

ANNUAL FINANCIAL REPORT

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2025

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Elk River Municipal Utilities
 Elk River, Minnesota
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INTRODUCTORY SECTION
ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2025

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Elk River Municipal Utilities
Elk River, Minnesota
Public Utilities Commission and Administration
For the Year Ended December 31, 2025

COMMISSION

Name	Title
John Dietz	Chairperson
Mary Stewart	Vice-Chair
Matt Westgaard	Commissioner
Jill Larson-Vito	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
Sara Youngs	Administrations Director
Tony Mauren	Governance & Communications Manager

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FINANCIAL SECTION
ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2025

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INDEPENDENT AUDITOR'S REPORT

Public Utilities Commission
Elk River Municipal Utilities
Elk River, Minnesota

Report on the Financial Statements

Opinion

We have audited the accompanying financial statements of the Elk River Municipal Utilities (the Utilities) of the City of Elk River, Minnesota (the City), as of and for the year ended December 31, 2025, 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, 2025, 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.

Responsibilities of 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, 2025, 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, and related note disclosures 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 is 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 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

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

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



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Minneapolis, Minnesota
April 7, 2026



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Management's Discussion and Analysis

The following Management's Discussion and Analysis (MD&A) provides an overview of the financial activities of Elk River Municipal Utilities (the Utilities) for the year ended December 31, 2025. This section should be read in conjunction with the accompanying financial statements and notes.

Elk River Municipal Utilities operates as a municipal utility providing electric and water services.

Overview of the Financial Statements

Financial Statements

The Statement of Net Position includes the Utilities' assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between them reported as net position. The Statement of Net Position provides information about the nature and amount of investments in resources (assets), deferred outflows of resources, the obligations to creditors (liabilities), and deferred inflows of resources. Net position increases when revenues exceed expenses. The Statement of Revenues, Expenses and Changes in Net Position reports the revenues and expenses during the period indicated. The Statement of Cash Flows provide information about the Utilities' cash receipts and payments from operations, as well as funds provided and used in investing and financing activities.

Notes to Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the amounts provided in the financial statements.

Required Supplemental Information

The required supplemental information provides historical information about Elk River Municipal Utilities' defined benefit pension plan including changes in the net pension liabilities, annual contributions made to the pension plan, and changes in plan provisions and actuarial assumptions.

Financial Highlights

- The net position of Elk River Municipal Utilities at the close of 2025 was \$89,880,637, an increase of \$5,026,085 from 2024.
- The ending unrestricted cash and investment balance for 2025 was \$24,073,265, an increase of \$1.1 million from 2024.
- Electric retail revenue increased \$3.6 million (8.4%), driven by a 4.4% increase in kilowatt-hour sales. Residential usage increased 5.5%, commercial 1.4%, and industrial 4.3%.
- No electric rate increase was implemented in 2025, and rates remained stable.
- Water retail revenue increased \$273,000 (9.4%), with total usage increasing 4.7%. Residential usage increased 3.7% and commercial usage increased 5.7%.
- Water rates increased between 1% and 3% depending on usage tier.
- A cost-of-service study was completed in 2025. Resulting rate adjustments are being phased in over four years, with 2026 rates approved at increases of 2% for electric and 4% for water.

Financial Analysis of the Utilities

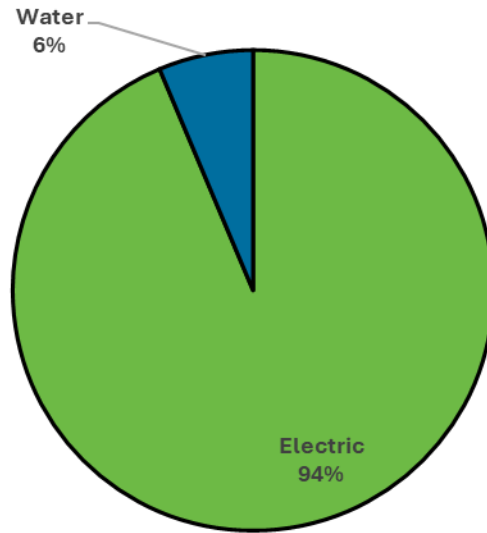
Table A-1
Condensed Statements of Revenues,
Expenses and Changes in Net Position

	2025	2024	Increase (Decrease)
Revenues			
Operating	\$ 50,004,280	\$ 46,082,215	\$ 3,922,065
Nonoperating	1,993,027	1,776,015	217,012
Total Revenues	<u>51,997,307</u>	<u>47,858,230</u>	<u>4,139,077</u>
Expenses			
Operating	45,819,530	43,560,442	2,259,088
Nonoperating	766,535	807,697	(41,162)
Total Expenses	<u>46,586,065</u>	<u>44,368,139</u>	<u>2,217,926</u>
Income Before Contributions and Operating Transfers	5,411,242	3,490,091	1,921,151
Capital Contributions - Developer Infrastructure and Connection Fees	688,392	477,998	210,394
Contribution from Customers	577,319	712,844	(135,525)
Transfers to Other City Funds	<u>(1,650,868)</u>	<u>(1,527,629)</u>	<u>(123,239)</u>
Change in Net Position	5,026,085	3,153,304	1,872,781
Net Position, January 1	<u>84,854,552</u>	<u>81,701,248</u>	<u>3,153,304</u>
Net Position, December 31	<u>\$ 89,880,637</u>	<u>\$ 84,854,552</u>	<u>\$ 5,026,085</u>

Table A-2
Condensed Statement of Net Position

	2025	2024	Increase (Decrease)
Assets			
Current and other	\$ 31,293,211	29,660,285	\$ 1,632,926
Capital and other non-current	104,198,765	101,204,766	2,993,999
Total Assets	<u>135,491,976</u>	<u>130,865,051</u>	<u>4,626,925</u>
Total Deferred Outflows of Resources	<u>478,776</u>	<u>383,601</u>	<u>95,175</u>
Liabilities			
Current	10,172,974	9,760,324	412,650
Non-current	29,394,306	30,737,715	(1,343,409)
Total Liabilities	<u>39,567,280</u>	<u>40,498,039</u>	<u>(930,759)</u>
Total Deferred Inflows of Resources	<u>6,522,835</u>	<u>5,896,061</u>	<u>626,774</u>
Net Position			
Net investment in capital assets	69,108,416	66,966,175	2,142,241
Restricted for debt service	1,779,016	1,779,016	-
Unrestricted	<u>18,993,205</u>	<u>16,109,361</u>	<u>2,883,844</u>
Total Net Position	<u>\$ 89,880,637</u>	<u>\$ 84,854,552</u>	<u>\$ 5,026,085</u>

Revenues. Table A-1 shows that operating revenue increased \$3.9 million (8.5%) in 2025 for the Electric and Water Departments combined. The following chart summarizes operating revenue by department.

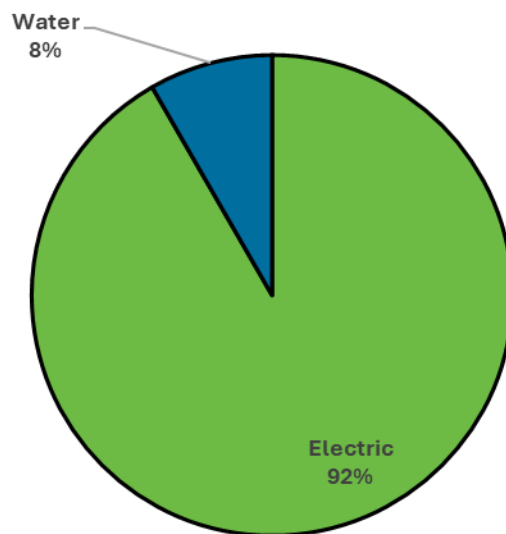


Nonoperating revenue consists primarily of transmission rebate revenue in the Electric Department and water tower lease revenue in the Water Department.

The Electric Department's transmission assets are recognized in the Midwest Independent Transmission System Operator (MISO) market. Our transmission assets generate a revenue rebate, which helps offset costs and stabilize our rates. In 2025, rebates averaged approximately \$57,613 per month.

The Water Department generates lease revenue from telecommunications providers for antennas on the water towers. Lease revenue totaled approximately \$461,410 in 2025 and is expected to continue over the term of the existing agreements.

Expenses. Table A-1 shows that total expenses increased \$2.2 million (5.0%) in 2025. The primary driver was a 7.0% increase in purchased power costs in the Electric Department, which represents 71.6% of total electric expenses. The following chart summarizes expenses by department.



Capital Assets and Debt Administration

Capital Assets. The Utilities' investment in capital assets for its business-type activities as of December 31, 2025, is shown below (net of accumulated depreciation). This investment in capital assets includes land, intangibles, buildings, improvements, equipment, and infrastructure. The following table summarizes the balances by type:

	2025	2024	Increase (Decrease)
Land	\$ 898,584	\$ 898,584	\$ -
Intangible	24,814,117	24,540,931	273,186
Land Improvements	7,366	8,079	(713)
Buildings	14,693,053	15,236,051	(542,998)
Machinery and Equipment	2,604,156	2,343,954	260,202
Infrastructure	53,492,159	53,368,273	123,886
Construction in Progress	2,335,830	325,998	2,009,832
	<u>\$ 98,845,265</u>	<u>\$ 96,721,870</u>	<u>\$ 2,123,395</u>
Total			2.2%
Percent increase (decrease)			

The most significant increases in the Electric Department relate to loss of revenue payment associated with territory acquisition, recorded as intangible assets.

Both the Electric and Water Department completed Advanced Metering Infrastructure (AMI) projects, contributing to increases in infrastructure assets.

Machinery and Equipment assets increased due to fleet additions, including the purchase of a new Freightliner Digger Truck for the Electric Department.

Additional detail is provided in Note 2C in the financial statements.

Long-term Debt: Long-term debt decreased by \$1,121,513 in 2025. The current portion of outstanding debt due in 2026 includes \$70,000 for General Obligation Water Bonds (Series 2021C) and \$1.035 million for Electric Revenue Bonds (Series 2016A, 2018A, and 2021B). Additional detail is provided in Note 2D in the financial statements.

Economic Factors and Next Year's Budgets and Rates

The utility industry continues to evolve as greater emphasis is placed on carbon-free energy, conservation, and long-term infrastructure sustainability. At the same time, Elk River Municipal Utilities must plan for future growth while maintaining reliable service and preserving system assets. These factors are expected to place upward pressure on operating and capital costs in the coming years.

Elk River Municipal Utilities remains committed to prudent financial management, responsible capital planning, and operational efficiency to help mitigate rate impacts. The Utilities' goal is to deliver safe, reliable, and cost-effective electric and water services through strong environmental and financial stewardship.

Elk River Municipal Utilities' competitive rates and solid financial performance reflect that ongoing commitment to providing safe, reliable, and affordable services to our community, every home, every business, every day.

Requests for Information

The financial statements, notes, and management's discussion and analysis are designed to provide a general overview of Elk River Municipal Utilities' financial condition. Questions or requests for additional financial information should be addressed to Elk River Municipal Utilities, PO Box 430, Elk River, Minnesota 55330-0430 or at 13069 Orono Parkway in Elk River, MN. Additional information may also be found on Elk River Municipal Utilities' website at ermumn.com.

FINANCIAL STATEMENTS
ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2025

Elk River Municipal Utilities
Elk River, Minnesota
Statement of Net Position (Continued on the Following Page)
December 31, 2025

	Electric	Water	Total
Assets			
Current Assets			
Cash and temporary investments	\$ 12,912,838	\$ 11,160,427	\$ 24,073,265
Receivables			
Accrued interest	5,318	89,279	94,597
Accounts, net of allowance	2,109,538	177,603	2,287,141
Special assessments	17,811	20,116	37,927
Leases	-	269,338	269,338
Other	205,280	45,823	251,103
Due from other City funds	8,721	128,850	137,571
Inventories	2,064,304	81,754	2,146,058
Prepaid expenses	178,940	38,255	217,195
	<u>17,502,750</u>	<u>12,011,445</u>	<u>29,514,195</u>
Non-current Assets			
Lease receivable	-	5,353,500	5,353,500
Capital Assets			
Land	697,870	200,714	898,584
Intangible	29,656,945	-	29,656,945
Land improvements	34,081	-	34,081
Buildings	15,734,276	3,279,913	19,014,189
Machinery and equipment	5,690,816	766,736	6,457,552
Infrastructure	64,097,687	45,839,302	109,936,989
Construction in progress	2,068,580	267,250	2,335,830
	<u>117,980,255</u>	<u>50,353,915</u>	<u>168,334,170</u>
Capital Assets, Cost	117,980,255	50,353,915	168,334,170
Less Accumulated Depreciation	<u>(44,192,856)</u>	<u>(25,296,049)</u>	<u>(69,488,905)</u>
	<u>73,787,399</u>	<u>25,057,866</u>	<u>98,845,265</u>
Total Capital Assets, Net	73,787,399	25,057,866	98,845,265
	<u>73,787,399</u>	<u>30,411,366</u>	<u>104,198,765</u>
Total Non-current Assets	73,787,399	30,411,366	104,198,765
Other Assets			
Restricted cash	1,779,016	-	1,779,016
	<u>1,779,016</u>	<u>-</u>	<u>1,779,016</u>
Total Assets	<u>93,069,165</u>	<u>42,422,811</u>	<u>135,491,976</u>
Deferred Outflows of Resources			
Deferred pension resources	396,358	82,418	478,776
	<u>396,358</u>	<u>82,418</u>	<u>478,776</u>

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

Elk River Municipal Utilities
Elk River, Minnesota
Statement of Net Position (Continued)
December 31, 2025

	Electric	Water	Total
Current Liabilities			
Accounts payable	\$ 3,955,556	\$ 272,415	\$ 4,227,971
Salaries and benefits payable	315,321	68,978	384,299
Accrued interest payable	324,857	15,250	340,107
Due to other City funds	1,006,772	144,841	1,151,613
Due to other governments	250,634	2,905	253,539
Customer deposits payable	1,197,466	166,647	1,364,113
Unearned revenue	-	234,762	234,762
Compensated absences	974,545	137,025	1,111,570
Bonds payable - current portion	1,035,000	70,000	1,105,000
Total Current Liabilities	9,060,151	1,112,823	10,172,974
Non-current Liabilities			
Bonds payable, net - less current portion	26,115,538	1,413,644	27,529,182
Net pension liability	1,541,981	323,143	1,865,124
Total Non-current Liabilities	27,657,519	1,736,787	29,394,306
Total Liabilities	36,717,670	2,849,610	39,567,280
Deferred Inflows of Resources			
Deferred pension resources	1,034,353	216,118	1,250,471
Deferred lease resources	-	5,272,364	5,272,364
Total Deferred Inflows of Resources	1,034,353	5,488,482	6,522,835
Net Position			
Net investment in capital assets	45,649,540	23,458,876	69,108,416
Restricted for debt service	1,779,016	-	1,779,016
Unrestricted	8,284,944	10,708,261	18,993,205
Total Net Position	\$ 55,713,500	\$ 34,167,137	\$ 89,880,637

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

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Elk River Municipal Utilities
Elk River, Minnesota
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2025

	Electric	Water	Total
Operating Revenues			
Charges for services	\$ 46,148,519	\$ 3,023,865	\$ 49,172,384
Substation credit	4,800	-	4,800
Connection maintenance	382,901	120,418	503,319
Customer penalties	288,178	35,599	323,777
Total Operating Revenues	<u>46,824,398</u>	<u>3,179,882</u>	<u>50,004,280</u>
Operating Expenses			
Purchased power	30,577,687	-	30,577,687
Production	1,980	799,154	801,134
Distribution	2,701,193	432,989	3,134,182
Depreciation	3,471,092	1,385,340	4,856,432
Customer accounts	653,527	103,890	757,417
General and administrative	4,571,998	1,120,680	5,692,678
Total Operating Expenses	<u>41,977,477</u>	<u>3,842,053</u>	<u>45,819,530</u>
Operating Income (Loss)	<u>4,846,921</u>	<u>(662,171)</u>	<u>4,184,750</u>
Nonoperating Revenues (Expenses)			
Interest income (loss)	452,949	127,692	580,641
Miscellaneous revenue	841,944	592,933	1,434,877
Interest expense and other	(735,069)	(31,466)	(766,535)
Gain/(Loss) on sale of capital assets	(22,491)	-	(22,491)
Total Nonoperating Revenues (Expenses)	<u>537,333</u>	<u>689,159</u>	<u>1,226,492</u>
Income (Loss) before Contributions and Transfers	<u>5,384,254</u>	<u>26,988</u>	<u>5,411,242</u>
Capital Contributions -			
Connection Fees	-	643,802	643,802
Contributions from Developers	-	44,590	44,590
Contribution from Customers	577,319	-	577,319
Transfers to Other City Funds	(1,650,868)	-	(1,650,868)
Total Contributions and Transfers	<u>(1,073,549)</u>	<u>688,392</u>	<u>(385,157)</u>
Change in Net Position	4,310,705	715,380	5,026,085
Net Position, January 1	<u>51,402,795</u>	<u>33,451,757</u>	<u>84,854,552</u>
Net Position, December 31	<u>\$ 55,713,500</u>	<u>\$ 34,167,137</u>	<u>\$ 89,880,637</u>

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, 2025

	<u>Electric</u>	<u>Water</u>	<u>Total</u>
Cash Flows from Operating Activities			
Receipts from customers and users	\$ 46,705,488	\$ 3,139,758	\$ 49,845,246
Other operating cash receipts	423,726	603,928	1,027,654
Payments to suppliers	(34,982,406)	(1,556,810)	(36,539,216)
Payments to employees	(3,425,809)	(899,297)	(4,325,106)
Net Cash Provided by Operating Activities	<u>8,720,999</u>	<u>1,287,579</u>	<u>10,008,578</u>
Cash Flows from Noncapital Financing Activities			
Transfers to City	(1,650,868)	-	(1,650,868)
(Increase) decrease in due from other City funds	(5,151)	21,910	16,759
(Decrease) increase in due to other City funds	(137,965)	(98,632)	(236,597)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(1,793,984)</u>	<u>(76,722)</u>	<u>(1,870,706)</u>
Cash Flows from Capital and Related Financing Activities			
Acquisition of capital assets	(5,696,617)	(630,036)	(6,326,653)
Proceeds from connection fees	-	643,802	643,802
Proceeds on sale of capital assets	17,540	-	17,540
Principal payments on bonds	(990,000)	(65,000)	(1,055,000)
Interest paid on bonds	(811,306)	(39,200)	(850,506)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(7,480,383)</u>	<u>(90,434)</u>	<u>(7,570,817)</u>
Cash Flows from Investing Activities			
Interest on investments	<u>451,265</u>	<u>78,815</u>	<u>530,080</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(102,103)	1,199,238	1,097,135
Cash and Cash Equivalents, January 1	<u>14,793,957</u>	<u>9,961,189</u>	<u>24,755,146</u>
Cash and Cash Equivalents, December 31	<u>\$ 14,691,854</u>	<u>\$ 11,160,427</u>	<u>\$ 25,852,281</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position			
Cash and temporary investments	\$ 12,912,838	\$ 11,160,427	\$ 24,073,265
Restricted cash	<u>1,779,016</u>	<u>-</u>	<u>1,779,016</u>
Total Cash and Cash Equivalents	<u>\$ 14,691,854</u>	<u>\$ 11,160,427</u>	<u>\$ 25,852,281</u>

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, 2025

	Electric	Water	Total
Reconciliation of Operating Income (Loss) to			
Net Cash Provided by Operating Activities			
Operating income	\$ 4,846,921	\$ (662,171)	\$ 4,184,750
Adjustments to reconcile operating income (loss)			
to net cash provided by operating activities			
Other revenue related to operations	841,944	592,933	1,434,877
Bad debt expense	8,782	-	8,782
Depreciation	3,471,092	1,385,340	4,856,432
(Increase) decrease in assets/deferred outflows:			
Accounts receivable	(108,416)	(44,339)	(152,755)
Other receivables	(65,030)	92,122	27,092
Special assessments receivable	(10,494)	4,215	(6,279)
Lease receivable	-	(889,418)	(889,418)
Inventories	(426,465)	(24,908)	(451,373)
Prepaid expenses	73,277	18,081	91,358
Deferred pension resources	(74,177)	(20,998)	(95,175)
Increase (decrease) in liabilities/deferred inflows:			
Accounts payable	263,823	(119,975)	143,848
Salaries and benefits payable	282	6,976	7,258
Unearned revenue	(4,305)	83,499	79,194
Compensated absences payable	111,397	32,809	144,206
Due to other governments	66,252	(5,716)	60,536
Customer deposits payable	64,793	45,574	110,367
Net pension liability	(166,055)	(5,841)	(171,896)
Deferred pension resources	(172,622)	(15,722)	(188,344)
Deferred lease resources	-	815,118	815,118
	<u>\$ 8,720,999</u>	<u>\$ 1,287,579</u>	<u>\$ 10,008,578</u>
Net Cash Provided by Operating Activities			
Noncash Capital and			
Related Financing Activities			
Amortization of Bond Premium	\$ 59,862	\$ 6,651	\$ 66,513
Gain (Loss) on Disposal of Capital Assets	\$ (22,491)	\$ -	\$ (22,491)
Book Value of Disposed Capital Assets	\$ 106,031	\$ -	\$ 106,031
Capital Assets Purchased on Account	\$ 987,321	\$ 115,346	\$ 1,102,667
Contribution of Capital Assets	\$ 577,319	\$ 44,590	\$ 621,909

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

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Elk River Municipal Utilities
Elk River, Minnesota
Notes to the Financial Statements
December 31, 2025

Note 1: Summary of Significant Accounting Policies

A. Nature of the Business

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

Elk River Municipal Utilities
Elk River, Minnesota
Notes to the Financial Statements
December 31, 2025

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.

Elk River Municipal Utilities
 Elk River, Minnesota
 Notes to the Financial Statements
 December 31, 2025

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 34 and are valued using a matrix pricing model (Level 2 inputs).

The Utilities has the following recurring fair value measurements as of December 31, 2025:

- Negotiable certificates of deposit of \$2,691,658 are valued using a matrix pricing model (Level 2 inputs).
- Asset backed securities of \$3,885,642 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. The allowance for uncollectible accounts at December 31, 2025 are shown in the table below.

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.

Elk River Municipal Utilities
 Elk River, Minnesota
 Notes to the Financial Statements
 December 31, 2025

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:

Description	Lives in Years	
	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 assets 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.

Elk River Municipal Utilities
Elk River, Minnesota
Notes to the Financial Statements
December 31, 2025

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% 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% 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 Municipal 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, 2025 was (\$64,889). The components of pension expense are noted in the plan summaries in Note 4.

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. 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% of their total gross wage paid during the Measurement Period. The percentage of UPMIC is calculated using a Scorecard. The Scorecard has five categories: Safety, Reliability and Quality of Utility Services, Workforce Development, Financial Goals, Communications/Customer Service, and Strategic Plan, 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.

Elk River Municipal Utilities
Elk River, Minnesota
Notes to the Financial Statements
December 31, 2025

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 assets 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 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% 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% of the deposits not covered by insurance or bonds.

Elk River Municipal Utilities
 Elk River, Minnesota
 Notes to the Financial Statements
 December 31, 2025

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, 2025, the Utilities' carrying amount of deposits, bank balance, FDIC coverage and pledged collateral are shown in the chart below.

Carrying amount of deposits	<u><u>\$ 14,131,634</u></u>
Bank Balance	\$ 14,093,035
Covered by FDIC	<u>(550,695)</u>
Remaining balance collateralized with securities pledged in the Utilities' name	<u><u>\$ 13,542,340</u></u>

Elk River Municipal Utilities
Elk River, Minnesota
Notes to the Financial Statements
December 31, 2025

Note 2: Detailed Notes on All Funds (Continued)

Investments

The Utilities' investment balances were as follows for December 31, 2025:

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	\$ 5,142,547	\$ -	\$ -	\$ -
Non-pooled Investments						
Negotiable certificates of deposits	N/A	less than 1 year	982,196	-	982,196	-
Negotiable certificates of deposits	N/A	1 - 5 years	1,709,462	-	1,709,462	-
Asset backed securities	N/A	1 - 5 years	3,503,405	-	3,503,405	-
Asset backed securities	N/A	more than 5 years	382,237	-	382,237	-
Total Non-pooled Investments			<u>6,577,300</u>	<u>-</u>	<u>6,577,300</u>	<u>-</u>
Total Investments			<u>\$ 11,719,847</u>	<u>\$ -</u>	<u>\$ 6,577,300</u>	<u>\$ -</u>

(1) Ratings were provided by various credit rating agencies where applicable to indicate associated credit risk.

(2) Interest rate risk is disclosed using the segmented time distribution method.

N/A Indicates not applicable.

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

Deposits	\$ 14,131,634
Investments	11,719,847
Cash on Hand	<u>800</u>
Total	<u>\$ 25,852,281</u>
Cash and Temporary Investments	
Unrestricted	\$ 24,073,265
Restricted	<u>1,779,016</u>
Total	<u>\$ 25,852,281</u>

Elk River Municipal Utilities
Elk River, Minnesota
Notes to the Financial Statements
December 31, 2025

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 28 of the notes.
- *Custodial Credit Risk.* The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. According to their investment policy the Utilities' portfolio maturities shall be staggered to avoid undue concentration of assets with one broker-dealer or financial institution.
- *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, 2025 the Utilities has no individual issuers invested in 5.0% or more of its total investment portfolio.
- *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 AT&T, Sprint, and Verizon that allows them to place antennas on water towers. The lease payments increase yearly. As of December 31, 2025, the Utilities' lease and interest receivable balance was \$5,710,788. The lease receivable 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	\$ 564,794	\$ 4,662	\$ 569,456
Sprint Lease on Gary St.	694,752	1.41	06/01/10	05/31/35	529,494	4,371	533,865
Sprint Lease on Auburn St.	694,752	1.41	06/01/10	05/31/35	529,494	4,371	533,865
Verizon Lease on Johnson St.	837,781	1.59	09/01/14	08/31/39	709,599	3,768	713,367
Verizon Lease on Gary St.	837,781	1.59	09/01/14	08/31/39	709,599	3,768	713,367
Verizon Lease on Auburn St.	909,094	1.70	01/01/17	12/31/42	847,515	14,521	862,036
Verizon Lease on Freeport St.	724,310	1.78	10/01/20	09/30/45	642,180	2,861	645,041
AT&T Lease on Freeport St.	1,090,163	4.46	09/01/25	08/31/50	1,090,163	49,628	1,139,791
Total Lease Receivable							<u>\$ 5,710,788</u>

Elk River Municipal Utilities
Elk River, Minnesota
Notes to the Financial Statements
December 31, 2025

Note 2: Detailed Notes on All Funds (Continued)

Future lease receivable payments are as follows:

Year Ending December 31,	Principal	Interest	Total
2026	\$ 269,338	\$ 121,447	\$ 390,785
2027	288,450	117,291	405,741
2028	308,502	112,779	421,281
2029	329,537	107,893	437,430
2030	351,600	102,610	454,210
2031 - 2035	1,893,276	418,358	2,311,634
2036 - 2040	1,156,960	269,342	1,426,302
2041 - 2045	605,681	155,443	761,124
2046 - 2050	419,494	49,827	469,321
Total	<u>\$ 5,622,838</u>	<u>\$ 1,454,990</u>	<u>\$ 7,077,828</u>

C. Capital Assets

Capital asset activity for the year ended December 31, 2025 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets not being Depreciated				
Land	\$ 898,584	\$ -	\$ -	\$ 898,584
Intangible	7,169,412	941,321	-	8,110,733
Construction in progress	325,998	4,894,832	(2,885,000)	2,335,830
Total Capital Assets not being Depreciated	<u>8,393,994</u>	<u>5,836,153</u>	<u>(2,885,000)</u>	<u>11,345,147</u>
Capital Assets being Depreciated				
Intangible	21,546,212	-	-	21,546,212
Land improvements	34,081	-	-	34,081
Buildings	18,925,576	88,613	-	19,014,189
Machinery and equipment	5,970,147	767,809	(280,404)	6,457,552
Infrastructure	106,719,859	3,278,283	(61,153)	109,936,989
Total Capital Assets being Depreciated	<u>153,195,875</u>	<u>4,134,705</u>	<u>(341,557)</u>	<u>156,989,023</u>
Less Accumulated Depreciation for				
Intangible	(4,174,693)	(668,135)	-	(4,842,828)
Land improvements	(26,002)	(713)	-	(26,715)
Buildings	(3,689,525)	(631,611)	-	(4,321,136)
Machinery and equipment	(3,626,193)	(446,103)	218,900	(3,853,396)
Infrastructure	(53,351,586)	(3,109,870)	16,626	(56,444,830)
Total Accumulated Depreciation	<u>(64,867,999)</u>	<u>(4,856,432)</u>	<u>235,526</u>	<u>(69,488,905)</u>
Total Capital Assets being Depreciated, Net	<u>88,327,876</u>	<u>(721,727)</u>	<u>(106,031)</u>	<u>87,500,118</u>
Business-type Activities Capital Assets, Net	<u>\$ 96,721,870</u>	<u>\$ 5,114,426</u>	<u>\$ (2,991,031)</u>	<u>\$ 98,845,265</u>

Elk River Municipal Utilities
 Elk River, Minnesota
 Notes to the Financial Statements
 December 31, 2025

Note 2: Detailed Notes on All Funds (Continued)

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

Business-type Activities

Electric	\$ 3,471,092
Water	<u>1,385,340</u>
 Total Depreciation Expense - Business-type Activities	 <u><u>\$ 4,856,432</u></u>

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	<u>\$ 1,380,000</u>

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

Year Ending December 31,	Principal	Interest	Total
2026	\$ 70,000	\$ 36,600	\$ 106,600
2027	70,000	33,800	103,800
2028	75,000	31,000	106,000
2029	75,000	28,000	103,000
2030	80,000	25,000	105,000
2031 - 2035	430,000	85,900	515,900
2036 - 2040	480,000	39,300	519,300
2041	<u>100,000</u>	<u>2,000</u>	<u>102,000</u>
 Total	 <u><u>\$ 1,380,000</u></u>	 <u><u>\$ 281,600</u></u>	 <u><u>\$ 1,661,600</u></u>

In 2025, annual principal and interest payment on the bonds required about 3.3% of revenues from the Water fund. The principal and interest paid and total customer revenues for the Water fund were \$104,200 and \$3,179,882, respectively.

Elk River Municipal Utilities
 Elk River, Minnesota
 Notes to the Financial Statements
 December 31, 2025

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	\$ 6,510,000
Electric Revenue Bonds, Series 2018A	10,000,000	3.50 - 5.00	09/26/18	08/01/48	8,595,000
Electric Revenue Bonds, Series 2021B	11,810,000	2.00 - 5.00	05/13/21	08/01/51	<u>10,910,000</u>
Total Revenue Bonds					<u>\$ 26,015,000</u>

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

Year Ending December 31,	Principal	Interest	Total
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	1,140,000	663,606	1,803,606
2030	1,190,000	624,488	1,814,488
2031 - 2035	6,525,000	2,505,300	9,030,300
2036 - 2040	4,670,000	1,635,681	6,305,681
2041 - 2045	4,580,000	1,035,806	5,615,806
2046 - 2050	4,145,000	353,481	4,498,481
2051	550,000	12,376	562,376
Total	<u>\$ 26,015,000</u>	<u>\$ 9,044,006</u>	<u>\$ 35,059,006</u>

In 2025, annual principal and interest payment on the bonds required about 3.8% of revenues from the Electric fund. The principal and interest paid and total customer revenues for the Electric fund were \$1,801,306 and \$46,824,398, respectively.

Elk River Municipal Utilities
 Elk River, Minnesota
 Notes to the Financial Statements
 December 31, 2025

Note 2: Detailed Notes on All Funds (Continued)

Changes in Long-term Liabilities

Long-term liability activity for the year ended December 31, 2025 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-type Activities					
Bonds Payable					
General obligation					
revenue bonds	\$ 1,445,000	\$ -	\$ (65,000)	\$ 1,380,000	\$ 70,000
Revenue bonds	27,005,000	-	(990,000)	26,015,000	1,035,000
Unamortized premium					
on bonds	1,305,695	-	(66,513)	1,239,182	-
Total Bonds Payable, Net	<u>29,755,695</u>	<u>-</u>	<u>(1,121,513)</u>	<u>28,634,182</u>	<u>1,105,000</u>
Compensated					
Absences Payable	<u>967,364</u>	<u>1,248,897</u>	<u>(1,104,691)</u>	<u>1,111,570</u>	<u>1,111,570</u>
Business-type Activity					
Long-term					
Liabilities	<u>\$ 30,723,059</u>	<u>\$ 1,248,897</u>	<u>\$ (2,226,204)</u>	<u>\$ 29,745,752</u>	<u>\$ 2,216,570</u>

Elk River Municipal Utilities
 Elk River, Minnesota
 Notes to the Financial Statements
 December 31, 2025

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	\$ 8,721	Billing services
Total Electric Fund Receivable From City		<u>8,721</u>	
Water	City	128,850	TIF 22 Water access charge
Total Water Fund Receivable From City		<u>128,850</u>	
Total Receivable From City		<u>\$ 137,571</u>	
City	Electric	\$ 256,111	Franchise fees
City	Electric	113,043	Revenue transfer
City	Electric	248,779	Billed sewer on behalf of City
City	Electric	113,613	Billed stormwater on behalf of City
City	Electric	167,514	Billed trash on behalf of City
City	Electric	103,458	Shared costs
City	Electric	302	Vinyl stickers for trucks
City	Electric	2,256	Fuel
City	Electric	1,696	Parts and labor
Total Electric Fund Payable to City		<u>1,006,772</u>	
City	Water	\$ 766	Fuel
City	Water	275	Parts and labor
City	Water	25,865	Shared costs
City	Water	117,935	2025 Street improvements
Total Water Fund Payable to City		<u>144,841</u>	
Total Payable to City		<u>\$ 1,151,613</u>	

Transfers

During the year ended December 31, 2025, the Utilities made the following transfers:

	Transfer to Other City Funds
Electric	<u>\$ 1,650,868</u>

- The transfer out of the Electric fund was the annual transfer of 4% of 2025 Elk River revenues to City funds.

Elk River Municipal Utilities
Elk River, Minnesota
Notes to the Financial Statements
December 31, 2025

Note 3: 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, \$933,159 in 2024, \$946,133 in 2025, and \$941,321 in 2026. 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%. 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 10.48%. The current return of 10.48% 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 project under recovery in 2025 is estimated to be \$241K. 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 2025 (approximately \$241K) would be included in the revenue requirements in 2027. The transmission payments for 2025 were \$15,650.

Elk River Municipal Utilities
Elk River, Minnesota
Notes to the Financial Statements
December 31, 2025

Note 4: 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). These plan provisions are established and administered according to Minnesota Statutes chapters 353, 353D, 353E, 353G, and 356. Minnesota Statutes chapter 356 defines each plan's financial reporting requirements. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

General Employees Retirement Plan (General Plan)

Membership in the General Plan includes employees of counties, cities, townships, schools in non-certified positions, and other governmental entities whose revenues are derived from taxation, fees, or assessments. Plan membership is required for any employee who is expected to earn more than \$425 in a month, unless the employee meets exclusion criteria.

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. When a member is "vested," they have earned enough service credit to receive a lifetime monthly benefit after leaving public service and reaching an eligible retirement age. Members who retire at or over their Social Security full retirement age with at least one year of service qualify for a retirement benefit.

General Employees Plan Benefits

General Employees Plan requires three years of service to vest. 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 General Plan members. Members hired prior to July 1, 1989, receive the higher of the Step or Level formulas. Only the Level formula is used for members hired after June 30, 1989. Under the Step formula, General Plan members receive 1.2% of the highest average salary for each of the first 10 years of service and 1.7% for each additional year. Under the Level formula, General Plan members receive 1.7% of highest average salary for all years of service. For members hired prior to July 1, 1989 a full retirement benefit is available when age plus years of service equal 90 and normal retirement age is 65. Members can receive a reduced retirement benefit as early as age 55 if they have three or more years of service. Early retirement benefits are reduced by .25% for each month under age 65. Members with 30 or more years of service can retire at any age with a reduction of .25% for each month the member is younger than age 62. The Level formula allows General Plan members to receive a full retirement benefit at age 65 if they were first hired before July 1, 1989 or at age 66 if they were hired on or after July 1, 1989. Early retirement begins at age 55 with an actuarial reduction applied to the benefit.

Elk River Municipal Utilities
 Elk River, Minnesota
 Notes to the Financial Statements
 December 31, 2025

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50% of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1% and a maximum of 1.5%. The 2025 annual increase was 1.25%. 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 prorated increase.

C. Contributions

Minnesota Statutes chapters 353, 353E, 353G, and 356 set the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature.

General Employees Fund Contributions

General Plan members were required to contribute 6.50% of their annual covered salary in fiscal year 2025 and the Utilities was required to contribute 7.50% for General Plan members. The Utilities' contributions to the General Employees Fund for the year ended December 31, 2025, were \$397,427. The Utilities' contributions were equal to the required contributions as set by state statute.

D. Pension Costs

General Employees Fund Pension Costs

At December 31, 2025, the Utilities reported a liability of \$1,865,124 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 \$44,993.

Utilities' proportionate share of the net pension liability	\$ 1,865,124
State of Minnesota's proportionate share of the net pension liability associated with the Utilities	44,993
	44,993
Total	\$ 1,910,117

The net pension liability was measured as of June 30, 2025, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Utilities' proportion 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, 2024 through June 30, 2025, relative to the total employer contributions received from all of PERA's participating employers. The Utilities' proportionate share was 0.0563% at the end of the measurement period and 0.0551% for the beginning of the period.

Elk River Municipal Utilities
Elk River, Minnesota
Notes to the Financial Statements
December 31, 2025

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

For the year ended December 31, 2025, the Utilities recognized pension expense of (\$57,988) for its proportionate share of the General Employees Plan's pension expense. In addition, the Utilities recognized an additional (\$6,901) 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, 2025, the Utilities reported 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	\$ 177,706	\$ -
Changes in actuarial assumptions	44,939	429,159
Net difference between projected and actual investment earnings	-	742,151
Changes in proportion	59,636	79,161
Employer contributions subsequent to the measurement date	196,495	-
Total	\$ 478,776	\$ 1,250,471

The \$196,495 reported as deferred outflows of resources related to pensions resulting from Utilities' contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2026. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

2026	\$ (223,334)
2027	(373,660)
2028	(238,621)
2029	(132,575)

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 Return on Investment
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 %	

Elk River Municipal Utilities
Elk River, Minnesota
Notes to the Financial Statements
December 31, 2025

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

F. Actuarial Method and Assumptions

The total pension liability for each of the cost-sharing defined benefit plans was determined by an actuarial valuation as of June 30, 2025, using the entry age normal actuarial cost method. The long-term rate of return on pension plan investments used to determine the total liability is 7%. The 7% assumption is based on a review of inflation and investment return assumptions from a number of national investment consulting firms. The review provided a range of investment return rates considered reasonable by the actuary. An investment return of 7% is within that range.

- Inflation is assumed to be 2.25% for the General Employees Plan.
- Benefit increases after retirement are assumed to be 1.50% for the General Employees Plan.

Salary growth assumptions in the General Employees Plan range in annual increments from 11.5% after one year of service to 3% 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 General Employees Plan was last reviewed 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 2025:

General Employees Fund

Changes in Actuarial Assumptions:

- The combined service annuity loading factors increased from 15% to 19% for vested, terminated members and from 3% to 44% for non-vested, terminated members.
- The assumed post-retirement benefit increase changed from 1.25% to 1.5%.

Changes in Plan Provisions:

- The post-retirement benefit increase formula changed to 100% of the Social Security annual increase, between 1% and 1.75%, beginning January 1, 2026. If the funded ratio (on a market value of assets basis) is less than 85% for the last two consecutive annual valuations or is less than 80% in the most recent actuarial valuation, the maximum is reduced to 1.5%. Previously, the benefit increase was 50% of the Social Security annual increase, between 1% and 1.5%.
- The 1% additional employer contribution is eliminated when the plan reaches 98% funded status (on an actuarial value of assets basis); this contribution was previously scheduled to stop when the plan reached 100% funded status.

G. Discount Rate

The discount rate used to measure the total pension liability in 2025 was 7.0%. 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 Plan was projected to be available to make all projected future benefit payments of current plan members. 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.

Elk River Municipal Utilities
 Elk River, Minnesota
 Notes to the Financial Statements
 December 31, 2025

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

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% Decrease (6.00%)	Current (7.00%)	1% Increase (8.00%)
General Employees Fund	\$ 4,530,094	\$ 1,865,124	\$ (296,766)

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.

REQUIRED SUPPLEMENTARY INFORMATION

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2025

Elk River Municipal Utilities
Elk River, Minnesota
Required Supplementary Information
For the Year Ended December 31, 2025

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
06/30/25	0.0563 %	\$ 1,865,124	\$ 44,993	\$ 1,910,117	\$ 4,907,823	38.0 %	90.8 %
06/30/24	0.0551	2,037,020	52,673	2,089,693	4,663,185	43.7	86.7
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

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)
12/31/25	\$ 397,427	\$ 397,427	\$ -	\$ 5,299,027	7.5 %
12/31/24	349,758	349,758	-	4,663,435	7.5
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

Elk River Municipal Utilities
Elk River, Minnesota
Required Supplementary Information (Continued)
For the Year Ended December 31, 2025

Notes to the Required Supplementary Information - General Employees Fund

Changes in Actuarial Assumptions

2025 - The combined service annuity loading factors increased from 15% to 19% for vested, terminated members and from 3% to 44% for non-vested, terminated members. The assumed post-retirement benefit increase changed from 1.25% to 1.5%.

2024 - Rates of merit and seniority were adjusted, resulting in slightly higher rates. Assumed rates of retirement were adjusted as follows: increase the rate of assumed unreduced retirements, slight adjustments to Rule of 90 retirement rates, and slight adjustments to early retirement rates for Tier 1 and Tier 2 members. Minor increase in assumed withdrawals for males and females. Lower rates of disability. Continued use of Pub-2010 general mortality table with slight rate adjustments as recommended in the most recent experience study. Minor changes to form of payment assumptions for male and female retirees. Minor changes to assumptions made with respect to missing participant data.

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

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% to 6.50%, 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 mortality projection scale was changed from MP-2015 to MP-2017. The assumed benefit increase was changed from 1.00% per year through 2044 and 2.50% per year thereafter to 1.25% per year.

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

Elk River Municipal Utilities
Elk River, Minnesota
Required Supplementary Information (Continued)
For the Year Ended December 31, 2025

Notes to the Required Supplementary Information - General Employees Fund (Continued)

Changes in Actuarial Assumptions (Continued)

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

Changes in Plan Provisions

2025 - The post-retirement benefit increase formula changed to 100% of the Social Security annual increase, between 1% and 1.75%, beginning January 1, 2026. If the funded ratio (on a market value of assets basis) is less than 85% for the last two consecutive annual valuations or is less than 80% in the most recent actuarial valuation, the maximum is reduced to 1.5%. Previously, the benefit increase was 50% of the Social Security annual increase, between 1% and 1.5%. The 1% additional employer contribution is eliminated when the plan reaches 98% funded status (on an actuarial value of assets basis); this contribution was previously scheduled to stop when the plan reached 100% funded status.

2024 - The workers' compensation offset for disability benefits was eliminated. The actuarial equivalent factors updated to reflect the changes in assumptions.

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% 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% to 3.00%, beginning July 1, 2018. Deferred augmentation was changed to 0.00%, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply. Contribution stabilizer provisions were repealed. Annual increases were changed from 1.00% per year with a provision to increase to 2.50% upon attainment of 90.00% funding ratio to 50.00% of the Social Security Cost of Living Adjustment, not less than 1.00% and not more than 1.50%, 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.

SUPPLEMENTARY INFORMATION

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2025

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, 2025

	Electric	Water	Total
Operating Revenues			
Charges for services			
Elk River	\$ 41,395,983	\$ 3,023,865	\$ 44,419,848
Otsego	4,251,487	-	4,251,487
Big Lake Township	219,682	-	219,682
Dayton	281,367	-	281,367
Substation credit	4,800	-	4,800
Connection maintenance	382,901	120,418	503,319
Customer penalties	288,178	35,599	323,777
Total Operating Revenues	<u>46,824,398</u>	<u>3,179,882</u>	<u>50,004,280</u>
Operating Expenses			
Purchased power	<u>30,577,687</u>	-	<u>30,577,687</u>
Production			
Supervision and labor	-	80,063	80,063
Supplies and power for pumping	1,028	354,618	355,646
Maintenance of structures	-	128,715	128,715
Maintenance of equipment	952	235,758	236,710
Total production	<u>1,980</u>	<u>799,154</u>	<u>801,134</u>
Transmission and distribution			
Supervision and labor	35,183	9,011	44,194
Maintenance of overhead lines	713,239	-	713,239
Maintenance of underground lines	529,390	-	529,390
Maintenance of station equipment	156,906	-	156,906
Transportation	247,509	22,890	270,399
Maintenance of customer service	6,423	80,792	87,215
Maintenance of customer meters	265,972	322,500	588,472
Miscellaneous	746,571	(2,204)	744,367
Total transmission and distribution	<u>2,701,193</u>	<u>432,989</u>	<u>3,134,182</u>
Services to City	<u>238,983</u>	<u>871</u>	<u>239,854</u>
Depreciation and amortization	<u>3,471,092</u>	<u>1,385,340</u>	<u>4,856,432</u>
Customer accounts expense			
Meter reading	32,539	6,209	38,748
Billing and collection	373,223	96,810	470,033
Bad debts	8,782	-	8,782
Total customer accounts expense	<u>414,544</u>	<u>103,019</u>	<u>517,563</u>

Elk River Municipal Utilities
Elk River, Minnesota
Supplementary Information
Schedule of Operating Revenues and Expenses (Continued)
For the Year Ended December 31, 2025

	Electric	Water	Total
Operating Expenses (Continued)			
General and administrative			
Salaries	\$ 952,805	\$ 284,945	\$ 1,237,750
Employee pensions and benefits	2,136,646	522,502	2,659,148
Dues	140,529	77,034	217,563
Office supplies and billing expense	131,769	34,354	166,123
Office utilities and maintenance	29,439	7,360	36,799
Consulting fees	129,767	61,360	191,127
Legal and audit	38,507	40,771	79,278
Environmental compliance	32,994	2,006	35,000
Conservation improvement project	577,238	771	578,009
Insurance	151,178	42,015	193,193
Telephone	34,258	8,483	42,741
Advertising	13,391	7,363	20,754
Education and meetings	200,473	30,956	231,429
Miscellaneous	3,004	760	3,764
Total general and administrative	<u>4,571,998</u>	<u>1,120,680</u>	<u>5,692,678</u>
Total Operating Expenses	<u>41,977,477</u>	<u>3,842,053</u>	<u>45,819,530</u>
Operating Income (Loss)	<u>4,846,921</u>	<u>(662,171)</u>	<u>4,184,750</u>
Nonoperating Revenues (Expenses)			
Interest income	452,949	127,692	580,641
Miscellaneous revenue	841,944	592,933	1,434,877
Interest expense and other	(735,069)	(31,466)	(766,535)
Gain/(loss) on sale of capital assets	(22,491)	-	(22,491)
Total Nonoperating Revenues	<u>537,333</u>	<u>689,159</u>	<u>1,226,492</u>
Income before Contributions and Transfers	<u>5,384,254</u>	<u>26,988</u>	<u>5,411,242</u>
Capital Contributions			
Connection Fees	-	643,802	643,802
Contributions from Developers	-	44,590	44,590
Contributions from Customers	577,319	-	577,319
Transfers to Other City Funds	<u>(1,650,868)</u>	<u>-</u>	<u>(1,650,868)</u>
Total Contributions and Transfers	<u>(1,073,549)</u>	<u>688,392</u>	<u>(385,157)</u>
Change in Net Position	4,310,705	715,380	5,026,085
Net Position, January 1	<u>51,402,795</u>	<u>33,451,757</u>	<u>84,854,552</u>
Net Position, December 31	<u>\$ 55,713,500</u>	<u>\$ 34,167,137</u>	<u>\$ 89,880,637</u>

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OTHER INFORMATION

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2025

Elk River Municipal Utilities

Elk River, Minnesota

Electric Fund

Summary of Operations and Unaudited Statistics

For the Years Ended December 31, 2016 through December 31, 2025

Summary of Operations

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Operating Revenues				
Sales of electricity	\$ 34,569,098	\$ 36,458,061	\$ 39,039,573	\$ 37,640,985
Other operating revenues (expenses)	(104,702)	(337,237)	(259,668)	453,648
Total Operating Revenues	<u>34,464,396</u>	<u>36,120,824</u>	<u>38,779,905</u>	<u>38,094,633</u>
Operating Expenses				
Purchased power	23,991,069	25,402,576	26,710,514	24,851,301
Distribution	2,041,810	2,385,263	2,660,231	2,546,634
Services to the City	230,312	202,421	215,296	210,791
Depreciation	2,005,093	2,046,935	2,297,349	2,856,258
Other operating expenses	3,558,315	3,357,276	3,318,016	4,090,102
Total Operating Expenses	<u>31,826,599</u>	<u>33,394,471</u>	<u>35,201,406</u>	<u>34,555,086</u>
Operating Income	2,637,797	2,726,353	3,578,499	3,539,547
Capital Contributions	-	209,051	352,104	125,764
Transfers to Other City Funds	(1,089,287)	(1,113,264)	(1,188,664)	(1,157,445)
Special Item	330,923	-	-	-
Nonoperating Revenues	<u>8,991</u>	<u>145,034</u>	<u>218,586</u>	<u>82,440</u>
Net Income	<u>\$ 1,888,424</u>	<u>\$ 1,967,174</u>	<u>\$ 2,960,525</u>	<u>\$ 2,590,306</u>
Percent of Change				
Sales of electricity	5.702%	5.464%	7.081%	-3.582%
Purchased power	8.881%	5.883%	5.149%	-6.961%
Percent of Revenues				
Purchased power	69.611%	70.327%	68.877%	65.236%

Unaudited Statistics Miscellaneous

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
kWh's purchased	311,990,595	320,349,631	339,917,944	336,570,637
kWh's sold	<u>301,838,731</u>	<u>313,952,561</u>	<u>331,124,011</u>	<u>325,981,176</u>
Line loss	10,151,864	6,397,070	8,793,933	10,589,461
Percent of line loss	3.254%	1.997%	2.587%	3.146%
Revenues Per kWh Sold	\$ 0.1145	\$ 0.1161	\$ 0.1179	\$ 0.1155
Cost Per kWh Purchased	\$ 0.0769	\$ 0.0793	\$ 0.0786	\$ 0.0738
Number of Customers	10,816	11,448	11,983	12,244
Total Contribution/Transfers to City	\$ 1,089,287	\$ 1,113,264	\$ 1,188,664	\$ 1,157,445

2020	2021	2022	2023	2024	2025
\$ 37,714,965	\$ 39,719,268	\$ 42,395,048	\$ 43,986,269	\$ 42,557,925	\$ 46,148,519
207,542	1,041,676	1,428,008	464,470	617,177	675,879
<u>37,922,507</u>	<u>40,760,944</u>	<u>43,823,056</u>	<u>44,450,739</u>	<u>43,175,102</u>	<u>46,824,398</u>
24,240,440	28,169,146	31,544,604	31,232,788	28,590,698	30,577,687
2,458,699	2,585,796	2,808,964	2,539,170	2,704,352	2,703,173
229,086	224,814	231,861	253,564	229,359	238,983
2,896,839	2,957,685	3,062,751	3,177,120	3,317,829	3,471,092
4,133,940	3,688,401	4,763,425	4,855,110	5,148,660	4,986,542
<u>33,959,004</u>	<u>37,625,842</u>	<u>42,411,605</u>	<u>42,057,752</u>	<u>39,990,898</u>	<u>41,977,477</u>
3,963,503	3,135,102	1,411,451	2,392,987	3,184,204	4,846,921
174,557	385,316	298,935	489,452	690,934	577,319
(1,340,218)	(1,407,734)	(1,531,633)	(1,620,378)	(1,527,629)	(1,650,868)
-	-	-	-	-	-
<u>98,427</u>	<u>(193,410)</u>	<u>(62,440)</u>	<u>335,209</u>	<u>474,055</u>	<u>537,333</u>
<u>\$ 2,896,269</u>	<u>\$ 1,919,274</u>	<u>\$ 116,313</u>	<u>\$ 1,597,270</u>	<u>\$ 2,821,564</u>	<u>\$ 4,310,705</u>

0.197%	5.314%	6.737%	3.753%	-3.247%	8.437%
-2.458%	16.207%	11.983%	-0.988%	-8.459%	6.950%
63.921%	69.108%	71.982%	70.264%	66.220%	65.303%

2020	2021	2022	2023	2024	2025
337,016,741	347,974,385	344,137,778	341,681,928	327,715,292	340,639,930
324,469,638	341,047,710	333,644,951	329,773,349	316,756,062	330,803,279
<u>12,547,103</u>	<u>6,926,675</u>	<u>10,492,827</u>	<u>11,908,579</u>	<u>10,959,230</u>	<u>9,836,651</u>
3.723%	1.991%	3.049%	3.485%	3.344%	2.888%
\$ 0.1162	\$ 0.1165	\$ 0.1271	\$ 0.1334	\$ 0.1344	\$ 0.1395
\$ 0.0719	\$ 0.0810	\$ 0.0917	\$ 0.0914	\$ 0.0872	\$ 0.0898
12,365	12,789	12,955	13,232	13,466	13,610
\$ 1,340,218	\$ 1,407,734	\$ 1,531,633	\$ 1,620,378	\$ 1,527,629	\$ 1,650,868

Elk River Municipal Utilities
 Elk River, Minnesota
 Water Fund
 Summary of Operations and Unaudited Statistics
 For the Years Ended December 31, 2016 through December 31, 2025

Summary of Operations

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Operating Revenues				
Sales of water	\$ 2,173,521	\$ 2,326,245	\$ 2,515,821	\$ 2,303,670
Operating Expenses				
Operating expenses less depreciation	1,325,831	1,614,095	1,430,539	1,521,719
Services to City	-	-	-	1,583
Depreciation	1,148,310	1,191,894	1,193,745	1,147,149
Total Operating Expenses	<u>2,474,141</u>	<u>2,805,989</u>	<u>2,624,284</u>	<u>2,670,451</u>
Total Operating Income (Loss)	<u>\$ (300,620)</u>	<u>\$ (479,744)</u>	<u>\$ (108,463)</u>	<u>\$ (366,781)</u>
Percent of Change				
Sales of water	(1.32%)	7.03%	8.15%	(8.43%)

Unaudited Statistics

Miscellaneous

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Water Pumped (Gallons)	801,603,000	788,182,000	822,546,000	778,595,000
Water Sold (Gallons)	666,656,000	686,032,000	737,689,000	664,924,000
Water Loss	16.83%	12.96%	10.32%	14.60%
Revenues Per 1,000 Gallons Pumped	\$ 2.71	\$ 2.95	\$ 3.06	\$ 2.96
Revenues Per 1,000 Gallons Sold	\$ 3.26	\$ 3.39	\$ 3.41	\$ 3.46
Number of Customers	4,903	5,011	5,140	5,256

Water Supplier Services

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Flushing Hydrants	46,816,000	47,470,500	47,894,000	48,240,500
Back Washing	4,430,000	4,125,542	3,823,903	3,850,801
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
Street and Sewer Maintenance	1,800,000	1,550,000	1,550,000	1,550,000
Water Tower Paint and Clean/Maintenance	4,000,000	4,000,000	4,000,000	4,000,000
Well Maintenance	7,358,000	7,000,000	7,000,000	7,000,000
Water Supplier Services (Gallons)	<u>74,404,000</u>	<u>74,146,042</u>	<u>74,267,903</u>	<u>74,641,301</u>

<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
<u>\$ 2,674,544</u>	<u>\$ 3,120,660</u>	<u>\$ 2,988,835</u>	<u>\$ 3,383,999</u>	<u>\$ 2,907,113</u>	<u>\$ 3,179,882</u>
1,540,043	2,004,037	2,050,084	2,021,225	2,346,511	2,455,842
463	1,259	540	-	-	871
<u>1,133,179</u>	<u>1,139,802</u>	<u>1,117,357</u>	<u>1,174,752</u>	<u>1,223,033</u>	<u>1,385,340</u>
<u>2,673,685</u>	<u>3,145,098</u>	<u>3,167,981</u>	<u>3,195,977</u>	<u>3,569,544</u>	<u>3,842,053</u>
<u>\$ 859</u>	<u>\$ (24,438)</u>	<u>\$ (179,146)</u>	<u>\$ 188,022</u>	<u>\$ (662,431)</u>	<u>\$ (662,171)</u>
16.10%	16.68%	(4.22%)	13.22%	(14.09%)	9.38%

<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
872,733,000	977,238,000	886,422,000	1,004,271,000	841,107,000	867,629,000
756,383,000	863,076,000	805,096,000	915,053,000	775,275,000	811,870,000
13.33%	11.68%	9.17%	8.89%	7.83%	6.43%
\$ 3.06	\$ 3.19	\$ 3.37	\$ 3.37	\$ 3.46	\$ 3.67
\$ 3.54	\$ 3.62	\$ 3.71	\$ 3.55	\$ 3.75	\$ 3.92
5,320	5,430	5,551	5,611	5,708	5,812

<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
53,779,500	19,850,600	23,831,500	25,390,750	25,506,250	25,679,500
6,441,523	5,967,131	5,130,934	5,771,470	5,679,945	6,032,507
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	1,886,500	2,290,750
1,550,000	1,550,000	1,550,000	1,550,000	1,550,000	6,500,000
5,000,000	4,000,000	4,000,000	3,000,000	2,000,000	1,003,795
7,000,000	7,000,000	7,000,000	7,000,000	7,000,000	7,000,000
<u>83,771,023</u>	<u>48,367,731</u>	<u>48,533,684</u>	<u>50,715,220</u>	<u>48,622,695</u>	<u>53,506,552</u>

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OTHER REPORT

ELK RIVER MUNICIPAL UTILITIES
ELK RIVER, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2025

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**INDEPENDENT AUDITOR’S REPORT
ON MINNESOTA LEGAL COMPLIANCE**

Public Utilities Commission
Elk River Municipal Utilities
Elk River, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the Elk River Municipal Utilities (the Utilities) of the City of Elk River, Minnesota (the City) as of and for the year ended December 31, 2025, and the related notes to the financial statements which collectively comprises the Utilities basic financial statements, and have issued our report thereon dated April 7, 2026.

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
Minneapolis, Minnesota
April 7, 2026