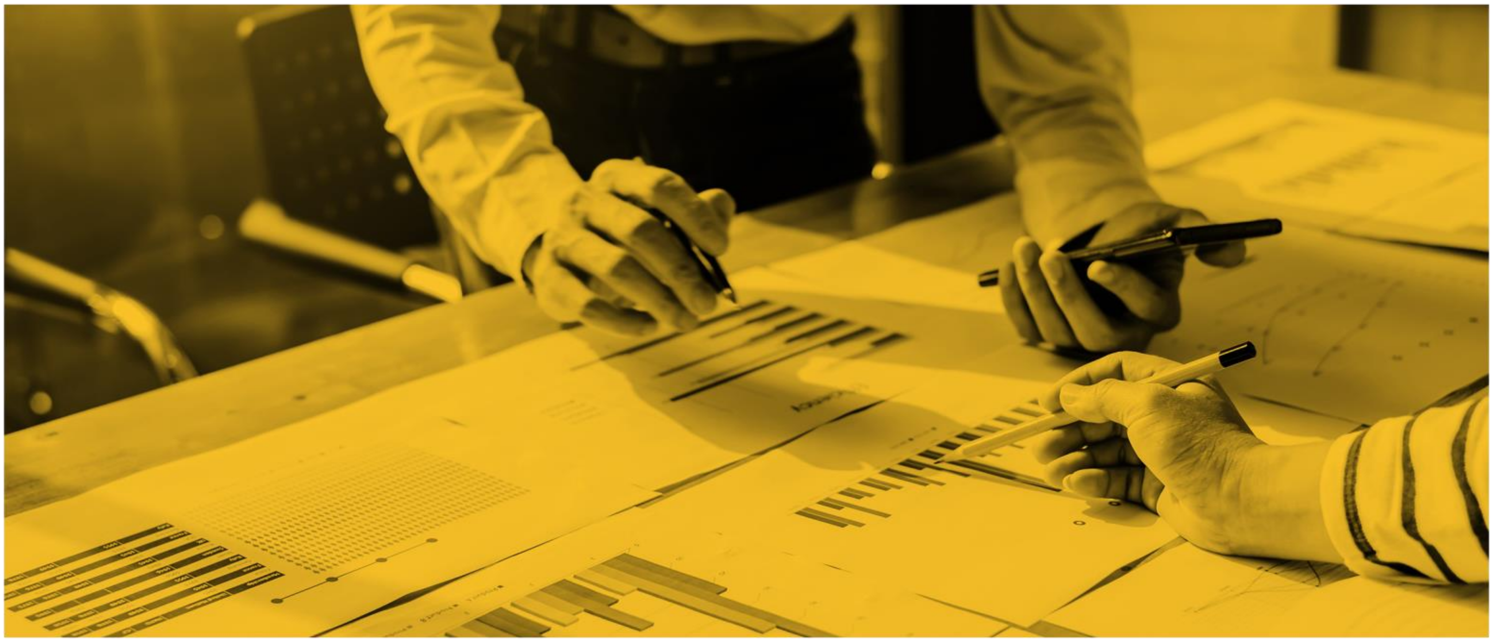

Annual Financial Report

Elk River Municipal Utilities

Elk River, Minnesota

For the year ended December 31, 2022

Lighting the path forward

Edina Office
5201 Eden Avenue, Ste 250
Edina, MN 55436
P 952.835.9090

Mankato Office
100 Warren Street, Ste 600
Mankato, MN 56001
P 507.625.2727

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14500 N Northsight Blvd, Ste 233
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Elk River Municipal Utilities
Elk River, Minnesota
Table of Contents
For the Year Ended December 31, 2022

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INTRODUCTORY SECTION

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2022

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Elk River Municipal Utilities
Elk River, Minnesota
Public Utilities Commission and Administration
For the Year Ended December 31, 2022

COMMISSION

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

ADMINISTRATION

Name	Title
Theresa Slominski	General Manager
Mark Hanson	Deputy General Manager
Melissa Karpinski	Finance Manager
Dave Ninow	Water Superintendent
Chris Sumstad	Electric Superintendent
Tom Geiser	Operations Director
Mike Tietz	Technical Services Superintendent
Tom Sagstetter	Conservation and Key Accounts Manager
Tony Mauren	Executive Administrative Manager
Chris Kerzman	Engineering Manager
Sara Youngs	Customer Service Manager

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FINANCIAL SECTION

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2022

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INDEPENDENT AUDITOR'S REPORT

Public Utilities Commission
Elk River Municipal Utilities
Elk River, Minnesota

Report on the Financial Statements

Opinion

We have audited the accompanying financial statements of the Elk River Municipal Utilities (the Utilities) of the City of Elk River, Minnesota (the City), as of and for the year ended December 31, 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Utilities as of December 31, 2022, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Utilities and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Utilities ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utilities internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Utilities ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Emphasis of Matter

As discussed in Note 1B, the financial statements present only the Electric and Water enterprise funds and do not purport to, and do not present fairly the financial position of the Utilities as of December 31, 2022, the changes in its financial position, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Change in Accounting Principle

As described in Note 5 to the financial statements, the Utilities adopted the provisions of Governmental Accounting Standard Board (GASB) Statement No. 87, Lease, for the year ended December 31, 2022. Adoption of the provisions of these statements results in significant change to the classifications of the components of the financial statements. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Utilities' basic financial statements. The schedule of operating revenues and expenses is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of operating revenues and expenses are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory section, summary of operations and unaudited statistics but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

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Minneapolis, Minnesota
April 4, 2023

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Management's Discussion and Analysis

This section of the Elk River Municipal Utilities (the Utilities) of the City of Elk River, Minnesota annual financial report presents our analysis of the Utilities' financial performance during the fiscal year that ended December 31, 2022. Please read it in conjunction with the financial statements which follow this section.

Financial Highlights

- The assets and deferred outflows of resources of the Utilities exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by $77,871,365 (net position). Net Position increased by $2,769,707 or 3.7 percent. The increase is mainly due to revenues in excess of expenses during the year.

- The Utilities' cash balance at the close of the current fiscal year was $26,742,447.

- Electric usage overall was down an average of 2.2 percent. Residential usage decreased 2.0 percent, Commercial usage increased 2.0 percent, and Industrial usage decreased 2.8 percent.

- Water usage overall was down an average of 7.2 percent from the prior year. Residential usage decreased 8.8 percent, and Commercial usage decreased 5.4 percent.

Overview of the Financial Statements

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

Required Financial Statements

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

Financial Analysis of the Utilities

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

Net Position. To begin our analysis, a summary of the Utilities' Statements of Net Position is presented in Table A-1. As can be seen from the Table, net position increased $2,769,707 to $77,871,365 in fiscal 2022 up from $75,101,658 in fiscal 2021.

Table A-1
Condensed Statement of Net Position

	2022	2021	Increase (Decrease)
Assets			
Current and other	$ 32,660,889	$ 39,513,369	$ (6,852,480)
Capital and other non-current	94,194,163	81,350,610	12,843,553
Total Assets	126,855,052	120,863,979	5,991,073
Total Deferred Outflows of Resources	1,414,144	1,698,107	(283,963)
Liabilities			
Current	9,803,732	10,894,487	(1,090,755)
Non-current	35,418,139	34,408,284	1,009,855
Total Liabilities	45,221,871	45,302,771	(80,900)
Total Deferred Inflows of Resources	5,175,960	2,157,657	3,018,303
Net Position			
Net investment in capital assets	58,323,263	54,669,744	3,653,519
Restricted for debt service	1,779,016	1,779,016	-
Unrestricted	17,769,086	18,652,898	(883,812)
Total Net Position	$ 77,871,365	$ 75,101,658	$ 2,769,707

Water and Electric Rates. Electric - The latest increase in the Utilities' electric rates was effective January 2023. The monthly base charges are based upon the type of service. The monthly charges are $15.00 for residential, $32.00 for non-demand, $77.00 for demand and $115.00 for large industrial demand customers. In addition to the base charges the residential rate is $.1373/kWh for June-October usage, and $.1255/kWh for November-May usage; the non-demand rate is $.1330/kWh for June-October, and $.1114/kWh for November-May; the demand rate is $.0704/kWh energy charge year round with a demand charge of $16.75/kW June-October, and $11.75/kW for November-May; the large industrial demand rate is $.0696/kWh energy charge year round with a demand charge of $16.25/kW June-October, and $11.25/kW November-May.

Water - The latest increase in the Utilities' water rates was effective January 2023. The monthly base charge for residential customers is $9.83 per month. In addition to the base charge, the Utilities currently charges its residential customers $1.98 per 1,000 gallons up to 9,000 gallons, $3.50 per 1,000 gallons between 9,000 gallons and 15,000 gallons, and $4.00 per 1,000 gallons for usage above 15,000 gallons. Commercial customer base charges are based upon meter size and range from $11.79 to $124.57. An irrigation meter is $20.98 per month. There is also a charge per 1,000 gallons, the same tiers as the residential rates of $1.98, $3.50, and $4.00, except the graduation from the lower tier to the higher tier(s) is calculated based on previous consumption.

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

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

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

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

Statements of Revenues, Expenses and Changes in Net Position. While the Statements of Net Position show the change in financial assets/deferred outflows and liabilities/deferred inflows, the Statements of Revenues, Expenses and Changes in Net Position, provide answers as to the nature and source of these changes. As can be seen in Table A-2, revenues in excess of expenses were the main source of the increase in net position of $2,769,707 in fiscal 2022. A closer examination of the individual categories affecting the source of changes in net position is discussed below:

Table A-2
Condensed Statements of Revenues, Expenses and Changes in Net Position

	2022	2021	Increase (Decrease)
Revenues			
Operating	$ 46,811,891	$ 43,881,604	$ 2,930,287
Nonoperating	1,174,011	959,409	214,602
Total Revenues	47,985,902	44,841,013	3,144,889
Expenses			
Operating	45,579,586	40,770,940	4,808,646
Nonoperating	892,147	901,770	(9,623)
Total Expenses	46,471,733	41,672,710	4,799,023
Income Before Contributions and Operating Transfers	1,514,169	3,168,303	(1,654,134)
Capital Contributions - Developer Infrastructure and Connection Fees	2,488,236	1,101,868	1,386,368
Grants	-	3,288	(3,288)
Contribution from Customers	298,935	385,316	(86,381)
Transfers from Other City Funds	-	195,245	(195,245)
Transfers to Other City Funds	(1,531,633)	(1,407,734)	(123,899)
Change in Net Position	2,769,707	3,446,286	(676,579)
Net Position, January 1	75,101,658	71,655,372	3,446,286
Net Position, December 31	$ 77,871,365	$ 75,101,658	$ 2,769,707

Revenues. Table A-2 shows that operating revenue increased by 6.7 percent in 2022 for the Electric and Water Departments combined.

Nonoperating revenue is comprised of transmission rebate revenue in the Electric Department, and water tower lease revenue in the Water Department. Regarding transmission rebates, in 2007 the Electric Department partnered with Midwest Municipal Transmission Group (MMTG) in order to have our transmission assets recognized in the Midwest Independent Transmission System Operator (MISO) market. In doing so, our transmission assets generate a revenue rebate, which in turn helps keep our rates down. In 2022, rebates received from our 2020 filings averaged approximately $51,600 per month. The Water Department is receiving lease revenue from Sprint and Verizon for antennas on the water towers. In 2022 this amount was approximately $405,882 and will continue for the duration of the multi-year contracts.

Total Expenses. In reviewing total expenses in Table A-2 you will notice that there was an increase of 11.5 percent overall, with the electric department increasing 12.5 percent, and the water department being in-line with prior year. Purchased Power is the biggest electric department expense, and it increased 12.0 percent.

Capital Assets and Debt Administration

Capital Assets. The Utilities' investment in capital assets for its business-type activities as of December 31, 2022 amounts to $89,225,708 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, and equipment. A table summarizing the balances by fund follows:

	2022	2021	Increase (Decrease)
Land	$ 898,584	$ 858,244	$ 40,340
Intangible	23,997,909	23,725,578	272,331
Land Improvements	10,955	12,604	(1,649)
Buildings	14,372,796	2,185,398	12,187,398
Machinery and Equipment	2,172,446	1,780,778	391,668
Infrastructure	45,421,431	45,544,410	(122,979)
Construction in Progress	2,351,587	7,243,598	(4,892,011)
Total	$ 89,225,708	$ 81,350,610	$ 7,875,098

The total increase in the Utilities' investment in capital assets for the current fiscal year was 9.7 percent.

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

- The Electric Department makes a loss of revenue payment as part of the cost of the territory acquisition increasing Intangibles.
- A new field services facility was built for both the Electric and Water Department which makes up the majority of the increase in Buildings.
- The Electric and Water Department purchased new transportation equipment, increasing Machinery and Equipment, with the main increase due to the purchase of a new Digger Truck for the Electric Department.
- Construction in progress decreased as projects started in the prior year were completed in 2022.

Additional information on the Utilities' capital assets can be found in Note 2C starting on page 37 of this report.

Long-term Debt. At year end, the Utilities had $31,878,720 in long-term debt which decreased from $33,530,262 in fiscal 2021. More detailed information about the Utilities' long-term liabilities can be found in Note 2D starting on page 38 and below:

	2022	2021	Increase (Decrease)
G.O. Revenue Bonds	$ 1,565,000	$ 1,885,000	$ (320,000)
Revenue Bonds	28,875,000	29,930,000	(1,055,000)
Unamortized Premium on Bonds	1,438,720	1,506,138	(67,418)
Promissory Note	-	209,124	(209,124)
Total	$ 31,878,720	$ 33,530,262	$ (1,651,542)

Economic Factors and Next Year's Budgets and Rates

The increased emphasis toward renewable energy and away from coal-based energy, the challenge to reduce energy and water consumption while still maintaining the existing infrastructure and the smart grid developments are all factors that point to potential increased cost in the coming years. It is the Utilities' goal to not have to rely on increasing rates to meet those increases but continue to look for ways to increase efficiencies and reduce costs, while providing excellent customer service. Elk River Municipal Utilities' mission is to provide safe, cost-effective, reliable, quality utilities in an environmentally and financially responsible manner. We have met that mission in our customer service delivery and our successful financial results and will continue to strive to meet that mission in the future.

Contacting the Utilities Finance Manager

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

FINANCIAL STATEMENTS

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2022

Elk River Municipal Utilities
Elk River, Minnesota
Statement of Net Position
December 31, 2022

	Electric	Water	Total
Assets			
Current Assets			
Cash and temporary investments	$ 14,895,847	$ 10,067,584	$ 24,963,431
Receivables			
Accrued interest	291	43,237	43,528
Accounts, net of allowance	3,504,762	118,228	3,622,990
Special assessments	4,129	17,112	21,241
Leases	-	220,218	220,218
Other receivables	205,158	212,306	417,464
Due from other City funds	5,530	128,850	134,380
Due from other governments	8,263	-	8,263
Inventories	1,111,835	28,388	1,140,223
Prepaid expenses	256,387	53,748	310,135
Total Current Assets	19,992,202	10,889,671	30,881,873
Non-current Assets			
Lease receivable	-	4,968,455	4,968,455
Capital Assets			
Land	697,870	200,714	898,584
Intangible	26,836,332	-	26,836,332
Land improvements	34,081	-	34,081
Buildings	14,136,802	2,781,847	16,918,649
Machinery and equipment	4,784,056	556,552	5,340,608
Infrastructure	53,111,471	40,819,078	93,930,549
Construction in progress	1,361,931	989,656	2,351,587
Capital Assets, Cost	100,962,543	45,347,847	146,310,390
Less Accumulated Depreciation	(34,977,181)	(22,107,501)	(57,084,682)
Total Capital Assets, Net	65,985,362	23,240,346	89,225,708
Total Non-current Assets	65,985,362	28,208,801	94,194,163
Other Assets			
Restricted cash	1,779,016	-	1,779,016
Total Assets	87,756,580	39,098,472	126,855,052
Deferred Outflows of Resources			
Deferred pension resources	1,187,557	226,587	1,414,144

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

Elk River Municipal Utilities
Elk River, Minnesota
Statement of Net Position (Continued)
December 31, 2022

	Electric	Water	Total
Current Liabilities			
Accounts payable	$ 4,681,899	$ 406,217	$ 5,088,116
Salaries and benefits payable	218,805	42,218	261,023
Accrued interest payable	372,065	18,333	390,398
Due to other City funds	1,021,382	53,535	1,074,917
Due to other governments	200,702	2,873	203,575
Customer deposits payable	1,004,694	188,025	1,192,719
Unearned revenue	-	141,184	141,184
Compensated absences	426,995	49,805	476,800
Bonds payable - current portion	915,000	60,000	975,000
Total Current Liabilities	8,841,542	962,190	9,803,732
Non-current Liabilities			
Bonds payable, net - less current portion	29,275,124	1,628,596	30,903,720
Net pension liability	3,789,381	725,038	4,514,419
Total Non-current Liabilities	33,064,505	2,353,634	35,418,139
Total Liabilities	41,906,047	3,315,824	45,221,871
Deferred Inflows of Resources			
Deferred pension resources	54,129	9,723	63,852
Deferred lease resources	-	5,112,108	5,112,108
Total Deferred Inflows of Resources	54,129	5,121,831	5,175,960
Net Position			
Net investment in capital assets	36,644,436	21,678,827	58,323,263
Restricted for debt service	1,779,016	-	1,779,016
Unrestricted	8,560,509	9,208,577	17,769,086
Total Net Position	$ 46,983,961	$ 30,887,404	$ 77,871,365

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

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Elk River Municipal Utilities
Elk River, Minnesota
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2022

	Electric	Water	Total
Operating Revenues			
Charges for services	$ 42,355,712	$ 2,887,276	$ 45,242,988
LFG project	935,004	-	935,004
Substation credit	4,800	-	4,800
Connection maintenance	243,088	75,365	318,453
Customer penalties	284,452	26,194	310,646
Total Operating Revenues	43,823,056	2,988,835	46,811,891
Operating Expenses			
Purchased power	31,544,604	-	31,544,604
Production	793,299	681,079	1,474,378
Distribution	2,015,665	307,192	2,322,857
Depreciation	3,062,751	1,117,357	4,180,108
Customer accounts	623,099	81,825	704,924
General and administrative	4,372,187	980,528	5,352,715
Total Operating Expenses	42,411,605	3,167,981	45,579,586
Operating Income (Loss)	1,411,451	(179,146)	1,232,305
Nonoperating Revenues (Expenses)			
Interest income (loss)	(159,502)	(30,592)	(190,094)
Miscellaneous revenue	906,323	424,994	1,331,317
Interest expense and other	(851,199)	(40,948)	(892,147)
Gain/(Loss) on sale of capital assets	41,938	(9,150)	32,788
Total Nonoperating Revenues (Expenses)	(62,440)	344,304	281,864
Income (Loss) before Contributions and Transfers	1,349,011	165,158	1,514,169
Capital Contributions -			
Connection Fees	-	1,547,930	1,547,930
Contributions from Developers	-	940,306	940,306
Contribution from Customers	298,935	-	298,935
Transfers to Other City Funds	(1,531,633)	-	(1,531,633)
Total Contributions and Transfers	(1,232,698)	2,488,236	1,255,538
Change in Net Position	116,313	2,653,394	2,769,707
Net Position, January 1	46,867,648	28,234,010	75,101,658
Net Position, December 31	$ 46,983,961	$ 30,887,404	$ 77,871,365

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

Elk River Municipal Utilities
Elk River, Minnesota
Statement of Cash Flows
For the Year Ended December 31, 2022

	Electric	Water	Total
Cash Flows from Operating Activities			
Receipts from customers and users	$ 43,811,156	$ 3,052,235	$ 46,863,391
Other operating cash receipts	626,368	133,014	759,382
Payments to suppliers	(36,350,577)	(1,379,029)	(37,729,606)
Payments to employees	(2,994,598)	(747,412)	(3,742,010)
Net Cash Provided by Operating Activities	5,092,349	1,058,808	6,151,157
Cash Flows from Noncapital Financing Activities			
Transfers to City	(1,531,633)	-	(1,531,633)
(Increase) decrease in due from other City funds	(1,180)	-	(1,180)
(Decrease) increase in due to other City funds	(37,681)	(81,912)	(119,593)
Net Cash Provided (Used) by Noncapital Financing Activities	(1,570,494)	(81,912)	(1,652,406)
Cash Flows from Capital and Related Financing Activities			
Acquisition of capital assets	(7,959,560)	(2,816,404)	(10,775,964)
Proceeds from connection fees	-	1,547,930	1,547,930
Proceeds on sale of capital assets	56,538	-	56,538
Principal payments on bonds	(1,055,000)	(320,000)	(1,375,000)
Principal payments on promissory note	(209,124)	-	(209,124)
Interest paid	(999,092)	(58,672)	(1,057,764)
Net Cash Provided (Used) by Capital and Related Financing Activities	(10,166,238)	(1,647,146)	(11,813,384)
Cash Flows from Investing Activities			
Interest on investments	(140,725)	(69,062)	(209,787)
Net Increase (Decrease) in Cash and Cash Equivalents	(6,785,108)	(739,312)	(7,524,420)
Cash and Cash Equivalents, January 1	23,459,971	10,806,896	34,266,867
Cash and Cash Equivalents, December 31	$ 16,674,863	$ 10,067,584	$ 26,742,447
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position			
Cash and temporary investments	$ 14,895,847	$ 10,067,584	$ 24,963,431
Restricted cash	1,779,016	-	1,779,016
Total Cash and Cash Equivalents	$ 16,674,863	$ 10,067,584	$ 26,742,447

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

Elk River Municipal Utilities
Elk River, Minnesota
Statement of Cash Flows (Continued)
For the Year Ended December 31, 2022

	Electric	Water	Total
Reconciliation of Operating Income (Loss) to			
Net Cash Provided by Operating Activities			
Operating income (loss)	$ 1,411,451	$ (179,146)	$ 1,232,305
Adjustments to reconcile operating income (loss)			
to net cash provided by operating activities			
Other revenue related to operations	906,323	424,994	1,331,317
Bad debt expense	12,993	28	13,021
Depreciation	3,062,751	1,117,357	4,180,108
(Increase) decrease in assets/deferred outflows:			
Accounts receivable	(15,019)	56,909	41,890
Other receivables	(56,972)	(202,501)	(259,473)
Special assessments receivable	3,119	6,491	9,610
Lease receivable	-	(5,188,673)	(5,188,673)
Due from other governments	(8,263)	-	(8,263)
Inventories	(218,567)	(6,784)	(225,351)
Prepaid expenses	3,847	(6,130)	(2,283)
Deferred pension resources	243,586	40,377	283,963
Increase (decrease) in liabilities/deferred inflows:			
Accounts payable	(450,127)	(98,335)	(548,462)
Salaries and benefits payable	27,233	5,480	32,713
Unearned revenue	(1,067)	(71,559)	(72,626)
Compensated absences payable	57,104	6,131	63,235
Due to other governments	27,903	(758)	27,145
Customer deposits payable	39,605	17,400	57,005
Net pension liability	1,810,623	355,050	2,165,673
Deferred pension resources	(1,764,174)	(329,631)	(2,093,805)
Deferred lease resources	-	5,112,108	5,112,108
Net Cash Provided by Operating Activities	$ 5,092,349	$ 1,058,808	$ 6,151,157
Noncash Capital and			
Related Financing Activities			
Amortization of Bond Premium	$ 60,767	$ 6,651	$ 67,418
Gain (Loss) on Disposal of Capital Assets	$ (14,600)	$ (9,150)	$ (23,750)
Book Value of Disposed Capital Assets	$ 45,750	$ 9,150	$ 54,900
Capital Assets Purchased on Account	$ 1,175,839	$ 111,149	$ 1,286,988
Contribution of Capital Assets	$ 298,935	$ 940,306	$ 1,239,241

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

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Note 1: Summary of Significant Accounting Policies

A. Nature of the Business

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

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

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

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

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

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

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

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

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

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

Note 1: Summary of Significant Accounting Policies (Continued)

The Utilities reports the following major proprietary funds:

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

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

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

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

Cash and Cash Equivalents

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

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

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

1. Direct obligations or obligations guaranteed by the United States or its agencies.

2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, rated in one of the two highest rating categories by a statistical rating agency, and have a final maturity of thirteen months or less.

3. General obligations of a state or local government with taxing powers rated "A" or better; revenue obligations rated "AA" or better.

4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.

5. Obligation of a school district with an original maturity not exceeding 13 months and (i) rated in the highest category by a national bond rating service or (ii) enrolled in the credit enhancement program pursuant to statute section 126C.55.

6. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.

7. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies and maturing in 270 days or less.

8. Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding $10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.

Note 1: Summary of Significant Accounting Policies (Continued)

9. Guaranteed Investment Contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

Broker money market funds operate in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the shares. The Utilities categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Utilities' recurring fair value measurements are listed in detail on page 35 and are valued using a matrix pricing model (Level 2 inputs).

The Utilities has the following recurring fair value measurements as of December 31, 2022:

- Negotiable certificates of deposit of $3,576,750 are valued using a matrix pricing model (Level 2 inputs).

Restricted Assets

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

Accounts Receivable

Accounts receivable include amounts billed for services provided before year end. The Utilities has established a reserve for uncollectible accounts which is adjusted annually based on the receivable activity. No substantial losses from present receivable balances are anticipated. A summary of the uncollectible account balances at December 31, 2022 is as follows:

	2022
Electric	$ 25,355
Water	250
Total	$ 25,605

Interfund Receivables and Payables

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

Inventories and Prepaid items

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

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

Note 1: Summary of Significant Accounting Policies (Continued)

Lease Receivable

The Utilities' lease receivable is measured at the present value of lease payments expected to be received during the lease term. Under the lease agreement, the Utilities may receive variable lease payments that are dependent upon the lessee's revenue. The variable payments are recorded as an inflow of resources in the period the payment is received.

A deferred inflow of resources is recorded for the lease. The deferred inflow of resources is recorded at the initiation of the lease in an amount equal to the initial recording of the lease receivable. The deferred inflow of resources is amortized on a straight-line basis over the term of the lease.

Capital Assets

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

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

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

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

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Utilities has one item, deferred pension resources, which qualifies for reporting in this category. Deferred pension resources result from actuarial calculation and current year pension contributions subsequent to the measurement date.

Compensated Absences

Vacation: All vacation benefits can carry over from year to year and will be payable upon termination or retirement. Upon retirement, vacation can also be converted to cash and deposited into their Post Health Care Savings account. Unused vacation carryover is limited to the number of hours accrued during the previous year.

Note 1: Summary of Significant Accounting Policies (Continued)

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

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

Postemployment Benefits other than Pensions

Under Minnesota statute 471.61, subdivision 2b., public employers must allow retirees and their dependents to continue coverage indefinitely in an employer-sponsored health care plan, under the following conditions: 1) Retirees must be receiving (or eligible to receive) an annuity from a Minnesota public pension plan, 2) Coverage must continue in group plan until age 65, and retirees must pay no more than the group premium, and 3) Retirees may obtain dependent coverage immediately before retirement. Elk River Utilities has switched to age-based medical premiums and no longer has an Other Post-Employment Benefits liability. Since medical premiums are age-based, the premiums are equal to the expected true cost of retiree coverage. As a result, there is no implicit subsidy for these benefits. There is also no explicit subsidy, since retirees must pay the full premium to remain covered during retirement.

Pensions

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

The total pension expense for all plans recognized by the Utilities for the year ended December 31, 2022 was $708,795. The components of pension expense are noted in the plan summaries in Note 3.

Long-term Obligations

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

Performance Metrics and Incentive Compensation

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

Deferred Inflows of Resources

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

Note 1: Summary of Significant Accounting Policies (Continued)

Net Position

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

a. Net investment in capital assets - Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquired capital assets.

b. Restricted net position - Consists of net position restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

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

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

Note 2: Detailed Notes on All Funds

A. Deposits and Investments

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

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

Authorized collateral in lieu of a corporate surety bond includes:

- United States government Treasury bills, Treasury notes, Treasury bonds;

- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;

- General obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;

- General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;

- Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc., or Standard & Poor's Corporation; and

- Time deposits that are fully insured by any federal agency.

Note 2: Detailed Notes on All Funds (Continued)

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

At December 31, 2022, the Utilities' carrying amount of deposits was $23,118,212 and the bank balance was $23,170,843. Of the bank balance $359,934 was covered by federal depository insurance, and the remaining balance was covered by collateral held by the pledging financial institution's agent in the Utilities' name.

Investments

The Utilities' investment balances were as follows for December 31, 2022:

Types of Investments	Credit Quality/ Ratings (1)	Segmented Time Distribution (2)	Amount	Fair Value Measurement Using Level 1	Level 2	Level 3
Pooled Investments						
Broker Money Markets	N/A	less than 1 year	$ 46,685	$ -	$ -	$ -
Non-pooled Investments						
Negotiable certificates of deposits	N/A	less than 1 year	920,067	-	920,067	-
Negotiable certificates of deposits	N/A	1 - 5 years	2,450,581	-	2,450,581	-
Negotiable certificates of deposits	N/A	5 years or more	206,102	-	206,102	-
Total Non-pooled Investments			3,576,750	-	3,576,750	-
Total Investments			$ 3,623,435	$ -	$ 3,576,750	$ -

(1) Ratings were provided by various credit rating agencies where applicable to indicate associated credit risk.
(2) Interest rate risk is disclosed using the segmented time distribution method.

N/A Indicates not applicable.

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

	2022
Deposits	$ 23,118,212
Investments	3,623,435
Cash on Hand	800
Total	$ 26,742,447
Cash and Temporary Investments	
Unrestricted	$ 24,963,431
Restricted	1,779,016
Total	$ 26,742,447

Note 2: Detailed Notes on All Funds (Continued)

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

- *Credit Risk*. Is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and where applicable, indicate associated credit risk. Minnesota statutes and the Utilities' investment policy limit the Utilities' investments to the list on page 30 of the notes.

- *Custodial Credit Risk*. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. According to their investment policy the Utilities' portfolio maturities shall be staggered to avoid undue concentration of assets with one broker-dealer or financial institution.

- *Concentration of Credit Risk.* Is the risk of loss attributed to the magnitude of a government's investment in a single issuer. According to their investment policy the Utilities' portfolio maturities shall be staggered to avoid undue concentration of assets in any one type of instrument. As of December 31, 2022 the Utilities has invested 5.0 percent or more of its total investment portfolio in the following issuers: Capital One National Association VA US (11.6 percent), Bank of China (7.1 percent), Morgan Stanley Bank UT US (6.6 percent), Popular Bank NY US (6.4 percent), New York Community Bank US (6.3 percent) Goldman Sachs Bank NY US (6.2 percent) Texas Exchange Bank TX US (6.2 percent), Institution for SV MA US (6.1 percent), Beal Bank Plano TX US (6.1 percent), Sallie Mae Bank UT US (6.0 percent), BMO Harris Bank NA IL US (6.0 percent), JPMorgan Chase Bank OH US (5.9 percent), Celtic Bank UT US (5.7 percent), Ally Bank UT US (5.3 percent) and Comenity Bank DE US (5.0 percent).

- *Interest Rate Risk.* Is the risk that changes in interest rates will adversely affect the fair value of an investment. According to their investment policy the Utilities' will stagger maturities to avoid undue concentration of assets at a specific maturity sector.

B. Lease Receivable

The Utilities has multiple leases with Verizon and Sprint that allows them to place antennas on water towers. The lease payments increase yearly. As of December 31, 2022, the Utilities' receivable balance was $5,231,837. This is partially offset with deferred inflow of lease resources.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Lease Receivable Balance at Year End	Interest Receivable at Year End	Balance at Year End
Sprint Lease on Johnson St.	$ 741,068	1.41 %	06/01/10	05/31/35	$ 696,334	$ 5,748	$ 702,082
Sprint Lease on Gary St.	694,752	1.41	06/01/10	05/31/35	652,814	5,388	658,202
Sprint Lease on Auburn St.	694,752	1.41	06/01/10	05/31/35	652,814	5,388	658,202
Verizon Lease on Johnson St.	837,781	1.60	09/01/14	08/31/39	805,646	4,279	809,925
Verizon Lease on Auburn St.	909,094	1.70	01/01/17	12/31/42	872,594	14,950	887,544
Verizon Lease on Freeport St.	724,310	1.78	10/01/20	09/30/45	702,825	3,132	705,957
Verizon Lease on Gary St.	837,781	1.59	09/01/14	08/31/39	805,646	4,279	809,925
Total Lease Receivable							$ 5,231,837

Note 2: Detailed Notes on All Funds (Continued)

Future lease receivable payments are as follows:

Year Ending December 31,	Principal	Interest	Total
2023	$ 220,218	$ 81,781	$ 301,999
2024	235,035	78,407	313,442
2025	250,524	74,806	325,330
2026	266,714	70,966	337,680
2027	283,634	66,879	350,513
2028 - 2032	1,699,668	263,565	1,963,233
2033 - 2037	1,507,025	127,261	1,634,286
2038 - 2042	632,816	34,262	667,078
2043 - 2045	93,039	2,520	95,559
Total	$ 5,188,673	$ 800,447	$ 5,989,120

C. Capital Assets

Capital asset activity for the year ended December 31, 2022 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets not being Depreciated				
Land	$ 858,244	$ 40,340	$ -	$ 898,584
Intangible	25,895,865	940,467	-	26,836,332
Construction in progress	7,243,598	8,795,778	(13,687,789)	2,351,587
Total Capital Assets not being Depreciated	33,997,707	9,776,585	(13,687,789)	30,086,503
Capital Assets being Depreciated				
Land improvements	34,081	-	-	34,081
Buildings	4,537,236	12,381,413	-	16,918,649
Machinery and equipment	4,677,490	856,937	(193,819)	5,340,608
Infrastructure	95,008,180	2,773,811	(3,851,442)	93,930,549
Total Capital Assets being Depreciated	104,256,987	16,012,161	(4,045,261)	116,223,887
Less Accumulated Depreciation for				
Intangible	(2,170,287)	(668,136)	-	(2,838,423)
Land improvements	(21,477)	(1,649)	-	(23,126)
Buildings	(2,351,838)	(194,015)	-	(2,545,853)
Machinery and equipment	(2,896,712)	(419,518)	148,068	(3,168,162)
Infrastructure	(49,463,770)	(2,896,790)	3,851,442	(48,509,118)
Total Accumulated Depreciation	(56,904,084)	(4,180,108)	3,999,510	(57,084,682)
Total Capital Assets being Depreciated, Net	47,352,903	11,832,053	(45,751)	59,139,205
Business-type Activities Capital Assets, Net	$ 81,350,610	$ 21,608,638	$ (13,733,540)	$ 89,225,708

Note 2: Detailed Notes on All Funds (Continued)

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

	2022
Business-type Activities	
Electric	$ 3,062,751
Water	1,117,357
Total Depreciation Expense - Business-type Activities	$ 4,180,108

Construction Commitment

The Utilities had the following outstanding construction commitment at December 31, 2022:

Project	Spent to Date	Remaining Commitment
Field Service Project - RJM Construction	$ 11,792,320	$ 466,351

D. Long-term Debt

General Obligation Revenue Bonds

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

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Water Revenue Bonds, Series 2021C	1,615,000	2.00 - 4.00 %	06/10/21	08/01/41	$ 1,565,000

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

Year Ending December 31,	Principal	Interest	Total
2023	$ 60,000	$ 44,000	$ 104,000
2024	60,000	41,600	101,600
2025	65,000	39,200	104,200
2026	70,000	36,600	106,600
2027	70,000	33,800	103,800
2028 - 2032	395,000	124,400	519,400
2033 - 2037	450,000	66,900	516,900
2038 - 2041	395,000	19,900	414,900
Total	$ 1,565,000	$ 406,400	$ 1,971,400

In 2022, annual principal and interest payment on the bonds required about 12.6% percent of revenues from the Water fund. The principal and interest paid and total customer revenues for the Water fund were $377,444 and $2,988,835 respectively.

Note 2: Detailed Notes on All Funds (Continued)

Revenue Bonds

The revenue bonds were issued to facilitate the membership buy-in with MMPA and construction of major capital facilities and are to be repaid from future revenue pledged from the Electric fund. They will be retired from net revenues of the fund.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
Electric Revenue Bonds, Series 2016A	$ 9,755,000	2.00 - 4.00 %	07/14/16	02/01/36	$ 7,995,000
Electric Revenue Bonds, Series 2018A	10,000,000	3.50 - 5.00	09/26/18	08/01/48	9,225,000
Electric Revenue Bonds, Series 2021B	11,810,000	2.00 - 5.00	05/13/21	08/01/51	11,655,000
Total Revenue Bonds					$ 28,875,000

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

Year Ending December 31,	Principal	Interest	Total
2023	$ 915,000	$ 885,756	$ 1,800,756
2024	955,000	849,381	1,804,381
2025	990,000	811,306	1,801,306
2026	1,035,000	774,406	1,809,406
2027	1,075,000	738,256	1,813,256
2028 - 2032	5,925,000	3,110,300	9,035,300
2033 - 2037	6,240,000	2,112,463	8,352,463
2038 - 2042	4,225,000	1,396,156	5,621,156
2043 - 2047	4,845,000	771,688	5,616,688
2048 - 2051	2,670,000	140,738	2,810,738
Total	$ 28,875,000	$ 11,590,450	$ 40,465,450

In 2022, annual principal and interest payment on the bonds required about 4.7% percent of revenues from the Electric fund. The principal and interest paid and total customer revenues for the Electric fund were $2,049,201 and $43,823,056, respectively.

Note 2: Detailed Notes on All Funds (Continued)

Changes in Long-term Liabilities

Long-term liability activity for the year ended December 31, 2022 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Business-type Activities					
Bonds Payable					
General obligation revenue bonds	$ 1,885,000	$ -	$ (320,000)	$ 1,565,000	$ 60,000
Revenue bonds	29,930,000	-	(1,055,000)	28,875,000	915,000
Unamortized premium on bonds	1,506,138	-	(67,418)	1,438,720	-
Total Bonds Payable, Net	33,321,138	-	(1,442,418)	31,878,720	975,000
Notes Payable	209,124	-	(209,124)	-	-
Compensated Absences Payable	413,565	469,874	(406,639)	476,800	476,800
Business-type Activity Long-term Liabilities	$ 33,943,827	$ 469,874	$ (2,058,181)	$ 32,355,520	$ 1,451,800

Note 2: Detailed Notes on All Funds (Continued)

E. Interfund Receivables, Payables and Transfers

Interfunds

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

Receivable Fund	Payable Fund	Amount	Purpose
Electric	City	$ 2,921	November billings
Electric	City	2,609	December billings
Total Electric Fund Receivable From City		5,530	
Water	City	128,850	TIF 22 Water Access Charge
Total Receivable From City		$ 134,380	
City	Electric	$ 114,116	Shared costs
City	Electric	7,962	Supplies and Fuel
City	Electric	1,900	Bond disclosure services
City	Electric	127,568	December transfer of revenue
City	Electric	265,113	4th quarter franchise fees
City	Electric	202,132	Billed sewer on behalf of City
City	Electric	158,352	Billed garbage on behalf of City
City	Electric	51,085	Billed stormwater on behalf of City
City	Electric	90,720	Current portion of 2020B due to City
City	Electric	1,890	Interest accrued of 2020B due to City
	Electric	544	Parts & Labor
Total Electric Fund Payable to City		1,021,382	
City	Water	28,529	Shared costs
City	Water	1,430	Supplies and Fuel
City	Water	363	Bond disclosure services
City	Water	22,680	Current portion of 2020B due to City
City	Water	472	Interest accrued of 2020B due to City
City	Water	61	Parts & Labor
Total Water Fund Payable to City		53,535	
Total Payable to City		$ 1,074,917	

Transfers

During the year ended December 31, 2022, the Utilities made the following transfer:

- The transfer out of the Electric fund was the annual transfer of 4 percent of 2022 Elk River revenues to City funds. The Electric fund transferred $1,531,633 in 2022.

Note 3: Defined Benefit Pension Plans - Statewide

A. Plan Description

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

General Employees Retirement Plan

All full-time and certain part-time employees of the Utilities 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.

General Employee 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 Coordinated members is 1.2 percent of the average salary for each of the first 10 years of service and 1.7 percent of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent for average salary for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

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

C. Contributions

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2022 and the Utilities was required to contribute 7.50 percent for Coordinated Plan members. The Utilities' contributions to the General Employees Fund for the years ending December 31, 2022, 2021 and 2020 were $333,178, $312,376 and $289,644, respectively. The Utilities' contributions were equal to the required contributions for each year as set by state statute.

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

D. Pension Costs

General Employees Fund Pension Costs

At December 31, 2022, the Utilities reported a liability of $4,514,419 for its proportionate share of the General Employees Fund's net pension liability. The Utilities' net pension liability reflected a reduction due to the State of Minnesota's contribution of $16 million. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the Utilities totaled $132,415. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Utilities' proportionate share of the net pension liability was based on the Utilities' contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2021 through June 30, 2022 relative to the total employer contributions received from all of PERA's participating employers. The Utilities' proportionate share was 0.0570 percent which was an increase of 0.0020 percent from its proportion measured as of June 30, 2021.

Utilities' Proportionate Share of the Net Pension Liability	$ 4,514,419
State of Minnesota's Proportionate Share of the Net Pension Liability Associated with the Utilities	132,415
Total	$ 4,646,834

For the year ended December 31, 2022, the Utilities recognized pension expense of $689,009 for its proportionate share of the General Employees Plan's pension expense. In addition, the Utilities recognized an additional $19,786 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $16 million to the General Employees Fund.

At December 31, 2022, the Utilities reported its proportionate share of the General Employees Plan'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	$ 37,708	$ 46,457
Changes in Actuarial Assumptions	986,929	17,395
Net Difference between Projected and Actual Earnings on Plan Investments	129,693	-
Changes in Proportion	88,713	-
Contributions paid to PERA subsequent to the Measurement Date	171,101	-
Total	$ 1,414,144	$ 63,852

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

The $171,101 reported as deferred outflows of resources related to pensions resulting from the Utilities' contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2023	$ 461,892
2024	432,728
2025	(123,690)
2026	408,261

E. Long-Term Expected Return on Investment

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic Equity	33.5 %	5.10 %
Private Markets	25.0	5.90
Fixed Income	25.0	0.75
International Equity	16.5	5.30
Total	100.0 %	

F. Actuarial Assumptions

The total pension liability in the June 30, 2022 actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 6.5 percent. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 6.5 percent was deemed to be within that range of reasonableness for financial reporting purposes.

Inflation is assumed to be 2.25 percent for the General Employees Plan. Benefit increases after retirement are assumed to be 1.25 percent for the General Employees Plan.

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25 percent after one year of service to 3.0 percent after 27 years of service.

Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table. The tables are adjusted slightly to fit PERA's experience.

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

Actuarial assumptions used in the June 30, 2022 valuation was based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and become effective with the July 1, 2020, actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2022:

General Employees Fund

Changes in Actuarial Assumptions

- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

Changes in Plan Provisions

- There were no changes in plan provisions since the previous valuation.

G. Discount Rate

The discount rate used to measure the total pension liability in 2022 was 6.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund 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.

H. Pension Liability Sensitivity

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

	1 Percent Decrease (5.50%)	Current (6.50%)	1 Percent Increase (7.50%)
General Employees Fund	$ 7,130,761	$ 4,514,419	$ 2,368,614

I. Pension Plan Fiduciary Net Position

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

Note 4: Other Information

A. Territorial Acquisition Agreement

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

The agreed cost of property purchased from Connexus Energy is net book value, integration expenses, and a loss of revenue payment. The loss of revenue payment for each area acquired is based on a formula outlined in the agreement, payable for the subsequent ten years after initial purchase.

The Utilities acquired designated service area 1 in 2015 for $877,807, service area 2 in 2016 for $663,586, service areas 3 and 4 in 2017 for $276,776, service areas 5 and 6 in 2018 for $298,736 and service areas 7 and 8 in 2019 for $78,457. The loss of revenue payments made were $411,157 in 2017, $570,725 in 2018, $751,860 in 2019, $834,185 in 2020, $857,538 in 2021, $924,187 in 2022, and $940,467 in 2023. All amounts paid are included in property and equipment, and loss of revenue payments are included in intangible assets.

B. Risk Management

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

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

C. Commitments

The Utilities entered into an agreement in 2007 with Central Minnesota Municipal Power Agency (CMMPA) to acquire an interest in the CAPX Initiative Brookings Project, a power transmission line in Minnesota. The project is a 250-mile, 345 kV AC transmission line with a rating of 2,300 MW, between Brookings, South Dakota, and the Southeast Twin Cities. In 2011 there was increased opportunity for investment, and subsequent agreements provide the Utilities with an ownership share of $5.6 million or 18.89 percent. Revenues have been less than originally projected due to the decrease in Rate of Return (ROE) issued by FERC. The original ROE 12.38% has been reduced to 10.52%. The current return of 10.52% on this investment through CMMPA is designed to provide approximately $80K annually over the 40-year project life. With majority of the distribution once the bonds are paid off. The projected over recovery in 2022 is estimated to be $25K. The bond obligations are satisfied first, distribution to participants is directly affected by over recovery. The over recovery is rolled forward under the true up. However, the over recovery in 2022 (approximately $25K.) would be included in the revenue requirements in 2024. The transmission payments for 2022 were $78,165, all of which was a receivable at December 31, 2022.

Note 5: Change in Accounting Principles

For the year end December 31, 2022, the Utilities implemented Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. GASB Statement No. 87 enhances the relevance and consistency of information of the government's leasing activities. It establishes requirements for lease accounting based on the principle that leases are financings of the right to use an underlying asset. 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. These changes were incorporated in the Utilities' 2022 financial statements and had no effect on the beginning net position of the Governmental Activities.

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REQUIRED SUPPLEMENTARY INFORMATION

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2022

Elk River Municipal Utilities
Elk River, Minnesota
Required Supplementary Information
For the Year Ended December 31, 2022

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

Fiscal Year Ending	Utilities Proportion of the Net Pension Liability	Utilities Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with the Utilities (b)	Total (a+b)	Utilities Covered Payroll (c)	Utilities Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/22	0.0570 %	$ 4,514,419	$ 132,415	4,646,834	$ 4,272,380	105.7 %	76.7 %
06/30/21	0.0550	2,348,746	71,625	2,420,371	3,957,147	59.4	87.0
06/30/20	0.0540	3,237,547	99,718	3,337,265	3,848,179	84.1	79.0
06/30/19	0.0520	2,874,964	89,329	2,964,293	3,680,233	78.1	80.2
06/30/18	0.0520	2,884,747	94,615	2,979,362	3,494,641	82.5	79.5
06/30/17	0.0540	3,447,324	43,337	3,490,661	3,478,022	99.1	75.9
06/30/16	0.0508	4,124,708	53,908	4,178,616	3,151,720	130.9	68.9
06/30/15	0.0478	2,477,244	-	2,477,244	2,811,834	88.1	78.2

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

Schedule of Employer's PERA Contributions - General Employees Fund

Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Utilities Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
12/31/22	$ 333,178	$ 333,178	-	$ 4,442,376	7.5 %
12/31/21	312,376	312,376	-	4,165,013	7.5
12/31/20	289,644	289,644	-	3,861,920	7.5
12/31/19	285,668	285,668	-	3,808,909	7.5
12/31/18	265,424	265,424	-	3,538,988	7.5
12/31/17	257,780	257,780	-	3,437,072	7.5
12/31/16	244,012	244,012	-	3,253,493	7.5
12/31/15	230,074	230,074	-	3,067,659	7.5

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

Notes to the Required Supplementary Information - General Employee Retirement Fund

Changes in Actuarial Assumptions

2022 - The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

2021 - The investment return and single discount rates were changed from 7.50 percent to 6.50 percent, for financial reporting purposes. The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

2020 - The price inflation assumption was decreased from 2.50% to 2.25%. The payroll growth assumption was decreased from 3.25% to 3.00%. Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25% less than previous rates. Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements. Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter. Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females. The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments. The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019. The assumed spouse age difference was changed from two years older for females to one year older. The assumed number of married male new retirees electing the 100% Joint & Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint & Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

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

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

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

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

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

Notes to the Required Supplementary Information - General Employee Retirement Fund – (Continued)

Changes in Plan Provisions

2022 – There were no changes in plan provisions since the previous valuation.

2021 - There were no changes in plan provisions since the previous valuation.

2020 - Augmentation for current privatized members was reduced to 2.0% for the period July 1, 2020 through December 31, 2023 and 0.0% after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

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

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

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

2016 - There were no changes in plan provisions since the previous valuation.

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

SUPPLEMENTARY INFORMATION

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2022

Elk River Municipal Utilities
Elk River, Minnesota
Supplementary Information
Schedule of Operating Revenues and Expenses
For the Year Ended December 31, 2022

	Electric	Water	Total
Operating Revenues			
Charges for services			
Elk River	$ 37,655,380	$ 2,887,276	$ 40,542,656
Otsego	3,351,689	-	3,351,689
Big Lake	203,559	-	203,559
Dayton	249,416	-	249,416
Other	895,668	-	895,668
LFG Project	935,004	-	935,004
Substation credit	4,800	-	4,800
Connection maintenance	243,088	75,365	318,453
Customer penalties	284,452	26,194	310,646
Total Operating Revenues	43,823,056	2,988,835	46,811,891
Operating Expenses			
Purchased power	31,544,604	-	31,544,604
Production			
Supervision and labor	138,045	66,134	204,179
Natural gas	23,611	-	23,611
Supplies and power for pumping	51,876	326,566	378,442
Landfill gas expense	519,629	-	519,629
Maintenance of structures	20,295	114,397	134,692
Maintenance of equipment	11,756	173,982	185,738
Maintenance of plant	28,087	-	28,087
Total production	793,299	681,079	1,474,378
Transmission and distribution			
Supervision and labor	28,317	9,341	37,658
Maintenance of overhead lines	600,892	-	600,892
Maintenance of underground lines	354,968	-	354,968
Maintenance of station equipment	135,156	-	135,156
Transportation	288,625	15,428	304,053
Maintenance of customer service	12,849	58,631	71,480
Maintenance of customer meters	123,165	214,567	337,732
Miscellaneous	471,693	9,225	480,918
Total transmission and distribution	2,015,665	307,192	2,322,857
Services to City	231,861	540	232,401
Depreciation and amortization	3,062,751	1,117,357	4,180,108
Customer accounts expense			
Meter reading	49,301	2,347	51,648
Billing and collection	328,944	78,910	407,854
Bad debts	12,993	28	13,021
Total customer accounts expense	391,238	81,285	472,523

Elk River Municipal Utilities
Elk River, Minnesota
Supplementary Information
Schedule of Operating Revenues and Expenses (Continued)
For the Year Ended December 31, 2022

	Electric	Water	Total
Operating Expenses (Continued)			
General and administrative			
Salaries	$ 805,290	$ 234,617	$ 1,039,907
Employee pensions and benefits	2,397,318	514,727	2,912,045
Dues	125,052	75,542	200,594
Office supplies and billing expense	71,133	14,866	85,999
Office utilities and maintenance	49,106	11,501	60,607
Consulting fees	54,841	20,055	74,896
Legal and audit	47,585	11,849	59,434
Environmental compliance	31,921	1,578	33,499
Conservation improvement project	375,065	5,949	381,014
Insurance	170,663	30,952	201,615
Telephone	38,141	8,901	47,042
Advertising	12,247	2,933	15,180
Education and meetings	193,041	41,818	234,859
Miscellaneous	784	5,240	6,024
Total general and administrative	4,372,187	980,528	5,352,715
Total Operating Expenses	42,411,605	3,167,981	45,579,586
Operating Income (Loss)	1,411,451	(179,146)	1,232,305
Nonoperating Revenues (Expenses)			
Interest income (loss)	(159,502)	(30,592)	(190,094)
Miscellaneous revenue	906,323	424,994	1,331,317
Interest expense and other	(851,199)	(40,948)	(892,147)
Gain/(loss) on sale of capital assets	41,938	(9,150)	32,788
Total Nonoperating Revenues	(62,440)	344,304	281,864
Income before Contributions and Transfers	1,349,011	165,158	1,514,169
Capital Contributions -			
Connection Fees	-	1,547,930	1,547,930
Contributions from Developers	-	940,306	940,306
Contributions from Customers	298,935	-	298,935
Transfers to Other City Funds	(1,531,633)	-	(1,531,633)
Total Contributions and Transfers	(1,232,698)	2,488,236	1,255,538
Change in Net Position	116,313	2,653,394	2,769,707
Net Position, January 1	46,867,648	28,234,010	75,101,658
Net Position, December 31	$ 46,983,961	$ 30,887,404	$ 77,871,365

Elk River Municipal Utilities
Elk River, Minnesota
Electric Fund
Summary of Operations and Unaudited Statistics
For the Years Ended December 31, 2013 through December 31, 2022

Summary of Operations

	2013	2014	2015	2016
Operating Revenues				
Sales of electricity	$ 30,978,790	$ 31,514,246	$ 32,704,279	$ 34,569,098
Other operating revenues (expenses)	(132,411)	(147,561)	(152,557)	(104,702)
Total Operating Revenues	30,846,379	31,366,685	32,551,722	34,464,396
Operating Expenses				
Purchased power	21,254,950	21,994,652	22,034,307	23,991,069
Distribution	1,970,341	2,161,352	2,330,969	2,041,810
Services to the City	498,146	530,340	520,727	230,312
Depreciation	2,029,496	1,914,062	1,922,359	2,005,093
Other operating expenses	2,374,959	2,791,717	3,087,792	3,558,315
Total Operating Expenses	28,127,892	29,392,123	29,896,154	31,826,599
Operating Income	2,718,487	1,974,562	2,655,568	2,637,797
Capital Contributions	-	-	-	-
Transfers to Other City Funds	(781,162)	(797,835)	(824,743)	(1,089,287)
Special Item	-	-	-	330,923
Nonoperating Revenues	(30,658)	152,375	267,243	8,991
Net Income	$ 1,906,667	$ 1,329,102	$ 2,098,068	$ 1,888,424
Percent of Change				
Sales of electricity	3.022%	1.728%	3.776%	5.702%
Purchased power	3.684%	3.480%	0.180%	8.881%
Percent of Revenues				
Purchased power	68.906%	70.121%	67.690%	69.611%

Unaudited Statistics

Miscellaneous

	2013	2014	2015	2016
kWh's purchased	290,025,919	288,320,724	294,441,957	311,990,595
kWh's sold	273,945,354	274,546,059	282,265,268	301,838,731
Line loss	16,080,565	13,774,665	12,176,689	10,151,864
Percent of line loss	5.545%	4.778%	4.136%	3.254%
Revenues Per kWh Sold	$ 0.1131	$ 0.1148	$ 0.1159	$ 0.1145
Cost Per kWh Purchased	$ 0.0733	$ 0.0763	$ 0.0748	$ 0.0769
Number of Customers	9,358	9,449	10,499	10,816
Total Contribution/Transfers to City	$ 781,162	$ 797,835	$ 824,743	$ 1,089,287

2017	2018	2019	2020	2021	2022
$ 36,458,061	$ 39,039,573	$ 37,640,985	$ 37,714,965	$ 39,719,268	$ 42,395,048
(337,237)	(259,668)	453,648	207,542	1,041,676	1,428,008
36,120,824	38,779,905	38,094,633	37,922,507	40,760,944	43,823,056
25,402,576	26,710,514	24,851,301	24,240,440	28,169,146	31,544,604
2,385,263	2,660,231	2,546,634	2,458,699	2,585,796	2,808,964
202,421	215,296	210,791	229,086	224,814	231,861
2,046,935	2,297,349	2,856,258	2,896,839	2,957,685	3,062,751
3,357,276	3,318,016	4,090,102	4,133,940	3,688,401	4,763,425
33,394,471	35,201,406	34,555,086	33,959,004	37,625,842	42,411,605
2,726,353	3,578,499	3,539,547	3,963,503	3,135,102	1,411,451
209,051	352,104	125,764	174,557	385,316	298,935
(1,113,264)	(1,188,664)	(1,157,445)	(1,340,218)	(1,407,734)	(1,531,633)
-	-	-	-	-	-
145,034	218,586	82,440	98,427	(193,410)	(62,440)
$ 1,967,174	$ 2,960,525	$ 2,590,306	$ 2,896,269	$ 1,919,274	$ 116,313
5.464%	7.081%	-3.582%	0.197%	5.314%	6.737%
5.883%	5.149%	-6.961%	-2.458%	16.207%	11.983%
70.327%	68.877%	65.236%	63.921%	69.108%	71.982%

2017	2018	2019	2020	2021	2022
320,349,631	339,917,944	336,570,637	337,016,741	347,974,385	344,137,778
313,952,561	331,124,011	325,981,176	324,469,638	341,047,710	333,644,951
6,397,070	8,793,933	10,589,461	12,547,103	6,926,675	10,492,827
1.997%	2.587%	3.146%	3.723%	1.991%	3.049%
$ 0.1161	$ 0.1179	$ 0.1155	$ 0.1162	$ 0.1165	$ 0.1271
$ 0.0793	$ 0.0786	$ 0.0738	$ 0.0719	$ 0.0810	$ 0.0917
11,448	11,983	12,244	12,365	12,789	12,955
$ 1,113,264	$ 1,188,664	$ 1,157,445	$ 1,340,218	$ 1,407,734	$ 1,531,633

Elk River Municipal Utilities
Elk River, Minnesota
Water Fund
Summary of Operations and Unaudited Statistics
For the Years Ended December 31, 2013 through December 31, 2022

Summary of Operations

	2013	2014	2015	2016
Operating Revenues				
Sales of water	$ 2,278,124	$ 2,148,327	$ 2,202,537	$ 2,173,521
Operating Expenses				
Operating expenses less depreciation	1,210,797	1,267,019	1,277,466	1,325,831
Services to City	-	-	5,719	-
Depreciation	1,032,442	1,083,770	1,131,110	1,148,310
Total Operating Expenses	2,243,239	2,350,789	2,414,295	2,474,141
Total Operating Income (Loss)	$ 34,885	$ (202,462)	$ (211,758)	$ (300,620)
Percent of Change				
Sales of water	0.57%	(5.70%)	2.52%	(1.32%)

Unaudited Statistics
Miscellaneous

	2013	2014	2015	2016
Water Pumped (Gallons)	785,377,000	782,110,000	799,974,000	801,603,000
Water Sold (Gallons)	709,760,000	672,760,000	676,842,000	666,656,000
Percent of Line Loss	9.63%	13.98%	15.39%	16.83%
Revenues Per 1,000 Gallons Pumped	$ 2.90	$ 2.75	$ 2.75	$ 2.71
Revenues Per 1,000 Gallons Sold	$ 3.21	$ 3.19	$ 3.25	$ 3.26
Number of Customers	4,613	4,676	4,672	4,903

Water Supplier Services

	2013	2014	2015	2016
Flushing Hydrants	45,000,000	47,000,000	45,000,000	46,816,000
Back Washing	8,000,000	3,922,000	4,000,000	4,430,000
Fire Department Use	5,000,000	5,000,000	5,000,000	5,000,000
New Water Main Disinfectant and Flushing	5,000,000	5,000,000	5,000,000	5,000,000
Meter Inaccuracy	3,000,000	3,000,000	-	-
Street and Sewer Maintenance	617,000	1,000,000	473,400	1,800,000
Water Tower Paint and Clean/Maintenance	2,000,000	1,000,000	3,700,000	4,000,000
Well Maintenance	-	-	700,000	7,358,000
Water Line and Irrigation Leaks	7,000,000	7,000,000	-	-
Water Supplier Services	75,617,000	72,922,000	63,873,400	74,404,000

	2017	2018	2019	2020	2021	2022
	$ 2,326,245	$ 2,515,821	$ 2,303,670	$ 2,674,544	$ 3,120,660	$ 2,988,835
	1,614,095	1,430,539	1,521,719	1,540,043	2,004,037	2,050,084
	-	-	1,583	463	1,259	540
	1,191,894	1,193,745	1,147,149	1,133,179	1,139,802	1,117,357
	2,805,989	2,624,284	2,670,451	2,673,685	3,145,098	3,167,981
	$ (479,744)	$ (108,463)	$ (366,781)	$ 859	$ (24,438)	$ (179,146)
	7.03%	8.15%	(8.43%)	16.10%	16.68%	(4.22%)

	2017	2018	2019	2020	2021	2022
	788,182,000	822,546,000	778,595,000	872,733,000	977,238,000	886,422,000
	686,032,000	737,689,000	664,924,000	756,383,000	863,076,000	805,096,000
	12.96%	10.32%	14.60%	13.33%	11.68%	9.17%
	$ 2.95	$ 3.06	$ 2.96	$ 3.06	$ 3.19	$ 3.37
	$ 3.39	$ 3.41	$ 3.46	$ 3.54	$ 3.62	$ 3.71
	5,011	5,140	5,256	5,320	5,430	5,551

	Gallons					
	2017	2018	2019	2020	2021	2022
	47,470,500	47,894,000	48,240,500	53,779,500	19,850,600	23,831,500
	4,125,542	3,823,903	3,850,801	6,441,523	5,967,131	5,130,934
	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000
	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	2,021,250
	-	-	-	-	-	-
	1,550,000	1,550,000	1,550,000	1,550,000	1,550,000	1,550,000
	4,000,000	4,000,000	4,000,000	5,000,000	4,000,000	4,000,000
	7,000,000	7,000,000	7,000,000	7,000,000	7,000,000	7,000,000
	-	-	-	-	-	-
	74,146,042	74,267,903	74,641,301	83,771,023	48,367,731	48,533,684

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OTHER REPORT

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2022

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INDEPENDENT AUDITOR'S REPORT
ON MINNESOTA LEGAL COMPLIANCE

Public Utilities Commission
Elk River Municipal Utilities
Elk River, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the Elk River Municipal Utilities (the Utilities) of the City of Elk River, Minnesota (the City) as of and for the year ended December 31, 2022, and the related notes to the financial statements which collectively comprises the Utilities basic financial statements, and have issued our report thereon dated April 4, 2023.

In connection with our audit, nothing came to our attention that caused us to believe that the Utilities failed to comply with the provisions of the contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions sections of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Utilities' noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

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

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Minneapolis, Minnesota
April 4, 2023