





# SHAKOPEE PUBLIC UTILITIES

“Lighting the Way – Yesterday, Today and Beyond”

April 8, 2019

TO: John Crooks, Utilities Manager 

CC: Commissioner Amundson  
Commissioner Clay  
Commissioner Joos  
Commissioner Meyer  
Commissioner Mocol

FROM: Renee Schmid,  Director of Finance and Administration

SUBJECT: Shakopee Public Utilities - 2018 Audited Financial Statements and Communications Letter

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The presentation of the 2018 audited financial statements and related auditor report is scheduled on the agenda of the Shakopee Public Utilities Commission for Monday, April 15th, 2019. Mr. Steven Wischmann, Partner with berganKDV, will be present to deliver the report to the Commission.

A copy of the 2018 audited financial statements and related communications letter from berganKDV is attached for your review.

**Shakopee Public Utilities Commission  
Shakopee, Minnesota**

**Communications Letter**

**December 31, 2018**

bergankDV

**Shakopee Public Utilities Commission  
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**Report on Matters Identified as a Result of  
the Audit of the Financial Statements**

Board of Commissioners and Management  
Shakopee Public Utilities Commission  
Shakopee, Minnesota

In planning and performing our audit of the financial statements of the business-type activities of the Shakopee Public Utilities Commission, Shakopee, Minnesota, as of and for the year ended December 31, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the Commission's internal control over financial reporting (internal control) as a basis for designing our audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error, or fraud may occur and not be detected by such controls.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Commission's financial statements will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows: reasonably possible – the chance of the future event or events occurring is more than remote but less than likely; probable – the future event or events are likely to occur. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

The accompanying memorandum includes financial analysis as a result of our audit of the financial statements of the Commission for the year ended December 31, 2018. The matters discussed herein were considered by us during our audit and they do not modify the opinion expressed in our Independent Auditor's Report dated March 29, 2019, on such statements.

This communication is intended solely for the information and use of management, the Board of Commissioners, and others within the Commission and oversight agencies is not intended to be, and should not be, used by anyone other than these specified parties.

*Bergan KDV, Ltd.*

St. Cloud, Minnesota  
March 29, 2019

**Shakopee Public Utilities Commission  
Required Communication**

We have audited the financial statements of the Commission as of and for the year ended December 31, 2018, and have issued our report dated March 29, 2019. Professional standards require that we advise you of the following matters related to our audit.

**OUR RESPONSIBILITY IN RELATION TO THE FINANCIAL STATEMENT AUDIT**

As communicated in our engagement letter, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

As part of our audit, we considered the internal control of the Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning internal control.

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to the RSI, which supplements the basic audit financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI was not audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we do not express an opinion or provide any assurance on the RSI.

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

**PLANNED SCOPE AND TIMING OF THE AUDIT**

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions to be examined and the areas to be tested.

Our audit included obtaining an understanding of the Commission and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the Commission or to acts by management or employees acting on behalf of the Commission.

**COMPLIANCE WITH ALL ETHICS REQUIREMENTS REGARDING INDEPENDENCE**

The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.

**Shakopee Public Utilities Commission  
Required Communication**

**QUALITATIVE ASPECTS OF SIGNIFICANT ACCOUNTING PRACTICES**

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Commission is included in the notes to financial statements. There have been no initial selection of accounting policies and no changes to significant accounting policies or their application during 2018. We noted no transactions entered into by the Commission during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Depreciation – The Commission is currently depreciating its capital assets over their estimated useful lives, as determined by management, using the straight-line method.

Expense Allocation – The Commission is currently allocating certain costs among the utility funds based on management's estimates of the benefit provided to each particular fund.

Allowance for Doubtful Accounts – The Commission is currently using an estimate to determine what accounts will be uncollectible. Amounts are based on bills past due.

Net Pension Liability, Deferred Outflows of Resources Related to Pensions and Deferred Inflows of Resources Related to Pensions – These balances are based on an allocation by the pension plans using estimates based on contributions.

We evaluated the key factors and assumptions used to develop the accounting estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

**SIGNIFICANT DIFFICULTIES ENCOUNTERED DURING THE AUDIT**

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

**UNCORRECTED AND CORRECTED MISSTATEMENTS**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. Management did not identify and we did not notify them of any uncorrected financial statement misstatements.

**Shakopee Public Utilities Commission  
Required Communication**

**DISAGREEMENTS WITH MANAGEMENT**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Commission's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

**REPRESENTATIONS REQUESTED FROM MANAGEMENT**

We requested certain written representations from management, which are included in the management representation letter.

**MANAGEMENT'S CONSULTATIONS WITH OTHER ACCOUNTANTS**

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management has informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

**OTHER SIGNIFICANT MATTERS, FINDINGS, OR ISSUES**

In the normal course of our professional association with the Commission, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating conditions affecting the Commission, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Commission's auditors.

**OTHER MATTERS**

We applied certain limited procedures to the RSI that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

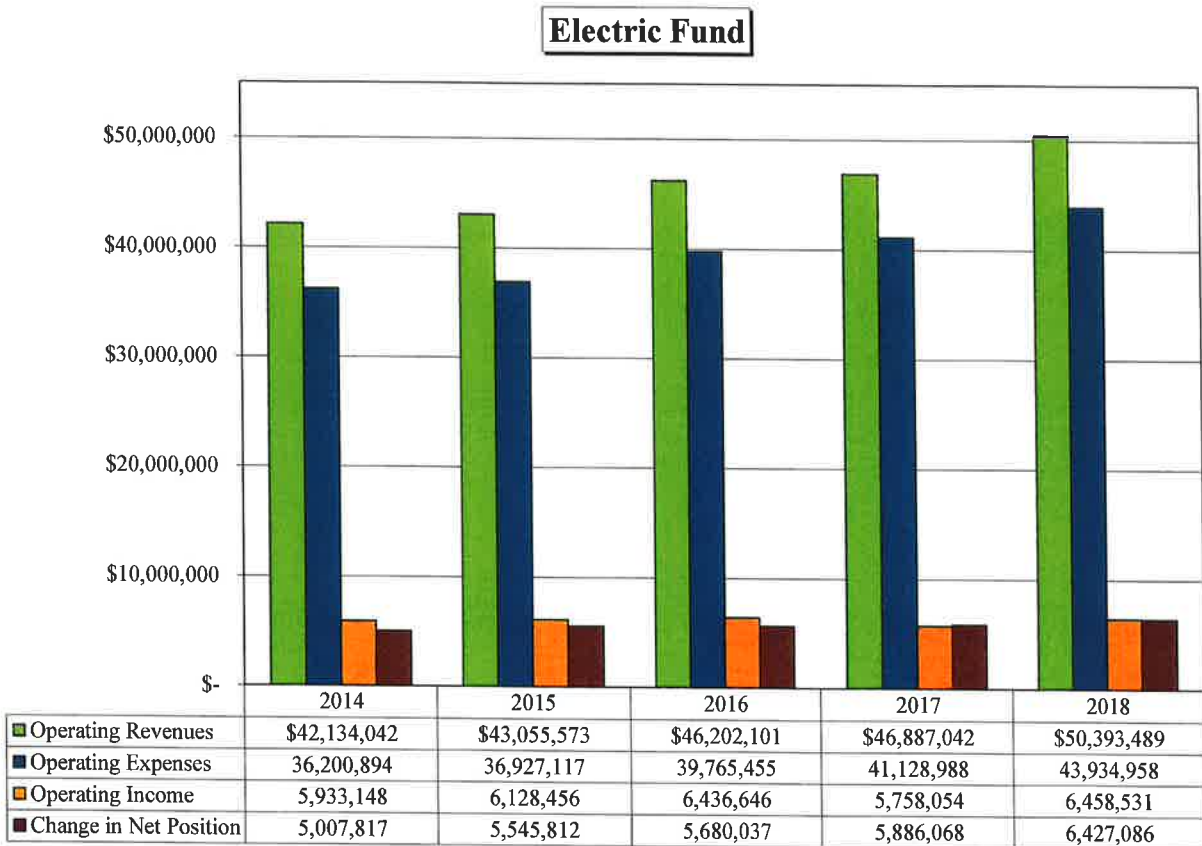
With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with accounting principles generally accepted in United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.



## Shakopee Public Utilities Commission Financial Analysis

The following pages provide graphic representation of select data pertaining to the financial position and operations of the commission for the past five years. Our analysis of each graph is presented to provide a basis for discussion of past performance.

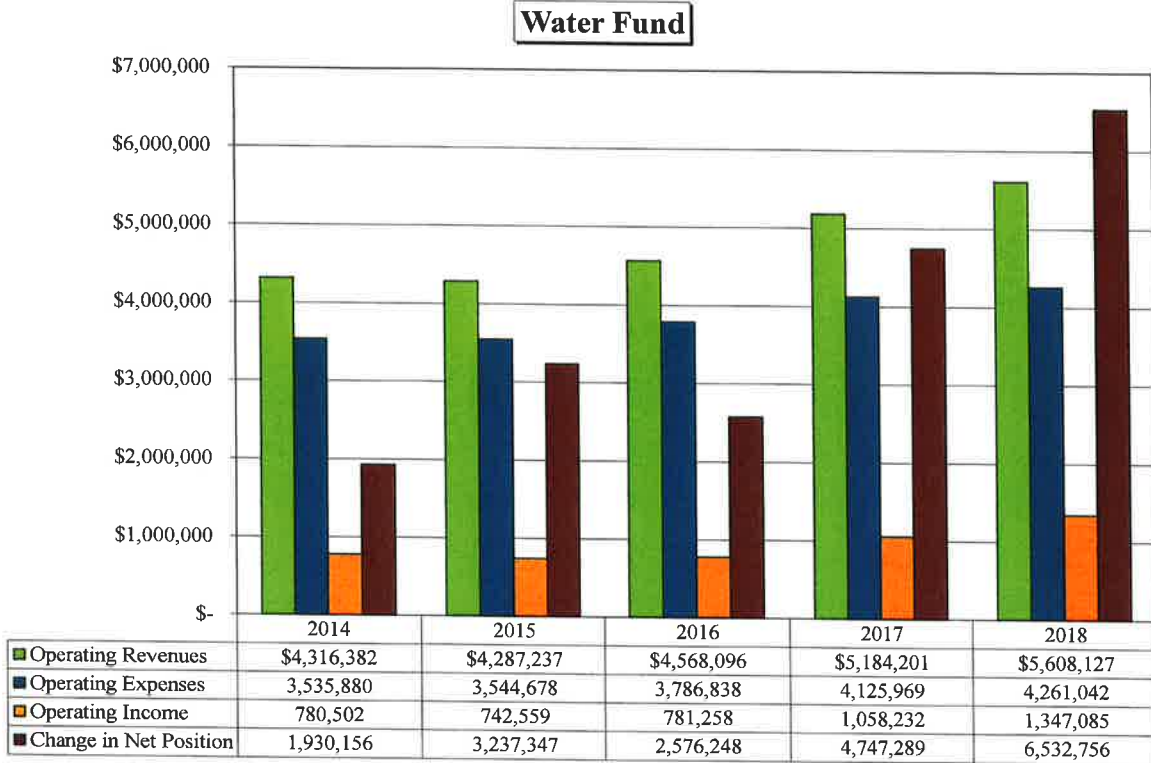
### ELECTRIC FUND



Revenues have increased in all five years presented. In 2018, operating revenues increased \$3,506,447 due to an increase in sales and power cost adjustment. Expenses, excluding depreciation, increased \$2,624,283 from 2017 to 2018. This is the result of higher cost of power being purchased by the Commission due to increased usage in 2018. The end result of 2018 activity was operating income of \$6,458,531. The Commission also received \$730,662 in capital contributions from developers and contributed \$1,509,222 to the City of Shakopee as payments in lieu of taxes. As a result, net position increased \$6,427,086 in 2018.

**Shakopee Public Utilities Commission  
Financial Analysis**

**WATER FUND**



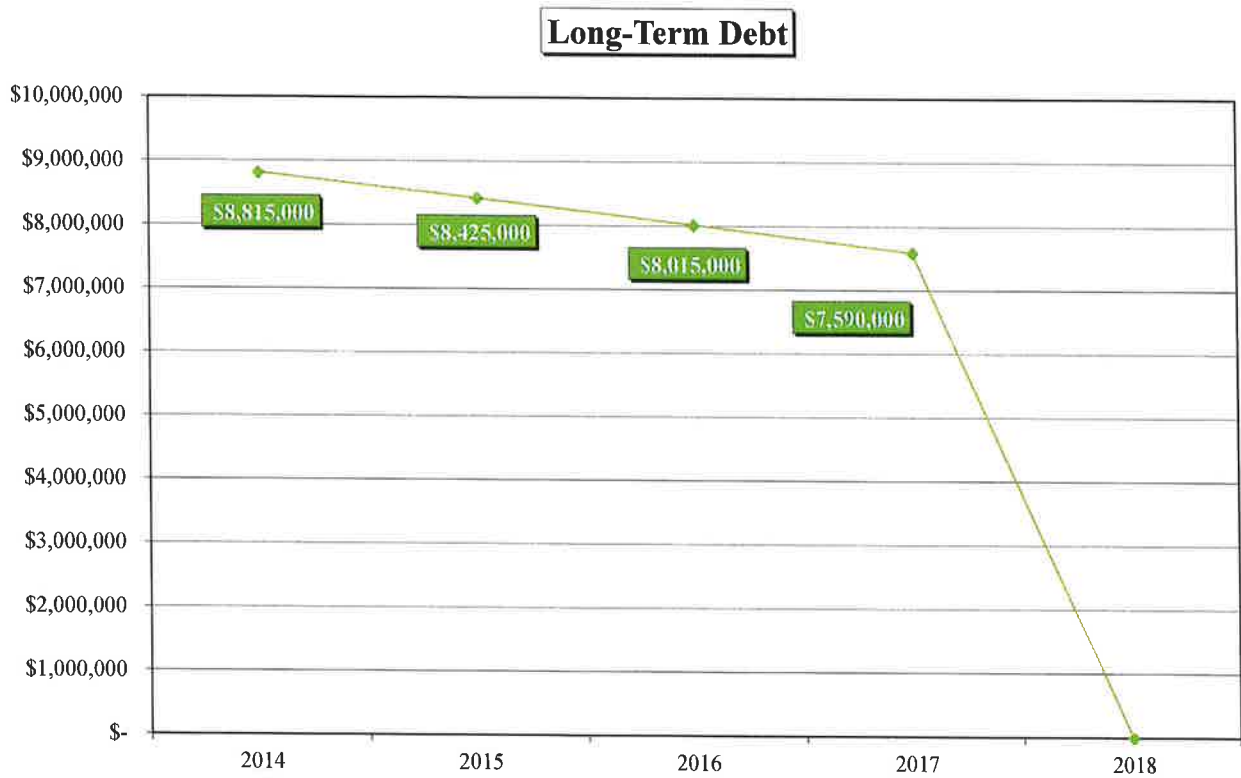
Revenues have exceeded expenses for all years presented above. During 2018, operating revenues exceeded operating expenses by \$1,347,085. Operating revenues increased \$423,926 from 2017 to 2018, driven by increased water rates. Operating expenses excluding depreciation stayed consistent only increasing \$38,742. During 2018, the Commission received \$5,868,217 in capital contributions from developers and connection charges and contributed \$1,091,814 to the City of Shakopee as payments in lieu of taxes. As a result, net position increased \$6,532,756 from 2017 to 2018.

**Shakopee Public Utilities Commission  
Financial Analysis**

**LONG-TERM DEBT**

The following chart and graph illustrates the Commission's long-term debt outstanding and reserved at December 31, of each of the past five years:

	2014	2015	2016	2017	2018
Long-Term Debt					
Total Debt	\$ 8,815,000	\$ 8,425,000	\$ 8,015,000	\$ 7,590,000	\$ -



During 2018, the Commission paid off the remaining \$7,590,000 in bonds. The Long-Term debt balance of the Commission at December 31, 2018 was \$0.

**Shakopee Public Utilities Commission  
Separate Enterprise Funds of the  
City of Shakopee, Minnesota**

**Financial Statements**

**December 31, 2018**

**Shakopee Public Utilities Commission  
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**Shakopee Public Utilities Commission  
Board of Commissioners and Administration  
December 31, 2018**

<u>Officials</u>	<u>Position</u>	<u>Term Expires</u>
Aaron Weyer	President	March 31, 2019
Terry Joos	Vice President	March 31, 2020
Mathew Meyer	Commissioner	March 31, 2021
Vacant	Commissioner	March 31, 2020
Deb Amundson	MMPA Rep	March 31, 2021
<u>Administration</u>		
John R. Crooks	Utilities Manager	
Renee Schmid	Director of Finance and Administration	

## Independent Auditor's Report

Board of Commissioners  
Shakopee Public Utilities Commission  
Shakopee, Minnesota

### **Report on the Financial Statements**

We have audited the accompanying financial statements of each major fund of the Shakopee Public Utilities Commission, Shakopee, Minnesota, as of and for the year ended December 31, 2018, and the related notes to financial statements, which collectively comprise the Commission's basic financial statements as listed in the Table of Contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## **Opinions**

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the Shakopee Public Utilities Commission, Shakopee, Minnesota, as of December 31, 2018, and the respective changes in financial position and cash flows, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

As discussed in the Note 1, the financial statements present only the Commission's Enterprise Funds and are not intended to present fairly the financial position of the City of Shakopee, Minnesota, and the changes in its financial position and its cash flows in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, which follows this report letter, and Required Supplementary Information as listed in the Table of Contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Report on Summarized Comparative Information*

The financial statements include partial prior year comparative information. Such information does not include all the information required to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Commission's financial statement for the year ended December 31, 2017, from which such partial information was derived.



**Other Matters (Continued)**

*Report on Summarized Comparative Information (Continued)*

We have previously audited the Commission's 2017 financial statements and our report, dated March 29, 2018, expressed unmodified opinions on the respective financial statements of each major fund. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Bergan KDV, Ltd.*

St. Cloud, Minnesota  
March 29, 2019

## **Shakopee Public Utilities Commission Management's Discussion and Analysis**

The management of the Shakopee Public Utilities Commission (electric and water utilities) offers all persons interested in the financial position of the utilities an objective, easy to read overview, and analysis of the utilities' financial performance during the years ending December 31, 2018. You are invited to read this narrative in conjunction with the Utilities' financial statements.

### **Financial Highlights**

- The electric utility's net position increased \$6,427,066 to \$76,917,858 in 2018, an increase of 9.1%. Total Assets decreased by \$1,478,939 due to decreases in net capital assets of \$394,028, decreases in cash and investments of \$715,939 from net operating activity and a decrease in the bond sinking account of \$544,737 due to bond defeasance, and increases in accounts receivable of \$368,149. Deferred outflows of resources decreased \$487,368 reflecting GASB 68 pension reporting and bond defeasance. Total Liabilities decreased by \$8,511,195 due to a decrease in accounts payable and other current liabilities of \$495,243, a decrease in net pension liability of \$399,788, and a reduction of long term debt of \$7,590,000. Deferred inflows of resources increased \$1,178,802. (See Table 1)
- The electric utility's operating revenues, generated mostly by user fees, increased by \$3,506,447 or 7.5% driven by higher kWh sales and an increase in power cost adjustment revenue driven by higher sales and increased power costs. Total kWh sales volume increased 5.8%. The electric utility added 449 new customers in 2018, an increase of 2.6%. (See Table 3)
- The electric utility's operating expenses in 2018 increased \$2,805,970 or 6.8%, due to increases in purchased power costs of \$2,374,638 driven by higher sales and an increase in purchased power costs per kWh of 3.3%, increases in operating expenses of \$249,645, and increases in depreciation expense of \$181,687.
- The water utility's net position increased \$6,532,756 to \$68,121,082 in 2018, an increase of 10.6%. Total Assets increased by \$6,518,122 due to an increase in net capital assets of \$3,157,510 for investment in a new booster station and water main construction, an increase of \$1,395,309 in the connection account, an increase in the reconstruction account of \$709,815, and increases in cash and investments, accounts receivables and other current assets of \$1,234,813, the result of operating activities. Deferred outflows of resources decreased \$105,273 reflecting the GASB 68 pension reporting activity. Total Liabilities decreased by \$159,172 due to decreases in current liabilities of \$227,282, decreases in net pension liability of \$133,269, and an increase in customer advances of \$180,704. Deferred Inflows of Resources increased \$39,625 due to GASB 68 pension reporting activity. (See Table 2)
- The water utility's 2018 operating revenues, generated mostly by user fees, increased \$423,926, or 8.2% due to a 10% rate increase on commodity water usage rates and partially offset by a decrease in water gallons sold of 0.6%. The water utility added 139 new customers in 2018, an increase of 1.2%. (See Table 4)
- The water utility's operating expenses in 2018 increased \$135,073 or 3.3% reflecting increases in operating expense of \$38,742 and increase in depreciation expense of \$96,331.

## **Shakopee Public Utilities Commission Management's Discussion and Analysis**

### **Financial Highlights (Continued)**

- Non-Operating Revenues for the utilities increased from 2017 to 2018 by \$553,521 due to higher investment income, lower interest expense and amortization expenses due to bond defeasances, and gains on the disposition of property.
- Capital Contributions for the utilities increased from 2017 to 2018 by \$971,431 due to increases in developer capital contributions in electric and water, and increases in Water Connection and Trunk fee activity.

### **Overview of the Financial Statements**

The electric and water utilities are self-supporting entities and separate enterprise funds of the City of Shakopee. The utilities provide electric and water service to properties within the City of Shakopee and some areas outside the municipality. Water service is provided within the corporate limits of the City of Shakopee. The electric utility service territory is a matter of state law, which became effective in 1975 and is supported by official maps. The areas generally served are the City of Shakopee, Townships of Jackson and Louisville, and part of the City of Prior Lake lying north of Prior Lake and abutting the City of Shakopee.

The electric and water utility is managed by a utilities commission and operates under Minnesota Statutes 453. The Commission has and continues to establish rates and charges without approval, review, or veto authority of the City Council. The Commission also establishes the policies and service rules that guide the administration and management of the Shakopee Public Utilities. The City Council created the utility commission in the mid-1950s.

The current utility commission is made up of five members having authority under the Power Agency Law, Minnesota Statutes 453, adopted by the State Legislature in 1976. The Power Agency Law replaces the original empowerment authority and provides the legal platform for the Commission to operate as the governing body of the "electric utility" and join other utilities to solve the issues of generation and transmission.

This annual report consists of two parts: Management's Discussion and Analysis and the financial statements as well as the Independent Auditor's Report.

An analysis of the utilities' financial position begins with a review of the statement of net position and the statement of revenues, expenses, and changes in net fund position. These two statements report the Utilities' Net Position and changes therein. The Utilities' Net Position, the difference between assets and deferred outflows of resources and liabilities, are important in measuring the financial health of the Utility. Over time, increases or decreases in the net position value are an indicator of whether the financial position is improving or deteriorating. However, it should be noted that the financial position may also be affected by other non-financial factors, including economic conditions, customer growth, climate conditions, and new regulations.

**Shakopee Public Utilities Commission  
Management's Discussion and Analysis**

**Utility Financial Analysis**

The Statement of Net Position includes all of the Utilities' assets and deferred outflows and inflows of resources and liabilities and provides information about the nature and amount of investments in resources and the obligations to creditors. This Statement provides the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the Utilities.

A summary of the Utilities' Statement of Net Position is presented in Tables 1 and 2.

**Table 1  
Condensed Statement of Net Position – Electric Utility**

	2018	2017
Current and other assets	\$ 40,427,712	\$ 41,512,623
Net capital assets	46,435,059	46,829,087
Total assets	86,862,771	88,341,710
Deferred outflows of resources	529,029	1,016,397
Total assets and deferred outflows of resources	\$ 87,391,800	\$ 89,358,107
Long-term debt outstanding	\$ -	\$ 7,590,000
Net pension liability	2,683,648	3,083,436
Other liabilities	7,125,139	7,647,546
Total liabilities	9,808,787	18,320,982
Deferred inflows of resources	664,155	546,353
Net investment in capital assets	46,435,057	39,247,065
Restricted for debt service	-	407,917
Unrestricted	30,842,799	30,835,790
Total net position	76,917,858	70,490,772
Total liabilities, deferred inflows, and net position	\$ 87,391,800	\$ 89,358,107

As can be seen from the table above, the electric utility net position increased \$6,427,086 to \$76,917,858 in 2018, an increase of 9.1%. Total Assets decreased by \$1,478,939 due to decreases in net capital assets of \$394,028 reflecting \$2,077,464 in investments in a substation and other infrastructure and equipment offset by increased accumulated depreciation and decreases in work in process, decreases in cash and investments of \$715,939 from net operating activity and a decrease in the sinking account of \$544,737 due to bond defeasance, and increases in accounts receivable of \$368,149. Deferred outflows of resources decreased \$487,368 reflecting a decrease in GASB 68 pension reporting activity of \$315,813 and reduction of unamortized loss on refunding of \$171,555 related to the bond defeasance.

Total Liabilities decreased by \$8,511,195 due to a decrease in accounts payable and current liabilities of \$495,243, a decrease in net pension liability of \$399,788, and a reduction of long term debt of \$7,590,000, which were partially offset by an increase of \$165,421 in customer advances. Deferred inflows of resources increased \$117,802 reflecting changes in GASB 68 pension reporting activity.

**Shakopee Public Utilities Commission  
Management's Discussion and Analysis**

**Utility Financial Analysis (Continued)**

**Table 2  
Condensed Statement of Net Position – Water Utility**

	<u>2018</u>	<u>2017</u>
Current and other assets	\$ 26,656,202	\$ 20,295,590
Net capital assets	<u>46,583,517</u>	<u>43,427,007</u>
Total assets	<u>70,239,719</u>	<u>63,721,597</u>
Deferred outflows of resources	<u>176,342</u>	<u>281,615</u>
Total assets and deferred outflows of resources	<u>\$ 70,416,061</u>	<u>\$ 64,003,212</u>
Net pension liability	\$ 894,548	\$ 1,027,817
Other liabilities	<u>1,179,047</u>	<u>1,204,950</u>
Total liabilities	<u>2,073,595</u>	<u>2,232,767</u>
Deferred inflows of resources	<u>221,384</u>	<u>182,119</u>
Net investment in capital assets	46,583,517	43,426,007
Restricted for debt service		
Restricted for connections and reconstruction	13,930,784	11,825,660
Unrestricted	<u>7,606,781</u>	<u>6,336,659</u>
Total net position	<u>68,121,082</u>	<u>61,588,326</u>
Total liabilities, deferred inflows, and net position	<u>\$ 70,416,061</u>	<u>\$ 64,003,212</u>

As can be seen from the table above, the water utility net position increased by \$6,532,756 to \$68,121,082 in 2018, an increase of 10.6%. Total assets increased by \$6,518,122 due to an increase in net capital assets of \$3,157,511 for investment in a new booster station and water main construction, an increase of \$1,395,309 in the connection account, an increase in the reconstruction account of \$709,815, and increases in cash and investments, accounts receivables and other current assets of \$1,234,813, the result of operating activities. Deferred outflows of resources decreased \$105,273 reflecting the GASB 68 pension reporting activity. Total liabilities decreased by \$159,173 due to decreases in current liabilities of \$227,282, a decrease in net pension liability of \$133,269 that was partially offset by an increase of \$20,675 in customer deposits, and an increase in customer advances of \$180,705. Deferred inflows of resources increased \$39,265 reflecting GASB 68 pension reporting activity.

**Shakopee Public Utilities Commission  
Management's Discussion and Analysis**

**Utility Financial Analysis (Continued)**

The restricted portion of net position includes accounts that are limited by bond covenants. Listed below are restricted assets:

- Sinking – Used to segregate resources accumulated for debt service payments over the next twelve months.
- Customer Deposit Account – Restricted resources from customers required to deposit monies before the utility will begin service. These deposits are subject to repayment when the customer leaves the utility's service area.
- Connection and Trunk Water Accts – Restricted resources, per enabling legislation, to be used for future water production and trunk distribution facility acquisitions.

The specific nature or source of these changes becomes more evident in the statement of revenues, expenses, and changes in fund net position as shown in Tables 3 and 4.

The statement of revenues, expenses, and changes in fund net position provide an indication of the utilities' financial health.

**Table 3  
Condensed Statement of Revenues, Expenses, and Changes in Fund Net Position  
Electric Utility**

	<u>2018</u>	<u>2017</u>
Operating revenues	\$ 50,393,489	\$ 46,887,042
Operation, customer, and administrative	41,697,431	39,073,148
Depreciation expense	<u>2,237,527</u>	<u>2,055,840</u>
Total operating expenses	<u>43,934,958</u>	<u>41,128,988</u>
Operating income	6,458,531	5,758,054
Non-operating revenues (expenses)	747,115	380,621
Capital contributions	730,662	1,158,713
Transfers to municipality	<u>(1,509,222)</u>	<u>(1,411,320)</u>
Change in net position	6,427,086	5,886,068
Beginning net position	<u>70,490,772</u>	<u>64,604,704</u>
Ending net position	<u>\$ 76,917,858</u>	<u>\$ 70,490,772</u>

**Shakopee Public Utilities Commission  
Management's Discussion and Analysis**

**Utility Financial Analysis (Continued)**

As can be seen in Table 3 on the previous page, the electric utility's operating revenues increased in 2018 by \$3,506,441 from 2017 or 7.5% driven by an increase in total kWh sales volume of 5.8% and an increase in power cost adjustment revenue driven by increased power costs due to higher sales and increased cost of purchased power per kWh of 3.3%. Operating expenses increased \$2,805,970 or 6.8%, primarily due to increases in purchased power costs of \$2,374,638 driven by higher kWh sales and increased costs of purchased power per kWh of 3.3%, increases in operating expenses of \$249,645 which included LED street light replacement project costs, and increases in depreciation expense of \$181,686 reflecting \$2,077,465 in infrastructure additions for sub stations upgrades, new underground construction, transformation, and other system investments. Purchased power costs totaled \$35,555,031 in 2018, an increase of 7.2% from 2017. Purchased power is the single largest expense item in the electric system operating budget. Non-operating income increased \$366,494 due to higher investment income of \$233,797, and lower interest expense and amortization costs of \$84,079, a gain on the disposition of property of \$52,907. Capital contributions decreased \$428,051 year to year due to a decrease in developer capital contributions year to year. Municipal contributions expenses to the City of Shakopee increased \$97,902 from \$1,411,320 to \$1,509,222 driven by higher electric sales revenue from year to year.

**Table 4**

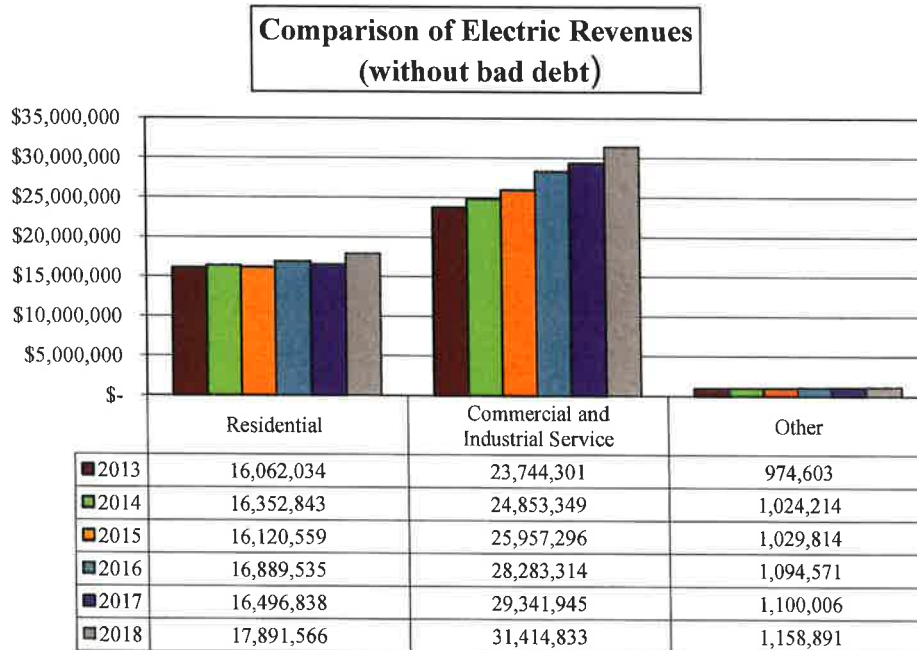
**Condensed Statement of Revenues, Expenses, and Changes in Fund Net Position  
Water Utility**

	2018	2017
Operating revenues	\$ 5,608,127	\$ 5,184,201
Operation, customer, and administrative	2,846,005	2,807,263
Depreciation expense	1,415,037	1,318,706
Total operating expenses	4,261,042	4,125,969
Operating income	1,347,085	1,058,232
Non-operating revenues (expenses)	409,268	222,241
Capital contributions	5,868,217	4,468,735
Transfers to municipality	(1,091,814)	(1,001,919)
Change in net position	6,532,756	4,747,289
Beginning net position, as previously stated	61,588,326	54,648,241
Prior period adjustment	-	2,192,796
Beginning of year, as restated	61,588,326	56,841,037
Ending Net Position	\$ 68,121,082	\$ 61,588,326

**Shakopee Public Utilities Commission  
Management's Discussion and Analysis**

**Utility Financial Analysis (Continued)**

In 2018 the water utility's operating revenues increased by \$423,926, or 8.2% from \$5,184,201 in 2017 to \$5,608,127. The increase in operating revenues is the result of a 10% rate increase on commodity water usage rates and partially offset by a decrease in water gallons sold of 0.6%. Operating expenses increased \$135,073, or 3.3%. The increase in operating expense is the result of an increase in operating expense of \$38,742 and increase in depreciation expense of \$96,331 reflecting the addition of a new booster station and new water main. Non-Operating Income increased \$187,027 from \$222,241 to \$409,268 reflecting an increase in investment income of \$138,746, and gains on the disposition of property of \$79,909 and partially offset by a decrease in miscellaneous income of \$30,952. Capital Contributions increased by \$1,399,482 year over year due to the increases in developer constructed water main of \$1,034,428 and an increases in water connection fees activity of \$296,342 and trunk water fees of \$40,442 fees due to several new commercial and industrial construction projects completed during the year. Municipal contributions expenses to the City of Shakopee increased \$89,894 from \$1,001,919 to \$1,091,814 driven by higher water sales revenue from year to year.



Residential, commercial, and other sales of electricity increased in 2018 by \$3,506,502 or 7.5%. The electric utility added 449 new customers in 2018, an increase of 2.6%.



**Shakopee Public Utilities Commission  
Management's Discussion and Analysis**

**Utility Financial Analysis (Continued)**

Total kWh purchased in 2018 was 469,262,264 as compared to 452,308,391 in 2017, reflecting an increase of 3.8% year over year. Total kWh sold in 2018 was 454,234,398 as compared to 429,261,118 in 2017, reflecting an increase of 5.8% for the year 2018. Electric operating revenues totaled \$50,393,488 in 2018 compared to \$46,887,042 in 2017, an increase of \$3,506,445 or 7.5% driven by higher kWh sales, and higher power cost adjustment revenue due to increased sales and increased costs of power per kWh. Power costs per kWh increased from 7.33 cents per kWh in 2017 to 7.58 cents per kWh, an increase of 3.3%.

The utility joined MMPA as a full member in 2004, with a long-term Purchase Power Agreement extending to 2050. The MMPA Purchase Power Agreement began January 1, 2006, upon the conclusion of the old (1992) MMPA contract that expired December 31, 2005; under the terms of the 'MMPA Purchase Power Agreement', MMPA assumed the load of the expiring contract of Xcel on December 31, 2009.

The following is the total cost of kilowatt-hours purchased, total kilowatt-hours purchased, system peak demand, and total kilowatt-hours delivered for the past ten years.

**Historical Power and Energy Requirements**

<b>Energy (kWh)</b>				
<u>Year</u>	<u>Total kWh Purchased</u>	<u>Cost of kWh Purchased</u>	<u>System Peak Demand (kW)</u>	<u>Total kWh Delivered</u>
2018	469,262,264	\$35,555,031	102,853	454,234,398
2017	452,308,391	33,180,393	99,725	429,261,118
2016	449,534,290	32,282,815	100,501	426,048,194
2015	425,268,243	29,939,985	92,605	406,459,331
2014	417,376,994	29,426,606	93,549	401,272,664
2013	413,119,096	28,499,899	95,148	394,596,477
2012	416,558,417	27,338,777	96,369	399,828,851
2011	414,150,120	26,782,506	97,882	397,223,982
2010	412,310,323	25,808,252	93,027	395,127,626
2009	394,883,403	23,452,081	85,603	376,253,876

Kilowatt (kWh) Hours

**Shakopee Public Utilities Commission  
Management's Discussion and Analysis**

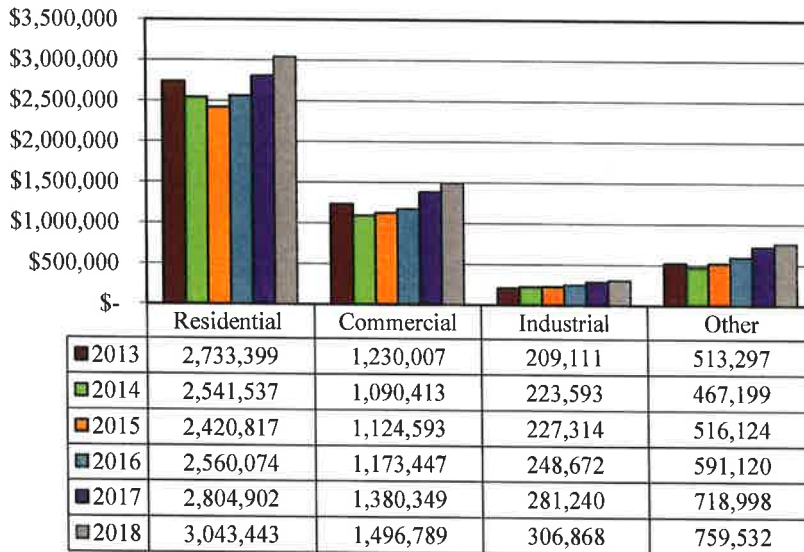
**Utility Financial Analysis (Continued)**

**Metered Electric Customers**

Following are the number of metered connections for the past ten years.

<u>Year</u>	<u>Meters</u>	<u>Year</u>	<u>Meters</u>
2018	17,575	2013	16,508
2017	17,126	2012	16,398
2016	17,084	2011	16,314
2015	16,885	2010	16,139
2014	16,700	2009	15,984

**Comparison of Water Revenues  
(without bad debt)**



Sales of water (without bad debt) increased in 2018 by \$421,143 or 8.1%. The increase in operating revenues is the result of a 10% rate increase in commodity rates that was partially offset by a decrease in water gallons sold of 0.6%. The water utility added 139 new customers in 2018, an increase of 1.2%.

Water gallons pumped in 2018 totaled 1,844,625 thousand gallons as compared to 1,778,009 thousand gallons in 2017, reflecting an increase of 3.8% for the year 2018 from 2017. Water gallons sold including hydrant sales in 2018 totaled 1,661,211 thousand gallons as compared to 1,671,777 thousand gallons in 2017, reflecting a decrease of 0.6% for the year 2018 from 2017. Water operating revenues excluding reconstruction fees totaled \$4,895,138 in 2018 as compared to \$4,502,997 in 2017, an increase of 8.7%.

**Shakopee Public Utilities Commission  
Management's Discussion and Analysis**

**Utility Financial Analysis (Continued)**

**Water Demand**

Following is the average daily demand and peak daily demand for the past ten years.

<u>Year</u>	Average Daily Demand (MGD)	Peak Daily Demand (MGD)
2018	5.054	11.122
2017	4.873	13.234
2016	4.792	11.582
2015	4.556	9.936
2014	4.631	10.878
2013	4.987	13.379
2012	5.948	16.257
2011	4.852	10.799
2010	4.707	10.624
2009	5.112	12.832

**Water Meters/Production**

The following shows the number of meters and production for the water utility for the past ten years:

<u>Year</u>	Average Daily Water Pumped (gallons)	Service Population*	Total Service Connections	Residential Usage	Non-Residential Usage
2018	5,053,767	38,519	11,438	59%	41%
2017	4,873,381	37,643	11,299	59	41
2016	4,792,447	37,254	11,277	60	40
2015	4,555,603	37,254	11,170	60	40
2014	4,631,167	35,300	11,085	62	38
2013	4,987,855	35,120	10,956	62	38
2012	5,948,063	34,652	10,872	60	40
2011	4,852,447	34,652	10,781	62	38
2010	4,706,923	34,076	10,648	61	39
2009	5,111,956	30,000	10,470	63	37

\*Total City Population per Metropolitan Council estimates less population served by private and community wells

**Shakopee Public Utilities Commission  
Management's Discussion and Analysis**

**Utility Financial Analysis (Continued)**

The statement of cash flows report the cash provided and used by operating activities, as well as other cash sources such as investment income and cash payments for repayment of bonds and capital additions.

**Condensed Statements of Cash Flows (Table 5)  
Electric Utility**

	2018	2017
Cash flows from		
Operating activities	\$ 8,416,527	\$ 5,794,849
Noncapital financing activities	(1,167,876)	(1,180,506)
Capital & related financing activities	(9,016,023)	(2,171,965)
Investing activities	189,644	689,571
Net change in cash and cash equivalents	(1,577,728)	3,131,949
Cash and cash equivalents – beginning of year	20,427,473	17,295,524
Cash and cash equivalents – end of year	\$ 18,849,745	\$ 20,427,473

**Condensed Statements of Cash Flows (Table 6)  
Water Utility**

	2018	2017
Cash flows from		
Operating activities	\$ 1,616,948	\$ 1,164,314
Noncapital financing activities	(504,520)	(876,777)
Capital & related financing activities	1,293,413	2,827,342
Investing activities	187,834	140,277
Net change in cash and cash equivalents	2,593,675	3,255,156
Cash and cash equivalents – beginning of year	17,900,673	14,645,517
Cash and cash equivalents – end of year	\$ 20,494,348	\$ 17,900,673

**Shakopee Public Utilities Commission  
Management's Discussion and Analysis**

**Utility Financial Analysis (Continued)**

**Table 7  
Capital Assets – Electric Utility**

	2018	2017
Capital assets		
Distribution	\$ 54,441,669	\$ 52,933,628
General	17,664,912	17,095,489
Total capital assets	72,106,581	70,029,117
Less: accumulated depreciation	(26,344,935)	(24,441,184)
Construction in progress	673,413	1,241,154
Net capital assets	\$ 46,435,059	\$ 46,829,087

The electric utility's capital assets decreased \$394,028 or 0.8% in 2018 from 2017. Capital Assets increased \$2,077,464 due infrastructure investments in sub stations upgrades, new underground construction, transformation, and other system investments offset by increases in accumulated depreciation of \$1,903,751 and decreases in construction in progress of \$567,741.

**Table 8  
Capital Assets – Water Utility**

	2018	2017
Capital assets		
Distribution	\$ 63,920,688	\$ 58,684,464
General	1,617,923	1,489,091
Total capital assets	65,538,611	60,173,555
Less: accumulated depreciation	(19,674,545)	(18,314,552)
Construction in progress	719,451	1,567,004
Net capital assets	\$ 46,583,517	\$ 43,426,007

During 2018, the water utility's capital assets increased by \$3,157,510 or 7.3% from 2017. Capital Assets increased \$5,365,056 due to construction of a new booster station, new water main construction, and other system investments offset by increases in accumulated depreciation of \$1,359,993 and decreases in construction in progress of \$847,553.

Please refer to the notes to the financial statements for further detail of the utilities' capital assets.

## **Shakopee Public Utilities Commission Management's Discussion and Analysis**

### **Long-Term Debt**

As of December 31, 2018, the electric and water utilities have no bonds outstanding. The Shakopee Public Utilities Commission approved defeasance of the remaining bond issue outstanding consisting of \$7,590,000 Crossover Refunding Net Revenue Bonds, Series 2006 as of February 1, 2019.

If the commission were to issue bonds, they would be payable from and secured by a pledge of income and revenue to be derived from the operation of the electric and water utilities and are primarily issued for various infrastructure projects. Expansion of the water and electric utilities is dependent on (1) cash flow from operations (after expenses) for the electric utilities, (2) special connection and trunk charges for the water utilities, and (3) the ability to access the capital markets to borrow funds. Bonds are issued only on an as needed basis and for projects described within the capital improvement program approved annually by the Commission.

Issued Bonds are limited obligations of the Shakopee Public Utilities Commission, payable solely from net revenues of the Commission. The Bonds are not general obligations of the Commission, and neither the full faith and credit nor the taxing powers of the City of Shakopee, the County of Scott, or the State of Minnesota are available to pay for the principal and interest on the Bonds.

### **Currently Known Facts/Economic Conditions**

The City of Shakopee is located approximately 25 miles southwest of downtown Minneapolis. Shakopee is the county seat of Scott County. The City was organized in 1870 and became a statutory city, Plan A, in April 1975. It is organized under a mayor/council form of government as outlined in *Minnesota Statutes* 412. A Mayor is elected for a two-year term and four City Council Members are elected to overlapping four year terms. The community is served by US No. 169 and Scott County Highway No. 101; US No. 169 connects Scott County with Hennepin County and the Metro Center of Minneapolis-Saint Paul.

The City Council has the obligation to appoint the members to the Shakopee Public Commission.

### **Contacting Utility Management**

This financial report is designed to provide our customers, investors, and creditors with a general overview of the utilities' finances. If you have questions about this report, or need additional financial information, contact the Director of Finance and Administration, Post Office Box 470, 255 Sarazin Street, Shakopee, Minnesota 55379.

General information relating to the Shakopee Public Utilities can be found at the Utility web site: <https://www.spucweb.com>.

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**BASIC FINANCIAL STATEMENTS**



**Shakopee Public Utilities Commission**  
**Statement of Net Position - Proprietary Funds**  
**December 31, 2018**  
**With Comparative Totals as of December 31, 2017**

	Electric	Water	Total	
			2018	2017
<b>Assets</b>				
<b>Current assets</b>				
Cash and investments	\$ 32,189,484	\$ 8,488,457	\$ 40,677,941	\$ 40,894,897
Restricted assets				
Sinking account	-	-	-	544,737
Accrued interest receivable	58,444	11,502	69,946	61,559
Customer accounts receivable	3,986,682	344,165	4,330,847	4,229,182
Allowance for uncollectible accounts	(27,405)	(6,666)	(34,071)	(34,041)
Other accounts receivable	342,127	747,589	1,089,716	163,660
Due from City of Shakopee	125,923	20,326	146,249	76,191
Inventory	1,213,250	29,698	1,242,948	1,342,784
Prepaid expenses	50,399	16,800	67,199	59,603
Total current assets	<u>37,938,904</u>	<u>9,651,871</u>	<u>47,590,775</u>	<u>47,338,572</u>
<b>Noncurrent assets</b>				
Restricted assets				
Customer deposits account	2,388,808	73,547	2,462,355	2,506,821
Connection account	-	13,085,883	13,085,883	11,690,574
Water reconstruction account	-	844,901	844,901	135,086
Capital assets				
Plant in service	72,106,581	65,538,611	137,645,192	130,202,672
Accumulated depreciation	(26,344,935)	(19,674,545)	(46,019,480)	(42,755,736)
Construction in progress	673,413	719,451	1,392,864	2,808,158
Other assets				
Emergency repairs account	100,000	-	100,000	100,000
Prepaid bond insurance	-	-	-	37,160
Total noncurrent assets	<u>48,923,867</u>	<u>60,587,848</u>	<u>109,511,715</u>	<u>104,724,735</u>
Total assets	<u>86,862,771</u>	<u>70,239,719</u>	<u>157,102,490</u>	<u>152,063,307</u>
<b>Deferred Outflows of Resources</b>				
Deferred outflows of resources related to pensions	529,029	176,342	705,371	1,126,457
Unamortized loss on refunding	-	-	-	171,555
Total deferred outflows of resources	<u>529,029</u>	<u>176,342</u>	<u>705,371</u>	<u>1,298,012</u>
Total assets and deferred outflows of resources	<u>\$ 87,391,800</u>	<u>\$ 70,416,061</u>	<u>\$ 157,807,861</u>	<u>\$ 153,361,319</u>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Accounts payable	\$ 3,423,105	\$ 89,268	\$ 3,512,373	\$ 4,770,756
Due to City of Shakopee	467,273	580,490	1,047,763	500,700
Other current liabilities	293,249	135,644	428,893	440,098
Total current liabilities	<u>4,183,627</u>	<u>805,402</u>	<u>4,989,029</u>	<u>5,711,554</u>
Liabilities payable from restricted assets				
Current portion of revenue bonds	-	-	-	7,590,000
Accrued interest payable	-	-	-	136,820
Customer deposits	2,388,808	73,547	2,462,355	2,506,821
Total liabilities payable from restricted assets	<u>2,388,808</u>	<u>73,547</u>	<u>2,462,355</u>	<u>10,233,641</u>
Noncurrent liabilities				
Unamortized bond discount	-	-	-	(7,978)
Unearned revenues	3,447	-	3,447	1,048
Customer advances	550,257	300,098	850,355	504,231
Net pension liability	2,683,648	894,548	3,578,196	4,111,253
Total noncurrent liabilities	<u>3,237,352</u>	<u>1,194,646</u>	<u>4,431,998</u>	<u>4,608,554</u>
Total liabilities	<u>9,809,787</u>	<u>2,073,595</u>	<u>11,883,382</u>	<u>20,553,749</u>
<b>Deferred Inflows of Resources</b>				
Deferred inflows of resources related to pensions	664,155	221,384	885,539	728,472
<b>Net Position</b>				
Net investment in capital assets	46,435,059	46,583,517	93,018,576	82,673,072
Restricted for debt service	-	-	-	407,917
Restricted for connections and reconstruction	-	13,930,784	13,930,784	11,825,660
Unrestricted	30,482,799	7,606,781	38,089,580	37,172,449
Total net position	<u>76,917,858</u>	<u>68,121,082</u>	<u>145,038,940</u>	<u>132,079,098</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 87,391,800</u>	<u>\$ 70,416,061</u>	<u>\$ 157,807,861</u>	<u>\$ 153,361,319</u>

See notes to financial statements.

**Shakopee Public Utilities Commission**  
**Statement of Revenues, Expenses, and Changes**  
**in Fund Net Position - Proprietary Funds**  
**Year Ended December 31, 2018**  
**With Comparative Totals for the Year Ended December 31, 2017**

	Electric	Water	Total	
			2018	2017
Operating revenues	\$ 50,393,489	\$ 5,608,127	\$ 56,001,616	\$ 52,071,243
Operating expenses	43,934,958	4,261,042	48,196,000	45,254,957
Operating income	6,458,531	1,347,085	7,805,616	6,816,286
Nonoperating revenues (expenses)				
Rentals and miscellaneous	430,798	184,857	615,655	650,896
Interdepartmental rent from water	90,000	-	90,000	90,000
Investment income	449,019	219,864	668,883	296,340
Interest expense	(65,609)	(989)	(66,598)	(348,893)
Amortization of bond discount and loss on refunding	(216,694)	-	(216,694)	(17,802)
Gain (loss) on disposition of property	59,601	5,536	65,137	(67,679)
Total nonoperating revenues (expenses)	747,115	409,268	1,156,383	602,862
Income before contributions and transfers	7,205,646	1,756,353	8,961,999	7,419,148
Capital contributions	730,662	5,868,217	6,598,879	5,627,448
Municipal contributions	(1,509,222)	(1,091,814)	(2,601,036)	(2,413,239)
Change in net position	6,427,086	6,532,756	12,959,842	10,633,357
Net position				
Beginning of year, as previously stated	70,490,772	61,588,326	132,079,098	119,252,945
Prior period adjustment (see Note 8)	-	-	-	2,192,796
Beginning of year, as restated	70,490,772	61,588,326	132,079,098	121,445,741
End of year	\$ 76,917,858	\$ 68,121,082	\$ 145,038,940	\$ 132,079,098

**Shakopee Public Utilities Commission**  
**Statement of Cash Flows - Proprietary Funds**  
**Year Ended December 31, 2018**  
**With Comparative Totals for the Year Ended December 31, 2017**

	Electric	Water	Total	
			2018	2017
<b>Cash Flows - Operating Activities</b>				
Receipts from customers and users	\$ 50,482,328	\$ 5,260,263	\$ 55,742,591	\$ 51,242,255
Payments to suppliers	(37,079,969)	(1,546,344)	(38,626,313)	(38,438,928)
Payments to employees	(4,985,832)	(2,096,971)	(7,082,803)	(5,844,164)
Net cash flows - operating activities	<u>8,416,527</u>	<u>1,616,948</u>	<u>10,033,475</u>	<u>6,959,163</u>
<b>Cash Flows - Noncapital</b>				
<b>Financing Activities</b>				
Payments to City of Shakopee	(1,338,234)	(511,324)	(1,849,558)	(2,130,113)
Proceeds from sale of assets	<u>170,358</u>	<u>6,804</u>	<u>177,162</u>	<u>72,830</u>
Net cash flows - noncapital financing activities	<u>(1,167,876)</u>	<u>(504,520)</u>	<u>(1,672,396)</u>	<u>(2,057,283)</u>
<b>Cash Flows - Capital and Related</b>				
<b>Financing Activities</b>				
Principal paid on debt	(7,590,000)	-	(7,590,000)	(425,000)
Interest paid on debt	(202,429)	(989)	(203,418)	(356,419)
Acquisition of capital assets	(1,223,594)	(2,202,354)	(3,425,948)	(1,694,887)
Installation fees	-	62,300	62,300	34,010
Connection charges	-	3,044,959	3,044,959	2,748,617
Trunk charges	-	389,497	389,497	349,056
Net cash flows - capital and related financing activities	<u>(9,016,023)</u>	<u>1,293,413</u>	<u>(7,722,610)</u>	<u>655,377</u>
<b>Cash Flows - Investing Activities</b>				
Proceeds (purchases) of investments	(251,911)	(31,107)	(283,018)	548,556
Interest and dividends received	<u>441,555</u>	<u>218,941</u>	<u>660,496</u>	<u>281,292</u>
Net cash flows - investing activities	<u>189,644</u>	<u>187,834</u>	<u>377,478</u>	<u>829,848</u>
Net change in cash and cash equivalents	(1,577,728)	2,593,675	1,015,947	6,387,105
<b>Cash and Cash Equivalents</b>				
Beginning of year	<u>20,427,473</u>	<u>17,900,673</u>	<u>38,328,146</u>	<u>31,941,041</u>
End of year	<u>\$ 18,849,745</u>	<u>\$ 20,494,348</u>	<u>\$ 39,344,093</u>	<u>\$ 38,328,146</u>

See notes to financial statements.

**Shakopee Public Utilities Commission**  
**Statement of Cash Flows - Proprietary Funds**  
**Year Ended December 31, 2018**  
**With Comparative Totals for the Year Ended December 31, 2017**

	Electric	Water	Total	
			2018	2017
<b>Reconciliation of Operating</b>				
<b>Income to Net Cash Flows -</b>				
<b>Operating Activities</b>				
Operating income	\$ 6,458,531	\$ 1,347,085	\$ 7,805,616	\$ 6,816,286
Adjustments to reconcile operating income to net cash flows - operating activities				
Free electric service to City of Shakopee	(170,988)	-	(170,988)	(168,038)
Nonoperating revenues	520,798	184,857	705,655	740,896
Depreciation expense	2,237,527	1,415,037	3,652,564	3,374,546
Pension related activity	33,826	11,269	45,095	278,560
Allowance for uncollectible accounts	4,500	(4,470)	30	(7,211)
Change in assets and liabilities				
Customer accounts receivable	(75,261)	(26,404)	(101,665)	(363,457)
Other accounts receivable	(227,638)	(698,418)	(926,056)	126,211
Due from City of Shakopee	(65,250)	(4,808)	(70,058)	45,413
Inventory	98,744	1,092	99,836	(169,623)
Prepaid items	(5,697)	(1,899)	(7,596)	(7,603)
Accounts payable	(600,047)	(658,336)	(1,258,383)	(2,497,724)
Customer deposits	(65,141)	20,675	(44,466)	263,641
Unearned revenue	2,399	-	2,399	(1,660,362)
Customer advances	165,420	180,704	346,124	193,919
Due to City of Shakopee	81,661	(115,088)	(33,427)	(81,782)
Other liabilities	23,143	(34,348)	(11,205)	75,491
Total adjustments	<u>1,957,996</u>	<u>269,863</u>	<u>2,227,859</u>	<u>142,877</u>
Net cash flows - operating activities	<u>\$ 8,416,527</u>	<u>\$ 1,616,948</u>	<u>\$ 10,033,475</u>	<u>\$ 6,959,163</u>
<b>Reconciliation of Cash and Cash</b>				
<b>Equivalents to the Statement</b>				
<b>of Net Position</b>				
Sinking account	\$ -	\$ -	\$ -	\$ 544,737
Customer deposits account	2,388,808	73,547	2,462,355	2,506,821
Emergency repairs account	100,000	-	100,000	100,000
Connection account	-	13,085,883	13,085,883	11,690,574
Water reconstruction account	-	844,901	844,901	135,086
Cash and investments	<u>32,189,484</u>	<u>8,488,457</u>	<u>40,677,941</u>	<u>40,894,897</u>
Total	<u>34,678,292</u>	<u>22,492,788</u>	<u>57,171,080</u>	<u>55,872,115</u>
Less long-term investments	<u>(15,828,547)</u>	<u>(1,998,440)</u>	<u>(17,826,987)</u>	<u>(17,543,969)</u>
Cash and cash equivalents	<u>\$ 18,849,745</u>	<u>\$ 20,494,348</u>	<u>\$ 39,344,093</u>	<u>\$ 38,328,146</u>
<b>Noncash Investing, Capital and</b>				
<b>Financing Activities</b>				
Contributions of capital assets from the municipality and developers	\$ 730,662	\$ 2,371,461	\$ 3,102,123	\$ 2,495,765
Free electric service to City of Shakopee	170,988	-	170,988	168,038

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**Shakopee Public Utilities Commission**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The electric and water utilities of the Shakopee Public Utilities Commission (the "Commission") are self-supporting entities and collectively comprise separate enterprise funds of the City of Shakopee (the "City"). The Commission provides electric and water operations to properties within the City as well as electric distribution to certain other areas outside of the City. The Commission accounts for the costs of electric and water operations on a continuing basis and is managed by the Commission. The Commission consists of five members who serve three year terms.

Customer and service rates are established by the Commission.

**B. Fund Financial Statements**

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

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

**Description of Funds**

Proprietary Funds:

Electric Fund – This Fund accounts for the operations of the Commission's electric utility.

Water Fund – This Fund accounts for the operations of the Commission's water utility.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Electric and Water Enterprise Funds are charges to customers for sales and services. 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.

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

**Shakopee Public Utilities Commission**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity**

**1. Deposits and Investments**

Cash and investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the individual funds based on the average of month-end cash and investment balances.

The Commission's 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.

*Minnesota Statutes* authorizes the Commission to invest in obligations of the U.S. Treasury, agencies and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, future contracts, repurchase and reverse repurchase agreements, and commercial paper of the highest quality with a maturity of no longer than 270 days and in the Minnesota Municipal Investment Pool.

Certain investments for the Commission are reported at fair value as disclosed in Note 2. The Commission categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

In accordance with GASB Statement No. 79, the Minnesota Municipal Investment Pool securities are valued at amortized cost, which approximates fair value. There are no restrictions or limitations on withdrawals from the 4M Liquid Asset Fund. Investments in the 4M Plus must be deposited for a minimum of 14 calendar days. Withdrawals prior to the 14-day restriction period will be subject to a penalty equal to seven days interest on the amount withdrawn. Seven days' notice of redemption is required for withdrawals of investments in the 4M Term Series withdrawn prior to the maturity date of that series. A penalty could be assessed as necessary to recoup the Series for any charges, losses, and other costs attributable to the early redemption.

**2. Receivables and Payables**

Activity between funds that are representative of lending or borrowing arrangements outstanding at the end of the year are referred to as advances to/from other funds. All other outstanding balances between funds are reported as due to/from other funds. Any residual balances outstanding between the Commission and other funds of the City are reported as receivables from or payables to the City. An allowance for uncollectible accounts is used to account for delinquent customer balances greater than 120 days overdue as of December 31, 2018. Bad debts are expensed annually when deemed uncollectible.

**Shakopee Public Utilities Commission**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity (Continued)**

**3. Inventory, Prepaid Items, and Other Assets**

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

Inventory is valued at average cost and using the first-in, first-out (FIFO) method.

Other assets include the Emergency Repairs Account, and the asset and related amortization relating to the Electric Plant Acquisition.

**4. Restricted Assets**

Certain proceeds of the Commission's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the Statement of Net Position because their use is limited by applicable bond covenants. The revenue bond accounts on the following page are reported as restricted assets.

Sinking Account – Used to segregate resources accumulated for debt service payments over the next 12 months. The sinking account was closed during 2018 as all related debt was retired.

Other restricted assets:

Customer Deposit Account – Restricted resources from customers required to deposit monies before the Commission will begin electric or water service. These deposits are subject to repayment when the customer leaves the Commission's service area.

Connection Account – Restricted resources, per enabling legislation, to be used for future expansion of the water system.

Water Reconstruction Account – Restricted resources to be used for future water reconstruction projects.

**5. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the proprietary fund financial statements. Capital assets are defined as assets with an initial, individual cost of more than \$3,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. Major outlays for capital assets are capitalized as projects are constructed. Interest incurred (net of interest earned on invested proceeds during the construction phase) is reflected in the capitalized value of capital assets constructed.



**Shakopee Public Utilities Commission  
Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity  
(Continued)**

**5. Capital Assets (Continued)**

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant, and equipment of the Commission are depreciated using a half year convention the first year with the straight-line method over the remaining estimated useful lives.

	Years
Electric	
Distribution	10 - 40
General	4 - 20
Water	
Distribution	20 - 75
General	4 - 40

**6. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The Commission has two items that qualify for reporting in this category. The Commission presents deferred outflows of resources on the Statement of Net Position for the deferred charge on refunding. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. At December 31, 2018 the balance was \$0 as all debt was retired. The Commission also presents deferred outflows of resources on the Statement(s) of Net Position for deferred outflows of resources related to pensions for various estimate differences that will be amortized and recognized over future years.

In addition to liabilities, the statement of financial position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Commission has one item that qualifies for reporting in this category. The Commission presents deferred inflows of resources on the Statement(s) of Net Position for deferred inflows of resources related to pensions for various estimate differences that will be amortized and recognized over future years.

**Shakopee Public Utilities Commission**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity**  
**(Continued)**

**7. Electric Plant Acquisition**

The Commission acquired a plant from Minnesota Valley Electric Cooperative, including legal, engineering, and plant costs, which was amortized over 25 years using the straight-line method and is shown net of the accumulated amortization and depreciation on the Statement of Net Position. The electric plant became fully amortized in 2015.

**8. Customer Advances for Construction**

This account represents customer advances for construction which may be refundable in part or in whole.

**9. Customer Deposits**

This account represents required deposits to be used to guaranty electric and water utility billings.

**10. Compensated Absences**

Commission employees earn vacation time based on years of Commission service. Employees also can earn compensatory time for hours worked above 80 hours per pay period. A liability has been recorded in the Statement of Net Position for accrued vacation and compensatory pay. Employees also earn sick leave; however, this is not paid out upon separation so no liability exists for this benefit.

**11. Pensions**

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

**12. Long-Term Obligations**

Long-term debt and other obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts, as well as bond issuance costs, are deferred and amortized over the life of the bonds using the straight-line method.

**13. Capital Contributions**

Cash and capital assets are contributed to the Commission from customers, the municipality, or external parties. The value of property contributed to the utility is reported as revenues on the statement of revenues, expenses, and changes in fund net position.

**Shakopee Public Utilities Commission**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity (Continued)**

**14. Municipal Contributions**

Municipal contributions include the contribution in lieu of taxes to the municipality and free service to the municipality for streetlights.

**15. Net Position**

Net position represents the difference between assets and deferred outflows of resources; and liabilities and deferred inflows of resources in the financial statements. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net Position is reported as restricted in the financial statements when there are limitations on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

**E. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

**NOTE 2 – DEPOSITS AND INVESTMENTS**

Cash balances of the Commission's funds are combined (pooled) and invested to the extent available in various investments authorized by *Minnesota Statutes*. Each fund's portion of this pool (or pools) is displayed in the financial statements as "cash and cash equivalents" or "investments". For purposes of identifying risk of investing public funds, the balances and related restrictions are summarized as follows.

In accordance with applicable *Minnesota Statutes*, the Commission maintains deposits at depository banks authorized by the Commission Board.

**A. Deposits**

**Custodial Credit Risk – Deposits:** This is the risk that in the event of a bank failure, the Commission's deposits may not be returned to it. The Commission has a deposit policy that requires the Commission's deposits to be collateralized as required by *Minnesota Statutes* 118.03 for an amount exceeding FDIC, SAIF, BIF, FCUA, or other federal deposit coverage. As of December 31, 2018, the Commission's bank balance was not exposed to custodial credit risk because it was insured and fully collateralized with securities held by the pledging financial institution's trust department or agent and in the Commission's name.

**Shakopee Public Utilities Commission  
Notes to Financial Statements**

**NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)**

**A. Deposits (Continued)**

The Commission's deposits had a book balance as follows:

	2018
Checking	\$ 6,034,753
CDARS	5,389,041
Money market	232,658
Total deposits	\$ 11,656,452

**B. Investments**

As of December 31, 2018, the Commission had the following investments:

	Rating	Fair Value	Years to Maturity	
			Less than 1 Year	1-5 Years
U.S. Agencies	AAA	\$ 11,004,397	\$ 4,935,535	\$ 6,068,862
U.S. Treasuries	AAA	7,777,082	866,402	6,910,680
4M Fund	NR	26,692,594	26,692,594	-
Money Market Fund	NR	38,855	38,855	-
Total		\$ 45,512,928	\$ 32,533,386	\$ 12,979,542

The Commission has the following recurring fair value measurements as of December 31, 2018:

- \$18,820,335 of \$45,512,928 are valued using a quoted market prices (Level 2 inputs)
- \$26,692,594 of 4M Fund investments are uncategorized in accordance with GASB 79

**Shakopee Public Utilities Commission  
Notes to Financial Statements**

**NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)**

**B. Investments (Continued)**

The Commission has a formal investment policy in place as of December 31, 2018, to address the following risks:

**Credit Risk:** This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. *Minnesota Statutes* 118A.04 and 118A.05 limit investments that are in the top 2 ratings issued by nationally recognized statistical rating organizations. The Commission's policy states to ensure safety, it is the policy of the Shakopee Public Utilities Commission that when considering an investment, all depositories under consideration be cross-checked against existing investments to make certain that funds in excess of insurance limits are not made in the same institution unless collateralized as outlined below. Furthermore, the Shakopee Public Utilities Commission will approve all financial institutions, brokers, and advisers with which the Shakopee Public Utilities Commission will do business.

At December 31, 2018, the investment portfolio was concentrated as follows:

Investments	Percent of Portfolio
Federal Home Loan Bank	5.6 %
Federal National Mortgage Association	8.2
Federal Home Loan Mortgage Corporation	8.5
Federal Farm Credit Bank	2.0

**Concentration of Credit Risk - Investments:** This is the risk that, in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Commission's policy states they will minimize risk by only purchasing investments that are held in safekeeping with a Federal Reserve bank, United States Bank with corporate trust powers, a primary reporting dealer to the Federal Reserve Bank of New York, or a broker dealer having its principal executive office in Minnesota, and that designated brokers have insurance through the SIPC (Securities Investor Protection Corporation). As of December 31, 2018, the Commission had more than 5% of total investments in three issuers as noted above. U.S. Treasuries and investments in external investment pools and money markets are excluded from this requirement.

**Interest Rate Risk:** This is the risk that market values of securities in a portfolio would decrease due to changes in market interest rates. The Commission's policy states it will minimize interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.

**Shakopee Public Utilities Commission  
Notes to Financial Statements**

**NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)**

**B. Investments (Continued)**

Custodial Credit Risk – Investments: This is the risk that, in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Commission's policy states they will minimize risk by only purchasing investments that are held in safekeeping with a Federal Reserve bank, United States Bank with corporate trust powers, a primary reporting dealer to the Federal Reserve Bank of New York, or a broker dealer having its principal executive office in Minnesota and that designated brokers have insurance through the SIPC (Securities Investor Protection Corporation).

**C. Deposits and Investments**

Summary of cash, deposits, and investments as of December 31, 2018:

	2018
Deposit (Note 2.A)	\$ 11,656,452
Investments (Note 2.B.)	45,512,928
Petty cash	1,700
Total deposits and investments	\$ 57,171,080

Deposits and investments are presented in the December 31, 2018, basic financial statements as follows:

	2018
Statement of net position	
Current assets	
Cash and investments	\$ 40,677,941
Noncurrent assets	
Restricted assets	
Customer deposit account	2,462,355
Connection account	13,085,883
Water reconstruction account	844,901
Other assets	
Emergency repairs account	100,000
Total	\$ 57,171,080

**Shakopee Public Utilities Commission  
Notes to Financial Statements**

**NOTE 3 – CAPITAL ASSETS**

Electric capital asset activity for the year ended December 31, 2018, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land and land rights	\$ 4,205,199	\$ -	\$ -	\$ 4,205,199
Construction in progress	1,241,154	2,080,268	2,648,009	673,413
Total capital assets not being depreciated	<u>5,446,353</u>	<u>2,080,268</u>	<u>2,648,009</u>	<u>4,878,612</u>
Capital assets being depreciated				
Distribution	52,279,757	1,640,422	132,380	53,787,799
General	13,544,161	881,575	312,153	14,113,583
Total capital assets being depreciated	<u>65,823,918</u>	<u>2,521,997</u>	<u>444,533</u>	<u>67,901,382</u>
Less accumulated depreciation	<u>24,441,184</u>	<u>2,237,527</u>	<u>333,776</u>	<u>26,344,935</u>
Total capital assets being depreciated, net	<u>41,382,734</u>	<u>284,470</u>	<u>110,757</u>	<u>41,556,447</u>
Capital assets, net	<u>\$ 46,829,087</u>	<u>\$ 2,364,738</u>	<u>\$ 2,758,766</u>	<u>\$ 46,435,059</u>

Water capital asset activity for the year ended December 31, 2018, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets not being Depreciated				
Land and Land Rights	\$ 892,333	\$ -	\$ -	\$ 892,333
Construction in Progress	1,567,004	2,875,768	3,723,321	719,451
Total Capital Assets not being Depreciated	<u>2,459,337</u>	<u>2,875,768</u>	<u>3,723,321</u>	<u>1,611,784</u>
Capital Assets being Depreciated				
Distribution	57,792,130	5,272,960	36,735	63,028,355
General	1,489,092	148,409	19,578	1,617,923
Total Capital Assets being Depreciated	<u>59,281,222</u>	<u>5,421,369</u>	<u>56,313</u>	<u>64,646,278</u>
Less Accumulated Depreciation	<u>18,314,552</u>	<u>1,415,037</u>	<u>55,044</u>	<u>19,674,545</u>
Total Capital Assets being Depreciated, Net	<u>40,966,670</u>	<u>4,006,332</u>	<u>1,269</u>	<u>44,971,733</u>
Capital Assets, Net	<u>\$ 43,426,007</u>	<u>\$ 6,882,100</u>	<u>\$ 3,724,590</u>	<u>\$ 46,583,517</u>

Depreciation expense for 2018 for Electric and Water totaled \$2,237,527 and \$1,415,037 respectively.

**Shakopee Public Utilities Commission  
Notes to Financial Statements**

**NOTE 4 – MUNICIPAL RECEIVABLES, PAYABLES, AND CONTRIBUTIONS**

Amounts receivable from and payable to the City of Shakopee as of December 31, 2018, are as follows:

Receivable Fund/Municipality	Payable Fund/Municipality	2018 Amount
Electric Fund	City of Shakopee	\$ 125,923
City of Shakopee	Electric Fund	467,273
Water Fund	City of Shakopee	20,326
City of Shakopee	Water Fund	580,490

The receivables and payables generally represent billing expenses, general operating expenses, and capital projects.

The composition of municipal contributions as of December 31, 2018, was as follows:

Contributions To	Contributions From	2018 Amount
City of Shakopee	Water Fund	\$ 1,091,814
City of Shakopee	Electric Fund	1,509,222
Total		<u>\$ 2,601,036</u>

Contributions were made from the Water and Electric Funds to the City for contributions in lieu of taxes and for free service to the City.

**NOTE 5 – LONG-TERM DEBT**

**A. Revenue Bonds**

The Commission issues revenue bonds for electric and water activity. Debt service is covered through the revenue producing activities of these Funds. On February 1, 2018, the Commission called the Series 2006A crossover refunding bonds. The balance of bonds payable at December 31, 2018 was \$0.

**B. Components of Long-Term Liabilities**

Long-term liability information for the year ended December 31, 2018, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
Utility revenue bonds	\$ 7,590,000	\$ -	\$ 7,590,000	\$ -	\$ -
Unamortized loss on refunding	(171,555)	-	171,555	-	-
Unamortized discounts & prepaid charges	(45,138)	-	45,138	-	-
Total long-term liabilities	<u>\$ 8,544,899</u>	<u>\$ -</u>	<u>\$ 7,806,693</u>	<u>\$ -</u>	<u>\$ -</u>



**Shakopee Public Utilities Commission**  
**Notes to Financial Statements**

**NOTE 6 – RISK MANAGEMENT**

The Commission is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors and omissions, workers compensation, and health care of its employees. These risks are covered through the purchase of commercial insurance, with minimal deductibles.

There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three years.

The Commission's workers' compensation insurance policy is retrospectively rated. With this type of policy, final premiums are determined after loss experience is known. The amount of premium adjustment for 2018 is estimated to be immaterial based on workers' compensation rates and salaries for the year.

At December 31, 2018, there were no other claims liabilities reported in the fund based on the requirements of GASB Statement No. 10, which requires a liability for claims be reported if information prior to the issuance of the financial statements indicates it is probable a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

**NOTE 7 – PENSION PLANS**

**Public Employees' Retirement Association**

**A. Plan Description**

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

General Employees Retirement Plan (General Employees Plan, accounted for in the General Employees Fund)

All full-time and certain part-time employees of the Commission are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

**B. Benefits Provided**

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature. Vested Terminated employees who are entitled to benefits, but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

**Shakopee Public Utilities Commission**  
**Notes to Financial Statements**

**NOTE 7 – PENSION PLANS (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**B. Benefits Provided (Continued)**

General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for a Coordinated Plan member is 1.2% for each of the first ten years and 1.7% for each additional year. The rates are 2.2% and 2.7%, respectively, for Basic members. Under Method 2, the accrual rate for Coordinated members is 1.7% for all years of service, and 2.7% for Basic members. The accrual rates for former MERF members is 2.0% for each of the first ten years of service and 2.5% for each additional year. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

Beginning January 1, 2019, benefit recipients will receive a future annual increase equal to 50 percent of the Social Security Cost of Living Adjustment, not less than 1.0 percent and not more than 1.5 percent. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age (not applicable to Rule of 90 retirees, disability benefit recipients, or survivors). A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase.

**C. Contributions**

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

General Employee Fund Contributions

Coordinated Plan members were required to contribute 6.50%, of their annual covered salary in calendar year 2018. The Commission was required to contribute 7.50% for Coordinated Plan members in calendar year 2018. The Commission's contributions to the General Employees Fund for the year ended December 31, 2018, were \$333,418. The Commission's contributions were equal to the required contributions as set by state statute. Total pension expense for the year ended December 31, 2018 was \$433,242.

**Shakopee Public Utilities Commission  
Notes to Financial Statements**

**NOTE 7 – PENSION PLANS (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**D. Pension Costs**

General Employees Fund Pension Costs

At December 31, 2018, the Commission reported a liability of \$3,578,196 for its proportionate share of the General Employees Fund's net pension liability. The Commission's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2018. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the Commission totaled \$117,344. The net pension liability was measured as of June 30, 2018, and the total pension commission liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Commission's proportion of the net pension liability was based on the Commission's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the Commission's proportion was 0.0645% which was an increase of 0.0001% from its proportion measures as of June 30, 2018.

Post-retirement benefit increases were changed from 1.0% per year with a provision to increase to 2.5% upon attainment of 90% funding ratio to 50% of the Social Security Cost of Living Adjustment, not less than 1.0% and not more than 1.5%, beginning January 1, 2019.

For the year ended December 31, 2018, the Commission recognized pension expense of \$405,878 for its proportionate share of General Employees Fund's pension expense. In addition, the Commission recognized an additional \$27,364 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

**Shakopee Public Utilities Commission  
Notes to Financial Statements**

**Public Employees' Retirement Association (Continued)**

**D. Pension Costs (Continued)**

General Employees Fund Pension Costs

At December 31, 2018, the Commission reported its proportionate share of General Employees Fund's deferred outflows of resources and deferred inflows of resources, related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 94,568	\$ 100,477
Changes in actuarial assumptions	329,088	401,623
Difference between projected and actual investment earnings	-	383,439
Changes in proportion	115,005	-
Contributions paid to PERA subsequent to the measurement date	166,709	-
	\$ 705,370	\$ 885,539

\$166,709 reported as deferred outflows of resources related to pensions resulting from Commission contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	Pension Expense Amount
2019	\$ 168,153
2020	(151,874)
2021	(288,473)
2022	(74,683)
Total	\$ (346,877)

**Shakopee Public Utilities Commission  
Notes to Financial Statements**

**NOTE 7 – PENSION PLANS (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**E. Actuarial Assumptions**

The total pension liability in the June 30, 2018, actuarial valuation was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

Inflation	2.50%	Per year
Salary increase	3.25%	Per year
Investment rate of return	7.50%	

The total pension liability for each of the defined benefit cost-sharing plans was determined by an actuarial valuation as of June 30, 2018, using the entry age normal actuarial cost method. Inflation is assumed to be 2.50 percent for the General Employees Plan. Salary growth assumptions in the General Employees Plan decrease in annual increments from 11.25 percent after one year of service, to 3.25 percent after 26 years of service.

Mortality rates for all plans are based on RP-2014 mortality tables. The tables are adjusted slightly to fit PERA's experience. Actuarial assumptions for the General Employees Plan are reviewed every four to six years. The most recent six-year experience study for the General Employees Plan was completed in 2015.

The following changes in actuarial assumptions occurred in 2018:

**General Employees Fund**

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

**Shakopee Public Utilities Commission  
Notes to Financial Statements**

**NOTE 7 – PENSION PLANS (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**E. Actuarial Assumptions (Continued)**

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	36 %	5.10 %
International stocks	17	5.30
Bonds	20	0.75
Alternative assets	25	5.90
Cash	2	0.00
Total	<u>100 %</u>	

**F. Discount Rate**

The discount rate used to measure the total pension liability in 2018 was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from Plan members and employers will be made at rates set in *Minnesota Statutes*. Based on those assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Shakopee Public Utilities Commission  
Notes to Financial Statements**

**NOTE 7 – PENSION PLANS (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**G. Pension Liability Sensitivity**

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

	<u>1% Decrease in Discount Rate (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase in Discount Rate (8.5%)</u>
Commission's proportionate share of the General Employees Fund net pension liability	\$ 5,815,026	\$ 3,578,196	\$ 1,731,756

**H. Pension Plan Fiduciary Net Position**

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

**NOTE 8 – COMMITMENTS**

The Commission has in process various multi-year construction projects which were not completed in the current fiscal year. As of December 31, 2018, outstanding commitments for these multi-year projects total approximately \$284,882.

**NOTE 9 – NEW STANDARDS ISSUED BUT NOT YET IMPLEMENTED**

GASB Statement No. 83, Certain Asset Retirement Obligations establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for Asset Retirement Obligations (AROs). This statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO. This statement will be effective for the year ending December 31, 2019.

**Shakopee Public Utilities Commission**  
**Notes to Financial Statements**

**NOTE 9 – NEW STANDARDS ISSUED BUT NOT YET IMPLEMENTED (CONTINUED)**

GASB Statement No. 84, Fiduciary Activities establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This statement will be effective for the year ending December 31, 2019.

GASB Statement No. 85, Omnibus 2017 addresses practice issues that have been identified during implementation and application of certain GASB statements, including issues related to blending component units, goodwill, fair value measurement and application, and post employment benefits. This statement will be effective for the year ending December 31, 2018.

GASB Statement No. 86, Certain Debt Extinguishment Issues improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to the financial statements for debt that is defeased in substance. This statement will be effective for the year ending December 31, 2018.

GASB Statement No. 87, Leases establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This statement will be effective for the year ending December 31, 2020.

GASB Statement No. 88, Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements improves the information that is disclosed in the notes to the financial statements. It also clarifies which liabilities governments should include when disclosing information related to debt. This statement will be effective for the year ending December 31, 2019.

GASB Statement No. 89, Accounting for Interest Cost Incurred Before the End of a Construction Period enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. This statement will be effective for the year ending December 31, 2020.

GASB Statement No. 90, Majority Equity Interests improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. This statement will be effective for the year ending December 31, 2019.



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**REQUIRED SUPPLEMENTARY INFORMATION**

**Shakopee Public Utilities Commission  
Schedule of Commission's Proportionate Share  
of Net Pension Liability  
General Employees Retirement Fund  
Last Ten Years**

<u>For Fiscal Year Ended June 30,</u>	<u>Commission's Proportion Share (Percentage) of the Net Pension Liability (Asset)</u>	<u>Commission's Proportionate Share (Amount) of the Net Pension Liability (Asset)</u>	<u>State's Proportionate Share (Amount) of the Net Pension Liability Associated with the Commission</u>	<u>Commission's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with the Commission</u>	<u>Commission's Covered Payroll</u>	<u>Commission's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
2018	0.0645%	\$ 3,578,196	\$ 117,344	\$ 3,695,540	\$ 4,333,280	82.57%	79.50%
2017	0.0644%	4,111,253	51,656	4,162,909	4,145,653	99.17%	75.90%
2016	0.0621%	5,042,212	65,842	5,108,054	3,854,427	130.82%	68.91%
2015	0.0608%	3,150,972	-	3,150,972	3,516,627	89.60%	78.19%

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

**Shakopee Public Utilities Commission  
Schedule of Commission Contributions  
General Employees Retirement Fund  
Last Ten Years**

Fiscal Year Ending December 31,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Commission's Covered Payroll	Contributions as a Percentage of Covered Payroll
2018	\$ 333,418	\$ 333,418	\$ -	\$ 4,445,573	7.50%
2017	315,791	315,791	-	4,210,547	7.50%
2016	299,473	299,473	-	3,992,973	7.50%
2015	277,221	277,221	-	3,696,280	7.50%

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

**Shakopee Public Utilities Commission**  
**Notes to the Required Supplementary Information**

**GENERAL EMPLOYEES FUND**

**2018 Changes**

Changes in Actuarial Assumptions:

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

**2017 Changes**

Changes in Actuarial Assumptions

- The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15% for vested deferred member liability and 3% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

**2016 Changes**

Changes in Actuarial Assumptions

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

**2015 Changes**

Changes in Plan Provisions

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

Changes in Actuarial Assumptions

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

**SUPPLEMENTARY INFORMATION**  
**ELECTRIC UTILITY FUND**

**Shakopee Public Utilities Commission**  
**Statement of Net Position - Electric Utility**  
**December 31, 2018**  
**With Comparative Totals as of December 31, 2017**

	2018	2017
<b>Assets</b>		
<b>Current assets</b>		
Cash and investments	\$ 32,189,484	\$ 32,905,423
Restricted assets		
Sinking account	-	544,737
Accrued interest receivable	58,444	50,980
Customer accounts receivable	3,986,682	3,911,421
Allowance for uncollectible accounts	(27,405)	(22,905)
Other accounts receivable	342,127	114,489
Due from City of Shakopee	125,923	60,673
Inventory	1,213,250	1,311,994
Prepaid expenses	50,399	44,702
Total current assets	37,938,904	38,921,514
<b>Noncurrent assets</b>		
Restricted assets		
Customer deposits account	2,388,808	2,453,949
Capital assets		
Plant in service	72,106,581	70,029,117
Accumulated depreciation	(26,344,935)	(24,441,184)
Construction in progress	673,413	1,241,154
Other assets		
Emergency repairs account	100,000	100,000
Prepaid bond insurance	-	37,160
Total noncurrent assets	48,923,867	49,420,196
Total assets	86,862,771	88,341,710
<b>Deferred Outflows of Resources</b>		
Deferred outflows of resources related to pensions	529,029	844,842
Unamortized loss on refunding	-	171,555
Total deferred outflows of resources	529,029	1,016,397
Total assets and deferred outflows of resources	\$ 87,391,800	\$ 89,358,107
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 3,423,105	\$ 4,023,152
Due to City of Shakopee	467,273	385,612
Other current liabilities	293,249	270,106
Total current liabilities	4,183,627	4,678,870
Liabilities payable from restricted assets		
Current portion of revenue bonds	-	7,590,000
Accrued interest payable	-	136,820
Customer deposits	2,388,808	2,453,949
Total liabilities payable from restricted assets	2,388,808	10,180,769
<b>Noncurrent liabilities</b>		
Revenue bonds	-	-
Unamortized bond discount	-	(7,978)
Unearned revenues	3,447	1,048
Customer advances	550,257	384,837
Net pension liability	2,683,648	3,083,436
Total noncurrent liabilities	3,237,352	3,461,343
Total liabilities	9,809,787	18,320,982
<b>Deferred Inflows of Resources</b>		
Deferred inflows of resources related to pensions	664,155	546,353
<b>Net Position</b>		
Net investment in capital assets	46,435,059	39,247,065
Restricted for debt service	-	407,917
Unrestricted	30,482,799	30,835,790
Total net position	76,917,858	70,490,772
Total liabilities, deferred inflows of resources, and net position	\$ 87,391,800	\$ 89,358,107

**Shakopee Public Utilities Commission**  
**Statement of Revenues, Expenses, and Changes**  
**in Fund Net Position - Electric Utility**  
**Year Ended December 31, 2018**  
**With Comparative Totals for the Year Ended December 31, 2017**

	<u>2018</u>	<u>2017</u>
Operating revenues	\$ 50,393,489	\$ 46,887,042
Operating expenses		
Operation, customer and administrative	41,697,431	39,073,148
Depreciation of capital assets	<u>2,237,527</u>	<u>2,055,840</u>
Total operating expenses	<u>43,934,958</u>	<u>41,128,988</u>
Operating income	6,458,531	5,758,054
Nonoperating revenues (expenses)		
Rentals and miscellaneous	430,798	435,087
Interdepartmental rent from water	90,000	90,000
Investment income	449,019	215,222
Interest expense	(65,609)	(348,580)
Amortization of bond discount and loss on refunding	(216,694)	(17,802)
Gain (loss) on disposition of property	<u>59,601</u>	<u>6,694</u>
Total nonoperating revenues (expenses)	<u>747,115</u>	<u>380,621</u>
Income before contributions and transfers	7,205,646	6,138,675
Capital contributions	730,662	1,158,713
Municipal contributions	<u>(1,509,222)</u>	<u>(1,411,320)</u>
Change in net position	6,427,086	5,886,068
Net position		
Beginning of year	<u>70,490,772</u>	<u>64,604,704</u>
End of year	<u>\$ 76,917,858</u>	<u>\$ 70,490,772</u>



**Shakopee Public Utilities Commission  
Statement of Cash Flows - Electric Utility  
Year Ended December 31, 2018  
With Comparative Totals for the Year Ended December 31, 2017**

	<u>2018</u>	<u>2017</u>
<b>Cash Flows - Operating Activities</b>		
Receipts from customers and users	\$ 50,482,328	\$ 45,668,818
Payments to suppliers	(37,079,969)	(35,823,240)
Payments to employees	(4,985,832)	(4,050,729)
Net cash flows - operating activities	<u>8,416,527</u>	<u>5,794,849</u>
<b>Cash Flows - Noncapital</b>		
<b>Financing Activities</b>		
Payments to City of Shakopee	(1,338,234)	(1,243,282)
Proceeds from sale of assets	170,358	62,776
Net cash flows - noncapital financing activities	<u>(1,167,876)</u>	<u>(1,180,506)</u>
<b>Cash Flows - Capital and Related</b>		
<b>Financing Activities</b>		
Principal paid on debt	(7,590,000)	(425,000)
Interest paid on debt	(202,429)	(356,106)
Acquisition of capital assets	(1,223,594)	(1,390,859)
Net cash flows - capital and related financing activities	<u>(9,016,023)</u>	<u>(2,171,965)</u>
<b>Cash Flows - Investing Activities</b>		
Purchases of investments	(251,911)	487,742
Interest and dividends received	441,555	201,829
Net cash flows - investing activities	<u>189,644</u>	<u>689,571</u>
Net change in cash and cash equivalents	(1,577,728)	3,131,949
<b>Cash and Cash Equivalents</b>		
Beginning of year	<u>20,427,473</u>	<u>17,295,524</u>
End of year	<u>\$ 18,849,745</u>	<u>\$ 20,427,473</u>

**Shakopee Public Utilities Commission  
Statement of Cash Flows - Electric Utility  
Year Ended December 31, 2018  
With Comparative Totals for the Year Ended December 31, 2017**

	2018	2017
<b>Reconciliation of Operating Income to Net Cash Flows - Operating Activities</b>		
Operating income	\$ 6,458,531	\$ 5,758,054
Adjustments to reconcile operating income to net cash flows - operating activities		
Free electric service to City of Shakopee	(170,988)	(168,038)
Nonoperating revenues	520,798	525,087
Depreciation expense	2,237,527	2,055,840
Pension related activity	33,826	208,917
Allowance for uncollectible accounts	4,500	(8,605)
Change in assets and liabilities		
Customer accounts receivable	(75,261)	(309,862)
Other accounts receivable	(227,638)	(7,289)
Due from City of Shakopee	(65,250)	41,646
Inventory	98,744	(175,713)
Prepaid items	(5,697)	(5,702)
Accounts payable	(600,047)	(823,038)
Customer deposits	(65,141)	243,873
Unearned revenue	2,399	(1,660,362)
Customer advances	165,420	125,326
Due to City of Shakopee	81,661	(29,917)
Other liabilities	23,143	24,632
Total adjustments	1,957,996	36,795
Net cash flows - operating activities	\$ 8,416,527	\$ 5,794,849
<b>Reconciliation of Cash and Cash Equivalents to the Statement of Net Position</b>		
Sinking account	\$ -	\$ 544,737
Customer deposits account	2,388,808	2,453,949
Emergency repairs account	100,000	100,000
Cash and investments	32,189,484	32,905,423
Total	34,678,292	36,004,109
Less long-term investments	(15,828,547)	(15,576,636)
Cash and cash equivalents	\$ 18,849,745	\$ 20,427,473
<b>Noncash Investing, Capital, and Financing Activities</b>		
Contributions of capital assets from the municipality and developers	\$ 730,662	\$ 1,158,713
Free electric service to City of Shakopee	170,988	168,038

**Shakopee Public Utilities Commission  
Detailed Statement of Operating Revenues  
and Expenses - Electric Utility  
Year Ended December 31, 2018  
With Comparative Totals for the Year Ended December 31, 2017**

	<u>2018</u>	<u>2017</u>
<b>Operating Revenues</b>		
Sales of electricity		
Residential	\$ 17,891,566	\$ 16,496,838
Commercial	31,414,834	29,341,943
Uncollectible accounts	(71,802)	(51,746)
Total sales of electricity	<u>49,234,598</u>	<u>45,787,035</u>
Forfeited discounts	252,538	248,556
Free service to City of Shakopee	170,988	168,038
Conservation program	735,365	683,413
Total operating revenues	<u>50,393,489</u>	<u>46,887,042</u>
<b>Operating Expenses</b>		
Operation and maintenance		
Purchased power	35,555,031	33,180,393
Distribution operation expenses	417,658	390,396
Distribution system maintenance	942,149	627,840
Maintenance of general plant	258,740	283,974
Total operating expenses	<u>37,173,578</u>	<u>34,482,603</u>
Customer accounts		
Meter reading	115,910	101,514
Customer records and collection	467,845	467,356
Energy conservation	735,365	683,414
Total customer accounts	<u>1,319,120</u>	<u>1,252,284</u>
Administrative and general		
Administrative and general salaries	610,512	564,340
Office supplies and expense	139,740	132,103
Outside services employed	186,004	281,500
Insurance	129,290	153,709
Employee benefits	1,830,931	1,833,540
Miscellaneous general	308,256	373,069
Total administrative and general	<u>3,204,733</u>	<u>3,338,261</u>
Total operation, customer, and administrative expenses	41,697,431	39,073,148
Depreciation of capital assets	2,237,527	2,055,840
Total operating expenses	<u>43,934,958</u>	<u>41,128,988</u>
Operating income	<u>\$ 6,458,531</u>	<u>\$ 5,758,054</u>

**Shakopee Public Utilities Commission**  
**Schedule of Plant in Service - Electric Utility**  
**December 31, 2018**

	Balance 12/31/17	Additions	Retirements/ Adjustments	Balance 12/31/18
<b>Capital Assets</b>				
<b>Distribution</b>				
Land and land rights	\$ 829,867	\$ -	\$ -	\$ 829,867
Structures and improvements	460,701	-	-	460,701
Station equipment	22,297,455	449,330	63,755	22,683,030
Station battery	1,857	-	-	1,857
Poles, towers, and fixtures	527,824	-	-	527,824
Overhead conductors and devices	2,785,344	44,545	587	2,829,302
Underground conduit	906,281	-	-	906,281
Underground conductors and devices	18,486,057	1,027,099	259,657	19,253,499
Line transformers	5,294,354	285,427	67,243	5,512,538
Services	50,450	193	-	50,643
Meters	1,293,438	92,689	-	1,386,127
Total distribution	<u>52,933,628</u>	<u>1,899,283</u>	<u>391,242</u>	<u>54,441,669</u>
<b>General</b>				
Land and land rights	3,551,329	-	-	3,551,329
Structures and improvements	9,139,690	9,473	-	9,149,163
Office furniture and equipment	1,023,396	103,378	-	1,126,774
Computer equipment	537,532	84,240	-	621,772
Transportation equipment	2,074,247	396,334	307,296	2,163,285
Tools, shop and garage equipment	152,606	24,547	-	177,153
Laboratory equipment	20,041	-	-	20,041
Power operated equipment	549,090	4,743	4,857	548,976
Communication equipment	47,558	258,861	-	306,419
Total general	<u>17,095,489</u>	<u>881,576</u>	<u>312,153</u>	<u>17,664,912</u>
Total plant in service	<u>\$ 70,029,117</u>	<u>\$ 2,780,859</u>	<u>\$ 703,395</u>	<u>\$ 72,106,581</u>

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**SUPPLEMENTARY INFORMATION  
WATER UTILITY FUND**

**Shakopee Public Utilities Commission**  
**Statement of Net Position - Water Utility**  
**December 31, 2018**  
**With Comparative Totals as of December 31, 2017**

	<u>2018</u>	<u>2017</u>
<b>Assets</b>		
<b>Current assets</b>		
Cash and investments	\$ 8,488,457	\$ 7,989,474
Accrued interest receivable	11,502	10,579
Customer accounts receivable	344,165	317,761
Allowance for uncollectible accounts	(6,666)	(11,136)
Other accounts receivable	747,589	49,171
Due from City of Shakopee	20,326	15,518
Inventory	29,698	30,790
Prepaid Expenses	16,800	14,901
Total current assets	<u>9,651,871</u>	<u>8,417,058</u>
<b>Noncurrent assets</b>		
<b>Restricted assets</b>		
Customer deposits account	73,547	52,872
Connection account	13,085,883	11,690,574
Water reconstruction account	844,901	135,086
<b>Capital assets</b>		
Plant in service	65,538,611	60,173,555
Accumulated depreciation	(19,674,545)	(18,314,552)
Construction in progress	719,451	1,567,004
Total noncurrent assets	<u>60,587,848</u>	<u>55,304,539</u>
Total assets	<u>70,239,719</u>	<u>63,721,597</u>
<b>Deferred Outflows of Resources</b>		
Deferred outflows of resources related to pension activity	<u>176,342</u>	<u>281,615</u>
Total assets and deferred outflows of resources	<u>\$ 70,416,061</u>	<u>\$ 64,003,212</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 89,268	\$ 747,604
Due to City of Shakopee	580,490	115,088
Other current liabilities	135,644	169,992
Total current liabilities	<u>805,402</u>	<u>1,032,684</u>
Liabilities payable from restricted assets		
Customer deposits	73,547	52,872
<b>Noncurrent liabilities</b>		
Customer advances	300,098	119,394
Net pension liability	894,548	1,027,817
Total noncurrent liabilities	<u>1,194,646</u>	<u>1,147,211</u>
Total liabilities	<u>2,073,595</u>	<u>2,232,767</u>
<b>Deferred Inflows of Resources</b>		
Deferred inflows of resources related to pension	<u>221,384</u>	<u>182,119</u>
<b>Net Position</b>		
Net investment in capital assets	46,583,517	43,426,007
Restricted for connections and reconstruction	13,930,784	11,825,660
Unrestricted	7,606,781	6,336,659
Total net position	<u>68,121,082</u>	<u>61,588,326</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 70,416,061</u>	<u>\$ 64,003,212</u>

**Shakopee Public Utilities Commission**  
**Statement of Revenues, Expenses, and Changes**  
**in Fund Net Position - Water Utility**  
**Year Ended December 31, 2018**  
**With Comparative Totals for the Year Ended December 31, 2017**

	<u>2018</u>	<u>2017</u>
Operating revenues	\$ 5,608,127	\$ 5,184,201
Operating expenses		
Operation, customer, and administrative	2,846,005	2,807,263
Depreciation	<u>1,415,037</u>	<u>1,318,706</u>
Total operating expenses	<u>4,261,042</u>	<u>4,125,969</u>
Operating income	1,347,085	1,058,232
Nonoperating revenues (expenses)		
Rentals and miscellaneous	184,857	215,809
Investment income	219,864	81,118
Interest expense	(989)	(313)
Gain (loss) on disposition of property	<u>5,536</u>	<u>(74,373)</u>
Total nonoperating revenues (expenses)	<u>409,268</u>	<u>222,241</u>
Income before contributions and transfers	1,756,353	1,280,473
Capital contributions	5,868,217	4,468,735
Municipal contributions	<u>(1,091,814)</u>	<u>(1,001,919)</u>
Change in net position	6,532,756	4,747,289
Net position		
Beginning of year, as previously stated	<u>61,588,326</u>	<u>54,648,241</u>
Prior period adjustment	<u>-</u>	<u>2,192,796</u>
Beginning of year, as restated	<u>61,588,326</u>	<u>56,841,037</u>
End of year	<u>\$ 68,121,082</u>	<u>\$ 61,588,326</u>



**Shakopee Public Utilities Commission**  
**Statement of Cash Flows - Water Utility**  
**Year Ended December 31, 2018**  
**With Comparative Totals for the Year Ended December 31, 2017**

	<u>2018</u>	<u>2017</u>
<b>Cash Flows - Operating Activities</b>		
Receipts from customers and users	\$ 5,260,263	\$ 5,573,437
Payments to suppliers	(1,546,344)	(2,615,688)
Payments to employees	(2,096,971)	(1,793,435)
Net cash flows - operating activities	<u>1,616,948</u>	<u>1,164,314</u>
<b>Cash Flows - Noncapital</b>		
<b>Financing Activities</b>		
Payments to City of Shakopee	(511,324)	(886,831)
Proceeds from sale of assets	6,804	10,054
Net cash flows - noncapital financing activities	<u>(504,520)</u>	<u>(876,777)</u>
<b>Cash Flows - Capital and Related</b>		
<b>Financing Activities</b>		
Interest paid on debt	(989)	(313)
Acquisition of capital assets	(2,202,354)	(304,028)
Installation fees	62,300	34,010
Connection charges	3,044,959	2,748,617
Trunk charges	389,497	349,056
Net cash flows - capital and related financing activities	<u>1,293,413</u>	<u>2,827,342</u>
<b>Cash Flows - Investing Activities</b>		
Proceeds of investments	(31,107)	60,814
Interest and dividends received	218,941	79,463
Net cash flows - investing activities	<u>187,834</u>	<u>140,277</u>
Net change in cash and cash equivalents	<u>2,593,675</u>	<u>3,255,156</u>
<b>Cash and Cash Equivalents</b>		
Beginning of year	<u>17,900,673</u>	<u>14,645,517</u>
End of year	<u>\$ 20,494,348</u>	<u>\$ 17,900,673</u>

**Shakopee Public Utilities Commission  
Statement of Cash Flows - Water Utility  
Year Ended December 31, 2018  
With Comparative Totals for the Year Ended December 31, 2017**

**Reconciliation of Operating Income  
to Net Cash Flows- Operating Activities**

Operating income	\$ 1,347,085	\$ 1,058,232
Adjustments to reconcile operating income to net cash flows - operating activities		
Nonoperating revenues	184,857	215,809
Depreciation expense	1,415,037	1,318,706
Pension related activity	11,269	69,643
Allowance for uncollectible accounts	(4,470)	1,394
Change in assets and liabilities		
Customer accounts receivable	(26,404)	(53,595)
Other accounts receivable	(698,418)	133,500
Due from City of Shakopee	(4,808)	3,767
Inventory	1,092	6,090
Prepaid items	(1,899)	(1,901)
Accounts payable	(658,336)	(1,674,686)
Customer deposits	20,675	19,768
Customer advances	180,704	68,593
Due to City of Shakopee	(115,088)	(51,865)
Other liabilities	(34,348)	50,859
Total adjustments	<u>269,863</u>	<u>106,082</u>
Net cash flows - operating activities	<u>\$ 1,616,948</u>	<u>\$ 1,164,314</u>

**Reconciliation of Cash and Cash Equivalents  
to the Statement of Net Position**

Customer deposits account	\$ 73,547	\$ 52,872
Connection account	13,085,883	11,690,574
Water reconstruction account	844,901	135,086
Cash and investments	<u>8,488,457</u>	<u>7,989,474</u>
Total	22,492,788	19,868,006
Less long-term investments	<u>(1,998,440)</u>	<u>(1,967,333)</u>
Cash and cash equivalents	<u>\$ 20,494,348</u>	<u>\$ 17,900,673</u>

**Shakopee Public Utilities Commission**  
**Detailed Statement of Operating Revenues**  
**and Expenses - Water Utility**  
**Year Ended December 31, 2018**  
**With Comparative Totals for the Year Ended December 31, 2017**

	<u>2018</u>	<u>2017</u>
Operating revenues		
Sales of water	\$ 5,568,251	\$ 5,161,591
Forfeited discounts	38,380	23,898
Uncollectible accounts	1,496	(1,288)
Total operating revenues	<u>5,608,127</u>	<u>5,184,201</u>
Operating expenses		
Operation and maintenance		
Pumping and distribution operation	474,523	446,321
Pumping and distribution maintenance	427,410	336,402
Power for pumping	300,400	289,227
Maintenance of general plant	37,283	35,362
Total operation and maintenance	<u>1,239,616</u>	<u>1,107,312</u>
Customer accounts		
Meter reading	61,848	56,367
Customer records and collection	129,395	125,980
Energy conservation	-	1,834
Total customer accounts	<u>191,243</u>	<u>184,181</u>
Administrative and general		
Administrative and general salaries	397,716	358,588
Office supplies and expense	47,746	61,221
Outside services employed	72,615	153,596
Insurance	43,097	51,236
Employee benefits	666,999	646,967
Miscellaneous general	186,973	244,162
Total administrative and general	<u>1,415,146</u>	<u>1,515,770</u>
Total operation, customer, and administrative expenses	2,846,005	2,807,263
Depreciation	<u>1,415,037</u>	<u>1,318,706</u>
Total operating expenses	<u>4,261,042</u>	<u>4,125,969</u>
Operating income	<u>\$ 1,347,085</u>	<u>\$ 1,058,232</u>

**Shakopee Public Utilities Commission**  
**Schedule of Plant in Service - Water Utility**  
**December 31, 2018**

	Balance 12/31/17	Additions	Retirements/ Adjustments	Balance 12/31/18
<b>Capital Assets</b>				
<b>Distribution</b>				
Land and land rights	\$ 892,333	\$ -	\$ -	\$ 892,333
Wells	4,313,590	-	-	4,313,590
Electric pumping equipment	5,207,727	285,586	-	5,493,313
Towers and pump houses	5,815,530	1,712,219	-	7,527,749
Distribution system	39,882,006	3,139,436	36,735	42,984,707
Meters	2,573,276	135,717	-	2,708,993
Total distribution	<u>58,684,462</u>	<u>5,272,958</u>	<u>36,735</u>	<u>63,920,685</u>
<b>General</b>				
Office furniture and equipment	125,972	892	-	126,864
Computer equipment	159,754	15,389	389	174,754
Transportation equipment	397,261	35,082	19,188	413,155
Tools, shop and garage equipment	19,194	3,438	-	22,632
Laboratory equipment	54,386	-	-	54,386
Power operated equipment	5,812	-	-	5,812
Communication equipment	22,480	-	-	22,480
Scada equipment	356,623	93,607	-	450,230
Building improvements	347,611	2	-	347,613
Total general	<u>1,489,093</u>	<u>148,410</u>	<u>19,577</u>	<u>1,617,926</u>
Total plant in service	<u>\$ 60,173,555</u>	<u>\$ 5,421,368</u>	<u>\$ 56,312</u>	<u>\$ 65,538,611</u>

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**Minnesota Legal Compliance**

**Independent Auditor's Report**

Board of Commissioners  
Shakopee Public Utilities Commission  
Shakopee, Minnesota

We have audited, in accordance with auditing standards general accepted in the United States of America, the financial statements of each major fund of the Shakopee Public Utilities Commission, Shakopee, Minnesota, as of and for the year ended December 31, 2018, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated March 29, 2019.

The *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to *Minnesota Statutes* § 6.65, contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our audit considered all of the listed categories.

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

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

*Bergan KDV, Ltd.*

St. Cloud, Minnesota  
March 29, 2019