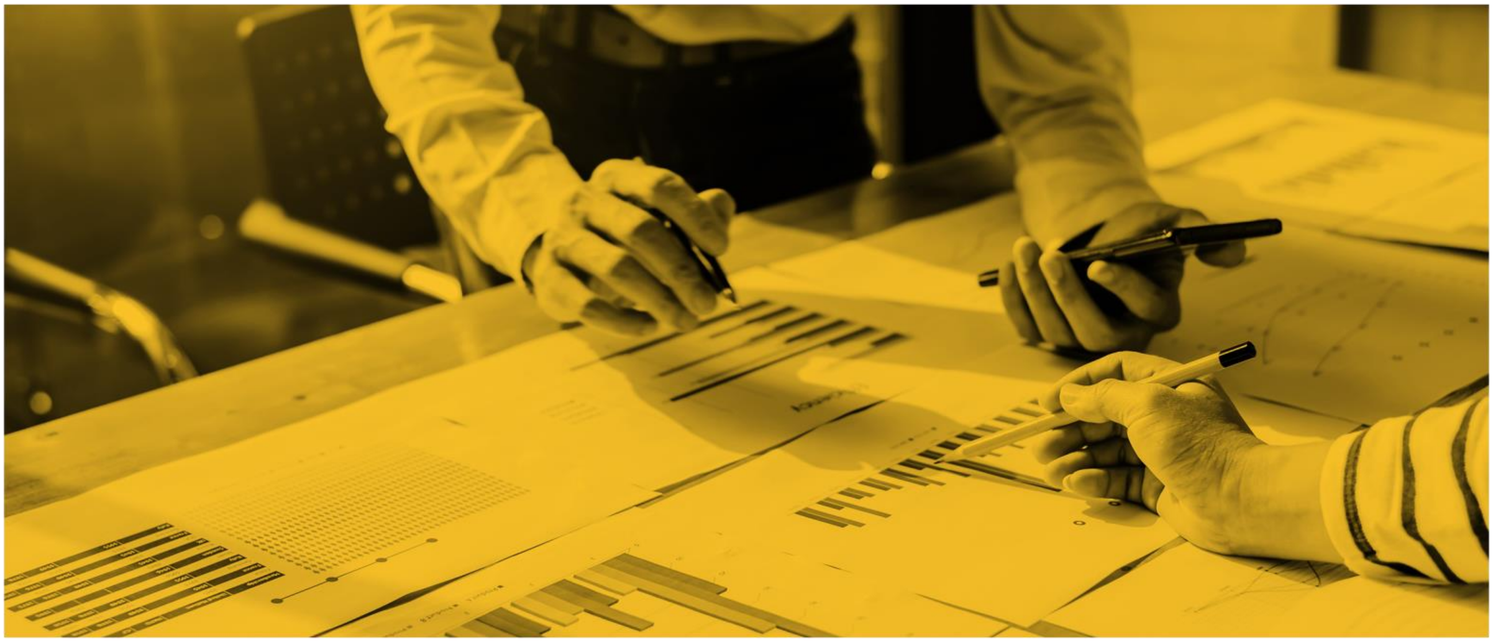

Annual Financial Report

Elk River Municipal Utilities

Elk River, Minnesota

For the year ended December 31, 2023

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

Scottsdale Office
14500 N Northsight Blvd, Ste 233
Scottsdale, AZ 85260
P 480.864.5579

THIS PAGE IS LEFT

BLANK INTENTIONALLY

Elk River Municipal Utilities
Elk River, Minnesota
Table of Contents
For the Year Ended December 31, 2023

THIS PAGE IS LEFT

BLANK INTENTIONALLY

INTRODUCTORY SECTION

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2023

THIS PAGE IS LEFT

BLANK INTENTIONALLY

Elk River Municipal Utilities
Elk River, Minnesota
Public Utilities Commission and Administration
For the Year Ended December 31, 2023

COMMISSION

Name	Title
John Dietz	Chairperson
Mary Stewart	Vice-Chair
Matt Westgaard	Commissioner
Paul Bell	Commissioner
Nick Zerwas	Commissioner

ADMINISTRATION

Name	Title
Mark Hanson	General Manager
Melissa Karpinski	Finance Manager
Tom Geiser	Operations Director
Chris Sumstad	Electric Superintendent
Dave Ninow	Water Superintendent
Mike Tietz	Technical Services Superintendent
Chris Kerzman	Engineering Manager
Sara Youngs	Administrations Director
Tony Mauren	Governance & Communications Manager

THIS PAGE IS LEFT

BLANK INTENTIONALLY

FINANCIAL SECTION

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2023

THIS PAGE IS LEFT

BLANK INTENTIONALLY

INDEPENDENT AUDITOR'S REPORT

Public Utilities Commission
Elk River Municipal Utilities
Elk River, Minnesota

Report on the Financial Statements

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, 2023, 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, 2023, 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, 2023, 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.

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.

Abdo

Abdo
Minneapolis, Minnesota
April 9, 2024

THIS PAGE IS LEFT

BLANK INTENTIONALLY

Management's Discussion and Analysis

This section of the Elk River Municipal Utilities (the Utilities) of the City of Elk River, Minnesota annual financial report presents our analysis of the Utilities' financial performance during the fiscal year that ended December 31, 2023. 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 $81,701,248 (net position). Net Position increased by $3,829,883 or 4.9 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 $27,554,752.

- Electric usage overall was down an average of 1.2 percent from the prior year. Residential usage increased 1.6 percent, Commercial usage increased 6.8 percent, and Industrial usage decreased 3.8 percent.

- Water usage overall was up an average of 18.4 percent from the prior year. Residential usage increased 15.0 percent, and Commercial usage increased 22.3 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 in fiscal 2023 from fiscal 2022.

Table A-1
Condensed Statement of Net Position

	2023	2022	Increase (Decrease)
Assets			
Current and other	$ 31,866,563	$ 32,660,889	$ (794,326)
Capital and other non-current	96,673,875	94,194,163	2,479,712
Total Assets	128,540,438	126,855,052	1,685,386
Total Deferred Outflows of Resources	816,369	1,414,144	(597,775)
Liabilities			
Current	8,837,628	9,803,732	(966,104)
Non-current	33,043,134	35,418,139	(2,375,005)
Total Liabilities	41,880,762	45,221,871	(3,341,109)
Total Deferred Inflows of Resources	5,774,797	5,175,960	598,837
Net Position			
Net investment in capital assets	61,103,248	58,323,263	2,779,985
Restricted for debt service	1,779,016	1,779,016	-
Unrestricted	18,818,984	17,769,086	1,049,898
Total Net Position	$ 81,701,248	$ 77,871,365	$ 3,829,883
Net Position as a Percent of Total			
Net investment in capital assets	74.8 %	74.9 %	
Restricted	2.2	2.3	
Unrestricted	23.0	22.8	
	100.0 %	100.0 %	

Electric and Water Rates. Electric - The Utilities' electric rates had a zero-rate increase effective January 2024. 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 2024. The monthly base charge for residential customers is $10.03 per month. In addition to the base charge, the Utilities currently charges its residential customers $2.02 per 1,000 gallons up to 9,000 gallons, $3.57 per 1,000 gallons between 9,000 gallons and 15,000 gallons, and $4.08 per 1,000 gallons for usage above 15,000 gallons. Commercial customer base charges are based upon meter size and range from $12.03 to $127.06. An irrigation meter is $21.40 per month. There is also a charge per 1,000 gallons, the same tiers as the residential rates of $2.02, $3.57, and $4.08, 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 above 90 percent 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 90 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 in fiscal 2023. 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

	2023	2022	Increase (Decrease)
Revenues			
Operating	$ 47,834,738	$ 46,811,891	$ 1,022,847
Nonoperating	1,625,170	1,174,011	451,159
Total Revenues	49,459,908	47,985,902	1,474,006
Expenses			
Operating	45,253,729	45,579,586	(325,857)
Nonoperating	847,654	892,147	(44,493)
Total Expenses	46,101,383	46,471,733	(370,350)
Income Before Contributions and Operating Transfers	3,358,525	1,514,169	1,844,356
Capital Contributions - Developer Infrastructure and Connection Fees	253,341	2,488,236	(2,234,895)
Contribution from Customers	489,452	298,935	190,517
Transfers from Other City Funds	1,348,943	-	1,348,943
Transfers to Other City Funds	(1,620,378)	(1,531,633)	(88,745)
Change in Net Position	3,829,883	2,769,707	1,060,176
Net Position, January 1	77,871,365	75,101,658	2,769,707
Net Position, December 31	$ 81,701,248	$ 77,871,365	$ 3,829,883

Revenues. Table A-2 shows that operating revenue increased by 2.2 percent in 2023 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 2023, rebates received from our 2021 filings averaged approximately $57,600 per month. The Water Department is receiving lease revenue from Sprint and Verizon for antennas on the water towers. In 2023 this amount was approximately $402,423 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 a decrease overall, with both the electric and water departments decreasing from the prior year. Purchased Power is the biggest electric department expense, and it decreased 1.0 percent.

Capital Assets and Debt Administration

Capital Assets. The Utilities' investment in capital assets for its business-type activities as of December 31, 2023 is shown below (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, and equipment. A table summarizing the balances by fund follows:

	2023	2022	Increase (Decrease)
Land	$ 898,584	$ 898,584	$ -
Intangible	24,262,932	23,997,909	265,023
Land Improvements	9,307	10,955	(1,648)
Buildings	14,957,145	14,372,796	584,349
Machinery and Equipment	2,609,644	2,172,446	437,198
Infrastructure	46,892,112	45,421,431	1,470,681
Construction in Progress	2,310,731	2,351,587	(40,856)
Total	$ 91,940,455	$ 89,225,708	$ 2,714,747
Percent increase (decrease)			3.0%

The Utilities' investment in capital assets for the current fiscal year increased in total.

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 Freightliner Bucket Truck for the Electric Department.
- The Electric and Water Department completed some large road projects that contributed to the increase in Infrastructure.

Additional information on the Utilities' capital assets can be found in Note 2C starting on page 38 of this report.

Long-term Debt. At year end, the Utilities had $30,837,207 in long-term debt which decreased from fiscal 2022. More detailed information about the Utilities' long-term liabilities can be found in Note 2D starting on page 39 and below:

	2023	2022	Increase (Decrease)
G.O. Revenue Bonds	$ 1,505,000	$ 1,565,000	$ (60,000)
Revenue Bonds	27,960,000	28,875,000	(915,000)
Unamortized Premium on Bonds	1,372,207	1,438,720	(66,513)
Total	$ 30,837,207	$ 31,878,720	$ (1,041,513)
Percent increase (decrease)			(3.3%)

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, 2023

Elk River Municipal Utilities
Elk River, Minnesota
Statement of Net Position (Continued on the Following Page)
December 31, 2023

	Electric	Water	Total
Assets			
Current Assets			
Cash and temporary investments	$ 14,896,235	$ 10,879,501	$ 25,775,736
Receivables			
Accrued interest	1,955	41,879	43,834
Accounts, net of allowance	2,067,501	116,744	2,184,245
Special assessments	4,529	37,168	41,697
Leases	-	235,035	235,035
Other	296,075	3,839	299,914
Due from other City funds	3,441	217,223	220,664
Inventories	1,048,510	17,102	1,065,612
Prepaid expenses	185,599	35,211	220,810
Total Current Assets	18,503,845	11,583,702	30,087,547
Non-current Assets			
Lease receivable	-	4,733,420	4,733,420
Capital Assets			
Land	697,870	200,714	898,584
Intangible	27,769,490	-	27,769,490
Land improvements	34,081	-	34,081
Buildings	15,119,753	2,922,269	18,042,022
Machinery and equipment	5,141,084	658,295	5,799,379
Infrastructure	55,723,788	42,377,297	98,101,085
Construction in progress	834,236	1,476,495	2,310,731
Capital Assets, Cost	105,320,302	47,635,070	152,955,372
Less Accumulated Depreciation	(37,746,565)	(23,268,352)	(61,014,917)
Total Capital Assets, Net	67,573,737	24,366,718	91,940,455
Total Non-current Assets	67,573,737	29,100,138	96,673,875
Other Assets			
Restricted cash	1,779,016	-	1,779,016
Total Assets	87,856,598	40,683,840	128,540,438
Deferred Outflows of Resources			
Deferred pension resources	690,058	126,311	816,369

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, 2023

	Electric	Water	Total
Current Liabilities			
Accounts payable	$ 3,822,240	$ 209,062	$ 4,031,302
Salaries and benefits payable	243,235	44,420	287,655
Accrued interest payable	357,003	17,333	374,336
Due to other City funds	928,921	33,460	962,381
Due to other governments	160,414	2,772	163,186
Customer deposits payable	1,067,795	128,896	1,196,691
Unearned revenue	142,988	141,977	284,965
Compensated absences	470,277	51,835	522,112
Bonds payable - current portion	955,000	60,000	1,015,000
Total Current Liabilities	8,147,873	689,755	8,837,628
Non-current Liabilities			
Bonds payable, net - less current portion	28,260,262	1,561,945	29,822,207
Net pension liability	2,720,477	500,450	3,220,927
Total Non-current Liabilities	30,980,739	2,062,395	33,043,134
Total Liabilities	39,128,612	2,752,150	41,880,762
Deferred Inflows of Resources			
Deferred pension resources	836,813	153,307	990,120
Deferred lease resources	-	4,784,677	4,784,677
Total Deferred Inflows of Resources	836,813	4,937,984	5,774,797
Net Position			
Net investment in capital assets	38,358,475	22,744,773	61,103,248
Restricted for debt service	1,779,016	-	1,779,016
Unrestricted	8,443,740	10,375,244	18,818,984
Total Net Position	$ 48,581,231	$ 33,120,017	$ 81,701,248

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

THIS PAGE IS LEFT

BLANK INTENTIONALLY

Elk River Municipal Utilities
Elk River, Minnesota
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2023

	Electric	Water	Total
Operating Revenues			
Charges for services	$ 43,986,269	$ 3,305,148	$ 47,291,417
Substation credit	4,800	-	4,800
Connection maintenance	151,296	55,733	207,029
Customer penalties	308,374	23,118	331,492
Total Operating Revenues	44,450,739	3,383,999	47,834,738
Operating Expenses			
Purchased power	31,232,788	-	31,232,788
Production	315,057	667,881	982,938
Distribution	2,224,113	321,566	2,545,679
Depreciation	3,177,120	1,174,752	4,351,872
Customer accounts	687,117	88,640	775,757
General and administrative	4,421,557	943,138	5,364,695
Total Operating Expenses	42,057,752	3,195,977	45,253,729
Operating Income (Loss)	2,392,987	188,022	2,581,009
Nonoperating Revenues (Expenses)			
Interest income (loss)	158,310	57,360	215,670
Miscellaneous revenue	928,553	418,451	1,347,004
Interest expense and other	(811,210)	(36,444)	(847,654)
Gain/(Loss) on sale of capital assets	59,556	2,940	62,496
Total Nonoperating Revenues (Expenses)	335,209	442,307	777,516
Income (Loss) before Contributions and Transfers	2,728,196	630,329	3,358,525
Capital Contributions -			
Connection Fees	-	253,341	253,341
Contribution from Customers	489,452	-	489,452
Transfers from Other City Funds	-	1,348,943	1,348,943
Transfers to Other City Funds	(1,620,378)	-	(1,620,378)
Total Contributions and Transfers	(1,130,926)	1,602,284	471,358
Change in Net Position	1,597,270	2,232,613	3,829,883
Net Position, January 1	46,983,961	30,887,404	77,871,365
Net Position, December 31	$ 48,581,231	$ 33,120,017	$ 81,701,248

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 on the Following Page)

For the Year Ended December 31, 2023

	Electric	Water	Total
Cash Flows from Operating Activities			
Receipts from customers and users	$ 45,858,458	$ 3,365,455	$ 49,223,913
Other operating cash receipts	980,012	549,528	1,529,540
Payments to suppliers	(35,929,492)	(1,397,690)	(37,327,182)
Payments to employees	(3,108,487)	(750,613)	(3,859,100)
Net Cash Provided by Operating Activities	7,800,491	1,766,680	9,567,171
Cash Flows from Noncapital Financing Activities			
Transfers to City	(1,620,378)	-	(1,620,378)
(Increase) decrease in due from other City funds	2,089	(88,373)	(86,284)
(Decrease) increase in due to other City funds	(92,461)	(20,075)	(112,536)
Net Cash Provided (Used) by Noncapital Financing Activities	(1,710,750)	(108,448)	(1,819,198)
Cash Flows from Capital and Related Financing Activities			
Acquisition of capital assets	(4,517,495)	(1,057,219)	(5,574,714)
Proceeds from connection fees	-	253,341	253,341
Proceeds on sale of capital assets	72,630	2,940	75,570
Principal payments on bonds	(915,000)	(60,000)	(975,000)
Interest paid on bonds	(886,134)	(44,095)	(930,229)
Net Cash Provided (Used) by Capital and Related Financing Activities	(6,245,999)	(905,033)	(7,151,032)
Cash Flows from Investing Activities			
Interest on investments	156,646	58,718	215,364
Net Increase (Decrease) in Cash and Cash Equivalents	388	811,917	812,305
Cash and Cash Equivalents, January 1	16,674,863	10,067,584	26,742,447
Cash and Cash Equivalents, December 31	$ 16,675,251	$ 10,879,501	$ 27,554,752
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position			
Cash and temporary investments	$ 14,896,235	$ 10,879,501	$ 25,775,736
Restricted cash	1,779,016	-	1,779,016
Total Cash and Cash Equivalents	$ 16,675,251	$ 10,879,501	$ 27,554,752

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, 2023

	Electric	Water	Total
Reconciliation of Operating Income (Loss) to			
Net Cash Provided by Operating Activities			
Operating income	$ 2,392,987	$ 188,022	$ 2,581,009
Adjustments to reconcile operating income (loss)			
to net cash provided by operating activities			
Other revenue related to operations	928,553	418,451	1,347,004
Bad debt expense	29,142	(28)	29,114
Depreciation	3,177,120	1,174,752	4,351,872
(Increase) decrease in assets/deferred outflows:			
Accounts receivable	1,408,119	1,512	1,409,631
Other receivables	(90,917)	208,467	117,550
Special assessments receivable	(400)	(20,056)	(20,456)
Lease receivable	-	220,218	220,218
Due from other governments	8,263	-	8,263
Inventories	63,325	11,286	74,611
Prepaid expenses	70,788	18,537	89,325
Deferred pension resources	497,499	100,276	597,775
Increase (decrease) in liabilities/deferred inflows:			
Accounts payable	(631,281)	(92,117)	(723,398)
Salaries and benefits payable	24,430	2,202	26,632
Unearned revenue	142,988	793	143,781
Compensated absences payable	43,282	2,030	45,312
Due to other governments	(40,288)	(101)	(40,389)
Customer deposits payable	63,101	(59,129)	3,972
Net pension liability	(1,068,904)	(224,588)	(1,293,492)
Deferred pension resources	782,684	143,584	926,268
Deferred lease resources	-	(327,431)	(327,431)
Net Cash Provided by Operating Activities	$ 7,800,491	$ 1,766,680	$ 9,567,171
Noncash Capital and			
Related Financing Activities			
Amortization of Bond Premium	$ 59,862	$ 6,651	$ 66,513
Gain (Loss) on Disposal of Capital Assets	$ (13,074)	$ -	$ (13,074)
Book Value of Disposed Capital Assets	$ 44,574	$ -	$ 44,574
Capital Assets Purchased on Account	$ 947,461	$ 6,111	$ 953,572
Contribution of Capital Assets	$ 489,452	$ 1,348,943	$ 1,838,395

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

THIS PAGE IS LEFT

BLANK INTENTIONALLY

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 and businesses of Elk River and parts of Dayton, Big Lake Township and Otsego, Minnesota. The Utilities distributes water to the residents and businesses 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, 2023:

- Negotiable certificates of deposit of $3,472,959 are valued using a matrix pricing model (Level 2 inputs).
- Asset backed securities of $300,096 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, 2023 is as follows:

	2023
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 Employment Health Care Savings Plan 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 employees will have 50 percent of unused sick leave, up to a maximum of 960 hours, converted to cash and deposited into their Post Employment Health Care Savings Plan account. Upon retirement employees will have 50-100 percent of unused sick leave, up to a maximum of 960 hours, converted to cash and deposited into their Post Employment Health Care Savings Plan 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, 2023 was $570,600. 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 2.5 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.

Note 1: Summary of Significant Accounting Policies (Continued)

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.

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.

Note 2: Detailed Notes on All Funds (Continued)

Authorized collateral in lieu of a corporate surety bond includes:

- United States government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- General obligation securities of any state or local government with taxing powers which is rated “A” or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated “AA” or better by a national bond rating service;
- General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank’s public debt is rated “AA” or better by Moody’s Investors Service, Inc., or Standard & Poor’s Corporation; and
- Time deposits that are fully insured by any federal agency.

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

At December 31, 2023, the Utilities’ carrying amount of deposits, bank balance, FDIC coverage and pledged collateral are shown in the chart below.

Carrying amount of deposits	$ 23,774,954
Bank Balance	$ 23,547,222
Covered by FDIC	(381,349)
Collateralized with securities pledged in the Utilities' name	$ 23,165,873

Note 2: Detailed Notes on All Funds (Continued)

Investments

The Utilities' investment balances were as follows for December 31, 2023:

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	$ 5,943	$ -	$ -	$ -
Non-pooled Investments						
Negotiable certificates of deposits	N/A	less than 1 year	472,340	-	472,340	-
Negotiable certificates of deposits	N/A	1 - 5 years	3,000,619	-	3,000,619	-
Asset backed securities	N/A		300,096	-	300,096	-
Total Non-pooled Investments			3,773,055	-	3,773,055	-
Total Investments			$ 3,778,998	$ -	$ 3,773,055	$ -

(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:

	2023
Deposits	$ 23,774,954
Investments	3,778,998
Cash on Hand	800
Total	$ 27,554,752
Cash and Temporary Investments	
Unrestricted	$ 25,775,736
Restricted	1,779,016
Total	$ 27,554,752

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, 2023 the Utilities has invested 5.0 percent or more of its total investment portfolio in the following issuers: FHLMC (7.9%), State Bank of Indi NY (6.6%), Customers Bank PA (6.6%), Morgan Stanley PRI NY (6.5%), New York Community Bank NY (6.3%), Popular Bank NY (6.2%), Texas Exchange Bank TX (6.2%), Goldman Sachs Bank UT (6.1%), Institution for SV MA (6.1%), Sallie Mae Bank UT (6.0%), Beal Bank – Plano TX (6.0%), BMO Harris Bank NA IL (5.9%), JPMorgan Chase Bank OH (5.8%), Celtic Bank UT (5.6%), and Ally Bank UT (5.2%).

- *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 Sprint and Verizon that allows them to place antennas on water towers. The lease payments increase yearly. As of December 31, 2023, the Utilities' lease receivable balance was $5,009,845. 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	$ 655,154	$ 5,408	$ 660,562
Sprint Lease on Gary St.	694,752	1.41	06/01/10	05/31/35	614,207	5,070	619,277
Sprint Lease on Auburn St.	694,752	1.41	06/01/10	05/31/35	614,207	5,070	619,277
Verizon Lease on Johnson St.	837,781	1.60	09/01/14	08/31/39	775,850	4,120	779,970
Verizon Lease on Gary St.	837,781	1.59	09/01/14	08/31/39	775,850	4,120	779,970
Verizon Lease on Auburn St.	909,094	1.70	01/01/17	12/31/42	849,585	14,555	864,140
Verizon Lease on Freeport St.	724,310	1.78	10/01/20	09/30/45	683,602	3,047	686,649
Total Lease Receivable							$ 5,009,845

Note 2: Detailed Notes on All Funds (Continued)

Future lease receivable payments are as follows:

Year Ending December 31,	Principal	Interest	Total
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	301,313	62,531	363,844
2029 - 2033	1,800,598	237,505	2,038,103
2034 - 2038	1,357,282	103,298	1,460,580
2039 - 2043	425,953	23,424	449,377
2044 - 2045	47,402	851	48,253
Total	$ 4,968,455	$ 718,667	$ 5,687,122

C. Capital Assets

Capital asset activity for the year ended December 31, 2023 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets not being Depreciated				
Land	$ 898,584	$ -	$ -	$ 898,584
Intangible	5,290,120	933,158	-	6,223,278
Construction in progress	2,351,587	3,237,777	(3,278,633)	2,310,731
Total Capital Assets not being Depreciated	8,540,291	4,170,935	(3,278,633)	9,432,593
Capital Assets being Depreciated				
Intangible	21,546,212	-	-	21,546,212
Land improvements	34,081	-	-	34,081
Buildings	16,918,649	1,123,373	-	18,042,022
Machinery and equipment	5,340,608	924,982	(466,211)	5,799,379
Infrastructure	93,930,549	4,170,536	-	98,101,085
Total Capital Assets being Depreciated	137,770,099	6,218,891	(466,211)	143,522,779
Less Accumulated Depreciation for				
Intangible	(2,838,423)	(668,135)	-	(3,506,558)
Land improvements	(23,126)	(1,648)	-	(24,774)
Buildings	(2,545,853)	(539,024)	-	(3,084,877)
Machinery and equipment	(3,168,162)	(443,210)	421,637	(3,189,735)
Infrastructure	(48,509,118)	(2,699,855)	-	(51,208,973)
Total Accumulated Depreciation	(57,084,682)	(4,351,872)	421,637	(61,014,917)
Total Capital Assets being Depreciated, Net	80,685,417	1,867,019	(44,574)	82,507,862
Business-type Activities Capital Assets, Net	$ 89,225,708	$ 6,037,954	$ (3,323,207)	$ 91,940,455

Note 2: Detailed Notes on All Funds (Continued)

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

	2023
Business-type Activities	
Electric	$ 3,177,120
Water	1,174,752
Total Depreciation Expense - Business-type Activities	$ 4,351,872

Construction Commitment

The Utilities had the following outstanding construction commitment as of December 31, 2023:

Project	Spent to Date	Remaining Commitment
Field Service Project - RJM Construction	$ 12,315,837	$ 7,934

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	$ 1,505,000

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

Year Ending December 31,	Principal	Interest	Total
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	75,000	31,000	106,000
2029 - 2033	405,000	110,300	515,300
2034 - 2038	460,000	57,900	517,900
2039 - 2041	300,000	12,000	312,000
Total	$ 1,505,000	$ 362,400	$ 1,867,400

In 2023, annual principal and interest payment on the bonds required about 3.1 percent of revenues from the Water fund. The principal and interest paid and total customer revenues for the Water fund were $104,000 and $3,383,999, 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	$ 7,515,000
Electric Revenue Bonds, Series 2018A	10,000,000	3.50 - 5.00	09/26/18	08/01/48	9,025,000
Electric Revenue Bonds, Series 2021B	11,810,000	2.00 - 5.00	05/13/21	08/01/51	11,420,000
Total Revenue Bonds					$ 27,960,000

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

Year Ending December 31,	Principal	Interest	Total
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	1,105,000	700,606	1,805,606
2029 - 2033	6,130,000	2,909,631	9,039,631
2034 - 2038	5,730,000	1,938,006	7,668,006
2039 - 2043	4,340,000	1,279,006	5,619,006
2044 - 2048	4,985,000	630,856	5,615,856
2049 - 2051	1,615,000	73,240	1,688,240
Total	$ 27,960,000	$ 10,704,694	$ 38,664,694

In 2023, annual principal and interest payment on the bonds required about 4.1 percent of revenues from the Electric fund. The principal and interest paid and total customer revenues for the Electric fund were $1,800,756 and $44,450,739, respectively.

Note 2: Detailed Notes on All Funds (Continued)

Changes in Long-term Liabilities

Long-term liability activity for the year ended December 31, 2023 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Business-type Activities					
Bonds Payable					
General obligation revenue bonds	$ 1,565,000	$ -	$ (60,000)	$ 1,505,000	$ 60,000
Revenue bonds	28,875,000	-	(915,000)	27,960,000	955,000
Unamortized premium on bonds	1,438,720	-	(66,513)	1,372,207	-
Total Bonds Payable, Net	31,878,720	-	(1,041,513)	30,837,207	1,015,000
Compensated Absences Payable	476,800	489,097	(443,785)	522,112	522,112
Business-type Activity Long-term Liabilities	$ 32,355,520	$ 489,097	$ (1,485,298)	$ 31,359,319	$ 1,537,112

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	$ 3,441	December billings
Total Electric Fund Receivable From City		3,441	
Water	City	88,373	Trunk funds - Villas at Fillmore
Water	City	128,850	TIF 22 Water Access Charge
Total Water Fund Receivable From City		217,223	
Total Receivable From City		$ 220,664	
City	Electric	$ 121,462	Shared costs
City	Electric	5,576	Supplies and fuel
City	Electric	98,038	December transfer of revenue
City	Electric	260,907	4th quarter franchise fees
City	Electric	220,767	Billed sewer on behalf of City
City	Electric	160,360	Billed garbage on behalf of City
City	Electric	53,291	Billed stormwater on behalf of City
City	Electric	1,900	Continuing disclosures
City	Electric	4,838	4th quarter safety program
City	Electric	1,782	Parts and labor
Total Electric Fund Payable to City		928,921	
City	Water	30,365	Shared costs
City	Water	1,331	Supplies and fuel
City	Water	381	Continuing disclosures
City	Water	1,210	4th quarter safety program
City	Water	173	Parts and labor
Total Water Fund Payable to City		33,460	
Total Payable to City		$ 962,381	

Note 2: Detailed Notes on All Funds (Continued)

Transfers

During the year ended December 31, 2023, the Utilities made the following transfers:

	Transfer from Other City Funds	Transfer to Other City Funds
Electric	$ -	$ 1,620,378
Water	1,348,943	-
Total Transfers	$ 1,348,943	$ 1,620,378

- The transfer out of the Electric fund was the annual transfer of 4 percent of 2023 Elk River revenues to City funds.
- The City transferred $817,519 to the Water fund as contributed capital for water main as part of city street improvements.
- The City transferred $443,051 to the Water fund as contributed capital for water main as part of Natures Edge Business Center 3rd Addition.
- The City transferred $88,373 to the Water fund from trunk funds for trunk water main for Villas at Fillmore project.

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.

<u>General Employees Retirement Plan</u>

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.

<u>General Employees Plan Benefits</u>

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 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 the June 30 before the effective date of the increase will receive a reduced prorated increase. In 2023, legislation repealed the statute delaying increases for members retiring before full retirement age.

C. Contributions

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

<u>General Employees Fund Contributions</u>

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2023 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, 2023, 2022 and 2021 were $339,650, $333,178 and $312,376, 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, 2023, the Utilities reported a liability of $3,220,927 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 $88,808. The net pension liability was measured as of June 30, 2023, 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, 2022 through June 30, 2023 relative to the total employer contributions received from all of PERA's participating employers. The Utilities' proportionate share was 0.0576 percent at the end of the measurement period and 0.057 percent for the beginning of the period.

Utilities' Proportionate Share of the Net Pension Liability	$ 3,220,927
State of Minnesota's Proportionate Share of the Net Pension Liability Associated with the Utilities	88,808
Total	$ 3,309,735

For the year ended December 31, 2023, the Utilities recognized pension expense of $570,201 for its proportionate share of the General Employees Plan's pension expense. In addition, the Utilities recognized $399 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, 2023, 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	$ 105,512	$ 21,187
Changes in actuarial assumptions	498,609	882,829
Net difference between projected and actual investment earnings	-	86,104
Changes in proportion	45,112	-
Contributions paid to PERA subsequent to the measurement date	167,136	-
Total	$ 816,369	$ 990,120

The $167,136 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, 2024. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2024	$ 107,250
2025	(449,168)
2026	70,904
2027	(69,873)

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

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 %
International Equity	16.5	5.30
Fixed Income	25.0	0.75
Private Markets	25.0	5.90
Total	100.0 %	

F. Actuarial Assumptions

The total pension liability in the June 30, 2023, 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 7.0 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 7.0 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.

Actuarial assumptions for the General Employees Plan are reviewed every four years. The most recent four-year experience study for the General Employees Plan was completed in 2022. The assumption changes were adopted by the Board and became effective with the July 1, 2023 actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2023:

<u>General Employees Fund</u>

Changes in Actuarial Assumptions

- The investment return assumption and single discount rate were changed from 6.5 percent to 7.0 percent.

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

Changes in Plan Provisions

- An additional one-time direct state aid contribution of $170.1 million will be contributed to the Plan on October 1, 2023.
- The vesting period of those hired after June 30, 2010, was changed from five years of allowable service to three years of allowable service.
- The benefit increase delay for early retirements on or after January 1, 2024, was eliminated.
- A one-time, non-compounding benefit increase of 2.5 percent minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024 by March 31, 2024.

G. Discount Rate

The discount rate used to measure the total pension liability in 2023 was 7.0 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, Police and Fire Funds and Correctional Plans were 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 (6.0%)	Current (7.0%)	1 Percent Increase (8.0%)
General Employees Fund	$ 5,698,079	$ 3,220,927	$ 1,183,376

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, $940,467 in 2023, and $933,159 in 2024. 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 under recovery in 2023 is estimated to be $104K. The bond obligations are satisfied first, distribution to participants is directly affected by under recovery. The under recovery is rolled forward under the true up. However, the under recovery in 2023 (approximately $104K) would be included in the revenue requirements in 2025. The transmission payments for 2023 were $48,540, all of which was a receivable at December 31, 2023.

REQUIRED SUPPLEMENTARY INFORMATION

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2023

Elk River Municipal Utilities
Elk River, Minnesota
Required Supplementary Information
For the Year Ended December 31, 2023

Schedule of Employer's Share of Public Employees Retirement Association 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
06/30/23	0.0576 %	$ 3,220,927	$ 88,808	3,309,735	$ 4,581,529	70.3 %	83.1 %
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 Public Employees Retirement Association 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)
12/31/23	$ 339,650	$ 339,650	-	$ 4,528,667	7.5 %
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 Employees Fund

Changes in Actuarial Assumptions

2023 - The investment return assumption and single discount rate were changed from 6.5 percent to 7.00 percent.

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 Employees Fund – (Continued)

Changes in Plan Provisions

2023 - An additional one-time direct state aid contribution of $170.1 million will be contributed to the Plan on October 1, 2023. The vesting period of those hired after June 30, 2010, was changed from five years of allowable service to three years of allowable service. The benefit increase delay for early retirements on or after January 1, 2024, was eliminated. A one-time, non-compounding benefit increase of 2.5 percent minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024 by March 31, 2024.

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, 2023

Elk River Municipal Utilities
Elk River, Minnesota
Supplementary Information
Schedule of Operating Revenues and Expenses (Continued on the Following Page)
For the Year Ended December 31, 2023

	Electric	Water	Total
Operating Revenues			
Charges for services			
Elk River	$ 39,750,829	$ 3,305,148	$ 43,055,977
Otsego	3,752,121	-	3,752,121
Big Lake	216,031	-	216,031
Dayton	267,288	-	267,288
Substation credit	4,800	-	4,800
Connection maintenance	151,296	55,733	207,029
Customer penalties	308,374	23,118	331,492
Total Operating Revenues	44,450,739	3,383,999	47,834,738
Operating Expenses			
Purchased power	31,232,788	-	31,232,788
Production			
Supervision and labor	120,166	63,018	183,184
Natural gas	32,156	-	32,156
Supplies and power for pumping	94,421	364,852	459,273
Maintenance of structures	19,305	104,829	124,134
Maintenance of equipment	19,572	135,182	154,754
Maintenance of plant	29,437	-	29,437
Total production	315,057	667,881	982,938
Transmission and distribution			
Supervision and labor	28,030	7,030	35,060
Maintenance of overhead lines	674,913	-	674,913
Maintenance of underground lines	388,783	-	388,783
Maintenance of station equipment	194,122	-	194,122
Transportation	279,657	15,831	295,488
Maintenance of customer service	19,597	55,221	74,818
Maintenance of customer meters	128,157	229,992	358,149
Miscellaneous	510,854	13,492	524,346
Total transmission and distribution	2,224,113	321,566	2,545,679
Services to City	253,564	-	253,564
Depreciation and amortization	3,177,120	1,174,752	4,351,872
Customer accounts expense			
Meter reading	43,805	2,238	46,043
Billing and collection	360,606	86,430	447,036
Bad debts	29,142	(28)	29,114
Total customer accounts expense	433,553	88,640	522,193

Elk River Municipal Utilities
Elk River, Minnesota
Supplementary Information
Schedule of Operating Revenues and Expenses (Continued)
For the Year Ended December 31, 2023

	Electric	Water	Total
Operating Expenses (Continued)			
General and administrative			
Salaries	$ 792,284	$ 230,046	$ 1,022,330
Employee pensions and benefits	2,446,998	474,023	2,921,021
Dues	124,702	73,690	198,392
Office supplies and billing expense	113,010	24,422	137,432
Office utilities and maintenance	36,995	9,249	46,244
Consulting fees	2,733	10,266	12,999
Legal and audit	40,468	10,032	50,500
Environmental compliance	23,454	1,364	24,818
Conservation improvement project	359,475	3,442	362,917
Insurance	201,330	51,107	252,437
Telephone	36,236	8,249	44,485
Advertising	13,766	4,117	17,883
Education and meetings	223,111	36,454	259,565
Miscellaneous	6,995	6,677	13,672
Total general and administrative	4,421,557	943,138	5,364,695
Total Operating Expenses	42,057,752	3,195,977	45,253,729
Operating Income	2,392,987	188,022	2,581,009
Nonoperating Revenues (Expenses)			
Interest income (loss)	158,310	57,360	215,670
Miscellaneous revenue	928,553	418,451	1,347,004
Interest expense and other	(811,210)	(36,444)	(847,654)
Gain/(loss) on sale of capital assets	59,556	2,940	62,496
Total Nonoperating Revenues	335,209	442,307	777,516
Income before Contributions and Transfers	2,728,196	630,329	3,358,525
Capital Contributions			
Connection fees	-	253,341	253,341
Contributions from customers	489,452	-	489,452
Transfers from Other City Funds	-	1,348,943	1,348,943
Transfers to Other City Funds	(1,620,378)	-	(1,620,378)
Total Contributions and Transfers	(1,130,926)	1,602,284	471,358
Change in Net Position	1,597,270	2,232,613	3,829,883
Net Position, January 1	46,983,961	30,887,404	77,871,365
Net Position, December 31	$ 48,581,231	$ 33,120,017	$ 81,701,248

Elk River Municipal Utilities
Elk River, Minnesota
Electric Fund
Summary of Operations and Unaudited Statistics
For the Years Ended December 31, 2014 through December 31, 2023

Summary of Operations

	2014	2015	2016	2017
Operating Revenues				
Sales of electricity	$ 31,514,246	$ 32,704,279	$ 34,569,098	$ 36,458,061
Other operating revenues (expenses)	(147,561)	(152,557)	(104,702)	(337,237)
Total Operating Revenues	31,366,685	32,551,722	34,464,396	36,120,824
Operating Expenses				
Purchased power	21,994,652	22,034,307	23,991,069	25,402,576
Distribution	2,161,352	2,330,969	2,041,810	2,385,263
Services to the City	530,340	520,727	230,312	202,421
Depreciation	1,914,062	1,922,359	2,005,093	2,046,935
Other operating expenses	2,791,717	3,087,792	3,558,315	3,357,276
Total Operating Expenses	29,392,123	29,896,154	31,826,599	33,394,471
Operating Income	1,974,562	2,655,568	2,637,797	2,726,353
Capital Contributions	-	-	-	209,051
Transfers to Other City Funds	(797,835)	(824,743)	(1,089,287)	(1,113,264)
Special Item	-	-	330,923	-
Nonoperating Revenues	152,375	267,243	8,991	145,034
Net Income	$ 1,329,102	$ 2,098,068	$ 1,888,424	$ 1,967,174
Percent of Change				
Sales of electricity	1.728%	3.776%	5.702%	5.464%
Purchased power	3.480%	0.180%	8.881%	5.883%
Percent of Revenues				
Purchased power	70.121%	67.690%	69.611%	70.327%

Unaudited Statistics

Miscellaneous

	2014	2015	2016	2017
kWh's purchased	288,320,724	294,441,957	311,990,595	320,349,631
kWh's sold	274,546,059	282,265,268	301,838,731	313,952,561
Line loss	13,774,665	12,176,689	10,151,864	6,397,070
Percent of line loss	4.778%	4.136%	3.254%	1.997%
Revenues Per kWh Sold	$ 0.1148	$ 0.1159	$ 0.1145	$ 0.1161
Cost Per kWh Purchased	$ 0.0763	$ 0.0748	$ 0.0769	$ 0.0793
Number of Customers	9,449	10,499	10,816	11,448
Total Contribution/Transfers to City	$ 797,835	$ 824,743	$ 1,089,287	$ 1,113,264

2018	2019	2020	2021	2022	2023
$ 39,039,573	$ 37,640,985	$ 37,714,965	$ 39,719,268	$ 42,395,048	$ 43,986,269
(259,668)	453,648	207,542	1,041,676	1,428,008	464,470
38,779,905	38,094,633	37,922,507	40,760,944	43,823,056	44,450,739
26,710,514	24,851,301	24,240,440	28,169,146	31,544,604	31,232,788
2,660,231	2,546,634	2,458,699	2,585,796	2,808,964	2,539,170
215,296	210,791	229,086	224,814	231,861	253,564
2,297,349	2,856,258	2,896,839	2,957,685	3,062,751	3,177,120
3,318,016	4,090,102	4,133,940	3,688,401	4,763,425	4,855,110
35,201,406	34,555,086	33,959,004	37,625,842	42,411,605	42,057,752
3,578,499	3,539,547	3,963,503	3,135,102	1,411,451	2,392,987
352,104	125,764	174,557	385,316	298,935	489,452
(1,188,664)	(1,157,445)	(1,340,218)	(1,407,734)	(1,531,633)	(1,620,378)
-	-	-	-	-	-
218,586	82,440	98,427	(193,410)	(62,440)	335,209
$ 2,960,525	$ 2,590,306	$ 2,896,269	$ 1,919,274	$ 116,313	$ 1,597,270
7.081%	-3.582%	0.197%	5.314%	6.737%	3.753%
5.149%	-6.961%	-2.458%	16.207%	11.983%	-0.988%
68.877%	65.236%	63.921%	69.108%	71.982%	70.264%

2018	2019	2020	2021	2022	2023
339,917,944	336,570,637	337,016,741	347,974,385	344,137,778	341,681,928
331,124,011	325,981,176	324,469,638	341,047,710	333,644,951	329,773,349
8,793,933	10,589,461	12,547,103	6,926,675	10,492,827	11,908,579
2.587%	3.146%	3.723%	1.991%	3.049%	3.485%
$ 0.1179	$ 0.1155	$ 0.1162	$ 0.1165	$ 0.1271	$ 0.1334
$ 0.0786	$ 0.0738	$ 0.0719	$ 0.0810	$ 0.0917	$ 0.0914
11,983	12,244	12,365	12,789	12,955	13,232
$ 1,188,664	$ 1,157,445	$ 1,340,218	$ 1,407,734	$ 1,531,633	$ 1,620,378

Elk River Municipal Utilities
Elk River, Minnesota
Water Fund
Summary of Operations and Unaudited Statistics
For the Years Ended December 31, 2014 through December 31, 2023

Summary of Operations

	2014	2015	2016	2017
Operating Revenues				
Sales of water	$ 2,148,327	$ 2,202,537	$ 2,173,521	$ 2,326,245
Operating Expenses				
Operating expenses less depreciation	1,267,019	1,277,466	1,325,831	1,614,095
Services to City	-	5,719	-	-
Depreciation	1,083,770	1,131,110	1,148,310	1,191,894
Total Operating Expenses	2,350,789	2,414,295	2,474,141	2,805,989
Total Operating Income (Loss)	$ (202,462)	$ (211,758)	$ (300,620)	$ (479,744)
Percent of Change				
Sales of water	(5.70%)	2.52%	(1.32%)	7.03%

Unaudited Statistics
Miscellaneous

	2014	2015	2016	2017
Water Pumped (Gallons)	782,110,000	799,974,000	801,603,000	788,182,000
Water Sold (Gallons)	672,760,000	676,842,000	666,656,000	686,032,000
Percent of Line Loss	13.98%	15.39%	16.83%	12.96%
Revenues Per 1,000 Gallons Pumped	$ 2.75	$ 2.75	$ 2.71	$ 2.95
Revenues Per 1,000 Gallons Sold	$ 3.19	$ 3.25	$ 3.26	$ 3.39
Number of Customers	4,676	4,672	4,903	5,011

Water Supplier Services

	2014	2015	2016	2017
Flushing Hydrants	47,000,000	45,000,000	46,816,000	47,470,500
Back Washing	3,922,000	4,000,000	4,430,000	4,125,542
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	-	-	-
Street and Sewer Maintenance	1,000,000	473,400	1,800,000	1,550,000
Water Tower Paint and Clean/Maintenance	1,000,000	3,700,000	4,000,000	4,000,000
Well Maintenance	-	700,000	7,358,000	7,000,000
Water Line and Irrigation Leaks	7,000,000	-	-	-
Water Supplier Services	72,922,000	63,873,400	74,404,000	74,146,042

	2018	2019	2020	2021	2022	2023
	$ 2,515,821	$ 2,303,670	$ 2,674,544	$ 3,120,660	$ 2,988,835	$ 3,383,999
	1,430,539	1,521,719	1,540,043	2,004,037	2,050,084	2,021,225
	-	1,583	463	1,259	540	-
	1,193,745	1,147,149	1,133,179	1,139,802	1,117,357	1,174,752
	2,624,284	2,670,451	2,673,685	3,145,098	3,167,981	3,195,977
	$ (108,463)	$ (366,781)	$ 859	$ (24,438)	$ (179,146)	$ 188,022
	8.15%	(8.43%)	16.10%	16.68%	(4.22%)	13.22%

	2018	2019	2020	2021	2022	2023
	822,546,000	778,595,000	872,733,000	977,238,000	886,422,000	1,004,271,000
	737,689,000	664,924,000	756,383,000	863,076,000	805,096,000	952,872,000
	10.32%	14.60%	13.33%	11.68%	9.17%	5.12%
	$ 3.06	$ 2.96	$ 3.06	$ 3.19	$ 3.37	$ 3.37
	$ 3.41	$ 3.46	$ 3.54	$ 3.62	$ 3.71	$ 3.55
	5,140	5,256	5,320	5,430	5,551	5,611

	Gallons					
	2018	2019	2020	2021	2022	2023
	47,894,000	48,240,500	53,779,500	19,850,600	23,831,500	25,390,750
	3,823,903	3,850,801	6,441,523	5,967,131	5,130,934	5,771,470
	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	3,003,000
	-	-	-	-	-	-
	1,550,000	1,550,000	1,550,000	1,550,000	1,550,000	1,550,000
	4,000,000	4,000,000	5,000,000	4,000,000	4,000,000	3,000,000
	7,000,000	7,000,000	7,000,000	7,000,000	7,000,000	7,000,000
	-	-	-	-	-	-
	74,267,903	74,641,301	83,771,023	48,367,731	48,533,684	50,715,220

THIS PAGE IS LEFT

BLANK INTENTIONALLY

OTHER REPORT

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2023

THIS PAGE IS LEFT

BLANK INTENTIONALLY

INDEPENDENT AUDITOR'S REPORT
ON MINNESOTA LEGAL COMPLIANCE

Public Utilities Commission
Elk River Municipal Utilities
Elk River, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of 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, 2023, and the related notes to the financial statements which collectively comprises the Utilities basic financial statements, and have issued our report thereon dated April 9, 2024

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.

Abdo

Abdo
Minneapolis, Minnesota
April 9, 2024