

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA

ANNUAL FINANCIAL REPORT

YEARS ENDED
DECEMBER 31, 2010 AND 2009

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ELK RIVER, MINNESOTA
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INTRODUCTORY SECTION

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA

YEAR ENDED
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ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
PUBLIC UTILITIES COMMISSION AND ADMINISTRATION
DECEMBER 31, 2010

PUBLIC UTILITIES COMMISSION

<u>Name</u>	<u>Title</u>
John Dietz	Chairperson
Jerry Gumphrey	Vice-Chairperson
Daryl Thompson	Trustee

ADMINISTRATION

<u>Name</u>	<u>Title</u>
Troy Adams	Director of Operations
Theresa Slominski	Finance Director/Office Manager
David Berg	Water Superintendent
Mark Fuchs	Line Superintendent
Wade Lovelette	Technical Services Superintendent
Judy McSpadden	Recording Clerk

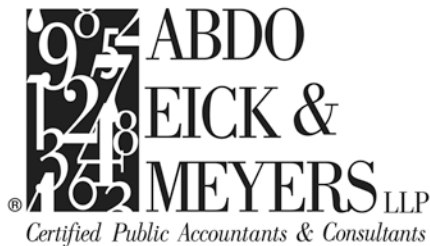
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FINANCIAL SECTION

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA

YEARS ENDED
DECEMBER 31, 2010 AND 2009

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5201 Eden Avenue
Suite 250
Edina, MN 55436

INDEPENDENT AUDITOR'S REPORT

Public Utilities Commission
Elk River Municipal Utilities
Elk River, Minnesota

We have audited the accompanying statements of net assets of the Elk River Municipal Utilities (the Utilities) of the City of Elk River, Minnesota (the City), as of December 31, 2010 and 2009 and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1B, the financial statements present only the Electric and Water enterprise funds and are not intended to present fairly the financial position of the City and the results of its operations and cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Electric and Water enterprise funds of the City as of December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 13 through 18 and Schedule of Funding Progress on page 55, 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.

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Our audits were 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 has 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.

April 4, 2011
Minneapolis, Minnesota

ABDO, EICK & MEYERS, LLP
Certified Public Accountants

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Management's Discussion and Analysis

This section of the Elk River Municipal Utilities (the Utilities) annual financial report presents our analysis of the Utilities' financial performance during the fiscal year that ended December 31, 2010. 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 \$47,583,084 (*net assets*). Net Assets increased by \$1,218,524 or 3 percent.
- The Utilities' cash balance at the close of the current fiscal year was \$10,104,659.
- The economy affected us much less than we anticipated this year as electric usage increased, although it was projected to remain flat. With a warmer summer in 2010, weather certainly contributed to this; however we experienced increased usage throughout the year.
- Electric usage was up an average of 7 percent. Residential usage was up 5 percent, Commercial usage was up 10 percent, and Industrial usage was up 9 percent.
- Water usage, however was down an average of 11 percent. Residential usage was down 12 percent, and Commercial usage was down 10 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- and long-term financial information about its activities. The Statements of Net Assets 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 Assets. 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 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 Asset, and the Statements of Revenues, Expenses and Changes in Net Assets report information about the Utilities' activities in a way that will help answer this question. These two statements report the net assets of the Utilities and changes in these net assets. You can think of the Utilities' net assets (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 assets are 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 ASSETS

To begin our analysis, a summary of the Utilities' Statements of Net Assets is presented in Table A-1. As can be seen from the Table, net assets increased \$1,218,524 to \$47,583,084 in fiscal 2010 up from \$46,364,560 in fiscal 2009.

TABLE A-1
Condensed Statement of Net Assets

	2010	2009	Increase (Decrease)
Assets			
Current and other	\$ 14,346,202	\$ 14,948,372	\$ (602,170)
Capital	50,095,964	51,626,923	(1,530,959)
Total assets	<u>64,442,166</u>	<u>66,575,295</u>	<u>(2,133,129)</u>
Liabilities			
Current	4,331,274	6,547,087	(2,215,813)
Non-current	12,527,808	13,663,648	(1,135,840)
Total liabilities	<u>16,859,082</u>	<u>20,210,735</u>	<u>(3,351,653)</u>
Net assets			
Invested in capital assets, net of related debt	36,525,896	34,397,277	2,128,619
Restricted for debt service	724,500	724,500	-
Unrestricted	10,332,688	11,242,783	(910,095)
Total net assets	<u>\$ 47,583,084</u>	<u>\$ 46,364,560</u>	<u>\$ 1,218,524</u>

Looking at Table A-1, you can see that most of the change in net assets was realized in the current liabilities, which decreased \$2,215,813 in fiscal 2010. The decrease in current liabilities is a result of the 2001A bond refunding. This bond was refunded the prior year, but could not be called until 2010 and so remained in escrow and, therefore, a liability on our books until Feb 2010.

It should be noted that while current assets in total decreased, the cash balances increased. The Utility has a Reserve goal that it is working towards for the long term financial health of the organization and the increase in cash brings us to that goal. However, our reserve balances goal does not include a component to cover purchased power costs, which is our largest expense. If we were to fully fund this component in our reserves, we would have to significantly increase our reserves, by 2 to 5 million dollars at a minimum. Instead, we have chosen to allocate reserve overages to working capital, which allows us to absorb the variations in purchased power (most notably from fluctuating Power Cost Adjustments, PCAs) that are typically passed along from our power supplier to our customers. With this mechanism in place, as long as we have sufficient reserve balances, we can refrain from passing these PCAs on to our customers.

Water and Electric Rates

Electric - The latest increase in the Utilities' electric rates was effective January 2011. The monthly base charges are based upon the type of service. The monthly charges are \$9.00 for residential, \$16.00 for commercial, and \$50.00 for industrial. In addition to the base charges the residential rate is \$.1165/KWh for May-September usage, and \$.1040/KWh for October-April usage; the commercial rate is \$.1120/KWh for May-September usage, and \$0.0929/KWh for October-April usage; the industrial rate is \$.0558/KWh energy charge year round with a demand charge of \$15.89/KW May-September, and \$11.27/KW for October-April.

Water and Electric Rates - Continued

Water - The Utilities' latest increase in residential and commercial rates was effective January 2009. The rates did not change for 2010, or 2011, per a rate study review. The monthly base charge for residential is \$7.50 per month. In addition to the base charge, the Utilities currently charges its residential customers \$1.50 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, from \$9.00 to \$95.00. An irrigation meter is \$40.00 for every month the meter is utilized. There is also a charge per thousand gallons, the same tiers as the residential rate, except the change from the lower rate to the higher rate is calculated based on previous consumption.

Certain other rates may be offered for conservation incentive purposes. The Utilities' offer a Senior Citizen rate as well.

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 Customers that have their service discontinued will be charged a minimum of \$50.00 to have their service reconnected. Commercial/Industrial three phase customers that have their service discontinued will be charged a minimum of \$150.00 to have their service reconnected. Effective January 1, 2010, there are no reconnections after 3:30pm. Additionally, payments for reconnection are no longer accepted at the property site; customers must come in to the office between the hours of 8:00am and 3:30pm to make the payment before service will be restored. The Utilities abides by the Cold Weather Rules.

Deposit Policy

In 2007 the Utilities started collecting social security numbers from new accounts and also implemented a new deposit policy as a proactive measure to try and reduce uncollectible accounts. A number of years ago deposits were collected from all new accounts but it became very difficult to manage and so was discontinued. In implementing this policy it was decided to collect deposits from new accounts that did not supply a social security number or were identified as a credit risk. To determine potential credit risk an assessment tool called "Online Utility Exchange" was implemented. This tool was recommended by the APPA (American Public Power Association.) 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 of 2 times the estimated average monthly bill will be required before utility service will be extended.

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 monthly bill will be required. 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 ASSETS

While the Statements of Net Assets shows the change in financial position of net assets, the Statements of Revenues, Expenses and Changes in Net Assets, provides answers as to the nature and source of these changes. As can be seen in Table A-2, the increase in “Operating Revenues” was the main source of the increase in net assets of \$1,218,524 in fiscal 2010. A closer examination of the individual categories affecting the source of changes in net assets is discussed below:

**TABLE A-2
Condensed Statements of Revenues,
Expenses and Changes in Net Assets**

	2010	2009	Increase (Decrease)
Revenues			
Operating	\$ 28,623,887	\$ 26,434,172	\$ 2,189,715
Nonoperating	456,361	424,659	31,702
Total revenues	<u>29,080,248</u>	<u>26,858,831</u>	<u>2,221,417</u>
Expenses			
Operating	27,107,250	24,986,189	2,121,061
Nonoperating	448,818	632,071	(183,253)
Total expenses	<u>27,556,068</u>	<u>25,618,260</u>	<u>1,937,808</u>
Income before contributions and operating transfers	1,524,180	1,240,571	283,609
Contributions from developers	304,775	-	304,775
Transfers from other City funds	71,655	-	71,655
Transfers to other City funds	<u>(682,086)</u>	<u>(605,141)</u>	<u>(76,945)</u>
Change in net assets	1,218,524	635,430	583,094
Net assets, January 1	<u>46,364,560</u>	<u>45,729,130</u>	<u>635,430</u>
Net assets, December 31	<u><u>\$ 47,583,084</u></u>	<u><u>\$ 46,364,560</u></u>	<u><u>\$ 1,218,524</u></u>

Revenues

Table A-2 shows that operating revenue increased by 8 percent in 2010 for the Water and Electric Departments combined. This increase was a result of increased usage across all electric categories and warmer summer weather in 2010, as discussed previously. The increase in electric revenues offsets the water revenues being down approximately 6 percent from people decreasing their lawn watering in the summer, and some general usage decreases throughout the rest of the year.

Nonoperating revenue increased 7 percent as a result of transmission rebate revenue in the Electric Department, and water tower lease revenue in the Water Department. 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 allows us to help keep our rates down. Our rebated revenue received in 2010 is a result of the 2008 filing, and began mid-year for a total of approximately \$50,000. In 2011, we will receive rebates from our 2009 filings of approximately \$5,000 per month. The Water Department is receiving lease revenue from Sprint for antennas on the water towers. In 2010 this amount was approximately \$36,000, and will continue for the duration of the multi-year contract.

Between the two departments, Connection Fees increased \$76,509; Electric decreased \$13,000 and Water increased \$90,000 (the water increase is a result of a new apartment building coming on line.)

Total Expenses

In reviewing total expenses in Table A-2 you will notice that there was an increase of 7.6 percent overall. Expenses are increased most notably for Purchased Power, representing a \$2,200,000 increase over the prior year. Other expense categories are pretty consistent with the prior year in total, although there is fluctuation within the categories, some being up and some being down. Expense categories that had increased are landfill project, insurances, compliance and conservation programs, and salaries following a 1.5 percent increase awarded in 2010 after a 0 percent increase in 2009. Expense categories that had decreased are meter reading, maintenance expenses, uncollectible accounts, dues and subscriptions, consulting, and supplies and expense.

CAPITAL ASSETS

The Utilities' investment in capital assets for its business-type activities as of December 31, 2010, amounts to \$50,095,964 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements and equipment. A table summarizing the balances by fund follows:

	2010	2009	Increase (Decrease)
Land	\$ 281,775	\$ 281,775	\$ -
Land improvements	21,424	23,949	(2,525)
Buildings	2,289,154	2,401,664	(112,510)
Equipment and machinery	1,027,943	1,159,559	(131,616)
Infrastructure	46,056,683	47,675,328	(1,618,645)
Construction in progress	418,985	84,648	334,337
Total	<u>\$ 50,095,964</u>	<u>\$ 51,626,923</u>	<u>\$ (1,530,959)</u>

The total decrease in the Utilities' investment in capital assets for the current fiscal year was 3.0 percent.

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

- Again this year, the depreciation increase for this year offset the smaller increase in assets, resulting in an actual decrease in capital assets.
- The decrease in construction resulted in fewer assets being added, only \$1.3 million.
- Accumulated depreciation for the year, however, increased \$3 million.

Additional information on the Utilities' capital assets can be found in Note 2B start on page 39 of this report.

LONG-TERM DEBT

At year end, the Utilities had \$13,895,894 in long-term debt down from \$17,485,814 in fiscal 2009. More detailed information about the Utilities' long-term liabilities is presented in the Notes to the Financial Statements on pages 41 - 44 and below:

	2010	2009	Increase (Decrease)
G.O. revenue bonds	\$ 5,115,000	\$ 8,185,000	\$ (3,070,000)
Revenue bonds	6,060,000	6,520,000	(460,000)
Unamortized premium on bonds	49,750	-	49,750
Promissory note	2,345,318	2,524,646	(179,328)
Compensated absences payable	295,730	235,925	59,805
OPEB liability	30,096	20,243	9,853
Total	<u>\$ 13,895,894</u>	<u>\$ 17,485,814</u>	<u>\$ (3,589,920)</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. We don't want to have to rely on increasing rates to meet those increases and continue to look for ways to increase efficiencies and reduce costs. Our mission is to provide safe, cost-effective, reliable utilities, and that will be a challenge in the coming years but it is a challenge we are ready to embrace.

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 stop by at 13069 Orono Parkway in Elk River, MN.

FINANCIAL STATEMENTS

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA

YEARS ENDED
DECEMBER 31, 2010 AND 2009

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
STATEMENTS OF NET ASSETS
DECEMBER 31, 2010 AND 2009

	Electric	
	2010	2009
ASSETS		
CURRENT ASSETS		
Cash and temporary investments	\$ 6,587,017	\$ 5,366,820
Cash with escrow agent	-	-
Receivables		
Accrued interest	1,116	26,090
Accounts, net of allowance	2,403,096	2,037,796
Special assessments	-	-
Other receivables	52,635	23,827
Due from other City fund	9,881	4,913
Due from other governments	1,627	37,124
Inventories	1,018,092	1,034,829
Prepaid expenses	140,116	75,288
	<u>10,213,580</u>	<u>8,606,687</u>
CAPITAL ASSETS		
Land	200,236	200,236
Land improvements	63,147	63,147
Buildings	2,735,797	2,735,797
Equipment and machinery	3,759,663	3,724,669
Infrastructure	44,492,422	43,926,545
Construction in progress	407,475	84,648
	<u>51,658,740</u>	<u>50,735,042</u>
CAPITAL ASSETS, COST	51,658,740	50,735,042
LESS ACCUMULATED DEPRECIATION	(23,869,917)	(21,864,361)
	<u>27,788,823</u>	<u>28,870,681</u>
TOTAL CAPITAL ASSETS, NET		
OTHER ASSETS		
Restricted cash	724,500	724,500
Deferred charges	194,978	117,724
	<u>919,478</u>	<u>842,224</u>
TOTAL OTHER ASSETS		
TOTAL ASSETS	<u>38,921,881</u>	<u>38,319,592</u>

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

Water		Total	
2010	2009	2010	2009
\$ 2,793,142	\$ 2,500,960	\$ 9,380,159	\$ 7,867,780
-	2,588,901	-	2,588,901
279	27,684	1,395	53,774
97,248	87,125	2,500,344	2,124,921
13,001	10,235	13,001	10,235
3,444	4,178	56,079	28,005
128,850	128,850	138,731	133,763
-	-	1,627	37,124
38,748	28,722	1,056,840	1,063,551
18,422	12,184	158,538	87,472
<u>3,093,134</u>	<u>5,388,839</u>	<u>13,306,714</u>	<u>13,995,526</u>
81,539	81,539	281,775	281,775
-	-	63,147	63,147
770,828	770,828	3,506,625	3,506,625
321,225	319,309	4,080,888	4,043,978
31,091,224	30,598,428	75,583,646	74,524,973
11,510	-	418,985	84,648
<u>32,276,326</u>	<u>31,770,104</u>	<u>83,935,066</u>	<u>82,505,146</u>
<u>(9,969,185)</u>	<u>(9,013,862)</u>	<u>(33,839,102)</u>	<u>(30,878,223)</u>
<u>22,307,141</u>	<u>22,756,242</u>	<u>50,095,964</u>	<u>51,626,923</u>
-	-	724,500	724,500
120,010	110,622	314,988	228,346
<u>120,010</u>	<u>110,622</u>	<u>1,039,488</u>	<u>952,846</u>
<u>25,520,285</u>	<u>28,255,703</u>	<u>64,442,166</u>	<u>66,575,295</u>

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
STATEMENTS OF NET ASSETS - CONTINUED
DECEMBER 31, 2010 AND 2009

	Electric	
	2010	2009
CURRENT LIABILITIES		
Accounts payable	\$ 1,864,669	\$ 1,773,388
Salaries and benefits payable	71,655	60,809
Accrued interest payable	111,260	124,284
Due to other City funds	382,538	308,564
Due to other governments	122,278	107,997
Customer deposits payable	273,537	185,600
Unearned revenue	-	-
Compensated absences - current portion	113,845	79,840
Notes payable - current portion	182,436	179,328
Bonds payable - current portion	548,000	512,500
	<u>3,670,218</u>	<u>3,332,310</u>
NON-CURRENT LIABILITIES		
Net other postemployment benefits liability	30,096	20,243
Compensated absences - less current portion	100,788	87,194
Notes payable - less current portion	2,162,882	2,345,318
Bonds payable, net - less current portion	6,563,800	7,012,500
	<u>8,857,566</u>	<u>9,465,255</u>
TOTAL LIABILITIES	<u>12,527,784</u>	<u>12,797,565</u>
NET ASSETS		
Invested in capital assets, net of related debt	18,331,705	18,821,035
Restricted for debt service	724,500	724,500
Unrestricted	7,337,892	5,976,492
	<u>26,394,097</u>	<u>25,522,027</u>
TOTAL NET ASSETS	<u>\$ 26,394,097</u>	<u>\$ 25,522,027</u>

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

Water		Total	
2010	2009	2010	2009
\$ 39,361	\$ 22,318	\$ 1,904,030	\$ 1,795,706
4,295	5,515	75,950	66,324
54,765	114,136	166,025	238,420
13,350	14,810	395,888	323,374
2	-	122,280	107,997
6,311	7,500	279,848	193,100
19,167	-	19,167	-
46,805	37,998	160,650	117,838
-	-	182,436	179,328
477,000	3,012,500	1,025,000	3,525,000
661,056	3,214,777	4,331,274	6,547,087
-	-	30,096	20,243
34,292	30,893	135,080	118,087
-	-	2,162,882	2,345,318
3,635,950	4,167,500	10,199,750	11,180,000
3,670,242	4,198,393	12,527,808	13,663,648
4,331,298	7,413,170	16,859,082	20,210,735
18,194,191	15,576,242	36,525,896	34,397,277
-	-	724,500	724,500
2,994,796	5,266,291	10,332,688	11,242,783
<u>\$ 21,188,987</u>	<u>\$ 20,842,533</u>	<u>\$ 47,583,084</u>	<u>\$ 46,364,560</u>

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
YEARS ENDED DECEMBER 31, 2010 AND 2009

	Electric	
	2010	2009
OPERATING REVENUES		
Charges for services	\$ 25,056,960	\$ 22,581,803
Security systems	256,647	254,773
LFG project	1,003,341	1,009,682
Generation credit	173,534	172,421
Customer penalties	237,319	209,064
	26,727,801	24,227,743
TOTAL OPERATING REVENUES		
OPERATING EXPENSES		
Purchased power	18,373,386	16,161,444
Production	919,638	862,345
Distribution	972,574	1,074,751
Depreciation	2,062,942	2,126,794
Customer accounts	692,703	797,482
General and administrative	2,140,948	1,903,943
	25,162,191	22,926,759
TOTAL OPERATING EXPENSES		
OPERATING INCOME (LOSS)	1,565,610	1,300,984
NONOPERATING REVENUES (EXPENSES)		
Interest income	89,948	87,857
Connection charges	64,761	78,208
Miscellaneous revenue	48,421	30,377
Interest expense	(272,897)	(299,452)
Amortization of deferred charges	(8,819)	(11,169)
Loss on sale of capital assets	(11,609)	(32,173)
	(90,195)	(146,352)
TOTAL NONOPERATING REVENUES (EXPENSES)		
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	1,475,415	1,154,632
CONTRIBUTIONS FROM DEVELOPERS	-	-
TRANSFERS FROM OTHER CITY FUNDS	53,741	-
TRANSFERS TO OTHER CITY FUNDS	(657,086)	(585,141)
	872,070	569,491
CHANGE IN NET ASSETS		
NET ASSETS, JANUARY 1	25,522,027	24,952,536
NET ASSETS, DECEMBER 31	\$ 26,394,097	\$ 25,522,027

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

Water		Total	
2010	2009	2010	2009
\$ 1,876,363	\$ 2,182,110	\$ 26,933,323	\$ 24,763,913
-	-	256,647	254,773
-	-	1,003,341	1,009,682
-	-	173,534	172,421
19,723	24,319	257,042	233,383
<u>1,896,086</u>	<u>2,206,429</u>	<u>28,623,887</u>	<u>26,434,172</u>
-	-	18,373,386	16,161,444
346,960	374,417	1,266,598	1,236,762
151,495	169,447	1,124,069	1,244,198
955,323	956,993	3,018,265	3,083,787
46,684	61,405	739,387	858,887
444,597	497,168	2,585,545	2,401,111
<u>1,945,059</u>	<u>2,059,430</u>	<u>27,107,250</u>	<u>24,986,189</u>
<u>(48,973)</u>	<u>146,999</u>	<u>1,516,637</u>	<u>1,447,983</u>
31,798	132,452	121,746	220,309
173,334	83,378	238,095	161,586
48,099	12,387	96,520	42,764
(143,361)	(274,958)	(416,258)	(574,410)
(12,132)	(14,319)	(20,951)	(25,488)
-	-	(11,609)	(32,173)
<u>97,738</u>	<u>(61,060)</u>	<u>7,543</u>	<u>(207,412)</u>
48,765	85,939	1,524,180	1,240,571
304,775	-	304,775	-
17,914	-	71,655	-
(25,000)	(20,000)	(682,086)	(605,141)
346,454	65,939	1,218,524	635,430
<u>20,842,533</u>	<u>20,776,594</u>	<u>46,364,560</u>	<u>45,729,130</u>
<u>\$ 21,188,987</u>	<u>\$ 20,842,533</u>	<u>\$ 47,583,084</u>	<u>\$ 46,364,560</u>

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010 AND 2009

	Electric	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 26,414,254	\$ 24,114,123
Other operating cash receipts	55,110	12,506
Payments to suppliers	(21,426,298)	(18,793,418)
Payments to employees	(1,446,237)	(1,332,138)
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,596,829	4,001,073
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers from City	53,741	-
Transfers to City	(657,086)	(585,141)
Increase (decrease) in due to other City funds	69,006	(19,764)
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	(534,339)	(604,905)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(998,645)	(1,214,469)
Proceeds from sale of capital assets	5,952	-
Principal payments on revenue bonds	(512,500)	(328,750)
Proceeds of refunding bonds issued, net of issuance costs and premium on bonds	1,105,905	-
Withdrawal from escrow fund	-	-
Payment to refunded bond escrow agent	(1,099,671)	-
Interest paid on revenue bonds	(278,928)	(306,657)
Principal payments on promissory note	(179,328)	(177,348)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(1,957,215)	(2,027,224)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	114,922	89,324
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,220,197	1,458,268
CASH AND CASH EQUIVALENTS, JANUARY 1	6,091,320	4,633,052
CASH AND CASH EQUIVALENTS, DECEMBER 31	7,311,517	6,091,320
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS		
Cash and temporary investments	6,587,017	5,366,820
Restricted cash	724,500	724,500
TOTAL CASH AND CASH EQUIVALENTS	\$ 7,311,517	\$ 6,091,320

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

Water		Total	
2010	2009	2010	2009
\$ 2,053,663	\$ 2,419,649	\$ 28,467,917	\$ 26,533,772
68,000	65,563	123,110	78,069
(650,962)	(718,046)	(22,077,260)	(19,511,464)
<u>(325,328)</u>	<u>(377,420)</u>	<u>(1,771,565)</u>	<u>(1,709,558)</u>
<u>1,145,373</u>	<u>1,389,746</u>	<u>4,742,202</u>	<u>5,390,819</u>
17,914	-	71,655	-
(25,000)	(20,000)	(682,086)	(605,141)
<u>(1,460)</u>	<u>(3,168)</u>	<u>67,546</u>	<u>(22,932)</u>
<u>(8,546)</u>	<u>(23,168)</u>	<u>(542,885)</u>	<u>(628,073)</u>
(201,447)	(211,199)	(1,200,092)	(1,425,668)
-	-	5,952	-
<u>(3,012,500)</u>	<u>(426,250)</u>	<u>(3,525,000)</u>	<u>(755,000)</u>
201,506	-	1,307,411	-
2,575,000	-	2,575,000	-
(279,396)	-	(1,379,067)	-
(200,912)	(280,778)	(479,840)	(587,435)
<u>-</u>	<u>-</u>	<u>(179,328)</u>	<u>(177,348)</u>
<u>(917,749)</u>	<u>(918,227)</u>	<u>(2,874,964)</u>	<u>(2,945,451)</u>
<u>73,104</u>	<u>117,151</u>	<u>188,026</u>	<u>206,475</u>
292,182	565,502	1,512,379	2,023,770
<u>2,500,960</u>	<u>1,935,458</u>	<u>8,592,280</u>	<u>6,568,510</u>
<u>2,793,142</u>	<u>2,500,960</u>	<u>10,104,659</u>	<u>8,592,280</u>
2,793,142	2,500,960	9,380,159	7,867,780
-	-	724,500	724,500
<u>-</u>	<u>-</u>	<u>724,500</u>	<u>724,500</u>
<u>\$ 2,793,142</u>	<u>\$ 2,500,960</u>	<u>\$ 10,104,659</u>	<u>\$ 8,592,280</u>

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
STATEMENTS OF CASH FLOWS - CONTINUED
YEARS ENDED DECEMBER 31, 2010 AND 2009

	Electric	
	2010	2009
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 1,565,610	\$ 1,300,984
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Other revenue related to operations	113,182	108,585
Bad debt expense	100,945	182,931
Depreciation	2,062,942	2,126,794
(Increase) decrease in assets:		
Accounts receivable	(466,245)	(237,458)
Other receivables	(28,808)	16,092
Special assessments	-	-
Due from other governments	35,497	(33,963)
Inventories	16,737	294,630
Prepaid expenses	(64,828)	(13,660)
Increase (decrease) in liabilities:		
Accounts payable	91,281	200,933
Salaries and benefits payable	10,846	21,086
Net other postemployment benefits liability	9,853	10,030
Unearned revenue	-	-
Compensated absences	47,599	(31,789)
Due to other governments	14,281	10,248
Customer deposits payable	87,937	45,630
	<u>\$ 3,596,829</u>	<u>\$ 4,001,073</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Amortization of deferred charges and bond premium	<u>\$ 8,819</u>	<u>\$ 11,169</u>
Amortization of deferred charges on refunding	<u>\$ 6,993</u>	<u>\$ -</u>
Loss on disposal of capital assets	<u>\$ (11,609)</u>	<u>\$ (32,173)</u>
Contribution of capital assets from developers	<u>\$ -</u>	<u>\$ -</u>
Interest payment on revenue bonds from escrow cash	<u>\$ -</u>	<u>\$ -</u>

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

Water		Total	
2010	2009	2010	2009
\$ (48,973)	\$ 146,999	\$ 1,516,637	\$ 1,447,983
221,433	95,765	334,615	204,350
1,679	4,252	102,624	187,183
955,323	956,993	3,018,265	3,083,787
(11,802)	139,059	(478,047)	(98,399)
734	53,176	(28,074)	69,268
(2,766)	(9,217)	(2,766)	(9,217)
-	-	35,497	(33,963)
(10,026)	2,889	6,711	297,519
(6,238)	(3,497)	(71,066)	(17,157)
17,043	1,781	108,324	202,714
(1,220)	757	9,626	21,843
-	-	9,853	10,030
19,167	-	19,167	-
12,206	789	59,805	(31,000)
2	-	14,283	10,248
(1,189)	-	86,748	45,630
<u>\$ 1,145,373</u>	<u>\$ 1,389,746</u>	<u>\$ 4,742,202</u>	<u>\$ 5,390,819</u>
<u>\$ 12,132</u>	<u>\$ 14,319</u>	<u>\$ 20,951</u>	<u>\$ 25,488</u>
<u>\$ 1,820</u>	<u>\$ -</u>	<u>\$ 8,813</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ (11,609)</u>	<u>\$ (32,173)</u>
<u>\$ 304,775</u>	<u>\$ -</u>	<u>\$ 304,775</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ 84,834</u>	<u>\$ -</u>	<u>\$ 84,834</u>

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ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

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.

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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. In accordance with the provisions of the GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities that use Proprietary Fund Account*, the Utilities applies all applicable GASB pronouncements plus all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins issued on or before November 30, 1989, except for those that conflict with or contradict GASB pronouncements. The Utilities has elected not to apply FASB Statements and Interpretations issued after November 30, 1989. 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.

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.

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.

C. Assets, liabilities and net assets

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.

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

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, 2010 and December 31, 2009 is as follows:

	2010	2009	Increase (Decrease)
Electric	\$ 78,750	\$ 78,750	\$ -
Water	26,250	26,250	-
	\$ 105,000	\$ 105,000	\$ -

ELK RIVER MUNICIPAL UTILITIES
 ELK RIVER, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2010 AND 2009

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

Long-term obligations

Long-term debt is reflected as a liability in the fund issuing the obligation. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Compensated absences

All vacation benefits can be carried over from year to year and will be payable upon termination. 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 800 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 December 31, 2008.

Net assets

Net assets represent the difference between assets and liabilities. Net assets are displayed in three components:

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

Comparative data and reclassifications

Comparative total data for the prior year have been presented in the selected sections of the accompanying financial statements in order to provide an understanding of changes in the Utilities' financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

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 rate "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, 2010, the Utilities' carrying amount of deposits was \$7,109,382 and the bank balance was \$8,422,731. Of the bank balance \$250,000 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.

At December 31, 2009, the Utilities' carrying amount of deposits was \$5,993,647 and the bank balance was \$6,999,949. Of the bank balance \$5,738,393 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 FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

Note 2: DETAILED NOTES ON ALL FUNDS - CONTINUED

Investments

The Utilities' investment balances were as follows for December 31, 2010:

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	\$ 20,193
Non-pooled investments			
U.S. Government Agency Securities	AAA	1 to 3 years	401,513
	AAA	more than 3 years	479,759
Brokered CD's	N/A	less than 6 months	55,000
Brokered CD's	N/A	6 months to 1 year	786,456
Brokered CD's	N/A	1 to 3 years	1,251,956
Total non-pooled investments			<u>2,974,684</u>
Total investments			<u>\$ 2,994,877</u>

1. Rating were provided by Moody's
 2. Interest rate risk is disclosed using the segmented time distribution method.
- N/A Indicates not applicable or available

The Utilities' investment balances were as follows for December 31, 2009:

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	\$ 1,053,828
Non-pooled investments			
U.S. Treasuries	N/A	less than 6 months	2,588,901
U.S. Government Agency Securities	AAA	1 to 3 years	405,109
Brokered CD's	N/A	less than 6 months	64,000
Brokered CD's	N/A	6 months to 1 year	42,000
Brokered CD's	N/A	1 to 3 years	1,033,296
Total non-pooled investments			<u>4,133,306</u>
Total investments			<u>\$ 5,187,134</u>

1. Ratings were provided by Moody's
 2. Interest rate risk is disclosed using the segmented time distribution method.
- N/A Indicates not applicable or available.

ELK RIVER MUNICIPAL UTILITIES
 ELK RIVER, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2010 AND 2009

Note 2: DETAILED NOTES ON ALL FUNDS - CONTINUED

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

	2010	2009
Deposits	\$ 7,109,382	\$ 5,993,647
Investments	2,994,877	5,187,134
Cash on hand	400	400
Total	\$ 10,104,659	\$ 11,181,181
Cash and investments		
Unrestricted	\$ 9,380,159	\$ 7,867,780
Cash with escrow agent	-	2,588,901
Restricted	724,500	724,500
Total	\$ 10,104,659	\$ 11,181,181

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 31 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.
- *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.

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

Note 2: DETAILED NOTES ON ALL FUNDS - CONTINUED

B. Capital assets

Electric and Water fund capital asset activity for the year ended December 31, 2010 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 281,775	\$ -	\$ -	\$ 281,775
Construction in progress	84,648	985,062	(650,725)	418,985
Total capital assets not being depreciated	<u>366,423</u>	<u>985,062</u>	<u>(650,725)</u>	<u>700,760</u>
Capital assets being depreciated				
Land improvements	63,147	-	-	63,147
Buildings	3,506,625	-	-	3,506,625
Machinery and equipment	4,043,978	111,857	(74,947)	4,080,888
Infrastructure	74,524,973	1,058,673	-	75,583,646
Total capital assets being depreciated	<u>82,138,723</u>	<u>1,170,530</u>	<u>(74,947)</u>	<u>83,234,306</u>
Less accumulated depreciation for				
Land improvements	(39,198)	(2,525)	-	(41,723)
Buildings	(1,104,961)	(112,510)	-	(1,217,471)
Machinery and equipment	(2,884,419)	(225,912)	57,386	(3,052,945)
Infrastructure	(26,849,645)	(2,677,318)	-	(29,526,963)
Total accumulated depreciation	<u>(30,878,223)</u>	<u>(3,018,265)</u>	<u>57,386</u>	<u>(33,839,102)</u>
Total capital assets being depreciated, net	<u>51,260,500</u>	<u>(1,847,735)</u>	<u>(17,561)</u>	<u>49,395,204</u>
Business-type activities capital assets, net	<u>\$ 51,626,923</u>	<u>\$ (862,673)</u>	<u>\$ (668,286)</u>	<u>\$ 50,095,964</u>

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

Note 2: DETAILED NOTES ON ALL FUNDS - CONTINUED

Electric and Water fund capital asset activity for the year ended December 31, 2009 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 281,775	\$ -	\$ -	\$ 281,775
Construction in progress	<u>195,605</u>	<u>1,306,708</u>	<u>(1,417,665)</u>	<u>84,648</u>
Total capital assets not being depreciated	<u>477,380</u>	<u>1,306,708</u>	<u>(1,417,665)</u>	<u>366,423</u>
Capital assets being depreciated				
Land improvements	63,147	-	-	63,147
Buildings	3,463,486	43,139	-	3,506,625
Machinery and equipment	4,118,344	192,331	(266,697)	4,043,978
Infrastructure	<u>73,274,840</u>	<u>1,250,133</u>	<u>-</u>	<u>74,524,973</u>
Total capital assets being depreciated	<u>80,919,817</u>	<u>1,485,603</u>	<u>(266,697)</u>	<u>82,138,723</u>
Less accumulated depreciation for				
Land improvements	(36,672)	(2,526)	-	(39,198)
Buildings	(994,556)	(110,405)	-	(1,104,961)
Machinery and equipment	(2,879,523)	(271,593)	266,697	(2,884,419)
Infrastructure	<u>(24,150,382)</u>	<u>(2,699,263)</u>	<u>-</u>	<u>(26,849,645)</u>
Total accumulated depreciation	<u>(28,061,133)</u>	<u>(3,083,787)</u>	<u>266,697</u>	<u>(30,878,223)</u>
Total capital assets being depreciated, net	<u>52,858,684</u>	<u>(1,598,184)</u>	<u>-</u>	<u>51,260,500</u>
Business-type activities capital assets, net	<u>\$ 53,336,064</u>	<u>\$ (291,476)</u>	<u>\$ (1,417,665)</u>	<u>\$ 51,626,923</u>

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

	<u>2010</u>	<u>2009</u>
Business-type Activities		
Water	\$ 955,323	\$ 956,993
Electric	<u>2,062,942</u>	<u>2,126,794</u>
Total depreciation expense - business-type activities	<u>\$ 3,018,265</u>	<u>\$ 3,083,787</u>

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

Note 2: DETAILED NOTES ON ALL FUNDS - CONTINUED

C. Long-term debt

G.O. revenue and refunding 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	December 31,	
					2010	2009
G.O. Water Revenue Refunding Bonds of 2008	\$ 3,085,000	2.50-3.65 %	02/20/08	02/01/22	\$ 2,955,000	\$ 3,020,000
G.O Water Revenue Bonds of 2001A	3,590,000	4.55-5.40	10/01/01	02/01/22	-	2,730,000
G.O. City Hall Expansion Bonds of 2002B	1,695,000	3.75-5.00	09/01/02	02/01/23	-	1,340,000
G.O. Water Revenue Bonds of 2003B	1,995,000	3.25-3.70	12/09/03	02/01/14	895,000	1,095,000
G.O. Capital Improvement Plan Bonds of 2010A	1,265,000	2.00-4.00	04/21/10	08/01/23	1,265,000	-
Total G.O. Revenue and Refunding Bonds					<u>\$ 5,115,000</u>	<u>\$ 8,185,000</u>

The annual requirements to amortize the general obligation revenue bonds as of December 31, 2010 are as follows:

Year Ending December 31,	Principal	Interest	Total
2011	\$ 545,000	\$ 155,763	\$ 700,763
2012	555,000	140,331	695,331
2013	585,000	123,768	708,768
2014	595,000	106,007	701,007
2015	300,000	92,840	392,840
2016-2020	1,655,000	314,618	1,969,618
2021-2023	880,000	40,998	920,998
Total	<u>\$ 5,115,000</u>	<u>\$ 974,325</u>	<u>\$ 6,089,325</u>

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

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	December 31,	
					2010	2009
Electric Revenue Bonds, Series 2004A	\$ 940,000	4.00-4.25 %	08/01/04	02/01/15	\$ 525,000	\$ 615,000
Electric Revenue Bonds, Series 2006A	3,595,000	3.35-4.00	03/02/06	08/01/21	2,830,000	3,030,000
Electric Revenue Bonds, Series 2007A	2,875,000	4.00	03/28/07	02/01/22	<u>2,705,000</u>	<u>2,875,000</u>
Total Revenue Bonds					<u>\$ 6,060,000</u>	<u>\$ 6,520,000</u>

The annual requirements to amortize the revenue bonds as of December 31, 2010 are as follows:

Year Ending December 31,	Principal	Interest	Total
2011	\$ 480,000	\$ 229,785	\$ 709,785
2012	495,000	211,435	706,435
2013	520,000	192,358	712,358
2014	545,000	172,221	717,221
2015	570,000	150,924	720,924
2016-2020	2,575,000	463,793	3,038,793
2021-2022	<u>875,000</u>	<u>35,200</u>	<u>910,200</u>
Total	<u>\$ 6,060,000</u>	<u>\$ 1,455,716</u>	<u>\$ 7,515,716</u>

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
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Note 2: DETAILED NOTES ON ALL FUNDS - CONTINUED

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	December 31,	
					2010	2009
Landfill Generator Note	\$ 3,521,000	- %	03/19/02	02/19/22	<u>\$ 2,345,318</u>	<u>\$ 2,524,646</u>

The annual requirements to amortize the generator note as of December 31, 2010 are as follows:

Year Ending December 31,	Principal	Interest	Total
2011	\$ 182,436	\$ -	\$ 182,436
2012	183,444	-	183,444
2013	186,588	-	186,588
2014	189,348	-	189,348
2015	191,508	-	191,508
2016-2020	992,628	-	992,628
2021-2022	419,366	-	419,366
Total	<u>\$ 2,345,318</u>	<u>\$ -</u>	<u>\$ 2,345,318</u>

Changes in Long-term Liabilities

Long-term liability activity for the year ended December 31, 2010 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Business-type activities					
Bonds payable					
General obligation					
revenue bonds	\$ 8,185,000	\$ 1,265,000	\$ (4,335,000)	\$ 5,115,000	\$ 545,000
Revenue bonds	6,520,000	-	(460,000)	6,060,000	480,000
Unamortized premium on bonds	-	53,550	(3,800)	49,750	-
Total bonds payable, net	14,705,000	1,265,000	(4,795,000)	11,175,000	1,025,000
Notes payable	2,524,646	-	(179,328)	2,345,318	182,436
Unamortized premium on bonds	-	53,550	(3,800)	49,750	-
Compensated absences payable	235,925	264,296	(204,491)	295,730	160,650
OPEB liability	20,243	9,853	-	30,096	-
Business-type activity long-term liabilities	<u>\$ 17,485,814</u>	<u>\$ 1,592,699</u>	<u>\$ (5,182,619)</u>	<u>\$ 13,895,894</u>	<u>\$ 1,368,086</u>

ELK RIVER MUNICIPAL UTILITIES
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 NOTES TO FINANCIAL STATEMENTS
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Note 2: DETAILED NOTES ON ALL FUNDS - CONTINUED

Advance Refunding

On April 21, 2010 the Utilities issued \$1,265,000 of G.O. Capital Improvement Plan Bonds, Series 2010A, bearing an average coupon rate of 3.58 percent, to provide resources for the advance refunding of \$1,270,000 of the outstanding principal of the City Hall Expansion Revenue Bonds, 2002B on February 1, 2013. The proceeds of the Series 2010A Bonds were deposited into an Escrow Account which shall pay issuance costs and purchase securities bearing interest to provide sufficient funds to pay the principal and interest on the 2002B bonds due April 21, 2010 through February 1, 2013 and pay the \$1,125,000 called Revenue Bonds of 2002B on February 1, 2013. As a result of the refunding issue, the 2002B bonds were defeased and the Utilities will save \$97,000 in debt service payments and achieve an economic gain (the present value of the difference between the old and the new debt service) of \$90,824.

D. Interfund receivables, payables and transfers

The composition of interfund balances at December 31, 2010 is as follows:

Receivable Fund	Payable Fund	Amount	Purpose
Electric	City - General fund	\$ 7,163	Electric sales tax paid by City
Electric	City - Nonmajor	101	Electric sales tax paid by City
Electric	City - Sewer	357	City share of project costs
Electric	City - Garbage	<u>2,260</u>	City share of project costs
Total Electric fund receivable from City		9,881	
Water	City - Capital projects fund	<u>128,850</u>	TIF 22 Water Access Charge
Total receivable from City		<u><u>\$ 138,731</u></u>	
City - General fund	Electric	\$ 49,417	Shared building maint. costs
City - multiple funds	Electric	50,820	December transfer of 3% of revenue
City - General fund	Electric	46,410	Electric share of insurance
City - General fund	Electric	9,060	Electric share of vehicle maint.
City - Sewer	Electric	118,231	Billed sewer on behalf of City
City - Garbage	Electric	<u>108,600</u>	Billed garbage on behalf of City
Total Electric fund payable to City		<u>382,538</u>	
City - General fund	Water	12,354	Shared building maint. costs
City - General fund	Water	<u>996</u>	Water share of vehicle maint.
Total Water fund payable to City		<u>13,350</u>	
Total payable to City		<u><u>\$ 395,888</u></u>	

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

Note 2: DETAILED NOTES ON ALL FUNDS - CONTINUED

The composition of interfund balances at December 31, 2009 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
Electric	City - General fund	\$ 1,426	Electric sales tax paid by City
Electric	City - Nonmajor	155	Electric sales tax paid by City
Electric	City - Sewer	713	City share of project costs
Electric	City - Garbage	<u>2,619</u>	City share of project costs
Total Electric fund receivable from City		4,913	
Water	City - Capital projects fund	<u>128,850</u>	TIF 22 Water Access Charge
Total receivable from City		<u>\$ 133,763</u>	
City - General fund	Electric	\$ 43,494	Shared building maint. costs
City - multiple funds	Electric	44,031	December transfer of 3% of revenue
City - General fund	Electric	1,455	Electric share of insurance
City - General fund	Electric	999	Electric share of vehicle maint.
City - Sewer	Electric	120,135	Billed sewer on behalf of City
City - Garbage	Electric	<u>98,450</u>	Billed garbage on behalf of City
Total Electric fund payable to City		<u>308,564</u>	
City - General fund	Water	14,498	Shared building maint. costs
City - General fund	Water	<u>312</u>	Water share of insurance
Total Water fund payable to City		<u>14,810</u>	
Total payable to City		<u>\$ 323,374</u>	

ELK RIVER MUNICIPAL UTILITIES
 ELK RIVER, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
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Note 2: DETAILED NOTES ON ALL FUNDS – CONTINUED

Interfund transfers completed in 2010 are detailed as follows:

Transfer out:	Electric	Water	Transfer to Other City Funds
Electric	\$ -	\$ -	\$ 657,086
Water	-	-	25,000
Transfer from Other City Funds	53,741	17,914	-
Total transfers out	\$ 53,741	\$ 17,914	\$ 682,086

The transfer out of the Electric fund was the annually transfer of 3 percent of 2010 revenues to City funds. The transfer out of the Water fund was for its share of bonding. The transfers in to Electric and Water was for bond payments related to the refunding of the 2002B bonds.

Interfund transfers completed in 2009 are detailed as follows:

Transfer out:	Transfer to Other City Funds
Electric	\$ 585,141
Water	20,000
Total transfers out	\$ 605,141

The transfer out of the Electric fund was the annually transfer of 3% of 2009 revenues to City funds. The transfer out of the Water fund was for its share of bonding.

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 three 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.

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
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Note 3: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED

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 GERP 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. Vested, terminated employees who are entitled to benefits but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERP. 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 1-800-652-9026.

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. GERP Basic Plan members and Coordinated Plan members were required to contribute 9.1 percent and 6.0 percent, respectively, of their annual covered salary in 2010. In 2010, the Utilities was required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan GERP members and 7.00 percent for Coordinated Plan GERP members. The Utilities' contributions to the General Employees Retirement Fund for the years ending December 31, 2010, 2009 and 2008 were \$141,571, \$148,592, and \$151,416, 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 FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

Note 4: OTHER INFORMATION

A. Territorial acquisition agreement

The Utilities has entered into an agreement to transfer ownership of electric plant and electric service to customers in certain areas currently receiving electric service from Anoka Electric Cooperative, Inc. (AEC).

The cost of property purchased from AEC will be net book value. The Utilities will also pay 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.

During 2010 and 2009, the Utilities paid \$110,662 and \$9,469, respectively, under this agreement, including \$8,107 and \$9,489 in 2010 and 2009, respectively, for loss of revenues. 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. The process has begun to renegotiate the existing contract, or contract with another power supplier.

ELK RIVER MUNICIPAL UTILITIES
 ELK RIVER, MINNESOTA
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 DECEMBER 31, 2010 AND 2009

Note 5: POSTEMPLOYMENT BENEFITS OTHER THAN PENSION

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 2010, the Utility contributed \$0 to the plan. Plan members receiving benefits contribute 100 percent of their premium costs. In fiscal year 2010, 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	\$ 10,213
Interest on net OPEB obligation	810
Adjustment to annual required contribution	<u>(1,171)</u>
Annual OPEB Cost (expense)	9,852
Contributions made	<u>-</u>
Increase in net OPEB obligation	9,853
Net OPEB obligation- beginning of year	<u>20,243</u>
Net OPEB obligation- end of year	<u><u>\$ 30,096</u></u>

ELK RIVER MUNICIPAL UTILITIES
 ELK RIVER, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2010 AND 2009

Note 5: POSTEMPLOYMENT BENEFITS OTHER THAN PENSION - CONTINUED

The Utilities' annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for December 31, 2010 and the preceding fiscal year was as follows:

<u>Year Ending</u>	<u>Three Year Trend Information</u>		
	<u>Annual OPEB Cost</u>	<u>Percentage Annual OPEB Contributed</u>	<u>Net OPEB Obligation</u>
12/31/2010	\$ 9,853	- %	\$ 30,096
12/31/2009	10,030	- %	20,243
12/31/2008	10,213	-	10,213

Funded Status and Funding Progress. As of December 31, 2010, the actuarial accrued liability for benefits was \$56,892, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$2,300,000 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 2.47 percent.

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

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

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 62, 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 10.0 percent initially, reduced to an ultimate rate of 5.0 percent after ten years, was used.

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

Note 5: POSTEMPLOYMENT BENEFITS OTHER THAN PENSION - CONTINUED

Health insurance premiums - 2008 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

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, 2008

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, 2010, was thirty years.

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**REQUIRED SUPPLEMENTARY
INFORMATION**

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA

YEAR ENDED
DECEMBER 31, 2010

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ELK RIVER MUNICIPAL UTILITIES
 ELK RIVER, MINNESOTA
 REQUIRED SUPPLEMENTARY INFORMATION
 DECEMBER 31, 2010 AND 2009

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
12/31/2008	\$ -	\$ 56,892	\$ 56,892	- %	\$ 2,300,000	2.47 %

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SUPPLEMENTAL INFORMATION

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA

YEAR ENDED
DECEMBER 31, 2010

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
SUPPLEMENTAL INFORMATION
SCHEDULES OF OPERATING REVENUES AND EXPENSES
YEARS ENDED DECEMBER 31, 2010 AND 2009

	Electric	
	2010	2009
OPERATING REVENUES		
Charges for services		
Elk River	\$ 22,388,262	\$ 20,155,349
Otsego	2,152,770	1,956,109
Big Lake	286,163	266,128
Dayton	229,765	204,217
Security systems	256,647	254,773
LFG Project	1,003,341	1,009,682
Generation credit	173,534	172,421
Customer penalties	237,319	209,064
	<u>26,727,801</u>	<u>24,227,743</u>
OPERATING EXPENSES		
Purchased power	<u>18,373,386</u>	<u>16,161,444</u>
Production		
Supervision and labor	66,386	62,831
Natural gas	27,573	26,540
Supplies and power for pumping	58,459	59,984
Landfill gas expense	718,966	662,289
Maintenance of structures	17,125	30,617
Maintenance of equipment	12,931	10,329
Maintenance of plant	18,198	9,755
	<u>919,638</u>	<u>862,345</u>
Total		
Transmission and distribution		
Supervision and labor	29,667	29,307
Maintenance of overhead lines	228,839	286,805
Maintenance of underground lines	126,806	156,004
Maintenance of station equipment	34,488	46,560
Transportation	121,467	120,460
Maintenance of customer service	7,515	7,202
Maintenance of customer meters	78,255	74,210
Miscellaneous	345,537	354,203
	<u>972,574</u>	<u>1,074,751</u>
Total		
Services to City	<u>434,415</u>	<u>428,508</u>
Depreciation	<u>2,062,942</u>	<u>2,126,794</u>
Customer accounts expense		
Meter reading	59,289	95,450
Billing and collection	98,054	90,593
Bad debts	100,945	182,931
	<u>258,288</u>	<u>368,974</u>
Total		

Water		Total	
2010	2009	2010	2009
\$ 1,876,363	\$ 2,182,110	\$ 24,264,625	\$ 22,337,459
-	-	2,152,770	1,956,109
-	-	286,163	266,128
-	-	229,765	204,217
-	-	256,647	254,773
-	-	1,003,341	1,009,682
-	-	173,534	172,421
19,723	24,319	257,042	233,383
<u>1,896,086</u>	<u>2,206,429</u>	<u>28,623,887</u>	<u>26,434,172</u>
-	-	18,373,386	16,161,444
8,368	14,631	74,754	77,462
-	-	27,573	26,540
270,279	265,109	328,738	325,093
-	-	718,966	662,289
7,975	17,643	25,100	48,260
60,338	77,034	73,269	87,363
-	-	18,198	9,755
<u>346,960</u>	<u>374,417</u>	<u>1,266,598</u>	<u>1,236,762</u>
14,979	19,643	44,646	48,950
-	-	228,839	286,805
-	-	126,806	156,004
-	-	34,488	46,560
11,064	10,318	132,531	130,778
65,573	92,032	73,088	99,234
59,879	47,454	138,134	121,664
-	-	345,537	354,203
<u>151,495</u>	<u>169,447</u>	<u>1,124,069</u>	<u>1,244,198</u>
-	-	434,415	428,508
<u>955,323</u>	<u>956,993</u>	<u>3,018,265</u>	<u>3,083,787</u>
17,597	29,818	76,886	125,268
27,408	27,335	125,462	117,928
1,679	4,252	102,624	187,183
<u>46,684</u>	<u>61,405</u>	<u>304,972</u>	<u>430,379</u>

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
SUPPLEMENTAL INFORMATION
SCHEDULES OF OPERATING REVENUE AND EXPENSES - CONTINUED
YEARS ENDED DECEMBER 31, 2010 AND 2009

	Electric	
	<u>2010</u>	<u>2009</u>
OPERATING EXPENSES - CONTINUED		
General and administrative		
Salaries	\$ 423,735	\$ 351,782
Employee pensions and benefits	994,747	887,545
Dues	108,900	141,386
Office supplies and billing expense	57,840	73,363
Office utilities and maintenance	17,982	17,077
Consulting fees	1,345	5,182
Legal and audit	61,947	60,680
Environmental compliance	24,130	14,005
Conservation improvement project	167,583	104,653
Insurance	137,683	129,164
Telephone	17,230	14,180
Advertising	4,800	1,212
Education and meetings	116,706	101,944
Miscellaneous	<u>6,320</u>	<u>1,770</u>
Total	<u>2,140,948</u>	<u>1,903,943</u>
TOTAL OPERATING EXPENSES	<u>25,162,191</u>	<u>22,926,759</u>
OPERATING INCOME (LOSS)	<u>1,565,610</u>	<u>1,300,984</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	89,948	87,857
Connection charges	64,761	78,208
Miscellaneous revenue	48,421	30,377
Interest expense	(272,897)	(299,452)
Amortization of deferred charges	(8,819)	(11,169)
Loss on sale of capital assets	<u>(11,609)</u>	<u>(32,173)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(90,195)</u>	<u>(146,352)</u>
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	1,475,415	1,154,632
CONTRIBUTIONS FROM DEVELOPERS	-	-
TRANSFERS FROM OTHER CITY FUNDS	53,741	-
TRANSFERS TO OTHER CITY FUNDS	<u>(657,086)</u>	<u>(585,141)</u>
CHANGE IN NET ASSETS	872,070	569,491
NET ASSETS, JANUARY 1	<u>25,522,027</u>	<u>24,952,536</u>
NET ASSETS, DECEMBER 31	<u>\$ 26,394,097</u>	<u>\$ 25,522,027</u>

Water		Total	
2010	2009	2010	2009
\$ 106,261	\$ 119,154	\$ 529,996	\$ 470,936
206,706	225,538	1,201,453	1,113,083
30,869	36,572	139,769	177,958
25,574	26,669	83,414	100,032
5,954	6,671	23,936	23,748
967	9,061	2,312	14,243
13,569	16,176	75,516	76,856
-	-	24,130	14,005
3,611	1,670	171,194	106,323
23,673	29,824	161,356	158,988
4,299	4,671	21,529	18,851
415	290	5,215	1,502
13,948	19,191	130,654	121,135
8,751	1,681	15,071	3,451
<u>444,597</u>	<u>497,168</u>	<u>2,585,545</u>	<u>2,401,111</u>
<u>1,945,059</u>	<u>2,059,430</u>	<u>27,107,250</u>	<u>24,986,189</u>
<u>(48,973)</u>	<u>146,999</u>	<u>1,516,637</u>	<u>1,447,983</u>
31,798	132,452	121,746	220,309
173,334	83,378	238,095	161,586
48,099	12,387	96,520	42,764
(143,361)	(274,958)	(416,258)	(574,410)
(12,132)	(14,319)	(20,951)	(25,488)
-	-	(11,609)	(32,173)
<u>97,738</u>	<u>(61,060)</u>	<u>7,543</u>	<u>(207,412)</u>
48,765	85,939	1,524,180	1,240,571
304,775	-	304,775	-
17,914	-	71,655	-
<u>(25,000)</u>	<u>(20,000)</u>	<u>(682,086)</u>	<u>(605,141)</u>
346,454	65,939	1,218,524	635,430
<u>20,842,533</u>	<u>20,776,594</u>	<u>46,364,560</u>	<u>45,729,130</u>
<u>\$ 21,188,987</u>	<u>\$ 20,842,533</u>	<u>\$ 47,583,084</u>	<u>\$ 46,364,560</u>

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
SUPPLEMENTAL INFORMATION
ELECTRIC FUND
SUMMARY OF OPERATIONS AND UNAUDITED STATISTICS
FOR THE YEARS ENDED DECEMBER 31, 2002 THROUGH DECEMBER 31, 2010

SUMMARY OF OPERATIONS

	<u>2002</u>	<u>2003</u>	<u>2004</u>
OPERATING REVENUES			
Sales of electricity	\$ 10,783,277	\$ 12,697,258	\$ 13,775,332
Other operating revenues	343,087	299,695	268,140
TOTAL OPERATING REVENUES	<u>11,126,364</u>	<u>12,996,953</u>	<u>14,043,472</u>
OPERATING EXPENSES			
Purchased power	6,849,629	7,786,921	8,563,298
Distribution	667,038	829,051	1,390,414
Services to the City	238,372	265,234	294,698
Depreciation	969,913	1,067,063	1,427,091
Other operating expenses	1,477,574	1,915,081	1,567,309
TOTAL OPERATING EXPENSES	<u>10,202,526</u>	<u>11,863,350</u>	<u>13,242,810</u>
OPERATING INCOME	923,838	1,133,603	800,662
TRANSFERS FROM OTHER CITY FUNDS	50,000	-	-
TRANSFERS TO OTHER CITY FUNDS	(289,264)	(317,918)	(340,564)
NONOPERATING REVENUES	917,373	766,285	651,934
NET INCOME	<u>\$ 1,601,947</u>	<u>\$ 1,581,970</u>	<u>\$ 1,112,032</u>
PERCENT OF CHANGE			
Sales of electricity	12.294%	17.750%	8.491%
Purchased power	13.481%	13.684%	9.970%
PERCENT OF REVENUES			
Purchased power	61.562%	59.913%	60.977%

UNAUDITED STATISTICS
MISCELLANEOUS

	<u>2002</u>	<u>2003</u>	<u>2004</u>
KWh's purchased	157,594,270	170,092,937	176,730,416
KWh's sold	149,787,670	161,852,054	165,595,414
Line loss	7,806,600	8,240,883	11,135,002
Percent of line loss	4.954%	4.845%	6.301%
REVENUES PER KWh SOLD	\$ 0.0720	\$ 0.0784	\$ 0.0832
COST PER KWh PURCHASED	\$ 0.0435	\$ 0.0458	\$ 0.0485
NUMBER OF CUSTOMERS	7,002	7,376	7,907
TOTAL CONTRIBUTION/TRANSFERS TO CITY	\$ 527,636	\$ 583,152	\$ 340,564

2005	2006	2007	2008	2009	2010
\$ 15,276,987	\$ 16,495,049	\$ 19,164,797	\$ 22,303,994	\$ 23,591,485	\$ 26,060,301
444,579	482,668	501,746	637,909	636,258	667,500
15,721,566	16,977,717	19,666,543	22,941,903	24,227,743	26,727,801
9,625,519	10,101,458	12,176,034	14,778,270	16,161,444	18,373,386
1,528,057	1,942,577	1,829,971	2,162,797	1,937,096	1,892,212
331,644	328,148	358,029	409,222	428,508	434,415
1,553,663	1,561,096	1,920,798	2,057,851	2,126,794	2,062,942
1,731,317	1,936,275	1,977,973	2,196,770	2,272,917	2,399,236
14,770,200	15,869,554	18,262,805	21,604,910	22,926,759	25,162,191
951,366	1,108,163	1,403,738	1,336,993	1,300,984	1,565,610
-	-	-	-	-	53,741
(388,927)	(420,000)	(483,000)	(540,636)	(585,141)	(657,086)
700,592	887,803	710,858	249,022	(146,352)	(90,195)
\$ 1,263,031	\$ 1,575,966	\$ 1,631,596	\$ 1,045,379	\$ 569,491	\$ 872,070
10.901%	7.973%	16.185%	16.380%	5.772%	10.465%
12.404%	4.945%	20.537%	21.372%	9.360%	13.687%
61.225%	59.498%	61.912%	64.416%	66.706%	68.743%
2005	2006	2007	2008	2009	2010
193,700,298	205,645,631	225,973,086	241,837,173	247,595,137	264,642,834
182,515,644	194,975,530	211,298,886	224,226,048	232,772,722	250,711,834
11,184,654	10,670,101	14,674,200	17,611,125	14,822,415	13,931,000
5.774%	5.189%	6.494%	7.282%	5.987%	5.264%
\$ 0.0837	\$ 0.0846	\$ 0.0907	\$ 0.0995	\$ 0.1013	\$ 0.1039
\$ 0.0497	\$ 0.0491	\$ 0.0539	\$ 0.0611	\$ 0.0653	\$ 0.0694
8,306	8,562	8,945	9,203	9,170	9,207
\$ 388,927	\$ 420,000	\$ 483,000	\$ 540,636	\$ 585,141	\$ 657,086

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA
SUPPLEMENTAL INFORMATION
WATER FUND
SUMMARY OF OPERATIONS AND UNAUDITED STATISTICS
FOR THE YEARS ENDED DECEMBER 31, 2002 THROUGH DECEMBER 31, 2010

SUMMARY OF OPERATIONS

	<u>2002</u>	<u>2003</u>	<u>2004</u>
OPERATING REVENUES			
Sales of water	\$ 834,562	\$ 1,047,561	\$ 1,167,955
OPERATING EXPENSES			
Operating expenses less depreciation	561,039	849,677	806,831
Depreciation	<u>292,559</u>	<u>585,354</u>	<u>720,044</u>
TOTAL OPERATING EXPENSES	<u>853,598</u>	<u>1,435,031</u>	<u>1,526,875</u>
TOTAL OPERATING INCOME (LOSS)	<u>\$ (19,036)</u>	<u>\$ (387,470)</u>	<u>\$ (358,920)</u>
PERCENT OF CHANGE			
Sales of water	(1.23%)	25.52%	11.49%

**UNAUDITED STATISTICS
MISCELLANEOUS**

	<u>2002</u>	<u>2003</u>	<u>2004</u>
WATER PUMPED (gallons)	641,675,000	706,804,000	651,000,000
WATER SOLD (gallons)	527,780,000	634,994,000	642,019,000
Percent of line loss	17.75%	10.16%	1.38%
Revenues per 1,000 gallons pumped	\$ 1.29	\$ 1.47	\$ 1.78
Revenues per 1,000 gallons sold	\$ 1.58	\$ 1.65	\$ 1.82
Number of customers	3,207	3,513	3,824

UNUSUAL LINE LOSS

	Gallons		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Flushing hydrants	11,500,000	11,500,000	11,500,000
Back washing	8,880,000	8,880,000	8,900,000
Fire department use	5,000,000	5,000,000	4,000,000
New water main disinfectant and flushing	5,000,000	5,000,000	4,000,000
Flushing seasonal well	-	-	-
Meter inaccuracy	4,000,000	4,000,000	-
Eastern end maintenance	15,000,000	15,000,000	-
Frozen pipes bursting in abandoned homes	<u>-</u>	<u>-</u>	<u>-</u>
Unusual line loss	<u>49,380,000</u>	<u>49,380,000</u>	<u>28,400,000</u>

2005	2006	2007	2008	2009	2010
\$ 1,347,542	\$ 1,749,932	\$ 2,113,166	\$ 2,130,124	\$ 2,206,429	\$ 1,896,086
1,038,035	1,069,988	1,191,346	1,185,413	1,102,437	989,736
790,454	790,451	921,450	974,848	956,993	955,323
1,828,489	1,860,439	2,112,796	2,160,261	2,059,430	1,945,059
\$ (480,947)	\$ (110,507)	\$ 370	\$ (30,137)	\$ 146,999	\$ (48,973)
15.38%	29.86%	20.76%	0.80%	3.58%	(14.07%)

2005	2006	2007	2008	2009	2010
705,746,000	812,560,000	873,742,000	854,133,000	782,951,000	686,289,000
632,256,000	726,169,000	783,948,000	727,029,000	708,286,000	627,209,000
10.41%	10.63%	10.28%	14.88%	9.54%	8.61%
\$ 1.90	\$ 2.14	\$ 2.41	\$ 2.48	\$ 2.81	\$ 2.76
\$ 2.13	\$ 2.41	\$ 2.70	\$ 2.93	\$ 3.12	\$ 3.02
4,074	4,317	4,413	4,508	4,467	4,511

Gallons

2005	2006	2007	2008	2009	2010
25,000,000	25,000,000	27,000,000	30,000,000	33,000,000	35,000,000
8,400,000	9,000,000	8,400,000	8,400,000	8,400,000	9,000,000
1,000,000	1,000,000	1,000,000	5,000,000	1,000,000	3,000,000
5,000,000	6,500,000	1,000,000	2,000,000	2,000,000	3,000,000
-	-	-	-	-	4,000,000
3,100,000	3,000,000	-	-	1,300,000	-
-	-	-	-	-	-
-	-	-	25,000,000	27,000,000	5,000,000
42,500,000	44,500,000	37,400,000	70,400,000	72,700,000	59,000,000

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OTHER REQUIRED REPORTS

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA

YEAR ENDED
DECEMBER 31, 2010

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5201 Eden Avenue
Suite 250
Edina, MN 55436

REPORT ON MINNESOTA LEGAL COMPLIANCE

Public Utilities Commission
Elk River Municipal Utilities
Elk River, Minnesota

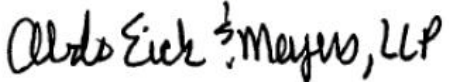
We have audited the financial statements of the Elk River Municipal Utilities (the Utilities) as of and for the years ended December 31, 2010 and 2009, and have issued our report thereon dated April 4, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the Minnesota Office of the State Auditor pursuant to Minnesota statute, section 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures, as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* covers six main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that for the items tested, the Utilities complied with the material terms and conditions of applicable legal 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
Certified Public Accountants

April 4, 2011
Minneapolis, Minnesota