

**MINNESOTA MUNICIPAL UTILITIES ASSOCIATION
PLYMOUTH, MINNESOTA**

**FINANCIAL STATEMENTS
SEPTEMBER 30, 2023 AND 2022**



MINNESOTA MUNICIPAL UTILITIES ASSOCIATION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Minnesota Municipal Utilities Association
St. Paul, Minnesota

Opinion

We have audited the financial statements of Minnesota Municipal Utilities Association, which comprise the statements of financial position as of September 30, 2023 and 2022, and the related statements of activities and changes in net assets without donor restrictions, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Minnesota Municipal Utilities Association as of September 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits 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 Minnesota Municipal Utilities Association and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 Minnesota Municipal Utilities Association's ability to continue as a going concern for one year after the date that the financial statements are issued.

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 opinion. 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 Minnesota Municipal Utilities Association's 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 Minnesota Municipal Utilities Association's 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.

Smith, Schepf and Associates, Ltd.

Minneapolis, Minnesota
January 23, 2024

MINNESOTA MUNICIPAL UTILITIES ASSOCIATION

STATEMENTS OF FINANCIAL POSITION

September 30, 2023 and 2022

ASSETS	2023	2022
Current Assets		
Cash and cash equivalents	\$ 1,090,085	\$ 519,305
Accounts receivable, net	548,004	472,054
Prepaid expenses	56,168	46,273
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Total Current Assets	1,694,257	1,037,632
	<hr/>	<hr/>
 Property and Equipment, net	 668,825	 657,117
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 Other Assets		
Minnesota Municipal Gas Agency	20,373	20,373
Security deposit	6,975	6,975
	<hr/>	<hr/>
Total Other Assets	27,348	27,348
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 TOTAL ASSETS	 \$ 2,390,430	 \$ 1,722,097
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See Notes to Financial Statements

LIABILITIES AND NET ASSETS WITHOUT DONOR RESTRICTITONS	2023	2022
Current Liabilities		
Current portion of long-term debt	\$ -	\$ 8,109
Current portion of finance lease liability	6,853	7,611
Current portion of operating lease liability	160,592	144,471
Accounts payable	147,512	145,626
Accrued payroll and payroll taxes	196,277	12,375
Accrued vacation	130,833	145,709
Contract liabilities	412,987	393,658
Total Current Liabilities	1,055,054	857,559
Long-Term Liabilities		
Long-term debt, net	-	1,402
Finance lease liability, net	27,911	-
Operating lease liability, net	111,465	134,445
Total Long-Term Liabilities	139,376	135,847
Total Liabilities	1,194,430	993,406
Net Assets Without Donor Restrictions		
Board-designated	769,573	302,264
Undesignated	426,427	426,427
Total Net Assets Without Donor Restrictions	1,196,000	728,691
TOTAL LIABILITIES AND NET ASSETS WITHOUT DONOR RESTRICTIONS	\$ 2,390,430	\$ 1,722,097

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MINNESOTA MUNICIPAL UTILITIES ASSOCIATION

**STATEMENTS OF ACTIVITIES AND CHANGES
IN NET ASSETS WITHOUT DONOR RESTRICTIONS**

For the Years Ended September 30, 2023 and 2022

	2023	2022
Support and Revenue		
Membership dues	\$ 1,456,781	\$ 1,428,431
Program revenues	4,542,897	3,918,493
Member contributions	15,000	15,000
Interest income	25,487	966
Grants	87,968	-
Other revenues	16,103	10,549
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Total Support and Revenues	6,144,236	5,373,439
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Functional Expenses		
Program services	4,483,795	4,064,746
Membership services	1,193,132	1,297,934
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Total Functional Expenses	5,676,927	5,362,680
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Increase in Net Assets	467,309	10,759
	<hr/>	<hr/>
NET ASSETS WITHOUT DONOR RESTRICTIONS, BEGINNING OF YEAR	728,691	717,932
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NET ASSETS WITHOUT DONOR RESTRICTIONS, END OF YEAR	\$ 1,196,000	\$ 728,691
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See Notes to Financial Statements

MINNESOTA MUNICIPAL UTILITIES ASSOCIATION

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended September 30, 2023

Program Services

	Contract Services	Training Center	Job Training and Safety/ Conventions and Meetings	Gas Circuit Rider	Safety Management	Special Programs	Gas Agency	Total	Membership Services	Totals
Salaries	\$ 9,388	\$ 132,912	\$ 82,191	\$ 94,336	\$ 1,713,217	\$ -	\$ 19,052	\$ 2,051,096	\$ 1,017,638	\$ 3,068,734
Benefits	2,085	36,061	23,298	20,547	393,434	-	1,429	476,854	238,464	715,318
Conferences	-	227,301	124,632	18,121	25,866	-	-	395,920	10,505	406,425
Equipment rental and maintenance	-	27,349	31,092	13,310	176,729	-	-	248,480	69,541	318,021
Travel	-	5,177	14,424	12,686	141,878	-	141	174,306	48,488	222,794
Payroll taxes	1,427	9,026	6,243	6,864	121,476	-	1,457	146,493	68,185	214,678
Occupancy	-	10,600	-	-	-	-	-	10,600	201,908	212,508
Purchased services	-	-	25,975	36,879	32,159	21,937	-	116,950	7,744	124,694
Supplies	-	2,242	8,420	1,617	51,938	-	3,032	67,249	22,086	89,335
Depreciation	-	13,661	12,054	890	8,605	-	-	35,210	23,991	59,201
Telephone	-	3,276	631	932	26,103	-	551	31,493	23,089	54,582
Legal fees	-	-	-	-	-	-	-	-	48,819	48,819
Dues and subscriptions	-	-	-	7,456	-	-	-	7,456	25,662	33,118
Insurance	-	11,165	-	-	-	-	-	11,165	16,224	27,389
Printing	-	-	-	-	-	-	-	-	25,352	25,352
Accounting	-	-	-	-	-	-	-	-	14,785	14,785
Lobbying expense	-	-	-	-	-	-	-	-	12,000	12,000
Postage and shipping	-	-	-	-	-	-	-	-	11,881	11,881
Staff development and recruiting	-	-	-	-	-	-	-	-	7,080	7,080
Grants and awards	-	-	-	-	-	5,000	-	5,000	-	5,000
Miscellaneous	-	-	104	-	-	-	-	104	3,795	3,899
Interest expense	-	-	181	-	-	-	-	181	1,133	1,314
Overhead and administration	-	96,402	121,207	45,270	428,810	13,549	-	705,238	(705,238)	-
Total Functional Expenses	\$ 12,900	\$ 575,172	\$ 450,452	\$ 258,908	\$ 3,120,215	\$ 40,486	\$ 25,662	\$ 4,483,795	\$ 1,193,132	\$ 5,676,927

See Notes to Financial Statements

MINNESOTA MUNICIPAL UTILITIES ASSOCIATION

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended September 30, 2022

Program Services

	Contract Services	Training Center	Job Training and Safety/ Conventions and Meetings	Gas Circuit Rider	Safety Management	Special Programs	Gas Agency	Total	Membership Services	Totals
Salaries	\$ 9,388	\$ 108,330	\$ 104,940	\$ 84,810	\$ 1,486,392	\$ -	\$ 9,001	\$ 1,802,861	\$ 1,020,797	\$ 2,823,658
Benefits	2,085	33,402	21,980	19,651	381,705	-	675	459,498	231,645	691,143
Conferences	-	164,603	115,771	14,462	23,958	-	-	318,794	9,445	328,239
Equipment rental and maintenance	-	26,119	27,137	13,911	169,430	-	-	236,597	61,601	298,198
Travel	-	4,553	15,747	8,801	101,689	-	97	130,887	51,461	182,348
Payroll taxes	1,427	7,834	9,169	6,690	114,063	-	689	139,872	75,648	215,520
Occupancy	-	13,695	-	-	-	-	-	13,695	194,236	207,931
Purchased services	-	-	-	-	152,197	21,962	145	174,304	3,931	178,235
Supplies	-	4,138	2,590	1,388	40,058	-	842	49,016	18,829	67,845
Depreciation	-	15,864	10,260	890	9,217	-	-	36,231	25,366	61,597
Telephone	-	3,148	1,217	1,217	25,829	-	-	31,411	22,041	53,452
Legal fees	-	-	-	-	-	-	-	-	78,475	78,475
Dues and subscriptions	-	-	-	7,506	-	-	-	7,506	23,189	30,695
Insurance	-	11,975	-	-	-	-	-	11,975	9,376	21,351
Printing	-	-	-	-	-	-	-	-	16,847	16,847
Accounting	-	-	-	-	-	-	-	-	18,447	18,447
Lobbying expense	-	-	-	-	-	-	-	-	65,000	65,000
Postage and shipping	-	-	-	-	-	-	-	-	10,309	10,309
Staff development and recruiting	-	-	-	-	-	-	-	-	5,427	5,427
Grants and awards	-	-	-	-	-	5,000	-	5,000	-	5,000
Miscellaneous	-	-	-	-	-	-	483	483	-	483
Interest expense	-	-	820	-	-	-	-	820	1,660	2,480
Overhead and administration	-	83,585	108,541	42,463	398,873	12,334	-	645,796	(645,796)	-
Total Functional Expenses	\$ 12,900	\$ 477,246	\$ 418,172	\$ 201,789	\$ 2,903,411	\$ 39,296	\$ 11,932	\$ 4,064,746	\$ 1,297,934	\$ 5,362,680

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MINNESOTA MUNICIPAL UTILITIES ASSOCIATION

STATEMENTS OF CASH FLOWS

For the Years Ended September 30, 2023 and 2022

	2023	2022
Cash Flows From Operating Activities		
Increase in net assets	\$ 467,309	\$ 10,759
Adjustments to reconcile change in net assets to net cash from operations:		
Depreciation	59,201	61,597
Non-cash rent expense	61	3,731
Decrease in:		
Accounts receivable	(75,950)	(55,820)
Prepaid expenses	(9,895)	(23,088)
Increase (Decrease) in:		
Accounts payable	1,886	(39,278)
Accrued payroll and payroll taxes	183,902	(34,769)
Accrued vacation	(14,876)	(865)
Contract liabilities	19,329	55,146
Net Cash Provided By (Used In) Operating Activities	<u>630,967</u>	<u>(22,587)</u>
Cash Flows From Investing Activities		
Expenditures for property and equipment	<u>(41,168)</u>	<u>(32,540)</u>
Cash Flows From Financing Activities		
Principal payments on finance lease liability	(9,508)	(10,646)
Principal payments on long-term debt	(9,511)	(8,575)
Net Cash (Used In) Financing Activities	<u>(19,019)</u>	<u>(19,221)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	570,780	(74,348)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	519,305	593,653
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,090,085</u>	<u>\$ 519,305</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash Paid During the Year for Interest	\$ 1,314	\$ 2,480
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 171,583	\$ 159,743
Right-of-use assets obtained in exchange for lease obligations		
Operating lease	\$ 158,663	\$ 431,812

See Notes to Financial Statements

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MINNESOTA MUNICIPAL UTILITIES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

1. Description of Organization and Summary of Significant Accounting Policies

Description of Organization

Minnesota Municipal Utilities Association (the Association) is a non-profit association that is organized to protect and assist municipally owned utilities. The Association represents its members' interest in legislative, communications, finance, safety and training, and other areas of advice and service to provide for the ultimate benefit of the consumers of utility services in an efficient and economical manner. The Association also provides educational programs in connection with the operations of the utilities industry.

These financial statements and all related notes present financial results as of and for the years ended September 30, 2023 and 2022. The Association's Board of Directors has elected to change the Association's fiscal year end from September 30 to December 31 starting in 2024.

Change in Accounting Principle

During 2023, the Association adopted FASB Accounting Standards Update (ASU) No 2016-02, ASC 842 Leases which requires the recognition of right-of-use (ROU) assets and lease liabilities on the statement of financial position and replaces existing lease guidance within accounting principles generally accepted in the United States of America. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Association adopted ASU 2016-02 with a date of initial application of October 1, 2021, and recognized and measured leases existing at, or entered into after, using a modified retrospective method, with certain practical expedients available.

The Association elected the available practical expedients to account for existing leases as either finance leases or operating leases, under the new guidance, without reassessing (a) whether the contract contain leases under the new standard, (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

As a result of the adoption of the new lease accounting guidance, the Association recognized on October 1, 2021 a lease liability and right-of-use asset of \$431,812 which represents the present value of the remaining operating lease payments of \$444,017 discounted using the risk free rate of 1.96%. For the year ended September 30, 2022, the adoption of the new guidance resulted in additional rent expense of \$3,731.

The standard had a significant impact on the Association's statements of financial position, but did not have a significant impact on the Association's statements of activities and changes in net assets without donor restrictions or statements of cash flows. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases, while the accounting for finance leases remained substantially unchanged.

MINNESOTA MUNICIPAL UTILITIES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Description of Organization and Summary of Significant Accounting Policies (Continued)

Basis of Presentation

Financial statement presentation follows FASB ASC 958. Under FASB ASC 958, the Association is required to report information regarding its financial position and activities, based on the existence or absence of donor imposed restrictions as either:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to restrictions.

Net Assets With Donor Restrictions – Net assets subject to imposed restrictions. Some imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified. Other imposed restrictions are perpetual in nature, where the restriction stipulates that resources be maintained in perpetuity. The Association had no net assets with donor restrictions as of September 30, 2023 and 2022.

Basis of Accounting and Support and Revenue Recognition

The Association maintains their books and records on the accrual basis of accounting in accordance with generally accepted accounting principles.

For contracts that are within the scope of FASB ASC 606 *Revenue from Contracts with Customers*, the Association performs the following five steps: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the Association satisfies a performance obligation.

Revenue is measured based on consideration specified in a contract with a customer, and excludes any sales incentives and amounts collected on behalf of third parties. The Association recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer.

For performance obligations related to membership dues and program revenues, control transfers to the customer and revenue is recognized over time based on the term of the contract. All other revenues are recognized at a point in time when the event takes place or as the services are performed.

Cash and Cash Equivalents

The Association considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

MINNESOTA MUNICIPAL UTILITIES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Description of Organization and Summary of Significant Accounting Policies (Continued)

Accounts Receivable

Accounts receivable are uncollateralized obligations for membership dues and program fees which are due under normal trade terms requiring payment 30 days from the invoice date. Accounts receivable are stated at the amount billed. Account balances with invoices dated over 60 days old are considered delinquent. The Association does not charge interest on past due or delinquent accounts. Receivables are assessed individually for collection based on the surrounding facts and circumstances and management's past history. When all collection efforts have been exhausted, accounts are written off. Allowance for uncollectible accounts for the years ended September 30, 2023 and 2022 was \$4,000.

Property and Equipment

Property and equipment is carried at the lower of cost or fair value at the time of donation (for in-kind contributions of equipment) and is being depreciated using the straight-line method over estimated useful lives of two to forty years. The Association's policy is to capitalize and depreciate property and equipment which has a cost in excess of \$500 and an estimated useful life of at least one year.

Leases

When, at inception of an agreement, it is concluded an agreement includes a lease component, the Association records an operating lease or finance lease based on the agreement. In evaluating contracts to determine if they qualify as a lease, the Association considers factors such as if they have obtained substantially all of the rights to the underlying asset through exclusivity, if they can direct the use of the asset by making decisions about how and what purpose the asset will be used and if the lessor has substantive substitution rights. This evaluation may require significant judgment.

Operating leases are included in property and equipment as operating lease right-of-use (ROU) assets and current and long-term operating lease liabilities on the balance sheets. Finance leases are included in property and equipment, other current liabilities, and other long-term liabilities on the balance sheets.

ROU assets represent the Association's right to use an underlying asset for the lease term and lease liabilities represent the Association's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. The operating lease ROU asset also includes any lease payments made prior to the commencement date and excludes any lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Association will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

MINNESOTA MUNICIPAL UTILITIES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Description of Organization and Summary of Significant Accounting Policies (Continued)

Leases (Continued)

In determining the discount rate used to measure the right-of-use asset and lease liability, the Association has elected to use the rate implicit in the lease or the risk-free rate based on information available at the commencement date for the lease term when determining the present value of lease payments.

The Association's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The lease agreements have lease and non-lease components, which are generally accounted for separately. The amount of the non-lease components is typically revised from one period to the next. These variable lease payments, which are primarily comprised of common area maintenance, utilities, and real estate taxes that are passed on from the lessor in proportion to the space leased, are recognized in operating expenses in the period in which the obligation for those payments was incurred.

In allocating consideration in the contract to the separate lease components and the non-lease components, the Association uses the standalone prices of the lease and non-lease components. Observable standalone prices are used, if available. If the standalone price for a component has a high level of variability or uncertainty, this allocation may require significant judgment.

Contract Liabilities

Membership dues are billed for the calendar year at the beginning of the year. The portion of the membership dues that were collected for the period after September 30, have been deferred and will be recognized over the periods to which the dues relate. Other deferred revenues consist of registration fees for educational programs, seminars, and other meetings that are received in advance of the period in which the related events will occur, and advertising fees collected in advance of when the related publications will be issued.

Contributions

Contributions are recognized when the donor makes a promise to give to the Association that is nonreciprocal, does not contain a barrier that must be overcome, and there is no right of return of assets transferred or release of a promisor's obligation to transfer assets present.

Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized.

All other contributions received are recorded as net assets with donor restrictions or net assets without donor restrictions depending on the existence and/or nature of any donor restrictions.

MINNESOTA MUNICIPAL UTILITIES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Description of Organization and Summary of Significant Accounting Policies (Continued)

Contributions (Continued)

When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Income Taxes

The Association is exempt from federal income tax under Section 501(c)(6) of the Internal Revenue Code. As a result, the Association does not pay federal income tax. Therefore no provision or liability for federal income taxes has been included in the financial statements.

Management has determined that the Association does not have any uncertain tax positions and associated unrecognized benefits that materially impact the financial statements or related disclosures.

The Association's federal informational returns are subject to examination by the IRS, generally for three years after they were filed.

Fair Value of Financial Instruments

The carrying amount for substantially all assets and liabilities approximates fair value due to the immediate or short-term maturity of these financial instruments. The fair value of the Association's long-term debt and long-term capital lease obligation approximates carrying value because the terms are equivalent to borrowing rates currently available to the Association for debt with similar terms and maturities.

Concentration of Credit Risks

The Association's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents and receivables. The Association keeps its cash and cash equivalents with high quality financial institutions. At times, balances maintained at these financial institutions may exceed the federally insured limit. As of September 30, 2023 and 2022 cash balances in excess of the federally insured limit totaled approximately \$870,000 and \$330,000, respectively.

Management routinely assesses the financial strength of its donors and customers and as a consequence, believes that receivables credit risk exposure is limited. One customer accounted for approximately 51% and 55% of accounts receivable at September 30, 2023 and 2022, respectively.

MINNESOTA MUNICIPAL UTILITIES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Description of Organization and Summary of Significant Accounting Policies (Continued)

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of Estimates

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

Reclassifications

Certain reclassifications have been made to the fiscal 2022 financial statements to conform to the presentation of the fiscal 2023 financial statements. There were no changes to net assets or changes in activities as a result of the reclassification for the years ended September 30, 2023 and 2022.

Subsequent Events

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through January 23, 2024, the date the financial statements were available to be issued.

MINNESOTA MUNICIPAL UTILITIES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Liquidity and Availability

The following reflects the Association's financial assets as of September 30, 2023 and 2022, reduced by amounts not available for general use within one year of the statement of financial position date.

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 1,090,085	\$ 519,305
Accounts receivable, net	548,004	472,054
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Total financial assets available within one year	1,638,089	991,359
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Less: Board-designated net assets	(769,573)	(302,264)
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Total	\$ 868,516	\$ 689,095
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As part of the Association's liquidity management plan, financial assets are structured to be available as its general expenditures, liabilities and other obligations come due. The Association's Board-designated funds may be drawn upon in the event of financial stress or an immediate liquidity need.

3. Property and Equipment

Property and equipment as of September 30, 2023 and 2022 consisted of the following:

	<u>2023</u>	<u>2022</u>
Leasehold improvements	\$ 20,667	\$ 20,667
Land	39,000	39,000
Building	342,449	342,449
Equipment	1,142,056	1,064,227
Vehicles	166,247	166,247
Total	1,710,419	1,632,590
Less: Accumulated depreciation	1,309,859	1,250,658
Property and Equipment, net of depreciation	400,560	381,932
Operating lease right-of-use asset	268,265	275,185
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Property and equipment, net	\$ 668,825	\$ 657,117
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Depreciation expense for the years ended September 30, 2023 and 2022 was \$59,201 and \$61,597, respectively.

MINNESOTA MUNICIPAL UTILITIES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

4. Training Center

The Association has developed a utility training center in Marshall, Minnesota on a 20-acre site. The Association purchased the land which the training center is located on January 14, 2020 for a total cost of \$39,000. The training center includes both overhead and underground electrical facilities for training on all aspects of electric distribution operations. Natural gas training facilities have also been installed. Future plans include water, wastewater, and telecommunications training facilities, as well as additional electric and natural gas training facilities.

5. Long-Term Debt

Long-term debt as of September 30, 2023 and 2022 consisted of the following:

	2023	2022
5.99% note payable, paid in full during 2023	\$ -	\$ 9,511
Less: Current portion	-	8,109
Long-Term Debt, net	<u>\$ -</u>	<u>\$ 1,402</u>

6. Commitments

Finance Lease

The Association has various noncancelable leases for property and equipment which have been capitalized and recorded as property and equipment and finance lease liabilities.

The weighted average remaining lease term for finance leases as of September 30, 2023 was 4.8 years and 0.8 years, respectively. The weighted average discount rate for finance leases as of September 30, 2023 and 2022 was 3.98% and 12.90%, respectively.

The assets included in equipment related to finance leases were as follows:

	2023	2022
Cost	\$ 36,661	\$ 49,850
Less: Accumulated depreciation	1,833	42,967
Total	<u>\$ 34,828</u>	<u>\$ 6,883</u>

MINNESOTA MUNICIPAL UTILITIES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. Commitments (Continued)

The following is a schedule of future minimum lease payments under the above lease obligations:

<u>Year Ending September 30,</u>	<u>Totals</u>
2024	\$ 8,100
2025	8,100
2026	8,100
2027	8,100
2028	<u>6,075</u>
Total minimum lease payments	38,475
Less: Amounts representing interest	<u>3,711</u>
Present value of net minimum lease payments	34,764
Less: Current portion	<u>6,853</u>
Finance Lease Liability, net of current portion	<u><u>\$ 27,911</u></u>

Operating Leases

The Association leases its office space under an operating lease that has been extended until December 31, 2024. The most recent amendment to the lease resulted in the relocation of the Association's offices. Under the terms of the lease, the Association is obligated to pay escalation rentals for certain operating expenses and real estate taxes.

The Association has also entered into various agreements to lease vehicles for employee use. Under the lease agreements, the Association must make monthly payments of varying amounts on the vehicles until the expiration of the individual vehicle leases at various times through 2027. The Association also leases various pieces of office equipment under operating leases.

MINNESOTA MUNICIPAL UTILITIES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. Commitments (Continued)

Operating Leases (continued)

The components of rent expense related to operating leases were as follows:

	<u>2023</u>	<u>2022</u>
Operating lease cost	\$ 171,583	\$ 159,743
Variable operating lease costs	111,687	110,780
	<u>\$ 283,270</u>	<u>\$ 270,523</u>

The weighted average remaining lease term for operating leases as of September 30, 2023 and 2022 was 2.00 years. The weighted average discount rate for operating leases as of September 30, 2023 and 2022 was 2.31% and 2.19%, respectively.

As of September 30, 2023, the minimum future rental payments under the leases were as follows:

<u>Fiscal Year Ended September 30,</u>	<u>Amount</u>
2024	\$ 166,396
2025	81,179
2026	27,608
2027	<u>5,868</u>
Total	281,051
Less: imputed interest	<u>8,994</u>
Operating Lease Liability	<u>\$ 272,057</u>

MINNESOTA MUNICIPAL UTILITIES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. Net Assets

The Association's board of directors has chosen to place the following designations on net assets without donor restrictions:

	2023	2022
Designated for legal and legislative activities	\$ 67,264	\$ 67,264
Capacity building fund	233,655	-
Operating reserve fund	468,654	235,000
	<hr/>	<hr/>
Total Board-Designated Net Assets	\$ 769,573	\$ 302,264

As part of its mission, the Association performs legal and legislative activities on behalf of its members. To that end, a portion of the Association's net assets have been designated by the board of directors to be used if actual legal and legislative expenses incurred during a fiscal year exceed the budgeted expense amount for the fiscal year. This account is shown in the table above for the years ended September 30, 2023 and 2022, as net assets designated for legal and legislative activities.

The Association's board of directors has also designated a portion of net assets as an operating reserve fund. The purpose of this fund is to establish a reserve equal to one month's operating expenses to be used in the event of an emergency. This amount is shown in the table above for the years ended September 30, 2023 and 2022, as the operating reserve fund.

During the year ended September 30, 2023, the board of directors created a new reserve fund referred to above as capacity building fund. This fund will allow the Association to develop programs designed to strengthen and improve the effectiveness and future sustainability of the Association.

8. Revenue and Contract Balances

Revenue, disaggregated by timing of satisfaction of performance obligations, for the years ended September 30, 2023 and 2022 was as follows:

	2023	2022
Performance obligations satisfied over time	\$ 5,999,678	\$ 5,346,924
Performance obligations satisfied at a point in time	16,103	10,549
	<hr/>	<hr/>
Total	\$ 6,015,781	\$ 5,357,473

MINNESOTA MUNICIPAL UTILITIES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Revenue and Contract Balances (Continued)

Revenue from performance obligations satisfied over time consists of membership dues and program revenues. Revenue from performance obligations satisfied at a point in time consists primarily of other income.

Contract liabilities include membership dues paid in advance and consisted of the following:

	<u>Contract Liabilities</u>
Balance as of October 1, 2021	<u>\$ 338,512</u>
Balance as of September 30, 2022	<u>\$ 393,658</u>
Balance as of September 30, 2023	<u>\$ 412,987</u>

The Association expects to recognize contract liabilities as revenue in the following fiscal year.

9. Defined Benefit Pension Plans

Plan Description

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

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

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.

MINNESOTA MUNICIPAL UTILITIES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Defined Benefit Pension Plans (Continued)

Benefits Provided (Continued)

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2 percent of average salary for each of the first 10 years of service and 1.7 percent of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent of average salary for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

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

Contributions

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

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2023 and the Association was required to contribute 7.50 percent for Coordinated Plan members. The Association's contributions to the General Employees Fund for the years ended September 30, 2023 and 2022 were \$214,058 and \$199,664, respectively. The Association's contributions were equal to the required contributions as set by state statute.

MINNESOTA MUNICIPAL UTILITIES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

10. Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses are allocated on the basis of estimates of time and effort.

11. Related Party Transactions

The Association pays expenses on behalf of related parties, Midwest Consortium of Municipal Utilities (MCMU) and Minnesota Municipal Gas Agency (MMGA). Related parties reimburse the Association for all direct expenses, in addition to paying an administrative fee. Included in accounts receivable were receivables from MCMU totaling \$280,451 and \$263,808 at September 30, 2023 and 2022, respectively. Included in other assets is \$20,373 due from MMGA for both September 30, 2023 and 2022. In addition, included in accounts receivable were receivables from MMGA totaling \$66,662 and \$41,000 at September 30, 2023 and 2022, respectively.

Collection of the balance due from MMGA is due on demand. The Association does not intend to pursue collection in the next year and has presented this receivable as long-term in the statements of financial position. Collection is fully expected and, accordingly, no allowance has been provided.

Total revenues received from related parties for the years ended September 30, 2023 and 2022 were \$38,562 and \$24,831, respectively. Total expenses paid on behalf of related parties for the years ended September 30, 2023 and 2022 were \$38,562 and \$24,831, respectively.