities
Elk River, Minnesota
Notes to the Financial Statements
December 31, 2019

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

D. Pension Costs

General Employees Fund Pension Costs

At December 31, 2019, the Utilities reported a liability of \$2,874,964 for its proportionate share of the General Employees Fund's net pension liability. The Utilities net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2019. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the Utilities totaled \$89,329. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Utilities proportionate share 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, 2018 through June 30, 2019 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019, the Utilities proportionate share was 0.0520 percent which was the same percent as its proportion measured as of June 30, 2018.

Utilities' Proportionate Share of the Net Pension Liability	\$2,874,964
State of Minnesota's Proportionate Share of the Net Pension Liability Associated with the Utilities	<u>89,329</u>
Total	<u><u>\$ 2,964,293</u></u>

For the year ended December 31, 2019, the Utilities recognized pension expense of \$415,700 for its proportionate share of the General Employees Plan's pension expense. In addition, the Utilities recognized an additional \$6,690 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At December 31, 2019, the Utilities reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Expected and Actual Economic Experience	\$ 90,420	\$ 1,403
Changes in Actuarial Assumptions	4,266	237,305
Net Difference between Projected and Actual Earnings on Plan Investments	-	305,863
Changes in Proportion	48,779	64,405
Contributions paid to PERA subsequent to the Measurement Date	<u>141,730</u>	<u>-</u>
Total	<u><u>\$ 285,195</u></u>	<u><u>\$ 608,976</u></u>

Elk River Municipal Utilities
Elk River, Minnesota
Notes to the Financial Statements
December 31, 2019

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

The \$141,730 reported as deferred outflows of resources related to pensions resulting from the Utilities' contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2020	\$ (139,977)
2021	(272,612)
2022	(57,555)
2023	4,633

E. Actuarial Assumptions

The total pension liability in the June 30, 2019 actuarial valuation was determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25 percent per year for General Employees Plan.

Actuarial assumptions used in the June 30, 2019 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2019. Economic assumptions were updated in 2018 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions and plan provisions occurred in 2019:

General Employees Fund

Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions

- The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The State's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

Elk River Municipal Utilities
Elk River, Minnesota
Notes to the Financial Statements
December 31, 2019

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

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic Equity	35.5 %	5.10 %
Private Markets	25.0	5.90
Fixed Income	20.0	0.75
International Equity	17.5	5.90
Cash Equivalents	2.0	-
Total	<u>100.0 %</u>	

F. Discount Rate

The discount rate used to measure the total pension liability in 2019 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Changes in Pension Liability

During the year ended December 31, 2019 the following pension changes occurred in non-current liabilities reported on the financial statements.

	Beginning Balance	Pension Expense	Employer Contributions/ Net Annual Amortizations	Ending Balance
Business-type Activities				
GERP	<u>\$ 2,884,747</u>	<u>\$ 422,390</u>	<u>\$ (432,173)</u>	<u>\$ 2,874,964</u>

Elk River Municipal Utilities
Elk River, Minnesota
Notes to the Financial Statements
December 31, 2019

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

H. 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:

	1 Percent Decrease (6.50%)	Current (7.50%)	1 Percent Increase (8.50%)
General Employees Fund	\$ 4,726,285	\$ 2,874,964	\$ 1,346,329

I. Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

Note 4: Other Information

A. Territorial Acquisition Agreement

In 1991, the Utilities entered into a 20-year agreement to transfer ownership of electric plant and electric service to customers in certain areas receiving electric service from Anoka Electric Cooperative, Inc. (AEC). In 2010 the Utilities 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 \$0 in 2019 for loss of revenues under this agreement. All amounts paid are included in property and equipment.

In 2015, the Utilities entered into an agreement to transfer ownership of electric plant and electric service to customers in eight designated areas receiving service from Connexus Energy. Specific payment terms have been negotiated for 5 years, and if any of the eight areas are not acquired within this timeframe, the payment terms may be renegotiated. In 2019, the Utilities acquired the final service areas.

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 designated service area 1 in 2015 for \$877,807, service area 2 in 2016 for \$663,586, service areas 3 and 4 in 2017 for \$276,776, service areas 5 and 6 in 2018 for \$298,736 and service areas 7 and 8 in 2019 for \$78,457. The loss of revenue payments made were \$411,157 in 2017, \$570,725 in 2018, \$751,860 in 2019, and \$834,185 in 2020. All amounts paid are included in property and equipment, and loss of revenue payments are included in intangible assets.

Elk River Municipal Utilities
Elk River, Minnesota
Notes to the Financial Statements
December 31, 2019

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 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. To ensure bond payment obligations, cash distributions for 2019 were curtailed. In 2018, the principal bond payment increased approximately by \$700K. This increase remains in effect through 2020. In 2021, the bond payment drops nearly \$1M. A contributing factor in participant cash distributions in 2019 is under recovery. The projected under recovery in 2019 is estimated to be \$203K. The bond obligations are satisfied first, distribution to participants is directly affected by under recovery. The under recovery is rolled forward under the true up. However, the under recovery in 2019 (approximately \$203K) would be included in the revenue requirements in 2021. The transmission payments for 2019 were \$46,021 all of which was a receivable at December 31, 2019.

Note 5: Subsequent Event

In December 2019, a novel strain of coronavirus (COVID-19) surfaced. The spread of COVID-19 around the world in the first quarter of 2020 has caused significant volatility in U.S. and international markets. There is significant uncertainty around its impact on the U.S. and international economies and, as such, there have been significant losses in the stock market in first quarter 2020. Plan assets may have seen unrealized market losses as of March 31, 2020. However, Utilities is unable to determine the long term material impact to its asset values.

Elk River Municipal Utilities
Elk River, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 6: Postemployment Benefits Other Than Pensions

A. 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.

At December 31, 2019, the following employee were covered by the benefit terms.

Active Plan Members	39
Active Waiving Coverage	9
	<hr/> <hr/>
Total Plan Members	48
	<hr/> <hr/>

B. Funding Policy

Contribution requirements are also reviewed at the time changes are made to the plan. The Utilities contributes none of the cost of current-year premiums for eligible retired plan members and their spouses. Plan members receiving benefits contribute 100 percent of their premium costs. In fiscal year 2019, total member contributions were \$0.

C. Actuarial Methods and Assumptions

The Utilities total OPEB liability of \$217,772 was measured as of December 31, 2019, and the total OPEB liability used to calculate the total OPEB liability was determined by an actuarial valuation as of December 31, 2019.

The total OPEB liability in the January 1, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Discount Rate	3.71%
Expected Long-Term Investment Return	N/A
20-Year Municipal Bond Yield	3.71%
Inflation Rate	2.50%
Salary Increases	Mortality, withdrawal and salary scale updated to the rates used in the July 1, 2018 PERA of Minnesota Retirement Plan actuarial valuation to reflect recently-published tables.
Medical Trend Rate	6.40% for 2019, gradually decreasing over several decades to an ultimate rate of 4.00% in 2076 and later years.

Mortality rates were based on the RP-2014 mortality tables with projected mortality improvements based on scale MP-2017, and other adjustments. The actuarial assumptions used in the December 31, 2019 valuation were based on input from a variety of published sources of historical and projected future financial data. Each assumption was reviewed for reasonableness with the source information as well as for consistency with the other economic assumptions.

Elk River Municipal Utilities
Elk River, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 6: Postemployment Benefits Other Than Pensions

D. Changes in the Total OPEB Liability

	Total OPEB Liability (a)
Balances at December 31, 2018	<u>\$ 100,572</u>
Changes for the Year:	
Service cost	12,750
Interest	3,751
Differences between expected and actual experience	(3,832)
Changes in assumptions or other inputs	<u>104,531</u>
Net Changes	<u>117,200</u>
Balances at December 31, 2019	<u><u>\$ 217,772</u></u>

Since the prior measurement date, the following assumptions changed:

- The discount rate was changed from 3.31% to 3.71%.
- Mortality, withdrawal and salary scale updated to the rates used in the July 1, 2018 PERA of Minnesota Retirement Plan actuarial valuation to reflect recently-published tables.
- Medical per capita claims costs were updated to reflect recent experience.
- The assumed retirement age was updated from 60 to 57 to reflect recent experience.
- The inflation assumption was changed from 2.75% to 2.50% based on an updated historical analysis of inflation rates and forward-looking market expectations.
- Health care trend rates were reset to reflect updated cost increase expectations, including an adjustment to reflect the impact of the Affordable Care Act's Excise Tax on high-cost health insurance plans.

E. Sensitivity of the Total OPEB Liability

The following presents the total OPEB liability of the Utilities, as well as what the Utilities' total OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.71 percent) or 1-percentage-point higher (4.71 percent) than the current discount rate:

1 Percent Decrease (2.71%)	Current (3.71%)	1 Percent Increase (4.71%)
\$ 237,862	\$ 217,772	\$ 199,558

The following presents the total OPEB liability of the Utilities, as well as what the Utilities' total OPEB liability would be if it were calculated using a Healthcare Cost Trend Rates that is 1-percentage point lower (5.40 percent decreasing to 3.00 percent) or 1-percentage-point higher (7.40 percent increasing to 5.00 percent) than the current discount rate:

1 Percent Decrease (5.4% Decreasing to 3%)	Healthcare Cost Trend Rates (6.4% Decreasing to 4%)	1 Percent Increase (7.4% Decreasing to 5%)
\$ 194,867	\$ 217,772	\$ 244,554

REQUIRED SUPPLEMENTARY INFORMATION

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2019

Elk River Municipal Utilities
Elk River, Minnesota
Required Supplementary Information
For the Year Ended December 31, 2019

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

Fiscal Year Ending	Utilities Proportion of the Net Pension Liability	Utilities Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with the Utilities (b)	Total (a+b)	Utilities Covered Payroll (c)	Utilities Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/19	0.0520 %	\$ 2,874,964	\$ 89,329	\$ 2,964,293	\$ 3,680,233	78.1 %	80.2 %
06/30/18	0.0520	2,884,747	94,615	2,979,362	3,494,641	82.5	79.5
06/30/17	0.0540	3,447,324	43,337	3,490,661	3,478,022	99.1	75.9
06/30/16	0.0508	4,124,708	53,908	4,178,616	3,151,720	130.9	68.9
06/30/15	0.0478	2,477,244	-	2,477,244	2,811,834	88.1	78.2

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

Schedule of Employer's PERA Contributions - General Employees Fund

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)
12/31/19	\$ 285,668	\$ 285,668	\$ -	\$ 3,808,909	7.5 %
12/31/18	265,424	265,424	-	3,538,988	7.5
12/31/17	257,780	257,780	-	3,437,072	7.5
12/31/16	244,012	244,012	-	3,253,493	7.5
12/31/15	230,074	230,074	-	3,067,659	7.5

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

Elk River Municipal Utilities
Elk River, Minnesota
Required Supplementary Information (Continued)
For the Year Ended December 31, 2019

Notes to the Required Supplementary Information - General Employee Retirement Fund

Changes in Actuarial Assumptions

2019 - The mortality projection scale was changed from MP-2017 to MP-2018.

2018 - The morality projection scale was changed from MP-2015 to MP-2017. The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

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

2016 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2035 and 2.5 percent per year thereafter to 1.0 percent per year for all future years. The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent. Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

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

Changes in Plan Provisions

2019 - The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The state's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

2018 - The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024. Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018. Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply. Contribution stabilizer provisions were repealed. Postretirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90.00 percent funding ratio to 50.00 percent of the Social Security Cost of Living Adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to Rule of 90 retirees, disability benefit recipients, or survivors. Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 - The State's contribution for the Minneapolis Employees Retirement Fund equals \$16,000,000 in 2017 and 2018, and \$6,000,000 thereafter. The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from \$21,000,000 to \$31,000,000 in calendar years 2019 to 2031. The state's contribution changed from \$16,000,000 to \$6,000,000 in calendar years 2019 to 2031.

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

Elk River Municipal Utilities
Elk River, Minnesota
Required Supplementary Information (Continued)
For the Year Ended December 31, 2019

Schedule of Changes in the Employer's OPEB Liability and Related Ratios

	2019	2018
Total OPEB Liability		
Service cost	\$ 12,750	\$ 11,084
Interest	3,751	3,526
Differences between expected and actual experience	(3,832)	-
Changes in assumptions	104,531	4,509
Net Change in Total OPEB Liability	117,200	19,119
Total OPEB Liability - Beginning	100,572	81,453
	<u>\$ 217,772</u>	<u>\$ 100,572</u>
Total OPEB Liability - Ending		
	<u>\$ 217,772</u>	<u>\$ 100,572</u>
Covered - employee payroll	\$ 3,547,495	\$ 3,584,096
Utilities' total OPEB liability as a percentage of covered employee payroll	6.14 %	2.81 %

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

Changes in Plan Provisions

2019 - No changes identified

2018 - No changes identified

Changes in Actuarial Assumptions

2019 - The discount rate was changed from 3.31% to 3.71%. Mortality, withdrawal and salary scale updated to the rates used in the July 1, 2018 PERA of Minnesota Retirement Plan actuarial valuation to reflect recently-published tables. Medical per capita claims costs were updated to reflect recent experience. The assumed retirement age was updated from 60 to 57 to reflect recent experience. The inflation assumption was changed from 2.75% to 2.50% based on an updated historical analysis of inflation rates and forward-looking market expectations. Health care trend rates were reset to reflect updated cost increase expectations, including an adjustment to reflect the impact of the Affordable Care Act's Excise Tax on high-cost health insurance plans.

2018 - The discount rate was changed from 3.81% to 3.31%. Health care trend rates were reset to reflect updated cost increase expectations, including an adjustment to reflect the impact of the Affordable Care Act's Excise Tax on high-cost health insurance plans. Medical per capita claims costs were updated to reflect recent experience. Withdrawal rates were updated from the Small Plan age-based table in the 2003 SOA Turnover, adjusted by 50% to the rate used in the 7/1/2017 PERA General Employees Retirement Plan valuation. The salary scale assumption was changed from a flat rate of 3.25% to the rates used in the 7/1/2017 PERA General Employees Retirement Plan valuation.

SUPPLEMENTARY INFORMATION

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2019

Elk River Municipal Utilities
Elk River, Minnesota
Supplementary Information
Schedule of Operating Revenues and Expenses
For the Year Ended December 31, 2019

	Electric	Water	Total
Operating Revenues			
Charges for services			
Elk River	\$ 33,505,570	\$ 2,235,222	\$ 35,740,792
Otsego	2,636,692	-	2,636,692
Big Lake	180,194	-	180,194
Dayton	215,694	-	215,694
LFG Project	1,102,835	-	1,102,835
Substation credit	4,800	-	4,800
Connection maintenance	194,295	50,583	244,878
Customer penalties	254,553	17,865	272,418
Total Operating Revenues	<u>38,094,633</u>	<u>2,303,670</u>	<u>40,398,303</u>
Operating Expenses			
Purchased power	<u>24,851,301</u>	<u>-</u>	<u>24,851,301</u>
Production			
Supervision and labor	103,808	49,456	153,264
Natural gas	39,449	-	39,449
Supplies and power for pumping	45,500	261,217	306,717
Landfill gas expense	737,382	-	737,382
Maintenance of structures	30,632	57,354	87,986
Maintenance of equipment	19,826	148,417	168,243
Maintenance of plant	44,210	-	44,210
Total production	<u>1,020,807</u>	<u>516,444</u>	<u>1,537,251</u>
Transmission and distribution			
Supervision and labor	39,248	6,121	45,369
Maintenance of overhead lines	419,969	-	419,969
Maintenance of underground lines	256,833	-	256,833
Maintenance of station equipment	56,961	-	56,961
Transportation	219,760	11,074	230,834
Maintenance of customer service	9,983	51,581	61,564
Maintenance of customer meters	129,872	144,774	274,646
Miscellaneous	393,201	9,997	403,198
Total transmission and distribution	<u>1,525,827</u>	<u>223,547</u>	<u>1,749,374</u>
Services to City	<u>210,791</u>	<u>1,583</u>	<u>212,374</u>
Depreciation and amortization	<u>2,856,258</u>	<u>1,147,149</u>	<u>4,003,407</u>
Customer accounts expense			
Meter reading	27,298	1,334	28,632
Billing and collection	278,826	60,465	339,291
Bad debts	11,828	-	11,828
Total customer accounts expense	<u>317,952</u>	<u>61,799</u>	<u>379,751</u>

Elk River Municipal Utilities
Elk River, Minnesota
Supplementary Information
Schedule of Operating Revenues and Expenses (Continued)
For the Year Ended December 31, 2019

	Electric	Water	Total
Operating Expenses (Continued)			
General and administrative			
Salaries	\$ 697,449	\$ 197,084	\$ 894,533
Employee pensions and benefits	2,053,145	367,755	2,420,900
Dues	97,466	43,976	141,442
Office supplies and billing expense	86,046	18,534	104,580
Office utilities and maintenance	35,955	8,989	44,944
Consulting fees	19,656	4,662	24,318
Legal and audit	43,507	10,445	53,952
Environmental compliance	29,189	935	30,124
Conservation improvement project	340,310	8,443	348,753
Insurance	162,844	23,391	186,235
Telephone	22,519	5,488	28,007
Advertising	16,687	6,576	23,263
Education and meetings	154,239	19,352	173,591
Miscellaneous	13,138	4,299	17,437
Total general and administrative	<u>3,772,150</u>	<u>719,929</u>	<u>4,492,079</u>
Total Operating Expenses	<u>34,555,086</u>	<u>2,670,451</u>	<u>37,225,537</u>
Operating Income (Loss)	<u>3,539,547</u>	<u>(366,781)</u>	<u>3,172,766</u>
Nonoperating Revenues (Expenses)			
Interest income	159,014	38,097	197,111
Miscellaneous revenue	568,635	248,960	817,595
Interest expense and other	(643,159)	(32,939)	(676,098)
Gain/(loss) on sale of capital assets	<u>(2,050)</u>	<u>-</u>	<u>(2,050)</u>
Total Nonoperating Revenues	<u>82,440</u>	<u>254,118</u>	<u>336,558</u>
Income before Contributions and Transfers	<u>3,621,987</u>	<u>(112,663)</u>	<u>3,509,324</u>
Capital Contributions -			
Connection Fees	-	428,662	428,662
Grants	10,000	-	10,000
Contributions from Customers	125,764	-	125,764
Transfers to Other City Funds	<u>(1,157,445)</u>	<u>-</u>	<u>(1,157,445)</u>
Total Contributions and Transfers	<u>(1,021,681)</u>	<u>428,662</u>	<u>(593,019)</u>
Change in Net Position	2,600,306	315,999	2,916,305
Net Position, January 1	<u>39,451,799</u>	<u>25,041,708</u>	<u>64,493,507</u>
Net Position, December 31	<u>\$ 42,052,105</u>	<u>\$ 25,357,707</u>	<u>\$ 67,409,812</u>

Elk River Municipal Utilities

Elk River, Minnesota

Electric Fund

Summary of Operations and Unaudited Statistics

For the Years Ended December 31, 2010 through December 31, 2019

Summary of Operations

	2010	2011	2012	2013
Operating Revenues				
Sales of electricity	\$ 26,060,301	\$ 27,894,341	\$ 30,070,045	\$ 30,978,790
Other operating revenues (expenses)	732,261	689,645	188,645	(132,411)
Total Operating Revenues	<u>26,792,562</u>	<u>28,583,986</u>	<u>30,258,690</u>	<u>30,846,379</u>
Operating Expenses				
Purchased power	18,373,386	19,604,951	20,499,773	21,254,950
Distribution	1,892,212	1,960,742	1,909,845	1,970,341
Services to the City	434,415	474,934	481,907	498,146
Depreciation	2,062,942	2,041,717	2,099,594	2,029,496
Other operating expenses	2,399,236	2,350,706	2,359,193	2,374,959
Total Operating Expenses	<u>25,162,191</u>	<u>26,433,050</u>	<u>27,350,312</u>	<u>28,127,892</u>
Operating Income	1,630,371	2,150,936	2,908,378	2,718,487
Capital Contributions	-	-	-	-
Transfers from Other City Funds	53,741	-	-	-
Transfers to Other City Funds	(657,086)	(711,415)	(816,864)	(781,162)
Special Item	-	-	-	-
Nonoperating Revenues	<u>(154,956)</u>	<u>(105,604)</u>	<u>28,531</u>	<u>(30,658)</u>
Net Income	<u>\$ 872,070</u>	<u>\$ 1,333,917</u>	<u>\$ 2,120,045</u>	<u>\$ 1,906,667</u>
Percent of Change				
Sales of electricity	10.465%	7.038%	7.800%	3.022%
Purchased power	13.687%	6.703%	4.564%	3.684%
Percent of Revenues				
Purchased power	68.576%	68.587%	67.748%	68.906%

Unaudited Statistics

Miscellaneous

	2010	2011	2012	2013
kWh's purchased	264,642,834	276,026,892	287,553,108	290,025,919
kWh's sold	<u>250,711,834</u>	<u>261,235,297</u>	<u>273,455,846</u>	<u>273,945,354</u>
Line loss	13,931,000	14,791,595	14,097,262	16,080,565
Percent of line loss	5.264%	5.359%	4.902%	5.545%
Revenues Per kWh Sold	\$ 0.1039	\$ 0.1068	\$ 0.1100	\$ 0.1131
Cost Per kWh Purchased	\$ 0.0694	\$ 0.0710	\$ 0.0713	\$ 0.0733
Number of Customers	9,207	9,227	9,285	9,358
Total Contribution/Transfers to City	\$ 657,086	\$ 711,415	\$ 816,864	\$ 781,162

2014	2015	2016	2017	2018	2019
\$ 31,514,246	\$ 32,704,279	\$ 34,569,098	\$ 36,458,061	\$ 39,039,573	\$ 37,640,985
(147,561)	(152,557)	(104,702)	(337,237)	(259,668)	453,648
31,366,685	32,551,722	34,464,396	36,120,824	38,779,905	38,094,633
21,994,652	22,034,307	23,991,069	25,402,576	26,710,514	24,851,301
2,161,352	2,330,969	2,041,810	2,385,263	2,660,231	2,546,634
530,340	520,727	230,312	202,421	215,296	210,791
1,914,062	1,922,359	2,005,093	2,046,935	2,297,349	2,856,258
2,791,717	3,087,792	3,558,315	3,357,276	3,318,016	4,090,102
29,392,123	29,896,154	31,826,599	33,394,471	35,201,406	34,555,086
1,974,562	2,655,568	2,637,797	2,726,353	3,578,499	3,539,547
-	-	-	209,051	352,104	125,764
-	-	-	-	-	-
(797,835)	(824,743)	(1,089,287)	(1,113,264)	(1,188,664)	(1,157,445)
-	-	330,923	-	-	-
152,375	267,243	8,991	145,034	218,586	82,440
\$ 1,329,102	\$ 2,098,068	\$ 1,888,424	\$ 1,967,174	\$ 2,960,525	\$ 2,590,306
1.728%	3.776%	5.702%	5.464%	7.081%	-3.582%
3.480%	0.180%	8.881%	5.883%	5.149%	-6.961%
70.121%	67.690%	69.611%	70.327%	68.877%	65.236%
2014	2015	2016	2017	2018	2019
288,320,724	294,441,957	311,990,595	320,349,631	339,917,944	336,570,637
274,546,059	282,265,268	301,838,731	313,952,561	331,124,011	325,981,176
13,774,665	12,176,689	10,151,864	6,397,070	8,793,933	10,589,461
4.778%	4.136%	3.254%	1.997%	2.587%	3.146%
\$ 0.1148	\$ 0.1159	\$ 0.1145	\$ 0.1161	\$ 0.1179	\$ 0.1155
\$ 0.0763	\$ 0.0748	\$ 0.0769	\$ 0.0793	\$ 0.0786	\$ 0.0738
9,449	10,499	10,816	11,448	11,983	12,244
\$ 797,835	\$ 824,743	\$ 1,089,287	\$ 1,113,264	\$ 1,188,664	\$ 1,157,445

Elk River Municipal Utilities

Elk River, Minnesota

Water Fund

Summary of Operations and Unaudited Statistics

For the Years Ended December 31, 2010 through December 31, 2019

Summary of Operations

	2010	2011	2012	2013
Operating Revenues				
Sales of water	\$ 1,913,661	\$ 1,832,817	\$ 2,265,142	\$ 2,278,124
Operating Expenses				
Operating expenses less depreciation	989,736	1,008,562	1,130,965	1,210,797
Services to City	-	-	-	-
Depreciation	955,323	980,197	1,028,593	1,032,442
Total Operating Expenses	1,945,059	1,988,759	2,159,558	2,243,239
Total Operating Income (Loss)	\$ (31,398)	\$ (155,942)	\$ 105,584	\$ 34,885
Percent of Change				
Sales of water	(13.27%)	(4.22%)	23.59%	0.57%

Unaudited Statistics

Miscellaneous

	2010	2011	2012	2013
Water Pumped (Gallons)	686,289,000	651,907,000	847,283,200	785,377,000
Water Sold (Gallons)	627,209,000	599,701,000	727,912,000	709,760,000
Percent of Line Loss	8.61%	8.01%	14.09%	9.63%
Revenues Per 1,000 Gallons Pumped	\$ 2.78	\$ 2.80	\$ 2.67	\$ 2.90
Revenues Per 1,000 Gallons Sold	\$ 3.05	\$ 3.06	\$ 3.11	\$ 3.21
Number of Customers	4,511	4,515	4,542	4,613

Water Supplier Services

	2010	2011	2012	2013
Flushing Hydrants	35,000,000	34,000,000	46,400,000	45,000,000
Back Washing	9,000,000	8,000,000	30,000,000	8,000,000
Fire Department Use	3,000,000	4,000,000	16,500,000	5,000,000
New Water Main Disinfectant and Flushing	3,000,000	4,000,000	9,000,000	5,000,000
Flushing Seasonal Well	4,000,000	-	3,600,000	-
Meter Inaccuracy	-	-	6,500,000	3,000,000
Street and Sewer Maintenance	-	-	-	617,000
Water Tower Paint and Clean/Maintenance	-	2,000,000	-	2,000,000
Well Maintenance	-	-	-	-
Water Line and Irrigation Leaks	-	-	7,000,000	7,000,000
Frozen Pipes Bursting in Abandoned Homes	5,000,000	-	-	-
Water Supplier Services	59,000,000	52,000,000	119,000,000	75,617,000

2014	2015	2016	2017	2018	2019
<u>\$ 2,148,327</u>	<u>\$ 2,202,537</u>	<u>\$ 2,173,521</u>	<u>\$ 2,326,245</u>	<u>\$ 2,515,821</u>	<u>\$ 2,303,670</u>
1,267,019	1,277,466	1,325,831	1,614,095	1,430,539	1,521,719
-	5,719	-	-	-	1,583
<u>1,083,770</u>	<u>1,131,110</u>	<u>1,148,310</u>	<u>1,191,894</u>	<u>1,193,745</u>	<u>1,147,149</u>
<u>2,350,789</u>	<u>2,414,295</u>	<u>2,474,141</u>	<u>2,805,989</u>	<u>2,624,284</u>	<u>2,670,451</u>
<u><u>\$ (202,462)</u></u>	<u><u>\$ (211,758)</u></u>	<u><u>\$ (300,620)</u></u>	<u><u>\$ (479,744)</u></u>	<u><u>\$ (108,463)</u></u>	<u><u>\$ (366,781)</u></u>
(5.70%)	2.52%	(1.32%)	7.03%	8.15%	(8.43%)

2014	2015	2016	2017	2018	2019
782,110,000	799,974,000	801,603,000	788,182,000	822,546,000	778,595,000
672,760,000	676,842,000	666,656,000	686,032,000	737,689,000	664,924,000
13.98%	15.39%	16.83%	12.96%	10.32%	14.60%
\$ 2.75	\$ 2.75	\$ 2.71	\$ 2.95	\$ 3.06	\$ 2.96
\$ 3.19	\$ 3.25	\$ 3.26	\$ 3.39	\$ 3.41	\$ 3.46
4,676	4,672	4,903	5,011	5,140	5,256

Gallons					
2014	2015	2016	2017	2018	2019
47,000,000	45,000,000	46,816,000	47,470,500	47,894,000	48,240,500
3,922,000	4,000,000	4,430,000	4,125,542	3,823,903	3,850,801
5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000
5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000
-	-	-	-	-	-
3,000,000	-	-	-	-	-
1,000,000	473,400	1,800,000	1,550,000	1,550,000	1,550,000
1,000,000	3,700,000	4,000,000	4,000,000	4,000,000	4,000,000
-	700,000	7,358,000	7,000,000	7,000,000	7,000,000
7,000,000	-	-	-	-	-
-	-	-	-	-	-
<u>72,922,000</u>	<u>63,873,400</u>	<u>74,404,000</u>	<u>74,146,042</u>	<u>74,267,903</u>	<u>74,641,301</u>

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OTHER REPORT
ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2019

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INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

Public Utilities Commission
Elk River Municipal Utilities
Elk River, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the Elk River Municipal Utilities (the Utilities) of the City of Elk River, Minnesota (the City) as of and for the year ended December 31, 2019, and the related notes to the financial statements which collectively comprises the Utilities basic financial statements, and have issued our report thereon dated March 31, 2020.

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 contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions sections of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. 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, insofar as they relate to accounting matters.

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

ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
March 31, 2020