



ROCHESTER PUBLIC UTILITIES

WE PLEDGE, WE DELIVER

2020 ANNUAL REPORT



Photo taken prior to COVID-19 social distancing and mask requirements.

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Cover Photo By Josh Banks

Independent Auditors' Report

To the Public Utilities Board of
Rochester Public Utilities

Report on the Financial Statements

We have audited the accompanying financial statements of Rochester Public Utilities, enterprise funds of the City of Rochester, Minnesota, as of and for the year ended December 31, 2020, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rochester Public Utilities as of December 31, 2020, and the respective 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.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Rochester Public Utilities enterprise fund and do not purport to, and do not, present fairly the financial position of the City of Rochester, Minnesota, as of December 31, 2020 and the respective changes in financial position, or cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are 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 required supplementary information as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental 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 financial statements and other knowledge we obtained during our audit of the 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole. The Operating and Financial Statistics as identified in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have issued our report dated March 31, 2021 on our consideration of Rochester Public Utilities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Rochester Public Utilities' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rochester Public Utilities' internal control over financial reporting and compliance.

Baker Tilly US, LLP

Madison, Wisconsin
March 31, 2021

MANAGEMENT'S DISCUSSION & ANALYSIS

(unaudited)

The following discussion and analysis of the financial results of Rochester Public Utilities (RPU or the Utility) provides an overview of the Utility's financial activities for the year ended December 31, 2020 compared to the year ended December 31, 2019.

This discussion is designed to be used in conjunction with the financial statements and notes, which follow this section.

Rochester Public Utilities is a municipal utility governed by a five-member board under the authority of the Home Rule Charter. Rochester Public Utilities is comprised of two separate utilities, the Electric Utility and the Water Utility.

OVERVIEW OF THE FINANCIAL STATEMENTS

Financial Statements

The Statements of Net Position present each Utility's 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 Statements of Revenues, Expenses, and Changes in Net Position report the revenues and expenses during the periods indicated. The Statements of Cash Flows provide information about each Utility's 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 RPU's defined benefit pension plans including changes in the net pension liabilities, annual contributions made to the pension plans, and changes in plan provisions and actuarial assumptions.

See accompanying *Independent Auditors' Report*.

HIGHLIGHTS

- Rochester continued to grow with 1,252 new electric customers and 402 new water customers added in 2020. This compares with growth of 1,047 electric customers and 268 water customers in 2019.
- Electric retail revenues were down \$4.0 million or 2.7% from 2019, along with a decrease in kilowatt-hour sales of 46.5 million kWhs or 4.0%. Lower energy usage in the commercial and industrial sectors due to COVID-19 contributed to the decrease, along with a 0% rate increase in 2020. This decrease was partially offset by an increase in residential usage due to a warmer summer, and an increase in the Power Cost Adjustment (PCA), which passes through changes in wholesale power costs over or under a set base amount. Southern Minnesota Municipal Power Agency (SMMPA), RPU's primary wholesale power supplier, had a 4.0% general rate decrease in 2019, but kept rates steady in 2020. Therefore, while the PCA had a negative effect on revenues in 2019, it had very little effect on revenues in 2020. The annual system peak demand of 265 megawatts was set in July, and compares with a peak demand of 284 megawatts in 2019 and the all-time system peak demand of 292 megawatts in 2011.
- Water retail revenues were up \$0.7 million or 7.1% over 2019, along with an increase in sales volume 264,000 ccf (hundred cubic feet) or 5.0%. The increase in revenues was due to a 3.5% rate increase effective January 1, 2020 along with the increase in sales volume.
- The coronavirus pandemic had a negative impact on the Electric Utility, with a decrease in load resulting in lower revenues. To counteract this, some capital projects were deferred and reductions were made in operating costs. In addition, some open positions, as well as seasonal positions were left unfilled. A steady recovery is expected as the economy is gradually reopened. The Water Utility was not measurably impacted by the pandemic due to an increase in demand for water.
- In July 2020, the City of Rochester received \$8.8 million in CARES Act funds to aid with the coronavirus pandemic. RPU was allocated just over \$873,000 to provide qualified commercial and residential customers assistance with utility bills. RPU coordinated efforts with Olmsted County and other agencies to provide outreach to customers.
- In 2019, RPU management recommended, and the Utility Board and Rochester City Council elected to keep rates steady in 2020 for the Electric Utility with no rate increase. An Electric Utility cost-of-service study was completed in 2020, and recommendations included support for a pilot residential time-of-use (TOU) rate, and no rate change for 2021. The TOU rate structure was developed in 2020, and will be available in 2021 on a limited pilot basis to 200 customers. The TOU rate is designed to incent customers to move load from peak demand times to lower demand times. This is particularly true for new electric vehicle charging loads. A cost-of-service study was completed in 2019 for the Water Utility, with recommended rate adjustments proposed for the next five years. The Utility Board and Rochester City Council elected to approve a one-year increase of 3.5% for 2020. The increase was effective January 1, 2020. For 2021, given the current economic climate, the Utility Board and City Council elected to keep rates unchanged for the Water Utility.

See accompanying *Independent Auditors' Report*.

- Rates for purchased power from SMMPA did not change in 2020. Purchased power costs from SMMPA and the Midcontinent Independent System Operator (MISO) market represented 64% of electric operating expenses for 2020.
- In 2017, the Electric Utility was engaged in an administrative hearing before the Federal Energy Regulatory Commission (FERC) involving the recovery of RPU's Annual Transmission Revenue Requirement (ATRR) from transmission customers in the Midcontinent Independent System Operator, Inc. (MISO) region. Because of the uncertainty in the outcome of the case, a total of \$7.1 million in related payments from MISO over the last three years were subject to refund and therefore recorded as Unearned Revenue. In April 2020, the FERC affirmed the recovery of RPU's ATRR from transmission customers in the MISO region. The window for appeal of the FERC decision expired in June 2020, at which time the entire \$7.1 million was recognized as revenue.
- In 2020, the Water Utility began the process of converting an old unused municipal well (Well #16) into a multi-aquifer monitoring well that will provide information for RPU, the Department of Natural Resources, and other agencies for water sustainability modeling. RPU currently pumps primarily from the Jordan aquifer. Well #16 is unique in that it is over 1,000 feet deep and penetrates multiple aquifers below the Jordan aquifer. As Rochester continues to grow, RPU plans to monitor these deeper aquifers for potential future use or changes. Work completed in 2020 included the demolition of the well house, retrieval of an old submersible pump, and drilling out the well to its original depth. The installation of the monitoring well is planned for summer 2021.
- In 2016, the Rochester City Council adopted an Energy Action Plan, built around sustainability goals for the City's energy, transportation, and heating and cooling sectors. The Energy Action Plan includes an 80% reduction in greenhouse gas emissions from 2005 levels by the year 2050. In 2019, RPU updated the generation infrastructure plan to assess how to meet the long-term energy and capacity requirements, while achieving environmental goals. Of the scenarios presented, the RPU Board voted unanimously to pursue the two that would provide 100% of the City's energy needs from renewable sources by 2030. Both scenarios call for the purchase of enough wind and solar energy to equal Rochester's annual energy consumption, with one scenario including a natural gas fired turbine generator to provide capacity and the second scenario including a four-hour battery storage backup that would be charged using energy available through the Midcontinent Independent System Operator, Inc. (MISO) market. RPU will continue to engage with residential and commercial customers to choose the best path for the community. In support of this plan, RPU's aggressive Demand-Side Management (DSM) programs have been successful in reducing energy and water usage. The pilot residential TOU rate developed in 2020 is expected to support the DSM program in managing new load growth from electric vehicles (EV).

See accompanying *Independent Auditors' Report*.

HIGHLIGHTS (*continued*)...

- In March 2020, the Utility Board approved a solar purchase power agreement with SolarStone/EDF Renewables Distributed Solutions, Inc., as well as the purchase of 134.84 acres of land to construct a 10 megawatt solar farm. The agreement to purchase the output of the solar farm is for twenty years and allows RPU the option to purchase the system after eight years. A purchase agreement for the land was executed by RPU in late 2020 and construction will begin in 2021. The system, which will be connected to RPU's distribution system, and the land acquisition are building blocks toward RPU's 2030 resource plan and environmental goals.
- In 2020, land was acquired, and design work started on a new substation located in southeast Rochester. This substation will be constructed to accommodate a total of four 37.5 mega-volt amperes (MVA) transformers, with two of the four being installed with the initial buildout and the other two added as future needs arise. There will also be an approximately two-mile multiple conduit manhole and duct system installed from this new substation to terminal points in the downtown area. Construction is expected to begin in 2021.
- RPU surpassed the aggressive Demand-Side Management goal for 2020 of 18,243 megawatt hours in energy savings. Actual energy savings of 20,754 megawatt hours were achieved through helping commercial and residential customers install energy efficient equipment and technologies. This represented an estimated 20,754 tons of carbon reduction, and amounted to 1.8% of annual retail energy sales. Water conservation rates, customer education, leak detection and rebates offered on clothes washers, high efficiency toilets, rain barrels and other items resulted in savings of 7.3 million gallons of water. This was a decrease of 1.8 million gallons from 2019, but surpassed the goal of 5.0 million gallons.

See accompanying *Independent Auditors' Report*.

FINANCIAL ANALYSIS – ELECTRIC UTILITY

Condensed Financial Information – Electric Utility

December 31, 2020 and 2019

(In millions)

Statements of Revenues, Expenses, & Changes in Net Position

	2020	2019	Change 2020 vs. 2019
Operating Revenues	\$169.2	\$164.9	\$4.3
Operating Expenses	135.0	137.2	(2.2)
<i>Operating Income</i>	<u>34.2</u>	<u>27.7</u>	<u>6.5</u>
Other Income & Expense	2.1	2.4	(0.3)
Interest Charges	(6.3)	(6.4)	0.1
Nonoperating (Expense)	(4.2)	(4.0)	(0.2)
<i>Income Before Transfer and Capital Contributions</i>	<u>30.0</u>	<u>23.7</u>	<u>6.3</u>
Transfers Out (In Lieu Of Tax Payments)	(8.4)	(8.7)	0.3
Capital Contributions	2.4	0.7	1.7
<i>Change in Net Position</i>	<u>24.0</u>	<u>15.7</u>	<u>8.3</u>
Net Position - Beginning of Year	181.5	165.8	15.7
Net Position - End of Year	<u>\$205.5</u>	<u>\$181.5</u>	<u>\$24.0</u>

Statements of Net Position

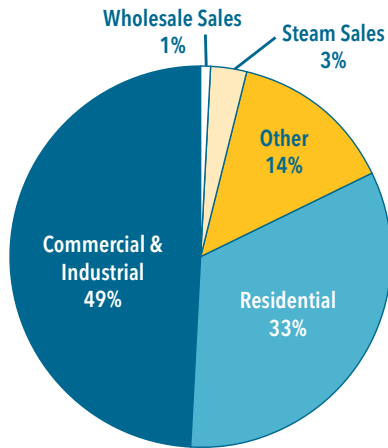
	2020	2019	Change 2020 vs. 2019
Cash and Investments – Unrestricted	\$90.4	\$88.7	\$1.7
Cash and Investments – Restricted	1.2	1.2	-
Other Current Assets	30.7	25.2	5.5
Capital Assets, Net	275.0	273.6	1.4
Other Noncurrent Assets	24.8	25.1	(0.3)
<i>Total Assets</i>	<u>422.1</u>	<u>413.8</u>	<u>8.3</u>
Deferred Outflows of Resources	2.3	2.2	0.1
Total Assets and Deferred Outflows of Resources	<u>\$424.4</u>	<u>\$416.0</u>	<u>\$8.4</u>
Current Liabilities	\$24.1	\$24.5	(\$0.4)
Long-Term Debt	175.8	184.0	(8.2)
Other Noncurrent Liabilities	17.5	22.6	(5.1)
<i>Total Liabilities</i>	<u>217.4</u>	<u>231.1</u>	<u>(13.7)</u>
Deferred Inflows of Resources	1.5	3.4	(1.9)
Investment in Capital Assets	106.7	97.6	9.1
Restricted – Debt Service	0.5	0.5	-
Unrestricted	98.3	83.4	14.9
<i>Net Position</i>	<u>205.5</u>	<u>181.5</u>	<u>24.0</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$424.4</u>	<u>\$416.0</u>	<u>\$8.4</u>

See accompanying *Independent Auditors' Report*.

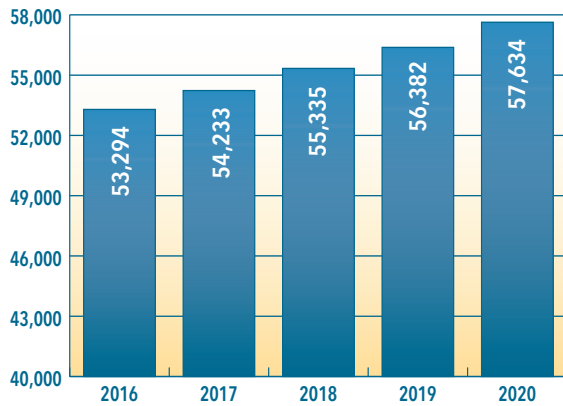
OPERATING REVENUES

Operating revenues increased \$4.3 million (2.6%) in 2020. Retail revenues were down \$4.0 million (2.7%) due to a decrease in energy and demand, partially offset by an increase in the amount accrued through the Power Cost Adjustment. Wholesale and steam revenues increased \$0.4 million (7.0%), while other operating revenues increased \$7.8 million. The increase in other operating revenues was due to the recognition of \$7.1 million in transmission revenue from a favorable resolution in RPU's FERC transmission case, as well as the accrual of a \$4.3 million distribution of excess cash reserves from SMMPA late in the year, which was received in January 2021.

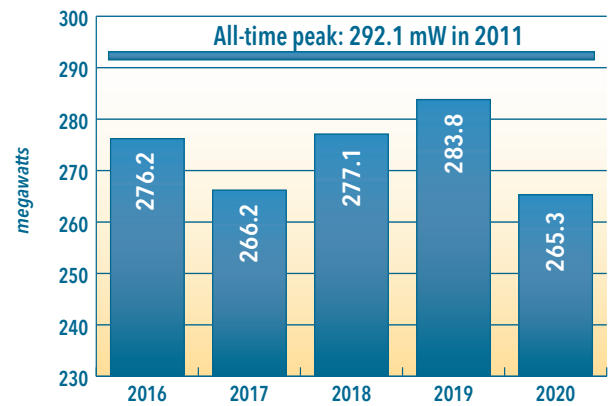
Electric Operating Revenues



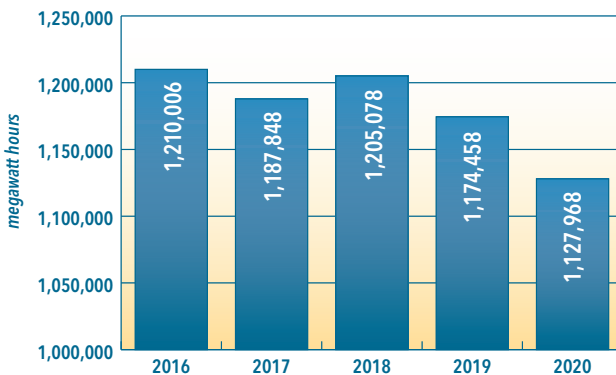
Number of Electric Customers



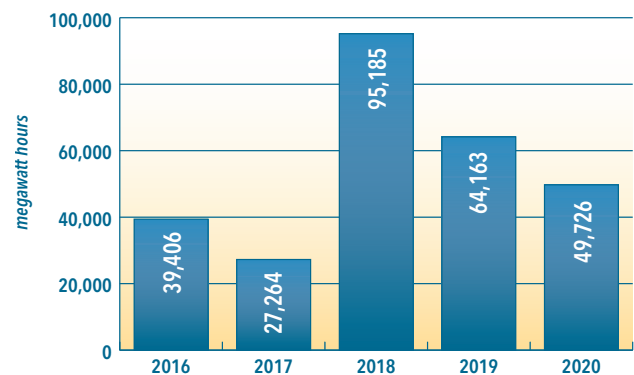
Electric System Peaks



Electric Retail Sales



Electric Wholesale Sales

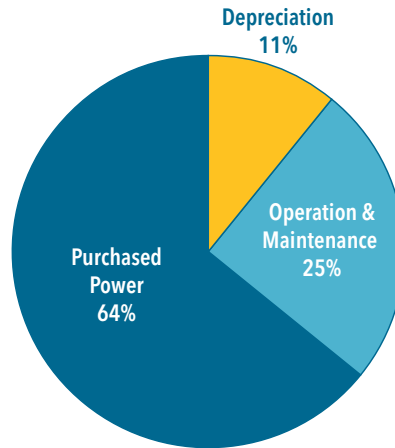


See accompanying *Independent Auditors' Report*.

OPERATING EXPENSES

Operating expenses decreased \$2.2 million (1.6%) in 2020, due to a decrease in purchased power of \$4.0 million. This was offset by an increase in depreciation of \$1.0 million from the addition of the customer care system, as well as an increase in salaries and benefits utilized for operations and maintenance activities of \$1.1 million. The primary driver of operating expenses for the Electric Utility continues to be power purchased from SMPMA and the MISO market, which comprised 64% of total operating expenses.

Electric Operating Expenses



TRANSFERS OUT

The Electric Utility makes transfers to the City of Rochester's General Fund each month based on retail kilowatt-hours sold (in lieu of tax). Transfers to the City totaled \$8.4 million and \$8.7 million in 2020 and 2019 respectively. The decrease in the in lieu of tax amount was due to a decrease in kilowatt-hour sales.

CAPITAL CONTRIBUTIONS

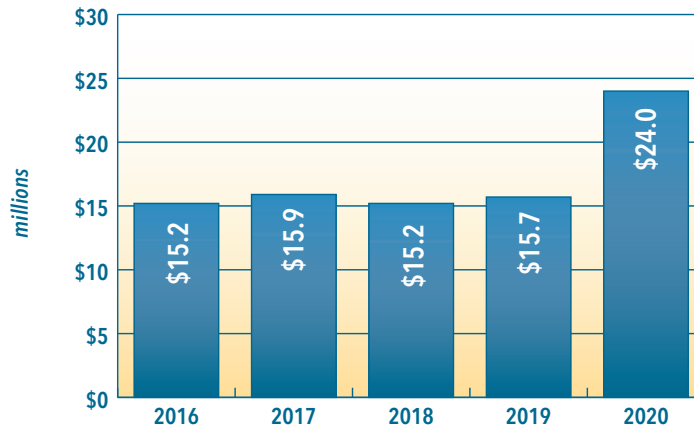
Capital contributions increased by \$1.7 million in 2020. Two large projects were started in 2020 that include reimbursement from other parties.

CHANGE IN NET POSITION

The Change in Net Position for 2020 was \$24.0 million, an increase of \$8.3 million from 2019. Several factors contributed to this increase. Retail revenues decreased \$4.0 million from 2019, offset by a \$4.0 million decrease in purchased power. Wholesale and steam revenues increased by \$0.4 million, while generation fuel remained steady. Other operating revenues increased by \$7.8 million, along with an increase in capital contributions of \$1.7 million. These were offset by an increase in other operating expenses of \$1.9 million, consisting mainly of increases in depreciation, and salaries and benefits.

See accompanying *Independent Auditors' Report*.

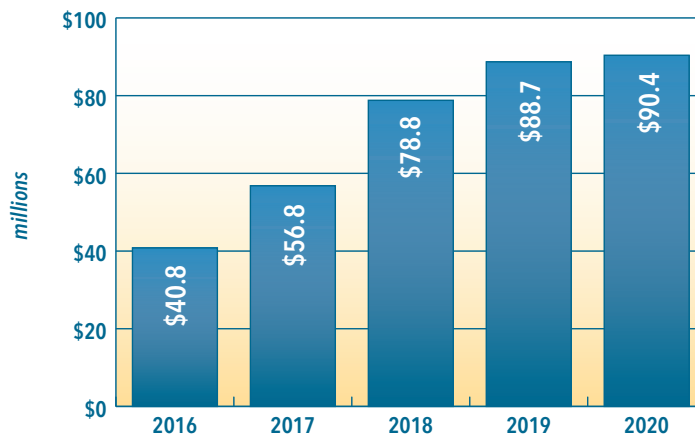
Electric Change in Net Position



CASH, INVESTMENTS AND OTHER ASSETS

The ending current unrestricted cash and investments balance for 2020 was \$90.4 million, \$1.7 million higher than 2019. The ending current restricted cash and investments balance stayed steady in 2020 at \$1.2 million. This amount represents funds restricted for debt service payments. Other current assets for 2020 were \$30.7 million, up \$5.5 million from 2019. This increase was due primarily to an increase in other accounts receivable from the accrual of a \$4.3 million distribution of excess cash reserves from SMMPA, along with increases in accrued utility revenues and prepayments, offset by a decrease in service accounts receivable. Other noncurrent assets for 2020 were \$24.8 million, \$0.3 million lower than 2019.

Electric – Unrestricted Cash & Investments



LIABILITIES

Current liabilities decreased \$0.4 million in 2020.

Noncurrent liabilities decreased \$5.1 million in 2020 due to the favorable resolution of RPU's FERC transmission case. A total of \$7.1 million had been recorded as unearned revenue until the case was resolved, at which time the entire amount was recognized into revenue. This was offset partially by an increase in the Utility's proportionate share of the liability from the Public Employees Retirement Association of Minnesota (PERA).

See accompanying *Independent Auditors' Report*.

NET POSITION

Net position invested in capital assets reflects additions to capital assets funded through rate-based revenues and fees from customers, net of debt proceeds expended on capital projects. In 2020, net position invested in capital assets increased \$9.1 million compared to 2019.

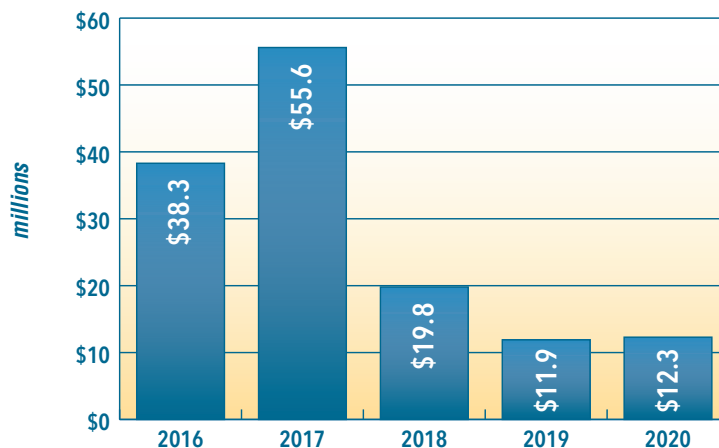
Restricted net position remained steady. This represents funds restricted for payment of debt service.

Unrestricted net position is not subject to any constraints by debt covenants or other legal requirements. In 2020, unrestricted net position increased \$14.9 million due to the results of operations.

CAPITAL ASSETS

As of December 31, 2020, the Electric Utility had \$275.0 million invested in a broad range of utility capital assets, including a 46 megawatt reciprocating engine generation plant, two gas turbines, a hydroelectric power generation plant, two diesel generators, boiler plant and related equipment to provide steam to a large customer, electric transmission and distribution facilities, and various buildings and equipment. Capital assets increased \$15.2 million in 2020, reflecting investments in general facilities and the distribution and transmission systems. The increase in capital assets was offset by a \$13.8 million increase in accumulated depreciation. Additional details regarding the Utility's total assets (Electric and Water) may be found in Note 5 to the financial statements. Capital expenditures increased by \$0.4 million in 2020.

Electric – Capital Expenditures



LONG-TERM DEBT

As of December 31, 2020, the Utility had \$165.2 million in revenue bonds outstanding. No new debt was issued, and \$6.0 million was retired in 2020.

The Utility maintained an AA- bond rating from Fitch, and an Aa3 rating from Moody's. Additional details regarding the Utility's long-term debt may be found in Note 6 to the financial statements.

See accompanying *Independent Auditors' Report*.

FINANCIAL ANALYSIS – WATER UTILITY

Condensed Financial Information – Water Utility

December 31, 2020 and 2019

(In millions)

Statements of Revenues, Expenses, & Changes in Net Position

	2020	2019	Change 2020 vs. 2019
Operating Revenues	\$12.1	\$11.6	\$0.5
Operating Expenses	10.5	10.3	0.2
<i>Operating Income</i>	1.6	1.3	0.3
Other Income & Expense	0.2	0.2	-
Nonoperating Income	0.2	0.2	-
<i>Income Before Transfers and Capital Contributions</i>	1.8	1.5	0.3
Transfers Out (In Lieu Of Tax Payments)	(0.4)	(0.4)	-
Capital Contributions	1.3	0.9	0.4
<i>Change in Net Position</i>	2.7	2.0	0.7
Net Position - Beginning of Year	107.0	105.0	2.0
Net Position - End of Year	\$109.7	\$107.0	\$2.7

Statements of Net Position

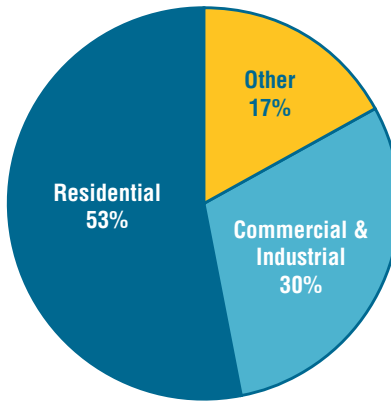
	2020	2019	Change 2020 vs. 2019
Cash and Investments	\$12.0	\$10.5	\$1.5
Other Current Assets	1.3	1.1	0.2
Capital Assets, Net	100.2	98.9	1.3
<i>Total Assets</i>	113.5	110.5	3.0
Deferred Outflows of Resources	0.2	0.1	0.1
Total Assets and Deferred Outflows of Resources	\$113.7	\$110.6	\$3.1
Current Liabilities	\$1.8	\$1.5	\$0.3
Noncurrent Liabilities	2.0	1.8	0.2
<i>Total Liabilities</i>	3.8	3.3	0.5
Deferred Inflows of Resources	0.2	0.3	(0.1)
Investment in Capital Assets	100.2	98.9	1.3
Unrestricted	9.5	8.1	1.4
<i>Net Position</i>	109.7	107.0	2.7
Total Liabilities, Deferred Inflows of Resources and Net Position	\$113.7	\$110.6	\$3.1

See accompanying *Independent Auditors' Report*.

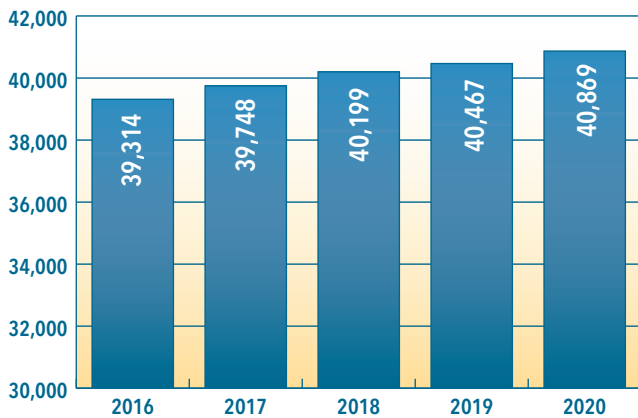
OPERATING REVENUES

Operating revenues increased by \$0.5 million (4.3%) in 2020. Retail revenues were up \$0.7 million (7.1%), due primarily to a 3.5% rate increase effective January 1, 2020, as well as an increase in sales volume.

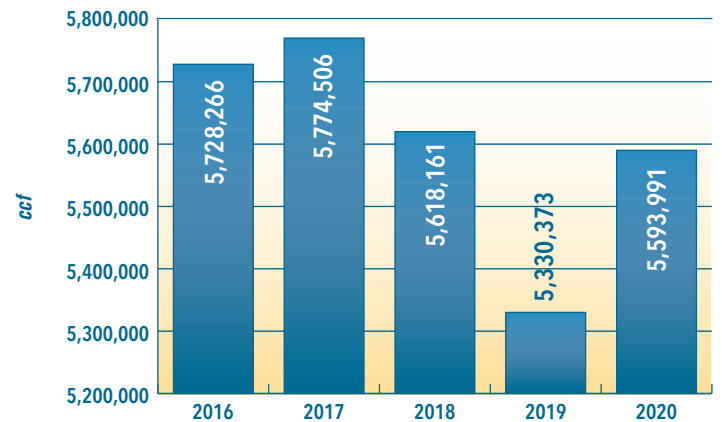
Water Operating Revenues



Number of Water Customers



Water Retail Sales

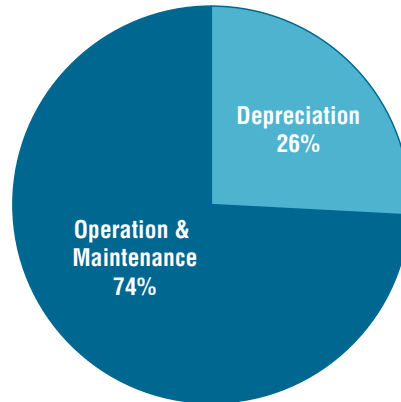


See accompanying *Independent Auditors' Report*.

OPERATING EXPENSES

Operating expenses increased by \$0.2 million (1.9%) in 2020 due primarily to an increase in the amount allocated to the Water Utility by the Electric Utility for labor and other shared expenses.

Water Operating Expenses



IN LIEU OF TAX PAYMENTS

The Water Utility makes transfers to the City of Rochester's General Fund each month based on the retail water volume (ccf - hundred cubic feet) sold. In 2020, \$385,000 was transferred to the City. This was an increase of \$27,000 over 2019 due to an increase in the ccf sales volume and an increase in the in lieu of tax rate.

CAPITAL CONTRIBUTIONS

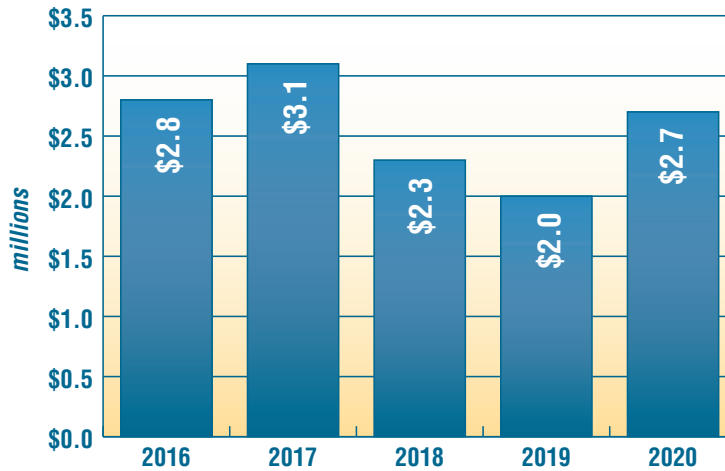
Capital contributions increased \$0.4 million in 2020. These are assets, primarily water mains and fire hydrants, which are contributed to the Water Utility from both the City and developers and are valued using a costing database that estimates their approximate construction costs. Beginning in 2013, the Utility took over the responsibility of paying for new water towers and reservoirs out of its own funds. The City collects a Water Availability Charge (WAC) specifically for this purpose and these funds will be used to reimburse the Water Utility for all or part of the cost of constructing new towers and reservoirs. No WAC funds were received in 2020.

See accompanying *Independent Auditors' Report*.

CHANGE IN NET POSITION

The Change in Net Position for 2020 was \$2.7 million, \$0.7 million higher than in 2019. This is due to a net increase in operating income in 2020, along with the increase in capital contributions of \$0.4 million.

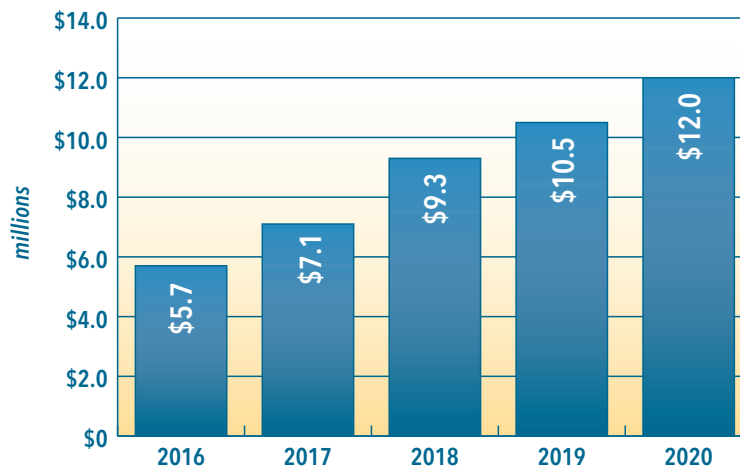
Water – Change in Net Position



CASH, INVESTMENTS AND OTHER ASSETS

The ending unrestricted cash and investments balance for 2020 was \$12.0 million, \$1.5 million higher than 2019.

Water – Unrestricted Cash & Investments



See accompanying *Independent Auditors' Report*.

LIABILITIES

Current liabilities increased \$0.3 million in 2020. This was due to an increase in the amount owed to the City at the end of 2020 for water main replacements in conjunction with City street projects.

Noncurrent liabilities increased \$0.2 million in 2020 due to an increase in pension liability for the Utility's proportionate share of the liability from PERA.

NET POSITION

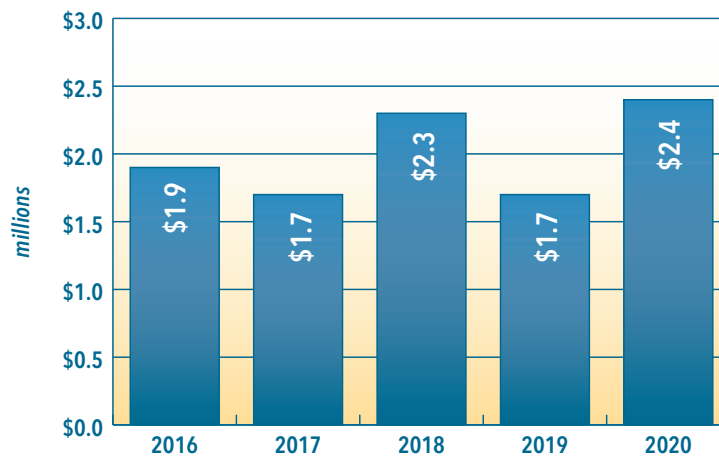
Net position invested in capital assets increased \$1.3 million. This increase reflects additions to capital assets funded through rate-based revenues and fees from customers as well as contributed assets.

Unrestricted net position is not subject to any constraints established by debt covenants or other legal requirements. In 2020, unrestricted net position increased \$1.4 million due to the results of operations.

CAPITAL ASSETS

As of December 31, 2020, the Water Utility had \$100.2 million invested in a broad range of utility capital assets, including 20 water storage facilities, 31 wells, water mains, pump station facilities, buildings, and equipment. Capital assets increased \$4.0 million in 2020, reflecting capital contributions as well as construction associated with the growth of the City and general facilities of the Water Utility. This increase in capital assets was offset by a \$2.7 million increase in accumulated depreciation. Additional details regarding the Utility's total assets (Electric and Water) may be found in Note 5 to the financial statements. Capital expenditures increased \$0.7 million in 2020. Some of the major expenditure components in 2020 were Destination Medical Center (DMC) projects, water main replacements in conjunction with City street projects, and metering.

Water – Capital Expenditures



See accompanying *Independent Auditors' Report*.

MISCELLANEOUS INFORMATION

ECONOMIC FACTORS

The City Council has approved Electric and Water rate increases as needed to support the Utility on a cost-of-service basis. In November 2019, the Utility Board voted to hold rates steady for 2020 for the Electric Utility and approved a 3.5% rate increase for the Water Utility. The rate maintenance and increase maintain the financial health of both Utilities, fund capital replacements and the continued growth of the City, while contributing to reserves for future replacement of aging infrastructure. The table below compares historical Electric and Water rate increases with the annual inflation rate, as well as an average for the last five years.

ROCHESTER PUBLIC UTILITIES ELECTRIC AND WATER RATE CHANGE VERSUS INFLATION

<u>Year</u>	<u>Inflation %</u>	<u>Electric Rates %</u>	<u>Water Rates %</u>
2021	2.0% *	0.0%	0.0%
2020	1.2% *	0.0%	3.5%
2019	1.8%	1.9%	6.0%
2018	2.4%	1.5%	6.0%
2017	2.1%	3.7%	6.0%
Annualized Average	1.9%	1.4%	4.3%

*Estimated Yearly Values

In addition to inflation, management continually plans for and identifies issues or potential contingencies that could impact future rates, such as system expansion, replacement of aging infrastructure, future supply costs, regulatory changes, and others. Growth of the city directly affects several of these factors.

The housing market had a strong year again in 2020, with 274 building permits totaling \$79.8 million issued for single-family homes as compared to 294 permits totaling \$80.3 million in 2019. Commercial building permits for 2020 saw 30 permits totaling \$71.1 million as compared to 40 permits totaling \$57.7 million in 2019. The 2020 amounts include a permit for a school, which accounts for much of the increase.

According to the US Department of Labor Bureau of Labor Statistics, the December 2020 unemployment rate of 3.9% for the area remains below the state and national rates of 4.9% and 6.7%, respectively. The employment data shows that, on average, employment was down approximately 11% from the previous year.

The DMC initiative continues to develop and is projected to have a major impact on the future economic growth of the city. Legislation passed in 2013 required two bodies to be created: the DMC Corporation, an oversight body, and the DMC Economic Development Agency (EDA), a private nonprofit agency that contracts with the DMC Corporation Board to act as its staff, working with the City of Rochester and other stakeholders to develop and execute the DMC

See accompanying *Independent Auditors' Report*.

plans and strategy. These two groups were organized in 2013 and 2014 and now meet regularly. In March 2014, the EDA began work on the DMC Development Plan, which was adopted by the City of Rochester in March 2015 and by the DMC Corporation in April 2015. The EDA, working with stakeholder organizations and the City of Rochester, is now charged with implementing the DMC Development Plan over the next twenty years. Specifically for Rochester, this will mean the creation of thousands of new jobs and an estimated \$270 million in additional tax revenue over the next twenty years, along with the creation and retention of new businesses with a focus on biotech companies. In 2017, an important milestone was reached when private investments reached the \$200 million mark, triggering the release of over \$500 million in State funding for infrastructure investment. In 2019, private investments totaled \$272 million, bringing the total private investment in DMC to \$962.8 million and the total public investment to \$98.4 million. Current priorities include Discovery Square, an integrated district for the future of biomedical, research, education, and technology innovation; Heart of the City, which would extend and enhance the Peace Plaza; and transportation. Several projects connected with these priorities are either in process or have recently been approved by the DMC Corporation Board. These projects include:

- Two Discovery Square – a 124,000 square foot, Leadership in Energy and Environmental Design (LEED) certified medical office and lab building with connectivity to One Discovery Square, a biomedical sciences building completed in 2019.
- Hyatt House development – hotel development of an under-utilized street corner and gateway into downtown Rochester and the Mayo Clinic medical campus.
- Rochester Rapid Transit System – an approximately three-mile bus rapid transit route, which in its first phase will run from a west transit village to downtown Rochester with seven stations.
- Heart of the City – Phase 1 is under construction and expected to be completed in summer of 2021.
- Discovery Walk – a linear parkway along 2nd Avenue in downtown Rochester connecting Soldiers Field to Annenberg Plaza near Mayo Clinic

The coronavirus pandemic in 2020 has had a negative economic impact on both the community as a whole and the Utility. RPU is projecting a gradual recovery. Based on this, along with the cost-of-service studies completed in 2020 for the Electric Utility and 2019 for the Water Utility, and keeping in mind the impact to ratepayers, management recommended holding rates steady for both the Electric and Water Utility in 2021.

Rochester Public Utilities continues to provide a customer focused reliable service to a vibrant and growing Rochester area through efficient, reliable and responsible operations that work to serve our customers and community.

REQUESTS FOR INFORMATION

The financial statements, notes, and management discussion and analysis are designed to provide a general overview of RPU's finances. Questions concerning any of the information provided in this report should be directed to RPU at 4000 E River Rd NE, Rochester, MN 55906. The phone number is (507) 280-1500. Additional information regarding RPU may also be found on its website at www.rpu.org.

See accompanying *Independent Auditors' Report*.

Electric Utility Statement of Net Position

As of December 31, 2020

	2020
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	\$16,475,623
Investments	73,937,210
Accounts Receivable (Net) and Accrued Utility Revenues	22,620,609
Inventories	6,180,943
Other Current Assets	1,925,357
Restricted Assets:	
Cash and Cash Equivalents	1,174,529
Total Current Assets	122,314,271
Noncurrent Assets:	
Restricted Assets:	
Investments	12,955,835
Capital Assets:	
Construction Work in Progress	13,473,183
Land and Land Rights	9,543,522
Depreciable Assets, Net	252,005,628
Net Capital Assets	275,022,333
Other Assets	11,854,296
Total Noncurrent Assets	299,832,464
Total Assets	422,146,735
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Bond Refunding	808,121
Pension Deferred Outflows of Resources	1,476,546
Total Deferred Outflows of Resources	2,284,667
Total Assets and Deferred Outflows of Resources	\$424,431,402
LIABILITIES:	
Current Liabilities:	
Accounts Payable	\$9,933,468
Due to the Municipality	2,827,807
Accrued Compensated Absences	1,960,578
Accrued Compensation	655,116
Customer Deposits	1,818,877
Current Liabilities Payable from Restricted Assets	
Interest Payable	648,279
Current Maturities of Long-Term Debt	6,315,000
Total Current Liabilities	24,159,125
Noncurrent Liabilities:	
Accrued Compensated Absences	1,462,251
Pre-1968 Pensions Liability	6,000
Net Pension Liability	14,285,386
Unearned Revenues	1,777,751
Long-Term Debt	175,764,837
Total Noncurrent Liabilities	193,296,225
Total Liabilities	217,455,350
DEFERRED INFLOWS OF RESOURCES	
Deferred Revenue	401,081
Pension Deferred Inflows of Resources	686,226
Solar Choice Deferred Inflows of Resources	416,325
Total Deferred Inflows of Resources	1,503,632
NET POSITION:	
Net Investment in Capital Assets	106,706,453
Restricted	
Debt Service	526,250
Unrestricted	98,239,717
Total Net Position	205,472,420
Total Liabilities, Deferred Inflows of Resources and Net Position	\$424,431,402

See accompanying *Notes to Financial Statements*.

Electric Utility

Statement of Revenues, Expenses, and Changes in Net Position

For the Year Ended December 31, 2020

	2020
Operating Revenues:	
Retail	\$143,974,946
Wholesale	1,939,151
Other	23,279,215
Total Operating Revenues	<u>169,193,312</u>
Operating Expenses:	
Purchased Power	85,672,582
Operations and Maintenance	34,368,964
Depreciation	14,515,722
Amortization of Regulatory Assets	443,271
Total Operating Expenses	<u>135,000,539</u>
Operating Income	<u>34,192,773</u>
Nonoperating Income (Expenses):	
Investment Income	2,179,639
Interest Expense	(6,340,590)
Amortization of Regulatory Assets	(80,602)
Miscellaneous, Net	(6,400)
Total Nonoperating (Expenses)	<u>(4,247,953)</u>
Income Before Transfers and Capital Contributions	<u>29,944,820</u>
Transfers Out	(8,369,519)
Capital Contributions	2,368,672
Change in Net Position	<u>23,943,973</u>
Net Position, Beginning of Year	181,528,447
Net Position, End of Year	<u><u>\$205,472,420</u></u>

See accompanying *Notes to Financial Statements*.

Electric Utility Statement of Cash Flows

For the Year Ended December 31, 2020

	2020
Cash Flows From Operating Activities:	
Cash Received from Customers	\$152,988,275
Cash Paid to Suppliers	(104,411,308)
Cash Paid to Employees	(19,315,052)
Internal Activity - Payments From Other Funds	5,826,940
Service Territory Acquisition	(188,312)
Net Cash Provided By Operating Activities	<u>34,900,543</u>
Cash Flows From Noncapital Financing Activities:	
Operating Transfers to Other Funds	<u>(8,378,166)</u>
Cash Flows From Capital and Related Financing Activities:	
Additions to Utility Plant and Other Assets	(15,285,289)
Capital Contributions Received	2,362,672
Principal Payments on Bonds	(6,015,000)
Interest Payments on Bonds	(8,080,100)
Net Cash Used In Capital and Related Financing Activities	<u>(27,017,717)</u>
Cash Flows From Investing Activities:	
Interest Received	2,179,639
Investment Redemptions	338,355
Net Cash Provided By Investing Activities	<u>2,517,994</u>
Net Increase in Cash and Cash Equivalents	<u>2,022,654</u>
Cash and Cash Equivalents, Beginning of Year	<u>15,627,498</u>
Cash and Cash Equivalents, End of Year	<u>17,650,152</u>
Classified As:	
Current Nonrestricted Assets	16,475,623
Restricted Assets	1,174,529
Cash and Cash Equivalents, End of Year	<u>\$17,650,152</u>

	2020
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	\$34,192,773
Adjustments to Reconcile Operating Income to	
Net Cash Provided by (Used in) Operating Activities:	
Depreciation and Amortization	14,958,993
Bad Debts	720,154
Service Territory Payments	(188,312)
(Increase) Decrease In:	
Accounts Receivable and Accrued Utility Revenues	(5,536,702)
Inventories	(131,348)
Other Current Assets	(601,477)
Increase (Decrease) In:	
Accrued Liabilities and Accounts Payable	(1,241,708)
Customer Deposits	75,186
Deferred Lease Revenues	(36,420)
Unearned Revenues	(6,844,682)
Pension Deferred Outflow/Inflow	(419,656)
Solar Choice Deferred Inflow	(46,258)
Net Cash Provided by Operating Activities	<u>\$34,900,543</u>
Noncash Financing and Investing Activities:	
Additions to Utility Plant and Other Assets Contributed By Developers	6,000
Amortization of Bond Premiums, Discounts, and Refunding	(1,746,935)
Amortization of Bond Issue Costs	80,602
Unrealized Gain on Investments	641,500

See accompanying Notes to Financial Statements.

Water Utility

Statement of Net Position

As of December 31, 2020

	2020
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	\$2,182,242
Investments	9,793,190
Accounts Receivable (Net) and Accrued Utility Revenues	952,222
Inventories	199,994
Other Current Assets	140,665
Total Current Assets	<u>13,268,313</u>
Noncurrent Assets:	
Capital Assets:	
Construction Work in Progress	4,287,566
Land and Land Rights	677,486
Depreciable Assets, Net	95,234,673
Net Capital Assets	<u>100,199,725</u>
Total Noncurrent Assets	<u>100,199,725</u>
Total Assets	<u>113,468,038</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension Deferred Outflows of Resources	197,011
Total Assets and Deferred Outflows of Resources	<u>\$113,665,049</u>
LIABILITIES:	
Current Liabilities:	
Accounts Payable	\$276,779
Due to the Municipality	972,210
Accrued Compensated Absences	317,936
Accrued Compensation	94,779
Customer Deposits	128,883
Total Current Liabilities	<u>1,790,587</u>
Noncurrent Liabilities:	
Accrued Compensated Absences	219,919
Net Pension Liability	1,807,972
Total Noncurrent Liabilities	<u>2,027,891</u>
Total Liabilities	<u>3,818,478</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred Revenue	92,216
Pension Deferred Inflows of Resources	83,847
Total Deferred Inflows of Resources	<u>176,063</u>
NET POSITION:	
Net Investment in Capital Assets	100,199,725
Unrestricted	9,470,783
Total Net Position	<u>109,670,508</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$113,665,049</u>

See accompanying *Notes to Financial Statements*.

Water Utility

Statement of Revenues, Expenses, and Changes in Net Position

For the Year Ended December 31, 2020

	2020
Operating Revenues:	
Retail	\$10,665,362
Other	1,422,674
Total Operating Revenues	<u>12,088,036</u>
Operating Expenses:	
Operations and Maintenance	7,800,244
Depreciation	2,745,455
Total Operating Expenses	<u>10,545,699</u>
Operating Income	<u>1,542,337</u>
Nonoperating Income (Expenses):	
Investment Income	223,343
Interest Expense	(775)
Miscellaneous, Net	(4,609)
Total Nonoperating Income	<u>217,959</u>
Income Before Transfers and Capital Contributions	<u>1,760,296</u>
Transfers Out	(384,531)
Capital Contributions	1,283,398
Change in Net Position	<u>2,659,163</u>
Net Position, Beginning of Year	<u>107,011,345</u>
Net Position, End of Year	<u>\$109,670,508</u>

See accompanying *Notes to Financial Statements*.

Water Utility Statement of Cash Flows

For the Year Ended December 31, 2020

	2020
Cash Flows From Operating Activities:	
Cash Received from Customers	\$11,720,719
Cash Paid to Suppliers	(5,351,426)
Cash Paid to Employees	(2,460,194)
Internal Activity - Payments From Other Funds	181,024
Net Cash Provided By Operating Activities	<u>4,090,123</u>
Cash Flows From Noncapital Financing Activities:	
Operating Transfers to Other Funds	<u>(384,890)</u>
Cash Flows From Capital and Related Financing Activities:	
Additions to Utility Plant and Other Assets	(2,481,565)
Net Cash Used In Capital and Related Financing Activities	<u>(2,481,565)</u>
Cash Flows From Investing Activities:	
Interest Received	222,567
Investment Purchases	(979,100)
Net Cash Used In Investing Activities	<u>(756,533)</u>
Net Increase in Cash and Cash Equivalents	467,135
Cash and Cash Equivalents, Beginning of Year	<u>1,715,107</u>
Cash and Cash Equivalents, End of Year	<u><u>\$2,182,242</u></u>

	2020
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	\$1,542,337
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used in) Operating Activities:	
Depreciation	2,745,455
Bad Debts	27,420
(Increase) Decrease In:	
Accounts Receivable and Accrued Utility Revenues	(245,859)
Inventories	(4,066)
Prepaid and Other Current Assets	(49,191)
Increase (Decrease) In:	
Accrued Liabilities and Accounts Payable	31,721
Customer Deposits	725
Deferred Revenue	59,567
Pension Deferred Outflow/Inflow	(17,986)
Net Cash Provided by Operating Activities	<u><u>\$4,090,123</u></u>

Noncash Financing and Investing Activities:	
Additions to Utility Plant and Other Assets Contributed By:	
City's Governmental Funds	\$116,181
Developers	\$1,167,217

See accompanying *Notes to Financial Statements*.

NOTES TO FINANCIAL STATEMENTS

As of and for the Year Ended December 31, 2020

NOTE 1: Summary of Significant Accounting Policies

The financial statements of Rochester Public Utilities (Utilities or RPU) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to enterprise funds of governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The significant accounting principles and policies utilized by the Utilities are described below.

REPORTING ENTITY

The Utilities are comprised of two proprietary funds, the Electric and the Water Enterprise Funds of the City of Rochester, Minnesota (municipality). The Electric Utility is engaged in the generation, transmission, and distribution of electric power and energy, and related activities. The Water Utility is engaged in the supply, purification, and distribution of water, and related activities. The Utilities provide electric and water service to properties concentrated geographically in or near the City of Rochester.

The Utilities are a municipal utility governed by a five-member board under the authority of the Home Rule Charter. The equity of the Utilities is vested in the City of Rochester, Minnesota.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The Utilities are presented as enterprise funds of the municipality. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements.

Activities are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

The preparation of financial statements in accordance with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from the estimates.

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

Deposits and Investments

For purposes of reporting cash flows the Utilities consider all highly liquid debt instruments purchased with an original maturity of 90 days or less to be cash equivalents.

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. The bases of fair values are described in the notes to the City of Rochester's financial statements included in the City's 2020 Comprehensive Annual Financial Report. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Fair values may have changed significantly after year end.

Investments of Utilities' funds are restricted by state statutes. Investments are limited to:

- (a) Direct obligations or obligations guaranteed by the United States or its agencies.
- (b) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
- (c) General obligations of the State of Minnesota or its municipalities.
- (d) Bankers acceptances of United States banks eligible for purchase by the Federal Reserve System.
- (e) Commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality, and maturing in 270 days or less.
- (f) Repurchase agreements with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a reporting dealer to the Federal Reserve Bank of New York, or certain Minnesota securities broker/dealers.
- (g) Money market funds with institutions that have portfolios consisting exclusively of United States Treasury obligations and Federal Agency issues.
- (h) Guaranteed investment contract (gic's) issued or guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance company and with a credit quality in one of the top two highest categories. Agreements or contracts for guaranteed investment contracts with a term of 18 months or less may be entered into provided that the issuer's or guarantor's long-term unsecured debt is rated in one of the three highest rating categories (minimum A- or the equivalent) and the credit quality of the issuer's short-term unsecured debt is rated in the highest category (minimum A-1 or the equivalent).

As funds of the City of Rochester, MN, the Utilities are governed by the investment policy that has been adopted by the Rochester City Council. That policy follows the state statute for allowable investments.

Receivables/Payables and Accrued Utility Revenues

Outstanding balances between the Utilities and the primary government are reported as due from/to the municipality.

The Utilities provide an allowance for losses on receivables, as needed, for accounts considered uncollectible. Accounts receivable have been reduced by an Allowance for Doubtful Accounts of \$560,000 for the Electric Utility and \$50,000 for the Water Utility for December 31, 2020.

Revenues are recognized on the accrual basis of accounting and include estimated amounts for service rendered but not billed. Accrued revenue amounts are \$5,753,163 for the Electric Utility and \$185,153 for the Water Utility for the year ended December 31, 2020.

Included in the Electric Accounts Receivable balance is an accrual of a \$4,267,058 distribution of excess cash reserves from Southern Minnesota Municipal Power Authority (SMMPA) that was received in January 2021.

Inventories

Materials and supplies are generally used for construction, operation and maintenance work, not for resale. They are valued using the lower of moving average cost or market and charged to construction or expense when used. Fossil fuel inventory is valued at cost, using the last-in, first-out method.

Restricted Assets

Mandatory segregations of assets are presented as restricted assets. Such segregations are required by bond agreements and other external parties. RPU's general policy is that when both restricted and unrestricted resources are available for use, it is the Utility's policy to use restricted resources first, then unrestricted resources.

Other Current Assets

Prepaid expenses are recorded for insurance premiums and maintenance contracts related to computer equipment. Costs under these agreements are expensed over the time periods covered by the agreements.

Capital Assets

Capital assets are defined by the Utilities as assets with an initial, individual cost of \$5,000 or more, or group assets with a value of \$25,000 or more, and an estimated useful life in excess of one year.

Capital assets are recorded at cost or the estimated acquisition value at the time of contribution to RPU. Major outlays for capital assets are capitalized as projects

are constructed. Capital assets in service are depreciated or amortized using the straight-line method over the following useful lives:

Electric Plant	Years
Generation	10-60
Transmission	20-45
Distribution	10-50
General	5-50

Water Plant	Years
Source of Supply	15-70
Pumping	10-50
Water Treatment	30-80
Transmission and Distribution	50-80
General	5-80

Other Assets – Noncurrent

Other Assets – Noncurrent includes Regulatory Assets consisting of Bond Issue Costs and Service Territory Acquisition Costs. Refer to Note 10 for additional information on the Utility’s application of accounting for the effect of rate regulation.

A summary of changes in the Electric Utility assets for 2020 follows:

	Balance 01/01/20	Increases	Decreases	Balance 12/31/20
Bond issue costs	\$2,319,943	\$ -	\$ -	\$2,319,943
Less: Amortization of bond issue costs	1,375,139	80,602	-	1,455,741
Nonoperating Other Assets	944,804			864,202
Regulatory asset-Service territory payments	17,357,596	199,435	-	17,557,031
Less: Amortization of Regulatory asset	6,123,666	443,271	-	6,566,937
Operating Other Assets	11,233,930			10,990,094
Net Other Assets	<u>\$12,178,734</u>			<u>\$11,854,296</u>

Deferred Outflows of Resources

A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that future time.

The Electric Utility has issued revenue bonds to finance the advance and current refunding of the outstanding revenue bonds. The refunding resulted in a difference between the reacquisition price and net carrying amount of the old debt. This difference is being amortized and charged to operations over the bond term using the effective interest method. The unamortized balance as of December 31, 2020 is \$808,121.

See Note 8 for additional information regarding pension deferred outflows (inflows) of resources.

Accrued Compensation and Compensated Absences

Vacation pay, which is payable upon termination, is accrued as it is earned by employees.

The Utilities' sick leave liability is estimated based on the Utilities' past experience of making termination payments for sick leave. Employees are compensated upon termination for forty percent of their unused sick leave, after meeting certain qualifications.

Customer Deposits

Customer deposits are recorded for security deposits paid by customers to receive utility services. Deposits are returned to customers with good credit history in accordance with criteria established in the Utilities' policies. Customers are paid interest on deposits at the rate established annually by the Minnesota Department of Commerce.

Unearned Revenues

Under the terms of a 2015 agreement, the Electric Utility constructed a substation to meet the specifications of a large customer. The customer paid a Contribution in Aid of Construction (CIAC) for redundant facilities for reliability purposes and for substation capacity in excess of current needs. Per the agreement, the customer can earn a refund of a portion of the CIAC related to excess capacity based on their measured load over the term from 2019 through 2027. A portion of the excess capacity payment becomes ineligible for refund in each of those years if the load requirement specified in the agreement is not achieved. During 2020, \$246,000 of the potential refund became ineligible for refund as the load requirement was not met and, as of December 31, 2020, \$1,722,000 of the potential refund remained recorded as an Unearned Revenue. The amount of Unearned Revenue will be reduced each year through the remainder of the ten-year term, having either been refunded to the customer if load requirement has been met, or recorded as a Contribution in Aid of Construction if not met. The substation went in service in May, 2017.

As described in Note 11 under Legal Matters, the Electric Utility was engaged in an administrative hearing before the Federal Energy Regulatory Commission (FERC) involving the recovery of RPU's Annual Transmission Revenue Requirement from transmission customers in the Midcontinent Independent System Operator, Inc. (MISO) region. During 2018, FERC issued an order affirming the administrative law judge's 2017 ruling that RPU was entitled to recovery of its revenue requirement related to its investment in MISO Zone 16. FERC's order was subject to a possible appeal, and all related payments MISO had made to RPU until the final determination were recorded as unearned revenue. In 2020, the case was resolved in RPU's favor, at which time the entire amount was recognized as revenue.

As of December 31, 2020, customers had paid the Electric Utility \$55,751 as advances for construction of utility infrastructure, which is reflected as Unearned Revenue. When the construction has been completed, such amounts will be recorded as Capital Contributions.

Long-Term Debt

Long-term debt and other obligations are reported as the Utilities' liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Gains or losses on prior bond refundings are amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter.

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 of Minnesota (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.

Deferred Inflows of Resources

A deferred inflow of resources represents an acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time.

The Electric Utility leases a portion of its transmission system, known as the North Loop, to Southern Minnesota Municipal Power Agency (SMMPA) under a non-cancelable operating lease through the year 2030. The Utility is responsible for all operating and maintenance costs. The Utility received a lump sum payment of \$1,500,000 in 1989 and annual lease revenues of \$36,420 are being recognized ratably over the lease term. The amount deferred as of December 31, 2020 was \$337,595.

Beginning in January, 2018, the Electric Utility, working through its primary power supplier SMMPA, began a new program offering called SolarChoice whereby customers can subscribe to one or more solar panels from a utility-scale solar installation contracted to SMMPA. Each month customers receive a bill credit for the amount of energy generated by their subscribed panels. The subscription cost of \$650 per solar panel was initially recorded as a deferred inflow and is being recognized into revenue ratably over the twelve-year term of the subscription, 2019 through 2029. As of December 31, 2020 \$416,325 remained as deferred.

At the end of 2020, the Electric Utility had advance payments of \$63,486, which included the unamortized portion of capacity sales, as well as advance payments for leased space on poles. The Water Utility received advance payments for leasing antenna space on its water towers. The amount of advance payments held as of December 31, 2020 was \$92,216.

See Note 8 for additional information regarding pension deferred outflows (inflows) of resources.

REVENUES AND EXPENSES

The Utilities distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with principal ongoing operations. The principal operating revenues of the Utilities are charges to customers for sales and services. Operating expenses 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 non-operating revenues and expenses.

Charges for Services

Billings are rendered and recorded monthly based on metered usage.

Current electric and water rates were approved by the Utility Board and the City Council and placed into effect on January 1, 2020.

Transfers

Transfers include the payment in lieu of taxes to the municipality and outgoing contributions in aid of construction when the payment is between the two utilities that comprise RPU.

Capital Contributions

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

Significant Customers

The top ten users of the Electric Utility represent sales of 328,921 megawatt hours (mWh) of use, which is 29.2% of the total retail mWh sales in 2020. These users also represent \$43,192,879 or 25.5% of the total 2020 operating revenues. The top two users of RPU account for approximately 199,056 mWh of use, which is 17.6% of the total retail mWh sales in 2020 and represents \$25,872,772 or 15.3% of the total 2020 operating revenues. Section 13.685 of the Minnesota Statutes does not allow the disclosure of the identity of privately owned companies or individuals and their electric consumption, so the top ten users cannot be disclosed. RPU is not aware of any significant changes by these users that would affect the overall consumption or revenue production by its biggest customers.

The top ten users of the Water Utility represent sales of 930,939 hundred cubic feet (ccf) of use, which is 16.6% of the total ccf sales in 2020. These users also represent \$1,177,097 or 9.7% of the total 2020 operating revenues. The top two users of RPU account for approximately 588,991 ccf of use, which is 10.5% of the total ccf sales in 2020 and represents \$759,165 or 6.3% of the total 2020 operating revenues.

EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS

GASB has approved GASB Statement No. 87, *Leases*, Statement No. 89, *Accounting for Interest Cost incurred before the End of a Construction Period*, Statement No. 91, *Conduit Debt Obligations*, Statement No. 92, *Omnibus 2020*, Statement No. 93, *Replacement of Interbank Offered Rates*, Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangement*, Statement No. 96, *Subscription-Based Information Technology Arrangements* and Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*.

When they become effective, application of these standards may restate portions of these financial statements.

NOTE 2: Deposits and Investments

All deposits are insured or collateralized by securities held by the City of Rochester or its agents in the City's name.

The Utilities' equity in the City of Rochester cash and investment pool is based on actual cash receipts and disbursements and a monthly allocation of investment earnings on a pro-rata basis. Investments held in the investment pool, associated risks and fair value measurements are disclosed in the notes to the City of Rochester's basic financial statements included in the City's 2020 Comprehensive Annual Financial Report.

NOTE 3: Due to the Municipality

The following is a schedule of balances as of December 31, 2020:

<u>Due To</u>	<u>Due From</u>	<u>Principal Purpose</u>	<u>2020 Amount</u>
Municipality	Electric	General operating	\$90,865
Municipality	Electric	Payments in lieu of tax	683,690
Municipality	Electric	Sewer and Storm water revenue	3,285,901
Total Electric Due To Municipality			<u>4,060,456</u>
Electric	Municipality	Sewer and Storm water billing fees	141,982
Electric	Municipality	Utility bills	378,456
Electric	Municipality	Utility bill collections	2,245
Electric	Municipality	General operating	298,706
Electric	Municipality	Interest on investments	411,260
Total Electric Due From Municipality			<u>1,232,649</u>
Electric Net Due to Municipality			<u>\$2,827,807</u>
Municipality	Water	General operating	\$40,519
Municipality	Water	Watermain replacement	914,724
Municipality	Water	Payments in lieu of tax	26,580
Total Water Due To Municipality			<u>981,823</u>
Water	Municipality	Utility bills	9,091
Water	Municipality	General operating	522
Total Water Due From Municipality			<u>9,613</u>
Water Net Due to Municipality			<u>\$972,210</u>

The following is a schedule of transfer balances for the year ending December 31, 2020:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Principal Purpose</u>	<u>2020 Amount</u>
Electric	Municipality	Tax Equivalents	<u>\$8,369,519</u>
Water	Municipality	Tax Equivalents	<u>\$384,531</u>

NOTE 4: Restricted Assets

Certain proceeds of the Utilities' revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position because their use is limited. The following accounts are reported as restricted assets of the Electric Utility:

	<u>2020</u>
Current Assets	
Debt Service Account	\$1,174,529
Used to segregate resources accumulated for debt service payments over the next twelve months.	
Noncurrent Assets	
Reserve Account	\$12,955,835
Proceeds deposited to be used to pay principal and interest payments on long-term debt.	

NOTE 5: Changes in Capital Assets

ELECTRIC

A summary of changes in electric capital assets for 2020 follows:

	<u>Balance 01/01/20</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/20</u>
Capital assets, not being depreciated:				
Construction in progress	\$8,167,887	\$10,147,469	\$4,842,173	\$13,473,183
Land and land rights	9,542,782	740	-	9,543,522
Total capital assets, not being depreciated	<u>17,710,669</u>	<u>10,148,209</u>	<u>4,842,173</u>	<u>23,016,705</u>
Capital assets, being depreciated:				
Buildings, structures and improvements	65,796,775	1,467,569	-	67,264,344
Installations, equipment and fixtures	423,175,881	9,504,130	1,055,222	431,624,789
Total capital assets, being depreciated	<u>488,972,656</u>	<u>10,971,699</u>	<u>1,055,222</u>	<u>498,889,133</u>
Less: Accumulated depreciation	<u>233,038,771</u>	<u>14,515,722</u>	<u>670,988</u>	<u>246,883,505</u>
Depreciable Assets, Net	<u>255,933,885</u>			<u>252,005,628</u>
Net Capital Assets	<u>\$273,644,554</u>			<u>\$275,022,333</u>

In 2020, others contributed noncash capital assets of \$6,000 to the Electric Utility.

WATER

A summary of changes in water capital assets for 2020 follows:

	<u>Balance 01/01/20</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/20</u>
Capital assets, not being depreciated:				
Construction in progress	\$2,130,814	\$3,396,064	\$1,239,312	\$4,287,566
Land and land rights	677,486	-	-	677,486
Total capital assets, not being depreciated	<u>2,808,300</u>	<u>3,396,064</u>	<u>1,239,312</u>	<u>4,965,052</u>
Capital assets, being depreciated:				
Buildings, structures and improvements	19,189,171	-	-	19,189,171
Installations, equipment and fixtures	130,955,055	1,904,872	67,650	132,792,277
Total capital assets, being depreciated	<u>150,144,226</u>	<u>1,904,872</u>	<u>67,650</u>	<u>151,981,448</u>
Less: Accumulated depreciation	54,041,515	2,745,455	40,195	56,746,775
Depreciable Assets, Net	<u>96,102,711</u>			<u>95,234,673</u>
Net Capital Assets	<u>\$98,911,011</u>			<u>\$100,199,725</u>

In 2020, capital assets totaling \$116,181 were contributed to the Water Utility by other funds of the City of Rochester, and others contributed \$1,167,217 to the Utility.

NOTE 6: Long-Term Obligations**ELECTRIC**

The following revenue bonds have been issued:

Date	Purpose	Final Maturity	Interest Rate	Original Amount	Outstanding Amount 12/31/20
2/15/17	Revenue Bond Series 2017A-Westside Energy Station, Customer Service Center expansion, transmission and substation work, distribution system expansion, and refund remaining 2007C issue	12/1/47	2.00-5.00%	\$108,255,000	\$99,480,000
11/17/15	Revenue Bond Series 2015E-Advance refund a portion of the 2007C issue	12/1/30	3.00-5.00%	39,970,000	31,690,000
5/29/13	Revenue Bond Series 2013B-CapX2020 Southwest Metro to Rochester to La Crosse transmission line project	12/1/43	3.00-5.00%	38,370,000	33,995,000

Revenue bond debt service requirements to maturity follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$6,315,000	\$7,779,350	\$14,094,350
2022	6,625,000	7,472,050	14,097,050
2023	6,955,000	7,140,800	14,095,800
2024	7,310,000	6,793,050	14,103,050
2025	7,605,000	6,488,150	14,093,150
2026-2030	43,340,000	27,140,800	70,480,800
2031-2035	21,115,000	19,332,050	40,447,050
2036-2040	26,605,000	13,829,350	40,434,350
2041-2045	28,810,000	6,728,250	35,538,250
2046-2047	10,485,000	792,750	11,277,750
	<u>\$165,165,000</u>	<u>\$103,496,600</u>	<u>\$268,661,600</u>

All utility revenues net of specified operating expenses are pledged as security of the above revenue bonds until the bonds are paid off. Principal and interest paid for 2020 was \$14,095,100, which consisted entirely of scheduled principal and interest payments. Total gross revenues as defined for the same period were \$171,372,951. Annual principal and interest payments are expected to require 5.8% of gross revenues on average.

All of the Utility's outstanding revenue bonds contain a provision that upon the occurrence and continuation of an event of default, the bond owners' trustee, or if there is none, the owners of 25% in aggregate amount of the parity bonds then outstanding, may, by written notice to the City, declare the entire unpaid principal of the parity bonds due and payable.

LONG-TERM OBLIGATIONS SUMMARY – ELECTRIC

Long-term obligation activity for the year ended December 31, 2020 is as follows:

	<u>01/01/20 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/20 Balance</u>	<u>Due Within One Year</u>
Long-term debt	\$171,180,000	\$ -	\$6,015,000	\$165,165,000	\$6,315,000
Bond discount/premium	18,821,491	-	1,906,654	16,914,837	-
Accrued Compensated Absences	3,137,122	366,399	80,692	3,422,829	1,960,578
Pre-1968 Pension Liability	6,000	-	-	6,000	-
Net Pension Liability	12,584,021	1,701,365	-	14,285,386	-
Unearned Revenue	8,622,433	18,851	6,863,533	1,777,751	-
Totals	<u>\$214,351,067</u>	<u>\$2,086,615</u>	<u>\$14,865,879</u>	<u>\$201,571,803</u>	<u>\$8,275,578</u>

LONG-TERM OBLIGATIONS SUMMARY – WATER

Long-term obligation activity for the year ended December 31, 2020 is as follows:

	<u>01/01/20 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/20 Balance</u>	<u>Due Within One Year</u>
Accrued Compensated Absences	\$506,393	\$148,660	\$117,198	\$537,855	\$317,936
Net Pension Liability	1,561,107	246,865	-	1,807,972	-
Totals	<u>\$2,067,500</u>	<u>\$395,525</u>	<u>\$117,198</u>	<u>\$2,345,827</u>	<u>\$317,936</u>

INTEREST EXPENSE – ELECTRIC

	<u>2020</u>
Bond interest expense	\$8,055,038
Bond premium, discount & refunding amortization	(1,746,935)
Interest expense	<u>32,487</u>
Totals	<u>\$6,340,590</u>

NOTE 7: Net Position

GASB Statement No. 34 requires the classification of net position into three components – net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

NET INVESTMENT IN CAPITAL ASSETS

This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent amount are not included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflows of resources are included in the same net position component (restricted or unrestricted) as the unspent amount.

RESTRICTED

This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

UNRESTRICTED

This component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

NOTE 8: Pension Plans

A. Plan Description

The Utilities, as departments of the City of Rochester, participate in the General Employees Retirement Plan 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 Utilities are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

B. Benefits Provided

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

General 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% of average salary for each of the first ten years of service and 1.7% of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% 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. Beginning in 2019, 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%. 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. For 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.

C. 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 6.5% of their annual covered salary in calendar year 2020; the Utilities were required to contribute 7.5% for Coordinated Plan members. The Utilities' contributions to the General Employees Fund for the year ended December 31, 2020, were \$1,276,070 and \$161,082 for the Electric Utility and Water Utility respectively. The Utilities' contributions were equal to the required contributions as set by state statute.

D. Pension Costs

At December 31, 2020, the Electric Utility reported a liability of \$14,285,386, and the Water Utility reported a liability of \$1,807,972 as each utility's allocated share of the City of Rochester's proportionate share of \$46,872,483 of the General Employees Fund's net pension liability. The City of Rochester's 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 City of Rochester totaled \$1,445,366. The net pension liability was measured as of June 30, 2020 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City of Rochester's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2019, through June 30, 2020, relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.7818% at the end of the measurement period and 0.7473% for the beginning of the period.

City of Rochester's proportionate share of the net pension liability	\$46,872,483
State of Minnesota's proportionate share of the net pension liability associated with the City of Rochester	1,445,366
Total	<u>\$48,317,849</u>

For the year ended December 31, 2020, the Electric Utility and Water Utility recognized pension expense of \$862,736 and \$144,523 respectively as allocated shares of the City of Rochester's General Employees Plan's pension expense. In addition, the City recognized an additional \$125,791 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, 2020, the Electric Utility reported its allocated share of the City of Rochester's General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$124,498	\$54,050
Changes in actuarial assumptions	-	518,577
Net collective difference between projected and actual investment earnings	266,684	-
Changes in proportion	437,686	113,599
Contributions paid to PERA subsequent to the measurement date	647,678	-
Total	\$1,476,546	\$686,226

The \$647,678 reported as deferred outflows of resources related to pensions resulting from Electric Utility contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount
2021	(\$758,940)
2022	140,462
2023	415,981
2024	345,139

At December 31, 2020, the Water Utility reported its allocated share of the City of Rochester's General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$15,407	\$6,841
Changes in actuarial assumptions	-	63,769
Net collective difference between projected and actual investment earnings	45,306	-
Changes in proportion	55,389	13,237
Contributions paid to PERA subsequent to the measurement date	80,909	-
Total	\$197,011	\$83,847

The \$80,909 reported as deferred outflows of resources related to pensions resulting from Water Utility contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount
2021	(\$84,452)
2022	20,249
2023	52,596
2024	43,862

E. Actuarial Assumptions

The total pension liability in the June 30, 2020, actuarial valuation was determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions:

Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP-2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25% per year for the General Employees Plan.

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

The following changes in actuarial assumptions and plan provisions occurred in 2020:

Changes in Actuarial Assumptions:

- 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.

Changes in Plan Provisions:

- 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.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	35.5%	5.10%
International Stocks	17.5%	5.30%
Bonds (Fixed Income)	20.0%	0.75%
Alternative Assets (Private Markets)	25.0%	5.90%
Cash Equivalents	2.0%	0.00%
Total	100.0%	

F. Discount Rate

The discount rate used to measure the total pension liability in 2020 was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension Liability Sensitivity

The following presents the Electric Utility's and Water Utility's allocated shares of the City of Rochester's net pension liability for the General Employees Fund plan, calculated using the discount rate disclosed in the preceding paragraph, as well as what each utility's allocated 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 in Discount Rate (6.5%)	Current Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
Electric Utility's allocated share of the General Employees Fund net pension liability:	\$22,894,488	\$14,285,386	\$7,183,543
Water Utility's allocated share of the General Employees Fund net pension liability:	\$2,897,549	\$1,807,972	\$909,156

H. Pension Plan Fiduciary Net Position

Detailed information about the 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.

I. Other Pension Plans

The Utilities had maintained an unqualified supplemental pension plan. The plan was unfunded and was discontinued in 1968. Funds have been deposited with a plan administrator to fund the estimated benefits due under the plan. The pension reserve deposit as of December 31, 2020 was \$29,842.

J. Defined Contribution Plan (457 Plan)

The City of Rochester offers a 457 plan (Plan) to all eligible employees who elect to make contributions to the Plan. The City intends to maintain the Plan as an eligible deferred compensation plan within the meaning of section 457(b) of the Internal Revenue Code. Participation in the Plan is voluntary and not a requirement of employees. The Plan is participant-directed and available to all City of Rochester employees which permits them to defer a portion of their salary until future years. The City of Rochester does not provide contributions to the Plan. The City contracts with two deferred compensation plan vendors to offer retirement plan benefits. These vendors are Empower Retirement and ICMA-RC.

NOTE 9: Risk Management

The Utilities are exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors and omissions. These risks are covered through the purchase of commercial insurance, with minimal deductibles. Settled claims have not exceeded the commercial liability in any of the past three years. There were no significant reductions in coverage compared to the prior year.

The City of Rochester has established a self-insurance program for group health coverage and workers' compensation. Rochester Public Utilities participates in this self-insurance program. The group health program is limited to losses of \$315,000 per claim with a variable annual aggregate, and the 2020 workers' compensation coverage is limited to \$500,000 per occurrence, both through the use of stop-loss policies. The City recognizes a liability on individual claims when a loss is probable and the amount can be reasonably estimated. In addition, the City recognizes an estimated liability on unreported claims that are incurred but not yet reported. Additional details regarding the self-insurance program are disclosed in the notes to the City of Rochester's basic financial statements included in the City's 2020 Comprehensive Annual Financial Report.

NOTE 10: Accounting for the Effects of Rate Regulation

The Utilities are subject to the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 10, 1989 FASB and AICPA Pronouncements*. This statement recognizes the economic ability of regulators, through the rate-making process, to create future economic benefits and obligations affecting rate-regulated entities. Accordingly, the Utilities record these future economic benefits and obligations as regulatory assets and deferred inflows of resources, respectively.

Regulatory assets represent probable future revenues associated with previously incurred costs that are expected to be recovered from customers. Deferred inflows of resources represent probable future reductions in revenues associated with amounts that are expected to be refunded to customers through the rate-making process.

In order for a rate-regulated entity to continue to apply the provisions of GASB Statement No. 62, it must continue to meet the following three criteria:

1. The entities' rates for regulated services provided to its customers must be established by an independent third-party regulator or its own governing board empowered by a statute to establish rates that bind customers;
2. The regulated rates must be designed to recover the specific entities' costs of providing the regulated services;
3. In view of the demand for the regulated services and the level of competition, it is reasonable to assume that rates set at levels that will recover the entities' costs can be charged to and collected from customers.

Based upon the Utilities' management evaluation of the three criteria discussed above in relation to its operations, and the effect of competition on its ability to recover its costs, the Utilities believe that GASB Statement No. 62 continues to apply.

NOTE 11: Commitments and Contingencies

RESOURCE MANAGEMENT AGREEMENT

The Electric Utility has a Resource Management Agreement with The Energy Authority, Inc. as its market participant in the Midcontinent Independent System Operator energy and operating reserves market for the Cascade Creek combustion turbines and Westside Energy Station reciprocating engines.

SERVICE TERRITORY SETTLEMENTS

Under settlement agreements with People’s Energy Cooperative (PEC), the Electric Utility is required to make payments to PEC related to the acquisitions of certain electric service rights from PEC. The payment is based on kilowatt hours (kWh) sold in acquired areas and varies by each settlement agreement. The kWh compensation rate ranges from 14.61 mills (tenths of a cent) per kWh to 26.38 mills per kWh. These commitments expire over various periods with a maximum term of ten years for each acquisition. Costs are recognized under these agreements as service is provided and are recorded as a regulatory asset for utility rate-making purposes under the provisions of GASB Statement No. 62 and amortized over forty years.

SOUTHERN MINNESOTA MUNICIPAL POWER AGENCY

The Electric Utility is a voting member of the Southern Minnesota Municipal Power Agency (SMMPA). The Utility has entered into a power purchase contract with SMMPA, whereby SMMPA will provide all Utility power requirements up to 216 megawatts, the contract rate of delivery. This contract expires in the year 2030. In 1999, the Utility and SMMPA agreed to a contract rate of delivery (CROD) that began in 2000. The CROD caps the amount of power SMMPA must supply to the Utility under the power purchase contract. The Utility is responsible for acquiring its power needs above the CROD. The Utility purchased 1,149,203,068 kilowatt hours totaling \$84,591,296 from SMMPA during the year ended December 31, 2020.

In October of 2020, RPU recorded as operating revenue a \$4,267,058 distribution of general operating reserves from Southern Minnesota Municipal Power Agency. The payment was received in January 2021.

The Utility leases a portion of its electrical transmission system, known as the North Loop, to SMMPA under a non-cancelable operating lease through the year 2030. The Utility is responsible for all operating and maintenance costs. The Utility received a lump sum payment of \$1,500,000 in 1989 and annual lease revenues of \$36,420 are being recognized ratably over the lease term.

CENTRAL MINNESOTA MUNICIPAL POWER AGENCY

The Electric Utility has an agreement with Central Minnesota Municipal Power Agency (CMMPA) for the purchase of capacity. The remaining contract quantities and prices are as follows:

Planning Year	Megawatts (per month)	Contract Price (\$ per MW)	Purchase Price
June 1, 2020-May 31, 2021	11	\$3,400	\$448,800
June 1, 2021-May 31, 2022	11	\$4,000	\$528,000

SILVER LAKE DAM MODIFICATION PROJECT

The RPU Board approved a contribution of \$1.24 million towards the Silver Lake Dam Modification Project, contingent on the final project resulting in the removal of the existing dam with no future capital or maintenance expense to RPU ratepayers. The proposed modifications would improve safety and environmental features, and provide community enhancements and recreational opportunities.

OPEN CONSTRUCTION CONTRACTS AND OTHER SIGNIFICANT COMMITMENTS

The Utilities have several active projects and agreements as of December 31, 2020. At year end, the Utilities’ significant commitments are as follows:

<u>Electric Projects</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Cayenta Implementation	\$1,683,636	\$55,819
Substation Projects	513,812	1,233,126
Stock Materials & Tools	74,903	1,898,387

<u>Water Projects</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Water Comprehensive Plan	\$51,592	\$16,908
Well Design and Construction	14,006	276,720

LEGAL MATTERS

The Electric Utility was engaged in an administrative hearing before the Federal Energy Regulatory Commission (FERC) involving the recovery of RPU’s Annual Transmission Revenue Requirement from transmission customers in the Midcontinent Independent System Operator, Inc. (MISO) region. In April 2020, the FERC affirmed the recovery of RPU’s ATRR from transmission customers in the MISO region. This hearing did not involve a claim or assessment against RPU. The window for appeal of the FERC decision expired in June 2020 and there is no expectation of further litigation in this matter having a materially adverse impact on the financial position of the Electric Utility.

CLAIMS AND JUDGMENTS

From time to time, the Utilities are party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and the Utilities’ attorney that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the Utilities’ financial position or results of operations.

NOTE 12: Subsequent Events

On January 26, 2021, the RPU Board of Directors approved a new Microsoft Enterprise License renewal agreement between the RPU Electric Utility and SHI International Corp. for \$636,350. This is for a three-year term effective March 1, 2021 through February 28, 2024.

On February 10, 2021, RPU closed on the Series 2013B Bond refunding. The City offered \$37,170,000 Taxable Electric Utility Revenue Refunding Bonds, Series 2021A in a competitive bid managed through our financial advisor, Baker Tilly. The proceeds from the sale will be used to pay issuance costs, the outstanding 2013B Bonds when they become callable on December 1, 2023, and fund the required debt service reserve. The refunding resulted in an effective interest rate of 1.995% including issuance costs and a present value savings of \$7,930,704 after deducting the remaining interest costs of the 2013B Bonds until December 1, 2023. The net gain is \$6,641,823, or approximately \$332,000 per year for the remaining twenty years the 2021A Bonds will be outstanding.

On February 23, 2021, the RPU Electric Utility closed on 134.84 acres of land to be used to construct a 10-megawatt solar farm. The total amount of the land purchase was \$1,713,120.

On February 23, 2021, the RPU Board of Directors approved a contract between the RPU Electric Utility and Southern States, LLC for \$221,194 for vertical break disconnect switches for the new Marion Road Substation.

On February 23, 2021, the RPU Board of Directors approved a contract between the RPU Electric Utility and GE Grid Solutions, LLC for \$262,500 for circuit breakers for the new Marion Road Substation.

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closing of businesses, as well as shelter in place orders for citizens. While there has been a financial impact, RPU expects and plans for a recovery during 2021. The related financial impact and duration cannot be reasonably estimated at this time.

In preparing these financial statements, Rochester Public Utilities has evaluated events and transactions for potential recognition or disclosure through March 31, 2021, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

(unaudited)

As of and for the Year Ended December 31, 2020

The Schedule of Employer Contributions shows the employer's required annual contributions from the annual actuarial valuation, compared with the actual contributions remitted over the past ten years.

Schedule of Rochester Public Utilities – Electric Utility Contributions Public Employees General Employees Retirement Fund Required Supplementary Information (Last Ten Years*)

Fiscal Year Ending (for the Financial Reporting Period)	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
December 31, 2015	\$1,053,611	\$1,053,611	\$ -	\$14,048,147	7.5%
December 31, 2016	\$1,047,623	\$1,047,623	\$ -	\$13,968,307	7.5%
December 31, 2017	\$1,123,064	\$1,123,064	\$ -	\$14,974,187	7.5%
December 31, 2018	\$1,189,801	\$1,189,801	\$ -	\$15,864,013	7.5%
December 31, 2019	\$1,258,692	\$1,258,692	\$ -	\$16,782,560	7.5%
December 31, 2020	\$1,276,070	\$1,276,070	\$ -	\$17,014,267	7.5%

*This schedule is presented prospectively beginning with the fiscal year ended December 31, 2015.

Schedule of Rochester Public Utilities – Water Utility Contributions Public Employees General Employees Retirement Fund Required Supplementary Information (Last Ten Years*)

Fiscal Year Ending (for the Financial Reporting Period)	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
December 31, 2015	\$125,932	\$125,932	\$ -	\$1,679,093	7.5%
December 31, 2016	\$125,295	\$125,295	\$ -	\$1,670,600	7.5%
December 31, 2017	\$131,642	\$131,642	\$ -	\$1,755,227	7.5%
December 31, 2018	\$138,727	\$138,727	\$ -	\$1,849,693	7.5%
December 31, 2019	\$157,836	\$157,836	\$ -	\$2,104,480	7.5%
December 31, 2020	\$161,082	\$161,082	\$ -	\$2,147,760	7.5%

*This schedule is presented prospectively beginning with the fiscal year ended December 31, 2015.

See accompanying *Independent Auditors' Report* and accompanying *Note to the Required Supplementary Information*.

**Schedule of Rochester Public Utilities – Electric Utility Proportionate Share of Net Pension Liability
Public Employees General Employees Retirement Fund
Required Supplementary Information (Last Ten Years*)**

Fiscal Year Ending (for the Measurement Period)	City of Rochester's Proportion (Percentage) of Net Pension Liability (Asset)	RPU Electric Utility's Allocated Share (Amount) of the Net Pension Liability (Asset) (a)	RPU Electric Utility's Covered Payroll (b)	RPU Electric Utility's Allocated Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2015	0.7410%	\$11,722,132	\$13,004,761	90.14%	78.19%
June 30, 2016	0.7271%	\$17,900,174	\$13,124,826	136.38%	68.91%
June 30, 2017	0.7701%	\$15,060,666	\$13,811,891	109.04%	75.90%
June 30, 2018	0.7471%	\$12,826,294	\$14,829,552	86.49%	79.53%
June 30, 2019	0.7473%	\$12,584,021	\$15,488,263	81.25%	80.23%
June 30, 2020	0.7818%	\$14,285,386	\$16,299,411	87.64%	79.06%

*This schedule is presented prospectively beginning with the fiscal year ended June 30, 2015.

**Schedule of Rochester Public Utilities – Water Utility Proportionate Share of Net Pension Liability
Public Employees General Employees Retirement Fund
Required Supplementary Information (Last Ten Years*)**

Fiscal Year Ending (for the Measurement Period)	City of Rochester's Proportion (Percentage) of Net Pension Liability (Asset)	RPU Water Utility's Allocated Share (Amount) of the Net Pension Liability (Asset) (a)	RPU Water Utility's Covered Payroll (b)	RPU Water Utility's Allocated Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2015	0.7410%	\$1,400,562	\$1,512,163	92.62%	78.19%
June 30, 2016	0.7271%	\$2,105,210	\$1,582,656	133.02%	68.91%
June 30, 2017	0.7701%	\$1,756,779	\$1,646,190	106.72%	75.90%
June 30, 2018	0.7471%	\$1,494,729	\$1,696,245	88.12%	79.53%
June 30, 2019	0.7473%	\$1,561,107	\$1,926,372	81.04%	80.23%
June 30, 2020	0.7818%	\$1,807,972	\$2,044,475	88.43%	79.06%

*This schedule is presented prospectively beginning with the fiscal year ended June 30, 2015.

See accompanying *Independent Auditors' Report* and accompanying *Note to the Required Supplementary Information*.

NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION (unaudited)

As of and for the Year Ended December 31, 2020

NOTE 1: General Employees Retirement Fund (GERF) administered by the Public Employees Retirement Association of Minnesota (PERA)

The amounts determined for each fiscal year were determined as of the calendar year end that occurred within the fiscal year. The City of Rochester is required to present the last ten fiscal years of data; however, accounting standards allow the presentation of as many year as are available until ten fiscal years are presented.

There were no changes of benefit terms for any participating employer in the GERF.

2020 CHANGES:

Changes in Actuarial Assumptions:

- 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.

See accompanying *Independent Auditors' Report*.

Changes in Plan Provisions:

- 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 CHANGES:

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

- 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 CHANGES:

Changes in Actuarial Assumptions:

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.0% per year through 2044 and 2.5% per year thereafter to 1.25% per year.

Changes in Plan Provisions:

- 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 4.0% to 3.0%, beginning July 1, 2018.
- Deferred augmentation was changed to 0.0%, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Postretirement benefit increases were changed from 1.0% per year with a provision to increase to 2.5% upon attainment of 90.0% funding ratio to 50.0% of the Social Security Cost of Living Adjustment, not less than 1.0% and not more than 1.5%, 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.

See accompanying *Independent Auditors' Report*.

2017 CHANGES:

Changes in Actuarial Assumptions:

- The combined service annuity (CSA) loads were changed from 0.8% for active members and 60.0% for vested and nonvested 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 nonvested deferred member liability.
- The assumed postretirement 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.

Changes in Plan Provisions:

- 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 CHANGES:

Changes in Actuarial Assumptions:

- The assumed postretirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all 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 2.5% for inflation.

Changes in Plan Provisions:

- There have been no changes since the prior valuation.

2015 CHANGES:

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised; the State's contribution of \$6 million, which meets the special funding situation definition, is due September 2015.

See accompanying *Independent Auditors' Report*.

OPERATING AND FINANCIAL STATISTICS (unaudited)

ELECTRIC

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2010</u> <i>(ten years ago)</i>
RETAIL CUSTOMERS:						
Residential	52,531	51,344	50,353	49,323	48,426	43,614
Industrial / Commercial	5,099	5,034	4,978	4,906	4,864	4,601
Other	4	4	4	4	4	4
Total Retail Customers	57,634	56,382	55,335	54,233	53,294	48,219
RETAIL SALES: (mWh)						
Residential	373,658	353,018	362,234	339,825	346,974	345,076
Industrial / Commercial	740,236	807,006	828,314	833,337	848,262	884,436
Other	14,074	14,434	14,530	14,686	14,770	15,310
Total Retail Sales (mWh)	1,127,968	1,174,458	1,205,078	1,187,848	1,210,006	1,244,822
RETAIL REVENUE:						
Residential	\$55,698,487	\$53,611,935	\$53,451,092	\$49,179,998	\$46,886,573	\$41,706,952
Industrial / Commercial	83,472,364	91,871,263	93,347,616	91,660,540	87,393,870	81,119,437
Other	4,804,095	2,456,914	5,115,153	5,938,292	7,730,497	5,154,490
Total Retail Revenue	\$143,974,946	\$147,940,112	\$151,913,861	\$146,778,830	\$142,010,940	\$127,980,879
Steam Sales (MLBs)	498,039	362,699	330,033	439,864	453,699	453,280
Steam Revenues	\$4,811,514	\$3,809,740	\$4,322,168	\$4,418,805	\$4,038,836	\$5,555,370
Annual Peak (Megawatts)	265.3	283.8	277.1	266.2	276.2	278.3
Total mWh Generated	65,866	74,651	112,657	38,968	55,396	44,640
Total mWh Purchased	1,152,434	1,204,808	1,228,695	1,216,551	1,239,832	1,260,920
Year End Restricted/ Unrestricted Cash & Investment Balance	\$104,543,197	\$102,858,897	\$92,950,417	\$94,046,678	\$46,453,195	\$44,813,640

WATER

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2010</u> <i>(ten years ago)</i>
RETAIL CUSTOMERS:						
Residential	37,238	36,860	36,531	36,134	35,736	33,547
Industrial / Commercial	3,631	3,607	3,668	3,614	3,578	3,404
Total Retail Customers	40,869	40,467	40,199	39,748	39,314	36,951
RETAIL SALES: (ccf)						
Residential	2,921,681	2,521,799	2,657,659	2,713,284	2,654,992	2,817,200
Industrial / Commercial	2,672,310	2,808,574	2,960,502	3,061,222	3,073,274	2,800,228
Total Retail Sales (ccf)	5,593,991	5,330,373	5,618,161	5,774,506	5,728,266	5,617,428
RETAIL REVENUE:						
Residential	\$6,433,325	\$5,786,153	\$5,549,146	\$5,189,102	\$4,768,468	\$4,170,552
Industrial / Commercial	3,641,258	3,612,834	3,523,158	3,409,516	3,236,888	2,672,797
Public Fire Protection	590,779	560,258	528,273	522,724	513,738	545,114
Total Retail Revenue	\$10,665,362	\$9,959,245	\$9,600,577	\$9,121,342	\$8,519,094	\$7,388,463
Total Pumped (billion gallons)	4.4	4.3	4.4	4.5	4.5	4.5
Year End Restricted/ Unrestricted Cash & Investment Balance	\$11,975,432	\$10,529,197	\$9,334,809	\$7,122,783	\$5,705,448	\$6,921,137

LEADERSHIP



Mark Kotschevar
General Manager



Sidney Jackson
Director of
Core Services



Peter Hogan
Director of
Corporate Services



Steve Nyhus
Director of
Compliance and
Public Affairs



Jeremy Sutton
Director of
Power Resources



Krista Boston
Director of
Customer Relations

UTILITY BOARD



Brian Morgan, P.E.
Board President
Senior Engineer
– SEH, Inc.



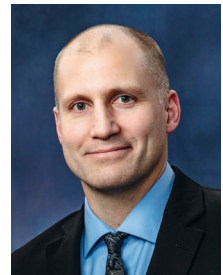
**Melissa Graner
Johnson, J.D.**
Board Vice President
Wealth Management
Trust Advisor
– U.S. Bank



Michael Wojcik
Board Member &
City Council Liaison
Owner – Elite
Consulting, Inc.;
City Council Member
– City of Rochester



Tim Haskin
Board Member
Director,
Sales Consulting
– Sabre Technologies/
PRISM Group



**Brett Gorden,
P.E., M.B.A**
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Facilities Management
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