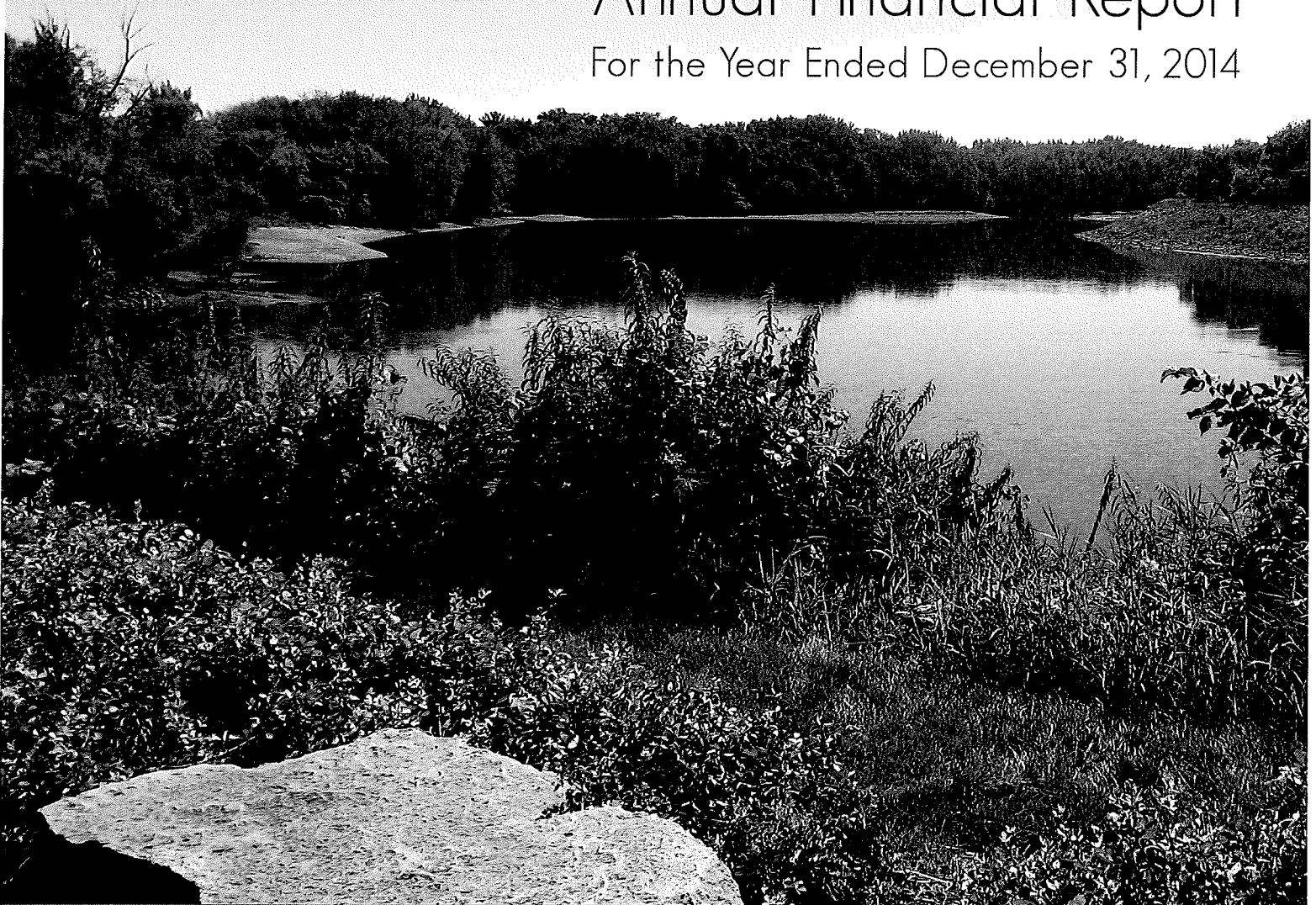




Elk River Municipal Utilities

Annual Financial Report

For the Year Ended December 31, 2014



Annual Financial Report

Elk River Utilities

Elk River, Minnesota

For the Year Ended
December 31, 2014

THIS PAGE IS LEFT BLANK
INTENTIONALLY

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2014

THIS PAGE IS LEFT BLANK
INTENTIONALLY

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
TABLE OF CONTENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Page No.</u>
INTRODUCTORY SECTION	
Public Utilities Commission and Administration	5
FINANCIAL SECTION	
Independent Auditor's Report	9
Management's Discussion and Analysis	13
Financial Statements	
Statement of Net Position	20
Statement of Revenues, Expenses and Changes in Net Position	23
Statement of Cash Flows	24
Notes to the Financial Statements	27
Required Supplementary Information	
Schedule of Funding Progress for the Retiree Health Plan	44
Supplementary Information	
Schedule of Operating Revenues and Expenses	46
Electric Fund	
Summary of Operations and Unaudited Statistics	48
Water Fund	
Summary of Operations and Unaudited Statistics	50
OTHER REPORTS	
Independent Auditor's Report on Minnesota Legal Compliance	55

THIS PAGE IS LEFT BLANK
INTENTIONALLY

INTRODUCTORY SECTION

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

**FOR THE YEAR ENDED
DECEMBER 31, 2014**

THIS PAGE IS LEFT BLANK
INTENTIONALLY

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
PUBLIC UTILITIES COMMISSION AND ADMINISTRATION
DECEMBER 31, 2014

PUBLIC UTILITIES COMMISSION

<u>Name</u>	<u>Title</u>
John Dietz	Chairperson
Daryl Thompson	Vice-Chairperson
Allan Neadeau	Trustee

ADMINISTRATION

<u>Name</u>	<u>Title</u>
Troy Adams	General Manager
Theresa Slominski	Finance and Office Manager
Eric Volk	Water Superintendent
Mark Fuchs	Line Superintendent
Wade Lovelette	Technical Services Superintendent
Tom Sagstetter	Conservation and Key Accounts Manager
Michelle Canterbury	Executive Administrative Assistant

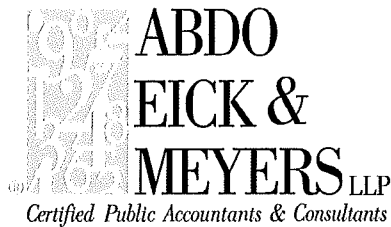
THIS PAGE IS LEFT BLANK
INTENTIONALLY

FINANCIAL SECTION

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

**FOR THE YEAR ENDED
DECEMBER 31, 2014**

THIS PAGE IS LEFT BLANK
INTENTIONALLY



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, 2014, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Utilities of the City as of December 31, 2014, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1B, the financial statements present only the Electric and Water enterprise funds and do not purport to, and do not present fairly the financial position of the City as of December 31, 2014, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

THIS PAGE IS LEFT BLANK
INTENTIONALLY

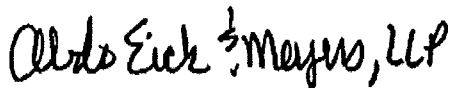
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis starting on page 13 and Schedule of Funding Progress on page 44, be presented to supplement the 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
April 7, 2015

THIS PAGE IS LEFT BLANK
INTENTIONALLY

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, 2014. Please read it in conjunction with the financial statements, which follow this section.

Financial Highlights

- The assets of the Utilities exceeded its liabilities at the close of the most recent fiscal year by \$56,055,589 (net position). Net Position increased by \$2,039,501 or 3.8 percent. A rebounding economy resulted in more new connections and a significant increase in connection fees.
- The Utilities' cash balance at the close of the current fiscal year was \$15,778,591.
- Electric usage overall was up an average of less than 1 percent, at 0.22 percent from the prior year. Residential usage increased 0.2 percent, Commercial usage increased 2 percent, and Industrial usage decreased less than 1 percent.
- Water usage overall was down an average of 5.2 percent from the prior year. Residential usage decreased 9 percent, and Commercial usage decreased 2 percent.

Overview of the Financial Statements

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

Required Financial Statements

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

Financial Analysis of the Utilities

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

Net position. To begin our analysis, a summary of the Utilities' Statements of Net Position is presented in Table A-1. As can be seen from the Table, net assets increased \$2,039,501 to \$56,055,589 in fiscal 2014 up from \$54,016,088 in fiscal 2013.

TABLE A-1
Condensed Statement of Net Position

	2014	2013	Increase (Decrease)
Assets			
Current and other	\$ 20,288,649	\$ 19,466,124	\$ 822,525
Capital	48,254,028	48,879,659	(625,631)
Total assets	<u>68,542,677</u>	<u>68,345,783</u>	196,894
Total deferred outflows	<u>67,284</u>	<u>75,525</u>	(8,241)
Liabilities			
Current	5,269,454	5,801,938	(532,484)
Non-current	7,284,918	8,603,282	(1,318,364)
Total liabilities	<u>12,554,372</u>	<u>14,405,220</u>	(1,850,848)
Net position			
Net investment in capital assets	40,218,203	39,358,482	859,721
Restricted for debt service	490,500	647,000	(156,500)
Unrestricted	15,346,886	14,010,606	1,336,280
Total net position	<u>\$ 56,055,589</u>	<u>\$ 54,016,088</u>	<u>\$ 2,039,501</u>

Looking at Table A-1, you can see that most of the change in net position was realized in liabilities, which decreased \$1,850,848 in 2014. The decrease in current liabilities is a result of the 2014A bond refunding, as well as the \$2,180,000 prepayment of the 2006 bonds. The increase in net position can also be attributed to the change in current assets, which increased \$822,525. This increase is due largely to increased sales, which can be attributed to the economy. Capital assets also decreased \$625,631 as a result of removal of inactive assets from the asset schedules with our software conversion.

Water and electric rates. Electric - The latest increase in the Utilities' electric rates was effective January 2015. The monthly base charges are based upon the type of service. The monthly charges are \$12.00 for residential, \$20.00 for commercial, and \$60.00 for industrial customers. In addition to the base charges the residential rate is \$.1360/KWh for May-September usage, and \$.1205/KWh for October-April usage; the commercial rate is \$.1304/KWh for May-September usage, and \$.1087/KWh for October-April usage; the industrial rate is \$.0649/KWh energy charge year round with a demand charge of \$16.94/KW May-September, and \$11.99/KW for October-April.

Water - The Utilities' latest increase in residential and commercial rates was effective January 2015. The monthly base charge for residential customers is \$8.43 per month. In addition to the base charge, the Utilities currently charges its residential customers \$1.68 per 1,000 gallons up to 9,000 gallons, \$3.50 per 1,000 gallons between 9,000 gallons and 15,000 gallons, and \$4.00 per 1,000 gallons for usage above 15,000 gallons. Commercial customer's base charges are based upon meter size, and range from \$10.12 to \$106.86. An irrigation meter is \$44.99 for every month the meter is utilized. There is also a charge per thousand gallons, the same tiers as the residential rates of \$1.68, \$3.50, and \$4.00, except the graduation from the lower tier to the higher tier(s) is calculated based on previous consumption.

Certain other rates may be offered for conservation incentive purposes. The Utilities currently offers a Senior Citizen base charge that is gradually increasing on an annual basis and will be eliminated in 2015 once parity with the regular residential base charge is achieved.

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

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

For commercial and industrial customers, a service agreement would need to be signed that identifies the guarantor of their business and the guarantor's social security number. A deposit of 2 times the estimated highest monthly bill will be required, with a minimum deposit of \$250. The deposit shall be in the form of a cash deposit, personal payment guarantee, or an irrevocable letter of credit. The irrevocable letter of credit will be renewed as required and failure to do so will result in a charge equal to the amount of the letter of credit applied to the monthly utility bill.

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

Statements of revenues, expenses and changes in net position. While the Statements of Net Position shows the change in financial assets and liabilities, 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 \$2,039,501 in fiscal 2014. 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**

	2014	2013	Increase (Decrease)
Revenues			
Operating	\$ 33,515,012	\$ 33,124,503	\$ 390,509
Nonoperating	494,455	388,535	105,920
Total revenues	<u>34,009,467</u>	<u>33,513,038</u>	<u>496,429</u>
Expenses			
Operating	31,742,912	30,371,131	1,371,781
Nonoperating	284,129	382,736	(98,607)
Total expenses	<u>32,027,041</u>	<u>30,753,867</u>	<u>1,273,174</u>
Income before contributions and operating transfers	1,982,426	2,759,171	(776,745)
Capital contributions - developer infrastructure and connection fees	375,329	295,549	79,780
Capital contributions of asset from City	175,091	121,172	53,919
Transfers from other City funds	329,490	40,000	289,490
Transfers to other City funds	<u>(822,835)</u>	<u>(806,162)</u>	<u>(16,673)</u>
Change in net position	2,039,501	2,409,730	(370,229)
Net position, January 1	<u>54,016,088</u>	<u>51,606,358</u>	<u>2,409,730</u>
Net position, December 31	<u>\$ 56,055,589</u>	<u>\$ 54,016,088</u>	<u>\$ 2,039,501</u>

Revenues. Table A-2 shows that operating revenue increased by 1.18 percent in 2014 for the Electric and Water Departments combined.

Nonoperating revenue is comprised of transmission rebate revenue in the Electric Department, and water tower lease revenue in the Water Department, as well as connection fees in both departments. Regarding transmission rebates, in 2007 the Electric Utility partnered with Midwest Municipal Transmission Group (MMTG) in order to have our transmission assets recognized in the Midwest Independent Transmission System Operator (MISO) market. In doing so, our transmission assets generate a revenue rebate, which in turn helps keep our rates down. In 2014, rebates received from our 2012 filings were approximately \$5,500 per month. The Water Department is receiving lease revenue from Sprint for antennas on the water towers. In 2014 this amount was approximately \$125,000, and will continue for the duration of the multi-year contract.

Water Connection Fees increased approximately \$80,000, and Electric Connection Fees increased approximately \$40,000. The increase in Connection Fees was largely impacted by the resurgence in new construction as the economy has begun rebounding.

Total expenses. In reviewing total expenses in Table A-2 you will notice that there was an increase of 4.1 percent overall. Purchased Power (the amount the Utilities pays for the power distributed) increased 3.5 percent.

Capital Assets and Debt Administration

Capital assets. The Utilities' investment in capital assets for its business-type activities as of December 31, 2014 amounts to \$48,254,028 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements and equipment. A table summarizing the balances by fund follows:

	2014	2013	Increase (Decrease)
Land	\$ 361,303	\$ 360,952	\$ 351
Land improvements	8,936	13,846	(4,910)
Buildings	2,096,195	2,221,552	(125,357)
Machinery and equipment	1,582,080	1,238,555	343,525
Infrastructure	43,389,804	42,779,585	610,219
Construction in progress	815,710	2,265,169	(1,449,459)
Total	<u>\$ 48,254,028</u>	<u>\$ 48,879,659</u>	<u>\$ (625,631)</u>

The total decrease in the Utilities' investment in capital assets for the current fiscal year was 1.3 percent.

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

- The Electric Department upgraded several feeders and began work on the installation of a new feeder, and the Water Department completed two water main projects.
- New accounting software was implemented in 2014 and fully depreciated inactive assets were not brought over. This resulted in a decrease in both assets and accumulated depreciation, as well as net assets.

Additional information on the Utilities' capital assets can be found in Note 2B starting on page 33 of this report.

Long-term debt. At year end, the Utilities had \$8,460,327 in long-term debt down from \$9,974,484 in fiscal 2013. The Utilities prepaid the 2006 bonds to reduce debt balances. More detailed information about the Utilities' long-term liabilities can be found in Note 2C starting on page 34 and below:

	2014	2013	Increase (Decrease)
G.O. revenue bonds	\$ 2,835,000	\$ 3,430,000	\$ (595,000)
Revenue bonds	3,585,000	4,340,000	(755,000)
Unamortized premium on bonds	83,233	37,478	45,755
Promissory note	1,599,876	1,789,224	(189,348)
Compensated absences payable	302,286	332,740	(30,454)
OPEB liability	54,932	45,042	9,890
Total	<u>\$ 8,460,327</u>	<u>\$ 9,974,484</u>	<u>\$ (1,514,157)</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 Financial Manager

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

FINANCIAL STATEMENTS

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

**FOR THE YEAR ENDED
DECEMBER 31, 2014**

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2014

	Electric	Water	Total
ASSETS			
CURRENT ASSETS			
Cash and temporary investments	\$ 11,606,610	\$ 3,681,481	\$ 15,288,091
Receivables			
Accrued interest	363	91	454
Accounts, net of allowance	2,508,840	105,985	2,614,825
Special assessments	5,443	47,179	52,622
Other receivables	85,381	64,223	149,604
Due from other City funds	8,290	458,779	467,069
Due from other governments	25,832	-	25,832
Inventories	979,129	16,481	995,610
Prepaid expenses	175,687	28,355	204,042
	<u>15,395,575</u>	<u>4,402,574</u>	<u>19,798,149</u>
TOTAL CURRENT ASSETS			
CAPITAL ASSETS			
Land	265,023	96,280	361,303
Land improvements	23,389	-	23,389
Buildings	2,859,360	815,240	3,674,600
Equipment and machinery	2,911,106	307,330	3,218,436
Infrastructure	40,601,888	32,631,587	73,233,475
Construction in progress	205,329	610,381	815,710
	<u>46,866,095</u>	<u>34,460,818</u>	<u>81,326,913</u>
CAPITAL ASSETS, COST	<u>46,866,095</u>	<u>34,460,818</u>	<u>81,326,913</u>
LESS ACCUMULATED DEPRECIATION	<u>(20,038,050)</u>	<u>(13,034,835)</u>	<u>(33,072,885)</u>
	<u>26,828,045</u>	<u>21,425,983</u>	<u>48,254,028</u>
TOTAL CAPITAL ASSETS, NET			
OTHER ASSETS			
Restricted cash	490,500	-	490,500
	<u>490,500</u>	<u>-</u>	<u>490,500</u>
TOTAL ASSETS			
	<u>42,714,120</u>	<u>25,828,557</u>	<u>68,542,677</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charges on refunding	53,827	13,457	67,284
	<u>53,827</u>	<u>13,457</u>	<u>67,284</u>
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES			
	<u>42,767,947</u>	<u>25,842,014</u>	<u>68,609,961</u>

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, 2014

	<u>Electric</u>	<u>Water</u>	<u>Total</u>
CURRENT LIABILITIES			
Accounts payable	\$ 2,122,953	\$ 385,061	\$ 2,508,014
Salaries and benefits payable	150,914	22,780	173,694
Accrued interest payable	58,867	29,337	88,204
Due to other City funds	612,080	17,951	630,031
Due to other governments	129,298	2,700	131,998
Customer deposits payable	452,162	36,311	488,473
Unearned revenue	-	73,631	73,631
Compensated absences - current portion	58,906	24,985	83,891
Notes payable - current portion	191,518	-	191,518
Bonds payable - current portion	672,000	228,000	900,000
	<u>4,448,698</u>	<u>820,756</u>	<u>5,269,454</u>
TOTAL CURRENT LIABILITIES			
NON-CURRENT LIABILITIES			
Net other postemployment benefits liability	54,932	-	54,932
Compensated absences - less current portion	153,350	65,045	218,395
Notes payable - less current portion	1,408,358	-	1,408,358
Bonds payable, net - less current portion	3,733,556	1,869,677	5,603,233
	<u>5,350,196</u>	<u>1,934,722</u>	<u>7,284,918</u>
TOTAL NON-CURRENT LIABILITIES			
TOTAL LIABILITIES			
	<u>9,798,894</u>	<u>2,755,478</u>	<u>12,554,372</u>
NET POSITION			
Net investment in capital assets	20,876,440	19,341,763	40,218,203
Restricted for debt service	490,500	-	490,500
Unrestricted	11,602,113	3,744,773	15,346,886
	<u>\$ 32,969,053</u>	<u>\$ 23,086,536</u>	<u>\$ 56,055,589</u>
TOTAL NET POSITION			

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

THIS PAGE IS LEFT BLANK
INTENTIONALLY

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2014

	Electric	Water	Total
OPERATING REVENUES			
Charges for services	\$ 30,411,069	\$ 2,103,508	\$ 32,514,577
Security systems	241,919	-	241,919
LFG project	1,103,177	-	1,103,177
Generation credit	(784,248)	-	(784,248)
Connection maintenance	149,911	23,262	173,173
Customer penalties	244,857	21,557	266,414
TOTAL OPERATING REVENUES	31,366,685	2,148,327	33,515,012
OPERATING EXPENSES			
Purchased power	21,994,652	-	21,994,652
Production	878,578	443,118	1,321,696
Distribution	1,282,774	207,359	1,490,133
Depreciation	1,914,062	1,083,770	2,997,832
Customer accounts	824,886	70,511	895,397
General and administrative	2,497,171	546,031	3,043,202
TOTAL OPERATING EXPENSES	29,392,123	2,350,789	31,742,912
OPERATING INCOME (LOSS)	1,974,562	(202,462)	1,772,100
NONOPERATING REVENUES (EXPENSES)			
Interest income	98,442	23,984	122,426
Miscellaneous revenue	229,532	142,497	372,029
Interest expense	(160,274)	(72,646)	(232,920)
Gain (loss) on sale of capital assets	29,525	(35,884)	(6,359)
Bond issuance costs	(44,850)	-	(44,850)
TOTAL NONOPERATING REVENUES (EXPENSES)	152,375	57,951	210,326
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	2,126,937	(144,511)	1,982,426
CAPITAL CONTRIBUTIONS -			
DEVELOPER INFRASTRUCTURE AND CONNECTION FEES	-	375,329	375,329
CONTRIBUTION OF ASSETS FROM CITY	-	175,091	175,091
TRANSFERS FROM OTHER CITY FUNDS	-	329,490	329,490
TRANSFERS TO OTHER CITY FUNDS	(797,835)	(25,000)	(822,835)
CHANGE IN NET POSITION	1,329,102	710,399	2,039,501
NET POSITION, JANUARY 1	31,639,951	22,376,137	54,016,088
NET POSITION, DECEMBER 31	\$ 32,969,053	\$ 23,086,536	\$ 56,055,589

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, 2014

	Electric	Water	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 31,288,755	\$ 2,142,119	\$ 33,430,874
Other operating cash receipts	192,433	121,231	313,664
Payments to suppliers	(25,686,149)	(847,666)	(26,533,815)
Payments to employees	(1,748,714)	(403,343)	(2,152,057)
	4,046,325	1,012,341	5,058,666
NET CASH PROVIDED BY OPERATING ACTIVITIES			
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from City	-	329,490	329,490
Transfers to City	(797,835)	(25,000)	(822,835)
(Increase) decrease in due from other City funds	5,232	(329,338)	(324,106)
Increase (decrease) in due to other City funds	48,342	(225,887)	(177,545)
	(744,261)	(250,735)	(994,996)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES			
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets	(2,219,085)	(274,940)	(2,494,025)
Proceeds from sale of capital assets	33,000	7,254	40,254
Proceeds from connection fees	-	375,329	375,329
Principal payments on revenue bonds	(2,853,000)	(527,000)	(3,380,000)
Proceeds of refunding bonds issued, net of issuance costs and premium on bonds	2,046,586	-	2,046,586
Interest paid on revenue bonds	(191,704)	(78,846)	(270,550)
Principal payments on promissory note	(189,348)	-	(189,348)
	(3,373,551)	(498,203)	(3,871,754)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES			
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on investments	111,304	27,199	138,503
	111,304	27,199	138,503
NET INCREASE IN CASH AND CASH EQUIVALENTS			
	39,817	290,602	330,419
CASH AND CASH EQUIVALENTS, JANUARY 1	12,057,293	3,390,879	15,448,172
CASH AND CASH EQUIVALENTS, DECEMBER 31	\$ 12,097,110	\$ 3,681,481	\$ 15,778,591
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION			
Cash and temporary investments	\$ 11,606,610	\$ 3,681,481	\$ 15,288,091
Restricted cash	490,500	-	490,500
	\$ 12,097,110	\$ 3,681,481	\$ 15,778,591
TOTAL CASH AND CASH EQUIVALENTS	\$ 12,097,110	\$ 3,681,481	\$ 15,778,591

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, 2014

	Electric	Water	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income (loss)	\$ 1,974,562	\$ (202,462)	\$ 1,772,100
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Other revenue related to operations	229,532	142,497	372,029
Bad debt expense	2,926	145	3,071
Depreciation	1,914,062	1,083,770	2,997,832
(Increase) decrease in assets:			
Accounts receivable	(88,900)	(16,292)	(105,192)
Other receivables	(23,476)	(51,706)	(75,182)
Special assessments receivable	(1,642)	11,084	9,442
Due from other governments	(13,623)	-	(13,623)
Inventories	(15,521)	(1,476)	(16,997)
Prepaid expenses	2,341	12,063	14,404
Increase (decrease) in liabilities:			
Accounts payable	(71,005)	(3,587)	(74,592)
Salaries and benefits payable	16,520	5,470	21,990
Net other postemployment benefits liability	9,890	-	9,890
Unearned revenue	-	30,440	30,440
Compensated absences payable	(31,251)	797	(30,454)
Due to other governments	129,298	2,598	131,896
Customer deposits payable	12,612	(1,000)	11,612
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 4,046,325</u>	<u>\$ 1,012,341</u>	<u>\$ 5,058,666</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES			
Amortization of bond premium	<u>\$ 14,863</u>	<u>\$ 818</u>	<u>\$ 15,681</u>
Amortization of deferred charges on refunding	<u>\$ 6,592</u>	<u>\$ 1,649</u>	<u>\$ 8,241</u>
Loss on disposal of capital assets	<u>\$ 3,475</u>	<u>\$ 43,138</u>	<u>\$ 46,613</u>
Capital assets purchased on account	<u>\$ -</u>	<u>\$ 349,698</u>	<u>\$ 349,698</u>
Contribution of capital assets	<u>\$ -</u>	<u>\$ 175,091</u>	<u>\$ 175,091</u>

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

THIS PAGE IS LEFT BLANK
INTENTIONALLY

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Nature of the business

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

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

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

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

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

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

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

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

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

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

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

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The Utilities reports the following major proprietary funds:

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

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

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

Cash and cash equivalents

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

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

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

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, rated in one of the two highest rating categories by a statistical rating agency, and have a final maturity of thirteen months or less.
3. General obligations of a state or local government with taxing powers rated "A" or better; revenue obligations rated "AA" or better.
4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.
5. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
6. 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.
7. 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.
8. Guaranteed investment contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

Investments for the Utilities are reported at fair value.

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Accounts receivable

Accounts receivable include amounts billed for services provided before year end. The Utilities has established a reserve for uncollectible accounts which is adjusted annually based on the receivable activity. No substantial losses from present receivable balances are anticipated. A summary of the uncollectible account balances at December 31, 2014 is as follows:

	2014
Electric	\$ 109,845
Water	26,250
Total	\$ 136,095

Interfund receivables and payables

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

Inventories

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

Prepaid items

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

Restricted assets

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

Capital assets

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

Major expenditures for improvements or capital asset projects are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

Description	Lives in Years	
	Electric	Water
Production	4 - 20	25 - 50
Transmission	30	-
Distribution	10 - 33	25 - 50
General	10 - 50	10 - 50

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Deferred outflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The Utility only has one item that qualifies for reporting in this category, which is a deferred charge on refunding reported in the government-wide statement of net position. 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.

Long-term obligations

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

Compensated absences

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

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

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

Postemployment Benefits Other Than Pensions

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

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.

Net position

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

- a. Net investment in capital assets - Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.
- b. Restricted net position - Consists of net position restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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

Note 2: DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

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

Minnesota statutes require that all Utility deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance 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, 2014, the Utilities' carrying amount of deposits was \$12,286,839 and the bank balance was \$12,289,849. Of the bank balance \$500,000 was covered by federal depository insurance, and the remaining balance was covered by collateral held by the pledging financial institution's agent in the Utilities' name.

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 2: DETAILED NOTES ON ALL FUNDS - CONTINUED

Investments

The Utilities' investment balances were as follows for December 31, 2014:

Types of Investments	Credit Quality/ Ratings (1)	Segmented Time Distribution (2)	Fair Value and Carrying Amount
Pooled investments			
Broker Money Markets	N/A	less than 6 months	\$ 5,962
Non-pooled investments			
U.S. Government Agency Securities	AA+	1 to 5 years	79,470
Brokered CD's	N/A	less than 6 months	320,672
Brokered CD's	N/A	6 months to 1 year	345,018
Brokered CD's	N/A	1 to 5 years	2,740,230
Total non-pooled investments			3,485,390
Total investments			<u>\$ 3,491,352</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 or available.

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

	2014
Deposits	\$ 12,286,839
Investments	3,491,352
Cash on hand	400
Total	<u>\$ 15,778,591</u>
Cash and temporary investments	
Unrestricted	\$ 15,288,091
Restricted	490,500
Total	<u>\$ 15,778,591</u>

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

- *Credit Risk.* Is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and where applicable, indicate associated credit risk. Minnesota Statutes and the Utilities' investment policy limit the Utilities' investments to the list on page 28 of the notes.
- *Custodial Credit Risk.* The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. According to their investment policy the Utilities' portfolio maturities shall be staggered to avoid undue concentration of assets with one broker-dealer or financial institution.

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

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, 2014 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 360,952	\$ 351	\$ -	\$ 361,303
Construction in progress	2,265,169	1,843,677	(3,293,136)	815,710
Total capital assets not being depreciated	<u>2,626,121</u>	<u>1,844,028</u>	<u>(3,293,136)</u>	<u>1,177,013</u>
Capital assets being depreciated				
Land improvements	63,147	-	(39,758)	23,389
Buildings	3,761,899	-	(87,299)	3,674,600
Machinery and equipment	4,778,167	574,786	(2,134,517)	3,218,436
Infrastructure	79,446,094	3,293,136	(9,505,755)	73,233,475
Total capital assets being depreciated	<u>88,049,307</u>	<u>3,867,922</u>	<u>(11,767,329)</u>	<u>80,149,900</u>
Less accumulated depreciation for				
Land improvements	(49,301)	(935)	35,783	(14,453)
Buildings	(1,540,347)	(118,624)	80,566	(1,578,405)
Machinery and equipment	(3,539,612)	(229,202)	2,132,458	(1,636,356)
Infrastructure	(36,666,509)	(2,649,071)	9,471,909	(29,843,671)
Total accumulated depreciation	<u>(41,795,769)</u>	<u>(2,997,832)</u>	<u>11,720,716</u>	<u>(33,072,885)</u>
Total capital assets being depreciated, net	<u>46,253,538</u>	<u>870,090</u>	<u>(46,613)</u>	<u>47,077,015</u>
Business-type activities capital assets, net	<u>\$ 48,879,659</u>	<u>\$ 2,714,118</u>	<u>\$ (3,339,749)</u>	<u>\$ 48,254,028</u>

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 2: DETAILED NOTES ON ALL FUNDS - CONTINUED

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

	2014
Business-type Activities	
Water	\$ 1,083,770
Electric	1,914,062
Total depreciation expense - business-type activities	\$ 2,997,832

C. Long-term debt

General obligation revenue bonds

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

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Water Revenue Refunding Bonds of 2008	\$ 3,085,000	2.75 - 3.65 %	02/20/08	02/01/22	\$ 1,905,000
G.O. Capital Improvement Plan Bonds of 2010A	1,265,000	2.00 - 4.00	04/21/10	08/01/23	930,000
Total G.O. Revenue Bonds					\$ 2,835,000

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

Year Ending December 31,	Principal	Interest	Total
2015	\$ 300,000	\$ 92,840	\$ 392,840
2016	305,000	84,333	389,333
2017	320,000	74,850	394,850
2018	335,000	63,948	398,948
2019	340,000	51,990	391,990
2020-2023	1,235,000	80,494	1,315,494
Total	\$ 2,835,000	\$ 448,455	\$ 3,283,455

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

In 2014, annual principal and interest payment on the bonds required about 28 percent of revenues from the Water fund. The principal and interest paid and total customer revenues for the Water fund were \$605,846 and \$2,148,327, respectively.

In 2014, 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 \$95,160 and \$31,366,685, respectively.

ELK RIVER MUNICIPAL UTILITIES
 ELK RIVER, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2014

Note 2: DETAILED NOTES ON ALL FUNDS - CONTINUED

Revenue bonds

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

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
Electric Revenue					
Bonds, Series 2007A	2,875,000	4.00	03/28/07	02/01/22	\$ 1,960,000
Electric Revenue Refunding					
Bonds, Series 2014A	2,030,000	2.00-4.00	03/13/14	08/01/18	<u>1,625,000</u>
 Total Revenue Bonds					 <u><u>\$ 3,585,000</u></u>

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

Year Ending December 31,	Principal	Interest	Total
2015	\$ 600,000	\$ 110,600	\$ 710,600
2016	620,000	90,400	710,400
2017	635,000	73,500	708,500
2018	660,000	56,000	716,000
2019	250,000	37,800	287,800
2020-2022	<u>820,000</u>	<u>50,200</u>	<u>870,200</u>
 Total	 <u><u>\$ 3,585,000</u></u>	 <u><u>\$ 418,500</u></u>	 <u><u>\$ 4,003,500</u></u>

The revenue bonds were issued to finance the acquisition and construction of major capital facilities and are to be repaid from future revenues pledged from the Electric fund. In 2014, annual principal and interest payment on the bonds required about 2.5 percent of revenues from the Electric fund. Principal and interest paid and total customer revenues for the Electric fund were \$769,544 and \$31,366,685, respectively.

Promissory note

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

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
Landfill					
Generator Note	\$ 3,521,000	-	03/19/02	02/19/22	<u>\$ 1,599,876</u>

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 2: DETAILED NOTES ON ALL FUNDS - CONTINUED

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

Year Ending December 31,	Principal	Interest	Total
2015	\$ 191,518	\$ -	\$ 191,518
2016	194,292	-	194,292
2017	195,216	-	195,216
2018	198,252	-	198,252
2019	200,916	-	200,916
2020-2022	619,682	-	619,682
Total	<u>\$ 1,599,876</u>	<u>\$ -</u>	<u>\$ 1,599,876</u>

Changes in long-term liabilities

Long-term liability activity for the year ended December 31, 2014 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Business-type activities					
Bonds payable					
General obligation					
revenue bonds	\$ 3,430,000	\$ -	\$ (595,000)	\$ 2,835,000	\$ 300,000
Revenue bonds	4,340,000	2,030,000	(2,785,000)	3,585,000	600,000
Unamortized premium					
on bonds	37,478	61,436	(15,681)	83,233	-
Total bonds payable, net	7,807,478	2,091,436	(3,395,681)	6,503,233	900,000
Notes payable	1,789,224	-	(189,348)	1,599,876	191,518
Compensated					
absences payable	332,740	76,656	(107,110)	302,286	83,891
OPEB liability	45,042	9,890	-	54,932	-
Business-type activity					
long-term					
liabilities	<u>\$ 9,974,484</u>	<u>\$ 2,177,982</u>	<u>\$(3,692,139)</u>	<u>\$ 8,460,327</u>	<u>\$ 1,175,409</u>

Current Refunding

On March 13, 2014 the City issued \$2,030,000 of Electric Revenue Refunding Bonds, Series 2014A. The bonds bear an average coupon rate of 2.17 percent and were used to call \$2,180,000 of the outstanding principal of the Electric Revenue Bonds, Series 2006. As a result of the refunding issue, the Utilities will achieve a net cash flow savings of \$239,104 and an economic gain (the present value of the difference between the old and the new debt service) of \$221,930.

ELK RIVER MUNICIPAL UTILITIES
 ELK RIVER, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2014

Note 2: DETAILED NOTES ON ALL FUNDS - CONTINUED

D. Interfund receivables, payables and transfers

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

Receivable Fund	Payable Fund	Amount	Purpose
Electric	City - General fund	\$ 1,560	Sales tax/franchise fees
Electric	City - Nonmajor	70	Sales tax/franchise fees
Electric	City - Nonmajor	845	Supplies
Electric	City - Sewer	560	4th quarter billings
Electric	City - Garbage	3,499	4th quarter billings
Electric	City - General fund	<u>1,756</u>	PERA aid
Total Electric fund receivable from City		<u>8,290</u>	
Water	City - Nonmajor	329,490	Watermain project
Water	City - General fund	439	PERA aid
Water	City - Capital projects fund	<u>128,850</u>	TIF 22 Water Access Charge
Total Water fund receivable from City		<u>458,779</u>	
Total receivable from City		<u><u>\$ 467,069</u></u>	
City - General fund	Electric	\$ 73,449	Shared costs
City - Nonmajor	Electric	59,872	December transfer of 3% of revenue
City - Nonmajor	Electric	229,017	4th quarter franchise fees
City - Sewer	Electric	147,820	Billed sewer on behalf of City
City - Garbage	Electric	<u>101,922</u>	Billed garbage on behalf of City
Total Electric fund payable to City		<u>612,080</u>	
City - General fund	Water	<u>17,951</u>	Shared costs
Total payable to City		<u><u>\$ 630,031</u></u>	

Interfund transfers completed in 2014 are detailed as follows:

Transfer out	Transfer from Other City Funds	Transfer to Other City Funds
Electric	\$ -	\$ 797,835
Water	<u>329,490</u>	<u>25,000</u>
Total transfers out	<u><u>\$ 329,490</u></u>	<u><u>\$ 822,835</u></u>

The transfer out of the Electric fund was the annual transfer of 3 percent of 2014 revenues to City funds. The transfer out of the Water fund was for its share of bonding. The transfer into the Water fund was for reimbursement related to the watermain project.

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 3: DEFINED BENEFIT PENSION PLANS - STATEWIDE

A. Plan description

All full-time and certain part-time employees of the Utilities are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF), which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with Minnesota statutes, chapters 353 and 356.

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. All new members must participate in the Coordinated Plan.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by Minnesota statute, and vest after five years of credited service. The defined retirement 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 step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For all GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon death of the retiree--no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service, in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF. That report may be obtained on the Internet at www.mnpera.org, by writing to PERA, 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or (800) 652-9026.

B. Funding policy

Minnesota statutes, chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State legislature. The Utilities makes annual contributions to the pension plans equal to the amount required by Minnesota statutes. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.25 percent, respectively, of their annual covered salary in 2014. In 2014, the Utilities was required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan GERF members and 7.25 percent for Coordinated Plan GERF members. The Utilities' contributions to the General Employees Retirement Fund for the years ending December 31, 2014, 2013 and 2012 were \$203,953, \$185,983, and \$170,944, respectively. The Utilities' contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 4: OTHER INFORMATION

A. Territorial acquisition agreement

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

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

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

The Utilities paid \$634 in 2014, respectively, for loss of revenues under this agreement. All amounts paid are included in property and equipment.

B. Risk management

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

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

C. Commitments

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

The Utilities entered into an agreement in 2007 with Central Minnesota Municipal Power Agency (CMMPA) to acquire an interest in the CAPX Initiative Brookings Project, a power transmission line in Minnesota. The project is a 250 mile, 345 kV AC transmission line with a rating of 2,300 MW, between Brookings, South Dakota, and the Southeast Twin Cities. In 2011 there was increased opportunity for investment, and subsequent agreements provide the Utilities with an ownership share of \$5.6 million or 18.89 percent. The return on this investment through CMMPA is designed to provide approximately \$124,000 annually over the 40 year project life. The first transmission payment under the agreement of \$75,453 was receivable at December 31, 2014.

D. Subsequent event

In March 2015, the Utilities entered into a 5 year agreement to transfer ownership of the electric plant and electric service to customers in the remaining areas of Elk River receiving electric service from Connexus - a Territorial Acquisition Agreement.

The terms of the agreement were based on the provisions outlined in Minnesota Statutes 216B.37 - 216B.47. These provisions include compensation for plant and property at net book value, loss of revenue which is indexed and runs for a ten year period from the transfer date specific to each area, and integration costs identified through a jointly prepared integration study.

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 5: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

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

Funding Policy. Contribution requirements also are reviewed at the time changes are made to the plan. The Utility contributes none of the cost of current-year premiums for eligible retired plan members and their spouses. For fiscal year 2014, the Utility contributed \$0 to the plan. Plan members receiving benefits contribute 100 percent of their premium costs. In fiscal year 2014, total member contributions were \$0.

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

Annual required contribution	\$ 10,693
Interest on net OPEB obligation	1,802
Adjustment to annual required contribution	<u>(2,605)</u>
 Annual OPEB Cost (expense)	 9,890
 Contributions made	
Direct (explicit) subsidy	-
Implicit subsidy	<u>-</u>
 Increase in net OPEB obligation	 9,890
 Net OPEB obligation - beginning of year	 <u>45,042</u>
 Net OPEB obligation - end of year	 <u><u>\$ 54,932</u></u>

The Utilities’ annual OPEB cost, the amount and percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for December 31, 2014 and the preceding two fiscal years was as follows:

Year Ending	Three Year Trend Information			
	Annual OPEB Cost	Employer Contribution	Percentage Annual OPEB Contributed	Net OPEB Obligation
12/31/2014	\$ 9,890	\$ -	- %	\$ 54,932
12/31/2013	6,073	1,391	23	45,042
12/31/2012	4,601	-	-	40,360

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

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 5: POSTEMPLOYMENT BENEFITS OTHER THAN PENSION - CONTINUED

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

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

The following simplifying assumptions were made:

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

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

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

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

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

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

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

Disability - None

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

Valuation date - January 1, 2014

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

THIS PAGE IS LEFT BLANK
INTENTIONALLY

REQUIRED SUPPLEMENTARY INFORMATION

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2014

ELK RIVER MUNICIPAL UTILITIES
 ELK RIVER, MINNESOTA
 REQUIRED SUPPLEMENTARY INFORMATION
 FOR THE YEAR ENDED DECEMBER 31, 2014

Schedule of funding progress for the retiree health plan

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

SUPPLEMENTARY INFORMATION

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2014

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
SUPPLEMENTARY INFORMATION
SCHEDULE OF OPERATING REVENUES AND EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Electric</u>	<u>Water</u>	<u>Total</u>
OPERATING REVENUES			
Charges for services			
Elk River	\$ 27,553,417	\$ 2,103,508	\$ 29,656,925
Otsego	2,408,396	-	2,408,396
Big Lake	207,399	-	207,399
Dayton	241,857	-	241,857
Security systems	241,919	-	241,919
LFG Project	1,103,177	-	1,103,177
Generation credit	(784,248)	-	(784,248)
Connection maintenance	149,911	23,262	173,173
Customer penalties	244,857	21,557	266,414
	<u>31,366,685</u>	<u>2,148,327</u>	<u>33,515,012</u>
OPERATING EXPENSES			
Purchased power	<u>21,994,652</u>	<u>-</u>	<u>21,994,652</u>
Production			
Supervision and labor	54,812	7,516	62,328
Natural gas	48,881	-	48,881
Supplies and power for pumping	63,861	305,000	368,861
Landfill gas expense	641,309	-	641,309
Maintenance of structures	32,886	15,099	47,985
Maintenance of equipment	6,023	115,503	121,526
Maintenance of plant	30,806	-	30,806
	<u>878,578</u>	<u>443,118</u>	<u>1,321,696</u>
Total	<u>1,282,774</u>	<u>207,359</u>	<u>1,490,133</u>
Transmission and distribution			
Supervision and labor	25,236	15,130	40,366
Maintenance of overhead lines	351,455	-	351,455
Maintenance of underground lines	127,473	-	127,473
Maintenance of station equipment	33,525	-	33,525
Transportation	197,534	15,666	213,200
Maintenance of customer service	9,784	100,303	110,087
Maintenance of customer meters	91,249	76,260	167,509
Miscellaneous	446,518	-	446,518
	<u>1,282,774</u>	<u>207,359</u>	<u>1,490,133</u>
Total	<u>1,282,774</u>	<u>207,359</u>	<u>1,490,133</u>
Services to City	<u>530,340</u>	<u>-</u>	<u>530,340</u>
Depreciation	<u>1,914,062</u>	<u>1,083,770</u>	<u>2,997,832</u>
Customer accounts expense			
Meter reading	35,123	3,758	38,881
Billing and collection	256,497	66,608	323,105
Bad debts	2,926	145	3,071
	<u>294,546</u>	<u>70,511</u>	<u>365,057</u>
Total	<u>294,546</u>	<u>70,511</u>	<u>365,057</u>

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
SUPPLEMENTARY INFORMATION
SCHEDULE OF OPERATING REVENUES AND EXPENSES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2014

	Electric	Water	Total
OPERATING EXPENSES - CONTINUED			
General and administrative			
Salaries	\$ 537,658	\$ 128,013	\$ 665,671
Employee pensions and benefits	1,126,167	258,951	1,385,118
Dues	89,783	36,853	126,636
Office supplies and billing expense	108,493	23,094	131,587
Office utilities and maintenance	21,603	6,651	28,254
Consulting fees	4,924	344	5,268
Legal and audit	45,497	8,026	53,523
Environmental compliance	24,766	-	24,766
Conservation improvement project	91,676	15,290	106,966
Insurance	197,140	31,670	228,810
Telephone	21,754	5,427	27,181
Advertising	2,914	2,996	5,910
Education and meetings	149,929	19,377	169,306
Miscellaneous	74,867	9,339	84,206
Total	2,497,171	546,031	3,043,202
TOTAL OPERATING EXPENSES	29,392,123	2,350,789	31,742,912
OPERATING INCOME (LOSS)	1,974,562	(202,462)	1,772,100
NONOPERATING REVENUES (EXPENSES)			
Interest income	98,442	23,984	122,426
Miscellaneous revenue	229,532	142,497	372,029
Interest expense	(160,274)	(72,646)	(232,920)
Gain (loss) on sale of capital assets	29,525	(35,884)	(6,359)
Bond issuance costs	(44,850)	-	(44,850)
TOTAL NONOPERATING REVENUES (EXPENSES)	152,375	57,951	210,326
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	2,126,937	(144,511)	1,982,426
CAPITAL CONTRIBUTIONS -			
DEVELOPER INFRASTRUCTURE AND CONNECTION FEES	-	375,329	375,329
CONTRIBUTION OF ASSETS FROM CITY	-	175,091	175,091
TRANSFERS FROM OTHER CITY FUNDS	-	329,490	329,490
TRANSFERS TO OTHER CITY FUNDS	(797,835)	(25,000)	(822,835)
CHANGE IN NET POSITION	1,329,102	710,399	2,039,501
NET POSITION, JANUARY 1	31,639,951	22,376,137	54,016,088
NET POSITION, DECEMBER 31	\$ 32,969,053	\$ 23,086,536	\$ 56,055,589

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
ELECTRIC FUND
SUMMARY OF OPERATIONS AND UNAUDITED STATISTICS
FOR THE YEARS ENDED DECEMBER 31, 2006 THROUGH DECEMBER 31, 2014

SUMMARY OF OPERATIONS

	<u>2006</u>	<u>2007</u>	<u>2008</u>
OPERATING REVENUES			
Sales of electricity	\$ 16,495,049	\$ 19,164,797	\$ 22,303,994
Other operating revenues (expenses)	482,668	501,746	637,909
TOTAL OPERATING REVENUES	<u>16,977,717</u>	<u>19,666,543</u>	<u>22,941,903</u>
OPERATING EXPENSES			
Purchased power	10,101,458	12,176,034	14,778,270
Distribution	1,942,577	1,829,971	2,162,797
Services to the City	328,148	358,029	409,222
Depreciation	1,561,096	1,920,798	2,057,851
Other operating expenses	<u>1,936,275</u>	<u>1,977,973</u>	<u>2,196,770</u>
TOTAL OPERATING EXPENSES	<u>15,869,554</u>	<u>18,262,805</u>	<u>21,604,910</u>
OPERATING INCOME	1,108,163	1,403,738	1,336,993
TRANSFERS FROM OTHER CITY FUNDS	-	-	-
TRANSFERS TO OTHER CITY FUNDS	(420,000)	(483,000)	(540,636)
NONOPERATING REVENUES	<u>887,803</u>	<u>710,858</u>	<u>249,022</u>
NET INCOME	<u>\$ 1,575,966</u>	<u>\$ 1,631,596</u>	<u>\$ 1,045,379</u>
PERCENT OF CHANGE			
Sales of electricity	7.973%	16.185%	16.380%
Purchased power	4.945%	20.537%	21.372%
PERCENT OF REVENUES			
Purchased power	59.498%	61.912%	64.416%

UNAUDITED STATISTICS

MISCELLANEOUS

	<u>2006</u>	<u>2007</u>	<u>2008</u>
KWh's purchased	205,645,631	225,973,086	241,837,173
KWh's sold	<u>194,975,530</u>	<u>211,298,886</u>	<u>224,226,048</u>
Line loss	10,670,101	14,674,200	17,611,125
Percent of line loss	5.189%	6.494%	7.282%
REVENUES PER KWh SOLD	\$ 0.0846	\$ 0.0907	\$ 0.0995
COST PER KWh PURCHASED	\$ 0.0491	\$ 0.0539	\$ 0.0611
NUMBER OF CUSTOMERS	8,562	8,945	9,203
TOTAL CONTRIBUTION/TRANSFERS TO CITY	\$ 420,000	\$ 483,000	\$ 540,636

2009	2010	2011	2012	2013	2014
\$ 23,591,485	\$ 26,060,301	\$ 27,894,341	\$ 30,070,045	\$ 30,978,790	\$ 31,514,246
636,258	732,261	689,645	188,645	(132,411)	(147,561)
<u>24,227,743</u>	<u>26,792,562</u>	<u>28,583,986</u>	<u>30,258,690</u>	<u>30,846,379</u>	<u>31,366,685</u>
16,161,444	18,373,386	19,604,951	20,499,773	21,254,950	21,994,652
1,937,096	1,892,212	1,960,742	1,909,845	1,970,341	2,161,352
428,508	434,415	474,934	481,907	498,146	530,340
2,126,794	2,062,942	2,041,717	2,099,594	2,029,496	1,914,062
<u>2,272,917</u>	<u>2,399,236</u>	<u>2,350,706</u>	<u>2,359,193</u>	<u>2,374,959</u>	<u>2,791,717</u>
<u>22,926,759</u>	<u>25,162,191</u>	<u>26,433,050</u>	<u>27,350,312</u>	<u>28,127,892</u>	<u>29,392,123</u>
1,300,984	1,630,371	2,150,936	2,908,378	2,718,487	1,974,562
-	53,741	-	-	-	-
(585,141)	(657,086)	(711,415)	(816,864)	(781,162)	(797,835)
<u>(146,352)</u>	<u>(154,956)</u>	<u>(105,604)</u>	<u>28,531</u>	<u>(30,658)</u>	<u>152,375</u>
<u>\$ 569,491</u>	<u>\$ 872,070</u>	<u>\$ 1,333,917</u>	<u>\$ 2,120,045</u>	<u>\$ 1,906,667</u>	<u>\$ 1,329,102</u>
5.772%	10.465%	7.038%	7.800%	3.022%	1.728%
9.360%	13.687%	6.703%	4.564%	3.684%	3.480%
66.706%	68.576%	68.587%	67.748%	68.906%	70.121%

2009	2010	2011	2012	2013	2014
247,595,137	264,642,834	276,026,892	287,553,108	290,025,919	288,320,724
<u>232,772,722</u>	<u>250,711,834</u>	<u>261,235,297</u>	<u>273,455,846</u>	<u>273,945,354</u>	<u>274,546,059</u>
14,822,415	13,931,000	14,791,595	14,097,262	16,080,565	13,774,665
5.987%	5.264%	5.359%	4.902%	5.545%	4.778%
\$ 0.1013	\$ 0.1039	\$ 0.1068	\$ 0.1100	\$ 0.1131	\$ 0.1148
\$ 0.0653	\$ 0.0694	\$ 0.0710	\$ 0.0713	\$ 0.0733	\$ 0.0763
9,170	9,207	9,227	9,285	9,358	9,449
\$ 585,141	\$ 657,086	\$ 711,415	\$ 816,864	\$ 781,162	\$ 797,835

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
WATER FUND
SUMMARY OF OPERATIONS AND UNAUDITED STATISTICS
FOR THE YEARS ENDED DECEMBER 31, 2006 THROUGH DECEMBER 31, 2014

SUMMARY OF OPERATIONS

	<u>2006</u>	<u>2007</u>	<u>2008</u>
OPERATING REVENUES			
Sales of water	\$ 1,749,932	\$ 2,113,166	\$ 2,130,124
OPERATING EXPENSES			
Operating expenses less depreciation	1,069,988	1,191,346	1,185,413
Depreciation	<u>790,451</u>	<u>921,450</u>	<u>974,848</u>
TOTAL OPERATING EXPENSES	<u>1,860,439</u>	<u>2,112,796</u>	<u>2,160,261</u>
TOTAL OPERATING INCOME (LOSS)	<u>\$ (110,507)</u>	<u>\$ 370</u>	<u>\$ (30,137)</u>
PERCENT OF CHANGE			
Sales of water	29.86%	20.76%	0.80%

**UNAUDITED STATISTICS
MISCELLANEOUS**

	<u>2006</u>	<u>2007</u>	<u>2008</u>
WATER PUMPED (gallons)	812,560,000	873,742,000	854,133,000
WATER SOLD (gallons)	726,169,000	783,948,000	727,029,000
Percent of line loss	10.63%	10.28%	14.88%
Revenues per 1,000 gallons pumped	\$ 2.14	\$ 2.41	\$ 2.48
Revenues per 1,000 gallons sold	\$ 2.41	\$ 2.70	\$ 2.93
Number of customers	4,317	4,413	4,508

WATER SUPPLIER SERVICES

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Flushing hydrants	25,000,000	27,000,000	30,000,000
Back washing	9,000,000	8,400,000	8,400,000
Fire department use	1,000,000	1,000,000	5,000,000
New water main disinfectant and flushing	6,500,000	1,000,000	2,000,000
Flushing seasonal well	-	-	-
Meter inaccuracy	3,000,000	-	-
Street and Sewer Maintenance	-	-	-
Water tower paint and clean	-	-	-
Water line and irrigation leaks	-	-	-
Frozen pipes bursting in abandoned homes	-	-	25,000,000
Water Supplier Services	<u>44,500,000</u>	<u>37,400,000</u>	<u>70,400,000</u>

2009	2010	2011	2012	2013	2014
\$ 2,206,429	\$ 1,913,661	\$ 1,832,817	\$ 2,265,142	\$ 2,278,124	\$ 2,148,327
1,102,437	989,736	1,008,562	1,130,965	1,210,797	1,267,019
956,993	955,323	980,197	1,028,593	1,032,442	1,083,770
2,059,430	1,945,059	1,988,759	2,159,558	2,243,239	2,350,789
\$ 146,999	\$ (31,398)	\$ (155,942)	\$ 105,584	\$ 34,885	\$ (202,462)
3.58%	(13.27%)	(4.22%)	23.59%	0.57%	(5.70%)

2009	2010	2011	2012	2013	2014
782,951,000	686,289,000	651,907,000	847,283,200	785,377,000	782,110,000
708,286,000	627,209,000	599,701,000	727,912,000	709,760,000	672,760,000
9.54%	8.61%	8.01%	14.09%	9.63%	13.98%
\$ 2.81	\$ 2.79	\$ 2.81	\$ 2.67	\$ 2.90	\$ 2.75
\$ 3.12	\$ 3.05	\$ 3.06	\$ 3.11	\$ 3.21	\$ 3.19
4,467	4,511	4,515	4,542	4,613	4,676

Gallons

2009	2010	2011	2012	2013	2014
33,000,000	35,000,000	34,000,000	46,400,000	45,000,000	47,000,000
8,400,000	9,000,000	8,000,000	30,000,000	8,000,000	3,922,000
1,000,000	3,000,000	4,000,000	16,500,000	5,000,000	5,000,000
2,000,000	3,000,000	4,000,000	9,000,000	5,000,000	5,000,000
-	4,000,000	-	3,600,000	-	-
1,300,000	-	-	6,500,000	3,000,000	3,000,000
-	-	-	-	617,000	1,000,000
-	-	2,000,000	-	2,000,000	1,000,000
-	-	-	7,000,000	7,000,000	7,000,000
27,000,000	5,000,000	-	-	-	-
72,700,000	59,000,000	52,000,000	119,000,000	75,617,000	72,922,000

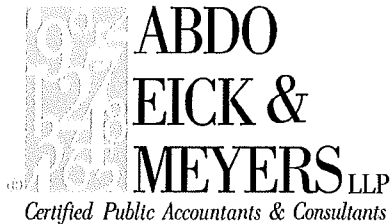
THIS PAGE IS LEFT BLANK
INTENTIONALLY

OTHER REPORTS

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2014

THIS PAGE IS LEFT BLANK
INTENTIONALLY



INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

Public Utilities Commission
Elk River Municipal Utilities
Elk River, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Elk River Municipal Utilities (the Utilities) of the City of Elk River, Minnesota (the City) as of and for the year ended December 31, 2014, and the related notes to the financial statements, and have issued our report thereon dated April 7, 2015.

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

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

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

Abdo Eick & Meyers, LLP

ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
April 7, 2015