

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

FINANCIAL STATEMENTS AND
STATISTICAL INFORMATION

YEAR ENDED DECEMBER 31, 2015

**DELANO WATER, LIGHT, AND POWER COMMISSION
TABLE OF CONTENTS
YEAR ENDED DECEMBER 31, 2015**

INTRODUCTORY SECTION

ORGANIZATION SCHEDULE	1
------------------------------	----------

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT	2
-------------------------------------	----------

MANAGEMENT'S DISCUSSION AND ANALYSIS	5
---	----------

FINANCIAL STATEMENTS

STATEMENT OF NET POSITION	9
----------------------------------	----------

STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION	11
--	-----------

STATEMENT OF CASH FLOWS	12
--------------------------------	-----------

NOTES TO BASIC FINANCIAL STATEMENTS	14
--	-----------

REQUIRED SUPPLEMENTARY INFORMATION

PERA SCHEDULE OF THE COMMISSION'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	28
---	-----------

PERA SCHEDULE OF COMMISSION CONTRIBUTIONS	29
--	-----------

SUPPLEMENTARY INFORMATION

SCHEDULE OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION BY FUND	30
---	-----------

SCHEDULE OF OPERATING REVENUES BY FUND	31
---	-----------

SCHEDULE OF OPERATING EXPENSES BY FUND	32
---	-----------

SCHEDULE OF NON-OPERATING INCOME AND EXPENSES BY FUND	33
--	-----------

OTHER INFORMATION

SCHEDULE OF LARGEST UTILITY USERS (UNAUDITED)	34
--	-----------

INTRODUCTORY SECTION

**DELANO WATER, LIGHT, AND POWER COMMISSION
 ORGANIZATION SCHEDULE
 DECEMBER 31, 2015**

Board of Commissioners	Title	Term Expires
Jon Ness	Chairman	02/28/2018
Adam Steffl	Vice Chair	02/29/2016
Randy Keranen	Secretary	02/28/2017
Derek Schansberg	Commissioner	02/28/2017
Betsy Stolfa	Commissioner	02/28/2018
<u>City Council</u>		
Dale Graunke	Mayor	12/31/2018
Jason Franzen	Council	12/31/2018
Jack Russek	Council	12/31/2016
Holly Schrupp	Council	12/31/2018
Betsy Stolfa	Council	12/31/2016
<u>Administration</u>		
Hal Becker	General Manager (Retired in 2015)	Hired 3/16/1984
Paul Twite	Interim General Manager	

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of each major fund of the Delano Water, Light, and Power Commission (the Commission), a component unit of the City of Delano, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express on opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the Delano Water, Light, and Power Commission as of December 31, 2015, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Delano Water, Light, and Power Commission's 2014 financial statements of each major fund and we expressed unmodified opinions on those financial statements in our report dated February 19, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Emphasis of Matter

During fiscal year ended December 31, 2015, Delano Water, Light, and Power Commission adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the related GASB Statement No. 71, *Pension Transitions for Contributions Made Subsequent to the Measurement Date—An Amendment of GASB Statement No. 68*. As a result of the implementation of these standards, Delano Water, Light, and Power Commission reported a restatement for the change in accounting principle (see Note 10). Our auditors' opinion was not modified with respect to the restatement.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of the Commission's proportionate share of net pension liability, and schedule of the Commission's pension contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Delano Water, Light, and Power Commission's basic financial statements. The supplementary fund schedules and schedule of largest utility users are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Other Matters (Continued)

Other Information (Continued)

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 19, 2016, on our consideration of Delano Water, Light, and Power Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Delano Water, Light, and Power Commission's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
February 19, 2016

**DELANO WATER, LIGHT, AND POWER COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

This discussion and analysis of Delano Water, Light, and Power Commission's (Commission) performance provides an overview of the Commission's activities for the year ended December 31, 2015. The information presented should be read in connection with the financial statements and the accompanying notes to the financial statements.

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

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

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the Delano Water, Light, and Power Commission exceeded liabilities and deferred inflows of resources at the close of 2015 in the amount of \$19,439,216 (net position). This is a decrease of \$716,837 over net position at the close of 2014, mostly due to the restatement of beginning net position as a result of the implementation of GASB Statements No. 68 and 71. Net position would have increased \$104,289 without taking into account the restatement of beginning net position.
- By far, the largest portion of the Delano Water, Light and Power Commission's net position (approximately 99%) reflects its investment in utility plant assets (e.g. buildings, structures and improvements, generating plant equipment, station equipment, distribution lines and distribution mains, meters, furniture and equipment, transportation equipment, power operated equipment, and communication equipment), less the related debt used to acquire those assets that is still outstanding. The Delano Water, Light, and Power Commission uses the utility plant assets to provide services to our customers, consequently, these assets are not available for future spending.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

**DELANO WATER, LIGHT, AND POWER COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

BASIC FINANCIAL STATEMENTS REQUIRED

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

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

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

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

CONDENSED FINANCIAL STATEMENTS

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

**TABLE 1
CONDENSED STATEMENT OF NET POSITION**

	<u>2015</u>	<u>2014</u>	<u>Change</u>
Net Utility Plant	\$ 24,593,465	\$ 24,043,702	\$ 549,763
Current Assets	2,652,175	2,965,932	(313,757)
Other Assets	184,645	337,570	(152,925)
Total Assets	<u>27,430,285</u>	<u>27,347,204</u>	<u>83,081</u>
Deferred Outflows of Resources	<u>122,826</u>	<u>-</u>	<u>122,826</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 27,553,111</u>	<u>\$ 27,347,204</u>	<u>\$ 205,907</u>
Current and Other Liabilities	\$ 1,284,344	\$ 1,010,840	\$ 273,504
Noncurrent Liabilities	6,011,374	6,180,311	(168,937)
Total Liabilities	<u>7,295,718</u>	<u>7,191,151</u>	<u>104,567</u>
Deferred Inflows of Resources	818,177	656,793	161,384
Net Position:			
Net Investment in Utility Plant	19,268,220	18,853,702	414,518
Unrestricted	170,996	1,302,351	(1,131,355)
Total Net Position	<u>19,439,216</u>	<u>20,156,053</u>	<u>(716,837)</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 27,553,111</u>	<u>\$ 27,347,204</u>	<u>\$ (612,270)</u>

**DELANO WATER, LIGHT, AND POWER COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

CONDENSED FINANCIAL STATEMENTS (CONTINUED)

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

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

	<u>2015</u>	<u>2014</u>	<u>Change</u>
Total Operating Revenues	\$ 6,245,512	\$ 5,949,449	\$ 296,063
Operating Expenses:			
Production	3,828,358	3,577,175	251,183
Distribution	176,974	181,834	(4,860)
General and Administration	1,310,950	1,258,888	52,062
Depreciation and Amortization	<u>1,035,526</u>	<u>1,014,881</u>	<u>20,645</u>
Total Operating Expenses	<u>6,351,808</u>	<u>6,032,778</u>	<u>319,030</u>
Operating Loss	(106,296)	(83,329)	(22,967)
Non-Operating Income	390,712	693,462	(302,750)
Non-Operating Expenses	<u>(392,627)</u>	<u>(499,844)</u>	<u>107,217</u>
Change in Net Position	104,289	110,289	(6,000)
Net Position - Beginning of Year	20,156,053	20,045,764	110,289
Prior Period Restatement - See Note 10	<u>(821,126)</u>	-	<u>(821,126)</u>
Net Position - Beginning of Year, as Restated	<u>19,334,927</u>	<u>20,045,764</u>	<u>(710,837)</u>
Net Position - End of Year	<u>\$ 19,439,216</u>	<u>\$ 20,156,053</u>	<u>\$ (716,837)</u>

FINANCIAL STATEMENT ANALYSIS

Total gross investment in utility plant increased from \$37,241,951 in 2014 to \$38,804,154 in 2015. Some of the projects that contributed to this increase are as follows: Work was completed on all 4 wells to incorporate the variable speed drives that were installed in 2014. The electric system in the Northeast corner of the City was upgraded to improve accessibility for utility crews and looped to help lessen the effect of an outage. Work continued on the third phase of the substation project and work continued on several other underground line projects.

Total operating revenues increased by \$296,063 from 2014 to 2015. Operating expenses also increased by \$319,030 from 2014 to 2015. Electric Fund revenues were impacted by a negative yearly average Power Cost Adjustment of 0.657¢, resulting in returning \$378,396 to our customers for the year 2015.

**DELANO WATER, LIGHT, AND POWER COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

UTILITY PLANT ASSETS AND LONG-TERM DEBT ACTIVITY

Delano Water, Light, and Power Commission made capital asset additions to the utility plant and construction in progress in the amount of \$1,585,290 for the year ended December 31, 2015. These additions consisted of upgrades to underground distribution infrastructure, a new generator, and a new service territory acquisition. Current year depreciation expense was \$1,035,526. Further information on the Commission's capital assets can be found in Note 3 to the financial statements.

Delano Water, Light, and Power Commission's long-term debt consisted mainly of revenue bonds payable in the amount of \$4,825,000 as well as a long-term liability in the amount of \$500,245 related to the acquisition of additional service territory from Wright-Hennepin Electric Cooperative. Further information on the Commission's debt activity can be found in Note 4 to the financial statements.

REQUEST FOR INFORMATION

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

FINANCIAL STATEMENTS

DELANO WATER, LIGHT, AND POWER COMMISSION
STATEMENT OF NET POSITION
DECEMBER 31, 2015
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF DECEMBER 31, 2014)

	2015			2014
	Electric	Water	Total	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
CURRENT ASSETS				
Cash and Cash Equivalents	\$ 401,016	\$ 691,081	\$ 1,092,097	\$ 1,273,594
Accounts Receivable - Customer	500,849	278,929	779,778	766,720
Miscellaneous Receivables	54,370	7,898	62,268	101,454
Prepaid Expenses	5,979	853	6,832	7,922
Inventory	635,184	76,016	711,200	816,242
Total Current Assets	<u>1,597,398</u>	<u>1,054,777</u>	<u>2,652,175</u>	<u>2,965,932</u>
OTHER ASSETS				
Advances to Other Funds	184,645	-	184,645	337,570
UTILITY PLANT				
Utility Plant Capital Investment	20,040,686	17,731,992	37,772,678	36,727,580
Intangible Assets - Service Territory				
Acquisition	500,245	-	500,245	-
Construction Work in Progress	507,473	23,758	531,231	514,371
Total	<u>21,048,404</u>	<u>17,755,750</u>	<u>38,804,154</u>	<u>37,241,951</u>
Less: Accumulated Depreciation	<u>(9,279,746)</u>	<u>(4,930,943)</u>	<u>(14,210,689)</u>	<u>(13,198,249)</u>
Net Utility Plant	<u>11,768,658</u>	<u>12,824,807</u>	<u>24,593,465</u>	<u>24,043,702</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension Activity Since Liability Measurement Date	<u>92,120</u>	<u>30,706</u>	<u>122,826</u>	<u>-</u>
Total Assets and Deferred Outflows Resources	<u>\$ 13,642,821</u>	<u>\$ 13,910,290</u>	<u>\$ 27,553,111</u>	<u>\$ 27,347,204</u>

See accompanying Notes to Basic Financial Statements.

DELANO WATER, LIGHT, AND POWER COMMISSION
STATEMENT OF NET POSITION (CONTINUED)
DECEMBER 31, 2015
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF DECEMBER 31, 2014)

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	2015			2014
	Electric	Water	Total	Total
CURRENT LIABILITIES				
Current Portion of Long-Term Debt	\$ 80,245	\$ 355,000	\$ 435,245	\$ 365,000
Accounts Payable	334,737	214,798	549,535	516,814
Accrued Compensation Payable	22,593	5,649	28,242	-
Compensated Absences, Current Portion	68,334	8,787	77,121	41,341
Customer Deposits	87,895	-	87,895	87,685
Unearned Revenue		106,306	106,306	-
Total Current Liabilities	593,804	690,540	1,284,344	1,010,840
LONG-TERM LIABILITIES				
Long-Term Debt	855,000	4,035,000	4,890,000	4,825,000
Escrow Accounts	-	-	-	236,924
Compensated Absences	58,654	22,959	81,613	124,024
Net Pension Liability	641,338	213,778	855,116	-
Advances from Other Funds	-	184,645	184,645	337,570
Total Long-Term Liabilities	1,554,992	4,456,382	6,011,374	5,523,518
Total Liabilities	2,148,796	5,146,922	7,295,718	6,534,358
DEFERRED INFLOWS OF RESOURCES				
Regulatory Collections to Cover Future Costs	711,648	-	711,648	656,793
Pension Activity Since Liability Measurement				
Date	79,896	26,633	106,529	-
Total Deferred Inflows of Resources	791,544	26,633	818,177	656,793
NET POSITION				
Net Investment in Capital Assets	10,833,413	8,434,807	19,268,220	18,853,702
Unrestricted	(130,932)	301,928	170,996	1,302,351
Total Net Position	10,702,481	8,736,735	19,439,216	20,156,053
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 13,642,821	\$ 13,910,290	\$ 27,553,111	\$ 27,347,204

DELANO WATER, LIGHT, AND POWER COMMISSION
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
YEAR ENDED DECEMBER 31, 2015
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED DECEMBER 31, 2014)

	2015			2014
	Electric	Water	Total	Total
OPERATING REVENUES				
Sales	\$ 5,206,455	\$ 985,202	\$ 6,191,657	\$ 5,933,039
Other Operating Revenues	53,855	-	53,855	16,410
Total Operating Revenues	<u>5,260,310</u>	<u>985,202</u>	<u>6,245,512</u>	<u>5,949,449</u>
OPERATING EXPENSES				
Production	3,662,470	165,888	3,828,358	3,577,175
Distribution	88,678	88,296	176,974	181,834
Administrative and General Expenses	1,064,713	246,237	1,310,950	1,258,888
Depreciation and Amortization	636,866	398,660	1,035,526	1,014,881
Total Operating Expenses	<u>5,452,727</u>	<u>899,081</u>	<u>6,351,808</u>	<u>6,032,778</u>
OPERATING INCOME (LOSS)	(192,417)	86,121	(106,296)	(83,329)
NON-OPERATING INCOME	189,386	201,326	390,712	693,462
NON-OPERATING EXPENSES	<u>(148,835)</u>	<u>(243,792)</u>	<u>(392,627)</u>	<u>(499,844)</u>
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	(151,866)	43,655	(108,211)	110,289
CONTRIBUTIONS	<u>212,500</u>	<u>-</u>	<u>212,500</u>	<u>-</u>
CHANGE IN NET POSITION	60,634	43,655	104,289	110,289
Net Position - Beginning of Year	11,257,692	8,898,361	20,156,053	20,045,764
Prior Period Adjustment for the Implementation of GASB Standard - See Note 10	<u>(615,845)</u>	<u>(205,281)</u>	<u>(821,126)</u>	<u>-</u>
Net Position - Beginning of Year, as Restated	<u>10,641,847</u>	<u>8,693,080</u>	<u>19,334,927</u>	<u>20,045,764</u>
NET POSITION - END OF YEAR	<u>\$ 10,702,481</u>	<u>\$ 8,736,735</u>	<u>\$ 19,439,216</u>	<u>\$ 20,156,053</u>

See accompanying Notes to Basic Financial Statements.

DELANO WATER, LIGHT, AND POWER COMMISSION
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2015
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED DECEMBER 31, 2014)

	2015			2014
	Electric	Water	Total	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received from Customers	\$ 5,282,476	\$ 989,164	\$ 6,271,640	\$ 5,880,985
Cash Paid to Suppliers and Others	(3,658,829)	(380,659)	(4,039,487)	(4,233,994)
Cash Paid to Employees	(879,010)	(251,231)	(1,130,242)	(1,035,193)
Net Cash Provided by Operating Activities	744,637	357,274	1,101,911	611,798
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Other Non-Capital Income	181,660	305,743	487,403	676,770
Disposal of Inventory	-	-	-	(78,356)
Payments In Lieu of Taxes	(106,000)	-	(106,000)	(106,000)
Net Cash Provided (Used) by Non-Capital Financing Activities	75,660	305,743	381,403	492,414
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and Construction of Utility Plant, Net	(991,180)	(93,864)	(1,085,044)	(462,447)
Collections from Customers for Service Territory Escrow	30,431	-	30,431	-
Principal Paid on Revenue Bond Maturities	(30,000)	(335,000)	(365,000)	(355,000)
Interest Paid on Long-Term Debt	(23,224)	(231,589)	(254,813)	(277,484)
Net Cash Used by Capital and Related Financing Activities	(1,013,973)	(660,453)	(1,674,426)	(1,094,931)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest Received on Investment	7,726	1,889	9,615	16,692
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(185,950)	4,453	(181,497)	25,973
Cash and Cash Equivalents - Beginning of Year	586,966	686,628	1,273,594	1,247,621
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 401,016</u>	<u>\$ 691,081</u>	<u>\$ 1,092,097</u>	<u>\$ 1,273,594</u>

See accompanying Notes to Basic Financial Statements.

DELANO WATER, LIGHT, AND POWER COMMISSION
STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED DECEMBER 31, 2015
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED DECEMBER 31, 2014)

	2015			2014
	Electric	Water	Total	Total
RECONCILIATION OF OPERATING INCOME				
(LOSS) TO CASH PROVIDED (USED) BY				
OPERATING ACTIVITIES				
Operating Income (Loss)	\$ (192,417)	\$ 86,121	\$ (106,296)	\$ (83,329)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation	636,866	398,660	1,035,526	1,014,881
Other Expenditures Included in Cash Flow from Operating	(19,611)	(12,203)	(31,814)	(38,004)
(Increase) Decrease in Assets:				
Accounts Receivable - Customer and Miscellaneous	22,166	3,962	26,128	(68,464)
Prepaid Expenses	1,072	18	1,090	351
Inventory	117,316	(12,274)	105,042	(82,295)
Advances to Other Funds	152,925	-	152,925	273,284
(Increase) Decrease in Deferred Outflows:				
Pensions	(63,233)	(21,077)	(84,310)	-
Increase (Decrease) in Liabilities:				
Accounts Payable	(4,238)	37,169	32,931	(10,463)
Salaries and Benefits Payable	22,593	5,649	28,242	-
Advances from Other Funds	-	(152,925)	(152,925)	(273,284)
Escrow Accounts	-	-	-	(132,785)
Compensated Absences	(5,304)	(1,327)	(6,631)	11,906
Net Pension Liability	(3,394)	(1,132)	(4,526)	-
Increase (Decrease) in Deferred Inflows:				
Pensions	79,896	26,633	106,529	-
Net Cash Provided (Used) by Operating Activities	<u>\$ 744,637</u>	<u>\$ 357,274</u>	<u>\$ 1,101,911</u>	<u>\$ 611,798</u>
NONCASH CAPITAL ACTIVITIES				
Capital Asset Additions included in Accounts Payable and Long-Term Liabilities	<u>\$ 547,089</u>	<u>\$ (23,758)</u>	<u>\$ 523,331</u>	<u>\$ 81,387</u>

See accompanying Notes to Basic Financial Statements.

DELANO WATER, LIGHT, AND POWER COMMISSION
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Operation

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

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

The Commission reports the following major funds:

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

Financial Reporting Entity

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

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

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

DELANO WATER, LIGHT, AND POWER COMMISSION
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting

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

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

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

Change in Accounting Principle

During fiscal year ended December 31, 2015, the District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the related GASB Statement No. 71, *Pension Transitions for Contributions Made Subsequent to the Measurement Date-an Amendment of GASB Statement No. 68*. The primary objective of these statements is to improve accounting and financial reporting by state and local governments for pensions. See Note 10 for more detail of the effect of this change in accounting principle on the financial statements.

Measurement Focus

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

Utility Plant

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

During the current period, Commission employees worked on projects that were related to the improvement of utility plant assets. As such, the wages relating to that portion of time devoted to these projects has been capitalized as part of the respective project cost. The total amount of capitalized wages was \$245,884 for 2015. The Commission does not capitalize interest relating to its work in progress as the amounts are immaterial.

**DELANO WATER, LIGHT, AND POWER COMMISSION
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments are carried at fair value.

Cash and Cash Equivalents

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

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

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

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

Accounts Receivable

At December 31, 2015, there is no allowance for doubtful accounts reflected in the basic financial statements. Accounts receivable are uncollateralized.

Inventories

Inventory is stated at average cost.

Deferred Outflows of Resources

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

Advances to/from Other Funds

Effective December 31, 2010, the Electric Fund advanced \$375,000 to the Water Fund. Effective December 1, 2011, the Electric Fund advanced an additional \$325,000 to the Water Fund. The Water Fund will repay the first advance through December 31, 2025 via annual principal payments ranging from \$25,000 to \$35,000 plus interest at 2.05%. The second advance will be repaid through December 1, 2024 via annual principal payments ranging from \$25,000 to \$35,000. In 2015, the Water Fund made additional payments on the 2011 loan principal beyond the required \$25,000 annual payment. Additional payments totaled \$168,000 in 2015 and resulted in a complete payoff of the 2011 loan.

Compensated Absences

Accumulated unpaid vacation amounts are accrued when incurred.

DELANO WATER, LIGHT, AND POWER COMMISSION
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences (continued)

In accordance with the Commission's policy, for employees hired prior to June 1, 1995, sick pay is accrued at 8 hours per month to be accumulated up to 90 days for usage. When leaving employment with the Commission, the employee will be paid 100% of accrued time up to and including 45 days. For employees hired June 1, 1995, or after, sick pay is accrued at 8 hours per month to be accumulated up to 90 days for usage. When leaving employment with the commission, employees hired after June 1, 1995, will not be paid for any unused accrued sick time. The accrued sick pay amount is \$33,661 as of December 31, 2015.

Pensions

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

Deferred Inflows of Resources

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

Bond Discounts

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

Net Position

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

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

DELANO WATER, LIGHT, AND POWER COMMISSION
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Payments In Lieu of Taxes

The Commission made payments during the year to the City of Delano in lieu of paying taxes to the City. This amount totaled \$106,000 in 2015 and is presented in the basic financial statements as a non-operating expense.

Comparative Data

The basic financial statements include certain prior year summarized comparative information in total but not at the level of detail required for a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Commission's financial statements for the year ended December 31, 2014, from which the summarized information was derived. Certain comparative information has been reclassified to conform to the current year presentation.

NOTE 2 CASH AND INVESTMENTS

These amounts are classified within the balance sheet as follows:

Current Cash and Cash Equivalents	<u>\$ 1,092,097</u>
-----------------------------------	---------------------

A. Deposits

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

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

Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or corporate surety bonds.

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

DELANO WATER, LIGHT, AND POWER COMMISSION
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

At December 31, 2015, all of the Commission's deposits at banks were covered by federal depository insurance or surety bonds and collateral in accordance with Minnesota Statutes.

B. Investments

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

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

The Commission currently does not have any investments.

NOTE 3 CAPITAL ASSETS

A summary of capital asset activity for the year ended December 31, 2015 is as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Capital Assets, Not Being Depreciated				
Construction Work in Progress	\$ 514,371	\$ 1,092,785	\$ (1,075,925)	\$ 531,231
Intangible Asset (Service Territory)	-	500,245	-	500,245
Total Capital Assets, Not Being Depreciated	514,371	1,593,030	(1,075,925)	1,031,476
Capital Assets, Being Depreciated				
Utility Plant:				
Electric	19,065,694	998,078	(23,086)	20,040,686
Water	17,661,886	70,106	-	17,731,992
Total Utility Plant	36,727,580	1,068,184	(23,086)	37,772,678
Less: Accumulated Depreciation	(13,198,249)	(1,035,526)	23,086	(14,210,689)
Net Plant in Service	23,529,331	32,658	-	23,561,989
Net Utility Plant	\$ 24,043,702	\$ 1,625,688	\$ (1,075,925)	\$ 24,593,465

DELANO WATER, LIGHT, AND POWER COMMISSION
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 4 LONG-TERM LIABILITIES

Bonds outstanding at December 31, 2015 are comprised of the following:

Description of Issue	Interest Rate	Issue Date	Final Maturity	Original Issue	Principal Outstanding 2015
Loans Payable					
Water General Obligation Loan	4.1425%	October 2005	2025	\$ 7,160,000	\$ 4,390,000
Electric Revenue Loan	4.1425%	October 2005	2025	700,000	435,000
Other Long-Term Liabilities					
Service Territory Acquisition	N/A	December 2013	2024	500,245	500,245
Total					<u>\$ 5,325,245</u>

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

Year Ending December 31,	Service Territory Acquisition		Revenue Bonds Payable		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 50,245	\$ -	\$ 385,000	\$ 232,217	\$ 435,245	\$ 232,217
2017	50,000	-	410,000	213,111	460,000	213,111
2018	50,000	-	425,000	193,334	475,000	193,334
2019	50,000	-	445,000	172,623	495,000	172,623
2020	50,000	-	465,000	151,034	515,000	151,034
2021-2025	250,000	-	2,695,000	391,873	2,945,000	391,873
Total	<u>\$ 500,245</u>	<u>\$ -</u>	<u>\$ 4,825,000</u>	<u>\$ 1,354,192</u>	<u>\$ 5,325,245</u>	<u>\$ 1,354,192</u>

A summary of long-term debt activity for the year ended December 31, 2015 is as follows:

Description	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Revenue Bonds Payable	\$ 5,190,000	\$ -	\$ 365,000	\$ 4,825,000	\$ 385,000
Service Territory Acquisition	-	500,245	-	500,245	50,245
Compensated Absences	165,365	72,129	78,760	158,734	77,121
Total Debt	<u>\$ 5,355,365</u>	<u>\$ 572,374</u>	<u>\$ 443,760</u>	<u>\$ 5,483,979</u>	<u>\$ 512,366</u>

In August 2014 the Commission entered into an agreement with the Wright-Hennepin Cooperative Electric Association to acquire service territory previously served by the Co-op. The agreement went into effect in January 2015 and included four different service areas. Under the terms of the agreement once any given service area reached 7,500 kWh usage in total for a fiscal year, the Commission would be required to pay the Co-op a fee for that year and the subsequent nine years in an amount equal to 2.8¢ per kWh of energy sold for that year in that service area. In 2015 two of the four service areas reached the minimum kWh sold of 7,500 and thus triggered the ten-year liability. Based on the actual payment for 2015 revenue (made in 2016) as well as other factors, the total ten-year liability was estimated at \$500,245. No interest payments or accruals are required as a part of the agreement.

DELANO WATER, LIGHT, AND POWER COMMISSION
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 5 DEFINED-BENEFIT PENSION PLAN - STATEWIDE

A. Plan Description

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

1. General Employees Retirement Fund (GERF)

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

B. Benefits Provided

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

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

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

DELANO WATER, LIGHT, AND POWER COMMISSION
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

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

B. Benefits Provided (Continued)

1. GERF Benefits

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

C. Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

1. GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2015. The Commission was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2015. The Commission's contributions to the GERF for the year ended December 31, 2015, were \$74,844. The Commission's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

1. GERF Pension Costs

At December 31, 2015, the Commission reported a liability of \$855,116 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Commission's proportion of the net pension liability was based on the Commission's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the Commission's proportion was .0165%

DELANO WATER, LIGHT, AND POWER COMMISSION
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

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

D. Pension Costs (Continued)

For the year ended December 31, 2015, the Commission recognized pension expense of \$92,846 for its proportionate share of the GERF's pension expense.

At December 31, 2015, the Commission reported its proportionate share of the GERF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ -	\$ 43,113
Changes in Actuarial Assumptions	-	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	80,950	-
Changes in Proportion and Differences Between Commission Contributions and Proportionate Share of Contributions	-	63,416
Commission Contributions Subsequent to the Measurement Date	41,876	-
Total	<u>\$ 122,826</u>	<u>\$ 106,529</u>

\$41,876 reported as deferred outflows of resources related to pensions resulting from Commission contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	Pension Expenses Amount
2016	\$ (15,272)
2017	(15,272)
2018	(15,272)
2019	20,237

DELANO WATER, LIGHT, AND POWER COMMISSION
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

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

E. Actuarial Assumptions

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

Inflation	2.75% per year
Active Member Payroll Growth	3.50% per year
Investment Rate of Return	7.90%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Benefit increases for retirees are assumed to be 1% effective every January 1st through 2026 and 2.5% thereafter.

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

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

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

F. Discount Rate

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

**DELANO WATER, LIGHT, AND POWER COMMISSION
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015**

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

G. Pension Liability Sensitivity

The following presents the Commission's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the Commission's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

Description	1% Decrease	Current Discount Rate	1% Increase in Discount Rate
<u>GERF Discount Rate</u>	6.90%	7.90%	8.90%
Commission's Proportionate Share of the GERF Net Pension Liability	\$ 1,344,546	\$ 855,116	\$ 450,922

H. Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org; by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

NOTE 6 RISK MANAGEMENT

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

DELANO WATER, LIGHT, AND POWER COMMISSION
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 7 COMMITMENTS

Under authorization of state statutes, the Commission joined Central Minnesota Municipal Power Agency (CMMPA) with other municipal utilities to purchase electrical power through contracts for the mutual advantage of the governments. In 2015 CMMPA changed its name to Central Municipal Power Agency/Services (CMPAS). The governing body consists of members from each of the member utilities who are elected by the respective local utility commissions. Complete financial statements may be obtained by contacting CMPAS at 459 South Grove Street, Blue Earth, Minnesota, 56013.

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

In September 2003, the Commission signed a pre-execution subscription agreement with CMPAS (formerly CMMPA) to purchase electrical power from a new power plant constructed by the Omaha Public Power District (OPPD) and to provide a share of the construction funding. This new plant was completed and operational in 2009. The life of the contract is 40 years after the date of completion. The Commission has committed to purchase 2 megawatts from this 600 megawatt plant. The Commission's share of construction costs approximate \$3,300,000. These construction costs are expected to be paid to CMMPA or OPPD via electricity purchase rates over the life of the 40-year contract. If other participants in this project were to default, the Commission could be held responsible for up to 160% of its stated commitment.

The Commission is committed to purchase power from Xcel Energy to meet its excess power requirement needs via Load following product through CMPAS (formerly CMMPA). The contractual period for this contract (NSP TOD) is November 8, 2011 to April 30, 2016.

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

In 2010, the Commission signed a pre-execution subscription agreement with CMPAS (formerly CMMPA) to purchase 1.0MW of electrical power from the Iberdrola Wind project in Rugby, SD. CMMPA has a 4.5MW subscription that is allocated among its members based on agreed upon levels of commitment. The contractual period for this contract is January 1, 2011, to December 31, 2025. In 2011, the Commission signed another agreement with CMPAS to purchase an additional 2.6MW of electrical power from the Iberdrola Wind Project for a total commitment of 3.6MW.

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

**DELANO WATER, LIGHT, AND POWER COMMISSION
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 7 COMMITMENTS (CONTINUED)

In April 2007, the Commission and other municipal utilities signed an unsecured guaranty of a stand-by letter of credit between Utilities Plus (a component unit of CMPAS) and a bank. The letter of credit is to be used by Utilities Plus for payment of transmission or transmission service obligations to Midwest Independent Transmission System Operator, Inc. (MISO). The Commission's share of the guaranty is not to exceed \$434,734. Additionally, the Commission's guaranty only applies to transactions involving the Commission's purchase of electricity, transmission, and transmission services from Utilities Plus. No changes were made to this agreement during 2015 and there is no outstanding balance on the line of credit.

NOTE 8 MAJOR CUSTOMERS

During the year ended December 31, 2015, net sales to one customer totaled \$600,529, representing 11.65% of total electric sales.

NOTE 9 RELATED PARTIES

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

NOTE 10 CHANGE IN ACCOUNTING PRINCIPLE

During fiscal year ended December 31, 2015, the District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and the related Statement No. 71. As a result, the Commission's net position as of December 31, 2014 has been restated to reflect the recognition of the Commission's proportionate share of the Public Employees' Retirement Association of Minnesota General Employees' Retirement Fund's net pension liability.

	Electric Fund	Water Fund
Net Position, December 31, 2014, as Previously Reported	\$ 11,257,692	\$ 8,898,361
Cumulative Affect of Application of GASB 68, Net Pension Liability	(644,732)	(214,910)
Cumulative Affect of Application of GASB 71, Deferred Outflow of Resources for Commission Contributions Made to the Plan During the First Half of the Measurement Period, from July 1, 2014 to December 31, 2014	28,887	9,629
Net Position, December 31, 2014, as Restated	<u>\$ 10,641,847</u>	<u>\$ 8,693,080</u>

REQUIRED SUPPLEMENTARY INFORMATION

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

**PERA Schedule of the Commission's Proportionate Share of the Net Pension Liability
Plan's Last Two Fiscal Years***

	<u>2015</u>	<u>2014</u>
Commission's Proportion of the Net Pension Liability	0.0165%	0.0183%
Commission's Proportionate Share of the Net Pension Liability	\$ 855,116	\$ 859,642
Commission's Covered-Employee Payroll	997,920	995,462
Commission's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered-Employee Payroll	85.69%	86.36%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.70%	83.20%

*The Amounts Presented for Each Fiscal Year were Determined as of 6/30.

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

**PERA Schedule of Commission Contributions
Commission's Last Two Fiscal Years**

	<u>2015</u>	<u>2014</u>
Statutorily Required Contribution	\$ 74,844	\$ 72,171
Contributions in Relation to the Statutorily Required Contribution	<u>(74,844)</u>	<u>(72,171)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
Commission's Covered-Employee Payroll	\$ 997,920	\$ 995,462
Contributions as a Percentage of Covered Employee Payroll	7.5%	7.25%

SUPPLEMENTARY INFORMATION

DELANO WATER, LIGHT, AND POWER COMMISSION
SCHEDULE OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION BY FUND
YEAR ENDED DECEMBER 31, 2015
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED DECEMBER 31, 2014)

	Electric Fund		Water Fund	
	2015	2014	2015	2014
OPERATING REVENUES				
Sales	\$ 5,206,455	\$ 4,955,528	\$ 985,202	\$ 977,511
Other Operating Revenues	53,855	16,410	-	-
Total Operating Revenues	<u>5,260,310</u>	<u>4,971,938</u>	<u>985,202</u>	<u>977,511</u>
OPERATING EXPENSES				
Production	3,662,470	3,413,056	165,888	164,119
Distribution	88,678	104,672	88,296	77,162
Administrative and General Expenses	1,064,713	1,022,639	246,237	236,249
Depreciation and Amortization	636,866	618,918	398,660	395,963
Total Operating Expenses	<u>5,452,727</u>	<u>5,159,285</u>	<u>899,081</u>	<u>873,493</u>
OPERATING INCOME (LOSS)	(192,417)	(187,347)	86,121	104,018
NON-OPERATING INCOME	189,386	246,098	201,326	447,364
NON-OPERATING EXPENSES	<u>(148,835)</u>	<u>(245,960)</u>	<u>(243,792)</u>	<u>(253,884)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS	(151,866)	(187,209)	43,655	297,498
CONTRIBUTIONS	<u>212,500</u>	<u>-</u>	<u>-</u>	<u>-</u>
CHANGE IN NET POSITION	60,634	(187,209)	43,655	297,498
Net Position - Beginning of Year	11,257,692	11,444,901	8,898,361	8,600,863
Prior Period Adjustment for the Implementation of GASB Standard - See Note 10	<u>(615,845)</u>	<u>-</u>	<u>(205,281)</u>	<u>-</u>
Net Position - Beginning of Year, as Restated	<u>10,641,847</u>	<u>11,444,901</u>	<u>8,693,080</u>	<u>8,600,863</u>
NET POSITION - END OF YEAR	<u>\$ 10,702,481</u>	<u>\$ 11,257,692</u>	<u>\$ 8,736,735</u>	<u>\$ 8,898,361</u>

DELANO WATER, LIGHT, AND POWER COMMISSION
SCHEDULE OF OPERATING REVENUES BY FUND
YEAR ENDED DECEMBER 31, 2015
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED DECEMBER 31, 2014)

	Electric Fund		Water Fund	
	2015	2014	2015	2014
OPERATING REVENUES				
Residential	\$ 1,990,827	\$ 1,864,290	\$ 736,531	\$ 745,975
Commercial	346,856	337,882	109,902	99,747
Industrial	2,816,703	2,701,482	138,769	131,789
Street and Security Lighting	52,069	51,874	-	-
Capacity and Energy Sales	53,855	16,410	-	-
Total Operating Revenues	<u>\$ 5,260,310</u>	<u>\$ 4,971,938</u>	<u>\$ 985,202</u>	<u>\$ 977,511</u>

DELANO WATER, LIGHT, AND POWER COMMISSION
SCHEDULE OF OPERATING EXPENSES BY FUND
YEAR ENDED DECEMBER 31, 2015
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED DECEMBER 31, 2014)

	Electric Fund		Water Fund	
	2015	2014	2015	2014
PRODUCTION EXPENSES				
Salaries	\$ 62,178	\$ 55,830	\$ 19,610	\$ 23,045
Fuel Oil	11,547	6,602	-	-
Natural Gas	321	324	-	-
Maintenance of Buildings	52,895	54,003	-	-
Maintenance of Engines	10,039	8,276	-	-
Maintenance of Substation	24,978	16,421	-	-
Purchased Power	3,443,276	3,211,943	20,886	17,880
Insurance	44,815	51,142	11,203	12,785
Connection Fee	-	-	12,432	12,432
Water Treatment	-	-	97,211	92,640
Miscellaneous	12,421	8,515	4,546	5,337
Total Production Expenses	<u>3,662,470</u>	<u>3,413,056</u>	<u>165,888</u>	<u>164,119</u>
DISTRIBUTION EXPENSES				
Salaries	49,448	64,709	67,570	51,247
Maintenance of Wells, Mains and Hydrants	-	-	8,189	6,936
Maintenance of Lines	30,976	30,992	-	-
Maintenance of Transformers	2,661	9,307	-	-
Maintenance of Lighting	3,479	(760)	-	-
Maintenance of Meters	2,114	424	1,912	677
Maintenance of Facilities	-	-	10,625	18,302
Total Distribution Expenses	<u>88,678</u>	<u>104,672</u>	<u>88,296</u>	<u>77,162</u>
ADMINISTRATIVE AND GENERAL EXPENSES				
Salaries	458,006	430,298	96,263	91,126
Meter Reading and Collections	17,291	20,099	17,090	19,570
Maintenance	40,941	24,397	-	-
Transportation Expense	15,793	19,727	-	-
Office Expense	71,760	76,945	16,576	19,941
Commission Expense	13,277	4,543	3,319	1,136
Outside Services Employed	13,630	26,270	4,165	6,379
Insurance/Med/Life/Disability	250,137	244,368	62,534	61,092
Employee Payroll Expense	131,896	120,187	38,691	28,612
Other Expenses	10,828	18,406	250	1,683
Dues/Conventions/Safety/Drug	41,154	37,399	7,349	6,710
Total Administrative and General Expenses	<u>1,064,713</u>	<u>1,022,639</u>	<u>246,237</u>	<u>236,249</u>
DEPRECIATION AND AMORTIZATION EXPENSE				
Depreciation Expense	<u>636,866</u>	<u>618,918</u>	<u>398,660</u>	<u>395,963</u>
Total Operating Expenses	<u>\$ 5,452,727</u>	<u>\$ 5,159,285</u>	<u>\$ 899,081</u>	<u>\$ 873,493</u>

DELANO WATER, LIGHT, AND POWER COMMISSION
SCHEDULE OF NON-OPERATING INCOME AND EXPENSES BY FUND
YEAR ENDED DECEMBER 31, 2015
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED DECEMBER 31, 2014)

	Electric Fund		Water Fund	
	2015	2014	2015	2014
NON-OPERATING INCOME				
City Billing	\$ 38,206	\$ 37,230	\$ -	\$ -
Interest	7,726	14,180	1,889	2,512
Sale of Scrap Inventory	10,653	32,225	-	-
Penalties	31,280	31,387	23,271	25,022
Permits and Fees	1,512	3,487	148,843	362,085
Contract Labor	46,855	36,594	24,193	4,535
Miscellaneous Service Revenue	-	-	-	1,481
Miscellaneous Income	53,154	90,995	3,130	51,729
Total Non-Operating Income	<u>\$ 189,386</u>	<u>\$ 246,098</u>	<u>\$ 201,326</u>	<u>\$ 447,364</u>
NON-OPERATING EXPENSES				
Interest - Other	\$ 92	\$ 91	\$ 6,297	\$ 11,716
Interest - Long-Term Debt	23,132	24,632	225,292	241,045
Payments in Lieu of Taxes	106,000	106,000	-	-
Other Miscellaneous Expenses	19,611	115,237	12,203	1,123
Total Non-Operating Expenses	<u>\$ 148,835</u>	<u>\$ 245,960</u>	<u>\$ 243,792</u>	<u>\$ 253,884</u>

OTHER INFORMATION

DELANO WATER, LIGHT, AND POWER COMMISSION
SCHEDULE OF LARGEST UTILITY USERS
YEAR ENDED DECEMBER 31, 2015
(UNAUDITED)

Customer	Revenues	% of Total Sales
LANDSCAPE STRUCTURES	\$ 600,529	11.65 %
DELANO SCHOOLS	367,100	7.12
SIL-PRO, LLC	347,471	6.74
COBORNS	223,378	4.33
MODERN MOLDING	150,849	2.93
ARCTIC FOX	122,430	2.38
SOLAR PLASTICS	111,870	2.17
VEOLIA	70,450	1.37
J AND E PRECISION MACHINING CO.	62,235	1.21
LD FOODS	50,242	0.97
Electric: Total Sales	<u>\$ 5,154,386</u>	

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